

NON-Profit Organisations

Typologies of NPO’s BEING MISUSED FOR TF Purposes

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Introduction

1. Some non-profit organizations (NPOs) or entities pretending to be NPOs can be abused for the purposes of terrorism financing (TF). TF can occur with, but also without, the knowledge of an NPO, and therefore calls for extra vigilance. The abuse of NPOs for TF purposes may take various forms, including exploiting funding or assets, misusing an NPO’s name and status, and setting up an NPO for illegal purposes.
2. In the Monegasque context, NPOs play an important role, given their involvement in civil societies, provision of humanitarian and development aid, social services administration, development of advocacy and interest activities, or other public welfare activities. However, some NPOs, or entities pretending to be NPOs, can be abused for the purposes of TF. It is the goal of this typology paper to highlight various scenarios where NPOs have been found to be abused for TF-related purposes.
3. While the examples outlined may not be currently common in the Principality of Monaco (Monaco), the consequences of such scenarios occurring may be severe. It is necessary to pay due attention to their prevention, especially, since such an abuse can take place without any actual knowledge, deliberate cooperation, or fault of the NPO representatives, employees, and collaborators.
4. It should be highlighted that this paper takes into consideration a wide range of NPOs that operate in various jurisdictions and serve different purposes. Therefore, many NPOs may not necessarily be at risk in all the areas mentioned, especially if they are not (or are only marginally) involved in relevant activities. Furthermore, this paper’s content is not intended to undermine in any way the legitimate and meritorious activities of the Monegasque NPO sector. On the contrary, it aims to provide NPOs with sufficient information and a helping hand in preventing TF and identifying vulnerabilities, thus helping to effectively mitigate the risks of TF.

Scope of Typology Paper

1. This typology paper has been issued by Monaco’s Department of Interior to provide NPOs with basic insights into the issue of NPO abuse for the purposes of financing and supporting terrorism as well as to acquaint them with the basic methods of such abuse.
2. The information contained in this paper does not in any way whatsoever constitute legal advice, and should be read in conjunction with relevant national legislation, international standards, and guidelines issued by competent Monegasque authorities and agencies.

Contact Details

1. For all enquiries, reports and requests associated with NPOs and TF risks, please contact the Department of Interior using their dedicated contact form, available [here](https://contacts.gouv.mc/en/contact-department?localisation=6714&contact=8038&source=http://en.gouv.mc/content/view/full/6714).
2. Alternatively, the Department of Interior can be reached under the following phone numbers:
	* Phone 1: (+377) 98 98 82 52
	* Phone 2: (+377) 98 98 47 24

Terrorist Financing

What is Terrorist Financing?

1. The term terrorist financing (TF) includes the provision of funds to commit terrorist activities as well as offering the support and maintenance of the person (terrorist) or the terrorist group. The term encompasses the provision of food, lodging, training, as well as making means, such as transportation or communication equipment, available. Such financing can take place with physical cash, transfers, or in kind contributions. It should be noted that funds involved can be from legal or illegal sources.
2. The International Monetary Fund notes that the primary goal of individuals or entities involved in the financing of terrorism is not necessarily to conceal the sources of the money but to conceal both the funding activity and the nature of the funded activity.
3. The following are methods and cases that illustrate how terrorist groups have misused the NPO sector or its activities to fund their interests.

Forms of TF Abuse for NPOs

1. As noted in the previous chapter, the abuse of NPOs for terrorist or TF purposes can occur in various forms. Given the diverse nature of NPOs, the below list sheds light on some factors of how abuse might take place:

**Funding**

1. Individuals may act as fundraisers to raise funds in the name of an NPO to support terrorist purposes, with or without the knowledge of the NPO itself. Funds that are raised are diverted to support terrorism at some stage, and may never reach the intended beneficiaries. An NPO might also be used to launder money or be used as a legitimate front to move funds from one place to another.

**Use of Resources**

1. Individuals supporting terrorist organizations may work in the capacity of a staff in the NPO while using the NPO’s assets to contact or meet with fellow terrorist representatives in high risk areas. This exploitation of communications network may be carried out with or without the knowledge of the NPO.

**Misuse of Name**

1. An unregistered NPO may adopt a similar name, contact information and address to an already registered NPO. However, this is done with the intention to mislead the public into the guise of donating for a charitable cause. The directing officials who are able to exercise influence over the operations of the NPO are ultimately linked to terrorist organizations.

