Global Financial Integrity

ACODE

UGANDA EXITS THE FINANCIAL ACTION TASK FORCE'S GREY LIST, BUT MORE NEEDS TO BE DONE

FACT SHEET
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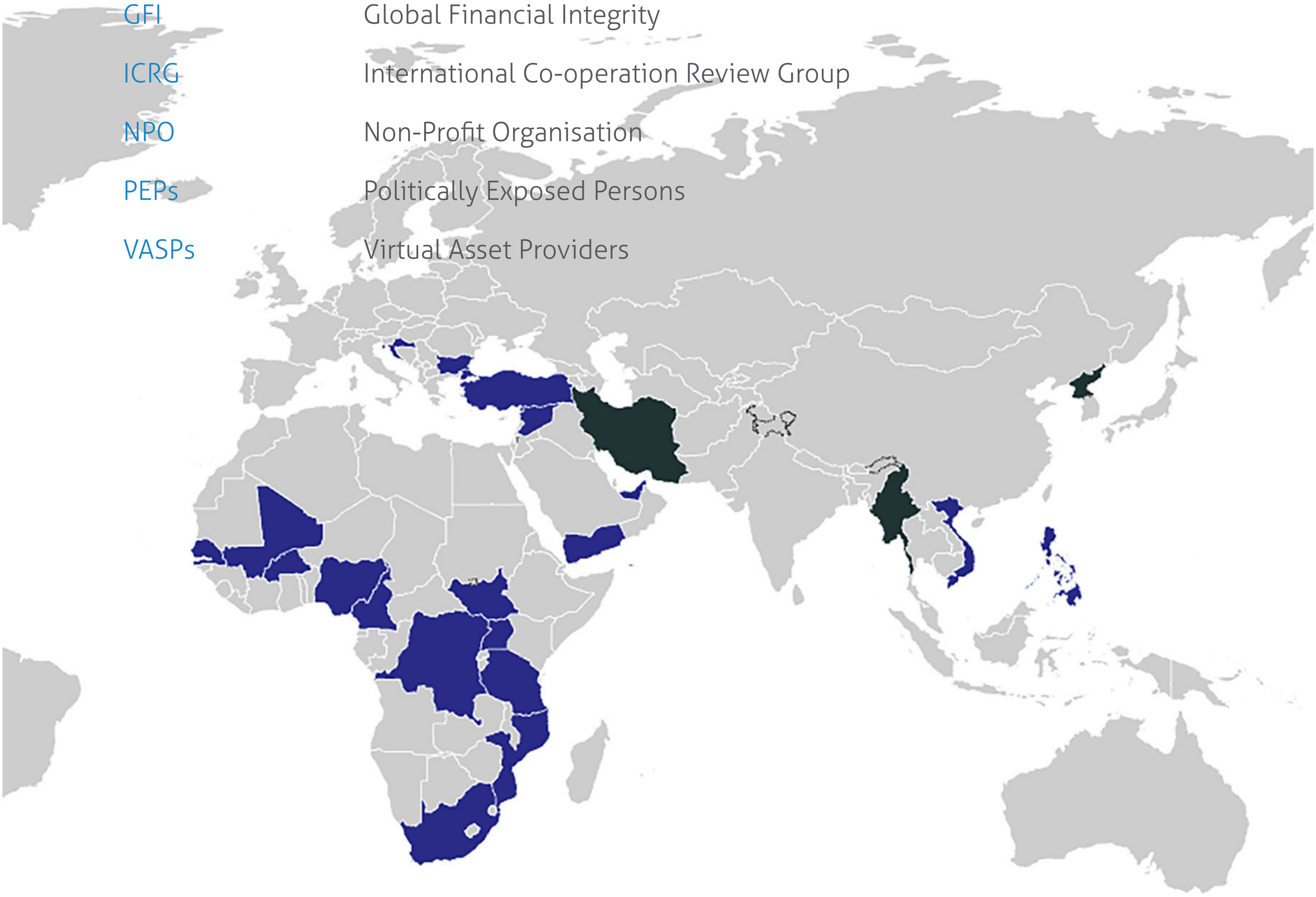
Abbreviations

ACODE	Advocates Coalition for Development and Environment
AML/CFT	Anti-Money Laundering / Counter-Terrorist Financing
AML/CFT/CPF	Anti-Money Laundering / Counter-Terrorist Financing/ Counter Proliferation Financing
CDD	Customer Due Diligence
DNFBPs	Designated Non-Financial Businesses and Professions
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
FATF	Financial Action Task Force
FIA	Financial Intelligence Authority
FIUs	Financial Intelligence Units
FSRBs	FATF-Style Regional Bodies
GFI	Global Financial Integrity
ICRG	International Co-operation Review Group
NPO	Non-Profit Organisation
PEPs	Politically Exposed Persons
VASPs	Virtual Asset Providers



1 | Introduction

In February 2024, the Financial Action Task Force (FATF) removed Uganda from its list of countries with deficiencies in anti-money laundering (AML) and counter-terrorist financing (CFT) systems usually referred to as "the grey list." The FATF grey list identifies countries that need to improve their AML/CFT systems. Being on the grey list has potential economic repercussions. Therefore, the FATF publishes a grey list to help member countries reflect and manage risks associated with these countries and to rekindle their commitment to addressing the identified weaknesses. This fact sheet unpacks the FATF Standards/Recommendations. It also explains the implications of being placed on the FATF grey list. In addition, it identifies challenges and makes recommendations for Uganda to prevent being re-listed ahead of its next round of assessment in 2028.

2 | What is the Financial Action Task Force and what role does it play?

