

Summary

Dutch National Risk Assessment on Terrorist Financing 2019

Background

Dutch policy to prevent and combat terrorist financing is based on the recommendations of the Financial Action Task Force (FATF) and European Union (EU) directives and regulations. The FATF – an intergovernmental body set up by the G7 in 1989 – focuses on global prevention and combat of money laundering, terrorist financing and other related threats to the integrity of the international financial system. Members of the FATF, including the Netherlands, are committed to implement the FATF recommendations aimed at taking preventive and repressive measures by 'reporting institutions'¹⁹² and to implement measures to improve national legal and regulatory systems and international cooperation in this field. In addition, the FATF supervises the correct functioning and effectiveness of those (legal) rules. The majority of the FATF's recommendations has been adopted into the (amendments of the) fourth EU Anti-Money Laundering Directive, applicable to all EU Member States. Article 7 of this directive obliges EU Member States to implement a risk-based policy against money laundering and terrorist financing and to establish a National Risk Assessment (NRA). In 2017 the Research and Documentation Centre (WODC) carried out the first NRA on terrorist financing and on money laundering for the European part of the Netherlands. A year later, the WODC also conducted an NRA on both topics for the Caribbean Netherlands: the islands Bonaire, Sint Eustatius and Saba.

A second NRA for the European Netherlands on terrorist financing has been carried out by the WODC, with the aim of identifying the greatest risks in the field of terrorist financing. These are terrorist financing risks with the greatest residual potential impact. To this end, the terrorist financing threats with the greatest potential impact have been identified, an estimate has been made of the impact these threats can have and the 'resilience'¹⁹³ of the policy instruments aimed at preventing and combating terrorist financing has been determined. The residual potential impact is the impact that threats still have following the application of policy instruments to prevent or mitigate the potential impact of the threats. This means the objective of the second NRA is slightly broader than the objective of the first NRA, which was limited to separately estimating the potential impact of the identified risks and the resilience. Other differences with the first NRA are that this second NRA provides more insight into the nature and 'mechanisms'¹⁹⁴ of the identified risks and that a first step has been taken to use quantitative data. In accordance with the first NRA, this NRA also describes some lessons learned, which can be taken into account carrying out the following NRAs. The second NRA on

¹⁹² In the Netherlands, the Money Laundering and Terrorist Financing Prevention Act (Wwft) requires many institutions to report unusual transactions to the Financial Intelligence Unit (FIU) - the Netherlands.

¹⁹³ Resilience is the ability of the policy instruments to prevent threats or mitigate the impact of threats, whereby the higher the resilience, the better the threats are mitigated. It concerns the content/scope as well as the implementation of the policy instruments.

¹⁹⁴ The mechanisms relate the process of a risk, to the way in which a certain risk precisely works.

money laundering (for the European part of the Netherlands) has been conducted by the WODC at the same time as this NRA.

What is terrorist financing?

Article 421 of the Dutch Penal Code (WvSr) deals with the criminalization of financing terrorism. It states that a person commits a criminal offense when he provides financial support to committing a terrorist offense or a crime in preparation or facilitation of a terrorist offense. The article refers to other articles of the WvSr in which these different types of (terrorist) crimes are explained in more detail.

Terrorist financing may involve financing terrorist activities in the Netherlands (whether or not from abroad), but also financing terrorist activities abroad from the Netherlands. The financial resources used for terrorist financing can have criminal as well as legal origins.

In the previous NRA of 2017, it was reported that six cases of a criminal conviction in the field of terrorist financing were registered in the Netherlands. This number has since risen to twelve convictions. Almost all convictions involve providing financial support to friends or family members who have traveled to jihadist conflict zones ('uitreizigers'). In addition, approximately 35 terrorist financing investigations which include 50 suspects are currently being carried out. Most of these investigations also concern the financing of friends or family members who have traveled to conflict zones (foreign terrorist fighters).

