



# Risks of Abuse of the Non-Profit Sector for Financing Terrorism



**Risks of Abuse  
of the Non-profit Sector  
for Financing Terrorism**

## **RISKS OF ABUSE OF THE NON-PROFIT SECTOR FOR FINANCING TERRORISM**

### **Publishers:**

OSCE Mission to Serbia

Ministry of Finance

Administration for the prevention of money laundering

Masarikova 2, Belgrade

Tel: 011 2060151

Fax: 011 2060150

[www.apml.org.rs](http://www.apml.org.rs)

**Author:** Đorđije Vujičić, Administration for the prevention of money laundering

**Design:** Milica Dervišević

**Printing house:** Grid studio d.o.o.

**Print run:** 50



Disclaimer:

Printing of this book was supported by the OSCE Mission to Serbia.

The views herein expressed are solely those of the authors and do not necessarily reflect the official position of the OSCE Mission to Serbia.

# CONTENT

<b>INTRODUCTION</b>	<b>5</b>
Methodology	5
Terminology	6
<b>NON-PROFIT SECTOR</b>	<b>7</b>
Non-profit organizations and terrorism financing	7
<b>INTERNATIONAL STANDARDS IN COMBATING TERRORISM FINANCING</b>	<b>10</b>
FATF Recommendation 8 – Non-profit organizations	12
Interpretive note to Recommendation 8 (Non-profit Organizations)	12
<b>MODALITIES OF ABUSE OF NON-PROFIT SECTOR BY TERRORIST ORGANIZATIONS</b>	<b>22</b>
Diversions of association's funds	23
Diversions of funds by internal actors	23
Diversions of funds by external actors	24
Affiliation with a terrorist entity	24
Abuse of association's programming	25
Support for terrorist recruitment	25
False representation	26
<b>INDICATORS FOR IDENTIFICATION OF SUSPICIOUS ACTIVITIES RELATED TO TERRORISM FINANCING</b>	<b>27</b>
FATF Indicators	27
1. Financial support to known or suspected terrorist entities	28
2. Material support to known or suspected terrorist entities	29
3. Financial, material or logistical support to proscribed terrorist entities	30

4. Operations in areas where there are active terrorist threats	31
5. General operations and governance	32
6. Support for recruitment	33
7. Other criminal activities	34
<b>INDICATORS OF THE ADMINISTRATION FOR THE PREVENTION OF MONEY LAUNDERING</b>	<b>35</b>
List of indicators for identifying suspicious activities and transactions linked to financing terrorism	36
<b>HYPOTHETICAL CASE STUDY</b>	<b>40</b>
<b>TO terrorist organization's abuse of the non-profit sector</b>	<b>40</b>
<b>ACTIVITIES OF NON-PROFIT ORGANIZATIONS TO PROTECT THEMSELVES FROM TERRORIST ORGANIZATION ABUSE</b>	<b>45</b>
<b>Risk analysis</b>	<b>45</b>
<b>Risk reduction</b>	<b>46</b>
<b>Self-regulation</b>	<b>47</b>
<b>BIBLIOGRAPHY</b>	<b>48</b>

# Introduction

The purpose of this publication is to inform the general public about the risks of terrorist abuse of non-profit sector for financing terrorism. It is primarily intended for the non-profit organizations and participants in their activities (donors, partners and associations' fund beneficiaries), but we hope that it will be of interest for stakeholders in the public and private sector.

Preventing and combating terrorism and its financing are extremely important challenges. All citizens need to contribute to efficient prevention of terrorism, and not just national counter-terrorism agencies. Therefore, it is vital to inform the public about the risks of potential abuse.

The non-profit sector affects the lives of a large number of people. Non-profit organization's activities, as well as the methods of their implementation, make them vulnerable to abuse by terrorists and terrorist organizations. In this document we tried to present general modalities of the non-profit organizations abuse by terrorist. The hypothetical case study's objective is to give a practical example of the modalities and indicators presented here. Several activities that non-profit organizations can undertake themselves in order to mitigate the risk and protect themselves from the terrorist abuse, are also presented in this document.

## Methodology

This publication is based on multiple reports, case studies and surveys, produced by relevant organizations that deal with the phenomenon of terrorism and its links with the non-profit sector (United Nations, Financial Action Task Force – FATF, MONEYVAL Committee, Charity Commission, and others). Methodology, as well as the document itself, primarily intends to point out to the potential vulnerability and exposure of the non-profit sector to terrorism financing, and consequently make the public aware of the importance of prevention, i.e. creating “effective barriers” with the aim of making non-profit organization less at risk of terrorism financing.

The brief analysis of the non-profit sector in the Republic of Serbia is based on available data from the records of Business Registers Agency and previous open source sector analyses.

## Terminology

The general consensus of the international community is that churches and religious communities are classified as a non-profit sector, which is not the case in the Republic of Serbia. However, taking into consideration that the FATF defines non-profit organizations as legal entities or organizations “that engage in raising or disbursing funds for charitable, religious, cultural, educational, social or fraternal purposes or for carrying out of other types of “good works””, we will apply their definition in our publication.



# Non-profit organizations

The primary goal of non-profit organizations is creation of general prosperity in the society as a whole, by connecting individuals that share common interests. The non-profit sector is diverse and encompasses different types of organizations, with various goals, activities and places of operation. What they have in common is commitment of people with similar interests to volunteer work, whose purpose is not generating profits, but development of the broader community. The importance of civic associations in finding solutions to issues of public interest, lies also in the creation of a state independent networks, with the aim to increase: the interest of civil society in a specific social issue, participation of citizens in problem resolution activities and responsibility for a society in general. Therefore, non-profit organizations are often considered synonymous with solidarity.

The activities of non-profit organizations may include different types of services: humanitarian, educational, science and research, culture and arts, sports, health care, environmental, religious, etc. Non-profit organizations can act locally, nationally and internationally, often in high-risk regions with increased terrorist activities.

Globally speaking, it is estimated that the value of operating costs of the non-profit organizations is equal to the gross domestic product of France or the United Kingdom. The number of people employed in the non-profit sector is higher than the total number of employees in the top 50 corporations in the world.

## Non-profit organizations and terrorism financing

Money is behind all terrorist activities. As already stated, non-profit organizations have considerable funds at their disposal, which are certainly attractive to various criminal and terrorist groups and individuals. Promotional materials, recruitment, training, purchase of weapons, clothing, materials for commitment

of terrorist acts, require financial means. Disrupting terrorist financial activities is of key importance in preventing and combating terrorism. Terrorist organizations are constantly searching for new ways to raise and distribute money.

Non-profit organizations are also at risk of abuse by terrorists and other criminal groups for several reasons:

- › They are relatively easy to set up, and in some countries (including the Republic of Serbia) registration is not mandatory;
- › They enjoy high level of public trust;
- › They partially rely on the work of volunteers;
- › They have very diverse activities; they are associated with a large number of individuals and other organizations;
- › They are active internationally, frequently in the conflict zones, and often they are the only ones in position to transport money, goods and people to/from such zones;
- › They have unpredictable financial flows, which makes it more difficult to detect suspicious transactions;
- › They are subject to more liberal regulatory and tax controls;
- › They have access to significant and diverse funding resources;
- › They have complex financial activities, including multiple donors, various currencies and investments, often collecting donations and providing assistance in cash, generating a high number of small-value transactions on accounts;
- › They have well-established social network connecting volunteers, employees and representatives of vulnerable groups.

The financial sector is fully committed to reducing the risk of abuse. In order to accomplish their goals as inconspicuously as possible, terrorist organizations do not hesitate to abuse the non-profit sector.

There are multiple modalities of abuse of the non-profit organizations by terrorists, which are not mutually exclusive:

- › Diversion of funds;
- › Affiliation with terrorist entity;
- › Abuse of programming;
- › Support for terrorist recruitment;
- › False representation.

