

A Typologies report on:

# Typologies Project Report on The Abuse of NPOs in TF Activities

November 2022





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## Executive Summary

The misuse of Non-Profit Organizations (NPOs) in conducting terrorist financing-related activities is regarded as one of the topics that created a considerable stir and aroused the interest of countries, organizations and stakeholders at their highest levels, both regionally and internationally; mainly that the exploitation of some areas that fall under the NPO activities, and more particularly those which are not fully or effectively regulated enables the movement of funds and the conduct of terrorist acts through this sector, in view of the difficulties that may encircle or limit the effective supervision process, either due to the characteristics of these sectors, such as operating in conflict environments or in distant or remote environments or to loopholes in the supervisory and monitoring regulations, and non-compliance with the implementation of the supervision and compliance requirements, etc.

The methods and techniques used to commit terrorist crimes associated with the NPO sector represent a challenge for entities which are competent to fight these crimes and pose many challenges for competent entities to combat them, clearly putting the countries' ability to face the risks of these crimes to the test, considering the special and sensitive nature of the sector. In addition, any measures that may be taken should be contemplated from a humanistic perspective first and foremost. There would, therefore, be a hope to avoid any measures that may result in disrupting or limiting the activity of these organizations, implement proactive precautions, try to reach a clear understanding and a clear vision of the ways used to commit these crimes and assessing their risks, establish combating strategies and engage all the stakeholders from government and non-government bodies, while stressing on holding every party fully liable for their respective role. Moreover, the private sector, the NPOs and the civil society should be urged to implement the international standards, assess, and understand the risks of these crimes and establish the necessary measures, while focusing on monitoring the incoming and outgoing financial flows in question.

By taking a deeper look at the crimes resulting from the misuse of the NPO sector, we find that the international and regional ad-hoc reports issued in this regard clearly point out the steady rise in these crimes at the regional and international level, not irrespective of the Arab and MENA countries, particularly the countries situated in areas of conflict and unrest or those which share sea or land borders with countries which are a destination for migrants or refugees, for example, being the categories most involved in the services that these NPOs provide. This report briefly addressed some regional and international efforts made to limit the abuse of this sector for TF activities, and presented the MENAFATF member countries

status in implementing the International Standards issued by the Financial Action Task Force (FATF) to limit the abuse of the sector, establishing legal frameworks that address these crimes, harmonizing the existing laws in this regard and the challenges they are facing in reaching a regulated sector, tightly secured against gaps, which makes it impossible for criminals and terrorist financiers to infiltrate and abuse it.

Furthermore, a good part of this report was dedicated to the risks that may result from the abuse of the sector, starting from the understanding and analysis of these risks, until the implementation of the risk-based approach and the best policies on the supervision of the sector's compliance. An overview of the forms and methods of abuse used by criminals and terrorist financiers was presented, in addition to the role of competent authorities, such as regulators, supervisors and financial institutions (Fs), in protecting this sector from being misused. In the same context, the partnership between the public and private sectors and some important themes in this regard were discussed, such as consulting the organizations on the risks to which they are exposed and their role in sectoral and national risk assessments. In addition, the effect of the unintended consequences of policies resulting from the implementation of the International Standards were also identified through these organizations, as well as the measures taken to prevent their abuse and the effects of the Corona virus - COVID 19 pandemic which coincided with the period for the implementation of this project, for fear that the risks of the pandemic which may result from working in difficult conditions and in unstable areas might increase. As a result of these factors, the sector's work is affected and the NPO's activity reduced.

Based on the methods and techniques mentioned above, it is important to exchange information and best practices on international cooperation among the countries in the MENA region and between them and other countries, and to discuss the challenges and obstacles in combating the financial flows associated with terrorist crimes committed through the NPO sector, by identifying the traits and characteristics of this sector, and how to bridge the gaps that terrorists can use to infiltrate the sector and commit their crimes.

On the light of the a foregoing, and also guided by an interest to examine the methods and patterns which may be potentially used to conduct terrorist activities through the NPO sector, and according to the recommendation made by the Technical Assistance and Typologies Working Group (TATWG) at its thirtieth meeting held on the margins of the Plenary Meeting, the 31<sup>st</sup> MENAFATF Plenary Meeting held in November 2020 approved upon the execution of a new typologies project on "the abuse of the Non-Profit Organizations in Terrorist Financing Activities", from October 2021 to November 2022. This was also based

on a proposal made by the Republic of Sudan, where the project will be co-chaired by the State of Palestine and the Republic of Tunisia, along with a working group specifically formed to execute this project, with the participation of the co-leaders of the working group and the following member countries: The Kingdom of Saudi Arabia, the Hashemite Kingdom of Jordan, the Republic of Sudan, the state of Qatar State of Libya, the State of Kuwait, the Sultanate of Oman, together with the MENAFATF Secretariat which assumed the coordination and secretarial tasks. It is worth noting that the United Nations Office on Drugs and Crime (UNODC) is efficiently contributing to the support of the project's execution and is also participating in the preparation of the project report and in the provision of supporting references, statistics and indicators which are available in its database.

## Chapter I: Theoretical Framework and Concepts

### **1.1 Overview on the abuse of the NPOs sector:**

Non-Profit Organizations play a vital role in the world economy which is not only limited to the economic aspect but also extends to the social and cultural aspects. Their role complements the efforts of the governmental and private sectors<sup>1</sup>. This is one of the sectors to which the International AML/CFT Standards pay special attention, as apart of those standards was dedicated to this sector, both at the level of Technical Compliance (the Recommendations) and at the level of Effectiveness (the Immediate Outcomes), not only for its economic, social and cultural role but for being considered among the sectors which are particularly at risk of abuse for TF purposes, due to the characteristics of such NPOs, given that they attract wide sources of funding through communities and individuals sympathizing with their charitable activities and they enjoy a wide geographical span, namely in remote areas and in areas experiencing instability, conflicts and political unrest.

Cases where terrorists and terrorist organizations have exploited the NPOs sector to raise and divert funds, provide logistical support, encourage terrorist recruitment, or otherwise support terrorist organizations and operations were detected<sup>2</sup>. Such abuse not only contributes to the support of terrorism, terrorists and terrorist organizations, and to casualties that may fall as a result of a terrorist act, but also poses a threat to the integrity of non-profit organizations and the resulting loss of trust in them, both from donors and the public, in addition to impeding the ability of these organizations to carry out their charitable work and to reach the beneficiaries in a timely manner. Protecting this sector from being abused by terrorists and terrorist organizations is therefore an urgent necessity at the domestic and international levels.

### **1.2 Objectives and scope of the project:**

Based on the findings of preliminary research and related studies, the abuse of NPOs in terrorist financing activities still represents a threat to many countries around the world. According to the results of the second round of the mutual evaluation of the MENA countries, the countries of the region have a clear shortcoming in complying with the relevant standards and applying appropriate supervisory measures according to the risk-based approach to NPOs to reduce the risks resulting from the abuse of non-profit organizations in terrorist financing activities, in addition to the importance of cooperating and engaging with the NPOs, with respect to CFT measures, trends and threats. Based on these factors, the execution of this project became necessary, to understand and study the level of risks associated with the abuse of NPOs in TF operations in the MENA region.

This project aims at achieving several objectives, as follows:

<sup>1</sup> Interpretive Note to Recommendation (8).

<sup>2</sup> Interpretive Note to Recommendation (8).

- Understanding and identifying the nature of TF threats and risks to NPOs and how they are being abused to finance terrorist activities and terrorist groups, including the financing of foreign terrorist fighters.
- Identifying new methods, trends and techniques used to finance terrorism through NPOs in the MENA region (conventional ways: Cash donations and Hawala. New technological means: Using virtual assets, social media platforms and others)
- Identifying the best practices adopted by member countries on how to implement focused and proportionate measures to NPOs, in line with the risk-based approach and the overall TF risk profile.
- Identifying the challenges facing the private sector and concerned government entities in detecting terrorist financing operations through non-profit organizations (domestic and international cooperation, asset tracing measures, investigations, provisional measures such as freezing and seizure, de-risking mechanism in dealing with correspondent banks, etc.).
- Identifying best practices and mechanisms to address the abuse of NPOs without disrupting or discouraging their legitimate activities.
- The effect of the Corona pandemic on the extent to which terrorist groups are exploiting the NPO sector to finance terrorist activities and operations.

### **1.3 Sources for information gathering:**

The information used in this project was gathered from multiple sources, as follows:

#### **1. Questionnaires:**

Two questionnaires were prepared for the purpose of gathering information from member countries and they were distributed by the MENAFATF Secretariat.

The first questionnaire targeted the public sector (it covers the Financial Intelligence Unit, law enforcement entities, and regulators of the NPO sector). This questionnaire aims to gather as much information as possible from these countries about their NPO sector. The second questionnaire targeted the private sector (Non-Profit Organizations), in an attempt to engage the NPO sector in this project and obtain input from this sector. In this context, a special chapter was devoted to this project to identify the unintended consequences of policies and to highlight the main challenges facing this sector from the perspective of Non-Profit Organizations.

These formats were designed to ensure that as much information as possible is obtained from these parties, to form a better understanding of the NPOs sector in these countries in terms of volume, vulnerabilities exploited by terrorist entities, methods of mitigating these risks, and others.

## 2. Case studies:

Through the questionnaires referred to above, case studies were requested from the countries, which included a description of the case study, the type of entity through which the case was made, the technical tools and methods used in the case, the indicators of suspicion related to the case, the outcomes of the financial analysis of the FIU, the outcomes of inquiries and/or investigations, as well as the predicate offense and the sanction /status of the case with law enforcement entities and the judiciary.

## 3. Open data sources:

In addition to the sources mentioned above, open data sources have been relied upon and include publications and reports issued by government entities, research, or academic institutions, or those issued by international organizations, which addressed the NPOs sector, in terms of the abuse of the sector and the risks and threats to which the sector is exposed.

### **1.4 Application of the FATF requirements to NPOs:**

The Financial Action Task Force<sup>3</sup> is the body with inherent jurisdiction in combating money laundering, the financing of terrorism and the financing of proliferation, as it has set international standards that aim to prevent these crimes and the harm they cause to society.

The FATF urges the international community to have the necessary political will to bring about national legislative and regulatory reforms in these areas. With more than 200 countries and jurisdictions committed to implementing them, the FATF has developed the forty FATF Recommendations, known as the FATF Standards for combating money laundering, terrorist financing and the financing of proliferation, which ensure a coordinated global response to prevent organized crime, corruption, and terrorism and to stop funding for weapons of mass destruction.

The FATF reviews money laundering and terrorist financing techniques and continuously strengthens its standards to address new risks. It also monitors its member countries or FATF-style regional bodies to ensure they implement the FATF Standards fully and effectively, through a consolidated methodology for the assessment of compliance and holds countries that do not comply to account.

Recommendation 8 of the forty FATF Recommendations was dedicated to the NPO Sector, as it provided a comprehensive definition of the purposes of this Recommendation given the variety of legal forms that Non-Profit Organizations can have according to the legal systems of each country. The FATF adopted a functional definition of NPOs that is based not only on the criterion of profitability, but also on the activities and characteristics that put an organization at risk of TF abuse.

Based on the foregoing, the said definition of NPOs refers to the following: "legal person or arrangement or organization that primarily engages in raising or disbursing funds for purposes such as charitable, religious, cultural,

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<sup>3</sup>Money Laundering - Financial Action Task Force (FATF) (fatf-gafi.org)

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.

The objective of Recommendation 8 is to ensure that non-profit organizations are not exploited by terrorist organizations with a view to: (1) pose as legitimate entities, (2) exploit legitimate entities as conduits for terrorist financing, including for the purpose of escaping asset-freezing measures; (3) conceal or obscure the clandestine transfer of funds intended for legitimate purposes, to terrorist organizations.

There are also other Recommendations relevant to the scope of this report and they include elements of relevance related to the work of these NPOs, such as:

- Recommendation (1): On identifying and assessing the money laundering and terrorist financing risks for the country and applying the risk-based approach<sup>4</sup>. This Recommendation is related to Recommendation 8 through the identification of the TF risks and the threats that terrorist entities pose to the NPOs. Not all NPOs are high risk, as the extent to which they are at risk of abuse depends on their activities and characteristics.
- Recommendation (5): Which not only recommends the criminalization of terrorist financing, but also the criminalization of financing terrorist organizations and terrorists even in the absence of a link to terrorist acts. It also recommends designating these crimes as ML predicate offenses<sup>5</sup>. This Recommendation presented the characteristics of the TF crime, as it includes financing the travel of individuals who travel to a State other than their States of residence or nationality for the purpose of the perpetration, planning, or preparation of, or participation in terrorist acts or the providing or receiving of terrorist training<sup>6</sup>.
- Recommendation (6): Which addresses the targeted financial sanctions related to terrorism and terrorist financing, to ensure that no funds or other assets, are made available, directly or indirectly, for the benefit of any person or entity designated on the domestic or international lists of terrorism<sup>7</sup>. Considering that Recommendation 6 focuses on the preventive measures that are necessary and unique in the context of stopping the flow of funds or other assets to terrorist groups; and the use of funds or other assets by terrorist groups<sup>8</sup>, and whereas NPOs have the advantage of attracting different sources of funding, including cash and in-kind, and given that in-kind donations pose the same threat as direct cash financing, making them more vulnerable to abuse.

<sup>4</sup> Recommendation (1).

<sup>5</sup> Recommendation (5).

<sup>6</sup> Interpretive Note to Recommendation (5).

<sup>7</sup> Recommendation (6).

<sup>8</sup> Interpretive Note to Recommendation (6).

- Recommendations (24, 25): On transparency and beneficial ownership of legal persons and legal arrangements, given that legal persons include NPOs. Both Recommendations stipulated that adequate, accurate, and current information on the beneficial owner of legal persons and legal arrangements should be made available in a timely manner and timely access by local and foreign competent authorities to such information should be facilitated<sup>9</sup>.
- Immediate Outcome 10 also addresses core issues on the implementation of appropriate measures to limit the abuse of NPOs and ensuring that the measures are proportionate with the country's risk profile and that terrorists are deprived of their assets, according to core issues (10-2 to 10-4).

Overall, the issue of implementing the obligations set out in the FATF International Standards regarding the abuse of NPOs in terrorist financing activities has a particularity that differs from one country to another, according to their prevailing laws and legislations. So long as these countries are subject to mutual evaluation, the effectiveness and efficiency of the measures they take to fulfill these obligations in a successful manner that limits the abuse of NPOs for TF purposes shall be measured.

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<sup>9</sup> Recommendations (24, 25).

## Chapter II: International Agreements and Conventions

### and Best Practices

This chapter framing the main international instruments concerning the work or activities of non-profit organizations, including international instruments and treaties that call for the freedom to carry out voluntary, charitable and humanitarian activity in general and the freedom to establish and form non-profit associations, mainly the Universal Declaration of Human Rights, and in particular those related to the subject of human rights, which is an important point of focus in the amendments made by the Financial Action Task Force to the International AML/CFT Standards, more specifically Recommendation (8) on Non-Profit Organizations. This Chapter also handles the best practices on international cooperation to limit the abuse of NPOs in conducting TF activities or committing terrorist acts, through various works, such as the publications issued by some international bodies, like the FATF.

