

Identifying Money Laundering and Terrorist Financing Risks in Bangladesh



National Risk Assessment Report (Sanitized Version)

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List of Abbreviations

ACC	Anti-Corruption Commission	IDRA	Insurance Development & Regulatory Authority
AML	Anti-Money Laundering	KYC	Know Your Customer
AMLDD	Anti-Money Laundering Department of Bangladesh Bank	MER	Mutual Evaluation Report
APG	Asia Pacific Group on Money Laundering	MLA	Mutual Legal Assistance
AP-RRG	Asia Pacific Regional Review Group	MLPA	Money Laundering Prevention Act
ATA	Anti-Terrorism Act	MLPO	Money Laundering Prevention Ordinance
ATO	Anti-Terrorism Ordinance	MoU	Memorandum of Understanding
BB	Bangladesh Bank	MoF	Ministry of Finance
BDT	Bangladesh Taka	MoFA	Ministry of Foreign Affairs
BFIU	Bangladesh Financial Intelligence Unit	NBR	National Board of Revenue
BGB	Border Guard Bangladesh	NBFIs	Non-Bank Financial Institutions
BSA	Bangladesh Standard Accounting	ML	Money Laundering
CFT	Combating the Financing of Terrorism	NCBs	Nationalized Commercial Banks
CID	Criminal Investigation Department	NCC	National Coordination Committee on AML/CFT
CIP	Commercially Important Person	NGOs	Non-Government Organizations
CTR	Cash Transaction Report	NGOAB	Non-Government Organization Affairs Bureau
DNC	Department of Narcotics Control	NRA	National Risk Assessment
DNFBP	Designated Non-Financial Businesses and Professions	PCBs	Private Commercial Banks
DOE	Department of Environment	NPOs	Non Profit Organizations
DSE	Dhaka Stock Exchange	RAB	Rapid Action Battalion
EC	Election Commission	RBA	Risk Based Approach
FATF	Financial Actions Task Force	REHAB	Real Estate & Housing Association of Bangladesh
FCBs	Foreign Commercial Banks	SAARC	South Asian Association for Regional Cooperation
FERA	Foreign Exchange Regulation Act	SEC	Securities and Exchange Commission
FFR	Functional Flow Reserve	StAR	Stolen Asset Recovery Initiative
FIU	Financial Intelligence Unit	STR	Suspicious Transaction Report
FSRB	FATF Style Regional Body	TF	Terrorist Financing
ICAB	Institute of Chartered Accountants of Bangladesh	TP	Transaction Profile
ICRG	International Cooperation and Review Group	UNSCR	United Nation Security Council Resolution

Executive Summary

FATF Recommendation-1 requires every member country to identify, assess, and understand the money laundering (ML) and terrorist financing (TF) risks for the country, and country should take action, including designating an authority or mechanism to coordinate actions to assess risks, and apply resources, aimed at ensuring that the risks are mitigated effectively.

National Coordination Committee (NCC) for preventing money laundering and combating financing of terrorism headed by honorable finance minister is responsible authority for coordinating the activities of national ML & TF risk assessment (NRA) in Bangladesh. The first ML and FT risk assessment was conducted in 2011-2012 based on the related statistics for the period of 2001 to 2010 by a committee comprising officials from Bangladesh Financial Intelligence Unit (BFIU), Anti-Corruption Commission (ACC) and Criminal Investigation Department (CID) of Bangladesh Police. As per requirements of new FATF standards issued in 2012, NCC again assigned ACC, BFIU and CID to take further initiatives to conduct a comprehensive NRA and make necessary recommendations which would be considered in the National AML/CFT Strategy Paper. Accordingly, ACC, BFIU and CID formed a 'core committee' with their employees and a 'working committee' comprising representatives from agencies.

In the process of preparing this NRA document, both qualitative and quantitative approaches are followed while qualitative technique is more emphasized to assess ML and TF risks of the country based on data for the period 2009-2013. Primary data are mainly collected using various pre-designed templates and sector-specific questionnaire. Major sources of secondary data are previous NRA document, annual reports of BFIU, Bangladesh Bank, Bangladesh Securities and Exchange Commission (BSEC), Ministry of Home (MoH), Ministry of Law and Parliamentary Affairs (MoLPA) and Department of Narcotics Control (DNC). Money laundering and terrorist financing related cases along with various intelligence information are collected from Bangladesh Police, Anti-Corruption Commission, Rapid Action Battalion (RAB), Special Branch (SB) of Bangladesh Police, CID of Bangladesh Police, Border Guard Bangladesh (BGB), Director General of Forces Intelligence (DGFI), National Security Intelligence (NSI), and Directorate of Customs Intelligence and Investigation. Furthermore, site visits, group discussion and stakeholders' consultation are taken into account to get a comprehensive understanding of ML and TF risks in the country.

The outcomes of sector-specific risk assessment of bank, non-bank financial institutions, money changers and money remitter, insurance, capital market intermediaries (CMIs), NGO/NPOs and DNFBPs have been taken into account while assessing national ML&TF risks. In conducting risk assessment of banks, non-bank financial institutions and money changers and money remitters, risk scoring tool has been applied. NRA uses the output of risk assessment of Insurance sector and CMIs done by AUSTRAC (Australia FIU) under SARISA (Strengthening AML/CFT Regulation in South Asia) Project. It also includes risk assessment of DNFBPs done with the technical assistance from World Bank.

Being located in between Indian mainland and its reveling seven sister states and having border with Myanmar, Bangladesh is linked to the entire South East Asian region. Its geographic location-including its seaports and long porous borders with India and Myanmar- makes it a key trans-shipment point for drugs produced in both the 'golden triangle' and 'golden crescent' regions. In addition trafficking of illicit drugs, human trafficking, illegal cross-border trade and smuggling

through the porous border also pose risk as those are generating criminal proceeds. The spill-over effects of regional terrorism has also affected Bangladesh to some extent.

While conducting the assessment, few inherent economic factors are found to be vulnerable for ML&TF. These include cash based economy, inflow and outflow of remittances through informal channel, miss declaration in foreign trade and trade based money laundering etc. Trade-based money laundering in Bangladesh mainly occurs in the form of over-invoicing and under-invoicing, multiple invoicing, over-shipments and under-shipments and falsely described goods and services. The enormous volume of trade flows, which obscures individual transactions and provides abundant opportunity for criminals/criminal organizations to transfer value across borders. Lack of uniform pricing system and database to justify the actual value of the imported or exported goods to identify the under invoicing or over invoicing is another loophole.

In Bangladesh most of the wage earners are illiterate; they hardly know about the legal way of remitting their hard earned money. Besides, existence of a considerable portion of unbanked people; non proximity of exchange house(s) to the wage earners; slow in delivering the remittance by formal channels are encouraging hundi/hawala system. The World Bank conducted a survey on 6,282 households under 10 districts in the year 2007 and found that about 9.4% of total remittance channeled through hundi/hawala and another 14.9% was channeled through personal delivery by friends and relatives i.e total 24.3% of total remittance remained unrecorded. Though the trend is decreasing, in absolute term the amount is significant in respect of total inward remittance.

The AML & CFT regime of Bangladesh consists of both institutional and legislative framework. The legal framework is primarily based on the Money Laundering Prevention Act (MLPA), 2012, the Anti-Terrorism Act (ATA), 2009 (with amendments of 2012 and 2013) and Rules thereon. Besides, AML&CFT legal framework is also supported by many other laws and Rules prevailing in the country. The critical review of the legal framework identifies few limitations like some elements of “smuggling of Migrants” are not included as the predicate offence in MLPA, 2012, complex procedure of investigation of ML cases by the investigating agencies other than ACC etc. Despite having few limitations, the legislative framework of AML& CFT in the country has proven to be very effective to act as a deterrent to ML&TF offences.

The vulnerabilities concerned with the institutional framework of the country’s AML & CFT regime have been understood from different aspects. Almost every respective institution is found to have some limitations. The common limitations are lack of skilled manpower, lack of adequate resources and shortage of required technology etc. Most of the STRs/SARs received by BFIU are mainly from banking, and NBFIs sector. Insurance companies, CMLs, Money Changers, Cooperatives, Money Remitters, NGOs/NPOs, and DNFBPs have been included in the MLPA and ATA as reporting agencies recently and so BFIU is yet to build expertise in dealing with the STRs of these sectors.

It is observed that after reporting of occurrences of the offences or lodging First Information Report (FIR) of occurrences, a significant number of cases are lost in the investigation stage and trial stage due to lack of adequate manpower. Besides, people are usually reluctant to appear before the Court as witnesses. In absence of full time and professional public prosecution service, successful prosecution of a case becomes much difficult task. Situation becomes worst due to long queues of cases in the trial courts.

Most of the Govt. agencies particularly the Women Affairs Department, Social Welfare Dept, NGOAB, MRA, RJSC&F, and DNC do not have any dedicated vigilance unit to oversee the AML&CFT compliance. Those organizations are in shortage of manpower and the existing employees lack expertise in this particular area. So, they have shortcomings in conducting regular audits of all registered reporting organizations to ensure AML&CFT compliance. Besides, in absence of inter connectivity among all useful databases regulatory/supervisory agencies cannot verify the submitted documents and establish a monitoring mechanism to carry out their functions properly.

Generally, BFIU receives very few STRs from State owned commercial banks and no STR from specialized banks though the state owned commercial banks are more vulnerable to ML&TF risks. Wide range of evolving products and adoption of newer technologies also pose risk. Furthermore, banks do not have direct access to any of the ID database (like NID, Passport), so they cannot verify the genuineness of the submitted identification documents of the clients. Manual screening mechanism to monitor UNSCR sanctions list in most of the banks hampers effective monitoring. The higher frequency of physical cash transactions can facilitate the movement and concealment of illicit funds.

NBFIs, as providers of a wide range of deposit and lending services, are vulnerable to being used generally in the layering and integration stages of money laundering. Lump sum investments in liquid products are clearly most vulnerable to be used money launderers.

Due to its nature of product and delivery channel insurance sector poses less ML&TF risk but lack of ML&TF awareness of insurance staff and a paucity of suitably qualified staff may create some ML&TF threats for the sector. There are issues of good governance in the sector including manual systems of record keeping, reporting and claims settlement, little monitoring for unusual payments or fake claims and over payment of premiums.

The major threats identified in the securities market sector are market manipulation, such as pump and dump schemes, circular trading; insider trading, market sensitivity issues that create mayhem for the market, and insufficient mechanisms or abilities to verify the identity of the investors in brokerage houses.

For NGO sector there are multiple regulators but coordination among the different regulatory authorities is not sufficient at all. Besides, no regulator has centralized audit, inspection and analysis unit to detect irregularities in fund movements and monitor proper utilization of funds from foreign sources. In absence of proper monitoring some NGOs those are receiving foreign funds and work with ideological issues are identified as vulnerable for TF based on perceptions of the related stakeholders.

Money Changers, in Bangladesh are licensed by Bangladesh Bank under Foreign Exchange Regulation Act, 1947 for dealing in certain foreign currency transactions. The activities of money changers in Bangladesh are highly regulated and limited to certain foreign exchange transactions. Thus the sector is not considered as vulnerable to ML&TF.

Since the DNFBPs are recently identified as reporting organization under MLPA, the sector lacks proper AML&CFT preventive measures in place. Furthermore, the sector particularly the real estate companies and dealers of precious metals and stones carrying high valued cash. So, these may allure money launderers to inject illegal proceeds and proceeds of crime in these sectors. These businesses

hardly keep proper identification of their customers. Source of fund and purpose of those transactions may not even be questioned in few businesses in the sector. So the NRA identified the real estate companies and dealers of precious metals and stones as more vulnerable sectors for ML.

MLPA, 2012 includes 27 serious offences as predicate offences of ML that may generate proceeds in home and abroad. Based on statistics from BFIU and law enforcement authority, reviewing related study report and considering the perception of all stakeholders, this report states that corruption, fraud forgery, gold smuggling, drug and human trafficking are the major sources of proceeds of crime in Bangladesh and are taken through different vehicles. The main challenge for Bangladesh is to stop the illicit flow of funds abroad. Most of the funds flow to developed countries and that makes the job of LEA more difficult. Managing the risk and vulnerabilities or overcoming the limitations identified in the NRA requires effort from all concerned.

The solutions for these understood vulnerabilities are sometimes complex in nature. The legal framework needs to be restructured; inter-agency cooperation needs to be strengthened to investigate, detect and prevent ML & TF. The investigating agencies need to be restructured with adequate skilled manpower, advanced technologies and separate prosecution wings as well as separate AML & CFT wing. The necessity of a joint task force for AML & CFT investigation has been realized while analyzing the vulnerabilities. All relevant coordinating, investigating, prosecutors, supervisory and other agencies having access to a central AML&CFT database need to be developed to expedite the investigation and coordination activities. The government and other responsible authorities should take steps to enhance ML&TF risk awareness. Formal financial services should be extended and enhanced to rural areas and automation of financial services also needs to be increased so that this financial transaction can be monitored to prevent/mitigate ML and TF risks in the periphery of the economy.

Chapter 1: Introduction

1.1 Main Motivation

Money Laundering (ML) and Financing of Terrorism (TF) offences have emerged as the potential threats to global economy over the past couple of decades. Since then, governments of the different countries have been taking concerted efforts to combat these offences. The first international agreement addressing money laundering was the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances commonly known as Vienna Convention. The Convention was signed in 1988 under the auspices of the United Nations and became effective in November 1990. The signatories, which included the G7 and European Union countries among others, agreed to combat the laundering of the proceeds of drug trafficking together. The measures included the criminalization of money laundering and enhanced international cooperation together with the commitment of signatories to ensure that the laws of their jurisdictions are amended to address these issues. In addition, an international body was established to oversee the implementation of the principles of the Vienna Convention. This organization is known as the Financial Action Task Force (FATF) and is based in Paris. Later, what began as an international effort to combat the laundering of proceeds of drug was formally extended to the laundering of proceeds of other serious offences at the meeting of FATF in June 1996.

As a result of the formation of the FATF in 1989 by the G-7 countries in Paris money laundering prevention activities came into prominence globally. However, the initiatives to combat financing of terrorism started immediately after the terrorist attack on US in 2001. The FATF is primarily responsible for developing a worldwide standard for AML and CFT issues. It works in close cooperation with other key international organizations, including the IMF, the World Bank, the United Nations, and FATF-style regional bodies (FSRBs). The Asia-Pacific Group on Money Laundering (also known as the APG) is the FSRB for the Asia Pacific region, founded in 1997.

Bangladesh is a founding member of APG. In the process of responding to international concern, Government of Bangladesh formed a central and several regional task forces on 27th January, 2002 to combat money laundering and illegal hundi/hawala activities in Bangladesh. The country, in line with FATF's recommendations, promulgated Money Laundering Prevention Act (MLPA) 2002, with effect from 30th April, 2002. It was indeed the first anti money laundering legislation in South Asian region. The Act was subsequently replaced by the Money Laundering Prevention Ordinance, 2008 on 15th April, 2008. In order to combat financing of terrorism in the country, another ordinance, namely Anti-Terrorism Ordinance 2008 was enacted in the same year. These two ordinances were passed by the Parliament in 2009 as Money Laundering Prevention Act (MLPA), 2009 and Anti-Terrorism Act (ATA), 2009 respectively. To address all international standards and gaps identified in mutual evaluation report (MER) the Government again enacted Money Laundering Prevention Act, 2012 repealing earlier MLPA 2009 and issued Money Laundering Prevention Rules, 2013. For the same purpose Bangladesh also amended ATA 2009 in 2012 and 2013 and formulated Anti-Terrorism Rules, 2013.

National Risk Assessment is also motivated by government's front line stance against ML and TF in the context of economic development of the country. The economy of Bangladesh has experienced sustained decade long spell of six-plus percent annual average real GDP growth, firm macro financial environment with single digit Common Price Index inflation, fiscal deficits in lower single digit GDP percentages, strong external sector gains with positive Balance Of Payment (BOP) current account balance and a record high reserves of more 25 billion US dollar. The country's financial sector remains stable and resilient to external shocks while it has started implementation of Basel III since July 2014. The country has successfully reduced poverty to a great extent, earned lower-middle income status and aspires to gain middle income status by 2021 through continuous expansion of its corporate sectors, small and medium enterprises including readymade garments sector. Under the circumstances, the country is fully aware that money launderers and terrorist financiers may exploit this long-earned gain of the economy and government therefore aims to seal every possible means of ML and TF risks.

The first Mutual Evaluation (ME) of Bangladesh was conducted by a joint team of World Bank and International Monetary Fund in October, 2002 and the report was adopted by APG in September, 2003. The 2nd Mutual Evaluation of Bangladesh was conducted by APG in August, 2008 and MER was adopted in the APG Plenary in July, 2009. The second MER presented a comprehensive assessment of the progress and deficiencies of the country's AML&CFT measures and identified the areas for further improvement. Based on the recommendations of MER, Bangladesh formed a National Coordination Committee (NCC) on AML&CFT chaired by the Honorable Minister, Ministry of Finance in 2010 to formulate policies and directives on AML and CFT and to oversee the implementations of the same. The NCC on time bound Action Plan in 2010 under the International Cooperation Review Group (ICRG) Process assigned the ACC, BFIU and CID of Bangladesh Police to conduct first national money laundering and terrorist financing risk assessment and prepare an assessment report. Accordingly a committee was formed consisting of officials from ACC, BFIU and CID. The committee conducted the NRA based on related statistics from 2001 to 2010 and finally prepared the 'National ML&TF Risk and Vulnerability Assessment Report'. The first NRA was shared with Asia Pacific Regional Review Group under ICRG and concerned ministries and agencies.

As part of the Action Plan NCC also approved National AML & CFT strategy paper for the period of 2011-2013. 83 action items were taken under 12 strategies against 12 strategic objectives. All the action items were completed by 2014. However, Recommendation-1 of FATF require that the country should identify, understand and assess its ML and TF risks following a risk-based approach (RBA) and take action accordingly including designating an authority or mechanism to coordinate actions to assess risks, and apply resources, aiming at mitigating those risks effectively. Based on the aforesaid requirements the NCC has assigned ACC, BFIU and CID of Bangladesh Police to take further initiatives in order to conduct a comprehensive NRA and make necessary recommendations which would be considered in the National AML/CFT Strategy Paper for 2015-2017. In order to achieve this goal, a core committee comprising the officials from BFIU, ACC & CID and a working committee comprising representatives from 23 ministries, divisions & agencies have been formed. Output of these committees i.e National ML&TF Risk Assessment Report includes the output of institutional, sectoral and national ML&TF risk assessments.

1.2 Objectives

Main objectives of this report is to identify, understand and assess the status of all existing, emerging and future risks of Money Laundering and Terrorist Financing in Bangladesh, current vulnerabilities within the existing legal framework, practices and procedures followed by investigating agencies, prosecuting offices and other stakeholders, and to make recommendations for prospective remedial measures.

1.3 Scopes

This assessment attempts to cover both money laundering and terrorist financing risks in almost all the sectors of the economy and geographical location. This assessment process also evaluates vulnerabilities and weaknesses of institutional and legal framework. All serious crimes related statistics and typologies are also critically examined to identify ML and TF threats. It involves all the stakeholders from public and private sectors including relevant ministries, divisions, agencies, law enforcement and intelligence agencies, reporting agencies and media representatives.

1.4 Methodology

Money laundering and terrorist financing risks are diverse in nature. Given the heterogeneous nature of risks, while conducting NRA, both qualitative and quantitative approaches are followed to detect weaknesses in legal and institutional framework, explore potential threats and vulnerabilities embedded in different sectors of the economy. Understanding of ML and TF risks is also further substantiated by onsite visits, group discussion and consultation with the stakeholders of both government and private sectors and intensive outreach programs with them. In the study, both qualitative and quantitative data of the last five years (2009 - 2013) are considered to get a considerable trend and dimension of ML and TF risks.

1.4.1 Primary Data

Both primary and secondary data have been used in the analyses. Primary data were collected using various pre-set templates and sector-specific questionnaires. Before designing questionnaire or templates, day long workshop was held with all the working committee members of NRA and respective agencies. In order to obtain relevant and accurate information to meet the objectives of NRA, a number of group discussions, interviews and workshops were held with various relevant authorities such as BSEC, IDRA, NGO Affairs Bureau, REHAB, Bangladesh Customs including other stakeholders.

Subsequently, agency-specific separate questionnaires were developed and sent to them for data collection. These agencies include the supervisory authorities (BB, BSEC, IDRA, Department of Social Services, NGO Affairs Bureau, Department of Co-Operatives, MRA), law enforcement and prosecuting agencies (Attorney General's Office, ACC, Department of Narcotics Control, CID of Bangladesh Police, BGB, RAB, Coast Guard), government and self-regulatory authorities (MOC, ICAB, REHAB, BAR Council), registering and licensing authorities (RJSC&F, NGOAB, DSS) and other stakeholders (Department of Environment, NBR etc). Relevant data were also collected through outreach programs in three geographically vulnerable areas, i.e., Teknaf river port, adjacent to Myanmar; Chittagong Sea Port and Benapole land port, adjacent to India; to get deeper insights of ML and TF offences.

1.4.2 Secondary Data

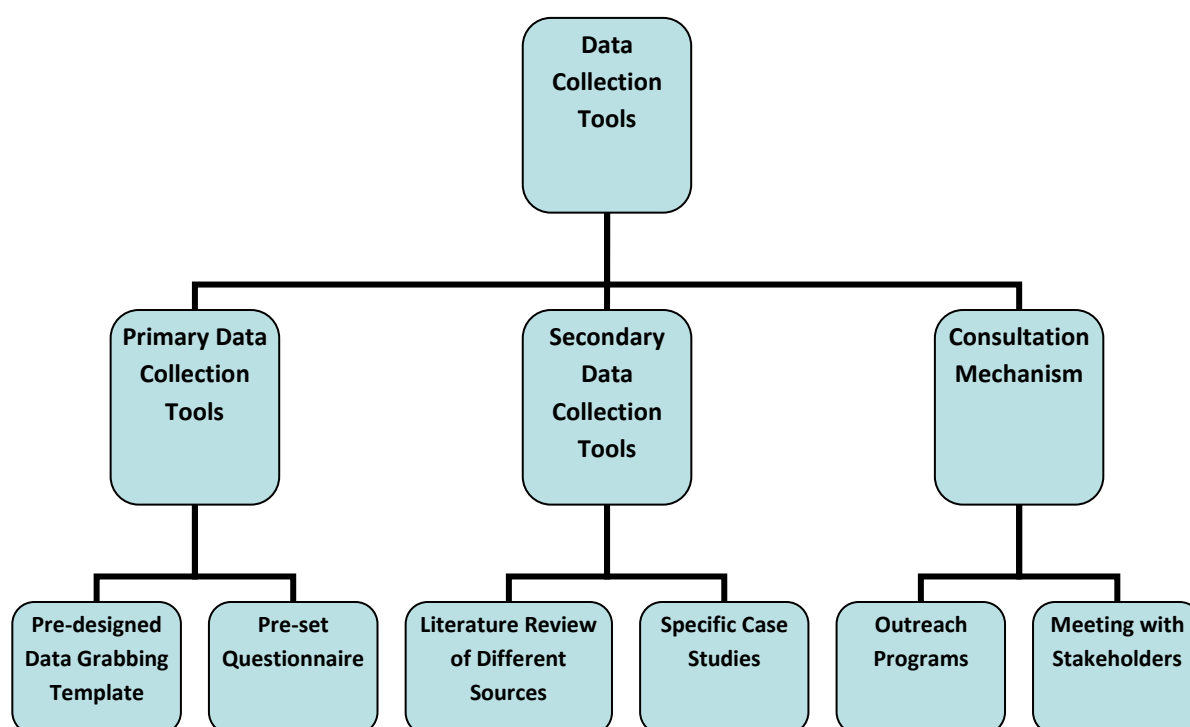
Major sources of secondary data are the previous NRA document, annual reports of BFIU, Bangladesh Bank, Bangladesh Securities and Exchange Commission (BSEC), Ministry of Home (MoH), Ministry of Law and Parliamentary Affairs (MoLPA) and Department of Narcotics Control (DNC). ML&TF related cases along with various intelligence information were collected from Bangladesh Police, Anti-Corruption Commission, Rapid Action Battalion (RAB), Special Branch (SB) of Police, CID of Bangladesh Police, Border Guard Bangladesh (BGB), Director General of Forces Intelligence (DGFI), National Security Intelligence (NSI), and Directorate of Customs Intelligence and Investigation. Furthermore, site visits, group discussion and stakeholders' consultation were taken into account to get a comprehensive understanding of ML and TF risks in the country.

