



# BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE DEPUTY GOVERNOR | FINANCIAL SUPERVISION SECTOR

## CIRCULAR LETTER NO. CL-2023-035

To : All BSP-Supervised Financial Institutions (BSFIs)

Subject : Anti-Money Laundering Council (AMLC) 2022 Terrorism and Terrorism Financing (TF) Risk Assessment

This is to disseminate the AMLC 2022 Terrorism and TF Risk Assessment<sup>1</sup> (Annex A), a supplemental study to the terrorism and TF risk assessment which was published and released in January 2021 by the AMLC<sup>2</sup>.

The 2022 study provides updates on the terrorism and TF risk understanding as well as the significant developments pursued by the Government to improve the said risk understanding and mitigate the risk exposure of the Philippines to terrorism and TF. An initial assessment on the exposure of the Philippines to proliferation financing of weapons of mass destruction (PF) associated with terrorism and TF is also subsumed in the study.

The document serves as guidance paper for stakeholders, including financial institutions (FI), specifically as regards their risk-based strategies. The suspicious financial and red flag indicators and triggers as well as case typologies presented in the study may be instrumental in the identification, detection, and investigation of possible financial transactions linked to terrorism, TF, and PF.

BSFIs are enjoined to consider the results of the study in their risk analysis and assessment to inform terrorism, TF, and PF risk mitigation strategies.

For information and guidance.

**CHUCHI G. FONACIER**  
Deputy Governor

23 June 2023

Att: a/s

<sup>1</sup> [http://www.amlc.gov.ph/images/PDFs/Main/2022%20TERRORISM%20AND%20TF%20STUDY%20-%20Executive%20Summary%20\(WEBSITE\).pdf](http://www.amlc.gov.ph/images/PDFs/Main/2022%20TERRORISM%20AND%20TF%20STUDY%20-%20Executive%20Summary%20(WEBSITE).pdf)

<sup>2</sup> [http://www.amlc.gov.ph/images/PDFs/2021%20JAN%20TF%20RA%20EXECUTIVE%20SUMMARY%20\(WEB SITE\).pdf](http://www.amlc.gov.ph/images/PDFs/2021%20JAN%20TF%20RA%20EXECUTIVE%20SUMMARY%20(WEB SITE).pdf)

# **2022 Terrorism and Terrorism Financing Risk Assessment**

Anti-Money Laundering Council

### ***Caveat***

This risk assessment study is a supplemental study to the terrorism and terrorism financing (TF) risk assessment which was published and released in January 2021 by the Anti-Money Laundering Council (AMLC) of the Philippines. The objective of this study is to continuously provide updates on the terrorism and TF risk understanding as well as on the significant developments performed by the government to improve the said risk understanding and mitigate the risk exposure of the Philippines to terrorism and TF. It also intends to determine the direction of the risk of the Philippines based on the emerging threats, issues, developments, and progress relative to combating terrorism and TF. Additionally, an initial assessment on the exposure of the Philippines to proliferation financing of weapons of mass destruction (PF) associated with terrorism and TF is also subsumed in this study.

The risk assessment uses both quantitative and qualitative methods in evaluating and analyzing the associated risks relative to terrorism, TF, and PF. The data and information used in this study are derived from transaction reports submitted by covered persons (CPs) to the AMLC; statistics and information provided by law enforcement and intelligence agencies; and published articles and studies.

The document also serves as a guidance paper for financial institutions (FIs) and law enforcement agencies (LEAs), specifically as regards their risk-based strategies. The suspicious financial and red flag indicators and triggers as well as case typologies presented in this study may be instrumental in the identification, detection, and investigation of possible financial transactions linked to terrorism, TF, and PF.

The study also notes various challenges that FIs, LEAs, and supervisory agencies are encountering, relative to the identification and investigation of the money trail associated with terrorism, TF and PF.

## EXECUTIVE SUMMARY

Terrorists and threat groups are continuously increasing and evolving their ability to diversify and resort to various sources of funds, and exploit means and channels to transfer or move funds to support their operations, logistics and other terrorism activities. In order to successfully prevent terrorism, terrorist financing needs to be countered in an efficient manner, as TF is a key phenomenon that allows these terrorist groups to succeed. Thus, it is essential to have efficient coordination and cooperation among law enforcement and intelligence agencies, financial intelligence units, government agencies, and private stakeholders, to ensure strong political commitment in all levels.

Given the transnational nature of terrorism, terrorism financing (TF) needs to be assessed and analyzed, not only from a national perspective but from a sectoral, regional, and global perspective.

Since 2016, the Philippines has published and participated in several anti-terrorism and TF risk assessments. The First and Second National Money Laundering and Terrorism Financing (ML/TF) Risk Assessment reports, which were published in 2016 and 2017, respectively, both rated terrorism and TF as high risk. The 2021 Terrorism and TF risk assessment likewise rated terrorism and TF risks as high despite the significant efforts and contribution to international and domestic initiatives in addressing terrorism issues. The threat of terrorism persists as the Daesh/Islamic State (IS)-inspired local terrorist groups remain resilient despite sustained government anti-terrorism/TF operations.

In 2019, the Philippines underwent its Third Mutual Evaluation by the Asia Pacific Group on Money Laundering (APG)<sup>1</sup> which assessed the country's technical compliance with the 40 FATF Recommendations and effectiveness of AML/CTF regime.<sup>2</sup> The Philippines was then placed under the FATF's list of jurisdictions under increased monitoring<sup>3</sup> to address its strategic deficiencies in countering ML/TF. One of the recommended actions during the mutual evaluation process was for the Philippines to continuously update risk assessments in order to strengthen the TF understanding of emerging typologies and changes in risks, specifically noting the following essential issues:

1. Terrorism and terrorism financing cases and related events;
2. The role of foreign terrorist fighters (FTFs) as regards the activities relative to terrorism in the country;
3. The impact of Philippines' government/military responses to TF networks;
4. Changes in the threat environment, particularly to terrorism and the financing of terrorism; and
5. The impact of the actions taken by the Philippines in order to mitigate and combat the risks and threats arising from ML/TF.

The Philippines is politically committed in mitigating the risks associated with terrorism and TF. The enactment of the Anti-Terrorism Act in July 2020, and the Republic Act No. 10168, or the Terrorism Financing Prevention and Suppression Act (TFPSA), strengthen the legal framework against terrorism and its financing. Moreover, the issuance of resolutions designating individuals, members of certain groups/organizations, including a number of local groups and organizations as terrorists and terrorist groups/organizations limits their mobility, and hampers access of these entities to assets and funds.

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<sup>1</sup> The Asia/Pacific Group on Money Laundering (APG) is an inter-governmental organization, consisting of 41 member jurisdictions, focused on ensuring that its members effectively implement the international standards against money laundering, terrorist financing and proliferation financing related to weapons of mass destruction.

<sup>2</sup> The Philippines' Third MER which was adopted by the Asia Pacific Group on Money Laundering in August 2019

<sup>3</sup> The Philippines was placed under the FATF International Cooperation Review Group in 2021 for noted AML/CTF deficiencies in its ME post observation period report.

As of October 2022, the Philippines, through the Anti-Terrorism Council, has issued eight (8) resolutions adopting the United Nations Security Council consolidated list of all individuals and entities subject to measures as response to threat; and designating local threat groups and their members, such as the Communist Party of the Philippines (CP, its armed wing the New People's Army (NPA), and the National Democratic Front (NDF), DI-affiliated groups – Abu Sayyaf Group (ASG), Maute, Turaifie and Hassan groups.

The study is undertaken by the Anti-Money Laundering Council (AMLC). Relevant data and information are gathered from reports shared by law enforcement and intelligence agencies, and members of the National Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) Coordinating Committee – Terrorism Financing/Proliferation Financing Subcommittee (NACC-TFPFSC).<sup>4</sup>

The study is intended to update and keep abreast of the evolving and emerging terrorism and TF risks, particularly on the use of new technologies, regional threats, existing and new faces of threat groups, and their impact to the national, social and economic security of the Philippines. It also intends to assess the actions taken by various relevant agencies in mitigating and combating terrorism, its financing and associated crimes. Lastly, the study intends to initially describe and assess the current level of threats posed by proliferation financing of weapons of mass destruction in relation to terrorism and TF.

## **SIGNIFICANT FINDINGS**

The Philippines recognizes the threat posed by terrorism and its financing to human rights, whole nation's welfare and development, economic growth, and country's reputation, domestically, regionally, and internationally.

Terrorism presents grave challenges to security and human rights as it causes destruction of societies and lives of individuals as its immediate aftermath. These challenges allow the Philippines to recognize the need for a holistic, whole-of-nation approach that addresses the causes and consequences of terrorism and TF.

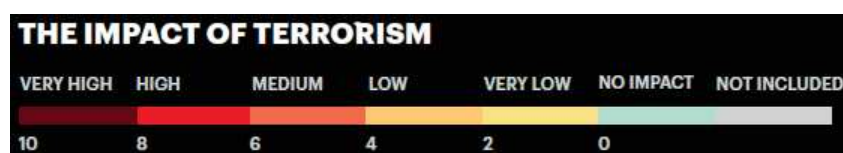
Previous terrorism/TF risk assessments concluded that terrorism threats in the Philippines were mainly active in the Southern Philippines, with noted incidents in other parts of the country. The identified terrorist/threat groups were categorized by the Philippines authorities as ISIL-inspired groups, secessionist/separatist movements, and insurgency movements.

