GLOBAL FINANCIAL INTEGRITY

A Scoping Study of Illicit Financial Flows Impacting Uganda

Global Financial Integrity
September 2018

A Scoping Study of Illicit Financial Flows Impacting Uganda

Led by
Global Financial Integrity

With contributions from
Economic Policy Research Centre
Uganda Association of Women Lawyers

September 2018

Funding provided by Government of Denmark

The findings and opinions in this report do not necessarily represent the view of Danida or the Danish Embassy in Uganda.

Copyright ©2018 by Global Financial Integrity®. Some rights reserved.

The report is published under a Creative Commons Attribution License (CC BY). For more information on this license, visit: http://creativecommons.org.

Global Financial Integrity® and the Global Financial Integrity Logo are registered trademarks of Global Financial Integrity.

September 15, 2018

Ministry of Foreign Affairs of Denmark
DANIDA

Global Financial Integrity is pleased to submit herewith its analysis, **A Scoping Study of Illicit Financial Flows Impacting Uganda**.

We are grateful for the opportunity to associate with the Economic Policy Research Centre and with the Uganda Association of Women Lawyers in this analysis and also appreciate inputs from Transparency International Uganda, the Southern and Eastern Africa Trade Information and Negotiations Institute, the Uganda Debt Network, and other civil society organizations, stakeholders, and government departments in the country.

Of the three sources of illicit financial flows (IFFs)—commercial, criminal, and corrupt—we find that potentially over-and under-invoiced commercial imports and exports is the largest measurable component, at roughly US$6.7 billion during the 10-year period from 2006-2015. The propensity for misinvoicing merits serious attention.

Errors and Omissions in Balance of Payments accounts total US$2.9 billion during the 10-year period from 2008-2017.

These figures, inexact by their very nature, should be taken as broadly indicative of a significant problem in Uganda, as it is in many emerging market and developing countries. Impacts on the political-economy of the country are severe. Legislation and enforcement are often inadequate to the challenge. Recommendations that can be pragmatically implemented are offered.

Global Financial Integrity thanks the Ministry of Foreign Affairs of Denmark and the Embassy of Denmark in Uganda for making this undertaking possible.

Global Financial Integrity will be pleased to work with the Ministry of Foreign Affairs of Denmark, the Embassy of Denmark in Uganda, the Government of Uganda, civil society, and academic experts to address the reality of IFFs and, through their curtailment, contribute to maximizing domestic resource mobilization for the advancement of the people.

Raymond Baker
President

Table of Contents

List of Tables

List of Figures

Executive Summary

Insufficient levels of financial transparency—globally and domestically—and government accountability in Uganda, coupled with a regulatory system that can incentivize financial crimes, are helping to drive high levels of illicit financial inflow and outflows in the country, which are undermining development efforts. Uganda will struggle to meet its goal of rising to middle-income status and reducing its reliance on foreign debt unless it increases efforts to combat the commercial tax evasion, corruption, and money laundering of criminal proceeds and terrorist financing. Three policy areas should be the central focus for the government: eliminate the allowance and use of anonymous companies in the economy, reduce the ease and volumes of trade misinvoicing, and enforce anti-money laundering laws, particularly within the banking sector.

Illicit financial flows (IFFs) in Uganda are part of a broader political economy dynamic 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 haven for legal and illegal activities stemming from neighboring countries like South Sudan, create perverse opportunities for illicit financial flows. The central government has a decent capacity to combat these opportunities for IFFs on paper, but its willingness or capacity to act to curtail IFFs is lagging.

Trade misinvoicing is the most significant area of illicit financial flows in Uganda that can be estimated using publicly available data. From 2006-2015, the latest years for which the necessary data are available, potential trade misinvoicing amounted to roughly 18 percent of total Ugandan trade over the ten-year period. The figure for possible outflows is some 10 percent of total trade, and for possible inflows it is around 8 percent of total trade (2006-2015). Viewed in dollar terms, the potential over- and under-invoicing of imports from 2006-2015 was approximately US$4.9 billion, and over- and under-invoicing of exports may have reached US$1.7 billion.

Uganda's laws and regulations on financial transparency and anti-money laundering have the strongest influence on illicit financial flows, and there are notable gaps in the framework the Government of Uganda has in place to address the sources, transfer methods, and motivations of IFFs in the country. In particular, laws governing corporations in Uganda are generally weak in so far as they do not require the official identification of the beneficial owners of companies or the complete identity of all shareholders in a company. The government's anti-money laundering regime mostly exists on paper and could do with strengthening. The Financial Intelligence Authority, which was only recently established, acknowledges this shortcoming and is working to enhance its performance in helping to prevent, track, and prosecute money laundering in the country. Uganda's extractive sector and the presence of numerous transnational crime markets add to the importance of both financial transparency and anti-money laundering.

I. INTRODUCTION

Illicit financial flows can be defined broadly as movements of money and value from one country to another that are illicitly earned, illicitly transferred, and/or illicitly utilized. Capital being transferred is considered illicit when: First, the act of transferring it across countries is illegal (Money Laundering, Cash Smuggling). Second, it is the result of an illegal act (Drug Trade, Tax Evasion). Lastly, it is used to finance an illegal activity (Organized Crime, Terrorism).

The tax evasion component of IFFs leads to tax loss on the resulting (undeclared) income streams. This income is usually held offshore in a handful of jurisdictions, many of which have little real economic activity outside their financial secrecy services. Tax evasion is partially enabled by corruption, particularly in the public sector, which reinforces the incidence of IFFs.[1]

Trade agreements such as the World Trade Organization's Customs Valuation Agreement (CVA) limits corruption by for example constraining the discretion of customs officials when it comes to assessing the price of imports.[2] However, there are always political risk and capacity gaps in coordinating government policy with efforts meant to curb IFFs.[3]

Political risk and capacity gaps are elevated in developing countries such as Uganda where there are many opportunities for IFFs and where capacities and political will to combat IFFs are limited. The consequences are also heightened for the citizens of developing countries, including Uganda, due to reduced economic growth, increased income inequality, stubborn poverty rates, lower domestic revenue mobilization, and weaker service delivery at the national and local government levels.

The High Level Panel on Illicit Financial Flows from Africa, led by Former President of South Africa Thabo Mbeki, has provided valuable research on IFFs in Africa and, more importantly, a strong political push to combat them. However, the people of Africa continue to wait for actions from their governments to fight this US$50 billion a year (or more) scourge on their rights and futures.[4]

This paper presents an overview analysis (a scoping study) of illicit financial flows in Uganda, including the magnitudes, sources, relevant policy and economic environments, and most critical steps for the Government of Uganda to curtail the country's IFFs. Section II presents summary of the political economy in which IFFs operate. Section III provides estimates of potential trade misinvoicing inflows and outflows from exports and from imports. Section IV lays out the most relevant laws and regulations Uganda has and where gaps may exist in coverage and enforcement. Section V briefly highlights the most important steps for the Government of Uganda to take to begin curtailing the country's IFFs, which will increase domestic revenue mobilization.

[1] Worku et.al., 2016
[2] Javorcik and Narcisco, 2017
[3] Badarinza and Ramadorai, 2016
[4] "Track It, Stop It, Get It" High Level Panel on Illicit Financial Flows in Africa, UNECA, 2015.

II. POLITICAL ECONOMY OF ILLICIT FINANCIAL FLOWS IN UGANDA

This section analyzes the features of the political economy of Uganda that affect illicit financial flows (IFFs). More specifically, the content that follows focuses on: First, the opportunities for IFFs in Uganda. Second, the capacity of the government of Uganda to prevent IFFs. Lastly, the political will/incentives of the government of Uganda to combat IFFs. The first part of this section lays out the methodology and provides the source of data, followed by a discussion of the sources of opportunities for IFFs. This information is followed by an analysis that identifies the possible determinants of capacity gaps in the institution entrusted with fighting IFFs and an analysis of the level of political will to fight IFFs in Uganda. Recommendations for the Government of Uganda, for donor agencies, and for other stakeholders are presented in Section V later in the paper.

i. Methodology and Data

The information and insights in this section are the result of a desk review of past literature, descriptive statistics of secondary data, and Key Informant Interviews (KIIs). The analysis is organized around three pillars that influence the sections of government that control the degree of IFFs: opportunity, capacity and political will.[5] Each pillar is explained briefly below, and a table of data sources for each grouping is available in Appendix 1 at the back of this report.

Opportunity

IFFs occur more frequently in countries that have larger opportunities for them—where a large share of economic actors have an incentive to either transfer out or allow in large flows of financial assets. These opportunities are related to: drug production, mineral and natural resource wealth (NRM indicators), volume of port and airport traffic, customs and bureaucratic burden, large numbers of state-owned enterprises (SOEs), and presence of a large financial sector.

Capacity

When there are large opportunities for IFFs, income-maximizing governments have an incentive in preventing those flows and opportunities. When governments try to prevent capital flight operated by private actors but fail, it is because they lack state capacity. This can be measured through the government's ability to collect taxes, the strength (human and financial resources) of institutions fighting IFFs, measures of government effectiveness, and the government's ability to police borders.

Willingness

When an income-maximizing government that is also capable still experiences illicit financial flows, it is because there are incentives for the government to allow them. This can be measured through

[5] These pillars have been used in other past studies such as Beramendi, Morucci and Wibbels (2017).

corruption indicators, democratic accountability, judicial independence, and influence of financial actors on the politics of the country (weakness of financial regulation).

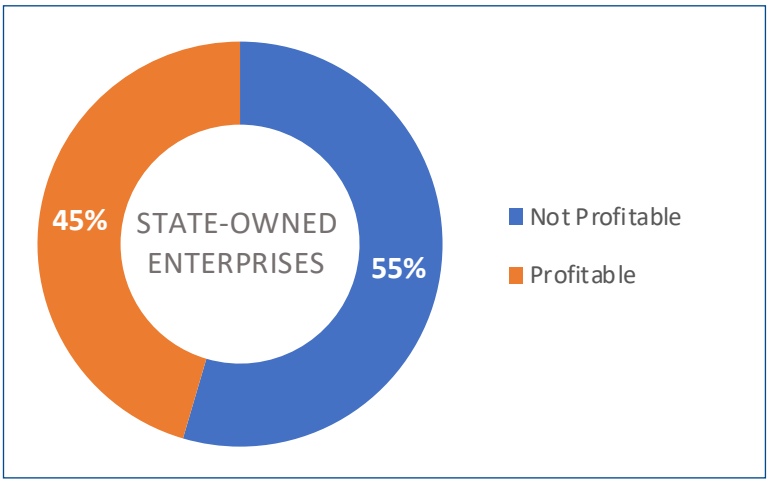
ii. Opportunities for Illicit Financial Flows in Uganda

This subsection discusses contextual factors with respect to Uganda that present opportunities for IFFs. The analysis looks at Uganda's State-Owned Enterprises, Financial Sector, Mineral and Natural Resource Wealth, Customs and Bureaucratic Burden, the Informal Sector, and the Gambling Industry, in this order. Estimates of potential volumes of illicit financial flows in Uganda are presented in Section III.

State Owned Enterprises (SOEs)

Uganda currently has 22 SOEs, which is a relatively large number given the size of Uganda's economy and its technical ability to effectively and efficiently run institutions. The global average is 17 SOEs per country. While the number of SOEs may not have any linear relationship with IFFs, having SOEs, coupled with a low capacity to oversee them, leaves room for IFFs.[6] In Uganda's case, the auditor general's report in 2016 showed that only 10 of the 22 SOEs in Uganda were profitable, which, among other things, may be an indicator of how inefficient the SOEs are being run (Figure 1).[7]

FIGURE 1: Performance of State-Owned Enterprises In Uganda



Source: Auditor General's Report

In the entire ninth parliament of Uganda (February 2011 to February 2016), no auditor general's report on the performance of SOEs was debated, which meant that even if there were possible risks of financial mismanagement and illicit financial flows within any of the SOEs, the perpetrators would have had enough time to get around it or away with it.[8] This absence of parliamentary oversight

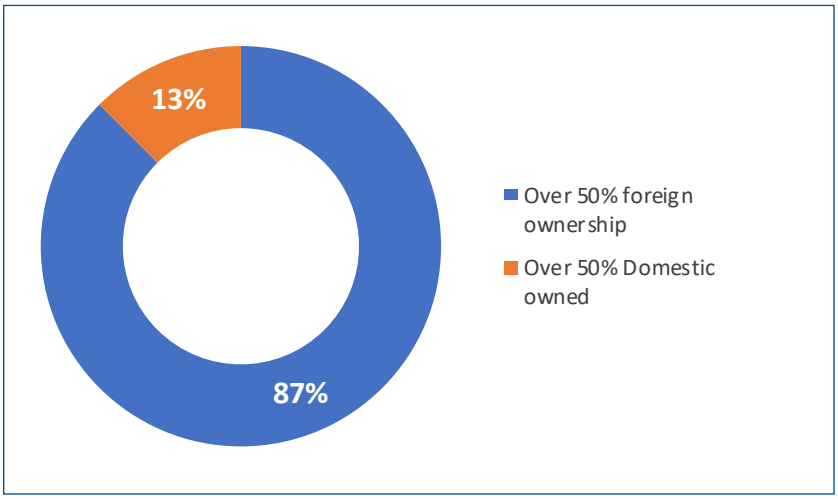
[6] Lain et al., 2017
[7] Office of the Auditor General, 2016
[8] Wamajji, 2018

compromises transparency and accountability of SOEs hence providing an opportunity for IFFs.[9] Uganda's SOEs need to be subjected to timely public scrutiny to close down the opportunity of illicit funds flowing through them or being caused by actors within SOEs.

Financial Sector

Having a large financial sector is also known to contribute to illicit financial flows, on the basis that financial intermediaries such as banks can facilitate the absorption of these illicit flows, especially if they are not closely monitored by regulators.[10] A larger financial sector is inherently harder to monitor, which necessarily gives more space for channeling wealth illicitly. Uganda's financial sector is not large by global standards (24 commercial banks), but it is highly concentrated: the top four banks control 55 percent of banking assets in Uganda. However, in the context of this scoping study, the ownership composition of the banks may be of more interest than the size of the financial sector. About 87 percent of commercial banks in Uganda are subsidiaries of foreign owned banks, including nine of the ten largest banks in the country (see Figure 2). In cases of low supervision by regulators in Uganda,[11] it would be especially easy for these commercial banks to facilitate absorption of illicit funds from or through Uganda and into other countries via their global network of branches.[12]

FIGURE 2: Ownership of Commercial Banks In Uganda



Source: Computations derived from Bank of Uganda Financial Stability Report 2017

[9] A report by Sarah et al., 2017 says that in Myanmar, half of reported extractive revenues (over US$200 million) have gone not to the state treasury but to accounts of SOEs not open to public scrutiny. The report also found that in India, employees in a branch of a state-owned Bank "allegedly conspired with 50 account holders to make suspicious transfers to foreign destinations totaling $922 million."

[10] Kar, 2010

[11] A case of limited supervision by Bank of Uganda was cited in the downfall of Crane Bank Uganda. While Crane Bank's issue was not about illicit flows, its case exposed Bank of Uganda's gaps in Bank monitoring and supervision.

[12] Ibid

Mineral and Natural Resource Wealth

Another key area prone to illicit financial flows is the extractive industry, which covers mineral and natural resource activities. Uganda is a resource-rich nation, with gold as the second highest foreign exchange earner in financial year 2016/17.[13] In 2016, Uganda collected natural resource revenues totaling 15 percent of its GDP, while the world average was 1.9 percent, for a difference of 13.1 percentage points or roughly 789 percent.[14] With the discovery of oil, the influence of natural resources on the domestic economy is bound to be even more pronounced in the future. Evidence shows that extractive industries tend to be large contributors to illicit flows, such as through intentionally mispricing the value of the natural resource, disguising the volume or quality of the resource extracted, and by manipulating the prices of inputs to artificially reduce revenues in the extracted country (the difference in value being deposited in an overseas bank account).

Compounding these dynamics is that the extractive sectors are known to be highly secretive and to operate under strong discretionary political control. In a 2018 report, it was found that the owners behind companies that hold multiple mineral licenses in Uganda could not be fully established. Uganda's state house is also alleged to have a worrying level of control over the oil exploration deals the Government of Uganda has made thus far, which some experts worry will be used to maintain the current leadership's hold on power (the president has been in power since 1986).[15]

Customs and Bureaucratic Burden

Trade misinvoicing is the practice of under-reporting or over-reporting values on import and export invoices and is the largest source and conduit of illicit financial flows that experts can currently reliably estimate using publicly available data.[16] In addition to the analysis on this subject in Section III, it is worth considering the issue of how high customs fees and significant bureaucratic burdens may induce traders and other businesses to commit trade fraud.

The indicators of customs-specific and other bureaucratic burdens related to trade in Table 1 show that Uganda is performing below the world average in all areas. Compared to Rwanda and Kenya, it is costlier to comply with documentary requirements for Uganda goods and services; Uganda does do better than Tanzania. It takes more calendar days and about twice as many hours to import into Uganda than into Rwanda, even though Rwanda is further away from Mombasa, a major port for both countries. Uganda also falls well below the world average in those two measures. A burdensome and inefficient customs system can create incentives and space for illicit financial flows via imports and exports.

[13] According to Data from Bank of Uganda, 2018
[14] World Development Indicators: World Bank Group
[15] Young, 2012
[16] Nitsch, 2014

TABLE 1: Customs and Bureaucratic Burden

	Cost to import, documentary compliance (US$)[A]	Cost to import (US$ per container)[B] 2014	Time to import (days)[C] 2014	Time to import, border compliance (hours)[D] 2016
World Average	166	1877	24	76
Uganda	296	3375	31	154
Tanzania	375	1615	26	402
Rwanda	121	4990	27	86
Burundi	1025	4420	43	154
Kenya	115	2350	26	180

Source: World Development Indicators: The World Bank

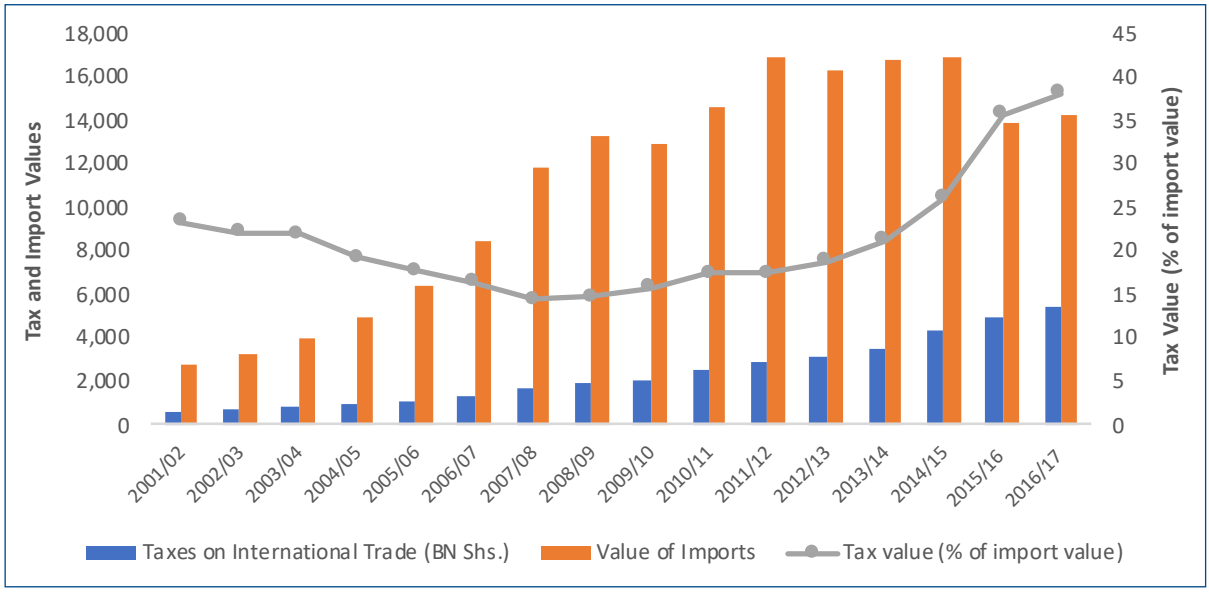
[A] Captures the time and cost associated with compliance with the documentary requirements of all government agencies of the origin economy, the destination economy and any transit economies.
[B] Cost measures the fees levied on a 20-foot container in U.S. dollars. All the fees associated with completing the procedures to export or import the goods are included. The cost measure does not include tariffs or trade taxes. Only official costs are recorded.
[C] The time necessary to comply with all procedures required to import goods. Time is recorded in calendar days. The waiting time between procedures--for example, during unloading of the cargo--is included in the measure.
[D] Border compliance captures the time and cost associated with compliance with the economy's customs regulations and with regulations relating to other inspections that are mandatory in order for the shipment to cross the economy's border, as well as the time and cost for handling that takes place at its port or border.

