



HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT

UGANDA

Strengthening the Anti-Money Laundering and
Combating the Financing of Terrorism
(AML/CFT) Regime

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High-Level Summary Technical Assistance Report

Legal Department

Uganda—Strengthening Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) Regime

The High-Level Summary Technical Assistance Report series provides high-level summaries of the assistance provided to Fund capacity development (CD) recipients, describing the high-level objectives, findings, and recommendations.

ABSTRACT:

This report¹ summarizes findings and recommendations from a Fund CD mission in Uganda from August 28 to September 1, 2023, in response to a request from the Bank of Uganda (BoU), focusing on AML/CFT measures. Key areas of focus included reviewing the legal and regulatory frameworks, developing operational frameworks for consistent sanction application, and implementing AML/CFT risk-rating tools. Recommendations include clarifying roles, strengthening information exchange mechanisms, and enhancing resources for effective AML/CFT supervision to align with Financial Action Task Force (FATF) standards and promote financial integrity.

Background

Uganda met two of the structural benchmarks (SBs) of the Fund’s arrangement under the Extended Credit Facility (ECF). The SB pertaining to the issuance of regulations for timely access to the beneficial ownership information was met in early 2023, while the SB on developing supervisory tools to support implementation of AML/CFT risk-based supervision was met in May 2023 with support from this CD project.

In line with the key focus of the project and the ECF SB measure relating to supervisory sanctions that Uganda had to fulfill by March 2024, the mission concentrated on three main areas:

- (i) Reviewing the legal and regulatory framework concerning supervisory sanctions for banks;
- (ii) Developing an operational framework to ensure that sanctions are applied in a manner that is consistent, transparent, dissuasive, and proportionate; and

- (iii) Following up on the implementation of AML/CFT risk-rating tools for the banking, foreign exchange bureau and money remittance sectors.

Summary of Findings

Review of the Legal and Regulatory Framework on Supervisory Sanctions

The coexistence of the Anti-Money Laundering Act (AMLA) and the Financial Institutions Regulations (FIR) raised questions about precedence and contradictions, potentially undermining the effectiveness of AML/CFT enforcement measures. The Anti-Money Laundering (Amendment) Regulations 2023 had notable deficiencies, with monetary penalties not consistently aligned with the severity of the AML/CFT infractions, as recommended by FATF standards, highlighting the need for addressing these ambiguities and deficiencies.

The memorandum of understanding (MoU) signed between the BoU and FIA marked progress in AML/CFT oversight through improved dialogue and coordination. Collaboration between the two institutions had been one of the key takeaways from the Fund's technical assistance mission in August 2023. This step aligned with Uganda's SB under the ECF arrangement relating to the enhancement of AML/CFT enforcement by the BoU.

AML/CFT Risk-based Supervision

The AML Unit, which oversees AML/CFT compliance was significantly understaffed with only four supervisory staff at the time of the mission. The range of entities supervised by the AML Unit includes commercial banks, credit institutions, micro-finance deposit-taking institutions, money remitters, foreign exchange bureaus, and payment service providers/operations. The majority of their AML/CFT supervisory activities were done manually, making them resource-heavy and time-consuming. In collaboration with the mission team, the AML Unit formulated risk-rating methodologies for the forex bureau and money remittance sectors. Despite successfully conducting a pilot test and gathering data from industry players, the data remained unanalyzed due to limited supervisory resources.

The BoU needed to increase staff resources for AML/CFT risk-based supervision. The risk rating methodology for assessing banks had undergone revisions to reflect sector risks more accurately. Following recommendations from the last mission, different risk weights were applied to distinct risk factors. Since March 2023, the AML Unit had conducted several onsite inspections, including joint efforts with the Reserve Bank of South Africa. The prioritization of these inspections was based on assessment tools developed under the project. Yet some planned inspections had to be postponed because of insufficient AML/CFT supervisory resources.

Summary of Recommendations

Review of the Legal and Regulatory Framework on Supervisory Sanctions

Addressing legal ambiguities and deficiencies—Authorities are recommended to address the legal ambiguities and deficiencies within Uganda's AML/CFT framework by conducting a comprehensive review, aligning penalties with FATF standards, and enhancing cooperation between the BoU and the FIA through an MoU. Strengthening information exchange mechanisms and designating contact persons for streamlined communication are also recommended. These measures aim to bolster Uganda's AML/CFT regulatory framework, enhance cooperation, and ensure robust enforcement to meet international standards.

AML/CFT Risk-Based Supervision

Resource Augmentation: The BoU is urged to enhance resources by investing in human capital and technological infrastructure for the AML Unit to be better equipped and more capable of discharging their supervisory duties more effectively. Such bolstering is not a mere expansion; it is a strategic move to ensure that risk-based AML/CFT supervision is not just implementable but effective. The reallocation of qualified supervisory staff from the Non-Bank Financial Institutions Division and hiring specialized personnel in the AML unit are steps towards this goal. Adding four more supervisory staff members is recommended to address immediate requirements, but the exact number should be determined by BoU based on its specific needs and circumstances.