Established in 1989, by Finance Ministers of its member jurisdictions, the Financial Action Task Force is an inter-governmental body mandated to set standards and promote effective implementation of legal, regulatory and operational measures to combat money laundering, terrorist financing and the financing of proliferation, and other related threats to the integrity of the international financial system.[1] Broadly, FATF is the world's financial watchdog for money laundering and terrorist financing. FATF boasts of a membership of over 200 countries and jurisdictions that have committed to implementing the FATF Standards in their national legal, regulatory, and operational framework to stop criminals, terrorists, the corrupt and rogue governments from raising, moving and using funds to fuel crime and terrorism.[2]

The FATF has set international standards, known as the 40+9[3] FATF Recommendations, to help countries combat financial crimes. The FATF recommendations offer a framework for financial institutions such as banks to follow. FATF not only sets the standards but also regularly assesses how well countries are implementing these standards.[4] These assessments are conducted through a process termed *"mutual evaluations"* where member countries

1 FATF (2012-2023), International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation, FATF, Paris, France, available at www.fatf-gafi.org/en/publications/Fatfrecommendations/Fatf-recommendations.html

2 FAFT. (2022). What are FAFT Mutual Evaluations? Financial Action Task Force (FAFT). Retrieved from https://www.fatf-gafi.org/content/dam/fatf-gafi/methodology/Handout-5th-Round-Methodology.pdf

3 The 9 Special Recommendations (also known as Recommendations IX) acts in tandem with the 40 Recommendations as a simple framework to aid the detection, prevention, and eradication of terrorism funding. They include Ratification and implementation of UN instruments; Criminalizing the financing of terrorism and associated money laundering; Freezing and confiscating terrorist assets; Reporting suspicious transactions related to terrorism; International cooperation; Alternative remittance; Wire transfers; Non-profit organizations and Cash couriers

4 SYGNA. (2024). What are the FATF's 40+9 Recommendations and Standards? Sygna Alliance. Retrieved from https://www.sygna.io/blog/what-are-the-fatfs-409-recommendations-and-standards/

review each other's anti-money laundering/counter-terrorist financing (AML/CFT) measures in place.[5]

The FATF keeps an eye out for new trends and methods that criminals use to launder money or finance terrorism and other financial crimes. The recommendations are regularly updated to ensure they stay effective. Countries that do not comply with the FATF standards are defined as *"high-risk"* jurisdictions[6] (often referred to as grey and black lists) This identification can have serious consequences for a country's financial reputation and ability to do international business.[7]

While FATF does not have direct enforcement power, its recommendations and mutual evaluations hold a lot of influence. Countries do not want to be labelled high-risk jurisdictions and that provides a strong incentive to comply. At the regional level, FATF works with FATF-Style Regional Bodies (FSRBs). The FSRBs act as regional watchdogs that promote the FATF Recommendations and assist member countries in implementing these recommendations effectively. These bodies help raise awareness about AML/CFT issues in their specific regions. They provide training and technical assistance to member countries to strengthen their AML/CFT regimes. Similar to FATF mutual evaluations, FSRBs can conduct their assessments of member countries' AML/CFT frameworks. This allows for a more targeted approach reflecting regional risks and vulnerabilities. FSRBs promote communication and information exchange between member countries in collaboration with FATF to ensure a consistent global approach to AML/CFT. FATF currently works with nine FSRBs covering different regions around the world including the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG)[8] where Uganda is a member.[9]

5 FAFT. (2022). What are FAFT Mutual Evaluations? Financial Action Task Force (FAFT). Retrieved from https://www.fatf-gafi.org/content/dam/fatf-gafi/methodology/Handout-5th-Round-Methodology.pdf

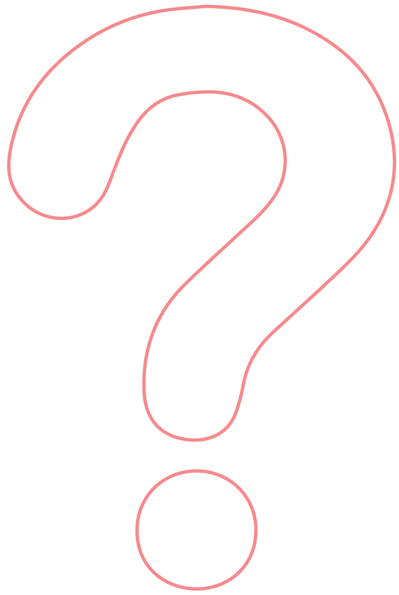
6 ICNL. (2023). Positive Practices in Implementation of FATF Recommendation 8: Guide For State Actors And Civil Society. The International Center for Not-for-Profit Law (ICNL). Retrieved from https://www.icnl.org/wp-content/uploads/FATF-Dual-Guide-Part-1.pdf

7 Asubo, S. (2021). Uganda's AML/CFT Landscape 2014-2021 Pitfalls and Successes. ENSafrica & Standard Chartered Bank Webinar Series: Combating Finance Crime in Uganda. Retrieved from https://www.ensafrica.com/uploads/newsarticles/0_uganda%20aml%20cft%20landscape%202014%202021%20pitfalls%20and%20successes.pdf

8 ESAAMLG membership comprises of 21 countries and also includes a number of regional and international observers such as COMESA, Commonwealth Secretariat, East African Community, Egmont Group of Financial Intelligence Units, FATF, GIZ, IMF, SADC, United Kingdom, United Nations, UNODC, United States of America, World Bank and World Customs Organization.

9 SYGNA. (2024). What are the FATF's 40+9 Recommendations and Standards? Sygna Alliance. Retrieved from https://www.sygna.io/blog/what-are-the-fatfs-409-recommendations-and-standards/

3 | What is the FATF grey list?