**Sham NPOs**

1. Terrorists may try to set up organizations as a sham NPO, by raising funds, promoting causes and carrying out activities in support of terrorism. NPOs may also be set up as a shell or front company to launder taxable or illegal funds.

Terrorist Financing And NPOs – Case Studies

1. The following section will shed light on real-life cases of TF abuse that occurred in international NPOs, of which many were operating in different sectors. The goal is to increase awareness of these typologies to ensure that NPOs understand how they can be misused and what red flags they can potentially look out for.

**Case 1**

1. An NPO applied to the national regulator for registration, stating that its purpose was to support and carry out religious, educational and humanitarian programs. The attention of the national regulator was drawn to the fact that the NPO shared a name with a foreign organization identified in open-source documents as supporting foreign terrorist groups. Access to national security intelligence indicated that the NPO was linked to a network of organizations used to provide resources to foreign terrorist groups. However, the NPO was eventually registered due to a lack of corroborating evidence.
2. When checking the registration of the NPO, the regulator found that the NPO had submitted incomplete and inconsistent mandatory reports. As a result, an audit was conducted and revealed that a large part of the NPO's funds came from a foreign organization known to be a front for terrorist groups. In addition, the NPO had regularly sent resources to two organizations that were listed terrorist entities. More generally, the NPO was unable to account for the end use of many of its resources, particularly those sent abroad.
3. As a result of these findings, the NPO was deregistered, and the regulator shared the case with law enforcement and national security partners.

**Case 2**

1. A national NPO was raising funds for charitable activities in conflict zones abroad through donations. A suspicious transaction report (STR) was filed by a bank after one of the association's officials exchanged a large number of small banknotes for a smaller number of large ones. The official stated that the funds were to be sent to "an activist NPO".
2. An investigation revealed that the funds were donated to the NPO in cash, bank transfers and credit card payments, and through alternative payment methods such as PayPal.
3. Further investigation showed that the senior official had travelled to a conflict zone shortly after exchanging the notes and had not declared the export of cash when he left the country, as required by law.

**Case 3**

1. A senior official of a national NPO, with signing authority over the NPO's account, attempted to make a large cash deposit into the NPO's account. The individual indicated that the funds were to be transferred to a lawyer for a property purchase. He was vague about the origin of the funds, but indirectly referred to donations. The bank refused to accept the deposit on the grounds that the branch where the deposit was attempted did not hold the account, and issued an STR which alerted the national financial intelligence unit (FIU).
2. The FIU's investigation revealed that the same individual had made a number of large cash deposits directly into the NPO's account. But the FIU also discovered multiple cash deposits to the individual's personal account corresponding to donations from private donors to the NPO. The individual had made a number of international transfers from his personal account to a foreign individual with known links to a foreign terrorist group.
3. The FIU's investigation determined that the NPO was used to collect funds that were then partially diverted to support terrorist activities abroad. The file was forwarded to the competent law enforcement and judicial authorities for further investigation.

**Case 4**

1. A national NPO engaged in humanitarian activities abroad was sending money to a foreign partner in a conflict zone. A public request to the national NPO regulator identified that the NPO had received a small donation from a known front organization of a foreign terrorist group. Information contained in the NPO's mandatory report to the national regulator confirmed that the NPO had received this donation.
2. Shortly afterwards, a document obtained during an unrelated audit identified the NPO as a preferred funding channel for the front organization. The date of the document corresponded with a dramatic increase in donations from the NPO. Open-source research and national security intelligence identified three of the NPO's representatives as supporters of the foreign terrorist group, and identified the NPO's foreign partner as another front for the terrorist group.
3. A subsequent audit of the NPO by the national regulator revealed that the NPO had donated USD 700,000 to its foreign partner, but was unable to account for the end use of these resources. The NPO was eventually deregistered by the national regulator.

**Case 5**

1. The national FIU received suspicious reports from a bank concerning the accounts of several national NPOs. Many small deposits and transfers were credited to the accounts of these organizations.
2. Information from law enforcement agencies indicated that one of the NPOs was suspected of having links with a terrorist organization. An FIU investigation revealed that the small amounts credited to the NPOs' accounts were donations from individuals who wished to send funds to a conflict area for humanitarian purposes. Most of the funds credited to the accounts were sent to the personal account of a senior official of one of the NPOs.
3. The managing official then withdrew all the funds in cash, making it difficult to determine the final beneficiary of the funds.
4. It was believed that the financial system was used to circulate funds, presumably to finance terrorist activities. The information was passed on to the investigating authorities for possible prosecution.