The Uganda Revenue Authority (URA) reports that it is continuing to work on enhancing customs performance, such as the Document Processing Centre that opened in January 2017 and one-stop border posts at Malaba, Busia, Mutukula, Mirama Hills, Katuna, and other locations. Furthermore, the implementation of the Single Customs Territory Initiative has reportedly reduced transit times within the region drastically. The URA has also implemented Electronic Cargo Tracking with its counterparts in Kenya and Rwanda to jointly monitor goods in transit, initiated Electronic Single Window processing, and started a scheme for preferential treatment for compliant taxpayers.[17]

Figure 3 shows that in Uganda, from 2001/2 to 2008/9, the value of imports rose faster than tax value, while tax value as a percentage of import value was less than the recommended threshold of 30 percent from 2001/2 to 2014/15. While there are other factors that can be attributed to this, it is probable that import over-invoicing could have played a major role, with costs being hiked in order to cut company income.

[17] [August 2018 stakeholder meeting]

FIGURE 3: International Trade Tax and Import Values



Data Source: Uganda Revenue Authority and the Bank of Uganda

The Informal Sector and Illicit Financial Flows

The debate on illicit financial flows in Uganda cannot be discussed in isolation of the informal economy nexus, as underground channels provide a good blend for illicit activities, including illicit financial flows. The conundrum here is the blurriness in the distinction between 'licit' and 'illicit' in the context of a large informal sector that also provides livelihoods for a majority of the citizens. Not all that transpires in the informal sector is bad.[18] Nearly 50 percent of the economy is informal in Uganda, which means that a significant portion of economic activity takes place outside the watch of government and is therefore difficult for government to monitor and regulate.[19] According to the FinScope Uganda 2018 Survey Report, 58 percent of Ugandans have taken up formal financial services—of which only 11 percent use banks while up to 56 percent use mobile money.[20] Mobile money does not enable large financial transactions and the transaction costs are high, so chances are that significant volumes of financial transactions could take place in cash, which is harder for regulators to monitor or even see. This dynamic "reduces the efficacy of financial intelligence units, and increases the risk of money laundering."[21]

[18] OECD, 2018
[19] CSBAG, 2017
[20] FSDUganda, 2018
[21] OECD, 2018

Uganda's Gambling Industry

An emerging area with huge opportunity for illicit financial flows is the gambling industry. Uganda's gambling industry has surged in growth over the last two decades, with tax revenue collections growing from UGX 0.24 billion in 2002/3 to UGX 11.1 billion in 2013/14.[22] While increased revenue is nominally good for the government, it is worth noting that a large gambling sector may increase the risk of IFFs. This is because gambling is one of the alternative methods of laundering money, thanks in part to the large volumes of cash these businesses tend to handle.[23] It is therefore imperative for regulatory measures to keep pace with the evolution of Uganda's gambling industry.

iii. Capacity Gaps That Promote Illicit Financial Flows

This portion of the analysis looks at the Government of Uganda's capacity for controlling IFFs by studying its ability to mobilize domestic revenue, the effectiveness of the government's institutions, and the drivers of institutional challenges.

Revenue Mobilization

Uganda's tax collection effort has remained below potential despite successive reforms by Uganda Revenue Authority (URA) in the tax administration and systems since the 1990s. Those changes have resulted in significant increases in revenue collection since 2002, from about UGX 1,212 billion in 2001/02 to approximately UGX 12,719 billion in 2016/17, and the figure reached 14,456 billion in 2017/18. Notwithstanding this change, revenue performance remains below potential based on revenue to tax to GDP ratios. Uganda's tax to GDP ratio only increased from 13.5 percent to 14.1 percent between the 2016/17 and 2017/18 fiscal years.[24] A comparison with other countries also shows that Uganda's tax revenue to GDP ratio is still below the Sub-Saharan Africa average of approximately 16 percent. In addition, Uganda lagged behind her East Africa Community (EAC) neighbors, such as Kenya at 18 percent and Rwanda at 16 percent (see Table 2).

TABLE 2: Uganda Tax Revenue Performance FY2014/15- FY2016/17

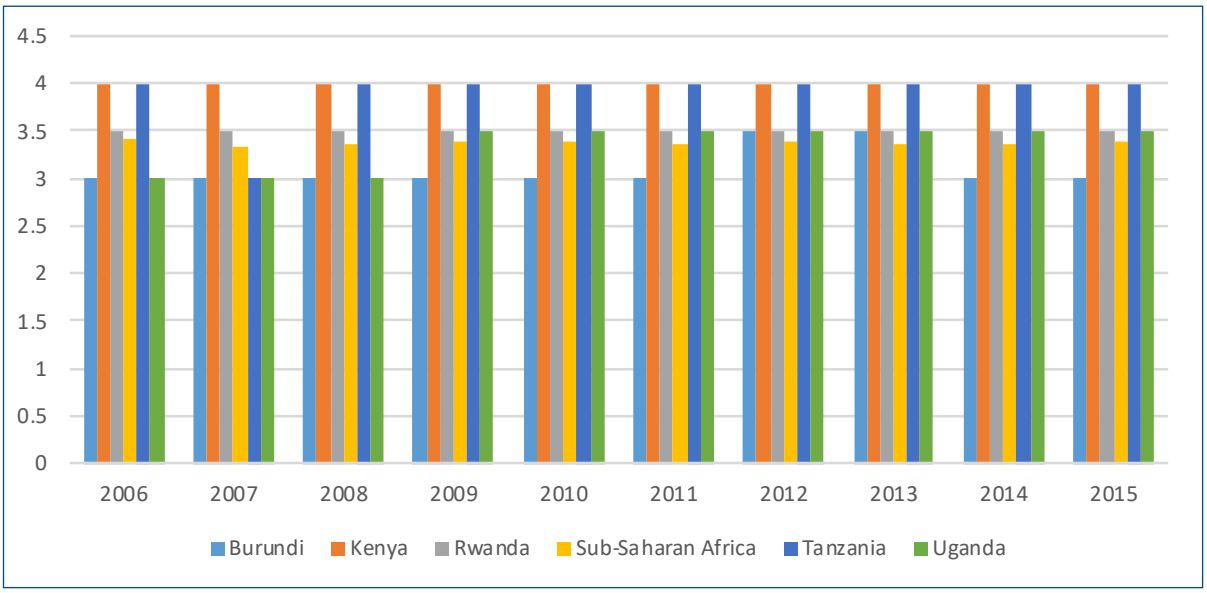
	2014/15	2015/16	2016/17
Net Revenue (UGX Billions)	9,715	11,230	12,719
Tax to GDP Ratio, percent	12.3	13.5	14.1
Tax to Budget, percent	64.6	66.8	62.3
Number of Registered Taxpayers	763,150	902,339	1,029,542
Number of Value Clients	147,797	176,942	492,648

Source: URA (2017)

[22] Ahaibwe et al., 2016
[23] Ritter, 2015
[24] MFPED, 2018

Uganda's EAC neighbors also beat the country on other measures of revenue performance. For example, while it is true that countries with a large informal sector have lower tax to GDP ratios,[25] Uganda's informal sector, which stands at 48 percent, is comparable and slightly higher than many EAC countries, such as Rwanda at 46 percent.[26] Uganda also lags behind other EAC countries on revenue mobilization efficiency with its rate of 3.5 out of 6 (see Figure 4).[27]

FIGURE 4: Efficiency of Revenue Mobilization



Source: Computations from World Bank development indicators data, 2015

The lower rates of successful tax collection have forced the Government of Uganda to rely on domestic and external borrowing to finance its National Development Plan (NDP) for attaining middle income status for the country by 2020. Uganda's stock of public debt has almost tripled in the last ten years, from USD 2.9 Billion in 2006 to USD 8.7 Billion in 2016.[28] Although the debt stock in terms of GDP is still within sustainable levels at 38 percent, the Government urgently needs to make progress on expanding domestic revenue mobilization (DRM), and curtailing IFFs is an important area for such work. The URA has acknowledged the need to expand DRM and is working on strategies based on more effective regulation of the economy, such as tax laws and reforms, and improved administration to enhance tax compliance.[29]

[25] URA, 2014
[26] There may also be differences in measurements and definitions of informality between the countries. The International Labor Organization defines the informal sector as broadly characterized as consisting of units engaged in the production of goods or services with the primary objective of generating employment and incomes for the persons concerned. The informal sector definition in Uganda covers all business activities that are characterized by the absence of financial accounts, having less than 5 employees, no fixed location, in most cases not registered and sometimes such businesses are operational for only 6 months or less (UBOS, 2010).
[27] The countries are ranked from 1 to 6. (1 representing the country with the lowest revenue mobilization and 6 the country with the highest mobilization efficiency).
[28] MoFPED, 2017
[29] [Stakeholder meeting comments]

Government Effectiveness in Fighting Corruption in the Public Sector

Corruption continues to be a complex phenomenon that undermines good governance, socio-economic development and effective service delivery in Uganda. The inefficiencies and high financial loses corruption triggers could easily hamper Uganda's development ambitions as stipulated by the Government's Vision 2040 and the National Development Plan II (NDP II). The NDP II identifies the fight against corruption as fundamental if the country is to meet its development targets and attain middle income status.[30]

As a result of investigations into corruption by the Inspectorate of Government (IGG), the Government of Uganda has had some success in recovering stolen public assets. From January to June 2017, the Government recovered UShs. 15 billion and took actions against a number of public officials and civil servants. Abuse of office formed the bulk of the corruption complaints the IGG investigated at 19.8 percent. The IGG recognizes that many challenges in its fight against corruption remain, most notably: low staffing levels, low funding from the government budget, and delayed investigative reports from complementary institutions such as the Police- CIID. For more information on the IGG's performance indicators, please refer to Appendix 1 in this report.

The 2013 Anti-Money Laundering Act established the Financial Intelligence Authority (FIA) to fight money laundering, financial fraud, and other financial crimes. Prior to the FIA's establishment (2013) and setup (2014), the function of tracking money laundering in Uganda was regulated only by the Bank of Uganda under the Financial Institutions Act and the Financial Institutions Anti-Money Laundering Regulations of 2010. The Money Laundering and Terrorist Financing National Risk Assessment report by Financial Intelligence Authority in 2017 shows that Uganda suffers from a low ability to combat money laundering, and the country continues to be a high-risk zone for money laundering. In court, the DPP has secured only a few convictions. The FIA's report noted that capacity issues are playing a role in the office's under-performance to date. Section IV provides an additional discussion of the role, capacity, and performance of the FIA in combatting money laundering, terrorist financing, and other illicit financial flows.

Institutional Challenges

Although the Government of Uganda has established a number on anti-corruption agencies to check IFFs, over UShs 500 billion is estimated to be lost annually through corruption (OAG, 2016). Many anti-fraud and anti-corruption agencies and offices have been established over the years, including the IGG, OAG, PAC, DPP, and URA, but there is no platform or formal links where they share information with each other. This has resulted in duplication of effort and mishandling of cases.

[30] The fourth objective of NDP II articulates the ambition to 'strengthen mechanisms for quality, effective and efficiency service delivery'. The plan acknowledges that it is imperative to stamp out corruption and clamp down on impunity of the corrupt in order to improve service delivery and free up resources to achieve development outcomes.

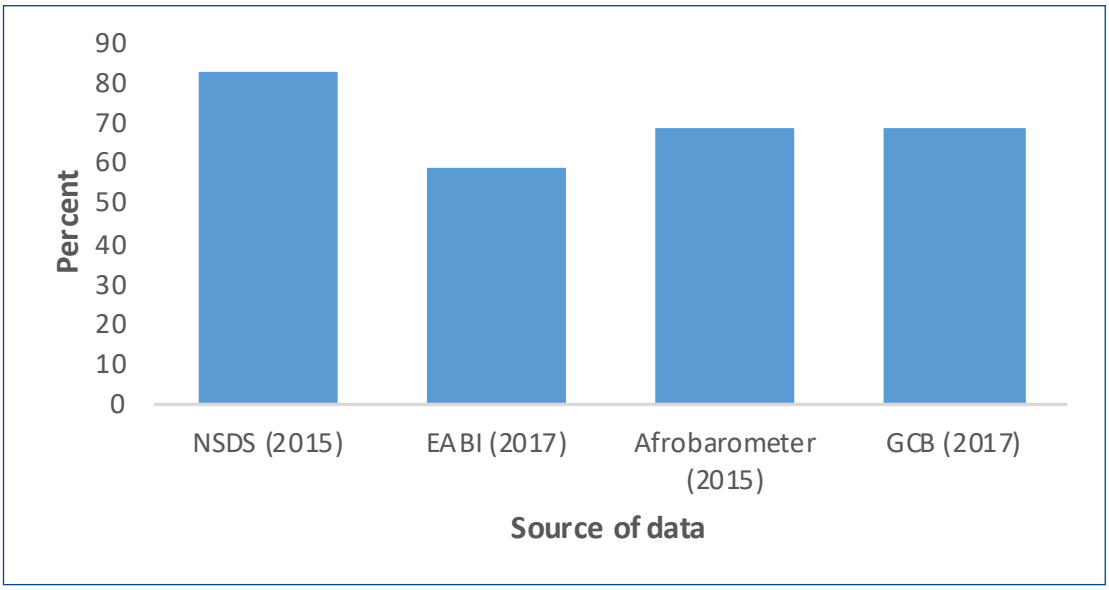
iv. Political Willingness to Combat IFFs

While Uganda has relatively well developed anti-IFFs institutions, laws, and strategies (see Section IV for further discussion), their impact is limited in the absence of political will and public support.

Corruption

The 2015 National Service Delivery Survey by UBOS reported that about 83 percent of respondents believe that corruption is on the rise in Uganda (see Figure 5).[31] These findings are consistent with the Afrobarometer report by Liebowitz et al. from 2015.[32] The 2017 East Africa Bribery Index (EABI) survey by TI showed that the proportion of respondents that perceived Uganda to have increasing levels of corruption is at 69 and 59 percent respectively.[33] Similarly, Transparency International found that 69 percent of the respondents perceived corruption to be on the rise. This practice has led to apathy and pessimism from the public about government effectiveness in combating corruption.[34]

FIGURE 5: Perception of Increased Corruption (%)

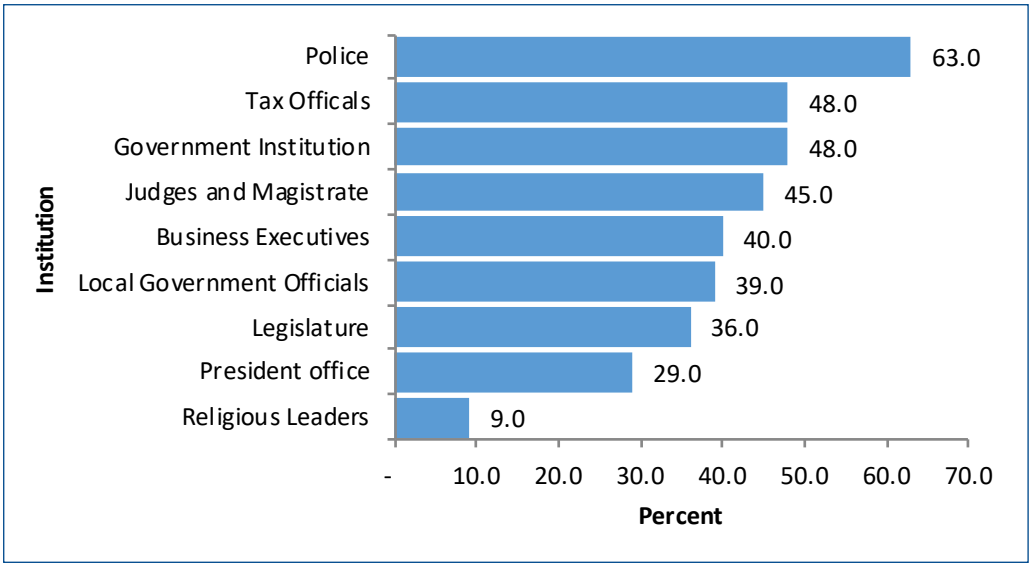


Source: UBoS, Transparency International, and Afrobarometer

Current public perception is that corrupt behavior, even within intuitions that are supposed to be fighting corruption, goes unpunished. Furthermore, eight in every ten service providers think that corruption in public procurement is pervasive and is believed to be worsening with time. The police, tax officers, government Institutions and Judiciary (judges and magistrates) are perceived as the most corrupt institutions in Uganda (see Figure 6).

[31] UBOS, 2016
[32] Liebowitz et.al., 2015
[33] Transparency International, 2017
[34] Transparency International, 2017(a)

FIGURE 6: Perceived Institutional Corruption (%)



Source: Transparency International and Afrobarometer

According to Liebowitz et al., close to 41 percent of Ugandans payed a bribe to police to obtain assistance.[35] Similarly, the PPDA 2016 public procurement surveys show that 24 percent of providers in 2015 payed a bribe to public officers to win contracts, which has worsened from 21 percent in 2009.[36] Grand corruption is common among the police, judiciary, and in public procurement. Businesses are particularly vulnerable when bidding public contracts in Uganda because processes are often non-transparent, and illegal cash payments are demanded from businesses. Table 3 shows examples of grand corruption and the amounts of illicit flows involved.

TABLE 3: Examples of Corruption Scandals Involving Capital Flight From Uganda

Name of scandal	Year	Amount Involved
CHOGM Summit	2007	UGX 500 Billion
Global Fund	2008	US$10 – US$37 Million
Temangalo	2008	UGX 11 Billion
UNRA Scandal	2008	UGX 1 Trillion
ID Scandal	2010	UGX 150 Billion
Local Government bicycles	2011	US$ 1.7 Million
Micro- finance	2011	UGX 60 Billion
Basajjabalaba compensation	2011	UGX 169 Billion
Pension Scandal	2012	UGX 169 Billion
OPM Scandal	2012	UGX 5 Billion

Source: Nine corruption scandals to look back New Vision, 11th November 2012

[35] Liebowitz et al., 2015
[36] PPDA, 2016

Some economists look at the Errors and Omissions component within Balance of Payments accounts as possibly suggestive of or including some elements of corruption. Errors and Omissions is a balancing entry used when sources and uses of funds do not match. Such an imbalance can stem from poor accounting, the disappearance of funds, entry errors, and other causes.

Uganda's Errors and Omissions have been substantial over the years. Table 4 presents estimates for 2008-2017 using BoU data. The net of these figures across the ten years is almost US$3 billion. At a minimum, such magnitudes indicate a need for much more accurate accounting within government departments and state-owned enterprises.

TABLE 4. Net Errors and Omissions In Uganda Balance of Payments Accounts (USD Millions), 2008-2017

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
106.28	-245.06	499.67	486.89	549.13	630.67	462.41	301.31	-109.83	253.86

Data Source: Bank of Uganda

Influence of Aid and Debt on the Politics of Uganda

In 2006, Uganda's debt was written off, which enabled the country to graduate from highly-indebted poor country (HIPC) status and to reduce its reliance on donors.[37] As mentioned earlier, Uganda discovered significant amounts of oil in 2006, which put the country in a position to increase the proportion of the public expenditure funded from domestic revenues (Hickey 2013).[38]

The identification of untapped oil reserves in the Albertine area has attracted investments worth US$3 Billion from China, Libya, and Iran, as well as from oil companies from France, Britain, and Ireland. More importantly, China has become the lead investor in Uganda with a hand in most key sectors such as trade, investment, water conservation, agriculture, infrastructure, telecommunications, energy, textiles, human resource development, and agro-processing.

