



MONEY LAUNDERING/ TERRORIST FINANCING

**RISK ASSESSMENT
ON LEGAL PERSONS AND
ARRANGEMENTS IN
UGANDA**

Approved on 30th March 2021
By Uganda Anti Money Laundering / Countering Terrorism and
Proliferation Taskforce

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LIST OF ACRONYMS

ADF	Allied Democratic Forces
AMLA	Anti-Money Laundering Act
AML/CFT	Anti-Money Laundering/Countering Financing of Terrorism
ATA	Anti-Terrorism Act, 2002
BO	Beneficial Ownership
BOU	Bank of Uganda
BRS	Business Registration System
CID	Criminal Investigations Directorate
CDD	Customer Due Diligence
CFT	Combating Financing of Terrorism
DNFBPs	Designated Non-Financial Businesses and Professions
EDMS	Electronic Data Management System
FATF	Financial Action Task Force
FIA	Financial Intelligence Authority
FUFA	Federation of Uganda's Football Associations
IRA	Insurance Regulatory Authority
LRA	Lord's Resistance Army
MER	Mutual Evaluation Report
ML	Money Laundering
MLCO	Money laundering Control Officer
ML/TF	Money Laundering/Terrorist Financing
NIRA	National Identification and Registration Authority
NRA	National Risk Assessment
NSSF	National Social Security Fund
ODPP	Office of the Director of Public Prosecutions
SID	Special Investigations Division
STR	Suspicious Transaction Report
TF	Terrorist Financing
URA	Uganda Revenue Authority
URSB	Uganda Registration Services Bureau.

DEFINITION OF TERMS

Consequence	This refers to the impact or harm that ML or TF may cause, and includes the effect of the underlying criminal and terrorist activity on financial systems and institutions, as well as the economy and society more generally. For the purpose of this risk assessment, and in line with the methodology of the legal persons and arrangements, the consequences component is regarded as constantly significant and will therefore not be dealt with in detail. The proposed methodology consequently focuses on the threats and vulnerability components.
Legal Arrangements	This refers to express trusts or other similar legal arrangements. Examples of other similar arrangements (for AML/CFT purposes) include trusts, trust agency and escrows
Legal Persons	This refers to any entities other than natural persons that can establish a permanent customer relationship with a financial institution or otherwise own property. These can include companies, bodies corporate, foundations, partnerships, or associations and other similar entities
Money laundering	is the process of turning illegitimately obtained property into seemingly legitimate property and it includes concealing or disguising the nature, source, location, disposition or movement of the proceeds of crime and any activity which constitutes a crime under section 3 of the Anti-Money Laundering Act, 2013 as amended.
Mitigants	These refer to all circumstances and mitigating measures in place in terms of law enforcement, supervision and capacity to combat ML/TF in various sectors. The mitigants can reduce the overall risk level of a sector where law enforcement and/or supervisory activity effectively mitigates the risk, thus leading to a lower residual risk.
Risk	This is a function of threats, vulnerabilities and consequences, as mitigated by certain factors and circumstances. A risk assessment involves making judgements about threats, vulnerabilities, mitigants and consequences. While there are many similarities between money laundering and terrorist financing in how funds are raised, stored and distributed, the terrorist financing risks posed to Uganda may be somewhat different than those posed by money laundering. For this reason, this assessment includes a separate chapter on terrorist financing risk.
Terrorist financing	This is the financing of terrorist acts, and of terrorists and terrorist organizations. It entails a person or group of people with the potential to cause harm by raising, moving, storing or using funds and other assets (whether from legitimate or illegitimate sources) for terrorist purposes.
Threat	This is a person or group of people, an object or activity with the potential to cause harm to the state, society, the economy etc. This includes criminals, terrorist groups and their facilitators, their funds, as well as past, present and future ML or TF activities.
Vulnerabilities	When used in a risk assessment, this term comprises of those weaknesses that can be exploited by the threat or that may support or facilitate its activities.

EXECUTIVE SUMMARY

Uganda is committed to prevent the misuse of legal persons and arrangements such as companies, partnerships, trusts and SACCOs as channels for money laundering and terrorist financing. As the threats from illicit financial flows and terrorist financing continue to evolve, the Country needs to understand the risks and design appropriate mitigation measures.

Uganda has published its first ML/TF risk assessment report for legal persons and arrangements. This Risk assessment report identifies the threats, vulnerabilities and methods used by criminals to launder proceeds of crime and finance terrorism using legal persons and arrangements.

The methodology used for assessment involved reviewing the FATF international standards, national policy documents on ML/TF and extensive consultation with public and private sector stakeholders. The information obtained was analyzed using qualitative and quantitative approaches and professional expertise to identify the key risks for Uganda. The analysis was carried out using the ML/TF risk assessment tool developed by the World Bank.

The risk assessment for legal persons and arrangements indicated that the overall ML risk for companies, partnerships and SACCOs and Cooperative Societies is medium high (MH), while the overall risk for trusts is medium (M).

Money Laundering Risk Scores for Legal Persons and Arrangements.

	Threat	Vulnerability	Risk
Companies	Medium High	Medium High	Medium High
Partnerships	Medium High	Medium High	Medium High
Trusts	Medium	Medium Low	Medium
SACCOs & Co-operatives	Medium	Medium High	Medium High
Overall	Medium High	Medium High	Medium High

Money Laundering Risk Matrix for Legal Persons and Arrangements in Uganda.

Overall Threat	Overall ML Risk of Legal Persons & Arrangements					
	H	M	M	MH	H	H
	MH	M	M	MH	Companies Partnerships	H
	M	ML	Trusts	M	SACCOs	MH
	ML	ML	ML	M	M	M
	L	M	ML	ML	M	M
		L	ML	M	MH	H
	Overall ML Vulnerability					

The risk assessment for legal persons and arrangements indicated that the overall TF risk for companies is Medium (M), partnerships and trusts is Low (L) while for SACCOs and Cooperative Societies is medium low (ML).

Terrorism Financing Risk Scores for Legal Persons and Arrangements in Uganda.

	Threat	Vulnerability	Risk
Companies	Medium	Medium	Medium
Partnerships	Low	Low	Low
Trusts	Low	Low	Low
SACCOs & Co-operatives	Low	Medium Low	Medium Low
Overall	Medium	Medium	Medium

Terrorism Financing Risk Matrix for Legal Persons and Arrangements in Uganda.

Overall Threat	Overall TF Risk of Legal Persons & Arrangements					
	H	M	M	MH	H	H
	MH	M	M	MH	MH	H
	M	ML	M	Companies	MH	MH
	ML	ML	ML	M	M	M
	L	Partnerships Trusts	ML	SACCOs	M	M
		L	ML	M	MH	H
	Overall TF Vulnerability					

The major challenges encountered during the risk assessment included the limitations in the assessment tool used. It contained some variables which were not applicable to the analysis of legal persons and arrangements such as the integrity of business/profession staff, AML knowledge of business/profession staff, effectiveness of the compliance function, effectiveness of suspicious activity monitoring and reporting. This challenge was overcome by using the expert opinion of the sector and the variables were not considered during the analysis. In addition, there was limited AML/CFT statistics in the legal persons and arrangements sub-sector to support the analysis. This challenge was overcome by relying on expert knowledge of the assessment team and stakeholders.

The major recommendations include, undertaking robust legal reforms to address the deficiencies in the existing legal framework on beneficial ownership information of legal persons and arrangements, strengthen the capacity of FIA to conduct supervision/oversight activities on non-regulated sectors using a risk-based approach and to conduct awareness campaigns and trainings to enhance the understanding of AML/CFT matters amongst legal persons and arrangements.

1. 1. Purpose and Scope of Assessment

Uganda is committed to combating money laundering and terrorist financing. Money laundering and terrorist financing are global problems that can compromise the integrity and stability of countries' financial systems and institutions. By concealing the criminal origin of money, through the use of legal persons and legal arrangements, criminals can derive significant personal benefit and can fund further criminality. Terrorist financing entails the collection of funds or their actual provision to terrorists and terrorist organizations.^[1] Terrorist financing and money laundering share similarities in the methods used to collect, store and distribute funds. However, in addition to the proceeds of illegal activity, legitimate funds, charities and self-financing may also be used to finance terrorism. The countering of terrorism and the financing of terrorism is a key priority in ensuring Uganda's security.

The purpose of this Risk Assessment is to provide a broad assessment of Uganda's ML/TF risks in legal persons and legal arrangements so as to enhance the understanding of them and develop effective strategies to address the risks. It also provides an illustration of the methodologies used by criminals to launder money or finance terrorism through the use of corporate vehicles (legal persons and arrangement) as channels.

This assessment is intended to assist Uganda's law enforcement authorities, competent authorities, legal persons and legal arrangements to better understand the ML/TF risks so that they can allocate resources and prioritize activities in a proportionate and risk-based manner. The identification of risks is a key recommendation of the Financial Action Task Force and is the crucial basis for developing and prioritizing AML/CFT policies and activities. The key findings of this assessment will inform the future development of Uganda's AML/CFT legal, policy and institutional framework.

This assessment is a result of extensive engagements with a wide range of state bodies, supervisors, law enforcement agencies, Uganda's security and intelligence agencies, and private sector representatives culminating in an overall collective understanding of ML/TF for the purpose of identifying and assessing the key risks facing legal persons, legal arrangements and the effectiveness of their current approach to addressing those risks. Industry views on ML/TF risks for legal persons and legal arrangements were sought and used to enhance and substantiate the information provided by the stakeholders.

The results of this risk assessment will help inform policy interventions, operations and the allocation of resources to the areas of highest risk. It will also help the industry in its own risk assessments by giving an understanding of the areas of risk where the greatest focus should be placed.

¹ The U.S. National Money Laundering Strategy, July 2002

The methodology used in the Risk Assessment for legal persons and legal arrangements was developed having regard to the FATF guidance, the World Bank approaches, and extensive consultation with public and private sector stakeholders. The methodology combines qualitative and quantitative information and professional expertise to identify the key risks for Uganda and develop follow-up actions to address them. The assessment on money laundering and terrorist financing threats and national vulnerability was premised on open and classified information sources which included intelligence and security agencies, government ministries, departments and agencies, media and other publications. Information was collected using review of literature, group discussions, stakeholder workshops and consultations with subject matter experts. The desk-based review was predominantly a retrospective examination of the legal persons and arrangements based on laws, STRs, document interrogation, available intelligence information and interaction with other stakeholders.

The information obtained was analyzed using an assessment tool developed by the World Bank. However, the module was not specifically designed to analyze ML/TF risk of legal persons and arrangements. We therefore relied on the module in isolation of a few variables that are not applicable to legal persons and arrangements. Each variable was assessed and assigned a rating on a scale of 0 – 10 in terms of the risk, where 0 is non-existent controls and 10 is excellent controls.

The variables that were neither relevant nor specific to legal persons and arrangements were given a neutral rating which did not affect the final risk rating.

The threat analysis considered the most prevalent predicate offences committed in Uganda by legal persons and arrangements, their trends and patterns. These predicate offences are broadly analysed into 2 categories: domestic (predicate offences committed in Uganda), and international (predicate offences committed in other jurisdictions). Data was collated basing on the number of reported cases, prosecutions, and convictions. In addition, the analysis considered the scale of operations of legal persons and arrangements; their sector contribution to the macro-economy.

The Terrorist Financing (TF) assessment focused on the available data from Law Enforcement Agencies regarding TF/terrorism convictions, prosecutions, investigations, intelligence, STRs and terrorism allegations in credible open sources. The analysis also considered available information on the financial behavior of terrorist organisations deemed to be operating in Uganda such as Al-Shabaab, LRA and the ADF.

03 LEGAL PERSONS AND ARRANGEMENTS>>>>

Legal Persons refer to any entities other than natural persons that can establish a permanent customer relationship with a financial institution or otherwise own property. These can include companies, bodies corporate, foundations, partnerships, or associations and other similar entities.^[2]

Legal Arrangements refer to express trusts or other similar legal arrangements. Examples of other similar arrangements (for AML/CFT purposes) include trusts, trust agency and escrows.^[3]

The Legal framework governing legal persons comprises of the following laws:

- a. Anti-Money Laundering Act, 2013 as amended and the Regulations thereunder;
- b. the Anti-Terrorism Act, 2002 as amended and the Regulations thereunder;
- c. the Companies Act No 1 of 2012 and the Regulations thereunder;
- d. Capital Markets Authority Act 2011 as amended and the Regulations made thereunder;
- e. the Partnership Act 2010 and the Regulations made thereunder;
- f. the Trustees Incorporation Act Cap 164 and the Regulations made thereunder;
- g. the Non-Governmental Organisations Act 2016 and the Regulations made thereunder;
- h. the Business Names Registration Cap 109 and the Regulations made thereunder;
- i. the Cooperative Societies Act, Cap. 112 and the Regulations made thereunder,
- j. the Tier 4 Microfinance Institutions & Money Lenders Act 2016 and the Regulations made thereunder;
- k. the Forex Bureaus Act, 2004 and the Regulations made thereunder,

which have a general application to all legal persons and arrangements.

In Uganda, the types of legal persons that can be established or created are: private companies; public companies; business names which include sole proprietorships and partnerships; SACCOs and cooperatives, business arrangements such as trusts. The legal structures that are subject to this assessment are companies; partnerships; trusts; sole proprietorships, and SACCOs and Cooperatives.

² Glossary to the FATF Recommendations, 2012.

³ Ibid.

4. 1. Nature and Scope of Companies

Companies are governed by the Companies Act No. 1 of 2012, Companies General Regulations 7 of 2016, Companies (Powers of the Registrar) Regulations No. 71 of 2016, and Companies (Single Member) Regulations No. 72 of 2016.

There are various types of companies provided for under the Companies Act 1 of 2012 which include companies limited by shares, companies limited by guarantee with no share capital, companies limited by guarantee with share capital, unlimited companies, single member companies, public companies; and foreign companies.

