

U4 Helpdesk Answer 2018:10

# Illicit financial flows in Ethiopia

**Author(s): Roberto Martinez B. Kukutschka**

Reviewer(s): Paul Banoba, Transparency International

Date: 21 September 2018

Over the past decade, the concept of illicit financial flows (IFFs) has gained traction within the international development community. According to some calculations, illicit outflows from Africa, for example, surpass the levels of development aid received by the continent, which deprives countries from resources needed to fund public services, improve infrastructure and fuel economic growth. There is, however, a lack of clarity regarding the definition of IFFs, which makes them difficult to delineate, measure and study. This U4 Helpdesk Answer explores the issue of IFFs in Ethiopia.

# Query

Please provide an overview on the prevalence and manifestations of illicit financial flows (IFFs) in/out of Ethiopia and their impact on development, as well as current strategies by the government of Ethiopia and development partners to address IFFs.

## Contents

1. Background
2. IFFs in Ethiopia: the problem in perspective
3. Legal and institutional framework against IFFs in Ethiopia
4. Challenges ahead in the fight against IFFs in Ethiopia
5. References

## Background

The concept of illicit financial flows (IFFs) has become popular in the international development community. It is often used as an umbrella term to bring together previously disconnected issues (World Bank 2017).

Although the term emerged in the 1990s and was initially associated with the notion of capital flight, it has evolved into a concept that captures the cross-border movement of capital associated with illegal activities or, as defined by Global Financial Integrity (GFI): funds crossing borders, which are illegally earned, transferred, and/or utilised (Global Financial Integrity 2015).

The existing literature on IFFs suggests that these flows generally stem from

- money laundering
- bribery by international companies
- tax evasion
- trade mis-pricing/mis-invoicing

## Main points

- According to GFI's estimations, between 2005 and 2014, an estimated average of US\$1,259 million to US\$3,153 million dollars left Ethiopia as IFFs every year.
- IFFs in Ethiopia have led to an average loss in GDP growth of 2.2% per year.
- Data from Global Financial Integrity shows that between 55 and 80% of the illicit financial outflows leaving Ethiopia originate through trade mis-invoicing,
- Ethiopia's response to curb IFFs has been largely based on a legal approach, which has proven difficult to implement in practice.

But these categories say little about the actual origins of the flows. According to Global Financial Integrity, however, IFFs are often linked to illegal acts (e.g. corruption, tax evasion) and criminal activities (e.g. smuggling and trafficking in minerals, wildlife, drugs, people, etc.). They also include funds obtained through legal activities, but that are then illegally transferred or used for illegal purposes (e.g. financing of organised crime or terrorism). In practice, IFFs range from something as simple as

a private individual transferring money into private accounts abroad without paying taxes, to highly complex schemes involving criminal networks that set up multi-layered and multi-jurisdictional structures to hide the ownership and origin of the funds (OECD 2014).

It is worth noting that even though the GFI definition cited above is the most commonly used and cited one, the concept of IFFs is continuously evolving and, as a result, there is still no agreement on a precise definition (World Bank 2017). The Organisation for Economic Co-operation and Development (OECD), for example, defines IFF as any financial flow “generated by methods, practices and crimes aiming to transfer financial capital out of a country in contravention of national or international laws”.

Many other organisations provide definitions similar or identical to the ones mentioned above, and while they might appear relatively similar, there are important differences between them which make the concept of IFFs a difficult one to grasp. Contrasting the GFI and the OECD definition, Eriksson (2017) finds some important differences:

First, the definitions disagree on which type of transfers can be qualified as IFFs: the GFI definition refers to funds, meaning money. The OECD definition, on the other hand, refers to financial capital, which is a broad term that can cover loans, equity or financial instruments, among others.

Second, neither definition is clear on which components need to be illegal for a financial flow to be considered an IFF: the OECD definition is much narrower than GFI’s in terms of where the financial capital must come from and states that the activities must be “aiming to transfer

financial capital out of a country”, but activities that lack that aim do not qualify as a source for IFF under the OECD definition. Moreover, for activities that are not criminal, there is no clear requirement for illegality.

Third, the definitions disagree on whether the use of the funds matter: the OECD definition does not mention that financial capital transferred across borders can qualify as IFF based on how it is used. This difference matters because it has important practical implications. On one hand, if the manner in which transferred funds are used is considered important, it is necessary to identify what cross-border transfers end up being used illegally in order to estimate the volume of IFFs. On the other hand, if this is not deemed relevant, the extra hurdle of collecting data on cross-border transferred funds used for illegal purposes would not be necessary.

