

Annex 20. Anti-Money Laundering, Countering the Financing of Terrorism, Sanctions Compliance, and Prohibited Practices Assessment

1. Purpose and scope

This annex sets out the approach for identifying, assessing, and managing risks related to money laundering, terrorist financing, sanctions exposure, fraud, corruption, bribery, collusion, coercion, obstruction, conflicts of interest, diversion, misuse of project assets, and other prohibited practices that may arise in connection with the project. It complements the broader project risk framework by focusing specifically on integrity and compliance risks associated with project implementation.

The scope of the annex covers all relevant project actors and arrangements, including project counterparties and implementing institutions, regional and woreda implementation structures, vendors, suppliers, contractors, consultants, and service providers, as well as beneficiaries such as community groups, user associations, cooperatives, and recipients of livelihood support. It also covers infrastructure, equipment, materials, and other assets financed under the project, together with the systems that will be used for ongoing monitoring and escalation of integrity-related concerns throughout the project lifecycle.

The project will be implemented through the Ministry of Finance, acting through the CRGE Facility, in collaboration with the designated federal Executing Entities and their corresponding regional and woreda structures. The project does not envisage unrestricted cash transfers or direct on-granting of GCF proceeds to beneficiaries. Rather, support is expected to be delivered primarily through publicly implemented activities, infrastructure, in-kind support, technical assistance, training, productive inputs, organized community- or group-based arrangements, and, for selected livelihood activities, a community-level revolving grant mechanism designed to extend benefits to additional eligible beneficiaries over time. This implementation model informs the nature of the integrity risks assessed in this annex.

2. Overall compliance conclusion

The overall inherent risk of money laundering, terrorist financing, and prohibited practices under the project is assessed as **moderate**. This reflects the fact that the project will be implemented across multiple levels of government and across several regions and woredas, with a decentralized implementation structure involving infrastructure, construction, procurement of goods and services, and downstream beneficiary support through community-level and group-based arrangements. These characteristics create operational and integrity risks, particularly if documentation, supervision, oversight, and accountability systems are not consistently applied.

At the same time, the nature of the project reduces some categories of financial crime risk. The project will not distribute unrestricted cash transfers to beneficiaries, and implementation will be carried out through established public institutions using public

financial management, procurement, and reporting structures. As a result, the most material risks are not those associated with direct cash-based laundering or terrorist financing, but rather those associated with fraud, corruption, collusion, conflicts of interest, diversion of materials or assets, misuse of project-financed equipment, weaknesses in beneficiary targeting, and weaknesses in contractor or supplier oversight.

With the mitigation measures described in this annex, the residual risk is assessed as low to moderate. The project's integrity risks are therefore considered manageable within the proposed governance, fiduciary, procurement, safeguards, monitoring, and reporting arrangements.

3. Project integrity risk governance

Integrity risk management during implementation will be integrated into the project's overall governance and implementation architecture. The Ministry of Finance, through the CRGE Facility, will have overarching responsibility for integrity risk oversight, compliance coordination, sanctions awareness, fiduciary monitoring, and escalation of serious integrity-related concerns. This central role is consistent with the Ministry's function as Accredited Entity and with its broader responsibility for fund flow, reporting, and project oversight.

The three designated federal Executing Entities, the Ministry of Water and Energy, the Ministry of Agriculture, and the Ministry of Irrigation and Lowlands, will be responsible for applying integrity controls within the activities falling under their respective mandates. They will do so through their own federal structures and in collaboration with the corresponding regional bureaus and woreda offices, which will provide first-line implementation monitoring, supervision, documentation, and reporting at subnational level.

This governance structure will be reinforced by the National, Regional, and Woreda Steering Committees, which will support oversight, coordination, and escalation where implementation risks arise. Procurement personnel, finance staff, safeguards personnel, technical supervisors, and monitoring officers will all contribute to first-line integrity risk management through their normal project functions. Complaints, allegations, and suspected impropriety will be handled through the project grievance and whistle-blower arrangements and, where necessary, referred through the relevant government channels for follow-up and resolution.