The FATF grey list, also known as jurisdictions under increased monitoring, is a list maintained by the Financial Action Task Force that identifies countries with weaknesses in their anti-money laundering and counter-terrorist financing (AML/CFT) regimes. The FATF updates the grey list regularly. Countries can be added or removed from the list depending on the progress they make in addressing their deficiencies.[10]

Grey-listed countries are identified as having weaknesses in their AML/CFT frameworks that could make them more vulnerable to money laundering and terrorist financing activities. The key distinction is that countries on the grey list have committed to addressing these deficiencies. They work with the FATF to develop action plans to strengthen their AML/CFT regimes.[11]

While a country's greylisting does not necessarily mean sanctions, it does trigger increased monitoring by FATF. Financial institutions around the world may also be more cautious about doing business with these countries. This can make it harder for them to participate in the global financial system.[12]

4 | What is the FATF blacklist?

The FATF blacklist identifies countries that the intergovernmental organization deems uncooperative in the global fight against money laundering and terrorist financing. The FATF aims to motivate these countries to enhance their regulatory frameworks and align with global AML/CTF standards by maintaining this list. Nations on the blacklist may face economic sanctions and other restrictive measures from FATF member states and international bodies. This blacklist is a dynamic document, regularly updated in official FATF reports. Countries are added or removed based on their compliance with the relevant FATF standards.[13]

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10 FATF Publication "Jurisdictions under increased monitoring" 23 February 2024. Retrieved from https://www.fatf-gafi.org/en/publications/High-risk-and-other-monitored-jurisdictions/Increased-monitoring-february-2024.html

11 https://www.fatf-gafi.org/en/countries/black-and-grey-lists.html

12 Comply Advantage. (2024). What are the FATF grey list and black list? Comply Advantage. Retrieved from https://complyadvantage.com/insights/fatf-blacklists-greylists/

13 Comply Advantage. (2024). What are the FATF grey list and black list? Comply Advantage. Retrieved from https://complyadvantage.com/insights/fatf-blacklists-greylists/

5 | What are the implications of being put on the grey-list?

The most significant implication to a country that is grey-listed is the reputational damage to the country, as its effectiveness in combatting financial crimes like corruption and money laundering, as well as terror financing, are deemed to be below international standards.[14] Grey-listing hurts overall investment in a country, reducing foreign direct investment, portfolio flows, and others as a share of Gross domestic product (GDP). While a study on the specific impact on Uganda has yet to be done, survey results show restricted financial cross-border transactions, increased credit costs by foreign lenders, and decreased foreign investment.[15] Accordingly, international financial institutions may apply enhanced due diligence measures before doing business with Uganda and conduct enhanced transaction checks during any dealings. This is likely to result in transaction delays and also increase the cost of doing business for financial institutions and as such limit economic growth and development outcomes.[16]

6 | Why was Uganda placed on the grey list?

According to the FATF's published review process, the first step towards being grey-listed is a referral to the FATF's International Co-operation Review Group (ICRG). The referral is based primarily on the jurisdiction's mutual evaluation report results. Jurisdictions whose mutual evaluation report reveals a significant number of key deficiencies are referred to the ICRG for a preliminary review conducted by one of the ICRG regional review groups.[17] A jurisdiction can be referred to the ICRG if its mutual evaluation report has 20 or more Non-Compliant or only Partially Compliant ratings for technical compliance with FATF Recommendations; or rated Non-Compliant or Partially Compliant on three or more of the core Recommendations 3, 5, 6, 10, 11 and 20; or a low/moderate level of effectiveness for nine or more of the 11 Immediate Outcomes – key goals that an effective AML framework should achieve – with at least two lows; or a low level of effectiveness for six or more of the 11 Immediate Outcomes.[18]

14 SA. (2023). What does FATF grey listing mean for a country? Department of National Treasury. South Africa (SA). Retrieved from https://www.treasury.gov.za/comm_media/press/2023/2023022501%20FATF%20Grey%20Listing%20Fact%20Sheet.pdf

15 https://observer.ug/index.php/viewpoint/80805-uganda-exits-fatf-grey-list-boosting-investment-prospects

16 Asubo, S. (2021). Uganda's AML/CFT Landscape 2014-2021 Pitfalls and Successes. ENSafrica & Standard Chartered Bank Webinar Series: Combating Finance Crime in Uganda. Retrieved from https://www.ensafrica.com/uploads/newsarticles/0_uganda%20aml%20cft%20landscape%202014%202021%20pitfalls%20and%20successes.pdf

17 See, https://www.fatf-gafi.org/en/topics/high-risk-and-other-monitored-jurisdictions.html

18 The FATF has identified 11 immediate outcomes of an effective system that it uses to measure a country's

The 2016 International Narcotics Control Strategy Report by the US Department of State found that Uganda's cash-based informal economy provides a fertile ground for money laundering, with most laundered money coming from domestic proceeds, much of which stems from unchecked corruption, real estate, and casino operations to be of particular concern.[19]

Uganda was placed on the FATF grey list due to deficiencies in its Anti-Money Laundering and Counter-Terrorist Financing (AML/CFT) framework. Uganda was first evaluated in 2005 by the World Bank under the Financial Sector Assessment Program which identified weaknesses in Uganda's AML/CFT framework and the findings captured in the mutual evaluation report considered by ESAAMLG. In 2012, the ESAAMLG task force considered that Uganda had not made progress in implementing the recommendations of the evaluation report. As a result, Uganda was grey-listed in 2013 by the FATF.[20] In November 2017, FATF removed Uganda from the list of monitored jurisdictions before placing it back on the list in February 2020 due to inadequate progress in addressing 2016 mutual evaluation deficiencies found in its Mutual Evaluation Report, with 21 out of the 40 recommendations rated non-compliant.[21]

7 | How did Uganda get off the FATF grey list?