These facts are elaborated hereinafter, as part of this presentation:

#### 2.1. International agreements and conventions:

1. The Universal Declaration of Human Rights: Article (20) provided for several issues, the most important of which is the peaceful activities of NPOs, as follows:
  - a) Everyone has the right to freedom of peaceful assembly and association.
  - b) No one may be compelled to belong to an association.
2. The International Covenant on Civil and Political Rights: Article (22), clause (2) stipulated that: "Everyone shall have the right to freedom of association with others, including the right to form and join trade unions for the protection of his interests".
3. The International Covenant on Economic, Social and Cultural Rights provides for the right to form or join trade unions and to take part in cultural life (8, 15). Article (8) stipulated the following:
  - i. The States Parties to the present Covenant undertake to ensure:
    - a) The right of everyone to form trade unions with others and join the trade union of his choice, subject only to the rules of the organization concerned, for the promotion and protection of his economic and social interests. No restrictions may be placed on the exercise of this right other than those prescribed by law, and which are necessary in a democratic society in the interests of national security or public order or for the protection of the rights and freedoms of others,
    - b) The right of trade unions to establish national federations or confederations and the right of the latter to form or join international trade-union organizations,

4. Article (15) of the International Covenant on Economic, Social and Cultural Rights provides for the freedom of economic, cultural and social work for the individual, and the safeguarding and protection of this right, as follows:

- I. The States Parties to the present Covenant recognize the right of everyone:
    - (a) To take part in cultural life,
    - (b) To enjoy the benefits of scientific progress and its applications,
    - (c) To benefit from the protection of the moral and material interests resulting from any scientific, artistic or literary production of which he is the author.
  - II. The steps to be taken by the States Parties to the present Covenant to achieve the full realization of this right shall include those necessary for the conservation, the development and the diffusion of science and culture.
  - III. The States Parties to the present Covenant undertake to respect the freedom indispensable for scientific research and creative activity.
  - IV. The States Parties to the present Covenant recognize the benefits to be derived from the encouragement and development of international contacts and cooperation in the scientific and cultural fields.
5. The International Convention on the Elimination of Racial Discrimination prohibits discrimination based on the expression of opinion, assembly and association, and conduct of public affairs (article 5). Clauses 5/d/9 provided for the right to freedom of peaceful assembly and association, and the right to form and join trade unions.
  6. The International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families, which provided for the right to form associations (article 26), clause (b), which provides for “the right to join freely any trade union and any such association as aforesaid, subject only to the rules of the organization concerned”, and clause (c) which provides for “the right to seek the aid and assistance of any trade union and of any such association as aforesaid”.

## 2.2. Best practices in the NPO field:

As previously mentioned, important initiatives were taken to keep and preserve the NPO sector against the risks of TF abuse. These efforts began early on and included studies by the FATF to amend the international standards related to the work of these organizations and the sector, where these updates found ample opportunity for discussions and amendments that have been going on for a decade or more.

In this context, the FATF has been keen to communicate with the NPO sector to identify various aspects from the concerned competent regulatory and supervisory authorities representing the government sector on the one hand, and from the NPOs themselves or the representatives of the private sector on the other. One of these main meetings

was held by the FATF regarding consultation and dialogue with non-profit organizations, in Vienna, Austria, on April 18, 2016. The main objective of this meeting was to have an open dialogue with representatives of a variety of NPOs on the ongoing work of the Financial Action Task Force to revise its standards on non-profit organizations (FATF Recommendation 8 and its Interpretive Note). The FATF recognizes the importance of engaging directly with NPOs on these important issues. The meeting was chaired by the President of the Financial Action Task Force and hosted by the United Nations Office on Drugs and Crime at their headquarters in Vienna. In total, 116 representatives of 21 FATF member and observer delegations, 26 NPOs and 37 private sector experts attended the meeting. The participants had an in-depth exchange of views on the following key issues:

- How NPOs play an important role in the fight against terrorism by helping to mitigate extremism.
- Ways in which the FATF standards protect NPOs from terrorist abuse and facilitate their access to financial services when implemented effectively.
- The need for countries to understand, as a starting point, their NPO sector and its potential vulnerabilities to abuse by terrorists, considering that the majority of NPOs may represent little or no risk at all.
- The importance of applying measures to protect NPOs from terrorist abuse, in line with the FATF's risk-based approach, and proportionate with the risks identified, while at the same time respecting human rights, due process and the rule of law.

The FATF reiterates its commitment to continuing engagement with NPOs on these important issues, to revise the international recommendations, in line with the findings reached through these ongoing meetings. It has recently asserted these principles in the paper on the unintended consequences resulting from the implementation of the International Standards, issued in October 2021.

In addition to the foregoing, the FATF issued several typologies projects, papers and guidance (these references can be accessed on the FATF website<sup>10</sup>), including, for example:

- Risks of Terrorist Abuse in Non-Profit Organizations, June 2014.
- Typologies Report on Terrorist Financing Through NPOs, FATF, 2014<sup>11</sup>.
- Emerging Terrorist Financing Risks - October 2015.
- Best Practices - Combating the Abuse of Non-Profit Organizations (Recommendation 8)- June 2015.
- Terrorist Financing Risk Assessment Guidance, FATF, 2019<sup>12</sup>;

<sup>10</sup> <https://www.fatf-gafi.org/>

<sup>11</sup> [Emerging-Terrorist-Financing-Risks.pdf \(fatf-gafi.org\)](#)

<sup>12</sup> [Terrorist-Financing-Risk-Assessment-Guidance.pdf \(fatf-gafi.org\)](#)

The MENAFATF also published Best Practices Concerning the Charities<sup>13</sup> in 2005, which served as a guidance and technical assistance for the MENAFATF members to introduce the best practices that may be applied and enforced to achieve the objectives of these NPOs and to help them assume their role, under full protection of this sector in consistency with the FATF Standards, according to the country's legislations and regulations in force. This guidance presented procedures proposed for organizing the work of the NPOs (associations), with respect to legal aspects such as specifying the entities authorized to conduct supervision and monitoring, and establishing mechanisms to check the NPOs before granting them a license, etc. They also included supervisory and control aspects, such as reinforcing transparency and integrity standards, aspects related to financial matters, in addition to recommendations on the NPOs operations overseas.

The Asia Pacific Group (APG) also issued a Typologies Report on the NPO Sector Vulnerabilities 2011<sup>14</sup>, which handles several important points in this context, such as the regulatory issues, re-evaluating the sector's risks, introducing the best practices to assess its risks and some methods of abuse. The report also presented real experiences deriving from a sample of case studies and experiences shared by several MENAFATF member countries. At the end of the report, the study strongly recommended to enhance regulation of the NPO sector, using a risk-based approach to ensure that legitimate NPOs are not obstructed from playing a positive role in society, and to improve transparency and accountability among NPOs. Governments and NPOs alike have a responsibility to prioritize protection of the sector while allowing it at the same time to operate freely, as recommended by the FATF.

There are many other regional and international bodies which have made contributions in this regard, the most important of which are as mentioned above. Similar initiatives could be further drawn upon. Below are some examples:

- The US Department of the Treasury and the Financial Intelligence Unit fact sheet on the application of the risk-based approach and the due diligence measures to Non-Profit Organizations 2020<sup>15</sup>;
- The guidance manual for Member States on terrorist financing risk assessments, UNODC, 2018<sup>16</sup>;

<sup>13</sup> <https://www.menafatf.org/index.php/ar/information-center/menafatf-publications/>

<sup>14</sup> <http://www.apgml.org/methods-and-trends/documents/default.aspx?pcPage=4>

<sup>15</sup> <https://home.treasury.gov/system/files/266/2020-11-19-Charities-Fact-Sheet-FINAL.pdf>

<sup>16</sup> [https://www.unodc.org/documents/mexicoandcentralamerica/publications/CrimenOrganizado/Guidance\\_Manual\\_TF\\_Risk\\_Assessments.pdf](https://www.unodc.org/documents/mexicoandcentralamerica/publications/CrimenOrganizado/Guidance_Manual_TF_Risk_Assessments.pdf)

## Chapter III: Understanding and Analyzing Risks of NPOs in the Middle East and North Africa Region

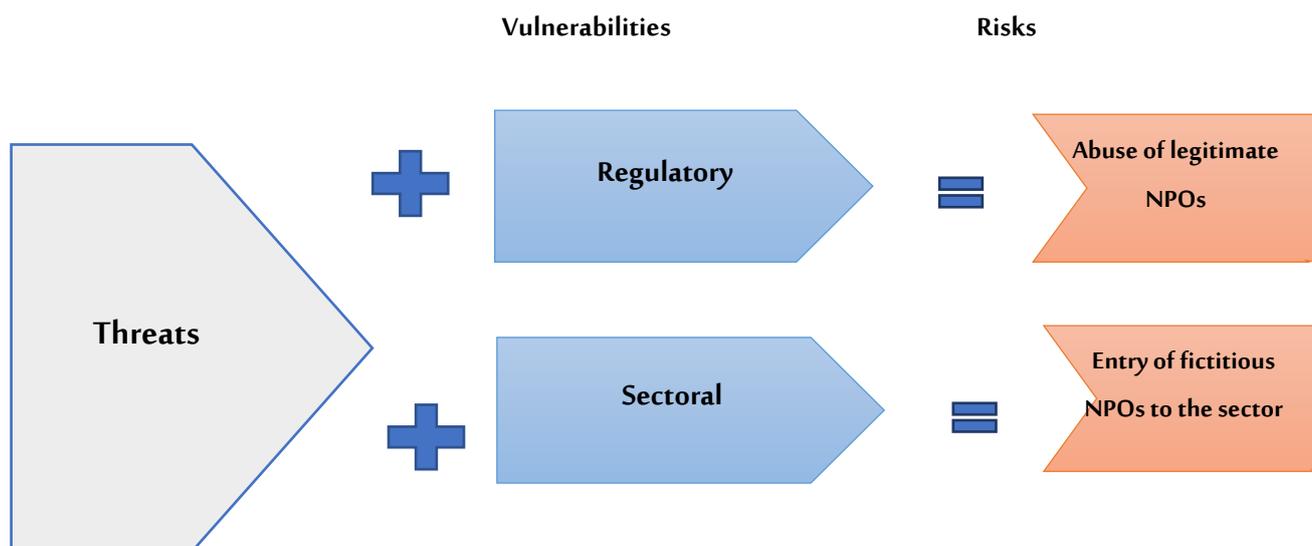
### 3.1. Vulnerabilities and threats facing NPOs:

Assessing the risks of the NPO sector is one of the issues regarding which there is a great deal of disagreement about the ways it is applied, even though countries unite and conform to the FATF Recommendations in this regard. However, risks associated with each country vary from one country to another because the assessment process itself is not founded on a uniform approach, but each country adopts the international standards when applying its obligations to the sector in a modality that makes it able to understand its risks in the general context as a whole and the context of the NPO sector in particular. Therefore, these constants are drawn upon when assessing the vulnerabilities and threats of the sector.

According to FATF Recommendation (1), countries should identify and assess the ML/TF risks for the country and take appropriate measures, including the designation of an authority or mechanism to coordinate actions to assess risks and allocate resources, to ensure that the risks are effectively mitigated. Based on this assessment, countries should apply a risk-based approach (RBA) to ensure that the measures to prevent or mitigate ML/TF risks are commensurate with the identified risks.

Considering the requirements of Recommendation (1) above, we find that the ML/TF risks in general include two aspects, (1) the vulnerabilities, and (2) the threats. In parallel, these risks represent the consequences that may result from the merger of these two factors. Accordingly, this equation can be applied to the NPO sector as follows:

**Figure (No.1) Risks = Vulnerabilities + Threats.**



- **Threats** are a natural or legal person or entity or a group of people/objects or activities presenting the potential to cause harm to the State or society, including all the means that facilitate and assist or support the conduct of

these activities. In the context of the financing of terrorism, this includes terrorists, terrorist groups and their facilitators, their funds, as well as past, present and future TF activities.

- **Vulnerabilities comprise** those things that can be exploited by the threat or that may support or facilitate its activities. They could include the wider financial system and mechanisms, or products used to move and store funds. They include factors that represent weaknesses in AML/CFT controls or certain features of a country. They may also include characteristics and features of a particular sector, a financial product or type of service that make them appealing for ML/TF purposes.
- **Risks/Consequences** refer to the impact or harm that TF may cause. They include the effect of the underlying criminal and terrorist activity on financial systems and institutions, as well as the economy and society more generally.

The best ways to identify the vulnerabilities and threats that are invading the NPO sector are through a comprehensive assessment of the various aspects related to the risks expected and currently prevailing in the sector, first going through a review of by reviewing the local components of the sector and collecting information about entities and individuals engaged in non-profit activities in the country based on the definition contained in national legislations and those to which the definition contained in the FATF Recommendation 8 applies. The fact that not all NPOs are high-risk should be taken into consideration, and some may even represent little or no risk at all and it is not necessary that all or most of them are subject to threats and abuse. Furthermore, NPOs should be classified depending on their characteristics, such as their size, type, scope of work, donors, financing, including cash financing, and cross-border financing, movement of funds in general, methods of payment used, type and location of activities co-provided by the NPO, and the services delivered through it. These classifications help divide these organizations into specific categories that facilitate the process of monitoring and supervising their activities. They also help identify the subset of the NPOs that are at higher risk for TF abuse to which the FATF definition of an NPO set out in Recommendation (8) applies. One of the objectives of the local review of the sector is to better understand the NPO sector and to understand the sector-related risks faced by NPOs and to determine which laws, legislations and controls are being currently in effect, which may help reduce these risks in line with Recommendation (8). Another objective is also to take into account the results of the review made, when conducting any national risk assessments whenever appropriate, and to verify whether the applicable laws, legislations and controls are appropriate to the risk profile, in line with Recommendation (1) and whether additional mitigating measures are needed, or the measures currently taken are adequate.

### 3.2. Applying a risk-based approach:

The risk-based approach is applied, as a matter of principle, in accordance with FATF Recommendation (1), which addressed the duties of countries to assess their risks according to the risk-based approach; thus, allowing them greater flexibility to act in a manner appropriate to their nature and their prevailing ML/TF risk profile, taking into account the particularity of each sector. This would directly contribute to consistency between the sector assessment findings and the identification of the sector's vulnerabilities and threats more accurately, which would consequently facilitate the process of establishing measures to prevent or mitigate the ML/TF risks, in consistency with the risks identified.

In addition to Recommendation (1), the Interpretive Note to Recommendation 8 stipulated that 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: (a) by terrorist organizations posing as legitimate entities; (b) to exploit legitimate entities as conduits for terrorist financing, including for the purpose of escaping asset-freezing measures; and (c) to conceal or obscure the clandestine transfer of funds intended for legitimate purposes to terrorist organizations”.

When the NPO sector’s vulnerabilities and threats are assessed, the main target and objective of this assessment process is to reach a better understanding of the sector’s risks and to identify the subset that could potentially be abused for TF operations or activities and to take appropriate measures to limit the risks of abuse.