1.4.3 Outreach Programs and Stakeholder Consultation

Three outreach programs were arranged to get opinion from grassroots level at Teknaf (Cox's bazaar), Chittagong and Benapole (Jessore). The locations were identified based on intelligence and law enforcement reports, media reports, threat and vulnerability perceptions related to ML & TF. In those daylong outreach programs, representatives from mass media, social workers, civil society, local government, educationists, law enforcement agencies and intelligence agencies were present. The objectives of the outreach programs were explained and briefing notes were distributed among the participants to make them understand the objectives. Participants shared their knowledge and experience of local and national problems specially smuggling of goods, drug and human trafficking.

Besides the outreach programs, a number of stakeholder consultation meetings were arranged at Bangladesh Bank. Representatives from ACC, CID, Banks, Insurers, Financial Institutions, Money Changers, Money and Money Value Transferors, Security Market Intermediaries, NGOs, NPOs, DNFBPs and all concerned supervisors were also present in the meeting. The objectives of the meetings were to get opinions on ML and TF risks that prevail in the country and their respective sectors. Participants from various agencies shared their opinion, experiences and knowledge which helped understand to some extent, the risk and vulnerabilities of reporting agencies. The outcomes of those meetings have been reflected in the report. Schematic view of data collection process is shown in Chart 1.1.

Chart 1.1: Schematic view of data collection process



1.4.4 Analysis of Data

Collected data was analyzed using both qualitative and quantitative tools. The qualitative tools to analyze were Delphi technique i.e. brainstorming of experts and group exercises by expert officials from BFIU, ACC and CID along with the experts from private sectors, experts from other local intelligence agencies to trace out the present, emerging and future threats, vulnerabilities and risks as well and to find out the mitigation and management techniques. Quantitative tools like trend analysis, frequency analysis and forecasting techniques were used to understand the current status of ML & TF risks in Bangladesh and to forecast the future threats and vulnerabilities.

1.4.5 Sector-specific Risk Assessment

The outcomes of sector-specific risk assessment of bank, non-bank financial institutions, money changers and money remitter, insurance, CMI, NGO/NPOs and DNFBPs, have been taken into account while assessing national ML/TF risks.

Risk assessment of CMI and insurance sectors has been conducted with technical assistance from AUSTRAC (Australian FIU) under SARISA (Strengthening AML/CFT Regulation in South Asia) program. BFIU and all other respective regulators and market players were involved in this process. In similar fashion, risk assessment of DNFBPs has been conducted with technical assistance from the World Bank. BFIU, all related self-regulatory organisations (SROs), sectoral representatives as well as NRA core team were involved in this process. Risk assessment of bank, non-bank financial institutions, money changers and money remitter has been conducted by BFIU officials based on knowledge and experience gathered from earlier three risk assessment process.

1.4.6 Risk Scoring

In conducting risk assessment of banks, non-bank financial institutions and money changers and money remitters, the following risk scoring tool has been applied. Risk drivers of this tool can be primarily categorized into two types: (1) Primary variables, and (2) intermediate variables.

Primary variables can be sub-categorized as (a) ML and TF control variables and (b) inherent vulnerability variables.

ML and TF control variables are key variables, which relate to the quality and effectiveness of the ML and TF controls and therefore affect the vulnerability of the entire sector being assessed. For each sector 12 control variables such as comprehensiveness of AML and CFT legal framework, effectiveness of supervision activities, availability and enforcement of administrative sanctions, availability and enforcement of criminal sanctions, availability and effectiveness of market entry controls, integrity of officials, AML and CFT knowledge of officials, effectiveness of compliance functions, effectiveness of suspicious activity monitoring and reporting, availability and access to beneficial owner information, availability of reliable identification, infrastructure and availability of independent information sources were considered.

Inherent vulnerability variables are related to specific features and users of relevant sector. These inherent vulnerability variables are total size/volume of business of the sector, client base profile, level of cash activity, use of agents in facilitating products, anonymous use of products, difficulty in tracing the transaction records, existence of ML and TF typologies on the abuse of products, use of sectoral products in fraud or tax evasion schemes, non face to face use of the products, tax havens and high risk jurisdiction.

Intermediate variables are calculated using ML and TF control variables and Inherent Vulnerability Variables as inputs in risk scoring matrix.

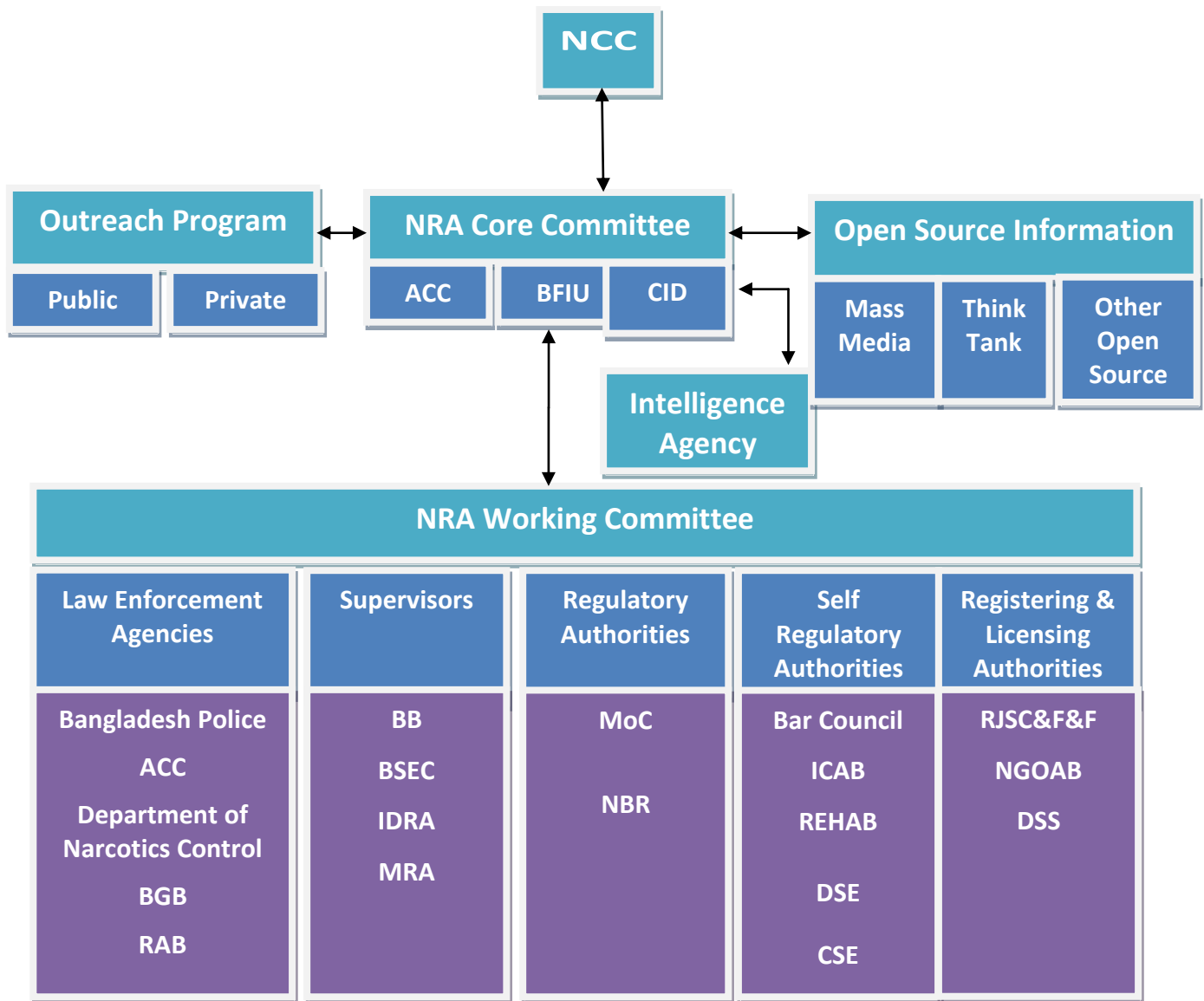
1.5 Stakeholders of NRA Report

The major stakeholders involved in the process of assessing the ML&TF risks of the country are as follows:

National Coordination Committee (NCC)	
NRA Core Committee	NRA Working Committee
<ul style="list-style-type: none"> • Anti Corruption Commission (ACC) • Bangladesh Financial Intelligence Unit (BFIU) • Criminal Investigation Department (CID) of Bangladesh Police 	<ul style="list-style-type: none"> • Law Enforcement Agencies (LEA) <ul style="list-style-type: none"> ✓ Anti Corruption Commission (ACC) ✓ Bangladesh Police ✓ Department of Narcotics Control ✓ Border Guards Bangladesh (BGB) ✓ Rapid Action Battalion (RAB) ✓ Coast Guard Bangladesh • Bangladesh Financial Intelligence Unit • Regulatory and Supervisory Authority <ul style="list-style-type: none"> ✓ Bangladesh Bank (BB) ✓ Bangladesh Securities & Exchange Commission (BSEC) ✓ Insurance Development & Regulatory Authority (IDRA) ✓ Microcredit Regulatory Authority (MRA) • Regulatory Authority <ul style="list-style-type: none"> ✓ Ministry of Commerce (MoC) ✓ National Board of Revenue (NBR) • Self-Regulatory Authority <ul style="list-style-type: none"> ✓ The Institute of Chartered Accountants of Bangladesh (ICAB) ✓ Real Estate & Housing Association of Bangladesh (REHAB) ✓ Bangladesh Bar Council ✓ Dhaka Stock Exchange ✓ Chittagong Stock Exchange • Registering & Licensing Authority <ul style="list-style-type: none"> ✓ Registrar of Joint Stock Companies & Firms (RJSC&F&F) ✓ NGO Affairs Bureau of Bangladesh (NGOAB) ✓ Department of Social Services (DSS)

Overall picture of data collection, analysis and coordination among the stakeholders of NRA has been depicted in Chart 1.2.

Chart 1.2: Macro View of Data Collection, Analysis and Coordination Process



Chapter 2: Evaluation of Money Laundering and Terrorist Financing Risks in Bangladesh

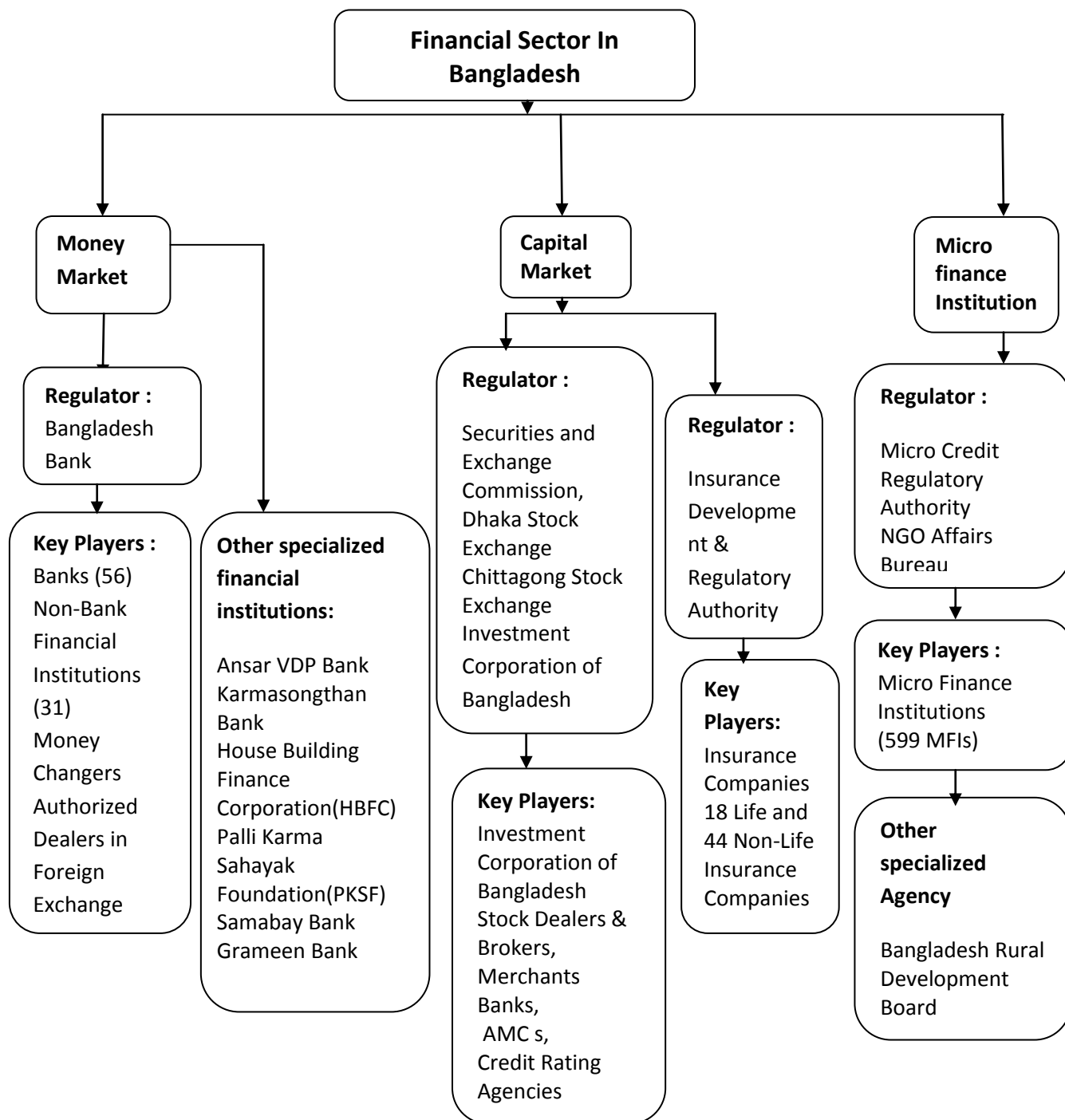
2.1 Bangladesh economy at a glance:

Bangladesh is the world's 7th largest populous country with 166 million population. Size of its GDP in FY14 was BDT 13,509.2 billion. Agriculture, industry and services are the three main sectors of Bangladesh economy. In FY14, contribution of agriculture in GDP was 16.33 percent while contributions of industry and service sectors were 29.61 percent and 54.05 percent respectively. Gross domestic investment and private sector credit from banks, non-bank financial institutions and microfinance institutions as a share of GDP were 28.69 percent and 41.94 percent respectively. One of the notable features of this economy is that it has experienced steady and stable growth for more than two decades. Supported by government's inclusive development strategy along with central bank's financial inclusion campaign, benefits of sustained six plus percent annual average growth of GDP for more than a decade have reached even to the lowest segment of the society and thus enabling it to reduce poverty to a great extent. GNI per capita reached USD 1190 in FY14, with a continual uptrend. Indirect effects of this impressive success are also visible in social indicators as well such as considerable improvement in life expectancy, literacy rate, women education and empowerment. Along this steady growth path, the country has already earned lower-middle income status, aspires to gain middle income status by 2021 and higher middle income status by 2030 through continuous expansion of its corporate sectors, small and medium enterprises including readymade garments sector.

The country is continuously integrated into the world economy as its trade-GDP ratio increased from 47.99 percent in FY09 to 54.71 percent in FY14. The economy stands upon firm macro financial environment with single digit falling CPI inflation, fiscal deficits in lower single digit GDP percentages, strong external sector gains with positive BOP current account balance and a record high reserves of more 25 billion US dollar. Exports, supported by healthy growth of sizeable remittances from workers abroad, have contributed to achieve this coveted success in foreign reserve. In FY14, inflows of Bangladeshi workers' remittance from abroad along was US dollar 14.23 billion.

Financial sector of the country comprises of Money Market, Capital market and other micro financial institutions. Schematic views of main regulators and key players of financial sector are shown in Chart 2.1. This sector remains stable and resilient amid repeated shocks in more advanced economies. These gains are recognized by global rating agencies like S & P, Moody's and the Fitch. Large stakeholder of financial system is banking sector, which is growing fast. In a study conducted by London-based research firm, Business Monitor International (2014), it appears that compared to South Asia's peer group, total banking sector's asset in the past five years experienced a compound average growth rate of 19.1 percent followed by 18 percent in Sri Lanka, 17.2 percent in Pakistan and 16.2 percent in India. Its asset as a share of GDP increased from 59 percent in June, 2009 to 80 percent in 2013 and positioned it as the second highest (80%) just below India (85%). Banking sector is also highly compliant with international capital accord and its risk-based capital adequacy reached to 11.52 percent in 2013. It has already embarked upon implementation of Basel III since July 2014. Although the country has two stock exchanges, Dhaka Stock Exchange is the main player in the capital market of Bangladesh. At the end of December 2014, market capitalization of this stock exchange was BDT 3259.3 billion with a considerable growth of 7.7 percent from previous calendar year. The country's policy stance on foreign investment also remain most liberal in South Asia.

Chart 2.1:



2.2 Overview of Anti Money Laundering and Combating Financing of Terrorism activities in Bangladesh:

Bangladesh is a founding member of the APG and has been participating in its annual plenary meetings since 1997. APG is a FATF style regional body that enforces international standards on AML&CFT issues in Asia and Pacific region. As a member of the APG, Bangladesh is committed to implement FATF's recommendations. In the process of responding to international concern, Bangladesh Government has formed a central and regional taskforce on 27 January, 2002 to combat money laundering and illegal hundi/hawala activities in Bangladesh. Bangladesh promulgated Money Laundering Prevention Act (MLPA), 2002 which came into force on 30 April, 2002. Bangladesh was the first among the South Asian countries to enact anti money laundering legislation.

To overcome the shortcomings of the MLPA, 2002 Money Laundering Prevention Ordinance (MLPO) was enacted in 2008 and subsequently the parliament repealed MLPO, 2008 with the enactment of MLPA 2009. Further, it was amended and replaced by Money Laundering Prevention Act 2012.

Since the terrorist attacks in USA in 2001, CFT initiatives have been emphasized all over the world. FATF issued 9 Special Recommendations (8 in 2001 and 1 in 2005) to combat terrorist financing. In response to the FATF Special Recommendations, Bangladesh promulgated Anti-Terrorism Ordinance, 2008 and subsequently the Anti Terrorism Act (ATA), 2009. The act was amended in 2012 and 2013 to meet the FATF new standards. Money Laundering Prevention Rules, 2013 and Anti-Terrorism Rules, 2013 have also been issued to facilitate the implementation of MLPA, 2012 and ATA, 2009 respectively.

In order to implement MLPA, Bangladesh Bank (BB), central bank of Bangladesh established a separate department named Anti Money Laundering Department (AMLDD) in July, 2002. BB issued Guidance Notes titled 'Guidance Notes on Prevention of Money Laundering' in 2003 for banks to enable them to effectively understand and formulate separate guidance notes for themselves. Later on, guidance notes for insurance companies, DNFBPs, NGO/NPOs, Financial Institutions, CMI and money changers have also been issued.

Self-assessment and independent testing procedure system have been introduced for banks since March 24, 2008 in order to assess their own AML&CFT compliance. In addition, Bangladesh Bank has also been monitoring the same through a process called system check inspection. Standardized KYC, Transaction Profile and Risk Grading of all customers have been introduced for rigorous Customer Due Diligence.

BFIU was established by abolishing AMLDD in pursuant with section 24 of the MLPA, 2012. In order to perform its duties under the MLPA,2012 and the ATA, 2009 (including amendments of 2012 and 2013) BFIU exercises all the power vested in BB under these Acts.

BFIU is the national central agency of Bangladesh responsible for receiving and analyzing Suspicious Transaction Reports (STRs), Cash Transaction Reports (CTRs) & information related to ML &TF and financing of proliferation of weapons of mass destruction (PF) received from reporting agencies & other sources (Government, Semi-Government, Autonomous bodies, media, persons, groups etc) and disseminating information/intelligence thereon to relevant law enforcement agencies.

MLPA empowers the BFIU to enter into agreements or arrangements with foreign financial intelligence units to receive and request information in relation to ML&TF. To facilitate exchange of information and intelligence BFIU has already signed 36 (thirty Six) MoU with foreign FIUs and signing of MoU with several other FIUs are under process.

Bangladesh Bank was the investigating authority of money laundering cases as per MLPA, 2002. The power shifted to ACC in 2007 with the amendment of the Act. ACC retained the sole power of investigation as per MLPO, 2008 and MLPA, 2009. As per MLPA, 2012, ACC has been continuing as the Investigating authority of money laundering cases. However, provision is there for ACC in the

said act to authorize the power of investigation to other investigating agency. On the other hand, Bangladesh Police is the investigating authority of the TF cases as per ATA, 2009.

Just after the enactment of the MLPA, 2002, the first Mutual Evaluation (ME) of Bangladesh was conducted by a joint team of World Bank and International Monetary Fund in October, 2002 and the report was adopted by the APG in September, 2003. The 2nd round AML&CFT Mutual Evaluation of Bangladesh was conducted in August, 2008. The MER was adopted in the APG Plenary in July, 2009. The MER presents a comprehensive assessment of the progress and inadequacies of Bangladesh's AML&CFT measures and identifies the areas for further improvement. Based on the 2nd Mutual Evaluation, Bangladesh was brought into the International Cooperation Review Group (ICRG) Process. Thereafter, Bangladesh adopted rigorous measures and as a result, in February, 2014 Bangladesh came out of the ICRG Process.

As part of its commitment to combat ML and TF, the Government of Bangladesh has taken several steps. The major steps taken are as follows:

- A National Coordination Committee on AML&CFT headed by the Minister for Ministry of Finance and a Working Committee consisting of regulatory authorities headed by the Secretary, Banking Division, Ministry of Finance have been constituted;
- UNSCR Implementation Committee headed by the Secretary of Ministry of Foreign Affairs has been constituted;
- Mutual Legal Assistance in Criminal Matters Act, 2012 has been enacted;
- Mutual Assistance in Criminal Matters Rules, 2012 has been enacted;
- Palermo Convention (UN Convention against Transnational Organized Crime) has been signed by Bangladesh;
- National ML&TF risk assessment has been conducted in 2011-2012;
- National AML&CFT Strategy Paper has been prepared for the year 2011-2013;
- Guidelines for Non-Bank Financial Institutions, Money Changers, Insurance Companies, Capital Market Intermediaries, NGO/NPOs, DNFBPs and Post Office have been circulated.
- BFIU has been re-organized and renamed.
- In order to speed up the activities to trace out the source of TF and to strengthen the coordination of these activities, a Task Force has been formed headed by the Minister for Ministry of Industry.

ML&TF Reporting Activities

Under the provisions of MLPA, 2012 and ATA, 2009 reporting agencies are obliged to submit Suspicious Transaction Report (STR) or Suspicious Activity Reports (SAR) to BFIU where there are reasonable ground to suspect that the transaction is involved with ML or TF. From 2009 to 2013 BFIU received a total of 449 STRs most of which were related with corruption, fraud and forgery.

