

BHUTAN

**NATIONAL MONEY LAUNDERING AND
FINANCING OF TERRORISM RISK
ASSESSMENT**

September 2025

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GLOSSARY

AML	Anti-Money Laundering
AML/CFT	Anti-money Laundering and Combating the Financing of Terrorism
APG	Asia Pacific Group on Money Laundering
ATM	Automated teller machine
BIS	Bank for International Settlements
CDD	Customer Due Diligence
CFATF	Caribbean Financial Action Task Force
CFT	Combating the Financing of Terrorism
CJS	Criminal justice system
CTR	Currency transaction report
DAR(s)	Detail assessment report(s)
DNFBP	Designated and Non-Financial Businesses and Professions
DPMS	Dealers in Precious Metals and Stones
EAG	Eurasian Group on Combating Money Laundering and the Financing of Terrorism
ESAAMLG	Eastern and Southern African Anti-Money Laundering Group
EUR	Euro
EWG	Expert Working Group
FATF	Financial Action Task Force
FI	Financial Institution
FIU	Financial Intelligence Unit
FSAP	Financial Sector Assessment Program (World Bank and IMF)
FSDI	Financial Sector Development Indicators (World Bank)
FSRB	FATF-style regional body
FT	Financing of Terrorism
FTE	Financing of Terrorism Events
FTF	Foreign Terrorist Fighter(s)
GCC	Gulf Co-operation Council.
GDP	Gross domestic product
GIABA	Groupe Inter-gouvernemental d'Action contre le Blanchiment en Afrique - Inter-Governmental Action Group against Money Laundering in West Africa
GIFCS	The Group of International Finance Centre Supervisors.
GTD	Global Terrorism Database
ICRG	International Cooperation Review Group
IFI	International financial institution (IMF, World Bank, etc.)
IFS	International Financial Statistics publication and database (IMF)
IMF	International Monetary Fund
ISO	International Standards Organization
LEA(s)	Law Enforcement Agency(ies)
ME	Mutual Evaluation

MENAFATF	Middle East and North Africa Financial Action Task Force
ML	Money Laundering
MLAT	Mutual Legal Assistance Treaty
MLRE	Money Laundering Risk Events
MOJ	Ministry of Justice
MOU	Memorandum of Understanding
NPOs	Non-profit Organizations
NRA	National Risk Assessment
NRAT	National Risk Assessment Tool
OEM	Other Enforceable Means
OFC	Offshore financial center
PC	Penal Code
RAM	Risk Assessment Module
RE	Reporting Entity
RBP	Royal Bhutan Police
SAR	Suspicious activity report
SRO	Self-regulatory organization
STR	Suspicious Transaction Report
TA	Technical Assistance
UN	United Nations
UNSCR	United Nations Security Council Resolution
USD	US Dollar
WB	World Bank
WDID	World Development Indicators Database

PREFACE

This NRA was undertaken under the direction of the Bhutan National Risk Assessment Working Group (NRAWG).¹ This is the second NRA conducted by Bhutan.

In undertaking the NRA, the authorities of Bhutan utilized the assistance of IMF staff and their NRA methodology. The methodology is organized around the three components of ML/FT risk—threat, vulnerability and consequence.

Accordingly, the process focused first on threat and involved estimating the magnitude of domestic proceeds of crime (POC), international POC, and FT activity in Bhutan. It next focused on identifying the country's main ML/FT vulnerabilities. The final stage involved analyzing the main ML/FT consequences and then combining all of the component parts to arrive at a view of the national ML and FT risks. All decisions were taken by NRAWG, NRA Expert Working Group (EWG)² meetings, and Royal Monetary Authority. This report draws information from publicly available data, official statistics, and perceptions information collected via the IMF staffs' NRA tools, and on discussions held in a series of EWG meetings involving representatives from a broad range of government agencies.

The findings from this report are intended to support policymakers, regulators, supervisors and other stakeholders in developing effective strategies to mitigate the identified risks and gaps for strengthening the national AML/CFT framework.

The report is the outcome of a collaborative effort of the NRAWG and reflects IMF expert inputs, and consultations carried out during the assessment process. Their cooperation and commitment are gratefully acknowledged.