Accordingly, when the assessment of risks of a subset of NPOs which are at greatest risk of TF abuse is initiated, (a), the nature of threats posed by terrorist entities to the NPOs through which the sector can be infiltrated is reviewed, (2) the vulnerabilities through which these NPOs can be potentially abused are also presented, by reviewing the laws, regulations and measures in force, and ensuring their conformity with international requirements to protect the sector from exposure to the risks of abuse in terrorist or TF activities, and (c) the consequences and results of abusing these organizations and the sector as a whole, are reviewed as well. Effective and proportionate measures (enhanced, simplified and moderate) are then established to limit the risks which may arise from the abuse of this category, provided that this is not inconsistent with the exercise of its legitimate activities; transparency and integrity are promoted, while taking into account the re-evaluation of the risks of this sector, periodically and regularly, in order to examine the latest developments in the risk context, to identify the NPOs which are in violation of the controls and to apply appropriate deterring measures against them.

When countries conduct a risk assessment for the NPO sector, they should use all relevant sources of information, in order to identify the NPOs which are at greatest risk of terrorist financing abuse. As an example of these sources, it is possible to use the information that can be obtained from the following parties: (1) regulators and supervisors, (2) tax authorities, (3) FIUs, (4) donor organizations, (5) LEAs, (6) national and sectoral risk assessments, (7) the registrar of NPOs, (8) the account reports and balance sheets issued by NPOs, (9) statements of bank accounts where NPOs keep accounts and independent auditors reports, (10), governance bulletins and periodicals specialized in the topics of NPOs, (11) reports of foreign governments on the work of the NPOs they sponsor, (12) media, (13) UN and domestic negative lists against relevant individuals and entities, and (14) financial intelligence agencies.

The main phases for the sectoral assessment of the NPO sector’s risks can be briefly summarized in the following steps:

- **Phase 1:** Information gathering phase: during this phase, the reports issued by international and ad-hoc bodies, such as the FATF reports, are examined, and databases of the sector and relevant case studies are searched.

- **Phase 2:** Inputs obtained from partners: during this phase, communication with all domestic bodies involved in the regulation, monitoring and supervision of the sector, namely the concerned government bodies, such as the registrar of NPOs and others, is initiated, and the information held by these bodies on the TF risks identified in the sector, is gathered.
- **Phase 3:** Analysis, assessment and report writing: During this phase, the information provided over the previous phases is collected, analyzed and assessed in order to reach a conclusion on the current status and the critical areas. The report is then written, and the key findings are shared with the government stakeholders, namely, supervisors and regulators and the sector as a whole.

On the other hand, countries which were surveyed in the study sample indicated a number of best practices to be followed in monitoring the NPO sector, in line with the risk-based approach, including laying the foundations for conducting off-site and on-site supervision, and designing effective policies and measures to protect the NPO sector from exploitation without limiting the freedom of the sector to carry out its activities, based on (a) the vulnerabilities and threats and enhancing the points of strength, (b) the results of the national risk assessment and the sectoral assessments, while requiring the implementation of enhanced measures where higher risks exist, including raising awareness and on-going outreach with high-risk NPOs, and reducing/simplifying such measures, when lower risks are identified. NPOs should be urged to regulate their business, by conducting for example, financial transactions through the formal financial channels, and putting in place an accurate and transparent financial system, in line with the supervision and monitoring standards issued by their supervisors, so as to facilitate access to and control of the NPOs revenues and expenses, in a smooth and regular manner.

The recommendations made by the study sample included the need to urge countries to sign more memorandums of understanding between local authorities concerned with cooperation and challenges, the Financial Intelligence Unit and law enforcement entities, especially to ensure the immediate exchange of information on high-risk organizations, and to call financial and banking institutions to apply the risk-based approach when dealing with non-profit organizations.

Countries which were surveyed in the study sample also mentioned that NPOs are being monitored through a number of measures aimed at subjecting the sector to a type of supervision to control it in a way that limits the risks which may lead to its abuse. However, it was not clear that these measures existed in an integrated and sequential manner with specific objectives and intended results, as it did not appear that risk-based supervisory and monitoring policies of any type were formulated, and this fact applies to most of the countries that participated in the study sample.

### 3.3. Effective policies and best practices on supervision:

After the previous phase is completed (assessing risks to implement the risk-based approach), an appropriate system to supervise the NPO sector is then established, where the focus should be on diverse approaches that can be applied to prevent the abuse of NPOs. An effective approach, however, is one that involves all five of the following elements:

- 1) Setting the conditions and requirements regulating the phase of incorporation formation and governance of NPOs: A number of measures can be used such as licensing and registration, and issuing instructions and controls that include keeping information about their objectives and activities and making them available to the public and competent authorities, as well as providing controls to ensure that funds are disbursed as intended and issuing detailed financial statements on revenues and expenses.
- 2) Establishing policies to encourage integrity and transparency and increase public trust, developing best practices and sharing them with the sector, and encouraging organizations to use formal financial channels, as the FATF focused on the need to (a) strengthen the internal governance of organizations and (b) transparency of accounts by hiring an external auditor in addition to (c) the establishment of an internal control system.
- 3) On-going outreach with the non-profit sector.
- 4) Risk-based supervision or monitoring: Measures commensurate with the sector's risks should be implemented.
- 5) Conducting inquiry and gathering information effectively: Sharing as much information as possible between competent authorities and providing access to it and establishing effective mechanisms for information sharing.

Establishing effective mechanisms for international cooperation: Appropriate channels of communication and procedures should be identified for foreign requests for international cooperation on non-profit organizations suspected of being linked to terrorist activities.

The countries surveyed in the study reported a number of suggestions, mainly the strengthening of human and logistical resources of the monitoring and supervisory authorities, provided that these authorities would, in turn, give effect to the administrative controls and procedures for off-site and on-site supervision, and monitor NPOs for their compliance with the AML/CFT requirements, in addition to the need to tighten internal control over the sources of funds and donations of NPOs, and issue supervisory decisions that include the conduct of inspection campaigns for the headquarters and activities of organizations. This should be followed by off-site supervision through several periodical and ad-hoc reports, including reports on the financial aspects, reports on the projects which were completed and reports of independent external auditors. NPO regulators and supervisors should carry out awareness campaigns for non-profit organizations, through a number of platforms, especially the creation of a window on websites that includes relevant topics, the issuance of a governance manual for associations that includes instructions to identify the beneficial owner and ensure that the support reaches the beneficiaries while

not changing the destination of spending the funds, and directing the most vulnerable organizations to take precautionary controls and apply due diligence.

With regard to the duties of NPOs, there are several procedures addressed through the responses contained in the questionnaire for the request of information, namely the preparation of CFT instructions, the application of requirements that promote integrity and transparency, including obtaining prior approval for the acceptance of donations and grants from foreign entities and persons, the appointment of an independent external auditor for the accounts of the NPO, the maintenance of bank accounts in their name with persons authorized to manage the account and their respective specimen signatures, as well as the publication of audited financial statements on the website of the NPO or on any other appropriate means in line with the regulating laws.

## Chapter IV: Abuse of NPOs in Terrorist Financing Activities

Given the role played by this sector and the consequences of its abuse by terrorists and terrorist entities, protecting it from such exploitation is an urgent necessity at the domestic and international levels. For this purpose, there are many reports and working papers issued by international and non-governmental organizations which addressed the abuse of NPOs in terrorist financing activities. They identified the main methods of abuse and the mechanisms for the transfer of funds used which were referred to in the introduction of this report, including typologies reports issued by the FATF, which addressed this topic at an international level, and the latest of these reports entitled “Risks of Terrorist Abuse in Non-Profit Organizations” was issued in 2014. In addition, other typologies reports issued by the FATF-Style Regional Bodies (FSRBs) also addressed this topic but at a regional level.

### **4.1: Methods of abuse:**

Reports and publications mentioned above were able to detect the methods of abuse of the NPO sector by terrorists or terrorist organizations, by examining cases studies that included a real abuse of this sector.

These reports reveal that the methods of abuse of NPOs by terrorists and terrorist entities are not limited to the transfer of funds (even if it is the most common way), but it also has other forms.

According to the FATF typologies report issued in 2014, as mentioned above, the analysis of (102) case studies gathered from member countries in an attempt to draw out internationally applicable findings on the subject, the main methods of abuse were identified as follows<sup>17</sup>:

- 1- Transfer of funds: An NPO or an individual acting on behalf of an NPO diverts funds to a known or suspected terrorist entity.
- 2- Affiliation with a Terrorist Entity: An NPO, or an individual acting on behalf of an NPO, maintains an affiliation (with or without their knowledge) with a terrorist entity or with persons suspected of supporting terrorism.
- 3- Abuse of Non-Profit Organizations to support recruitment: NPOs are used to support and/or promote terrorism recruitment-related activities.
- 4- Abuse of NPO programs: Legitimately funded programs meant to support humanitarian/charitable purposes are manipulated at the point of delivery.
- 5- False Representation: An organization or individual raises funds and/or carries out other activities in support of terrorism under the guise of charitable activity.

The typologies report issued by the APG in 2011 reveals that the abuse of NPOs is not only limited to the transfer of funds. Based on known cases, the sector is abused in several ways, such as<sup>18</sup>: 1) diverting materials (such as gifts-

<sup>17</sup> Risk of Terrorist Abuse in Non-Profit Organizations, FATF, 2014

<sup>18</sup> NPO Sector Vulnerabilities, APG, 2011

in-kind), 3) using NPOs as intermediaries to local partners that divert funds/materials, 4) using NPOs to facilitate travel, 5) using NPOs as a front to cover illicit activities, such as the transfer of arms, 6) using NPOs to provide social services as a means to solicit public support, 7) using NPOs as a platform to distribute messaging or as a means to gain political/ideological support, 8) using NPOs to enlist individuals, 9) kidnapping and ransoming employees, 10) impersonating employees to obtain access to particular areas/people, 11) using an NPO's name to raise funds, without the NPO's knowledge.

In the same context, the working paper entitled "Nonprofit Organizations and the Combating of Terrorism Financing" issued by the World Bank in 2010 indicated that "the instances of abuse identified in the cases studies which were examined and mentioned either in FATF or government reports and publications and in media and academic sources, and other publications that handled this topic, come under three forms, as follows:

- 1) NPOs raising funds for terrorist entities, or
- 2) NPOs transferring funds for terrorist entities, or
- 3) Transfer of funds by individuals acting on behalf of NPOs or by their branch offices<sup>19</sup>.

Accordingly, we find that the NPO sector can be abused by virtue of its characteristics, which distinguish it from other sectors. Therefore, it should be proactively protected against TF risks, while ensuring that it is not exploited in any related activities, by identifying indicators of practices that would facilitate the exploitation of this sector in the implementation of terrorist activities, and identifying the methods used to commit criminal acts linked to the implementation of terrorist activities that can take place through the NPO sector.

It can be said that the main expected methods fall under three main activities:

- 1) Raising cash or in-kind donations,
- 2) Transfer of funds (using the NPO's bank account or the cross-border physical transportation of funds, under the guise of funding charitable activities).
- 3) Financing terrorist activities or uses of the funds raised to face the anticipated expenses of a terrorist operation, including but not limited to:
  - Recruiting foreign terrorist fighters, particularly for conflicts raging in areas adjacent to conflicts.
  - Financing the travel of foreign fighters through the purchase of airplane tickets.
  - Providing subsistence and accommodation for the fighters (payment in cash - through materials in-kind).
  - Purchasing weapons, explosives and locally made convertible materials for the manufacture of explosives.
  - Providing family expenses for the families of foreign fighters (salaries).
  - Providing secure communication channels (telephones - Internet - and others).

<sup>19</sup> Nonprofit Organizations and the Combating of Terrorism Financing, WB, 2010

- Providing means of transportation and housing that can be used as a safe haven for fighters and places for training and recruitment.
- Creating sham NPOs as charitable front for terrorist groups.
- Hiring terrorists as employees in NPOs.

#### 4.2. Mechanisms for the Transfer of funds:

The foregoing shows that the main and most common methods of abuse of the sector are “the transfer of funds”, due to the characteristics of the sector, as it attracts diverse and considerable sources of funds, which are cash-intensive<sup>20</sup>.

“The transfer of funds” as a method of abuse of NPOs for terrorism consists of diverting (re-directing) the funds raised by NPOs for charitable purposes to terrorist entities (inside or outside the country)<sup>21</sup>.

According to the afore-mentioned FATF typologies report issued in 2014, “transfer of funds” occurs at different stages of the NPO business process, such as during the collection, retention, or transfer phases. During the collection phase, transfer of funds involves the interception of cash depositing it into NPO accounts, while during the retention and transfer phases, the funds are diverted by a variety of means, ultimately ending up in the control of terrorist entities.

“Transfer of funds” can be carried out by internal actors (internal to the NPO), such as its directors or staff or by actors external to the NPO but associated with it, such as fundraisers external to the NPO or foreign partners.

The cases studies which were examined in the report mentioned above revealed that “transfer of funds” which is carried out through actors internal to the NPO is the most common, whether these funds which are re-directed through internal actors to terrorist entities were raised by the NPO itself or through third parties.

Cases studies involving “the transfer of funds” by internal NPO actors demonstrate that the mechanisms which were used are: 1) wire transfers, 2) cash transactions and cash couriers, 3) unrelated persons and personal accounts, 4) unrelated businesses and business accounts, 5) money services businesses, 6) travelers’ cheques and cashiers’ cheques.

As to the most important means of payment expected to be used, according to these methods, they include:

- Using cash: Raising funds and donations in cash and financing terrorists directly through any such funds and donations.
- Using points of sale: Food and subsistence is provided to foreign fighters by purchasing from points of sale in commercial stores.

<sup>20</sup> Gibraltar Based Non-profit Organizations & The Risk of Abuse From Terrorist Funding, 2017 NPO Sector Vulnerabilities, APG, 2011

<sup>21</sup> Risk of Terrorist Abuse in Non-Profit Organizations, FATF, 2014

- Using payment systems through banking services: Cheques - money transfers - purchase of services such as ticket bookings and others.

#### **4.3 Beneficial terrorist groups and stages of terrorist financing:**

In general, the process of terrorist financing follows three stages, notwithstanding the sources of funds, whether they are legitimate or illegitimate, as follows:

##### **Stage 1: Raising funds:**

The fund-raising process to support and finance terrorist organizations for the purposes of committing terrorist acts relies on the size of the terrorist organizations. The minor (small) or individual terrorist cells require relatively small amounts of money to be used in terrorist operations. The smaller the terrorist cell or organization is, the harder it is to detect and trace them through the supervisory systems applied by FIs and the AML/CFT regulations. In parallel, the complex (large) terrorist cells require larger amounts of money and more efforts to raise funds to support all their elements and cover the operational expenses, such as travel and airplane tickets expenses, training and living expenses, personal and medical treatment expenses, promotion, and recruitment. The fund-raising process for terrorist organizations is conducted in one of the following ways:

##### ➤ **Financing from legitimate sources:**

Terrorist organizations rely sometimes on the establishment of legitimate investment projects as a cover for the business that constitutes a continuous source of income, away from funds that are directly used to finance terrorist activities. This fact makes it more difficult for FIs to distinguish between financial operations which are conducted normally and daily and financial operations which are being actually used to finance terrorist activities.

##### ➤ **Self-financing sources:**

Sources through which terrorist organizations rely on themselves to provide for their needs in terms of money, arms and equipment required to conduct terrorist operations or to recruit foreign terrorist fighters. The most important of these sources are:

- Salaries.
- Sale of personal properties.
- Small short-term loans, which makes them difficult to uncover.
- Receiving family aids for members of the terrorist organizations.
- Terrorist organizations supporting each other, as organizations that have established themselves in a terrorist act aid with money, arms, training and safe haven for new terrorist organizations.
- Using small economic projects.