- a. **Companies limited by shares** - these are companies where every member's liability is limited by the memorandum of association to the amount, if any, unpaid on the shares respectively held by them;
- b. **Companies limited by guarantee** – these are companies where the liability of its members is limited by the memorandum to the amount that the members undertake in the memorandum to contribute to the assets of the company if it is being wound up. In Uganda, companies limited by guarantee are used for purposes other than business such a charitable organizations or associations.
- c. **Unlimited companies** – these are companies which do not have any limit on the liability of its members. Unlimited liability companies are very rare due to the risks of insolvency associated with this type of company.
- d. **Single member companies** - This is a private company limited by shares, which is incorporated with one member, or whose membership is one person.
- e. **Private companies limited by shares** - These are companies having the liability of its members limited by the memorandum to the amount subscribed, restrict the right to transfer its shares and other securities; limits the number of its members to one hundred not including persons who are employed by the company and persons who have been formerly employed by the company; and prohibit any invitation to the public to subscribe for any shares or debentures of the company.
- f. **Public companies** - This is a company having the liability of its members limited by the memorandum to the amount, with a minimum of 2 members and no limitation on the maximum number of members and allows invitation offering to the public securities for subscription or purchase.
- g. **Foreign companies** - These are companies incorporated outside Uganda which, establish a place of business in Uganda. These companies are required to provide certified copies of their certificate of incorporation, memorandum and articles/charter or Constitution from the country of origin and other relevant forms before a certificate of registration is issued.

In addition, it is important to note that some associations are incorporated as companies at

URSB and therefore subjected to the regulatory framework by URSB. These associations include sporting clubs, social clubs, investment clubs and interest groups, such as a swimming club or an association of old students or even at national and international level like it is for football federations such as FUFA and clubs.

As at 2nd March 2021, URSB's statistics of the active companies, were as follows:

	COMPANY TYPE	NUMBER OF ENTITIES
1	Companies Limited by Shares	298,437
2	Companies Limited by Guarantee	24,159
3	Foreign Companies	2860
4	Public Companies	488
	TOTAL	325,944

Source: URSB March, 2021

4. 2. Methods used to facilitate ML/TF

i. Use of legitimate corporations.

Criminals may invest their money in legitimate corporations with a motive to earn a return on their criminal proceeds, or to mask their identities in order to avoid scrutiny. Criminals tend to incorporate companies and finance the running of these legitimate companies. It was confirmed in the case of *Uganda v Valentino Kanya & 3 others*^[4] that some companies in Uganda have relatively high capital gain compared to the length of time the company was owned. This may indicate the use of criminal proceeds at the time of incorporation.

ii. Using Companies as fronts to obscure beneficial ownership

Companies may be misused to hide and obscure beneficial ownership. The most widespread misuse of companies by organised crime groups including corruption cartels involves use of legal structures to hide beneficial ownership and conceal crime. This is because there is no requirement in the Companies Act for the URSB or the companies themselves to obtain, retain and maintain beneficial ownership information and such information is not available at the companies' registry.

iii. Use of real estate companies

Organized crime groups may use the real estate sector through real estate companies to launder the proceeds of crime and to hide the illegal origin of the funds. Real estate holds its value, can give returns on investment and requires little specific expertise or knowledge

⁴ Uganda v Valentino Kanya & 3 others HCT 00-AC-SC 006/2016

which increases its financial attractiveness to criminals.

Based on the National Risk Assessment of 2017, real estate companies pose the highest ML threat. Investigations of predicate offences that have yielded proceeds disclose that the perpetrators invest in or acquire real estate, both for their own benefit and/or for the generation of legitimate income.

Real estate companies pose a number of vulnerabilities which increase the ML/TF risk. These include:

- a. Inadequate client due diligence;
- b. Poor understanding of ML/TF;
- c. Poor understanding of their legal obligations under the AMLA;
- d. Complicit real estate companies being involved in the selling and purchasing of property belonging to criminals; and

iv. Using shell companies to hide proceeds of crime

For purposes of hiding criminal proceeds, legal persons like companies have been misused to conceal beneficial owners and the proceeds. For example, in the case of *Valentino Kamyva Vs Uganda*, a company was registered by the convict which owned a number of real assets drawn out of corruption proceeds. This was a shell company registered in Uganda for the purpose of hiding illicit funds. The 2014 FATF guidance on transparency and beneficial ownership, defines shell companies as companies that are incorporated but which have no significant operations or related assets.

v. Concealing illicit proceeds with legitimate business

Criminals use companies to engage in routine transactions as part of the money laundering cycle. This enables the transactions to look less suspicious if they can be covered up as a business activity.

The ODPP is currently guiding investigations in two cases where companies that are duly registered with URSB and licensed by BoU to transact forex bureau and money remitting businesses were used by criminals to layer suspected crime proceeds in the money laundering cycle. In the case of *Uganda Vs. Kamyva Valentino*,^[5] the accused incorporated *Shammah Investments Ltd*, where he transferred the illicit acquired properties into the name of the company and thereafter to his associates. However, at all times the properties remained under his control.

Examples of cases where legal persons were used in criminal activities

Uganda Vs. Kamyva Valentino - the accused person registered a company in the name of *SHAMMAH INVESTMENTS LTD*, indicating his parents in law as the joint shareholders. He then registered all the property that he acquired using the funds that he stole from the Embassy in the name of this company. However, it was established that the company was a shell with no physical existence or business activity and was only used to conceal the accused person's ownership of the acquired property.

Uganda Vs. XY & 2 Others – the accused person was an accountant with *Western Cables Limited* and during the course of her employment, she used to receive payments in form of

⁵ Uganda v Valentino Kamyva & 3 others HCT 00-AC-SC 006/2016

cheques on behalf of her employer. In order to steal these payments, the accused person and her husband registered a company in the name of Westerner Cables (U) Ltd which is identical to the name of her employer. The accused person and her husband also opened a bank account in the name of their company, to which they were joint signatories. Hence, whenever the accused person would receive cheques in the names of her employer (Western Cables Limited), she would simply add the letters “er” to the word Western so that the cheques read “Westerner Cables” instead of “Western Cables.” She would then bank the cheques onto her account (Westerner Cables account) where she and her husband would withdraw it from. They used the funds to acquire property some of which was registered in the names of the accused person’s sister. They also paid life insurance for themselves and education insurance policies for their children. The Accountant, her husband and her sister are appearing before the Anti-Corruption Court on different charges of embezzlement and money laundering in the sum of Shs. 3,849,868,242/=.

4. 3. Threats

Domestic Threat: Companies may be used as fronts to launder proceeds of crime through business operations and accounts. For instance, companies may be misused to hide and obscure beneficial ownership. The most widespread misuse of companies by organized crime groups including corruption cartels involves use of legal structures to hide beneficial ownership and conceal crime. This is because there is no requirement in the Companies Act for the URSB or the companies themselves to obtain, retain and maintain beneficial ownership information and such information is not available at the companies’ registry.

Companies have also been involved in a number of fraudulent schemes where funds have been laundered. FIA disseminated 23 intelligence reports for suspected fraud to the Uganda Police for further investigation the period 2018-2020.

As at 2nd March 2021, the country had a total of 702,012 registered business entities. Of these 325,944 (46.4%) are companies, and 376,068 (53.6%) are business names. However, according to the Uganda National Bureau of Statistics’ National Accounts Database 2018-2019, the informal sectors contribution to Uganda’s GDP was 55%, indicating that there are many unregistered business entities operating in Uganda. There is potential for criminals to use the informal sector to launder the proceeds of crime.

International Threat: There is potential for companies registered and incorporated in Uganda to be misused to facilitate trade-based money laundering. Recent analysis has indicated situations where Ugandan companies involved in international trade may seek to move illicit funds through money laundering schemes such as mis-invoicing and smuggling. A number of companies have trade relations to countries like China, UAE, Vietnam, Turkey etc and may engage in multi-jurisdictional crime. For instance, the Financial Intelligence authority disseminated 7 intelligence reports which triggered Uganda Revenue Authority to investigate suspected tax evasions in 2018 – 2020.

Conclusion: In light of the above, the ML threat from both domestic and international sources is considered to be Medium High (MH).

4. 4. Vulnerabilities

i. Absence of a supervisory framework for some sectors

To begin operating, some registered companies only require a Tax Identification Number and a trading license from the municipal and local authorities where the company is located. Some businesses do not require any regulatory licenses to permit them to carry on their activities. By the nature of the monetary transactions that they handle, these may be havens for money laundering because they are left unsupervised and their activities are not subjected to rigorous scrutiny. There are emerging business models that are not regulated and may be used by criminals to hide proceeds of crime.

ii. Gaps in the Legislative framework:

Uganda's legislative framework is deficient in the following areas;

- a. Registered companies are under no legal obligation to file their beneficial ownership information with the Registrar of Companies. There is no legal requirement under the Companies Act to disclose beneficial ownership information but only a register of shareholders and directors is required by law. However, there is timely access to information held at the registry of companies. Regulation 10 (4) of the Companies (Powers of the Registrar) Regulations No. 71 of 2012 provides that, "A Ministry, Department or Agency of Government shall not be required to pay a fee for a copy of any document in the register which is require by that Ministry, Department or Agency of Government in the performance of its function."
- b. Section 95 of the Companies Act permits a company limited by shares (if it is authorized by its articles) to issue share warrants to bearers. The share warrant entitles the bearer thereof to the shares referred to therein and the shares are transferrable by delivery of the warrant. The Act does not however, provide any measures to prevent misuse of share warrants for money laundering purposes.
- c. Section 186 of the Companies Act provides for the appointment of two people as nominee and alternate directors for single member companies. Of the two nominations, one nominee director will take over in an acting position in the event of the death of the single member and the other one will be an alternate nominee director to work as a nominee director in case of the non-availability of the other nominee director. Other than the single member nominating the individuals to serve as nominee directors, the procedures of nominating such directors are not provided. In the absence of legal requirements regulating the appointment of the nominee directors, the probability of such an arrangement being abused becomes high.^[6]
- d. Some memoranda of registered companies allow them to undertake a lot of unrelated business activities, or allow the company to do "anything incidental to the objects clauses", without any specific description of the activities that can be considered incidental to the company. This "catch all" provision can be misused by companies to engage in illicit activities whose revenue streams may not be declared.

e. The measures to prevent misuse of bearer shares or share warrants for money

⁶ Uganda's Mutual Evaluation Report, April 2016.

laundering purposes provided in section 96 (provides for penalty for impersonation of a shareholder) and 97 (provides for offences in connection with share warrants) need to be strengthened. Section 95 of the Companies Act permits a company limited by shares (if it is authorized by its articles) to issue share warrants to bearers. The share warrant entitles the bearer thereof to the shares referred to therein and the shares are transferrable by delivery of the warrant.

- f. There are informal associations which submit their constitution or bye-laws to URSB and are registered as documents. These operate without any regulatory framework and therefore pose a high ML/TF risk.

iii. Effectiveness of supervision or oversight activities

- a. Upon incorporation of a company the responsibility of supervision and oversight is undertaken by the supervisory authorities like URSB, NGO Bureau, IRA, BOU, USE, CMA and UMRA. However, companies operating in the unregulated sectors such as real estate, precious metals & stones and general trading remain prone to being manipulated by the criminals due to lack of designated supervisory and oversight body to combat the abuse of such sector.
- b. Enforcement of the law on deregistration of dormant companies that have not filed the certificate of dormancy is still a challenge owing to the absence of the procedure to strike off and deregister companies.
- c. Within the AMLA, the criminal penalties are proportionate and dissuasive. However, the Regulations to enforce the administrative sanctions regime has not been put in place. In addition, there are fines imposed on companies for non-compliance with their statutory obligations under the Companies Act. Similarly, the Financial Institutions (anti-money laundering) Regulations 2010 provides for administrative sanctions for non-compliance with the anti-money laundering obligations.
- d. Some company files do not contain the most current information on the location, directors and shareholders of the companies. Whereas URSB is the custodian of the register of companies, some companies are non-compliant in as far as their post incorporation obligations like filing of annual returns. This makes it difficult to obtain accurate and up-to date information.

iv. Availability and effectiveness of entry controls

The limited effectiveness of entry controls under the Companies Act, poses a high ML/TF risk for criminals to incorporate a company that can be used to conceal proceeds of crime. Only companies carrying out financial services, capital markets, security companies and insurance services are subjected to entry checks by the respective regulators.

The Companies Act only provides a minimum age on who can be a director. However, the Act does not require vetting of directors on criminal records. A convicted money launderer can therefore easily become a director as there are no other vetting processes to check individuals for suitability. Similarly, there are no restrictions on who can be a shareholder in a company.

v. Lack of reliable information on non-citizens legally resident in Uganda

Authentication of foreign issued identification documents takes a long time. Although the Registration of Persons Act requires non-citizens to be registered and issued with alien identification cards, NIRA is yet to begin registering eligible aliens. With many non-citizens such as refugees registering companies, there is a risk of fictitious shareholders and directors who may submit fake identification documents; which cannot be easily verified with the issuing authorities as part of the statutory due diligence. In the course of dealing with fake shareholders and directors, they can disappear with large amounts of money.

vi. Cash transactions

Uganda is a cash-based economy, making it hard to detect some companies' money streams and movements. In a bid to evade taxes, some companies may pay for their goods and services in cash in order to conceal stolen or illicit funds.

Some companies can also move limitless illicit funds across the Ugandan borders through layering, using their structures without detection. Whereas S.10 of the AMLA 2013 (as amended) obliges the person entering or leaving Uganda with cash or bearer negotiable instruments exceeding one thousand five hundred currency points or the equivalent value in a foreign currency, to notify Uganda Revenue Authority (URA) on the form designated for that purpose, this self-declaration is entirely dependent on the honesty of the declarant, because border control officials focus largely on scanning cargo.

vii. Availability and Access to Beneficial Ownership Information

There is no centralized registry on beneficial ownership in Uganda. The Second Schedule of the Anti-Money Laundering Act Item 10 lists the Registrar of Companies who is the Registrar General of Uganda Registration Services Bureau (URSB) as an accountable person and is charged with the responsibility of identifying, obtaining and keeping a record of beneficial owners of the different legal persons or arrangements and reporting suspicious financial transactions.

viii. Effectiveness of Compliance Function

The Registrar of Companies is an accountable person under the AMLA (Second schedule, under paragraph 10) and therefore subject to the ML preventive measures under the Act. The Registrar is effectively implementing the CDD requirements and other AML preventive measures to ensure that legal persons comply with them.

Companies in other regulated sectors including insurance, capital markets and financial institutions have adequate measures to comply with AML/CFT requirements. However, the unregulated sector poses high ML/TF risks.

4.5. Mitigants

- i. The Companies Act is presently undergoing legal reform to be able to address some of the deficiencies within the law on beneficial ownership, share warrants and other related areas, and subsequently establish a BO register.

