

ADDITIONAL MODULE
Terrorist financing risk
SUMMARY

Members of the working group:

- (Internal Security Service, head of the working group)
- (Internal Security Service)
- (Internal Security Service)
- (Internal Security Service)
- (Ministry of Finance, compiler of the summary)
- (Ministry of Finance, compiler of the summary)

1. The aim of the module and brief description of its structure

The aim of this module was to provide a separate assessment of terrorist financing risks within Module 1, but given the sensitivity of the topic, there are no mandatory fields in the module and the module does not provide input to the overall risk assessment.

The structure of the module makes it possible to assess the risks of terrorist financing more broadly, terrorist financing environment, legal environment and, more narrowly, situation of financial institutions and DNFBPs from the aspect of terrorist financing (prevention). The summary part of the module, which can be used as an input to the risk assessment, reflects the circumstances referring to high or medium risk (ratings “high” and “medium”). However, the numerical indicators of the degree of vulnerability are not reflected in this module.

2. Explanations of the module

The module is divided into six tables (separate worksheets in the module) and the main inputs for this analysis were provided by the Internal Security Service and Ministry of Finance.

Worksheet 1: TF threat analysis - terrorist financing

The first table indicates the threat of terrorist financing, indicating the sources and origins of terrorist financing and terrorist financing committed in the jurisdiction. Insofar as no such types of crime have been committed in Estonia, the threat has been assessed as predominantly low. This part of the module also covers reports of suspected terrorist financing.¹ The total of 4229 notifications were submitted to law enforcement authorities during the years 2010-2012.

The amount of funds raised abroad for the purpose of financing terrorist activities abroad is estimated to 5000 euros. This fact indicates that Estonia can be used as a so-called transit country for terrorist financing, which is why this threat has been assessed as - M - *medium*.

The sources of terrorist financing are classified in the module into legal sources - NGOs, legal sources (others) and illegal sources (such as organized crime, money laundering, extortion, etc.). Terrorist financing from legal sources is considered unlikely in Estonia and the probability is assessed as low - L - *low*. However, the risk of committing crimes for the purpose of terrorist financing has been assessed as - M - *medium*.

Worksheet 2: TF vulnerability analysis - economic and geographical environment

The purpose of the second table is to assess the environment/prevailing situation in terms of terrorist financing threats. The various indicators of the "attractiveness of terrorist financing" have been pointed out.

- Economic environment – the indicators of the economic environment include the large share of the “informal sector”, high prevalence of cash use, high share of non-bank international money transfers, examples of money laundering and terrorist financing and the high share of cross-border movements of precious stones and metals. It has been noted that the economic environment itself is not attractive to terrorist financiers and the risk is assessed as low - L – *low*.
- Geographical environment - "porous" borders (inadequacy of border controls) and inadequacy of border controls in neighbouring countries have been mentioned as separate indicators. The risk associated with both aspects has been assessed as low in Estonia - L – *low*.
- Non-profit sector - the size of the non-profit sector, existence of regulations and connection of the non-profit sector with conflict areas have been mentioned as

¹ Number of STRs referred to LEAs on terrorist financing.

separate indicators. With regard to the latter indicator, it has been noted that there are organizations in the local Muslim community that are actively linked to the countries and organizations at risk of international terrorism, which is why this indicator has also been rated - M – *medium*.

- Political environment – the political decision to combat terrorism and terrorist financing, implementation of international standards on terrorism and terrorist financing (UN conventions and resolutions, and FATF recommendations) have been mentioned as separate indicators. In addition, the indicators are the circumstances referring to the fact that funds are being directed to the country for the purpose of terrorist financing or the country is raising funds for the purpose of terrorist financing. The political environment in Estonia does not pose an additional threat of terrorist financing. There is both political support to combat it and a tradition of transposing and adhering to international standards. There are also no indicators for terrorist financing or fundraising. For the above reasons, these indicators have been rated low - L – *low*.
- Institutional environment – the indicators include the budget for combating terrorist financing and the resources used for this purpose, as well as aspects of national and international cooperation and coordination. Insofar as there are no indications of insufficiency as to budget deficits and cooperation and coordination, the risk proceeding from these indicators has also been rated as low - L – *low*.

Worksheet 3: TF vulnerability analysis - legal/judicial/institutional framework

The table on the regulatory environment is also based on an analysis of various indicators.

- Laws - including the question of whether the criminalization of terrorist financing is sufficient, possible gaps in legislation: both in relation to terrorist financing and in other legislation that may affect the general legal environment. Although MONEYVAL's round III report identified a number of shortcomings with the criminalization of terrorist financing², these have been eliminated to date. However, in the fourth evaluation round of MONEYVAL experts pointed to new gaps in legislation that need to be analyzed separately. This aspect is assessed as low - L - *low*. However, the risk associated with shortcomings in adjacent regulations has been assessed as medium - M - *medium*. The problem is the inadequate implementation of the Schengen compensation mechanisms: the problem areas are the obligation of accommodation

² In particular, when analyzing the possibility of punishing the so-called "single terrorist", the evaluators found that the Estonian criminal law rather covers the activities of a terrorist organization or a group of people.

companies to register guests under the Tourism Act, lack of PNR data of air passengers and lack of identification of ship passengers.

