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Security Council

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Security Council Committee established pursuant to resolution 1737 (2006)

Note verbale dated 28 May 2008 from the Permanent Mission of Bahrain to the United Nations addressed to the Chairman of the Committee

The Permanent Mission of the Kingdom of Bahrain to the United Nations presents its compliments to the Chairman of the Security Council Committee established pursuant to resolution 1737 (2006), and further to its note verbale dated 30 April 2008 (S/AC.50/2008/12) containing the report of the Kingdom of Bahrain indicating action taken by the relevant authorities to implement the various paragraphs of Security Council resolution 1803 (2008), notably paragraphs 3, 5, 7, 8, 9, 10 and 11, has the honour to transmit additional elements of information received after the prescribed deadline (see annex).

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Annex to the note verbale dated 28 May 2008 from the Permanent Mission of Bahrain to the United Nations addressed to the Chairman of the Committee

[Original: Arabic]

Annex to the report of the Kingdom of Bahrain on Security Council resolution 1803 (2008)

1. Measures taken by the Ministry of Social Development

The Ministry of Social Development takes an active part in combating money-laundering and the financing of terrorism through its financial monitoring of community-based organizations (CBOs), and in particular of movements of funds from and into Iran. The principal measures taken by the Department of Community-Based Organizations of the Ministry of Social Development with regard to supervision of the financial transactions of organizations registered with the Ministry are as follows:

– In 2005 the Ministry was restructured and a new Department of Community-Based Organizations established consisting of the following three sections: the Financial and Administrative Auditing Section, the Registration and Disclosure Section and the Community-Based Organization Affairs Section. The Financial and Administrative Auditing Section oversees and monitors the financial affairs of organizations, subject to the Ministry's oversight, and the Registration and Disclosure Section renders decisions on legal matters.

– The Ministry of Social Affairs is now a member of the Anti-Money-Laundering Committee, whose recommendations and decisions it implements with a view to preventing any illegal or improper transactions.

– Article 21 of the Law on Social and Cultural Associations and Clubs, Private Institutions and Sports Organizations (promulgated by Decree-Law No. 21 of 1989) authorizes the Minister to regulate the granting of authorizations for associations to collect donations from the public, hold fund-raising events or engage in any other type of fund-raising. Pursuant to that provision, a decision on fund-raising was adopted and an application form issued. Because of the Ministry's keen concern to institute monitoring arrangements to ensure that movements of funds of organizations that are subject to its supervision comply with the law, that first Decision on fund-raising was later amended by Decision No. 27 of 2006 and a new application form laying out the conditions clearly and in detail drafted. An application form was also drafted for the transfer of funds abroad and another for the receipt or acquisition of funds on behalf of CBOs and other organizations that are subject to the Ministry's oversight.

The principal measures currently being taken by the Ministry of Social Development to monitor the financial transactions of organizations subject to its oversight are the following:

(a) Human resources

• An accountant has been hired and efforts are continuing to hire others in the Financial and Administrative Auditing Section, which supervises associations, clubs and other organizations that are subject to the Ministry's oversight. At this stage, a business account auditing firm will be retained to work with the Ministry in setting up a uniform accounting system for use by organizations.

(b) Legislation

- The Ministry has established a new integrated financial monitoring system for CBOs. An amendment has been prepared to the Law on Social and Cultural Associations and Clubs, Private Institutions and Sports Organizations (the law on non-profit community-based organizations), whose provisions incorporate some of the recommendations contained in the report on best practices published in September 2005 by the Middle East and North Africa Financial Action Task Force (MENAFATF). The draft amendment also provides for associations and clubs to establish internal oversight agencies appointed by each organization's governing body, to periodically monitor the organization's activities and submit a detailed report to the governing body. A copy of the proposed amendment has been submitted to the Chairman of the Anti-Money-Laundering Committee for his comments.