It is important that non-profit organizations are aware of the risk of being abused for the purpose of financing terrorism. This risk is not general, nor is it the same for all organizations. Therefore, it is important that each organization performs its own risk assessment and conducts review of its financial control procedures, in order to determine its vulnerability.

The state, on the other hand, monitors the activities of non-profit organizations in accordance with the law. By analyzing financial activities through formal systems, it is very difficult, if at all possible, to identify transactions that point to terrorism financing or affiliation with terrorist organizations. And while formal financial institutions are very efficient in applying the indicators and updating the lists of designated persons, at the same time terrorist organizations are very much aware of the strict implementation of regulations by the banks and money transfer agents, and are always looking for alternative ways of conducting financial activities (less formal or informal, for example hawala and hundi).

It has not yet been established that any association registered on the territory of the Republic of Serbia has been directly involved in financing terrorism.

# International standards in combating terrorism financing

The Republic of Serbia is a signatory to a number of international instruments aimed at combating and countering terrorism. The Republic of Serbia supports all adopted resolutions of the United Nations General Assembly on international counter-terrorism measures, starting with the first adopted Resolution from December 1972, all relevant resolutions of the United Nations Security Council, as well as relevant European Conventions, Council of Europe Conventions and international community efforts aimed at effective fight against this global problem.

Financing terrorism is a question that is causing grave concern to the international community as a whole. The International Convention for the Suppression of the Financing of Terrorism was adopted by the United Nations on 9 December 1999, in New York. It stipulates that a person commits an offence of financing terrorism “if that person by any means, directly or indirectly, unlawfully and willfully, provides or collects funds with the intention that they should be used or in the knowledge that they are to be used, in full or in part, in order to carry out:

- An act which constitutes an offence within the scope of and as defined in one of the treaties listed in the annex; or
- Any other act intended to cause death or serious bodily injury to a civilian, or to any other person not taking an active part in the hostilities in a situation of armed conflict, when the purpose of such act, by its nature or context, is to intimidate a population, or to compel a government or an international organization to do or to abstain from doing any act.”

The Fourth European Union Directive on the prevention of the use of the financial system for the purpose of money laundering or terrorist financing, defines the terrorist financing as: “the provision or collection of funds, by any means, directly or indirectly, with the intention that they be used or in the knowledge

that they are to be used, in full or in part, in order to carry out any of the offences within the meaning of Articles 1 to 4 of Council Framework Decision 2002/475/JHA.”

The Fourth EU Directive recognizes that the fight against money laundering and terrorist financing is an important public interest ground and calls on all European Union member states to establish financial intelligence services as a central national unit for the collection and analysis of intelligence information, and sharing of the results their analysis with other competent state authorities. Taking into account the transnational character of terrorist financing, the directive highlights the importance of coordination and cooperation between financial intelligence units.

The above mentioned recommendations of the Fourth European Union Directive refer to the recommendations of the Financial Action Task Force (FATF), and support the implementation of the 40 recommendations of this organization that provide a framework for measures to be undertaken by the states.

FATF is an intergovernmental body founded in 1989 with the task of setting standards and promoting the effective application of legal, regulatory and operational measures to combat money laundering, terrorist financing and proliferation of weapons of mass destruction. Taking into account the importance of the FATF recommendations, Recommendation 8 – Non-profit organizations, as well as the Interpretive note to this recommendation, we are quoting them in their entirety.

## **FATF Recommendation 8 – Non-profit organizations**

Countries should review the adequacy of laws and regulations that relate to non-profit organizations which the country has identified as being vulnerable to terrorist financing abuse. Countries should apply focused and proportionate measures, in line with the risk based approach, to such non-profit organizations to protect them from terrorist financing abuse, including:

- (1) by terrorist organizations posing as legitimate entities;
- (2) by exploiting legitimate entities as conduits for terrorist financing, including for the purpose of escaping asset-freezing measures; and
- (3) by concealing or obscuring the clandestine diversion of funds intended for legitimate purposes to terrorist organizations.

### **Interpretive note to Recommendation 8 (Non-profit Organizations)**

#### ***Introduction***

Given the variety of legal forms that non-profit organizations (NPOs) can have, depending on the country, the FATF has adopted a functional definition of NPO. This definition is based on those activities and characteristics of an organization which put it at risk of terrorist financing abuse, rather than on the simple fact that it is operating on a non-profit basis. For the purposes of this Recommendation, NPO refers to a legal person or arrangement or organization that primarily engages in raising or disbursing funds for purposes such as charitable, religious, cultural, educational, social or fraternal purposes, or for the carrying out of other types of “good works”. Without prejudice to Recommendation 1, this Recommendation only applies to those NPOs which fall within the FATF definition of an NPO. It does not apply to the entire universe of NPOs.

Non-profit organizations (hereafter: NPOs) play a vital role in the world economy and in many national economies and social systems. Their efforts complement the activity of the governmental and business sectors in providing essential services, comfort and hope to those in need around the world. The FATF recognizes the vital importance of NPOs in providing these important charitable services, as well as the difficulty of providing assistance to those in need, often in high risk areas and conflict zones, and applauds the efforts of NPOs to meet such needs. The FATF also recognizes the intent and efforts to date of NPOs to promote transparency within their operations and to prevent terrorist financing abuse, including through the development of programs aimed at discouraging radicalization and violent extremism. The ongoing international campaign against terrorist financing has identified cases in which terrorists and terrorist organizations exploit some NPOs in the sector to raise and move funds, provide logistical support, encourage terrorist recruitment, or otherwise support terrorist organizations and operations. As well, there have been cases where terrorists create sham charities or engage in fraudulent fundraising for these purposes. This misuse not only facilitates terrorist activity, but also undermines donor confidence and jeopardizes the very integrity of NPOs. Therefore, protecting NPOs from terrorist financing abuse is both a critical component of the global fight against terrorism and a necessary step to preserve the integrity of NPOs and the donor community. Measures to protect NPOs from potential terrorist financing abuse should be targeted and in line with the risk-based approach. It is also important for such measures to be implemented in a manner which respects countries' obligations under the Charter of the United Nations and international human rights law.

Some NPOs may be vulnerable to terrorist financing abuse by terrorists for a variety of reasons. NPOs enjoy the public trust, have access to considerable sources of funds, and are often cash-intensive. Furthermore, some NPOs have a global presence that provides a framework for national and international operations and financial transactions, often within or near those areas that are most exposed to terrorist activity. In some cases, terrorist organizations have taken advantage of these and other characteristics to infiltrate some NPOs and misuse funds and operations to cover for, or support, terrorist activity.

## ***Objectives and general principles***

The objective of Recommendation 8 is to ensure that NPOs are not misused by terrorist organizations:

- 1) to pose as legitimate entities,
- 2) to exploit legitimate entities as conduits for terrorist financing, including for the purpose of escaping asset freezing measures; or
- 3) to conceal or obscure the clandestine diversion of funds intended for legitimate purposes, but diverted for terrorist purposes.

In this Interpretive Note, the approach taken to achieve this objective is based on the following general principles:

- (a) A risk-based approach applying focused measures in dealing with identified threats of terrorist financing abuse to NPOs is essential given the diversity within individual national sectors, the differing degrees to which parts of each sector may be vulnerable to terrorist financing abuse, the need to ensure that legitimate charitable activity continues to flourish, and the limited resources and authorities available to combat terrorist financing in each country.
- (b) Flexibility in developing a national response to terrorist financing abuse of NPOs is essential, in order to allow it to evolve over time as it faces the changing nature of the terrorist financing threat.
- (v) Past and ongoing terrorist financing abuse of NPOs requires countries to adopt effective and proportionate measures, which should be commensurate to the risks identified through a risk-based approach.
- (g) Focused measures adopted by countries to protect NPOs from terrorist financing abuse should not disrupt or discourage legitimate charitable activities. Rather, such measures should promote accountability and engender greater confidence among NPOs, across the donor community and with the general public, that charitable funds and services reach intended legitimate beneficiaries. Systems that promote achieving a high degree of accountability, integrity and public confidence in the management and functioning of NPOs are integral to ensuring they cannot be abused for terrorist financing.