In February 2024, FATF removed Uganda from its grey list. Following a laudable government effort and various stakeholders in addressing weaknesses identified by FATF, Uganda successfully exited the grey list along with United Arab Emirates (UAE), Barbados, and Gibraltar. Prompted by the FATF grey list removal, the European Union Commission also expunged Uganda from its Anti Money Laundering (AML) blacklist in March 2024. The FATF public statement shows that Uganda made progress in strengthening the effectiveness of its AML/CFT regime to meet its Action Plan[22] commitments regarding the strategic deficiencies that the FATF identified in February 2020 including: (1) adopting a national AML/CFT strategy; (2) enhancing the use of MLA and maintaining statistics; (3) developing risk-based supervision of the financial and Designated Non-Financial Businesses and Professions (DNFBP) sectors; (4) assessing the ML/TF risks related to legal persons and ensuring that competent authorities have timely access to accurate basic and beneficial ownership information; (5) pursuing money laundering investigations and prosecutions, applying money laundering charges consistent with the country's risk profile and establishing procedures to trace and seize proceeds of crimes; (6) demonstrating an ability to conduct TF investigation and prosecution; (7) implementing proliferation financing related targeted financial sanctions and developing an outreach and risk-based oversight plan to protect non-profit organisation

effectiveness in each mutual evaluation report.

19 https://www.knowyourcountry.com/uganda

20 https://www.esaamlg.org/reports/UGANDA_MER1.pdf

21 Asubo, S. (2021). Uganda's AML/CFT Landscape 2014-2021 Pitfalls and Successes. ENSafrica & Standard Chartered Bank Webinar Series: Combating Finance Crime in Uganda. Retrieved from https://www.ensafrica.com/uploads/newsarticles/0_uganda%20aml%20cft%20landscape%202014%202021%20pitfalls%20and%20successes.pdf

22 See, National Strategy for Combating Money Laundering and the Financing of Terrorism and Proliferation FY 2020/21 – FY 2024/25. Available at https://sherloc.unodc.org/cld/uploads/res//treaties/strategies/uganda/uga0001s_html/20201207_NATIONAL_STRATEGY_FOR_COMBATING_MONEY_LAUNDERING_AND_THE_FINANCING_OF_TERRORISM_AND_PROLIFERATION_FY_2020.21-FY_2024.25.pdf

(NPO) from terrorist financing abuse. The FATF continues to monitor Uganda's oversight of the NPO sector to encourage applying the risk-based approach to supervision of NPOs in line with the FATF Standards and mitigate unintended consequences. [23]

The government's commitment to improving its AML/CFT framework and the demonstrable progress made ultimately led to their removal from the grey list.[24] According to the mutual evaluation report undertaken in 2022, Uganda was deemed Compliant for 15 and Largely Compliant for 8 of the FATF 40 Recommendations. This delisting is a positive development for Uganda, indicating a stronger financial system and a reduced risk of money laundering and terrorist financing activities.

8 | What are the Implications of Uganda's removal from the grey list?

Being off the grey list enables Uganda to open up a world of opportunities for its economy. There is an enhanced reputation by boosting investor confidence and attracting more investors and increased capital inflows due to easier transactions and reduced costs encourage foreign investment and foster economic growth fuelled by higher investments. It also enhances its reputation on the international stage, making it a more attractive destination for business. Furthermore, removal from the grey list signifies that Uganda's financial system is now recognised as more robust and resilient. This protects Uganda's financial institutions' integrity and safeguards ordinary Ugandans' interests, ensuring a more stable financial environment.[25]

23 https://www.fatf-gafi.org/content/fatf-gafi/en/publications/High-risk-and-other-monitored-jurisdictions/Increased-monitoring-october-2023.html

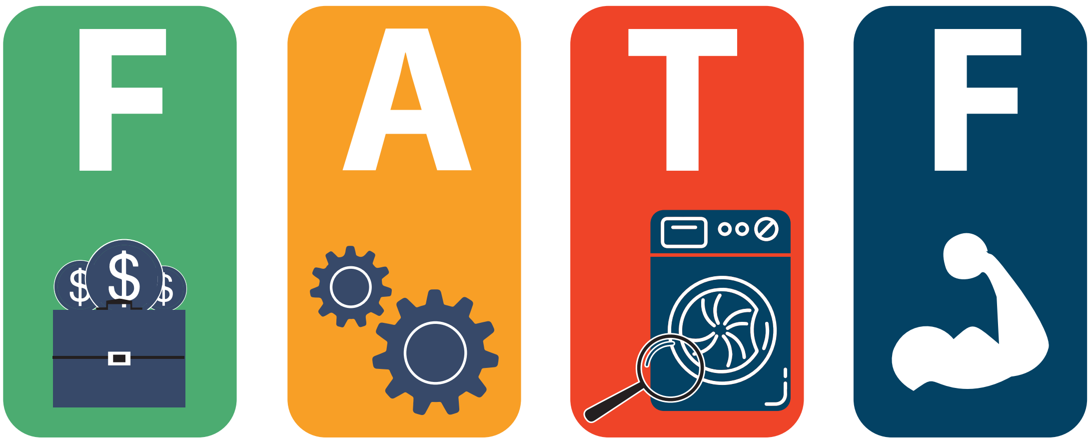
24 ESAAMLG (2023), Anti-money laundering and counter-terrorist financing measures - Uganda, 12th Enhanced Follow-up Report & 5th Technical Compliance Re-Rating, ESAAMLG, Dar es Salaam .Available at http://www.esaamlg.org

25 Agaba, M. (2024, February 23). Uganda removed, Kenya, Namibia added on financial grey list. Retrieved from KIKUBO LANE: https://kikubolane.com/2024/02/23/uganda-removed-from-global-financial-grey-list/

9 | What are the FATF standards/ recommendations that Uganda and other countries should comply with?

