

SUMMARY of the Terrorist Financing Risk Assessment of the Not-for-Profit Sector

(Unofficial translation)

This Terrorist Financing Risk Assessment of the Not-for-Profit Sector has been prepared for implementation of an obligation under the 2012 International Anti-Money Laundering, Countering the Financing of Terrorism and Proliferation Standards (the FATF 40 Recommendations/FATF Recommendations¹) and is intended to facilitate risk-appropriate measures to prevent terrorist financing in the sector.

FATF Recommendation 1 calls on countries to identify, assess and understand their money laundering (ML) and terrorist financing (TF) risks, and take action to effectively mitigate them. FATF Recommendation 8, in turn, addresses non-profit organisations falling within the FATF definition² and the risk of their misuse for TF purposes. States should use all relevant sources of information in order to identify those categories and types of non-profit organisations (NPOs) which, by virtue of their activities and characteristics, are likely to be at risk of abuse for the purposes of terrorist financing.

In addition, States should review the adequacy of measures, including laws and regulations, relating to those categories and types of NPOs likely to be at risk of abuse for TF purposes, with a view to taking proportionate and effective action to mitigate the risks identified.

In order to implement the above requirements of the international AML/CFT and proliferation standards, and to address those identified in the May 2022 adopted Report on the Republic of Bulgaria of the Fifth Assessment Round of the MONEYVAL Committee³ weaknesses in the analysis of the compliance of national legislation and its effective implementation with FATF Recommendation 8 and FATF Immediate Outcome 10⁴ the Bulgarian competent authorities, institutions and agencies have carried out assessing the risk of TF in the country's nonprofit sector. The assessment used a Council of Europe methodology provided in the scope of a project⁵ funded by the European Commission's (EC) Structural Reform Assistance Programme, under Regulation (EU) 2017/825 of

¹ The Financial Action Task Force (FATF) - an intergovernmental organisation established by a Decision of the Heads of State of the G7 countries and the President of the European Commission at the G7 Summit held in Paris in 1989.

² "A legal person or legal entity, or an organisation, primarily engaged in raising or distributing funds for activities having charitable, religious, cultural, educational, social, or beneficial public purposes or for carrying out other types of "good works", INTERNATIONAL STANDARDS ON COMBATING MONEY LAUNDERING AND THE FINANCING OF TERRORISM & PROLIFERATION, FATF Recommendations, February 2023, Glossary, p. 63

³ <https://rm.coe.int/moneyval-2022-1-mer-bulgaria/1680a70913>, pp. 126-127 and pp. 250-253

⁴ FATF Immediate Outcome 10 states "Terrorists, terrorist organisations and terrorist financiers are prevented from being able to raise, move and use funds, and abuse the not-for-profit sector", FATF Methodology for Assessing Technical Compliance with FATF Recommendations and the Effectiveness of Counter-IP and Counter-FT Systems.

⁵ entitled "Enhancing the capacity of Bulgarian authorities to effectively mitigate the risks of money laundering and terrorist financing".

17 May 2017, funded by the European Commission's Directorate General for Structural Reform Support (DG REFORM).

This assessment has been adopted by the Standing Inter-Agency Working Group (SIAWG), established by the Decision of the Council of Ministers (DCM) No 314 of 30.05.2019 (amended by DCM No 523 of 02.09.2019 and by DCM No 811 of 21.10.2022), and with powers under Art. 96 of the Measures Against Money Laundering Act (MAML) to prepare and update the national risk assessment of money laundering and terrorist financing in the Republic of Bulgaria, as well as to prepare other analyses in the field of prevention and counteraction of the aforementioned crimes requiring cooperation and coordination between institutions. The Inter-Agency Working Group shall be composed of representatives of all competent authorities, institutions and agencies involved in the prevention and combating of ML/TF and contributing their practical experience and knowledge in their field of competence.

The composition of the SIAWG includes:

Chairman: State Agency "National Security" (through the financial Intelligence Directorate to the State Agency for National Security - FID - SANS);

Members: experts from the following institutions: SANS, Ministry of Finance (MoF), General Directorate for Combating Organised Crime of the Ministry of Interior (DCOC - MoI), Ministry of Justice, Prosecutor's Office of the Republic of Bulgaria (POB), Bulgarian National Bank (BNB), Customs Agency - MoF (CA - MoF), National Revenue Agency (NRA), Commission for Combating Corruption and Confiscation of Illegally Acquired Property (CCCAIP), Financial Supervision Commission (FSC) and Registry Agency - MoF (RA - MoF). In accordance with Article 96(4) of the MAML, which allows for representatives of the obliged entities and their professional and professional organisations to be involved in the tasks of the SIAWG, if necessary, and in order to comply with the approach set out in the methodology used, representatives of the non-profit sector have also been involved for the purposes of this assessment.

In order to carry out a risk assessment of TF in the non-profit sector, an Analytical Coordination Team (ACT) was set up within the SIAWG, chaired by a representative of the FID - SANS, the deputy chair is a representative of the NRA, and the members are representatives of specialised directorates of SANS, the BNB, the FSC and the non-profit sector - the Bulgarian Centre for Not-for-Profit Law Foundation (BCNL). According to the methodology used, the involvement of the sector in the risk assessment process is of great benefit as it aims to ensure appropriate follow-up in mitigating the identified TF risks of the non-profit organisations at risk.

