

NEPAL & THE

FATF GREY LIST

TIME IS TICKING

What Nepal Must Do to Exit Increased Monitoring

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Placed on Grey List: February 2025 | APG Mutual Evaluation: 2022-23 | 19 AML Laws Amended | Exit Window: 2026-2027

WHAT IS THE FATF GREY LIST?

"Jurisdictions Under Increased Monitoring"

- ① FATF is the global standard-setter for Anti-Money Laundering (AML) and Counter-Terrorist Financing (CTF)
- ② Grey listing = deficiencies found in AML/CTF effectiveness – not just laws, but real enforcement
- ③ Nepal was placed on the Grey List in February 2025 following its 2022-23 APG Mutual Evaluation
- ④ Nepal committed to an Action Plan and is working under FATF's ICRG oversight

Higher Transaction Costs

Correspondent banks add risk premiums to Nepali institutions

Reduced FDI & Investment

Investors avoid grey-listed jurisdictions due to compliance risk

Remittance Friction

Tighter scrutiny on ~\$12B annual inflows vital to Nepal's economy

BY THE NUMBERS: 2024 FIU STATISTICS

9,304

STR/SARs Received

Suspicious Transaction Reports in
2024

1,086

Reports Disseminated

+75% vs 2023 – sharp
improvement

1,890

Entities on goAML

Reporting entities now integrated

19

Laws Amended

AML-related legislation reformed

Source: FIU-Nepal Newsletter, May 2025 (Jan-Dec 2024 data)

⚠ KEY FINDING: While STR volumes increased, FATF's focus is on enforcement outcomes – convictions, asset seizures, and prosecution of high-profile cases. Nepal must now demonstrate that reports translate into real criminal accountability.

HIGH-RISK SECTORS REQUIRING URGENT ACTION

Real Estate

CRITICAL

Cash transactions, dual pricing, no beneficial ownership. Must: mandatory banking channel, digital registry, STR filing.

Cooperatives

CRITICAL

Politically protected, weak audits, cash-heavy. Must: risk-based AML supervision, forensic audits, prosecution.

Hundi/Hawala

VERY HIGH

Parallel remittance networks bypass formal banking. Must: crackdown, digital traceability.

Casinos & PEPs

HIGH

High-cash ML channels & politically exposed persons require enhanced due diligence and real-time monitoring.

WHAT FATF ACTUALLY MEASURES

Passing laws is not enough – FATF demands measurable enforcement outcomes

AREA	FATF EXPECTATION
Investigations	Increase in high-quality ML/TF cases opened & pursued
Prosecutions	Convictions in serious, politically sensitive cases
Asset Recovery	Confiscation of criminal proceeds from major cases
STR Quality	Reports that lead to investigation, not just filing
DNFBP Oversight	Real estate, casinos, lawyers & accountants supervised
Beneficial Ownership	Central registry – know who truly owns what
Int'l Cooperation	Timely info exchange with EGMONT partners

NATIONAL ACTION PLAN: THREE PHASES

PHASE 01

0 - 3 Months

Emergency Response

- ▶ Pass remaining AML amendments
- ▶ Form FATF Implementation War Room
- ▶ Launch surprise audits on high-risk sectors
- ▶ Begin visible enforcement actions

PHASE 02

3 - 9 Months

Demonstrate Effectiveness

- ▶ Show increase in prosecutions & convictions
- ▶ Asset seizures from real estate & cooperatives
- ▶ Cross-border enforcement with India & Gulf
- ▶ Cooperative sector clean-up visible results

