

*Simplified Version*

**National Risk Assessment Report**

**on**

**Money Laundering and Terrorist Financing, 2020**

**(Assessment Period: 2015-18)**

**Government of Nepal**

**April 2020**

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**A. Background Information**

1. The national risk assessment on Money Laundering/Terrorist Financing (ML/TF) is primarily based on the scenario of 2015 to 2018 and until mid-2019 in some instances. The findings are limited to the analysis of the then data and situation. The impact of recent initiatives in ascertaining the ML/TF risk, however, is likely to be reflected in the next risk assessment.
2. The methodology followed to prepare this report is the standard methodology developed by the World Bank. Nevertheless, every assessment and subsequent analysis of the data and the situation is conducted by Nepali authority, and the report belongs to the Government of Nepal.
3. Rating for threats has been described as serious, major and issues of concern of the government. Rating for vulnerability is grouped into five scales, starting from low to high, depending on the situation of the factors. The high level of rating relating to the combating ability refers to the level of strengths, whereas, the products and services rated with high scale indicate the gaps in the vulnerability chapter.

**B. Policy, Legal and Institutional Frameworks and Enforcement Scenario**

4. The first ML/TF risk assessment of Nepal, initiated in 2012, was continued until 2016 as per the mandate of National Anti-Money Laundering/Combating Financing of Terrorism (AML/CFT) Strategy and Action Plan 2011-2016, which became a foundation to formulate the National AML/CFT Strategy and Action Plan, 2019-2024.
5. Significant achievements have been made in strengthening the legislative, regulatory and enforcement measures related to AML/CFT regime. A number of laws delegated legislations and regulatory manuals have been formulated and enacted. Necessary institutions, such as Department of Money Laundering Investigation (DMLI) and

Financial Intelligence Unit (FIU) have been established, including the legal mandate to all investigative type of agencies to identify ML/TF elements together with the investigation of the respective predicate offences. Further, eleven agencies have been designated as the regulators and are working for both financial and designated non-financial business and professions (DNFBPs). Ministry of Law, Justice and Parliamentary Affairs (MoLJPA)) has been designated as the central authority for mutual legal assistance (MLA), whereas, Ministry of Home Affairs (MoHA) for extradition. MoHA has also been designated as the department for asset recovery and management relating to the proceeds of crimes. Similarly, the Special Court has been designated as the court for adjudicating ML/TF offences. In the international front, Nepal has ratified various international conventions and instruments related to AML/CFT and also become a member of AML/CFT and crime specialized international institutions such as, Asia Pacific Group on Money Laundering (APG), Egmont Group of Financial Intelligence Units (FIUs) and Asset Recovery Inter-Agency Network –Asia Pacific (ARIN-AP).

6. Moreover, the government has also taken substantial policy and institutional reform initiatives in a number of sectors such as regulatory, law enforcement, taxation and other in the last couple of years. With these reforms, it is expected to impact positively on AML/CFT. The core reforms, that flow such impacts over AML/CFT, include the enactment of Financial Procedure and Fiscal Accountability Act, 2019, repealing of Tax Settlement Commission Act, bringing Department of Revenue Investigation and Department of Money Laundering Investigation under the Office of the Prime Minister and Council of Ministers, expansion of tax net through increment of the numbers of inland revenue and customs offices, implementation of online monitoring and risk management systems at customs and introduction of vehicle consignment tracking system, etc.
7. The existing AML/CFT legal, policy and institutional frameworks provide relatively comprehensive provisions in line with the standards and good practices of Financial Action Task Force (FATF). The legal framework largely conforms to the international standards. This includes the basic AML/CFT measures such as Customer Due Diligence (CDD), monitoring, reporting, record keeping, regulation, supervision, prohibition of fictitious and anonymous accounts, and transactions with shell banking. Additional measures include monitoring politically exposed persons (PEPs), wire transfer, non-face

to face technology based financial activities. It also covers such aspects of AML/CFT as investigation, prosecution, adjudication, sanction, assets recovery and international cooperation issues.

