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TECHNICAL PAPER

**Regional terrorism financing risk assessment of the not-for-profit (NPO) sector in the
Western Balkans and Türkiye– 2020/2021**

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Disclaimer:

This technical paper is prepared within the Horizontal Facility's Programme for the Western Balkans and Turkey.

The views and opinions presented herein are those of the authors and should not be taken as to reflect the official position of the European Union and/or the Council of Europe.

* This designation is without prejudice to positions on status and is in line with UNSC 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.



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1 INTRODUCTION AND BACKGROUND

This regional terrorism financing risk assessment (RRA) in the not-for-profit organisation (NPO) sector in the Western Balkans and Türkiye was commissioned by the Council of Europe's Economic Crime and Cooperation Division (ECCD), with a view to ensuring that national authorities in the region have an increased understanding of the common and specific risks of terrorism financing through the NPO sector. This assessment was conducted as part of the Regional Action against Economic Crime in the framework of the EU/Council of Europe Horizontal Facility for the Western Balkans and Turkey – Phase II (HF II), intended to foster a uniform approach to the implementation of relevant Group of States Against Corruption (GRECO) and Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) standards, as well as to support cooperation and coordination on cross-border aspects of the fight against economic crime in beneficiary jurisdictions.

This RRA represents the pilot of a bespoke RRA methodology that was developed with the Western Balkans and Türkiye in mind, however, the methodology could be deployed in any other appropriate region including but not limited to Central Asia, North Africa, or the Eastern Partnership.

This RRA has four aims:

1. Promote regional cooperation to identify, mitigate and prevent terrorism financing (TF) in the NPO sector;
2. Provide national supervisory authorities with sufficient indications to implement a comprehensive risk-based approach to supervision in the NPO sector, based on regional TF risks;
3. Improve awareness of potential TF risks among NPOs, and encourage the design and implementation of internal safeguards to mitigate TF within their own organisations;
4. Promote outreach to and engagement with the NPO sector in the risk assessment processes in line with the Financial Action Task Force's (FATF) Recommendation 8 and its Interpretative Note.

The conclusions of this RRA could serve as a useful basis to identify additional priorities for risk management at the national and regional level. The RRA is not a process for ranking jurisdictions within the region on their relative exposure to terrorism financing risks in the NPO sector. The outputs of this RRA should aid in setting priorities for future engagement on reducing exposure to terrorism financing risk in the NPO sector, but the methodology with which this RRA was carried out itself does not produce such recommendations. Neither the RRA nor its methodology provide the basis for adopting or amending legal or regulatory frameworks on the national level.

This report is under the aegis of the Regional Action against Economic Crime in the framework of the EU/Council of Europe Horizontal Facility for the Western Balkans and Turkey, and as such does not include all jurisdictions in the region and focusses on Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, Serbia and Türkiye that fall within the remit of this facility. Nevertheless, the authors recognise that the regional challenges addressed in this report likely interact with similar challenges in other jurisdictions

across the Balkan region, and that these challenges and potential solutions should be considered within this context and could potentially extend the list of factors that were taken into account for this report. The roundtable that followed this report took into account different perspectives from the region (understood in its full geographic scope) and beyond and served as a forum to discuss the validity of the assessment findings.

(...)

8 CONCLUSIONS AND RECOMMENDATIONS

The final regional risk factor scores demonstrate that TF risks in the region's NPO sector are focused in just a few key areas, despite many more risk factors with a regional dimension being identified.

Religious/ethnic/cultural NPOs and foreign NPO funding from high-risk jurisdictions or unverifiable sources represent the prime risk areas for the region, with the analysis yielding strong confidence that these both pose a very high risk. This follows an observed orthodoxy when it comes to terrorism financing via the NPO sector and suggests that there is real concern with the foreign funding of NPOs in the region that have religious, ethnic or cultural aims, possibly (and particularly) where that foreign funding is made with the intention of influencing activity in the region by exploiting commonalities of faith. Recognising the religious extremist terrorism threat in the Western Balkans and Türkiye, these risk factors could be best addressed at the regional level to ensure a uniform approach to repelling this TF threat.

Further, we see that **humanitarian, charitable, and aid-giving NPOs** pose a notable, though slightly less significant TF risk for the region. Interestingly, it would appear that the charitable mission of an NPO has an important bearing on whether or not it may be targeted for exploitation for TF purposes. Related to this, given the significance of trans-border identity affiliations in the region, TF risk is expected to be greatest where those affiliations become implicated in terrorist activity to raise, move, store or spend funds. Similarly, where humanitarian aid delivered along the trans-Balkan migrant corridor is concerned, the potential for aid to be diverted or misappropriated has a risk of materially enriching terrorists or their supporters.