Ugandans remain wary of the impact of Chinese financing, particularly regarding the risk of IFFs, increased indebtedness, and taking on supply- rather than demand-led projects. The risk of IFFs is elevated by the fact that it is difficult to track China's development assistance, not least because it is not a member of OECD-DAC and does not attend joint donor meetings. Also, Chinese aid is given with relatively few conditions attached beyond a preference for the use of labor and materials imported from China.[39]

[37] Reliefweb, 2005
[38] Hickey, 2013
39 EPRC, 2007

III. ESTIMATES OF POTENTIAL TRADE MISINVOICING IN UGANDA, 2006-2015

There are three categories of illicit financial flows: commercial, criminal, and corrupt. Data is not available to estimate the magnitudes of IFFs that stem from crime (excluding tax evasion) or corruption. Section II presented the political economy analysis, which includes all three categories of IFFs.

This section of the study reports quantitative estimates of potential trade misinvoicing (TM) in Ugandan commercial trade. TM is the willful falsification of the value, volume and/or quality of an international transaction of goods or services by at least one party to the trade. TM is one subclass of illicit financial flows (IFFs) between countries. Because such illicit flows represent a diversion of economic resources from their most productive social use, they represent social costs to the countries where they proliferate. In developing and emerging economies striving to achieve sustainable growth in living standards, such as Uganda, those social costs can be a significant portion of total economic capacity and, as such, they impede progress on social objectives like poverty reduction and the achievement of more inclusive growth.

In this chapter, GFI reports on the results of its analysis of Ugandan trade over the 2006-2015 period. Overall, GFI finds that potential TM amounted to about 18 percent of total Ugandan trade over the ten-year period (2006-2015). TM outflows from Uganda amounted to some 10 percent of total Ugandan trade (i.e., exports plus imports) over the ten-year period, while potential TM inflows into Uganda were slightly smaller, amounting to 8 percent of total trade. Viewed another way, the potential over- and under-invoicing of commercial imports from 2006-2015 amounted to some US$4.9 billion, and the potential under- and over-invoicing of exports amounted to roughly US$1.7 billion.

These figures, inexact by their very nature, should be taken as broadly indicative of a significant problem in Uganda, as it is in many emerging market and developing countries. While precision in measuring illicit flows is impossible, GFI regards those estimates to be very conservative owing to 1) a number of assumptions used in the estimation process and 2) aspects of trade misinvoicing that are not covered in the data. The estimates that are presented in this section suggest that social costs associated with TM in Uganda are likely to be significant and, therefore, curtailing TM should be a focus for Ugandan policymakers.

The report is organized as follows. An overview of the data and methods used by GFI in estimating potential TM is provided in section A below. The estimates are summarized in section B and some implications of the results for policy and further research are presented in section C. Detailed descriptions of the methods and data used in this study are presented in a Technical Appendix.

i. Overview of Data and Methods

The basic data underlying the estimates are the bilateral trade reports made by Uganda and its trade partners as compiled in the United Nation's Comtrade (UNCT) database for the years 2006 to 2015. The analysis relies critically on the "trade gap"—the difference between Uganda's report of the value of an import (export) of a particular commodity and the partner country's report of the value of the associated export (import). This approach is often referred to as the partner-country method (PCM) or, equivalently, "mirror trade" analysis.

Trade gaps in bilateral trade data can arise for a variety of legitimate reasons as well as TM, and GFI's analysis attempts to identify the effects of some of those legitimate factors. For this reason, we term the estimated values as potential TM, to emphasize the remaining uncertainty in the estimate. A detailed description of the steps GFI took to make its estimates of potential TM as precise as possible is provided in the Technical Appendix.

The Ugandan reported trade data from the UNCT database are compared with merchandise trade aggregates reported by the Bank of Uganda (BoU) on a balance of payments basis in Table 5, "Uganda Merchandise Trade Flows 2006-2015," over the same ten-year period. Because of the different methods used in compiling the two sets of trade flow aggregates, some differences between the UNCT and BoU flows (columns [1] and [3], respectively) are to be expected.

That said, the differences between the UNCT and BoU trade aggregates are substantially larger for exports than they are for imports. While Uganda's imports reported to UNCT (on a "cost insurance and freight," or CIF basis) are about 7 percent below the estimates published by the BoU, Uganda's exports (reported on a "free on board," or FOB basis) average about 25 percent below the corresponding BoU estimates over the ten-year period. Furthermore, the differences between the data on aggregate export flows appear to be largely a "levels" effect: the average annual percent rates of growth are strikingly similar in the two export series (9.4 percent for BoU and 9.5 percent for UNCT over the ten-year period).

It's also noteworthy that the BoU import aggregates (reported on both a CIF and an FOB basis) imply transport margins on imports that are substantially higher than the margins GFI has estimated for Uganda using UNCT data. Over the ten-year period, the margins for Uganda implied by the BoU trade data average over 21 percent (i.e., the excess of CIF over FOB value as a percent of FOB value) while GFI's statistical estimates average just under 11 percent. Understanding the source of this difference would require a deeper exploration of the BoU estimates, which is beyond the scope of this study.

Perhaps the most important difference between the two databases, however, is that the UNCT data are necessarily less comprehensive than the BoU trade aggregates. This is because the compilation of the bilateral data is based on country-by-country reports and reports on trade of particular commodities between two countries in a particular year may not be complete (possibly because one country reports with a lag, or does not report its side of a trade at all). The Partner Country Method approach used here to estimate potential TM can be implemented only using "matched"

Table 5: Uganda Merchandise Trade Flows, 2006-2015

	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]	[12]
	Bank of Uganda		UN-Comtrade									
					Detail							
					Matched		Orphaned		Other		Lost Flows	
Year	Total reported ($US, mn)	Transport margin for imports (reported)	Total reported ($US, mn)	Transport margin for imports (estimated)	% of total	$US, mn	% of total	$US, mn	% of total	$US, mn	% of total	$US, mn
Imports (CIF)												
2006	$2,635	18.9%	$2,557	10.0%	58%	$1,493	40%	$1,031	1%	$33	18%	$454
2007	$3,543	19.8%	$3,369	10.4%	62%	$2,096	35%	$1,165	3%	$108	23%	$785
2008	$4,842	19.8%	$4,526	10.5%	68%	$3,100	29%	$1,311	3%	$115	19%	$879
2009	$4,616	20.4%	$4,250	10.3%	57%	$2,437	39%	$1,638	4%	$175	18%	$778
2010	$5,328	21.8%	$4,668	10.0%	56%	$2,612	37%	$1,725	7%	$331	16%	$749
2011	$6,094	22.0%	$5,630	11.1%	49%	$2,754	48%	$2,674	4%	$201	21%	$1,177
2012	$6,441	22.4%	$5,825	11.4%	56%	$3,241	38%	$2,211	6%	$373	22%	$1,269
2013	$6,090	22.4%	$5,778	10.4%	70%	$4,030	26%	$1,493	4%	$255	19%	$1,085
2014	$6,162	20.8%	$6,126	11.2%	61%	$3,709	37%	$2,262	3%	$155	18%	$1,072
2015	$6,053	22.2%	$5,549	11.4%	62%	$3,413	36%	$2,007	2%	$129	19%	$1,042
Total	**$51,804**	**21.3%**	**$48,277**	**10.7%**	**60%**	**$28,884**	**36%**	**$17,517**	**4%**	**$1,875**	**19%**	**$9,290**
Exports (FOB)												
2006	$1,188		$926		49%	$458	49%	$454	1%	$14	111%	$1,031
2007	$1,776		$1,299		38%	$498	60%	$785	1%	$16	90%	$1,165
2008	$2,208		$1,673		46%	$775	53%	$879	1%	$18	78%	$1,311
2009	$2,327		$1,465		45%	$654	53%	$778	2%	$33	112%	$1,638
2010	$2,164		$1,545		50%	$766	48%	$749	2%	$30	112%	$1,725
2011	$2,519		$2,055		41%	$838	57%	$1,177	2%	$40	130%	$2,674
2012	$2,810		$2,102		38%	$790	60%	$1,269	2%	$43	105%	$2,211
2013	$2,829		$2,244		50%	$1,128	48%	$1,085	1%	$32	67%	$1,493
2014	$2,725		$2,080		46%	$966	52%	$1,072	2%	$42	109%	$2,262
2015	$2,667		$2,094		47%	$991	50%	$1,042	3%	$60	96%	$2,007
Total	**$23,212**		**$17,483**		**45%**	**$7,863**	**53%**	**$9,290**	**2%**	**$330**	**100%**	**$17,517**

Sources: Bank of Uganda and United Nations Comtrade database. Imports are reported on a "cost-insurance-freight" (CIF basis. The transport margins for imports (i.e., the ratios of the CIF basis imports to imports valued on a "free on board" (FOB) basis) were calculated from data reported by the Bank of Uganda and estimated from Comtrade imports covering the entire UNCT database over the period 2000-2015 along with geographical data reported by the Centre D'Études Prospectives et d'Informations Internationales (CEPII, see Gaulier and Zignano(2010)) and regional trade agreement data developed in Baier, Bergstand and Feng(2014).

Notes: Matched flows correspond to those Comtrade records for which the following three criteria hold: (1) non-zero values for the trade are reported by both Uganda and its trade partner; (2) non-zero volumes for the trade are reported by both Uganda and its partner; and, (3) volumes are reported in the same physical units for both Uganda and its partner. "Orphaned" flows correspond to those Comtrade records in which Uganda-reported imports (exports) have no matching partner-reported exports(imports) for a particular commodity in the same year. "Other" corresponds to those Comtrade records which are matched in the sense of matching criterion (1) above but fail on either of criteria (2) and (3) or both. That is, those records that indicate non-zero mirror values but at least one country in the mirror pair does not report volumes or, if it does report volumes, reports in different physical units from its partner in that trade. Finally, "lost" flows are those Comtrade records in which the Uganda no imports (exports) but the partner country reports exports (imports); those lost flows are not included in the country-reported totals in the table.

trade reports (i.e., recall that the trade gap depends on the difference between an importing country's reported value of a trade and the corresponding exporting country's reported value of the same trade). There are several types of non-matched trade records arising in UNCT. An import (export) record might be designated as "orphaned" if the corresponding partner country export (import) is missing. Or, an import (export) might be designated as "lost" if the importing (exporting) country's report is missing while exporting (importing) country's side of the transaction is recorded.

Only a fraction of the Ugandan-reported trade in UNCT is available for the PCM analysis. Moreover, from column [5] of Table 5, it's evident that a higher proportion of Uganda's import reports to UNCT are matched (60 percent of the total value of imports) than Uganda's export reports (45 percent of the total value of exports). About 36 percent of imports in value terms reported by Uganda have no corresponding values reported by the exporting partner and 53 percent of export values reported by Uganda have no corresponding values reported by the importing partners—those flows are termed "orphaned" (column [7] of Table 5).

In addition to those "orphaned" trade flows, partner country reports allow an estimate of "lost" trade flows: import values not included in Uganda's reporting but recorded in the partner country's exports and exports not reported by Uganda but recorded as imports by partner countries. Those lost trade flows could arise for legitimate reasons (e.g., an export recorded by one country in particular calendar year may not be received and recorded by the importing country till the following calendar year). However, the magnitude of lost exports is significantly larger than the magnitude of lost imports (Table 5, column [10]), suggesting that export reporting is substantially less accurate than import reporting. This pattern is fairly pervasive of all trade reporting worldwide and not unique to Ugandan customs reporting. However, it suggests that our calculations of export gaps for Uganda may be inherently less reliable than the estimates of import gaps.

These irreconcilable differences in the basic trade flows have implications for how we report estimated potential TM. While we report dollar magnitudes of estimated potential TM for completeness, we highlight our estimates of potential TM as a percentage of total matched trade (i.e., the trade totals underlying the TM estimates). GFI suggests that this approach to reporting and interpreting the estimates may be more useful.

ii. Overview of Estimated Potential TM

GFI's estimates of potential TM in Ugandan trade based on the UNCT data suggest that TM is significant and persistent over the 2006-2015 period. Potential TM appears about evenly divided between under- and overvalued imports, each amounting to about 9.5 percent of total matched imports reported by Uganda. On the export side, estimated potential TM appears to be more concentrated toward undervaluation (estimated at 14.6 of total matched exports reported by Uganda) but estimates of over-valued exports are significant as well (6.6 percent of matched exports reported by Uganda). Because of the aforementioned limits on the extent of Uganda's export reports, those results should be interpreted with caution as they are likely less robust than the estimates for import TM.

TABLE 6A. Summary of Estimates of Potential Misinvoicing for Ugandan Imports, 2006-2015

	[1]	[2]	[3]	[4]	[5]	[6]	[7]
		Potential Mis-invoicing (weighted)					
	Total Matched ($mn)	Under		Over			
		% of total	$US, mn	% of total	$US, mn	CIF/FOB (%)	Weight (%)
All Years, Commodities, Partners	$28,884	8.6%	$2,485	8.5%	$2,461	10.7%	23.4%
By commodity (top 15 ranked by value of trade)							
Rank	*HS2*	*Description*					
1	27	Mineral fuels	$4,167	1.1%	$44	2.4%	$98	11.8%	3.7%
2	87	Vehicles	$3,581	5.4%	$193	17.7%	$635	9.1%	39.7%
3	85	Electical machinery	$2,515	10.3%	$259	11.5%	$289	10.5%	27.4%
4	84	Machinery	$2,264	11.3%	$256	9.2%	$207	10.1%	22.7%
5	30	Pharmaceuticals	$1,872	12.3%	$230	9.1%	$171	10.5%	30.2%
6	72	Iron and steel	$1,250	4.9%	$62	6.5%	$81	11.7%	20.9%
7	39	Plastics	$1,107	9.7%	$107	11.4%	$127	11.1%	28.8%
8	10	Cereals	$895	3.4%	$31	21.7%	$194	13.2%	33.0%
9	48	Paper and paperboard	$612	10.0%	$61	8.9%	$54	10.6%	25.6%
10	17	Sugars	$577	7.0%	$40	10.1%	$58	12.2%	15.0%
11	15	Edible oils, waxes	$548	2.1%	$12	2.9%	$16	13.1%	5.6%
12	63	Worn clothing	$533	23.9%	$127	5.9%	$32	11.7%	34.6%
13	73	Iron and steel articles	$499	12.9%	$65	11.4%	$57	11.7%	28.6%
14	25	Salt, stone, cement	$440	23.4%	$103	1.2%	$5	6.9%	49.6%
15	38	Chemical products, misc.	$388	14.1%	$55	10.9%	$42	11.2%	26.7%
By trade partner (top 25 ranked by value of trade)							
Rank	*Code*	*Country*					
1	699	India	$5,961	5.0%	$300	6.9%	$409	12.4%	15.1%
2	156	China	$3,346	15.0%	$503	7.8%	$262	12.9%	23.7%
3	404	Kenya	$2,689	18.1%	$486	4.9%	$132	4.9%	44.3%
4	392	Japan	$2,369	3.0%	$70	19.9%	$470	9.4%	40.8%
5	784	United Arab Emirates	$1,829	2.9%	$54	3.6%	$66	12.2%	7.1%
6	710	South Africa	$1,654	10.4%	$172	11.3%	$186	11.3%	28.8%
7	826	United Kingdom	$781	12.9%	$101	13.6%	$106	8.8%	27.8%
8	842	USA	$599	9.4%	$56	14.4%	$86	11.5%	25.7%
9	276	Germany	$569	18.5%	$105	10.5%	$60	8.9%	29.5%
10	251	France	$546	20.2%	$110	8.0%	$43	9.3%	28.2%
11	528	Netherlands	$443	9.5%	$42	9.1%	$40	9.3%	19.8%
12	458	Malaysia	$429	2.3%	$10	4.2%	$18	14.0%	7.1%
13	682	Saudi Arabia	$398	0.7%	$3	20.1%	$80	12.0%	37.6%
14	834	United Rep. of Tanzania	$374	15.2%	$57	8.1%	$30	5.2%	24.4%
15	643	Russian Federation	$336	1.8%	$6	25.9%	$87	13.9%	42.1%

Sources: GFI calculations based on data from United Nations Comtrade. Ranks are based on the value of matched imports as reported on a "cost-insurance-freight" (CIF) basis but are reported in the table on an estimated "free on board" (FOB) basis. The transport margins for imports (i.e., the ratios of the CIF basis imports to imports valued on an FOB basis) were estimated using imports covering the entire UNCT database over the period 2000-2015 along with geographical data reported by the Centre D'Études Prospectives et d'Informations Internationales (CEPII, see Gaulier and Zignano(2010)) and regional trade agreement data developed in Baier, Bergstand and Feng(2014).

Notes: Matched flows correspond to those Comtrade records for which the following three criteria hold: (1) non-zero values for the trade are reported by both Uganda and its trade partner; (2) non-zero volumes for the trade are reported by both Uganda and its partner; and, (3) volumes are reported in the same physical units for both Uganda and its partner.

Imports

GFI's estimates of potential TM for Ugandan imports are summarized in Table 6a "Summary of Estimates of Potential Misinvoicing for Ugandan Imports 2006-2015." In addition to the overall average, estimated potential TM is itemized for the top 15 classes of commodities (HS 2-digit detail) and the top 15 countries from which Uganda imports goods, in each case, ranked by overall importance to Ugandan imports. The top 15 commodity imports represent about 82 percent of the value of total matched imports, while the top 15 partner countries represent about 86 percent of matched imports reported by Uganda.

Among the top 15 commodity imports, potential under-valuation appears most acute for worn clothing (HS2-63, 23.9 percent of sampled imports); salt, stone and cement (HS2-25, 23.4 percent of sampled imports); chemical products (HS2-38, 14.1 percent of sampled imports); and, pharmaceuticals (HS2-30, 12.3 percent of sampled imports). Potential over-valuation of imports appears to be significant for cereals (HS2-10, 21.7 percent of sampled imports); vehicles (HS2-87, 17.7 percent of sampled imports); electrical machinery (HS2-85, 11.5 percent of sampled imports); plastics (HS2-39, 11.4 percent of sampled imports); and, iron and steel articles (HS2-73, 11.4 percent of sampled imports).

Among the top 15 countries from which Uganda imports commodities, potential under-valuation appears to be substantial with France (20.2 percent of sampled imports); Germany (18.5 percent of sampled imports); Tanzania (15.2 percent of sampled imports); Kenya (18.1 percent of sampled imports); and, China (15.0 percent of sampled imports). Potential over-valuation of imports appears most significant in Ugandan imports from Russia (25.9 percent of sampled imports); Saudi Arabia (20.1 percent of sampled imports); and, Japan (19.9 percent of sampled imports).

Exports

The estimates for potential TM on Ugandan's export trade are summarized in Table 6b "Summary of Estimates of Potential Misinvoicing for Ugandan Exports 2006-2015." Analogous to Table 6a, the rankings of commodities and export partners are developed with reference to their importance in total Ugandan export trade. The top 15 commodity exports reported represent about 88 percent of the value of total matched exports, while the top 15 partner countries represent about 98 percent of matched exports reported by Uganda.