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<sup>4</sup> The NACC-TFPFSC is headed by the National Intelligence Coordinating Agency (NICA), with AMLC, Anti-Terrorism Council Program Management Center (ATC-PMC), Dept. of Foreign Affairs, Dept. of Justice, Dept. of National Defense, Dept. of Trade and Industry, Dept. of Interior and Local Government, Dept. of Social Welfare and Development, National Security Council, Intelligence Service Armed Forces of the Philippines, National Bureau of Investigation, Philippine National Police, Philippine Coast Guard, Bureau of Customs and Bureau of Immigration.

## I. Terrorism Threat

In the 2022 Global Terrorism Index (GTI)<sup>5</sup> Report, the Philippines placed 16<sup>th</sup> with a score of 6.790, the lowest score the country has achieved since 2017 but still within the *High* category based on the GTI scale. Among the drivers that caused improvement in the GTI rating are the data on the attacks, deaths, wounded and hostages. The number of deaths in the Philippines has decreased for the second consecutive year - from 97 deaths in 2020 to 53 deaths in 2021. Nevertheless, the Philippines has had the highest death rate over the last decade, recording over 1,000 of the 3,250 terrorism deaths in the Asia-Pacific region.



While there appears progress in the GTI score for 2022, the Philippines remains one of the countries with the highest GTI scores in the Asia-Pacific Region for the period 2016-2021. The table below shows the summary of the GTI scores of the Asia-Pacific countries, including the ranks and the changes in scores, from 2011 to 2021:

**Table 1. Asia-Pacific GTI Scores, 2011-2021**

Country	Overall Score	Overall Rank	Change 2011-2021	Change 2020-2021
Philippines	6.790	16	-0.541	-0.284
Thailand	5.723	22	-1.711	-0.450
Indonesia	5.500	24	0.206	0.116
New Zealand	4.376	41	4.376	-0.523
Australia	2.438	60	2.438	-0.587
Malaysia	2.247	63	1.956	-0.660
China	1.863	67	-3.245	-0.704
Japan	1.460	71	-0.787	-0.516
Vietnam	0.407	85	0.407	-0.276
Taiwan	0.227	92	0.227	-0.180
Cambodia	0.000	93	-0.758	0.000
Laos	0.000	93	0.000	-1.968
Mongolia	0.000	93	0.000	0.000
North Korea	0.000	93	0.000	0.000
Papua New Guinea	0.000	93	0.000	0.000
Singapore	0.000	93	0.000	0.000
South Korea	0.000	93	0.000	0.000
Timor-Leste	0.000	93	0.000	0.000

*Source: 2022 GTI Report; Data excludes Myanmar*

<sup>5</sup> The global terrorism index (GTI) is a comprehensive study that analyzes the impact of terrorism for 163 countries covering 99.7% of the world's populace. The index provides key global trends and patterns of terrorism over the last fifty (50) years. The GTI produces a composite score so as to provide an ordinal ranking of countries on the impact of terrorism taking into account not only deaths, but also incidents, hostages, and injuries from terrorism, weighted over a five-year period.

The Philippines' sector of the "Islamic State East Asia Province" (ISEAP) consists of roughly four dominant groups or factions, as well as smaller cells which operate quasi-independently under the larger ISEAP umbrella:

- 1) Abu Sayyaf Group (ASG) with its subgroups called the Indama/Bayali and Sawadjaan factions based in Basilan and Jolo respectively;
- 2) "Maute Group" remnants [now called: Dawlah Islamiyah/Islamic State (DI/IS) Lanao], which is reportedly led by Abu Zacharia out of Lanao province;
- 3) Bangsamoro Islamic Freedom Fighters (BIFF), an IS-aligned splinter group of the MILF, based in Maguindanao, which consist of around four factions [Ismael Abu Bakar, Abu Turaifie faction, Solahuddin Hassan faction and the Karialan faction]; and
  - a. , especially the (DI-)Nilong group, reportedly based in Sarangani and Cotabato.

## II. Terrorism/Threat Financing Threat and Vulnerability

In the 2021 AMLC Terrorism and TF Risk Assessment (2021 T/TF RA), TF was both rated High in threat and vulnerability as terrorist/threat organizations in the Philippines appeared to have systematic and established method of raising funds. Illegal activities, such as extortion and looting, were the preferred means of raising funds. In relation to kidnap for ransom for TF, while said crime was considered as another means of raising funds, the study noted decreased cross-border KFR incidents during the assessment. Threat/terrorist groups also resort to legitimate sources to raise funds, such as use of NPOs, family funding, and businesses. Overall TF vulnerability was also rated as High in the 2021 T/TF RA, as evolving and emerging threats continue to challenge the financial system as well as the government's policies and combating mechanisms against terrorism and TF.

### Use of Social Media

Terrorists/threat groups also use social foreign funding to raise funds. According to the FATF,<sup>6</sup> terrorist organizations increasingly use social media to raise funds from sympathetic individuals. This means of raising funds can be attributed to the anonymity provided by the *internet* and the ever-growing access to it. An article published in 2021<sup>7</sup> mentioned that telegram has been instrumental in Islamic State – East Asia (IS-EA)'s recruitment, coordinating attacks, and terrorism financing in the Philippines. Through exploiting the financial vulnerabilities, young Filipinos have been promised of financial gains by the IS-EA and terrorists for their participation in terrorism and related acts. Telegram was also used in coordinating suicide bombing tactics by female terrorists and disseminating guides on Improvised Explosive Devices assembly.

The proliferation of social media<sup>8</sup> creates a vulnerability to terrorist financing due to the ease by which propaganda and fundraising can be circulated and promoted. While social media companies recognize the importance of preventing terrorism and violent extremism content, less attention is given to its fund-raising role.

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<sup>6</sup> <https://www.fatf-gafi.org/media/fatf/documents/reports/Emerging-Terrorist-Financing-Risks.pdf>

<sup>7</sup> <https://asiafoundation.org/wp-content/uploads/2019/02/Understanding-Violent-Extremism-Messaging-and-Recruitment-on-Social-Media-in-the-Philippines.pdf>

<sup>8</sup> Social Media and (Counter) Terrorist Finance: A Fund-Raising and Disruption Tool, November 2018, Studies in Conflict and Terrorism 42(1-2):1-28, [https://www.researchgate.net/publication/328938392\\_Social\\_Media\\_and\\_Counter\\_Terrorist\\_Finance\\_A\\_Fund\\_Raising\\_and\\_Disruption\\_Tool](https://www.researchgate.net/publication/328938392_Social_Media_and_Counter_Terrorist_Finance_A_Fund_Raising_and_Disruption_Tool)



### Foreign funding – External Threats Assessment using STRs

The study<sup>9</sup> conducted by the AMLC entitled *An Assessment of the Philippines' Exposure to External and Internal Threats based on Suspicious Transaction Reports for 2018 to 2020*, used 1,186 suspicious current account/savings account (CASA) transactions in relation to TF, amounting to PhP324.9 million. This showed a substantial increase in the number of STRs from the previous assessment, with only 396 STRs for the years 2013 to 2017. The study also assessed 470 suspicious CASA transactions with estimated value of PhP52.7 million associated with terrorism and conspiracy to commit terrorism.

Based on the results of the said study, funds with alleged links to terrorism and TF mostly circulated and remained within the Philippine financial system. Although alleged perpetrators commonly used pawnshops in moving the criminal proceeds, substantial amounts of illicit funds were still channeled through banks. For volume of incoming transactions, Malaysia and Saudi Arabia are the top sources of funds with alleged links to TF, while the USA, Qatar, and Indonesia posed the highest peso value of suspicious TF-related remittances. For outgoing transactions on the other hand, the United Kingdom topped the list for potential destination of funds related to TF. In relation to terrorism-linked suspicious transactions, Belgium, USA, and Malaysia recorded with the highest value of terrorism-related suspicious transactions.

### Use of Cryptocurrency

Terrorists may explore other means to expand resources and collect funds, such as through cryptocurrency. The unprecedented growth in cryptocurrency usage around the world may have benefited the terrorists and threat groups around the globe by providing their supporters with a layer of privacy when donating or sending funds. According to statista.com, bitcoin blockchain.com wallet users increased to 84 million in August 2022 from 22.65 million in January 2018.<sup>10</sup>

In an article<sup>11</sup> published in February 2022, some countries in Asia are viewed to be behind in regulating cryptocurrency. While cryptocurrency, or crypto, is viewed as the future of financial transactions, difficulty on tracing and potential attractiveness to criminal activities emerge as common issues.

Several countries have already taken measures to regulate crypto transfers, in line with the FATF guidelines, securing virtual assets from ML/TF. In the case of Asia, some countries including those with a history of terrorism, seem to lack effective regulation on cryptocurrencies, thereby increasing its potential to be a threat multiplier by making it an attractive tool for terrorist groups. The unregulated cryptocurrency allows terror/threat groups to expand operations into neighboring regions, as use of cryptocurrency will enable fast distribution of finances across the regions and facilitate more recruitment missions.