- In partnership with the private sector, the Ministry has established a fund for community-based social work. In addition, a number of banks have sought to establish agencies or institutions that offer comprehensive services and the private sector as a whole is making increasing use of agencies to distribute benefits, donations and charitable contributions under proper and secure arrangements instead of distributing them to CBOs directly or haphazardly without ensuring that the funds reach deserving recipients.

- The Ministry has amended its earlier Decision on fund-raising by adopting Decision No. 27 of 2006 on fund-raising, which contains many of the conditions, restrictions and legal measures with which associations and clubs must comply in order to gain approval. A fund-raising application containing detailed conditions has been drafted and another application for authorization to transfer or send funds abroad has also been prepared. We also wish to draw attention to Decision No. 3 of 2004 on monitoring of the financial activities of private foundations, an amended version of which has been completed with a view to its issuance.

- The Ministry adopted a decision granting certain employees of the Department of Community-Based Organizations the status of judicial police for the purpose of monitoring the activities of the organizations to ensure that they comply with the law, with the Ministry's basic regulations, and with the decisions of the governing bodies of the respective organizations. In addition, job descriptions have been drawn up for financial accountants in the Financial and Administrative Auditing Section of the Department of Community-Based Organizations with a view to establishing posts and filling them as quickly as possible. Another decision will also be proposed specifying the names of the other officials to be granted the status of judicial police in order to expand the pool of people carrying out investigative activities and checking for violations.

(c) Regulatory and follow-up mechanisms

- Social and cultural associations and clubs are thoroughly investigated before authorization is granted to raise funds. Documents are filed with the Financial and Administrative Auditing Section, which monitors and audits the amounts raised and ensures that they have been deposited in the organization's account and spent for the purpose for which they were requested and raised. In general, the Financial Auditing Section discharges its duties in cooperation with the Registration and Disclosure Section, in accordance with Decision No. 27 of 2006 on fund-raising. Control is thereby maintained over the monitoring of fund-raising operations, and the number of permits has been reduced from 130 in 2006 to 56 in 2007.

- Monthly statements received by the Ministry from the Central Bank of Bahrain are forwarded to the Financial and Administrative Auditing Section for auditing and reporting. The Section also reviews the annual financial reports of CBOs and submits reports on them to the Registration and Disclosure Section for appropriate action.
- Complaints received by the Ministry on any financial matters and complaints and problems regarding the accounts of CBOs and other organizations are handled efficiently and expeditiously. Violations are referred to the Adjudication Committee prior to referral to the Public Prosecutor for legal action. A number of violations have been referred to the Public Prosecutor, including one involving the Social Insurance Association which sent funds abroad without permission from the Ministry.
- The number of bank accounts opened by recently established organizations has been reduced over the past two years by restricting organizations to opening only one or two accounts in one or two banks.
- Beginning in early 2007, lawyers have been sent to attend ordinary and extraordinary meetings of the governing bodies of associations and clubs that are subject to the Ministry's oversight in order to monitor them and to update them on the procedures that must be followed and on legal measures that are being taken.
- There has been coordination with the Central Bank of Bahrain, which was requested to instruct banks not to open accounts for CBOs without written approval from the Ministry.
- Efforts are continuing to coordinate with organizations that are subject to the Ministry's oversight and to urge them to reduce their bank accounts and their banks to one or at most two. Organizations may use multiple branches for one main account with Ministry approval.
- The Department conducted field inspections last year and a schedule of inspections to begin on 1 April is being drawn up this year.
- There is coordination with the Central Bank of Bahrain to provide the Ministry with statements of the funds transferred to organizations that are subject to the Ministry's oversight. The Central Bank currently provides the Department with monthly statements of fund transfers (movements of funds) by these organizations within the Kingdom and abroad. The Central Bank of Bahrain will also be requested to provide us with such statements and annexes identifying each organization's account numbers in order to expedite auditing and monitoring.
- Coordination is taking place with organizations that are subject to the Ministry's oversight, which are asked to specify how many accounts they

have, their numbers and the corresponding banks. Efforts are continuing to reduce accounts and banks to one per organization, even though several branches may be used for a single main account.

