

CASE STUDIES:
KEY FEATURES OF TERRORIST FINANCING RISK ASSESSMENTS
AND REVIEWS OF THE NPO SECTOR

These handouts summarise some of the measures taken by governments to help them comply with the recommendations of the Financial Action Task Force: specifically, FATF recommendation 8 (R8), but also R1 and Immediate Outcome 10 (IO.10).

The studies summarise key points from National Risk Assessments, NPO Sector Risk Assessments and Reviews of Measures relating to the terrorist financing (TF) risk generally, or as it applies to the NPO sector.

They are provided as guidance and to facilitate comparison of methodologies. They are not intended to be used to identify the level of TF risk within a country, or to give a sense of the TF risk to NPO sectors in general. Links are provided to the original documents where available.

This is by no means a comprehensive list – the studies have been chosen to highlight notable features in their methodologies.

Please refer to the glossary at the end of the document for clarification of terms and abbreviations used.

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CASE STUDY 1: AUSTRALIA (NRA)			
Title	<i>Terrorism Financing in Australia 2014</i>		
Lead	AUSTRAC (FIU)	Date	2014
Type	National Risk Assessment (NRA)		
Context	<p>Australia completed a National Risk Assessment (NRA) of all its terrorist financing risks in preparation for its ME in 2014/15. An abridged version was published in 2014.</p> <p>The report had a significant focus on a potential Terrorist Financing risk in the NPO sector:</p> <ul style="list-style-type: none"> - NPOs were identified as one of three 'key features of the Australian terrorism financing environment'; - NPOs were identified as one of six 'current and emerging terrorism financing channels' <p>The report identifies certain features of the TF risk to the NPO sector, including:</p> <ul style="list-style-type: none"> - NPOs can 'co-mingle' funds raised, or provide legitimate cover for funds sent to high-risk destinations. - Funds can be diverted in high risk countries. - Risks are high for NPOs operating in high risk countries, or domestically amongst high risk populations. 		
Notable features	<p>Non-Compliant: Despite the NRA's focus on NPOs, and other significant developments including the establishment of a new, well-resourced NPO regulator, Australia received the lowest possible score for R8.</p> <p>The key quote from the MER was as follows: <i>"No comprehensive reviews were undertaken in order to identify the features and types of NPOs that are particularly at risk of being misused for TF or other forms of terror support."</i></p> <p>This case study shows that a country cannot rely on an NRA to ensure compliance with R8 and IO.10, even if the NRA devotes significant resource to covering the TF risk in the NPO sector. A sector specific risk assessment may be needed, which identifies not just the overall risk level, but also the specific features and types of NPO that may be at risk of terrorist financing.</p>		
Link	<p>The NRA can be found here: http://www.austrac.gov.au/publications/corporate-publications-and-reports/terrorism-financing-australia-2014</p> <p>The Mutual Evaluation Report can be found here:</p>		