##### ➤ **Financing through predicate offense proceeds:**

Proceeds generated from predicate offenses (fraud, theft, drug trafficking, counterfeiting currency and cheques, human trafficking, kidnapping for ransom, illicit arms trafficking, sexual exploitation of children and other crimes)

are an important and rapid source of financing for terrorist activities. For this reason, terrorists try to conceal the proceeds of these crimes.

➤ **Other sources for fund raising:**

The United Nations Security Council (UNSC) Analytical Support and Sanctions Monitoring Team concerning Daesh and Al-Qaida eventually detected new patterns in the TF field and made recommendations to member States aimed at strengthening the implementation of targeted financial sanction regime related terrorism and terrorist financing approved by the UNSC on 30/06/2018 and mentioned in these recommendations.

➤ **To finance their activities, terrorist organizations tend to commit kidnappings and demand ransom:**

The Security Council Committee - established pursuant to resolutions 1267 (1999), 1989 (2011) and 2253 (2015) concerning the Islamic State in Iraq and the Levant (Da'esh), Al-Qaida and associated individuals, groups, undertakings and entities – instructs member States that - considering the Islamic State's loss of state-like sources of income; - (taxation, royalties and revenues of extractive industries derived from their sale on the black market), the risk of the global and increasing spread of kidnappings for ransom has been identified among the proceeds-generating crimes of terrorist groups. The U.N. Security Council sanctions committee instructs that paying ransom or making political concessions to terrorist groups finances their activities and helps them carry them out.

**Stage 2: Moving of funds:**

There are several targeted channels through which terrorists transfer their funds, the most important of which are:

**a. Banks:**

The financing of terrorism through the banking sector takes a narrow course and it is difficult to distinguish financial operations related to the financing of terrorism because of the normal financial movements recorded on accounts daily, especially since some terrorist operations require only small amounts of money. The banking sector can be used in the moving of funds used to finance terrorists through the following methods:

- Cash deposits.
- Bank remittances.
- Use of credit cards, ATM cards and pre-paid cards.
- Use of e-banking channels.

**b. foreign exchange houses and money transfer companies:**

Foreign exchange houses and money transfer companies are among the most important target channels for terrorists to move their money from one country to another because of their many characteristics that are exploited by terrorists, the most important of which are:

- Low cost of money transfer.
- The multiplicity of systems used for money transfer operations.

- The possibility of transferring funds to high-risk countries or to regions and jurisdictions that do not apply effective AML/CFT systems such as those applied by banks, which provides an advantage for terrorists to finance their activities with inability to trace the operations conducted.
- The purpose of remittances (family assistance) is often without the exchange houses knowing the relationship between the parties, where terrorists deliberately hide the true purpose of the remittances, and the risks are that these funds may be used to finance terrorist activities.

**c. E-payment systems:**

Electronic payment systems are one of the modern technologies that may be used to move funds and use them in the financing of terrorism because they are accessed from all countries in the world to transfer money quickly and easily. The lack of direct dealing with customers using electronic payment systems provides a suitable cover for terrorists and terrorist organizations for not revealing their true identities.

E-payment systems which are not subject to effective supervisory regulations are the channels which are at greatest risk of easy penetration by terrorists and others, namely the systems in regions or countries which do not apply effective AML/CFT systems. Recently, there has been a possibility that terrorist organizations would use virtual currencies, especially what is known as (Bitcoins), through black electronic markets through which it is easy to conduct suspicious financial transactions using such currencies.

**d. Cross-border funds:**

Transporting funds across the borders is one of the most dangerous methods and techniques used by terrorists to finance terrorism at the international level. Borders between countries are considered channels targeted by terrorists to move funds to conflict zones or to countries adjacent to conflict zones, with a view to providing all forms of support to the terrorist organizations there, such as recruitment of foreign terrorist fighters, providing training and arms to terrorists, financing terrorist operations. Cross-border funds take the following forms:

- Physical transportation by a natural person or in their luggage or vehicle.
- Shipping currency or bearer negotiable instruments (BNIs) in shipments packed in containers.
- Sending currency or BNIs by mail through a natural or legal person.
- Transportation of funds through informal border posts.

**Stage 3: Use of funds:**

The funds raised by terrorists are used to finance their various activities and are as follows:

- Purchasing arms, equipment, and ammunitions.
- Purchasing materials used for the manufacture of explosives.
- Training terrorist fighters to commit terrorist acts.
- Promotion and recruitment, either directly or through social medial sites or media.
- Financing the living conditions of terrorists (food, housing, transportation, etc.).
- Purchasing airplane tickets, credit cards and pre-paid cards.
- Finding safe havens to ensure protection.

## Chapter V: Tracing of Funds and Mitigation of Risks

### **5.1: Role of supervisors and regulators:**

The top priority for the role of regulatory and supervisory authorities is to address the different areas of competence on the issue of regulating the work of non-profit organizations from constitutional, legal, regulatory and institutional angles. These differences must be considered in any international standards or set of international models, while holding on to the objectives of establishing transparency and accountability in the ways in which NPOs carry out their activities, in particular fund-raising and transfer.

FATF Recommendation 8 requires the implementation of special measures aimed at preventing terrorist groups from misusing the NPO sector in TF activities, starting with the identification of the subset that falls within the scope of the definition of a non-profit organization set out in the Methodology, assessment of the risks of these categories and application of preventive measures according to the risk-based approach to prevent the abuse of NPOs in TF activities.

In general, government oversight of the NPO sector must be flexible, effective and proportionate to the size of the risks of abuse. Mechanisms to reduce the burden of compliance with the International AML/CFT Standards without creating loopholes through which terrorist financiers can infiltrate should be also carefully considered. Regarding small organizations that are unable to mobilize large sums from public sources, and local associations or organizations whose primary function is to redistribute resources among members, they may not necessarily need enhanced government oversight.

For the purposes of applying Recommendation 8 in accordance with the criteria set forth in the Recommendation, countries should:

#### a) Designate the supervisory and monitoring authority of the NPO sector:

For the purposes of combating the financing of terrorism, the supervisory and monitoring authority of the NPO sector represents the spearhead in the monitoring of NPOs. To choose the appropriate supervisory and monitoring authority, it must have the following powers:

- 1) Ability to give a license for the exercise of activity in the sector.
- 2) Power to inspect and monitor all the organizations working in the sector.
- 3) Ability to impose proportionate and dissuasive administrative penalties, based on the inspections it conducts.

Some countries assign monitoring and supervision functions to the administrative body concerned with authentication and licensing the organizations to work in the sector, while others assign monitoring functions to other regulatory bodies, such as the FIU.

According to the results of the questionnaire for the request of information related to the project, all NPOs covered in the study sample are subject to government monitoring and supervision in the MENA region. These competent

government agencies undertake supervision in the CFT field. The methods of supervision and monitoring vary between financial, administrative, and judicial methods, according to the entity that applies such methods, depending on the diversity of the organizations, their specialties and areas of work.

b) Assess the risks of the NPO sector:

The sectoral TF risk assessment in the NPO sector is the basis for determining the regulatory measures to be imposed on the sector, based on the identified classification risks reached by the sectoral assessment of non-profit organizations. Organizations are classified according to the Risk Score Index and the index ranges from high risk to low risk, and then countries begin to apply preventive measures according to their findings by adopting the risk-based approach to supervision.

The survey of the sample in question showed that 57% of them conducted a comprehensive assessment for the NPO sector within the national risk assessment, where 75% of them updated this assessment at later stages at least once, in addition to other sectoral studies available. Furthermore, most of these studies were conducted after 2018 (only three in 2009, 2010 and 2014, which were all updated later). In parallel, 43% of the sample covered reported that the national risk assessment is still on-going and covers the NPO sector. One sectoral study was conducted within this category, to identify the risks of NPO abuse in TF activities.

To conduct a risk assessment for the NPO sector, multiple methodologies that include the International Monetary Fund (IMF) Methodology and the World Bank Methodology were adopted, while also relying on the FATF standards, and the domestic laws and legislations regulating the work of this sector.

Regarding the inputs used in assessing the risks of the NPO sector, several approaches were followed, including the distribution of questionnaires to NPOs to ensure quality information, and the selection of random samples. These inputs also included information gathered through questionnaires distributed to supervisory and monitoring authorities of various concerned agencies. The important sources used also included the quantitative analysis of the FIU and financial intelligence. Other sources comprised studies and statistics issued by specialized international organizations, scoping studies covering specific topics on voluntary and humanitarian work, factual cases, issues and opinions of experts in humanitarian affairs.

On the other hand, in their assessment of the risks of this sector, the public sector regulators and supervisors communicated with the private sector. As a result, a national working group was formed. It included representatives of NPO supervisors, FIUs, national Anti-Terrorism committees, ministries of interior, general security and intelligence agencies, and central banks, in addition to representatives of civil society and NPOs.

c) Undertake sustained outreach with the NPO sector:

As part of meeting their obligations set out in FATF Recommendation 8, countries should have clear policies to promote accountability, integrity, and public trust in the administration and management of NPOs, to continuously

reach out to NPOs in order to raise awareness and educate the organizations working in the sector, to observe the implementation of the standards of integrity and efficiency, to increase public trust in the work of NPOs, to develop best practices to address terrorist financing risk and vulnerabilities and thus protect them from terrorist financing abuse, and to encourage NPOs to use financial channels.

d) Supervise and monitor the NPO sector:

Effective supervision of the NPO sector is one of the most prominent safeguards against the abuse of the sector by terrorist groups in terrorist financing operations. Therefore, the effectiveness of the monitoring and supervision activities carried out by the supervisory authority of the sector in accordance with the risk-based approach represents a good guarantee and a mechanism for detecting and punishing violators of the CFT regulations in the sector. To achieve effective oversight, a number of elements must be available, for example controls and publications on combating terrorist financing crimes. On this note, the onus is on the supervisory authority to issue regulatory and enforceable controls and publications to NPOs working in the sector and subjected to its supervision, in conformity with FATF Recommendation 8 and according to the country's national and sectoral TF risk assessment. These controls and publications should cover the following aspects:

1. Duties and obligations required to be performed by the regulated entities (NPOs).
2. Risk-based supervision: The traditional trend of auditing has become time- and effort-consuming and costly. In addition, it is sometimes no longer effective considering the tremendous developments that have occurred as a result of the increase in activities and processes and their diversity in information systems. Therefore, it has become obligatory for supervisors to prioritize the monitoring and inspection work, with a focus on high-risk locations, so that they are well covered, which leads to efficiency in directing and dividing the work among the members of the audit team.
3. Effective, proportionate and dissuasive sanctions: Supervisors of the NPO sector should be able to apply effective, proportionate and dissuasive sanctions for violations of these requirements by NPOs or persons acting on behalf of these NPOs.

**5.2 Role of FIs:**

The International Standards issued by the Financial Action Task Force require countries to encourage NPOs to use financial channels as much as possible. The International Standards also aim at identifying and monitoring the NPO activities through the financial institutions which act as a channel for the flow of transfers and financial transactions conducted by NPOs, thereby streamlining the tracing and monitoring process and the detection of TF operations in the NPO sector.

The said Standards also require FIs to apply several measures that might help fight and prevent the abuse of NPOs in TF crimes, such as:

a. Customer due diligence measures:

FIs should apply customer due diligence (CDD) measures toward NPOs, their administrators and affiliated members. This duty should extend to domestic and foreign donors and granters, while observing the identification of permanent or occasional customers, whether natural or legal persons or legal arrangements. The customer's identity is verified using original documents, data or information from a reliable and independent source (identification data), in a way that ensures the identification of the beneficial owner.

The financial institutions' obligation also extends to measures about legal persons and legal arrangements. They include the identification of the legal form, proof of incorporation, registration, regulations and laws regulating the work of the legal person or the legal arrangement and names of concerned persons occupying senior management positions.

b. Record keeping:

National laws and legislations deriving from the FATF International Standards require FIs to maintain records on NPOs, their affiliated members and clients for at least five years following completion of the transaction and to keep all records obtained through CDD measures, account files and business correspondence, and results of any analysis undertaken, for at least five years following the termination of the business relationship or after the date of the occasional transaction.

Transaction records should be sufficient to permit reconstruction of individual transactions to provide, if necessary, evidence for prosecution of criminal activity, while permitting to make this information and transaction records available to domestic competent authorities.

c. Wire transfers:

The International Standards required financial institutions to implement special measures with respect to wire transfers. Recommendation 16 of the FATF Methodology stipulated that FIs should be required to ensure that all cross-border wire transfers of USD/EUR 1 000 or more are always accompanied by the following:

(a) Required and accurate originator information:

- (1) the name of the originator.
- (2) the originator account number where such an account is used to process the transaction or, in the absence of an account, a unique transaction reference number which permits traceability of the transaction; and
- (3) the originator's address, national identity number, or customer identification number, or date and place of birth.

(b) Required beneficiary information:

- (1) the name of the beneficiary; and
- (2) the beneficiary account number where such an account is used to process the transaction or, in the absence of an account, a unique transaction reference number which permits traceability of the transaction.

The measures mentioned above apply to:

1. Ordering financial institutions.
2. Intermediary financial institutions.
3. Beneficiary financial institutions.
4. Money or value transfer service providers.

d. Suspicious transaction reporting:

FIs have the duty to report suspicious financial transactions to FIUs. FIs represent a mechanism for crime detection and since NPOs are considered as customers for FIs, the FI can report any potential suspicious activities associated with the NPO sector.

**5.3 Challenges facing supervisors and regulators.**

The countries surveyed in the study regarding the challenges they face in detecting terrorist financing operations through non-profit organizations stated that there are general difficulties specifically related to the technical aspect. It consists of a weak structure of the databases for NPO supervisors, weak electronic archiving systems for the records of non-profit organizations registered in accordance with the provisions of the law in the country, and the weak networking between NPO supervisors and LEAs, which makes the scrutiny process difficult, when filing an application for registration (identification - criminal record - residence - others). It is also difficult to access information related to bank accounts from financial institutions directly when inspecting the work of organizations, and regulators only settle for statements of accounts submitted by the organization without cross-referencing them with those held by financial institutions. Some of these countries believe that more cooperation protocols should be signed between regulators, supervisors and local government agencies, and that there should be mechanisms for cooperation and immediate exchange of information between these bodies.

In terms of international cooperation, there were difficulties associated with verifying the authenticity of certificates of registration of foreign organizations in the States issuing the certificate, and the lack of channels for direct interaction with counterpart authorities. Regarding asset tracing and provisional measures such as seizure and confiscation, among the challenges that increase the obstacles that may hinder asset tracing actions and provisional measures, we find:

1. Difficulty in applying seizure and confiscation in view of the multiplicity of bank accounts held by the NPO.
2. Difficulty in verifying the credibility of financial reports prepared by the NPO.
3. Lack of control over the funds of organizations derived from other sources such as charity events, charity markets and donation funds placed in public places.

4. Difficulty in identifying the source of funds because NPOs rely on various sources of income, the most prominent and dangerous of which are donations, and donations may be made in small amounts whose source is difficult to trace.
5. Failure to publish the financial records of the NPO.
6. NPOs have a legal personality enabling them to have features through which they are permitted to open bank accounts, receive donations and grants, contract with entities and persons, and create legal obligations, which increases the potential risks of being abused for TF purposes.
7. Persons authorized to manage these accounts held by non-profit organizations collect donations through such accounts in small amounts, structure them and then transfer the funds through bank accounts to other persons, in the form of grants and donations that may be used to finance the travel of foreign fighters and provide monthly subsistence to those joining terrorist organizations.

