

South Africa's battle against greylisting: a year on

It's been a year since the global watchdog the Financial Action Task Force (FATF) put South Africa on a grey list for failing to meet international standards with regards to anti-money laundering, combating the financing of terrorism and proliferation financing.

By [Hawken McEwan](#) 4 Mar 2024



Source: [Pexels](#)

Businesses have enquired as to what progress has been made since then by the government and regulatory bodies to get the country off the grey list.

When South Africa was greylisted by the FATF in February 2023, it was a huge blow to our confidence. Just like the news that our sovereign credit rating had been downgraded to junk status three years before, it hurt to know that other countries would now be wary of investing in our assets or doing business with us.

Of course, we'd known for a while that there were chinks in our armour. We were warned by the FATF in a 2019 inspection that there were problems, but our efforts were arguably too little, too late, with proposed changes coming into effect literally weeks before the final review in 2023.

The key areas the FATF highlighted were taking a more risk-based approach to fighting financial crime and really understanding who we are getting into business with through more robust due diligence.

Another finding was that there were gaps in intelligence – requiring more co-operation with other financial intelligence units and investigative authorities globally, and expanding the reach of oversight across a broader base of non-financial businesses.

Global perception

But, how has the greylisting changed the world's perception of SA?

The biggest cost has been reputational damage. We are now perceived by the rest of the world as being below par in

combating financial crimes like corruption, money laundering, terrorism financing and proliferation financing. The public proclamation of the flaws in our financial systems means other countries are going to be more cautious about engaging with South Africa.

The greylisting means local individuals and businesses will be subject to more scrutiny regarding their source of funds, counterparties and reasons for transactions before international companies will do business with them.



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This additional due diligence will come at a cost, which will be passed onto the consumer, whether it is through administrative fees, reduced rates or increased prices. Thus, compliance-related costs will increase and international deals may be delayed due to more red tape.

Along with the news that South Africa received its worst score yet in the recent *Corruption Perceptions Index* by Transparency International, the greylisting has compounded our already reduced economic prospects and slow pace of job creation.

What still needs to be done?

South Africa has accepted the FATF's report and has made progress in addressing its recommendations.

These include broadening the types of businesses that must now comply with Fica, such as credit providers, high-value goods dealers and companies that help others set up businesses and trusts.

The idea here is to put controls around industries outside the direct financial markets that money launderers can make use of in their schemes.

While these new categories have been announced, there is still much work to be done to educate these sectors in terms of the potential risk their businesses carry, and how to implement appropriate controls and reporting processes.

Another positive development has been the introduction of the requirement for centralised beneficial ownership registers.

It's now a requirement for the ultimate beneficial owners of all companies and trusts to be registered with CIPC or the master's office to prevent them from being used to disguise the true identity of who is really behind them.

While this is a great step forward, access to this register is strictly limited to the authorities, meaning accountable institutions still have to duplicate the work in establishing the beneficial ownership of their legal person clients.



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The Financial Intelligence Centre has also begun working more closely with other investigating units to share intelligence and ultimately support prosecutions - something that the FATF has said it wants to see sustained improvement in.

The length of time a country remains on the grey list depends on how quickly it resolves its shortcomings. This varies on average from five to 10 years. A country is a big ship and big ships take time to turn.

However, it is quite possible to reverse the decision in a shorter time with commitment and tangible, sustained action.

Mauritius, Iceland and Serbia were able to implement necessary reforms quickly and were delisted in one to two years.

Other countries – where deficiencies are particularly serious or progress in rectifying them is slow – have remained on the grey list for several years, including Yemen (since 2010), Syria (since 2013) and the Democratic Republic of Congo (since 2010).

The government has stated that it expects to address its deficiencies by the end of January 2025. Given the upcoming election, whether this will be possible remains to be seen.

What can companies do?

It's not just the government that is responsible for turning the greylisting around. All companies have a role to play in combating money laundering, terrorism financing and proliferation financing by ensuring their products and services are not knowingly or unwittingly exploited by criminals.



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It's understandable that there's apathy among many businesses to report suspicious activities, as the effort to report them often does not result in prosecutions.

While it's tempting to succumb to the logic of this argument, companies and individuals need to make a collective effort to fight financial crime by doing what is right, not what is easy.

Fica, and similar legislation around the world exists for a genuine purpose, and while compliance may seem like a regrettable burden, by understanding the risk in a business, implementing effective controls, adopting the right technology to support staff and reporting suspicions, companies really can play a part in turning the country around - after all, it's those on the frontline that have the best view of what is really happening on the ground.

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