The reform process is expected to achieve the following;

- a. Accommodate the definition of beneficial ownership in the definition section of the

statute;

- b. Provide a provision that requires all companies to keep a register of beneficial owners, which shall include all information prescribed in regulations relating to beneficial ownership;
- c. Detail the role of the Registrar of Companies as an accountable person
- d. Remove the provision of share warrants to bearers;
- e. Provide for offences and sanctions for defaulting stakeholders; and
- f. Provide for Regulations to operationalize the BO provisions and Forms

To achieve the above reforms, URSB is currently doing the following to-

- a. Continuously engage stakeholders both internal and external on the importance of beneficial ownership register
 - b. Procurement of a service provider to enhance the business systems to include the component of beneficial ownership to ensure that information in the companies' registry is fully computerized and easily accessible.
- ii. There are a number of statutory obligations placed on companies and a variety of enforcement powers given to the Registrar of Companies to ensure companies comply. For example:
- a. Section 119 of the Companies Act obliges companies to keep at their registered offices, a register of members, indicating the member's name, postal address and number of shares. Companies are also obliged to give to the Registrar, written notice of the place where the members' register is kept;
 - b. Section 116 of the Companies Act requires that the location, postal address and any changes thereto should be communicated to the registrar within fourteen days after incorporation or of the change;
 - c. Sections 132 and 133 require companies to file annual returns that contain updated information on the registered office of the company, registers of members and debenture holders, shares and debentures indebtedness, past and present members and directors and secretary.

These requirements are being enforced in an effective manner by the Registrar of Companies.

- iii. URSB processes all the applications on the Business Registration System (BRS) which was rolled out on 25 November 2016. Automated services provided include name reservation, company incorporation, registration of foreign companies, registration of business names, registration of legal documents and all continuous filings. This system requires all applicants to submit their identification document such as the National Identity Card for Ugandans, driving permits, NSSF cards, Refugee IDs and passports for both foreigners and nationals.
- iv. Following the database integration with NIRA, URSB is now able to authenticate in real time the identification information of applicants who include Ugandan shareholders, members, directors and secretaries. Similarly, payment of fees for all services are verified in the BRS following the system integration with Uganda Revenue Authority.
- v. The Electronic Document Management System (EDMS) is the electronic registry for all existing records at the Bureau. This information is accessible to the public for inspection on request and upon payment of the prescribed fees as provided for in Regulation 10 of the Companies (Powers of the Registrar) Regulations No. 71 of 2016. Regulation 10 (4) of the

Companies (Powers of the Registrar) Regulations No. 71 of 2016 provides that “A Ministry, Department or Agency of Government shall not be required to pay a fee for a copy of any document in the register which is required by that Ministry, Department or Agency of Government in the performance of its function.”

- vi. As an administrative measure, and having taken cognizance of Recommendation 24 of the Financial Action Task Force (FATF) which requires countries to take measures aimed at preventing misuse of legal persons for money laundering and terrorism financing, guidelines were developed by URSB to provide minimum standards for compliance. The guidelines which took effect on 26 August 2020:
 - a. Stipulate the role of URSB in the prevention of money laundering, terrorism financing and other suspicious transactions.
 - b. Put emphasis on how to identify suspicious incidences such as:
 - All interparty transactions exceeding Uganda shillings one hundred million only (UGX.100,000,000) approximately 27,000 USD;
 - Numerous new business registrations within short intervals registered by the same persons or entities under closely related names;
 - Frequent changes in ownership of a business entity at short intervals;
 - Frequent and exorbitant increase in share capital;
 - Transfer of majority shares in a newly formed entity within a period of one (1) year;
 - A foreign or local company limited by shares owning a single member company;
 - Any other suspicious transactions that an accountable person may deem necessary.
 - c. Provide for data collection forms;
 - d. Provide for routine staff trainings to acquaint and equip officers with appropriate skills for the function;
 - e. Provide for the appointment of a liaison officer to coordinate the implementation of the guidelines and coordination with Financial Intelligence Authority (FIA).
- vii. Section 134 (5) and (6) of the Companies Act empowers the Registrar to strike a company off a register for failing to file annual returns for a period of 5 years. Section 96 of the AMLA provides for lifting of the corporate veil during assessment of the value of benefits derived from a money laundering crime. Section 20 of the CA also provides for lifting of the corporate veil where companies or its directors are involved in the commission of crimes.

Quality of Controls for Companies^[7]

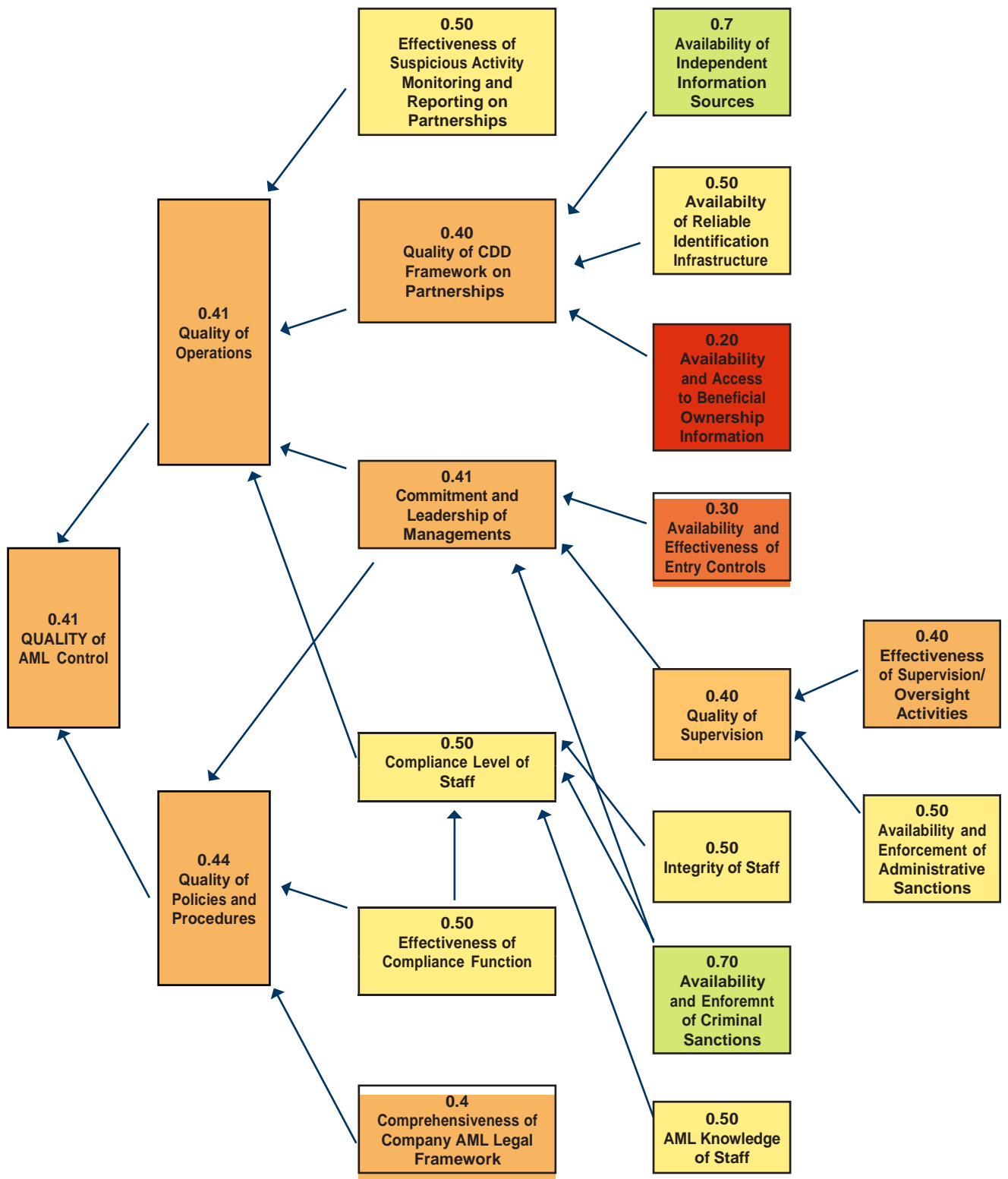
A. GENERAL INPUT VARIABLES/AML CONTROLS	ASSESSMENT RATING	
Comprehensiveness of AML/CFT Legal Framework	(0.4) Medium Low	0.4
Effectiveness of Supervision/Oversight Activities	(0.4) Medium Low	0.4
Availability and Enforcement of Administrative Sanctions	(0.5) Medium	0.5
Availability and Enforcement of Criminal Sanctions	(0.7) High	0.7
Availability and Effectiveness of Entry Controls	(0.3) Low	0.3
Integrity of Business/Profession Staff*	(0.5) Medium	0.5
AML Knowledge of Business/Profession Staff*	(0.5) Medium	0.5
Effectiveness of Compliance Function (Organization)*	(0.5) Medium	0.5
Effectiveness of Suspicious Activity Monitoring and Reporting*	(0.5) Medium	0.5
Availability and access to beneficial Ownership information	(0.2) Very Low	0.2
Availability of Reliable Identification Infrastructure	(0.5) Medium	0.5
Availability of Independent Information Sources	(0.7) High	0.7

Inherent Vulnerability of Companies

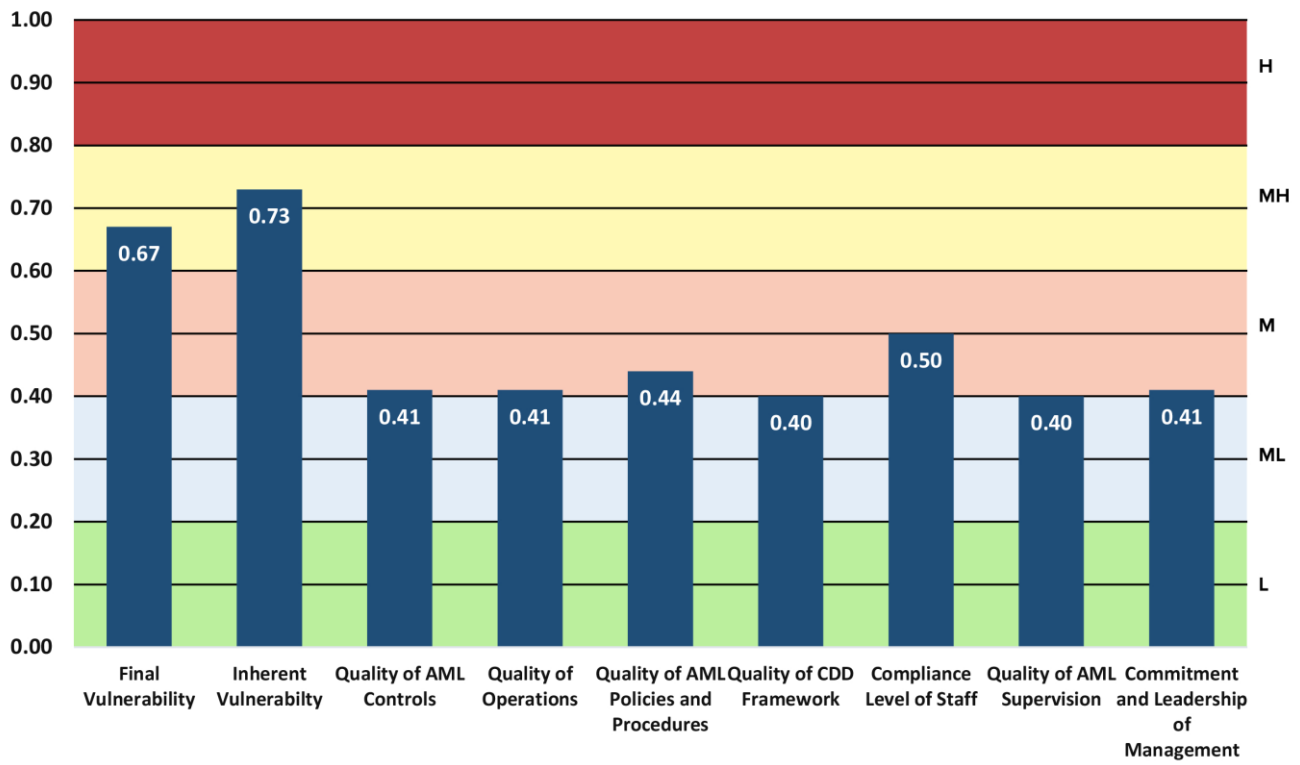
B. INHERENT VULNERABILITY FACTORS (FOR THE BUSINESS/ PROFESSION)	OVERALL ASSESSMENT FOR THE BUSINESS/ PROFESSION
Total size/volume of the business/profession	Medium
Client Base Profile of the business/profession	Medium Risk
Level of Cash Activity in the business/profession	High
Other vulnerable Factors – Use of Agents in the business/profession	Not Analyzed
Other vulnerable Factors – Anonymous use of the product in the business/profession	Not Available
Other vulnerable Factors – Difficulty in tracing the transaction records	Difficult/Time Consuming
Other vulnerable Factors – Existence of ML typologies on the abuse of the business/profession	Exist but Limited
Other vulnerable Factors – Use of the business/profession in fraud or tax evasion schemes	Exist
Other vulnerable Factors – Non face to face use of the product in the business/profession	Available but Limited
Other vulnerable Factors – Specify	Not Analyzed
Other vulnerable Factors – Specify	Not Analyzed
Other vulnerable Factors – Specify	Not Analyzed

⁷ The variables which are not relevant to legal persons and arrangements include; integrity of business/professional staff, AML knowledge of business/professional staff, effectiveness of compliance function, effectiveness of suspicious activity monitoring and reporting. These were given a neutral rating which did not affect the final risk outcome.

Vulnerability Map for Companies



Vulnerability Chart for Companies



4. 6. ML Vulnerability

The vulnerability for companies is Medium High (MH) due to the following reasons:

- a. The Companies Act does not adequately provide for obtaining or maintaining beneficial ownership information, or impose an obligation on companies to obtain and maintain accurate information on beneficial ownership.
- b. There is still a challenge with the enforcement of administrative sanctions, due to absence of regulations on the same.
- c. Limited understanding of the reporting obligations on suspicious transactions and activities.
- d. The process of verifying foreign issued identification documents takes a long time.

Ranking of Priority Areas for Companies

PRIORITY RANKING FOR GENERAL INPUT VARIABLES/AML CONTROLS - LAST CASE/SCENARIO	PRIORITY RANKING**
Comprehensiveness of AML/CFT Legal Framework	4
Effectiveness of Supervision/Oversight Activities	2
Availability and Enforcement of Administrative Sanctions	8
Availability and Enforcement of Criminal Sanctions	
Availability and Effectiveness of Entry Controls	3
Integrity of Business/Profession Staff*	6
AML Knowledge of Business/Profession Staff*	1
Effectiveness of Compliance Function (Organization)*	5
Effectiveness of Suspicious Activity Monitoring and Reporting*	7
Availability and access to beneficial Ownership information	9
Availability of Reliable Identification Infrastructure	10
Availability of Independent Information Sources	

05 PARTNERSHIPS, BUSINESS NAMES AND SOLE PROPRIETORSHIPS>>>>

Business Names Registration Act Cap.109

S.1 of the BNRA defines a 'Business name' on the other hand, means the name or style under which any business is carried on, whether in partnership or otherwise.