CASE STUDY 2: USA			
Title	National Terrorist Financing Risk Assessment (NTFRA)		
Lead	Department of the Treasury	Date	2015
Type	National Risk Assessment (NRA)		
Context	<p>The US NRA was completed in 2015 ahead of the its Mutual Evaluation in 2016. The section on NPOs used information from an internal and (seemingly) unpublished Treasury review from 2012/13.</p> <p>The NRA identifies charities/NPOs as a specific and significant TF risk, particularly in relation to raising funds. <i>'Section A: Raising Funds: Vulnerabilities and Risks'</i> lists NPOs as one of three risk categories.</p> <p>About a quarter of the section on NPOs is devoted to identifying the features and types or NPOs that are at risk. Fraud and sham NPOs are the main risk identified, rather than legitimate NPOs. Amongst legitimate NPOs, the main risks are:</p> <ul style="list-style-type: none"> - NPOs active in high risk foreign countries; - Exploitation of donations or operations; - Facilitation of procurement of materials for terrorist purposes; - Supporting groups or institutions engaged in recruitment. 		
Notable features	<p>Criticisms of evidence base: The Charity and Security Network, a US Nonprofit, critically analyzed the NRA. They criticized its <i>"broad-brush and unsubstantiated claims"</i>, noted that it <i>"does not distinguish between complicit and non-complicit charities"</i>, and noted that the assessment included both non-US examples and cases involving actions by individuals with no involvement of charitable organisations. The USA's NRA reflects a broader pattern, whereby assessments based on weak evidence default to a 'high risk' assessment.</p> <p>Inconsistency of FATF evaluation: Despite its striking similarity to the Australian NRA (see case study 1), the USA's MER show that the evaluators were entirely satisfied with the US Government's approach, stating that <i>"The U.S. has a clear understanding of the risks of TF associated with the NPO sector..."</i> It should be noted that the USA case is the outlier, and that countries reliant purely on an NRA can not normally expect to be found compliant.</p>		
Links	<p>The full report can be found here: https://www.treasury.gov/resource-center/terrorist-illicit-finance/Documents/National%20Terrorist%20Financing%20Risk%20Assessment%20%E2%80%93%2006-12-2015.pdf</p> <p>The full analysis by the Charity and Security Network can be found here: https://www.charityandsecurity.org/analysis/US Natl TF Risk Assmt 2015</p>		

CASE STUDY 3: EUROPEAN UNION			
Title	<i>Assessment of the Risks of Money Laundering and Terrorist Financing Affecting the Internal Market and Relating to Cross-Border Activities</i> <i>(a.k.a. EU Supra National Risk Assessment (SNRA))</i>		
Lead	European Commission	Date	2017
Type	Supra-National Risk Assessment (SNRA)		
Context	<p>The EU SNRA identified risks, threats and vulnerabilities at the EU level across 41 products, including the collection and transfer of funds through NPOs.</p> <p>The assessments were completed by experts appointed by EU member states, the EU Commission Directorates on Justice and Home, Europol, and the European Supervisory Authorities (of financial services).</p> <p>The assessment of the TF threat related to NPOs was “<i>that this modus operandi is not really frequently used by terrorist groups. Indeed, based on the number of NPOs registered, very few are misused.</i>”</p> <p>Some threats were noted, particularly in relation to foreign terrorist fighters and humanitarian work in high risks areas. The report noted that collecting and transferring funds was relatively easy, but that registration requirements presented a barrier.</p> <p>Overall, both the threat and vulnerability of TFs for NPOs was assessed as <i>significant</i> (level 3 of 4). For NPOs receiving EU funds, both the threat and vulnerability was <i>moderately significant</i> (level 2 of 4).</p>		
Notable features	<p>Regional focus: The EU is unusually integrated at the economic and political level, which enables and justifies a regional approach. Nevertheless, the SNRA was forced to recognise the primacy of national-level factors. The historic, cultural and legal diversity of Europe’s NPO sectors are much more significant factors in defining the risk or vulnerabilities that NPOs face.</p>		
Link	<p>ec.europa.eu/newsroom/document.cfm?doc_id=45319 and ec.europa.eu/newsroom/document.cfm?doc_id=45653</p>		

CASE STUDY 4: SOUTH EAST ASIA			
Title	Regional Risk Assessment on Terrorism Financing 2016 South-East Asia & Australia		
Lead	PPATK (Indonesia FIU) / AUSTRAC (Australia FIU)	Date	2016
Type	Supra-National Risk Assessment (SNRA)		
Context	<p>A regional risk assessment for TF covering Indonesia, Australia, Singapore, Malaysia, Thailand and The Philippines. The RRA effectively aggregates individual risk assessments.</p> <p>Key features are:</p> <ul style="list-style-type: none"> - TF landscape and features (regional and by country); - Regional CFT capabilities and challenges - Analysis of risks in key sectors (Including NPOs) <p>Australia, Indonesia and Thailand all rated the TF risk to NPOs as 'high'; Malaysia and Philippines as 'Medium'; and Singapore as 'low'. The overall regional risk assessment for NPOs was 'high'.</p>		
Notable features	<p>Questions about methodology: The report states that <i>"the actual level of misuse of NPOs for terrorism financing is lower than expected across most of the region"</i>, but nevertheless makes an overall assessment of 'high'. It is not clear how a 'high risk' assessment could be made in the circumstances.</p> <p>Contribution of the SNRA: Unlike the EU SNRA (see <i>Case Study 3</i>), the RRA provides little analysis of the regional risk, and it is not clear what value an aggregate of separate country risks provides. One country has had an MER published since the SNRA was done, which noted the SNRA without any suggestion it had seriously contributed to improving its overall rating. There is a question about how much this kind of SNRA contributes to the understanding or mitigating of the TF risk.</p>		
Link	http://www.austrac.gov.au/sites/default/files/regional-risk-assessment-SMALL_0.pdf		