The project does not rely on a stand-alone project management unit operating independently from government systems. Instead, day-to-day execution will take place through the existing government implementation structure led by the Ministry of Finance / CRGE Facility and the designated Executing Entities, supported by federal, regional, and woreda coordination and oversight arrangements.

4. Re-assessment and ongoing monitoring process

Integrity and compliance risks under the project will be subject to continuous review rather than being assessed only once at appraisal stage. The initial assessment set out in this annex will be revisited at project inception to confirm counterparties, implementation arrangements, procurement structures, and relevant controls.

Thereafter, risks will be reviewed on a regular basis throughout the life of the project. At a minimum, integrity and prohibited-practice risks will be reassessed annually as part of the broader project risk review and reporting cycle, including during preparation of the Annual Project Reports. They will also be revisited before major procurement actions, before new counterparties or implementation arrangements are introduced, and whenever there are material changes in project design, country context, sanctions environment, beneficiary modalities, or implementation structure. In addition, any complaint, red flag, audit finding, incident report, or other indication of misconduct will trigger further review and, where required, updating of mitigation measures.

The ongoing monitoring process therefore combines routine controls with event-based review. Where a new risk, or an increased level of an existing risk, is identified during implementation, the relevant institutions will strengthen controls, update procedures, and escalate the issue through the Ministry of Finance / CRGE Facility and the appropriate governance structure, depending on the seriousness and nature of the concern.

5. Summary of first-level due diligence and capacity review of Executing Entities

The first-level review of the three federal Executing Entities indicates that they are public institutions operating within Ethiopia's government system and implementing activities through established sector mandates, public financial management arrangements, and procurement procedures. Their risk profile is therefore shaped less by concerns about their legal legitimacy and more by practical issues related to capacity, coordination, decentralized implementation, and control effectiveness.

The overall capacity-related risk of the Executing Entities is assessed as **medium**, consistent with the broader project risk matrix. This rating is not driven by evidence of direct money laundering or terrorist financing concerns. Rather, it reflects the operational reality that the project will be implemented across multiple sectors and administrative levels, creating risks related to procurement integrity, documentation quality, coordination, supervision, asset tracking, beneficiary verification, and timely reporting. The medium rating therefore reflects control and implementation risk rather than a finding of heightened criminal finance exposure.

No specific evidence has been identified in the first-level review indicating that the three Executing Entities pose a high inherent risk of money laundering or terrorist financing. The more relevant integrity risks arise from the complexity of implementation and from the kinds of activities involved, especially infrastructure, decentralized beneficiary support, procurement, and local-level delivery mechanisms. The first-level

review therefore points to the need for strong procurement controls, clear reporting lines, proper segregation of functions, regular supervision, and practical training on prohibited practices, conflicts of interest, and documentation requirements.

6. Beneficiary eligibility and due diligence controls

Eligibility criteria will be established for the relevant beneficiary categories under the project and will be applied according to the nature of the intervention. Because the project includes different types of support; including infrastructure, technical assistance, training, organized group support, in-kind livelihood assistance, and selected revolving grant arrangements for livelihood activities, beneficiary eligibility will not be uniform across all outputs. Instead, it will be defined in relation to the specific activity and reflected in the project's implementation arrangements, targeting procedures, and local validation processes.

Beneficiary selection criteria for the various components and activities will be established through close consultation with the Executing Entities at federal, regional, and woreda levels, as well as with the project's direct beneficiaries at kebele level. A cross-cutting principle in this process will be to ensure an appropriate balance between men and women beneficiaries, while also prioritizing women, youth, and other vulnerable groups where relevant to the activity.