- (d) Countries are required to identify and take effective and proportionate action against NPOs that are either exploited by, or knowingly supporting, terrorists or terrorist organizations taking into account the specifics of the case. Countries should aim to prevent and prosecute, as appropriate, terrorist financing and other forms of terrorist support. Where NPOs suspected of, or implicated in, terrorist financing or other forms of terrorist support are identified, the first priority of countries must be to investigate and halt such terrorist financing or support. Actions taken for this purpose should, to the extent reasonably possible, minimize negative impact on innocent and legitimate beneficiaries of charitable activity. However, this interest cannot excuse the need to undertake immediate and effective actions to advance the immediate interest of halting terrorist financing or other forms of terrorist support provided by NPOs.
- (dj) Developing cooperative relationships among the public and private sectors and with NPOs is critical to understanding NPOs' risks and risk mitigation strategies, raising awareness, increasing effectiveness and fostering capabilities to combat terrorist financing abuse within NPOs. Countries should encourage the development of academic research on, and information-sharing in, NPOs to address terrorist financing related issues.

## Measures

Without prejudice to the requirements of Recommendation 1, since not all NPOs are inherently high risk (and some may represent little or no risk at all), countries should identify which subset of organizations fall within the FATF definition of NPO. In undertaking this exercise, countries should use all relevant sources of information in order to identify features and types of NPOs, which, by virtue of their activities or characteristics, are likely to be at risk of terrorist financing abuse.<sup>1</sup> It is also crucial to identify the nature of threats posed by terrorist entities to the NPOs which are at risk as well as how terrorist actors abuse those NPOs. Countries should review the adequacy of measures, including laws and regulations that relate to the subset of the NPO sector that may be abused for terrorism financing support in order to be able to take proportionate and effective actions to address the risks identified. These exercises could take a variety of forms and may or may not be a written product. Countries should also periodically reassess the sector by reviewing new information on the sector's potential vulnerabilities to terrorist activities to ensure effective implementation of measures.

There is a diverse range of approaches in identifying, preventing and combating terrorist financing abuse of NPOs. An effective approach should involve all four of the following elements:

- (a) sustained outreach,
- (b) targeted risk-based supervision or monitoring,
- (c) effective investigation and information gathering and
- (d) effective mechanisms for international cooperation.

The following measures represent examples of specific actions that countries should take with respect to each of these elements, in order to protect NPOs from potential terrorist financing abuse.

### **(a) Sustained work with NPO sector concerning terrorist financing issues to improve sectorial outreach for undertaken measures**

- 1) Countries should have clear policies to promote accountability, integrity and public confidence in the administration and management of NPOs.

---

<sup>1</sup> For example, such information could be provided by regulators, tax authorities, FIUs, donor organizations or law enforcement and intelligence authorities.

- 2) Countries should encourage and undertake outreach and educational programs to raise and deepen awareness among NPOs as well as the donor community about the potential vulnerabilities of NPOs to terrorist financing abuse and terrorist financing risks, and the measures that NPOs can take to protect themselves against such abuse.
- 3) Countries should work with NPOs to develop and refine best practices to address terrorist financing risks and vulnerabilities and thus protect them from terrorist financing abuse.
- 4) Countries should encourage NPOs to conduct transactions via regulated financial channels, wherever feasible, keeping in mind the varying capacities of financial sectors in different countries and in different areas of urgent charitable and humanitarian concerns.

#### **b) Targeted risk-based supervision or monitoring of NPOs**

Countries should take steps to promote effective supervision or monitoring. A “one-size-fits-all” approach would be inconsistent with the proper implementation of a risk-based approach as stipulated under Recommendation 1 of the FATF Standards. In practice, countries should be able to demonstrate that risk-based measures apply to NPOs at risk of terrorist financing abuse. It is also possible that existing regulatory or other measures may already sufficiently address the current terrorist financing risk to the NPOs in a jurisdiction, although terrorist financing risks to the sector should be periodically reviewed. Appropriate authorities should monitor the compliance of NPOs with the requirements of this Recommendation, including the risk-based measures being applied to them.<sup>2</sup> Appropriate authorities should be able to apply effective, proportionate and dissuasive sanctions for violations by NPOs or persons acting on behalf of these NPOs.<sup>3</sup> The following are some examples of measures that could be applied to NPOs, in whole or in part, depending on the risks identified:

- 
- 2 In this context, rules and regulations may include rules and standards applied by self-regulatory organisations and accrediting institutions.
  - 3 The range of such sanctions might include freezing of accounts, removal of trustees, fines, de-certification, de-licensing and de-registration. This should not preclude parallel civil, administrative or criminal proceedings with respect to NPOs or persons acting on their behalf where appropriate.

- 1) NPOs could be required to license or register. This information should be available to competent authorities and encouraged to be available to the public.<sup>4</sup>
- 2) NPOs could be required to maintain information on: (a) the purpose and objectives of their stated activities; and (b) the identity of the person(s) who own, control or direct their activities, including senior officers, board members and trustees. This information could be publicly available either directly from the NPO or through appropriate authorities.
- 3) NPOs could be required to issue annual financial statements that provide detailed breakdowns of incomes and expenditures.
- 4) NPOs could be required to have appropriate controls in place to ensure that all funds are fully accounted for, and are spent in a manner that is consistent with the purpose and objectives of the NPO's stated activities.
- 5) NPOs could be required to take reasonable measures to confirm the identity, credentials and good standing of beneficiaries<sup>5</sup> they are not involved with and/or using the charitable funds to support terrorists or terrorist organisations.<sup>6</sup> However, NPOs should not be required to conduct customer due diligence. NPOs could be required to take reasonable measures to document the identity of their significant donors and to respect donor confidentiality. The ultimate objective of this requirement is to prevent charitable funds from being used to finance and support terrorists and terrorist organizations.
- 6) NPOs could be required to maintain, for a period of at least five years, records of domestic and international transactions that are sufficiently detailed to verify that funds have been received and spent in a manner consistent with the purpose and objectives of the organization, and could be required to make these available to competent authorities upon appropriate authority. This also applies to information mentioned in paragraphs (1) and (2) above. Where appropriate, records of charitable activities and financial operations by NPOs could also be made available to the public.

4 Specific licensing or registration requirements for counter terrorist financing purposes are not necessary. For example, in some countries, NPOs are already registered with tax authorities and monitored in the context of qualifying for favourable tax treatment (such as tax credits or tax exemptions).

5 The term beneficiaries refers to those natural persons, or groups of natural persons who receive charitable, humanitarian or other types of assistance through the services of the NPO.

6 This does not mean that NPOs are expected to identify each specific individual, as such a requirement would not always be possible and would, in some instances, impede the ability of NPOs to provide much-needed services.

**(v) Effective information gathering and investigation**

- 1) Countries should ensure effective cooperation, coordination and information-sharing to the extent possible among all levels of appropriate authorities or organizations that hold relevant information on NPOs.
- 2) Countries should have investigative expertise and capability to examine those NPOs suspected of either being exploited by, or actively supporting, terrorist activity or terrorist organizations.
- 3) Countries should ensure that full access to information on the administration and management of a particular NPO (including financial and programmatic information) may be obtained during the course of an investigation.
- 4) Countries should establish appropriate mechanisms to ensure that, when there is suspicion or reasonable grounds to suspect that a particular NPO:
  - (a) is involved in terrorist financing abuse and/or is a front for fundraising by a terrorist organization;;
  - (b) is being exploited as a conduit for terrorist financing, including for the purpose of escaping asset freezing measures, or other forms of terrorist support; or
  - (c) is concealing or obscuring the clandestine diversion of funds intended for legitimate purposes, but redirected for the benefit of terrorists or terrorist organizations, that this information is promptly shared with relevant competent authorities, in order to take preventive or investigative action.