Among the top 15 commodity exports, potential under-valuation appears to be most acute for miscellaneous grains, seeds and fruits (HS2-12, 37.2 percent of sampled exports); cocoa (HS2-18, 31.1 percent of sampled exports); coffee, tea and spices (HS2-9, 18.0 percent of sampled exports); cereals (HS2-10, 29.0 percent of sampled exports); and, tobacco (HS2-24, 20.7 percent of sampled exports). Potential over-valuation of exports appears to be substantial for iron and steel (HS2-72, 13.9 percent of sampled exports); fish, crustaceans and related goods (HS2-3, 10.3 percent of sampled exports); iron and steel articles (HS2-73, 9.6 percent of sampled exports); sugars (HS2-17,

TABLE 6B. Summary of Estimates of Potential Misinvoicing for Ugandan Exports, 2006-2015

	[1]	[2]	[3]	[4]	[5]	[6]	[7]
		Potential Mis-invoicing (weighted)					
	Total Matched ($mn)	Under		Over			
		% of total	$US, mn	% of total	$US, mn	CIF/FOB (%)	Weight (%)
All Years, Commodities, Partners	$7,863	15.1%	$1,187	6.8%	$535	9.0%	31.1%
By commodity (top 15 ranked by value of trade)							
Rank	*HS2*	*Description*					
1	9	Coffee, tea, spices	$3,207	18.0%	$577	4.4%	$142	10.1%	31.3%
2	3	Fish, crustaceans, etc.	$799	14.4%	$115	10.3%	$82	9.8%	43.4%
3	24	Tobacco	$465	20.7%	$96	9.1%	$42	8.1%	41.9%
4	15	Edible oils, waxes	$444	3.8%	$17	8.9%	$39	5.7%	32.9%
5	25	Salt, stone, cement	$422	14.5%	$61	2.2%	$9	6.6%	49.1%
6	72	Iron and steel	$279	2.3%	$6	13.9%	$39	6.3%	24.7%
7	18	Cocoa	$236	31.1%	$74	5.8%	$14	10.9%	37.9%
8	12	Misc. grains, seeds, fruit	$194	37.2%	$72	5.4%	$10	11.4%	45.1%
9	34	Soaps, waxes, etc.	$143	4.4%	$6	7.7%	$11	5.8%	48.9%
10	41	Raw hides, leather	$131	16.8%	$22	5.7%	$8	12.1%	28.1%
11	10	Cereals	$112	29.0%	$32	6.9%	$8	6.5%	21.1%
12	17	Sugars	$97	1.3%	$1	9.3%	$9	5.9%	19.8%
13	73	Iron and steel articles	$90	4.9%	$4	9.6%	$9	6.1%	16.7%
14	84	Machinery	$78	5.4%	$4	8.9%	$7	3.6%	16.9%
15	39	Plastics	$73	5.3%	$4	7.8%	$6	7.5%	23.3%
By trade partner (top 25 ranked by value of trade)							
Rank	*Code*	*Country*					
1	646	Rwanda	$1,600	8.1%	$129	6.7%	$108	5.8%	30.8%
2	757	Switzerland	$984	0.1%	$1	0.9%	$9	10.2%	1.5%
3	404	Kenya	$773	5.8%	$45	8.8%	$68	5.0%	20.8%
4	276	Germany	$724	23.8%	$172	1.9%	$14	10.2%	58.1%
5	56	Belgium	$587	14.4%	$85	6.3%	$37	10.3%	51.7%
6	528	Netherlands	$534	10.1%	$54	4.4%	$24	10.2%	22.4%
7	381	Italy	$456	24.5%	$112	1.4%	$6	9.7%	47.7%
8	724	Spain	$367	17.4%	$64	1.8%	$6	10.1%	52.7%
9	108	Burundi	$354	5.0%	$18	13.2%	$47	8.1%	25.8%
10	736	Fmr Sudan	$333	0.3%	$1	18.8%	$63	7.1%	43.3%
11	834	United Rep. of Tanzania	$308	10.0%	$31	12.0%	$37	4.8%	26.9%
12	826	United Kingdom	$289	1.8%	$5	6.1%	$18	10.5%	14.3%
13	842	USA	$243	24.4%	$59	2.0%	$5	12.0%	59.2%
14	251	France	$218	33.2%	$72	1.2%	$3	10.2%	45.3%
15	156	China	$202	33.7%	$68	2.9%	$6	13.7%	52.3%

Sources: GFI calculations based on data from United Nations Comtrade. Ranks are based on the value of matched exports as reported on a "free on board" (FOB) basis. The transport margins for partner-country imports (i.e., the ratios of the CIF basis imports to imports valued on an FOB basis) were estimated using imports covering the entire UNCT database over the period 2000-2015 along with geographical data reported by the Centre D'Études Prospectives et d'Informations Internationales (CEPII, see Gaulier and Zignano(2010)) and regional trade agreement data developed in Baier, Bergstand and Feng(2014).

Notes: Matched flows correspond to those Comtrade records for which the following three criteria hold: (1) non-zero values for the trade are reported by both Uganda and its trade partner; (2) non-zero volumes for the trade are reported by both Uganda and its partner; and, (3) volumes are reported in the same physical units for both Uganda and its partner.

9.3 percent of sampled exports); machinery (HS2-84, 8.9 percent of sampled exports); and, edible oils and waxes (HS2-15, 8.9 percent of sampled exports).

Among the top 15 countries to which Uganda exports commodities, potential under-valuation appears to be significant with China (33.7 percent of sampled exports); France (33.2 percent of sampled exports); Italy (24.5 percent of sampled exports); the United States (24.4 percent of sampled exports); and, Germany (23.8 percent of sampled exports). Potential over-valuation of exports appears most acute in Ugandan exports to the former Sudan (18.8 percent of sampled exports); Burundi (13.2 percent of sampled exports); Tanzania (12.0 percent of sampled exports); and, Kenya (8.8 percent of sampled exports).

iii. Implications for Policy and Further Research

Estimates of the magnitude of potential TM in Ugandan trade are broadly indicative of the scale of the social costs inherent in such trade. While the UNCT database provides a subsample of total Ugandan trade, recent research suggests that UNCT-based analysis of TM risk are a good approximation to similar methods applied to even more detailed trade data maintained by national customs authorities.

Even so, there are limits to what can be identified as TM using such data and methods. The trade gaps used to estimate the potential scale of TM may also continue to reflect legitimate factors, despite the adjustments made to identify such factors. Additionally, the estimates of potential TM based on the trade gap will not generally pick up trade fraud related to same-invoice faking or capture every form of trade misinvoicing in which corporations may engage. Furthermore, to the extent that the estimates do reflect TM, the trade gaps alone provide no information as to the motivation for illicit activity—they would simply reflect movement of value into or out of Uganda. Finally, by themselves, the trade gaps provide no indication as to which side of the trade is most responsible for the indication of TM.

While beyond the scope of this study, additional analysis using related data might help shed light on some of these questions. More detailed Ugandan data might be used to further clarify the risks of TM in Ugandan trade and additional data proxies for TM incentives (e.g., detailed tariff schedules, country-specific income tax rates as well as other series) could be used to help identify significant factors underlying the estimates of potential TM.

Beyond the indication of TM at a possibly significant scale, the estimates can be used to curtail the social costs to Uganda's citizens that are implied by TM. The estimates of potential TM for particular commodities, particular trade partners and combinations thereof can be interpreted as indications of TM risk for particular types of trades. For example, particular trades can be associated with heightened risk of TM and that information can be used by customs authorities to sharpen their scrutiny of such transactions. To the extent such enhanced scrutiny helps curtail TM, the scope for sustainable and inclusive growth is widened.

IV. LAWS AND REGULATIONS COVERING ILLICIT FINANCIAL FLOWS IN UGANDA

Section IV is a legal and policy analysis of Uganda's laws and regulations on financial transparency and anti-money laundering, which have the strongest influence on illicit financial flows (IFFs).[40] The section examines the extent to which Uganda's legal framework addresses and contributes to the prevention of IFFs. This portion of the report identifies gaps in the framework the Government of Uganda has in place to address the sources, transfer methods, and motivations of IFFs in the country, through desk research and in-country interviews. It reviews the national legal, policy and regulatory framework, as well as regional integration arrangements and tax treaties that Uganda is party to, for the extent to which they contribute to or prevent IFFs. What qualifies as a predicate offense for money laundering? How much is known about the ultimate owners of companies doing business and moving money in Uganda? Is trade misinvoicing explicitly illegal? These are examples of the questions answered in this portion of the report. The time period this work covers is 2008-2017, as well as capturing pertinent developments from the first two quarters of 2018.

i. Financial Transparency

A core characteristic of transactions linked to IFFs is the use of various mechanisms to maintain opacity in financial information of the entities involved and the nature of their transactions. This subsection analyzes the legal and policy framework relating to commercial practices that support IFFs, including trade misinvoicing, abusive transfer pricing, and base erosion and profit shifting. These practices largely involve multinational companies (MNCs) and both domestic and foreign limited liability companies (LLCs), hence the regulatory regime affecting MNCs and other business types is examined to establish the extent to which legislation or policy promotes opacity or transparency, for example with respect to beneficial ownership, taxation and trade, foreign direct investment, and mergers and acquisitions.

ii. Beneficial Ownership

The concept of beneficial ownership is linked to the use of special purpose vehicles such as anonymous shell companies, nominee shareholders or directors, and multiple layers of interposed ownership structures to hide the identity of their actual ownership, allowing these entities to operate without scrutiny of law enforcement, regulators, or the public. This may be done to legally avoid taxes, to facilitate criminal behavior such as money laundering, to *illegally* evade taxes, and to engage in corruption. Anonymous shell companies have been identified as core vehicles for IFFs and money laundering.

Laws governing corporations in Uganda are generally weak in so far as they do not oblige the registrars to rigorously inquire into the identity of shareholders. For instance, the Companies Act provides for incorporation by subscription of names of the shareholders to the memorandum of association.[41] The owners need not appear before the Registrar or furnish their formal identification

[40] Drawing upon the body of work of Global Financial Integrity
[41] Sections 4(1) and 8

for verification. The Act permits beneficial ownership of companies by proxies, trustees and personal representatives which in effect legitimizes concealment of the real business controllers and beneficiaries.[42] Further, it limits the mandate to lift the corporate veil to the High Court.[43] As a result, this procedural bureaucracy disempowers the Registrars from investigating and unbundling companies that fraudulently structure ownership of local companies.

The Act also requires companies to have a registered office and address without requiring it to set up a presence in Uganda.[44] This implies that a company can be incorporated locally to enjoy all the benefits of a local company such as ownership of land in perpetuity, but not have any presence set up or investment made locally, thus facilitating capital drain. The exemptions made by the Companies Act from the onus to lay group accounts before holding or subsidiary companies further permit concealment of critical financial information by group companies from their local subsidiaries thereby leaving room for illicit revenue leakages and capital flight.[45] Again, the Companies Act confers loose and weak investigative powers on the Registrar in cases of fraudulent submission or concealment of data by companies. Where a company is found in default, the recourse is for the Registrar to write to the Court, Attorney General and Director of Public Prosecution rather than to act as a quasi-court with disciplinary or supervisory powers of enforcement on compliance.[46]

The Act permits a company to extend financial assistance for the purchase of its shares or those of its holding company, which opens the door to aggressively complex corporate insider-lending with a view to minimizing scales of taxable income to be declared.[47] It prescribes a rather light and non-deterrent penalty of only 25 currency points for default on issuing certificates as proof of shareholding.[48] This is insufficient disincentive for companies to conceal the identity and status of some unscrupulous shareholders who can still vote and control the business through proxies.[49] Furthermore, financial assistance provisions enable foreign shareholders to over-burden the local subsidiaries with massive shareholder loans and fraudulently transfer profit offshore under the guise of intra-group lending.[50]

The importance of these provisions is to undermine transparency with respect to beneficial ownership of corporate entities. The legislative gaps result in face-value registration of the legal owners as shareholders, thereby shielding the beneficial owners from scrutiny and compliance obligations. The trustees and proxies cover the actual business controllers, whilst still executing their principals' desired objectives of siphoning and facilitating outflows.

---

[42] Section 48
[43] Section 20
[44] Section 115
[45] Under Sections 157-161
[46] Sections 173-182
[47] Sections 63 and 65
[48] Section 91(3)
[49] Under Section 143 of the Act
[50] As reported in "Calling Time: Why SABMiller Should Stop Dodging Taxes in Africa", ActionAid International, 2012

iii. Taxation Law

In Uganda, every citizen has a constitutional duty to pay taxes, as set by Acts of Parliament.[51] The importance of taxation to support good governance and development and reduce reliance on official development assistance (ODA) and large external debt cannot be overstated. This necessitates a robust tax regulatory framework that not only is fair, predictable, comprehensive and progressive but in relation to IFFs, also eliminates tax leakages and deters criminality. Uganda's tax system is generally classified by tax experts, scholars and civil society actors as regressive with a disproportionately higher tax burden on poor people that leaves out many richer entities.

The Income Tax Act imposes tax at specific rates on persons with chargeable income for a year of income.[52] A legal person includes an individual, a partnership, a trust, a company, a retirement fund, a government, a political subdivision of a government, and a listed institution.[53] Chargeable income is the gross income of the person for the year minus total deductions allowed under the Act.[54]

Every Local Authority, Government institution or regulatory body is obliged to require a TIN (Tax Identification Number) from any person applying for a license or any form of authorization for purposes of conducting any form of business. This gives URA the opportunity to determine whether or not the concerned taxpayer is compliant. In this way, the provision contributes to financial transparency, hence preventing IFFs. Non-compliance in registering and paying taxes due is also deterred by the imposition of penalties and prescription of offences, again contributing to financial transparency.[55] On tax avoidance, Uganda has anti-avoidance and thin capitalization rules, which empowers URA to re-characterize business transactions that enable tax leakages. The foregoing provisions, however, do not deter commercial malpractices entirely, which range from trade misinvoicing and abusive transfer pricing to tax evasion and money laundering.

Despite Uganda's extensive tax legislative framework, not all money generated in the economy gets declared for tax purposes. Persons and businesses that make money from criminal activities or that receive corruption payments, for example, are unlikely to report these illegal schemes on their tax forms. Only those proportions invested in formal businesses end up being declared to the Uganda Revenue Authority (URA), the government body mandated to assess and collect specified revenue, enforce laws relating thereto, and provide for related matters.[56]

Another aspect of under-collection of taxes in Uganda stems from abusive transfer pricing by MNCs and their subsidiaries. Abusive transfer pricing refers to the manipulation of prices charged by different arms of the same MNC to each other for goods, services, and financing, which can artificially reduce the taxable income in high tax jurisdictions and artificially inflate the taxable income reported in low tax jurisdictions.[57] To curb this malpractice, the 2011 Transfer Pricing Regulations were developed to require associates to price their transactions as if they are

[51] Articles 17(1)(g) and 152(i)
[52] S.4 ITA Cap 340
[53] Interpretation Section, ITA, Cap 340
[54] Section 15 ITA
[55] Parts xiv and xv, TPC Act 2014
[56] Uganda Revenue Authority Act, Cap 196
[57] Okuja, 2016, p.256

independent entities, and an International Tax Unit was correspondingly setup. To this extent, the the planned and controlled shifting of profits to other jurisdictions by multinational corporations can be curbed and the illicit transfer of money across borders curtailed. In practice, however, effective implementation and enforcement remain challenges.

Uganda also became a signatory to the convention on Mutual Administrative Assistance in September 2016, which enables the Government to send and request information. The information facilitates audits and investigations with a view to combatting abusive transfer pricing, tax abuse, and base erosion and profit shifting by MNCs.

iv. Auditors' Responsibilities on Reporting

Trade misinvoicing is a form of fraud. Corporations that bill or pay for over-invoiced products have the responsibility of ensuring these transactions satisfy the arms-length principle (if the business is between subsidiaries of the same multinational corporation) and are at market rates. International Auditing Standards (IAS) require auditors to report any material misstatements as a result of errors and fraud. There is also an overriding responsibility on directors of corporations in this respect, as spelt out in corporate governance principles.[58] Enforcement of the corporate governance principles requires the legal framework to have penalties for not ensuring ethical reporting or for allowing fraudulent activities that have a negative impact on stakeholders. The gaps in the Companies Act discussed under 'Beneficial Ownership' create a loophole, enabling auditors and directors to bypass these duties.

Internal auditors, though ethically bound to report suspicion of such practices, are not likely to for lack of whistleblower protection and due to concerns about job security. External auditors may fear losing business and normally bypass such responsibilities by framing their statements so as to place responsibility on the directors, per International Financial Reporting Standards.

v. Double Taxation Treaties and Agreements

A double taxation treaty or agreement (DTT/ DTA) is an agreement between two states with the main aim of avoiding double taxation and of preventing fiscal evasion, with respect to taxes on income, capital gains, and non-residents earning passive incomes such as dividends, interests, royalties, and technical fees. DTAs are also entered into to try to attract foreign investments and for strategic political reasons. Tax treaties between Uganda and other foreign countries prevail over the Income Tax Act.[59] Uganda has double taxation treaties (DTTs) with several countries, including: India, South Africa, Zambia, Italy, Belgium, Denmark, Mauritius, the Netherlands, Norway, and the UK.

In many respects, DTAs encourage financial transparency. The flipside, however, is that the tax rates for the nonresident investors deriving passive income from Uganda (such as dividends, interests, royalties, and technical fees) are far too low, most of them having been negotiated over 10 years

[58] Such as OECD Corporate Governance Principles, 1999 and revised in 2004; South Africa, King reports, latest version King IV report, 2016
[59] S.88 ITA Cap 340

ago without being adjusted for economic changes over time. Whereas the low rates may attract Investors, they could also enable IFFs. According to the DTA between the Netherlands and Uganda, the tax rate on dividends to companies holding 50 percent shares in Ugandan resident affiliates is zero, the interest is capped at 10 percent and branch profits at five percent of repatriated profits. Similarly, with Denmark, the tax rate on dividends to beneficial owners holding 50 percent or more of shares is capped at only five percent, royalties at 10 percent, and income from permanent establishments is exempt. In the DTA with Norway, branch profits repatriated are taxed at only 10 percent and so are royalties, interest, and management fees. In the one with South Africa, the tax rate on dividends to holders of 25 percent or more of shares is equally capped at 10 percent. In the DTA with Mauritius, interest beneficially derived by government is exempt and so is interest for beneficial owners carrying on business through permanent establishments. The 10 percent capping of taxes on dividends, royalties, and interest apply both to Mauritius and India. Withholding tax on dividends to Zambian investors in Uganda is exempt, but the exploitation of this incentive is not visible. Only the UK has a reasonable capping rate of 15%. There is need to conduct periodic impact assessments to guide future negotiations to reduce opportunities for illicit financial flows and harmful treaty "shopping".

DTAs can also be abused as their scope is limited and cannot therefore prevent the transfer of money from illicit dealings like organized crime, corruption by government officials, money laundering, and more. Curbing these practices requires criminal sanctions, with enhanced capacities of investigators and prosecutors in the respective government departments

The Government of Uganda recognizes the perils of some of its DTAs and is working on renegotiations using standards better suited to developing countries. For example, Uganda is trying to renegotiate its Agreements with the Netherlands and with Mauritius, two jurisdictions with negative reputations for their roles in aggressive tax planning by multinational enterprises. In this effort, Uganda looks to models from the African Tax Administration Forum, the East Africa Community, and the UN, rather than the more developed country-oriented OECD model.[60]

vi. Foreign Direct Investment (FDI)

The Investment Code Act, Cap 92 regulates local and foreign investment. A foreign investor is one who can deposit US$100,000.[61] As with DTAs in the previous subsection, there is a gap here in adjusting for inflation and time value for money since its inception 27 years ago.

Under Section 20 of the Act, an investor license may also be held in perpetuity. Since businesses are dynamic, the code needs to be regularly reviewed and evaluated for relevance, the way it is done for tax statutes. Otherwise in its current form the offences and penalties prescribed under Section 35 are inadequate and may promote financial opacity. Reports of ever growing failed investments and scandals are commonplace but attract little effective government response.

[60] [August feedback from URA]
[61] Section 10 (5) (b)

Investment and ICT

Of particular concern with regards to IFFs and FDI is the communications (ICT) sector in Uganda. Uganda's ICT sector is substantially owned and headed by foreign investors, in part because the there are no requirements for minimum local shareholding for broadcasters or mobile network operators (MNOs).[62] The loose regulation and effective self-regulation of the foreign-dominated ICT sector has resulted in MNOs exploiting intra-group trading and cross subsidization for profit sharing and transfer of profits to offshore companies. A lack of financial transparency regulations has enabled MNOs to structure their business to ensure income splitting by setting up split corporate entities for different aspects of their operations and to re-characterize income generated in Uganda, resulting in lower profits to reduce their tax thresholds through erosion of their profit base. MNOs engage in aggressive re-categorization of core services and revenue as non-traditional income streams to reduce taxable or chargeable base of income (claim of investment exemptions) essentially engaging in trade misinvoicing and mispricing. The business model adopted by MNOs erodes the local tax base by structuring their legal status and relationship so that the local companies only serve as agents or commission distributors who remit majority of their proceeds to the parent company.

