



The ABCs of Conducting a Risk Assessment of the Nonprofit Sector in your Country

FATF is the **Financial Action Task Force**, an inter-governmental body established in Paris in 1989 by the G7. It seeks to combat money laundering, terrorist financing, proliferation financing and other threats to the international financial system. It is both a policy-making and enforcement body. It sets out 40 Recommendations on anti-money laundering and counter-terrorism and counter-proliferation financing policies to guide countries in their laws and policies.

The FATF has 39 members and 9 associate members (the FATF-Style Regional Bodies). More than 20 bodies have observer status (among them, the IMF, World Bank, OECD and various UN organs). Over 190 countries and territories have committed to implementing the FATF Standards.

What is a Risk Assessment?

The risk-based approach underpins the FATF Standards. At the very outset (Recommendation 1), jurisdictions are required to carry out a National Risk Assessment to:

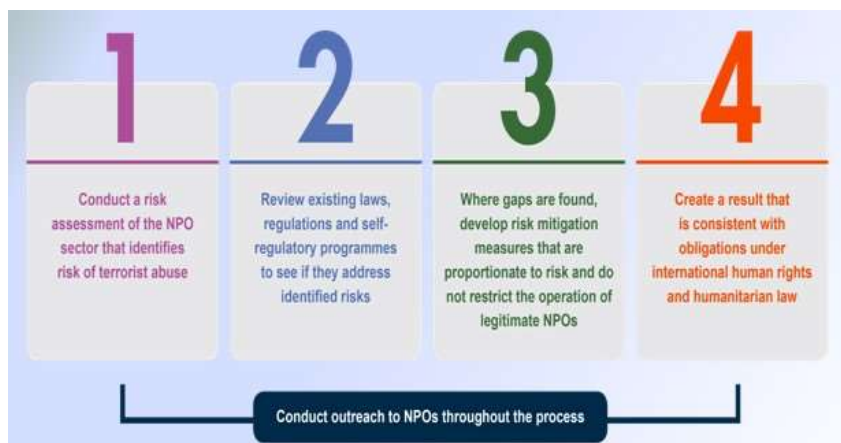
“identify, assess, and understand the money laundering and terrorist financing risks for the country, and ... take action, including designating an authority or mechanism to coordinate actions to assess risks, and apply resources, aimed at ensuring the risks are mitigated effectively. Based on that assessment, countries should apply a risk-based approach (RBA) to ensure that measures to prevent or mitigate money laundering and terrorist financing are commensurate with the risks identified.”

Recommendation 8 is the FATF Standard that deals with Nonprofit Organizations (NPOs), and requires countries to assess the sector for any potential terrorism financing risk. It is essential for countries to carry out a terrorism financing (TF) Risk Assessment of the NPO sector, either as part of the National Risk Assessment or as a standalone exercise. The goal is to **identify the subset** of NPOs in a country that meet the FATF definition, **identify the features and characteristics** of those NPOs that may create exposure to TF risk, and then, if any NPOs are found to be at risk, to help these NPOs effectively mitigate that risk.



There are two parts to this sectoral Risk Assessment process. The first is determining the **inherent risk** (threat and vulnerability) to which a subset of the sector is exposed. The second is to take into account the rules, regulations and measures already in place (including sectoral self-regulation measures) to see whether there is any **residual risk**. If gaps are found, the risk mitigation measures that are then put in place must be proportionate to the risk and must not hamper legitimate nonprofit activity. Additionally, there should be outreach to and engagement and consultation with the NPO sector throughout the Risk Assessment process.

Summary of R8 Process





This emphasis on a "**risk-based approach**" is significant. The FATF cautions against a broad-brush approach to countries' counterterrorism financing measures. Rather than impose blanket restrictions on the nonprofit sector, a government must justify its regulations based on evidence of existing risk. In addition, the FATF expects countries to update their Risk Assessments periodically, recognizing that risk changes over time.

An important way that governments should assess risk in the nonprofit sector is through **continuous dialogue and consultation** with civil society stakeholders - you! The FATF encourages a participatory approach to NPO Risk Assessments. As is outlined in the Best Practices Paper: *"a healthy ongoing productive working relationship with a representative section of the sector is of paramount importance to the success to the risk assessment exercise."* Engagement and consultation must happen at the inception stage, and must continue throughout the whole lifecycle of a Risk Assessment.

Further, the FATF emphasizes the importance of taking **sectoral self-regulation measures** into account when calculating risk.

How can NPOs get involved?

Civil society stakeholders have an important opportunity to raise our voices and engage with government in order to challenge the oftentimes blanket perception of the risk of the nonprofit sector for TF purposes.

Based on recent assessments worldwide, there is often a **lack of understanding** between the government agencies tasked with conducting the Risk Assessment and civil society stakeholders. Government agencies, for example, are not always aware of laws and regulations already in place to mitigate such risk or indeed of the self-regulatory measures/codes of conduct that the sector itself takes or has to mitigate TF risk (and these can be TF specific, and also TF-relevant, such as good governance, accountability, transparency, knowing your partners and beneficiaries). Additionally, stringent donor grantmaking and financial reporting procedures also mitigate TF risks and need to be taken into account when determining overall risk. As experts on their own operations, NPOs have the opportunity to educate their governments.

Top tips:

- Build a network of NPOs in your country: establishing a coalition will aid information-sharing and dialogue in order to advocate with one coherent voice
- Locate a singular point of contact between your civil society coalition and the government



- Understand the government: it is important to listen to and address the specific risks and concerns from your government
- Consult the Global NPO Coalition on FATF for more information on potential pathways of involvement

This information was sourced from a Global NPO Coalition on FATF webinar, "The ABCs for Risk Assessment of the Nonprofit Sector in Your Country." Available at bit.ly/ABCsofRisk
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For more information about the **Global NPO Coalition on FATF**, contact us:

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