



WHAT IS THE FATF? WHY IS IT IMPORTANT?

▶▶▶ July, 2017

What is the FATF?

The Financial Action Taskforce (FATF), also known as Groupe d'Action Financière (GAFI), was formed in 1989, in response to the mounting concern over money laundering (ML) across the globe. Prompted by the September 11, 2001 terrorist attacks in the United States, FATF expanded its focus to include combating the financing of terrorism. Governments constituted the intergovernmental body to develop and promote policies designed to protect the global financial system against money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction. The Task Force is seen as a “partnership between governments, accountable to the Ministers of its member Governments, who give it its mandate.”

What are FATF Recommendations?

Standards set by most international bodies have a formal structure and are usually contained in a treaty, convention, or other agreement. This is not the case with the FATF. The first forty (40) Recommendations FATF adopted in 1990, the additional eight special Recommendations adopted in 2001, and another one in 2004, totaling forty-nine (49), sets out measures to combat money laundering activities and the financing of terrorism.

How are FATF Standard(s)/ Recommendations Enforced?

FATF does not have any formal enforcement mechanism for its Recommendations. However, many international organizations such as the World Bank and the International Monetary Fund have adopted FATF's Recommendations as the benchmark for assessing donee countries' compliance level with anti-money laundering (AML) and countering financing of terrorism (CFT) standards. This may have far-reaching effects on the willingness of global lending institutions to extend financial

assistance to countries that require support.

In addition, FATF's ratings of a country may also influence the price of the stocks or bonds issued by corporate entities in that country. Securities issued by countries or corporate bodies in a company which have low compliance level with FATF standards would most likely be rated as risky.

Overview of the FATF Standards

1. Consist of a set of Recommendations and corresponding interpretive notes
2. Set out a comprehensive and consistent framework of measures which countries should implement in order to combat money laundering and terrorist financing as well as the financing of proliferation of weapons of mass destructions (FATF, 2012)

Is Nigeria a Member of FATF?

Although Nigeria is not yet a member of the FATF, it is a founding and active member of the ECOWAS' Inter-Governmental Action Group against Money Laundering (“GIABA”), which is an FATF-styled regional body responsible for the promotion and enforcement of the FATF standards in West Africa.

Accordingly, Nigeria has committed to the full implementation of the international standards against money laundering and terrorist financing. Nigeria has applied to join FATF and it is expected that this will bring about additional regulatory attention on all sectors of the economy including the non-profit organizations (NPOs).

What is an NPO?

FATF defines NPOs as:

“legal person or arrangement or organisation that primarily engages in raising or disbursing funds for purposes such as charitable, religious, cultural, educational, social or fraternal purposes, or for the arrying out of other types of ‘good works.’” [See FATF Standards as revised in 2016]

How do FATF Recommendations Impact on Non-profit Organizations (NPOs)?

NPOs were specifically identified as CFT risks in the famous Recommendation 8 (R8). According to the original text of R8, “countries should review the adequacy of laws and regulations that relate to entities that can be abused for the financing of terrorism. Non-profit organisations are particularly vulnerable, and countries should ensure that they cannot be misused.”

The former R8 triggered negative reaction from the NPOs around the globe. Global coalitions and campaigners provided evidence-based research, raised awareness, and dialogued with the FATF, leading to R8's revision in June 2016. With that revision, the universal classification of NPOs as vulnerable to terrorist financing has now shifted to a risk-based approach which requires countries to ascertain the actual terrorist financing risks to which NPOs in that country are exposed.

