BHUTAN

NATIONAL MONEY LAUNDERING AND FINANCING OF TERRORISM RISK ASSESSMENT

14th March 2017

The NRA was conducted by applying the IMF staff's methodology for assessing ML and FT risk. The methodology is organized around the three components of ML/FT risk—threat, vulnerability and consequence.

A. NRA Objectives

1. The NRA's main objective is to improve Bhutan's AML/CFT regime by
      i)   assessing the ML/FT risk it faces,
      ii)   evaluating the effectiveness of its risk mitigation strategies,
      iii)   prioritizing its risk mitigation activities, and
      iv)   making and justifying decisions about limiting AML/CFT coverage for low risk sectors and products. To this effect, the NRA was organized around the three key components of ML/FT risk—threat, vulnerability and consequence.

2. For the purposes of calculations and estimates, the reference year for the NRA was 2014. Unless otherwise noted, all currency amounts, including POC estimates, are expressed in 2014 values and expressed as a proportion of 2014 GDP.

3. 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

C. NRA FINDINGS – MONEY LAUNDERING

3. The NRA concluded that overall Bhutan is assessed as having a "*medium*" level of ML risk due to a *"lower"* level of risk of ML being attempted, a "*higher*" level of risk that perpetrators of ML are not caught, and a "*Medium*" level of risk that perpetrators of ML are not sanctioned adequately.

4. The main factors driving the level of risks were: proximity to India; LEAs when investigating predicate crimes do not identify ML activity, and uncertainty about imposition and enforcement of ML related sanctions.

i)   <u>Vulnerability</u>

5. Increase the likelihood of three specific ML risk events occurring

1. ML or TF abuse is attempted

2. That, if attempted, the perpetrator is not caught

3. That, if caught, the perpetrator is not sanctioned adequately.

6. The framework and methodology used to conduct this NRA uses a lexicon of pre-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 financing of terrorism (FT), the size of financial sectors and the like.

7. In relation to sectors regulated for AML, the banking sector is assessed as presenting the highest level of net ML risk, and other sectors are assessed as having the lowest level of net ML risk and thus potential candidates for lighter supervisory attention or the application of simplified AML controls or even exemptions from AML requirements.

8. Overall the level of AML controls in regulated firms was assessed as "*adequate*" with controls being seen as most effective in Banks, but needing improvement in other sectors.

ii) __Threat__

9. The web based perception survey suggests that Crimes committed in Bhutan are estimated to generate an annual POC of $10 million to $100million.

10. Corruption and bribery (80%), illicit trafficking in stolen and other goods (8%), fraud (8%), and smuggling (1%) are estimated to generate 97% of domestic POC (top 4 domestic POC) while other crimes generate the remaining of around 3% of domestic POC. Except for corruption and bribery, these predicate crimes are associated with Bhutan's border vulnerabilities with India.

11. The analysis of POC was based on information from public data sources, results from 23completed responses, (100% completion rate) to a web-based survey disseminated as part of the NRA process, and discussions during an expert group workshops to formulate a picture of each type of crime that is sufficiently complete to make an estimate of the order of magnitude of POC. Supplemental descriptive information for each type of crime is provided in **Annex A** of NRA report.

12. Upon analyzing the data obtained from relevant agencies, proceeds of crime under corruption cases have turned out to be the highest indicating that Bhutan's primary proceeds generating ML risk is corruption. Such a finding in the NRA exercise is in contrary to the global view that Bhutan is a low-risk jurisdiction for corruption. Numerous international corruption measures have indicated that prevalence of corruption in Bhutan is lower.

13. As per the finding of the NRA exercise, corruption has been rated as the highest proceed of crime generating offence in view of the following reasons:

1. The Anti-corruption Commission has maintained proper data on proceeds of crime as compared to other agencies.

2. The proceeds of crime not only included the money being directly used for the commission of crime but also the abuse of state resources and properties which have been monetized and

included in the data. Monetizing state resources such as land has increased the proceeds by manifold in view of the current land price.

3. Thrimthue, a payment of fines in lieu of imprisonment for offences categorized below misdemeanor is also included.

4. Smuggled items such as religious artifact and antiques are monetized at much lesser rates as compared to the market rate.

5. There are very limited opportunities for major profit-driven crime in Bhutan. Therefore, corruption cases will continue to be the highest POC generating crime in Bhutan particularly, if natural resources and state properties and evasion of taxes are involved.

Inbound Proceeds of Crime Flows

14. The POC inflows represent money that is at least partially laundered within Bhutan. There have been no cases for the authorities to be able to provide an estimate of the likely magnitude of POC inflows[i]to determine what proportion of the inflows remained in Bhutan and flowed back for further processing or use in other countries. The authorities were able to link the source countries for inflows with the type of crimes generating those inflows.

15. Most POC inflows were perceived as originating from five of Bhutan's trading partners which are India, China, Thailand, Nepal and Bangladesh. India, China and Thailand are among the top five countries from which Bhutan imports. Inbound POC flows to Bhutan from other jurisdictions are perceived to come primarily from the following types of crimes committed outside Bhutan:[ii]

    1. Smuggling;
    2. Drug trafficking;
    3. Sale of endangered species
    4. Tax Evasion
    5. Kidnapping

Proceeds of Crime Outflows

16. 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.

17. Outbound POC flows from Bhutan to other jurisdictions are perceived to come primarily from the following 5 types of crime committed in Bhutan, four of which are among the top domestic proceeds generating crime in Bhutan Smuggling, Fraud, Illegal sale of stolen artifacts or antiques, environmental crime and tax evasion.

18. The authorities perceived that neighboring countries such as India, China, Thailand, Nepal, and Bangladesh are some of the destinations for outflows**.**

iii). ML Consequences

19. The short-term ML consequence in Bhutan **is** *“minor”.* The NRA assessed the overall long-term ML consequence for Bhutan as *“moderate”*. 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 longer term consequences have social, economic, political, and geographic dimensions.

D.NRA FINDINGS – FINANCING OF TERRORISM

20. Regarding financing of terrorism (FT) risk, Bhutan has a *“lower”* level of national FT risk, driven by a *“medium”* likelihood and a *“minor”* consequence of substantial FT occurring successfully**.**

21. Bhutan's FT threat level from annual domestic FT fund raising is assessed as *“lower”*. Bhutan does not face risk of transnational FT funds flowing into Bhutan.

22. The main factors driving the level of risks were absence of a specific law, proximity to countries with terrorism and terrorist financing, and use of cash and informal economy. In relation to sectors regulated for CFT currently all the sectors process lower risk. However, banking, money service businesses, and NPOs could have higher risk in future. For all sectors, CFT controls were assessed as *“adequate”* to reduce the level of inherent risk. At the firm level, banks, money services, and NPOs could have the higher levels of FT risk in the long run.

23. The authorities assessed the overall long-term FT consequence for Bhutan as *“moderate”*. The authorities judged that FT consequences were likely to manifest themselves mainly in the form of political, social and economic.

E. Overall Conclusion

24. The findings provide a starting point for the authorities to consider which risks should be prioritized for proportionate and appropriate policy responses**.** The NRA serves as an initial guide to which risks are highest and why they are highest. Looking forward, the NRA is only part of Bhutan's broader efforts to move toward a more risk-based approach. 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.