In 2021, the Philippines' central bank (Bangko Sentral ng Pilipinas) issued Circular No. 1108 which provides rules and regulations governing the operations of VASPs – entities that facilitate financial services via blockchain, Bitcoin, crypto assets and digital currencies—to cover new business models and

<sup>9</sup>

<http://www.amlc.gov.ph/images/PDFs/ASSESSMENT%20OF%20PH%20EXPOSURE%20TO%20EXTERNAL%20AND%20INTERNAL%20THREATS%20BASED%20ON%202018%20TO%202020%20STRS.pdf>

<sup>10</sup> <https://www.statista.com/statistics/647374/worldwide-blockchain-wallet-users/>

<sup>11</sup> <https://thediplomat.com/2022/02/cryptocurrency-and-terrorist-financing-in-asia/>



activities. VASPs are considered as money service businesses and are subject to the regulatory authority and examination powers of the BSP as provided under R.A. No. 7653, as amended by R.A. No. 11211, or The New Central Bank Act. Thus, the exchange between one or more forms of virtual assets, their transfer and the safekeeping or administration of virtual assets or instruments enabling control over them will be subject to the BSP's licensing requirements, regulatory expectations for MSBs as well as anti-money laundering, financing of terrorism and proliferation financing obligations. The new VASP regulatory framework is aligned with the fintech industry's best practices and consistent with risk management standards set by international standard-setting bodies such as the Financial Action Task Force (FATF) to combat the traffic of illicit funds.

In August 2022, the BSP imposed a 3-year moratorium on licenses granted to virtual asset service providers (VASPs) as it reassesses or reviews market development. While the BSP recognizes that virtual assets offer opportunities for easy access to financial services at a reduced cost, this moratorium move is a response to the potential varied risks posed by virtual assets that may undermine financial stability.

Based on the sample terrorism- and TF-related STRs, covered persons engaged in virtual assets reported 230 STRs – 198 in 2021 and 32 in January-June 2022. The value of STRs estimated Php0.359 million.

#### ***A. Terrorism and TF-related Suspicious Transaction Reports (STRs)***

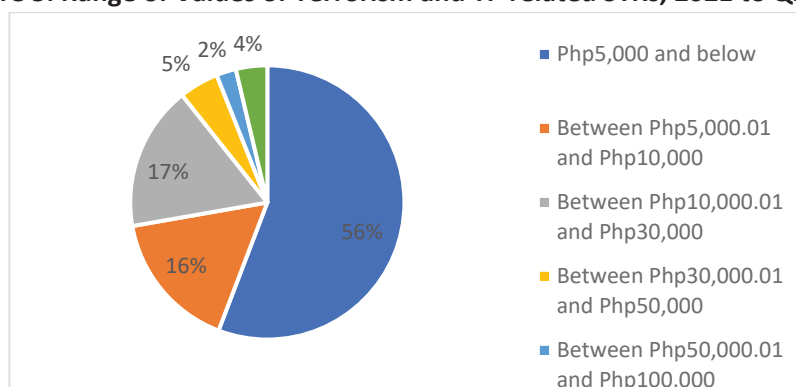
The study used 28,532 terrorism- and TF-related STRs reported from January 2021 to June 2022. Most of the sample STRs were reported under terrorism financing, at 71%, and terrorism at 10%. There is however a percentage of terrorism/TF-related STRs reported under associated crimes or other suspicious circumstance. Narratives of the STRs indicate possible association of the subjects, or their activities to terrorism or terrorism financing.

It should be noted that covered persons file STRs based on adverse news, intelligence received from AMLC, and/or other LEAs, rejected transactions, and pursuant to ATC designations despite having no transactions with the subjects. Thus, the total reported volume and value of the STRs may not necessarily represent the total volume and value of consummated financial transactions.

#### ***Range of STR values***

While there is an increase in the number of STRs filed in 2021 and 2022, majority (about 56%) of the said STRs are below Php5,000.00. A red flag indicator, which states that multiple transactions of low value with no specific pattern, mentioned in the 2021 T/TF Risk Assessment, still applies in the STRs received from 2021 to first semester of 2022. There is an overriding principle that states that TF transactions are not risk sensitive thus even small amounts associated to TF are of high importance.

**Figure 5. Range of Values of Terrorism and TF-related STRs, 2021 to Q2 2022**



*Note: excluding ZSTRs (STR transactions), STRA (ST reporting on a per account basis), and insurance transactions*

### **Financial Institutions Used**

The table shows that majority of the STRs are filed/submitted by money service businesses, accounting for 89% of the total number of STRs received for the period. While banks only submit 10% of the STRs for the assessment period, these STRs account for 99% of the total value of the reported T/TF-related suspicious transactions.

**Table 3. Types of Financial Institutions reporting Terrorism- and TF-related Suspicious Transaction Reports**

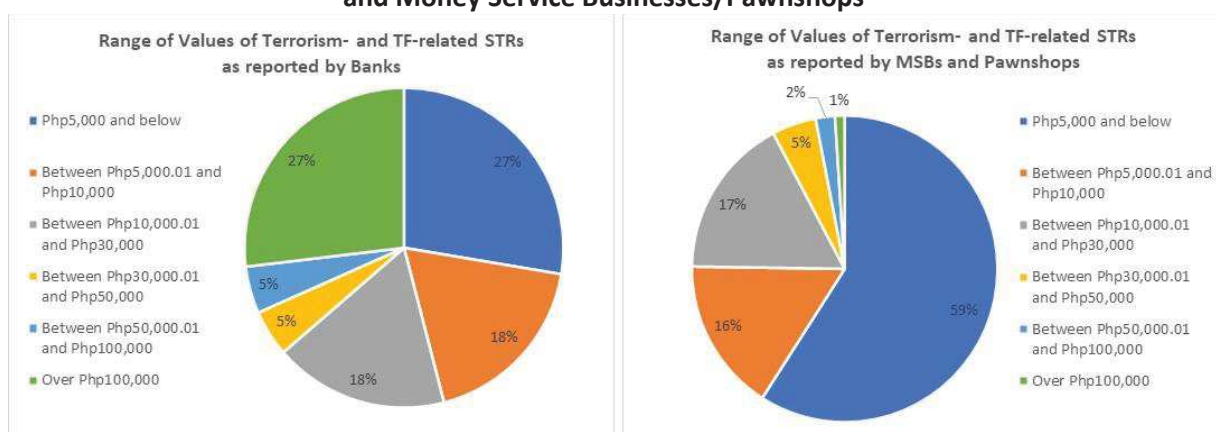
Financial Channel	2021		2022	
	Number of STRs	Amount (in PhP millions)	Number of STRs	Amount (in PhP millions)
MSBs and Pawnshops*	14,907	155.36	10,104	91.74
Banks	2,547	1,240.39	271	78.79
Others**	260	4.02	4	1.94

*\*MSBs include Electronic Money Issuers, and other Money Service Businesses*

*\*\*Others include Financing Companies, Non-Stock Savings and Loan Associations, Insurance Companies and other reinsurers, and Casinos*

Most STRs filed by MSBs and Pawnshops, approximately 60%, have values below PhP5,000.00. For banks, the reported terrorism-and TF-related STRs with STR values below Php5,000 and over PhP 100,000.00 have the same share of T/TF-related STRs filed by banks. This observation affirms the red flag indicator that indeed transactions alleged to be linked to terrorism, TF and other related crimes are usually of low value. it can be further surmised that MSBs are widely used in terms of frequency and small transfer of small value funds; whereas banks are involved in the transfer of high value transactions. These observations are expected given that those involved in illicit activities are inclined to take advantage of the accessibility and cash-intensive nature of the MSBs to move funds across areas of operations and between people involved; while banks, despite their more stringent requirements, present opportunity to transact and transfer larger sums of money.

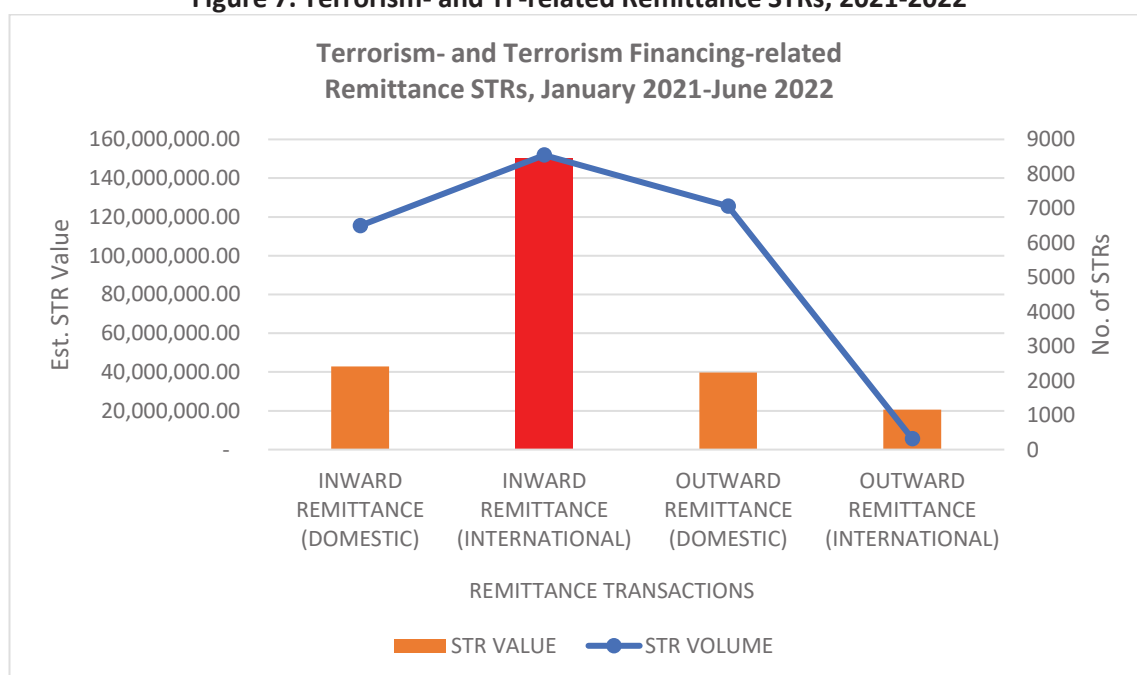
**Figure 6. STR Values of Terrorism- and TF-related filed by Banks and Money Service Businesses/Pawnshops**



