



26 March 2024

Input to the European Commission (EC) Supranational Risk Assessment (SNRA) –advising on a different risk rating for NPOs with regard to Money Laundering (ML) and Terrorism Financing (TF) threat and vulnerability

We are pleased to share as a coalition of NPOs, including philanthropic organisations, the following initial input around the envisaged 2024 SNRA, taking into account the following two documents from the 2022 SNRA:

- The [Commission report](#), as adopted by the Commission on October 27, 2022 and presented to the Council and Parliament, and
- The [Staff Working Document](#) accompanying it, which is the part on “annexes”, presenting the individual assessment of the specific sector/products analysed. We refer in particular to the Chapter V on “Non-Profit Organizations (NPOs)”, pgs. 238-246) of the Staff Working Document.

We regret that the 2022 SNRA was done without meaningful consultation of the NPO sector at the time and we would appreciate it if, ahead of the 2024 assessment, we could set up a meeting to explain our inputs in a constructive dialogue.

Context and need for developing a precise and evidence-based SNRA:

We strongly support the important fight against money laundering and terrorism financing. We also stress that any policy countering these crimes must be risk-based and proportionate towards the NPO sector and must not unduly restrict our sectors’ legitimate public benefit activities. The EU-level risk assessment must be evidence-based, precise and done in consultation with the NPO sector to be able to form the basis of EU policy developments.

We call on the European Commission to ensure that the SNRA and risk rating is based on a sound methodology and evidence and done in consultation with the NPO sector, since its findings and consequent actions will determine the regulatory environment for the entire NPO sector. In particular, it seems that the money laundering risk assessment is not done according to own risk factors and analysis but appears as an add-on assessment without much attention.

Being rated in past EU-level risk assessments, including in 2022 with a threat scenario for NPOs collecting or transferring funds “at significant risk”, has contributed to the overregulation of NPOs in several Member States. We have understood that some Member States have referred to it as a source of evidence to consider the NPO sector at risk that needs addressing through overly tight and broad application of ML or CFT rules. We have noted that threat and vulnerability with regard to other parts of the NPO sector have been adjusted to moderately significant or less significant, which we welcome, but we consider that the risk related to the threat scenario for NPOs collecting or transferring funds should also be lowered to “moderately significant” for the reasons we explain hereunder.

The partial risk rating of our sector as “significant” may have also contributed to the issue of increased bank de-risking and difficulty in accessing regular financial services for the NPO sector.

This is affecting more and more NPOs including foundations and in an increasing number of instances. It has a critical impact on the delivery of humanitarian assistance and services worldwide, as well as on other philanthropic and public benefit work. Not being able to access the formal financial sector also poses additional TF and ML risk, given that NPOs then have to look at alternative and sometimes informal money transfer systems in order to carry out their vital work.

In a number of Member States, NPOs are raising the issue with their governments. Dialogues are being established for example in the Netherlands, France, and Germany, bringing together representatives from banks, bank supervisors and regulators, Financial Intelligence Units, Ministries of Finance, MFA/humanitarian aid departments and NPOs to find acceptable solutions to this critical issue to avoid the creation of new risks through the issue of bank de-risking.

Recommendation to review the methodology and consultation process:

We recommend that the methodology used to assess ML/TF risks must be precise, evidence-based, clear and up-to-date to deliver appropriate findings. However, we do not consider that the 2019 and 2022 methodology corresponds to the specific characteristics of the NPO sector and hence recommend an overall review of it, as also discussed in previous meetings since 2018. In the past it was stated that the SNRA was not an aggregate of national risk assessments but we now understand that this now might be part of the methodology. In addition, the methodology should reflect the latest revisions of the FATF Recommendation 8 and its Interpretative Note as well as the new Best Practice Paper for Combating TF Abuse in NPO Sector, to incorporate also assessment of unintended consequences of the measures undertaken to mitigate TF risks for NPO sector. The launch of a new SNRA process is the opportunity to develop a new methodology that would best fit the extremely diverse NPO sector, which includes grantmaking, fundraising, operating, humanitarian, advocacy, watchdog, think tank, local, international, small and large organizations of all different types and forms. The level of risks can be extremely diverse and, for instance, the money laundering risks for the part of the sport sector cannot be applied to the whole sector.

The process of consultation within the SNRA has so far been very restricted, since only a very limited number of stakeholders is engaged in the process. It is far from meeting the modalities

of a structured dialogue, as required by FATF guidance on conducting risk assessments. Potentially wider sector consultation could also happen via online tools. We think that it is very important to involve national and European level representatives and umbrella bodies in the process.

We are at your disposal for a thorough review of the methodology and the consultation process.

Some useful guidance has been developed by the FATF concerning national and NPO risk assessments, including with emphasis on NPO outreach and engagement, which we are happy to share - please find it [here](#).