**(g) Effective capacity to respond to international request for information about an NPO of concern**

Consistent with Recommendations on international cooperation, countries should identify appropriate points of contact and procedures to respond to international requests for information regarding particular NPOs suspected of terrorist financing or involvement in other forms of terrorist support.

### *Resources for supervision, monitoring and investigation*

Countries should provide their appropriate authorities, which are responsible for supervision, monitoring and investigation of their NPO sector, with adequate financial, human and technical resources.

### *Glossary of specific terms used in this Recommendation*

<b>Appropriate authorities</b>	Refers to competent authorities, including accrediting institutions, and self-regulatory organizations.
<b>Associate NPOs</b>	Includes foreign branches of international NPOs.
<b>Beneficiaries</b>	Refers to those natural persons, or groups of natural persons who receive charitable, humanitarian or other types of assistance through the services of the NPO.
<b>Non-profit organization or NPO</b>	refers to a legal person or arrangement or organization that primarily engages in raising or disbursing funds for purposes such as charitable, religious, cultural, educational, social or fraternal purposes, or for the carrying out of other types of "good works".

In short, in accordance with FATF Recommendation 8, it is necessary to prevent terrorists from posing as legitimate partners of legal entities or non-profit organizations, and using that position to generate funds that could further to be used for commitment of a terrorist act. It is essential to prevent terrorists from being financed through legitimate legal entities, that is to generate funds concealed behind legitimate organizations, especially when it comes to persons whose assets are frozen due to their links with terrorism. Also, it is necessary to prevent terrorists from having access to funds that are intended for legitimate purposes.

The Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism – MONEYVAL conducts evaluation of the application of FATF standards in the Republic of Serbia. MONEYVAL is a permanent monitoring body of the Council of Europe entrusted with the task to improve the capacity of national authorities for a more effective fight against money laundering and terrorist financing. The rating system is based on the FATF

model, but it also includes compliance with international conventions and European Union legislation.

# Modalities of abuse of non-profit organization by terrorist organizations

Fortunately, the cases of abuse of non-profit organizations for the purpose of financing terrorism are not common in the Republic of Serbia. That is why we had to rely on the international organizations' documents in identifying the modalities of abuse of associations by terrorist organizations and analyze case studies of foreign financial intelligence services.

Based on the above, the following modalities of abuse of associations by terrorist organizations are identified:

- › Diversion of association's funds
- › Affiliation with a terrorist entity
- › Abuse of association's programming
- › Support for terrorist recruitment
- › False representation

It should be noted that the described modalities are not mutually independent and that there are frequently situations in which multiple modalities of abuse of non-profit organizations can be identified, especially when terrorists infiltrate the association. The goal of terrorist infiltration into legitimate non-profit organizations is to take over a certain level of control or gain influence in the association, in order to abuse its reputation and assets, for the benefit of a terrorist organization, or to meet terrorist objectives.



## Diversion of association's funds

Many associations collect funds that they use in line with their humanitarian objectives. Associations raise funds for different programs: disaster relief, poverty relief, and humanitarian aid for the victims of war, promotion of education and religion, the cultural development, and others.

One of the ways in which terrorist organizations can abuse associations is the diversion of funds raised by the association for implementation of their programming. Funds intended for legitimate purposes may be re-directed to a terrorist entity or an individual whose objective is to perpetrate a terrorist act. Diversion of funds may take place at different stages: when donations are collected, when funds are retained in the association itself, or when they are being transferred to a legitimate beneficiary.

Diverted funds can be used directly to commit a terrorist attack, but can also be used to support terrorist organization infrastructure.

Abuse may be caused by the **internal** diversion of funds, when funds are practically stolen by individuals within an association, or **external** diversion, when a person abusing funds is not a part of the organization, but a partner at fundraising or in transferring funds.

### Diversion of funds by internal actors

Internal diversion of funds can take place while collecting funds for the purpose of implementation of the association's program. This is most often the case with humanitarian organizations that collect cash, and when the funds collected are diverted to terrorist organizations before they are deposited to the association's account.

When resources are already in the association itself, or when they are being distributed to the intended beneficiaries, the internal diversion can be carried out in a number of ways so that the funds end up in the hands of a terrorist. This is most commonly done through cashless payment transfers to the accounts of unrelated natural or legal entities, unwarranted cash withdrawals from the association's account that are then diverted to terrorists via cash couriers, and transfers through payment institutions or travel checks.

Another example of diversion by internal actors takes place when the funds raised by third parties (either funds collected by a terrorist organization, or legal means intended for a terrorist organization) are channeled through the association in order to conceal their real purpose and in hope that it will decrease the likelihood of detection by authorities.

### **Diversion of funds by external actors**

External diversion of funds occurs when an association cooperates with other organizations to accomplish their joint objectives. The most common example of external diversion is when the fundraising is delegated to the partner organization, which does not transfer the entire sum of the funds collected to the association, but diverts the part of them to the terrorists. Also, often a partner organization tasked with transferring collected funds to the intended beneficiaries (most often partner organizations in crisis areas) diverts funds to terrorist organizations or distributes them to terrorist's families.

External funds diversion also takes place when the association, with best of intentions, uses cash couriers or payment institutions, which divert a part of their commission fees (or entire commission fee) to a terrorist organizations.

## **Affiliation with a terrorist entity**

A non-profit organization, or an individual working for it, can maintain links to a terrorist organization or terrorism supporter. This could be a person working in association who keeps informal relations with terrorists, or more formalized cooperation between non-profit organization and terrorist entities.

Non-profit organization's staff or representatives of associations can direct the organization's activities to suit terrorist objectives in a variety of ways. Above described forms of internal diversion of funds, as well as the use of associations' resources for propaganda purposes and promotion of extremist and terrorist ideologies or recruitment, are just some of the examples that indicate that a non-profit organization is associated with terrorism.

When it comes to formalized cooperation with terrorist organizations, this is mostly the case of a “sham” association (or its branch office) set up to implement terrorist objectives. Such associations, under the guise of humanitarian or educational activities, participate in fundraising, equipment procurement, recruitment and training, as well as spreading of terrorist propaganda.

## Abuse of association’s programming

Activities financed by a non-profit organization can be misused so that the outcome of these activities turns out to be support for terrorism. Internal or external actors involved in programs can also appear as participants in this abuse model.

An example of the abuse of association’s programming for the purpose of terrorism may involve a volunteer who hands out association’s advertising material, but at the same time distributes terrorist promotional materials (of course, given that the actual purpose of the association is not to promote terrorism).

The association can establish an educational center and employ (or take in as volunteers) teachers to provide education and promote religious and cultural values. If a teacher uses his position to indoctrinate young people and recruit them to a terrorist organization, it is a clear case that the association’s programming is being abused for terrorist purposes.

Taking into account the migrant crisis, an association that provides assistance to asylum seekers or helps migrants who lost their personal documents to get new ones issued by the host country, may be abused by foreign terrorists fighters who are trying to return to the country of origin. ISIL has a well-known practice of keeping personal documents of persons who joined their ranks as foreign terrorist fighters. Also, they are known to use fake documents to avoid prosecution in their countries of origin.

## Support for terrorist recruitment

Recruiting persons for terrorist organizations is a form of providing assistance to them. Objects or assets that non-profit organizations collect can be used to support or promote terrorist recruitment activities.