A business name is the name or style under which any business is carried out whether in partnership or otherwise. This is different from a company because whereas a company is a separate legal entity with its own identity in law, a business name is only a name that you are allowed to use to identify yourself or your service in trade.

Registering a business name enables the proprietor to carry on business under the registered name thereby distinguishing the owner's business from that of others^[8]. The registration of business names requires one to conduct a search to establish the availability of the name, pay the Registration fees and submit the application for processing. A certificate of registration will be issued.^[9]

5. 1. Nature and Scope of Partnerships

A partnership is defined under Section 2 of the Partnerships Act, 2010 as the relationship that exists among persons numbering between 2 and 20 who carry on a business together with the aim of making profits. A Partnership is different from a company because while a company is separate from its owners and can hold property and sue or be sued in its name, a partnership (except for limited liability partnerships) is not a legal entity of its own; partnership property is held by the partners exclusively for purposes of the business. Also, when a partner dies, the partnership is dissolved (unless the Partners agreed otherwise) which is not the case with a company.

There are two major types of partnerships; a general partnership and a limited liability partnership. The limited liability partnership is more like a Limited Liability Company.

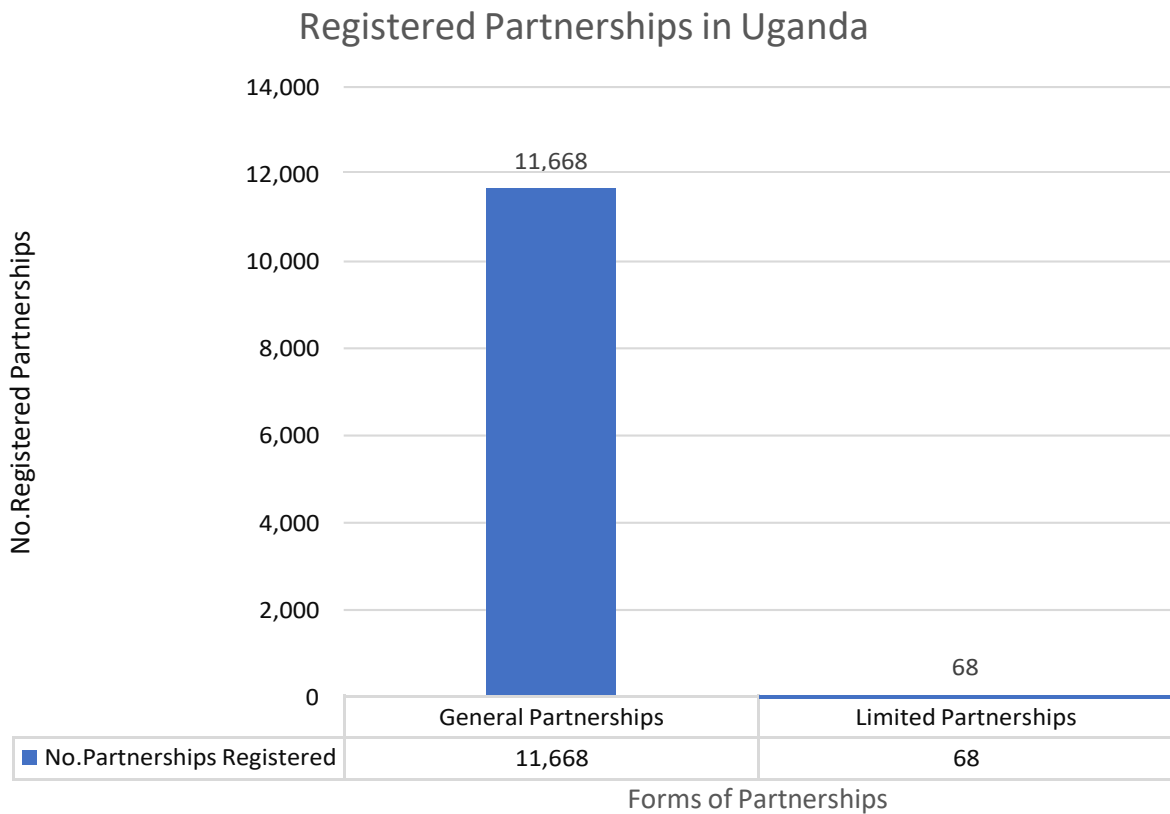
In the case of a Limited Liability Partnership, only one of the Partners is liable for the debts of the partnership. The rest of the partners are only liable to the extent of their capital contribution to the partnership. In General Partnerships, however, all Partners are fully liable for the partnership's debts. Common examples of partnership businesses in Uganda are legal and accounting firms.

As at 2nd March 2021, URSB's statistics of active partnerships, were as follows:

No.	Forms of Partnerships	No. Registered
1	General Partnerships	11,668
2	Limited Partnerships	68

⁸ <https://ursb.go.ug/business-names/> it would be good to indicate the date of access because the information may be updated

⁹ <https://ursb.go.ug/business-names/>



5. 2. Methods used to facilitate ML/TF

The Financial Action Task Force, UNODC, the World Bank, Stolen Asset Recovery Initiative (StAR), and the Egmont Group of FIUs have conducted in-depth studies on misuse of corporate structures for criminal activities. The studies identified a few factors which facilitate misuse of legal persons. It should be borne in mind, that there is no universally accepted set of risk factors as each depends on the risk and context of a legal person and a country. But there are commonly-applied risk factors to assess the underlying factors for ML/TF risk exposure of partnerships.

Partnerships in Legal Services

There are approximately 2,200 firms of advocates in Uganda providing legal services of which 30% have 2 or more partner advocates.

Practicing lawyers who provide certain legal services are 'relevant independent legal professionals for the purposes of Uganda's AML/CFT regime and are included within the definition of 'accountable person' in the Act. The relevant services which bring lawyers within the scope of the Act are the provision of assistance in the planning or execution of transactions for clients concerning any of the following:

Formation of Business Entities

Legal Professionals are instrumental in the formation of business entities for clients who intend to conduct lawful business. The creation of business entities by legal professionals makes it attractive for criminals to hide ill-gotten assets from competent authorities and law

enforcement agencies.

a. Acting as Nominees

Partnerships like law firms, accounting firms, or other persons hold shares or assets on behalf of persons intending to obscure the source of funds as nominees. The professionals provide legitimate privacy, safety or commercial concerns.

b. Management of Companies

Lawyers and Accountants in Uganda act as trustees and or directors of companies, and therefore identities must be provided when acting on behalf of a customer when opening a business relationship or conducting a transaction. Such arrangements may serve to obscure the links between the proceeds of a crime and the perpetrator

The following functions provided by partnerships specifically lawyers, accountants and other professionals registered under the same nature are the most useful to a potential money launderer;

- i. Buying or selling property: Property transfers serve as either the cover for transfers of illegal funds (layering stage) or the final investment of proceeds (integration stage) after they pass through the initial laundering process. This is more common with lawyers.
- ii. Performing financial transactions: Sometimes these professionals may carry out various financial operations on behalf of the client (for example, issuing and cashing cheques, making deposits, withdrawing funds from accounts, engaging in retail foreign exchange operations, buying and selling stock and sending and receiving international funds transfers). This is also common with partnerships more especially accountants.
- iii. Providing financial and tax advice: Criminals with large amounts of money to invest may pose as individuals hoping to minimize tax liabilities or seeking to place assets out of reach in order to avoid future liabilities. Criminals engage the services of accountants and in most cases, they offer lucrative payments that compromise professionalism.

In many cases mentioned above, criminals will use various entities of partnerships both in nature and form to provide an impression of respectability in order to dissuade questioning or suspicion from financial institutions and to create an added step in the chain of any possible investigations.

The above vulnerabilities, however, exist regardless of whether the lawyer acts in the capacity of a natural person or of a legal person.

5.3. Threats

Domestic Threat: As at 2nd March 2021, the country had a total of 376,068 registered business names, of which 11,736 (3.1% of business names) are registered partnerships. Domestic criminals may exploit partnerships for money laundering purposes because they have the capacity to obscure beneficial ownership and receive funds on behalf of their clients. For instance, there are 3 ongoing investigations where partnerships were used to obscure

beneficial ownership relating to transactions in precious metals and stones.

According to intelligence information, there are many unregistered partnerships, operating informally, and may be used for money laundering.

International Threat: Criminals may seek to create complex structures through partnerships, in particular using secretive jurisdictions where the managing partner and the registered owner are obscured. Partnerships registered in Uganda may be misused to obscure ownership and conceal proceeds of crime. There are indications that criminals have had vague intention to exploit loopholes in these structures to hide crime. For instance, in the period 2018-2020 the Financial Intelligence Authority disseminated 3 intelligence reports concerning law firms which were suspected of obscuring beneficial ownership information by conducting transactions on behalf of their clients.

Conclusion: In light of the above, the money laundering threat from both domestic and international sources is considered to be Medium High (MH).

5. 4. Vulnerabilities

- a. There is no legal requirement under the Partnership Act and the Regulations to disclose beneficial ownership information with the Registrar of Companies.
- b. There is no supervision of non-professional partnerships. In addition, there is also limited capacity to effectively supervise all professional partnerships by supervisory bodies such as the Law Council, the Institute of Certified Public Accountants, etc. This makes them vulnerable to ML/TF risks.
- c. Administrative sanctions; Section 10-13 & 36 of the Partnership Act provides for administrative sanctions in case of non-compliance of statutory obligations. Section 14 of the Business Names Registration Act provides for the removal of business names by the Registrar.
- d. Available entry controls for regulated partnerships effectively ensure, that they cannot register unless the designated regulator has sanctioned the registration process e.g. Lawyers, and Accountants while the unregulated partnerships can operate without being licensed e.g. general traders.
- e. Integrity of business/professional staff: Regulated partnerships have got mechanisms of dealing with errant members whereas the unregulated partnerships do not have mechanisms to deal with errant members.
- f. Availability and access to beneficial ownership: There is no centralized registry on beneficial ownership information and competent authorities do not have institutional integrated systems for sharing relevant information. However, the Second Schedule of the Anti-Money Laundering Act Item 10 lists the Registrar of Companies who is the Registrar General of Uganda Registration Services Bureau (URSB) as an accountable person and is charged with the responsibility of identifying, obtaining and keeping a record of beneficial owners of the different legal persons or arrangements and reporting suspicious financial transactions.

Quality of Controls for Partnerships^[10]

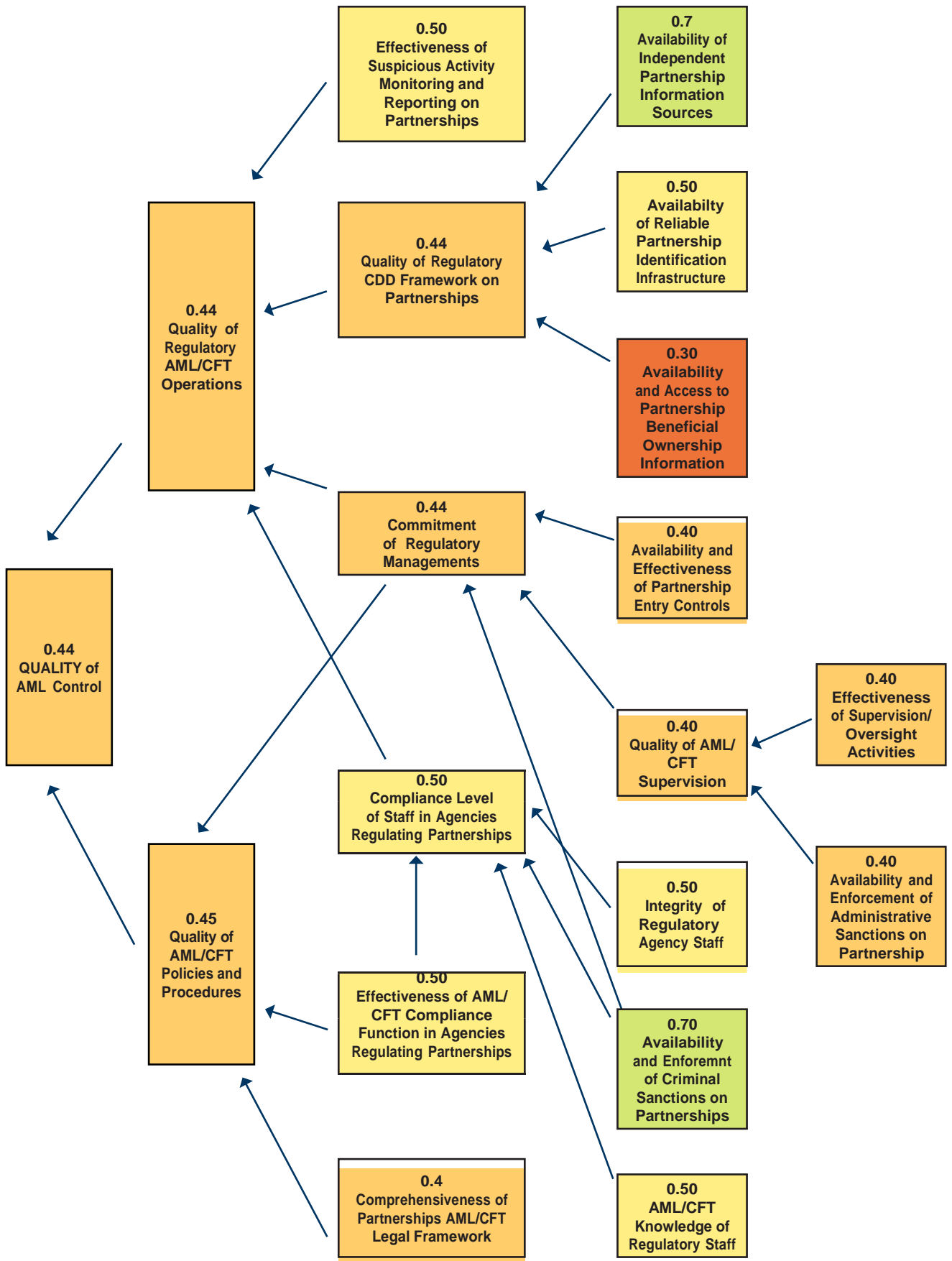
A. GENERAL INPUT VARIABLES/AML CONTROLS	ASSESSMENT RATING	
Comprehensiveness of AML/CFT Legal Framework	(0.4) Medium Low	0.4
Effectiveness of Supervision/Oversight Activities	(0.4) Medium Low	0.4
Availability and Enforcement of Administrative Sanctions	(0.5) Medium	0.4
Availability and Enforcement of Criminal Sanctions	(0.7) High	0.7
Availability and Effectiveness of Entry Controls	(0.3) Low	0.4
Integrity of Business/Profession Staff*	(0.5) Medium	0.5
AML Knowledge of Business/Profession Staff*	(0.5) Medium	0.5
Effectiveness of Compliance Function (Organization)*	(0.5) Medium	0.5
Effectiveness of Suspicious Activity Monitoring and Reporting*	(0.5) Medium	0.5
Availability and access to beneficial Ownership information	(0.2) Very Low	0.3
Availability of Reliable Identification Infrastructure	(0.5) Medium	0.5
Availability of Independent Information Sources	(0.7) High	0.7