Research methodology

As in the first Dutch NRA on terrorist financing of 2017, the applied research approach is structured on the basis of the ISO 31000 framework for risk management. In short, the research methodology used comes involves the following:

- A context analysis has been conducted in which the specific, relatively fixed characteristics of the Netherlands that may influence the prevalence of terrorist financing are outlined. A literature study was carried out for this context analysis.
- A literature study was also carried out for an inventory of threats in the field of terrorist financing. The so-called FANO survey was then carried out, in which expert organizations¹⁹⁵ were asked to indicate on a sent long list of terrorist financing threats whether they are aware of facts/cases of the threats and to what extent they consider the prevalence of the threats plausible or not, based on the information available at their organization.
- In a first expert meeting, experts subsequently identified the terrorist financing threats with the greatest potential impact. In the phase after this first expert meeting in-depth interviews with experts were held, which focused on the nature and mechanisms of the identified largest terrorist financing threats. In a second expert meeting, experts assessed the potential impact of the further specified twelve largest terrorist financing threats using a Multi Criteria Analysis.

¹⁹⁵ Expert organizations concern the following types of organizations: supervisory authorities under the Money Laundering and Terrorist Financing Prevention Act (Wwft); government agencies or government-affiliated organizations that play a role in the prevention and/or combating of terrorist financing; and private entities under Wwft supervision and sector/umbrella organizations of those private entities.

- In a third expert meeting, experts assessed the resilience of the available policy instruments to prevent and repress the twelve largest terrorist financing threats. Prior to the third expert meeting, a survey among experts provided insight into the policy instruments available for the prevention and combating of terrorist financing.
- By balancing the estimated potential impact of the largest terrorist financing threats against the estimated resilience, insight has been obtained into the largest terrorist financing risks in the Netherlands, ranked by their residual potential impact.
- In the final phase of the study, validating interviews with seven key experts were conducted with the main aim of examining to what extent they recognize the ranking of the identified terrorist financing risks and how these risks can be further mitigated.
- In addition to the above mainly qualitative research methods, in collaboration with Justis, the screening authority of the Ministry of Justice and Security, a limited quantitative data analysis was carried out for one of the terrorist financing risks.

A lesson learned in the first NRA was that the second NRA (and subsequent NRAs) should focus more on substantiating and providing in-depth insight in the largest terrorist financing threats identified by experts. In the NRA that has now been carried out, more attention has been paid to this in various ways: by setting up the FANO survey, a larger number of expert meetings (three instead of two) with more time for a plenary discussion on terrorist financing threats, a large number of in-depth interviews with experts, including case descriptions in the report and conducting a survey among experts on the policy instruments for the prevention and combating of terrorist financing.

Another lesson learned from the first NRA on terrorist financing is that a quantitative data analysis should be conducted in the second NRA. The intention was, as a first step, to conduct a quantitative data analysis in the NRA for the risk 'acquisition and/or financing via foundations or other legal structures (charitable, religious, educational) in the Netherlands'. To this end, cooperation was initially sought with iCOV (Information Exchange on Criminal and Unexplainable Wealth), which has access to a large number of data sources.¹⁹⁶ Unfortunately, the necessary declarations of consent from the various data source holders were not completed within the time frame of the study. When this became clear, contact was made with Justis and a quantitative data analysis was carried out via Justis for this risk based on data from the Commercial Register of the Chamber of Commerce, which was assumed in advance to contribute to a further explanation of the risk. The analysis carried out demonstrated that on the basis of such a data analysis without linkage to other data sources, such as data on suspicious declared transactions by the Financial Intelligence Unit – the Netherlands and other criminal or fiscal information, no direct relationship with terrorist financing can be determined. The analyses only provide limited insight into a number of 'unusual situations'.

If including additional data sources in a subsequent NRA will be possible, it is unlikely that this analysis will provide insight into the prevalence of the terrorist

¹⁹⁶ Via iCOV data from, among others, the Tax and Customs Administration, the National Police, the Public Prosecution Service, the Dutch Fiscal Intelligence and Investigation Service, the National Police Internal Investigations Department, FIU – the Netherlands, the Chamber of Commerce, the Netherlands' Cadastre, Land Registry and Mapping Agency and Dutch Central Bank can be accessed.

financing risk in question. After all, a direct relationship with terrorist financing cannot be determined without further criminal investigation. Another complicating factor in implementing a more data-based NRA is the wide variety in the nature of the terrorist financing risks and the required data sources. The NRA is an overall analysis of all risks. The different data sources must therefore be analyzed in relation to each other. This requires meeting quality requirements in terms of completeness, reliability, validity and mutual compatibility of data sources. At present there is insufficient knowledge to what extent this can be met. It is recommended to carry out a separate exploratory study in order to examine how in a subsequent NRA the separately available relevant data sources can be made compatible and suitable and can become available for a meaningful data analysis.

