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# Financial Action Task Force grey lists Namibia

As was anticipated, the Financial Action Task Force placed Namibia on its 'grey list' on 23 February 2024. The below Q&A provides context for the decision, sets out the implications for investors and considers the possible economic impact on Namibia.

## What is greylisting?

The Financial Action Task Force (FATF) is an inter-governmental body that sets and monitors international standards against money laundering and terrorism financing. The FATF conducts peer reviews of over 200 countries globally, including Namibia, on an ongoing basis to assess levels of implementation of these standards.

Namibia's latest peer review was conducted in 2021 and the FATF issued a report on the review in January 2023, concluding that Namibia had deficiencies in relation to, inter alia, the prevention, monitoring and prosecution of terrorism finance, implementing targeted financial sanctions, reporting of suspicious activity, transparency around politically exposed persons, the risk of correspondent banking, the effectiveness of the financial intelligence unit, and the beneficial ownership of companies and trusts. Namibia was given until early 2024 to rectify/address the areas of concern.

At the FATF plenary meeting held last week in Paris, the actions taken by Namibia post the 2023 report were again peer reviewed. FATF concluded that insufficient steps had been taken to address their concerns and as a result Namibia was placed under 'Increased Monitoring'. This means that Namibia and FATF are working together to resolve the concerns identified within agreed timeframes. Increased Monitoring is also known as being on the 'grey list'.

The principal effect of grey listing is that global organisations that receive fund flows from Namibian entities are likely to conduct enhanced due diligence on the source of these funds to ensure that they are not related to money laundering or terrorist financing.

This is not the first instance of grey listing for Namibia. The country was previously grey listed in 2011 and took until 2015 to exit the list.

## Why has Namibia been grey listed?

Namibia has been placed on the grey list because concerns have not to date been rectified to the satisfaction of FATF. Namibia has put in place the National Focal Committee that will oversee the execution of the plan to restore international confidence in Namibia.

FATF Reviews are broken down into compliance, with 40 recommendations (6 of which are considered core) and 11 immediate outcomes on the effectiveness of the control environment.

Area	Result
40 recommendations	Non-compliant with 3 and partially compliant with 15
11 immediate outcomes	Moderate effectiveness with 6 and low effectiveness with 5
6 core recommendations	Failed on 3 out of 6

Following the review in 2021, Namibia had 72 recommended actions to implement; at the time of the plenary, Namibia still had 13 actions outstanding.

## Is grey listing permanent?

No. As previously shown by Namibia, once a country has resolved the deficiencies, it may be removed from the grey list. Namibia took 4 years to exit the grey list the previous time.

## How soon can Namibia be removed from the grey list?

The lists are reviewed at the FATF plenary sessions, which are hosted three times per year, and there are additional opportunities for review intra-cycle.

The time it takes varies, with Pakistan spending more than 4 years on the list, Mauritius 2 years and Botswana 3 years. The quickest turnaround was Iceland, which spent a year on the list.

In addition, once removed from the grey list it takes around 3 additional months for the UK and EU to remove a country from their high-risk third country lists.

In order to be removed from the FATF grey list, a country must address all or nearly all the issues. Once the FATF has determined that a country has done so, it will organise an on-site visit to confirm that the implementation of the necessary legal, regulatory, and/or operational reforms is underway and there is the necessary political commitment and institutional capacity to sustain implementation. If the on-site visit has a positive outcome, the FATF will decide on removing the jurisdiction from the grey list at the next FATF plenary.

The concerned country will then continue to work within the FATF, through its normal follow-up process, to improve its anti-money laundering and countering the financing of terrorism (AML/CFT) regime.

Ultimately, the length of Namibia's stay on the grey list will depend on how seriously the recommendations are taken, and how effectively the deficiencies are addressed.

## Are there any implications for Ninety One's ability to operate in Namibia?

No, but due diligence of Namibian investors by international financial institutions (banks, investment managers etc) is likely to be enhanced which means that the process of investing outside of Namibia is likely to be more complicated and lengthier.

## Are there any implications for Ninety One's ability to manage assets for clients globally?

It is important to emphasise that the principal focus of the FATF review is on the quality of AML/CFT controls. These do not affect the provision of investment management services and therefore there is no impact on the ability of Ninety One to continue to provide these services to its clients.

## What is the business impact on Ninety One?

Other than the point on enhanced due diligence above, we don't expect the grey listing to have a material business impact. This is a widely anticipated outcome and we have been working for a substantial time to ensure that our business and clients are not adversely impacted.

## What are the implications for Ninety One's clients globally?

None.

## What are the implications for Ninety One's Namibian clients?

Any Namibian investor investing in a non-Namibian or South African-domiciled investment product will be subject to enhanced AML due diligence. Essentially this means investors will have to provide more information about the source of the funds as well as the identity of the investor and/or the beneficial owner of the legal entity making the investment. We also expect an increase in the frequency of AML due diligence refreshes.

## Which of Ninety One's Namibian products are affected by the enhanced due diligence?

The enhanced due diligence process will only affect Namibian investors taking funds overseas and investing those funds in foreign-domiciled investments.

We expect that the following products could be affected:

- Direct investments into a Ninety One offshore fund from our Luxembourg or Guernsey range
- Investments in the Ninety One Investment Platform Global Life Portfolio.

## What is the economic impact of grey listing?

Clearly, grey listing will be negative for Namibia in terms of reputational damage, and higher transactional, administrative and funding costs will result in a less efficient economy with more frictional costs.

While there have been several studies assessing the economic impact of grey listing, the results are for the most part inconclusive. Namibia has its own history with grey listing and this will be the best indication for potential impact. The International Monetary Fund<sup>1</sup> has done extensive research on the impact of grey listing on capital flows (both foreign direct investments as well as portfolio flows). The research highlights the potential negative impact, especially in the first year following the announcement of grey listing. In most cases, capital flows recovered in subsequent years, especially in those countries that actively and successfully worked to get their grey-listed status removed.

However, the IMF research measured the impact in aggregate. When looking at different countries individually, the outcomes differed substantially. While there was a direct negative impact on overall levels of economic growth in Mauritius, countries such as Indonesia actually attracted positive capital flows in the year that they were grey listed. That said, in aggregate, countries which receive a grey listing status struggle to attract foreign investment.

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1. The Impact of Gray-Listing on Capital Flows by Mizuho Kida and Simon Paetzold, published in May 2021.

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