Inherent Vulnerability of Partnerships

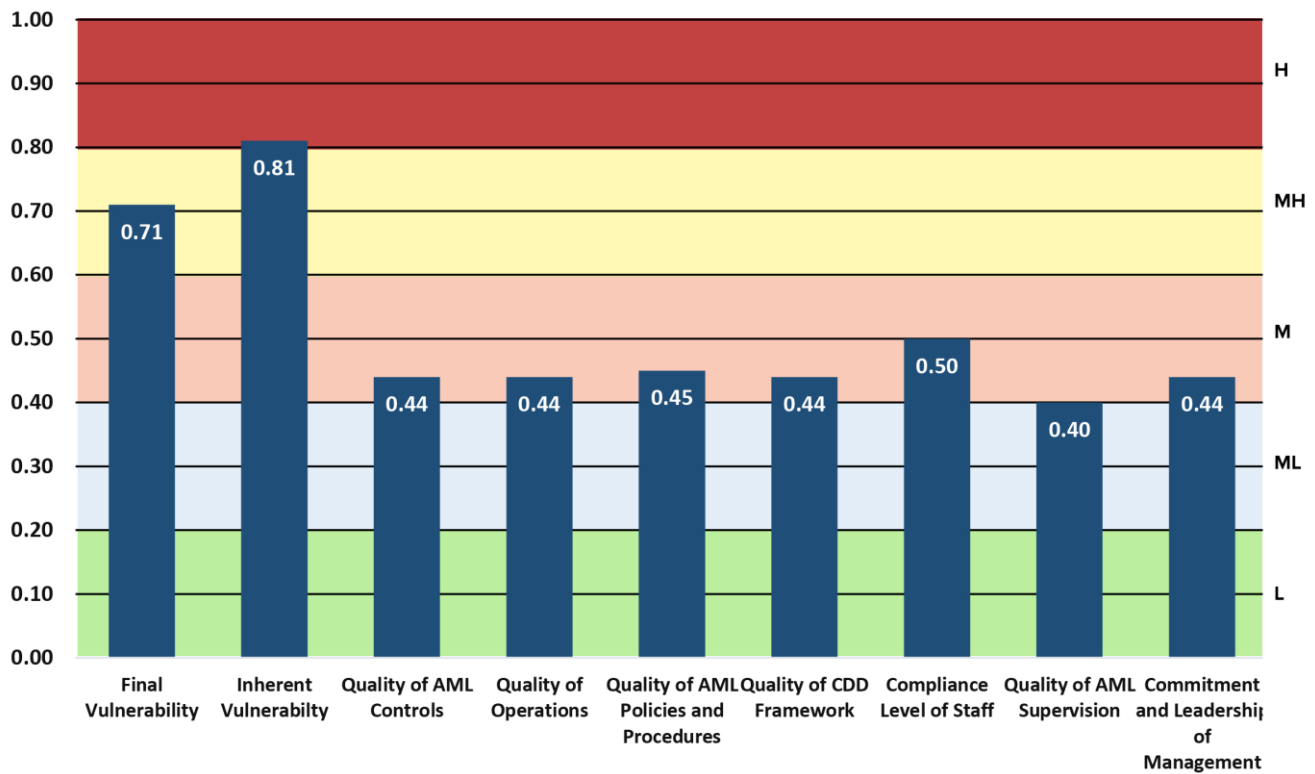
B. INHERENT VULNERABILITY FACTORS (FOR THE BUSINESS/ PROFESSION)	OVERALL ASSESSMENT FOR THE BUSINESS/ PROFESSION
Total size/volume of the business/profession	Medium
Client Base Profile of the business/profession	High Risk
Level of Cash Activity in the business/profession	High
Other vulnerable Factors – Use of Agents in the business/profession	High
Other vulnerable Factors – Anonymous use of the product in the business/profession	Not Available
Other vulnerable Factors – Difficulty in tracing the transaction records	Difficult/Time Consuming
Other vulnerable Factors – Existence of ML typologies on the abuse of the business/profession	Exist but Limited
Other vulnerable Factors – Use of the business/profession in fraud or tax evasion schemes	Exist
Other vulnerable Factors – Non face to face use of the product in the business/profession	Available but Limited
Other vulnerable Factors – Specify	Not Analyzed
Other vulnerable Factors – Specify	Not Analyzed
Other vulnerable Factors – Specify	Not Analyzed

¹⁰ The variables which are not relevant to legal persons and arrangements include; integrity of business/professional staff, AML knowledge of business/professional staff, effectiveness of compliance function, effectiveness of suspicious activity monitoring and reporting. These were given a neutral rating which did not affect the final risk outcome.

Vulnerability Map for Partnerships



Vulnerability Chart for Partnerships



5.5. Mitigants

- Professional partnerships have supervisory bodies who subject them to fitness and probity requirements before issuing them with licences, from which they can form partnerships with each other.
- There is sufficient legal framework for the professional Partnerships especially on the issues of conduct in that when they are found breaching any provisions of the law they can be suspended, ordered to refund the money, restore the stolen property among others.

5.6. Overall ML Risk

The overall ML risk in partnerships is judged to be medium high due to the following reasons:

- There is no legal requirement under the Partnership Act and the Regulations to disclose beneficial ownership information with the Registrar of Companies.
- Existence of a significant number of unregulated partnerships which makes it difficult to enforce AML/CFT compliance obligations.
- Inadequate identification of third-party beneficial owners for funds transacted through partnerships for example lawyers and accountants.

Ranking of Priority Areas for Partnerships

PRIORITY RANKING FOR GENERAL INPUT VARIABLES/AML CONTROLS - LAST CASE/SCENARIO	PRIORITY RANKING**
Comprehensiveness of AML/CFT Legal Framework	3
Effectiveness of Supervision/Oversight Activities	2
Availability and Enforcement of Administrative Sanctions	6
Availability and Enforcement of Criminal Sanctions	
Availability and Effectiveness of Entry Controls	4
Integrity of Business/Profession Staff*	7
AML Knowledge of Business/Profession Staff*	1
Effectiveness of Compliance Function (Organization)*	5
Effectiveness of Suspicious Activity Monitoring and Reporting*	8
Availability and access to beneficial Ownership information	10
Availability of Reliable Identification Infrastructure	9
Availability of Independent Information Sources	

6. 1. Nature and Scope of Trusts

Trusts are usually described as legal arrangements involving private family matters (such as caring for the sick or vulnerable people, or arranging family affairs for tax, estate or charity purposes). A simple trust arrangement typically involves three parties: a settlor (such as a parent) who transfers assets to a trustee (such as a trusted lawyer) who must hold and manage those assets according to the settlor's instructions, and for the benefit of beneficiaries (such as the parent's child)^[11]. A Trust can either be a private trust or a public charitable trust. A trust is governed by the terms of the trust document, common law principles, and the Trustees Incorporation Act, 1939 in Uganda. Private trusts are used for private purposes, such as running a private estate or institution and are not given any tax benefits by the Government of Uganda.

Typical Characteristics

The property of a business trust is managed and controlled by trustees who have a fiduciary duty to the beneficiaries, to act in their best interests. Profits and losses resulting from the use and investment of the trust are shared proportionally by the beneficiaries according to their interests in the trusts. Trusts are created for a variety of reasons, including tax savings and improved asset management.

A trust is a three-way arrangement. The original owner (the "settlor" or "grantor") transfers assets into a trust, to be held and managed by the "trustee" or trustees, for the benefit of the "beneficiaries."

The practice of trusts is not common in Uganda. Trusts in Uganda are regulated through:

- a. Trustees Incorporation Act Cap 165.
- b. Trustees Act, Cap 164.

Trustees Incorporation Act, Cap 165

Trustees in Uganda are registered under the Trustees Incorporation Act, Cap 165.

The Ministry of Lands, Housing and Urban Development administers the Trustees Incorporation Act, Cap 165.

As per its Long Title, the Trustees Incorporation Act Cap 165 is an Act of Parliament that provides for the incorporation of the trustees of certain bodies and associations of persons.

Section 1(1) thereof provides that trustees or a trustee may be appointed by anybody or association of persons established for any religious, educational, literary, scientific, social or charitable purpose, and such trustees or trustee may apply, in the manner hereafter mentioned, to the Minister (for Lands, Housing & Urban Development) for a certificate of registration of the trustees or trustee of such body or association of persons as a corporate body.

¹¹ Trusts: Weapons of Mass Injustice by Andres Knobel – Feb 13th 2017

Section 1(3) provides that the trustees or trustee shall thereupon become a body corporate by the name described in the certificate, and shall have perpetual succession and a common seal, and power to sue and be sued in the corporate name, and subject to the conditions and directions contained in the certificate to hold and acquire, and by instruments under the common seal to convey, assign and demise any land or any interest in land now or hereafter belonging to, or held for the benefit of such body or association of persons in such and the like manner and subject to such restrictions and provisions, as such trustees or trustee might, without such incorporation, hold or acquire, convey or assign, or demise the same for the purposes of such body or association of persons.

In light of the above provisions therefore, registration of trustees is optional in Uganda. Trustees are only required to register with the Ministry when they want to acquire land or certain interests in land. This means a trust can exist in Uganda without being registered.

The practice of trusts is not common in Uganda with about 1,010 trustees registered with the Ministry of Lands.^[12]

After issuance of the certificate of Registration, the documents are returned to the Commissioner Land Registration for safe custody under Rule 7 of the Trustees Incorporation Rules SI 165-1.

The above information is accessible to competent authorities and the general public upon payment of the prescribed fees.

Under the AMLA, 2013, all trusts and trustees are “accountable persons” and are therefore subject to all AML/CFT obligations under the Act.

6. 2. Methods through which trusts have facilitated ML/TF

- a. These structures may be abused in the layering stage of ML where they could be part of a network of complex transactions, involving multiple banks or accounts and/or other companies or trusts. They may also be abused during the integration stage of ML, where illicit funds are invested in the legal vehicles used in the financial sector, in a similar way that illicit funds may be invested in other high-value assets such as property.
- b. Manipulation and shielding of ownership rights and assets from the rest of society. They manipulate ownership rights so that individuals can control and enjoy trust assets while legally distancing themselves far enough from them, so that the assets cannot be reached or even known about by creditors, tax authorities, law enforcement agencies, or public scrutiny. For example, someone can have full use of a yacht or a house held in a trust, while not being the legal owner. These legal barriers can become impenetrable secrecy barriers shielding those people who enjoy and control the assets from scrutiny. But even if trusts and all the people and assets associated with them were to be fully registered and disclosed, this ‘asset-shielding’ function of trusts would still pose grave dangers.
- c. Trusts are used internationally to facilitate money laundering by hiding beneficial ownership, undermining due diligence checks and frustrating law enforcement investigations.^[13] Trusts

¹² Refer to www.mlhud.go.ug

¹³ Emile Van der Does de Willebois, Emile M. Halter. The Puppet Masters. How the Corrupt Use Legal Structures to Hide Stolen Assets and What to Do About it.

may be used by criminals as part of complex and opaque structures, comprising multiple legal entities and arrangements across multiple jurisdictions, which can be used to obscure who owns and controls assets.

6.3. Threats

Domestic Threat: Uganda has identified one case where criminals have exploited trusts for illegal purposes. In this particular case, three trustees procured their registration at the Ministry of Lands, Housing and Urban Development fraudulently. They then sold property held in trust for an Indian Association and the title was registered through fraud. Investigations on the identity of these trustees confirmed that the Identity Cards they presented were forged. It was also confirmed that the persons who registered and immediately sold the land did so fraudulently.

Under the Uganda Retirement Benefits Regulatory Act 2011, provides for the establishment of pension trusts. Currently there are 65 trusts establishing retirement benefit schemes.

The FIA has registered only one suspicious transaction report involving trusts. This is attributed to the fact that the use of trusts is not a common practice in Uganda. Available data indicates that there is only one ongoing criminal investigation. There are no indictments and convictions involving trusts in Uganda.

Conclusion: In light of the above, the overall money laundering threat is considered to be Medium (M).

6.4. Vulnerabilities

a. Gaps in the Legal Framework

- i. The legal and institutional framework on trusts in Uganda is still very weak as there are no money laundering controls provided in the laws. The Ministry of Lands lacks the expertise and resources to start implementing the requirements and obligations set out in the AMLA.
- ii. There is no legal requirement under the Trustees Incorporation Act, for trusts and trustees to disclose beneficial ownership information at the time of registration and to keep information on beneficial ownership accurate and up to date.
- iii. The Trustees Incorporation Act only deals with the registration of trustees. Under S.1 of the Act, trustees are only required to register with the Ministry when they want to acquire certain rights like land or interest in land. This makes the registration of trustees optional which means a trust or trustees can exist in Uganda without being registered. This makes it impossible for the Ministry in charge of administering the Act to obtain adequate, accurate and current information on all such trusts and on the identity of the settlor, beneficiaries and any other relevant information which is supposed to be kept up to date. In the absence of such obligations, the transparency of trusts cannot be guaranteed.

b. Secrecy

Trusts may hold assets and engage in business just like companies. However, they are subject to registration only if they own land, allowing the true owners, beneficiaries or controllers of trust assets to keep hidden, especially from public scrutiny. This secrecy enables all manner of financial crimes and abuses. Even when trusts do have to register, their structures often confuse authorities about who really controls or benefits from the assets.

c. Effectiveness of supervision or oversight activities

Trusts and trustees are not adequately supervised and monitored for AML/CFT purposes. This makes them highly vulnerable to ML/TF risks. Given the exposure of Uganda to the risk of ML, the serious lack of monitoring in this area becomes a huge ML/TF risk and largely exposes the sector to criminal abuse.

d. Availability of and Access to Information

- i. There is no adequate, accurate and current information maintained at the registry and by trustees themselves relating to the trustees, settlor, beneficiary, or any person who exercises ultimate control over the trust as well as information on other professional intermediaries such as investment advisors or managers, accountants and tax advisors with whom the trust has a relationship. This limits the scope of information available to competent authorities. The AMLA as amended subjects trustees as accountable persons to preventive measures which include identification and verification of beneficial ownership information.
- ii. Availability and access to information on trusts is a major challenge in Uganda. Although there is a legal obligation for all trusts and other legal arrangements to be registered with FIA under the AMLA, this is yet to be enforced. Due to this weakness, the scope of information on trusts currently in existence in Uganda and their activities is very limited and members of the public have limited access to such information.

e. Effectiveness of Compliance Function

There are no internal control measures, systems, policies and procedures in place for the prevention of money laundering and terrorism financing abuse of trusts. This would prevent the unlawful use of trusts by money launderers or those that finance terrorism.

f. Availability and Effectiveness of entry controls

- i. There is no requirement for the Ministry of Lands, Housing & Urban Development to verify the authenticity of information obtained from the trustees at the time of registration. In addition, there is no requirement to keep information obtained accurate and up to date.
- ii. The Registrar of Titles does not have a good understanding of the ML/TF risks and vulnerabilities associated with the trusts currently registered by them or operating in Uganda without their knowledge.