Scenario of Money Laundering and Financial Crime enquired and investigated by ACC

During 2009-2013 Money Laundering wing of ACC conducted enquiry and investigation on 285 cases related to ML and financial crime. Total number of cases lodged during the last five years was 254 of which 112 cases were under trial and 3 cases resulted in conviction. During the year 2011 - 2013 a number of 1011 bank accounts were frozen and the amount was BDT 2.80 billion. The value of property seized/attached during 2011 - 2013 was BDT 6.57 billion. The court fined BDT 400 million in one case and BDT 210 million laundered money was recovered from Singapore in another case.

Scenario of Threats/Predicate Offences investigated by the ACC

During 2009 to 2013, total number of corruption cases lodged by ACC was 3,152 while ACC submitted charge-sheet for 1,582 cases. Most cases were related to criminal breach of trust (2,089

cases) followed by possessing illegal assets (402 cases). During this period, the total forfeited assets/money related to corruption was BDT 54.125 billion.

Scenario of Threats/Predicate Offences investigated by Bangladesh Police

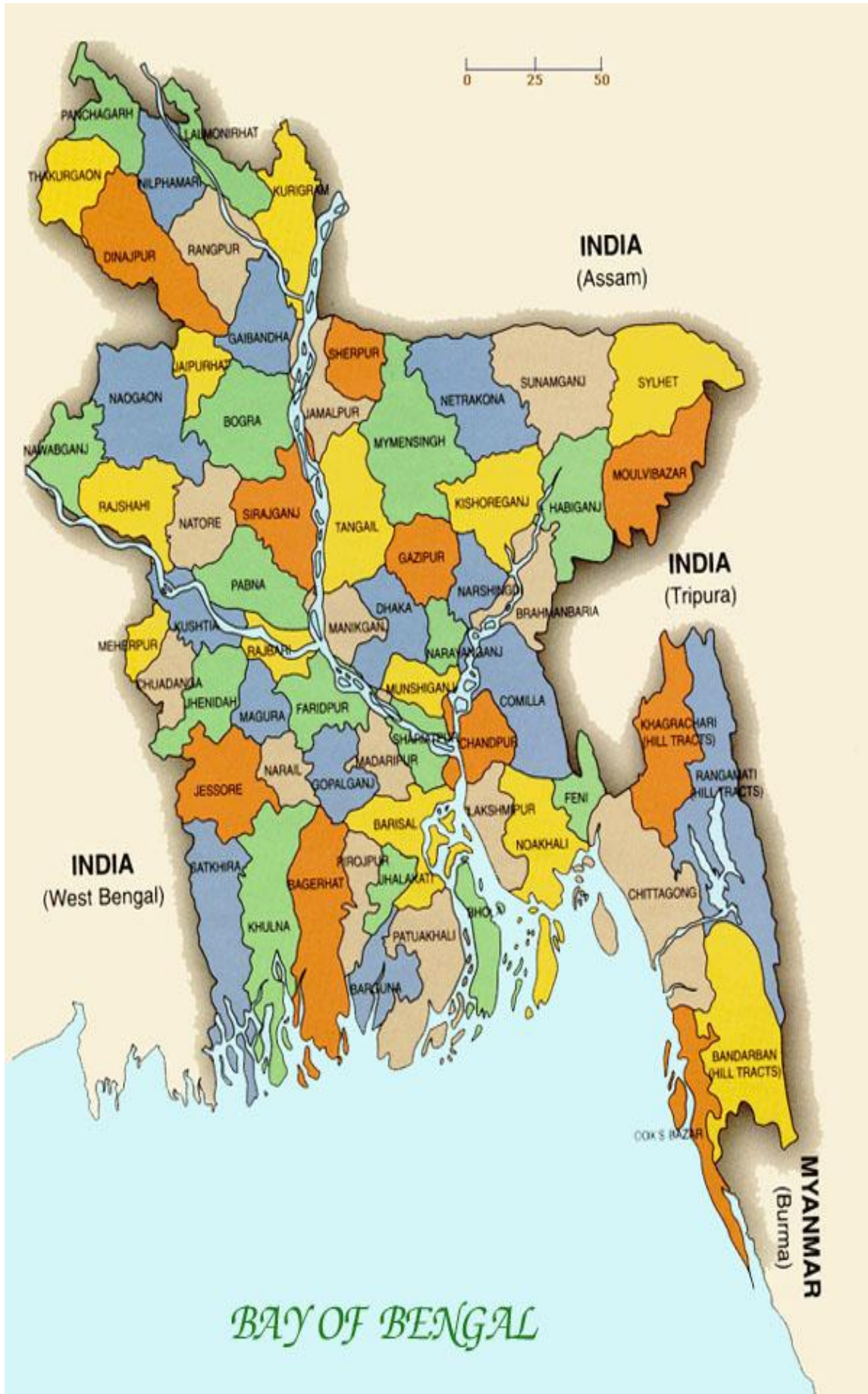
During 2009 - 2013, the number of total cases related to predicate offences investigated by Bangladesh Police was 2,24,796. During that period Police Department submitted charge-sheet for 1,79,632 cases and final reports for 29,432 cases. Most cases (92,062 cases) were related to illicit drug dealing followed by theft and dacoity (35,260 cases).

2.3 ML and FT risks from geographical location perspective:

Bangladesh is situated between latitudes 20°34' and 26°38' north and latitudes 88°01' and 92°41' east, with an area of 147,570 square kilometers and it extends 600 kilometers east to west and 820 kilometers north to south. Bangladesh, on the northern coast of the Bay of Bengal, is bordered on the west, north, and east by a 4,095-kilometer land frontier with India and, in the southeast, by a short land and water frontier (193 km) with Myanmar. On the south is a highly irregular deltaic coastline of about 580 kilometers, fissured by many rivers and streams flowing into the Bay of Bengal. The territorial waters of Bangladesh extend 12 nautical miles (22 km), and the exclusive economic zone of the country is 200 nautical miles(370 km).

Being located in between Indian mainland and its reveling seven sister states and having border with Myanmar, Bangladesh is linked to the entire South East Asian region. Geographically The People's Republic of China (Kunming) is close to Bangladesh with only 100 km of Indian Territory between Bangladesh and China. Bangladesh is also connected to Thailand and Malaysia through the southeastern coast of Bangladesh, Teknaf. In fact, Bangladesh is an important and commercially beneficial hub for the Asian region. Geographical location has made Bangladesh vulnerable to threats related to offences like drug trafficking, gold smuggling, human trafficking, small arms trafficking.

While Bangladesh is not a regional financial center, its geographical location- including its seaports and long porous borders with India and Myanmar- makes it a trans-shipment point for drugs produced in both the 'golden triangle' and 'golden crescent' regions. In addition trafficking of illicit drugs, human trafficking, Illegal cross-border trade, smuggling through porous border are the principal sources of criminal proceeds for money laundering.



Drug smuggling (though Bangladesh is not a drug producing country), is routed through Bangladesh to other destinations, especially, drugs (opium) produced in Afghanistan are often smuggled via Bangladesh. Yaba tablet, a madness drug containing methamphetamine is one of the major drug problems for Bangladesh. Yaba is smuggled from Myanmar to Bangladesh by using southern land and coastal border. Additionally, various land borders of Bangladesh is used as the route to smuggle Phensidyl (a liquid type psychotropic substance) from West Bengal of India into Bangladesh. These Yaba and Phensidyl are the low cost drugs used in Bangladesh.

India is one of the major users of gold in the world. Having favorable geo-location, gold smuggling is routed via Bangladesh to India. Dhaka and Chittagong international airports are used as a route for smuggling gold into Bangladesh. Afterwards, the majority of smuggled gold is shipped (illicitly) to India via different land borders. Additionally, Bangladesh has also internal demand for smuggled gold.

Bangladesh is a source as well as transit country for human trafficking. Every year a number of people, especially, women and children are trafficked from Bangladesh to India, Thailand, Malaysia, Middle-East and rest of the world and these were under control. But recently human trafficking from Bangladesh and Myanmar to Thailand and Malaysia has got global attention due to sudden rise in its number and tragic death of boat people. This phenomenon arose due to Rohingya problem in Myanmar. A large number of Rohingya people, sometimes even with Bangladeshi identity, were trafficked from Myanmar to Bangladesh and then smuggled to the next destinations.

The spill-over effects of regional terrorism has also affected Bangladesh to some extent. Furthermore, the Rohingya crisis with Myanmar has contributed to the increased criminal activities in this particular belt. The Rohingya refugees and non- refugees, having almost same Bangladeshi complexion got involved in major yaba trading and human trafficking. The Rohingya refugees living in the refugee camp in Bangladesh are involved in extortion, robbery and other crimes. Thus they create anarchic law and order situation.

Operational efficiency of customs, border guard and law enforcement agency is required to detect, prevent and investigate money laundering, terrorist financing, drug smuggling, gold smuggling, human trafficking and related criminal activities. It is also important to enhance cooperation among India, Myanmar and Bangladesh government. Additionally, efficient management of Rohingya refugee also could add value in this regard.

2.4 Critical Analysis of AML/CFT Legal Framework

AML & CFT legal framework of Bangladesh is basically based on MLPA 2012, ATA 2009, Money Laundering Prevention Rules 2013 and Anti-Terrorism Rules 2013. Besides, AML&CFT legal framework is also supported by many other Laws and Rules prevailing in the country like Code of Criminal Procedures, 1898; Penal Code, 1860; Anti-Corruption Commission Act, 2004; Foreign Exchange Regulation Act, 1947; Customs Act, 1969; Bankers' Book of Evidence Act, 1891 and so on. In this chapter major law, i.e., MLPA and ATA are critically examined against the Palermo convention, Vienna convention, suppression of terrorist financing convention and FATF new recommendations.

Bangladesh was the first country to promulgate Money Laundering Prevention Act in 2002. Under the MLPA, 2002, Bangladesh Bank was the designated authority to implement and investigate ML cases. In 2007 Anti-Corruption Commission (ACC) was designated as sole investigating agency for money laundering cases by amending MLPA, 2002. In 2008 Bangladesh Government passed two ordinances: Money Laundering Prevention Ordinance (MLPO), 2008 and Anti-Terrorism Ordinance (ATO), 2008. These two ordinances were passed in the first session of the Parliament in 2009 and became Acts with title Money Laundering Prevention Act (MLPA), 2009 and Anti-Terrorism Act (ATA), 2009 respectively. To address the FATF standards and comply with the time bound action plan submitted to the FATF ICRG, Bangladesh again repealed MLPA 2009 and enacted MLPA, 2012 and amended ATA, 2009 twice in 2012 and 2013.

MLPA 2012 criminalizes ML and defines it more precisely. It lists 27 (twenty seven) predicate offences and enables Bangladesh Bank to include additional predicate offences through issuance of official gazette notification. Under this amendment, almost all the serious crimes have been included as predicate offence listed by FATF except 'Smuggling of Migrants'. Although the core elements of the term are covered in other predicate offences like 'human trafficking', it still remains as a concern for failure to include 'Smuggling of Migrants' as predicate offence list in the MLPA, 2012.

The Act defines the STR/SAR and requires the Reporting Organizations to report such transaction to the Bangladesh Financial Intelligence Unit (BFIU). It authorizes BFIU to freeze a bank account for 30 days initially and such order may be extended from additional period of 30 (thirty) days to a maximum of 6 (six) months if it suspects ML/TF related transactions. Under the existing regulatory framework, BFIU is authorized to issue circulars, guidance notes etc. and ensure their implementation. It also empowers BFIU to impose penalty against non compliance by Reporting Organizations.

Anti-Terrorism Act (ATA), 2009 criminalizes 'terrorist acts' and 'financing of terrorist activities' in line with the International Convention against Suppression of Terrorist Financing and other 9 (nine) UN Conventions and Protocols annexed in the Convention. This act provides proportionate and dissuasive sanctions for terrorism and terrorist financing. ATA, 2009 criminalizes the conduct of conspiring, attempting, abetting and instigating the commission of terrorist acts and terrorist financing. It provides a mechanism for proscription of organization which is reasonably suspected to be involved in terrorist acts. It empowers BB to freeze bank accounts suspected to be linked in terrorist financing. It provides a basis for compliance with the requirements of UNSCR 1267 and UNSCR 1373. It empowers BFIU to issue order to all Reporting Organizations including bank and non-bank financial institutions to freeze the respective accounts.

Limitations

Some limitations in MLPA 2012 as observed according to the international standards are as follows:

- ❖ Out of 27 (Twenty Seven) predicate offences as enunciated in the MLPA, ACC only investigates corruption and bribery. Most other predicate offences are investigated by Bangladesh Police, customs, Dept of narcotics control but they are not directly assigned to investigate related ML offences;
- ❖ Some elements of 'Smuggling of Migrants' is not included as the predicate offence in MLPA, 2012;
- ❖ 'Correspondence Value' is not covered in the freezing and attachment measures;
- ❖ There is no single and comprehensive rule to deal with identification, freezing and confiscation of proceeds and instrumentalities used in ML or TF;

Limitations of ACC Act and Rules:

- ❖ ACC Rules, 2007 allow thirty (30) working days (15+15) to complete an enquiry and ACC Act, 2004 (amended in 2013) allows one hundred and twenty (120) working days to complete an investigation. Such time limit for enquiry and investigation of a corruption or money laundering case appears to be insufficient, and it creates serious obstacle for the enquiry/investigating officer to unearth a fact thoroughly and accurately.
- ❖ As per the section 28(c) of the ACC Act if someone provides false information (also applicable for enquiry/investigation officer) relating to investigation shall be punished for a term of imprisonment not exceeding 5 years and minimum 2 years or a fine or with both. ACC usually receives complaints of corruption and money laundering from people and Bangladesh Bank. Therefore, people will not be interested to lodge any complaint to ACC as

the provision of the ACT mentioned above will prohibit them and enquiry/investigating officer of ACC will be reluctant to file case and lodge charge sheet.

2.5 Review of Institutional Capacity/Competency

2.5.1 Ministry of Finance

Ministry of Finance (MoF) is an apex coordinating body for AML&CFT regime in Bangladesh. Honorable Finance Minister is the Chairman of the National Coordination Committee (NCC), the apex and high power policy group. Additionally, Secretary, Bank and Financial Institution Division of Ministry of Finance, is the Chair of the Working Committee on AML&CFT in Bangladesh. Thus MoF has greater responsibility to reduce the scope of ML&TF issues through various fiscal and policy measures. Though Ministry of Finance, in the meantime, has already put in place, integrated effort to create a robust AML&CFT regime in Bangladesh, still it requires to take few steps which includes:

- Amendment of Foreign Exchange Regulation Act;
- Ensure an integrated and effective Tax, Customs & Excise and Duty policies to combat ML&TF.
- Reduce cash dependency through an effective fiscal policy.
- Additionally, inadequate human and technical resources are also impediment for MoF in coordinating overall AML&CFT policy.

2.5.2 Ministry of Home Affairs

Ministry of Home Affairs (MoHA) is continuing its leading role in coordinating terrorism and terrorist financing issues, especially in the field of investigation, prosecution, confiscation, mutual legal assistance, extradition and UNSCRs implementation. MoHA chaired a committee named Anti Extremism and De-redicalization, which comprises various related departments, ministries and other relevant offices. With the leadership of MoHA, this committee put in place its handful efforts against terrorism including terrorist financing and extremism through social and community engagement. Apart from that, MoHA continued its efforts to sign various bi-lateral and multi-lateral agreements to facilitate investigation, prosecution, confiscation, mutual legal assistance, extradition and UNSCRs implementation. Despite its laudable role, MoHA still requires to take few steps which include:

- Set up a Mutual Legal Assistance Unit, as MoHA is the Central Authority for with Attorney General Office under Mutual Legal Assistance in Criminal Matters Act, 2012;
- Introduce an efficient case management procedure for MLA/Extradition.
- Provide adequate human and technical resources.

2.5.3 Ministry of Law, Justice and Parliamentary Affairs

Ministry of Law, Justice and Parliamentary affairs (MoLJPA) is another important contributor to AML&CFT framework in Bangladesh. MoLJPA is continuing its efforts to prevent ML&TF issues by putting an extensive AML&CFT legal framework. In addition to that, few priority actions are needed including:

- Amendment of Trust Law;
- Amendment of Company Act;
- Arrangement of comprehensive training for judges.
- Deployment of adequate human and technical resources.

2.5.4 Ministry of Foreign Affairs

Ministry of Foreign Affairs (MoFA) is a depository of all UNSCRs as well as a responsible agency for developing diplomatic relationship with foreign counterparts. MoFA is the Chair of National Committee for implementation of UNSCRs. With the leadership of Foreign Secretary MoFA, this committee develops policy framework for implementation of UNSCRs in Bangladesh. However, MoFA still requires few priority actions which include:

- Continue its effort to implement UNSCRs;
- Create new windows for MLA, Stolen Asset Recovery, Extradition and other forms of international cooperation;
- Deploy adequate human and technical resources.

2.5.5 Bangladesh Financial Intelligence Unit

Bangladesh Financial Intelligence Unit (BFIU) as a central agency for AML&CFT issues plays a major role for administering the MLPA 2012 and implementing the provisions related to terrorist financing contained in the ATA 2009 (including amendments of 2012 and 2013). Under the MLPA 2012 and ATA 2009, BFIU is responsible for receiving, analyzing and disseminating STRs and CTRs. BFIU has also a role in supervising AML&CFT measures as well as providing training programs for reporting agencies in relation to customer identification, record keeping and reporting obligations, and the identification of suspicious transactions. BFIU has been playing a key role in suppressing illegal Hundi/hawala activities in Bangladesh through Central Task Force and has also been providing secretarial services to the NCC and Working Committee. BFIU has also been playing a vital role in stolen asset recovery (StAR).

BFIU performs its activities under Money Laundering Prevention Act, 2012, Anti-Terrorism Act, 2009 (including amendments of 2012 and 2013) and Money Laundering Prevention Rules, 2013 & Anti-Terrorism Rules, 2013.

As per Rule 8 of Money Laundering Prevention Rules, 2013 BFIU serves as a national central agency for receipt, analysis and dissemination, if necessary of:

- (a) Suspicious transaction or activity reports or complaint from any individual or entity regarding money laundering and terrorist financing or any related offences;
- (b) Money laundering or terrorist financing related cases and

- (c) Other information relevant to money laundering, associated predicate offences and terrorist financing and for the dissemination of the results of that analysis to concerned authorities.

BFIU has the supervisory authority over the Reporting Organizations. It has issued 39 (thirty nine) circulars and several guidelines for reporting agencies like Banks, NBFIs, Insurance Companies, Money Changers, NGOs/NPOs, Securities Market Intermediaries and DNFBBs. BFIU has been vigilant over the years to verify whether the system is working efficiently and effectively within reporting organizations specially banks.

MLPA empowers the BFIU to make arrangements with foreign FIUs to receive and request information in relation to money laundering offences or suspicious transactions. To facilitate exchange of information and intelligence BFIU has already signed MOUs with 28 (twenty eight) foreign FIUs and signing of MOUs with several other FIUs are under process.

Limitations

- BFIU has no direct access to database (related to criminal) of law enforcement agencies and it has a very limited access to the database of few other agencies.
- Analysts of BFIU are not trained enough to carry out strategic analysis and to use sophisticated analytical tools.
- Due to the size and nature of diverse businesses of DNFBBs, it is difficult for BFIU to identify all the DNFBBs.

2.5.6 Anti Corruption Commission (ACC)

There exists no universally accepted definition of corruption as it takes different shapes and forms over time in different parts of the world. However, ACC Act 2004 broadly defines bribery, abuse of power, criminal breach of trust and possessing wealth disproportionate to known sources of income, fraud and forgery, money laundering as the main scheduled offences in Bangladesh. Among them, bribery, abuse of power, criminal breach of trust and possessing wealth disproportionate to known resources of income altogether form predicate offences 'corruption and bribery'. ACC is empowered by its Act and MLPA, 2012 to address certain predicate offences in the country.

Limitations

- As the ACC officials do not have the power to arrest suspected offenders while conducting enquiry of an allegation, suspected offenders can easily escape during that period and/or have the opportunity to transfer/convert/conceal their ill-gotten money/assets.
- As the ACC officials do not have the power to search a suspected premise while conducting enquiry, chances are there to miss critical documents and information which would effectively contribute as evidence.
- To conduct enquiry of corruption and money laundering allegations, the enquiry officers of ACC often need to examine and seize bank documents related with an offence and to exhibit those documents before the court in order to prove a case. If the documents are not seized at the time of enquiry,¹ those can be lost or misplaced/manipulated by the offenders. The provisions of the existing Anti-Corruption Commission Act or Money Laundering Prevention Act do not allow the enquiry officers to conduct search and seizing of such documents and arrest personnel at the time of enquiry. Even during the investigation stage, the investigation officer has to seek Court order for search and seizure of bank documents due to the restrictions imposed by the section 94 of the Code of Criminal Procedure and by the section 6 of Bankers' Book Evidence Act, 1891.

¹ Enquiry is done before lodging of First Information Report at the Police station.

- The ACC is yet to be well equipped to manage the seized valuables and to interrogate the suspect under remand. It also lacks logistics and other facilities required for the investigators.
- The ACC is not equipped to handle investigation utilizing modern technology and electronic devices.
- ACC lacks proper manpower, logistics and technical support to carry out its functions effectively.
- ACC does not have any access to the National Database of other government organization including EC, NBR, Department of Passport and immigration etc. Under the circumstances, enquiry/investigation officer finds it difficult to verify relevant documents.
- ACC does not have a permanent prosecution unit and it is a major weakness of ACC in prosecuting Corruption and ML cases.
- ACC Lacks regular training on ML investigation, StAR (Stolen Asset Recovery Initiative), freezing, seizing of asset, data and information management and analysis software for investigation.
- There is no technological implementation for communication interception like email or phone tracking.
- ACC does not have intelligence wing, so lack of intelligence gathering and surveillance mechanism weakens the corruption and ML cases.
- No separate research or training institution within ACC to analyze policy and global information.

2.5.7 Bangladesh Police

Predicate offences other than the ‘corruption and bribery’, ‘cheating and forgery’ are investigated by the Bangladesh Police. Such predicate offences include counterfeiting currency, counterfeiting documents, extortion, fraud, forgery, illicit arms trafficking, illicit drug dealing, illicit dealing of stolen goods, kidnapping, murder/grievous bodily injury, woman and child trafficking, smuggling of goods and money, theft and dacoity, illegal migration and human trafficking, dowry, terrorism and terrorist financing, counterfeiting products, environmental crime, sexual exploitation etc. Bangladesh Police is also the investigating authority for terrorist financing related cases under ATA 2009.

Limitations

- Due to harassment by the accused and complex court procedures, people are usually reluctant to appear before the Court as witnesses. This frustrates prosecution of a case remarkably. For the lack of a full time and professional public prosecution service, successful prosecution of a case becomes more difficult. Situation becomes worst due to long queues of cases in the trial courts.
- Due to lack of sufficient manpower, the investigating officers are always tasked with a huge number of cases and thereby they become overburdened. As such they are helpless to manage time and unable to give proper and adequate attention to an individual case. Consequently, the quality of investigation is often compromised.
- The Forensic Laboratory of the Criminal Investigation Department (CID), which is the only laboratory of the country for forensic criminology, lacks modern instruments/equipment and other logistic supports.
- Bangladesh Police lacks efficient and specialized Investigation Officers for investigating certain predicate offences, such as currency counterfeiting, forgery, trafficking in illegal drugs & narcotics, dowry and insider trading & market manipulations etc.

2.6 Role of Other Government Agencies

2.6.1 National Board of Revenue (NBR)

National Board of Revenue (NBR) is the apex body of the country for collecting both direct and indirect taxes, duties and revenues for the Government. NBR mainly collects three types of taxes, i.e. income taxes collectable both on personal & corporate income, customs duty on imported goods, and value added tax on different stages of manufacturing/ trading. Other than collecting taxes, NBR is responsible for implementing many laws and policies of the country concerning tax, import-export duty, tax holiday, preventing smuggling of goods and currencies, etc.