Beneficiary identification and verification will rely on a combination of predefined criteria, local administrative and community validation, documentary records, and sector-level review. At woreda and kebele levels, responsible offices and project structures will verify the identity and eligibility of intended beneficiaries using the documentation and local knowledge available within the government system. Beneficiary registration records, selection lists, distribution records, participation records, and, where applicable, records governing community-level revolving support arrangements, will be maintained in order to reduce the risk of ghost beneficiaries, duplication, manipulation of beneficiary rolls, favoritism, or diversion of support.

Grievance mechanisms will provide an avenue for complaints relating to exclusion, wrongful inclusion, impersonation, or misuse of project-supported benefits. Because the project does not envisage unrestricted cash transfers, beneficiary-related integrity risks are expected to relate mainly to mis-targeting, diversion, manipulation of in-kind support, misuse of community and productive assets, or misuse of locally managed revolving livelihood support, rather than to direct financial crime through cash distribution channels.

7. Controls over materials, equipment, and technology

The project includes the procurement and deployment of infrastructure, equipment, materials, and technology that must be used solely for intended project purposes. This includes solar-powered systems, pumping equipment, irrigation-related equipment, spare parts, productive inputs, and other physical assets. For this reason, asset

integrity and anti-diversion controls form an important part of the project's compliance framework.

To manage these risks, the project will rely on a chain of controls beginning with the procurement process and continuing through receipt, inspection, installation, use, monitoring, and maintenance. Goods and materials will be subject to receiving records and inspection procedures, while assets will be entered into the appropriate registers or handover records. Infrastructure and equipment will be supported by installation and commissioning documentation, and physical verification will form part of the monitoring process. Where assets are handed over for local use or management, community-level acknowledgment records, operation and maintenance arrangements, and the involvement of local management structures such as user associations, water management committees, and community livelihood groups will provide additional layers of accountability.

These measures are intended not only to confirm delivery, but also to ensure that materials and technology remain available for the intended public or community purpose and are not diverted for unauthorized private use, resale, or misuse. Periodic supervision, maintenance checks, and follow-up on anomalies such as missing equipment, unexplained damage, underutilization, or misuse will be used to reinforce these controls throughout implementation.

8. Integrity due diligence for vendors, contractors, and suppliers

All vendors, suppliers, contractors, and consultants engaged under the project will be subject to the applicable supplier eligibility, procurement, and legal compliance requirements under Ethiopian law and the project's procurement arrangements. Given the project's reliance on procurement of goods, works, and services, the integrity of third-party contracting is a central area of compliance control.

Third-party due diligence will include review of legal eligibility, registration status, licensing, tax compliance, and relevant supporting documentation. Procurement processes will also take into account issues such as conflict of interest, supplier ineligibility under applicable public procurement rules, and the capacity of the contractor or supplier to perform the required work. Sanctions screening will be applied against the relevant sanctions lists, including applicable United Nations sanctions lists.

Where relevant and available within the procurement process, ownership or control information will also be reviewed to the extent necessary to assess integrity concerns. Beyond initial screening, the project will rely on contractual clauses, performance monitoring, delivery verification, milestone certification, and documentation review to manage integrity risks during contract execution. This is particularly important in infrastructure and equipment packages, where overbilling, non-performance, collusion, false certification, or diversion of materials can occur if contract management is weak.

9. Additional controls for infrastructure and construction activities

Because infrastructure and construction activities are generally considered to carry elevated risks of fraud, corruption, collusion, overpricing, false certification, and diversion of materials, the project will apply additional controls to these activities. These measures are intended to strengthen assurance over contract integrity, works quality, and use of project resources.

The control framework for infrastructure and construction will include detailed technical designs, Bills of Materials, specifications, and procurement documentation prepared in advance of tendering. Procurement processes will be documented and subject to bid evaluation procedures, while technical specification, procurement decision-making, supervision, and payment approval functions will remain appropriately separated. Payments will be linked to milestones and certified outputs, and variations will be subject to formal review and approval. Site supervision and physical verification of works will form an integral part of implementation monitoring.