#### **5.4 Challenges facing investigating authorities:**

In order to achieve compliance with the International Standards on the effectiveness of information and data collection, the challenges facing investigating authorities and LEAs were analyzed through the responses to the draft questionnaire distributed in this regard.

Regarding effective cooperation, coordination and information-sharing between competent authorities, countries covered in the study sample reported that there are different forms of cooperation between CFT authorities and the NPO sector. This includes regulators, supervisors, the FIU, LEAs, and relevant ministries such as the interior, security services, and central banks. This cooperation consists in the exchange of information. Other forms of cooperation include holding periodic coordination meetings with stakeholders with the aim of controlling the movement of foreign funding, preventing the financing of terrorism through it and verifying the integrity of donors, in addition to holding coordination meetings with the Ministry of Foreign Affairs on the organization of the work of foreign NPOs. Most law enforcement agencies have the necessary legal powers to exchange information related to combating the financing of terrorism in the NPO sector (the legal basis for the exchange of information). However, a weak exchange for CFT purposes is noted in the NPO sector, due to poor reporting and low number of cases related to the financing of terrorism in the NPO sector.

As for the power of the competent authorities to have full access to the NPO information, the first category of the study sample granted supervisors and regulators the right to collect and access information. Investigative authorities can obtain this information by cooperating with the supervisors and regulators. The first category accounts for 43%. The second category, which accounted for 29% of the study sample, granted powers to the authorities concerned with the investigation such as the Criminal Police, the General Intelligence Service and the Public Prosecution, which under the law have the right to conduct investigations and have the authority to access information about any organization when conducting investigations, also to attend activities organized by NPOs.

As to the last category, it accounts for 28% approximately. It is not clear whether the investigating authorities have been conclusively granted these powers. Since many countries resort to information obtained from authorities concerned with investigation and collection of information regarding these organizations as a primary source of information and an important database that cannot be overlooked in a number of matters, this fact, in turn, casts a negative shadow on many aspects associated with the monitoring and supervision of this sector and its protection from the risks of abuse in the TF activities.

With regard to the immediate exchange of relevant information between competent authorities, as reported by the sample participating in the study concerning the existence of mechanisms for the immediate exchange of information, it appeared that most of the national authorities concerned with TF investigation rely on the information held by supervisors and regulators regarding the identification and tracking of the activities of NPOs and the identification of the founders, and the exchange of information among these authorities, in accordance with their respective powers and authorities contained in the law. However, there are difficulties and challenges represented by poor networking and the long time taken to respond to requests for information, which is an obstacle that significantly limits the immediate exchange. No appropriate mechanism as required was found among all countries that participated in the study sample. However, one country concluded a tripartite memorandum of understanding between the FIU, the National Anti-Terrorism Committee and the supervisory authority of Non-Profit Organizations with a view to creating an appropriate link to overcome this dilemma.

In general, all governmental authorities specialized in investigation and exchange of information have the power to access such information according to the law, when there is a suspicion about any charitable organization or association. However, the modality in which this aim is reached varies, but without the principle of promptness being achieved in a clear and conclusive way.

## Chapter VI: From the NPOs Perspective

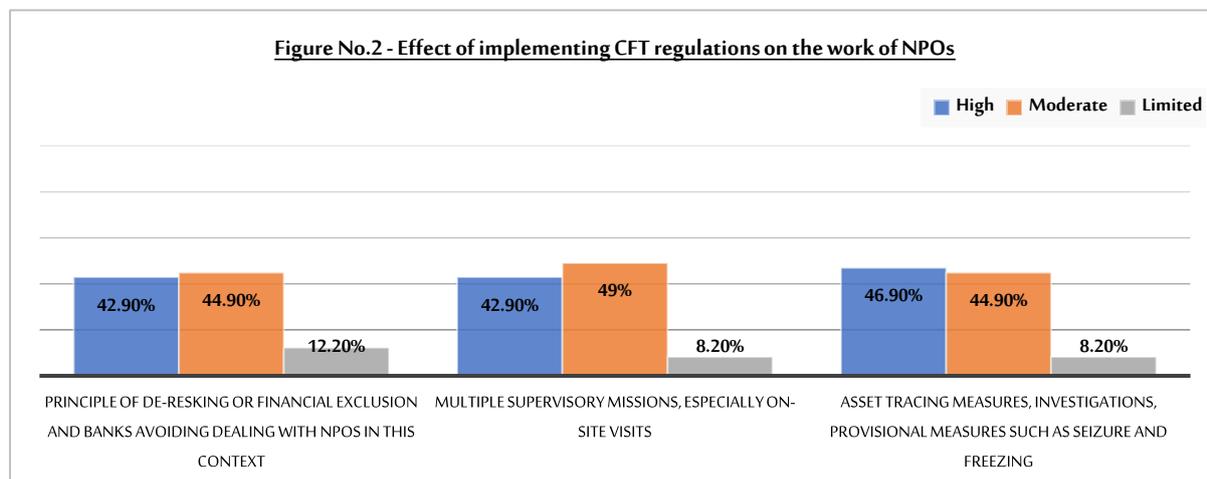
### 6.1 Unintended consequences of the policies:

As a result of the differences in the proper implementation of the FATF International Standards which could be due to the difference in the nature of the regulations and legislations prevailing in each country, with respect to NPOs, and particularly the CFT standards relevant to the work of NPOs and the use of the FATF Standards to establish enhanced legal measures toward NPOs, under pretext of complying with these Standards and fulfilling the international requirements regarding TF.

When reviewing the mutual evaluation methodology and the FATF standards in 2016, the question of the subset of non-profit organizations, which should be subject to oversight, supervision and follow-up, was clarified. By reviewing FATF Recommendation 8, focus was placed on protecting non-profit organizations from the risk of being misused for terrorist financing, with emphasis on ensuring that risk-based procedures and measures are followed, without inadvertently limiting the legitimate activity of these NPOs. In addition, the Interpretive Note to Recommendation 8 stipulated that the measures to be taken to protect NPOs against the risks of TF abuse should be in line with the risk-based approach. It is also important to apply these measures in consistency with the country's obligations under the Charter of the United Nations and the international human rights law.

Restrictions that may limit the activities of these organizations may include the principle of de-risking or financial exclusion, banks' avoidance of dealing with NPOs (high, moderate, limited), asset tracing measures, investigations, provisional measures such as seizure and freezing (high, moderate, limited), and multiple supervisory missions, especially on-site visits (high, moderate, limited). These measures may limit the legitimate activities of the NPOs and deny them access to the funding necessary to perform their functions or could even paralyze their movement and they could cease their mission altogether.

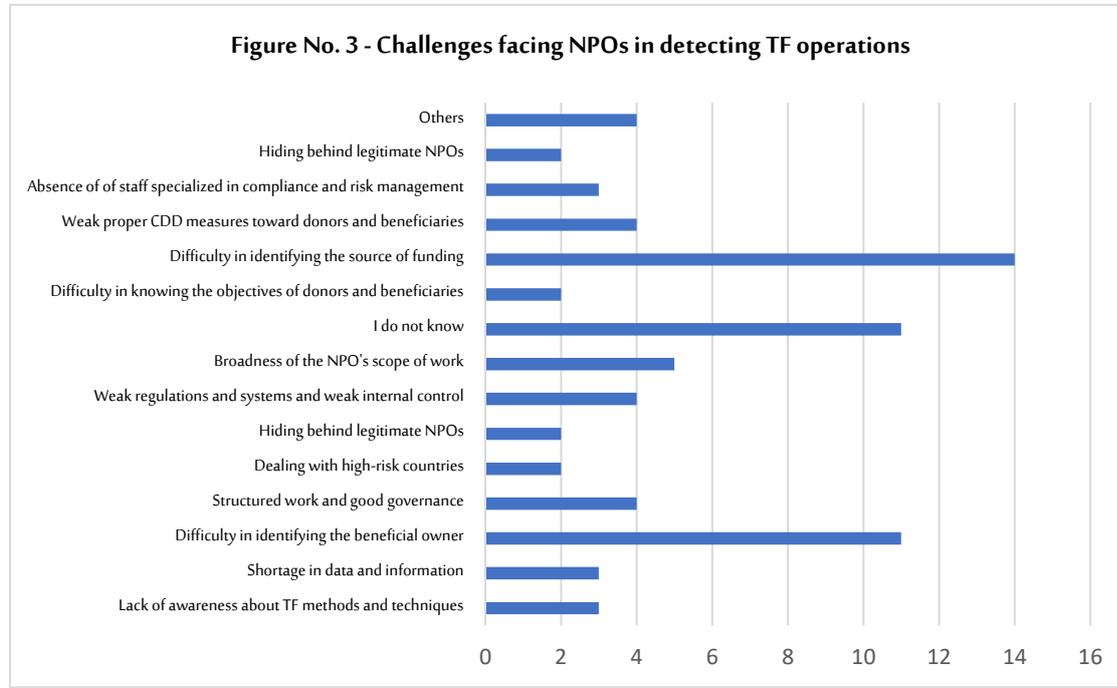
The following figure illustrates the various effects mentioned above, based on the participation of the public sector, through a sample of NPOs:



## 6.2 Main challenges facing NPOs:

Non-profit organizations were surveyed to have their opinion on the most prominent challenges they face, as this study was keen to address the point of view of the public and private sectors. Through this space, we will examine the data reported by each sector.

### First: From the private sector perspective:



The challenges reported by the NPO sector were represented in many points, the most important of which are:

- Broadness of the NPO's scope of work and plurality of its activities,
- Lack of awareness about TF methods and techniques,
- Difficulty in identifying the beneficial owner,
- Difficulty in knowing the source of funds,
- Hiding behind legitimate NPOs,
- Weak systems and supervision, particularly internal control,
- Dealing with high-risk countries,
- Governance plan, strategies and programs in place,
- Shortage in data and information on parties involved and engaged with the NPO,
- Weak proper CDD measures toward donors and beneficiaries,
- Absence of staff specialized in compliance and risk management.
- Others (sham enterprises, forgery of documents and false information, multiple donors and beneficiaries, absence of independent external auditing).

### Second: From the public sector perspective:

The countries surveyed in the study regarding the challenges they face in detecting terrorist financing operations through non-profit organizations stated that there are general difficulties specifically related to the technical aspect.

It consists of a weak structure of the databases for NPO supervisors, weak electronic archiving systems for the records of non-profit organizations registered in accordance with the provisions of the law in the country, and the weak networking between NPO supervisors and LEAs, which makes the scrutiny process difficult, when filing an application for registration (identification - criminal record - residence - others). It is also difficult to access information related to bank accounts from financial institutions directly when inspecting the work of organizations, and regulators only settle for statements of accounts submitted by the organization without cross-referencing them with those held by financial institutions. Some of these countries believe that more cooperation protocols should be signed between regulators, supervisors and local government agencies, and that there should be mechanisms in place for cooperation and immediate exchange of information between these bodies. In terms of international cooperation, there were difficulties associated with verifying the authenticity of certificates of registration of foreign organizations in the States issuing the certificate, and the lack of channels for direct interaction with counterpart authorities. Regarding asset tracing and provisional measures such as seizure and confiscation, among the challenges that increase the obstacles that may hinder asset tracing actions and provisional measures, we find:

1. Difficulty in applying seizure and confiscation in view of the multiplicity of bank accounts held by the NPO.  
 Difficulty in verifying the credibility of financial reports prepared by the NPO.
2. Lack of control over the funds of organizations derived from other sources such as charity events, charity markets and donation funds placed in public places.
3. Difficulty in identifying the source of funds because NPOs rely on various sources of income, the most prominent and dangerous of which are donations, and donations may be made in small amounts whose source is difficult to trace.
4. Failure to publish the financial records of the NPO.
5. NPOs can open bank accounts, receive donations and grants, contract with entities and persons, and create legal obligations, which increases the potential risks of being abused for TF purposes.
6. Persons authorized to manage these accounts held by non-profit organizations collect donations through such accounts in small amounts, structure them and then transfer the funds through bank accounts to other persons, in the form of grants and donations that may be used to finance the travel of foreign fighters and provide monthly subsistence to those joining terrorist organizations.

### **6.3 Regulatory integrity:**

The non-profit sector must be characterized by great degrees of transparency, as it is the sector with which societies interact positively and it actually improves people's lives, meets their basic needs, provides jobs with acceptable wages, and has an important role in fostering strong bonds between communities.

There are many procedures according to the laws and regulations governing the work of non-profit associations in the sample surveyed, which call for enhancing transparency and using formal financial channels. For example, no organization may cooperate with entities that do not have an official legal structure, and it may not receive funds or grants from abroad or from a foreign person domestically or from any other party unless with the approval of the competent authority to do so, and it should disclose the funds it receives from all parties, whether local or foreign. NPOs are also required to hold a record of these aids, donations, grants and bequests, while distinguishing between those which are in cash and in-kind, public and private, national and foreign, and to publish them, stating their source, value and subject matter in one of the written media and on the website of the organization, if any, within a specified period of time from the date of their acceptance, with notification to the regulatory and supervisory authorities, in addition to the procedures on keeping the accounts of NPOs, as set out in the imposed International Accounting Standards.

In addition to the foregoing, the laws also stipulate that each organization registered in accordance with the provisions of the law shall maintain correct accounts and books that meet its resources and expenses in accordance with sound accounting principles, and that each organization shall audit the accounts and annual financial statements by a legal auditor. No organization registered under the provisions of the law may dispose of its immovable and movable funds, whether by sale, gift, mortgage, barter, investment or any other form of disposition, or use them in a manner inconsistent with the purpose for which the organization was established. On a similar note, there are efforts by countries to have the due diligence requirements applied by NPOs, and to raise awareness about TF risks, through various published means, which target the public and the employees of these organizations alike.

**Encouraging the sector to use formal financial channels:**

In view of the answers received with regard to the questionnaire for the request of information related to the study, the procedures mentioned regarding encouraging the NPO sector to use the channels of the financial system varied. The legislation required some countries to deal with NPOs only through bank accounts, whether within a specified threshold or unlimitedly, and not to accept or send any donations to and from these NPOs.

Some regulatory and supervisory authorities also publish advertising materials on their website to educate citizens not to donate to any NPO, before they verify the identity of its administrators, and that this organization is registered with the competent authorities. Encouraging NPOs to use formal financial channels is one of these themes, which places them under penalty of law and subjects them to sanctions.

## Chapter VII: Key Findings of the Analysis of the Requesting Information

### Questionnaire Related to the Public and Private Sectors

This study was keen to address the subject of the abuse of NPOs in TF activities, through a holistic view from the perspective of regulators, supervisors and entities representing the public sector, and from the perspective of the private sector or the NPOs themselves. This methodology represents an integration that would add a realistic dimension to the study. It allows NPOs to express the challenges facing their work and highlight their risks in a transparent manner. It also expresses its vision of the monitoring and supervisory aspect and the extent to which it fulfills the required and expected role in reducing TF risks.