The FATF Recommendations provide a comprehensive framework of measures for countries to combat money laundering, terrorist financing, and the financing of proliferation. These measures include strong laws, regulations, and operational protocols to enable national authorities to effectively detect and disrupt financial activities that support crime and terrorism, and to hold perpetrators accountable. Given the diverse legal, administrative, and financial systems across countries, the FATF Recommendations set an international standard that each country should implement in ways that suit their specific contexts.[26]

The essential measures outlined by the FATF Recommendations include: (i) identifying risks and developing coordinated policy responses; (ii) targeting money laundering, terrorist financing, and proliferation financing; (iii) applying preventive measures in the financial sector and other key sectors; (iv) defining powers and responsibilities for competent authorities, including investigative, law enforcement, and supervisory bodies; (v) increasing transparency and ensuring the availability of beneficial ownership information for legal entities and arrangements; and (vi) facilitating international cooperation.[27] The 40 recommendations on Money laundering were issued in 1990, and 9 special recommendations on terrorism financing were issued in 2001.[28] To ease the understanding and implementation of the recommendations, FAFT occasionally prepares interpretive



26 SYGNA. (2024). What are the FATF's 40+9 Recommendations and Standards? Sygna Alliance. Retrieved from https://www.sygna.io/blog/what-are-the-fatfs-409-recommendations-and-standards/

27 Adegboye, N. (23, November 28). FATF "40 + 9" Recommendations: Building a Secured & Trusted Business Entity in a Reputable Global Economy. Retrieved from Medium.

28 The 9 Special Recommendations (also known as Recommendations IX) acts in tandem with the 40 Recommendations as a simple framework to aid the detection, prevention, and eradication of terrorism funding. They include Ratification and implementation of UN instruments; Criminalizing the financing of terrorism and associated money laundering; Freezing and confiscating terrorist assets; Reporting suspicious transactions related to terrorism; International cooperation; Alternative remittance; Wire transfers; Non-profit organizations and Cash couriers.

notes[29] to various recommendations which are periodically updated.[30] The table below shows the 40 recommendations that countries have to implement.

Table 1: Summary of the 40 FATF Recommendations

The 40 Recommendations are divided into seven distinct areas	Recommendation
Anti-Money Laundering/ Counter-Terrorist Financing (AML/CFT) Policies and Coordination	• Recommendation 1: Risk-Based Approach: Countries are advised to adopt a risk-based approach to combat money laundering and terrorist financing. • Recommendation 2: National Cooperation: Countries should have a national AML/CFT policy and mechanism to ensure cooperation and coordination of policymakers and law enforcement to combat financial crimes.
Money Laundering and Confiscation	• Recommendation 3: Money Laundering Offense: Criminalize money laundering and associated activities. • Recommendation 4: Confiscation and Seizure: Enable confiscation and seizure of proceeds of crime.
Terrorist Financing and Financing of Proliferation	• Recommendation 5: Terrorist Financing Offense: Criminalize financing of terrorist individuals or organisations. • Recommendation 6: Financial Sanctions: Implement measures to freeze and confiscate terrorist assets. • Recommendation 7: Targeted Financial Sanctions: Implement targeted financial sanctions against individuals and entities associated with terrorism. • Recommendation 8: Non-Profit Organizations(NPOs): Ensure transparency and integrity of non-profit organizations to prevent terrorist financing abuse.

29 In the world of financial crime and AML/CFT transgressions, changes happen very fast and are often tied to technological advances, such as block chain and cryptocurrency technology. Therefore, the FATF needs to periodically review its Recommendations and make necessary changes to close loopholes and protect the integrity of the Standards. There are currently nearly 30 interpretive notes that have been issued to complement the FATF Recommendations. Specifically, for the virtual asset industry, the FATF's Interpretive Note to Recommendation 15, paragraph 7(b)-R16, the so-called FATF's "crypto travel rule" caused a seismic shift in how the industry is to be regulated in 2020 and beyond.

30 SYGNA. (2024). What are the FATF's 40+9 Recommendations and Standards? Sygna Alliance. Retrieved from https://www.sygna.io/blog/what-are-the-fatfs-409-recommendations-and-standards/

The 40 Recommendations are divided into seven distinct areas	Recommendation
Preventive Measures	• Recommendation 9: Financial institution secrecy laws: Countries should ensure that financial institution secrecy laws do not inhibit implementation of the FATF Recommendations. • Recommendation 10: Customer due diligence (CDD): Implement CDD measures for customer identification and verification. • Recommendation 11: Record Keeping: Financial institutions must maintain information from CDD for at least 5 years to comply with information requests. • Recommendation 12: Politically exposed persons (PEPs): Apply en-hanced due diligence to PEPs. • Recommendation 13: Correspondent banking: Establish enhanced CDD for cross-border correspondent banking relationships. • Recommendation 14: Money or value transfer services(MVTs): Im-plement measures to ensure effective monitoring and compliance within money or value transfer services. • Recommendation 15: New technologies: Address money laundering and terrorist financing risks associated with the development and use of new technologies. • Recommendation 16: Wire Transfers: Financial institutions should ensure accurate originator information accompanies wire transfers. • Recommendation 17: Reliance on third parties: Allow financial in-stitutions to rely on third parties for customer due diligence. • Recommendation 18: Internal controls and foreign branches and subsidiaries: Financial institutions should be required to implement programmes against money laundering and terrorist financing. • Recommendation 19: Higher-risk countries: Financial institutions should apply enhanced due diligence to business relationships and transactions involving higher-risk countries • Recommendation 20: Reporting of suspicious transactions: Finan-cial institutions should be required by law to promptly report to the financial intelligence units (FIUs) if they suspect that funds are the proceeds of criminal activity, or are related to terrorist financing. • Recommendation 21: Tipping off and confidentiality: Prohibit the tipping off of customers about suspicious transaction reports. • Recommendation 22: Designated Non-Financial Businesses and Professions (DNFBPs). Customer due diligence: Extend customer due diligence and record-keeping requirements to Designated Non-Financial Businesses and Professions • Recommendation 23: DNFBPs: Other measures: Ensure that re-quirements set out in Recommendations 18 to 21 apply to all designated non-financial businesses and professions.