8. However there are a few designated predicate offences/conducts that are yet to be criminalized including categorical criminalization of terrorism, laws on business regulation of casinos, real estates and collection of beneficial ownership information, etc. There is no explicit provision on criminal sanction for non-compliance with AML/CFT preventive measures and tipping off relating to the functions of reporting entities, though there are instances where staffs have been prosecuted under banking offences, frauds and even on criminal activities. Further legal measures should be taken to criminalize all types of corruption and bribery, as stated in the UN Convention against Corruption 2003 and *hundi*. Securities offences, such as, circular trading and front running need to be categorically criminalized. Securities Board of Nepal (SEBON) should install Automated Surveillance System, including AML/CFT elements. Legal provisions for criminal sanctions on ML/TF are covered proportionately except the sanctions for corporate criminal liability.
9. The First National Strategy on AML/CFT was focused on legislative and institutional development. During the period, a number of laws were enacted, relevant conventions were ratified, and several institutions were either established or designated for ML/TF related tasks. The current national AML/CFT Strategy and Action Plan 2019-2024 aims to develop a sound legal, institutional, supervisory and operational framework. One of its major objectives includes the conduction of the national risk assessment. The strategy has a focus to apply the risk-based approach in all sectors concentrating primarily on those concerned with prevention, supervision and financial investigation.
10. The 2nd National Strategy and Action Plan is more focused on operation and effectiveness. As per the provisions mentioned in MLPA and National Strategy and Action Plan, dedicated AML/CFT committees and policy bodies at the national level such as National Review Council, NCC, Regulatory, Investigating, Anti-Terrorism Coordination Mechanisms and Implementation Committee are being set up and operational. Nevertheless, effective implementation of these legal provisions and high level performance of the institutions are still the areas of high priority.

11. The National Strategy is also a document of political commitment towards the development of AML/CFT related legal and institutional frameworks. Following the strong political commitment and progresses in multiple sectors, FATF took Nepal out of ICRG monitoring in 2014 June.
12. The major issues identified include operationalization of existing policy and legal measures, basically on the compliance functions and existence of AML/CFT systematic building blocks at reporting entities, pro-activeness on the supervisory and investigative sectors and need for adequate AML/CFT focus by regulatory and investigative agencies, by not limiting the functions within DMLI and FIU only.
13. Delayed and limited assessment of statutorily required institutional risk assessment, lack of adequate risk-based policies, procedures, focus and operational systems and the limited number of Suspicious Transaction Reports (STRs) are other areas of concerns governing the functions of reporting entities.
14. There is lack of proper understanding on issues of AML/CFT across the public and private sectors. For instance, Know Your Customer (KYC) policy has been found implemented by reporting entities with a different understanding, and some responsibilities of the reporting entities have been found transferred to the customers, thereby imposing an unnecessary burden on low or medium risk customers. Lack of electronic record-keeping of KYC even at bigger institutions like banks within a decade of the implementation of the system is a serious regulatory concern. This has continued the high risk of ML/TF at the reporting entities and created an unwanted public reaction about the system. The faster implementation of national ID could be a support to solve this.
15. The REs have the statutory obligation to take reasonable measures for identifying, obtaining, verifying and updating the beneficial ownership information during the start of the business relationship, Customer Due Diligence (CDD) or transactions. Difficulty in acquiring information about the ultimate beneficial ownership exists, which demands the strengthening of overall identification infrastructure to support the verification of the identity through the public information system. Identifying beneficial owner also depends on the robustness of transaction monitoring regime, which is lagging among the REs.