Limitations

Under and Over Invoicing

Usually where there is higher duty rates in importing goods, there is under-invoicing; where there is lower duty rates, there is over invoicing. Importers frequently adopt over invoicing in importing lower duty rated goods to finance importing goods with higher duty rates. Sometimes, money is remitted abroad illegally through over invoicing. Usually, NBR imposes penalty for the offence of under invoicing and over invoicing; however, such offenders are seldom sued in the criminal court.

Smuggling of Goods and Bulk Cash

Smuggling of both goods and cash currency sometimes take place through land borders, ports, sea ports and air ports and the perpetrators are arrested. However, main perpetrators are seldom brought to justice, only the carriers of such goods and currencies are sued in the criminal court.

Foreign Currency Declaration Procedures

In foreign exchange system, capital account is not convertible in Bangladesh. Travelers have to take prior permission if they wish to take more than a certain amount of money with them while traveling abroad. However, travelers are free to bring any amount when they return to Bangladesh. In this case, if the amount exceeds minimum level, they just need to fill up a declaration form to the Customs Department.

2.6.2 Department of Narcotics Control (DNC)

The Department of Narcotics Control, established under the President's Secretariat in January, 1990 is now under the administrative control of the Ministry of Home Affairs. The responsibility of the DNC is to deal with all aspects relating to drug problem in the country. It has a network of 155 field level offices across the country with its headquarters in Dhaka. The Director General is the head of the Department and he is also the ex-officio Member-Secretary to the National Narcotics Control Board. Among other duties DNC has the task to gather intelligence; conduct raids; search, seizure, arrest; investigate and prosecute drug offences.

Limitations

- There is no separate permanent court for drug related offences. Therefore the Department has limited scope to prosecute drug related offences effectively.
- DNC lacks workforce, modern technology and equipment to investigate and explore Drug related cases.
- Main challenges and weaknesses faced by DNC are lack of public witness due to influential role of the Drug Traffickers, non-existence of arm unit for operation and absence of regular training etc.

2.6.3 Bangladesh Securities and Exchange Commission (BSEC)

To develop a fair, efficient and transparent capital market, the Bangladesh Securities and Exchange Commission was established as a regulator through the enactment of the Bangladesh Securities and Exchange Commission Act, 1993. The commission frames rules and regulations under the relevant laws and regulate the capital market through compliance of duties and responsibilities of the issuer, stock exchange and market intermediaries involved in the market. 525 entities are listed in Dhaka Stock Exchange (DSE) and 266 entities are listed in Chittagong Stock Exchange (CSE). BSEC has also undertaken a 10 year master plan namely Capital Markets Development Master Plan (CMDP) in order to bring transparency, accountability and stability in the stock market. Currently BSEC monitors day to day transaction through surveillance of software to identify any inconsistencies, insider trading and market manipulation

Limitations:

- In order to allow purchasing of shares, brokerage houses can accept cash up to BDT 0.5 million from their clients. But identification of source of funds for the cash deposit is not possible under existing framework.
- The people engaged in this sector are not properly trained and aware of the money laundering and terrorist financing vulnerabilities.
- BSEC lacks automated data storage and retrieval system with facilities of risk based supervision.
- BSEC lacks skilled manpower and requires resources in monitoring and enforcing the practice of International Accounting Standards and International Standards of Auditing in the financial reporting of the listed entities.
- BSEC lacks a complete, comprehensive and credible system necessary to ensure professional integrity, knowledge and proficiency of market professionals and hold them accountable for their actions.
- BSEC lacks adequate information systems to support monitoring and investigating teams in their efforts to curb malpractices.

2.6.4 Insurance Development & Regulatory Authority (IDRA)

There are 77 insurance companies operating in the country and the responsibility of IDRA is to supervise and regulate the insurance industry effectively. National Parliament passed two insurance laws on 3rd March 2010 in a bid to further strengthen the regulatory framework and make the industry operationally vibrant. The new laws which came in to effect on 18th March 2010 are Insurance Act 2010 and Insurance Development and Regulatory Authority Act, 2010.

Limitations

- IDRA does not have adequate manpower to monitor such a huge and growing sector like insurance industry.
- Human resources related to this sector are not trained and well aware of the vulnerability of money laundering and terrorist financing.
- IDRA does not have the authority to choose audit firm for the purpose of conducting regular audit for the insurance company.
- The activities of IDRA are mostly manual in nature which further hampers its current week surveillance activities.

- Insurance companies are generally reluctant to comply with directives of IDRA and decisions taken by IDRA are often challenged by the insurer through legal proceedings.
- Absence of rules against the law further hinders activities of IDRA.

2.6.5 Registrar of Joint Stock Companies and Firms (RJSC&F)

The Registrar of Joint Stock Companies and Firms (RJSC&F) facilitates formation of companies and keeps track of all ownership related issues as prescribed by the laws in Bangladesh. RJSC&F deals with different types of entities, such as private companies, public companies, foreign companies, trade organizations, societies, and partnership firms. RJSC&F accords registration and ensures lawful administration of the entities.

Limitations

- RJSC&F do not have adequate monitoring and supervising measure to ensure whether the activities of the companies are done/going on properly or not.
- RJSC&F does not have the right to choose any audit firm for auditing any company.
- RJSC&F does not have effective legal authority to take any action against non-compliant company/firms/society.
- RJSC&F is not empowered to do anything except registering a company.
- RJSC&F lacks in trained human resources.
- RJSC&F does not have enough mechanism to identify beneficial owners of registered firms/companies /societies.
- RJSC&F lacks in verifying the submitted documents and monitoring mechanism in carrying out its functions properly.

2.6.6 NGO Affairs Bureau

NGO Affairs Bureau is the authority to regulate Non-Government Organizations that finance their activities through foreign assistance. NGO Affairs Bureau approves registration on the basis of security clearance given by the Ministry of Home Affairs. It has on-site inspection authority under section 4 of The Foreign Donations (Voluntary Activities) Regulations Ordinance, 1978. NGO Affairs Bureau selects audit firms for the NGOs on the basis of open bidding for a two year period. Each NGO has to submit audit report and annual report for each project year. It has been claimed that proper utilization of funds by NGOs is being ensured on the basis of field inspections, report from local administrations, audit report, annual report etc. Punitive actions can be taken under section 6 of The Foreign Donations (Voluntary Activities) Regulations Ordinance, 1978 and section 5 of The Foreign Contribution (Regulation) Ordinance, 1982 against the NGOs for violating any conditions or abuse of funds on the basis of inspection or audit report.

Limitations

- NGO Affairs Bureau does not visit project site offices before approving registration.
- Respective Deputy Commissioners (District Administrators) of the concerned areas generally coordinate and monitor NGOs activities. Most of the NGOs operate in several districts. Therefore, centralized monitoring is not being done properly.
- In most cases, NGO Affairs Bureau rarely takes any feedback from the donor agencies.
- Due to shortage of manpower NGOAB cannot not examine audited balance sheet of NGOs.

2.6.7 Micro Credit Regulatory Authority (MRA)

To ensure transparency and to monitor activities of micro-credit providing organizations, the Government enacted Micro Credit Regulatory Authority Act in 2006 and under the Act MRA was established during the same year. All micro-credit organizations registered under the authority have to submit half-yearly and yearly statements in prescribed forms to the MRA. Such organizations also have to submit audit report at the end of the fiscal year performed by the external auditors. If any organization violates provisions of the Micro Credit Regulatory Authority Act 2006, MRA can cancel its registration and impose penalties. Moreover, violating certain provisions of the Act is treated as offence and the violator is liable to punishment of maximum one year imprisonment.

Limitations

- For foreign donations, micro-credit organizations are not accountable to MRA which can be a lucrative opportunity for money launderers and terrorist financiers.
- The authority has shortages of manpower while existing manpower requires training.
- The authority does not have the legal power to appoint an administrator in a ‘problem micro-credit organization’.
- MRA cannot prevent multiple borrowings as they do not have any centralized database of their borrowers.
- MRA cannot bar family members from being member of the executive committee of a micro finance institution.
- Moreover, the authority is in severe lack of technological competence to implement its policies and procedures.

2.6.8 Social Welfare Department

Voluntary social welfare organizations are regulated by the Social Welfare Department. The relevant laws for this purpose are the Voluntary Social Welfare Organizations (Registration & Control) Ordinance, 1961 and The Voluntary Social Welfare Organizations (Registration & Control) Rules, 1962. Organizations registered under the Social Welfare Department finance their activities only through local sources. Field offices are run by the Deputy Directors and they are the Registration Authority for respective areas and Director General, Social Welfare Department acts as the Chief Executive.

Limitations

Social Welfare Department has the responsibility and authority to audit the accounts of these voluntary organizations through selected audit firms. However, regular audits of all registered organizations are not ensured. Only the active organizations submit performance audit reports. There are many inactive organizations that need to be scrutinized, particularly their motive behind taking registrations. The Department also suffers from the lack of logistic support to carry out its monitoring activities.

2.6.9 Women Affairs Department

Women Affairs Department enforces various development activities for women through registered Non-Government Organizations and social welfare organizations called Community Based Organizations. Performing yearly audit is mandatory for getting donations from the Women Affairs Department. District and Upazilla Women Affairs Officers monitor proper utilization of funds.

Limitations

There is no centralized audit, inspection and analysis unit at the Women Affairs Department to analyze audit and inspection reports, research and analyze fund movements, monitor proper utilization of foreign donations of NGOs as a watchdog and perform some special audit.

Chapter 3: Output of Sector Specific Risk Assessment:

As described in chapter 1 of this report that National ML&TF Risk Assessment Report includes output of institutional, sectoral and national risk assessment this chapter represents output of sector specific ML&TF risk assessment. Risk assessment of CMIs and insurance sectors has been conducted with technical assistance from AUSTRAC (Australian FIU) under SARISA (Strengthening AML/CFT Regulation in South Asia) program. BFIU and all other respective regulators and market players were involved in this process. In similar fashion, risk assessment of DNFBPs has been conducted with technical assistance from the World Bank. BFIU, all related self-regulatory organizations (SROs), sectoral representatives as well as NRA core team were involved in this process. Risk assessment of bank, non-bank financial institutions, money changers and money remitter has been conducted by BFIU officials based on knowledge and experience gathered from earlier three risk assessment process.

Generally banking sector is perceived to be most vulnerable to AML&CFT threats. However, all financial institutions are also vulnerable to such threats. Whilst the traditional banking processes offer a vital laundering mechanism, it should be recognized that products and services offered by other types of financial and non-financial business sectors may also be attractive to the launderers. The sophisticated launderer often engages many other unsuspecting accomplices such as currency exchange houses, stock brokerage houses, gold dealers, courier service providers, real estate dealers, automobile dealers, insurance companies, trading companies and others selling high value commodities and luxury goods. However, specific details are discussed below.

3.1 Banks

Bangladesh's banking sector comprises 56 scheduled banks. Bangladesh Bank is the regulatory and supervisory authority to control and supervise these banks. Out of the 56 scheduled banks 4 are state-owned commercial banks (SOCBs), 4 are specialized banks (SDBs), 39 are private commercial banks (PCBs) and 9 are foreign commercial banks (FCBs). SOCBs are either fully or a lion part of their shares are owned by the Government of Bangladesh. SDBs are established for special purposes such as agricultural or industrial development. These banks are also either fully or a lion part of their shares are owned by the Government of Bangladesh. Out of 39 PCBs, eight of them are Islami Shariah based PCBs and the rests are conventional PCBs.

Table 3.1 : A brief introduction to banking sector in Bangladesh

Ownership:	Most of the banks incorporated in Bangladesh are public limited companies and listed to either Dhaka Stock Exchange (DSE) or Chittagong Stock Exchange (CSE) or both. Only a small portion of share is made available for public bidding, the rest is kept reserved for different classes of privileged investors. Therefore, there exists a heterogeneous mix in the ownership of Bangladeshi banks. Usually five types of ownership classes exist in the banking sector of Bangladesh. The director/sponsor owners, investors who initiated the bank and stayed with the bank, sometimes hold majority portion of shares. The institutional investment holds the second largest share. Besides, government can purchase shares of private banks to encourage them. Again, being a developing country, Bangladesh reserves a portion of banks' ownership paving way for foreign ownership in the banking sector. Finally, general public may hold a sizable portion of banks' shares in process of return optimization of their portfolio.
Business Partnerships	Banks have very close relationship with all other industries of financial sector. Banks act as the payment channel for all other industries since no other entity is allowed to issue cheque or transfer cash on the counter basis. There are arrangements for extensive networks of Point of Sale (POS) service providers with banks. Credit card service providers like Visa, Master etc are also linked with banks. Besides, thousands of agents are now working under the Mobile Financial Services (MFS) on commission basis.
Main revenue sources	Interest on credits is the main source of revenue. Interest may be charged monthly, quarterly, half-yearly or annually. Service charge is another important source of revenue. Other sources include annual fees from credit and debit cards, commission from Letter of credit (LC), bank guarantees and other services etc.
Products & Services:	Generally, banks in Bangladesh provide following types of products and services: <ul style="list-style-type: none"> • Deposit products: Term deposits, Fixed deposit, Foreign currency deposit, Islami banking deposits, Monthly profit deposit accounts, pension schemes etc. • Credit products: general advances, corporate finance, agricultural finance, housing finance, consumer finance, letter of credit, SME finance, industrial finance etc. including various investment schemes of Islami banks. • Services: These include general banking, foreign exchange business, foreign remittance, ATM, online banking, internet banking, SMS banking, locker service, offshore banking and mobile banking etc.
Customer Relationships	Traditionally, customers require face to face interactions with bankers to get banking services. However, adoption of new technologies such as ATMs and internet banking etc is consistently reducing the requirement of face to face interactions with bankers. Moreover, the mobile banking service requires customers to have face to face interactions with mobile banking agents only.
Customer Segments	Banking products are sold either to corporate customers or to individuals including marginal households. Corporate banking holds the larger portion of the credit/loans and advances, although retail or individual customers are larger segment in number.
Delivery Channels	Most of the banking products are marketed by the employees of the banks while card product services, mobile banking services etc may be provided through agents. Several banks also deploy contractual employee for marketing their products.

3.1.1 Recent steps taken

Banking sector experienced remarkable progress in terms of automation during the last several years. For the pro-active and forward-looking approach of Bangladesh Bank a number of automation initiatives have been implemented in banking sector. These initiatives include:

- The automated Credit Information Bureau (CIB) provides credit related information for prospective and existing borrowers. With this improved and efficient system, risk management has become more effective. Banks and financial institutions can access credit reports from CIB online instantly.
- L/C Monitoring System has been introduced. Besides, Online Export Monitoring System is used for monitoring export proceeds of Bangladesh.
- Payment system has been modernized by introducing modern technology. Establishment of Bangladesh Automated Clearing House (BACH) has replaced traditional manual clearing system and facilitated the inter-bank cheques and similar type of instruments to be settled instantly.
- The initiation of Mobile Banking has been one of the most noteworthy advancement in banking. Through this system, franchises of banks through mobile operators can provide banking service to even the remotest corner of the country. Almost every commercial bank is now using its own core banking solution which has made banking service faster and efficient. Usage of plastic money has considerably increased day-to-day financial transactions. Full or partial online banking is now being practiced by almost every bank. Furthermore, some banks maintain a few exchange houses in foreign countries to operate their foreign exchange operations efficiently.

3.1.2 AML &CFT Measures: Since 2002, BFIU has been working very rigorously with banks. Banks in Bangladesh introduced a robust AML&CFT programmes in line with BFIU's instructions that cover establishment of Central Compliance Unit(CCU), KYC&CDD measures, record keeping, transaction monitoring, submission of suspicious transaction report, self assessment and independent testing procedure, screening mechanism for UNSCRs, employee awareness & training and so on.

BFIU is receiving CTRs and STRs from all categories of scheduled banks. Banks are reporting CTRs to BFIU online through *goAML* for transactions of above 10 Lac taka thresholds. STRs are reported by banks to BFIU based on suspicions. But most of the STRs are received from private commercial banks and foreign banks. Few STRs are received from state owned commercial banks while STRs are rarely received from specialized banks, although these banks are more vulnerable to money laundering risks.

The Table 3.1 depicts the rising trends of STR reporting during 2009 to 2013. These STRs are mostly reported by banks to BFIU. Number of STRs reported from other sectors such as Insurance, Financial Institutes etc are still very low. Analysis of STR starts with basic screening for identification of actionable cases.

Table 3.1: STR received, analyzed and disseminated by BFIU

Reporting year	No. of STR Received
2009	40
2010	77
2011	184
2012	267
2013	482

3.1.3 Vulnerabilities

Since banking sector is the primary and premier reporting agency under MLPA 2012 and ATA 2009, their ML & TF control system is better than that of other reporting organizations but due to inherent vulnerability variables as considered in risk scoring tools this sector is more vulnerable to ML & TF compare to other sector. Inherent vulnerability variables such as total size/volume of business of banks, client base profile of banks, level of cash activity in the banks, use of agents in facilitating banking products, anonymous use of banking products, difficulty in tracing the transaction records, existence of ML & TF typologies on the abuse of banking products, use of banking products in fraud or tax evasion schemes, non face to face use of the products in the banking sector, domestic money transfer, international money transfer, transactions with offshore centers, tax havens and high risk jurisdiction, frequency of international transfer were considered in the risk scoring process.

Due to its inherent risk a new trend of trade-based money laundering is observed to drain out the money through banks to abroad. Corruption, fake loan scam and trade miss-invoicing pose higher risk in banks now-a-days. The adoption of newer technologies such as BACH and mobile banking also makes it more vulnerable to cheque frauds and illegal money transfer activities. Among the 56 banks 4 SOCBs' ML& TF control measures are not enough to tackle ML&TF risk but 4 SCBs are less vulnerable than other banks because of their limited functions.

Following common vulnerabilities are identified in the assessment:

- Banks as the principal gateway to financial system face high probability of being threatened by criminals attempting to launder illicit funds.
- Banks and all other financial institutions are yet to develop sufficient capacity to verify the identity and source of funds of their clients.
- Most of the banks are yet to develop software that enables them to automatically detect, flag and report transactions of a suspicious nature to the financial intelligence unit.
- Sometimes foreign currency is smuggled in/out of Bangladesh and the funds can enter into the banking system abroad and come back to Bangladesh through different seemingly legal means.
- Sometimes banks are reluctant to follow the guidelines for their business interest. In order to protect their interest, bankers may tend to give the benefit of doubt in favour of their customers- especially the big and the important ones.
- These banks offer a wide range of products and services including cash-based products such as over the counter cash deposits and withdrawal services. The higher frequency of physical cash transactions can facilitate the movement and concealment of illicit funds.

3.2 Non-Bank Financial Institutions (NBFIs)

Non-Bank Financial Institutions (NBFIs) are licensed and regulated under Financial Institution Act, 1993. Under this Act, NBFIs can mobilize deposits having maturity of not less than 3(three) months and lend/lease out money for specific purposes. The act empowers Bangladesh Bank to issue licenses to the NBFIs and regulate those. Like banks, NBFIs play an important role in financing various sectors like industry, trade, housing, transport, information technology as well as the capital market. There are 31 (thirty one) NBFIs with 176 branches operating in the country.

The features of NBFIs in Bangladesh

Ownership:	Like bank, most of the NBFIs in Bangladesh are public limited companies and are listed to either Dhaka Stock Exchange (DSE) or Chittagong Stock Exchange (CSE). Usually five types of ownership classes exist in the NBF sector of Bangladesh. Individual, Institutional, Governmental, Foreign Individual or Group and General People as the portfolio investor.
Business Partnerships	NBFIs have very close relationship with the banks as banks act as the payment channel for them. NBFIs also invest in projects in collaboration with banks. Some NBFIs also issue credit card like visa, MasterCard etc. NBFIs are also linked to capital market intermediaries. As a whole, NBFIs play vital role in financial sector of Bangladesh.
Main revenue sources	Charged interest on credits is the main source of income. Interest may be charged monthly, quarterly, half-yearly or annually. Service charge from different service providing activities is another source of income. Annual fees from other activities like credit and debit cards and other services etc.
Products and Services:	Products and services guidelines have been mentioned in the “Guidelines on products & services of financial institutions in Bangladesh” for all kinds of financial institutions of Bangladesh. Generally, NBFIs in Bangladesh have following types of products and services for the corporate and retail customers: <ul style="list-style-type: none"> • Deposit products: Term deposits, Fixed deposit etc. • Credit products: Advances, Lease Financing, Housing financing, vehicle financing, SME financing, Industrial financing etc.
Customer Relationships	NBFIs maintain close relationships with their customers. Generally they have face to face interactions. They also conduct onsite monitoring on the projects they finance.
Customer Segments	NBFI products are sold either to corporate customers or to individuals. Corporate customers hold the larger portion while retail or individual customers are larger in number.
Delivery Channels	Most NBFI products are marketed by the employees.

3.2.1 AML & CFT measures: NBFIs is the second sector where BFIU has started working ML&TF control measures. Though BFIU issued several circulars and directives to this sector since 2002 but started its regular monitoring since 2010. Currently all the NBFIs established AML & CFT compliance programme that has been described in 3.1.2

3.2.2 Vulnerabilities:

As the non-bank financial institutions cannot offer chequeable deposit account and are not involved in foreign transactions, money transfer service they are less vulnerable sector to ML & TF but due to insufficient ML&TF control they are more vulnerable to ML risks.

- NBFIs also face the risk of being used by the money launderers, particularly for high value transactions.
- Lump sum investments in liquid products are clearly most vulnerable to be used by money launderers, particularly where they are of high value.
- NBFIs mostly deal with individuals and small to medium scale businesses which are why risks of TF relating to small-value and dispersed transactions exist.

3.3 Insurance Sector

There are 77 insurance companies in Bangladesh of which 46 insurance companies (11 Life Insurance Companies and 35 General Insurance companies) are listed on Dhaka Stock Exchange and 38 insurance companies (9 life insurance and 29 general insurance companies) are listed on Chittagong Stock Exchange. There are two government owned insurance companies (one deals with life insurance only and the other non-life). The insurance sector employs more than 2 million people. Insurance sector represents one per cent of GDP with a very low penetration of the population (0.9% compared to 5.1% of India and 12.4% of UK). The regulator of the insurance market is the Insurance Development and Regulatory Authority (IDRA) which was established by a separate legislation in 2010. IDRA is a member of the working committee that is implementing Bangladesh's AML/CTF Framework.

The nature of insurance companies in Bangladesh

Ownership:	Insurance companies are all corporate bodies publicly listed on either the Dhaka or Chittagong stock exchanges. There are a few foreign subsidiaries operating in Bangladesh such as MetLife Insurance.
Business Partnerships	Insurance companies have strong relationships with banks and financial institutions for the provision of capital and through brokering arrangements. There are multiple arrangements and extensive networks of agents and brokers to sell policies on behalf of insurance companies for a commission.
Main revenue sources	The main source of revenue is from the premiums, although many insurance companies own real estate and derive income from rent and other investments.
Products & Services:	<ul style="list-style-type: none"> • Life Insurance –mostly term life, single premium, endowment and annuities; unit linked policies are not available in Bangladesh. • Non-life – mostly fire, marine, motor vehicle and miscellaneous, although there is a range of other types available.
Customer Relationships	Customer relationships are remote as the face to face interaction is through agents and brokers. Customers all want quick settlement of claims and fair treatment by the insurance companies.
Customer Segments	The penetration of insurance in Bangladesh is very small and represents less than 1% of GDP. Most insurance schemes are sold to individuals. The wealthy and middle class households who have bank accounts are the main purchasers of insurance while the poor are low users of insurance services. Commercial entities are also medium users of insurance.
Delivery Channels	Most non-life insurance products are marketed by the employees of the insurance companies while life insurance products are sold through agents.