The 40 Recommendations are divided into seven distinct areas	Recommendation
Transparency and Beneficial Ownership of Legal Persons and Arrangements	• Recommendation 24: Transparency of Legal Persons: Ensure transparency of beneficial ownership information for legal persons. • Recommendation 25: Transparency of Legal Arrangements: Ensure transparency of beneficial ownership information for legal arrangements.
Powers and Responsibilities of Competent Authorities and other Institutional Measures	• Recommendation 26: Regulation and supervision of financial insti-tutions: Countries should ensure that financial institutions are sub-ject to adequate regulation and supervision and are effectively im-plementing the FATF Recommendations. • Recommendation 27: Powers of supervisors: Supervisors should have adequate powers to supervise or monitor, and ensure compli-ance by, financial institutions with requirements to combat money laundering and terrorist financing, including the authority to con-duct inspections. • Recommendation 28: Regulation and supervision of Designated Non-Financial Businesses and Professions (DNFBPs): Designated non-financial businesses and professions should be subject to regulatory and supervisory measures. • Recommendation 29: Financial intelligence units: Establishment of financial intelligence units (FIUs) that serve as a national centre for the receipt and analysis of (a) suspicious transaction reports; and (b) other information relevant to money laundering, associated predicate offences and terrorist financing, and for the dissemination of the results of that analysis. • Recommendation 30: Responsibilities of law enforcement and in-vestigative authorities: Countries should ensure that designated law enforcement authorities have responsibility for money laundering and terrorist financing investigations within the framework of national AML/CFT policies. • Recommendation 31: Powers of law enforcement and investigative authorities: Provide law enforcement with the necessary legal powers and tools to investigate and prosecute money laundering and terrorist financing. • Recommendation 32: Cash couriers: Regulate and monitor the activities of cash couriers. • Recommendation 33: Statistics: Collect and maintain statistics on money laundering and terrorist financing. • Recommendation 34: Guidance and feedback: Provide guidance to financial institutions and feedback on their AML/CFT efforts. • Recommendation 35: Sanctions: Countries should ensure that there is a range of effective, proportionate and dissuasive sanctions, whether criminal, civil or administrative, available to deal with nat-ural or legal persons covered by Recommendations 6, and 8 to 23, that fail to comply with AML/CFT requirements.

The 40 Recommendations are divided into seven distinct areas	Recommendation
International Cooperation	• Recommendation 36: International instruments: Countries should take immediate steps to become party to and implement fully international instruments. • Recommendation 37: Mutual legal assistance: Provide mutual legal assistance to other countries in AML/CFT matters. • Recommendation 38: Mutual legal assistance: freezing and confiscation. • Recommendation 39: Extradition: Countries should constructively and effectively execute extradition requests in relation to money laundering and terrorist financing, without undue delay. • Recommendation 40: Other forms of international cooperation: Clearly define and assign responsibilities to competent authorities for AML/CFT supervision and enforcement.

10 What are FATF mutual evaluations and how are they conducted?

The FATF mutual evaluations are country assessment reports that analyse the implementation and effectiveness of measures to combat money laundering, terrorist and proliferation financing. Mutual evaluations are peer reviews conducted by the Financial Action Task Force (FATF) to assess a country's efforts to combat money laundering, terrorist and proliferation financing (AML/CFT). The FATF conducts peer reviews of each member country regularly to assess levels of implementation of the FATF Recommendations, providing an in-depth analysis of each country's system for preventing criminal abuse of the financial system.[31]

The mutual evaluation focuses on technical compliance and effectiveness to assess how a country's laws and regulations align with the FATF Recommendations and more importantly, how these measures are actually working in practice to prevent money laundering and terrorist financing. Simply put, the FATF does not just check if a country has the right laws on paper, but also if these laws are being implemented effectively to achieve the ultimate goal of combating money laundering and terrorist financing.[32]

In 2024, the FATF updated its methodology for mutual evaluations which sets out the assessment process focusing on technical compliance with the 40 FATF Recommendations and the effectiveness of Anti-Money Laundering/Counter-Terrorist Financing/Counter Proliferation Financing (AML/CFT/CPF) systems of a country. This methodology provides a

31 See, Mutual Evaluations. Available at https://www.fatf-gafi.org/en/topics/mutual-evaluations.html

32 SA. (2023). What does FATF grey listing mean for a country? Department of National Treasury. South Africa (SA). Retrieved from https://www.treasury.gov.za/comm_media/press/2023/2023022501%20FATF%20Grey%20Listing%20Fact%20Sheet.pdf

structured framework of analysis that ensures consistency and high quality of the mutual evaluation reports. The process involves a team of experts from other FATF member countries visiting the evaluated country to assess the country's AML/CFT framework against the 40 FATF Recommendations. The results are produced in a mutual evaluation report which details the country's strengths and weaknesses in its AML/CFT efforts.[33]