16. The regulators are more focused on KYC issues than AML/CFT systems. Supervision of the existence of the systematic building blocks, systematization of such elements, institutional capacity, risk-based approach and their functional effectiveness based on outcomes would make the system more robust. Regulatory reporting is nominal and unanalyzed.
17. FIU has experienced problems of receiving suspicious transaction reports (STRs) from different types of entities. Out of more than 85,000 reporting entities, very few sectors, such as the banking sector is reporting STRs, but with a minimum in quantity and quality. The situation, thus, identifies a need to ensure further operational autonomy of FIU, as well as adequate financial and human resources.
18. In spite of legal and policy mandates under Section 25 of the Money Laundering Prevention Act (MLPA) and National AML/CFT Strategy and Action Plan, to investigate money laundering offences, together with predicate offences and share related information with DMLI, the low level of sharing of information by the predicate offence Law Enforcement Agencies (LEAs) and similar agencies including revenue to DMLI is related to the issues of proper knowledge or understanding of relevant requirements. This has not only created difficulty in ascertaining the degree of national ML threat but also impacted the ability of combating ML.
19. DMLI has filed a total of 57 ML/TF cases in the court from its inception, out of which two cases are related to TF. This may not reflect the nature and identified level of risks. The assessment identified that this is primarily a result of the functional overlapping between DMLI and other LEAs, including the lack of sharing information and organization of parallel or joint financial investigation on the basis of risks.
20. Poor understanding and focus about the nature, type and volume of financial crimes is seen as a key issue with regulatory, law enforcement agencies, prosecutor and private sector. They are more focused on predicate than financial issues like ML. Resources and capacities to face the heavily growing financial crimes have been an area of improvement.
21. The level of financialization of the economy, a large share of the informal sector and cash-based economy have been assessed as the challenges to the effective implementation of AML/CFT measures.

### C. National Threats

22. The major predicate offences and their associated threats are analyzed and rated on the basis of the number of occurrence of offences, proceeds generated or could be generated from them as per their nature of offence, their national and international scope, legal and operational measures, statistics and general perception. The offences that (may) generate substantial proceeds and have larger adverse impacts include activities relating to corruption (bribery), tax (revenue) evasion, financial crimes such as banking offence and *hundi* have been found as the major threats, which needs further measures to control. Drug trafficking, organized crime, extortion, arms-related offence, domestic terrorism, fraud, counterfeiting of currency, environment related crime, robbery (theft), smuggling (including black marketing) and forgery stand as the offences as the threats of concerns. Similarly, the low threat posing offences include counterfeiting and piracy of products, kidnapping, illegal restraint and hostage taking, international terrorism, trafficking in stolen goods and insider trading. Despite the efforts made, tightening corruption, trade discrepancies in domestic and international transactions including the issues of remittance and *hundi*, expanding the level of law enforcement relation with foreign counterparts for trade-based money laundering and capital flights are also the issues of serious concerns of the government.
23. Operationalizing the section 25 and 25A of MLPA to all investigating agencies and coordinating such efforts to identify ML elements on the basis of risks and instantly making an arrangement to conduct a parallel investigation or sharing such information with DMLI right from the investigation phase as a regular responsibility, maintaining trained and qualified human resources in those agencies have appeared as the concerns of the government and agencies in the days to come.
24. Centralized and specialized assets recovery system has been seen as a serious concern in all its forms from concept, instruments, recovery to management. A baseline survey to estimate the proceeds of crimes would support making risk-based approach in the control of financial crimes.
25. The analysis finds that vigilance in the open border requires to be enhanced and border management made more effective so as to control transnational crimes and illegal activities. Similarly, the findings recommend every agency that investigates the predicate offences to equally focus on the proceeds of crimes, identify ML elements on the basis

of risks and instantly make an arrangement to conduct a parallel investigation or share such information with DMLI right from the investigation phase. Nevertheless, DMLI also needs further strengthening in terms of qualified human resources, while other investigative agencies should conduct ML related investigation together with predicate offences.

26. A need for training on AML/CFT measures at the end of investigators of the predicate offences with a common standard financial crime investigation manual is also identified. A need for maintaining disaggregated records in terms of STR, regulatory activities, investigations, prosecutions, freezing, seizing, convictions, confiscations, assets recovery, international cooperation at the agency level as well as integration at the national level is also identified.
27. Similarly, at the operational level, a need for coordination and information sharing mechanism between the relevant agencies is recommended.
28. Vigilance in the open border between Nepal and India should be enhanced, and border management made more effective so as to control transnational crimes and illegal activities. Cross-border cooperation between the concerned agencies should be enhanced at all levels to improve the overall ability of combating the crimes. The GoN has decided to establish the Border Out Posts (BOPs) across the border of China and India.