Uniquely, the analysis yields certainty that there is little risk of terrorism financing where **NPOs in the region are funded by diaspora communities**. This is the only risk factor to receive a risk score of low and a high confidence score, suggesting that diaspora links do not fuel terrorism financing abuse of the NPO sector in the way that financial connections with other high-risk jurisdictions might. Overall, it could be said that the motivations of foreign states has a far greater bearing on regional risk than the supposed connections or motivations of expatriates.

Whilst the methodology is designed to minimise speculative conclusions based on received wisdom, one risk factor may benefit from a degree of human over-ride. Over the last decade, the **financing of foreign terrorist fighters (FTF)** has emerged as a new and significant TF typology of concern for the NPO sector, and in this regional risk assessment we considered



the return of FTFs to the Western Balkans and Türkiye to be a risk factor worthy of consideration in the second half of the assessment. Whilst political developments have lessened the TF risks associated with outgoing FTF (particularly to conflicts in Iraq and Syria), it is plausible that returning FTF present a current risk which has yet to be observed in the cases, recognising the lag time between TF incidents and the completion of investigations resulting in judicial action. It would be prudent to remain abreast of this likely still-evolving threat when considering next steps, despite this risk factor being rated a low-risk in the present analysis.

It may be considered worthwhile **to treat similarly risks related to money-transfer services and other alternative channels for moving funds**, apart from the formal banking sector, which were rated as low-risk in this analysis. However, whilst this may emerge as a risk, the **use of virtual assets for storing and moving funds is currently highly obscure in the region**, commensurate with the relatively modest uptake seen across most of the developed world. There may be scope for this to change in future, particularly in spaces where philanthropic uses of virtual assets and other financial technologies may present opportunities for NPOs to counteract the impacts of disproportionate regulations placed on their sector, and we might also expect terrorist exploitation of virtual assets to increase in-step with overall popularisation. However, these are speculations about a potential future risk. There is no compelling evidence of this risk being currently manifest, and currently no justification for any preventative regulation or restrictions beyond continued ongoing monitoring.

A second incidental conclusion of this report is the lack of consistency in responses from financial institutions to the questionnaires, compared to the relative consistency in the responses from government authorities and NPOs. This may point to a significant information gap within the sector, which is troubling given its key role as the gatekeeper to financial inclusion and within the counter terrorist financing architecture in many jurisdictions.

These final scores could be the basis for setting priorities for further engagement to prevent TF abuse of the NPO sector in the Western Balkans and Türkiye. Priority-setting for regional or state-level follow-up/engagement should generally follow from the risk scores (very high risks first, then high, etc.) while also considering the corresponding confidence measures may affect priority setting as well. For example, risk factors where confidence is low may be good places to advance information gathering or horizon scanning efforts, in case those risk factors should pose more serious regional risks in future. This is the case for the other six regional risk factors studied.

8.1 UNINTENDED CONSEQUENCES OF MITIGATING MEASURES ON NPOS HAMPERING RISK BASED APPROACH

Combating TF is primarily the responsibility of states, however, NPOs have a role to play in working with governments to help address and mitigate potential risks, including in addressing conditions conducive to terrorism. Many NPOs have willingly adopted and implemented CFT and risk mitigation measures to increase overall transparency and accountability. However, CFT measures have sometimes resulted in unintended consequences. As noted by the Financial Action Task Force (FATF) and Global Counter

Terrorism Forum (GCTF) in recent reports,¹ some CFT approaches that are not designed and implemented consistently with the FATF standards have a chilling effect on the operations of NPOs. Moreover, this could trigger a reaction towards government CFT efforts. CFT measures have been abused, misused or misapplied, which can contribute to the inability of NPOs to operate, as well as unduly hindering access to financial services, constricting civic space, hampering associated individual rights to freedom of expression and association.² This could also have adverse effects on the using of alternative systems of financing. FATF recognises that such measures, whether deliberate or unintended, are inconsistent with broader international obligations and may undermine the overall effectiveness of measures intended to reduce terrorist financing risks³.

The FATF analysis examines different types of constraints: (1) intrusive supervision of NPOs; (2) restrictions on NPOs' access to funding and bank accounts; and (3) forced dissolution, de-registration or expulsion of NPOs, including a variety of restrictions, burdens and requirements that impede the NPOs operations. The analysis concludes that the undue targeting of NPOs in the context of purported or real AML/CFT implementation may be related in some cases to poor or negligent implementation of the FATF's risk-based approach.