Finally, the definitions do not agree on the legal framework that needs to be used to determine whether transfer is legal or not: unlike the OECD, which mentions “national or international laws”, GFI does not state which legal framework must be considered when determining whether a transfer of funds or financial capital is deemed illegal. At the same time, it is unclear whether the OECD definition makes reference to international legal commitments that the country has ratified, or whether illegality should be understood as a universal norm, which would make national ratification irrelevant.

The debate presented above might appear highly theoretical, but the uncertainty surrounding the definition of IFFs has important practical implications. As explained by Eriksson (2017), different interpretations can lead to very different outcomes. Taking GFI’s definition as an

example, if one considers that IFFs occur only when *both* the source and the transfer mechanism are illegal, then a criminal's transfer of ill-gotten gains to another country would not be considered as IFFs unless he or she uses illegal mechanisms to transfer the money out of the country. As a consequence, a country applying this definition would most likely fight against IFFs by preventing underlying illegal activities, crimes and illegal transfer mechanisms, i.e. it would not need to focus on legal transfer mechanisms. If IFFs are instead defined as such when either the source *or* the transfer mechanism is illegal, then policies to fight these flows would have to focus not only on preventing illegal activities and transfers, but also on detecting cross-border transfers of ill-gotten gains through legal means (Eriksson 2017).

Another criticism to the concept of IFFs is that the term "illicit", as defined by the Oxford Dictionary, encompasses the notion that "things are forbidden or disapproved of by custom or society". In this particular context, this suggests that some cross-border flows may be a problem even if they are not technically illegal. For instance, if a kleptocrat follows the legal process to create a law that gives him or her access to the public coffer, there is still an abuse of political position. However, a formal conviction in a court of law would be impossible, which means assets cannot be recovered through legal means. Still, despite the inclusion of the word "illicit" in IFF, the current definitions are clear: flows of public resources that are legally extracted for the benefit of private or particularistic group interests by a government do not qualify as IFF.

### **Impact of IFFs on development**

Despite the conceptual issues, outlined above, several international organisations see IFFs as an

obstacle to development. According to the OECD, for example, the most immediate impact of IFFs is a reduction in domestic expenditure and investment (both public and private). This means "fewer hospitals and schools, fewer police officers on the street, fewer roads and bridges" (OECD 2014: 15). For this reason, reducing IFFs has become a central issue in the international development agenda: The Addis Ababa Action Agenda, adopted in July 2015, for example, commits all nations to "redouble efforts to substantially reduce illicit financial flows by 2030, with a view to eventually eliminating them" (United Nations 2015). Furthermore, the United Nations' (UN) Sustainable Development Goals (SDGs) included in Goal 16.4 the commitment to "significantly reduce illicit financial and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organised crime" by 2030 (UNODC 2015).

In general, the case against IFFs tends to rest on two main arguments. First, since IFFs are mostly hidden and may come from illegal activities, governments cannot tax them. This, in turn, reduces potential government revenues that could be used for the benefit of the overall economy through either saving, investment or consumption. Second, since IFFs travel abroad they cannot benefit the society where they originated (Eriksson 2017).

These two arguments, however, rely on assumptions that may not always hold. Without further evidence, it is hard to know "whether the use of IFFs benefits development in the country of destination or if the government in the country of origin would do a better job of spending those funds" (Eriksson 2017). The assumption that an increase in tax collection would be directly linked to better development outcomes seems far-fetched, especially in countries with high levels of

corruption, given that, as explained by Mungiu-Pippidi (2016), these resources are likely to be allocated according to personal connections and not to areas of the economy that would maximise benefit.

Finally, it is worth noting that “there is currently no single tool or process capable of effectively measuring or estimating IFFs” (IATF 2016). This is partly due to the conceptual constraints outlined in the previous section. The lack of a definition makes it hard for such flows to be transparently or systematically recorded in a coordinated fashion. Estimates have been made in the following areas: proceeds of crime, stolen assets, goods trade mis-invoicing, transfer mispricing, and undeclared offshore wealth. There are a few methods that are currently used to estimate some of these components or channels of flows (for an overview of the different methods to measure IFFs, see Fontana 2010) but they do not provide a global picture of the full scope of IFFs, and the data sources are generally not robust enough for measuring changes or determining trends across years (IATF 2016).