Investments in Land

The 1995 Uganda Constitution provides for land tenure in Uganda and for the enactment of laws, policies, and regulations on land use, management, administration, ownership, possession, and control.[63] The Constitution,[64] the Land Act of 1998, and the Land Acquisition Act Cap. 226 of 1965 prohibit the government from using compulsory acquisition to promote investment. However, the Government, keen to attract foreign investment, has allowed foreign companies to acquire large-scale land investments for a range of projects. Multinational corporations, often in partnership with Government, are taking the land, akin to land grabbing,[65] which frequently results in depriving local communities of critical resources, securing long leases to exploit the land for private profits, extracting natural mineral resources, or growing crops for food, fuel, or carbon credits. The legal regime on land has subsequently established many different government institutions and agencies with various mandates over land, often with contradictory and/or conflicting, vague mandates and blurred lines of operation,[66] thus opening room for speculation and investments on land that lead to both legal and illegal financial inflows and outflows.

---

[62] See Communications Act No.1 of 2013

[63] Article 237

[64] Section 26(2)(a)

[65] Land grabbing occurs when land that was previously used by local communities is leased or sold to outside investors, including corporations and governments. Typically, the land is taken over for commodity crops to sell on the overseas market, including for agrofuel and food crops. However, land grabbing also occurs to clear land for tree plantations (grown for carbon offsets), protected reserves, mines and can often result from speculative investments when funds predict a high rate of return from land investments. A study in land grabbing cases in Uganda, April 2012, by National Association of Professional Environmentalists (FOE - Uganda) available at https://reliefweb.int/sites/reliefweb.int/files/resources/Full_Report_3823.pdf

[66] Namely: The National Environment Management Authority (NEMA), Uganda Investment Authority (UIA), Uganda Land Commission (ULC), the Uganda Wildlife Authority (UWA), District Land Boards and/or Urban Authorities, etc.

Large-scale land investments are facilitated by the Uganda Investments Authority (UIA) established by the Investment Code Act as "… a body corporate…capable of acquiring and holding property."[67] However, the Authority was "never granted express power to acquire land and then either sell it to investors or [otherwise] allocate it to them."[68] Although the Act does not explicitly provide the UIA with the authority to acquire, hold, or allocate land to investors, it does provide the UIA with the authority to facilitate investor access to land. There are no codified rules or regulations governing the UIA's authority on this facilitation of investor access to land. Given that the UIA is not explicitly legally authorized to acquire land on behalf of investors, it is perhaps unsurprising that there are no rules or regulations governing the UIA's identification or acquisition of agricultural land for private investment. Neither does the Act itself specify any rules or regulations governing the allocation of agricultural lands held by the UIA for private investment.[69] Significantly, however, the Act does state unequivocally that "[n]o foreign investor shall carry on the business of crop production or acquire or be granted or lease land for the purpose of crop production or animal production."[70] However, a company that is up to 49 percent foreign-owned could still register as a domestic company and circumvent this rule.

Investment in Extractives

The extractives industry is one of those named by key respondents in this study as a high IFFs sector in Uganda. Harmful practices often associated with the oil and gas industry include tax competition, use of tax havens, transfer pricing, money laundering, preferential tax regimes, tax fraud, undeclared hedge funds, corporate loss through aggressive tax planning, bribery, corruption and exploitation of local communities and domestic economies. These activities all thrive in a climate of secrecy, inadequate legal frameworks, lax regulation, poor enforcement, and weak inter-agency co-operation.

The Extractive Industries Transparency Initiative (EITI) is a global standard for the good governance of oil, gas and mineral resources. The EITI Principles are aimed at increasing transparency over payments and revenues in the extractives sector.[71] Uganda, however, is not a member of EITI. The oil and gas sector is new to the Ugandan economy (exploration began in 2004) and has come at a time when the country lacks adequate policy, legal and institutional frameworks to meet the demands of the emerging industry in terms of taxation, revenue management, investment, employment, balancing economic growth and development, environmental protection, accountability, democracy and overall governance.

---

[67] (Part II, Section 2(3)(a)".
[68] NGO C 2012
[69] UIA, 2012
[70] Part III, Section 10(2)
[71] See Extractives Industries Transparency Initiative website: https://eiti.org/standard/overview

Nevertheless, The Petroleum Authority of Uganda is implementing the National Oil and Gas policy whose goal is to "Use the Country's Oil and Gas Resources to Contribute to Early Achievement of Poverty Eradication and Create Lasting Value to Society" and provides for government to participate in the EITI through the implementation of its ten objectives as follows:

1. Ensure efficiency in licensing areas with the potential for oil and gas production in the country.
2. Establish and efficiently manage the country's oil and gas resource potential.
3. Efficiently produce the country's oil and gas resources.
4. Promote valuable utilization of the country's oil and gas resources.
5. Promote the development of suitable transport and storage solutions, which give good value to the country's oil and gas resources.
6. Ensure collection of the right revenues and use them to create lasting value for the entire nation.
7. Ensure optimum national participation in oil and gas activities.
8. Support the development and maintenance of national skills and expertise.
9. Ensure that oil and gas activities are undertaken in a manner that conserves the environment and biodiversity.
10. Ensure mutually beneficial relationships between all stakeholders in the development of a desirable oil and gas sector for the country.

Parliament is obliged under Article 79(3) of the Constitution to promote democratic governance, conduct scrutiny of government policies, oversee the government budget, and ensure spending decisions are in line with the national priorities. Gaps in upholding the parliamentary duty to protect the constitution and represent national interests, through legislation and oversight of the Executive, including its investment approach and decisions made in relation to extractives among others, reduces transparency and enables IFFs. Parliament tried and failed to introduce oversight of the oil and gas industry in 2014, and since then parliamentarians have largely rubber-stamped the President of Uganda's policies for this sector.

The Constitution also provides for the protection of other natural resources, including water, wetlands, minerals, oil, fauna and flora all of which are very important resources. Weak implementation, sometimes due to conflict of interest involving politically exposed persons (PEPs) and abuse of public office more generally, may well be generating illicit financial flows.

Part IX A of the Income Tax Act, Cap 340, has special provisions that sufficiently provide for the taxation of petroleum operations, thus promoting transparency. The National Oil and Gas Policy particularly conforms and complies with EITI. The Constitution too sufficiently provides for modalities of compensation in matters of land compulsorily acquired for development. The challenge has however been with implementation. Without serious steps to reign in grand corruption and interference in law enforcement by PEPs, Uganda is unlikely to achieve transparency and good governance of the extractives and land sectors. The Mukono – Katosi –Nyenga road is one such example, where UShs. 24 billion was mysteriously lost.. Although the matter is still in court, money

lost needs to be refunded upon successful prosecution as a way forward. On the oil and gas side, companies have invoked a 1997 government-sponsored tax exemption package for international oil companies to invest in the oil and gas sector as a basis for refusing to pay certain taxes.

vii. Regime on Anti-Money Laundering

Money laundering is an essential part of the ability to move and use criminal proceeds without detection. Because of this, targeting funds directly (e.g. through preventing money laundering and confiscating and recovering the proceeds of crime) can have a significant deterrent effect on the proceeds-generating criminal activity. Experts recommend following the money as the most effective way of ending IFFs.[72] Money laundering is employed by organized criminals, MNCs, and rich individuals, including PEPs, to transfer illegal earnings or payments. Uganda has made notable progress in the legal regime against money laundering, partially targeting cutting off terrorist financing.

On a global level, the Financial Action Task Force (FATF) has defined the international standards for fighting money laundering. The Anti-Money Laundering Act, 2013 (AMLA) draws on the FATF standards. The AMLA established the Financial Intelligence Authority (FIA), set up in 2014.[73] The FIA's line ministry is the Ministry of Finance, Planning and Economic Development and it is supervised by the FIA Board.

The foreign countries' threat analysis indicates that transactions emanating from Kenya, India, China, DRC and South Sudan pose a great risk to Uganda. The report indicates that the overall threat of terrorist financing is medium-high, with the volume of terrorist financing estimated at US$100 million total for all terrorist groups in the region. Terrorist funding is channeled through banks and invested in real estate. The main funding sources for terrorism include extortion, misuse of non-profit organizations, remittances, natural resources/wildlife crimes, ransoms, piracy, and trade.[74]

The AMLA identifies 15 categories of persons who can be conduits for money laundering, defined as 'accountable persons'.[75] An accountable person is required to report to the FIA all cash transactions that exceed UGX 20 million, including multiple transactions on the same day by one person;[76] reports must be submitted on a weekly basis.[77] The AMLA creates the offense of money laundering with penalties of up to 15 years of imprisonment and institutes mechanisms to improve banking supervision, to raise awareness about illicit activities among banks and non-financial institutions, for Internal Control and Risk Management, anti-money laundering systems and controls, for client due diligence, risk assessment, and training and capacity building, among others.[78]

---

[72] GFI. Second Schedule, Anti Money Laundering Act, 2013
[73] Prior to the FIA, only the BoU regulated and tracked money laundering, as per the Financial Institutions Act and Financial Institutions Anti-Money Laundering Regulations, 2010.
[74] FIA, 2017
[75] Accountable persons under AMLA are advocates, accountants, financial institutions (such as commercial, merchant and post office savings banks, building societies and credit institutions), insurance companies, all licensing authorities, real estate agents and casinos.
[76] Section 9(2).
[77] FIA Guidelines of 2014 (Statutory Instrument No.75, The Anti Money Laundering Regulations, 2015)
[78] Sections 116 and 121

Though Uganda has established the legal and regulatory framework to meet the commitments in its action plan regarding strategic deficiencies identified by the FATF in 2014, the country continues to be a high-risk destination for money laundering and other forms of IFFs.[79] There remain gaps in the legal and regulatory framework, particularly in enforcement capacity.

The institutional framework to regulate money laundering is still not robust enough to address methods such as cash smuggling and triangulated transactions, for example. The FIA has not yet issued forms such as Cash Conveyance Reports to streamline reporting on cash conveyance, and there is not technology yet at ports, including the international airport, to detect cash physically carried on persons.[80] The AMLA restricts the use of client information and specifically protects client-lawyer confidentiality, yet lawyers are listed among "accountable persons".[81] There is need for the law to balance conflicting interests between raising revenue and preventing crime on the one hand, and protecting privacy on the other hand. Uganda's effective AML response is also impacted by an inability to monitor formal and informal financial transactions, particularly informal trade along porous borders with all its neighbors, the smuggling of corruption-related proceeds by PEPs from South Sudan and the Democratic Republic of Congo, and terrorist financing from Somalia or via Northern Kenya.[82]

The institutional capacity to regulate money laundering is weak. Most AML agencies have insufficient technical expertise and resources for accountable persons to conduct their AML responsibilities and roles under AMLA, efficiently and timely.[83] The FIA lacks analytical and data mining tools and skilled persons with technical capacity to use them to analyze CTRs to identify suspicious transactions; as a result, most of the CTRs are filed away and never processed.[84]

Laxity in banking sector compliance with the AML law is another major hurdle for Uganda. Crucially, there are no administrative sanctions under the Financial Institutions Act, 2004 and regulations thereunder on which the Bank of Uganda can sanction financial institutions and their directors.[85] Why comply if you cannot be punished? Furthermore, fines levied for non-compliance with the AML laws are not commensurate with the risks posed by the identified weaknesses. AMLA provides an outline of the required components of customer due diligence (CDD) for firms to integrate into client acceptance processes and operation of deposit accounts, but implementation of CDD procedures is poor.[86] CDD requirements are aimed at supporting detection by the FIA and preventing legitimization of illicitly acquired funds before entry into the financial system.

There are also gaps associated with capacity to regulate E-Banking. The Electronic Transactions Act and regulations 2013 enable virtual flows of money, online lending, and crowd funding. The primary focus of the reporting system operated by FIA is on cash transactions, with less monitoring

[79] FIA, 2017.
[80] Source: FIA Executive Director Sydney Asubo, New Vision, Thursday 23rd February 2017.
[81] Section 14
[82] FATF Statement - 3 November 2017, http://www.fatf-gafi.org/publications/high-riskandnon-cooperativejurisdictions/documents/fatf-compliance-november-2017.html
[83] Sections 6,7,9 and 21
[84] FATF Mutual Evaluation Report of Uganda, 2016
[85] The Financial Institutions (Anti-Money Laundering) Regulation, 2010
[86] Section 6

of other forms of transactions through which money may be laundered like mobile banking. Only electronic transactions affected by the use of a debit or credit cards have to be reported. This is really important, because most banks in Uganda offer mobile banking services, and a majority of Ugandans use these services.[87] With the growth of Internet usage in Uganda, it has become easier for money launderers to conceal their activities because of the anonymity provided by the Internet. Given the virtual nature of mobile money and often high-levels of anonymity, it is highly conducive for various financial crimes such as bribery, money laundering, kidnapping for ransoms, and financing of terrorism. Know Your Customer (KYC) gaps have been manipulated by mobile money users and other technological currencies such as cryptocurrencies, including Bitcoin, to move large volumes of monetary value without tangible means to identify and trace the actual people involved.

Uganda does not have legislation tailored towards supervision of mobile money services, especially with regard to money laundering, besides BoU Guidelines, 2013, which are not comprehensive enough. Under the regulations, the duty to guard against money laundering is largely placed on mobile money service providers—and there are not even detailed procedures to ensure they comply with this self-reporting duty.

Finally, the bureaucracy involved in moving from CTR analysis to prosecution of money laundering is aiding impunity in Uganda through delay. Once the FIA considers a transaction to be suspicious, it has to refer it to the appropriate law enforcement agency for investigation or prosecution. This impacts on deterring money laundering given that it involves the use of fast and complex transactions. Since the enactment of AMLA, the DPP has not secured a single conviction. Between 2014 and 2016, only three money laundering related cases even progressed to trial.[88] Most cases are deemed to have insufficient evidence to establish a *prima facie* case necessary for full trial.

viii. Transnational Crime

Counterfeiting

Just as global counterfeiting generates the largest volumes of illicit value among transnational criminal industries,[89] it is similarly a major factor in Uganda. In relation to IFFs, counterfeiting is associated with trade misinvoicing, smuggling, and money laundering. UNBS, the regulatory agency responsible for monitoring quality standards has little capacity both human and financial to discharge its mandate. Relatedly, although Uganda has a wealth of intellectual property laws, it is not mandatory for product creators to register and protect their commodities.[90] Enforcement is voluntary which leaves room for production of counterfeit commodities to compete with, and/or pass off as the genuine product. Failure to safeguard quality standards for goods (and services) is enabled by corruption and bribery of regulatory agencies, including Customs and UNBS, but also

[87] Over 76% of adult Ugandans use mobile money services, with a value amounting to 32,506 Billion UG.X in 2015. Source: Bank of Uganda.
[88] DPP reports
[89] GFI, 2017
[90] Trademarks Act 2010 and the Copyrights And Neighbouring Rights Acts, 2006

by the Government of Uganda's low capacity to police borders and regulate the consumer goods market, both of which are due to resource constraints.

Human Trafficking

Uganda is a source, transit and destination country for trafficking in persons (TIP), and also experiences internal (mainly rural to urban) trafficking. Human trafficking is a major channel for IFFs and is a growing problem in Uganda and the East Africa region, with links to organized crime. In 2009, the Ugandan government enacted the Prevention of Trafficking in Persons Act (PTIP). Trafficking in persons is broadly defined[91] and criminalized[92] under PTIP, and a wide range of deterrent penalties are prescribed such as hefty fines, imprisonment of the offenders, death, confiscation, forfeiture of proceeds of trafficking, and penalization of organizations.[93] However, securing successful prosecution has proved challenging. The requirement to prove intent to traffic has resulted in courts handing down moderate sentences and frustrating prosecution. Lack of regulations under the Act has reduced its utility for law enforcement. Despite allegations of involvement of government officials and labor recruitment agencies in TIP, there have been no high-level prosecutions.

The Ministry of Gender and Social Development (MGSLD) is solely responsible for providing permits to and monitoring labor agencies observance of their legal responsibilities.[94] MGSLD lacks sufficient human and financial capacity but also is subject to political pressure, leaving labor export agencies effectively unregulated and often not compliant with the law leading to reported widespread trafficking, abuse and exploitation of Ugandans abroad.[95] Though it has technical capacity and a high level of commitment, it is under-resourced and staffed so cannot effectively monitor and follow up all cases.

Drug Trafficking

Drug trafficking is a growing problem, affecting Uganda as a transit and as a destination country. The laws on drug regulation and prohibition take a criminal approach,[96] but they are regarded by stakeholders as not sufficiently deterrent to drug traffickers.[97] An amended law with stronger provisions[98] has not been brought into force by the Ministry for Internal Affairs.[99] The new Act would strictly regulate the use of drugs, as well as impose deterrent sentences for drug possession and

---

[91] Section 1(d) TIP, covers sexual exploitation, forced labor, armed conflict, debt bondage, and slavery, sale of body organs, human sacrifice and rituals and use of persons for illegal activities.
[92] Section 3, which covers "recruitment, holding, and transfer of persons using force, coercion, fraud, deception, abuse of power or vulnerability or exchange for payments/ benefits for purposes of exploitation."
[93] Ibid, Sections 3, 4, 5, 6, 7, 8, 9, 10, and 22
[94] Regulation 69-79 Employment (recruitment of Ugandans abroad) regulations
[95] Operating without clear addresses and records, they do not carry out pre-departure trainings and make false promises for well-paying jobs in or force clients to take on jobs not originally agreed to, lack of interest in monitoring of confirm working conditions, very often have no capacity to return clients who fail to work.
[96] National Drug Policy and Authority Act (NDPA) Cap 206
[97] S. 30, case in point is some of the penalties include fines of up to one million, imprisonment for up to five years, confiscation of items among others
[98] The Narcotic Drugs and Psychotropic Substances (Control) Act, 2015
[99] Section 1 of the Act it can only do so on a date the Minister, by statutory instrument appoints. This statutory instrument is yet to be enacted.

use and stiff monetary fines for trafficking.[100] The laws have been critiqued for not distinguishing between drug traffickers and victims, however, and for disproportionately targeting low income offenders for arrests, prosecution, and conviction. Thus with respect to IFFs, this law does not effectively target organized criminals engaged in drug trafficking for profit.[101]

Wildlife Poaching and Smuggling

The law on poaching and smuggling[102] regulates import and export of wildlife species and specimens through licensing, but it provides low penalties[103] and is largely ineffective in curbing the escalating levels of poaching and wildlife trafficking. A proposed amendment is intended to review all offences and penalties and bring the Act into alignment with the Wildlife Policy, 2014.[104] Wildlife poaching and smuggling also generate significant illicit financial flows thanks to smuggling costs, payments to poachers and middlemen, and bribes for government officials.

Arms Trafficking

Uganda is also affected by arms trafficking and is seen as a transit for SALW (small arms and light weapons) traffic to conflict-affected neighboring states. The law on firearms is outdated, and while it criminalizes unlicensed possession of firearms, its low financial penalties render it ineffective in deterring lucrative arms trafficking.[105] A proposed amendment would increase the fines from their current levels of UGX 2000-20,000, but it would also reduce the incarceration period to five years (down from at least 10 years at present). However, the amendment has yet to be enacted since its introduction in 2006.[106]

ix. Government Corruption

There is a fairly comprehensive anti-corruption legal and policy framework in Uganda. The main law is the Anti-Corruption Act 2009, which extensively defines acts constituting corruption by public officers as embezzlement, bribery, causing financial loss, conflicts of interest and other more traditional crimes, but also aspects related to nepotism, sectarianism, influence peddling and other less visible forms of undue privilege. The Act also deals with any obstruction of efforts to investigate or prosecute cases of corruption. Provisions for the nominal protection of informers by withholding their identity are reinforced by the substantive Whistleblowers Act. Special investigative powers including orders of search and seizure are given to the Inspector General of Government (IGG) (i.e. the ombudsman) and the Director of Public Prosecutions (DPP), both of which are legally independent, constitutional offices.