Quality of Controls for Trusts¹⁴

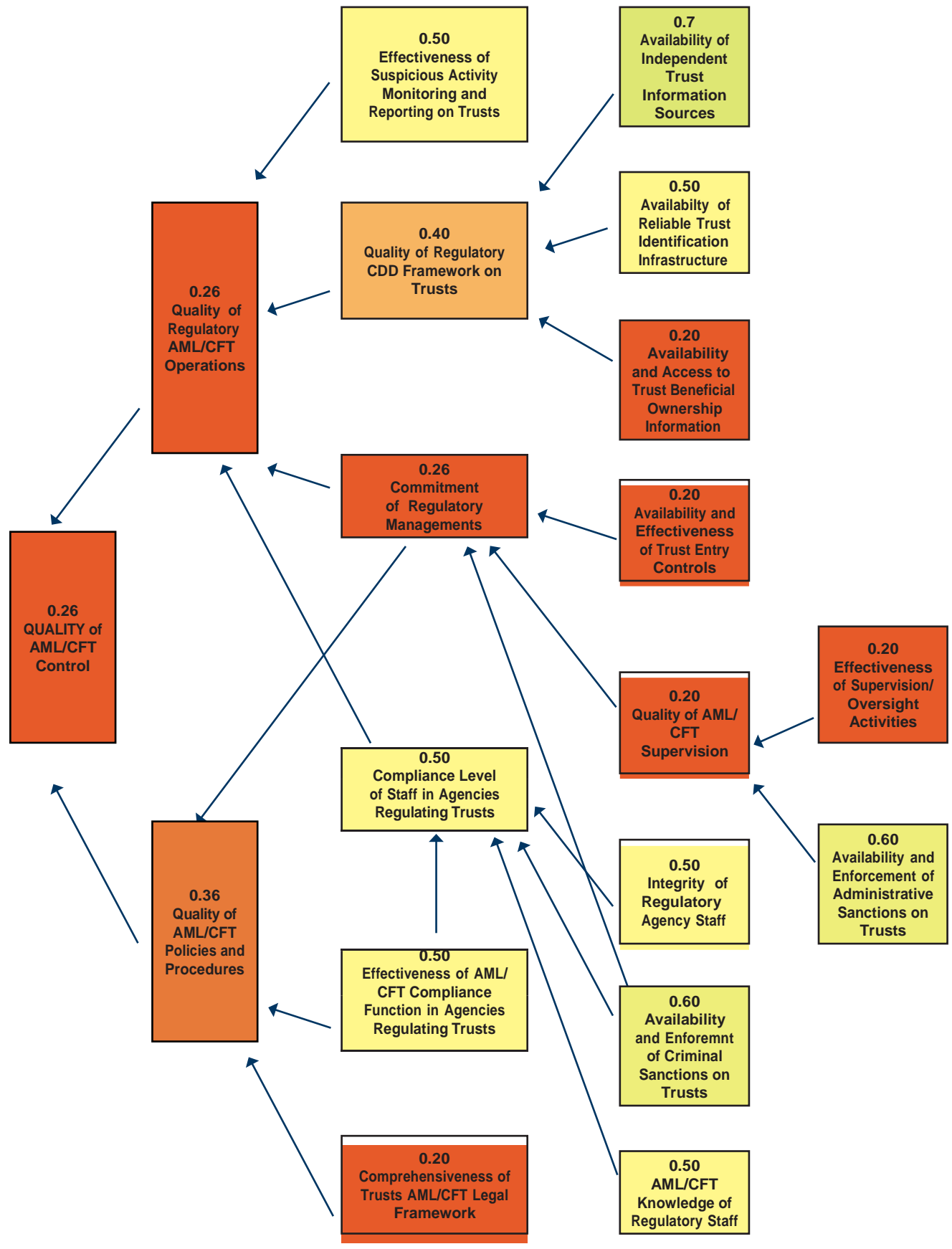
A. GENERAL INPUT VARIABLES/AML CONTROLS	ASSESSMENT RATING	
Comprehensiveness of AML/CFT Legal Framework	(0.4) Medium Low	0.2
Effectiveness of Supervision/Oversight Activities	(0.4) Medium Low	0.2
Availability and Enforcement of Administrative Sanctions	(0.5) Medium	0.6
Availability and Enforcement of Criminal Sanctions	(0.7) High	0.6
Availability and Effectiveness of Entry Controls	(0.3) Low	0.2
Integrity of Business/Profession Staff*	(0.5) Medium	0.5
AML Knowledge of Business/Profession Staff*	(0.5) Medium	0.5
Effectiveness of Compliance Function (Organization)*	(0.5) Medium	0.5
Effectiveness of Suspicious Activity Monitoring and Reporting*	(0.5) Medium	0.5
Availability and access to beneficial Ownership information	(0.2) Very Low	0.2
Availability of Reliable Identification Infrastructure	(0.5) Medium	0.5
Availability of Independent Information Sources	(0.7) High	0.7

Inherent Vulnerability of Trusts

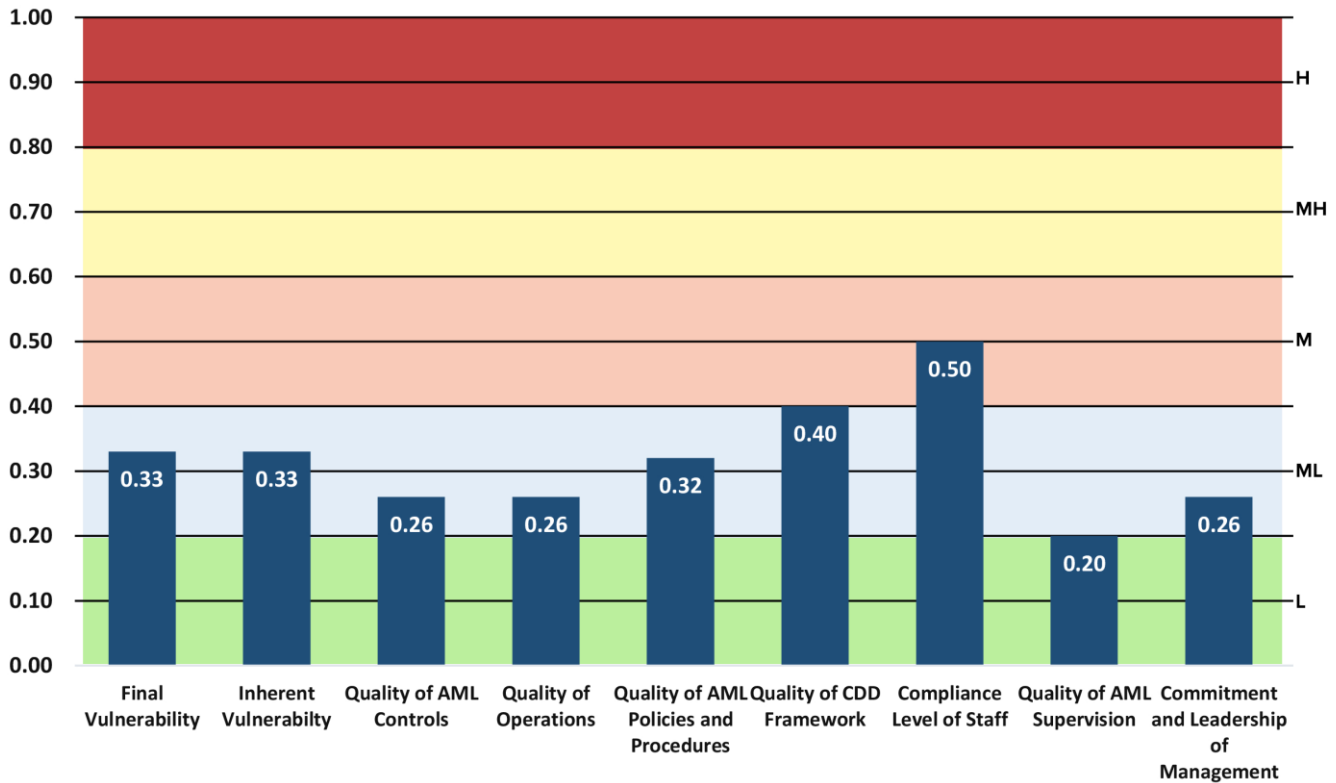
B. INHERENT VULNERABILITY FACTORS (FOR THE BUSINESS/ PROFESSION)	OVERALL ASSESSMENT FOR THE BUSINESS/ PROFESSION
Total size/volume of the business/profession	Low
Client Base Profile of the business/profession	Low Risk
Level of Cash Activity in the business/profession	Low
Other vulnerable Factors – Use of Agents in the business/profession	Medium Low
Other vulnerable Factors – Anonymous use of the product in the business/profession	Not Available
Other vulnerable Factors – Difficulty in tracing the transaction records	Difficult/Time Consuming
Other vulnerable Factors – Existence of ML typologies on the abuse of the business/profession	Exist but Limited
Other vulnerable Factors – Use of the business/profession in fraud or tax evasion schemes	Exist
Other vulnerable Factors – Non face to face use of the product in the business/profession	Available but Limited
Other vulnerable Factors – Specify	Not Analyzed
Other vulnerable Factors – Specify	Not Analyzed
Other vulnerable Factors – Specify	Not Analyzed

¹⁴ The variables which are not relevant to legal persons and arrangements include; integrity of business/professional staff, AML knowledge of business/professional staff, effectiveness of compliance function, effectiveness of suspicious activity monitoring and reporting. These were given a neutral rating which did not affect the final risk outcome.

Overall Vulnerability Map for Trusts



Overall Vulnerability Chart for Trusts



6. 5. Mitigants

Trustees are accountable persons and are subjected to AML/CFT preventive measures under the Anti-Money Laundering Act, 2013.

6. 6. Overall ML risk

The ML risk for the sector is considered Medium Low (ML). The rating is largely driven by the following factors:

- i. Trusts are not adequately supervised and there is no specific regulator with the mandate to monitor their activities.
- ii. There are no effective entry controls to prevent criminals from forming, registering and misusing trusts.
- iii. The Trustees Act has no legal requirement to keep, obtain or periodically update accurate information on the settlor, trustees and beneficiaries.

Ranking of Priority Areas for Trusts

PRIORITY RANKING FOR GENERAL INPUT VARIABLES/AML CONTROLS - LAST CASE/SCENARIO	PRIORITY RANKING**
Comprehensiveness of AML/CFT Legal Framework	3
Effectiveness of Supervision/Oversight Activities	1
Availability and Enforcement of Administrative Sanctions	10
Availability and Enforcement of Criminal Sanctions	11
Availability and Effectiveness of Entry Controls	4
Integrity of Business/Profession Staff*	6
AML Knowledge of Business/Profession Staff*	2
Effectiveness of Compliance Function (Organization)*	5
Effectiveness of Suspicious Activity Monitoring and Reporting*	7
Availability and access to beneficial Ownership information	8
Availability of Reliable Identification Infrastructure	9
Availability of Independent Information Sources	

07 COOPERATIVE SOCIETIES AND SAVINGS AND CREDIT COOPERATIVE ORGANISATIONS>>>>

7.1. Nature and Scope of Cooperative Societies and SACCOs

Section 1 of the Cooperative Societies Act defines a cooperative union to mean a registered society under the Act, the membership of which is restricted to primary societies.

Savings and Credit Cooperative (SACCO) means a registered society licensed under the Tier 4 Microfinance Institutions and Money Lenders Act, 2016.

The practice of forming cooperative societies and SACCOs is fairly common in Uganda and is often used as a means to promote a saving culture amongst a group of people who are resident within or in occupation of land, share employers or participate in the same nature of business.

Cooperative Societies and SACCOs in Uganda are regulated through:

- a. The Cooperative Societies Act, Cap. 112, and the Cooperative Societies Regulations, Statutory Instrument 112—1;
- b. The Tier 4 Microfinance Institutions and Money Lenders Act, 2016 and the Tier 4 Microfinance and Money Lenders (SACCOs) Regulations, 2020 provide for the Regulation of SACCOs.

7.2. Methods used to facilitate ML/TF

Uganda has in the past ten years witnessed rapid growth of co-operative credit societies, that may turn out to be the weak link in the AML/CFT system through the following ways.

i. Using SACCOs to hide Money Laundering Activities

Criminals could use SACCO's to hide proceeds of crime such that money contributed by members appear as if it is generated from legitimate business.

ii. Use of SACCOs to hide beneficial ownership details

Given that there is relatively low-level of regulation compared to banks, depositors in connivance with a society could bring unaccounted money to make payments through the banking system. Co-operative societies are using their own accounts with commercial banks to mobilise savings and give credit to members which allows members to hide ownership details and commingle illicit funds with other earnings.

iii. Lack of Micro financing data exploited by criminals

Whereas Government of Uganda encouraged the formation of SACCOs through the Microfinance Support Centre, other village saving groups have emerged without being registered and are unmonitored by regulators and law enforcement agencies.

7. 3. Threat

Domestic Threat: As at 26th January 2021, it was estimated that 10,497 SACCOs were registered with the Ministry of Trade and 23,746 Cooperative Societies were registered with the Registrar of Cooperatives under different sectors including agricultural marketing, diary, transport, housing, fishing among others. However, there are no available statistics on the total value of SACCO savings in the country.