#### **Extent of the problem and significance for Africa**

Global estimates indicate that IFFs are substantial and growing. Even though these flows, as explained above, are inherently difficult to measure, there is widespread agreement that that the amounts involved are significant (World Bank 2017). GFI’s report “Illicit Financial Flows to and from Developing Countries: 2005-2014”, estimates that IFFs remain persistently high and account for 14% to 24% of the value of total trade from developing countries. This translates into an estimated range for total IFFs of US\$2 trillion to US\$3.5 trillion in 2014. Estimated illicit outflows from developing countries to the advanced economies added up to US\$620 billion in 2014 (in the most conservative calculation),

and illicit inflows from the advanced economies into the developing world totalled more than \$2.5 trillion (Global Financial Integrity 2017).

According to GFI data, illicit outflows continue to vary across geographical regions, but the estimated level of illicit outflows continues to be largest in Asia, where they reached an estimated total value ranging between US\$272 billion and US\$388 billion dollars in 2014. Africa, on the other hand, has the lowest estimated level of outflows in absolute terms with an estimated range of outflows of US\$36 billion to \$69 billion in 2014. When compared to the volume of illicit outflows registered in Asia, the African figures might appear small or irrelevant, but once the size of the economies is taken into account, the true magnitude of the issue for Africa becomes clear: when measured as a share of total trade, illicit outflows from Africa account for 5.3% to 9.9% of total trade in the region. In Asia, however, this figure represents only between 3.9% and 5.6% of total trade (Global Financial Integrity 2017). Another telling figure is that official development aid (ODA) for Africa in 2014 amounted to US\$54.2 billion dollars (OECD 2016), which means that the continent could be losing more money through illicit outflows than it is receiving in development aid.

#### **IFFs in Ethiopia: the problem in perspective**

According to GFI’s estimations, between 2005 and 2014, an estimated average of US\$1,259 million to US\$3,153 million dollars left Ethiopia as IFFs every year. This is equivalent to:

- 11% to 29% of the country’s total trade (GFI 2017)
- 40% to 97% of the total aid inflows to the country (OECD 2016, own calculations)

- 10% to 30% of the government's total revenue (IMF 2016, own calculations)

Additionally, Alemayehu and Addis (2017) estimate that the levels of capital flight from the country, which include IFFs, have led to an average loss of 2.2 percentage points per year for the case of Ethiopia. They also estimate that had it not been for capital flight, poverty would have been reduced by about 2.5 percentage points in the last decade (Almenyahu and Addis 2017).

## Main sources of IFFs in Ethiopia

### 1) Trade mis-invoicing

Trade mis-invoicing refers to the intentional misstating of the value, quantity, or composition of goods on customs declaration forms and invoices, usually for the purpose of evading taxes or laundering money:

Traders can under-report the amount of imports in a transaction to circumvent applicable tariffs and VAT.

- Import over-invoicing disguises the movement of capital out of a country. This could be a work-around for capital controls, and a company may be able to subtract that input value from its year-end revenue report to the government, which would lower the amount of taxes it owes to the government.
- Export under-invoicing involves under-reporting the amount of exports leaving a country in order to evade or avoid taxes on corporate profits in the country of export by having the difference in value deposited into a foreign account.
- Export over-invoicing involves over-stating the amount of exports leaving a country, which often allows the seller to reap extra export credits. Companies or individuals may also use

this form of trade mis-invoicing to disguise inflows of capital to avoid capital controls or anti-money laundering scrutiny.

Data from Global Financial Integrity shows that between 55 and 80% of the illicit financial outflows leaving Ethiopia originate through trade mis-invoicing, which amounts to an estimated 6 to 23% of the total value of the country's trade.

Importers and investors use over-invoicing to transfer capital illicitly out of the country. Importers use fake contracts that indicate a higher price than the actual price, to get foreign currency from banks. Banks request contracts made between the local importer and the foreign supplier to process foreign currency payments. However, they make very limited effort to verify the credibility of the price provided in the contracts. There is no national price index or directive that the banks use to cross check the credibility of the price provided in the contract.