#### **D. National Vulnerabilities**

29. The vulnerabilities across the sectors are rated in five scales from low to high. The assessment of sectoral vulnerability examines the strengths and weaknesses of various sectors in the prevention of ML/TF crimes. The strengths include the comprehensive legislations, quality of AML policy and strategy, and establishment of required institutions. The weaknesses relate to effective supervision of reporting entities, robustly continuing the recent tax reform initiatives, tightening the domestic and international trade discrepancies including the issues of remittance and *hundi*, developing strong law enforcement relation with foreign counterparts for capital flights issues, border management, implementation of forfeiture laws, resources, capacity and operational independence of agencies and integrity of related officials.
30. Implementation of AML laws, particularly the scope, frequency, intensity of AML/CFT supervision and institutional risk profile, is a serious concern in all regulatory sectors.

Despite a low level of compliance at reporting entities, sanctions applied for non-compliance by reporting entities as provided in MLPA is either none or very low. It has raised concerns about operational roles and capacities of respective regulatory agencies. Problems of beneficial ownership, indirect control measures of criminals and fit and proper test mechanisms as provisioned in MLPA are lacking at the regulating authorities' end.

31. Moreover, the sectoral vulnerability, in addition to this national vulnerability common to all, has been outlined below.

### ***Banking Sector***

32. The overall banking sector vulnerability to ML is rated as medium-high, whereas, the quality of the general AML control is medium. The deficiency is mainly noted in the effectiveness of the process and practice of supervision due to low level of enforcement of AML measures in comparison to its scope, products, the volume of assets and transaction as well as the vulnerabilities at higher side by its nature of business itself. On the credit side, large business related credit products are found to be highly vulnerable products with medium-high rating. Ranking the overall vulnerability of the products/services, the most vulnerable is the current deposit product, which is also rated medium-high. The vulnerability of natural persons saving accounts, however, is rated medium. Such accounts are found to be operated like business account beyond the KYC profile. Saving accounts have been found abused for non-taxation and other non-regulated economic activities.
33. Risk of access financing of projects than the actual requirement and the possibilities of siphoning off the borrowed fund may create ML risk in credit to corporate business. In such a situation, the corporate entity could engage in capital flight from the country while the chances of doing business without injecting the owner's capital also exist.
34. Furthermore, current scattered responsibilities on AML/CFT functions, divided into six related departments of NRB are some issues in the context of effective implementation of AML/CFT legal measures. The assessment identifies a need for integrating AML/CFT supervisory functions scattered in six departments of NRB into a well-structured AML/CFT Department with concentrated and clearly stated roles.
35. The assessment has identified the effectiveness of entry, ownership and management control of reporting entities, the effectiveness of compliance system, electronically record

keeping of AML/CFT information and using them systematically for monitoring, level of supervision, and enforcement of regulatory sanctions for non-compliance as some of the components associated with the banking sector requiring further improvements.

36. Out of 57 ML cases investigated by DMLI, 22 involved the banking sector to launder the proceeds of crime. This shows that the banking sector is comparatively more vulnerable. The major banking products such as current account deposit, credit for large businesses and trade finance are found susceptible to be abused by the criminals.
37. In the banking sector, some gaps are noted, such as the quality and content of training, timely risk assessment by REs, lack of electronic AML/CFT data archives and monitoring system, sanctioning for non-compliance and effective use of supervisory manual, insufficient AML/CFT training, and reluctance on the part of regulators in imposing sanctions.
38. While commercial banks are using specialized AML system for monitoring and reporting of suspicious transactions, other categories of banks lack such a system. Lack of extensive supervision/audit of AML compliance is another issue.