**Case 6**

1. A national NPO was established to provide a place of worship for a diaspora community that had come from a conflict zone, and to raise and disburse funds for humanitarian causes.
2. The national NPO regulator became suspicious when the NPO's mandatory reports indicated that it had sent funds to organizations that were not legally prescribed beneficiaries. These funds were apparently sent in response to a natural disaster that had affected the home country of the diaspora community. However, one of the recipient organizations was considered to be the national branch of an international front organization of a foreign terrorist group operating in the home country of the diaspora community.
3. The regulator audited the NPO and found that it had sent funds to five organizations or individuals who were not legally prescribed beneficiaries. These included USD 50,000 sent to the international front organization through the national branch, and USD 80,000 sent directly to the front organization’s headquarters branch in the conflict zone.
4. While the audit was underway, the regulator received two enquiries from the public about the non-profit organization. These two leads raised concerns about the opacity of the NPO's management and the fact that decisions to send funds abroad had bypassed the normal accountability procedures set out in the NPO's statutes, and that they had been taken with full knowledge of the facts.
5. One such lead indicated that a change in the demographic composition of the diaspora community had allowed a new faction to take control of the non-governmental organization’s board of directors. This faction was more sympathetic to the cause of the foreign terrorist organization. Although these problems had already been identified in the regulator's audit, the leads confirmed the regulator's concerns about the NPO's management.
6. The NPO's management responded to the regulator's concerns by stating that the urgent need to respond to a natural disaster had led the NPO to bypass certain internal procedures and work with all organizations that could operate in the affected areas. Considering this, the NPO retained its registration but was forced to pay penalties. The NPO also entered into a compliance agreement with the regulator, which provides for strict standards of due diligence and accountability.

**Case 7**

1. In response to a humanitarian disaster, a large international NPO provided aid in the form of cash payments to beneficiaries located in areas controlled by a terrorist organization. The NPO made the cash payments through a local money service business (MSB)
2. A review of the humanitarian aid program by one of the NPO's partner organizations on its behalf raised concerns. It revealed that in some cases the MSB was levying a 'tax' to be paid to a listed terrorist organization. In other cases, the recipients of the charitable funds were "taxed" by the representatives of the terrorist organization themselves after receiving the financial assistance.
3. The review also found that it was generally accepted and accepted that some charitable funds were diverted to terrorist purposes and that this was common practice among non-profit and related organizations working in this area.
4. Following a joint investigation by the national NPO regulator, the national FIU and law enforcement agencies, the NPO was informed of its responsibilities in reporting such incidents and was asked to provide training to its staff to better guard against future similar incident.

**Case 8**

1. A national non-profit organization has been set up to support charitable work in conflict zones abroad.
2. A national FIU investigation, initiated by a suspicious transaction report, revealed that locally collected funds were being passed on to foreign-based charities. The investigation also revealed that once received by the foreign-based charities, the funds were systematically passed on to individuals or organizations that were part of or affiliated with a known terrorist organization.
3. While links were established between the foreign-based charities and the terrorist organization, direct links between the domestic non-governmental organization and the terrorist organization could not be proven.

**Case 9**

1. A national NPO was one of the many branches of an international NPO based abroad, and created to assist in the rehabilitation of people affected by internal conflict in the foreign country.
2. When the foreign country was affected by a natural disaster, the national branch collected and transferred funds to the headquarters of the international NPO in the affected area.
3. International press reports of an affiliation between the international NPO and a terrorist group led to an investigation by the national FIU. The investigation revealed that a significant amount of funds had been transferred from the domestic NPO, through several intermediary accounts, to accounts belonging to members of the terrorist group.
4. However, the investigation could not determine whether the management of the national NPO had knowledge of the final destination of the money transfers.

**Case 10**

1. An NPO was established for the stated purpose of funding foreign humanitarian activities in a conflict zone. When analyzing the NPO's mandatory reports, the national regulator noted that the NPO had breached its registration obligations by providing funds to organizations considered to be outside the set of beneficiaries prescribed by law.
2. The NRA audited the NPO while accessing national security intelligence. This intelligence indicated that the organization was suspected of belonging to a network of humanitarian organizations that were sympathetic to and influenced by a foreign terrorist organization operating in the same conflict zone. The audit revealed that the NPO had sent over USD 600,000 to a known front organization of a foreign terrorist group. The front organization was itself a listed terrorist entity in several countries. In addition, the audit revealed that the NPO was not able to account for the end use of a large part of the resources it had donated.
3. On the basis of its investigation, the national regulatory authority deregistered the non-profit organization and shared the relevant information with its national security partners.