A questionnaire dedicated to the private sector's perspective was designed to this end, in which several NPOs participated by providing valuable information that helped clarify this vision. In parallel, another questionnaire addressed to the public sector was also designed to identify the prevailing practices on the supervision of the NPO sector and the extent to which the international standards on the protection of this sector against the risks of TF abuse are being implemented. By matching the scene between the two sides, it is possible to reach important facts that represent the status quo, giving a clear picture of the actions and measures to be taken to contribute to the protection of this sector, and identifying the duties that fall on both the public and private sectors.

The following are the most important outputs reached through the analysis of the answers and responses received through these questionnaires:

#### **7.1 Conformity of the definitions with the FATF definition:**

Regarding the definition of Non-Profit Organizations, all the definitions contained in the study sample agree on elements that are available in each country-specific definition, namely "an agreement between two or more persons under which they permanently engage in social, cultural or charitable activity to achieve specific objectives except for profits".

These definitions concurred on unchanging constancies in the work of these NPOs and their affiliated members that these works, and activities are not aimed at making and sharing profit, achieving any benefit to any of their members or a specific person or achieving any political objectives within the scope of the works and activities of political parties in accordance with the provisions of the legislations in force regulating the work of these NPOs.

Therefore, technically, these definitions are consistent with the FATF definition of non-profit organizations at 57% of the selected sample, but in practice, there is partial agreement on this definition at 43%. In other terms, the FATF definition does not correspond to all definitions of non-profit organizations and civil associations present in the MENA countries, given that there are countries that allow non-profit organizations to invest their financial surpluses within the scope of the NPO's business provided that they do not depart from their main activity.

## 7.2 Government monitoring and supervision:

All NPOs covered in the study sample are subject to government monitoring and supervision. These competent government agencies undertake supervision in the CFT field. The methods of supervision and monitoring vary between financial, administrative, and judicial methods, according to the entity that applies such methods, based on the diversity of organizations, their specialties and areas of work.

### The registration requirement and main conditions:

All member countries that participated in the questionnaire agreed that registration for non-profit organizations is mandatory by law, but there is a discrepancy in this registration requirement before or after the incorporation phase, as the method of incorporation of these NPOs varies from one country to another. An agreement can be made between the founders in advance and then they go to official channels for registration and publicity within a specified period, without this preventing the conduct of the activities agreed upon between the founders, or the first of the founding steps can start with registration with the licensing bodies in the first place before initiating any activity. However, no organization may engage in any activity in accordance with all legislation, unless it is registered in accordance with the law. In some countries, we find that there are cases of existing organizations that have not been registered before, so laws and legislations requiring these organizations to reconcile their status within a specified period of time were promulgated, and these organizations do not become legal until after they have obtained a final legal receipt that enables them to practice their lives and carry out the necessary legal actions. As for the conditions of registration, there is a consensus on the basic conditions that the application for registration must fulfill and that are stipulated in the NPO's articles of association, including the following:

- Name of the association.
- Headquarters, address and geographic scope of its operations.
- Objectives and goals of incorporation in a specific and clear manner.
- Conditions for acquiring membership and cases of loss of membership.
- The founding member has not been sentenced for a non-political misdemeanor or for an offense against honor.
- Memberships fees and amount of annual subscriptions.
- How the association's ordinary and extraordinary general assembly meetings are convened, its powers, the quorum adopted for such meetings and the mechanisms for decision-making at these meetings.
- An authorization signed by all the founding members stating their approval of the association's articles of association, and the name of the person authorized by the founders to follow the judicial and parliamentary registration procedures and to inform them of any notices, decisions or correspondence.
- Clarifying the financial capacity, continuity, and sources of funding of the organization to be registered.

For the purposes of registering a foreign organization, the following conditions should be fulfilled, as follows:

- (a) It should be registered according to the laws in force in the country from which it originates.
- (b) It should present a certificate of registration approved by the embassy of the headquarter country or diplomatic delegation in the concerned country.
- (c) It should file a request, clearly stating the type of activity or work that it intends to exercise in the headquarter country.
- (d) Not to engage in the political affairs in the headquarter country and not to take any political stances that express its views or those of its presidency.
- (e) It should submit proof establishing its financial and technical capacities to exercise the intended activity or work.
- (f) It should implement its program in cooperation with or in participation with one or more national organizations.
- (g) It should sign the regional/national concerned agreement.
- (h) It should meet other conditions that the competent minister establishes from time to time.

### **7.3 The Implementation of Appropriate Actions that Reflect the Transparency and Integrity of Organizations in Disposing of Their Resources Verified:**

There are many procedures according to the laws and regulations governing the work of non-profit associations in the sample surveyed, which call for enhancing transparency and using formal financial channels. For example, no organization may cooperate with entities that do not have an official legal structure, and it may not receive funds or grants from abroad or from a foreign person domestically or from any other party unless with the approval of the competent authority to do so, and it should disclose the funds it receives from all parties, whether local or foreign. NPOs are also required to hold a record of these aids, donations, grants and bequests, while distinguishing between those which are in cash and in-kind, public and private, national and foreign, and to publish them, stating their source, value and subject matter in one of the written media and on the website of the organization, if any, within a specified period of time from the date of their acceptance, with notification to the regulatory and supervisory authorities, in addition to the procedures on keeping the accounts of NPOs, as set out in the imposed International Accounting Standards.

In addition to the foregoing, the laws also stipulate that each organization registered in accordance with the provisions of the law shall maintain correct accounts and books that meet its resources and expenses in accordance with sound accounting principles, and that each organization shall audit the accounts and annually financial statements by a legal auditor. No organization registered under the provisions of the law may dispose of its immovable and movable funds, whether by sale, gift, mortgage, barter, investment or any other form of disposition, or use them in a manner inconsistent with the purpose for which the organization was established.

Based on the foregoing, there are efforts by countries to have the due diligence requirements applied by NPOs, and to raise awareness about TF risks, through various published means, which target the public and the employees of these organizations alike.

**7.4 Sources of financing and disbursement:**

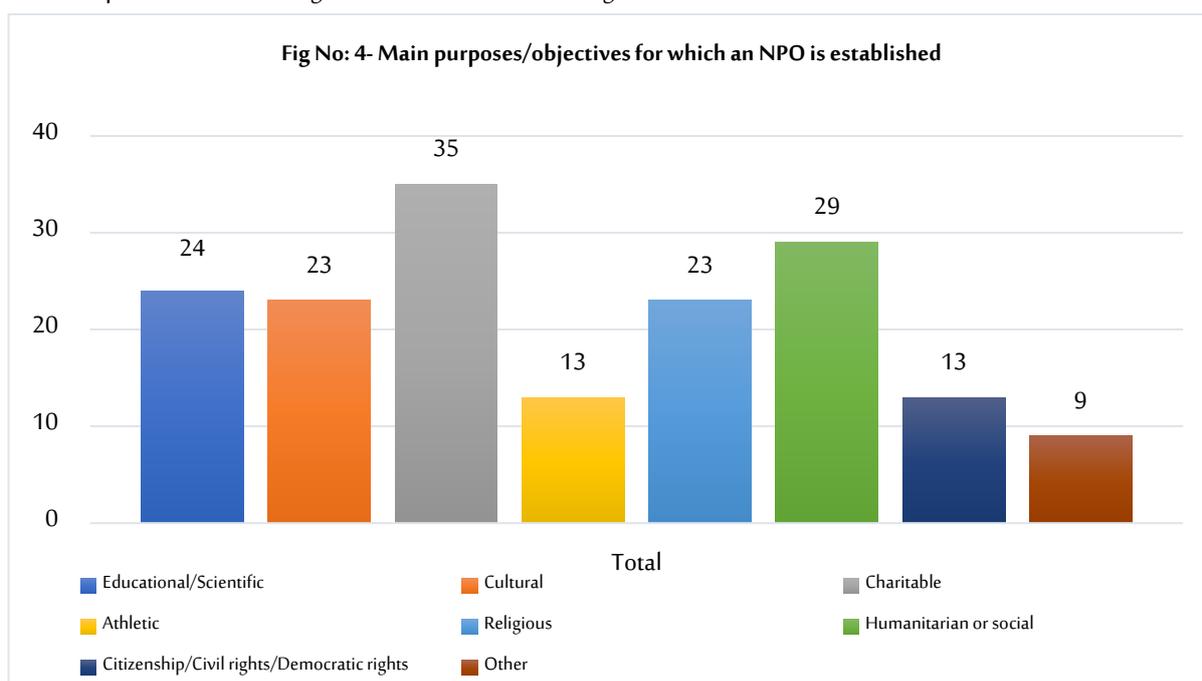
Direct financial support means that a special budget is allocated to provide financial support from governments to non-profit organizations that is disbursed through basis determined by governments, in line with the purposes for which these organizations were established, and in such a way as to ensure that they are spent in the ways of disbursement intended for them under direct or indirect government supervision.

On this note, 57% of the sample subject of the study allocate budgets through competent ministries, trust funds or similar designations to spend them on NPOs, thereby aiming at regulating the flow of government financial support to these organizations for charitable and social projects.

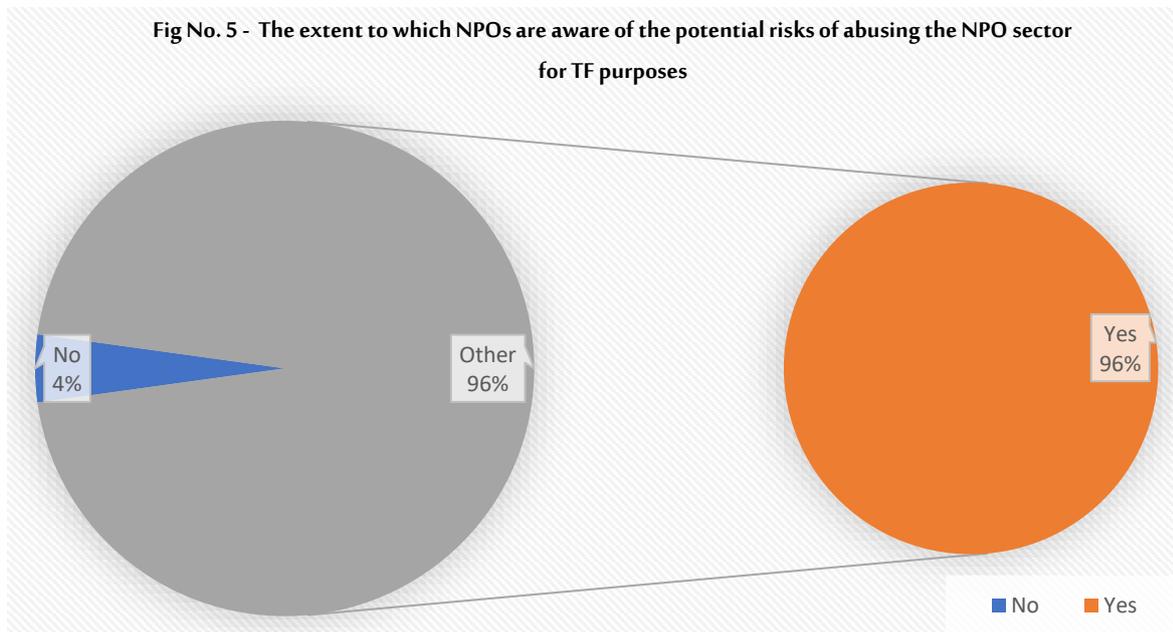
On the other hand, the indirect support means that governments provide services to non-profit organizations aimed at helping them avoid making expenditures on government services, such as customs exemptions for goods and aids imported by these organizations in order to achieve their objectives. In this regard, 43% of the sample subject of the study benefit from indirect support from governments as part of their sources of funding.

**7.5 Main purposes/objectives for which an NPO is established:**

The objectives and purposes for which non-profit organizations were established varied according to the questionnaires collected in this regard, as they ranged between educational, scientific, cultural, charitable, athletic, religious, humanitarian and social objectives, in addition to purpose-driven organizations serving in the fields of citizenship and democratic rights, and other various categories.



**7.6 The extent to which NPOs are aware of the potential risks of abusing the NPO sector for TF purposes:**

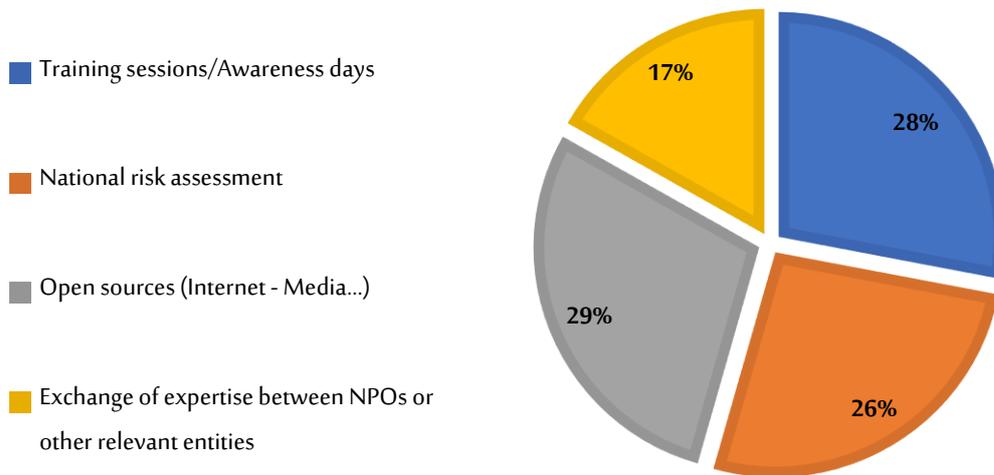


According to statements received from the public/government sector, many national entities have organized programs and face-to-face meetings on raising awareness of the risks of abusing associations for TF purposes, in cooperation with the national committees for combating terrorist financing, FIUs, law enforcement authorities and other concerned government entities. These programs addressed a number of topics such as customer due diligence measures and indicators of suspicion, and clarification of relevant challenges and measures to be taken. They targeted employees of monitoring authorities and non-profit associations alike. However, by reviewing the private sector's responses to this issue, the private sector benefited from only 28% of other sources of knowledge it has obtained in other ways as described below.

By reviewing the response received from NPOs on their awareness of the risks of being exploited in TF activities, 96% indicated that they were aware of these risks compared to 4% that did not. The sources of information cited by these organizations also indicate the following:

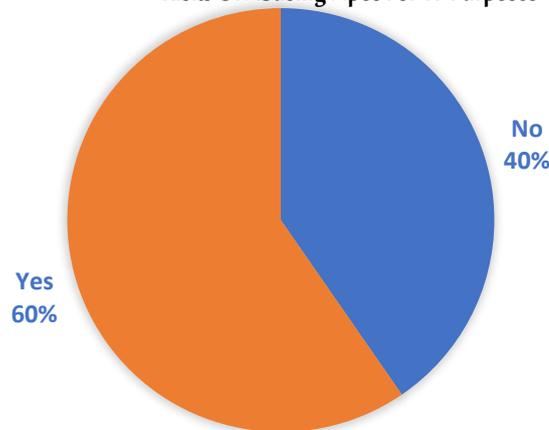
- 28% through training sessions/awareness days.
- 26% through participation in national risk assessments.
- 29% from open sources (Internet/media...)
- 17% from the exchange of expertise between organizations or other relevant entities in the field.

FIG NO.6: SOURCES OF INFORMATION



Also 60% of the NPOs informed that the NPO managers and members have participated in training or awareness sessions (at the local or international level), on the risks of abusing the sector for TF purposes compared to 40% that did not participate.