---

[100] Section 4
[101] Assoc. Prof. Christopher Mbazira, Dean of Law, Makerere University School of Law
[102] Wildlife Act, Cap 200
[103] S. 74 fine of not less than thirty thousand shillings but not exceeding three million shillings or to imprisonment for a term of not less than three months or to both such fine and imprisonment
[104] Wildlife Act (Amendment) Bill, 2017
[105] Firearms Act, 1970
[106] Firearms (Amendment) Act 2006

The Leadership Code Act 2002 makes provision for the declaration of income, assets and liabilities by a public officer who falls within the definition of a "leader". The definition is very wide and covers thousands of officers in all three arms of government and at both the central and local government levels. The Government's failure to establish the Leadership Code Tribunal hinders the efforts of the IGG to effectively implement the Leadership Code Act. The lack of transparency through a public registry accessible to the public and other public institutions besides the IGG makes it difficult to verify that declarations reflect actual assets, as well as to trace undeclared assets. Tracing assets is further hindered by a cash economy, a lack of proper records and urban planning, and a poor or absent record keeping culture by public leaders in Uganda.

However, Uganda is not making strong enough progress in combatting public-sector corruption. Uganda passed a Whistleblowers Protection law in 2010, but the public does not trust the system, and the mechanisms for their protection are under-resourced or compromised. There is an insufficient understanding in the country of what constitutes corruption or where to report corruption, and there is a fear of retribution for those who do try to take a stand.[107] The punishment for corruption offences are not sufficiently deterrent relative to the severity of the breach of law, the value of resources involved (for the state and for the perpetrator), and the opportunity cost of those resources. Furthermore, the provisions on asset recovery as a mechanism for restitution are not adequately visible.

The IGGs capacity to search and investigate are weak, largely due to political interference from a powerful Executive Branch, which has also affected the IGG's capacity to prosecute high-level corruption, and the office lacks sufficient funding to carry out its mandate. The derivation of evidence of pecuniary sources or property by corrupt offenders is extremely difficult as the proceeds of corruption are often placed in layered money laundering mechanisms to avoid detection. There are significant hurdles associated with attachment of property under restraining orders or confiscation, as many offenders, especially in grand corruption cases, take sophisticated measures to de-link themselves from their assets. Overall, the key institutions mandated to investigate cases of corruption are under-resourced and unable to exhaustively track sophisticated layering of corruption or the proceeds.[108]

[107] IGG, 2017

[108] The National Strategy to Fight Corruption and Rebuild Ethics and Integrity in Public Office, of the Directorate for Ethics and Integrity, Office of the President was first adopted in 2001.

x. East Africa Community (EAC) Legal and Policy Regime

Under the EAC Customs regime, the supranational structure for customs management is the Directorate of Customs and Trade based at the EAC Secretariat in Arusha. It does not directly enforce the regional customs law but works through and with the national revenue agencies like the URA. The revenue agencies have dual reporting lines to both the EAC Secretariat and respective national line ministers (of finance) and have significant independence both *de jure* and *de facto*.

The national commissioners and customs officials have significant discretionary powers in implementing the EAC Customs Management Act (EACCM), for example in regulation of goods in transit and border controls, thereby giving opportunity for IFFs. The EACCM makes provision for exchange of information and common border controls in relation to prevention, investigation and suppression of customs and trade offences. It also provides for joint customs controls and ensuring that goods crossing common frontiers pass through the recognized border points managed by staff competent in customs.[109]

While this appears to be a stringent provision, one cannot eliminate the possibility of IFFs. The Act provides some restriction of access to customs areas in specific cases. It also has provisions relating to the treatment of various goods such as prohibited and restricted imports. Of interest is the exemption of goods in transit, trans-shipment, and those departing overland, even when such goods are prohibited or restricted in the customs area.[110] This may provide loopholes for misinvoicing, tax avoidance, or even the smuggling in of prohibited goods.

For effective monitoring and supervision of revenue commissioners, there should be a closer linkage between the two structures and stronger supervisory mandate vested in the EAC Customs and Trade Directorate. The relatively loose arrangement arising from tensions between the principle of supra-nationality in the EAC Treaty versus sovereign power and vested interests gives space for conflicting legal regimes and practice at partner state level and room for IFFs, particularly involving economic actors linked to national elites.

[109] Section 10 ibid
[110] Section 83, 84, 85 ibid

V. RECOMMENDATIONS FOR CURTAILING ILLICIT FINANCIAL FLOWS IN UGANDA

This paper establishes the broad framework within Uganda that can and does facilitate illicit financial flows (IFFs). This framework includes i) state-owned enterprises coupled with low capacity to scrutinize their operations, ii) a financial sector filled with subsidiaries of foreign banks which can ease syndicated transfers to branches across borders, iii) significant natural resource wealth subject to high secrecy, iv) a high customs and bureaucratic burden leading to inefficiencies that facilitate trade misinvoicing, v) a large informal sector that limits regulation, and vi) a growing gambling sector that requires matching regulation.

The analysis also finds that Uganda still faces a significant challenge of corruption at different levels of government. This vice leads to diversion of funds through money laundering and illicit financial flows that undermine development. These realities have persisted over the years, notwithstanding the establishment of several anti-corruption institutions such as IGG and AUG and the laws which empower them to investigate corrupt cases that include IFFs and money laundering.

In order to address all three sources of illicit financial flows—commercial, criminal, and corrupt—the following measures are recommended as starting points.

Beneficial Ownership

The level of disclosure at registration of companies should be strengthened. Amend the Company law and URSB Practices to intensify the manner and vigilance of due diligence at business registration by requiring identification and verification of both the legal and beneficial owners of businesses. The law should require all companies to disclose their actual, human, beneficial owner(s) at registration, with the information listed in a central registry accessible to both law enforcement and the public.

Further, place an onus on business promoters to disclose by registration, both the legal and beneficial owners of the business, and their residential/business addresses. In addition, banks and other institutions should be required to do client due diligence during operations of corporations. In both instances there should be strong penalties for non-compliance with both corporate and personal liability.

Counterfeiting

Parliament should expedite enactment of the Consumer Rights and Protection Act to safeguard consumers from exploitation and harmful effects of using substandard and counterfeit goods.

Trade Misinvoicing

Adopt and enforce legislation barring trade misinvoicing. A statute such as the following is recommended:

> *Whoever, in relation to the importation or exportation of goods or in relation to the trade in services or intangible property, deliberately misstates, manipulates, falsifies, or omits a price, quantity, volume, grade, or other material aspect of an invoice for the purpose of (i) evading or avoiding VAT taxes, customs duties, income taxes, or any other form of tax or revenue collected by the Government; (ii) obtaining a tax benefit, export subsidy, or other benefit provided by the Government; or (iii) evading or avoiding [capital or foreign exchange controls]; shall be subject to a civil or criminal fine of up to [specific amount] or imprisoned for up to [x] year[s], or both.*[111]

Require companies to confirm compliance with this law by signing a specific declaration of compliance on annual reports or tax filings.

Equip Customs and Revenue authorities with up-to-date trade pricing databases to facilitate risk management of the potential for trade misinvoicing.

Strengthen transfer pricing units within Customs and Revenue authorities.

Reform legislation to incentivize auditors to report fraud by creating a legal requirement for auditors to report frauds such as trade misinvoicing to regulatory bodies such as URA, FIA, and URSB and to create penalties for non-reporting.

Foreign Direct Investment

Review Uganda's Investment Code providing incentives for foreign investment to eliminate abuses.

Consider amendment of the Companies Act, 2012, to include fair competition legislation.

Amend the Communications Act No. 1, 2013, to provide for a minimum of local ownership for companies established and operating in the Information and Communications Technology sector.

To enhance responsible management of the extractives sector, join the Extractive Industries Transparency Initiative (EITI) and publicly report all filings.

Assure that all extractive industry licenses, contracts, agreements, protocols, annexes, and other relevant documents are made public.

[111] [Accelerated IFF agenda]

Anti-Money Laundering

Substantially enhance the coordination and cooperation among intra-governmental bodies to assure that relevant information and intelligence is fully shared in a whole-of-government effort. Include the Financial Intelligence Authority, Uganda Customs department, Uganda Revenue Authority, Inspectorate of Government, the Office of the Attorney General, Office of the Director of Public Prosecutions, Auditor General of the Judiciary Department, representatives of the Ministries of Finance, Energy and Mineral Development, and Water and Environment, and the Uganda Police Force. Meet regularly, with all pertinent information fully disseminated.

Authorize the Financial Intelligence Authority to prosecute money laundering directly.

Strengthen anti-money laundering responsibility requirements and penalties on accountable persons including corporations, banks, insurance companies, lotteries, betting entities, casinos, mobile money operators, lawyers, auditors, real estate firms, and others.

Fully cooperate with international efforts surrounding automatic exchange of tax information.

Establish a government working group to examine the potential for money laundering through the use of crypto currencies, and legislate appropriate steps to curtail possible abuses.

Transnational Organized Crime and Terrorist Financing

Substantially enhance enforcement of Prevention of Trafficking in Persons legislation.

Bring into full force the Narcotic Drugs and Psychotropic Substances (Control) Act.

Enact and enforce the Wildlife Act (Amendment) Bill.

Enact and enforce the Firearms (Amendment) Act.

Improve collaboration with the East African Community Secretariat and East Africa PCO.

Fully enact Financial Action Task Force recommendations.

Corruption

Publish and regularly update a list of Politically Exposed Persons (PEPs).

Establish a Leadership Code Tribunal to effectively implement the Leadership Code Act.

Assure complete confidentiality in the spirit and operation of the Whistleblowers Protection Act.

Establish a tripartite body comprising Government, the private sector, and civil society to regularly share information on issues surrounding the curtailment of grand corruption.

VI. CONCLUSION

Illicit financial flows (IFFs) are undermining economic development and good governance efforts in Uganda, and they are an important factor in regional challenges for Uganda, such as grand corruption, transnational crime, and violent conflict. Political and business elites from Uganda and from neighboring countries move IFFs in and out of Uganda at will thanks primarily to financial secrecy from anonymous companies, misinvoiced trade, and financial secrecy jurisdictions in other countries. Numerous global and regional investigations, such as the Panama Papers and West Africa Leaks, have demonstrated the wide, easy use of the global financial system to move billions if not trillions of dirty money.

Progress is being made to eliminate rampant undue secrecy in the global financial system, and there is much Uganda can and should do domestically concurrent to changes in the major financial centers. One area of high return would be to curtail trade misinvoicing, because it is the largest method for moving IFFs in the data this report studied, and because it has a direct link to increasing domestic revenue mobilization. A second area is eliminating the ability to register or use an anonymous corporation in Uganda. The government, and the public, must know who is actually doing business and moving money in the country, and this cannot be done without a registry of beneficial owners for corporations. A third focus should be enhanced enforcement of and prosecution for money laundering. The principal agent in this effort will be the Financial Intelligence Authority, along with financial institutions operating in Uganda.

Not all IFFs can be converted directly into increased revenue for the government, but those that do not have a direct benefit will still boost government revenue indirectly as well as government accountability directly. This indirect benefit will be most visible through the extractive sectors, the combat of transnational crime, and the enhancement of government service delivery.

APPENDIX 1: SUPPLEMENTARY TABLES FOR SECTION II

Appendix Table X1 summarizes the indicators and the sources of data used to analyze the three pillars of the political economy of IFFs in Uganda and is provided for reference purposes for especially interested readers.

TABLE X1: Indicators Used In The Analyses of Political Economy of IFFs In Uganda

Description	Source
1. OPPORTUNITY	
a. State Owned Enterprises (SOEs)	Office of Auditor General's (OAG) Report
b. Size and Ownership of Uganda's Financial Sector	Bank of Uganda (BOU) Financial Stability Report 2017
c. Mineral and Natural Resource Wealth	World Development Indicators (WDI): The World Bank
d. Customs and Bureaucratic Burden	Uganda Revenue Authority (URA), BOU and WDI: The World Bank
e. Size of Informal Sector	Finscope 2018 Report
f. Uganda's Gambling Industry	Ahaibwe, Lakuma, Katunze and Mawejje (2016)
2. CAPACITY	
a. Revenue Mobilization	URA and WDI: The World Bank
b. Government Effectiveness	Inspector General of Government (IGG) Report; Justice, Law and Order Sector (JLOS) report; and Financial Intelligence Authority (FIA) Reports
c. Institutional Challenge	Ministry of Finance, Planning and Economic Development (MFPED); OAG; Munyambonera and Lwanga (2015); and URA
3. WILLINGNESS	
a. Corruption	Uganda Bureau of standards (UBOS); Transparency International (TI); Afrobarometer; Public Procurement and Disposal of Assets Authority (PPDA); The New Vision;
b. Public Finance Management	Uganda Public Expenditure and Financial Accountability (PEFA) Assessment
c. Judicial Independence	Internal Bar Association (IBA)
d. Influence of aid and debt on the Politics of Uganda	Hickey (2013) and EPRC (2007)

Appendix Table X2 breaks down some of the data behind the report's analysis of IGG effectiveness. During the reporting period, the Inspectorate of Government registered 1,560 complaints, of which 752 were registered at the Head Office and 808 at the Regional Offices across the country. The report to Parliament January to June 2017 shows that a total of 1,127 complaints were investigated and concluded out of which 714 were corruption complaints (Appendix Table 2). Of these, 285 were investigated in Ministries, Departments and Agencies (MDAs) and 429 in Local Governments. A total

of 4,620 investigations were ongoing of which 924 were in MDAs and 3,696 in Local Governments. In 2017, IGG effectiveness. Other performance indicators of IGG outlined in Appendix Table X2 include: complaints forward, investigations from audit reports, new complaints, and others. Generally, there was some improvement in the level of effectiveness across most of the indicators. However, performance could have been slightly affected by increased work load from 6,053 in 2016 to 6,145 in the first half of 2017.

TABLE X2: Effectiveness of IGG In Complaint Investigation In 2016 and 2017

Description	July-Dec 2016	January-June 2017
Complaints brought forward	4,472	4,573
Investigations from audit report	48	123
New complaints received	1,471	1,437
New verifications of leaders' declarations	62	12
Total workload	6,053	6,145
Investigated & concluded	1,191	1,127
Verifications concluded	24	38
Referred to other institutions	214	293
Rejected complaints (not within jurisdiction of IG)	16	39
Backlog Disposed of	35	28
Total complaints concluded	1,480	1,525
Carried forward	4,573	4,620

Source: IGG Report 2017

As a result of aggressive investigations by IGG, funds were also recovered from officials in the MDAs and Local Governments on administrative sanctions and deposited on the IG Asset Recovery Account in the Bank of Uganda. In April 2017 a total of UShs. 643,000,179 was transferred to the consolidated account of the Ministry of Finance, Planning and Economic Development. By 30th June 2017, the IG Asset Recovery Account had a closing balance of UShs. 288,036,559. The total recoveries during the period were UShs. 931,036,738 (IGG, 2017). Money saved from ombudsman interventions (Appendix Table X3). In total, UShs. 15 billion was recovered by June 2017 (Appendix Table 3). This was a good effort by IGG in the fight against corruption.

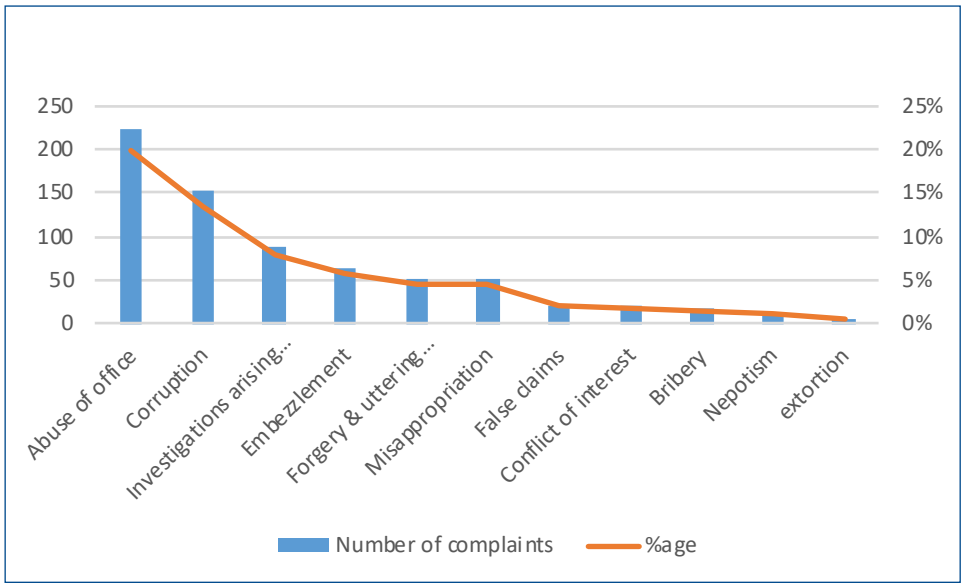
TABLE X3: Investigation Outcomes Registered from January to June 2017

Outcome	Quantity
Money saved as a result of IG intervention (Approx.)	UShs. 15,000,000,000
Money recovered as a result of investigations and deposited on IG Recovery account (Non-conviction based)	UShs. 931,036,738
Money saved for individuals as a result of ombudsman interventions	UShs 2,999,838,516
Public officers under prosecution by IG	101
Public officers convicted	4
Cases on appeal as at 30th June 2017(including civil appeals)	35
Public officers arrested by then IG	12
Public officers warned	41
Civil cases concluded	9
Officers who were advised	168
Canceled appointment letters of public servants	25
Officers submitted to commissions (e.g. DSC) for disciplinary action	67
Public officers interdicted (All charged suspects are interdicted)	6

Source: IGG Report 2017

In its 2017 report referenced in Appendix Tables X2 and X3, IGG acknowledges that although there was some good progress, the response of some key Government institutions on the enforcement of the Leadership Code of Conduct and concluding with investigating the reported complaints from police and other anti-corruption agencies is rather slow and this complicates detection of suspected assets. The major challenges that are influencing effectiveness of IGG include: lower staffing levels, low funding from government, and delayed investigative reports from complementary institutions such as the Police- CIID. Despite these challenges, complaints handling by IGG improved generally as compared to 2016, with corruption complaints investigated accounted for 63.4 percent of all the complaints investigated. This ratio of corruption complaints to total complaints shows that there is high level of corruption in Uganda that could be leading to losses of public and private resources, which undermines the country's development. Abuse of office formed the bulk of corruption complaints investigated by the IG accounting for 19.8 percent of the all complaints investigated (Appendix Figure X1).

FIGURE X1: Corruption Complaints Investigated and Completed During The Period January – June 2017



Source: IGG Report (2017)

On the effectiveness of asset declaration as a way of detecting corruption, the percentage of public officers submitting their assets declaration within the statutory time increased from 72 percent in 2014/15 to about 88.4 percent in 2016/17 (Appendix Table X4). This could have allowed time for IGG Officials to verify the assets and detect suspect illegal assets (Appendix Table X4). This effort resulted into a significant reduction of the value of suspected assets from UShs. 4, 430 billion in 2014/15 to UShs. 548 million in 2015/16 and UShs. 1 billion in 2015/17 (Appendix Table X4).

TABLE X4: Effectiveness of Asset Declaration System In Detecting Corruption

PPDA's audit report findings	2014/15	2015/16	2016/17
Percent of public officers submitting their asset declaration (within statutory time)	72.0%[A]	87.0%	88.4%
Number of asset declarations verified by IG (during the calendar year)	44	46	38
Number of asset declarations resulting in corruption investigations by IG	15	18	2
Value (UGX) of suspected illegal assets identified by IG during verification	UGX 4,430 billion	UGX 548 million[B]	UGX 1 Billion

Source: IGG Report 2014 - 2017

[A] New leaders only
[B] This value excludes unvalued assets (6 caveats lodged on properties in Rubaga, Kabowa and Kampala District)

APPENDIX 2: TECHNICAL APPENDIX FOR SECTION III

Technical Appendix

This Technical Appendix provides details on the statistical treatments applied to the basic Ugandan trade data as reported in the UNCT database. Notations used throughout are developed in section A. Statistical treatments of the underlying data are presented in section B; those include adjustments to the raw UNCT data to account for Chinese re-exports through Hong Kong, a two-step procedure for estimating transport margins (i.e., CIF/FOB) for use with the Ugandan trade data and a weighting scheme to enhance the reliability of the estimates of potential TM. The appendix concludes with a formal taxonomy of the UNCT trade database and a more detailed discussion of the completeness of the Ugandan trade data in UNCT than was presented in the body of the report.