- The Ministry regularly sends circulars to organizations that are subject to its oversight. The most recent was dated 20 March 2008 and it covered various conditions and regulations, including the need for Ministry approval prior to engaging in any fund-raising operation.
- The Financial and Administrative Auditing Section reviews financial reports from the organizations to make sure that they have been approved by the executive committees and governing bodies, as well as by a legal accounting office for sums over 10,000 dinars in the case of associations and clubs.
- Monthly statements received by the Department from the Central Bank of Bahrain involving transfers of funds totalling 3,000 dinars or more are reviewed to ensure that they were authorized and reports are submitted to the Adjudication Committee for referral to the Public Prosecutor.
- Coordination with the Economic Crimes Department of the Ministry of the Interior is ongoing. Requests received by the Ministry for the transfer of funds abroad are forwarded to the Department for verification that the parties to whom the funds are being transferred are legitimate and legal. The Ministry is informed of the Department's response as quickly as possible through cooperation with INTERPOL.
- The Department of Community-Based Organizations is in contact and holds meetings with section heads and representatives of associations in breach of the financial regulations. Violations are explained and guidance given on the legal measures that must be followed, particularly with respect to fund-raising operations and transfers of funds abroad. Cases of repeated violations are referred to the Public Prosecutor for legal action against the violators.

(d) Educational activities

- The Department of Community-Based Organizations in the Ministry of Social Development conducts regular workshops at a CBO support centre to explain the Ministry's rules, regulations, decisions and forms. The focus is on clarifying the conditions and standards for legal fund-raising and transfers of funds abroad.

2. Measures taken by the Ministry of Industry and Trade

The Ministry has circulated Security Council resolution 1803 (2008) to the following agencies:

(a) The Ministry's Department of Industrial Affairs to ensure that Bahrain does not manufacture any dual-use materials or products whose manufacture and export to Iran are prohibited;

(b) The Customs Department to ensure that such products are not circulated by way of import, export or through any third State to Iran through the Kingdom of Bahrain.

The annexed report contains details of the volume of trade and goods transiting between Bahrain and Iran.

3. Measures taken by the Central Bank of Bahrain

The Central Bank of Bahrain has circulated Security Council resolution 1803 (2008) of 12 March 2008 to all banks and licensed financial institutions operating in Bahrain.

A copy of the circular is annexed hereto.

Enclosure 1

[Original: English]

المدير التنفيذي لرقابة المؤسسات المالية

Executive Director of Financial Institutions Supervision

EDFIS/C/006/2008
12th March 2008

The General Manager
All Licensees
Manama - Kingdom of Bahrain

Attn: MLROs

Dear Sir,

Re: UN Security Council Resolution 1803 (2008)

This directive is issued in fulfillment of the above UN resolution which requires the exercise of vigilance over financial services provided to Iran in order to avoid financial support contributing to the proliferation of sensitive nuclear activities, or to the development of nuclear weapon delivery systems, as referred to in resolution 1737 (2006).

Specifically, licensees are directed to exercise vigilance and enhanced due diligence over the following:

- When entering into new commitments for public provided financial support for trade with Iran, including the granting of export credits, guarantees or insurance, to their nationals or entities involved in such trade.
- Over activities with all banks domiciled in Iran, in particular with Bank Melli and Bank Saderat, and their branches and subsidiaries abroad.

Any queries or requests for further clarification on any matter referred to in this Circular should be directed to Mr. Ahmed Jassim Bumtaia, Director of the Compliance Directorate, CBB (Tel No. 17547107/ 17547108; Fax No. 17535673; and e-mail address: abumtaia@cbb.gov.bh).