These controls will be supported by local feedback and grievance channels, which can help surface concerns related to contractor conduct, poor-quality work, misuse of materials, or local favoritism. Particular attention will be given to indicators such as unjustified delays, repeated changes to contract scope, overpricing, duplicate claims, poor-quality delivery, or patterns suggestive of collusion. Where such concerns arise, they will be escalated through the project's governance and compliance channels.

10. Sanctions compliance and future restrictive measures

Ethiopia is not currently subject to United Nations Security Council sanctions. Nevertheless, the project will maintain sanctions awareness and screening throughout implementation in order to ensure that it remains compliant with any applicable current or future restrictive measures.

Relevant project stakeholders, including counterparties, contractors, suppliers, consultants, and, where applicable, organized beneficiary groups, will be screened against the applicable sanctions lists, including the United Nations Consolidated Sanctions List. Screening will not be treated as a one-time exercise only. It will be incorporated into onboarding and procurement processes and revisited where material changes occur or where new sanctions or restrictive measures are introduced during implementation.

No individual or entity listed on an applicable United Nations sanctions list will be knowingly involved in the project in any capacity, whether as counterparty, implementer, vendor, supplier, consultant, or beneficiary. If a sanctions issue is identified during implementation, the project will take appropriate action in accordance with applicable legal and contractual requirements.

11. Distribution of value to beneficiaries

The project does not envisage unrestricted direct cash distribution to beneficiaries or on-granting of GCF proceeds. Instead, value is expected to be transferred through community or public infrastructure, in-kind productive assets, materials, inputs, equipment, training, technical assistance, restoration support, organized group-based support arrangements, and, for selected livelihood interventions, locally managed revolving grant arrangements intended to extend benefits to additional eligible beneficiaries over time.

This means that integrity controls will focus on proper identification of eligible recipients, documentation of distribution or handover, verification of receipt and use, and monitoring of whether project-supported items or resources are being used for their intended purposes. In practical terms, the main risks in this area relate to diversion, favoritism, unauthorized redistribution, ghost beneficiaries, or misuse of assets or revolving livelihood support rather than direct abuse of cash-transfer systems.

The control measures described in the beneficiary verification and asset-use sections of this annex will therefore apply whenever project-financed items of value are delivered to individuals, groups, or communities. This will include registration and identity verification, eligibility checks, local validation, record-keeping, grievance access, and post-distribution or post-handover monitoring.

12. Complaints, allegations, and whistle-blower mechanisms

The project will provide channels for reporting complaints and allegations of impropriety, wrongdoing, fraud, corruption, favoritism, retaliation, diversion, misuse of assets, or other integrity-related concerns. These channels will operate through the project's grievance redress mechanism, institutional complaint processes within the implementing institutions, and escalation pathways through the project governance structure and relevant government systems where serious matters arise.

Because the project is implemented across multiple localities and involves community-level participation, reporting channels will need to be understandable and usable at local level, including through the use of local-language grievance mechanisms. Complaints may concern not only safeguards or social issues, but also procurement concerns, misuse of resources, bias in beneficiary selection, or interference in local decision-making.

Protections will be applied, to the extent permitted under applicable procedures, in order to preserve confidentiality and reduce the risk of retaliation against individuals making good-faith reports. Information will be handled on a need-to-know basis, and case handling will be documented so that follow-up can be traced and monitored. In this way, the grievance and whistle-blower framework will function as an important layer of integrity risk control alongside formal supervision and audit mechanisms.

13. Conflict of interest controls

Conflict of interest risk is relevant to a number of project functions, particularly procurement, contractor selection, beneficiary targeting, technical certification, local prioritization, and distribution of project-supported goods or opportunities. The inherent conflict of interest risk is assessed as moderate, given the decentralized implementation structure and the possibility that decision-makers or influencers at different levels may have personal, institutional, or local ties affecting impartiality.