What makes the Netherlands vulnerable to terrorist financing?

The General Intelligence and Security Service of the Netherlands (AIVD), the National Coordinator for Security and Counterterrorism (NCTV) and the experts consulted for the NRA agreed in their opinion that the terrorist threat for the Netherlands mainly is jihadist. As a consequence, this NRA focuses on jihadist terrorist threats. The major terrorist financing threats identified in this NRA therefore relate to the financing of jihadist terrorism.

For this second NRA, a context analysis has been carried out that examines the characteristics of the Netherlands that may relate to the prevalence of terrorist financing in our country. The geographical, demographic, religious, socio-cultural, economic and criminological characteristics of the Netherlands were examined. A direct relationship between these characteristics and the prevalence of jihadist terrorism and its financing cannot be established; this requires an in-depth study for each individual characteristic. This NRA does describe a number of characteristics of the Netherlands that *possibly* relate to jihadist terrorism and the methods of financing of this form of terrorism.

Jihadists support an extreme ideology that calls for a 'holy war' against 'non believers' and claim Islam to violently impose their beliefs and way of life on others. In this context, it has been noted about religious characteristics of the Netherlands that more than half of the population is affiliated with a particular ecclesiastical denomination and that only five percent of the Dutch sees themselves as a Muslim. According to the AIVD, the jihadist movement in the Netherlands is estimated to have more than 500 supporters and several thousand sympathizers. Although an unambiguous profile of jihadists or the 'uitreizigers' (foreign terrorist fighters) who traveled to conflict zones in Syria, Iraq or other countries cannot be made according to the intelligence service, relatively many Dutch jihadists are of Moroccan descent. The majority of Dutch 'uitreizigers' are also of Moroccan descent. The demographic characteristics of the Netherlands show that Moroccans are one of the largest migrant groups in the Netherlands.

A characteristic that may be related to the prevalence of jihadist terrorism in the Netherlands is the involvement of the Dutch armed forces in military peace missions, including in Iraq, Afghanistan, Bahrain, Libya and Mali. The fact that there are parties active in the Dutch political system that are explicitly anti-Islam and anti-immigration may also play a role in the prevalence of jihadist terrorism in the Netherlands.

Finally, a link can be made between some of the economic characteristics of the Netherlands and the methods of terrorist financing used. Money transactions can take place by physical movement of cash or by cashless transfers via licensed banks or (un)licensed payment service providers. Terrorism can also be financed by exports of goods, for example via Amsterdam Airport Schiphol or the port of Rotterdam.

Terrorist financing threats with the greatest potential impact

The twelve terrorist financing threats with – according to terrorist financing experts – the greatest potential impact are shown categorized in table S1. The level of the potential impact of the threats has been determined by means of an MCA. Experts used the following six criteria to make quantitative estimates that ultimately determined the level of the potential impact: ‘prevalence of terrorist activities in the Netherlands’, ‘prevalence of terrorist activities abroad’, reduction of subjective security’, ‘undermining of authority’, ‘encroachment of the financial sector’ and ‘infringement of the image of the Netherlands abroad’. The terrorist financing threat that experts say has the greatest potential impact is ‘acquisition and/or financing via foundations or other legal structures (charitable, religious, educational) in the Netherlands’. ‘Acquisition of and/or financing with funds obtained from own company’ has the lowest potential impact. Most terrorist financing threats have a potential impact with an impact level of 46 to 55 on a scale of 0 to 100.

Table S1 The 12 largest terrorist financing threats

| Threats | Potential impact level (scale from 0-100) |
|--|--|
| Acquisition and/or financing via foundations or other legal entities (charitable, religious, educational) in the Netherlands | |
| Acquisition and or financing with funds obtained through fraud (horizontal and vertical) | 56 to 65 |
| Acquisition and/or financing via foundations or other legal entities (charitable, religious, educational) abroad | |
| Relocation via underground banking including unlicensed payment service providers | |
| Acquisition and/or financing with legally obtained own resources | |
| Movement (physical) of cash | |
| Acquisition and/or financing with gifts or loans from private persons including family/friends | 46 to 55 |
| Acquisition of and/or financing with funds obtained through ‘charities’ without a legal form | |
| Movement via fictitious or non-fictitious flows of goods | |
| Acquisition and/or financing via online platforms/payment service providers | |
| Acquisition, movement and/or financing with crypto currencies | |
| Acquisition of and/or financing with funds obtained from own company | 30 to 45 |

Terrorist organizations have a wide diversity, ranging from large and complex, such as ISIS, Al-Qaida and Boko Haram, to small decentralized groups with a flat organization. In addition, individuals, so-called lone actors, can commit terrorist acts without being formally associated with a terrorist network. The diversity in the manner/degree of organization and the resulting complexity of the organization influences the amount of the terrorist financing required.