This sector attracts significant numbers of people and therefore criminals may exploit the advantage of easy access in the formation of SACCOs, to launder criminal proceeds. For instance, according to the report by the Project of Financial Inclusion in Rural Areas (PROFRA) in June 2018, about 312 SACCOs suffered fraud across the country.

However according to the FinScope Survey of 2018 conducted by FSDU (Financial Sector Deeping Uganda), only 5% (about 720,000) of people who access financial services in Uganda, used SACCOs. This lowers the threat of money laundering in SACCOs. Over 14.4 million Ugandan adults were considered to be financially included then.

Conclusion: In light of the above, the overall money laundering threat is considered to be Medium (M).

7. 4. Vulnerabilities

Cooperative Societies and SACCOs are exposed to the following risks;

- a. There is no legal requirement under the current legal framework, for cooperative societies and SACCOs especially those that are registered as limited liability companies, to disclose beneficial ownership information at the time of registration and to keep this information accurate and up to date.
- b. Most SACCOs are cash-based and operate manual systems which are associated with risks of obscuring the audit trail and easy manipulation of records.
- c. According to the Money Laundering and Terrorist Financing National risk assessment for Uganda (NRA) 2017, the threats and exposures of SACCOS result from limited supervision and regulation. The sector is characterized by inadequate oversight, supervision and ineffective monitoring of suspicious transactions.
- d. There are no limits on members' contributions which makes it attractive to launderers and financiers of terrorism.

Quality of Controls for SACCOs^[15]

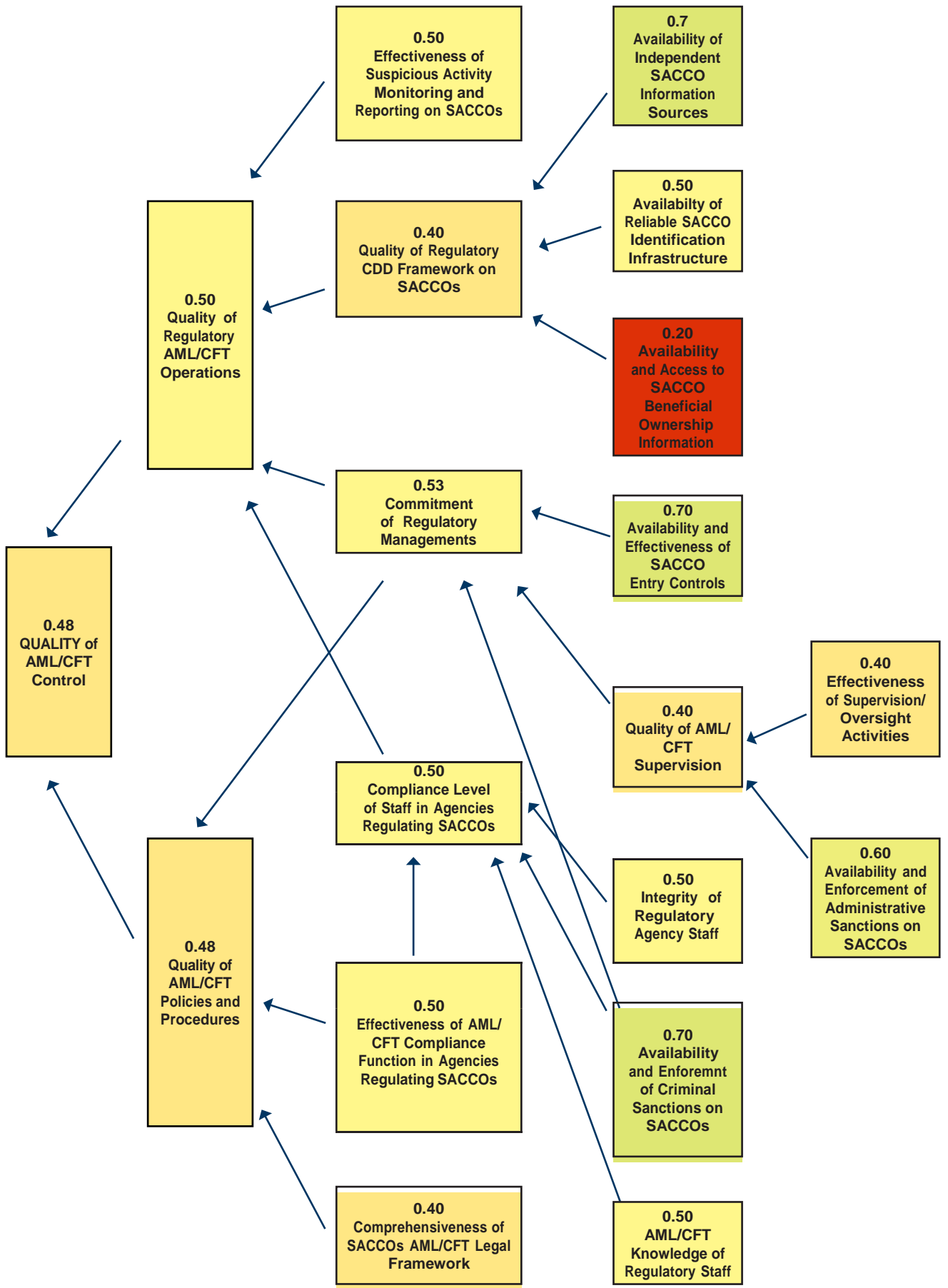
A. GENERAL INPUT VARIABLES/AML CONTROLS	ASSESSMENT RATING	
Comprehensiveness of AML/CFT Legal Framework	(0.4) Medium Low	0.4
Effectiveness of Supervision/Oversight Activities	(0.4) Medium Low	0.4
Availability and Enforcement of Administrative Sanctions	(0.5) Medium	0.6
Availability and Enforcement of Criminal Sanctions	(0.7) High	0.7
Availability and Effectiveness of Entry Controls	(0.3) Low	0.7
Integrity of Business/Profession Staff*	(0.5) Medium	0.5
AML Knowledge of Business/Profession Staff*	(0.5) Medium	0.5
Effectiveness of Compliance Function (Organization)*	(0.5) Medium	0.5
Effectiveness of Suspicious Activity Monitoring and Reporting*	(0.5) Medium	0.5
Availability and access to beneficial Ownership information	(0.2) Very Low	0.2
Availability of Reliable Identification Infrastructure	(0.5) Medium	0.5
Availability of Independent Information Sources	(0.7) High	0.7

Inherent Vulnerability of SACCOs

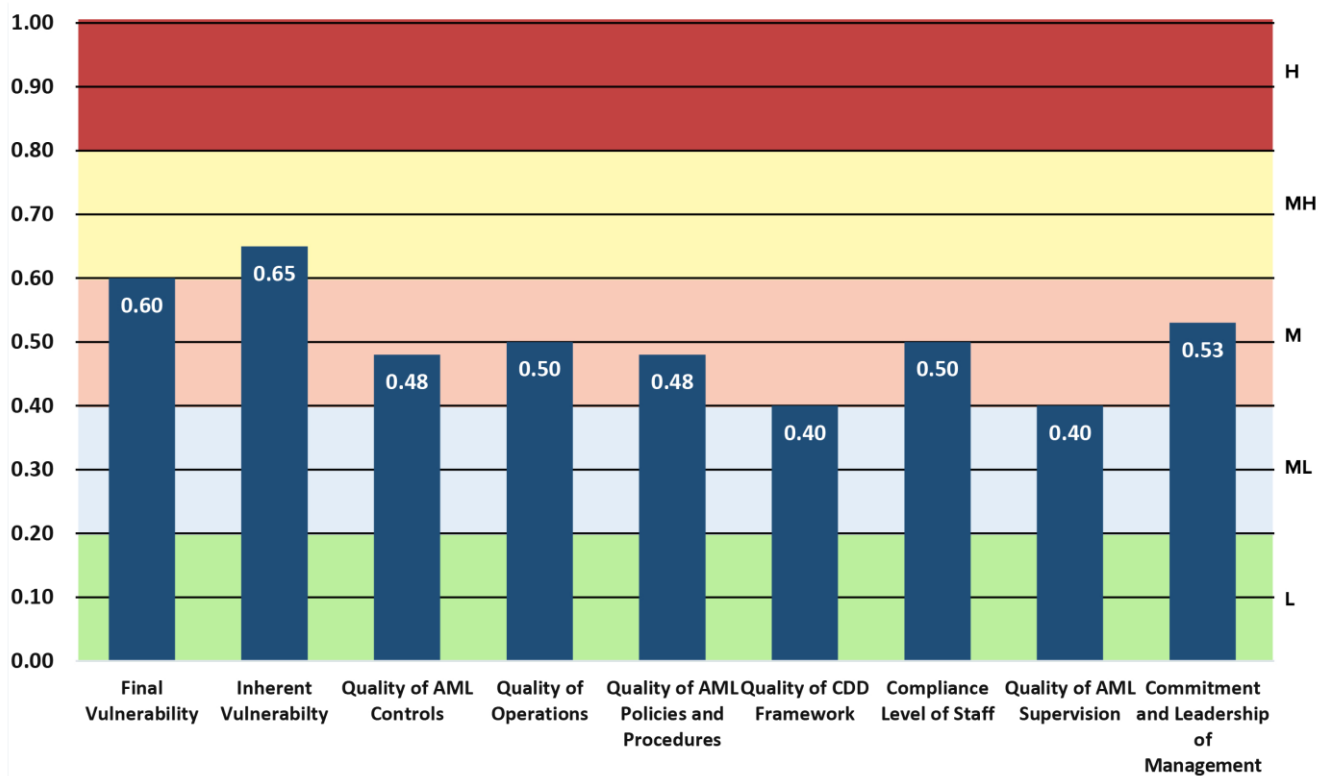
B. INHERENT VULNERABILITY FACTORS (FOR THE BUSINESS/ PROFESSION)	OVERALL ASSESSMENT FOR THE BUSINESS/ PROFESSION
Total size/volume of the business/profession	Medium
Client Base Profile of the business/profession	Low Risk
Level of Cash Activity in the business/profession	High
Other vulnerable Factors – Use of Agents in the business/profession	Low
Other vulnerable Factors – Anonymous use of the product in the business/profession	Not Available
Other vulnerable Factors – Difficulty in tracing the transaction records	Difficult/Time Consuming
Other vulnerable Factors – Existence of ML typologies on the abuse of the business/profession	Exist but Limited
Other vulnerable Factors – Use of the business/profession in fraud or tax evasion schemes	Exist but Limited
Other vulnerable Factors – Non face to face use of the product in the business/profession	Not Available
Other vulnerable Factors – Specify	Not Analyzed
Other vulnerable Factors – Specify	Not Analyzed
Other vulnerable Factors – Specify	Not Analyzed

¹⁵ The variables which are not relevant to legal persons and arrangements include; integrity of business/professional staff, AML knowledge of business/professional staff, effectiveness of compliance function, effectiveness of suspicious activity monitoring and reporting. These were given a neutral rating which did not affect the final risk outcome.

Overall Vulnerability Map for SACCOs



Overall Vulnerability Chart for SACCOs



7. 5. Mitigants

The AMLA lists any persons who conduct the business of lending and consumer credit as accountable persons and are therefore subject to the money laundering prevention measures under the Anti-Money Laundering Act, 2013.

The Cooperative Societies Act provides for mandatory annual audit reports to be filed with the registrar and keeping of records by the cooperative societies.

The Tier 4 Microfinance Institutions and Money Lenders Act, 2016 under section 4 establishes the Uganda Microfinance Regulatory Authority (UMRA) whose duty is to regulate, license and supervise tier 4 microfinance institutions and moneylenders which includes SACCOs.

Ownership of Cooperative Societies and SACCOs is member based and therefore limits the operations to its members. This lowers the risk of these being misused by criminals to launder money.

7. 6. Overall ML Vulnerability

The overall ML vulnerability in the SACCOs and Cooperative Societies sector is assessed as Medium High (MH) because the ownership of Cooperative Societies and SACCOs is member based and therefore limits the operations to its members. This lowers the risk of misuse by criminals to launder money or finance terrorism. However, the transactions within the sector are cash intensive and as SACCOs amalgamate and services move online the face to face element of their services may be lost which could make customer due diligence more challenging for the sector.

Ranking of Priority Areas for SACCOs

PRIORITY RANKING FOR GENERAL INPUT VARIABLES/AML CONTROLS - LAST CASE/SCENARIO	PRIORITY RANKING**
Comprehensiveness of AML/CFT Legal Framework	3
Effectiveness of Supervision/Oversight Activities	2
Availability and Enforcement of Administrative Sanctions	9
Availability and Enforcement of Criminal Sanctions	
Availability and Effectiveness of Entry Controls	
Integrity of Business/Profession Staff*	5
AML Knowledge of Business/Profession Staff*	1
Effectiveness of Compliance Function (Organization)*	4
Effectiveness of Suspicious Activity Monitoring and Reporting*	6
Availability and access to beneficial Ownership information	7
Availability of Reliable Identification Infrastructure	8
Availability of Independent Information Sources	

The National Risk Assessment of 2017 indicated that the terrorist threats are mainly external, emanating from the East, Central and Southern Africa region. Some of the general threats in relation to terrorism include the following.

- i. **Active terrorist organisations in the region:** Terrorist organisations like ADF, LRA, Al Shabab, Al Qaeda and Democratic Front for the Liberation of Rwanda (DFLR) can form and use legal persons like companies to fund terrorist activities.
- ii. **Sympathisers:** Persons in Uganda that may be sympathetic to terrorist persons or ideology are not easily ascertained. Where there is a greater proportion of sympathizers, there is a greater probability of funds and other resources provided to support terrorist persons or their activities.^[16]
- iii. **Radicalization:** Uganda has not experienced any terrorist attacks nor related deaths in the past 5 years. The level of ancillary activities to terrorist acts in Uganda has also been low, the only case being of alleged terrorist recruitment at Usafi mosque in Kisenyi^[17] in April 2018.

The attack on Kampala in 2010 left 76 people dead, had little impact on property damage (low) and it is estimated that the attackers spent approximately 30,000 USD. This money was channeled through money remittance companies both in Kenya and Uganda.

Ugandans have been traveling to countries which are considered to have active terrorist threats such as Somalia, DRC, Kenya, Iraq, Afghanistan and Middle East countries. However, there is no program in place for deradicalization of the returnees. There is also no program in place to monitor the returnees to confirm if they have been foreign terrorist fighters or have been recruited by terrorists. At risk are charities, NPOs, money remitters, transport and logistics companies and labor export companies that facilitate training new terrorist fighters under the guise of providing jobs.