¹ The NRAWG comprised of representative from the following agencies:

1. Financial Intelligence Department, Royal Monetary Authority
2. Royal Bhutan Police
3. Anti-Corruption Commission
4. Office of Attorney General
5. Department of Law & Order, Ministry of Home Affairs
6. Department of Multilateral Affairs, Ministry of Foreign Affairs and External Trade
7. Department of Revenue & Customs, Ministry of Finance
8. Corporate Regulatory Authority, Ministry of Industry, Commerce & Employment
9. Civil Society Organization Authority
10. Commission for Religious Organizations
11. Department of Immigration, Ministry of Home Affairs
12. Bhutan Food and Drug Authority, Ministry of Health

² The EWG includes members of the NRA Working Group (NRAWG) and the IMF experts

The 2025 national risk assessment of Bhutan was conducted using the IMF methodology for assessing money laundering (ML) and financing of terrorism (FT) risk, as applied during the period of assessment (2020 – 2024). The NRA draws on official statistics, sectoral data, publicly available information including reliable third-party indicators, and the deliberations of the NRAWG, with the objective of providing a robust, evidence-based understanding of Bhutan’s ML/FT risk landscape.³

This second national risk assessment covers ML and FT risks. The methodology is organized around the three components of ML/FT risk—threat, vulnerability and consequence. For the purposes of calculations and estimates, the reference year for the NRA was 2023.

Unless otherwise noted, all currency amounts, including POC estimates, are expressed in 2023 values and expressed as a proportion of 2023 GDP. Throughout the document, footnotes are used for clarifying comments or additional information; end notes cite sources of information.

A. OBJECTIVES

The main objective is to strengthen Bhutan’s AML/CFT regime by:

- i) assessing the ML/FT risk,
- ii) evaluating the effectiveness of the risk mitigation strategies,
- iii) prioritizing the risk mitigation activities, and
- iv) making and justifying decisions about limiting AML/CFT coverage for low risk sectors and products.

B. METHODOLOGY

The IMF framework and methodology used to conduct this NRA uses a lexicon of pr-defined terms to describe the level of likelihood and consequence for ML/FT risk events, the level of ML/FT risk, the adequacy of AML/CFT controls, and the scale or magnitude of things such as estimated domestic proceeds of crime (POC), international flows of POC, estimated amounts of FT, the size of financial sectors and the like.

³ Proliferation financing (PF) is not included in the scope of the NRA, since the risk-based approach does not apply to the international standards on PF. Instead, PF-related obligations under the FATF Standards require a rules-based approach, particularly regarding targeted financial sanctions related to the financing of weapons of mass destruction.

Table 1. The IMF Risk terminology and descriptors used in the NRA

Likelihood descriptor	Consequence descriptor	Risk descriptor	Controls descriptor	Scale descriptor	Percentage or proportion descriptor	Indicator score
Extremely higher	Huge or Severe	Extremely higher	Abysmal	Very Large	All	7
Much higher	Very Major	Much higher	Very poor	Large	Almost all	6
Higher	Major	Higher	Poor	Medium	Vast majority	5
Medium	Moderate	Medium	Adequate	Small	Majority	4
Lower	Minor	Lower	Very good	Very small	Some	3
Much lower	Very Minor	Much lower	Excellent	Extremely small	Few	2
Very much lower	Negligible	Very much lower	World Best Practice	Micro	Almost none	1

The analysis of domestic POC adopts information from public data sources, results from 64 responses to a web-based perception survey disseminated to the authorities, and information authorities provided during the EWG, to formulate a picture of each crime type that is sufficiently complete to make an estimate of the order of magnitude of POC. The final band estimates for POC reflect the EWG discussions and conclusions in the EWG meetings which were informed by all available information.

