KEYNOTE SPEECH

by

Mr. Sydney Asubo, Executive Director of the Financial Intelligence Authority (F.I.A), Uganda

at

The Meeting of the Working Group on Audit of Extractive Industries (WGEI) on 27th May 2019

In

Manila, Philippines

I. Introduction

Distinguished Participants, Ladies and Gentlemen, It is a great honor for me to deliver a keynote speech at the WGEI 04th Members meeting in Manila, Philippines.

Allow me to congratulate the organizers for the excellent arrangements and for their hospitality. I trust you are all enjoying your stay in the Philippines.

I would like to thank and recognize the participants drawn from the different member countries and different stakeholders in the extractive industry. The secretariat who have worked very hard to prepare for this seminar, particularly in conceptualizing its substance.

Today, as requested by the organizers, let me first start with a brief on the F.I.A Uganda and our role in the fight against financial crime including the illicit financial flows.

I will also share a brief over view on the extractive industry in Uganda and how government regulates and monitors the activities in this industry. I then would like to discuss illicit financial flows in the extractive industry in the Great Lakes region of Africa and Africa as a whole. I would also discuss the challenges/dangers these IFFs pose to the governments and way forward of curbing these illicit financial flows from the extractive industry.

2. Uganda

F.I.A stands for the Financial Intelligence Authority of Uganda. It is established under the Anti Money Laundering Act of 2013 and is mandated to prevent and prohibit money laundering. The F.I.A was founded in 2014 and one of its mandate is to fight money laundering in Uganda.
At the F.I.A, we strive to be the centre of excellence in combating money laundering (including the Illicit Financial Flows), and this can only be achieved

through fostering and enhancing the integrity of the Financial system through effective detection and prevention of financial crimes.
Additional information about our mandate is on our website link; https://www.fia.go.ug/

The extractive industries sector is considered to be one of the most prone to illicit financial flows. To date, numerous instruments at the national, regional and international level have been adopted targeting the extractive industries sector or specifically combating illicit financial flows but the effectiveness of these instruments remains uncertain as highlighted with the recent scandals that tarnished this sector. In fact some stakeholders, in particular companies involved in the extractive industries and corrupt government officials, are being creative and innovative in order to play with legislations combating these illicit practices and perpetuate illicit financial flows. Playing with the rules of the game is made possible not only through the support of intermediaries but also the availability of legal tools.

It's important to note that; Insufficient levels of financial transparency—globally and domestically—and lack of government accountability in different jurisdictions, coupled with weak regulatory systems that can incentivize financial crimes, are helping to drive high levels of illicit financial inflow and outflows in different countries, which are undermining development efforts.

On a positive note, Uganda has put in place efforts to combat the commercial tax evasion, corruption, and money laundering of criminal proceeds and terrorist financing. There's need to increase efforts to combat the commercial tax evasion, corruption, and money laundering of criminal proceeds and terrorist financing.

Three policy areas have been the central focus for the government: eliminate the use of anonymous companies in the economy (these are conduits of the illicit financial flows from the extractive industry specifically dealing in Gold), reduce the ease and volumes of trade misinvoicing through under declaration of mineral exports (export under invoicing to evade Taxes), and enforce anti-money laundering laws, particularly within the extractive industry especially the gold industry that is shrouded in a lot of secrecy.

Illicit financial flows (IFFs) in Uganda are part of a broader political economy where continued economic growth and development are hampered by corruption, impunity, and an opaque extractive sector. The growth in Uganda's economy and its role as a potential haven for both legal and illegal activities stemming from neighboring countries creates perverse opportunities for illicit financial flows.

Currently, the Ugandan government through the Department of Geological Survey and Mines under the Ministry of Energy and Mineral Development has started registering artisan miners in a bid to update their database since government doesn't know how many they are. With over 100,000 artisan miners that have the potential to contribute to the country's GDP, there's need to formalize their activities. The Ugandan government has recently launched the Biometric Registration for Artisanal and Small Scale Miners and all this is aimed at taming illegal mining and the IFFs from these activities.

In a bid to achieve efficiency and ensure equitable and transparent management of minerals, the government of Uganda also intends to automatically own shares in every mining company granted a lease and this is according to a new policy by the Cabinet at the end of April 2019. All these steps and so many more are in a bid to ensure transparency and accountability in the extractive industry and stem the IFFs.

3. Great Lakes Region and Africa as a whole

Illicit financial flows (IFFs) and their costs for African economies has always been a development issue of major concern for African policy makers, more so now in the context of the extractive industry. The minerals from the extractive industry provide a mechanism for organized crime gangs and syndicates to convert illicit cash into a stable, anonymous, transformable and easily exchangeable asset to realize or reinvest the profits of their criminal activities. This industry is a target for criminal activity because it's highly lucrative.

The major extractive minerals fueling the IFFs on the African Continent include; Gold, Coltan, Diamonds, Oil and many more that have led to the Illicit Financial Flows (IFFs) and funded some of the brutal conflicts on the African Continent.

The war lords in these countries often times rely on government and military officials, financial institutions, and businesspeople in neighboring countries to move money realized from the extractive industry to access weapons to further their interests.

On a positive note however, financial sector regulators in many of these countries are developing the technical capacity to trace financial transactions, and international organizations and partners have prioritized support to anti-money laundering efforts in these countries as well. The legal, regulatory, and technical capacity of frontline state regulators, such as financial intelligence units (FIUs), are vital to guard against corruption, stem the Illicit Financial Flows from the illicit trade in minerals and to enforce UN sanctions. Regulatory authorities have developed greater insight into how some of its businesspeople are operating in South Sudan and are tapping into the research of international/global standard setters.

IFFs and illicit trade are a concern for Africa for various reasons. To benefit from revenues and royalties realized from the extractive industry for the social economic transformation of the different countries on the African Continent and the developing economies at large, there's need to curb and completely deal with the illicit financial flows from this industry.

Industrialization, boosted by value addition to the extractive industry coupled with transparency and robust enabling laws to regulate this industry, this can reduce the dependence of African countries on the exports of raw primary commodities especially minerals (a major source of IFFs in Africa) and spur the development of regional value-chains but this cannot happen in Africa unless challenges are addressed, especially in the area of infrastructure, trade facilitation and capacity-building.

Countries in Sub-Saharan Africa would have to invest US $93 billion per year in order to meet their infrastructure development needs, but actual investment is only US $45 billion per year, implying a funding gap of about $50 billion a year, roughly the amount of funds Africa loses every year through IFFs.

4. Conclusion

International due diligence, responsible minerals audits, and anti-money laundering frameworks were established in order to combat corruption and the deadly conflict minerals trade. Companies that fail such audits, and that do not adhere to such guidance yet continue to sell their minerals internationally must face steep consequences, or else there will be no change in Illicit Financial Flows from the gold and other extractive minerals trade that fuels armed conflict. The Illicit Financial Flows of such companies are a primary obstacle to increasing the conflict-free, responsible minerals trade on the African continent, which can help delink these minerals' trade from conflict and help the African population benefit from their natural resources.

Thank you for your kind attention