*\*excluding ZSTRs (STR transactions) and STRA (ST reporting on a per account basis)*

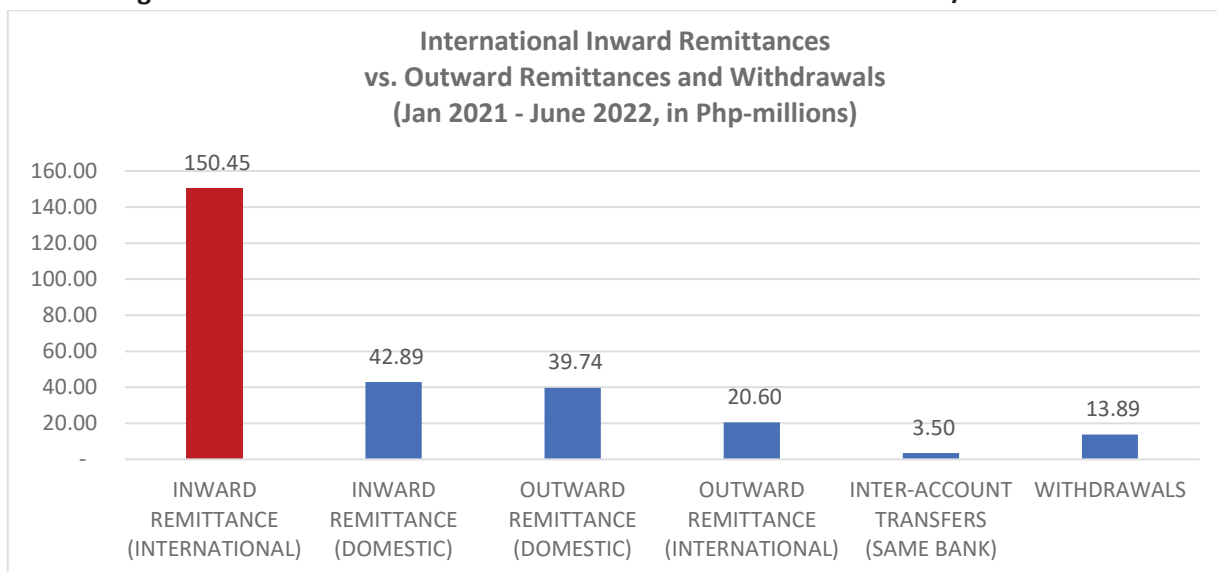
International and domestic remittances have also been reported as the delivery channels to move or transfer funds. Remittance transactions account for 80% of the sample terrorism- and TF-related STRs for 2021 to the first semester of 2022. Notably, based on value of STRs, most funds allegedly linked to terrorism, TF and other related crimes are internationally transferred as international remittances account for 70% of the total remittance related STRs.

**Figure 7. Terrorism- and TF-related Remittance STRs, 2021-2022**



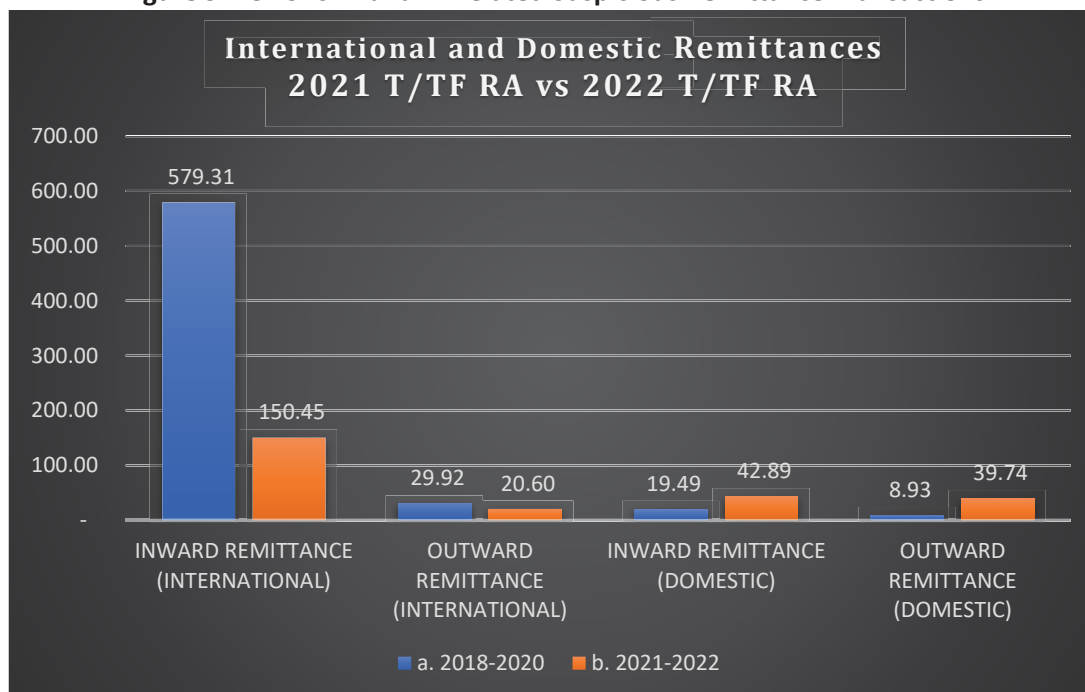
However, the estimated value of outward remittances, withdrawals and inter-account transfers could not account for international inward remittances. This may indicate that funds remain within the Philippines; and that there are probably undetected or unreported suspicious withdrawals, disbursements or transfers associated with T/TF-related funds.

**Figure 8. International Inward Remittances vs. Outward Remittances/Withdrawals**



There is also an apparent decrease in the international remittances compared with the previous period of assessment and a subtle increase in domestic remittances. This may indicate shift in the source and movement of TF-related funds from international to domestic.

**Figure 9. Terrorism- and TF-related Suspicious Remittance Transactions**



*Note:*

<sup>a</sup>2018-2020 data from the 2021 Terrorism and Terrorism Financing Risk Assessment

<sup>b</sup>2021-2020 data used in this study

## **B. Effectiveness of Suspicious Transaction reporting, monitoring and analysis**

A 145% increase in the number of terrorism- and TF-related STRs was noted in 2021 compared with the STRs filed in 2020. Notably, there was a 73% increase in the number of terrorism- and TF-related STRs filed in the first semester of 2022 compared with those filed in first semester of 2021.

In terms of value of STRs, it is observed there is huge difference in values between the 2021 and 2022 STRs filed in the months of January to June. The large STR values reported in 2021 pertained to the transactions of the MSB allegedly involved in facilitating proceeds of the ISIS-linked Maute group. The said transactions occurred in 2013-2014. It should be again noted that covered persons file STRs based on referrals from the AMLC, and/or other LEAs, adverse news, rejected transactions, and pursuant to ATC designations despite having no transactions at the time of reporting. Thus, the total reported value of the STRs may not necessarily represent the total value of completed/consummated financial transactions.

**Figure 11. Terrorism, Terrorism Financing and Related STRs**

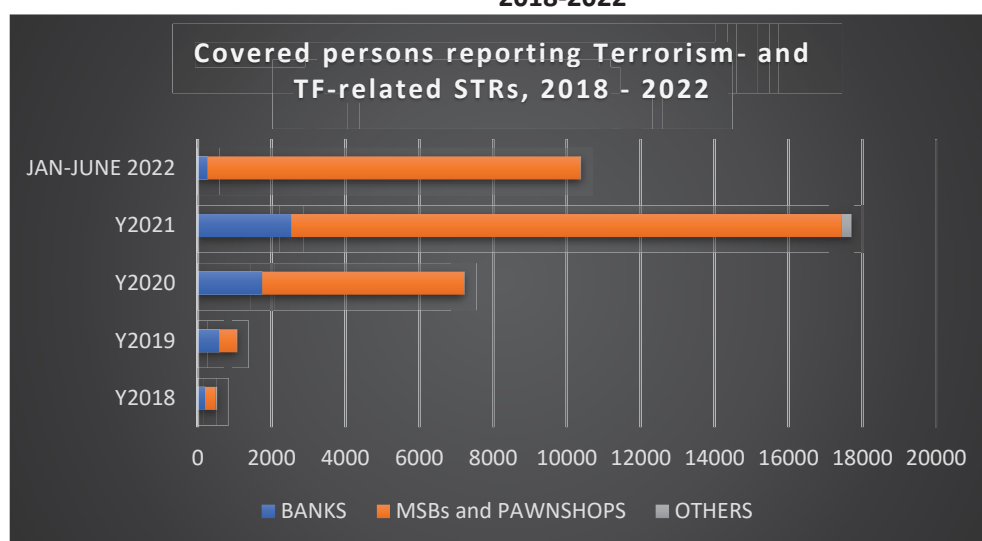


The above graph shows significant increase in the number of STRs from September 2020 to 2022. The increase in STRs seems to correspond to the enactment or effectivity of the Anti-Terrorism Act of 2020 in the second semester of 2020. The increase in the filing and submission of STRs can also be attributed to the several designations of local threat groups as domestic terrorists by the Anti-Terrorism Council.