The project will manage this risk through the application of existing public service and procurement rules, supported by project-level controls. These include separation of functions in procurement, approval, supervision, and certification; documented committee decisions and evaluations; disclosure and recusal where actual or potential conflicts arise; oversight by the project governance bodies; and access to grievance and complaint channels where conflict-related concerns are raised.

With these controls in place, the residual conflict of interest risk is assessed as low to moderate. The objective is not to assume that conflicts will never arise, but to ensure that they are recognized, disclosed, managed, and documented before they undermine the integrity of project decisions.

14. AML/CFT and integrity compliance training

Training on AML/CFT awareness, sanctions compliance, fraud prevention, corruption risks, conflicts of interest, documentation requirements, and other prohibited practices will form part of the project's broader compliance and implementation support framework. Because the project is implemented through a multi-level government structure, such training is important both at federal level and among regional and woreda implementation actors.

Training will be provided at project inception and refreshed periodically during implementation. Additional sessions may also be provided when significant new risks arise, when there are material changes in implementation arrangements, or when audit or supervision findings indicate that controls need reinforcement. The training will be directed particularly toward personnel involved in procurement, finance, safeguards, monitoring, implementation oversight, grievance handling, and beneficiary-facing activities.

The purpose of the training will be practical rather than purely formal. It will aim to ensure that project stakeholders can recognize red flags, understand the consequences of prohibited practices, apply due diligence and documentation requirements properly, and use the available reporting and escalation channels where issues arise.

15. ML/TF/PP Risk Assessment Matrix

Risk area	Inherent risk	Key vulnerabilities	Mitigation measures	Residual risk
Decentralized multi-level implementation	Moderate	Multiple layers of institutions, documentation gaps, inconsistent controls	Clear roles, steering committees, periodic supervision, reporting lines, annual re-assessment	Low-Moderate
Procurement fraud/corruption/collusion	Moderate-High	Infrastructure and multi-package procurement, supplier collusion, favoritism	Public procurement rules, supplier eligibility checks, sanctions screening, segregation of duties, bid evaluation controls, contract administration	Moderate
Beneficiary mis-targeting / ghost beneficiaries / favoritism	Moderate	Community-level targeting, vulnerable groups, local discretion	Eligibility criteria, identity and registry checks, local validation, records, grievance channels, monitoring	Low-Moderate
Diversion or misuse of equipment/materials	Moderate	Solar systems, pumps, spare parts, productive inputs, distributed materials	Asset registers, handover records, site verification, O&M arrangements, audits, local oversight	Low-Moderate
Contractor/consultant integrity risk	Moderate	Poor performance, overbilling, false claims, quality failure	Due diligence, sanctions screening, contract clauses, site certification, milestone-based payments, performance monitoring	Low-Moderate
ML/TF through project counterparties	Low-Moderate	Public-sector project, no unrestricted cash transfers, but procurement and counterparties still create some exposure	Counterparty due diligence, sanctions screening, banking controls, procurement rules, monitoring, escalation	Low
Sanctions exposure	Low	Future changes in sanctions environment or hidden counterparties	Ongoing sanctions screening, onboarding checks, periodic review, exclusion of listed entities	Low
Conflict of interest	Moderate	Procurement, beneficiary selection, local approvals	Disclosure/recusal, segregation of functions, committee oversight, complaint channels, documented decisions	Low-Moderate
Complaints not reported / retaliation	Moderate	Fear of reporting, local power dynamics	Local-language GRMs, institutional channels, confidentiality, protection against retaliation, escalation	Low-Moderate

Risk area	Inherent risk	Key vulnerabilities	Mitigation measures	Residual risk
Capacity weakness affecting integrity controls	Moderate	Different capacity across EEs, regions, and woredas	Training, oversight by MOF/CRGE, supervision missions, audits, documented procedures	Low-Moderate