Therefore, we call on the EC to:

- **revisit its own methodology for the SNRA, concerning the NPO sector; and**
- **ensure more transparency and inclusiveness for the SNRA process by outreach to a wider NPO constituency.**

Recommendation to lower the risk level for TF of NPOs:

The level of threat for TF in the 2019/2022 SNRA remains at level 3 for parts of the NPO sector threat scenario, even though the 2019 SNRA explicitly stated that the assessment of the collection and transfer of funds by NPOs shows that this is not a method frequently used by terrorist groups. The Commission stated that in rare cases NPOs may be infiltrated by terrorist groups, which may then represent a significant threat, in particular as concerns the funding of foreign terrorist fighters. According to the Commission, NPOs have been infiltrated only in very few cases and generally more specific knowledge is needed to access funds collected or transferred by NPOs to finance terrorist activities. Nevertheless, the level of threat for TF is considered as significant. Therefore, the level of threat is not commensurate with the findings of the SNRA and is contrary to the requirements of the revised new FATF Recommendation 8.

There are no sufficient arguments in the assessment conducted so far to justify the current threat rating. We believe that good governance arrangements, regular financial checks and risk management policies and procedures that fit the specific needs and size, activities and areas of operation of NPOs, are the best and most used tools to safeguard against terrorist financing and money laundering. NPOs have also become increasingly aware of potential risks and have put careful mitigation measures and practices in place. This has also been reflected in the latest examples within the new revised FATF Best Practice Paper for Combating TF Abuse in the NPO Sector. However, a zero-risk scenario does not exist. We also raise the concern that a rating with “significant” level of threat in the SNRA has contributed to the **overregulation of our sector** in some cases/countries.

Therefore, given increasing (academic) evidence and the outcomes of the National Risk Assessments, we as NPO sector representatives call on the EC to:

- **lower the threat for NPOs including philanthropic organisations to medium-low**

- **or otherwise to provide the sufficient evidence of such cases in order to justify the current level of threat for the whole very diverse sector.**

This is elaborated more in the following sections:

1. Need to distinguish between 'inherent risk' and 'residual risk'

In any Risk Assessment there is the need to look at two parts of the risk: the 'inherent risk' and 'residual risk'. The inherent risk is the potential threat of TF abuse the sector faces and its vulnerability thereof; while the residual risk is any risk that might remain after mitigating measures have been taken into account. These measures include laws, rules and regulations, but also self-regulation measures. The SNRA conclusions for the sector appear to be based on inherent risk, and do not reflect the residual risk (if any). The FATF in its revised R8/IN and BPP makes this clear:

'Many NPOs may face low TF risk exposure, may have adequate self-regulatory measures and related internal control measures to mitigate such risks, and/or may already be subject to adequate levels of legal and regulatory requirements, **such that there may be no need for additional measures**' (from Interpretive Note, pp. 60-65)

2. Impact of existing measures to mitigate potential risks

The 2019/2022 SNRA and more recent national level assessments revealed that those NPOs which are considered more exposed to risks (service delivering NPOs, larger organisations with international outreach, humanitarian, etc.) **are already under tighter and more strict obligations** and are more frequently checked by supervising authorities, tax authorities, banks (obliged entities), public and private donors and auditors. The implementation of the EU AML/CFT policy has also introduced more transparency and reporting requirements for the NPO sector. The NPOs considered exposed to the risks above most often have self-regulation and internal systems of checks in place which are more elaborate than the regulatory obligations.

- **Hard law**

We consider that existing AML/CFT systems appear to adequately address potential risks. Controls and registration processes for NPOs are not the same across all Member States but this should not be considered a weakness of the system or of inadequate controls and checks. The NPO sector is well regulated in the EU countries by a system of civil law/tax law/charity law as well as ML and CFT laws, which have evolved out of and can be explained according to the different cultural and legal traditions and history of the different Member States. Specific AML/CFT rules have been introduced by the 4th and 5th AMLD, and, currently, by the EU AML/CFT Package. In this context, Registers of beneficial owners (BO) of NPOs have also been introduced in EU Member States.

- **Banking and financial sector checks**

Philanthropic and other non-profit actors have reported that **banks** and other financial and consultancy service providers undertake Know Your Customer (KYC), AML and FATF Recommendation 8-related checks.

- **Auditor checks**

For those NPOs being audited, audits imply additional checks and controls. Auditors of several philanthropic actors look at internal controls and due diligence processes to ensure that the money given to grantees is not subject to fraud or otherwise being inefficiently used. Terrorism financing is part of the broader check on fraud, given it would be a misuse of funding provided or funding being provided to a fraudulent organisation. Similarly, INGOs (International NGOs) are subject to internal controls and due diligence processes and have to undergo internal and external audits, ensuring the robustness of systems and checking the absence of misuse of resources. INGOs have reported that they are audited approximately every six months or even more often by a variety of donors and by different companies.

