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Financial Crimes Digest

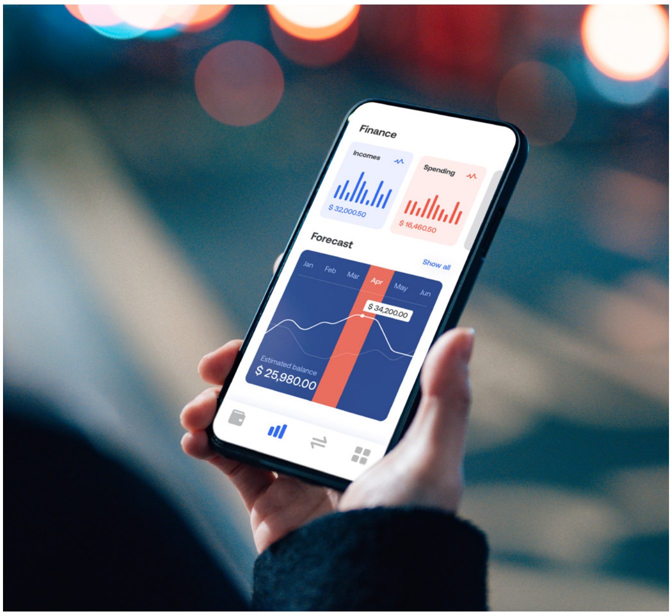
Uganda off the Financial Grey list, what now?

During the fifth plenary meeting held by the Financial Action Task Force ("FATF") from 21 - 23 February 2024, Uganda was officially removed from the FATF grey list marking a significant achievement in the country's efforts to combat money laundering, countering terrorism financing and proliferation financing ("ML/FT/PF"). Uganda was placed on the FATF grey list back in February 2020 for having weaknesses in its efforts to combat ML/TF/PF. Grey listing adversely impacts a country's international reputation, trade relations, investment opportunities, diplomatic ties, among others. This has a snowball effect on a country's ability to raise capital, attract aid, access international finance, engage in international trade and to sustain diplomatic relationships.

Since the grey listing, the government of Uganda through its agencies such as the Financial Intelligence Authority("FIA") intensified its efforts to remediate the anti-money laundering, countering terrorism financing and countering proliferation financing ("AML/CFT/CPF") deficiencies by undertaking several policy and operational interventions. This culminated in the removal of Uganda from the grey list in February 2024.

To achieve this milestone of removal from the grey list, FIA had come up with a five-year strategic plan 2020/2021- 2024/2025 that required the support of various stakeholders including the law enforcement agencies, accountable persons, regulatory bodies and international partners. The plan had various objectives such as increasing compliance with the AML/CFT laws, enhancing the identification of proceeds of crime, improving the dissemination of information to the authorities, increasing public awareness on matters ML/TF and enhancing FIA's efficiency and effectiveness in executing its mandate.

There were also significant changes within the laws of Uganda with the enactment of amendments to six laws to address the FATF recommendations. These included the amendment of the Companies Act, Partnership Act



and Trustee Incorporation Act to provide for beneficial ownership declarations, the Anti- Money laundering Act empowering FIA to levy administrative penalties for breach of the Act and the Anti-Terrorism Act to provide for the offence of proliferation financing.

Following the removal from the grey list, Uganda was also removed from the European Union ("EU") list of high risk third world countries on 16 March 2024. EU placed Uganda on the high-risk list on 23 September 2016 for having strategic deficiencies in its AML/CFT regime that pose significant threats to the financial system of the EU. It is worth noting that while the European Commission considers the FATF grey listing status, it has its own criteria for determining which countries to include on its list of high-risk countries. A country may be on the FATF's grey list but not the EU List, or vice versa.

While Uganda does its happy dance following the exit from the grey list, it is important to note that the neighbouring countries Kenya, Tanzania, South Sudan and the Democratic republic of Congo are currently on the FATF grey list. This, if not addressed, might stall the efforts and commitment of the East African Community to achieve peace and security in the East African region which are usually enabled by criminal networks and illicit financial flows.

Furthermore, it was highlighted at the plenary that many countries have not fully implemented the FATF's revised recommendation 15 on Virtual Assets and Virtual Asset Providers (VASPs). As a result, there are significant loopholes that are being exploited by criminals and terrorists due to the borderless nature of virtual asset activity and as such Uganda will need to address this.

What now?

By getting off the grey list, it means Uganda has demonstrated its compliance with, and commitment to, international AML/CFT/CPF standards, which should give foreign investors greater confidence in the integrity of its financial systems. This will lead to potential increase of capital flows into Uganda ultimately translating to increased economic growth.

Other potential benefits of this development include ease of doing business particularly international financial transactions, trade and reduction of exchange rate pressures as more foreign dominated capital flows come into Uganda.

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Following this development, the FIA's Executive Director, Mr Samuel Were Wandera, said Uganda is now more than ever dedicated to consolidating the achievements attained during the grey list period and strengthening the Uganda AML/CFT/CPF regime. He noted that some of the steps that Uganda will take include strengthening the National Task force to effectively coordinate a multi-sectoral approach to fight financial crimes and increased engagements with the private sector to embrace the various AML/CFT measures.

With the next mutual evaluation slated for 2028, Uganda still needs to remain largely compliant in all areas of the AML/CFT/CPF standards in order not to go back on the grey list. The next evaluation as guided by FATF, shall focus on effectiveness, to ensure that countries are implementing and making use of the laws, regulations and policies that are in place. The evaluation shall also be tailored towards risk. This means institutions will need to adopt a risk-based approach within their AML/CFT/CPF controls.

FIA highlighted that they were already in discussions with the judiciary to discuss mechanisms of improving the effectiveness in the prosecution and adjudication of ML/TF related cases in preparation for the 5th round of mutual evaluations. With that said, in order to maintain Uganda's position off the grey list, institutions should continue exercising awareness of their specific vulnerabilities as identified by FATF and maintain ongoing monitoring for high risk transactions and customers/clients.

For institutions to continue playing their role in supporting the government to turn the country around, effective controls need to be implemented and continuous training needs to be done to understand the risks around their businesses.

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