It has already been mentioned that the educational activities of associations may be misused for terrorist purposes, but it is also possible that an association establishes educational institutions with the intent of exploiting them for recruitment purposes.

Promise of a financial aid from association's funds, to family members of an individual who is being coerced to join a terrorist organization or to commit a terrorist act, can also be considered a form of recruitment.

## False representation

By exploiting the name and good reputation of a non-profit organization, an association or an individual may collect funds in order to use them for support of terrorism. The example can be found in "sham NPOs" that are registered as charities, while their actual purpose is to support terrorists or their family members.

Also, individuals, or groups of individuals, may abuse the good reputation of an association and falsely claim to be acting on their behalf to supposedly collect funds for the purposes of their programming, only to transfer funds to terrorist organizations, or use them to support terrorism.

# Indicators for identification of suspicious activities related to terrorism financing

Terrorist organizations are well known to use every available opportunity to abuse natural and legal entities to finance and support their activities, therefore they do not hesitate to abuse non-profit organizations too.

States, as well as international organizations (FATF, *Egmont Group*, etc.) compile and regularly update lists of indicators for identifying suspicious activities and transactions related to terrorist financing.

## FATF Indicators

In 2014 FATF released a comprehensive list of indicators related to the risks and abuse of the non-profit sector by terrorists. Indicators are divided into seven categories:

1. Financial support to known or suspected terrorists entities
2. Material support to known or suspected terrorists entities
3. Financial, material or logistical support to proscribed terrorist entities
4. Operations in areas where there are active terrorist threats
5. General operations and governance
6. Support to recruitment
7. Other criminal activities

Indicators are ultimately leads that require further investigation to assess the nature or risk of abuse. This being said, not all indicators carry an equally strong certainty of a terrorism-related risk. For many risk indicators, support to terrorism is a plausible explanation, but not necessarily the only possible explanation.

Risk indicators	Terrorist Abuse Indicator
An aspect of an NPO's activities that suggests abuse or a risk of abuse that may be terrorism-related, but also has possible alternative explanations.	An aspect of an NPO's activities that suggests abuse or a risk of abuse that is directly related to terrorist activity. The presence of these indicators would lead to a stronger certainty that the abuse or risk is terrorism-related, as opposed to alternative explanations.

### 1. Financial support to known or suspected terrorist entities

The abuse of non-profit organizations financial resources is what most often comes to mind when there are suspicions of abuse in the non-profit sector.

Risk indicators	Terrorist Abuse Indicator
<p><i>Applicable to government actors:</i></p> <ul style="list-style-type: none"> <li>• Use of cash couriers to transfer NPO funds into areas with known terrorist activity.</li> <li>• NPO transactions are structured to avoid transaction reporting.</li> <li>• Requests to transfer NPO funds are accompanied by vague justifications.</li> <li>• NPO uses a shell organization as a funding conduit.</li> <li>• NPO representatives fail to declare large currency amounts at international borders.</li> </ul>	<p><i>Applicable to both government and NPO actors:</i></p> <ul style="list-style-type: none"> <li>• Resources of an NPO are transferred to an entity known to be engaged in, or supporting, terrorist activity</li> <li>• NPO receives resources from an entity believed to support or be engaged in terrorist activities</li> </ul>

***Applicable to both government and NPO actors:***

- NPO bank accounts are used by entities whose own accounts are under restrictions
- NPO funds are comingled with personal or private business funds.
- Bank accounts related to some programmes or activities are concealed.
- NPO funds are transferred to entities not associated with declared programmes or activities.

## 2. Material support to known or suspected terrorist entities

Due to the nature of their activities, non-profit organizations have access to a wide range of material resources that can be abused by terrorists, from facilities to dual-use equipment. Non-profit organizations are abused by terrorist entities because of their access to material resources as well as financial resources. Warning indicators are more prevalent in this category, because the category itself applies to known or suspected terrorist entities.

Risk indicators	Terrorist Abuse Indicator
<p><b><i>Applicable to government actors:</i></b></p> <ul style="list-style-type: none"> <li>• NPO facilities are frequented by individuals believed to support terrorist activities.</li> </ul> <p><b><i>Applicable to both government and NPO actors:</i></b></p> <ul style="list-style-type: none"> <li>• NPO produces or procures dual-use equipment</li> </ul>	<p><b><i>Applicable to both government and NPO actors:</i></b></p> <ul style="list-style-type: none"> <li>• Resources of an NPO are transferred to an entity known to be engaged in, or supporting, terrorist activity.</li> <li>• NPO receives resources from an entity believed to support or be engaged in terrorist activities.</li> <li>• NPO shares property with another organisation believed to support terrorist activity.</li> </ul>

### 3. Financial, material or logistical support to proscribed terrorist entities

The affiliation of proscribed terrorist entities with non-profit organizations is a common case. Often, the presence of proscribed entities is an indicator of a wider compliance failure, that could have been intentional or unintentional. Warning indicators are more prevalent in this category because the category itself applies to proscribed terrorist entities.

Risk indicators	Terrorist Abuse Indicator
<p><i>Indicators applicable to both government and NPO actors:</i></p> <ul style="list-style-type: none"> <li>NPO activities are found to support individuals or organisations whose identities correspond to those of listed entities</li> </ul>	<p><i>Applicable to government actors:</i></p> <ul style="list-style-type: none"> <li>Existence of reliable information indicating an NPO or its representatives are engaged in supporting terrorist activity</li> <li>Existence of reliable information indicating an NPO or its representatives are linked to third parties that support or are engaged in terrorist activity</li> </ul> <p><i>Applicable to both government and NPO actors:</i></p> <ul style="list-style-type: none"> <li>The identities of proscribed terrorist entities are found to match the identities of NPO directing officials or employees</li> </ul>



#### 4. Operations in areas where there are active terrorist threats

Often, non-profit organizations operating in areas of conflict are viewed as the most high-risk for terrorist abuse, because of the low governance capacity in such areas. However, FATF analysis established that, while areas of conflict are inherently high-risk, the existence of an active terrorist threat is also a crucial factor in determining risk. In addition, it was established that identifying direct links between non-profit organization’s activities and terrorist entities gets more difficult in foreign jurisdictions. In these instances, ground-level information that would verify the involvement of a terrorist group, (and thus provide a warning indicator), becomes more difficult to obtain. In situations such as these, international cooperation and information-sharing takes on new importance. The ability to audit a non-profit organization’s foreign activities is more difficult, and the ability to monitor their material and financial resources and affiliations with terrorist entities, becomes dependent on the cooperation of multiple jurisdictions.

Risk indicators	Terrorist Abuse Indicator
<p><i>Applicable to government actors:</i></p> <ul style="list-style-type: none"> <li>• Entities operating in areas with known terrorist activity transfer funds into the bank accounts of an NPO, directing officials, or employees.</li> </ul> <p><i>Applicable to both government and NPO actors:</i></p> <ul style="list-style-type: none"> <li>• NPO transfers resources or conducts activities in an area where terrorist entities are known to have a substantial presence.</li> <li>• NPO records are maintained in an area where terrorist entities are known to have a substantial presence.</li> <li>• NPO representatives travel frequently into areas where terrorist entities are known to have a substantial presence.</li> </ul>	

## 5. General operations and governance

Several indicators arise from the general operations and governance of non-profit organization. Some of them result from attempts by participants in the activities of the association (either internal or external) to disguise their actions, such as the concealment of information on programs, activities, or funding. Other indicators in this category stem from attempts by complicit actors to gain influence or control of legitimate non-profit organizations.