CASE STUDY 5: AUSTRALIA NPO RA			
Title	<i>National Risk Assessment on Money Laundering & Terrorism Financing 2017 Australia's Non-Profit Organisation Sector</i>		
Lead	AUSTRAC (FIU) and ACNC (NPO Regulator)	Date	2017
Type	NPO Risk Assessment (Analysis)		
Context and notable features	<p>Following the poor FATF evaluation received by Australia in 2015 (see <i>Case Study 1</i> above), Australia's FIU and NPO regulator collaborated in producing an NPO focused TF and ML risk assessment.</p> <p>The Report included an assessment of ML and TF risks, financial and activity analysis, a review of regulatory oversight, and data on suspicious transactions, identified critical factors that increase an NPO's vulnerability to ML or TF, and identified the subset of NPOs 'at risk' of terrorist financing.</p> <p>The report assessed the risk and threat from both ML and TF as 'Medium'. The consequences were rated as 'minor' (ML) and 'major' (TF). These ratings were lower than previous assessments.</p>		
Notable features	<p>Openness and consultation: The report was transparent about its sources, methodology and consultation processes. It invited government and non-governmental sources to provide information, to review final risk ratings and to offer "<i>feedback and professional insights</i>".</p> <p>A reduced risk level: The risk rating assessed by the NPO RA was lower than that assessed in previous assessments. The report "<i>assessed as unlikely that NPOs are currently being used to raise funds for domestic terrorist activity</i>", and notes that "<i>historically several NPOs were used to raise and send large amounts of funds to support large global terror organisations, the current terrorism financing threat environment is dominated by self funding activity.</i>" This reflects a broader trend, that more rigorous research tends to produce lower risk assessments.</p> <p>Small NPOs identified as risky: Australia's NPO RA is an outlier, in that it identifies small NPOs as potentially 'at risk'. The consensus previously had been that large NPOs were 'at risk', although the evidence basis for this assessment is not clear. Australia's results challenge that old consensus.</p> <p>Improved collaboration: The report noted that "<i>this assessment has fostered deeper collaboration among AUSTRAC, the ACNC, NPO regulators, law enforcement agencies, financial institutions and the NPO sector.</i>" Furthermore, "<i>it has enabled new information-sharing opportunities and discovered high-risk NPOs and individuals likely to be abusing them. In some cases, these entities were not previously known to regulators or law enforcement authorities.</i>" This reflects the experiences noted in the Indonesian and Filipino Reviews of Measures (see <i>Case Studies 11</i> and <i>12</i>).</p> <p>The best current example of a Government-led NPO RA: For its rigour, openness, consultation and collaboration, this case study provides the best current model for how government-led TF risk assessments of the NPO sector should be conducted. At the time of writing, FATF has yet to review this product – their assessment is awaited with interest.</p>		
Link	http://www.austrac.gov.au/sites/default/files/npo-risk-assessment-FINAL-web.pdf		