This document is a risk assessment of TF in the not-for-profit sector in the Republic of Bulgaria and analyses the internal and external terrorist financing risks facing the sector. The purpose of the

assessment is to be a tool to assist public authorities and the private sector in both understanding the threats of and vulnerabilities to TF for the non-profit sector in the Republic of Bulgaria and in implementing measures to combat them.

At the same time, this risk assessment not only meets the key requirements of the FATF (in particular FATF Recommendation 8 and FATF Immediate Outcome 10), but also addresses weaknesses identified by the Fifth Assessment Round of the MONEYVAL Committee regarding the lack of a similar assessment⁶ prepared for the sector in the Republic of Bulgaria.

For the purposes of this risk assessment, the following types of not-for-profit organisations have been identified as falling within the scope of the FATF definition:

- associations registered under the Non-profit Legal Persons Act, including:
 - sports organisations (sports clubs and sports federations)⁹;
 - trustees of kindergartens, schools or centers for personal development;
- The Bulgarian Red Cross.
- Foundations registered under the Non-profit Legal Persons Act;
- branches of foreign non-profit organisations;
- People's Chitalishtes (traditional community centers) registered under the Peoples Chitalishte Act;
- religious institutions and religious communities;
- private cultural organisations.

Data and sources used

This Assessment is the result of an analysis of statistical data collected for this purpose, information from open sources, case typologies of international organisations, as well as opinions of representatives of competent national authorities, the non-profit sector and other obliged entities under Article 4 of the MAML.

This Assessment is the product of joint action between law enforcement, national security, supervisory, financial intelligence, prosecution, other public authorities and the private sector, including non-profit organisations, and reflects the information provided by them.

Chapter 7 of this analysis has been prepared using the desk research method, which includes a review of the existing legal framework and relevant measures for each category of non-profit organisations falling within the FATF definition. This analysis takes into account the extent to which the existing regulatory mechanisms and measures comply with the requirements of Recommendation 8 and its Interpretive Note.

⁶ <https://rm.coe.int/moneyval-2022-1-mer-bulgaria/1680a70913>, p. 250

Public national and international reports as well as the European Commission's Supranational Money Laundering and Terrorist Financing Risk Assessment⁸ have also been used as sources of information.⁷

In the course of the data analysis, no confirmed cases of abuse of non-profit organisations in the Republic of Bulgaria for terrorist financing purposes were identified. In view of this and in accordance with the methodology used for the risk assessment, the following have been taken into account:

- (a) the size and nature of the overall terrorist financing threat in the Republic of Bulgaria as identified by the updated 2023 National ML/FT Risk Assessment;
- (b) an analysis of the abuse of non-profit organisations for terrorist financing purposes by other countries and international organisations;
- (c) FATF-established typologies of abuse of NPOs for terrorist financing purposes;
- (d) the views obtained in consultations and focus group discussions on the existence of a risk of such abuse;
- (e) evidence of other serious financial crimes in non-profit organisations in the Republic of Bulgaria, including money laundering, corruption, bribery or major fraud.

The analysis of these data also did not highlight the existence of serious risk factors for the sector. In view of this, the risk of abuse for terrorist financing purposes by non-profit organisations in the Republic of Bulgaria can be assessed as low to medium.

Four likely threats of FT in the non-profit sector in the Republic of Bulgaria have been identified:

- False representation and fictitious nonprofit organisations;
- Diversion of legal funds intended for humanitarian programs;
- Misuse of programs to promote philosophies designed to promote religious hatred and spread the ideas of a terrorist organisation;
- Associations with terrorist entities.

The following activities and their characteristics have been identified that increase the risk of abuse by TF in the sector of non-profit organisations in Bulgaria whose activities are social-humanitarian, cultural-educational and/or religious:

1. Performing activities in regions at risk of terrorism or receiving/sending funds from/to such regions;
2. Receiving/sending funds from/to regions where there is armed conflict or war, or from/to third countries where there are identified strategic weaknesses in their national ML/FT framework;

⁷ [Eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52022SC0344](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52022SC0344)

3. Failure of religious organisations to provide information on their activities and financial transactions in a way that can be verified by the relevant competent authority, or lack of obligation to do so, as is the case with religious communities.

4. Raising funds through crowdfunding⁸ or using virtual assets.

5. Carrying out activities that require contact with persons vulnerable to radicalisation or residing in regions with such activity.

This document is a valuable tool for the government, national competent authorities and the private sector to better understand the risks of terrorist financing in the non-profit sector in the Republic of Bulgaria and to take risk-based measures to prevent and mitigate its risks.

This risk assessment is also intended to assist the obligated entities under Article 4 of the MAML to achieve a common, unified understanding of the TF risks facing the nonprofit sector in order to increase vigilance, ensure quality and appropriate notification of suspicious transactions, operations and customers, and implement prevention measures that are appropriate to the identified risks, threats and vulnerabilities.

The results of this risk assessment will be presented to the not-for-profit sector in the Republic of Bulgaria, to other obliged entities under Article 4 of the MAML, as well as to the competent state authorities.

⁸ Crowdfunding is a way of obtaining the necessary funding (as for new business) by attracting donations from a large number of people, especially from the online community. <https://www.merriam-webster.com/dictionary/crowdfunding>.