
Non-Profit (Charitable) Organizations and the Financing of Terrorism

Ways of concealing financial flows

Background:

- Since these organizations are not for profit or commercial, they have been given special consideration as they usually raise funds through donations and contributions from their members.
- Often, these organizations do not have adequate internal control systems to fully identify their donors.

Background:

- Traditionally, they have gone unnoticed when they require certain services like financial services.
- As a result, they have become an excellent way to facilitate money laundering and terrorist financing.

Environment:

INTERNATIONAL:

Although the Financial Action Task Force on Money Laundering (FATF) in the initial version of its 40 recommendations does not specifically mention non-profit organizations, in October 2001 it issued 8 special recommendations on the financing of terrorism in which non-profit organizations are considered.

Environment:

INTERNATIONAL:

9/11. The U.S. National Commission on these terrorist attacks reported that the terrorist organization Al Qaeda had penetrated various charitable organizations, including some internationally recognized ones.

Environment:

FATF Special Recommendation No. VIII on Non-Profit Organizations.

Countries should review the adequacy of their laws and regulations on entities that can be misused to finance terrorism. Non-profit organizations are particularly vulnerable and countries should ensure that they are not used illegally:

- (i) By terrorist organizations,
- (ii) To exploit legal entities as a channel to finance terrorism, including using them as a way to avoid freezing of assets, and
- (iii) To hide and conceal the diversion of funds from legal purposes to terrorist organizations.

Environment:

Mexico

General provisions to prevent money laundering and terrorist financing (May 14, 2004).

(Note UBA/200 of Nov. 11, 2005).

Customer Identification Policy:

- Apply general identification procedure for companies and organizations.
- Real Owners. For civil society associations, identify their members, associates or equivalent.

Environment:

Know the Customer Policy

- Based on degree of transactional risk posed by customer.
- Classify degree of risk at least as high or low.
- Identify high-risk operations (between PEPs, foreigners, non-resident customers, etc.).

Recommendations:

Points to consider in managing risk posed by non-profit (charitable) organizations.

- Internationally considered possible vehicles to fund terrorism and other criminal activities.
- Sometimes donations are collected informally, thus making sources harder to track.

Recommendations:

➤ Check the organization's legitimacy (constitution, registration, membership)

➤ Check source of funds (if possible).

How does it receive donations? (in cash, by cheque, bank transfers, credit cards, etc.)

Does it have donors who often contribute large amounts?

➤ Do its donations come from abroad? (Identify: uncooperative countries or territories / tax havens / high risk.)

Recommendations:

- Is it overseen by any regulatory bodies?
- What is its geographical location and coverage?
- Are there reports of unusual activity? (declared vs. actual transactions)