Mutual evaluation reports help a country identify the actions that must be taken to strengthen national frameworks and make its AML/CFT/CPF actions more effective. A good report proves a safe and robust financial system and trust in the rule of law, and improves a country's position in the global financial system. On the other hand, poor mutual evaluation results can damage a country's reputation, increase scrutiny, create difficulties in doing international business and blacklisting, including inclusion in the FATF's statements of high-risk and other monitored jurisdictions for countries with the most serious vulnerabilities. However, these reports are not just punitive. They provide an opportunity for the country to address its weaknesses and improve its financial security.[34]

11 Why is FATF mutual evaluation important?

The mutual evaluation of a country's anti-money laundering, and countering the financing of terrorism (AML/CFT) efforts is necessary for several reasons:

1. **Identify weaknesses:** Mutual evaluation helps pinpoint areas where a country's AML/CFT framework is deficient. This allows the country to address these gaps and strengthen its defences against money laundering and terrorist financing. Without these evaluations, vulnerabilities might go unnoticed, leaving the country's financial system exposed.[35]

2. **Maintain global standards:** Through peer reviews, countries ensure that their AML/CFT frameworks are aligned to the same international standards set by the FATF. Criminals are always looking for loopholes, and consistent global standards make it harder for them to exploit weaknesses in different countries' systems.[36]

3. **Promote cooperation:** The process fosters information sharing and collaboration between countries. Different jurisdictions can learn from each other's best practices and experiences. This exchange of knowledge is essential for staying ahead of evolving money laundering and terrorist financing techniques.[37]

4. **Strengthen financial security:** By identifying and addressing weaknesses, the FATF evaluation ultimately helps to strengthen the global financial system. This makes it more difficult for criminals to launder money and finance terrorism. A strong financial

33 FATF (2024), Methodology for Assessing Technical Compliance with the FATF Recommendations and the Effectiveness of AML/CFT/CPF Systems, FATF, Paris, www.fatf-gafi.org/en/publications/Mutualevaluations/Assessment-Methodology-2022.html

34 Learn more about the current mutual evaluation programme, completed mutual evaluation and follow-up reports. Available at www.fatf-gafi.org/publications/mutualevaluations

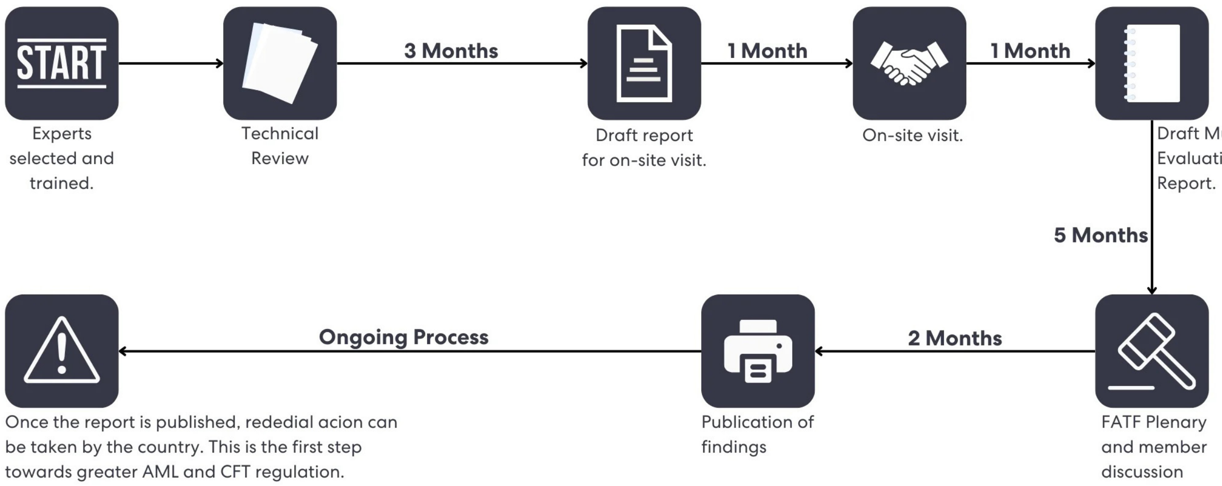
35 https://www.fatf-gafi.org/en/publications/Mutualevaluations/Fatf-methodology.html

36 https://www.fatf-gafi.org/en/publications/Mutualevaluations/Fatf-methodology.html

37 PWC. (2023,). What insurers should expect in IFRS17 regime. Retrieved from Price water house Coopers(PWC): https://www.pwc.com/ke/en/blog/fatf-grey-list.html

system benefits everyone by promoting stability and economic growth.[38]

The FATF Mutual Evaluation Process



12 | What challenges does Uganda still face in combating money laundering and terrorist financing?

Although Uganda successfully exited the FATF grey list in February 2024, there are still challenges[39] that need to be addressed to maintain a strong Anti-Money Laundering and Counter-Terrorist Financing (AML/CFT) framework that includes:

1. **Cash-Based Economy:** Uganda's predominantly cash-based economy makes tracking transactions, particularly illicit ones, very challenging. Some legal provisions are not suited for such an economy. In contrast, countries with regulations requiring transactions over USD 10,000 to go through banks enables their Financial Intelligence Units (FIUs) to monitor these transactions efficiently.[40]

2. **Underutilization of FIA Reports:** There is a significant gap between the number of intelligence reports disseminated by the FIA and the cases that investigative and prosecutorial agencies pursue in court.