The amount of financial resources used to finance terrorism may, in principle, affect the degree of complexity of the methods of acquiring and spending the financial resources. Terrorist financing methods can include financial resources obtained through criminal activities such as fraud. However, most of the identified terrorist financing threats with the greatest potential impact may also involve legally obtained financial resources. The use of own, legally obtained financial resources to commit terrorist activities in Europe seems to have increased in recent years.

Terrorist financing methods often contain an element of 'acquiring' (methods of acquiring funds) as well as an element of 'financing' (methods of getting the acquired funds to its destination). Finally, the methods can also contain an element of 'concealment' in order to reduce the chance of being caught. In practice, various methods can be used in combination to acquire funds intended for terrorist financing and/or to finance terrorism.

Although the major terrorist financing threats identified in this NRA relate to the financing of jihadist terrorism, it cannot be excluded that other forms of terrorism, for example from right-wing extremists, will become more prevalent in the coming years. This may also involve other types of threats to the financing of those forms of terrorism.

Resilience of policy instruments

The available policy instruments for the prevention and combating of terrorist financing include all relevant instruments arising from international and national laws and regulations, municipal ordinances and regulations, sectoral and sector-

Table S2 Policy instruments prevention and combat of terrorist financing

| International laws and regulations | National laws and regulations | Other policy instruments |
|---|---|---|
| FATF-recommendations EU Anti-Money Laundering Directive United Nations Security Council Resolutions 1267 and 1373 EU Regulation on Controls of Cash Wire Transfer Regulation 2 | Money Laundering and Terrorist Financing Prevention Act Sanctions Act 1977 Terrorism Sanctions Scheme 2007-II Dutch Penal Code Code of Criminal Procedure Intelligence and Security Services Act 2017 Temporary law on administrative measures to combat terrorism Financial Supervision Act Legal Entities Supervision Act Commercial Register Act 2007 Tax legislation Social legislation Public Administration Probity Screening Act Economic Offences Act Right to report Tax and Customs Administration 2003 | National partnerships International partnerships Sectoral and sector-oriented regulations and terms and conditions Guidelines, guides and policy plans |

oriented regulations, and regulations at organizational level. However, in this NRA the term 'policy instrument' is interpreted more broadly than just laws and regulations. According to experts, guidelines, guidances and policy plans of organizations that play a role in the prevention and/or combat of terrorist financing can also be seen as policy instruments. Partnerships between organizations with a role in the prevention and/or combat of terrorist financing are also seen by experts as a policy instrument. Table S2 provides an overview of the policy instruments to prevent and combat terrorist financing that were available in 2019.

Terrorist financing experts have estimated the mitigating effect of the total package of existing policy instruments on the potential impact of the twelve largest terrorist financing threats. In their assessment of the resilience of the policy instruments, experts took into account the policy instruments that existed at that time. This means that in their assessment they have not taken into account laws and regulations and other policy instruments that have been or will be introduced since the start of 2020. The results of the expert meeting are shown categorized in table S3.

Regarding one terrorist financing threat, resilience approaches 50%, namely 'acquisition of and/or financing with funds obtained through fraud (horizontal and vertical)'. This means that, according to experts, the mitigating effect of the total package of available policy instruments is relatively great with this terrorist financing threat. This score means that almost 50% of the estimated potential impact of this threat is counteracted. For most other terrorist financing threats, the resilience amounts between 31% and 40%. Regarding one threat, the available policy instruments are not very resilient, namely 'acquisition of and/or financing with legally obtained own resources'. The experts estimate the resilience of this threat to be less than 20%.