A. Notation

Throughout this appendix, we define indexes and trade magnitudes as follows:

i ≡ index of country reporting trade (i = U for Uganda);

j ≡ index of partner country;

k ≡ index of commodity traded; and,

t ≡ year for which trade is reported.

Each complete import record in the UNCT database provides the following information on a particular import indexed to {i,j,k,t}:

$\mathbf{V^M_{ijkt}}$ ≡ value of imports (in $US, typically on a CIF basis) of commodity **k** reported as received by country **i** from country **j** at time **t**,

$\mathbf{Q^M_{ijkt}}$ ≡ volume of imports (in physical units) of commodity **k** reported as received by country **i** from country **j** at time **t**.

Similarly, each complete export record in the UNCT database provides the following information on a particular export indexed to {i,j,k,t}:

$\mathbf{V^X_{ijkt}}$ ≡ value of exports (in $US, on an FOB basis) of commodity **k** reported as shipped by country **i** to country **j** at time **t**, and

$\mathbf{Q^X_{ijkt}}$ ≡ volume of exports (in physical units) of commodity **k** reported as shipped by country **i** from country **j** at time **t**.

The availability of value and volume data implies a unit price, P, corresponding to each trade record. That is, we can define unit prices as follows ($US per physical unit):

$$P^{M}_{ijkt} \equiv V^{M}_{ijkt} / Q^{M}_{ijkt} \text{ and } P^{X}_{ijkt} \equiv V^{X}_{ijkt} / Q^{X}_{ijkt}.$$

The basic partner-country approach (or "mirror trade" analysis) implemented here builds on comparisons of the dual reporting for each trade record. For imports, we wish to compare the value of Uganda's import report for a particular trade record with the associated export report by Uganda's trade partner (i.e., we compare V^{M}_{Ujkt} with V^{X}_{jUkt}). Similarly, for exports, we wish to compare the value of Uganda's export report for a particular trade record with the associate import report by Uganda's trade partner (i.e., we compare V^{X}_{Ujkt} with V^{M}_{jUkt}).

B. Statistical Treatments

Measured trade gaps can reflect a number of unavoidable and structural factors that are not necessarily related to TM.[112] Controlling for such factors is a challenge for empirical TM research and efforts to mitigate the influence of legitimate factors contributing to the measured trade gap necessitate statistical treatments of the raw UNCT data used in such analyses. Apart from standard country definitional adjustments regularly used in conjunction with UNCT data,[113] GFI introduced several statistical treatments of the trade data to mitigate the potential distortions in the data owing to: (1) transshipments; (2) transport margins (i.e., converting import values from a CIF to an FOB basis); and, (3) varying data reliability.

1. Transshipments. The practice of routing exports through intermediate locations prior to their final destination—known as transshipments, re-exports or foreign exports—has become more commonplace over time as technological advances have made hub-and-spoke delivery systems more attractive than traditional point-to-point systems in maritime trade. This practice introduces potential distortions into the bilateral trade reported in UNCT that would unnecessarily increase trade gaps (in absolute value). Countries exporting to Uganda through an entrepôt country may report that country (and not Uganda) as the destination of the exports while Uganda correctly reports the origin country in reporting its imports, a situation that would potentially distort the measured trade gaps. Detailed data on transshipments are not generally available for all of Uganda's trade partner countries, but data on Chinese re-exports through Hong Kong are available for purchase from the Hong Kong Census Office. Using those data to correct the UNCT data for China for such re-exports through Hong Kong, GFI mitigated some of the potential distortions in the trade gaps stemming from transshipments, the portion covering Uganda's trade with China.

2. Transport margins. Because Uganda and most of its trade partners report import values to the UNCT on a CIF basis, those imports must be converted to an FOB basis to make mirror reports of imports and exports comparable. Data on transport margins are not generally available and many researchers have resorted to simply assuming a constant ad-valorem margin for all years, all

[112] Such factors have been well documented in the research literature. See, for example, the overview of the PCM approach in Salomon (2018a) and the references therein to earlier research.
[113] Fortanier and Sarrazin (2016) provide a fairly comprehensive accounting of such adjustments developed in the OECD research. GFI used these definitional adjustments as a primary treatment of the raw UNCT data.

commodities and all trade partners. This assumption, while suitable for some research objectives, is unrealistic to the extent that we'd expect transport margins to have trended down over time and to have varied by commodity and trade partner as well.

For this reason, GFI estimated transport margins for Uganda in a two-step procedure. In the first step, GFI estimated a statistical relationship between a proxy for the transport margin and a variety of exogenous characteristics of a particular trade that would, arguably, affect transport margins. Those characteristics included:

- the physical distance between the two partners to trade (picking up variation in {**i**,**j**});
- various geophysical characteristics of the two partners to trade such as whether the countries share a border, whether the countries are landlocked, and whether the countries are on the same continent (picking up variation in {**i**,**j**});
- broad economic differences between the partners to trade as proxied by the status of each partner to trade as either developed or developing by the IMF's criteria (picking up variation in {**i**,**j**});
- the strength of regional trade agreements (if any) between the two trade partners (picking up variation in {**t**,**i**,**j**});
- the median world price of the HS 6-digit commodity traded (picking up variation in {**t**,**k**}); and,
- fixed time effects (picking up variation in {**t**}).

Other things equal, we would expect transport margins to increase as the physical distance between trade partners increases; to increase for landlocked countries (in which case, the CIF basis would include possibly costly internal transit); to increase for trade between developing countries (which, for example, may entail the use of port infrastructure of lesser overall quality than might be the case for trade between developed countries); and, to decrease with stronger regional trade agreements between the partners to trade. With respect to the median global price of the commodity traded in a particular year, the expected effects on transport margins is indeterminate: higher valued commodities would generally entail higher insurance costs but they might be easier to transport between countries. Finally, with technological advances in transportation, we might expect transport margins to be trending down over time.

The objective of the first step is to establish a reliable association between transport margins and those characteristics. Using a censored sample of the complete UNCT database from 2000-2015 (i.e., all countries, not just Uganda and its trade partners), GFI estimated a regression equation relating the independent variables $\ln\{\mathbf{V^M}_{\mathbf{ijkt}} / \mathbf{V^X}_{\mathbf{jikt}}\}$ (where $\mathbf{V^M}_{\mathbf{ijkt}}$ is measured on a CIF basis in UNCT) and the various right-hand-side variables listed above, suitably transformed (i.e., both the distance and median world price entered in log form and the square of the log of distance was added as a regressor). The estimated coefficients all matched in terms of expected signs—the coefficient on the median global price term was estimated to be negative (as was the case in Miao and Fortanier (2016) but not Gaulier and Zignano (2010), studies of a similar nature but with different degrees of censoring the sample and covering different time periods). The average CIF/FOB margin estimated over the all countries in the 2000-2015 UNCT sample was just over 7 percent; that's

slightly higher than Miao and Fortanier (2016), considerably higher than Gaulier and Zignano (2010) but also significantly lower than the 10 percent assumed by the IMF (and others) until recently.[114]

In the second stage, GFI used the estimated general relationship to predict specific transport margins for each matched Ugandan trade over the period 2006-2015. For Ugandan reported imports, the CIF/FOB margin averaged 10.7 percent over that ten-year period. For Uganda's trade partners reporting their imports (exported from Uganda) on a CIF basis, the corresponding average margin was estimated to be 9.0 percent over the period.

3. Reliability weighting. In keeping with empirical practice, weights were applied to the dollar magnitudes of the trade gaps calculated with the UNCT data at the HS 6-digit level of commodity detail to reduce the influence of possibly aberrant trade observations and enhance the reliability of the estimates of potential TM.

The respective volumes reported on each trade record were used to construct the weights. For example, a given import of good **k** by Uganda from its exporting partner country **j** at time **t**, the weight, $\omega \mathbf{M}^{\mathbf{U}}_{\mathbf{jkt}}$ was calculated as follows:

$$\omega \mathbf{M}^{\mathbf{U}}_{\mathbf{jkt}} \equiv 1 - [\, | \, \mathbf{Q}^{\mathbf{M}}_{\mathbf{Ujkt}} - \mathbf{Q}^{\mathbf{X}}_{\mathbf{jUkt}} \, | \, / \, \max\{ \, \mathbf{Q}^{\mathbf{M}}_{\mathbf{Ujkt}} \, , \, \mathbf{Q}^{\mathbf{X}}_{\mathbf{jUkt}} \, \} \,] \, ;$$

an analogous calculation was used for export records. This weighting scheme, frequently used in the PCM literature, effectively shrinks the absolute value of the arithmetic trade gap by a factor that increases as the corresponding volume gap rises. In other words, the dollar value of a trade gap gets a higher weight the closer are the associated matched volume reports.

Generally, this might be interpreted as a reliability weight for matched UNCT values: the weight works to ensure that unusually large but possibly unreliable gaps do not exert undue influence on the estimates of potential TM. Other interpretations of this weighting scheme are possible (for example, see Economic Commission for Latin America and the Caribbean (2016), p. 124). Moreover, other specifications for weighting are possible as well; see ten Cate (2007) and Gaulier & Zignano (2010) for examples.

C. Taxonomy of UNCT Trade Records: Ugandan Trade Data in UNCT

While, ideally, each trade record in UNCT is "complete" in the sense that all relevant values and volumes are recorded, in practice that is not the case. Reporting by Uganda and by its trade partners may not be complete for a variety of reasons, including late reporting and trade lags. The table below defines the criteria by which we classify UNCT records of Ugandan trade into the categories useful for the analysis and those categories not used (Table A1).

[114] Data purchased from the Centre d'Études Prospectives et d'Informations Internationales (CEPII), publicly available from Economic Integration Agreement Dataset and the International Monetary Fund were used as variables on the right-hand side of the regression. GFI will gladly provide further technical details on the statistical estimates upon request.

TABLE X5: Taxonomy For Categorizing UNCT Trade Records

Trade Type	Categories and Criteria for Completeness			
	Uganda Reported Trade			Partner Reported Trade ("lost' Ugandan flows)
	Matched	Orphaned	Other	
Imports	(a) $V^{M}_{Ujkt}>0$, $V^{X}_{jUkt}>0$ (b) $Q^{M}_{Ujkt}>0$, $Q^{X}_{jUkt}>0$ (c) Q^{M}_{Ujkt}, Q^{X}_{jUkt} are reported in same physical units	$V^{M}_{Ujkt}>0$ but V^{X}_{jUkt} is missing	Criterian (a) for "Matched" is satisfied but not criteria (b) and/or (c)	$V^{X}_{jUkt}>0$ but V^{M}_{Ujkt} is missing
Exports	(a) $V^{X}_{Ujkt}>0$, $V^{M}_{jUkt}>0$ (b) $Q^{X}_{Ujkt}>0$, $Q^{M}_{jUkt}>0$ (c) Q^{X}_{Ujkt}, Q^{M}_{jUkt} are reported in same physical units	$V^{X}_{Ujkt}>0$ but V^{M}_{jUkt} is missing	Criterian (a) for "Matched" is satisfied but not criteria (b) and/or (c)	$V^{M}_{jUkt}>0$ but V^{X}_{Ujkt} is missing

For import flows reported by Uganda, we define three categories, focusing on imports (this corresponds to the upper panel of Table X5; the taxonomy for exports is analogous to that for imports). An import record is designated as **"matched"** if three criteria are satisfied: (a) the record includes positive magnitudes for the values of Uganda-reported imports and the associated exports of the partner country; (b) the record includes positive magnitudes for the volumes of Uganda-reported imports and the partner country's associated exports; and, (c) the volumes are reported by Uganda and its trade partner in the same physical units (e.g., kilograms). An import record is designated as **"orphaned"** if Uganda reports a positive value for the imports but there is no associated export report recorded for the partner country. Finally, an import record is designated as **"other"** if criterion (a) for matching is satisfied but either of criteria (b) and (c), or both, are not satisfied.

An additional designation is needed for those records in which Uganda does not report imports but a Ugandan trade partner records exports. Such records are termed **"lost"** imports.

Only data records designated as matched (by the above criteria) are used in the estimation of potential misinvoicing.[115] Moreover, the composition of the data classified into matched, orphaned and lost will vary by year, by country, and by commodity in ways that reflect vagaries of reporting and not necessarily (unobservable) variations in the propensity for TM. Among other things, that changing composition of the completeness of trade records in the UNCT database limits the extent to which we can make meaningful comparisons of estimated potential TM in dollar terms over time, across countries and across commodities. While the shifting composition of the data among these categories might also affect the estimated propensities, it would only to a lesser extent.

[115] While the records designated as "other" do contain mirror reports of a trade in value terms, because corresponding volumes are either not available for both trade partners or are reported in different units, quantity-based weighting (as described earlier in the third part of section B) could not be performed for records in this group.

APPENDIX 3: Stakeholders Working on IFFs In Uganda

TABLE X6: Government of Uganda Agencies That Are Stakeholders for Curtailing Illicit Financial Flows

Category of IFF	Agency	Mandate	Laws Governing Agency
Commercial	Ministry of Trade, Industry and Cooperatives	To formulate, review and support policies, strategies, plans and programs that promote and ensure expansion and diversification of trade, cooperatives, environmentally sustainable industrialization, appropriate technology development and transfer to generate wealth for poverty eradication and benefit the country socially and economically	The Constitution of the Republic of Uganda (1995 – Article 189, Sixth Schedule Sections 11, 12, 13, 20, 23, 25 and 29)
Commercial	Ministry of Finance, Planning and Economic Development	To mobilize financial resources, regulate their management and formulate policies that enhance overall economic stability and development. Specific Objectives are to; Maintain solid economic growth under a stable macro environment, Enhance venue collection to finance the budget towards 25% of the GDP target, Promote regional integration programs and investment and to promote transparency and accountability for all public resources	The Constitution of the Republic of Uganda 1995
Commercial	Uganda Investment Authority	UIA is a statutory agency mandated to initiate and support measures that enhance investment in Uganda and advise Government on appropriate policies conducive for investment promotion and growth. As an Investment Promotion Agency, UIA mainly: markets investment opportunities; promotes packaged investment projects; ensures local and foreign investors have access to information, especially about the business environment so as to make more informed business decisions; and offers business support, advisory and advocacy services.	Investment Code Act, 1991
Commercial	Uganda Revenue Authority	URA is mandates to assess, collect and account for central government tax revenue including non-tax revenue and to provide advice to government on matters on policy relating to all revenue resource.	The Uganda Revenue Authority Act, Cap 196
Commercial	Uganda Registration Service Bureau	URSBA's mandates is; Business Registration – includes registration of companies and business names, partnerships, documents, debentures and chattels transfer; act as Official Receiver in liquidation of companies and bankruptcy matters; manage Intellectual Property Rights – includes registration of Patents, Utility models; Industrial designs, Trademarks, Service marks and Copyright and Neighboring Rights; manage Civil Registration – Civil marriages and to collect Non-Tax Revenue (NTR)	Section 4(2) of URSB Act

TABLE X6: Government of Uganda Agencies That Are Stakeholders for Curtailing Illicit Financial Flows (continued)

Category of IFF	Agency	Mandate	Laws Governing Agency
Commercial	Police, Economic Crimes Unit under CIID	Effective detection, investigation and prevention of crime.	Constitution of the Republic of Uganda Chapter 12 Article 211 Police Act, 1994
Commercial	Capital Markets Authority	CMA mandate is the development of all aspects of the capital markets with particular emphasis on the removal of impediments to, and the creation of incentives for longer term investments in productive enterprises. The creation, maintenance and regulation through implementation of a system in which the market participants are self-regulatory to the maximum practicable extent, and of a market in which securities can be issued and traded in an orderly, fair and efficient manner. The protection of investor interests. The operation of a compensation fund	Section 102 of the CMA Act (Cap. 84)
Commercial	Parliament of Uganda, Public Accounts Committee	Mandated to examine the audited accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure of government.	Rule No. 148 of the Rules of Procedure of Parliament of Uganda.
Commercial	Parliament of Uganda, Committee on Finance, Planning and Economic Development	Mandated by parliament to oversee the activities and programs of the Ministry of Finance, Planning and Economic Development	Mandated by Parliament of the Republic of Uganda
Commercial	Bank of Uganda	Issuance of Uganda's national currency/legal tender, the Uganda Shilling (UGX) Regulation of money supply through Monetary Policy Banker to the Government of Uganda Banker to Commercial Banks Supervision and regulation of Financial Institutions Management of the country's external/foreign reserves Management of Uganda's external debt Adviser of Government on financial and economic issues	Art 161 Constitution of the Republic of Uganda Bank of Uganda Act, 1969 and Bank of Uganda Act, 2000 S 2(1)
Commercial	Uganda Communications Commission	The primary mandate of UCC is to regulate the Communications sector, which includes Telecommunications, Broadcasting, radio communication, postal communications, data communication and infrastructure	Uganda Communications Act 2013

TABLE X6: Government of Uganda Agencies That Are Stakeholders for Curtailing Illicit Financial Flows (continued)

Category of IFF	Agency	Mandate	Laws Governing Agency
Criminal	Ministry of Internal Affairs Citizen and Immigration Control	The Directorate of Citizenship and Immigration Control is a Public Service Institution under the Ministry of Internal Affairs and is responsible for managing migration to and from Uganda. Its mandate is to facilitate the legal and orderly movement of persons to and from Uganda; Process, verify and grant Uganda citizenship; Regulate the issue of national passports and other travel documents; to facilitate and provide a conducive immigration environment for foreign investment in Uganda and To enforce national and regional immigration laws for the security and development of Uganda.	Uganda Citizenship and Immigration Control Act, Act 5 2009 & regulations. The Refugees Act, 2006
Criminal	Director of Public Prosecutions	To institute criminal proceedings against any person or authority on behalf of government in any court with competent jurisdiction other than court martial, to direct police to investigate any information of a criminal nature and report, take over any criminal proceedings instituted by any other person or authority or discontinue criminal proceeding at any stage before delivery of judgement.	Art 120 1995 Constitution
Criminal	Police, Directorates Directorate of forensic services Criminal Investigation and Crime Intelligence Directorate of Interpol	Responsible for detecting, investigating and preventing crime regarding highly specialized areas of cyber, ballistics, chemical analysis and questioned documents among others. Effective detection, investigation and prevention of crime. The role of the Directorate is to ensure international and regional cooperation in the fight against trans-national crime.	Chapter 12 Article 211 Police Act, 1994
Criminal	Financial Institutions Authority	The FIA is mandated to ensure the prohibition and prevention of money laundering, in order to combat money laundering activities: Specifically to impose certain duties on institutions and other persons, businesses and professions who might be used for money laundering purposes; to make orders in relation to proceeds of crime and properties of offenders; to provide for international cooperation in investigations, prosecution and other legal processes of prohibiting and preventing money laundering; to designate money laundering as an extraditable offence; and to provide for other related matters.	Anti-Money Laundering Act, 2013 Part IV S.18
Government Corruption and Bribery	Inspectorate of Government	The Inspectorate of Government is an independent institution charged with the responsibility of; eliminating corruption, abuse of authority and of public office; investigate or cause investigation, arrest or cause arrest, prosecute or cause prosecution; *make orders and give directions during investigations; access and search; enter and inspect premises or property or search a person or bank account or safe deposit box; supervise the enforcement of the Leadership Code of Conduct.	1995 Constitution Chapter 13, Art 223 Inspectorate of Government Act, 2002

TABLE X7: Non-State, Intergovernmental and Bilateral Actors That Are Stakeholders For Curtailing Illicit Financial Flows In Uganda

Actor	Mandate
Southern and Eastern African Trade, Information and Negotiations Institute, SEATINI	SEATINI Uganda is one of the leading NGOs working on issues of trade, fiscal and development issues. It monitors developments in the area of trade, tax and related policies and practices to ensure that these processes generate favorable environment which can be utilized to achieve equitable and sustainable development at national, regional and global levels, provides a platform for stakeholders to deliberate on global, regional and national issues with a view of developing a consensus, raises awareness, builds long term capacity and brings into discourse the concerns of key stakeholders and generates information to facilitate evidence based policy advocacy. Together with AAU, SEATINI carried out a study on Curbing and Preventing IFFs and Tax Evasion; Assessing Uganda's legal and institutional framework.
OXFAM Uganda	Oxfam is an international NGO working in Uganda on development and humanitarian programs to support practical and innovative ways for people to lift themselves out of poverty. Oxfam envisions Uganda free of extreme inequality and injustice; a society where citizens and particularly women across all age groups claim and exercise their rights and responsibilities and can influence decisions that affect their lives. Oxfam programs are hinged on three thematic goals which aim to promote women's rights, good governance and accountability, resilient livelihoods, as well as enhance preparedness, reduce vulnerability to disaster and ensure an effective response to humanitarian crises. Oxfam has carried out a study on IFFs, tax assessment diagnostic study done in 2015.
ACTION AID Uganda	ActionAid is a development NGO that has been working in Uganda since 1982 to end poverty and injustice. ActionAid focuses on tackling the root causes of the injustice of poverty rather than just meeting people's immediate needs. It works on participatory democracy and governance and the implications of abuse of power. Together with SEATINI, AAU carried out a study on Curbing and Preventing IFFs and Tax Evasion; Assessing Uganda's legal and institutional framework.
Transparency International Uganda	Transparency International Uganda (TIU) is a national chapter of Transparency International – The global anti-corruption movement. It is a registered NGO working to create towards a Uganda free of corruption. TIUs' jurisdiction is country wide and addresses all forms of corruption.
GIZ	GIZ has over 50 years of experience in a wide variety of areas, including economic development and employment, energy and the environment, and peace and security. GIZ supports organizations, public authorities and private businesses in acquiring specialist knowledge, skills and management expertise as well as to optimize their organizational, managerial and production processes. It advises governments on how to achieve objectives and implement nationwide change processes by incorporating them into legislation and strategies. GIZ has various publications on IFFs among which include Good Financial Governance in Africa; Promoting transparent and responsible use of public finances in Africa. Germany is prioritizing IFFs in the next 3 years ODA.