Risk indicators	Terrorist Abuse Indicator
<p><i>Applicable to government actors:</i></p> <ul style="list-style-type: none"> <li>• NPO has unreported activities, programmes, or partners.</li> <li>• NPO uses an unusually complex financial network for its operations.</li> <li>• NPO avoids mandatory reporting requirements.</li> <li>• NPO programmes and activities are vaguely explained to oversight or regulatory bodies.</li> <li>• Third parties are used to open NPO bank accounts or carry out some transactions.</li> </ul> <p><i>Applicable to both government and NPO actors:</i></p> <ul style="list-style-type: none"> <li>• NPO expenditures are not consistent with its programmes and activities.</li> <li>• NPO is unable to account for the final use of all of its resources.</li> <li>• NPO is unable to account for the origin of its income.</li> <li>• NPO has inconsistencies in its accounting and/or mandatory reporting.</li> <li>• NPO has opaque leadership or decision-making structures.</li> <li>• NPO or NPO representatives use falsified or conflicting documentation.</li> </ul>	<p><i>Applicable to government actors:</i></p> <ul style="list-style-type: none"> <li>• A lead from the public alleges that an NPO is engaged in activities related to terrorism.</li> <li>• NPO merges with another organisation believed to support terrorist activities.</li> <li>• NPO humanitarian assistance is targeted towards supporting individuals directly linked to terrorist entities.</li> </ul> <p><i>Applicable to both government and NPO actors:</i></p> <ul style="list-style-type: none"> <li>• Directing officials of an NPO are, or have been, directing officials of other organisations believed to support terrorist activity.</li> <li>• NPO suffers from an internal conflict, where one faction is known to be sympathetic or actively supportive towards terrorist entities.</li> </ul>

## 6. Support for recruitment

There are well-known cases in which resources of non-profit organizations were used for recruitment of individuals by terrorist groups. Legitimate charitable programs, most often religious or educational, can be corrupted to support terrorist recruitment. Recruitment activities are often associated with increased risk of abuse of non-profit organization's financial and material resources.

Risk indicators	Terrorist Abuse Indicator
<p><i>Applicable to government actors:</i></p> <ul style="list-style-type: none"><li>Individuals involved in terrorist activities are linked to an NPO.</li></ul> <p><i>Applicable to both government and NPO actors:</i></p> <ul style="list-style-type: none"><li>NPO publications or speakers support terrorism or terrorist entities</li></ul>	<p><i>Applicable to both government and NPO actors:</i></p> <ul style="list-style-type: none"><li>Directing officials or employees of an NPO engage in activities that support recruitment to violence.</li></ul>

## 7. Other criminal activities

State authorities or participants in non-profit organizations programs may detect criminal activities of the association and subsequently link the abuse of these activities to terrorism. Research has indicated linkages between criminal and terrorist groups. As in the cases of terrorism, non-profit organizations may not be complicit in these criminal activities, but may be victims themselves of external or internal actors. The presence of other criminal activities, especially in conjunction with indicators specific to terrorism, presented a strong risk indicator.

Risk indicators	Terrorist Abuse Indicator
<p><i>Applicable to government actors:</i></p> <ul style="list-style-type: none"><li>• Advertised NPO is fictitious.</li></ul> <p><i>Applicable to both government and NPO actors:</i></p> <ul style="list-style-type: none"><li>• NPO facilities conceal criminal activities.</li><li>• NPO directing officials or employees are engaged in other criminal activities</li></ul>	<p><i>Applicable to both government and NPO actors:</i></p> <ul style="list-style-type: none"><li>• Criminal activities consistent with terrorist operations are concealed in NPO facilities.</li><li>• NPO directing officials or employees are engaged in other criminal activities consistent with terrorist operations.</li></ul>

## Indicators of the Administration for the Prevention of Money Laundering

Administration for the Prevention of Money Laundering, in accordance with the Law on the Prevention of Money Laundering and Financing of Terrorism, is one of the state bodies of the Republic of Serbia that publishes and updates a list of indicators for the identification of suspicious activities and transactions related to the terrorism financing.

This list is of general character, does not refer to certain groups of obligors or businesses, and is binding for all obligors under the Law.

Unlike some foreign countries that have produced indicators where certain religious, national or ethnic communities, as well as some financial and non-financial sectors are, in comparison with others, specifically referred to as high-risk, drafters of the Republic of Serbia's indicators paid particular attention to avoid discrimination based on religion, national and ethnic affiliation, culture, social background, race or gender. Indicators are based on experience and analysis of terrorism financing cases, as well as recommendations of organizations focusing on terrorism financing issues.

It is important to note that in a case where a certain activity corresponds to an indicator, it does not automatically mean that this activity is suspicious or illegal. Indicators point to suspicion, but some activities coincide with them by an accident. Obligor is continuously reminded that a knowledge of the client and due diligence verification of all actors, is of utmost importance. Especially bearing in mind that, suspicious activities and transactions are reported in accordance with the risk-based approach, and not mechanical application of indicators, as APML constantly insists. The application of risk analysis approach for monitoring obligors, is also in compliance with FATF recommendations.

# List of indicators for identifying suspicious activities and transactions linked to financing terrorism

(a brief explanation of the rationale for placing particular indicators on the list is presented in italics)

## Indicator 1

**Suspicion that an individual is placed on “black lists” (consolidated list of the Committee for Sanctions, pursuant to Resolution 1267 of the UN Security Council, EU “black lists”, etc.) or is linked with designated persons.**

*Placement on the so-called “black list” automatically causes suspicion that a person is linked to illegal activities. Even when a person appears on the lists that are not legally binding for implementation in the Republic of Serbia, this is an indication that the person is involved in illegal activities.*

## Indicator 2

**An individual is brought in connection with terrorism/terrorism financing/extremism and fundamentalism/religious radicalism by the media.**

*It is widely acknowledged that an information that has not yet been officially confirmed can appear in the media, due to the fact that the bureaucratic process, even at its most efficient, is slower than the way in which the news spread these days. Information on a person in a negative context may be, but not necessarily has to be, indicative of links to terrorism.*

## Indicator 3

**Suspicion that a client is conducting transactions under instructions of another person, who frequently accompanies him/her.**

*If a person is often in a company of an individual, and verbally or non-verbally asks permission for his actions, one can assume that the activities are carried out on behalf of a person who does not want his identity to be disclosed to the obligor.*

## Indicator 4

---

**A person deposits funds into several accounts (under his name, or over which he/she has a signatory power) and issues an order of transfer of funds abroad in favor of the same person, for the purpose of donations, aid or similar.**

*In many countries, there is an obligation that cross-border transfer of funds over a certain amount has to be reported to the competent authorities. Avoidance of transfer of funds through one transaction, points to the avoidance of registration of this transaction with the competent authorities.*

## Indicator 5

---

**A client who has bad reputation and assets of suspicious origin, is found to be using virtual currencies (bitcoin, litecoin, etc) in his business transactions, or using alternative remittance systems (for example, hawala, hundi) in order to avoid regular financial channels.**

*Although alternative payment channels (hawala and similar) are very cost-effective way of transferring funds in some countries (and in certain regions the only viable one), avoiding regular financial channels is indicative of links to terrorism.*

## Indicator 6

---

**A client/originator/ beneficiary of transaction is linked to an area of conflict where there is an active terrorist threat or a state which supports terrorist activities/groups.**

*Areas where terrorist activities take place are highly risky as such. Connection to those areas is indicative of suspicious activities.*

## Indicator 7

---

**Incoming transfers from high-risk areas in favour of individuals who withdraw the funds using ATMs exclusively.**

*The exclusive use of ATMs suggests that a person does not wish to be personally identified while conducting the transaction.*

## Indicator 8

---

**Simultaneous use of credit cards, in different countries, issued to the same client.**

*Such activity is very indicative of terrorism financing if the use of the issued card does not require authorized person.*

## Indicator 9

Cash deposits to the account that coincide with monitored withdrawals from an ATM in another country.