### ***Cooperative Sector***

39. The overall cooperative sector's vulnerability to ML is rated as medium-high due to the implementation issues of the existing AML/CFT laws. The quality of the general AML control is rated as medium-low in view of some deficiencies related to operational aspects. Effectiveness of the compliance system is also rated as medium-low on the same grounds.
40. While ranking the overall vulnerability of products/services available, deposit and credit of high amounts are found to be the most vulnerable. Deposit rating score also indicates medium-high vulnerability. Risk of excess financing than actually required may create ML risk on the loan flow (credit) to cooperatives, and it is found to have medium vulnerability.
41. Cooperatives are regulated by all levels of governments- the federal, provincial and local level. The assessment has identified a need for further clarification in the existing overlapping AML supervisory functions. AML related knowledge, reporting of STRs and supervision are identified as areas requiring immediate improvement. Other findings identified in the cooperative sector are broadly similar to those in the banking sector.

### ***Securities Sector***

42. The overall securities sector vulnerability to ML is rated as medium because the securities market is limited to domestic investors only, and not tied to the international market. While assessing the vulnerability of the products in the securities sector, shares/equity and mutual funds are found to be more vulnerable than bonds/debentures. Other findings identified in the securities sector are broadly similar to those in the banking sector.
43. The quality of general AML control is at medium level due to the level of implementation of AML/CFT laws. Securities business persons apply only general CDD to all investors regardless of their profession, source of income, geographic region and other factors. Most of the securities business persons have not maintained the list of PEPs and their associate members and have not also adopted a risk-based approach to categorize their clients. Similarly, the quality of internal AML policies and procedures is rated as medium because MLPA, MLP Regulation and SEBON's Money Laundering and Terrorist Financing Prevention Directives, 2019 have sufficient provisions regarding risk-based CDD, record keeping, suspicious transaction reporting, threshold transaction reporting, administrative and criminal sanctions.
44. The assessment arrives at priority ranking to the effectiveness of supervision and AML knowledge to the staffs of securities business sector needs further enhancement for reducing the vulnerability in the securities sector. Similarly, a need for categorical criminalization of securities offences such as circular trading and front running is also identified to reduce AML/CFT vulnerability at this sector.

### ***Insurance Sector***

45. The overall insurance sector vulnerability to ML is found to be of medium. Similarly, the quality of the general AML controls is at medium-low level. Assessing the vulnerability of the insurance products, endowment life insurance (individual and group) and highly growing demand for single premium policies are found to be more vulnerable than other products.
46. The priority areas identified for reducing the vulnerability in the sector are increasing of AML knowledge among the staffs of insurance companies and also improving the effectiveness of supervision procedures. Similarly, enforcement of sanctions for non-compliance is also another high priority action.

47. AML/CFT measures are applied to both life and non-life sectors, with more focus on the life insurance business. The assessment identified a need to provide more AML knowledge to the staffs of insurance companies and increase the effectiveness of supervision. Other findings identified in the insurance sector are broadly similar to those in the banking sector. The vulnerability of the insurance sector has, thus, been assessed as an area of growing concern.
48. The assessment identifies the need for preparing the risk profile of each company by the Insurance Board, introducing AML/CFT software in each insurance company, adapting enhanced due diligence measures and developing and implementing the product-specific AML measures for minimizing the vulnerability in the sector.

#### ***Other Financial Sector/Institutions***

49. Other financial institutions include money changers as foreign exchange bureaus, money remittance services, pension funds (such as Employee Provident Fund, Citizen Investment Trust and other institutional pension funds) and Postal Saving Bank. Even though money changers and remittance companies are licensed and regulated, informal remittances or value transfer services or *hundi* dealers pose serious challenges.
50. Upon assessing only, the licensed remitters and money changers, the vulnerability is found to be low. However, when they are combined with all forms of value transfers and remittances, including *hundi*, and uncertainty of the actual amount of *hundi* and its use in criminal activities, the vulnerability is assessed as an area of high concern. The assessment, therefore, has reached to rate Foreign Exchange Bureaus- Medium-High; Remittance Service – Medium-High; Hundi- High and has obtained less supervisory focus on AML/CFT aspects. A comprehensive study on the size, value and transaction of *hundi* and remittance, focused risk-based supervision, and categorical criminalization of *hundi* are found to be the real problems of the day.

#### ***Designated Non-financial Business and Professionals (DNFBPs) Sector***

51. The assessment has mainly covered casinos, dealers of precious metals and stones, and real estate under DNFBPs. Independent legal and accounting professionals and trust and company service providers that are allowed to limited business (by their respective governing license laws) have been minimally focused in the assessment.
52. Nepal's DNFBPs sector include the following sectors and regulators.