Comparing the volume of STRs reported from March to June 2021, there appears an increase in STRs compared with the same period in 2022, apparently coinciding with the Philippine General Election campaign period.

In the previous 2021 T/TF RA, majority of the transactions suspected to be associated with terrorism and TF were reported and coursed through MSBs and Pawnshops, accounting for 61%. This trend seems to continue as MSBs (including pawnshops) share 89% of the terrorism- and TF-related STRs for this period of assessment.

**Figure 12. Covered Persons reporting Terrorism- and TF-related STRs, 2018-2022\***



Notes:

- a. 2018 – 2020 STRs obtained from the 2021 Terrorism and Terrorism Financing Risk Assessment
- b. 2022 data covers January – June 2022 STRs;

Narratives of some STRs indicate close coordination between the AMLC and covered persons in the possible nexus of the accounts with terrorism and TF. The bulk of the STRs received can also be attributed to the increasing awareness of CPs, particularly the MSB sector, in the detection and determination of possible financial transactions that may be associated with terrorism and TF. Some STRs are proactively reported which can support the AMLC in detecting accounts and new personalities associated with terrorism and TF. Further, another contributory factor is the regular updating of risk understanding through regular engagement of the AMLC, with other LEAs and industry associations; and the continuous and coordinated efforts of various agencies in the campaigns for AML/CFT via regular AML/CFT meetings with covered persons such as banks and MSBs.

### **C. Terrorism Financing Investigations**

Authorities practically jointly investigate counterterrorism (CT) and counterterrorism financing (CTF) cases. In order to ensure all relevant actors in the TF networks are discovered, a systematic parallel financial investigation in every terrorism/terrorism financing case should be conducted. From 2021 to August 2022, a total of 133 TF cases have been investigated by the AMLC and law enforcement/intelligence agencies. These TF cases are classified according to type of investigation - standalone TF, arising from counter-terrorism operations, and TF networks.

### **D. Information Sharing and Mechanisms**

The Philippine government maintains several mechanisms and platforms that become venue for information sharing, either domestic or international, among LEAs and foreign jurisdictions. These mechanisms aid in faster identification and investigation of suspects linked to terrorism and TF.

The execution of memoranda of agreements and understanding, and partnership agreements among LEAs, intelligence agencies, as well as the existence of various networks, treaties and partnerships/coordination mechanisms among jurisdictions contribute to a faster exchange of information relative to terrorism and TF.

The Public-Private Partnership Program (PPPP) and international cooperation are likewise instrumental in providing quality and timely responses to the threats posed by terrorism and TF. PPPP plays a key role in information sharing and identification of TF linkages and networks, including beneficial ownership information.

### **E.1. Domestic Coordination**

Domestic coordination mechanisms likewise provide overall policy and strategic direction for effective facilitation of actions and investigation against terrorism, TF and other related offenses. Among the existing committees and coordination mechanisms are the National Law Enforcement Agency Coordinating Committee (NALECC), National AML/CFT Coordinating Committee (NACC), and their respective subcommittees, Anti-Terrorism Council (ATC), National Intelligence Committee (NIC), National Task Force to End Local Communist Armed Conflict (NTF-ELCAC), National Law Enforcement Coordinating Committee –Sub-committee on AML/CFT (NALECC-SCAML/CFT), and the United States Federal Bureau of Investigation (FBI)-led Joint Terrorism Financial Investigation Group (JTFIG). High-level meetings are conducted to ensure opportune policy actions and investigations against terrorism, TF and related offenses.

*National AML/CFT Coordinating Committee was created to facilitate inter-agency coordination focused on the development of national policies on AML/CFT consistent with relevant AML/CFT laws and international standards, and provide directives to relevant agencies on major issues on the implementation of the National AML/CFT Strategy (NACS). In relation to TF/PF, the NACC is supported by the TF/PF subcommittee (TFPFSC) which ensures implementation of the action plans under Strategic Objective 5 (Terrorism Financing and Proliferation Financing). The TFPFSC shall likewise provide support and coordinate efforts in the implementation of the relevant action plans under Strategic Objective 1 (Legal Framework) and Strategic Objective 6 (Domestic and International Cooperation). [Executive Order No. 68, Series of 2018]*



The AMLC is a member of, and participates in the following Coordinating Committees and Mechanisms:

**Table 7. Select Coordinating Committees and Mechanisms**

Committee/ Coordination	
ATC <sup>12</sup>	<p>The ATC was created pursuant to the ATA. The ATC shall assume the responsibility for the proper and effective implementation of the policies of the government against terrorism.</p> <p>The ATC formulates and adopts comprehensive, adequate, efficient, and effective plans, programs, or measures in order to prevent, counter, suppress, and/or eradicate the commission of terrorism and protect the people from such acts (Rule III.3.1 IRR, ATA 2020).</p>
NIC <sup>13</sup>	The NIC serves as an advisory body to the Director General, NICA for the coordination, integration and fusion of all intelligence activities. The NIC also acts as the principal adviser to the President of the Philippines on intelligence matters.
NTF-ELCAC <sup>14</sup>	The NTF ELCAC was created in December 2018 pursuant to Executive Order 70 synchronizing the government's instrumentalities of power and capabilities of the private sector to end deceit,

<sup>12</sup> The ATC is composed of the Executive Secretary as its Chairperson; National Security Adviser as Vice Chairperson; and the Secretary of the Foreign Affairs; Secretary of National Defense; Secretary of Interior and Local Government; Secretary of Finance; Secretary of Justice; Secretary of Information and Communications Technology; and Executive Director of the AMLC Secretariat.

<sup>13</sup> <https://nica.gov.ph/about-us.html>

<sup>14</sup> <https://www.ntfelcac.org/about>



	lies and atrocities committed by communist terrorists. The NTF ELCAC applied a whole-of-nation approach in defeating communist terrorist group/s and attaining sustainable and inclusive peace in the Philippines.
NALECC <sup>15</sup>	The NALECC, which was created on 11 September 1982 by virtue of Executive Order (EO) No. 829 and reorganized by EO Nos. 41 and 41-A, serves as a forum for dialogue and coordination among government agencies and entities engaged in the enforcement of general and special laws, such as the AMLA, TFPSC, among others.
NALECC – SCAML/CFT <sup>16</sup>	NALECC-SCAML/CFT, which was created by virtue of NALECC Resolution No. 10-2003 on 15 August 2003, serves as an effective coordinating mechanism for LEAs and other relevant government agencies performing vital roles in combating ML and TF
JTFIG <sup>17</sup>	The JTFIG is an inter-agency law enforcement task force established in the Philippines in 2011. The JTFIG meets weekly to address the TF threats in the Philippines, and rest of Southeast Asia.
NACC AND NACC-TFPSC	<p>The NACC, which was created by virtue of EO No. 68, is a body tasked to oversee the facilitation of the Philippines’ National AML/CTF Strategy.</p> <p>The NACC-TFPSC is created to develop and strengthen mechanisms to prevent, disrupt and combat terrorism, TF, and proliferation financing. Action plans of TFPSC related to terrorism and TF prioritize engagement of security/intelligence agencies in the conduct of investigation on terrorism financing as area of their focus. This is to ensure that LEAs and security/intelligence agencies also gather evidence pertaining to financing of terrorists, terrorist organizations and acts of terrorism, and refer it to the AMLC for proper investigation.</p> <p>The TFPSC also recognizes that spread of terrorism in certain regions can be curbed with the help of the local government units in high-risk regions. Thus, there is need to reinforce local government mechanisms in this regard.</p>

### **E.1. International Cooperation and Mechanisms on AML/CTF**

The Philippines likewise participates in several international cooperation mechanisms on AML/CTF. Among these are:

#### **1. Egmont Group of Financial Intelligence Units**

The AMLC is a member of the Egmont Group of Financial Intelligence Units (FIUs), an international organization comprising FIUs from more than 165 jurisdictions and observers. FIUs around the world are obliged by international AML/CTF standards to exchange information and engage in international cooperation. As an international FIU forum, Egmont Group both facilitates and promotes sharing of financial intelligence amongst its member FIUs to combat money laundering, terrorist financing, and associated predicate crimes.

The Egmont Group also aims to improve stakeholders’ understanding of financial crime risks and draws upon diverse operational experience to support international efforts to implement the resolutions and statements of the United Nations Security Council, Financial Action Task Force (FATF), and G20 Finance Ministers.<sup>18</sup>

<sup>15</sup> <http://www.amlc.gov.ph/images/PDFs/2017-2018%20AMLC%20ANNUAL%20REPORT.pdf>

<sup>16</sup> <http://www.amlc.gov.ph/images/PDFs/2017-2018%20AMLC%20ANNUAL%20REPORT.pdf>

<sup>17</sup> <https://2009-2017.state.gov/j/inl/rls/nrcrpt/2016/vol2/253726.htm>; <http://www.amlc.gov.ph/images/PDFs/2017-2018%20AMLC%20ANNUAL%20REPORT.pdf>

<sup>18</sup> <https://www.austrac.gov.au/about-us/international-engagement/international-partnerships-and-programs>

2. *Asia Pacific Group on Money Laundering*

The Philippines is a member of the Asia/Pacific Group on Money Laundering (APGML), an inter-governmental organization, consisting of 41 member jurisdictions. The objective of the APG is to ensure that individual members effectively implement the international standards against money laundering, terrorist financing and proliferation financing related to weapons of mass destruction.