Fig No.7 - Participation Of NPO Managers Or Members In Training Or Awareness Sessions On The Risks Of Abusing Npos For TF Purposes



The analysis above shows that there is a gap in awareness addressed to the private sector, as governmental/public sector entities reported on the extent to which they are taking precautionary measures to fill this gap. The responses showed that some countries, representing only 29% of the countries participating in the study sample, have taken measures to address the lack of awareness of the risks of abusing NPOs in TF activities, where a guidance was issued on measures to be taken to reduce the TF risks. In addition, a joint cooperation protocol was also concluded between the concerned ministry and the General Union of Non-Profit Organizations to raise awareness of TF risks, uphold the values of humanitarian work and human rights, correct misconceptions, and support law enforcement agencies in facing these challenges. The remaining percentage did not report similar measures, which portends a

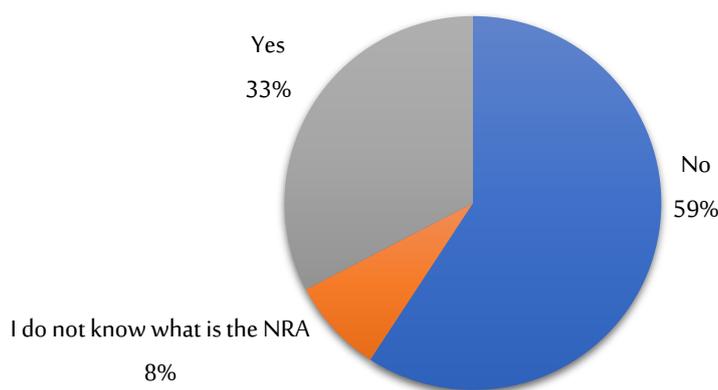
significant gap in this aspect, either as a result of weak awareness-raising efforts or lack of adequate resources, which ultimately exposes the sector to abuse by terrorists as a result of insufficient awareness of the related risks.

In the same context, and by referring to the responses received from the public sector, it appears that there is no specific form of communication with non-profit organizations, and the legislation that has been addressed confirms this and often relies on periodic intervals to receive reports on financial accounts only. It also appears that off-site and on-site inspections are irregular despite the existence of a legal obligation to submit periodic reports of varying periods (quarterly, semi-annual, annual) and to rely on security information provided by law enforcement agencies when suspecting the activity of a particular organization. A good practice that can reduce the risk of not communicating effectively with NPOs is to link some services to obtain the authorization of supervisors in advance to carry out certain activities. There is also a requirement to obtain their consent when receiving domestic or foreign donations, although this requirement can severely affect the performance of their duties, which is inconsistent with the requirements of the FATF Standards.

The same applies to the time period, as there is a lack of clarity on a specific period for communication with organizations, meaning that the stakeholders must adhere to obligations that set a fixed and specific date and schedule for the organization's visit, examination and on-site inspection, or they must create a database on organizations operating in the sector as a result of the accumulation of regular periodic reports.

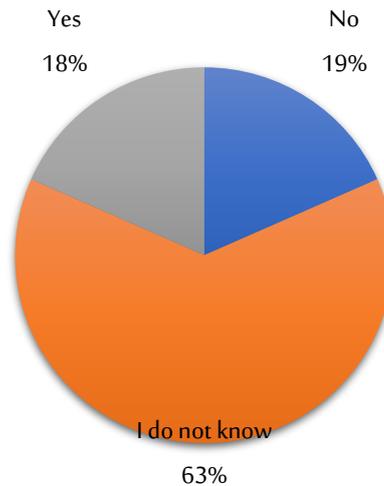
**7.7 Participation of NPOs in the national risk assessment for the NPO sector and other sectoral assessments:**

**Fig No.8 - Participation of NPOs in the national risk assessment**



By exploring the private sector about its participation in the national risk assessment, 59% of the sample reported that they did not participate in the national risk assessments, while 33% reported that they did participate in this exercise and 8% reported that they do not know what the national money laundering, terrorist financing and proliferation financing risk assessment is.

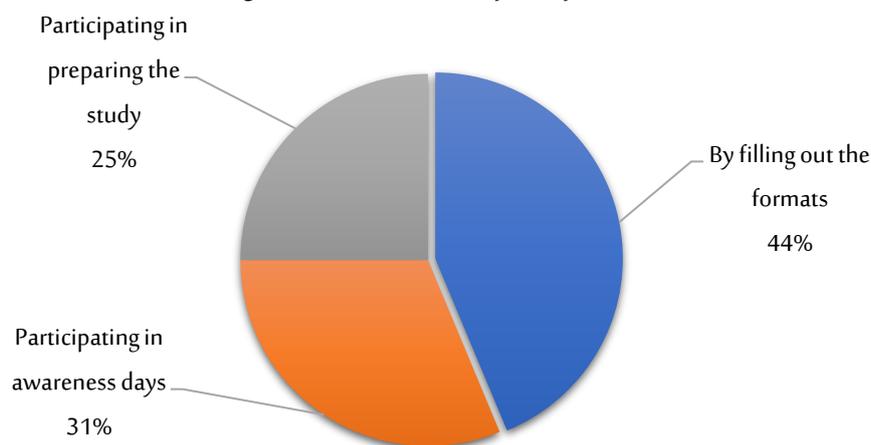
**Fig No.9 - Participation of the NPO sector in sectoral assessments**



As for other relevant sectoral assessments, 63% of the sample reported not participating in them, and 19% of the sample reported not participating, in a total of 82% of negative participation. Only 18% of the organizations representing the private sector reported their participation in the NRA process, where they indicated the rate and quality of such participation as described below:

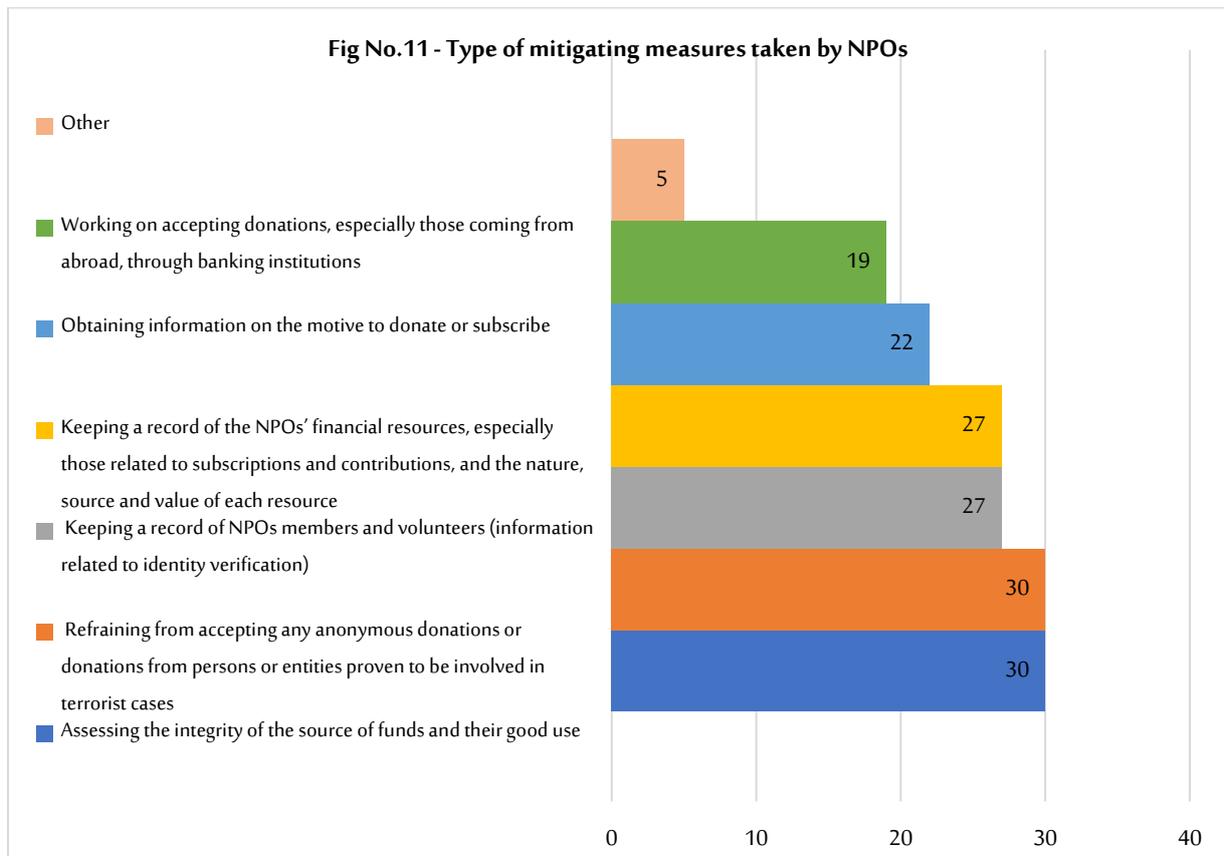
- 44% by filling out the formats.
- 31% participation in awareness days (which confirms a lack in participating in, or in holding awareness campaigns):
- 25% participated in preparing this study.

**Fig No.10 - Nature of this participation**



Given this overall outcome, it may make sense that 43% of the countries that participated in responding to the questionnaire for the request of information did not complete the national risk assessment process, as they reported that it was still under way and covers the NPO sector, and that they conduct any sectoral study of the NPO sector, except for one country.

### 7.8 Actions taken by NPOs to avoid being abused for TF purposes:



The surveyed organizations reported the measures taken to avoid being abused in terrorist financing activities and the type of these measures, a number of which were mentioned as follows:

- Assessing the integrity of the source of funds and their good use
- Refraining from accepting any anonymous donations or donations from persons or entities proven to be involved in terrorist cases.
- Keeping a record of NPOs members and volunteers (information related to identity verification)
- Keeping a record of the NPOs' financial resources, especially those related to subscriptions and contributions, and the nature, source and value of each resource.
- Obtaining information on the motive to donate or subscribe.
- Working on accepting donations, especially those coming from abroad, through banking institutions

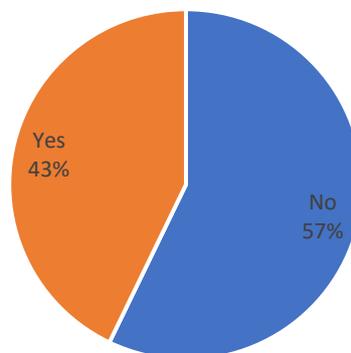
The assessment of the integrity of the source of funds and their good use and refraining from accepting any anonymous donations ranked first at an equal rate of 30% of the responses received in this regard. Keeping information on the NPO members and donors ranked second at a rate of 27% and obtaining donor information and accepting donations through banking institutions accounted for an average rate of 20%.

The organizations' focus on the first two methods is evident, giving them preference and priority, but the importance given to donor information and acceptance of bank contributions may be unfair unless they are added to the first item on the integrity of the source of donations, at which point the scale is tilted slightly above the average, at around 52%.

On the other hand, some countries, representing only 29% of the countries participating in the study sample, have taken measures to address the lack of awareness of the risks of abusing NPOs in TF activities, where a guidance was issued on measures to be taken to reduce TF risks. In addition, a joint cooperation protocol was also concluded between the concerned ministry and the General Union of Non-Profit Organizations to raise awareness of TF risks, uphold the values of humanitarian work and human rights, correct misconceptions, and support law enforcement agencies in facing these challenges. The remaining percentage did not report similar measures, which portends a significant gap in this aspect, either as a result of weak awareness-raising efforts or lack of adequate resources, which ultimately exposes the sector to abuse by terrorists as a result of insufficient awareness of the related risks.

**7.9 The effect of the Corona pandemic on the abuse of the NPO sector by terrorist groups for terrorist financing:**

**Fig No.12- The Effect Of The Corona Pandemic On The Abuse Of The NPO Sector By Terrorist Groups For Terrorist Financing**

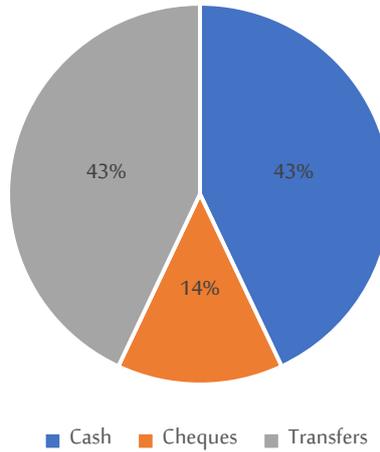


By referring to the sample surveyed, 57% of the sample reported that they were not affected by related factors, and 43% reported that the Corona pandemic helped to exploit the economic fragility of citizens by using NPOs by terrorist groups to collect and move funds to finance their terrorist acts and inject conditional funds that serve extremist ideology. The increasing reliance on electronic services during the pandemic to make payments and the progress of electronic payment methods have created difficulty in identifying the real beneficiary person or persons and determining the source of funds. Several methods are used by terrorist financiers to raise funds via emails, direct communication, or text messages via social media to solicit humanitarian donations to Covid-19 patients or families of Covid-19 victims or to affected workers, under the pretense that they represent NPOs. Of course, this

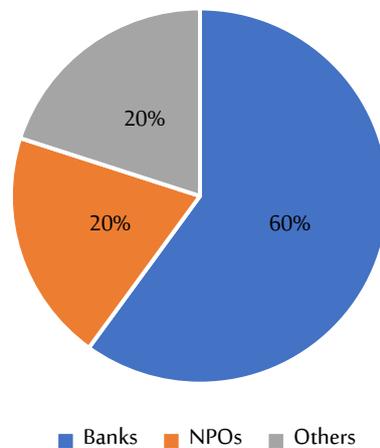
opened the door to the emergence of many sham NPOs that have spread significantly through the exploitation of non-profit organizations to recruit terrorist fighters by providing them with support through these organizations.

**7.10 Techniques and tools used in suspicious cases:**

**Fig No 13: Used Tools and Techniques**



**Feg No 14: Exploited Entities**



Based on the analyzed cases, a number of technical tools were found used to commit crimes related to the non-profit organization sector in the field of terrorist financing, as cash methods were used, and transfers were used by 43% for each one, while cheques were used in 14% of the cases. This is an important indicator showing that criminals were focusing on targeting financial sectors when they committed crimes related to non-profit organizations as compared to non-financial institutions. The index of the parties through which the cases were executed shows that 60% of the cases received are directed to financial institutions, 20% are carried out through

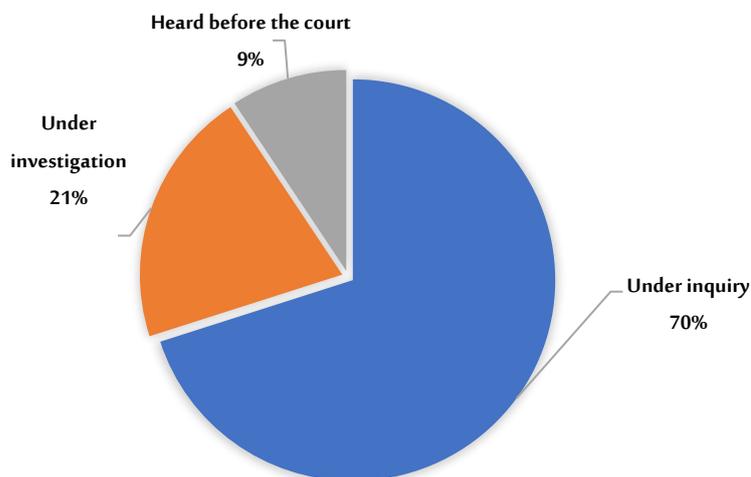
non-profit organizations, while other non-financial entities represent companies, and other methods such as cybercrime account for 20%.