### Regulating Agencies of the DNFBPs

| DNFBPs                              | Designated Regulators                           |
|-------------------------------------|---|
| Casinos or internet casinos         | Ministry of Culture, Tourism and Civil Aviation |
| Real estate                         | Department of Land Management and Archives      |
| Precious metals or precious stones  | Department of Inland Revenue                    |
| Notaries                            | Nepal Notary Council                            |
| Auditors, accountants               | Nepal Chartered Accountants Institute           |
| Trust and company service providers | Office of the Company Registrar                 |

53. The assessment has found that the casinos operate with minimum business regulation, and are often unaware of their AML/CFT obligations. In view of the size of the casino business, its vulnerability has been assessed medium-high.
54. Dealers in precious metals and stones business operate with minimum business regulations, and are often unaware of their AML/CFT obligations. There were eight cases where the precious metals sector was abused for ML. Similarly, fraudulent and smuggling activities were also found in this sector. Its vulnerability has, thus, been rated as medium-high.
55. Despite AML legal measures available to the sector, the lack of business laws regulating them for licensed business is a key problem for AML/CFT performance. The real estate sector is most vulnerable to ML and rated high.
56. Independent legal, notary and accounting professionals are not allowed, by their respective licensing laws, to manage financial transactions on behalf of their customers. So, they have limited roles in the AML/CFT as determined by AML/CFT international standards. However, draft AML/CFT Guidance to the accounting professionals, including the proper maintenance of customer due diligence and reporting suspicious matters is not issued by the Institute of Chartered Accountants of Nepal (ICAN) yet, which has led this sector to medium level vulnerability.
57. Existing legal framework for licensing real estate and casino businesses with the objective of applying existing AML/CFT measures are lacking. Supervisory AML/CFT manuals on real estate, casino and gold and precious metals and stones businesses need to be adopted at the earliest. AML/CFT directives are to be issued by all DNFBPs at the earliest. Capacity building

programs should be extensively and regularly conducted by the regulators and DNFBPs on the basis of risks.

58. The assessment identifies a need for AML/CFT focused revision of existing legal framework for licensing real estate and casino businesses, supervisory manuals on real estate, casino and gold and precious metals and stones and also the directives for DNFBPs.

#### **E. Non-Profit Making Organizations**

59. NPOs include NGOs and non-profit making companies in Nepal. Many NPOs are found to be working in remote areas where people have low income. Lack of laws requiring the AML/CFT measures and national statistics related to the NPOs are the main problems. So, the vulnerability of this sector is assessed as medium.
60. The assessment has found that the authorities responsible for registration and affiliation require more regulatory and supervisory powers. This sector requires specific law obligating to apply AML/CFT measures. There have been no reported cases so far, where NPOs have been abused for TF purposes.

#### **F. Terrorist Financing Risk Assessment**

61. Nepal, as a peace-loving country, condemns any forms and manifestations of terrorism. Terrorist acts are criminalized by various legal instruments, including MLPA that has defined terrorism for TF purposes. Nepal takes the issue of TF with all seriousness and remains firmly committed to plugging potential gaps that unscrupulous elements may try to exploit for the purpose of ML/TF. For that purpose, Nepal has devised necessary legal, policy and institutional measures as well as strengthened law enforcement machinery to check ML and TF. ML/TF, being a complex and amorphous issue, needs the efforts for continuous improvement, and fine-tuning with the development of technology and the way business transaction is done in the world.
62. Despite the foregoing challenges emanated from incoming aids and proceeds of charity from abroad to different NPOs or individuals associated with them, the limited reach of financial sector regulations and open border, there is a large segment of informal economy. This calls for vigilance against potential incidents of TF.