*In this way it is also possible to avoid reporting cross-border payment transfers. Such activity is very indicative of financing terrorism, especially when the funds are withdrawn in high-risk areas (see Indicator7).*

## Indicator 10

Purpose of a transaction appears suspicious (e.g. financial assistance to one's family, financial support, concepts and terms often used by foreign extremists and terrorist, etc.), especially in case of frequent payment orders without possibility to determine personal or business relation among the transaction participants.

*In abuse of business transactions "family assistance" is often used to describe the purpose of the payment. In many jurisdictions, aid revenues are not taxable. Also, sending aid to war and terrorism affected areas seems reasonable.*

## Indicator 11

Incomplete data in payment order in favor of a non-profit organization (non-profit organization, legacy, association, fund, religious organization, etc.) or in favor of natural entities affiliated with the organization.

*Avoidance of providing information about donors or aid beneficiaries provokes suspicion that funds are not used for non-profit organization activities.*

## Indicator 12

There are several persons with signatory powers over the same account held by a natural entity, or a non-profit organization (non-profit organization, legacy, association, fund, religious organization, etc.), who change frequently.

*Frequent changes of authorized persons, as well as high number of persons with signatory powers provoke suspicion concerning the purpose of that account and increase the possibility of its abuse.*

## Indicator 13

Non-profit organization transactions (non-profit organization, legacy, association, fund, religious organization, etc.), with a purpose of constructing a building, especially if the beneficiary cannot be linked to construction business.

*There are reported cases in the world that funds have been transferred to terrorist organizations under the guise of building a religious or school facility.*



## Indicator 14

---

Transactions that may indicate procurement of weapons, equipment and technology for production of weapons of mass destruction (WMD), including transactions of persons from countries designated as a high-risk for the procurement of WMD and trade in dual-use goods, in terms of the Council Regulation (EC) No 1334/2000, as well as transactions of persons that have no background of such procurements.

*Transactions related to weapons are inherently indicative of terrorism, especially if one takes into account that there is a previously unknown contractor in the business.*

## Indicator 15

---

Transactions assessed by financial institutions' officers as standing out of client's usual activities, based on their experience, knowledge and available information.

*The obligor's experience is of immense importance. Obligors are best acquainted with the client's activities and often are in position to find data indicative of terrorism financing.*

Again, we point out, that the fact that certain activities correspond to one or more indicators does not automatically mean that illegal or suspicious activity is taking place. Client's behavior analysis, including donors, partners, partner organizations, and association's fund beneficiaries, as well as the knowledge of clients, are often of crucial importance.

# Hypothetical case study

In order to better understand above listed modalities and indicators, we present a hypothetical case of abuse of the non-profit sector for the purpose of financing terrorism. The following example is a compilation of several case studies, that represent a combination of all modalities of abuse. Indicators from each category, which should be applied by state authorities and participants in activities of non-profit organizations, can be indentified as well.

## TO terrorist organization's abuse of the non-profit sector

The political and economic situation in the Country A has led to an increase in number of separatist movements of a minority ethnic community in that state. In addition to political struggle, certain groups have decided to take up arms in order to gain independence. Some of the armed separatist groups and their leaders were put on the international lists of proscribed groups and individuals linked to terrorism, due to the methods they employ.

One of the designated terrorist organizations, the TO, realized it could be financed through the abuse of the non-profit sector, by establishing a sham non-profit organization. Besides fundraising and implementation of activities in support of the TO terrorist organization, this NPO could also abuse legitimate local and international non-profit organizations for its own purposes. Leaders of TO decided that the NOTO association should be established in a Country B, which, in addition to having a large population of the same ethnic origin as the minority group fighting for independence in the Country A, has a very high standard of living and non-profit sector has freedom to operate.

The official goal of the NOTO associations is to raise awareness of the problems faced by a minority community in the Country A, spreading the culture and traditions of that ethnic community and providing humanitarian aid to affected civilians. The actual (covert) goal of the NOTO association is the establishment of a network for collecting and transferring material and financial assistance to the TO terrorist

organization and the promotion of extremist religious ideology of the minority ethnic group in the Country A.

By all appearances the NOTO association seemed to operate in line with their official objectives. They established educational and cultural centers in the Country B aimed at promoting the history and culture of the ethnic community. Lecturers in these centers, members of the NOTO association, also attended meetings and became members of other associations of the same ethnic community, as well as other communities of the same religion. They organized fundraising activities, either on their own or in co-operation with other associations, as well as the collection of humanitarian aid, that was transported by convoys to Country A. The humanitarian aid consisted of food, clothes, medicines, household cleaning products, basic hygiene items, etc. Collected funds were transferred to the accounts of local non-profit organizations in the Country A, that distributed aid to socially vulnerable members of a minority ethnic community in that country. Also, the NOTO association invested considerable funds in the design and advertising of a web site aimed at raising awareness of the victims from their ethnic community, who lost their lives in armed conflicts in Country A.

One of the usual means of transferring financial resources was through money transfer agents; collected cash funds would not be deposited to NOTO accounts in Country B, but divided among the members of the association, that would transfer them to their activists in Country A, or the surrounding countries.

One such transfer was reported to the financial intelligence service (FIS) of Country C, which borders the conflict zone in Country A. A member of the NOTO association sent a smaller sum of money from Country B, to the brother of the TO terrorist organization's leader, through Western Union. Although the leader of the TO terrorist organization was on international lists of terrorist-related persons, his brother was not. However, he was on the list of designated persons in Country C, due to the indoctrination of minors who committed suicide attacks in Country A.

Country C's financial intelligence service sent a request to the FIS of Country B to check the member of the NOTO association. Investigation found that this person frequently uses Western Union services for sending money to Country A, to the citizens of Country B, who turned out to be NOTO association activists. This suggested that the funds NOTO association collects in cash are deposited into this organization's accounts, which raised suspicion that they are not being recorded in accounting books.

Parallel investigation of NOTO association and non-profit organizations in Country B it cooperates with, established that joint fundraising activities were not recorded in the NOTO association's agenda of activities, but were recorded by other associations, in some of them together with the amount of cash collected and handed to the

NOTO members. In the Office of NOTO association a large amount of cash was discovered, that was not recorded in accordance with the accounting laws of Country B.

With further analysis of the activities of NOTO association and through cooperation of the state authorities of Country B and Country A, the following was established:

- › by analyzing the receipts used to justify the expenses of NOTO association, it was established that many of them confirm the purchase of goods delivered as humanitarian aid to Country A; among the purchased goods were chemicals which, in addition to being a home cleaning product, could be used for making explosive devices;
- › Significant funds were allocated for the travel expenses of NOTO association's activists travelling to Country A or the bordering countries; by checking the evidence of the border crossings it was established that a significant number of persons who left the Country B still did not return to it, and some of those individuals were presented on the website of NOTO associations as victims "who were martyred in the struggle for liberation and truth";
- › by analyzing the literature and propaganda material published by the NOTO association, it was found that extremist religious ideology was used to indoctrinate and recruit individuals for the purpose of committing terrorist acts;
- › the funds that the NOTO association transferred from its account in country B to the accounts of other associations in country A were used as humanitarian assistance for the socially vulnerable persons; however, the detailed analysis found that the majority of recipients, could be linked, directly or indirectly, to the terrorists who were killed, most often in suicide attacks.

The following modalities of abuse of non-profit organizations by terrorist organizations can be identified in this study case:

- › Taking into account that the NOTO association was established by the TO in order to finance this terrorist organization, the affiliation with a terrorist entity and false representation is evident in all the activities of the NOTO association.
- › The NOTO association has provided support for terrorist recruitment through lectures in educational centers, their web site and publications. Distributing aid to family members of the killed terrorists can also be considered support for recruitment. It is well known that terrorist organizations often promise to financially support family members in attempts to persuade individuals to commit suicide attacks.
- › Distributing assistance to family members of the killed terrorists can also be considered as internal diversion of non-profit organizations' funds in country A, who received money and cooperated with the NOTO association, while the misuse of cash collected by the NOTO association in co-operation with other legitimate associations, can be considered as an external diversion of funds and abuse of programming.

