

Bhutan

RISK & COMPLIANCE REPORT

DATE: January 2017

Executive Summary - Bhutan	
Sanctions:	None
FATF list of AML Deficient Countries	No
Higher Risk Areas:	Not on EU White list equivalent jurisdictions Failed States Index (Political Issues)(Average Score)
Medium Risk Areas:	Compliance with FATF 40 + 9 Recommendations Weakness in Government Legislation to combat Money Laundering (info not available) Corruption Index (Transparency International & W.G.I.) World Governance Indicators (Average Score)
<p>Major Investment Areas:</p> <p>Agriculture - products: rice, corn, root crops, citrus; dairy products, eggs</p> <p>Industries: cement, wood products, processed fruits, alcoholic beverages, calcium carbide, tourism</p> <p>Exports - commodities: electricity (to India), ferrosilicon, cement, calcium carbide, copper wire, manganese, vegetable oil</p> <p>Imports - commodities: fuel and lubricants, passenger cars, machinery and parts, fabrics, rice</p>	

Contents

Section 1 - Background.....	3
Section 2 - Anti – Money Laundering / Terrorist Financing	4
FATF status.....	4
Compliance with FATF Recommendations.....	4
Reports.....	8
International Sanctions.....	9
Bribery & Corruption.....	10
Section 3 - Economy.....	11
Section 4 - Government.....	12
Methodology and Sources.....	13

Section 1 - Background

In 1865, Britain and Bhutan signed the Treaty of Sinchulu, under which Bhutan would receive an annual subsidy in exchange for ceding some border land to British India. Under British influence, a monarchy was set up in 1907; three years later, a treaty was signed whereby the British agreed not to interfere in Bhutanese internal affairs, and Bhutan allowed Britain to direct its foreign affairs. This role was assumed by independent India after 1947. Two years later, a formal Indo-Bhutanese accord returned to Bhutan the areas annexed by the British, formalized the annual subsidies the country received, and defined India's responsibilities in defense and foreign relations. In March 2005, King Jigme Singye WANGCHUCK unveiled the government's draft constitution - which introduced major democratic reforms - and pledged to hold a national referendum for its approval. In December 2006, the King abdicated the throne in favor of his son, Jigme Khesar Namgyel WANGCHUCK, in order to give him experience as head of state before the democratic transition. In early 2007, India and Bhutan renegotiated their treaty to allow Bhutan greater autonomy in conducting its foreign policy, although Thimphu continues to coordinate policy decisions in this area with New Delhi. Elections for seating the country's first parliament were completed in March 2008; the king ratified the country's first constitution in July 2008. The disposition of some 43,000 Bhutanese refugees - housed in two UN refugee camps in Nepal - remains unresolved.



Section 2 - Anti – Money Laundering / Terrorist Financing

FATF status

Bhutan is not on the FATF List of Countries that have been identified as having strategic AML deficiencies

Compliance with FATF Recommendations

The first Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Bhutan was undertaken by the Financial Action Task Force (FATF) in 2016. According to that Evaluation, Bhutan was deemed Compliant for 7 and Largely Compliant for 7 of the FATF 40 Recommendations.

Key Findings

Bhutan's top proceeds generating crimes are corruption and bribery; illicit trafficking of stolen artefacts and other stolen goods; fraud; smuggling, and illicit trafficking in narcotics and pharmaceutical substances.

Bhutan's TF risk is self-financing in its porous border areas arising from external threats: Indian Insurgent Groups located in the North Eastern Region of India and Radical Groups, which are the remnants of anti-national groups formed in Bhutan in the 1990s and are now located outside of Bhutan. Radical Groups are suspected of conducting sporadic, small scale terrorism activities, including the use of small improvised explosive devices in the past with the last reported incident in 2012. There are no reported or identified instances of Al Qaeda, Taliban or Islamic State in Iraq and the Levant (ISIL) related activities in Bhutan.

Bhutan has achieved a low level of effectiveness for Immediate Outcomes, 1, 3, 4, 5, 6, 7, 8, 10 and 11. For Immediate Outcomes 2 and 9 Bhutan has achieved a moderate level of effectiveness.

For technical compliance, Bhutan is rated compliant or largely compliant with total of 14 Recommendations, mostly preventive measures.