CASE STUDY 6: COUNTRY R			
Title	<i>NPO Sector Risk Assessment</i>		
Lead	FIU	Date	2016
Type	NPO Risk Assessment (Analysis)		
Context and notable features	<p>Country R completed a National Risk Assessment, using information based on a survey of respondents exclusively from the government and financial sectors. No NPOs were consulted.</p> <p>An NPO risk assessment followed in 2016. The assessment was entirely confidential. No NPOs were consulted, the methodology, conclusions and recommendations remain unknown.</p> <p>The Country's ME was in 2017, with the MER due for publication in 2018.</p>		
Analysis	<p>Secrecy: Country R is a democratic and open country, with a relatively open government, good relations between civil society and government and a culture which values consensus. Nevertheless, the FIU treated both its National Risk Assessment and NPO Sector RA as confidential. Confidential information we have seen show that the outcome was a 'high risk' assessment of the NPO sector.</p> <p>Internal government disagreement. A report completed later by a different government agency reassessed risk in the NPO sector as 'medium'. There was evidence of an on-going dispute between government agencies over which was the correct assessment.</p>		

CASE STUDY 7: KYRGYZSTAN			
Title	<i>NGO Sector Assessment Determining High Risk NPOs</i>		
Lead	A committee of NGOs and government agencies	Date	2016
Type	NPO Risk Assessment (Analysis)		
Context and notable features	<p>The assessment was implemented and led by a committee comprising both NGOs and government agencies, with an NGO chairing the group.</p> <p>The assessment used a methodology specifically designed for facilitating joint NGO-government risk assessments developed by Greenacre (a UK consultancy).</p>		
Analysis	<p>Lack of NRA: At the time of the assessment, the FIU was in a process of transition, and had not done its NRA. This impacted on the NPO RA, which ideally would build on the threat assessment and TF risk analysis in an NRA.</p> <p>Problems with evidence: Following on from the above, the NPO RA lacked specific data on actual risks. There are no public domain cases of TF in the NPO sector in Kyrgyzstan. It is not known whether the government holds confidential information on actual suspicions or investigations. If the information did exist, it was not shared with the NPO RA team even in aggregate or anonymized form.</p> <p>Government buy-in: There are many advantages to an NPO-led RA: they can produce more nuanced and detailed assessments and analysis; and ensure much greater sector buy-in to subsequent TF strategies. However, the most effective will be in collaboration with an FIU partner that is supportive, engaged, is willing to provide evidence, and will endorse the results.</p> <p>Such collaborations are possible – see, for example, see case studies 10 and 11 below.</p>		
Link	The report is not online. More detail on the methodology can be found on Greenacre’s website: http://greenacregroup.co.uk/greenacre-government/npo-risk-assessments/		

CASE STUDY 8: COUNTRY K			
Title	<i>NPO Regulator Risk Assessment</i>		
Lead	NGO Regulator	Date	2017
Type	NPO Risk Assessment (Aggregated Organisational)		
Context	<p>Country K is a small country with a few hundred NPOs. The NGO regulator holds up-to-date, detailed information on its registered NPOs.</p> <p>The regulator identified likely terrorist financing risk factors from open sources, then applied those to each of the NPOs it regulated. This enabled it to produce a list of named NPOs most at risk of TF. The list comprised about a quarter of registered NPOs. The NGO Department targeted extra support and monitoring at these NPOs.</p>		
Notable features	<p>The Aggregated Organisational approach. This case study may be of interest to other countries with small, well-regulated sectors, where this approach may also be employed. The initial feedback suggests that the FATF assessment of Country K was satisfied with this approach to an NPO sector Risk Assessment.</p> <p>Quality outputs require quality inputs. This case provides the clearest example of a principle that holds for all the RAs – that the quality of the assessment depends upon the quality of the information, evidence and analysis on which it is based. If the initial assumptions of what makes an NPO ‘at risk’ are flawed, the entire process is flawed.</p>		
Link	n/a		