### ***Targeted Financial Sanctions***

63. The GoN has designated Ministry of Home Affairs (MoHA) as the competent authority for proposing designation pursuant to UNSCR 1267 and 1373. MoHA also acts as the competent authority to implement the terrorism related UNSC resolutions. This is also provided in MLPA and its Regulations.
64. Nepal is a party to several conventions and treaties related to combating terrorism and financing of terrorism, which include:
  1. United Nations International Convention for the Suppression of the Financing of Terrorism, 1999.
  2. United Nations Convention against Transnational Organized Crime, 2000.
  3. United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, 1988.
  4. United Nations Convention against Corruption, 2003
  5. SAARC Regional Convention on Suppression of Terrorism, 1987 and its Protocol on Terrorism Financing.
  6. SAARC Convention on Narcotic Drugs and Psychotropic Substances, 1990.
  7. BIMSTEC Convention on Combating International Terrorism, Transnational Organized Crime and Illicit Drug Trafficking, 2009.
  8. Convention for the Suppression of Unlawful Seizure of Aircraft, Hague, 1970.
  9. Convention on the Prevention and Punishment of Crimes against Internationally Protected Persons, including Diplomatic Agents, 1973.
  10. International Convention against the Taking of Hostages, 1979.
  11. Convention on the Physical Protection of Nuclear Material, 1980.
  12. Protocol for the Suppression of Unlawful Acts of Violence at Airports Serving International Civil Aviation, 1988.
  13. Convention for the Suppression of Unlawful Acts against the Safety of Maritime Navigation, 1988.
  14. Protocol for the Suppression of Unlawful Acts against the Safety of Fixed Platform located on the Continental Shelf, 1988.

15. International Convention for the Suppression of Terrorist Bombings, 1997.
65. Further, Nepal is a member of APG, Egmont Group of FIU and ARIN-AP. Nepal is also a member of INTERPOL since 1967. Nepal Police, NCB has been working to ensure liaison with various concerned national and international agencies as well as with the Secretariat of INTERPOL as the national contact point. NCB-Kathmandu serves as the national point of contact for all INTERPOL matters in Nepal and coordinates international investigative cooperation between INTERPOL's member countries throughout the world and domestic LEAs. NCB uses INTERPOL's secured global police communication system called I-24/7 to share information, coordinate police activities and access INTERPOL databases. It transmits messages about wanted fugitives, kidnapped children, terrorists, illegal drug traffickers, and other individuals and groups involved in criminal activities, and assists police investigations across the world.
66. Nepal has not experienced major international terrorism in its territory till the date. However, this does not mean that Nepal does not have a threat of terrorism. Some of the recent incidents of internal violent activities are under the attention of the government.
67. One of the major instruments in combating TF is the National ML/TF Prevention Strategy and Action Plan (2019-2024) including the Counter Terrorism Mechanism (CTM) brought to deter terrorism, terrorist financing and proliferation of financing on terrorism. This Mechanism facilitates co-operation and co-ordination among the Ministries and LEAs. In Nepal, the occurrence of international terrorist incidents stands low except the one related to the hijacking of the Indian Airlines Flight 814 from Kathmandu airport in 1999.
68. Out of 57 ML cases investigated by DMLI, two cases are linked with TF involving defendants from foreign jurisdictions. Based on the above analysis, the overall terrorism threat is rated as low concerning international terrorism and medium with regard to domestic terrorism.
69. The revision of existing legal measures for explicit criminalization of terrorist acts is needed. Capacity building of intelligence and LEAs should be further strengthened, taking into account terrorism and TF risks.

## **G. Financial Inclusion**

70. Financial inclusion is in the priority of the government and the government is running a number of programs for it. Simplified AML/CFT measures are allowed for such initiative based on the risk assessment. MFIs offer different products to the deprived and low-income people. FI products are not provided through banking agents. Rather they are directly provided by MFIs to their clients. No crime has ever been recorded; nor any notification of the suspect in the use of FI products. MLPA and its Regulations allow for the application of simplified CDD measures for low risk customers or transactions.
71. In case of FIs products offered by MFIs, the identified risk mitigation and control measures include the setting of thresholds for different saving accounts with periodic revisions as per the changing ML/TF risk, monitoring AML/CFT compliance of MFIs, a separate AML/CFT directives MFIs on the basic level of risks and further enhancing the capacity of the MFIs and regulators.
72. General Recommendation to Each Sector: The analysis comes with the identification of the need for the use of AML/CFT software system to maintain necessary information of their clients and make regulatory compliance, regulatory and FIU reporting in time by each sector, including cooperative, insurance, DNFBPs, NPOs and other financial sectors.