Vulnerabilities

Insurance market in Bangladesh is shallow accompanied by lack of ML&TF awareness of insurance staff and a paucity of suitably qualified staff in the industry. While there are issues of good governance in the sector, manual systems of record keeping, reporting and claims settlement lead to cumbersome or little monitoring for unusual payments or fake claims. Ownership concentration

is also issues as a number of insurance companies are established by owners of other industries. They use their own insurance companies to insure business activities of their own industries in other sectors of the economy. Over payment of premiums and early surrender of contracts remains a vulnerability of money laundering in life insurance.

Threats

Collusion between agents and intermediaries and other individuals and staff within insurance companies is one of the main threats; fraud in the form of bogus claims is another.

3.4 Capital/Securities Market Intermediaries

A total of 281 companies are listed at Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange under SEC. The market capitalization of DSE has grown fifteen times during the span of last five years. 238 brokers are providing brokerage service to investors all over the country. Since the volume of transactions in this sector is considerably high, there exists enough scope of money laundering in this sector.

In line with the international standards (revised FATF 40 Recommendations) and initiatives, all types of Security Market Intermediaries such as (1) stock dealer and stock broker, (2) portfolio manager and merchant banker, (3) securities custodian and (4) asset manager are included in the legislation as reporting entities and are required to meet the full range of preventive measures in their businesses.

The nature of stock brokers in Bangladesh

Ownership	Brokers are all corporate bodies with 20% owned by institutions and the remainder is owned by individuals; all of them are unlisted.
Business Partnership	Brokers have strong relationships with banks and financial institutions for the provision of capital and margin loans for customers. They have also strong relationships with the central depository system as well as with the exchanges for clearing and settlement.
Main revenue sources	Main source of revenue for the brokers is commission. They also earn from margin loans.
Products & Services:	<ul style="list-style-type: none"> • Account services to investors • Transaction services (buying and selling shares) • Margin lending • Information services
Customer Relationships	Investors in Bangladesh expect the provision of services from their broker to be trustworthy with a speedy delivery of services (buying/selling) and convenience of transacting over the telephone.
Customer Segments	Most investors in Bangladesh are individuals (80%) while the remainders are institutional or foreign investors. It is understood that the market needs to enhance its corporate culture to attract sizeable institutional investors.
Delivery Channels	<p>Most transactions are done either face to face, over the telephone or via emails.</p> <p>All proceeds are delivered to the customers by the security market intermediaries through banking channel. Deposits are also made mostly through banking channel because there is a restriction by BSEC that BDT 5 lacs (equivalent to USD 6,400.00) or above should be deposited through banking channel.</p>

Threats

Major threats for the market are as follows:

- Market manipulation, such as pump and dump schemes, circular trading,
- Insider trading,
- Market sensitivity issues that create mayhem for the market,
- Cybercrime appears as an emerging threat and fraud.

Vulnerabilities

- Like banks and other financial institutions, brokerage houses also do not have the sufficient mechanisms or abilities to verify the identity of the investors.
- As per the existing rules, Brokerage Houses can accept cash up to BDT 5.00 lacs (Rule 1987 Sec 8(1)(cc)) from their clients to purchase shares. There are no such effective tools for the brokerage houses to verify the sources of funds of their clients.
- The people related to this sector are not well trained and aware of the money laundering and terrorist financing vulnerabilities.
- Transfer of proceeds from selling securities to an unknown third party is another major threat of money laundering and terrorist financing.
- Online trading is an emerging method of transacting and can pose vulnerabilities.
- Over the counter (OTC) market which is less regulated may be used to launder funds.

3.5 NGO/NPO Sector

Since 1971, NGOs emphasized on bottom-up social transformation movement via integrated community development programs. BRAC, Nijera Kori, ASA, Proshika are some organization who were in the forefront of bottom-up social transformation movement. NGOs have put more concentration and efforts in this country to reach the doorsteps of the people through micro-credit, employment and income generation, formal and informal education of children and adults, health, nutrition, family planning, natural calamities/disaster management establishment of democratic processes at the grassroots level, women's rights, environment, rural development, water supply and sanitation, human rights and legal aid.

3.5.1 Regulatory framework of NGO/NPO sector

Effective regulation and supervision are required to combat ML/TF in NGO/NPO sector. Coordination and cooperation of the government agencies involved & the sector players is also required. NGOs/NPOs including the charitable organizations in Bangladesh are registered/licensed under the following laws/Acts:

- 1) The Societies Registration Act, 1860
- 2) The Trust Act, 1882
- 3) The Cooperative Societies Act, 2001
- 4) The Companies Act, 1994
- 5) Charitable Endowment Act, 1890
- 6) Wakf Ordinance, 1962
- 7) Hindu Religious Welfare Trust Ordinance, 1983
- 8) Christian Religious Welfare Trust Ordinance, 1983
- 9) Buddhist Religious Welfare Trust Ordinance 1983
- 10) The Voluntary Social Welfare Agencies (Registration & Control) Ordinance, 1961
- 11) The Foreign Donations (Voluntary Activities) Regulation Ordinance 1978

- 12) The Foreign Donations (Voluntary Activities) Regulation Rules, 1978 (amended in 1990)
- 13) The Foreign Contributions (Regulation) Ordinances, 1982
- 14) The Micro-credit Regulatory Authority Act, 2006.

Approximately 62,773 (Y2014) NGOs are registered with the Department of Social Service (DSS) under Ministry of Social Affairs, most of which are local welfare organizations and there are around 2,333 (Y2014) development NGOs currently operating in Bangladesh registered with NGO Affairs Bureau (NGOAB). Amongst these development NGOs, a small group of very large NGOs stand out as having grown to unprecedented size and importance. The dominance of large NGOs is more pronounced when focusing on micro credit sector where 789 (Y2014) NGOs are registered by Micro-credit Regulatory Authority (MRA). In addition, there are 13,378 NGOs registered as research, technical and professional societies under the Registrar of Joint Stock Companies and Firms (RJSC&F). It is worth to mention that there are several NGOs registered with different authorities which created overlapping count problems in estimating the exact numbers of NGOs.

3.5.2 Major Players in the NGO industry

BRAC is the largest NGO in Bangladesh, also in the world. In addition, ASA, Proshika, Caritas, TMSS, World Vision, Save the Children International, Swanirvar Bangladesh, CARE, Shakti Foundation, RDRS are the major NGOs operating in Bangladesh. All types of NGO/NPO do not pose same kind of ML/TF risk. Some have higher risk because of their activities, funding sources or motivation of the trustees.

3.5.3 Financing of NGOs

Sources of NGOs financing in Bangladesh can be decomposed into two broad heads:

- **Domestic sources** consist of fees collected from members, e.g., interest on credit, service charges for training, sales of publications, transfers from commercial ventures and other earnings, e.g. earning from investments and endowment funds and donations, direct allocation and project partnership with government, subcontract and subvention mechanism, PKSF loan to small MFIs, donation from public and business corporations, borrowing from commercial banks etc.
- **Foreign sources** consist of aid/grants coming through bi-and multilateral aid agencies via international NGOs, foreign private donations, offshore NGOs funding, contract research, embassy discretionary funds and so on.

3.5.4 Accountability and Transparency within NGO Management:

Decision making process in NGOs is guided by the rules and regulations as approved by the governing committee of the NGO. Before taking any critical decision it is discussed in appropriate forum of the organization. Notices, minutes, reports and decisions are circulated among the concern staffs. Easy access to information ensures organizational accountability and transparency. Each and every employee of the organizations is provided with specific terms of reference (ToR). The performance of the employees is assessed on the basis of the ToR. Moreover, the accountability is also ensured through periodical audit and inspection.

Operations of most of the NGOs are generally guided by different policy procedures, which include 1) Governance Manual 2) Code of Ethics, 3) Information Disclosure Policy, 4) HR Manual, 5) Operations Manual including: i) Finance Manual for Head Office & Field Offices, Budget Manual, Procurement Manual, and Transport Manual, 6) Delegation of Authority, 7) Gender Policy, 8) Partnership Policy, 9) Internal Audit Policy etc. There is Board Finance and Audit Committee in some

of the large NGOs. Most of the NGOs have internal audit department and project specific monitoring unit. Conducting external audit by certified audit firms is a mandatory regulatory obligation.

Most of the NGOs use similar tools to monitor their projects. Regular visit and inspection of the internal audit team, keeping proper records, visiting partner NGOs' activities, interviews of beneficiaries, sudden and periodical field visits, up to date MIS etc. are some tools used to monitor the projects and other activities.

3.5.5 Monitoring of NGOs

3.5.5.1 Monitoring of NGOs by the Government Agencies

Field level projects of NGOs are mainly monitored by local administration. NGOs have to be present at the monthly NGO Coordination Meeting at the DC and UNO office. Officers of the local administration also visit the project activities of NGOs occasionally. Moreover, NGOs have to be present in different social awareness programs organized by the local administration and Social Service Office. Some projects required approval from concern ministries and such projects are also monitored by those ministries. Regulatory authorities monitor NGOs in a periodical basis and visit suddenly when deemed necessary. NGOs have to take approval from related regulators to conduct a new project.

3.5.5.2 Monitoring by the Self Regulatory Bodies

There are some NGO sector associations, such as Association of Development Agencies of Bangladesh (ADAB), Federation of NGOs of Bangladesh (FNB) and International NGO Network etc. There are also some networks and alliances which work together for a common cause. But there is no national level association which can play an effective role as self regulatory body for the whole NGO sector of Bangladesh.

3.5.6 Critical Analysis of Legal Framework

There are several laws in Bangladesh for registration and regulation of the different types of charitable organizations as mentioned earlier. Different government agencies provide registration and regulate the organizations under different laws that are listed in the following table:

SL	Title of the act	Registration and Regulatory authority
1	Voluntary Social Welfare Agencies (Registration and Control) Ordinance, 1961	Government has empowered Department of Social Services and Department of Women Affairs by gazette notification to provide registration of the voluntary social welfare agencies.
2	The Foreign Donations (Voluntary Activities) Regulation Ordinance, 1978.	NGO Affairs Bureau (NGOAB).
3	The Foreign Donations (Voluntary Activities) Regulation Rules, 1978 (amended in 1990)	
4	The Foreign Contributions (Regulation) Ordinances, 1982	
5	The Societies Registration Act, 1860.	
6	The companies Act, 1994	Register of Joint Stock Companies.
7	Microcredit Regulatory Authority Act, 2006	Microcredit Regulatory Authority to monitor activities of MFIs in Bangladesh.

8	The Cooperative Societies Act, 2001	Department of cooperatives. Cooperative Societies are different reporting organization from NGO/NPO under the existing AML/CFT Acts of Bangladesh. They collect deposits and provide loans to their members only and do not have any charitable functions.
9	Wakf Ordinance, 1962	<p>Waqf, in Arabic language, means hold, confinement or prohibition. The word waqf is used in Islam in the meaning of holding certain property and preserving it for the confined benefit of certain philanthropists and prohibiting any use or disposition of it outside that specific objectives.</p> <p>All Waqf properties are managed by the Waqf Administrator (an Additional Secretary) nominated by the Ministry of Religious Affairs (MoRA) under the Waqfs Ordinance 1962. A Mutawalli is appointed by the Administrator for the management of each Waqf property.</p> <p>Organization section of the MoRA is the regulating authority for all Religious Welfare Trust.</p>
10	Hindu Religious Welfare Trust Ordinance, 1983	
11	Christian Religious Welfare Trust Ordinance, 1983	
12	Buddhist Religious Welfare Trust Ordinance 1983	
13	The Trust Act, 1882	There is no regulatory authority to which charitable trusts may need to report.

The above analysis of the legal framework points out the following weaknesses to be addressed for an effective and efficient legal framework;

- Absence of uniform regulatory framework to avoid duplication, overlapping, and contradictory requirements.
- Complex registration process and no uniform regulatory body to oversee the activities of all charitable organizations.
- The Foreign Contributions (Regulation) Ordinance, 1982 and the Foreign Donations (Voluntary Activities) Regulation Ordinance, 1978 failed to establish an integrated and independent regulatory authority for this sector.
- The RJSC&F or any other government agency has not been entrusted with necessary power to regulate the Societies. If any dispute arises in the Society, judicial court is the only place for settlement, which is often very complex, time consuming and costly.
- There is no requirement for submission of any statement to RJSC&F except intimation to the registrar regarding any changes in name, address or directors/members of the governing body.
- The amount of financial penalty and punishment seems to be very low and seems not sufficient to restrain criminals from misuse of MFIs in ill motives. There should be sufficient punishment and simplified procedure of application to combat such kind of fraud under this Act.

3.5.7 Workshop on TF Risk in NGO Sector of Bangladesh

A workshop on TF risk analysis in the NGO sector of Bangladesh was organized in the Conference Room of Bangladesh Bank Head Office, Dhaka on 24th December, 2014. Officials of Bangladesh Financial Intelligence Unit (BFIU), NGO Affairs Bureau, Department of Social Service, Microcredit Regulatory Authority, Special Branch and Criminal Investigation Department of Bangladesh Police, National Security Intelligence, and different NGOs, like Transparency International Bangladesh,

Bangladesh Enterprise Institute, TMSS, BRAC, Relief International were present and actively participated in the workshop.

The participants have identified main sources of fund in NGO sector of Bangladesh as foreign sources, i.e. foreign government agencies, foreign NGOs, privately organized NGOs, individual donation; home government sources; event based local fund collection; CSR fund of local corporations and NGO trustees etc.

Observations of the Participants:

- Among different funding sources of the NGO sector, donation from foreign government agencies is well regulated compared to other sources. They are very selective to choose the local partners and their activities are also closely monitored.
- Globally, some instances have been identified in which NGOs were used to raise fund for terrorist financing. In an era of globalization, this kind of risk may spread from overseas to local level.
- Radicalized/Fundamentalist group are becoming stronger in different parts of the world. Charitable works in remote areas also have higher risk as adequate supervision of those areas is not possible by government authorities with minimum resources.
- Of all the sources of NGOs, private/corporate sources of Middle East countries are riskier than the foreign government sources of the same region. Online transfer of fund outside banking channel also has risk.
- NGO activities in hilly and border areas pose higher risk, followed by urban areas.

TF Risk versus Governance and Regulation of NGOs

Participants of the workshop opined that governance structure of NGOs bears some ML and TF risks for the society. If one person controls everything of an NGO, then there is risk of money laundering or terrorist financing. If recruitment process of an NGO is not transparent, then there is a risk of nepotism and social affair of same ideological people under one umbrella. This scope enables them to finance terrorist activities.

The background of the governing body members/trustees is also important. Their involvement with any crime or terrorism may create the risk of abuse of the NGOs by those trustees. Representatives of Bangladesh Police informed that before granting license to NGOs, clearance from intelligence agency is mandatory. While issuing clearance, background of the trustees and compliance with the local law by the NGO need to be checked properly. So, it can be conferred that the risk is mostly mitigated through clearance by the intelligence agency. This process may substantively mitigate TF risks in the country.

It can be mentioned that recently NGO Affairs Bureau has increased inspection of business activities of NGOs. It has involved Deputy Commissioners in the inspection process. NGOAB is also going to introduce peer review/ 3rd party audit for NGOs. An NGO will accompany NGOAB for audit of another NGO. External Resource Division, GoB has started monitoring projects by evaluating their log frames. NGO regulatory agencies are also considering monitoring the activities of NGOs in similar fashion.

Recommendations by the participants:

The workshop participants suggested the following steps to be taken to combat ML/TF in NGO sector of Bangladesh:

- Monitoring by NGO regulatory agencies should be strengthened.
- Regulatory agencies should inform police and intelligence agencies if any criminal activities is identified or suspicions arises in the activities of any NGO.

- Whistle blowing may be a good way to detect misdeed happening inside a NGO. The Whistle blower should be protected by the concerned authorities.
- Previous records prove that ML/TF risk is very low in NGO sector of Bangladesh. So, we should be careful, so that NGO sector of Bangladesh cannot be victimized unnecessarily.
- AML/CTF compliance by NGOs should be checked by external auditors and it should be included in TOR.
- Some NGOs are fully dependent on one or two persons. Sustainability and succession plan for NGOs is very important. Regulators should look into the matter to ensure good governance in the sector.

3.5.8 Recommended Policy Options for NGO sector

The existing NGO sector regulation of Bangladesh can be described as fragmented, which is not uncommon in most other countries. Since NGOs can obtain license under several laws, different government agencies are responsible for their registration and regulation. The regulatory requirements are also different from agency to agency. NGOs registered under some laws do not have to report to any regulatory authorities at all. These complexities constrain identification of genuine charitable organizations while they create opportunities to the ill motive organizations to escape regulation. This indicates great risk of misuse of fund by charitable organizations for the purposes of money laundering and terrorist financing. For the integrity and healthy development of the NGO sector and maintaining confidence of the stakeholders, the existing regulations of the sector need to be improved substantially. The following recommendations have been prepared based on the study findings, feedback of the stakeholders and examples of the other countries:

3.5.8.1 Reform in Legal Framework:

- 1) Registration authority without regulatory power of an agency creates scope for organizations to escape regulation, as we observed in the provision of The Societies Registration Act, 1860 or The Trust Act, 1882. In fact, these Acts were promulgated long ago when NGO regulatory authorities were absent. Such old Acts related to NGO sector should be amended to empower specific NGO regulatory authority to register NGOs, or the NGOs are required to report to the regulatory authority after registration from registration authority.
- 2) Foreign Contributions (Regulation) Ordinance, 1982 should be omitted from the definition of Non Government Organization (NGO) under MLPA, 2012 and ATA, 2009. Since organizations registered as NPOs in RJSC&F are totally different in nature/activities from FATF's definition of NPO and are not involved in financial transaction and do not receive or disburse charitable fund, so such organizations should be excluded from the definition of NGOs under MLPA, 2012 and ATA, 2009.
- 3) The compliance requirements are different under different laws. Some registration laws even have no or negligible compliance requirements. If an NGO receives registration/license from different authorities under different laws, compliance of all regulations become complex for that NGO. So uniformity should be ensured in the compliance requirements under different laws.
- 4) Punishments and penalty for non-compliance should not be limited; it should be proportionate to the severity of the crime. Government may consider revising the provisions of the Acts and there should also be transparent and implementable procedures in the law/rules to deal with non-compliance.

- 5) There should be provision of renewal of registration/license of NGOs from the regulatory agencies in the relevant laws after every five years. The renewal system provides an effective tool for the regulators to enforce compliance.
- 6) The regulatory authorities should have the power to raise objection against any provision of the constitution of the NGOs if such provision is contrary to the good governance practice, or against any director or officer of an NGO, whose presence may create the risk of ML/TF. There must have transparent procedure to execute the provision.
- 7) There should be the provision in the relevant laws for enhancing cooperation among regulatory and law enforcement agencies and arranging capacity building programs for the NGOs.
- 8) Financial management and governance are the major areas of discontent in any organization, and ML/TF risks also arise from it. So, there should be detailed financial and governance rules for every type of NGOs/voluntary organizations under the relevant laws/rules.

3.5.8.2 Suggested measures to prevent/mitigate Terrorist Financing Risk

- 1) International cooperation among NGO regulatory agencies, FIUs, law enforcement and intelligence agencies should be enhanced to mitigate TF risk in NGO sector. As cooperation among the FIUs already exists, Bangladeshi NGO regulatory agencies may take initiative to sign cooperation agreements/MoUs with their foreign counterparts. Such cooperation will facilitate both information sharing and capacity building of the regulatory agencies.
- 2) Cooperation among local NGO regulatory agencies, FIU, law enforcement and intelligence agencies may be enhanced to strengthen NGO supervision and to detect and mitigate any illegal financing activity.
- 3) Introduce risk based supervision in NGO sector. The high risk segments of the NGO sector as identified in this study should have to be supervised closely. Detail supervision strategy need to be developed in consultation with supervisory stakeholders.

Capacity building of the regulatory authorities through arrangement of workshop, training and seminar nationally and internationally and partnership in supervisory activities may be the best ways to achieve these goals.

3.6 Money Changers

Money Changers, in Bangladesh are licensed by Bangladesh Bank under Foreign Exchange Regulation Act, 1947 for dealing in certain foreign currency transactions. They are also regulated and supervised by BB. Presently 236 Money Changers are operating in Bangladesh. They are only allowed to buy and sell the foreign currencies within a certain limit only to the travelers and are strictly regulated. Consequently, they are not assumed as vulnerable to ML&TF.

3.7 Designated Non-Financial Businesses and Professions (DNFBPs)

Money launderers use various financial and non-financial institutions to legitimize their illegal money. Although banks and financial institutions are used as main medium to channelize the illegal money, now-a-days money launderers also use various Non Financial Institutions and Professionals for the same purpose. The non financial institutions and professionals who might be used as medium for Money Laundering and Terrorist Financing are titled as “Designated Non-Financial Businesses and Professions” or DNFBPs in brief.

In the light of the recommendations provided by FATF, the following organizations have been included as the reporting organizations in Money Laundering Prevention Act, 2012 and Anti Terrorism Act, 2009:

Reporting Organizations	
a)	Real Estate Developers and Real Estate Agents
b)	Dealers In Precious Metals or Stones
c)	Trust and Company Service Provider
d)	Lawyer, notary, other legal professionals and accountants

As casinos are not the legal entities as per the existing laws of Bangladesh they have not been included as reporting organization.

3.7.1 Regulators/Controlling Authorities of the DNFBPs in Bangladesh

DNFBPs are conducting independent businesses or professions in Bangladesh. These professions and organizations are sensitive and risky for Money Laundering and terrorist financing as well.

	DNFBPs Organizations	Controlling Authorities
1	Real Estate Developers and Real Estate Agents	Registrar of Joint Stock Companies and Firms, RAJUK, CDA, KDA, SDA, Ministry of Housing and Public Works, and all respective Local Govt. Authorities, National Housing Authority
2	Dealers In Precious Metals or Stones	Registrar of Joint Stock Companies and Firms, Local Administration, Local Govt. Authorities,
3	Trust and Company Service Provider	Ministry of Law, Justice and Parliamentary Affairs, Registrar of Joint Stock Companies and Firms
4	Lawyer, notary, other legal professionals and accountants	Ministry of Law, Justice and Parliamentary Affairs, Bangladesh Bar Council, Tax Bar Association, ICAB, ICMA

3.7.2 The possibilities of Money Laundering and Terrorist Financing using DNFBPs in Bangladesh

Money Launderers may use the DNFBPs to channelize their illegal proceeds. The opportunities of using the DNFBPs for Money Laundering and Terrorist Financing on the economic ground of Bangladesh can be summarized as below:

3.7.2.1 Real Estate Developers

The real estate developers and Apartment Houses, Commercial Space development organizations and persons contribute a significant portion of Bangladesh's economy. The opportunities to invest large sum of cash create the risk of Money Laundering. A large portion of the black/undeclared money finds its way as investment in this sector. The opportunity to declare selling and buying prices lower than the actual amount and the intentions not to keep the records and documents properly raise the risk of Money Laundering in this sector.

Vulnerabilities

- Real Estate sector is mainly cash-based in Bangladesh. There is ample room to invest illegal proceeds in this sector.
- The real estate sector is not sufficiently supervised either by the regulator or by BFIU.
- The existence of several SRB for the real estate sectors create supervisory problem.