CASE STUDY 9: KOSOVO			
Title	<i>Surveying Financial Crime in the NPO Sector</i>		
Lead	FIU / EU funded consultancy	Date	2017/18
Type	NPO Risk Assessment (Survey)		
Context	<p>Kosovo is implementing a survey to identify on financial crime (specifically TF, ML and corruption) in the NPO sector.</p> <p>The survey includes interviews of a representative sample of NGOs, as well as representatives from government agencies. The survey results will be supplemented by data (including confidential data) from law enforcement on STRs and case studies relating to the NPO Sector.</p> <p>Key features of the survey are:</p> <ul style="list-style-type: none"> - The survey to be conducted by an NPO through face-to-face interviews (to increase comfort in the integrity of the process); - A significant proportion of the sector to be interviewed; - Responses sought on: perceptions of threats, risks and vulnerabilities of TF, ML and corruption awareness of any crimes or incidents; and awareness of government response, including laws, regulations, strategies and outreach. <p>Kosovo's FIU is receiving significant technical assistance from the EU. The survey design, methodology and analysis has been / will be undertaken by foreign experts.</p>		
Engagement	Selected NGOs were invited to two meetings to contribute to the development of the survey methodology.		
Notable features	<p>NPO involvement: The FIU and civil society have a good working relationship. A consequence was that the survey of NPOs was led by an NPO,</p> <p>Survey led. A survey approach can be an effective way of obtaining data on TF risks and perceptions in a specific sector – although see the next point. It can also simultaneously act as a means of raising awareness of TF risks and vulnerabilities.</p> <p>Speculative. One weakness with a survey methodology is that it encourages speculative answers from respondents, and treats all responses as equal regardless of their respective evidence basis. The designers of the Kosovan survey were aware of this weakness, which cannot be fully mitigated.</p>		
Link	n/a		

CASE STUDY 10: COUNTRY K (Part 2)			
Title	<i>Review of Laws, Regulations and other measures</i>		
Lead	NGO Regulator	Date	2017
Type	Review of Measures		
Context	<p>Country K had not completed its National Risk Assessment, but had completed an NPO RA. It completed a review of laws, regulations and other measures using a template developed by Greenacre, a UK consultancy. This was a single agency approach, with the regulator completing the research and assessment.</p> <p>The methodology is based as closely as possible on the requirements and best practices set out in the Interpretive Note to Recommendation 8 and The Best Practices Paper. The approach proposed in this review is to split the review into three sections:</p> <p style="padding-left: 40px;"><i>I: Self-regulation</i></p> <p style="padding-left: 40px;"><i>II: Outreach</i></p> <p style="padding-left: 40px;"><i>III: Laws and Regulations</i></p> <p>A sample of the methodology used can be found on the Greenacre website (www.Greenacregroup.co.uk).</p>		
Notable features	<p>Simplicity: A single agency approach to a review allows the research, analysis and recommendations to be completed significantly more quickly and cheaply than collaborative approaches. They may ensure more clarity of vision for recommendations and strategies.</p> <p>Lack of consultation: Further to the above point, single agency reviews will rely on a single perspective and information source, and may be vulnerable to unconscious biases and self-justifications. They are more likely to be challenged or rejected by the NPO sector.</p>		
Link	The review itself is confidential, but more detail on the methodology and template used can be found here http://greenacregroup.co.uk/greenacre-government/npo-risk-assessments/		

CASE STUDY 11: THE PHILIPPINES			
CASE STUDY 12: INDONESIA			
Title	<i>NPO Sector Assessment: Philippine Report</i> <i>Non-Profit Organisation Domestic Review Indonesia Report</i>		
Lead	Central Bank of the Philippines PPATK (Indonesian FIU)	Date	2008 2010
Type	Review of Measures		
Context	<p>These reviews used a methodology for domestic reviews developed by the UK government, and implemented by local committees made up of equal numbers of government bodies and NPOs. The reviews were in three parts:</p> <ol style="list-style-type: none"> 1. Sector survey (profiling the sector) 2. Assessment of the regulatory framework 3. Strategic issues and recommendations <p>These reviews were completed using a methodology developed for the third-round of evaluations and would not be fully compliant with the fourth-round requirements.</p>		
Notable features	<p>Genuine collaboration. The core feature of the methodology was the requirement for the assessment and recommendations to be done jointly and equally by government and NPO representatives. These brought three main benefits:</p> <ol style="list-style-type: none"> 1: The quality of the research and assessment was significantly enhanced, as NPOs provided an alternative perspective on the risks and vulnerabilities faced, and the effectiveness of government actions in addressing those risks and vulnerabilities. 2: The process significantly improved dialogue and mutual understanding between key government and sector officials. In Indonesia, the implementing committee continued to meet and strategize for over a year after the project ended 3: The process ensured NPO buy-in to the recommendations and strategy. 		
Link	<p>http://code-ngo.org/home/images/stories/pdf/Philippine NGO Sector Assessment Full Report.pdf http://fatfplatform.org/wp-content/uploads/2015/06/Indonesia-NPO-domestic-review-Eng-FINAL.pdf</p>		