Table 2 below describes the indicators of the risk scores

Table 1 Measurement scales

Measurement scale for economic activity ⁴	Measurement scale for DPOC, and international POC flows	Measurement scale for FT	Scale for percentage of activity	Indicator score
> \$1t	> \$100b	> \$10m	> 95%	7
> \$100b-\$1t	> \$50b-\$100b	> \$5m - \$10m	> 85-95%	6
> \$10b-\$100b	> \$10b-\$50b	> \$1m - \$5m	> 70-85%	5
> \$1b-\$10b	> \$1b-\$10b	> \$100,000 - \$1m	> 50-70%	4
> \$100m-\$1b	> \$100m-\$1b	> \$10,000 - \$100,000	> 25-50%	3
> \$10m-\$100m	> \$10m-\$100m	≥ \$1,000-\$10,000	≥ 10- 25%	2
0-\$10m	0-\$10m	0-\$1,000	< 10%	1

C. FINDINGS

Bhutan is assessed as having a “lower” level of national ML risk, driven by a “medium” likelihood and “lower” consequence of substantial ML occurring successfully. Bhutan has a “lower” level of national FT risk, driven by a “lower” likelihood and a “minor” consequence of substantial FT occurring successfully.

⁴ Bands in US dollars for GDP, imports and exports, etc.

i. Changes in ML/FT risk environment since the 2016 NRA

There has not been a significant change in Bhutan’s overall ML/FT risk landscape since the first National Risk Assessment conducted in 2016. Overall, the ML/FT risks remain minimal in 2024. Bhutan continues to face minimal cross-border ML/FT threats, with little to no formal or informal international cooperation requests in the years of analysis. There has been a small reduction in the overall threat environment relative to the size of the economy. While absolute domestic proceeds of crime have grown since the 2016 NRA, this has not kept up with the growth in Bhutan’s economy in that time. FT also remains at a low level in this NRA update, with no FT activity identified and no acts of terrorism committed in Bhutan in the years of analysis.

Similarly, many sectors have remained low risk. For example, while the number of legal persons has grown since 2016, it remains very low on both an absolute and relative scale. There is no legal framework for creating legal arrangements, however no legal arrangement activity has been identified. Furthermore, in the years of activity, no virtual assets activity was identified. As a result, and given improvements in Bhutan’s AML/CFT framework in the intervening years, the risk environment has improved slightly, from an already low starting point. For example, there has been a reduction in the risk event that ML perpetrators are not caught. This reduction in risk is driven by improvements made to Bhutan’s AML/CFT legal framework and regulations in the intervening years, including strengthening of the AML/CFT act and improvements in record-keeping.

ii. Regulated Entities

Bhutan’s AML/CFT regime encompasses a small but diverse set of regulated entities. As of 2024, the financial sector comprises 8 banks and deposit takers, 10 securities firms, 2 insurance companies, and 64 money service businesses (MSBs), with total sector assets of approximately USD 3,575 million and annual transaction values of USD 92,725 million. The sector’s assets are equivalent to 112% of GDP, underscoring its relative importance within the national economy. In addition, there are 312 designated non-financial businesses and professions (DNFBPs), including lawyers, accountants, real estate agents, and dealers in precious metals and stones, though the sector remains small and activity is limited. The total number of regulated AML/CFT entities, including 672 legal persons and 165 NPOs, stands at 1,233.

1. MONEY LAUNDERING RISK

Bhutan faces a “*lower*” level of ML risk. Bhutan’s ML threat level from domestic POC is assessed as “*lower*” in absolute terms and “*lower*” relative to GDP. The magnitude of international proceeds flowing through Bhutan is considered “2.7”, and the main source

countries are believed to be India, and China. Bhutan's economy and AML sector are "very small" internationally.

i) Money Laundering Threats:

Bhutan continues to exhibit *much lower* levels of domestic POC, both in absolute terms and relative to GDP, with annual estimates ranging from USD 10 million to USD 100 million.

a. Domestic Proceeds of Crime

Domestic POC are the gross POC obtained or generated in a jurisdiction from the crimes committed in the jurisdiction during a typical 12-month period.

The principal sources of POC are illegal Gambling (24%), fraud (24%), corruption (24%) and illicit drugs (24%). These four crime categories are estimated to generate 96% of domestic POC. Other crimes generate the remaining 4% of domestic POC which includes smuggling and tax evasion crimes.