- **Guidance by governments and regulators**

Some governments and charity regulators have issued concrete guidance for charities to prevent TF abuse, see, for example, the Charity Commission for England and Wales toolkits: <https://www.gov.uk/government/publications/charities-and-terrorism>

- **Increased collaboration of governments with the NPO sector**

We are seeing more willingness of governments to work together with representatives and umbrella organisations of the NPO and foundation sector to assess and address potential risks. Such collaboration both at a national level and at a European level is an important measure to identify and reduce potential risks and raise more awareness within the sector, and should be promoted as good practice.

- **Self-regulation – codes of conduct**

There is a strong self-interest to act professionally, to be transparent and accountable and to ensure that no abuse takes place. There are sector-initiated **codes of conduct** developed by many types of NPOs (e.g. humanitarian, fundraising as well as the wider philanthropic sectors), which often include guidance on governance, reporting, monitoring of the use of funds, knowing your donors and knowing your beneficiaries (see also examples in FATF BPP), codes, e.g., include internal procedures (sometimes based on donor regulation) and the 6-eye-principle on signatures for financial transfers.

- **Increased own risk assessment and mitigation measures**

NPOs have in many cases adopted **mitigating measures**, including internal systems of checks, which often include reporting, monitoring of the use of funds, as well as knowing your donors and knowing your beneficiaries' efforts. Public donors also put detailed reporting requirements in place.

Overall, there is a strong **self-interest** of non-profit organisations to act professionally, to be transparent and accountable and to ensure that no abuse takes place. We would also like to recall that NPOs, including philanthropic organisations, are in general not those legal entities engaging in activities, which are particularly likely to be used for money laundering or terrorist financing.

In response to new and intensified risks of acting in certain areas/regions, most larger NPOs/philanthropic organisations have adopted sophisticated and professionalised risk management approaches, which cover not only areas of security and safety but also fiduciary, legal, reputational, operational, ethical, and information risks. Examples include:

- Security briefings and awareness raising around risks for staff
- NPOs operating in the humanitarian sphere are often funded by donor governments who have very strict compliance and due diligence requirements, which we must adhere to. In addition, context-based risk management procedures are developed: if an NPO is planning a programme in a country with a high risk of designated terrorist activity, or involving a cash transfer, appropriate risk assessments and mitigation measures are carried out, documented and kept/updated where appropriate throughout the programme
- Policies on anti-fraud, bribery and corruption, and CFT
- Due diligence practice and checks: most NPOs have clear policies in place to ensure that funds and resources are fully accounted for and not diverted to terrorists or money laundering. NPOs undertake due diligence on donors and beneficiaries (the use of software to screen partners against certain lists was reported, cross-referenced with data published by specialised bodies).

In order to mitigate risks, the vast majority of philanthropic organisations do not transact in cash and in many cases insist upon partners having audited accounts. They perform strict due diligence on partners, and meet with beneficiaries, check finances, carry out unannounced visits and inspections, etc. Several have already developed or are developing a whistle-blower mechanism.

The NPO sector continues to raise awareness and develop methodologies to limit risks of fraud, corruption and other misuse of funds. The sector has over the last 2 years been even more active in developing training modules, exchange of good practices and workshops to make sure NPOs are best equipped. Please find more information on these global, regional and national activities at www.fatfplatform.org.

The Norwegian Refugee Council (NRC) designed a "[Toolkit for principled humanitarian action: Managing counterterrorism risks](#)". This toolkit is being widely disseminated across the sector. In its members' [survey](#), VOICE found that a majority of its NGO members were already equipped with a dedicated C-specific policy in 2021. The use of screening software has become standard practice in the sector and is now part of standard risk management procedures.

Over the past years, VOICE and Philea have also organised workshops to raise awareness among members and contributed to sharing good practice.

Within the framework of the French national action plan against ML and TF, the Treasury Department (*Direction Générale du Trésor*) published a best practice [guide](#) for associations which explains the rules and regulations, allows them to review the risks and details good financial practices to ensure transparency and compliance. This guide is available online and distributed to all associations upon their establishment.

To sum up, NPOs believe that good governance arrangements, financial checks and risk management policies and procedures that fit the specific needs and size, activities and areas of operation of NPOs, are the best tools to safeguard against a range of potential abuse, including terrorist financing and money laundering. NPOs are aware of potential risks but in most cases do not consider themselves at risk because of the careful mitigation measures and practices in place. However, that said, a zero-risk scenario does not exist.