In the presented case the following indicators can be identified, which participants in the activities of non-profit organizations should be able to recognize:

- › from the category "Financial support to known or suspected terrorist entities":
  - non-profit organization's funds are comingled with the personal or private business funds
  - non-profit organization's funds are transferred to other entities believed to be engaged in, or supporting, terrorist activities
- › from the category "Material support to known or suspected terrorist entities":
  - a non-profit organization produces or procures dual-purpose equipment
- › from the category "Financial, material or logistical support to proscribed terrorist entities":

- activities of non-profit organizations are found to support individuals or organizations whose identities correspond to those of listed entities
- › from the category “Operations in areas where there are active terrorist threats“:
  - a non-profit organization transfers resources or conducts activities in areas where terrorist entities are known to have substantial presence
  - representatives of non-profit organization travel frequently into areas where terrorist entities are known to have substantial presence
- › from the category “General operations and governance“:
  - non-profit organization has inconsistencies in its accounting books and/or mandatory reporting
  - the non-profit organization or its representatives use falsified or conflicting documentation
- › from category “Support for recruitment“:
  - non-profit organization’s publications and speakers support terrorism or terrorist entities
  - directing officials or employees of a non-profit organization engage in activities that support the recruitment to violence
- › from the category “Other criminal activities“:
  - criminal assets and activities consistent with terrorist operations are concealed in the non-profit organization’s facilities

# Activities of non-profit organizations to protect themselves from terrorist organization abuse

Non-profit sector can produce protocols for risk assessment and strategies for the prevention of terrorist financing, to ensure transparency of operations and increase the confidence of donors. In many countries associations were established with the aim to develop standards and initiatives to ensure accountability and transparency of work of the non-profit sector. Well regulated non-profit sector that operates transparently increases the confidence of donors and partners, who constantly need reassurance that the associations they entered in partnership with, are not going to become abused for the purpose of terrorism.

## Risk analysis

The risk of terrorism financing is ever-present, and it should always be kept in mind that a non-profit organization may be abused by donors, partner organizations or association's fund beneficiaries.

It is important to conduct an internal risk analysis that examines in what way association can be abused by terrorists. Great care should be taken to verify the good intentions of the partners, especially when entering into projects with a new, previously unknown organizations or individuals. Non-profit organizations that have activities, or donors, partners or fund beneficiaries abroad, should undertake a higher level of risk assessment in comparison with associations that are operating only at the national level. Open-source and publicly available information is of great importance in reaching a decision when considering entering into partnerships with another associations or natural or legal entity.

## Risk reduction

Associations can mitigate the risk of abuse by introducing internal financial control and risk management procedures. In order to reduce the risk, non-profit organizations should conduct their own risk assessments and adopt appropriate procedures against terrorist abuse, such as:

- › due diligence checks of donors using publicly available data, as well as verifying funding sources;
- › establishing methods for recording donations and allocating collected funds;
- › verification checks of partners and association's fund beneficiaries;
- › developing protocols for monitoring and oversight of the effectiveness of procedures for prevention of terrorism financing;
- › educating employees and volunteers how to recognize indicators of suspicious activities linked with terrorist financing.

It is understandable that programming of certain associations entails provision of urgent humanitarian aid, often in the areas where formal systems are inadequate or lacking. However, non-profit organizations should strive to use formal financial channels to execute transactions, whenever possible.

Non-profit organizations must apply the accounting standards of the country in which they are active, and the availability of their financial reports is of great importance for the transparency of their work. In many countries, good practice principles have been adopted, containing a statement of intent to act fairly and honestly, with adequate openness in terms of providing information to interested parties. Unambiguous and clear statements about the goals and tasks of the association, as well as the activities that the association intends to perform in order to achieve the set goals, must be publicly available.

Non-profit organizations should not hesitate to report to the competent authorities any suspicious activities that draw their attention or they identified taking place.



## Self-regulation

In the non-profit sector of many countries, there are, so called, self-regulatory organizations that develop standards intended to ensure transparency and increase confidence in the work of the entire sector. These standards relate to management structure, business transparency, financial responsibility, fundraising, staff management and volunteer work.

There are also non-profit organizations that help other organizations set up internal procedures and mitigate the risk of abuse, including abuse by terrorists. Some self-regulatory initiatives, even though they are not aimed at reducing the risk of terrorist financing, increase transparency of governance and the activities of associations, making them less attractive to terrorist abuse.

# Bibliography

- Azinović, Vlado, Edina Bećirević, *A Waiting Game: Assessing and Responding to the Threat from Returning Foreign Fighters in the Western Balkans*, Regional Cooperation Council, Sarajevo, 2017  
<https://www.rcc.int/pubs/54/a-waiting-game-assessing-and-responding-to-the-threat-from-returning-foreign-fighters-in-the-western-balkans>
- Barker, Anthony Grahame (2013), *The Risks of Abuse of Non-Profit Organizations for Money Laundering and Terrorist Financing in Serbia (Rizici od zloupotrebe neprofitnih organizacija za pranje novca i finansiranje terorizma u Srbiji)*, the Council of Europe, Belgrade, April 2013)  
<https://rm.coe.int/the-risks-to-nonprofit-organisations-of-abuse-for-ml-terrorist-financ/16807828e4>
- MONEYVAL Secretariat (2016), *Anti-money laundering and counter-terrorist financing measures Serbia*, Council of Europe, Strasbourg  
<https://rm.coe.int/anti-money-laundering-and-counter-terrorist-financing-measures-serbia-/1680715fdb>
- MONEYVAL Secretariat (2018), *At a glance*, Council of Europe, Strasbourg  
<https://www.coe.int/en/web/moneyval/>
- UN CTITF (2009), *Tackling the Financing of Terrorism*, United Nations, New York  
<https://www.un.org/counterterrorism/ctitf/en/tackling-financing-terrorism-working-group-report-2009>
- FATF (2012-2017), *International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation*, FATF, Paris, France  
<http://www.fatf-gafi.org/recommendations.html>
- FATF (2014), *Risk of terrorist abuse in nonprofit organizations*, FATF, Paris  
<http://www.fatf-gafi.org/publications/methodsandtrends/documents/risk-terrorist-abuse-nonprofit.s.html>
- FATF (2015), *Best Practices Paper on Combating the Abuse of Nonprofit Organizations (Recommendation 8)*, FATF, Paris  
<http://www.fatf-gafi.org/publications/fatfrecommendations/documents/bpp-combating-abuse-npo.html>
- FATF (2015), *Emerging Terrorist Financing Risks*, FATF, Paris  
<http://www.fatf-gafi.org/publications/methodsandtrends/documents/emerging-terrorist-financing-risks.html>
- FATF (2015), *Financing of the terrorist organization Islamic State in Iraq and the Levant (ISIL)*, FATF, Paris  
[www.fatf-gafi.org/topics/methodsandtrends/documents/financing-of-terrorist-organisation-isil.html](http://www.fatf-gafi.org/topics/methodsandtrends/documents/financing-of-terrorist-organisation-isil.html)
- FATF (2018), *Financing of Recruitment for Terrorist Purposes*, FATF, Paris  
<http://www.fatf-gafi.org/publications/methodsandtrends/documents/financing-recruitment-terrorist-purposes.html>
- Charity Commission for England and Wales (2012), *Charities and terrorism*, Charity Commission for England and Wales  
<https://www.gov.uk/government/publications/charities-and-terrorism>