Bhutan's understanding of its ML/TF risks is incomplete and not broad-based, although developing as part of its first NRA which is due to be finalised by late 2016. Key authorities have a reasonable understanding of Bhutan's ML risks but this is not evident elsewhere, including reporting entities. For TF, key authorities demonstrated a sound understanding of Bhutan's terrorist threats and an understanding of the TF risks. However, this is not the case among all competent authorities and reporting entities.

In the absence of a comprehensive assessment of risks, there is no comprehensive, national strategy, informed by risks, to combat ML/TF in Bhutan. While Bhutan does not have a documented TF strategy, authorities appear to be implementing a sound strategy to mitigate terrorist threats and TF.

Use of financial intelligence by law enforcement is at a developmental stage and financial intelligence has not been used to initiate ML or TF investigations. There is a lack of expertise and resources for financial intelligence analysis, financial crime investigation and prosecution.

Bhutan has only conducted two ML investigations to date, both were corruption related and undertaken by the Anti-Corruption Commission. One ML investigation led to two ML convictions in 2008. The second investigation, in the period under review, did not lead to a ML prosecution because section 76 of the Anti-corruption Act precludes the prosecution of both the predicate offence and associated ML offence.

The proceeds of crime are not effectively confiscated. Confiscation is essentially limited to direct proceeds of corruption, instrumentalities and contraband, and proceeds are only confiscated upon conviction via restitution orders. In addition, it is unclear if the funds from all restitution orders are being realised.

While authorities have focused their actions more at stopping these Radical Groups and Indian Insurgent Groups from entering Bhutan through cross-border international cooperation with India, Bhutan has conducted investigations into the self-financing and material support aspects of the last Radical Groups related incidents in 2012. Bhutan has investigative deficiencies and deficiencies in its TF offence; however, in the team's view, these deficiencies do not fundamentally impact on Bhutan's effectiveness for IO.9 because of the risk and context of Bhutan's TF risk/threat. In the early 2000s Bhutan did prosecute/convict individual of terrorism under section 329 of Penal Code, which includes a limited provision relating to the financing and planning of terrorist acts.

The legal and institutional framework for targeted financial sanctions for TF is not developed. The revised AML/CFT Regulations introduced in November 2015 only cover, to a very limited degree, UNSCR 1267 freezing of funds for reporting entities. Banks are the only reporting entities conducting any form of implementation, which is limited to non-systematic manual checking of the Consolidated List for Bhutanese names.

There has been very limited implementation of targeted financial sanctions related to proliferation financing. The AML/CFT Regulations only include a freezing of funds obligation for the purpose of UNSCR 1737 on reporting entities, and even then, the latter have not implemented those obligations.

Bhutan has established a sound basis for implementing preventive measures with the promulgation of the revised AML/CFT Regulations in November 2015. However, implementation by supervisors and reporting entities is at a rudimentary level. There has been no supervision of AML/CFT requirements and implementation is essentially limited to the banking sector; there is very limited implementation in non-bank financial institutions and no implementation in the DNFBP sector.

Bhutan has executed one outgoing MLA corruption with Thailand. Bhutan has a law enforcement and intelligence cooperation mechanism with India which is actively used to provide and seek constructive and timely information and assistance on security and border management related issues. This mechanism has been used for mutual legal assistance involving the use of coercive police powers in order to disrupt/prevent: (i) the movement of Indian Insurgent Groups and Radical Groups into Bhutan's porous areas, and (ii) the illicit trafficking of pharmaceutical substances and other border related predicate crimes.

There are only 368 companies registered in Bhutan. Access to basic information on legal persons is available on a timely basis; however, access to beneficial ownership information on companies is constrained by a lack of collection of such information. The Registrar of Companies has undertaken measures to reduce the risk of potential abuse by subjecting all changes in share ownership and directorship to a vetting and approval process, and preventing bearer shares as required under the Companies Act. There is no legislative or regulatory framework for the creation and establishment of legal arrangements in Bhutan

Risks and General Situation

The following summary of the assessments team's understanding of Bhutan's ML/TF risks is based on working documents of Bhutan's first, although incomplete, national risk assessment (NRA), open source material and information gathered from discussions with competent authorities and the private sector.

Money Laundering

The assessment team considers the following five categories of predicate offences are Bhutan's top domestic proceeds generating crimes: corruption and bribery; illicit trafficking of stolen artefacts and other stolen goods; fraud; smuggling, and illicit trafficking in narcotics and pharmaceutical substances. Except for corruption and bribery, these predicate crimes are associated with Bhutan's border vulnerabilities with India.