3. **Porous Borders:** The porous nature of Uganda's borders complicates the enforcement

38 SA. (2023). What does FATF grey listing mean for a country? Department of National Treasury. South Africa (SA). Retrieved from https://www.treasury.gov.za/comm_media/press/2023/2023022501%20FATF%20Grey%20Listing%20Fact%20Sheet.pdf

39 Asubo, S. (2021). Uganda's AML/CFT Landscape 2014-2021 Pitfalls and Successes. ENSafrica & Standard Chartered Bank Webinar Series: Combating Finance Crime in Uganda. Retrieved from https://www.ensafrica.com/uploads/newsarticles/0_uganda%20aml%20cft%20landscape%202014%202021%20pitfalls%20and%20successes.pdf

40 https://www.knowyourcountry.com/uganda

of section 10 of the Anti-Money Laundering Act, which mandates the declaration of cash or negotiable instruments worth UGX 30 million or more when entering or leaving the country. The aim of this legislation is for such declarations to be reported to the Financial Intelligence Authority (FIA) within 48 hours by URA customs. However, the ease of crossing borders undetected undermines this requirement.

4. **Informal Business Sector:** Many businesses in Uganda operate informally without formal accountability mechanisms or structures.

5. **Insufficient Funding:** Key agencies fighting money laundering and terrorist financing face low budget allocations and are therefore unable to adequately do supervision and monitoring.

6. **Emerging Technology Risks:** The fast-paced business environment and risks associated with new technologies, including virtual assets and Virtual Asset Providers (VASPs), pose significant challenges.

7. **Limited Capacity for Financial Investigations:** Enforcement agencies often lack the capacity or full understanding of the laws to conduct parallel financial investigations, frequently focusing on predicate offences instead of money laundering offences. While improvements are being made, capacity issues still persist.

8. **Non-Enforcement of Financial Sanctions:** Although the Anti-Money Laundering Act includes provisions for administrative and financial sanctions, enforcement mechanisms are not yet in place. The FIA has submitted draft Administrative Sanctions and Regulations to the Ministry of Finance, Planning, and Economic Development, which is still processing them.

9. **Delayed Real Estate Regulation:** The real estate sector, identified as high-risk for money laundering, remains unregulated due to delays in enacting relevant laws.

10. **Cyber and Technological Crimes:** The rise of cyber and technology-related crimes complicates efforts to combat financial crimes, as criminals often stay ahead of law enforcement due to the rapidly evolving nature of technology.

11. **Public Awareness Deficit:** There is limited public understanding of the negative impacts of money laundering and terrorist financing. Due to budget constraints, public awareness campaigns are insufficient, leading to low visibility of the FIA and a misconception that money laundering is solely an FIA issue rather than a national concern. This lack of awareness extends to law enforcement agencies and reporting entities, hindering a coordinated approach to combating these issues.[41]

41 Asubo, S. (2021). Uganda's AML/CFT Landscape 2014-2021 Pitfalls and Successes. ENSafrica & Standard Chartered Bank Webinar Series: Combating Finance Crime in Uganda. Retrieved from https://www.ensafrica.com/uploads/newsarticles/0_uganda%20aml%20cft%20landscape%202014%202021%20pitfalls%20and%20successes.pdf

12 What can Uganda do to keep off the grey list?

Uganda successfully navigated its way off the FATF grey list. To stay off the list, Uganda will need to demonstrate continued commitment and progress in strengthening its AML/CFT framework. Here are some key actions Uganda can take to prevent future grey listing:

1. **Maintaining a Strong Legal and Policy Framework governing Uganda's AML/CTF landscape:** Conduct regular reviews of and update AML/CFT laws and regulations to ensure they align with the latest FATF Recommendations. This shows responsiveness to evolving threats and best practices. Government agencies should also address new and emerging risks by following trends in money laundering and terrorist financing that require constant vigilance. Uganda should stay updated on these trends and adapt its legal framework accordingly.

2. **Effective Implementation:** The government should ensure adequate resources are allocated to relevant law enforcement agencies and financial regulators to enhance their capacity to effectively investigate and prosecute money laundering and terrorist financing crimes. The government also need to adopt a strong partnership between the public and private sectors to promote better information sharing, coordinated efforts, and a more comprehensive approach to combating financial crime. Increase public awareness about money laundering and terrorist financing. This can help citizens identify suspicious activities and report them to the authorities, further strengthening the AML/CFT system.

3. **Continuous Improvement:** The government needs to proactively engage with FATF follow-up mechanisms to demonstrate continued adherence to international AML/CFT standards. It is important to conduct regular self-assessments to identify any remaining weaknesses in the AML/CFT framework and to implement timely corrective measures. Strengthening collaboration with other countries in the global fight against financial crime is vital for disrupting transnational money laundering and terrorist financing networks.

4. **Sustained Political Commitment:** Continued commitment from the Ugandan government to prioritize AML/CFT efforts is necessary to maintain progress and avoid backsliding.

5. **Capacity building:** The government should Invest in regular training and capacity building for relevant authorities, law enforcement, and financial institutions to improve their understanding of AML/CFT measures and obligations.

6. **Risk assessment:** Conduct a comprehensive national risk assessment to identify vulnerabilities and risks related to money laundering and terrorist financing. This will help Uganda to apply focused and proportionate measures, in line with the risk-based approach.

7. **Supervision and enforcement:** Ensure effective supervision of financial institutions, designated non-financial businesses, and professions (DNFBPs). Regular inspections

and enforcement actions are crucial.

8. **Reduce cash-based transactions:** The Central bank should fast-track the implementation of the national financial inclusion strategy to reduce cash-based transactions. In addition, there is a need to implement the recommendations of the national risk assessment report[42] on Uganda's economy being highly cash-based.

42 https://www.fia.go.ug/sites/default/files/downloads/Money_Laundering_And_Terrorist_Financing_National_Risk_Assessment_Report_1.pdf

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