3. *Asset Recovery Interagency Network Asia Pacific (ARIN-AP)*

ARIN-AP is an informal network of experts and practitioners in the field of asset tracing, freezing and confiscation. It also intends to serve as a cooperative group in all aspects of tackling proceeds of crime in the Asia/Pacific region. The primary aim of ARIN-AP is to increase effectiveness of members' efforts in depriving criminals of illicit proceeds. The Philippines, as a member of the ARIN-AP, regularly participates in the regional and inter-regional cooperation meetings and conventions.

***E. 2022 Progress in Counterterrorism and Counter-Terrorism Financing Measures***

The Philippines continues to demonstrate its high-level commitment in countering terrorism, TF and related offenses. In August 2022,<sup>19</sup> the Department of Justice (DOJ) charged 16 individuals for allegedly financing the CPP-NPA. In a briefer published on 15 August 2022, the DOJ noted that there was a probable cause in the indictment of the said individuals.

The individuals were charged with violation of Section 8 of Republic Act 10168 or the *Terrorism Financing Prevention and Suppression Act of 2012* that has punishment of 40 years imprisonment, and a fine from Php500,000 to P1,000,000. No bail is recommended for this case filed before the regional trial court of Iligan City.

The complaint stemmed from a financial investigation of the AMLC on the suspects providing financial support to the CPP, and its armed wing, NPA, both of which the government has designated as terrorist organizations.

In another case,<sup>20</sup> police authorities arrested in July 2022 ASG member **Hajar Bin Abdul Mubin @Asri**, upon his arrival in the country, over a kidnapping a ransom case in 2012. His arrest sends a strong message to the terrorists and their adherents as regards the reach and resolve of the country's justice system. This incident serves as a deterrent for terrorists, supporters and financiers from engaging in terrorism-related activities.

***Designation of Fifteen (15) Anti-Terror Courts***

In a circular<sup>21</sup> dated 28 March 2022, the Supreme Court of the Philippines has identified fifteen (15) Regional Trial Courts (RTC) across the region to handle terrorism and counter-terrorism financing cases involving crimes under the Anti-Terrorism Act (R.A. 11479) and the Terrorism Financing

<sup>19</sup> <https://www.cnnphilippines.com/news/2022/8/16/DOJ-charges-16-including-nuns-CPP-NPA-funding.html>

<sup>20</sup> <https://newsinfo.inquirer.net/1624238/alleged-abu-sayyaf-member-nabbed-for-kidnapping>

<sup>21</sup> Office of the Court Administrator (OCA) No. 71-2022, Supreme Court, dated 22 March 2022 (Source: <https://oca.judiciary.gov.ph/wp-content/uploads/2022/04/71-2022-OCA-CIRCULAR-ADMINISTRATIVE-MATTER-NO.-21-08-07-SC-DATED-22-MARCH-2022-DESIGNATION-OF-SPECIAL-COURTS-TO-HEAR-TRY-AND-DECIDE-TERRORISM-CASES-AND-COUNTER-TERROR-FINANCING-CASES.pdf>)

Prevention and Suppression Act (RA 10168). Said courts are “designated to exclusively and speedily hear, try and decide” the cases committed in respective regions.

### **III. Threats posed by Proliferation Financing of Weapons of Mass Destruction (WMDs)**

This section is an initial assessment of the threat posed by proliferation financing of WMDs.

The proliferation of weapons of mass destruction is another significant security concern a jurisdiction may face. In combating this threat, the FATF has developed specific requirements to give effect to and implement relevant UNSCR Resolutions.<sup>22</sup> FATF Recommendations 1<sup>23</sup> and 7<sup>24</sup> include requirements for identifying, assessing, understanding and mitigating risks, and targeted financial sanctions (TFS) on proliferation of weapons of mass destruction and its financing. Proliferation financing under the context of Recommendation 1 refers strictly and only to the potential breach, non-implementation or evasion of the targeted financial sanctions obligations referred to in Recommendation 7.

The Democratic People’s Republic of Korea (DPRK or North Korea) constitutes the most complex proliferation financing threat globally as it continues to operate sophisticated sanctions evasion schemes to raise funds and revenues contributing to advancing its nuclear and ballistic missile capabilities.<sup>25</sup>

In addition, there are still concerns on Iran’s capability to seek WMD to further threaten regional stability in the Middle East.<sup>26</sup>

#### **A. 2019 Mutual Evaluation Report (MER), Progress Reports**

In 2019, the Philippines underwent its Third Mutual Evaluation and was rated then non-compliant for Recommendation 7 on TFS related to proliferation citing the Philippines lack of specific measures to implement TFS related to proliferation of WMD. Consequently, Immediate Outcome 11 (IO-11)<sup>27</sup> was rated with low level of effectiveness. Among the reasons cited were the lack of TFS framework, lack of mechanisms/procedures relating to designation, listing/delisting, and freezing/unfreezing or access to funds, no authority mandated to ensure and monitor compliance with TF/PF; and low awareness among FIs/DNFBPs of the UNSCRs.<sup>28</sup> Assessment of PF risk under Recommendation 1, on the other hand, was not yet a requirement during the said assessment.

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<sup>22</sup> The UNSC Resolution No. 2462 recognized the essential role of the FATF in setting global standards in the combat against money laundering, terrorism and its financing, and proliferation financing.

<sup>23</sup> Countries should identify, assess, and understand ML/TF/PF risks and should take commensurate action aimed at ensuring that the risks are mitigated.

<sup>24</sup> FATF Recommendation 7 on Targeted financial sanctions related to proliferation. Countries should implement TFS to comply with UNSC resolutions relating to the prevention, suppression and disruption of proliferation of weapons of mass destruction and its financing. The resolutions require countries to freeze without delay the funds or other assets of, and to ensure that no funds and other assets are made available, directly or indirectly, to or for the benefit of, any person or entity designated by, or under the authority of, the UNSC under Chapter VII of the Charter of the United Nations.

<sup>25</sup> National Proliferation Financing Risk Assessment by the US Department of the Treasury, February 2022, accessed on 7 November 2022

<sup>26</sup> *ibid*

<sup>27</sup> Immediate Outcome 11 assesses jurisdictions effectiveness in implementing, without delay, TFS concerning the UNSCRs relating to combating the financing of proliferation.

<sup>28</sup> 2019 Philippines Mutual Evaluation Report

The Philippines was then placed in the FATF ICRG 12-month observation period after it had met the referral criteria and failed to demonstrate effectiveness of AML/CTF framework. During the June 2021 plenary, the FATF ICRG published the inclusion of the Philippines in its list of jurisdictions with strategic AML/CTF deficiencies, or the “grey-list”. This has prompted the Philippines to regularly report its progress on ICRG action plan within the strict deadlines to the FATF.

In September 2021, the Philippines showed progress on IO-11 by promulgating regulatory guidance with step-by-step procedures for de-listing, lifting of TFS on PF and unfreezing of assets in order to generate awareness among industry associations, government agencies and covered persons.

## ***B. Philippines’ Initiatives in addressing proliferation financing***

### ***1. RA No. 10697 or the Strategic Management Act***

Republic Act No. 10697 or Strategic Management Act was enacted to fulfill the international commitments and obligations of the Philippine. The said Act aims to take and enforce effective measures to establish domestic controls to prevent the proliferation of weapons of mass destruction as well as their means of delivery, including provision of related services, such as the financing thereof.

#### ***Strategic Management Office’s (STMO) List of Prohibited End-users***

In a memorandum-circular dated 06 April 2020, the Strategic Management Office (STMO) has issued for the information, guidance, and compliance of all persons who engage or intend to engage in the trade of strategic and/or unlisted goods, which prohibits covered persons from engaging in any trade with various listed individuals and entities, falling under the UNSC Consolidated List (<https://www.un.org/securitycouncil/content/un-sc-consolidated-list>), which was generated on 12 October 2020.

### ***2. Republic Act No. 11521, or an Act further strengthening the AMLA, as amended***

In January 2021, RA No. 11521 was enacted to further strengthen the AMLA by broadening the powers of the AMLC, adding new predicate offenses and covered persons under the AML/CTF framework, among others. Violation of Section 9(a)(3) of RA 10697 in relation to the proliferation of weapons of mass destruction (WMDs) and its financing pursuant to UNSC Resolution Nos. 1718 of 2006 and 2231 of 2015 was included as a response to criminalize proliferation financing of WMDs, and intensify the TFS framework on PF.