Cash and physical assets constitute a significant portion of these proceeds. Roughly 41% of the \$10 - 100 million in annual domestic POC are estimated to be in the form of cash, with roughly 30% in the form of physical assets, and 29 % as financial assets.

Non-organized criminals are considered to generate the majority of Bhutan's POC. In terms of overall proceeds, an estimated 58% of proceeds are associated non-organized criminals. The other 42% of proceeds are generated by organized⁵ criminal groups. Of the proceeds generating activities carried out by organized crime groups, approximately 24% were considered attributable to transnational organized crime groups and 18% were attributable to domestic crime groups. The main crimes where organized criminal groups are involved are illicit drug trafficking, fraud, and corruption and bribery.

b. International Proceeds of Crime

International POC are the flows of POC into or out of a jurisdiction during a typical 12-month period. International POC is about the transactions associated with the flows of POC into or out of a jurisdiction.

⁵ Defined as a group of three or more persons acting in concert with the aim of committing a crime.

Inbound Flows

The authorities estimated that POC inflows were less than \$1 million annually. Most POC inflows were perceived as originating from five of Bhutan's trading partners which are India, China, Thailand, Bangladesh and Nepal. Inbound POC flows to Bhutan from these jurisdictions are perceived to come primarily from the following types of crimes committed outside Bhutan:

- Smuggling;
- Illicit drug trafficking;

While Bhutan faces some exposure to transnational organized crime, including smuggling and drug trafficking, the volume of international POC inflows and outflows remains minimal. The financial sector's limited international connectivity and the country's geographic isolation further mitigate the risk of substantial foreign POC entering Bhutan.

Outbound Flows

The authorities estimated that \$100,000 to \$1 million in POC flow out of Bhutan, most of which are in the form of cash or physical assets. Outbound POC flows from Bhutan to other jurisdictions are perceived to come primarily from the following four types of crime committed in Bhutan:

- Illegal gambling,
- Corruption,
- Fraud and
- Illicit drugs trafficking.

The authorities perceived that neighboring countries such as India, China, Thailand, Nepal, and Bangladesh are some of the destinations for outflows. Long and porous borders with India and inadequate capacity and resources to monitor them may facilitate the POC flow into and out of Bhutan.

ii) Money Laundering Vulnerabilities:

ML threats and vulnerabilities increase the likelihood of three specific ML risk events occurring that:

1. ML will be attempted,
2. That if attempted the perpetrators of ML will not be caught,

3. That once caught the ML perpetrators will not be adequately sanctioned.

The likelihood of substantial ML attempts in Bhutan is assessed as “lower”, informed by a “much lower” likelihood that substantial domestic POC are generated or available in Bhutan. A “lower” likelihood that substantial foreign POC enters Bhutan, and a “lower” likelihood that Bhutan’s products, services, assets, or other circumstances are abused for substantial ML and “*lower*” likelihood that corruption related to LEA(s), cross-border scrutiny and institutions facilitates ML being attempted:

The risk of corruption facilitating ML attempts is also considered “lower”. However, the assessment identifies a “higher” likelihood that ML perpetrators may not be detected, prosecuted, or sanctioned adequately, reflecting institutional capacity gaps, limited expertise, and enforcement challenges.

The primary factor increasing the risk factor in this area is that the the investigating agencies limiting their investigations once the predicate crime is determined. The risk is further elevated due to a lack of understanding of ML, limited expertise in parallel financial investigations, and inadequate skills in tracing financial flows during predicate crime investigations.

ML perpetrators are not prosecuted if international cooperation for extradition is poor. There is a “higher” likelihood that ML perpetrators operating from outside Bhutan will evade detection and prosecution, primarily due to limited international cooperation and the lack of adequate mechanisms to obtain evidence or leads from foreign jurisdictions.

Overall the level of AML controls in regulated firms was assessed as “good” with controls being seen as most effective in Banks and Money Service Business but needing improvement in other AML/CFT regulated sectors.

iii) Money Laundering Consequences:

The NRA framework analyzes and estimates ML consequence separately for short-term consequence and long-term consequence. Short-term consequence focuses on the generic objective of minimizing the amount of ML that occurs successfully during any typical twelve-month period. Thus, the short-term consequence is proxied using the estimated value of transactions conducted in each category of firm during the ML process as a result of the presence of ML threats and vulnerabilities. Long-term consequence focuses on the consequences of successful ML to the Bhutan’s objectives. These long term consequences have social, economic, political, and geographic dimensions.