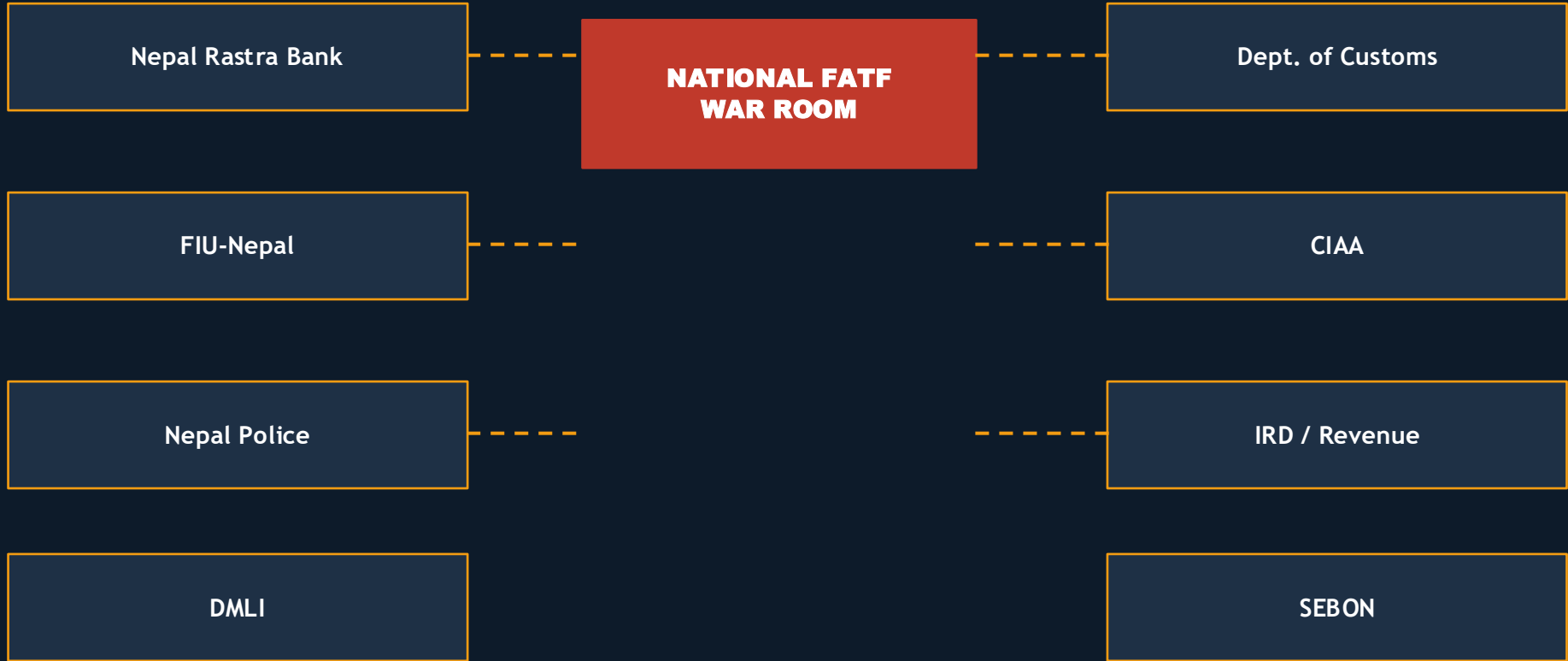
PHASE 03

9 - 24 Months

FATF Exit Strategy

- ▶ Sustain enforcement momentum
- ▶ Avoid politically motivated case withdrawals
- ▶ Maintain measurable, documented outcomes
- ▶ Institutional continuity across elections

INSTITUTIONAL REFORM: FIXING FRAGMENTATION



All agencies must report to a unified national FATF command – weekly reporting to the Prime Minister & Finance Minister.

LESSONS: COUNTRIES THAT SUCCESSFULLY EXITED

PK **Pakistan**

Key Factor: Centralized Action Plan

Created a national task force reporting to the PM, with dedicated KPIs and monthly public progress reports.

BW **Botswana**

Key Factor: Rapid Legal & Enforcement Reforms

Combined legislative speed with actual prosecutions – showing FATF both intent and follow-through within 18 months.

PH **Philippines**

Key Factor: Financial Intelligence Coordination

AMLC acted as hub between agencies, dramatically increasing STR-to-investigation conversion rates.

MA **Morocco**

Key Factor: Risk-Based Supervision & Prosecutions

Focused supervisory resources on highest-risk sectors; high-profile conviction of a politically connected figure was pivotal.

Common thread: Political commitment + measurable enforcement outcomes – not just laws

THE PATH FORWARD

This Is Not Just Compliance. This Is Nepal's Economic Future.

- ⚡ Treat FATF as an economic emergency – same urgency as a balance of payments crisis
- ⚖️ Depoliticize AML enforcement – any perception of political protection destroys credibility
- 📊 FATF evaluates evidence, not speeches – produce cases, convictions, and seizures
- 🏛️ Build permanent state capacity – don't just exit the list; build a modern financial integrity framework