

## Combating the Terrorist Financing Abuse of Non Government Organizations/ Non Profit Organizations

Non Government Organizations/Non Profit Organizations (NGOs/NPOs) play a crucial role in many national economies and social systems. An NGO/NPO is a legal person or organization that primarily engages in raising or disbursing funds for purposes such as charitable, religious, cultural, educational and social work. Its functions complement the activities of the public and private sectors in providing essential support and resources to those in need. Terrorist Financing (TF) abuse and the exploitation of NGOs/NPOs by terrorists and terrorist organizations involves raising or moving funds, providing logistical support, encouraging or facilitating terrorist recruitment or otherwise support terrorist organizations and their operations.

Recommendation 8 of the Financial Action Task Force (FATF) Recommendations requires jurisdictions to review the adequacy of laws and regulations that relate to NPOs which the country has identified as being vulnerable to abuse. Countries should also apply focused and proportionate measures, in line with the risk-based approach, to such NPOs to protect them from TF abuse, including:

- (a) terrorist organisations posing as legitimate entities;
- (b) exploiting legitimate entities as conduits for TF, including for the purpose of escaping asset-freezing measures; and
- (c) concealing or obscuring the clandestine diversion of funds intended for legitimate purposes to terrorist organisations.

### How Can Countries Combat the TF Abuse of NGOs/NPOs?

#### 1. *Assessing and Understanding the TF Risk*

As NGOs/NPOs are at varying levels of TF risk as categorized by their types, activities, location, etc, jurisdictions should periodically conduct a risk assessment to identify the level of threats and vulnerabilities (risks) posed to the sector. Financial Institutions and Designated Non Financial Businesses and Professions (FIs/DNFBPs) should also conduct a risk assessment on NGOs/NPOs prior to and during business relationships with these entities.

#### 2. *Mitigating the TF Risk*

Jurisdictions should then identify and review the measures implemented to mitigate the TF risks identified. The measures applied must be proportionate to the risks identified. Examples of measures include registration or licensing procedures, submission of annual financial statements and maintenance of beneficial ownership information.

#### 3. *Conducting Regular Outreach to the Sector concerning TF Risks*

Outreach and educational programs should be implemented to raise and deepen awareness among the NGOs/NPOs as well as current and prospective donors about the potential vulnerabilities of NGOs/NPOs to TF abuse and measures that could be taken to protect themselves against such abuse.

#### 4. *Overseeing the Compliance of NGOs/NPOs with Mitigating Measures*

An appropriate supervisory authority should oversee or monitor all NGOs/NPOs to provide the assurance of full compliance with the legal and regulatory framework. Effective monitoring involves a wide range of measures to detect and respond to significant changes in risk and failure to comply with requirements. The Financial Services Regulatory Commission (FSRC) is the supervisory authority for NGOs registered under the NGO Act, Cap 20:59.

### How Can NGOs/NPOs Protect Themselves Against TF Abuse?

#### 1. *Enterprise Wide-Risk Assessment*

Each NGO's/NPO's TF abuse risks are unique and can vary from one activity to another. It is therefore good practice to take appropriate proactive steps to assess the likelihood of specific forms of TF abuse within the NGO/NPO. For instance, an NGO/NPO may undertake a risk analysis before working in a new environment or region or with a new associate.

#### 2. *Independent Audits*

An NGO/NPO can hire a professional auditor to conduct an independent audit on its activities. This would assist the NGO/NPO in making the necessary adjustments to its practices to reduce its TF risk and adapt to any changes in its risk context.

#### 3. *Collaboration and Coordination*

A coordinated approach to the identification and management of risks is a key component in assisting an NGO/NPO in safe guarding itself against abuse. NGOs/NPOs can share resources to apply risk management mechanisms such as internal control procedures. Collaboration would support smaller NGOs/NPOs with limited resources and capacity.

#### 4. *Partner and Donor Relationships*

NGOs/NPOs should implement procedures to effectively determine the source of the funds given to them and to verify the information on individuals or organizations that work closely with the NGO/NPO. Written agreements could be used to outline the expectations and responsibilities of both parties which could include information relative to regular reporting, audits and on-site visits.

#### 5. *Financial Accountability and Transparency*

NGOs/NPOs can prevent financial abuse and misuse of resources and funds by establishing strong financial controls and procedures, keeping financial records and monitoring and closely following the cash flow of the programs or projects.



## Methods and Risk of Abuse of NGOs

Terrorist Financing (TF) occurs in preparation for subsequent serious criminal acts, as opposed to Money Laundering (ML) which follows from serious criminal acts.