- Judicial system - the efficiency of judicial system should be assessed primarily on the basis of proceeding of court cases, but as there are currently no such cases in Estonia, it is not possible to make an appropriate assessment.
- Prosecutors and investigators - this indicator should also be assessed primarily on the basis of cases that do not exist in Estonia (investigated terrorist financing cases, indictments, convictions and the scope of competences of investigative bodies and prosecutors and case processing time, in addition the volume of frozen, seized and confiscated terrorist property and national cooperation). As there are no cases in Estonia, it is not possible to fill in this table about this indicator.
- Data collection - the indicator is divided into two: an assessment of the strength of the data collection (the unit must be nationally established) and an assessment of the cooperation. In case of Estonia, both assessments state that there are no additional risks of terrorist financing in these aspects, low - L – *low*.
- Financial Intelligence Unit - the number of notifications of suspected terrorist financing and the number of proceedings initiated by law enforcement authorities had to be analyzed for the Financial Intelligence Unit. 4229 notifications were issued within the years of 2010-2012, the high number is mainly due to the fact that notifications are made only for example when transferring funds to a country at risk (i.e. the suspicion of terrorist financing is based on a geographical area). No proceedings have been initiated on the basis of the submitted notifications. The indicators have been rated as low - L – *low*.
- Customs and border guard – the indicators include the existence of a declaration obligation, cross-border cash movements, cross-border movements of precious stones and metals, and a reference to the existence of other border control authorities. In Estonia, such an authority is the Police and Border Guard Board. However, the Tax and Customs Board is responsible for the compliance with customs rules.
- International cooperation – the indicators include various legal barriers to international cooperation: legal barriers such as lack of agreements in the areas of money laundering prevention or issuance, number and timing of requests for legal assistance or cooperation, informal cooperation (e.g. between police, FIUs, supervisors). As with the previous indicators, the assessment presupposes the

existence of real practice and cases, which is why assessments have not been provided for these indicators either.

Worksheet 4: TF vulnerability analysis - reporting institutions (financial institutions)

The filling in of these tables was not a mandatory part of the module and would have been too superficial due to the lack of cases.

Worksheet 5: TF vulnerability analysis - reporting institutions (DNFBPs)

The filling in of these tables was not a mandatory part of the module and would have been too superficial due to the lack of cases (would be based only on hypothetical assumptions).

Worksheet 6: Summary

The last table summarizes only these aspects as a summary of the previous tables that were assessed as increasing the risk of terrorist financing at the high or medium level (which received H or M ratings).

The assessment M - medium was given on the risk analysis worksheet to the risk of using illegal funds for terrorist financing, on the economic and geographical environment worksheet to the possibility of using Estonia as a TR transit country and the links of local Muslim communities with terrorist risk areas and countries. The legal environment worksheet has assessed the inadequate implementation of the Schengen compensation mechanisms as a medium risk: the problem areas are the obligation for accommodation companies to register guests under the Tourism Act, the lack of PNR data for air passengers and the lack of identification for ship passengers.

3. Recommendations given in the evaluation report of MONEYVAL Estonia IVth round³

FATF recommendation 35 and special recommendation II address in particular the prevention of terrorist financing⁴. Estonia has acceded to the Council of Europe Convention on the

³ Moneyval's 4th evaluation round of Estonia started in spring 2013 and ended on 18 September 2014 with the adoption of the corresponding report at the 45th plenary session of MONEYVAL. Thus, the fourth round of evaluation of MONEYVAL took place essentially in parallel with the risk assessment. The summary of this module includes the recommendations made in MONEYVAL's IVth evaluation round, but these have not affected the given assessments.

⁴ According to old standards.

Prevention of Terrorism and should therefore comply with the requirements of that convention. According to MONEYVAL's evaluators, Estonia has some shortcomings in the application of this convention, as well as in the criminal composition of terrorist financing. A more detailed analysis is included in the report.

4. Summary

As the terrorist financing module was additionally completed and there are no cases necessary for its substantive analysis in Estonia, taking the result of this module into the final risk assessment analysis is optional and it is expedient to do so only to the extent relevant and necessary in assessing the overall risk assessment results.

According to worksheet 6 **the assessment M - medium was given on the risk analysis worksheet to the risk of using illegal funds for terrorist financing, on the economic and geographical environment worksheet to the possibility of using Estonia as a TR transit country and the links of local Muslim communities with terrorist risk areas and countries. The legal environment worksheet has assessed the inadequate implementation of the Schengen compensation mechanisms as a medium risk: the problem areas are the obligation for accommodation companies to register guests under the Tourism Act, the lack of PNR data for air passengers and the lack of identification for ship passengers.**

Therefore, Estonia should further analyze the possibilities of implementing the Schengen compensation mechanisms, including the digitization of the registration system for accommodation service users, the establishment of the legal regulation for the processing of air passenger data (PNR) and identification of ship passengers⁵.

With regard to the regulatory environment, it is also important to analyze the recommendations made in MONEYVAL's IVth round evaluation report of Estonia and the possibilities for their implementation (especially, for example, FATF recommendation no. 35 and special recommendation II).

Additional information on the risks of terrorism and its financing can be found in the yearbooks of the Internal Security Service <https://www.kapo.ee/est/aastaraamatud>

⁵ At the moment (as of 17 December 2014) the draft Tourism Act has been developed, which will create the database for the registration of users of accommodation services. The draft has not been approved by the Government of the Republic. A PNR working group has been set up; On 18 November 2014 the Riigikogu approved the draft that obliges airlines to forward PNR passenger information to law enforcement authorities from 2016 onwards. The proposals have been made to improve security controls of ship passengers.