3.7.2.2 Dealers in Precious Metals or Stones

Since Precious metals and Stones (Gold, Diamond, Expensive Antiques etc.) are costly, can store significant amount of value and are easily portable, they are often used as means of Money Laundering. The number of related Business institutions is nearly thirty thousand. Most of the transactions in this sector are made in cash and these huge value of transactions are made without any proper documentation. Although AML/CFT obligations have been extended to dealers in precious metals and stones (DPMS) the absence of definition of precious metals and stones constrains the implementation of obligations under MLPA, 2012 and ATA, 2009 for the sector. This lack of clarity also hinders the BFIU's legal authority for AML/CFT supervision over the sector. Since there is inadequate monitoring on this sector, it is exposed to high risk of ML.

Vulnerabilities

- As it is recently included in the RO, the sector is not sufficiently regulated and supervised.
- Jewelers Association has a very minor role in implementing the compliance requirements within the sector.

3.7.2.3 Trust and Company Service Providers

Trust and Company Service Providers buy, sell and transfer expensive properties for their customers (Trust or Company). Criminals often attempt to hide the real owner or beneficiary of illegal money/property by creating trusts or companies. Moreover, these service providers make transactions with third parties on behalf of the customers which create the risk of Money Laundering and Terrorist Financing. The sector is assumed to be risky for the following reasons:

- The sector has scope to create Complex Legal Body or corporate vehicles to hide the actual beneficiary.
- It can provide financial transactions on behalf of the Customers.

3.7.2.4 Lawyers, Notary and other Law professionals and Accountants

The Money Launderers use Lawyers, Notary and other Law professionals and Accountants to legitimize their illegal income. These institutions are used to hide the identity of the true beneficiary. Activities of the Lawyers, Notaries and other Law professionals and Accountants who are exposed to Money Laundering and Terrorist Financing are given below:

- Being advisors of financial and tax related issues.
- Creation of Complex Legal Body or Corporate vehicles to hide the actual beneficiary.
- Purchase and sell of properties with illegal money.
- Financial transactions made on behalf of the customers.

3.7.3 Preventive Measures for DNFBPs

The Money Laundering Prevention Act (MLPA) provides the basis for preventive measures to be imposed on DNFBPs. The Money Laundering Prevention Rules, 2013 provides some additional details to take preventive measures against money laundering activities. Furthermore, guidelines targeted to DNFBPs have been issued by the BFIU. These guidelines provide further details on the AML/CFT obligations that are outlined in the MLPA and MLPR and are considered best practices rather than legal obligations.

3.7.4 Shortcomings of the AML/CFT legislative framework

- The concept of precious metals and stones is not defined.

- Risk mitigation requirements that have been extended to DNFBPs are not enough.
- No PEP requirements have been extended to DNFBPs.
- No new technology requirements have been extended to DNFBPs.
- No reliance on third party requirements has been extended to DNFBPs.

3.8: ML and TF Risk related to formation of legal entities

Generally detailed ownership information including beneficial owner is not verified properly during initial legal formation of an entity. Money launderers and terrorist financiers often take advantage of weakness in formation of legal entities by hiding their identities. If ML and TF risks embedded in these weaknesses are not addressed at initial stage, they may grow unmanageable and cause devastating consequence for a country.

3.8.1 Legal Framework

Common law based legal system is being followed in Bangladesh since the British rule till today, **The Companies Act, 1913** has been repealed by re-enactment of **The Companies Act, 1994**. Register of Joint Stock Companies and Firms (RJSC&F&F) is the registering authority for legal entities under Section 23 of The Companies Act, 1994, Section 3 of The Societies Act, 1860 and Section 58 of Partnership Act, 1932.

RJSC&F registers the following entities under above acts:

- Private Company
- Public Company
- Foreign Company
- Trade Organization
- Society
- Partnership Firms

RJSC&F requires all the directors' information and shareholders' information during the registration. So the information of those who hold 20% or more shares or the controlling shareholder i.e. the Beneficial Owners' information is held with the RJSC&F. Information is updated annually as per schedule-X. If any change of shareholders is made, it is declared in Form-XII.

As per section 36 of The Companies Act, 1994, companies require to submit annual summary of share capital and list of shareholders, directors within 21 days of Annual General Meeting.

As per section 115 of the Act, particulars of directors, managers and managing agents and any change therein are required to be submitted within 14 days from the date of appointment or change to RJSC&F as per Form XII.

However, Money Laundering Prevention Rules, 2013 sets obligations for the reporting organizations to verify the identity of the beneficial owners of the accounts opened and maintained by the reporting organizations. BFIU has access to the beneficial owner's information of any account of any Reporting Organization.

3.8.2 Vulnerabilities

In Bangladesh, money laundering through company has become visible in past few years. Although, provisions are there to keep the identity information of director, shareholders etc. under The Companies Act 1994, these are not sufficient to identify them properly. Furthermore, no system prevails under this Act to verify the identity of the directors, shareholders and beneficial owners from RJSC&F. Furthermore, reporting organizations have not established an effective system to

identify the beneficial owner accounts. Money launderers are utilizing these loopholes to launder money through establishing shell companies with fake identity.

Among the various categories of entities, partnership firms, societies, unlisted private and public companies are not well regulated and their scope for involvement in ML and TF activities remains high.

3.8.3 Recommendations

- The Companies Act, 1994 should be amended so that complete and correct information of the directors, owners, shareholders and beneficial owners are provided to and verified by RJSC&F.
- BFIU should formulate procedure for the reporting organizations so that they can be able to identify the beneficial owner of the accounts and can collect and preserve correct and complete information of the beneficial owner.

3.9 . Risk Assessment of Unregulated sectors: The existing legal system requires every person or entity to get license or registration if they want to run a business in the financial sector or want to conduct financial transactions on behalf of others. Considering ML & TF risk level of unregulated sector, the NRA core committee with the help of working committee tries to find out unregulated sector that may carry ML &TF risk. The collected information and perception of stakeholders suggests there is no possibility that an entity without required license is engaged in financial business. But there are some instances that individuals sometimes engaged themselves in Hundi/Hawala business facilitate real estate buy and sell for some commission in a limited scale within their known circle. In ML & TF aspect the risk of such kind of transaction is high, but considering the size of transaction this does not pose significant threat to our AML & CFT regime. Details of Hundi/Hawala are stated in para 4.4.

Chapter 4: ML and TF Risks relating to Major Financial Activities

This chapter mainly highlights on money laundering and terrorist financing risks embedded in cash transactions, major trade and financial activities of Bangladesh economy.

4.1 Cash Based Economy and ML & TF Risk

An economy is argued as cash-based when majority of households are unbanked and most of its economic transactions are settled in cash. In such a situation, it is difficult to detect and monitor suspicious cash transactions, which can be a potential source to identify money laundering. In Bangladesh, total number of population over 15 years of age is 95.6 millions, of which 56.7 millions are economically active. As of December 2014, number of accounts in banking system was 69.37 millions. More than 15 millions of these account holders are small holders/tenant farmers and low income households who live in the rural economy. On the other hand, banking system has about 25.68 millions mobile banking accounts and a large part of them live in the periphery of the economy. There also exists widespread penetration of NGO-MFIs all over the country and total number of clients as of June, 2013 was 24.60 millions. A sizeable segment of urban households use debit card/credit cards in their financial transactions and this trend is significantly increasing in the recent past. All these statistics indicate that most of the households in Bangladesh have access to financial system and it is possible to monitor their economic activities. Despite such progress, a sizeable part of rural economic activities are settled in cash. Since these cash transactions remain beyond the territory of regulation, money launders and terrorist financiers can exploit this opportunity. Realizing this BB, BFIU, NBR as well as the NCC are encouraging financial inclusion in Bangladesh.

4.2 Trade Based Money Laundering (Through Formal Channel)

Many countries now a day observe different methods of siphoning money. Money launderers/terrorist financiers very often utilize indirect or alternative channel to transfer money from one country to another. Bangladesh is neither an exception. The basic techniques of trade-based money laundering that we find in Bangladesh are:

- over-invoicing and under-invoicing of goods and services;
- multiple invoicing of goods and services;
- over-shipments and under-shipments of goods and services; and
- falsely described goods and services.

4.3 Cross Border Informal Trade

Bangladesh is surrounded by India on all sides except for a small border with Myanmar to the far southeast and by the Bay of Bengal to the south. There has been a substantial informal unrecorded trade across the India-Bangladesh land borders (2,429 miles). Much of this trade is quasi legal and is best characterized as “informal”, and the trade generally bypasses Customs posts. India-Bangladesh informal trade is essentially one-way, from India to Bangladesh, leaving aside gold, silver and currency which is smuggled into India in part to pay for Indian goods.

Box 4.1: Outreach Program at Chittagong

Trade-based Money Laundering including other trade related problems

- The outreach program participants in Chittagong stated that under-invoicing and over-invoicing in opening L/Cs by the businessmen are contributing greatly to money laundering. The program observed that false declaration and price manipulation had turned few people filthy rich overnight depriving the government coffer. Accountability lapses in the customs are worsening the situation further.
- The program also noted that freight forwarders had been draining huge amount of money every day out of the country by taking advantage of the faults and loopholes in the Foreign Exchange Regulations Act (FERA). The program participants specially asked for amendment of section 23(3) of the FERA so that aggrieved persons/entities can file cases for realizing their sales proceeds from the buyers abroad or their representatives in the country.
- The premier sea port, Chittagong, is located on the right bank of the river Karnaphuli. Its actual position is few nautical miles inside the estuary and it is a tidal port. As such the ships have to cross a nine nautical mile long channel for anchoring at the terminal and pilot age is required for ships to enter the river bank for berthing. The shortages of berths at the port results into waiting time for ships which allows small vehicles to approach these ships unregulated any time. Few participants stated that these shortcomings of sea port fuelling illegal activities in the deep sea.
- Few business community representatives stated that they faced most problems at the time of loading and unloading goods into/from ship berthed at Chittagong Port which include: unjustified formation of labour gangs, excessive bribe and tips, engaging staff from stevedoring staff union, management board, excessive bribes and tips. If tips are not paid at an agreed rate, handling time and leaving the place of work before scheduled time. Even if tips are not paid at agreed rate, handlings are not done and containers are deliberately damaged. If the unadjusted unjust demands are not fulfilled the equipments remain out of order. A 'go slow' strategy is adopted if the amount of tips is not suitable. Artificial problems are created if one is asked to work according to the schedule which contributes to huge costs to the businesses.

Recommendations:

- Participants of the Chittagong outreach program called for concerted effort to fight trade based money laundering and automation of customs processes.
- Businessmen representative recommended the amendment of section 23(3) of the Foreign Exchange Regulation Act.
- Further automation of customs clearance process is required and the port needs to have adequate logistic support to reliably handle each cargo container.
- The sea port needs to be modernized and more berthing facilities need to be built in order to cut waiting time of ship's berthing and robust management of port staff and labor union is required to handle various difficulties in loading/unloading of ships and handling of containers.

Vulnerabilities

The vulnerabilities of the international trade system are associated with:

- The enormous volume of trade flows, which obscures individual transactions and provides abundant opportunity for criminal/criminal organizations to transfer value across borders;
- The complexity associated with (often multiple) foreign exchange transactions and recourse to diverse financing arrangements;
- The additional complexity that can arise from the practice of mixing illicit funds with the cash flows of legitimate businesses;
- The limited recourse to verification procedures or programs to exchange customs data between countries; and
- The limited resources that most customs agencies have available to detect illegal trade transactions.
- Generally customs authority in Bangladesh inspects approximately 5 percent of all cargo shipments entering or leaving the country.
- Customs authority is more focused on collecting customs duty not on identifying suspicious trade transactions.
- Lack of uniform pricing system and database to justify the actual value of the imported or exported goods to identify the under invoicing or over invoicing.

4.4 Alternative Remittance System (Hundi/Hawala)

In the *hawala* system, money is transferred via a network of *hawala* brokers, or *hawaladars*. It is the transfer of money without actual physical movement. The unique feature of the system is that no promissory instruments are exchanged between the *hawala* brokers; the transaction takes place entirely on the trust. *Hawala* is attractive to customers because it provides a fast and convenient transfer of funds, usually with a far lower commission than that charged by banks. In addition to commissions, *hawala* brokers often earn their profits through bypassing official exchange rates. Generally, the funds enter the system in the source country's currency and leave the system in the recipient country's currency. As settlements often take place without any foreign exchange transactions, they can be made at other than official exchange rates.

In the recent past there was a common notion that 50% or more of total remittance channeled through informal way. Some study also support this notion: A study conducted by IMF revealed that during 1981-2000 total recorded and unrecorded private transfers to Bangladesh amounted to USD 34.5 billion and USD 49.6 billion respectively, meaning that the share of unrecorded remittances to Bangladesh was 59 percent of total (Bahar et. al. 2006). Another study by the World Bank estimated the share of informal channels to be 54 percent (GEP 2006, WB). It is evident from these two studies that about 54 to 59 percent of total remittances were transferred through informal channels.

Siddiqui and Abrar's, study (2003), conducted in two thanas of Chittagong and Tangail found that 46 percent of the total volumes of remittance to these households have been channeled through official sources. Around 40 percent came through hundi, 4.6 percent moved through friends and relatives and about 8 percent of the total were hand-carried by the migrant workers themselves when they were on visit to home.

From the two recent surveys conducted by World Bank and International Organization for Migration (IOM) revealed that the share of informal channel reduced drastically and match with the regulators perception. The World Bank, Bangladesh conducted survey on 6,282 household under 10 districts in the year 2007 and find that 9.4% of total remittance channeled through Hundi and another 14.9% channeled through personal delivery by friends and relatives (Sharma, 2009) i.e total 24.3% of total remittance remain unrecorded.

IOM conduct a survey in 2008 on 12,893 household and find that 18.4% of total remittance transfer through informal channel of that 9.6% is Hundi and 8.8% through relatives and friends.

Summary of the previous studies:

Year	Share of Informal Channel	Study Conducted By
2000	59	International Monetary Fund (1981-2000)
2003	54	IOM and UNDP
2006	54	World Bank (Global Economic Prospects, 06)
2007	24.3	World Bank, Bangladesh Office
2008	18.4	IOM
2010	17.2	Anti Money Laundering Department, BB

AMLD conducted a survey in 2010 and find that 17.20% of total remittance channeled through outside banks of that 7.8% is through hundi/illegal channel and 9.4% is through relatives/friends and hand carry. Though the trend is decreasing but in absolute term the amount is significant in respect of total inward remittance.

Vulnerabilities

Most of the wage earners are illiterate; they hardly know about the legal way of remitting their hard earned money.

- Large parts of the people are still unbanked due to lesser presence in rural areas;
- Sometimes exchange houses/banks are not proximate to the wage earners;
- Formal channels are slow in delivering the remittance to the beneficiary and
- Mostly other illegal transactions are settled through hundi/hawala system.

4.5 Financial Inclusion in Bangladesh

Financial Inclusion is a major tool to combat poverty and to provide financial access to the poorest sector of Bangladesh. The strategic move of widespread financial inclusion initiatives have led to enhance opportunities of much desired inclusive growth. Bangladesh is a pioneer in empowering the poor by broadening the base of financial access through several types of financial institutions. Along with the formal banking sector, there are non-banking financial institutions, cooperatives, microfinance institutions and other government and non-government financial institutions providing different financial services to the poor population. Several types of products and services have been introduced in the last few years for the unbanked people to have an easy access to the financial sector. Till November 2014, 14,745,826 (fourteen million seven hundred forty-five thousand eight

hundred twenty-six)² bank accounts were opened from BDT 10 to BDT 100 by the government and specialized banks under financial inclusion program, of which 66% were farmers' account. As a part of intensive financial inclusion strategies a number of initiatives have been taken to flow funds in rural areas through agricultural credit program and SME loan. To ensure the participation of school going students in the economy all scheduled banks started school banking in 2010. Statistics show around 850,303 (eight hundred fifty thousand three hundred three) accounts under this program were opened till December 2014 by all scheduled banks.³ Mobile Financial Service has emerged as the most popular tool of financial inclusion which is providing banking services to the unbanked/banked population. The main regulatory authorities of these financial services are Bangladesh Bank and Microcredit Regulatory Authority.

4.5.1 Mobile Financial Service (MFS)

Bangladesh Bank has issued 28 licenses to commercial banks to rollout mobile money initiatives. Among them, 19 banks have launched their operation till first quarter of 2015. Mobile money is a new industry and operates in a very different manner compared to banks. Risks in this industry are different, since mobile money is transacted from a limited number of secure bank branches to a multitude of local agents. This in itself throws up challenges for the regulators - not just to ensure that the risks of ML/TF have been properly addressed and mitigated, but also that the customer transactions and their money are safe and secure.

4.5.1.1 Market Size

There are about 25.68 million registered customers and 543,420 (five hundred forty three thousand four hundred twenty) agents using this service across the country.

4.5.1.2 Major Players in MFS Sector

Some of the prominent players in the Bangladesh MFS market are bKash (BRAC Bank), DBBL mobile banking (DBBL), mCash (Islami Bank), uCash (United Commercial Bank) and MYCash (Mercantile Bank) etc. bKash and DBBL remain the dominant players in the market with bKash dominating the market by a large margin.

4.5.1.3 Legal Measures

Since a mobile financial service is a bank led model, Central Bank of the country is the sole regulatory and supervisory authority in Bangladesh. Different circulars and guidelines issued by Payment System Department of Bangladesh Bank are main regulatory instruments while Financial Integrity and Customer Services Department of Central Bank closely supervise these activities on complaint basis by customers. However, there exists scope for money laundering risks as KYCs are opened and maintained by banks' agents.

4.5.1.4 Vulnerabilities

Problems in MFS-Bangladesh: Perspective Crime Intelligence Management

The present state of Mobile Financial Services (MFS) in Bangladesh is the result of very sincere and integrated effort of the Government and that of our central bank. As all the central banks in the world are looking for a way out from cash and achieve a universal banking solution, where MFS can present a cashless and boundless society, Bangladesh has become one of the pioneers in the world for Bank-led model. Keeping in mind that there are enormous opportunities in MFS; we, however, will try to emphasize that failure in providing necessary protections to protect the interest of the state as well as of the various stakeholders including consumers will seriously hamper the prospective progress in MFS sector. The start is fantastic. Particularly, the role of Bangladesh in

² Monthly Progress Report of Financial Inclusion (Tk 10 and Tk 100 Account), November 30, 2014 by Green Banking and CSR Department, Bangladesh Bank

³ Quarterly Report on School Banking, December, 2014 by Green Banking and CSR Department, Bangladesh Bank

developing a number of guidelines and regulations to administer the new developing sector is praiseworthy. However the pathway is becoming clumsy and hazy day by day. We must review the MFS very carefully and undertake measures from all the stakeholders, be it Bangladesh Bank, commercial banks, NBR (National Board of Revenue), BTRC or mobile phone companies. A high level task force with participation of all the stakeholders for a limited period may help grow MFS in the right track in Bangladesh.

In spite of these efforts, Bangladesh faces growing problems in implementation of the laws, rules and regulations. Here are some observations:

- Agents' due diligence is the crucial factor here. Agents must obey the existing laws. Necessary administrative or punitive measures must be taken for any sort of illegal activities. Opening MFS account with false or fake documents should be strictly controlled. The original ID should be shown to agent during submission of a photo-copied one. Keeping agents' role in opening an account fraudulently, we also mustn't forget that it's bank's responsibility to ensure authenticity of the KYC data while opening an account.
- No real criteria or minimum qualification exists to recruit agents; no bar for an illiterate or half-educated shop-keeper to become an agent entrusting to do the job of a well-trained educated banker for opening an account.
- Banks' media campaign does not educate or wrongly educate their stakeholders (including their customers and prospective customers) on mandatory provisions of law.

Recommendations:

Crime targeting mobile finance users is a continuing challenge. These crimes that include fraud, extortion, and bribery are generally not new, but are, by and large, assisted by mobile finance products (The Global Initiatives, 2015). Considering vulnerabilities to consumers, businesses, and governments that are presented by Mobile finance products vulnerabilities in agent processes for confirming users' identification, manipulation of these processes along with the systems to be of use to criminal groups seeking to make intra group payments, the following four steps were recommended to further enable the opportunities and mitigate the vulnerabilities in mobile financial systems:

- Governments contemplating the development of mobile financial services should engage in broad legal and regulatory reform. Such efforts should not be targeted solely at updating financial legislation, but should as well focus on criminal justice statutes. Specifically, updating evidentiary and criminal procedure statutes with mobile financial systems in mind can help to deter criminal targeting of the systems.
- Efforts should be made to enable robust cooperation among all stakeholders in mobile financial system. Government agencies not traditionally involved in these discussions should be engaged, with the aim of developing new uses for the mobile platform and in increasing the security of the systems.
- Regional information sharing efforts should be strengthened, bringing together both government and private sector stakeholders to identify trends in mobile finance related crime and better develop mitigation efforts.
- Mobile financial service providers should engage in robust stakeholder education efforts, targeting consumers, agents, and government officials, with the aim of increasing knowledge of how mobile financial systems work, what their vulnerabilities are, how to mitigate them, and how they can be of net benefit to each type of stakeholder.
- Mobile finance providers need to find a way to differentiate small retail business transactions and price them differently as a way to encourage growth in the local business

market segment. Transactions loop must get longer for better cost management by both customer and service provider.

- Opening MFS account with false or fake documents should be strictly controlled. The original ID should be shown to an agent during submission of a photo-copied one. Keeping in mind an agents' role in opening an account fraudulently, we mustn't forget that it's bank's responsibility to ensure authenticity of the KYC data while opening an account.

4.5.2 Other Financial Inclusion Products and Services

A wide range of products and services are being introduced for extensive financial inclusion in Bangladesh. Brief lists of products are depicted below:

Deposit Products

Deposit products have a range of BDT 10 to BDT 100 aiming at providing banking service to the poor farmers and ultra poor people of the country. Apart from this school bank accounts have been introduced for the school going children, with an effort to create savings attitude as well as active participation in the economy.

School Banking

With a view to enhance financial inclusion of the country by ensuring the participation of School students through their small savings, school banking was introduced in 2010. Out of 56 commercial banks 49 have started school banking program with a significant progress.

The school banking guideline has provided necessary instructions about account operating to all scheduled banks. School Banking accounts have to be operated through father/mother or Legal Guardian of the students. Existing Uniform Account Opening Form and KYC Form are used to open School Banking accounts and instructions issued by BFIU are applicable as well. Both Guardian and student have to fill up Personal Information part of Account Opening Form and both forms must be signed by the legal guardian. ATM card (only debit card) can be issued against this type of account with Maximum limit for monthly withdrawal (through ATM Card and Point of Sales (POS) maximum limit is Tk. 2,000.

Bangladesh Bank has taken a number of initiatives to increase flow of funds in rural areas through agricultural credit program and SME loans under its intensive financial inclusion strategies. BB has instructed all private and foreign banks to disburse at least 2 percent of their total loans and advances as agricultural credit. BB also pursues inclusive monetary policy for serving unbanked people to achieve sustainable economic growth.