The banks normally approve the foreign currency requests even when they have reasonable doubt that the price of the product or service to be procured abroad is over-invoiced. Over-invoicing can be used for different reasons, such as avoiding income tax by inflating costs or extracting kickbacks from government procurement contracts. Under-invoicing is a common practice by Ethiopian exporters. Exporters use written contracts and bank payment systems for sake of documentation and to legalize their business; however, they negotiate with foreign business partners to understate the price in the contracts to be submitted to authorities. The exporters receive the under-invoiced payment through Ethiopian banks and the remainder is paid to them in cash or deposited for them in their name or in the name of other persons in a foreign bank account.



## 2) Informal remittance systems

There are approximately 3 million Ethiopians living outside of the country and many of them send money back to the country to help their families. The value of remittances has steadily increased from around US\$ 141 million dollars in 2003 to US\$4 billion in 2016 (APA News 2017). However, according to the [International Organization on Migration \(IOM\)](#), as much as 78% of the money sent to the country as remittances, is sent through informal channels known as hawala (see also Passas 2015). Commonly, the informal facilitators collect money from the Ethiopian Diasporas who want to send money to Ethiopia to support their families or to start businesses. The informal facilitators often pay the beneficiaries back home in Ethiopian Currency and with exchange rates that are even higher than the black-market prices. This attracts a lot of demand among the Ethiopian Diaspora to use their services.

The money obtained from these transactions, is used for a number of purposes, including payments to corrupt officials or to reduce the risk of being charged for acquiring an unregistered or undeclared property under the property registration and disclosure proclamation. They may also use it to acquire property in Dubai or in some Western countries as this is becoming fashionable among the growing number of business and political elite (Yimer 2017).

In sum, due to the informal remittance systems, Ethiopia loses access to an important source of foreign currency that it could have gained from its Diaspora. Therefore, alternative remittances are causing a lot of damage to Ethiopian economy as one means of illicitly transferring resources out of Ethiopia.

## 3) Price transferring

Investors in Ethiopia tend to over-invoice products they import to get extra foreign currency and to avoid income tax at the production stage of the business. An important legal provision that encourages investors to over-invoice their imports is the fact that most of their imports are exempted from customs duties as an incentive to attract foreign investment. Under Ethiopian investment laws, a foreign investor has the right to transfer out of Ethiopia foreign currency from profits and dividends, principal and interests payments for external loans, payments in relation to technology transfer, payments for collaboration agreements, and proceeds from the transfer of shares or of an enterprise to a domestic investor, proceeds from the sale or liquidation of an enterprise or compensation paid for them.

## 4) Embassies and diplomatic channels

There is evidence that some embassies use diplomatic channels to assist their citizens and companies doing business in Ethiopia to illicitly transfer funds out of the country. The embassies collect Ethiopian currency from their nationals and pay their nationals at home in their home currency. In this way the diplomatic offices use the local currency to finance their activities in Ethiopia and assists their nationals to transfer funds out of the country. There are also cases where diplomats with diplomatic immunity who are usually not searched when entering and leaving Ethiopia have been caught carrying foreign currency illegally (Yimer 2017).

## 5) Corruption

The report, entitled [Illicit Financial Flows from Developing Countries over the Decade Ending 2009](#), shows that the vast majority of the rise in illicit financial flows from Ethiopia was a result of

increased corruption, kickbacks, and bribery. Over 80% of the total value, however, stems from trade mispricing.

## Legal and institutional framework against IFFs in Ethiopia

As explained earlier, the source of IFFs may stem from corruption, crime, terrorism, and tax evasion, or as mentioned, various other illegal activities. The channels/mechanisms through which they are transferred from one country to another can range in sophistication from cash smuggling and remittance transfers, to trade finance and shell companies. Because of the complex nature of the phenomenon and its cross-sectoral nature of IFFs, a wide range of policies and actions are needed to combat them.

According to the World Bank (see Badré 2015), efforts to curb IFFs should aim to:

- address their direct sources by reducing criminal activity, corruption and tax evasion
- preventing illegal money from leaving the country
- stopping financial intermediaries and other service providers from accepting those assets

To achieve this, countries need to adopt and enforce policies that promote good governance, tackle corruption, go after dirty money and implement transparent tax systems. According to Reuter (2017), there are five main interventions explicitly aimed to reduce IFFs:

- Anti-money laundering (AML) laws and programmes: these laws have a dual purpose and aim to prevent offenders from turning illegally generated money into legal funds that can be used for any investment or consumption purpose and using the effort to launder moneys to apprehend and punish offenders, including

those professionals who help the primary offenders move, conceal or transform the proceeds of crime.

