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What Happens When South Africa Is Greylisted?

The word greylisting has been making some rounds in various prominent media outlets in recent times. But what does greylisting mean? What economic impact will it have on South Africa's economy? What will greylisting do? Well, this article intends to render a comprehensive perspective of this buzzword among others that we heard so far this year, albeit with less frequency relative to other buzzwords like Fed pivot, inflation, interest rate hikes, quantitative tightening etc.

The term greylisting is largely utilised in the technological world but less used in economic cycles. It is defined as "a process for spam reduction or filtering that involves the strategic temporary rejection of a sender based on that sender's IP address and additional routing information." However, in economic terms, greylisting refers to a global attempt to prevent illicit funds from being channelled towards terrorism. Furthermore, greylisting is an indication of the risk that the rest of the world attaches to a country's companies and individuals as counterparties to transactions. The latter definition forms the focus of this article.

According to the Paris-based Financial Action Task Force (FATF), a global body that oversees compliance with anti-money laundering and counter-terrorism financing measures, South Africa was found to be partially compliant or noncompliant with 20 of FATF's 40 recommendations. This is regardless of South Africa's well-regulated financial system which plays part in both domestic and global transactions. These recommendations follow an evaluation of South Africa, which found significant flaws mostly related to state capture and the country's inability to bring criminals to justice as a result of laundering. In this regard, the global body will decide whether or not to greylist South Africa at its conference in February 2023.

Furthermore, after these adverse recommendations, Business Leadership SA commissioned a report on this hot topic to assess South Africa's state of preparedness to address these concerns. The report concluded that South Africa has an 85% probability of being placed on the greylist.

If this occurs, it will necessitate greater enhanced due diligence on South African individuals and businesses alike, as well as more frequent and intrusive evaluations for anti-money laundering and terrorism funding risks.

This will put a massive dent in South Africa's GDP by about 1%-3%, in that, foreign investors would be discouraged from doing business in South Africa. Furthermore, South African clients' risk rating would be elevated at many international institutions especially those in the European Union bloc and the United Kingdom. This will hamper prospects of doing business internationally for both South African companies and individuals owing to exorbitant premiums. Moreover, South African banks will have to fork out more on managing correspondent banking relationships and relationships with global infrastructure providers, owing to high costs.

In spite of all this, the South African government is taking urgent attempts to avoid being greylisted by introducing amendments to the financial regulatory system. Currently, there are bills (Anti-Greylisting bill) tabled before parliament and for public comment, that seeks to avert the country from being greylisted. Assuming that these bills are signed into law before November 2022, South Africa might find itself off the hook. One of the proposed legislation is targeted at imposing controls on sectors not presently monitored by the Financial Intelligence Centre accountable institutions such as estate agents and attorneys. In addition, the National Prosecuting Authority (NPA) and South African Police Service's Directorate for Priority Crime Investigation

(DPCI) Hawks have taken steps to hire more forensic accountants and investigators to combat such illicit crimes.

However, the urgency of the government will be put to the test before the FATF's plenary session in February. Current indications, based on an Intellidex report, point to South Africa being most likely to be greylisted after the plenary session, as alluded to above. If that happens some pundits think that the economic impact would be minimal depending on how South Africa addresses these concerns of the FATF, while some, on the other hand, point to a more dire situation for South Africa in terms of enhanced scrutiny for both individuals and companies.

We await with bated breath to see how this will play out over time.

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