## ***C. Status of TFS on Proliferation Financing***

Various measures on economic sanctions are mainly enacted and instituted by the United Nations Security Council (UNSC or Security Council). The UNSC<sup>29</sup> has primary responsibility for the maintenance of international peace and security. Under the Charter of the United Nations, all Member States are obligated to comply with Council decisions. The said measures have ranged from comprehensive economic and trade sanctions to more targeted measures such as arms embargoes, travel bans, and financial or commodity restrictions. The Security Council takes the lead in determining the existence of a threat to the peace or even act of aggression, and calls upon the parties to a dispute to settle it by peaceful means and recommends terms of settlement. In some cases, the Security Council can resort

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<sup>29</sup> UNSC has 15 members, and each member has one vote.

to imposing sanctions or even authorize the use of force to maintain or restore international peace and security.<sup>30</sup>

In February 2021, the AMLC issued a notice on the implementation of TFS related to proliferation of WMDs and its financing directing the public and private individuals and entities to freeze, without delay, the properties or funds of designated persons/entities or those whose identities match with all information listed under UNSC Resolution Nos. 1718 (2006) (concerning the DPRK) and 2231 (2015) (concerning Iran), respectively, and their successor resolutions.

UN Security Council resolution 1718 (2006) requires member states, among others, to prevent the direct or indirect supply, sale or transfer to the DPRK, through their territories or by their nationals, or using their flag vessels or aircraft, and whether or not originating in their territories, of items specified under UNSCR 1718 (2006) such as:

- i. *battle tanks, armoured combat vehicles, large calibre artillery systems, combat aircraft, attack helicopters, xxx;*
- ii. *All items, materials, equipment, goods and technology as set out in the lists in documents S/2006/814 and S/2006/815, xxx; and*
- iii. *Luxury goods.*

Member states shall likewise prevent any transfers to DPRK by their nationals, or from their territories, or from the DPRK by its nationals or from its territory, of technical training, advice, services or assistance related to the provision, manufacture, maintenance or use of items such as specified in i and ii above.

In 2017, the Philippines suspended trade relations, including economic sanctions, with North Korea to comply with the UN Security Council resolution over repeated missile tests.<sup>31</sup>

UNSC Resolution 2231 (2015) establishes specific restrictions that apply to all States without exception and terminates the provisions of previous Security Council resolutions on the Iranian nuclear issue. Member States are obligated under Article 25 of the Charter of the United Nations to accept and carry out the Security Council's decisions. UNSC 2231 (2015) also encourages Member States to cooperate including through the International Atomic Energy Agency (IAEA) involvement, with Iran in the framework of JCPOA in the field of peaceful uses of nuclear energy and to engage in mutually determined civil nuclear cooperation projects, in accordance with Annex III of the Joint Comprehensive Plan of Action (JCPOA).<sup>32</sup>

Historical data on trade with Iran disclosed substantial decline in both imports and exports in the last five (5) years.

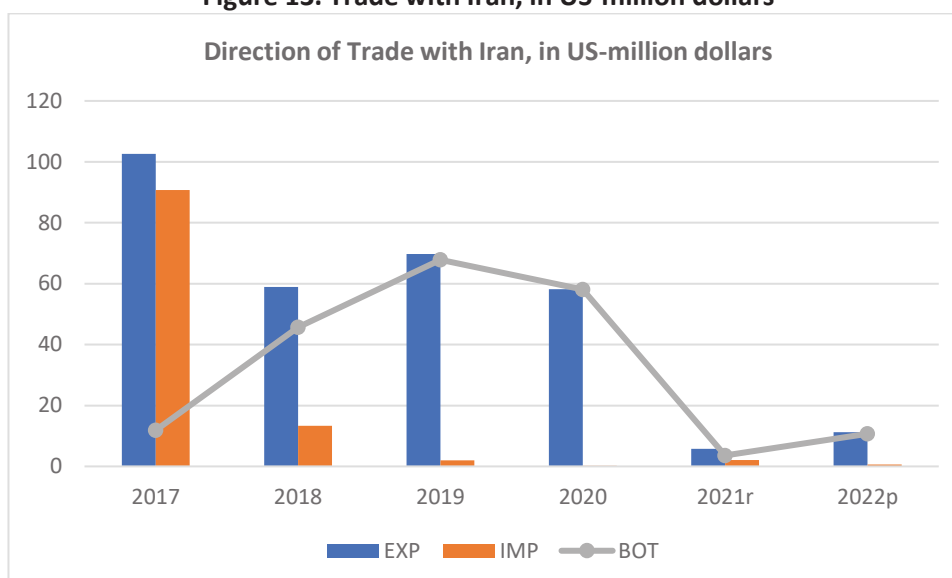
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<sup>30</sup> <https://www.un.org/securitycouncil/>

<sup>31</sup> <https://www.reuters.com/article/uk-philippines-northkorea-idUKKCN1BJ113>

<sup>32</sup> [https://www.sipri.org/sites/default/files/2016-03/UNSC-Res-2231\\_0.pdf](https://www.sipri.org/sites/default/files/2016-03/UNSC-Res-2231_0.pdf)

**Figure 13. Trade with Iran, in US-million dollars**



Source: BSP Statistics, accessed on 7 November 2022

Exp – exports

Imp – imports

BOT – balance of trade

r - revised data

p – preliminary data

Trade dealings with Iran were almost negligible, accounting only less than 1% of the total trade transactions for the last 5 years.

Vulnerabilities to PF may stem from the products and services that are useful to a proliferation network a company offers; lack of awareness and understanding on the global proliferation supply chain; and compliance deficiencies.

Since August 2021, the AMLC has conducted targeted TFS on TF and PF webinars, and participated in several combating on PF conferences and meetings. As of October 2022, six (6) webinars had been delivered for covered persons which were attended by 6,123 participants.

**Table 8. AMLC-Facilitated Webinars/Trainings**

Date	No. of Attendees
19 August 2021	2,077
22 July 2022	866
03 August 2022	885
10 August 2022	781
12 October 2022	807
26 October 2022	707
<b>TOTAL</b>	<b>6,123</b>

The TFS webinars included topics on general AML/CTF concepts and compliance, and specific on TFS obligations on TF and PF. Results of the assessment validation tests (pre- and post-test questionnaires) demonstrated on the average 8% increase in understanding. Furthermore, the AMLC included in several webinars for the DNFBP sector a course on TFS. Assessing the pre- and post-test responses in relation to TFS generally showed increase in the number of participants obtaining higher scores in the post-test compared with their pre-test scores.

#### ***D. Existence of Suspicious Transaction Reports***

During the period of assessment, **280** STRs potentially related to financing of proliferation financing using the criteria set<sup>33</sup> with estimated value of PhP 737,581.00 (USD13,400). 95% of these possibly PF-linked STRs were filed on the basis of suspicious circumstance that the clients are Iranian nationals and/or are residents of jurisdictions in the FATF' Call for Action list, or the "blacklist".

In addition, criteria set for PF captured 413 STRs with estimated STR value of PhP2.558 million (USD47,000), filed based on several suspicious indicators indicating proliferation financing associated with predicate crimes. Investigation of the reporting institution/s revealed suspicious cross-border remittances from 5 jurisdictions to the Philippines; similar transactional patterns of low amount transactions from multiple senders; and common beneficiaries. These STRs further need evaluation and investigation to determine links with terrorism and/or proliferation of WMDs and its financing.

#### ***E. Bangko Sentral ng Pilipinas' Sectoral and Thematic Review of Proliferation Financing***

The BSP, in its 2021 Sectoral Risk Assessment on ML/TF/PF, rated PF threat to BSP-supervised financial institutions (BSFIs) as low due to minimal transactions/connections with DPRK and Iran, and minimal import and export of dual-use of goods. There were no trade of potentially strategic goods with DPRK from January 2018 to August 2020. In addition, trade dealing with Iran were minimal, less than 1% of the total exports and imports of the country. Trades were mostly related to semi-conductors, metal furniture, and other medical instruments. The BSP also used 79 STRs with aggregate value of PhP25 million potentially related to PF.<sup>34</sup>

BSFIs vulnerability to TFS on PF, on the other hand, was rated medium-high, as risk mitigation measures for PF are still developing. Only a few BSFIs have institutionalized concrete measures in mitigating PF.<sup>35</sup>

The Bangko Sentral ng Pilipinas (BSP), in its thematic review of BSP-supervised financial institutions specifically for proliferation financing (PF), has noted that most of the BSFIs have adopted the policies and procedures to implement the requirements of the TFS and have installed sanctions screening system with due regard to the complexity and nature of their respective operations. Some of the areas that the BSP noted that entail enhancements are the conduct of the institutional risk assessments as well as the adoption and/or enhancements on the policies on TFS and control measures on PF.

#### **Assessment on PF**

PF threat is assessed as medium despite the low incidence due to the proactive measures of the government and other stakeholders. Philippine Government's suspension of trade relations with DPRK and enhanced application of measures against Iran contribute to decrease in threat. This is evident in the substantial decline on trade transactions with Iran in the last five (5) years. Since 2017, the Philippines has suspended trade relations with North Korea to comply with the UN Security Council resolution over repeated missile tests.

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<sup>33</sup> Search criteria only on information involving *proliferation financing of weapons of mass destruction, FATF call for action list, North Korea, and Iran*

<sup>34</sup> <https://www.bsp.gov.ph/Regulations/Issuances/2021/M-2021-017.pdf>

<sup>35</sup> <https://www.bsp.gov.ph/Regulations/Issuances/2021/M-2021-017.pdf>



Vulnerability to PF is assessed as medium high as mitigation measures are still developing both for FIs/DNFBPs and government. Covered persons are in the process of updating their sanctions screening systems and capacity building in ensuring full compliance with the TFS requirements of the AMLC and respective regulators. The AMLC has issued regulatory measures on PF such as guidance with step-by-step procedures for de-listing, lifting of TFS on PF and unfreezing of assets, and conducted several webinars on TFS and other obligation in combating PF.