- Stolen asset and recovery procedures: asset recovery involves tracing, freezing, confiscating and returning to the country of origin, funds obtained through illegal means, and usually involves lengthy and politically complex processes. These laws and programmes seek to facilitate the return of assets stolen from national coffers to their countries of origin.
- Automatic exchange of information between countries: under these agreements, each country's banks are required to provide the other country with information about accounts held by that country's residents.
- The development of new rules regarding country-by-country reporting of corporate profits, intended to prevent corporate profit-shifting abuses.
- The development of beneficial ownership registries, which would ensure that ownership of financial assets, and a broad array of real assets, could not be hidden.

The finance industry in Ethiopia is strictly controlled by the government: the National Bank of Ethiopia, controls the exchange rate, the activities of the commercial banks, and other financial institutions of the country (Yimer 2017). The national bank also has strong control on the import and export trade of the country through its control over the foreign currency market. Generally, Ethiopia has very strict laws that are meant to prevent money laundering within the country and illicit financial flows out of the country, but their effect has been limited and concerns that illicit outflows might impact government revenues and weaken governance in the country remain (Yimer 2017). This makes controlling illicit outflows a priority for



governments wanting to strengthen stability and development in the country.

The Ethiopian government has responded by introducing additional laws intended to tighten access to foreign currency for the private sector and by rationing foreign currency. In some instances, the government has suspended access to foreign currency for the private sector and even for government projects that have less priority in the country's development strategy. This creates additional problems rather than solving the problem as illicit outflow continues to grow, according to available data. The rationing of dollars encourages a black market and smuggling of dollars into the country (Yimer 2017).

***The Prevention and Suppression of Money Laundering and Financing Terrorism Proclamation No 780/2013***

Ethiopia has enacted the Prevention and Suppression of Money Laundering and Financing Terrorism Proclamation No. 780/2013 to ensure healthy financial transactions. However, as its title indicates, this proclamation focuses on controlling financing terrorism and money laundering within the jurisdiction of Ethiopia with very little focus on illicit financial outflows from Ethiopia. The proclamation does not treat illicit outflows independently except in relation to money laundering and financing of terrorism

The proclamation is however important given that it establishes the framework to control illicit financial outflows: Firstly it imposes a legal obligation on any person to declare to the customs authority any currency, negotiable instrument, precious stones and metals they possess when they leave or enter the country. This is an important step as it creates a valid

legal regime to categorize any undeclared physical transfer of the listed items as illicit outflows, no matter how the person acquired them. Secondly, the proclamation imposes several obligations on financial institutions and other designated non-financial businesses and professionals that would increase transparency and accountability in financing foreign trade. In addition to the general obligation it imposes on financial and designated non-financial institutions to pay attention to any suspected and fraudulent transaction, the proclamation requires them to take specific measures when conducting business, including customer due diligence and verification of the nature and legality of transactions (Yimer 2017).

There is an obligation to report to appropriate authorities any suspicious transaction including abnormal pricing. This is an important step to control illicit financial transfers that emanate from abnormal pricing as banks know their customers better and they can better identify abnormal pricing. There is an obligation on financial institutions to conduct their own assessments about foreign financial institutions they establish relations with. The obligation to evaluate the reputation of foreign financial institutions as a condition to establishing relations seems to focus on scrutinising the legality of fund transfers to Ethiopia with little attention to outflows. The law says that Ethiopian banks should reject any transfer from foreign banks with a bad reputation or which are not subject to adequate supervision; however, the law does not make similar demands when transferring funds to foreign banks.

Financial institutions are required to maintain records of financial transactions for 10 years and to avail the records to authorities whenever they are requested. The fact that records are available

for investigation and scrutiny by authorities creates favourable conditions for authorities to obtain the required evidence when they launch an investigation. The maintaining of accounts also enables the study of the background of individuals suspected of illicit transfers and other related crimes.

Financial institutions are required to develop internal policies to control money laundering and financing of terrorism. Financial institutions that are better prepared to control money laundering play a more positive role in fighting illicit financial outflows, as the two activities are somewhat related to each other.

In its attempt to control money laundering and the financing of terrorism, the proclamation created a financial transactions mechanism that could serve as a starting point to help control illicit financial transfer (Yimer 2017). However, the proclamation is still far from solving the problem of illicit financial outflows.