TABLE X7: Non-State, Intergovernmental and Bilateral Actors That Are Stakeholders For Curtailing Illicit Financial Flows In Uganda (continued)

Actor	Mandate
International Monetary Fund (IMF)	The International Monetary Fund (IMF) is an organization of 189 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.
Uganda Debt Network (UDN)	UDN is a national policy advocacy organization that promotes and advocates for poor and marginalized people to participate in influencing poverty-focused policies, demand for their rights and monitor service delivery to ensure prudent, accountable and transparent resource generation and utilization. It seeks to generate advocacy expertise that influences people-based and accountable public resource management in Uganda.
FIDA Uganda	FIDA Uganda is an NGO and Professional association of women lawyers. Its mission is to advance women's human rights using the law as a tool for social justice. Its 2015-2020 Strategic plan includes women's socio-economic justice as a strategic priority. Its focus on IFFs is on raising awareness in training and meetings of: – judges and other judicial officers jointly with ULS, – African women CSOs jointly with FEMNET in Kenya and at the AU, – Ugandan NGOs and technocrats with SEATINI and AAU, – EA lawyers under EA Law Society AGMs in 2016 and 2017. FIDA Uganda hosted the public dialogue on IFFs with Makerere University within the context of the Danida study on IFFs with GFI and EPRC, besides several forum presentations by its CEO at national and international events. Its interest is in on IFFs development and gender cost, mobilizing communities against IFFs and law reform.
USAID	USAID leads international development and humanitarian efforts to save lives, reduce poverty, strengthen democratic governance and help people progress beyond assistance. USAID is to augment their DRM design with strategies to help combat IFFs with the goal of increased funding to social sectors.
African Centre for Media Excellence	The African Centre for Media Excellence is a Kampala-based independent, non-profit professional organisation that is committed to excellence in journalism and mass communication in Africa. ACME's main goal is to make the media a more effective platform for the provision of information on public affairs, a tool for monitoring official power, and a forum for vibrant public debate. ACME Is interested in how media/popular debate have framed IFF issue in Uganda media platform. ACME has access to are available to share the report.

APPENDIX 4: Stakeholder Comments

Global Financial Integrity has endeavored to include in the text of the scoping study many comments on the analysis from various stakeholders. Some of those that were not fully included are below. Additional comments have influenced the final presentation of this study.

Uganda Revenue Authority

The Government continues to review Double Taxation Agreements, including with the Netherlands and Mauritius, but these agreements are difficult to renegotiate.

The Authorized Economic Operator initiative gives preferential treatment to compliant taxpayers and clearing agents and has contributed to facilitating legitimate trade.

Introduction of Non-Intrusive Inspection has further improved clearance times.

Automation of customs processes and procedures and implementation of a comprehensive risk management operational mechanism have all contributed to the ease of doing business which has translated into reduced clearance costs.

URA and FIA have MOUs to share information, and MOUs exist between other agencies as well.

URA has been sanctioning some financial institutions. FIA and the Bank of Uganda each have sanctioning authority as well.

The African Tax Administration Forum has been especially helpful to Ugandan authorities.

Uganda has staff posted at key ports in the European Union and will soon have a posting in China.

Financial Intelligence Authority

There have been two recent money laundering convictions and many cases are ongoing. Other successes do not necessarily move into the justice system.

Cash Transaction Reports (CTRs) differ from Cash Conveyance Reports (CCRs). The CTR form has been available since 2015. The CCR form is not presently being used, due to issues of collaboration and coordination between different government departments and abuse of the system by some government officials.

On the recommendation to give the FIA prosecutorial powers, the FIA would be pleased to have this authority but it is difficult to fit into FIA's structure. Instead, it would be preferable to enhance the capacity of those with prosecutorial powers.

Strengthening Uganda's Anti-Corruption and Accountability Regime (SUGAR)

Strongly positive reactions to the report.

Asset recovery has become and needs to remain a central focus in criminal and civil processes.

The Office of the Director of Public Prosecutions is growing in effectiveness.

Several offices of the Government should be engaged and proactive in curtailing IFFs and pursuing asset recovery.

Cases on concealment of laundered money are growing.

Progress over the next two years is expected to be significant.

Legal Aid Service Providers' Network

URA has a special unit for handling the taxes of very important persons.

It would be useful to see more discussion about tax holidays and exemptions.

Within the Recommendations section, it would be useful to note what applies to the short-, medium-, and long term.

Whistleblower and witness protection regulations need to be addressed and enhanced.

Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

Government agencies give different information at different times; this needs to be coordinated and streamlined. Each government agency needs to record, synchronize, and verify statistics and information disseminated to the public.

Transparency International Uganda

Need to strengthen references to and recommendations concerning transparency and accountability.

Embassy of Denmark

Issues surrounding the impact of IFFs on health and infrastructure need to be addressed.

BIBLIOGRAPHY

AfDB (2010), *'Domestic Resource Mobilization for Poverty Reduction in East Africa: Uganda Case study. African Development Bank, Regional Department East Africa (OREA)'*, African Development Bank (AfDB).

Ahaibwe, G., Lakuma, C. P., Katunze, M., Mawejje, J., (2016), *'Socio Economic Effects of Gambling: Evidence from Kampala City, Uganda'*, EPRC Research Series No. 126, January.

APRM (2017), *'Uganda Country Self-Assessment Report'*, African Peer Review Mechanism (APRM).

Badarinza, C. and Tarun Ramadoraiy, T. (2016), *'Home Away From Home? Foreign Demand and London House Prices'*, Department of Real Estate, Institute of Real Estate Studies, National University of Singapore.

Baier, S. L., Bergstand, J. H. & Feng, M. (2014). Economic integration agreements and the margins of international trade. *Journal of International Economics*, 93 (No. 2), pp. 339-350.

Bank of Uganda (undated). *Balance of Payments: Sources and Methods*, retrieved from: https://www.bou.or.ug/bou/bou-downloads/statistics/metadata/Balance-of-Payments.pdf on 27 June 2018.

Beramendi, P., Morucci, M., and Wibbels, E. (2017), 'Political Determinants of Illicit Financial Flows', Duke University working papers.

Cate, A. (2007), Modelling the reporting discrepancies in bilateral data. *CPB Memorandum*, (179). Retrieved from: https://www.cpb.nl/sites/default/files/publicaties/download/memo179.pdf

Choi, Y. S., Ibok, E. & Kalizinje, F. (2018, forthcoming). Cross-reference of PFM and PCM: 3 case studies. Chapter 7 in World Customs Organization, *WCO study report on illicit financial flows via trade mis-invoicing*.

CSBAG (2017), *'Widening Uganda's Tax base: What's at stake and what should Government do'*, Kampala: Civil Society Budget Advocacy Group (CSBAG).

Economic Commission for Latin America and the Caribbean (2016), *Economic Survey of Latin America and the Caribbean*, (C/G.2684-P) Santiago: United Nations, ECLAC. Retrieved from: https://repositorio.cepal.org/bitstream/handle/11362/40327/S1600797_en.pdf?sequence=50&isAllowed=y

EPRC (2007), *'China–Africa economic relations: The Case of Uganda'*, Economic Policy Research Centre (EPRC), Kampala

FATF (2016), *'Anti-money laundering and counter terrorist-financing measures: Uganda'*, Financial Action Task Force. Retrieved from: http://www.fatf-gafi.org/media/fatf/documents/reports/mer-fsrb/ESAAMLG-mutual-evaluation-Uganda-2016.pdf

FIA (2017), *'The Money Laundering and Terrorist Financing National Risk Assessment'*, Financial Intelligence Authority (FIA).

Fortanier, F. & Sarrazin, K. (2016). Balancing international merchandise trade statistics. *Organisation for Economic Co-operation and Development Statistical Directorate, Committee on Statistics and Statistical Policy, Working Party on International Trade in Goods and Services Statistics*, (No. STD/CSSP/WPTGS(2016)18). Retrieved from: http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=STD/CSSP/WPTGS%282016)18&docLanguage=En

FSDUganda (2018), *'Finscope - UGANDA - Topline Findings Report'*, Kampala: Financial Sector Deepening Uganda (fsduganda). Retrieved from: http://fsduganda.or.ug/finscope-2018-survey-report/

Gaulier, G. & Zignano, S. (2010). BACI: International trade database at the product-level, the 1994-2007 version. *Centre d'Études Prospectives et d'Informations Internationales, Document de Travail*, (No. 2010-23). Retrieved from: http://www.cepii.fr/PDF_PUB/wp/2010/wp2010-23.pdf

GFI (2014), *'Hiding in Plain Sight: Trade Mis-invoicing and the Impact of Revenue'*, Global Financial Integrity (GFI).

GOU (2017), *'Background to The Budget Fiscal Year 2018/19'*, Kampala: Ministry of Finance, Planning and Economic Development, Government of Uganda (GOU).

GOU (2017), *'Budget Speech for Fiscal Year 2017/18'*, Kampala: Ministry of Finance, Planning and Economic Development, Government of Uganda (GOU).

GOU (2018), *'Background to the Budget Fiscal Year 2017/18'*, Kampala Uganda: Ministry of Finance, Planning and Economic Development, Government of Uganda (GOU).

Hickey, S. (2013), *'Beyond the Poverty Agenda? Insights from the New Politics of Development in Uganda'*, World Development Volume 43, March 2013, Pages 194-206.

IBA (2007), *'Judicial independence undermined: A report on Uganda'*, International Bar Association (IBA).

IGG (2017), *'Bi-Annual Performance Report to Parliament, Jan.- June, 2017'*, Inspectorate of Government (IGG).

Jarvorcik, B.S. and Narciso, G. (2017), *'WTO accession and tariff evasion'*, *Journal of Development Economics*, Volume 125, Pages 59-71.

Kar, D., (2010), *'The Drivers and Dynamics of Illicit Financial Flows from India: 1948-2008'*, s.l.: Global Financial Integrity.

Lain, S., Campbell, H., Moiseienko, A., Nouwens, V., and de Oliveira, I.S., (2017), *'Illicit Financial Flows and Corruption in Asia'*, London: Royal United Services Institute for Defence and Security Studies.

Liebowitz, J., Sentamu, R., Kibirige, F., and Logan, C. (2015), *'Going in the Wrong Direction? Ugandans Report Declining Government Effectiveness'*, Afrobarometer Briefing Paper No. 153. Retrieved from: http://afrobarometer.org/publications/bp153-going-wrong-direction-ugandans-report-declining-government-effectiveness

Mawejje. J. and Munyambonera, E.F. (2016), *'Sectoral GDP Growth Effects on Uganda's Tax Effort and Revenue Mobilisation'*, EPRC Research Series No. 125, January.

Miao, G. & Fortanier, F. (2016). Estimating CIF-FOB margins on international merchandise trade flows. *Organisation for Economic Co-operation and Development Statistical Directorate, Committee on Statistics and Statistical Policy, Working Party on International Trade in Goods and Services Statistics*, (No. STD/CSSP/WPTGS(2016)8). Retrieved from: http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=STD/CSSP/WPTGS(2016)8&docLanguage=En

Munyambonera, E.F. and Lwanga, M.M. (2015), *'A Review of Uganda's Public Finance Management Reforms (2012 to 2014): Are the Reforms Yielding the Expected Outcomes?'*, EPRC Research Series No. 121, April

Nitsch, V. (2014),*'Trade Mispricing and Illicit Flows'*, Research Gate.

OAG (2016), *'Annual Report Of The Auditor General on the Financial Statements Of GoU For the Financial Year Ended 30th June 2016 Central Government And Statutory Corporations'*, Kampala: Office Of The Auditor General (OAG).

OECD (2018), *'Illicit Financial Flows: The Economy of Illicit Trade in West Africa'*, Paris: Organization of Economic Cooperation and Development (OECD).

Okuja, J.O. (2016). *'Taxation of Income & Consumption in Uganda: The Law and Practice'*, TASLAF Advocates and Consultants, Kampala.

PPDA (2016), *'The 2nd Public Procurement Integrity Survey'*, Public Procurement and Disposal of Public Assets Authority (PPDA).

Reliefweb, (2005), *'Donors write off Uganda's 3.7 billion dollars debt'*. Retrieved from: https://reliefweb.int/report/uganda/donors-write-ugandas-37-billion-dollars-debt

Reuters, (2014), *'Trade mispricing costing Africa billions'*, study. [Online] Available at: https://www.reuters.com/article/us-africa-trade/trade-mispricing-costing-africa-billions-study-idUSBREA4A0AH20140511

Ritter, I., (2015), *'Illicit Financial Flows: An Analysis and Some Initial Policy Proposals'*, s.l.: Friedrich-Ebert-Stiftung.

Salomon, M. (2018a, forthcoming) Estimating IFFs/TM: Partner Country Method (PCM). Chapter 3 in World Customs Organization, *WCO study report on illicit financial flows via trade mis-invoicing*.

Salomon, M. (2018b, forthcoming) Cross-reference of PFM and PCM: Analysis of South African TM risks—Imports, 2010-2015. Chapter 5 in World Customs Organization, *WCO study report on illicit financial flows via trade mis-invoicing*.

SEATINI (2017), *'Taxation in Uganda: Review and analysis of national and local government performance, opportunities and challenges'*, Southern and East African Trade Information and Negotiation Institute (SEATINI)

Transparency International (2017), *'East Africa Bribery Index'*, Transparency International (TI)

Transparency International (2017a), *'Global Corruption Barometer (GCB)'*, Transparency International (TI)

UBOS (2016), *'The National Service Delivery Survey 2015', Uganda Bureau of Statistics (UBOS)*

Uganda PEFA (2017), 'Uganda Public Expenditure and Financial Accountability (PEFA) Assessment 2016', Uganda Public Expenditure and Financial Accountability (Uganda PEFA).

Uganda Revenue Authority (URA) (2017). URA Performance Press Brief *July 2016 to March 2017*. Kampala: Uganda.

World Bank (2017), *'World Development Indicators'*.

Wamajji, R. (2018), *'Parliamentary oversight in accountability affects service delivery in Public institutions'*, [Online] Available at: http://parliamentwatch.ug/parliamentary-oversight-in-accountability-affects-service-delivery-in-public-institutions/#.W1gvOdIzbIV

Wesonga, N. (2018), 'Who owns rights to Uganda's minerals?' *Daily Monitor*, 18 July, pp. 4-5.

Worku, T., Mendoza, J.P., and Wielhouwer, J. L. (2016), 'Tariff evasion in sub-Saharan Africa: the influence of corruption in importing and exporting countries', *International Tax and Public Finance*, 2016, vol. 23, issue 4, 741-761.

Young, N. (2012), 'Uganda's Museveni is more concerned with oil than the anti-homosexuality bill'. *The Guardian*, 10 Feb.

Zucman, G. (2014), 'Taxing across Borders: Tracking Personal Wealth and Corporate Profits', *Journal of Economic Perspectives*—Volume 28, Number 4—Fall 2014—Pages 121–148.

ACKNOWLEGEMENTS

This study was a collaborative effort between Global Financial Integrity, Economic Policy Research Centre and the Uganda Association of Women Lawyers.

Global Financial Integrity (GFI) is a non-profit, Washington, DC-based research, advocacy and advisory organization, which produces high-caliber analyses of illicit financial flows, advises developing country governments on effective policy solutions, and promotes pragmatic transparency measures in the international financial system as a means to significantly improve global development and security. Launched in 2006, GFI is a global leader in illicit flows research and in working directly with developing country governments to assist in their effort to curtail IFFs. In 2016 GFI brought to market a cloud-based trade risk-assessment database—called GFTrade—which enables customs departments to identify trade misinvoicing (a common way to illicitly move money out of developing economies) while goods are still in the port thereby enabling a correct assessment of taxes and duties due to the government.

The Economic Policy Research Centre (EPRC) is Uganda's leading think tank in economics and development policy oriented research and policy analysis. Established in 1993, EPRC is an autonomous not-for-profit organization limited by guarantee to fill fundamental voids in economics research, policy analysis, and capacity building for effective in-country contributions to Uganda's policy processes. Today EPRC is a reputable, credible and independent policy think tank in Uganda renowned for providing research based evidence and policy analysis to support the formulation, implementation, monitoring and evaluation of government policies.

To foster sustainable growth and development of the Ugandan economy by advancing the role of research in policy processes. We do this through provision of high quality applied research, practical policy analysis and advice, and policy focused dissemination and discourse. We also undertake capacity building activities through intellectual and scholar exchange, networking with accredited national and international institutions and scholars and hands on skills sharpening for young professionals, technocrats and policy makers.

The Uganda Association of Women Lawyers (FIDA-Uganda) is a leading women's rights organizations in Uganda and the pioneer of legal aid and public legal education in sub-Saharan Africa. Formed in 1974, FIDA-(U) has an established track record of promoting and defending human rights, with a focus on the rights of women with children. FIDA-(U) is a National chapter of the International Federation of Women Lawyers (in Spanish: Federacion Internacional De Abogadas) and has observer status with the Africa Human Rights Commission.

In particular, FIDA-(U) promotes human rights standards as established in international, regional and national human rights instruments and uses a feminist and rights-based approach to address the underlying causes of abuse, including patriarchy, injustice and exclusion. It also supports and monitors the Government of Uganda as the primary duty bearer to fulfill its obligation to protect and promote the human rights of women through establishing/strengthening sustainable and effective legal and structural mechanisms. FIDA (U) monitors the justice systems' adherence to international human rights standards in delivering justice to women.

About

Global Financial Integrity

Founded in 2006, Global Financial Integrity (GFI) is a non-profit research and advisory organization, based in Washington, DC. GFI produces quantitative analyses of trade-related illicit financial flows, advises governments of developing countries on effective policy solutions and promotes transparency measures in the international financial system as a means to global development and security.

Acknowledgements

GFI gratefully acknowledges Gil Leigh of Modern Media for his contributions to the layout and design of the publication.

GLOBAL FINANCIAL INTEGRITY

1100 17th Street, NW, Suite 505 | Washington, DC | 20036 | USA
Tel. +1 (202) 293-0740 | Fax. +1 (202) 293-1720 | www.gfintegrity.org

President: Raymond Baker **Managing Director**: Tom Cardamone

Board: Lord Daniel Brennan (Chair), Dr. Rafael Espada (Vice Chair), Segun Apata, John Cassara, Huguette Labelle, Leonard McCarthy, Raymond Baker