Table S3 Resilience total package of policy instruments per terrorist financing threat

| Threats | Resilience level (scale from 0-100) |
|--|--|
| Acquisition and or financing with funds obtained through fraud (horizontal and vertical) | 41 to 50 |
| Acquisition and/or financing via online platforms/payment service providers | |
| Acquisition of and/or financing with funds obtained from own company | |
| Movement (physical) of cash | |
| Acquisition and/or financing with gifts or loans from private persons including family/friends | 31 to 40 |
| Movement via fictitious or non-fictitious flows of goods | |
| Acquisition and/or financing via foundations or other legal entities (charitable, religious, educational) in the Netherlands | |
| Acquisition of and/or financing with funds obtained through 'charities' without a legal form | |
| Relocation via underground banking incl. unlicensed payment service providers | |
| Acquisition and/or financing via foundations or other legal entities (charitable, religious, educational) abroad | 21 to 30 |
| Acquisition, movement and/or financing with crypto currencies | |
| Acquisition and/or financing with legally obtained own resources | 11 to 20 |

Although the available instruments have a clearly mitigating effect on the twelve largest terrorist financing threats that are central to this NRA, these threats can still have a greater or lesser impact. The extent to which the so-called AIU principle, already introduced in the first NRA, applies to terrorist financing threats, affects the resilience of the policy instruments. A few terrorist financing methods have one or

more of the following three components: Anonymity (the method conceals the identity of the person who finances terrorism), International (the method has an international character and is used via or from abroad) and Unregulated (the method relates to or is used in an unregulated sector). The more the AIU elements apply to terrorist financing threats, the lower the resilience of the policy instruments for the prevention and combating of the threats. With such threats the chance of being caught for the person who finances terrorism is therefore relatively low.

Effective prevention and combating of the terrorist financing threats with a strong international component requires close cooperation and exchange of information at international level between supervisory, investigative and law enforcing authorities. With regard to the terrorist financing threats at (financial) institutions and service providers that operate without a license, for example underground banking, the available policy instruments, according to the experts, are limited in both scope and implementation to effectively counter the risks. Finally, relatively low resilience is found for methods that increase the anonymity of transactions, such as terrorist financing through crypto currencies, underground banking and the physical movement of cash.

The second NRA on terrorist financing has made it clear that the prevention and combat of terrorist financing in the Netherlands has a very large focus on financing jihadist terrorism. In view of the current terrorist threat that, according to the AIVD and NCTV, is mainly expected from the jihadist angle, this is also adequate. However, a possible consequence of this is that knowledge of financing other forms of terrorism currently appears to be very limited.

In view of the possible prevalence of non-jihadist terrorist activities – in recent years, including in Europe, there have been several attacks from right-wing extremists – it seems to make sense that expert organizations start to gain knowledge about the financing of other forms of terrorism. Examples include the way in which right-wing extremist or left-wing extremist organizations finance their ideologies or what can be learned from the financing of right-wing extremist attacks abroad.

Table S4 Residual Potential Impact (RPI) of the 12 largest terrorist financing risks

| Risks | Residual Potential Impact (scale from 0-100) |
|--|---|
| Acquisition and/or financing via foundations or other legal entities (charitable, religious, educational) in the Netherlands | 41 to 50 |
| Acquisition and/or financing via foundations or other legal entities (charitable, religious, educational) abroad | |
| Acquisition and/or financing with legally obtained own resources | 31 to 40 |
| Relocation via underground banking incl. unlicensed payment service providers | |
| Acquisition of and/or financing with funds obtained through 'charities' without a legal form | |
| Acquisition, movement and/or financing with crypto currencies | 21 to 30 |
| Movement via fictitious or non-fictitious flows of goods | |
| Movement (physical) of cash | 21 to 30 |
| Acquisition and/or financing with gifts or loans from private persons including family/friends | |
| Acquisition and or financing with funds obtained through fraud (horizontal and vertical) | |
| Acquisition and/or financing via online platforms/payment service providers | 21 to 30 |
| Acquisition of and/or financing with funds obtained from own company | |

Largest terrorist financing risks in the Netherlands

By balancing the estimated potential impact of the largest terrorist financing threats against the estimated resilience, insight has been obtained into the largest terrorist financing risks in the Netherlands, ranked by their residual potential impact (RPI). Four of the twelve terrorist financing risks come in the highest category with an RPI score of 41 to 50 on a scale that can theoretically run up to 100. 'Acquisition of and/or financing with funds obtained from own company' has the lowest RPI score, which is the result of the relatively highly estimated resilience concerning this risk. It can be concluded that the impact that terrorist financing threats can have is considerably mitigated by the available policy instruments.