Glossary

AML	Anti-Money Laundering.
BPP	'Best Practices Paper': Non-binding guidance for countries on how to comply with R8.
CFT	Countering the Financing of Terrorism.
Domestic Review / Domestic Sector Review	See Review of Measures
FATF	Financial Action Task Force: The international body responsible for setting and assessing compliance with AML and CFT rules.
FIU	Financial Intelligence Unit: The government agency responsible for collecting and analysing information on possible ML or TF. It may stand alone, part of the Ministry of Finance or part of the police.
FSRB	FATF Style Regional Body: The regional bodies responsible for implementing FATF rules for countries which are not full members of FATF.
IN / INR8	Interpretive Note: Official and binding FATF guidance on how to interpret one of the <i>recommendations</i> . Often written INR(followed by the number of the relevant recommendation).
IO / IO.10	Immediate Outcome / Immediate Outcome 10: IOs are the 11 FATF rules relating to the effectiveness of AML/CFT measures. IO.10 covers NPOs (as well as some other things).
Methodology	'Methodology for Assessing Compliance with the FATF Recommendations and the Effectiveness of AML/CFT Systems': The handbook for how FATF assesses compliance with its rules.
ME	Mutual Evaluation: The process by which FATF assesses compliance with the rules. Includes a desk assessment and onsite visit.
MER	Mutual Evaluation Report: The end result of the ME process, where a country's score is published.
ML	Money laundering.
NPO	Non-profit organisation: The term used by FATF for the civil society / NGO sector.
NPO RA	NPO Risk Assessment: Risk assessment of the NPO Sector, as required by R8 and covered in paragraph 8.1 of the <i>Methodology</i> .
NRA	National Risk Assessment: An assessment of the total ML and TF risk in all areas of a country's economy. As required by R1.
Recommendations / R8	Recommendations / R8. Recommendations are the 40 FATF rules relating to technical compliance, usually written R(followed by number). R8 relates exclusively to technical compliance with TF in the NPO sector.
Review of Measures	Review of Measures: A reviews of laws, regulations and other measures required by <i>Recommendation 8</i> . The <i>Methodology</i> makes it clear that it should also include 'other measures' (R8.1(c)). The review should focus only on measures that target those NPOs identified as being 'at risk' of TF, so would normally come after an NPO RA. Sometimes called a ' <i>Domestic Review</i> ' or ' <i>Domestic Sector Review</i> ' reflecting the term used in R8 before the 2015 reforms.
RBA	Risk Based Approach: The core concept behind FATF's assessments since 2012, requiring countries to show that they understand their AML/CFT risks and that measures are proportionate and targeted. As required by IO.1.

<i>RRA</i>	See SNRA .
<i>SNRA</i>	Supra-National Risk Assessment: A risk assessment of more than one country, usually of a specific region. Also sometimes known as a <i>Regional Risk Assessment (RRA)</i> .
<i>SAR</i>	Suspicious Activity Reports: See <i>STR</i>
<i>STR</i>	Suspicious Transaction Reports: Statutory reports sent by financial institutions to <i>FIUs</i> about any financial transaction which triggers an <i>AML/CFT</i> concern. Some countries generate tens of thousands each year. Sometimes also called <i>Suspicious Activity Reports (SARs)</i> .
<i>TF</i>	Terrorist Financing.
<i>Typologies</i>	'Risk of Terrorist Abuse in Non-profit Organisations'. An official <i>FATF</i> publication cataloguing global case studies of <i>TF</i> cases in the <i>NPO</i> sector.