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A NATION MEDIA PUBLICATION

How govt's crypto ban created a Shs4 trillion illegal market

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There is a particular kind of regulatory irony that only emerging markets can produce.

Uganda, a country where no company is legally licensed to sell or trade cryptocurrency, where a High Court has ruled that crypto is not a legal instrument of payment, and where the central bank has barred every licensed financial institution from touching the stuff, ranked 34th out of 155 countries in global virtual asset adoption as of 2024.

It beat Switzerland, Japan, and most of Europe.

This is not a story about a country flirting with digital finance, but about a country that already has a large, sophisticated, and almost entirely ungoverned financial market operating right under its nose, and is now battling with what that means.

Follow the money

The numbers in Uganda's inaugural National Money Laundering and Terrorism Financing Risk Assessment on Virtual Assets, published by the Financial Intelligence Authority (FIA) in September 2025, provide a clue.

Between July 2020 and June 2024, Ugandans moved $564m (Shs2.12 trillion) in virtual asset inflows and $546m (Shs2.05 trillion) in outflows, a combined flow of over $1.1b (Shs4.13 trillion) through channels that sit almost entirely outside regulatory oversight.

Uganda's total virtual asset holdings are estimated at between $73m (Shs274.5b) and $200m (Shs752.2b), modest against the banking sector's $14.4b (Shs54.17 trillion) in assets, but growing fast and nearly invisible to the authorities whose job it is to watch.

The composition of that money tells its own story. Stablecoins, which are dollar-pegged digital tokens like USDT and USDC, account for the largest share by value, with over $314m (Shs1.18 trillion) in inflows.

Bitcoin follows at $190m (Shs714.5b). These are not the instruments of a speculative fringe. They are the tools of a parallel economy that is fast, cheap, borderless, and unencumbered by the paperwork that formal financial systems demand.

Denis Kizito, Director of Market Supervision at the Capital Markets Authority (CMA), has been watching this market grow from a front-row seat.

"Ugandans are shifting their activities from centralised platforms and exchanges towards the use of decentralised ones," he says.

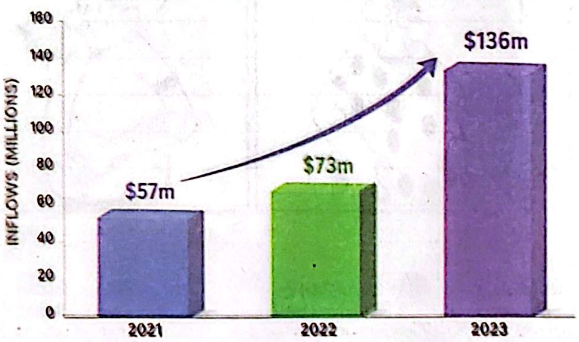
This transition, he says, "shows that Ugandans prefer to use less regulated platforms, which have fewer oversight mechanisms and Know Your Client requirements".

However, he notes this has an amplified risk given that the cross-border nature of virtual assets has insufficient control since customer identification and verification are largely anonymous.

"This is a breeding ground for illicit transactions; as long as people can conduct obscured transactions, it does not help matters when it comes to the protection of retail investors," he says. Ugandans, in short, are voting with their wallets and voting for the shadows.

Bank of Uganda's ban on cryptocurrency trading pushed billions deeper into underground markets, fueling anonymous transactions, unregulated exchanges, and a rapidly expanding black-market digital economy. PHOTO / FILE

Crypto inflows after Bank of Uganda's crackdown on cryptocurrency trading



Unintended consequences

How did a country get to this point? Partly through a well-intentioned policy that backfired spectacularly.

In 2019, the Ministry of Finance warned the public against virtual assets, declaring that government did not recognise them as legal tender.

In 2022, Bank of Uganda barred every institution it supervises, including banks, payment operators, forex bureaux, and mobile money providers, from touching crypto. While a 2023 High Court ruling put a judicial seal on the prohibition. The logic was to keep a volatile, unregulated asset class away from the formal financial system. It worked, in the narrow sense that Uganda's licensed institutions are largely clean of direct crypto exposure.

But the Financial Intelligence Authority (FIA) notes that "by banning virtual asset transactions within the financial system, a shadow financial system has emerged."

"The restriction on virtual assets in Uganda in 2019 reduced risk within the traditional financial system but resulted in a shadow market for virtual assets operating outside regulatory oversight," Kizito says

Uganda, he indicates, now has a proliferation of unlicensed virtual asset service providers offering services like token trading, cloud mining, stablecoins, and decentralised exchanges.

"This has raised serious concerns about investor and consumer protection and Uganda's international AML (anti-money laundering) and CFT (counter-terrorist financing) reputation," he adds.

The numbers bear him out. After Bank of Uganda's 2022 crackdown, stablecoin inflows rose, from $57m (Shs214.3b) in 2021 to $73m (Shs274.5b) in 2022, to $136m (Shs511.4b) in 2023.

The prohibition did not shrink the market. It moved it somewhere darker and harder to see.

84.5 percent in the dark

The financial crimes watchdog data shows that 84.5 percent of Uganda's virtual asset activity flows through decentralised finance (DeFi) platforms.

The sub-Saharan African average is 34.3 percent. The global average is 34.9 percent, meaning Uganda is one of the world's most decentralised crypto markets, a distinction with no upside.