Short-term consequences

The short-term consequence of ML in Bhutan is rated as ‘moderate’, corresponding to an estimated USD 1 billion to USD 10 billion in annual ML-related transactions. Of this, approximately USD 189.7 million is directly or indirectly associated with abuse of Bhutanese firms. ML transactions in the short term primarily occur in the banking sector and are driven by criminal expenditure, although the authorities consider the volume of such transactions to be very minor.

Long-term consequences

The overall long-term consequence of ML in Bhutan is assessed as ‘minor’, based on the geometric means of social, economic, and political risk events. The geographic consequence, assessed separately, is rated as moderate, indicating impacts that extend beyond Bhutan’s borders.

2. FINANCING OF TERRORISM RISK

Financing of Terrorism⁶ involves the raising and processing of funds to supply terrorists⁷ with the resources to carry out their attacks. It involves the abuse of many of the same instrumentalists as ML but differs in one key respect. Although FT can originate from illegal inputs, it also often involves using legitimately obtained assets to fund illegal activities (terrorism).

Bhutan has a “*lower*” level of national FT risk, driven by a “*lower*” likelihood and a “*minor*” consequence of substantial FT occurring successfully.

FT can be divided into three stages:

- **Fund-raising:** Fund raising involves the raising of funds from willing donors, unwilling or defrauded donors, the sale of goods and services by terrorists or terrorist organizations, and criminal activity of terrorists, terrorist organizations, or their associates during a typical 12-month period.
- **Fund transferring:** Fund transferring encompasses the transfer of funds raised domestically for use by domestic terrorists or terrorist organizations based in Bhutan, funds raised domestically that are sent outside of the jurisdiction, and funds raised in foreign jurisdictions that are sent to Bhutan for use in domestic terrorism.

⁶ More widely known in Bhutan as “financing of domestic insurgency”.

⁷ Known in Bhutan as “insurgents.”

- **Fund utilization⁸:** Fund utilization refers to the ways in which funds are used for terrorist purposes, as defined by UN conventions and national legislation. Fund utilization addresses such areas as the direct costs associated with carrying out terrorist acts, and the costs associated with providing support to sustain terrorists and terrorist organizations.

The NRA methodology's approach to assessing FT risk involves modifying the framework used for assessing ML to focus issues more relevant to FT. Thus, the focus is on FT funds rather than POC, activities with a much lower volume and value than for ML, a narrower range of higher risk products and services than ML but with a greater focus on NPOs, more emphasis on CFT preventive measures implemented in regulated firms being relevant to assisting with criminal investigations into FT rather than initiating them, and the role of the competent authorities in identifying and disrupting terrorist financing activities

i) Financing of Terrorism Threats:

The threat of FT in Bhutan is assessed as low. There have been no recorded cases of funds being raised or transferred for terrorist activities, and the country does not face significant risk of transnational FT funds flowing into or out of its jurisdiction.

ii) Financing of Terrorism Vulnerabilities:

Bhutan's overall vulnerability to FT is assessed as "lower", due to the limited likelihood of substantial domestic FT funds being generated or available, and the low risk of Bhutanese products, services, assets, or circumstances being abused for FT. The risk of corruption facilitating FT attempts remains "low". However, the likelihood of substantial foreign FT funds entering the country is considered "medium", primarily due to Bhutan's proximity to higher-risk jurisdictions. The likelihood of perpetrators of FT not being caught is also assessed as "medium", informed jointly by "medium" likelihood of FT events are not detected or investigated adequately, and perpetrators not prosecuted nor convicted.