#### **H. Action Plan**

73. The assessment report has made a number of recommendations on the basis of its findings. Majority of findings and recommendations made in this report have already been identified and incorporated in the National AML/CFT Strategy and Action Plan 2019-2024. However, a supplementary Action Plan has been prescribed in this report with the objective to further support and complement the Action Plan (2019-24) and is annexed to this report.

#### **Supplementary Action Plan (2020-24)**

| SN | Activities | Main Responsible Agency | Supporting Agency | Time frame | Indicators |
|----|------------|-------------------------|-------------------|------------|------------|
|    |            |                         |                   |            |            |

|   |   |                          |   |                    |  |
|---|---|--------------------------|---|--------------------|--|
| 1 | Expanding the scope of investigation towards the illegal financial gains on high risk crimes such as corruption, tax evasion, human trafficking/smuggling.  | - Investigation Agencies | -OAG<br>-FIU<br>-Other related agencies | 2020 and regularly | Investigation scope expanded                     |
| 2 | Confirming the functional presence of AML/CFT building blocks and required level of knowledge and operational skills with the staffs of Reporting Entities by conducting supervision over the AML/CFT systems on the basis of risk factors. | -NRB                     | -FIU<br>-Concerned Ministries           | 2020               | AML system supervision completed                 |
| 3 | Confirming the functional presence of AML/CFT building blocks and required level of knowledge and operational skills with the staffs of Reporting Entities by conducting supervision over the AML/CFT systems on the basis of risk factors. | -All Regulators          | -FIU<br>-Concerned Ministries           | 2020-2021          | AML system supervision completed                 |
| 4 | Requiring Reporting Entities to have an independent audit of AML/CFT and associated risks.  | -All Regulators          | -FIU<br>-Concerned Ministry             | 2020-2021          | Independent audit of AML/CFT and risks conducted |

|    |  |                 |  |           |                                  |
|----|--|-----------------|--|-----------|----------------------------------|
| 5  | Integrating AML/CFT supervisory functions, by establishing a dedicated AML/CFT Department at NRB.  | -NRB            | -MoF   | 2020      | Dedicated Department established |
| 6  | Establishing an AML/CFT Supervisory Unit with staffs having experience.  | -All Regulators | -Concerned Ministries  | 2020      | Unit established                 |
| 7  | Conducting special risk assessment of Fintech, Regtech and related frauds with focus on core banking, e-banking, new technology-based payment system, cyber security risk and AML/CFT in the banking system. | -NRB            | -MoF   | 2020-2021 | Assessment completed             |
| 8  | Establishment of the disaster recovery system for FIU data.  | -FIU            | -NRB   | 2020-2021 | System established               |
| 9  | Developing a framework to look after the use of <i>Hundi</i> in business and other activities.   | -MoF            | <ul style="list-style-type: none"> <li>• NRB</li> <li>• DRI</li> <li>• Tax and Customs</li> <li>• OPMCM</li> </ul> | 2020      | Framework developed              |
| 10 | Conducting baseline surveys to estimate proceeds of crime of unreported situations with a focus on the nature, type and volume of crimes with a focus on most proceeds generating ones.                      | -OPMCM<br>-OAG  | -MoF<br>-MoFA<br>-CIAA<br>-OAG<br>-NRB<br>-FIU<br>-Other LEAs  | 2021-2022 | Baseline survey conducted        |

|    |  |   |                |           |  |
|----|--|---|----------------|-----------|--|
| 11 | Enhancing the national record keeping system for NPOs.               | MoHA  | - SWC<br>- OCR | 2021-2022 | National record keeping enhanced                     |
| 12 | Enhancing the system on real time screening of suspicious travelers. | -Department of Immigration<br>-Nepal Police | - MoHA         | 2020-2021 | Real time screening of suspicious travelers enhanced |