Refinancing Scheme

Bangladesh Bank has introduced Revolving Refinance Scheme for 10 TK Account Holders, Small/ Marginal/ Landless/ Natural Disaster Affected Farmers and Micro/ Small Traders under Financial Inclusion Program from its own fund of 2.00 Billion BDT.⁴ Under this scheme customer can avail an amount of maximum 50,000/- BDT from banks with simple interest rate.⁵

Vulnerabilities of Financial Inclusion

Financial inclusion focuses on facilitating access to formal services for financially excluded and underprivileged groups including lower income and rural sectors. The customer segment of financial inclusion had limited or no accesses to the financial system till the introduction of these special products, so it is apprehended that these low income segment has lower ML/TF risk. Necessary guidelines and circulars have been published by Bangladesh Bank for the special products introduced under this system. Bank accounts of BDT 10 to BDT 100 for the lower income group

⁴ Circular-01 of 14 May, 2014 of Green Banking and CSR Department

⁵ Circular Letter-03 of 31 March, 2015 of Green Banking and CSR Department

needs to be monitored periodically to prevent any misuse of the bank accounts. So far no case has been reported related to ML-TF issues through these special products except for Mobile financial services. In case of any suspicious activities or large transactions, banks will treat the accounts as general accounts and will take necessary measurements (Customer due diligence, transaction monitoring and suspicious transaction report) according to the guidelines provided by BFIU. Some characteristics of the products introduced under financial inclusion (other than MFS) that may be exposed to ML/TF are as follows:

- Deposit accounts of farmers, hardcore poor, freedom fighters, street urchin and other financial inclusion accounts of BDT 10 to BDT 100 have no service charges and there is no provision for keeping any minimum balance.
- Highest deposit interest rate is applicable for all BDT 10 and BDT 100 accounts.⁶

⁶ Circular-02 Of 03/03/2015 of Green Banking and CSR Department

Chapter 5: Major Threats in Bangladesh

Based on the statistics from relevant agencies, opinion from outreach programs, various reviews and papers, corruption, smuggling, human trafficking have been identified as major threats in Bangladesh. The nature and typologies along with the control measures for those have been identified as follows:

5.1 Corruption

Like many other developing countries, corruption appears to be a prima facie problem for Bangladesh economy.

5.1.1 Forms of Corruption

Corruptions in Bangladesh can be primarily classified as

- Bribery
- Nepotism
- Embezzlement
- Fraud and
- Extortion etc.

5.1.2 Factors behind the corruption

There are some direct and indirect factors that foster corruption in Bangladesh. Direct factors are mostly related to government regulations and authorities, taxation etc. while indirect factor are quality of bureaucracy, level of public sector wages, penalty systems, transparency of rules & laws .

5.1.2.1 Corruption and Level of Economic Development

Various statistical presentations demonstrate that the level of corruption varies negatively with the level of economic prosperity. In other words, when a country grows richer, the level of corruption decreases. There are four levels of income observed throughout the world- low level, lower-middle level, upper-middle level and high level and it's clear that Bangladesh, as a lower middle income country, is more corrupted than many other countries.

5.1.2.2 Corruption and Level of Wages

Over the years many observers have speculated that the wages paid to civil servants are important in determining the degree of corruption. When officials are unable to meet their minimal living costs from their salaries, corruption will arise.

In Bangladesh, a government officer is paid low wages and therefore, sometimes it is hard to fulfill the requirement of family for a decent living within legal income which incites them to follow illegal means of earning extra money.

5.1.2.3 Corruption and Greed or Desire for an Unfair Advantage

Corruption may arise not only for low level of wage. Some public officials may become corrupted perhaps because of their own psychological or moral make up or because sometimes the bribes offered may be too large to resist. Many officials are motivated to participate in corrupt behavior because of the inherently selfish desire to have an unfair advantage over their peers.

5.1.2.4 Corruption and Lack of Transparency

Transparency describes when there is free access by citizens to public information. When the rules, procedures, and objectives of the government are not available to the public, transparency is lacking

and corruption can be bred. Lack of transparency in most government offices and activities are responsible for creating corruption.

5.1.2.5 Corruption and lack of Punitive Measures

Corruption could be reduced by increasing the penalties on those who get caught. But in reality, relatively few people are punished for acts of corruption. In few countries like ours there seems to be a wide gap between the penalties specified in the laws and the penalties imposed.

5.1.2.6 Corruption and Role of International Trade

International trade is a major source of large-scale corruption in developing countries. Increased trade for the corrupt politician means more opportunities for bribes. International trade creates a lot of opportunities as well as risk to a country because it involves foreign investment, foreign money and misuse of that may cause corruption in any country.

5.1.2.7 Corruption and Role of Foreign Direct Investment (FDI)

In some cases, foreign investors use illegitimate means to argue governments to allow them to invest or seek privileges like exemptions from tariffs and taxation policies. Corrupt governments make agreements with foreign firms, which allow the firms to do business on very favorable terms, often to the economic disadvantage of the local population. This is particularly true for FDI in minerals, oil, coal, gas and other natural resources where foreign investors offer huge bribes to obtain the concessions at below market prices.

5.1.3 Impacts of corruption on Bangladesh's Contemporary Development

Among all the issues Bangladesh is affected by at present, corruption is the most talked about and it is considered as one of the biggest threats to our country's growth & development. Corruption hinders proper allocation of resources, undermines the legitimacy of the governments and weakens their structures as well as the performances, reduces productivity, worsens poverty. In Bangladesh, corruption may impact on economic, social, political and environmental factors.

5.1.3.1 Economic impact

Large scale of corruption hurts the economy and impoverishes entire population. Bangladesh is an immensely prospective country. However corruption is keeping Bangladesh economy away from improving. Corruption creates underground economy. A recent research shows corruption costs almost 2% of national economy of Bangladesh. Corruption has impact on lowering investment, both foreign and domestic. It raises the cost of investing without providing any guarantee of producing the required results.

Corruption can also influence the willingness of the donor community to provide aid and development assistance. High levels of corruption can cause donors to suspend, reduce or withdraw development assistance.

5.1.3.2 Political impacts

In our country corruption in politics firstly, create some adverse effects on democracy and the rule of law. These two are core structure of any country. If they are affected by corruption they may also affect others. In a democratic system public institutions and officers may lose their legitimacy when they misuse their power for private gain and it is quite common in Bangladesh. There is no accountability and transparency to people.

5.1.3.3 Social impacts

In social sphere corruption discourages people from working together for the common good as corruption is secret process and only brings individual pleasure. In our country demanding and paying bribe have become tradition and who pays bribe it seems to them the fastest way to get the work done, and society does not consider it wrong. Corruption creates education and health-care

sector vulnerable. Corruption also creates social inequality & widens gap between rich and poor because corruption makes rich people richer and poor poorer. Corruption may destroy peaceful social structure and violets the culture of peace. The Rich are the main beneficiary and the poor people are major losers by corruption. Civil-strive may also result of corruption. Corruption can cause a decrease in investment. Low investment results in low production and low production increases poverty which is a vicious circle in society. Besides, corruption creates jealousy and hatred among people in the society.

5.1.3.4 Environmental Impact

Bangladesh is situated in disaster prone region and has already proved vulnerable to environmental degradation. Corruption in this sector is gradually increasing. In Bangladesh Industrial garbage is polluting the river water. Most of the industries have direct drainage system with river but every industry should have an individual industrial waste management system. Industrial rules and regulations, and biodiversity laws are not fully implemented in our country and private companies take these advantages. Sometimes they also bribe environmental inspectors.

Forests are another important element of environment. Mangrove forest Sundarbans, Chittagong hill tracts districts are the only source of large forest in Bangladesh. Forests are protector of human civilization from many natural disasters such as cyclones, high tidal surges, coastal erosion but this is being weakened by illegal deforestation and this activity is happening before the eyes of the local forest department.

5.1.4 A Short View of Corruption including Other Predicate Offences in Bangladesh

Available statistics from BFIU (see Table 6.1), it appears that 65.85 percent of all predicate offences in 2009 was corruption related cases which declined to 46.39 percent in 2013. Despite such downward trend, the figure remains highest among the different categories of predicate offences.

Table 5.1: Predicate Offence-wise STRs received by BFIU

Top Predicate Offences	2013	2012	2011	2010	2009
No. of corruption cases including fraud	45 (46.39)	56 (48.70)	50 (58.14)	48 (68.57)	27 (65.85)
Forgery (Letter of Credit)	18 (18.56)	13 (11.30)	4 (4.65)	9 (12.86)	4 (9.76)
Forgery (Loan)	17 (17.53)	20 (17.39)	9 (10.47)	7 (10.00)	4 (9.76)
Forgey	4 (4.12)	10 (8.70)	5 (5.81)	0 (0.00)	0 (0.00)
Kidnapping	7 (7.22)	3 (2.61)	10 (11.63)	0 (0.00)	0 (0.00)
Black Marketing	3 (3.09)	5 (4.35)	5 (5.81)	3 (4.29)	3 (7.32)
Tax Related Offences	3 (3.09)	8 (6.96)	3 (3.49)	3 (4.29)	3 (7.32)
Total number of predicate offences	97 (100.00)	115 (100.00)	86 (100.00)	70 (100.00)	41 (100.00)

Source: BFIU; Figures in bracket indicate percentage of total predicate offences

However, predicate offences investigated by ACC demonstrate a difference scenario where criminal breach of trust is the highest number of predicate offences (see Table 6.2). This category of offence has also a rising trend as it increased from 203 cases in 2009 to 505 cases in 2013.

Table 5.2: Predicate Offences investigated by ACC

Year	2009	2010	2011	2012	2013
Corruption And Bribery	44	63	55	78	56
Abuse of power	23	28	70	101	58
Criminal breach of trust	203	243	470	668	505
Possessing illegal assets	94	72	79	79	78
Fraud and Forgery	33	44	1	6	1

From Table 6.3, it can be observed that compared to ACC, Bangladesh Police has investigated maximum number of predicate offences during the period 2009 to 2013. Both predicate offences and money involved in those cases have increasing trend. However, comparing these predicate offences against increased population, the ratios remain stable indicating no significant rise in predicate offences. On the other hand, the ratios of charge-sheeted cases against number of cases filed are found considerably high. While 69 percent of cases filed were charge sheeted in 2009, it increased to 84 percent in 2013 suggesting significant positive trend in legal enforcement efforts.

Table 5.3: Predicate Offences investigated by Bangladesh Police

Year	2009	2010	2011	2012	2013
Number of cases filed for predicate offences	45480	45665	40132	45917	47602
Money involved in predicate offences (million BDT)	1039.22	1404.54	2188	46082.49	13841.25
Number of cases charge-sheeted	31522	34133	34076	40023	39878
Number of case final reported	6580	5127	6672	5908	5145
Number of case convicted	657	110	1181	951	560
Number of case acquitted	1697	430	2581	1405	1035

5.1.5 Recommendations

Some core issues exist that directly create corruption and some other issues exist which help to create tendency to do corruption. Low wages, low level of democratic practice, lack of punitive measures, ill morality are directly responsible for creating corruption. To curb corruption country has to start working in changing the basic structure and culture of our society.

Action Required

- Implement provision of United Nations Convention Against Corruption (UNCAC).
- Detect proceeds of corruption through strengthening CDD, identifying beneficial owner and ensuring transparency.
- Enhance stringent monitoring to ensure due diligence for influential persons by all reporting agencies.
- Conduct strategic analysis to detect corruption induced ML cases.
- Develop tight money laundering controls to detect corrupt assets moving through the system or, even better, deter an official from engaging in the corrupt activity in the first place.
- Enhance the capacity of tax authority to identify the undisclosed money or property.
- Enhance the capacity of ACC in detection, investigation and prosecution of corruption-related money laundering including financial, parallel-investigation and forensic accounting.

- Arrange regular training program in home and abroad for the investigator, prosecutor and Judges of corruption and ML cases.
- Enhance cooperation among BFIU, ACC, Police and NBR.

5.2 Human Trafficking and Smuggling (of Migrants, Gold, Drug)

Bangladesh, being situated at a geo-strategic location across South and Southeast Asia, remains vulnerable to transnational organized crimes like smuggling of gold and drugs and human trafficking. Human trafficking to India, Malaysia, Thailand, Middle-East and other countries, drug smuggling from India and Myanmar and gold smuggling from Malaysia, Singapore and Middle-East through Bangladesh to India are the general trend of organized crimes. Different types of trade as well as contraband items are also smuggled through the borders. It is revealed in different reports of UNODC and UNHCRS that Bangladesh is mainly used as a route of drugs and gold smuggling and human trafficking.

5.2.1 The Latest Scenario of Human Trafficking

Over the past few years, the job opportunities for Bangladeshis through legal channels have decreased in the Middle East and Malaysia. As a result many desperate people have risked their lives to find jobs through illegitimate channels in the Southeast Asia.

According to the experts, being denied their traditional route out of poverty in the Gulf and often urged on by relatives, growing numbers of young Bangladeshis are joining the waves of Rohingya trying to reach Southeast Asia on dangerous sea journeys. The human traffickers have stepped into the scenario at this stage. As the plight of millions has worsened in Bangladesh in recent years, the perilous sea voyages organized by the smugglers have grown increasingly; keen to cash in on their misery. People from Bangladesh have traditionally flocked to the Gulf and other regions, working in different areas to send money to their families back home. The country relies heavily on these remittances to prop up its economy. But the top three employers of Bangladeshi migrants -- Saudi Arabia, the United Arab Emirates and Malaysia-- drastically cut intakes in recent years after their job markets dried up. Reports show that the Bangladeshis worked overseas in 2008, most of them in the Gulf. But that figure halved in recent years, and female workers/female household servants are now in higher demand than labourers. Malaysia had been a favoured destination for Bangladeshis, many of whom worked on plantations, with wages higher than in the Gulf. But Malaysia halted the influx of workers in 2007 amid concerns about crime and illegal immigration via unscrupulous recruitment agents. The hiring resumed in 2013, but only 5,134 were granted entry last year. It is assumed that Bangladeshis first started to leave in boats for Southeast Asia in small numbers around 2005. Since then the traffickers' network has become stronger and spread into the entire country. It has become one of the most profitable forms of organized crimes. Many fishermen in Cox's Bazar -- where the smuggling rings are believed to be based -- have joined the business. This is a huge profit earning industry with the involvement of gangs from Bangladesh, Thailand, Myanmar and Malaysia.

A recent study reveals that, falling prey to traffickers; Bangladeshis sailing to Malaysia are sold at four different destinations. It begins at Teknaf in Cox's Bazar and ends at the Thai or Malaysian jungles at Thailand-Malaysia border. This last stop is the worst for the victims. If ransom is not paid, this is where their lives end.

Many Bangladeshis and Myanmar Rohingyas who were freed from this last stop known as "jungle camp", are now languishing in Thai jails. The study reveals the details of the trafficking route, the changing of hands and the human trading, revealed by several victims, local residents of Thailand as well as Malaysia.

Box 5.1: Rohingya Problem and Drug & Human Trafficking

Rohingya are an ethnic minority in Myanmar, but are not recognized as citizens by the state despite the fact that they have been living there for centuries. The situation in western Myanmar's Rakhine state remains volatile and deeply scarred by communal riots since 2012 that left over 200 dead and some 140,000 homeless trapped in displacement camps. The situation remains grim for the Rohingya, with increasing numbers now living in the squalid camps, and many hundreds fleeing the country every day.

According to the UNHCR at least 53,000 people have undertaken irregular maritime journeys in the Bay of Bengal towards Thailand and Malaysia, and several hundred have reportedly died during the journey. In Bangladesh, there are only a little more than 30,000 Rohingya refugees registered with the UNHCR, while more than 470,000 are living as undocumented illegal immigrants in the coastal areas of south-eastern Bangladesh without protection.

Disowned and rejected by Myanmar, and forgotten by the international community, many Rohingya have ended up in drug trafficking and other illegal activities in Bangladesh, a country that considers the Rohingya refugees and illegal immigrants as an extra burden on the top of its own problems. The local Bangladeshis view the Rohingya as taking away jobs and putting pressure on the limited resources of the area such as land.

As a result many of the Rohingya wants to migrate to South-east Asia for a better livelihood. Their crippling poverty and desperation is eventually being exploited by human smugglers who promise them jobs and a better life in Malaysia, a country where there is still demand for cheap and unskilled manpower.

One of the key reasons for human smuggling from the Bangladesh-Myanmar borderland is the fragile socio-economic background of its inhabitants. For nearly four decades, the Rohingya from western Myanmar continue to migrate by crossing the border into Bangladesh or by taking boats to Southeast Asia. Since 1978 more than half a million Rohingya have traversed to Bangladesh to escape from communal violence and persecution in Myanmar.

Though in most cases these groups are involved in smuggling the stateless Rohingya, recently they have been able to attract some Bangladeshi citizens also to take the risky maritime voyage in the Bay of Bengal crossing around 1640 nautical miles to reach Malaysia.

Way forward while for the Rohingya the key socio-economic push factors are persecution and statelessness, for Bangladeshis, it is the lack of employment opportunities within the country, and growing poverty. In both cases lack of awareness about the risks in the illegal maritime journeys is common. A sustainable solution to the human smuggling problem, therefore, depends on how effectively these two countries address the socio-economic problem of the borderland area.

Checking human smuggling from the Bangladesh-Myanmar borderland needs a long term commitment from both the countries. In addition, other Southeast Asian countries such as Thailand and Malaysia also need to be engaged. Bangladesh and other Southeast Asian countries might consider setting up a high-level taskforce to check human trafficking.

In addition, all these countries should build a common database on human smuggling issues. While capacity building and awareness-raising programmes will certainly help, a definitive answer to the problem relies on how viably the socio-economic crisis of the borderland region is resolved.

5.2.2 Women Trafficking

Women trafficking have been a traditional problem for Bangladesh. The poor women in Bangladesh are trapped to be employed in foreign countries by the traffickers in Bangladesh and are mostly sold to the brothels in Kolkata and Mumbai in India in collaboration with the counterpart traffickers in India. Many of them are placed in the middle-east and are sold as slaves there.

5.2.3 Drug Trafficking

The Teknaf border is particularly vulnerable to human trafficking and Drug (the Yaba, the tablet type psychotropic substance) Trafficking. Yaba is smuggled into Bangladesh from Myanmar through the Naf river port of Arakan in Myanmar and Teknaf in Bangladesh. The Benapole border of Bangladesh is used as the route to smuggle Phensidyl (a liquid type psychotropic substance) from Kolkata of India into Bangladesh. Intelligence of different agencies revealed that several yaba industries are set up near Bangladesh Myanmar border and some phensidyl industries near Bangladesh India border. Bangladesh is pursuing assistance from Myanmar and India to stop production and trafficking of Yaba and Phensidyl.

5.2.4 Smuggling of Gold

Gold is smuggled into Bangladesh through the international airports of Dhaka and Chittagong. Chittagong sea port is also used as the route. The lion portion of gold is supplied to India through the Benapole and Satkhira border of Bangladesh.

It appears from outreach program held at Benepole that considerable money laundering risks relating to smuggling of currency, cattle, drug and gold exists with neighboring India. On the other hand, outreach program held at Teknaf shows that the country suffers from cash smuggling, drug and human trafficking risks with neighboring Myanmar. The details are discussed in Boxes 6.1 and 6.2 respectively.

Box 5.2: Outreach Program at Benapole

Smuggling of Cattle, Drug and Gold with neighboring India

- The outreach program at Benapole noted that smuggling of currency, cattle, drug (especially, Phensidile) and gold is a common phenomenon in this part of the border.
- The issue of cattle trade is particularly vulnerable to ML/TF threats as India refuses to legalize this trade citing religious reasons. Cattle smuggling conducted by criminals raise hundreds of millions of dollars annually in illicit profits but nobody is sure where these profits head to. One participant opined that some smugglers trade gold for bringing in cows into the country. Cattle smuggling is so lucrative yet dangerous that many a time the activity itself costs lives of perpetrators, their rivals and innocent bystanders. The program also observed that border control officers of both Bangladesh and India also benefit from the smuggling as they guarantee safe passage for cattle by taking bribes.

Recommendations:

- Business representative recommended pressing Indian counterparts to formulate policy and legalize cattle trade.
- LEA representative asked for inter agency cooperation for prevention of smuggling through borders.

5.2.5 Legal and enforcement issues relating to human trafficking, illegal migration, drug and smuggling

Bangladesh as well as Myanmar, Thailand and Malaysia have strong legislation to curb human trafficking and illegal migration, Drug and Gold Smuggling. At the border and water port region in Bangladesh, Bangladesh Customs Authority, Border Guard Bangladesh (BGB), Bangladesh Coast Guard (BCG), Rapid Action Battalion (RAB), several wings of Bangladesh Police and other Law Enforcement Agencies are deployed to guard these sorts of criminal activities. But various reports reveal that high officials of Law Enforcement Agencies and army/navy officials of Myanmar and Thailand are involved in the criminal process. Members of Law Enforcement Agencies in Bangladesh and Malaysia and also some influential persons of Bangladesh are involved in these sorts of organized crime.

To prevent gold and drugs smuggling and human trafficking, modernization of border control is essential. Furthermore, financial investigation relating to these crimes may also produce synergy because the main perpetrators can be identified through it. The use of financial investigation is particularly important to trace the proceeds of crime in a country in which such proceeds are usually reinvested and laundered. This requires decisive improvements in law enforcement and judicial cooperation. Parallel financial investigation may play crucial role in depriving the perpetrators from profitable use of proceeds of crime generated.

**Box 5.3: Outreach Program at Teknaf
Drug and Human Trafficking with neighboring Myanmar**

- The outreach program at Teknaf identifies different sets of crime that generates dirty money which then penetrates into banking system usually in the form of cash. One such crime is drug (namely, yaba) trafficking between the borders of Maungdaw, Myanmar and Teknaf, Bangladesh. Participants of the program stated that children and women are being used by drug traffickers for carrying drugs into Bangladesh. The trade of drug is so profitable that drug carrying has turned into a popular second occupation for many.
- Illegal wood import from Myanmar without proper documentation through unregistered boats is another source of generating money the participants observed. The current trade system between Bangladesh and Myanmar encourages businessmen of the neighboring countries to go for private payment settlement thereby paving ways for cash smuggling or Hundi. As boats plying in the waters of Naf River are unregistered law enforcement agencies find it difficult to monitor their plying routes and their transporting items.
- Human trafficking/smuggling of migrants is another sticky situation whereby young people mostly Rohingya refugees are being lured for illegal migration to Malaysia and Thailand through sea. Bangladesh started experiencing the Rohingya refugees since 1978 when almost 0.2 million refugees came into Bangladesh and took shelter. These refugees known as 'Rohingya' fled from Myanmar amidst religious onslaught in the Rakhine state of Myanmar and started living in the south east district of Cox's Bazar. The influx of Rohingya refugees started then and still continuing unabated. The Rohingya issue has now assumed an alarming proportion in Bangladesh creating social and economic nuisances in the south east border areas of Bangladesh. Failing to find suitable shelter in refugee camps and job for a decent living, these very people are unabatedly participating in unlawful activities such as Yaba drug trafficking and illegal migration to Malaysia and Thailand through sea. These activities have reached to such a height that many local residents are also participating in these activities for quick bucks thereby creating an ever rising demand for drug carriers and illegal migration to various destinations through sea. As such many of poverty stricken resident Bangladeshis are also daring to illegally migrate to various destinations through sea and carrying drugs into different corners of country.

Recommendations

- Participants of the Teknaf outreach program called for strong and concerted vigilance on drug trade, easing of wood import process through legal system.
- The LEA representatives recommended registering boats plying in the bordering river Naf enabling them to properly guard waterways and prevent illegal transportation of unauthorized goods and human trafficking.
- Bangladesh should develop a refugee law and adopt policies to deal with refugee issues preferably effectively convincing the international communities to put pressure on Myanmar to resolve the Rohingya refugee problem that Bangladesh has been carrying for 37 years.

5.2.6 Major Weaknesses and Recommendations to combat the Criminal Activities

The Major weaknesses to combat the Crimes

- The low level of integrity among the relevant Law Enforcement Agencies.
- Lack of resources in Customs authority.
- The border security forces like Border Guard of Bangladesh (BGB) and Bangladesh Coast Guard require further investment in capacity building to prevent cross border trafficking and smuggling.
- The level of prosecution remains low compared to the magnitude and frequency of transnational crimes being committed in the region through the involvement of transnational criminal syndicates.
- Lack of human & technological resources in Bangladesh Police to tackle ML & TF cases relating to smuggling and human trafficking.