#### ***Investment proclamation No 769/2012***

The Investment proclamation provides the general legal framework on how investors do business in Ethiopia. The proclamation regulates both domestic investors and foreign investors. However, this section focuses on foreign investors and particularly how they transfer funds out of Ethiopia.

The proclamation provides that a foreign national, and an entity owned by foreign nationals or incorporated in foreign country will be considered as a foreign investor. The proclamation provides that a minimum of US\$200,000 is required as capital for a foreign investor to invest in Ethiopia. The proclamation considers all capital that is obtained from foreign sources as foreign capital without any additional

criteria and any profit and dividend reinvested in Ethiopia will be considered as foreign capital. The law gives a foreign investor the right to remit their profits and dividends without any limitation. The investor can also transfer the funds in foreign currency. The law allows the foreign investor to transfer funds out of Ethiopia in order to service loans obtained from foreign sources.

The proclamation allows the transfer of funds out of Ethiopia to pay for technology transfer agreements, consultancy services, and to cover overhead costs. The proclamation does not have a mechanism to control possible abuse of these very generous provisions to transfer funds out of Ethiopia. Foreign investors highly prize the law for giving them the uncurbed right to transfer funds out of Ethiopia freely and they frequently praise them as good measures to attract more foreign investors to Ethiopia.

#### ***Regulating Foreign Exchange***

Proclamation No 591/2008 enacted to establish the National Bank of Ethiopia provides in its preamble that stable foreign exchange rate and healthy financial system are critical for the economy. The proclamation gives broad powers to the national bank and the regulation of the foreign exchange is one of the key powers of the bank. The National Bank has the power to issue directives to regulate how foreign exchange can be utilized within Ethiopia or transferred out of the country (Yimer 2017). The proclamation criminalizes the possession of foreign currency and transfer of foreign currency that is not in accordance with the proclamation or with the directives issued by national bank. It proposes 15 years imprisonment for officials and three years imprisonment for other individuals.

Additionally, the National Bank has issued numerous directives to regulate the foreign exchange regime. No Ethiopian except those with special permission from the national bank can possess, buy, sell or transfer, in any form, foreign currency in Ethiopia. Ethiopians and companies residing in Ethiopia are not allowed to maintain a bank account in foreign country without the authorization of the national bank. The central bank allows companies and government offices that have branches and offices in foreign countries to open accounts in foreign currencies. However, the national bank lacks the required logistics to investigate and trace accounts in foreign countries owned by Ethiopians.

The National Bank of Ethiopia permits the transfer of funds in foreign exchange for import of all goods except for goods detrimental to public health and national security. The bank allows payments to be made in different forms including letters of credit, cash against invoices or advance payments. However, in practice it is not always easy to get access to needed currencies to pay for imports. The national bank frequently revises its directives while considering the availability of sufficient foreign exchange to meet demands both from the government and private sector. Sometimes the central bank identifies sectors and goods that should be given priority access to foreign currencies, while delaying access for others. The national bank also writes a lot of circular letters ordering commercial banks to follow specific procedures and to strictly control the foreign exchange market.

## Challenges ahead in the fight against IFFs in Ethiopia

Although the latest FATF evaluation for the country, conducted in 2015, found that it was not

possible to evaluate the effectiveness of the country's anti-money laundering framework given its recent entry into force (ESAAMLG 2015). The absence of coherent, consistent and well-designed laws as well as lack of coordination among different government organs in implementing the laws, is seen as a main reason for the increasing illicit financial transfers (Yimer 2017).

Several directives have been enacted by Ministry of Finance, the National Bank and the Customs and Revenue Authority to regulate the foreign exchange regime, but most of them have proven ineffective as they are hard to apply in practice and often give the relevant authorities unrestricted discretionary power to enforce them. This, rather than help curbing illicit financial outflows, has opened the door for additional corrupt practices (Yimer 2017).

Another problem is that most of the laws focus on attracting foreign capital to Ethiopia by creating favourable conditions to transfer funds out of Ethiopia but they do not have the required legal framework to control potential abuse by investors. Most of the directives enacted to regulate foreign trade focus on solving immediate political, social and financial problems rather than strategically resolving the problem and its knock on effects.