Consequence, in the context of PF, refers to the harm inflicted to jurisdiction's nationals, national security, economy, among others, if the funds, assets and economic resources are made available to a proliferation network and augment their WMD capability. In the Philippines, while it is difficult to quantify yet the extent of impact of PF, its exposure to the said risk presents serious reputational and economic consequences. Other jurisdictions may impose trade and economic sanctions and apply enhanced due diligence to transactions of Philippines' nationals.

Overall PF risk is assessed as medium high as mitigation and regulatory measures are still in the developing stage. Nevertheless, since the inclusion of violation of Section 19 or RA 10697, in relation to the proliferation of WMDs and its financing under the AMLA in July 2021, progress in addressing this risk has been notable.

#### **IV. Consequence Analysis**

Terrorism and similar incidents, perpetrated by terrorists and threat groups directly impact the jurisdiction. Among the most pronounced costs of terrorism are destruction of life and property/infrastructure, shift in responses to emergency and restoration of habitation. These direct costs however are likely to be proportionate to the intensity of the terrorist attacks, including casualties, value of affected properties/structure and businesses , and size and characteristic of the economy.


The impact of TF parallels the impact of terrorism. Terrorists and threat groups (including territory-controlling groups) need to generate income to perpetuate their terrorism and operational activities. Lack of resource capability, as well as denial of financial support, will eventually curb terrorism, and its related criminal activities.

In relation to PF, while it is difficult to quantify yet the extent of its impact, exposure alone to the said risks presents serious reputational and economic consequences as other jurisdictions may impose trade and economic sanctions.

Terrorism, TF and PF incidents directly present a greater degree of reputational risk to the jurisdiction as these perils challenge, not only the government's actions against these threats, but the entire state's commitment in maintaining peace and functional society.

In addition, terrorism and TF have economic consequences such as diverted foreign direct investment, limited trade and low tourism growth, particularly if the jurisdiction is categorized as a high risk country. Government priorities are redirected to security force – thus limiting investments and funds for public benefit expenditure/ infrastructure. Terrorism and TF incidents thus undermine investor and consumer confidence. Rise in costs of living expense and doing business is another notable impact as prices tend to increase in high risk areas due to limited resources.

## V. Conclusion/Overall Assessment

LOW	MEDIUM LOW	MEDIUM	MEDIUM HIGH	HIGH
				
2	4	6	8	10

Based on the factors considered, the threats and vulnerability posed by Terrorism and Terrorism Financing were rated as upper MEDIUM HIGH and MEDIUM HIGH, respectively, with consequential impact rated as HIGH. Overall terrorism and TF risk in the Philippines has been downgraded from HIGH to MEDIUM HIGH. Said rating entails that the public and private sector continue their efforts and strategies that have been undertaken and implemented in the combat against terrorism and its financing.

Initial assessment on risk arising from proliferation financing is medium high as mitigating measures are still developing. In addition, there appears limited awareness, albeit improving as regards proliferation supply chain and networks. Thematic assessments likewise show improved level of compliance by FIs through adoption of screening systems and increased capacity building.

Inherent risks of terrorism and TF— globally and domestically— remain to be HIGH. Terrorism continues to progress as terrorists/threat groups develop new strategies in recruitment and execute attacks.

The Philippines must continue to be aggressive in its efforts in combating terrorism and its financing. Terrorist groups, international and domestically, are still present; though their activities are becoming dormant and are waning. This further implies that these terror groups are losing resources and funding

Vulnerabilities are present ; however, there are efforts done by the whole government as well as the private sectors in mitigating the said vulnerabilities.

While law enforcement approach continues to be the primary means in combating terrorism, the dismantling of terrorist financing networks is another method to eliminating terrorism. Preventing terrorists and threat groups access to funds and resources degrade their capability to launch operations and attacks; infuse higher risks; and cause uncertainty into future operations. The same approach can be applied to combating proliferation financing. Imposition of sanctions freeze order, conduct of extensive awareness campaign on proliferation of WMDs and its financing, effecting private and public coordination, and international cooperation and engagement are among the factors that contribute to mitigating elements of proliferators and supply actors.

It has been proven that domestic and international coordination mechanisms are instrumental in providing better responses to the threats posed by terrorism, TF, proliferation of WMDs, and its financing; and thus should be retained and be further strengthened. Recent experiences have shown that close domestic and international coordination among the AMLC, and relevant government agencies yielded positive results.

These various domestic and international coordination mechanisms, extensive awareness campaigns, CTF/CPF trainings, as well as the operationalization of Public-Private Partnership Programs (PPPP) address a whole-of-government approach in combating terrorism and TF, proliferation of WMDs and its financing, and associated crimes. The government should also consider the significant contribution of all international initiatives and cooperation in addressing terrorism, TF, and PF issues. Collaborations/partnerships of the relevant government agencies with their counterparts in the

international community have achieved remarkable results which the Philippines should continue to support to fully address terrorism, TF and proliferation financing risks that transcend boundaries.

#### **IV. POLICY ACTIONS AND RECOMMENDATIONS**

Terrorism, terrorism financing, including proliferation financing remain among the major security issues among jurisdictions despite progress in counterterrorism and counter-TF/PF (CT/CTF/CPF) efforts in the past years. Thus, this study puts forward certain policy recommendations to further strengthen CT/CTF/CPF efforts in place.

##### **1. *Strengthening intelligence and investigation capabilities***

One of the vulnerabilities in CT/CTF/CPF is the failure of intelligence agencies to properly assess terrorism and proliferation of WMDs situation, and identify financing of such acts.

Particularly for terrorism such as in the case of the Marawi siege, some security experts recognized the deficiencies in intelligence sharing and misinformation which resulted in major attacks. The lack of resources also undermines the capability of security forces, including intelligence agencies, to keep terrorist groups and non-state armed actors in check.<sup>36</sup> Thus, there is a need to further develop the capability of the entire intelligence community, including the financial intelligence unit (AMLC), to effectively identify, assess, disrupt TF and PF and prevent future terrorism attacks.

Moreover, domestic cooperation mechanisms are instrumental in providing better and coordinated responses to the threats of terrorism, TF, and other related offenses. The operationalization of existing cooperation mechanisms (i.e., NALECC, NACC, NTF-ELCAC, among others) allows for timely information sharing, and effective investigations and enforcement actions against terrorism, TF and related offenses. The creation of the ATC likewise provides a stronger foundation in coordination and cooperation in articulating policy initiatives consistent with the determined level of terrorism and TF threats.

##### **2. *Strengthening Intelligence-sharing, cooperation and collaboration with other jurisdictions.***

Terrorism is one of the transnational crimes as the Islamic State- ISIS, ISIL, or Daesh – seeks ground in Southeast Asia to establish a caliphate as its force continues to decline in the Middle East. Given this nature of terrorism, financing of terrorism activities needs to be assessed and analyzed, not only from a national level but from a sectoral, regional, and global perspective. Eliminating terrorism and TF threats requires a whole of nation approach, in fact a global approach, and a collective strategy of nations. Active participation in international committees, inter-agency cooperation, regional working groups, and other similar international cooperation agreements, is one way of establishing effective communication in sharing intelligence, particularly with countries in which foreign fighters pose as a major threat.

##### **3. *Continuous outreach programs and information dissemination on CT/CTF/CPF.***

One of the best responses to terrorism, TF and PF is the jurisdiction's consistent risk understanding on terrorism/TF, proliferation financing and violent extremism including evolving

<sup>36</sup> <https://www.jstor.org/stable/26492782>; <https://www.thedefensepost.com/2018/10/22/how-the-philippines-underestimates-isis/>

or emerging threats. As country's political and defense mechanisms continue to modernize in order to counter terrorism, TF, PF and related activities, law enforcement, intelligence agencies, including the AMLC, and other AML/CTF partner government agencies must be well informed and have full understanding on the threats and vulnerabilities to instill resilience and strengthen their roles and capabilities in CT/CTF/CPF.

The AMLC, supervising agencies (SAs) and regulators should also continue expanding their thematic and targeted capacity building initiatives to assist their respective supervised financial institutions and DNFBPs, particularly those at-risk and potentially vulnerable institutions, in identifying terrorism-, TF/PF-related transactions and activities. AMLC and SAs may consider increasing engagement with FIs and DNFBPs, located or operating in rural and remote areas, depending on their risk classification or profile, which have unstable or limited access to AML/CTF tools and technology, to further intensify their level of AML/CTF/CPF awareness.

The Philippines should also include an assessment on the proliferation of WMDs and its financing, at sectoral and national levels to determine the extent of impact to the jurisdiction. Consistent understanding of its risks will allow jurisdiction to properly impose risk-based mitigation measures without disrupting legitimate trade activities.

#### **4. *Consider structural reform approaches in dealing with terrorism, TF, and PF***

While law enforcement/military approach has known to weaken terrorist forces, government may also consider promoting structural reform approach by improving or eliminating the conditions that may cause discontent that leads individuals to join insurgents/terrorist/threat groups and commit terrorism activities. Government should also prioritize outreach and livelihood programs across all segments of the society, including schools and rural and remote areas, as these places are becoming targets of operations and attacks.

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