Once funds end up in the hands of terrorist entities, it is more difficult to disrupt their eventual use. TF is a lower-probability occurrence, but one that can have a higher public impact if it enables a terrorist attack. Strategically, ML also has a high impact on a society over time.

However, the immediate impact of terrorist activity (specifically the very visible human cost) generates a different public threat calculation.

Therefore, many jurisdictions need to mitigate the risk of TF to reduce the risks of physical destruction, economic disruptions and social and psychological events.



### Diversion of Funds

The most commonly observed method and risk of abuse of NGOs/NPOs to support terrorism involves the diversion of funds. In this typology, funds raised by NGOs/NPOs for humanitarian programmes—disaster relief, humanitarian relief, cultural centres, relief of poverty, advancement of education, advancement of religion—are diverted to support terrorism at some point through the NGO's/NPO's business process. Essentially, the diversion of funds occurs when funds raised for charitable purposes are re-directed to a terrorist or terrorist group.

### Affiliation with a Terrorist Entity

The second most commonly observed method and risk of abuse relates to the existence of, or suspicion of, an operational affiliation between an NGO/NPO and a terrorist entity. This affiliation translates into activity that is meant to financially or otherwise support activities carried out by one or both parties. Affiliations observed range from informal personal connections involving NGO/NPO directing officials and terrorist entities, to more formalized relationships between NGOs/NPOs and terrorist entities.

### Abuse of Programming

Another observed method in which terrorists may abuse NGOs/NPOs is through the abuse of their programming. Some typologies demonstrate that deviations to benevolent NGO/NPO-funded programmes, at the point of delivery, can result in abuse intended to support terrorism. Cases have also shown varying levels of involvement of actors both internal and external to NGOs/NPOs in abuse.

The NGO Act, Cap. 20:59 is the primary law governing non-profit organizations in St. Kitts and Nevis, complemented by some provisions in the Companies Act. The legislation defines NGOs and establishes the registration process, governance rules, and financial accountability requirements. NGOs/NPOs must also comply with AML/CFT/CPF

Regulations and other relevant laws. Failure to file required documents can result in fines and potential deregistration if not rectified after a warning. Organizations must apply in writing to the Registrar of NGOs to register under the NGO Act. The application requires details such as the NGO's/NPO's name and address, constitution or governing documents, aims and objectives, organizational structure, and identification of key personnel and beneficial owners. The Registrar can refuse registration for reasons like a misleading or offensive name, or suspicion of involvement in illegal activities.

## **Methods and Risks of Abuse**

<b>Diversion of Funds</b>	An NPO, or an individual acting on behalf of an NPO, diverts funds to a known or suspected terrorist entity
<b>Affiliation with a Terrorist Entity</b>	An NPO, or an individual acting on behalf of NPO, maintains an operational affiliation with a terrorist organisation or supporter of terrorism
<b>Abuse of Programming</b>	NPO-funded programmes meant to support legitimate humanitarian purposes are manipulated at the point of delivery to support terrorism
<b>Support for Recruitment</b>	NPO-funded programmes or facilities are used to create an environment which supports and/or promotes terrorism recruitment-related activities
<b>False Representation and Sham NPOs</b>	Under the guise of charitable activity, an organisation or individual raises funds and/or carries out other activities in support of terrorism

### Support for Recruitment

Support for recruitment cases included instances of abuse and risk where existing terrorist entities were using, or believed to be using, NGOs/NPOs to promote and recruit for their activities. This method of abuse concerns instances where NGO/NPO resources were used to promote causes directly associated with terrorist violence. NGO/NPO-funded activities in support of recruitment were observed at the collection, transfer and delivery phases of NGO/NPO operations, both domestically and internationally. Cases of support for recruitment demonstrate NGO/NPO involvement in the following:

- transferring funds to terrorists;
- providing financial support to families of terrorists;
- organizing and hosting events that support terrorism or terrorist entities; and
- publishing materials, online or otherwise, supporting terrorism or terrorist entities.

### False Representations and Sham NGOs/NPOs

False representation occurs when, under the guise of charitable activity, organisations and individuals raise funds, promote causes and carry out other activities in support of terrorism. Specifically, the false representation cases can be divided into two categories. The first category involves 'sham NGOs/NPOs' where the NGO/NPO is created as a front to support terrorist activity and its stated purposes are false. The second category involves situations where individuals or groups of individuals falsely claim to be acting on behalf of existing legitimate NGOs/NPOs.

## **References**

FATF Best practices: Combating the Terrorist Financing Abuse of Non-Profit Organizations—November 2023

Risk of Terrorist Abuse in Non-Profit Organizations—June 2014