Bhutan and the assessment team consider corruption and bribery as Bhutan's primary ML risk. While global and regional indices on corruption and bribery do not rank Bhutan as a highrisk jurisdiction, corruption affords the greatest potential for generating proceeds and has the most adverse societal impact. Bhutanese authorities have implemented numerous measures to combat corruption. However, there have only ever been two corruption related ML prosecutions outside the period under review. And, since the enactment of the Anti-Corruption Act (ACA) in 2011, section 76 precludes the prosecution of an offender for both corruption and associated ML.

While the number of prosecutions for the predicate crimes has increased over the past five years, these predicate crimes do not seem to be engineered by organised crime groups and the proceeds generated are generally laundered in Bhutan, and used to purchase consumer items or assets such as immovable property using both cash and the banking system.

Due to Bhutan's small economy and isolated financial sector, it is not an end destination or transit point for foreign proceeds. Bhutan has significant controls on foreign investment in Bhutan and cross-border capital movements. Beyond a very small real estate market, it does not offer "products" that would be attractive for laundering foreign proceeds.

Bhutan's ML vulnerabilities include gaps in legal frameworks, lack of resources and capability, particularly financial investigation and supervision of FIs and DNFBPs.

Terrorism Financing

Bhutan's TF risk is self-financing in its porous border areas arising from external threats:

- Indian Insurgent Groups (IGs), such as the National Democratic Front of Bodoland, that operate in the North Eastern Region of India and move into Bhutan's porous border areas to evade Indian authorities.
- Radical Groups (RGs), now located outside of Bhutan, are the remnants of anti-national groups formed in Bhutan in the 1990s. They are suspected of conducting sporadic, small scale terrorism activities, including the use of small improvised explosive devices with the last reported incident in 2012.

There is no evidence or intelligence that these two groups are receiving support from within Bhutan or using Bhutan's banking system.

There are no reported or identified instances of Al Qaeda, Taliban or Islamic State in Iraq and the Levant (ISIL) related activities in Bhutan.

EU White list of Equivalent Jurisdictions

Bhutan is not on the EU White list of Equivalent Jurisdictions

World Governance indicators

[To view historic Governance Indicators Ctrl + Click here and then select country](#)

Failed States Index

[To view Failed States Index Ctrl + Click here](#)

Offshore Financial Centre

Bhutan is not considered to be an Offshore Financial Centre

Trafficking of Persons 2014

Tier 2

Bhutan is a destination country for men, women, and children vulnerable to forced labor and sex trafficking, and a source country for Bhutanese children subjected to forced labor and sex trafficking within the country and in India, although data is limited. Bhutanese girls, who work as domestic servants and entertainers in drayungs, or karaoke bars, are subjected to sex and labor trafficking through debt and threats of physical abuse. Young, rural Bhutanese are transported to urban areas, generally by relatives, for domestic work, and some of them are subjected to domestic servitude. An expanding construction sector has resulted in an increase in low-skilled foreign labor, primarily men from India. Most domestic workers are young girls from poor, rural areas of Bhutan, though some women and girls are transported to Bhutan from India.

The Government of Bhutan does not fully comply with the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. There were no known law enforcement efforts to combat trafficking in persons. The government did not use formal procedures to identify trafficking victims among vulnerable populations, but funded an NGO whose services were available to protect trafficking victims. Some government agencies have a limited understanding of trafficking in persons and do not recognize trafficking in Bhutan.

International Sanctions

None Applicable

Bribery & Corruption

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	65
World Governance Indicator – Control of Corruption	81

Section 3 - Economy

Bhutan's economy, small and less developed, is based largely on agriculture and forestry, which provide the main livelihood for more than half of the population. Because rugged mountains dominate the terrain and make the building of roads and other infrastructure difficult and expensive, industrial production is primarily of the cottage industry type. The economy is closely aligned with India's through strong trade and monetary links and is dependent on India for financial assistance and migrant laborers for development projects, especially for road construction. Multilateral development organizations administer most educational, social, and environment programs, and take into account the government's desire to protect the country's environment and cultural traditions. For example, the government, in its cautious expansion of the tourist sector, encourages visits by upscale, environmentally conscientious tourists. Complicated controls and uncertain policies in areas such as industrial licensing, trade, labor, and finance continue to hamper foreign investment. Bhutan's largest export - hydropower to India - is creating employment and will probably sustain growth in the coming years. Only 5% of Bhutan's 30,000 megawatt hydropower potential is currently tapped. The large amount of equipment needed to import materials to build hydropower plants has expanded Bhutan's trade and current account deficits. Bhutan's GDP has rebounded strongly since the global recession began in 2008. Bhutan hopes to play a larger role in regional economic integration as a member of the South Asia Association for Regional Cooperation and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation.