Recommendations

- Initiatives should be taken to identify international legal/regulatory requirements for monitoring cross-border transportation of currency and BNIs, risk area for narcotics, gold and trade based smuggling and human trafficking.
- Need to review legislative amendments including Customs laws to ensure that customs officials and other border control officials have the necessary powers to monitor cross-border transportation of trafficked and smuggled products, interview and intercept travelers, seize currency and BNIs, arrest offenders and exchange information at both domestic and international levels as and when required.
- Need to enhance capacity of Bangladesh Police, Border Guard Bangladesh, Bangladesh Coast Guard and Department of Narcotics Control (DNC).
- Should install high power scanner in all sea, land and airport to identify any undeclared/miss-declared items in the container or luggage.
- Conduct parallel financial investigation in every (if necessary) smuggling and human trafficking cases.

5.3 Fraud and Forgery

Fraud and Forgery are the illegal means to obtain money and asset. In Bangladesh, due to the simplicity and ignorance of the victims, fraudsters commit these acts. Fraud can be defined as a deliberate deceit or an act of deception aimed at causing a person or organization to give up property or some lawful right. Fraud can also be defined as the use of one's occupation for personal enrichment through the deliberate misuse, misapplication or employment of organizational resources or assets. In legal terms, fraud is seen as the act of depriving a person dishonestly of something, which such an individual would or might be entitled to. In its lexical meaning, fraud is an act of deception which is deliberately practiced in order to gain unlawful advantage at the detriment of another person or organization. Fraud usually requires theft and manipulation of records, which is accompanied by the concealment of the actual fact. It also involves the conversion of the stolen assets or resources into personal assets or resources.

There is a general consensus amongst criminologists that fraud is caused by three letters WOE i.e. Will, Opportunity and Exit (Onibudo, 2007). For any fraud to occur there must be a will, an opportunity and exit (escape route). A fraud will occur only if the perpetrators have the will to commit the fraud, if the opportunity to commit the fraud is available and if there is an exit or escape route from relevant sections or institutions that are against fraud or related deviant behavior. Fraud

is a global phenomenon. It is not unique to the banking industry and in this sector fraudulent activities are perpetrated in many forms and guises some of which are discussed below.

5.3.1 Common types of fraud in Bangladesh

Theft and Embezzlement

This is a form of fraud which involves the unlawful collection of monetary items such as cash, travelers' cheques and foreign currencies. In Bangladesh perspective we may notice this type of fraud in deceitful collections of bank assets such as motor vehicles, computers, stationeries, equipments, and different types of electronic devices owned by the bank.

Defalcation

This involves the embezzlement of money that is held in trust by bankers on behalf of their customers. Defalcation of customers' deposits either by conversion or fraudulent alteration of deposit vouchers by either the bank teller or customer is a common form of bank fraud in Bangladesh. Such fraud is usually neatly perpetrated and takes longer time to uncover. They can only be discovered easily during reconciliation of customer's bank account. In Bangladesh, defalcation also usually occurs when a customer pays into his/ her account and tellers steal some notes from that money which are billed to be paid.

Forgeries

Forgeries involve the fraudulent copying and using of customer's signature to draw huge amounts of money from the customer's account without prior consent of the customer. Such forgeries, which are very common in Bangladesh, may be targeted at savings accounts, deposit accounts, current accounts or transfer instruments such as drafts.

Unofficial Borrowing

In some instances, bank employees borrow from the vaults and teller informally. These borrowings are more prevalent on weekends and during the end of the month when salaries have not been paid. Usually these borrowings are used for quick businesses lasting a few hours or days like share business after which the funds are replaced without any evidence in place that they were taken out. Such a malpractice when done frequently and without official records may become a big size forgery as they become prone very soon. It results in balancing the cash by manipulation in the bank's vault without ever returning the sum of money they have taken.

Foreign Exchange Malpractices

This involves the falsification of foreign exchange documents and diversion of foreign exchange rates that has been officially allocated to the bank, to meet customers' needs and demands. Other foreign exchange malpractices include selling to unsuspecting customers at exchange rates that are higher than the official rates. In Bangladesh, this sort of malpractice usually finds fertile ground to grow among several commercial banks which have weak control, recording and accounting systems and corruption in top management staffs.

Impersonation

Impersonation involves assuming the role of another person with the intent of deceitfully committing fraud. Impersonation by third parties to obtain new cheque books which are consequently utilized to commit fraud is another popular dimension of bank fraud. In Bangladesh it is done by making fake National Identity Card very frequently and it becomes particularly successful when done with conniving bank employees, who can readily make available the specimen signatures and passport photograph of the unsuspecting customers.

Manipulation of Vouchers

This type of fraud involves the substitution or conversion of entries of one account to another account being used to commit the fraud. This account would naturally be a fictitious account into which the funds of unsuspecting clients of the banks are transferred. The amounts taken are usually in small sums so that it will not easily be noticed by top management or other unsuspecting staff of the bank. These are occurred in Bangladeshi Banks usually by the employees who are assigned in general banking or in cash section.

Fake Payments

A common type of fraud in the banking sector is fake payments, which involves the teller introducing a counterfeit cheque into his/her cage. It is done with or without the collaboration of other members of staff or bank customers. This type of fraud is however easy to detect if the bank has a policy of thoroughly examining all vouchers, checks, and withdrawal slips on a daily basis.

Computer Frauds

This involves the fraudulent manipulation of the bank's computer either at the data collection stage, the input processing stage or even the data dissemination stage. Computer frauds can also occur in countries like Bangladesh due to improper input system, virus, program manipulations, transaction manipulations and cyber thefts. At present, in massive utilization of automated teller machines (ATMs) and online real time e-banking and commerce, computer frauds arising from cyber thefts and crimes has assumed a very threatening dimension in our country.

Greed

Greed refers to an inner drive by individuals to acquire financial gains far beyond their income and immediate or long-term needs. In poor countries like Bangladesh this fraudulent activities usually occur due to insufficient income against meeting up excessive desire in the life or in some cases for daily necessities.

Inadequate staffing

Poorly staffed banks usually have a problem of work planning and assignment of duties. The bank that is flooded with unqualified and inexperienced staff will have to grapple with the problem of training and supervision of its officers. This problem is very grave especially in the remote branches in Bangladeshi commercial banks.

Poor Internal Control and Compliance

Inadequate internal control and compliance usually creates a loophole for fraudulent staffs, customers and non-customers to perpetrate frauds. Therefore to reduce or eliminate frauds, there is a need to always have effective audits, security systems and ever observant surveillance staffs during and after bank official operating hours.

Inadequate Training and Re-Training

Lack of adequate training and retraining of employees both on the technical and theoretical aspects of banking activities and operations usually leads to poor performance. Such inefficient performance creates a loophole.

Poor Book Keeping

Inability to maintain proper books of accounts coupled with failure to reconcile the various accounts of the bank on daily, weekly or monthly basis usually attracts fraud. This loophole can very easily be exploited by bank employees who are fraudulent.

Genetic Traits

This has something to do with heredity: a situation whereby characteristics are passed on from parents to offspring.

Loan Fraud

In recent years, loan fraud has been a common phenomenon in Bangladesh. In collaboration with the top management along with the officials of banks and NBFIs, the fraudsters have embezzled

huge amount of money in disguise of loan against forged documents and fake accounts. In several cases, thousands of crores BDT have been fraudulently lent to few criminals through several banks in Bangladesh. It is difficult to prevent such sort of financial crime where top management, management officials and fraudster flock together to commit such act.

5.3.2 Recommendations

The incidence of bank fraud in recent time in Bangladesh seems to be a rather pervasive phenomenon, and no one is in doubt about the tremendous effect and consequences that it poses to the stability of the larger economy. It is therefore recommended that banks pay more active attention to early fraud detection and eradication:

- Additional security devices are incorporated, not only within the bank premises but also in the cheque books given to their numerous clients. This not only helps to reduce their vulnerability to forgeries and other fraudulent acts but also makes early detection of such nefarious acts easy.
- In recruiting key personnel who are to handle certain sensitive operations, it is essential that banks make concerted efforts at conducting a proper background check on the status and nature of the employee in his or her neighborhood, as this would help them establish the probability of the employee engaging in fraudulent activities.
- There is a need for banks to increase the ability of their staff in detecting fraud especially those related to cheques and money transfers. This can be achieved through a combination of internal and external modules of on the job training and off the job training exercises.
- Banks are also advised to continuously review their compensation packages to reduce the tendency for fraudulent behavior by their employees. It is believed that if employees are well remunerated the incidence of frauds will reduce.
- Favorable financial awards and recognition should be given to employees who show dexterity in identifying and preventing fraud.
- It is recommend that sound corporate governance characterized by effective operational practices comparable to international standards, be adopted by top management of banks as an essential ingredient for the prevention of fraud in the banking sector.
- Top management must also strive to maintain a high degree of ethical standards in the performance of their duties, in view of the fiduciary nature of their functions. This is imperative as they are by law required to safeguard the assets of their banks.
- The internal audit department of banks should not be seen as a dumping ground for non-performing staff. Staff deployed into this department should be sufficiently qualified, properly trained and adequately experienced in all facets of banking operation.
- In addition, enforcement of regulatory and supervisory guidelines, which are most dominant in the successful operation of banking activities cannot be expected to be done alone.

5.4 Illicit Financial Flows (IFF) of proceeds of crime

World Bank, UNODC, Swiss National Bank's and Global Financial Integrity (GFI) Report and local sources' Report reveals that funds from Bangladesh are siphoned out to foreign countries by illicit ways. Illicit financial flow poses significant risk to the stability of domestic financial market, affects investment decisions, undermines tax transparency and accountability between citizen and state and increases income inequality.

Generation of undeclared property is one of the driving forces of illicit financial flows. This undeclared money or property is generated for various regulatory, institutional and socio-economic reasons. Even the income earned from legal sources and the assets acquired through legitimate means may become undeclared if tax policy leaves scope for misreporting of the value of assets and income. One good example is the transfer of real estate often registered much below the actual price. It increases tax evasion and creates undeclared money.

It is perceived, considering various data, expert opinion, media report, international trade, number of Bangladeshi people living abroad, that the target country of the Illicit financial outflow from Bangladesh are The USA, UK, Canada, Switzerland, Malaysia, Singapore, Hong Kong, India, UAE etc.

Preventing illicit financial flow is the most desired option in AML&CFT initiative. However, in this era of economic globalization, complete stoppage of illicit flow of fund is very difficult, if not impossible. Every year, developing countries are losing billions of dollars of assets through illicit flight of fund. Thus stolen assets recovery and or tax recovery are playing second line of defense against illicit flow of funds.

However, conceding the fact of difficulties to prevent illicit financial flows, country should take initiatives, at least to recover the funds or assets siphoned out off the country.

Stolen assets recovery process involves the tracing, freezing, confiscating and returning of stolen assets through criminal and civil routes. Asset recovery is mainly a criminal process which involves complex, cumbersome, and often lengthy legal procedure. Thus, global success in Asset Recovery route is still very limited. However, in the face of increasing tendency in illicit fund flow, asset recovery is still a good option for countries to get hold of the assets that have been transferred abroad illegally. National Task Force on stolen assets recovery headed by Attorney General of Bangladesh is working very carefully.

Recommendations

To minimize the illicit flow of fund in a bid to achieve stable economy with sustainable growth Bangladesh need to take several initiatives.

- Bangladesh should formulate policy and establish procedure to verify commodity price at the time of opening LCs by banks.
- Commercial banks should maintain own database to be confirm about the competitive price of imported items and fair price of exportable items
- Bangladesh should encourage banks to establish more drawing arrangement abroad to facilitate inward remittance through formal channel.
- Investigating Authority should establish procedure to identify the use of unregulated and informal remittance services and investigate in cooperation with BFIU
- Initiatives should be taken to amend Foreign Exchange Regulation Act, 1947 to include dissuasive and proportionate penalty section against any violation of this act.
- Customs authority should be empowered so that they are able to identify over-invoicing, under invoicing, over shipment, under shipment or phantom shipment not only for custom purposes but also to curb illicit flow of funds.
- Coordinated effort of Customs and BFIU is required for sharing information relating to cross border declaration.
- Necessary tax policy reform is required to prevent the generation of undeclared money and to tackle tax evasion.
- Effective inter-agency cooperation and coordination on matters related to cross-border transportation of currency, including for exchange of information and investigation of breaches of declaration / disclosure system should be developed.
- Officials of Customs authority, BFIU and reporting organizations should be continuously trained on cross border transactions especially on 'Trade Based Money Laundering and Terrorist Financing', cross border transportation of cash and BNIs.
- Country should ensure appropriate legal and administrative framework for Tax Recovery.
- Initiatives should be taken for capacity building of the National Board of Revenue for executing Tax Recovery.
- Inter-agency cooperation should be strengthened on gathering information about the money deposited in foreign banks, capital invested or assets acquired abroad.

- Capacity building program for the officials of Anti-Corruption Commission and other related agencies involved in Asset Recovery should be conducted continuously.
- Effective and concerted measures in the recovery of stolen assets should be taken.

Chapter 6: Conclusion and Recommendations

6.1 Conclusion

After reviewing existing legal framework, sector specific analyses, stakeholders' views, social and financial environment, data relating to ML & TF risks, it is understood from this study that most of the ML& TF risks in Bangladesh arise from offences committed within the country. But in some instances proceeds of crime generate some transnational organized crime like gold smuggling, drug and human trafficking. As such in line with global initiatives Bangladesh has to continue its effort to combat ML&TF.

Banks being the principal gateway to financial system faces highest threat of laundering of illicit funds by criminals. The large size of the financial sector, high volume of transactions and wide international reach inevitably exposes Bangladesh to ML&TF risks. Even though strict AML&CFT regulations and rigorous supervision are in place, banks especially state owned banks, non-bank financial institutions and real estate developers and dealers in precious metals and stones are at greater risk of ML/TF. Overall AML/CFT mechanisms in banks (mostly private banks) are highly developed, but there exists enough scope to apply ML/TF regulations in NBFIs, Insurance companies and Securities Market Intermediaries.

On the other hand, under and over invoicing in cross border trade, fraud and forgery constitute a significant portion of total ML risks in Bangladesh. Corruption and governance issues also drive capital flight which is substantial challenges in the fight against ML. The global spotlight of AML&CFT has traditionally been on the financial system, and this has resulted in strong AML&CFT controls in the financial sector. However, the non financial sectors in Bangladesh have been left alone to take false comfort that financial sector due diligence is sufficient to combat ML&TF risks. As such hardly any due diligence is exercised in the non financial sectors such as Real Estate Developers, Dealers in Precious Metals and Stones etc. This results in higher risk of ML&TF in these sectors. Large amounts of physical cash, high number of walk-in, one-off and expatriate Bangladeshis and opportune policies contribute to higher inherent ML&TF risks.

Tensions in neighboring and adjacent countries, refugees taking shelter in Bangladesh, cash intensive nature of trade in border areas, drug and human trafficking operations in certain bordering areas of the country have come out as the possible conduits of ML&TF in the consultations with local authorities and people which were conducted as part of outreach programs.

Considerable limitations of regulatory power, supervising and corrective action taking authority, lack of adequate manpower, acute shortages of resources and tools to carry-out institutional activities in Bangladesh heavily constrained different government agencies to fight against ML&TF in Bangladesh.

Preventing money laundering and combating terrorist financing need concerted efforts since money launderers and terrorists use sophisticated methods that pass through various domestic and international jurisdictions. Even though there is some level of inter-agency cooperation, further concerted efforts and more co-operations are needed to prevent, detect and investigate money laundering and terrorist financing activities in the country.

6.2 Recommendations

Based on the findings and discussions in the preceding chapters, following actions are recommended for successful implementations of anti-money laundering and anti-terrorist financing activities:

6.2.1 Legal Framework

- ❖ Legal amendment required for introducing Civil and Administrative forfeiture to deal with unclaimed proceeds of crime and such power is to be given to the Investigation Agency so that it can exercise this power without going to the Court.
- ❖ Relevant provisions of the ACC Act, 2004, Money Laundering Prevention Act, 2012 (MLPA 2012), Code of Criminal Procedure, 1898, Bankers' Book Evidence Act, 1891, Foreign Exchange Regulations Act, 1947 and Evidence Act, 1872 should be amended incorporating provisions to empower the enquiry/investigation officer to search, seize and freeze bank documents without going to the court, or through a simplified form of taking permission of the Court. Such empowerment is needed both for the enquiry and investigation stages. Additionally list of predicate of offenses of MLPA required including smuggling of migrants and other related offenses.
- ❖ The existing Evidence Act, 1872 should be amended to consider electronic/digital evidence admissible and the ACC and CID should be provided with the required technology and the officers should be trained to obtain the skills to use electronic evidence.
- ❖ Required policies should be formulated to avoid unnecessary administrative complexities in collecting necessary information and documentary evidences.
- ❖ Provision 28 (C) of ACC Act, 2004 related to punishment for providing false information, should be abolished, because such provision discourages witnesses to provide information regarding Corruption and Money Laundering.

6.2.2 Investigating Agencies

- Manpower, particularly number of enquiry and investigation officers, of both ACC and CID deployed to AML and CFT respectively need to be increased. The support in the form of logistics, equipment and other necessary items and training facilities at home and abroad, exclusively for the investigators and their supervisors should be increased to improve skills of the investigators.
- The ACC should be equipped with the required facilities to effectively & efficiently manage seized valuables and to interrogate the suspect under remand.
- The provision of ACC Rules containing the time limit for enquiry and investigation of corruption and money laundering cases should be reviewed for authorizing more time limits.
- There must be full and regular prosecution unit both for Police Department and the Anti Corruption Commission. A permanent Prosecution Bench should be formed, particularly for the purpose of Corruption and Money Laundering cases to gear up prosecution both in the trial courts and in the Supreme Court.
- New technologies for surveillance, intelligence gathering, under-cover operation and equipment for communication interception should be provided to investigative authority for Money Laundering and Terrorist Financing investigation.
- A separate research and policy wing should be introduced within the investigation agency for cooperation of inter-agency, analysis of findings, education and to keep up to date about recent global technology of StAR and ML/TF.
- Online connectivity with field office of the relevant LEA and other stakeholders should be introduced.
- Separate training academy for investigation in ML/TF can be established.
- Establishing a Join Task Force for ML/TF investigation including Customs and Border Guard.
- A permanent and dedicated AML unit which is being established within the ACC need to be well equipped.
- Increase logistics facility for operation and surveillance in connection with ML/TF investigation.

6.2.3 Bangladesh Financial Intelligence Unit (BFIU)

- The BFIU should establish an effective and expanded monitoring mechanism for non-bank financial institutions, insurance companies, securities market, money changers and other related organizations.
- To ensure competency of BFIU officials, they should get continuous training at home and abroad and attachment program with foreign FIUs.
- The BFIU should sign more MOUs with other foreign FIUs for information sharing.
- BFIU should manage internal database more efficiently and should be able to access external databases of such organizations as police, customs, and other government agencies. Online reporting system should be introduced for all sectors immediately.
- BFIU should review, update and circulate the guidelines for the sectors vulnerable to money laundering and terrorist financing from time to time.
- BFIU should appoint full time executive team to perform its operation efficiently.
- BFIU should continue its effort to collect information from other FIUs.
- BFIU should have access to criminal database and other government database.

6.2.4 Other Govt. Agencies

- There should be a strong centralized audit, inspection and analysis unit for the NGOs to analyze audit and inspection reports, research and analyze fund movements, monitor proper utilization of foreign donation of NGOs as a watchdog and perform some special audit. This will reduce vulnerability of financing terrorism and other types of abuse of funds by the NGOs.
- RJSC&F should have adequate monitoring and supervision mechanism along with sufficient resources.
- Securities and Exchange Commission should develop surveillance mechanism to prevent insider trading and market manipulation. Automated process of preventing insider trading and market manipulation should be implemented.
- NBR should stop providing special facilities to convert black or untaxed money into white by paying taxes at a fixed lower rate or prohibit investing money in various selected sectors since this opportunity can be exploited by money launderers.
- For successful international cooperation in the Mutual Legal Assistance, Attorney General's Office of Bangladesh should make treaties with other countries to ensure responses of requests made to other countries.
- Institute of Chartered Accountants of Bangladesh (ICAB) should amend Bangladesh Accounting Standard (BAS) so as to incorporate AML/CFT issues in it.

6.2.5 Other Recommendations

- ✓ Inter-agency cooperation should be strengthened to prevent, detect and investigate money laundering, terrorism and terrorist financing.
- ✓ An effective mechanism including training and awareness program should be established for reporting agencies to enhance quality and quantity of STR.
- ✓ BFIU, Anti Corruption Commission, Bangladesh Police and other relevant bodies should maintain a comprehensive statistics related to AML&CFT.
- ✓ All human resources involved in mitigating money laundering & terrorist financing risks should be well trained. Regular training on money laundering and terrorist financing risks should be arranged locally or centrally by BFIU or by the individual bank or other financial institution.

- ✓ The government and other responsible authorities should take steps to raise awareness of money laundering and terrorist financing risks as most of the people of the country are not aware of these issues. Seminar, Symposium, Workshop, Rallies, Debate competition, talk show, Drama and satiric song in the media, Road show and Advertisements on TV/Newspapers can be used for this purpose.
- ✓ The Government and other responsible authorities should take steps to publish books, handouts and leaflets on AML&CFT issues including MLP Act, 2012 and distribute those freely.
- ✓ The responsible Authorities should take proper steps and ensure continuous monitoring of Mobile Banking to combat money laundering activity.
- ✓ The government should develop a national database containing the identity of all Bangladeshi citizens so that identity of any client can immediately be verified. All reporting agencies and stakeholders should have access to the database.
- ✓ With the growing compliance of AML&CFT measures in the bank and other money service businesses, criminals may attempt to bypass these institutions or try to use other tactics for transferring funds from one jurisdiction to another. To tackle this problem, it is needed to strengthen customs intelligence and enhance legal tools to support investigation of cases that involve cross border elements. Additionally, customs officials and employees of reporting agencies need to be trained on cross border transactions especially 'Trade Based Money Laundering and Terrorist Financing.
- ✓ Money laundering and terrorist financing typologies have indicated ongoing threats in high cash concentrated activities such as cash couriers, as well as informal remittance systems. Ministry of Home Affairs, National Board of Revenue, Bangladesh Police, Border Guard Bangladesh, Immigration Department should take appropriate regulatory and enforcement measures to prevent as well as to detect cash couriers moving funds illegally for criminal activity. To mitigate the potential risk of criminal abuse from the prevalent use of alternative and informal remittance services provided through money changers, these businesses should be subject to more stringent supervisory measures.
- ✓ To discourage cash transactions, the respective authority may impose restriction on cash transactions for selected sector/type/purpose/threshold, encourage use of financial instruments. Besides, the scope of cash transaction reporting should be broadened. Like bank cash transactions in other sectors, such as purchasing share or real estate, land or payment of insurance premium, should be reported to the BFIU.
- ✓ Formal financial services should be extended and enhanced to rural areas, and automation of financial services should also be increased so that more transactions come under the watch of money laundering reporting.
- ✓ Both authorities and reporting agencies need to build its capacity through continuous review, analysis, and smooth information sharing. All banks and NBFIs should develop AML/CFT analytical software to monitor and report transactions of a suspicious nature to the financial intelligence unit of the central bank.
- ✓ The Government should take measures to ensure that natural or legal persons that provide money or value transfer services (MVTs) are licensed or registered, and subject to effective systems for monitoring and ensuring compliance. Any natural or legal person working as an agent should also be licensed or registered by a competent authority.
- ✓ Hundi/Hawala should be defined and criminalized.
- ✓ As Bangladesh shares its border with neighboring country, BGB personnel should be made aware of the vulnerabilities with terrorist financing, bulk cash smuggling and smuggling of money through porous border.
- ✓ Enhance bi-lateral and multi-lateral cooperation between/among India, Myanmar, Malaysia, Thailand, Middle Eastern countries and Bangladesh government to combat ML/TF, Human trafficking, drug trafficking and gold trafficking.