## References

- Badré, B. 2015. “How the World Can Put a Stop to Illicit Financial Flows”.
- Eriksson, F. 2017. “Putting the IFF Agenda in Action at the Country Level”. Medium.
- Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG). 2015. “Mutual Evaluation Report: Anti-Money Laundering and Combatting the Financing of Terrorism – The Federal Democratic Republic of Ethiopia”. Tanzania: Dar es Salaam.
- Fontana, A. 2010. “What Does Not Get Measured, Does Not Get Done: The Methods and Limitations of Measuring Illicit Financial Flows”. *U4 Brief*.
- Global Financial Integrity. 2014. “Illicit Financial Flows, Human Rights, and the Post-2015 Development Agenda”.
- Global Financial Integrity. 2015. “Issues: Illicit Financial Flows”.
- Global Financial Integrity. 2017. “Illicit Financial Flows to and from Developing Countries”.
- Goga, K. 2015. “Addressing Corruption May Act as a Significant Step to Limit Illicit Financial Flows from Africa”.
- International Organization for Migration. 2017. “Scaling up formal remittances to Ethiopia”. Brussels: International Organization for Migration.
- Inter-Agency Task Force on Financing for Development. 2016. “Illicit Financial Flows”.
- Le Billon, P. 2011. “Extractive Sectors and Illicit Financial Flows: What Role for Revenue Governance Initiatives?” *U4 Issue*. Bergen: Chr. Michelsen Institute.
- Mungiu-Pippidi, A. 2015. *The Quest for Good Governance: How Societies Develop Control of Corruption*. Cambridge: Cambridge University Press. OECD. No year. “Toolkit”.
- OECD. 2014. “Illicit Financial Flows from Developing Countries: Measuring OECD Responses”.
- OECD. 2016. “Development Aid at a Glance: Statistics by Region”.
- Passas, N. 2015. “Financial intermediaries: Anti-money laundering allies in cash-based societies?” *U4 Issue*. Bergen: Chr. Michelsen Institute.
- Reuter, P. 2017. “Illicit Financial Flows and Governance: The Importance of Disaggregation”. *World Development Report 2017*.
- United Nations. 2015. “Addis Ababa Action Agenda of the Third International Conference on Financing for Development”.
- UNODC. 2015. “UNODC and the Sustainable Development Goals”. Vienna: UNODC.
- UNODC. 2017. “Enhancing the Detection, Investigation and Disruption of Illicit Financial Flows from Wildlife Crime”.
- US Department of State. 2014. “2014 International Narcotics Control Strategy Report: Mozambique”.
- US Department of State. 2017. “2017 Investment Climate Statements – Mozambique”.
- Vu Le, Q. and P. Zak. 2006. “Political Risk and Capital Flight”. *Journal of International Money and Finance* 25.
- Williams, A. and J. Isaksen. 2016. “Corruption and State-Backed Debts in Mozambique – What Can External Actors Do?”

Wolf, A. and E. Klein. 2016. “[Mozambique: Overview of Corruption and Anti-Corruption](#)”. U4 Expert Answer.

World Bank. 2017. “[Illicit Financial Flows](#)”. World Bank Brief.

Yimer, G. 2017. “[Illicit Financial Outflows: A Legal Analysis of International Trade in Ethiopia](#)”. Dakar: TrustAfrica.

## **Disclaimer**

All views in this text are the author(s)' and may differ from the U4 partner agencies' policies.

## **Partner agencies**

DFAT (Australia), GIZ/BMZ (Germany), Ministry for Foreign Affairs of Finland, Danida (Denmark), Sida (Sweden), SDC (Switzerland), Norad (Norway), UK Aid/DFID.

## **About U4**

The U4 anti-corruption helpdesk is a free research service exclusively for staff from U4 partner agencies. This service is a collaboration between U4 and Transparency International (TI) in Berlin, Germany. Researchers at TI run the helpdesk.

The U4 Anti-Corruption Resource Centre shares research and evidence to help international development actors get sustainable results. The centre is part of Chr. Michelsen Institute (CMI) in Bergen, Norway – a research institute on global development and human rights.

[www.U4.no](http://www.U4.no)

[U4@cmi.no](mailto:U4@cmi.no)

## **Keywords**

Illicit financial flows – Ethiopia

## **Open access**

We apply a Creative Commons licence to our publications: CC BY-NC-ND 4.0.



*U4 Partner staff can use the helpdesk for free.  
Email us at [helpdesk@u4.no](mailto:helpdesk@u4.no)*