⁸ Funds or other assets involved in FT can refer to cash, financial assets, property of every kind, whether tangible or intangible, movable or immovable, however acquired, and legal documents or instruments in any form, including electronic or digital, evidencing title to, or interest in, such funds or other assets, including, but not limited to, bank credits, travellers cheques, bank cheques, money orders, shares, securities, bonds, drafts, or letters of credit, and any interest, dividends or other income on or value accruing from or generated by such funds or other assets during a typical 12 month period.

iii) Financing of Terrorism Consequences:

The short-term consequence of FT in Bhutan is assessed as “minor”, reflecting the absence of major terrorism cases and the limited scale of FT risk. The longer-term consequence is also rated as “minor”, with the overall impact considered limited to the national context. The risk, therefore, is viewed as limited, manageable, and unlikely to significantly disrupt national security, stability, or the financial sector.

3. SECTORAL OVERVIEW**i) Non-Profit Organizations:**

The NPO sector in Bhutan is small, comprising 165 registered entities, including civil society organizations and religious organizations. The sector is characterized by limited exposure to international flows and conducts funding through formal banking channels. The ML/FT risk for NPOs is assessed as ‘lower’, with no substantive evidence of abuse and oversight under the Civil Society Organizations Act and the Religious Organizations Act. The limited number of entities and the use of formal channels for financial transactions contribute to the sector’s low risk profile. TF risks are further mitigated by the absence of recorded cases of funds being raised or transferred for terrorist activities.

ii) Virtual Asset Service Providers (VASPs):

As of 2024, there are no VASPs currently licensed or operating in Bhutan. The sector is not included in the risk assessment matrix due to insufficient activity, however this insufficient activity indicates a minimal risk at the time of analysis. The Gelephu Mindfulness City (GMC), a Special Administrative Region currently under development, has a legal framework to license VASPs, and at least one VASP has initiated the licensing process, though no licenses have been granted to date. While current ML/TF risk is negligible, the NRA notes that risks may change significantly once VASPs become operational in the GMC. The absence of national-level AML/CFT regulation for VASPs is a vulnerability, and the authorities plan to monitor developments closely.

iii) Legal Persons and Arrangements:

Bhutan’s legal persons and arrangements sector faces limited ML/TF threats. Bhutan’s low level of risks related to legal persons is driven by the notably small number of legal persons present in the country, on both actual and relative scale. A total of 672 registered companies were identified in 2024. While there has been a steady rise in recent years, this remains a very low number of legal persons when benchmarked globally and against countries with similar size economies and population. Furthermore, there is no legal framework for creating

legal arrangements and no legal arrangements were identified in the country. The sector is characterized by limited international exposure and a lack of complex legal structures.

The Companies Act 2016 governs the sector, but there are gaps in beneficial ownership (BO) information collection and verification. The prohibition of bearer shares and residency requirements for non-citizen directors help mitigate some risks. Bhutan does not have domestic legal arrangements (such as trusts) and is not aware of any foreign trusts or trustees operating in the country. Bhutan authorities are currently working, with the support of international organizations, to strengthen the country's beneficial ownership transparency regime.

4. OVERALL CONCLUSION

The NRA evaluates the nature and magnitude of Bhutan's ML/FT risks. ML/FT risk is analyzed with reference to its component parts—threat, vulnerability, and consequence—in specific contextual risk events related to the ML/FT process. Understanding these risks is the first step toward mitigating those that are most significant in order for the AML/CFT system, in its broadest sense, to function more effectively and efficiently as a whole.

Bhutan had taken important steps to address risks identified in the previous national risk assessment, which has led to lower residual risk in certain areas. Efforts that have been made with regards to strengthening mitigation measures for legal persons and NPOs for example has resulted in these areas posing low overall ML/TF risk.

Looking forward, the NRA is only part of Bhutan's broader efforts to move toward a more risk-based approach. While the NRA can help to inform appropriate and proportionate AML/CFT policy responses, it should also serve as a starting point for more thorough research and strategic reports in the future. Further study in the future will help to refine the findings about the nature and magnitude of ML/FT threats, vulnerabilities, and consequences, thus enabling the authorities to even better target the drivers of ML/FT risk in Bhutan. Bhutan will also have to closely monitor and continue to assess risks related to VA/VASPs as the country decides whether to actively promote VA/VASP activities in the country.