8.2 RECOMMENDATIONS

This report identified two 'very high' and one 'high' risk with a good level of confidence. It also noted some specific regional issues in countering these risks. Nevertheless, it is noted that the main mechanisms for countering terrorist financing risks remain national, even where such risks are regional. This is particularly true for laws and regulations but is also a significant factor for policy measures and NPO best practices.

Upholding a full risk-based approach for the design and implementation of CFT measures by states is the only manner to achieve efficient resource allocation and improve risk mitigation outcomes, while also providing a critical foundation for avoiding hampering NPO legitimate actions and undue negative consequences on civic space, humanitarian action, and the provision of timely financial services to NPOs. Effective, collaborative risk assessments are fundamental to this effort. They underpin both FATF R8 compliance and the development and implementation of effective measures to combat terrorist financing risks to NPOs. They therefore deserve attention at the regional level despite being primarily national-level endeavours.

¹ See FATF, '[High-Level Synopsis of the Stock take of the Unintended Consequences of the FATF Standards](#)', 27 October 2021, accessed 26 November 2021; GCTF, '[Good Practices Memorandum for the Implementation of Countering the Financing of Terrorism Measures While Safeguarding Civic Space](#)', September 2021, accessed 26 November 2021.

² The Recommendation 8 Interpretive Note specifically states that 'measures to protect NPOs from potential terrorist financing abuse should be targeted and in line with the risk-based approach. It is also important for such measures to be implemented in a manner which respects jurisdictions' obligations under the Charter of the United Nations and international human rights law'.

³ See 'Mitigating the Unintended Consequences of the FATF Standards' (FATF, 2021), as well as paragraphs 3.b and 3.e of the 'Interpretive Note to Recommendation 8', paragraphs 2, 6 and 22 of the 'International Best Practices: Combating the Abuse of Non-Profit Organisations' (FATF (2015)), and paragraphs 20, 21, 28, 84-87 and 132 of the 'Risk of Terrorist Abuse in Non-Profit Organisations' (FATF, 2014)

The recommendations for a regional response are:

1. **Disseminate the results of this report** amongst governments, NPOs and financial institutions in the region, and relevant international stakeholders (MONEYVAL, FATF and other inter-governmental bodies).
2. Further **consider 'Risk Factor 1 (Religious/Ethnic/Cultural NPOs)'** at international and regional level and develop recommendations for next steps and practical solutions. Measures should be taken to ensure that a frank discussion can be held. These could include:
 - Separate meetings for each of the major denominations;
 - Limited participation of selected governmental and private sector stakeholders;
 - Chatham House rules.⁴
3. **Consider regional meeting of stakeholders to discuss 'Risk Factor 3 (Foreign NPO Funding from High-Risk Jurisdictions or Unverifiable Sources)'** and make recommendations for next steps and practical solutions. Participants should include representatives from:
 - Central Banks and FIUs;
 - Financial institutions and their representative bodies;
 - NPOs in receipt of foreign funding;
 - Major institutional donors, including the EU, USAID and major private foundations.
4. Member states should undertake **awareness raising for the financial sector on the level and nature of TF risks to NPOs**, and best practices in monitoring NPOs as clients. Relevant competent authorities such as Central Banks and national banking associations should be invited to help develop and implement the outreach. Mechanisms for data collection and analysis of the relevant NPO-related TF risk factors should be enhanced to ensure proportionality and reliability of the conclusions. Two-way communication between financial institutions and the NPO sector would help to ensure data is properly understood.
5. To improve understanding of jurisdiction-specific TF risks and CTF best practice between financial institutions, NPOs and government authorities, member states should consider hosting tri-partite meetings between these sectors,⁵ with a view to bridging misunderstandings about organisational operating models, the efficacy and appropriateness of mitigating measures, and true exposure of NPOs to TF risks.
6. Regional events should contribute to **sharing best practices on NPO TF Risk Assessments** and to share the results from completed NPO TF risk assessments in the region. The development of new tools and models for analysis of data at the national and regional level should be considered to assess the TF risks related to the NPO sector while ensuring the proportionality and reliability of the analysis.

⁴ See here the [Chatham House Rules](#).

⁵ Member states may consider a model for such meetings developed by Project CRAAFT (Collaboration, Research and Analysis Against the Financing of Terrorism). Such a workshop was held for Bulgarian stakeholders in 2021 in partnership with the Bulgarian Centre for Not for Profit Law, [More Communication =More Effectiveness](#).

7. **Jurisdictions should take into account the fundamental importance of NPO TF risk assessments** and take action based on sound methodological approaches, extensive intra-agency cooperation and international coordination including **on collaborative NPO TF risk assessments**;
8. The value of a **regional network of competent authorities (supervisors, FIU, law enforcement and intelligence)** to share operational information and good practices should be considered.

