

**CFATF Research Desk
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Understanding the Risk- Based Approach to the Non-Profit Organization (NPO) Sector.





Introduction

- In this monthly article, the CFATF Secretariat focuses on understanding the aspects of the risk-based approach to non-profit organisations (NPOs).



FATF definition of an NPO

- It is a legal person, arrangement or organisation that primarily raises or disburses funds for charitable, religious, cultural, educational, social, or fraternal purposes or carries out other “good works”. This definition is based on those activities and characteristics of an organisation which put it at risk of terrorist financing abuse rather than on the simple fact that it is operating on a non-profit basis (INR.8)¹.
- Recommendation 8 applies only to NPOs with the greatest risk of terrorist financing (TF) abuse.

¹FATF. 2012-2023. *International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation*. FATF, Paris, p.58.



Misuse of NPOs

- NPOs complement governmental and business sector activities in providing important humanitarian and charitable services to conflict zones and high-risk areas around the world. However, they can be misused by terrorists and terrorist organisations in different ways, such as:
 - Raise and move funds for terrorist groups and activities.
 - Provide logistical support.
 - Encourage terrorist recruitment.
 - Creation of fake charities to allow illicit funds to enter the financial system for TF purposes.
 - Diverting legitimately raised funds for TF.
 - Provide other types of support to terrorist organisations and operations.



Misuse of NPOs

- NPOs may be susceptible to TF abuse for several reasons, such as²:
 - They elicit public trust.
 - NPOs have access to considerable sources of funds.
 - Entities tend to be cash intensive.
 - They can possess a global presence that provides a framework for national and international operations and financial transactions.
 - NPOs are usually located near to areas that are most exposed to terrorist activity.

²FATF. 2015. *Best Practices Paper on Combating the Abuse of Non-Profit Organisations*. FATF, Paris, p.58.



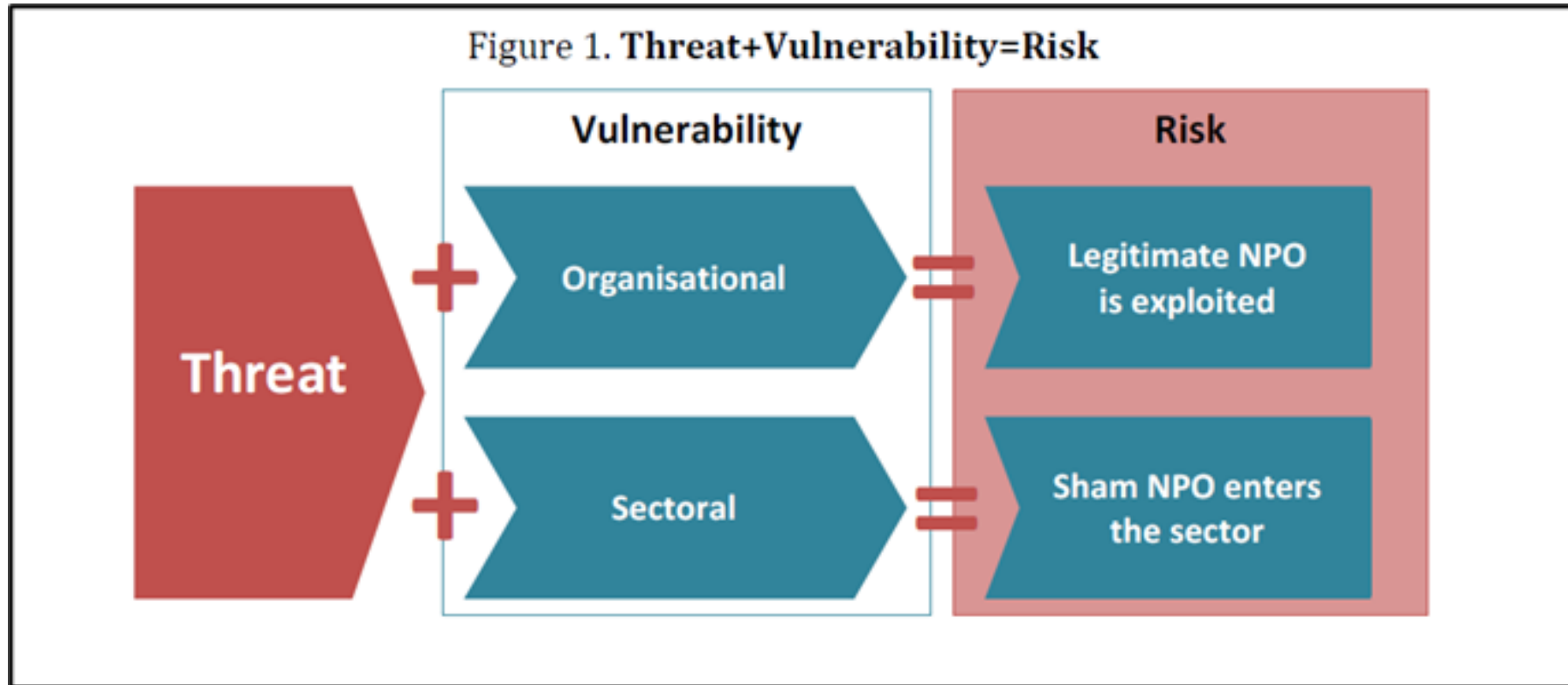
Risk- Based Approach (RBA) to the NPO Sector

- Regarding the TF risk, Recommendation 1 requires countries to “identify, assess and understand” their TF risks, including by designating “an authority or mechanism to co-ordinate actions to assess risk.” Based on this assessment, jurisdictions should apply a risk-based approach (RBA) to ensure that measures to prevent or mitigate TF are commensurate with the risks identified.
- The TF requirements in Recommendation 8 apply to those NPOs that fall within the FATF definition. The requirements are exclusively focused on TF and do not include money laundering. The RBA ensures that measures to prevent or mitigate TF are commensurate with the identified risks. These are focused measures to address identified threats of TF abuse for NPOs³.