8. 1. Methods used to facilitate financing of terrorism

i. Creation of complex corporate structures and shell companies

Corporate structures incorporated from foreign jurisdictions are allowed to operate in Uganda, as long as they simply register with URSB. Such companies in Uganda have arrangements where a person with effective control of the foreign entity or its assets is different from the official nominee director and payments between the foreign legal entity and a domestic party are made without supporting documents. This makes it more difficult for the URSB and Ministry of Lands to identify and obtain assurance about the actual owners of the legal persons and arrangements. A certain case illustrated how the respondents and their associated companies were involved in international trade whose proceeds were alleged to have been used to fund Al Shabaab terrorist activities. With respect to this case,

¹⁶ Page 237, UPF Module 21

¹⁷ <https://www.independent.co.ug/police-raid-two-dead-112-rescued-and-36-arrested-at-usafi/>

the 7th to the 9th respondents were all signatories to the accounts. However, respondent 7 ceased being a signatory and shareholder in April 2018 after he was investigated and eventually deported to Somalia by Kenyan Police. The 2nd, 4th and 5th respondents were shell companies with no known physical address or business. The 1st Respondent's bank account indicated that it was just a collection account as opposed to a normal business account of a forex bureau. In this case there was a holding company with various nested subsidiaries which were used to move illicit funds through fictitious inter-company loans. Some of these companies dealt in various businesses like the financial institutions business, commodity trading business, forex bureau and money remittances while others were shell companies without known businesses.

ii. Use of real estate companies

The real estate companies have been a preferred choice of criminals for hiding illicit funds, and manipulating property prices is a typical means to transfer proceeds illegally between parties. There are other factors that also make real estate appealing and these include; the relatively high monetary value, the likelihood that the value will appreciate over time and the opportunities to conceal beneficial ownership.

Concealment of ownership: the criminal will attempt to conceal their assets, wealth or the origin of the funds used to finance the purchase. Examples include:

- A relative of the criminal or a corporation, often offshore, is used as the registered owner of the real estate property. The criminal is therefore able to remain anonymous.
- Third party bank accounts or trust accounts, administered by notaries or lawyers, are used to conceal the origin of money to acquire the property.
- In addition, luxury homes are rented and the lease can be in the name of a third party, and used by the criminal. The rent is paid in cash out of criminal proceeds.

These real estate companies involve dealing in assets of relatively high monetary value and therefore will be a preferred choice for criminals to conceal illicit funds or engage in terrorism financing.

The TF threat assessment considered companies, partnerships, trusts and SACCOs and cooperative societies as indicated below.

8. 2. Companies

Terrorism Financing Threats

Companies may be used as fronts to obscure the beneficial ownership and channel of funds to be used to finance terrorism activities. In a terrorist financing investigation case^[18] it was suspected that the respondents had formed and used companies with the intention of funding terrorist activities. In this case, the accused had been charged with terrorism financing and the case was registered in court.

¹⁸ Terrorist Financing Investigation 2018

There have been five suspicious transaction reports filed by accountable persons where companies were suspected to be involved in terrorism financing. These were disseminated to law enforcement agencies for further investigations. However there has been no conviction in terrorism financing cases for legal persons and arrangements.

In light of the above, the terrorism financing threat for companies is considered to be Medium (M).

TF Vulnerabilities

- a. There is still a challenge with the enforcement of administrative sanctions for companies which are accountable persons due to absence of regulations to enforce compliance. To this effect no sanctions have been imposed on any of the accountable persons who fail to report suspicious transactions.
- b. The Companies Act does not adequately provide for obtaining or maintaining beneficial ownership information, or impose an obligation on companies to obtain and maintain accurate information on beneficial ownership. Therefore, terrorists organisations or entities may finance their activities through companies.
- c. There is no process in place to verify foreign issued identification documents. Criminals may take this advantage to enter the country and finance terrorism.
- d. The operations of some companies are cash intensive. A significant volume of proceeds of crime flow in and out of Uganda particularly through the use of informal value transfer systems such as Hawala.
- e. Data from law enforcement agencies indicates that there are no terrorism financing convictions registered. However, there are five intelligence reports that have been disseminated by the FIU which triggered a number of investigations.

From the assessment above, the TF vulnerability for companies is Medium (M).

The overall TF risk rating for companies is Medium (M).

8. 3. Partnerships

TF Threats

Criminals may exploit partnerships for terrorism financing purposes by obscuring beneficial ownership and channel funds to facilitate terrorism. The FIA has not received any suspicious transaction reports implicating partnerships in TF. However, there is a case where a legal professional used his personal account to receive funds suspected to be intended for TF purposes.

In light of the above, the TF threat for partnerships is considered to be Low (L).

TF Vulnerabilities

- a. There is no legal requirement under the Partnership Act, 2010 and the Regulations made thereunder to disclose beneficial ownership information to the Registrar of Companies. Criminals can exploit this to set up partnerships through third parties and abuse them to finance terrorism.

- b. Inadequate identification of third-party beneficial owners for funds transacted through partnerships for example lawyers and accountants.
- c. Accountable persons have not reported TF related STRs to FIA. In addition, data from Law Enforcement Agencies indicates that there are no terrorism financing investigations, prosecutions and convictions involving partnerships.

In light of the above, the TF vulnerability in partnerships is rated to be low.

The overall TF Risk Rating for partnerships is Low.

8. 4. Trusts

TF Threats

The FIA has not received any suspicious transaction report from accountable persons on trusts in relation to terrorism financing. In addition, there are no investigations, prosecutions and convictions involving trusts for TF.

In light of the above, the TF threat for trusts is considered to be Low (L).

TF Vulnerabilities

- a. Trusts are not adequately supervised and there is no specific regulator with the mandate to monitor their activities.
- b. There are no effective entry controls to prevent criminals from forming, registering and misusing trusts.
- c. The Trustees Act has no legal requirement to keep, obtain or periodically update accurate information on the settlor, trustees and beneficiaries.
- d. Accountable persons have not reported TF related STRs to FIA. In addition, data from Law Enforcement Agencies indicates that there are no terrorism financing investigations, prosecutions and convictions involving partnerships.
- e. Trusts are not commonly used in Uganda and therefore this lowers the associated risks.

From the assessment above, the TF vulnerability for trusts is considered Low (L).

The overall TF risk rating for trusts is Low.

8. 5. SACCOs and Cooperative Societies

TF Threats

The FIA has not received any suspicious transaction report from accountable persons on SACCOs and Cooperative Societies in relation to terrorism financing. In addition, there are no investigations, prosecutions and convictions involving SACCOs and Cooperative Societies for TF.

In light of the above, the TF threat for SACCOs and Cooperative Societies is considered to be Low (L).

TF Vulnerabilities

- a. The ownership of Cooperative Societies and SACCOs is member based and therefore limits the operations to its members. This lowers the risk of misuse by criminals to launder money or finance terrorism.
- b. The transactions within the sector are cash intensive and as SACCOs amalgamate and services move online, the face to face element of their services may be lost which could make customer due diligence more challenging for the sector.
- c. Accountable persons have not reported TF related STRs to FIA. In addition, data from Law Enforcement Agencies indicates that there are no terrorism financing investigations, prosecutions and convictions involving partnerships.

From the assessment above, the TF vulnerability for SACCOs and Cooperative Societies is assessed as Medium (M).

The overall TF risk rating for SACCOs and Cooperative Societies is Medium Low (ML).

8. 6. Case studies

Case 1: Investment Instruments and minerals

A case that was flagged for forgery and gold scamming was later suspected to be linked to financing of Hezbollah^[19] ^[20] through Uganda. Funds originated from Europe, involving a buyer from Qatar and Lebanese brokers and mining company owners. Some funds were placed on an investment account for an insurance / investment company. This could be a better alternative to store TF funds since it offers better liquidity than real estate. The case is still under review.

Case 2: Legal Persons & arrangements by foreign nationals

A refugee was flagged for presenting a forged passport and forged refugee attestation documents after being asked to update bank KYC details (the passport on bank records had expired). The foreigner had multiple names that could be used interchangeably as different identities, with some names missing from documents. The company received considerable payments for goods deliveries made to a country with very active terrorist attacks and many rebel militia groups and some designated terrorist groups. The company appeared to be a front for a local PEP.

¹⁹ <https://www.jpost.com/middle-east/suspected-hezbollah-agent-arrested-in-uganda-with-mossads-help-596537>

²⁰ <https://www.thenationalnews.com/world/qatar-funds-hezbollah-arsenal-through-the-gold-markets-of-uganda-1.1075336>

09 CHALLENGES AND LIMITATIONS>>>>

- a. The World Bank tool module used to analyze ML/TF risks was not specifically designed to analyze legal persons and arrangements. It contained variables which were not applicable to the analysis of legal persons and arrangements such as the integrity of business/profession staff, AML knowledge of business/profession staff, effectiveness of the compliance function, effectiveness of suspicious activity monitoring and reporting. This challenge was overcome by using the expert opinion of the sector and the variables were not considered during the analysis.
- b. Limited stakeholder engagements due to the restrictions put in place by Government to contain the spread of COVID-19 pandemic (the Standard Operating Procedures). This challenge was overcome by using online platforms to share information and focus group discussions by key stakeholders.
- c. Limited AML/CFT statistics in the legal persons and arrangements sub-sector to support the analysis. This challenge was overcome by relying on expert knowledge of the assessment team and stakeholders.

10 RECOMMENDATIONS>>>>

- a. Undertake robust legal reforms to address the deficiencies in the existing laws and regulations concerning beneficial ownership information of legal persons and arrangements.
- b. The Companies Act should be amended to require companies to file beneficial ownership information with the Registrar of companies which information should be easily accessible to competent authorities.
- c. The Partnership Act 2010 should be amended to require partnerships to file beneficial ownership information with the registrar of companies which information should be easily accessible to competent authorities.
- d. There should be a centralized registry on beneficial ownership information.
- e. Undertake the legal reform process to include mandatory registration of trusts and trustees in Uganda. Related parties to the trust (all settlors, trustees and beneficiaries) should be also be registered.
- f. The National Identification Registration Authority (NIRA) should develop a mechanism for verification of alien identification documents for foreigners intending to operate businesses in Uganda.
- g. Strengthen the capacity of supervisory bodies and competent authorities to monitor and enforce compliance with AML/CFT obligations for legal persons and arrangements that are accountable persons.
- h. Strengthen the capacity of FIA to conduct supervision/oversight activities on non-regulated sectors using a risk-based approach.
- i. FIA should conduct awareness campaigns and trainings to enhance the understanding of AML/CFT matters amongst legal persons and arrangements.
- j. FIA should conduct specialist training for the judiciary, investigatory and prosecutory bodies on investigation of AML/CFT cases for successful prosecutions and convictions.
- k. FIA should fast-track the issuance of the Anti-Money Laundering (Administrative Sanctions) Regulations to compel legal persons and arrangements who are accountable persons to comply with AML/CFT obligations.
- l. The Central bank should fast-track the implementation of the national financial inclusion strategy to reduce cash-based transactions. In addition, there is need to implement the recommendations of the NRA report on Uganda's economy being highly cash-based.

11 REFERENCES>>>>

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6. Emile Van der Does de Willebois, Emile M. Halter. The Puppet Masters. How the Corrupt Use Legal Structures to Hide Stolen Assets and What to Do About it.
7. Trusts: Weapons of Mass Injustice by Andres Knobel – Feb 13th 2017
8. Uganda v Valentino Kamywa & 3 others HCT 00-AC-SC 006/2016
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10. Report by the Project of Financial Inclusion in rural areas (PROFRA) in June.

ANNEX- Summary of Vulnerability Analysis

INPUTS - GENERAL INPUT VARIABLES/AML CONTROLS	Companies	Partnerships	Trusts	SACCOs
Comprehensiveness of AML/CFT Legal Framework	0.4	0.4	0.2	0.4
Effectiveness of Supervision/Oversight Activities	0.4	0.4	0.2	0.4
Availability and Enforcement of Administrative Sanctions	0.5	0.4	0.6	0.6
Availability and Enforcement of Criminal Sanctions	0.7	0.7	0.6	0.7
Availability and Effectiveness of Entry Controls	0.3	0.4	0.2	0.7
Integrity of Business/Profession Staff*	0.5	0.5	0.5	0.5
AML Knowledge of Business/Profession Staff*	0.5	0.5	0.5	0.5
Effectiveness of Compliance Function (Organization)*	0.5	0.5	0.5	0.5
Effectiveness of Suspicious Activity Monitoring and Reporting*	0.5	0.5	0.5	0.5
Availability and access to beneficial Ownership information	0.2	0.3	0.2	0.2
Availability of Reliable Identification Infrastructure	0.5	0.5	0.5	0.5
Availability of Independent Information Sources	0.7	0.7	0.7	0.7

OUTPUTS/ASSESSMENT RESULTS FOR INTERMEDIATE VARIABLES	Companies	Partnerships	Trusts	SACCOs
Final Vulnerability	0.62	0.71	0.33	0.60
Inherent Vulnerability	0.65	0.81	0.33	0.65
Quality of AML Controls	0.41	0.44	0.26	0.48
Quality of Operations	0.41	0.44	0.26	0.50
Quality of AML Policies and Procedures	0.44	0.45	0.32	0.48
Quality of CDD Framework	0.40	0.44	0.40	0.40
Compliance Level of Staff	0.50	0.50	0.50	0.50
Quality of AML Supervision	0.40	0.40	0.20	0.40
Commitment and Leadership of Management	0.41	0.44	0.26	0.53

OPRIORITY RANKING FOR GENERAL INPUT VARIABLES/AML CONTROLS	Companies	Partnerships	Trusts	SACCOs
Comprehensiveness of AML/CFT Legal Framework	4	3	3	3
Effectiveness of Supervision/Oversight Activities	2	2	1	2
Availability and Enforcement of Administrative Sanctions	8	6	10	9
Availability and Enforcement of Criminal Sanctions			11	
Availability and Effectiveness of Entry Controls	3	4	4	
Integrity of Business/Profession Staff*	6	7	6	5
AML Knowledge of Business/Profession Staff*	1	1	2	1
Effectiveness of Compliance Function (Organization)*	5	5	5	4
Effectiveness of Suspicious Activity Monitoring and Reporting*	7	8	7	6
Availability and access to beneficial Ownership information	9	10	8	7
Availability of Reliable Identification Infrastructure	10	9	9	8
Availability of Independent Information Sources				