Agriculture - products:

rice, corn, root crops, citrus; dairy products, eggs

Industries:

cement, wood products, processed fruits, alcoholic beverages, calcium carbide, tourism

Exports - commodities:

electricity (to India), ferrosilicon, cement, calcium carbide, copper wire, manganese, vegetable oil

Imports - commodities:

fuel and lubricants, passenger cars, machinery and parts, fabrics, rice

Section 4 - Government

Chiefs of State and Cabinet Members:

For the current list of Chiefs of State and Cabinet Members, please access the following - [Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments](#)

Legal system:

civil law based on Buddhist religious law

International organization participation:

ADB, BIMSTEC, CP, FAO, G-77, IBRD, ICAO, IDA, IFAD, IFC, IMF, Interpol, IOC, IOM (observer), ISO (correspondent), ITSO, ITU, NAM, OPCW, SAARC, SACEP, UN, UNCTAD, UNESCO, UNIDO, UNWTO, UPU, WCO, WHO, WIPO, WMO, WTO (observer)

Methodology and Sources

Section 1 - General Background Report and Map

(Source: [CIA World Factbook](#))

Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	Medium Risk	Higher Risk
FATF List of Countries identified with strategic AML deficiencies	Not Listed	AML Deficient but Committed	High Risk
Compliance with FATF 40 + 9 recommendations	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
US Dept of State Money Laundering assessment (INCSR)	Monitored	Concern	Primary Concern
INCSR - Weakness in Government Legislation	<2	2-4	5-20
US Sec of State supporter of / Safe Haven for International Terrorism	No	Safe Haven for Terrorism	State Supporter of Terrorism
EU White list equivalent jurisdictions	Yes		No
International Sanctions UN Sanctions / US Sanctions / EU Sanctions	None	Arab League / Other	UN , EU or US
Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network	>69%	35 – 69%	<35%
World government Indicators (Average)	>69%	35 – 69%	<35%
Failed States Index (Average)	>69%	35 – 69%	<35%
Offshore Finance Centre	No		Yes

Section 3 - Economy

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: [CIA World Factbook](#))

Section 4 - Foreign Investment

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: [US State Department](#))

Section 5 - Government

Names of Government Ministers and general information on political matters.

(Source: [CIA World Factbook](#) / <https://www.cia.gov/library/publications/world-leaders-1/index.html>)

Section 6 - Tax

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: [OECD Global Forum on Transparency and Exchange of Information for Tax Purposes](#) [PKF International](#))

DISCLAIMER

Part of this report contains material sourced from third party websites. This material could include technical inaccuracies or typographical errors. The materials in this report are provided "as is" and without warranties of any kind either expressed or implied, to the fullest extent permissible pursuant to applicable law. Neither are any warranties or representations made regarding the use of or the result of the use of the material in the report in terms of their correctness, accuracy, reliability, or otherwise. Materials in this report do not constitute financial or other professional advice.

We disclaim any responsibility for the content available on any other site reached by links to or from the website.

RESTRICTION OF LIABILITY

Although full endeavours are made to ensure that the material in this report is correct, no liability will be accepted for any damages or injury caused by, including but not limited to, inaccuracies or typographical errors within the material, Neither will liability be accepted for any damages or injury, including but not limited to, special or consequential damages that result from the use of, or the inability to use, the materials in this report. Total liability to you for all losses, damages, and causes of action (in contract, tort (including without limitation, negligence), or otherwise) will not be greater than the amount you paid for the report.

RESTRICTIONS ON USE

All Country Reports accessed and/or downloaded and/or printed from the website may not be distributed, republished, uploaded, posted, or transmitted in any way outside of your organization, without our prior consent. Restrictions in force by the websites of source information will also apply.

We prohibit caching and the framing of any Content available on the website without prior written consent.

Any questions or queries should be addressed to: -

Gary Youinou

Via our [Contact Page](#) at KnowYourCountry.com