3. Actual abuse cases for TF of NPOs are very low

Having reviewed and cross-checked the evidence again within our constituency in different EU Member States, as well as the latest available research and survey reports and studies, we are not aware of actual abuse cases in the NPO sector. We understand that information on existing cases is known to EUROPOL/FIUs/regulators on national level and we encourage the Commission to include evidence from the commissioned research study on this topic to provide additional data and evidence from Member State level. We also call in this context on the Commission to help facilitate better exchanges of those authorities with the NPO sector about (anonymized) findings or evidence, to enable learning from existing abuse cases and the creation of better detection and protection systems from within the sector. Such exchanges could work on anonymous case study sharing to be able to develop a typology of cases and better understand contexts in which abuse cases occur.

The FATF listed sources and analysis, based on publicly available information, state that actual proven abuse cases of NPOs for terrorism financing are very low in number. It appears that there may be alleged cases currently in front of courts involving Foreign Fighters, and returnees that have been supported by friends, families and other supporters sometimes also through a charity that was then used for collecting and transferring funds. Based on informal information we received, these limited cases involved individuals who set up a “fake” charity or were a board member of a charity but are still under prosecution and hence not in the public domain.

If those abuse cases get confirmed, we believe that risk mitigation measures with regard to foreign fighters deserve a specific risk review and should also include concerned communities. In this context, it needs to be noted that this issue does not pertain to the vast majority of the NPO sector.

4. Data deriving from national risk assessments and academic research consider the NPO sector not at significant risk

We welcome the fact that the 2022 SNRA refers to national risk assessments. At national level, some EU countries have undertaken a sector-specific Risk Assessment for NPOs. However, it seems that the SNRA does not take into account the findings from existing FATF risk assessments in its risk rating. From the data in the FATF evaluations of past years, the national risk assessments do not provide conclusive evidence of any enhanced risk for the non-profit sector.

The German government completed its national risk assessment in preparation for the upcoming FATF evaluation, and the Ministry of the Interior also conducted an NPO sector risk assessment. The report published by VENRO (an umbrella organisation of development and

humanitarian nongovernmental organisations (NGOs) fed into this assessment: [Preventing terrorist financing in the NPO sector: Measures to mitigate the risk of terrorist financing in the NPO sector in Germany](#). This report is based on a survey among the NPO sector, a desk assessment of Germany's current compliance with the requirements of Recommendation 8 and Immediate Outcome 10, and a series of interviews with selected stakeholders. It found that most NPOs do not consider terrorist financing to be a major issue for their organisations or for the sector as a whole. In fact, survey results pointed to a strong perception that the risk of terrorist financing is lower than the risk of fraud, corruption, or money laundering. The report concluded that the basic legal and regulatory regime for NPOs is sufficient to meet the requirements of FATF in almost all respects. Furthermore, many examples of best practice measures were identified in terms of self-regulatory regimes, which can significantly reduce the risk of terrorist financing for NPOs which operate in high-risk environments. Many of these measures have also been supported by the government.

The French government also completed its national risk assessment¹ and concluded that the threat level of ML on NPOs is estimated quite low as well as the threat level of TF. Indeed, the assessment of the threat of TF (embezzlement) for NPOs is rare as evidenced by the number of reports by TRACFIN² (700 reports linked to suspected TF or radicalization involving associations in 2021), the number of judicial proceedings (8 proceedings since 2016) and convictions targeting NPOs on terrorism grounds.

5. Perception of risks by undersigning NPOs

Representing NPOs, including philanthropic organisations, working for the public benefit either as grant givers, organisations running their own programs, think tanks, delivering of services or advocacy organisations, we are aware and concerned about money laundering and terrorism threats both in Europe and in third countries. Several NPOs work in areas considered 'high-risk' in order to provide assistance to the population as well as to promote positive measures aimed at social inclusion, and human rights education, which contributes to fighting extremism. There is also a significant number of NPOs engaging in poverty reduction and humanitarian support. The undersigning NPOs/networks believe that a smaller number of organisations within our sector can be at risk for money laundering or terrorism financing for different reasons, but we are not aware of a significant number of cases of abuse or an NPO legal environment of imminently high risk. We are aware that abuse can happen on a limited scale and have engaged in various awareness-raising actions within our constituency to alert them to potential risks and potential mitigation measures to address them. Taking into account the size and wide variety and diversity of the sector, and since possibilities for abuse are extremely small, we assess the terrorist financing risk and money laundering risks of the NPO sector **in its entirety to be low**, while we recognise that smaller parts of the sector face higher risks. We consider that the overall level of risk looking at the entirety of millions of existing NPOs is "**less significant**".

¹ [Analyse nationale des risques de blanchiment de capitaux et du financement du terrorisme en France \(Conseil d'orientation de la lutte contre le blanchiment des capitaux et le financement du terrorisme\)](#)

² French Financial Intelligence Unit