Yours faithfully,

Abdul Rahman Al-Baker

Enclosure 2

[Original: Arabic]

Non-oil trade between the Kingdom of Bahrain and the Islamic Republic of Iran from 2001 to 2007 (in Bahraini dinars)

Type of trade	*2001 January-December*	*2002 January-December*	*%*	*2003 January-December*	*%*	*2004 January-December*	*%*	*2005 January-December*	*%*	*2006 January-December*	*%*	*2007 January-December*	*%*
Total imports (1)	11 337 566	12 368 369	9	11 945 323	(3)	10 385 982	(13)	15 387 333	48	15 174 646	(1)	9 798 887	(35)
Imports to the Kingdom of Bahrain	6 724 860	7 884 327	17	6 273 794	(20)	1 174 475	30	8 340 933	2	8 127 555	(1)	4 214 438	(48)
Imports to industrial zones	4 612 706	4 484 042	(1)	5 571 529	26	2 211 507	(61)	7 086 400	230	7 047 091	(1)	5 584 449	(21)
Total exports (2)	17 747 488	15 925 147	(19)	18 985 628	19	1 171 721	(89)	18 928 017	769	21 649 081	14	6 850 727	(18)
Exports from the Kingdom of Bahrain	8 789 428	5 534 393	(32)	4 732 661	(14)	1 364 132	(71)	11 789 734	764	19 215 026	63	4 393 355	(77)
Exports from industrial zones	9 558 060	10 391 454	9	14 252 967	37	812 889	(94)	7 142 281	779	2 434 035	(66)	2 457 372	1
Re-exports (3)	117 729	318 502	162	252 230	(18)	129 704	(49)	3 291 472	2 368	4 312 237	35	6 319 058	47
Balance of trade ((2+3)-1)	6 527 651	3 865 980	(41)	7 291 535	89	8 078 557	(211)	6 742 156	(183)	10 785 672	60	3 370 891	(69)
Volume of commercial exchange (1+2+3)	29 202 783	28 602 718	(2)	31 183 181	9	12 633 487	(59)	37 516 822	196	41 135 964	10	22 968 672	(44)

Notes:
Source: Central Bureau of Statistics (21 April 2008)
2007 data are preliminary

Enclosure 3

[Original: Arabic]

Foreign trade with the Islamic Republic of Iran

		2006		2007		
		January-December		January-December		
Type of trade (currency in millions)		*BD*	*$US*	*BD*	*$US*	*%*
Kingdom of Bahrain imports	1	15.67	40.14	9.80	25.92	-25
Kingdom of Bahrain exports	2	21.65	57.27	6.85	18.12	-68
Re-export	3	4.31	11.41	6.32	16.72	47
Trade balance		10.79	28.53	3.37	8.92	-69
Volume of commercial exchange		41.14	108.83	22.97	60.76	-44

Introduction:

- Kingdom of Bahrain global imports 2007: 2,255 million Bahraini dinars
- Kingdom of Bahrain global exports 2007: 1,068 million Bahraini dinars

Iranian commercial agencies registered in Bahrain: 10 active

Branches of Iranian companies registered in Bahrain: None

Companies with Iranian partners: 55

Principal imports of the Kingdom of Bahrain from Iran (2007):

> Iron ores and unagglomerated concentrates; asphalt; carpets made of wool or fine animal hair (Khurasan Yazd Isfahan Kashan Shiraz); carpets made of composite or artificial textile materials; live sheep or goats; pistachios with shells; fresh and dried fruits and vegetables; saffron; plaster sheeting and boards; pistachios; fresh melons; cumin seed; Jeep automobiles; rosewater; tiles; front-end shovel loaders.

Principal exports of the Kingdom of Bahrain to Iran (2007):

> Scrap iron; unalloyed aluminium rods, poles and powder; uninsulated aluminium wire; aluminium sheets, poles and rods; cola; aluminium household implements; lightweight plain weave cotton; aluminium scrap; iron ores and agglomerated concentrates; air conditioners; fish; rubber gaskets.

Source for statistical data: Central Bureau of Statistics

Preliminary data for 2007

Report on trade relations between Bahrain and Iran