³FATF. 2019. *Terrorist Financing Risk Assessment Guidance*. FATF, Paris., p.10.



How NPOs can be exposed to ML/TF risks at the organisational and sectoral levels



Source: FATF. 2015. *Best Practices Paper on Combating the Abuse of Non-Profit Organisations*. FATF, Paris, p.10.



RBA Measures for NPOs

- The RBA is the foundation for countries to determine how best to mitigate TF risks, including how to implement the comprehensive approach called for by Recommendation 8 and which elements of the NPO sector should be subject to oversight mechanisms.
- **Domestic review of the NPO sector:** The entire NPO sector must be reviewed to identify those that fit the FATF definition and the subset which, by their activities or characteristics, are at risk of being misused for TF.
- The review should also assess the adequacy of laws and regulations related to the subset of the NPO sector that can be abused for TF to apply proportionate and effective action⁴.
- Moreover, all relevant sources of information should be used to identify high-risk NPOs. The assessments should be based on various data, including the level of exposure of public and private sector entities to VAs and VASPs, STR-related statistics, investigations, prosecutions, convictions, and international cooperation requests.

⁴FATF. 2015. Best Practices Paper on Combating the Abuse of Non-Profit Organisations. FATF, Paris, p.11; FATF. 2012-2023. International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation. FATF, Paris, p.60.



Elements of a country's domestic sector review can include:



The size of the sector.
Type and scope of activities.
NPO donor base.



Cross-border activity.
Financing and movement of funds.
Means of payments.



Type and location of activities the NPOs are engaged in.
Types of services provided.
Level of risk associated with these elements.



RBA Measures for NPOs

- **Risk Mitigation:** When the domestic review has been conducted, countries should employ an effective approach to protecting the NPO sector from TF abuse, which involves four elements implemented using a proportionate, risk-based approach⁵.
 1. Ongoing outreach to the sector.
 2. Proportionate, risk-based supervision or monitoring.
 3. Effective investigation and information gathering.
 4. Effective mechanisms for international cooperation.
- In practice, countries must implement mitigation measures proportionate to the risks identified through a domestic review of the NPO sector and an understanding of the TF risks in the sector. This avoids CFT regulatory measures that disproportionately affect or burden the NPOs with little to no TF risk, and that properly apply the RBA.



Outreach to the NPO Sector

- **Regular dialogue with the NPO sector**, particularly with those entities that fall into the FATF definition of NPO, can assist in establishing a collaborative relationship with the sector. Even when diverse types of entities are present in a country's sector, engaging with their umbrella organisations can help with outreach.
- The relevant governmental and non-governmental stakeholders, law enforcement agencies and NPO regulators can be involved in developing outreach and education about the specific TF risks facing a domestic NPO sector and provide examples of risk mitigation good practices.

The sections on the four elements draw from the *"FATF. 2015. Best Practices Paper on Combating the Abuse of Non-Profit Organisations. FATF, Paris"*, ps. 18 - 21.



Supervision and Monitoring of NPOs

- Since the “one size fits all” approach is inconsistent with the RBA, countries should apply specific measures to the NPOs under the FATF definition commensurate with their TF risks. For those exposed to higher TF risks, some of the measures for NPOs can include:
 - Requirement to be licensed or registered, with information available to competent authorities and the public.
 - Maintaining information on the purpose and objectives of their activities and the identity of the person(s) who own, control, or direct their activities, including senior officers, board members and trustees.
 - Providing annual financial statements with details on income and expenditure.
 - Have controls to ensure funds are accounted for and spent consistently with the NPO’s stated activities.
 - Following a “know your beneficiaries and associate NPOs” rule.
 - Keeping detailed records of domestic and international transactions.
 - Being monitored by the appropriate authorities, including applying effective, proportionate, and dissuasive sanctions for violating these requirements.



Effective Investigation and Information Gathering

- Regarding information on NPOs and the types of TF risks faced, competent authorities, such as law enforcement, intelligence and regulatory agencies, accrediting institutions and self-regulatory organisations, should practice effective cooperation, coordination, and information sharing. Requirement to be licensed or registered, with information available to competent authorities and the public.
- Moreover, countries should also have investigative expertise and the capability to examine NPOs suspected of being abused by or actively supporting terrorist organisations. This involves having a designated law enforcement agency for TF investigations and requiring NPOs to keep financial and programme information.
- Any suspicions and information relating to the abuse of an NPO should be shared promptly with relevant competent authorities to take preventive or investigative action.
- To further protect the NPO sector from complicit entities, national security or intelligence-gathered information can be used. This can give insight into the TF risk environment in which NPOs operate, the context of abuse, risk circumstances, and individuals and organisations supporting illicit activities linked to NPOs.



Effective Mechanisms for International Cooperation.

- International cooperation is important in protecting NPOs from TF abuse since their activities are often cross jurisdictional and include national and international operations and financial transactions near areas with terrorist activity.
- Therefore, countries should identify appropriate points of contact and procedures to respond to international requests for information regarding NPOs suspected of TF or other forms of terrorist support.
- Due to the transnational nature of NPO operations, information from foreign counterparts and partner agencies can be valuable in identifying and taking action against TF threats.



We hope that you found this publication interesting and that it encourages you to continue looking for information about the risk-based approach to NPOs.



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