On the other hand, the use of remittances accounts for 43% approximately and ranks similarly to cash, which was expressed in the answers contained in the questionnaires of the public and sector mainly, this is largely due to the use of exchange and money transfer companies by terrorists and terrorist financiers by conducting money transfers, especially to areas of conflict and unrest.

Cash was also used at a similar rate of 43% in the cases analyzed, and this percentage includes cross-border physical transportation of cash in hot areas where organizations operate or are notorious for having an estimated number of refugees, according to statements made in this regard.

**7.11 Applying sanctions against the NPOs in breach:**

Fig No.15 - Predicate Offense And Sanction/Status Of The Case



When surveying the countries that participated in the study regarding the application of sanctions against NPOs, it was found that 71% of them did not impose sanctions for violations related to terrorist financing offenses. In parallel, sanctions were imposed for the countries that imposed these sanctions at the rate of 29% approximately, where freezing decisions were issued against some organizations for TF suspicion, ranging from warning as a minimum to judicial dissolution.

On the other hand, the sanctions for violations associated with TF offenses have been limited to filing a caution when there is no internal policy or regulation on combating terrorist financing, failure to conduct training on terrorist financing, or failure to disclose employees of organizations who are designated on domestic and international negative lists. In addition to this list of sanctions, the sample surveyed reported that there is an array of sanctions imposed on NPOs, including sanctions for terrorist financing and other crimes, namely:

1. Written warning of the violation and order to comply with a specific action and submitting follow-up reports,

2. Imposing a financial penalty, deprivation from exercising the activity for a specified period,
3. Restricting the powers of the board members, including the appointment of a supervisor,
4. Dismissing or appointing board members, ceasing the activity,
5. canceling the license.

From the aforementioned above, There is clearly a weakness in the application of penalties to non-profit organizations. A clear weakness in the early stages of prosecution and investigation is represented by the fact that 91% of cases are under investigation and investigation, compared to 9% that are referred to the courts. This may also be due to weak legislation and laws, or the lack of inspection and oversight campaigns on organizations, especially campaigns specialized in terrorist financing issues. In this context, the public sector reported that measures were taken as a result of the initiation of an assessment of laws and procedures to ensure that the non-profit sector is not misused for terrorist financing activities. This has led to the amendment of laws related to organizations and laws related to combating money laundering and terrorist financing, and the issuance of new legislation or draft laws. Directives and circulars have also been issued to fill loopholes that may lead to abuse by these organizations; Directives related to the inspection and supervision of non-profit organizations, training mechanisms, and other important outputs were also updated. However, it is evident that there is no regular periodic review in most of the cases studied by up to 57% of the sample surveyed. In addition, for the remaining percentage, it was noted that the legal obligation was absent or not clear when the implementation of this obligation was not demonstrated in an orderly manner and with deadlines as required.

## Chapter VIII: Red flag Indicators of NPO Abuse

Indicators in the NPO sector are used for multiple purposes and they are of paramount importance that goes as far as preventing the occurrence of the terrorist act itself. The indicators represent an early warning that minimizes the incidence of the risk and protects NPOs from being exploited for terrorist purposes, the most important of which are the following:

### **Indicators related to NPOs and individuals:**

- 1- Raising donations in an unofficial or unlicensed manner.
- 2- The donor's reluctance to provide information or provide the licensed entity with false information related to his identity.
- 3- The donor unusually asks about the requirements for AML/CFT compliance or ensuing sanctions.
- 4- The donor is attempting to obtain authorization from NPOs to distribute his donations which could be appealing to some NPOs.
- 5- Suspicion that the donor is involved in suspicious activities or criminal violations.
- 6- NPO employee withdraws cash from the NPO account and then deposits it into a personal account or accounts of other persons, before diverting the funds to accounts of persons suspected to be involved in terrorist activities.
- 7- Parties to the transaction (account owner, beneficiary, etc.) are from countries known to support terrorist activities and organizations or are under investigation by a domestic or foreign entity.
- 8- Designating a party to the transaction on the national lists or the United Nations sanctions lists.
- 9- The real beneficiary of the account is not clear.
- 10- Using false identities or not presenting the original identity documents and providing copies instead.
- 11- The NPO or its representative is using forged or conflicting documents.
- 12- Individuals or organizations support extremism through their various activities, through their statements on various social media sites.
- 13- Unjustified or vague statements or a lack of documentation or retracting and cancelation of requests and transactions when the banks question NPOs before conducting a money transfer to high-risk locations or entities.
- 14- Vagueness and lack of clarity in the structure or leadership of the NPO.
- 15- Not informing NPO employees of possessing large currency-denominated cash amounts at international borders.
- 16- Believing that the directing officials of an NPO are responsible for managing other organizations or have previously taken charge of other organizations that support terrorist activity.

17- A non-profit organization is subject to internal disagreements, with one of the management structures is known to have sympathy for or actual support for terrorist entities.

**Indicators related to transactions:**

- 18- Cash-intensive activity in the NPO's accounts overseas.
- 19- Withdrawals and deposits of large amounts from and into NPOs accounts or NPOs making atypical large cash withdrawals, particularly after the banks refuse to transfer their funds overseas.
- 20- NPOs use complex transactions, and several accounts or unnecessary financial networks for their operations, in a way that makes it difficult to monitor them and verify their integrity, particularly those conducted overseas.
- 21- Large cash deposits into the NPOs accounts from foreign entities that have no link with these NPOs, followed by overseas transfers to higher-risk countries.
- 22- NPOs withdraw their funds in cash without a means of tracing these funds, or by issuing cheques to persons not related to the non-profit organization.
- 23- Transactions, including international and domestic transfers, with NPOs that contain terms associated with extremism and other terrorist acts (for example, ghanimah which means justified stolen funds) and mujahid/mujahideen which is a term given to a person engaged in Jihad).
- 24- An NPO uses third parties to open its bank accounts or carry out certain transactions.
- 25- Transfers made between accounts of individuals and accounts of NPOs, without clear justification.
- 26- Receiving donations or transfers from foreign entities to the accounts of NPOs without any clear relationship between them.
- 27- Receiving or transferring funds of a non-profit organization from entities believed to be involved in or supporting terrorist activities.
- 28- Money remittances sent to persons in exchange for in-kind donation to persons or entities located near areas of conflict.
- 29- Hiding bank accounts related to certain stated programs or activities of an NPO.
- 30- Using irregular mechanisms in the transfer and moving of funds and insisting on paying money in cash and not transferring it from account to account or depositing it in the bank, or in receiving donations or granting aids.
- 31- Having programs, members, partners, and activities that NPOs have not disclosed.
- 32- NPO is unable to provide adequate and satisfying information about the origin of their resources and their disbursements.
- 33- Using falsification in documents to hide the real parties that benefited from the money, which is dangerous.
- 34- The expenditure of NPO is not commensurate with the size of the projects/or is inconsistent with the activity of the organization.

- 35- Some organizations adopt a complex approach in paying their contributions to beneficiaries, and the purpose of this approach is to make it difficult to understand the movement of funds, confuse regulators, and not enable them to trace the funds paid and identify the beneficiaries.
- 36- Not informing a for-profit organization of activities, programs, or partners or formulating for-profit programs, activities and projects vaguely to monitoring and regulatory authorities.
- 37- NPO funds co-mingled with personal/private business funds.
- 38- NPO dealing or associating with another organization believed to support terrorist activities.
- 39- NPO uses a front organization as a funding conduit.
- 40- Channeling humanitarian aids to an NPO to support individuals directly associated with terrorist entities or their families.
- 41- Discovering that the activities of a for-profit organization support individuals or organizations with identities that match those designated on the lists.
- 42- Discovering that the identities of banned terrorist entities match those of directing officials or employees of a for-profit organization.

**Indicators related to governance:**

- 43- Weak commitment and governance, especially in financial and accounting procedures.
- 44- NPO that have few or no staff at all, with no physical presence to exercise the activity, which is at odds with its scale of financial activity.
- 45- A change in the nature of the activity of a person or a non-profit organization by abruptly starting to collect financial donations for humanitarian purposes while noting that this change is linked to a specific date, which is the emergence and expansion of a terrorist organization.
- 46- Irregularity of final accounts and auditing reports prepared by non-profit organizations, and the differences in the accounts.
- 47- Failure to meet and procrastinate on legal requirements raises suspicion and doubt about what NPOs are doing or intend to do in the future.
- 48- Some NPOs involved in suspicious operations avoid preparing and publishing their financial reports to the extent possible, and these reports may include conflicting and false information. The mere delay in releasing the financial statements or the appearance of a difference in the data contained in these statements calls for further inquiry and investigation.
- 49- Financing activities other than the activities that an NPO is authorized to finance in the financial and accounting procedures.

**Indicators related to the geographic location:**

- 50- The NPO raises funds from a donation campaign, then authorizes a third party to manage its account and channel those funds in transfers to high-risk countries.
- 51- Transferring funds by entities suspected to be associated with a terrorist activity and which operate in high-risk countries to bank accounts held by the NPO or its directing officials or employees.
- 52- An NPO transferring resources or being involved in activities in a jurisdiction known to have a large presence of terrorist entities.
- 53- Keeping the registers of an NPO in a jurisdiction known to have a large presence of terrorist entities.
- 54- NPO employees often traveling to a jurisdiction known to have a large presence of terrorist entities.
- 55- Using cash couriers to move the NPOs funds to jurisdictions known for terrorist activity.
- 56- Collecting donations for humanitarian purposes in areas controlled by terrorist organizations through individuals and institutions that are considered a front for these organizations and using the accounts of these institutions and individuals to send donations to high-risk countries.

**Indicators related to the use of Internet and social media:**

- 57- Using crowd funding sites to raise unauthorized donations.
- 58- NPOs use crowd funding and social media sites to solicit donations, then removing these sites from the Internet.
- 59- Using Social Networking Services to raise donations and funds for recruitment and for supporting extremism and terrorist ideology and/or training.
- 60- Raising donations through an account on the online payment services and withdrawing them in cash or transferring them to other accounts.
- 61- A crowd funding campaign with unclear method of payment or transfer.
- 62- Using online communication services to arrange and deposit donations into bank accounts belonging to individuals associated with known terrorists.
- 63- NPOs supporting publications, speakers, and personalities known to support or sympathize with terrorist activities or entities.

**Other indicators:**

- 64- There is information indicating the involvement of a non-profit organization or its representative in supporting terrorist activities.
- 65- Law enforcement reports stating that a non-profit organization, its members or employees are under investigation in cases related to terrorism and terrorist financing.

- 66- There are reports published on social media or information obtained from LEAs indicating that the NPO is linked to organizations, entities or individuals accused of conducting TF operations or under investigation in similar cases.
- 67- There is information indicating that an NPO or its representative is linked to third parties that support or participate in terrorist activities.
- 68- NPO purchasing dual-use equipment.

## Most Important Results and Outcomes

### Most Important Results:

1. There is a misunderstanding in the application of the standards specific to the NPO sector, more particularly Recommendation 8 with respect to the category of NPOs which is most exposed to risks. In most of the cases surveyed, some confusion was found in dealing with all NPOs with the same understanding and according to the same standards, knowing that a large part of the responses and answers mentioned in the questionnaire for the request of information indicated that they have not yet identified the subset that should be placed under monitoring and supervision, within the scope of Recommendation 8.
2. There is a discrepancy in the standards set for the monitoring and supervision of the NPO sector, and the proportionality with the degree of risks is not taken into account. Most of these standards draw upon regulatory laws which are not specific to the protection of NPOs against the risks of being abused in TF activities. Therefore, there is a shortcoming in applying the risk-based approach, in violation of the International Standards.
3. The risk assessment of the NPO sector identified some indicators, patterns and methods, that can be used to commit criminal acts through NPOs exploitable in the financing of terrorism, namely:
  - Terrorists or terrorist entities exploiting the names of charities to raise funds.
  - Engaging in for-profit activities by organizations and exploiting them in TF-related operations.
  - The organization's managers or employees adopt hate speech.
  - Raising funds from the public in a manner contrary to the legislation in force.
  - Receiving fundings for associations, which are suspicious or anonymous or from persons located in high-risk countries.
  - Disbursing foreign grants or funds raised under fundraising licenses, for purposes other than the purposes they are intended for.
  - Misusing some associations for purposes other than the purposes they were established for.
  - Some foreign associations misuse branch offices they have in other countries and exploiting the accounts of these branch offices to receive funds from abroad.
  - Using central accounts to disburse the funds raised, in violation of their objectives, by re-dividing and distributing them to their branch offices in different locations.
  - Correlation between NPOs and Politically Exposed Persons (PEPs) represents one of the main challenges facing the sector, as PEPs seek to overstep the registration requisites and use their influence.

4. The report presented a number of best practices to be followed in monitoring the NPO sector, in line with the risk-based approach, including laying the foundations for conducting off-site and on-site supervision, and designing effective policies and measures to protect the NPO sector from exploitation without limiting the freedom of the sector to carry out its activities, based on the vulnerabilities and threats, and enhancing the points of strength, based on the results of the national risk assessment and the sectoral assessments, and requiring the implementation of enhanced measures where higher risks exist, and reducing/simplifying such measures, when lower risks are identified, while directing enhanced measures to the categories which are most exposed to risks and raising awareness and undertaking continuous outreach with some NPOs. NPOs should be urged to regulate their business, by conducting for example, financial transactions through the formal financial channels, and putting in place an accurate and transparent financial system for NPOs, in line with the supervision and monitoring standards issued by the supervisory and monitoring authority, so as to facilitate access to and control of the NPOs revenues and expenses, in a smooth and regular manner.

5. The main challenges facing supervisors are represented in the following:
- There are general difficulties specifically related to the technical aspect. It consists of a weak structure of the databases for NPO supervisors, weak electronic archiving systems for the records of non-profit organizations registered in accordance with the provisions of the law in the country, and the weak networking between NPO supervisors and LEAs, which makes the scrutiny process difficult, when filing an application for registration (identification - criminal record - residence - others).
  - It is also difficult to access information related to bank accounts from financial institutions directly when inspecting the work of organizations, and regulators only settle for statements of accounts submitted by the organization without cross-referencing them with those held by financial institutions. Some of these countries believe that more cooperation protocols should be signed between regulators, supervisors and local government agencies, and that there should be mechanisms for cooperation and immediate exchange of information between these bodies.
  - In terms of international cooperation, there were difficulties associated with verifying the authenticity of certificates of registration of foreign organizations in the States issuing the certificate, and the lack of channels for direct interaction with counterpart authorities.
  - With regard to asset tracing and provisional measures such as seizure and confiscation, among the challenges that increase the obstacles that may hinder asset tracing and provisional measures, we find the following:
    - a. Difficulty in applying seizure and confiscation in view of the multiplicity of bank accounts held by the NPO.

- b. Difficulty in verifying the credibility of financial reports prepared by the NPO.
  - c. Lack of control over the funds of organizations derived from other sources such as charity events, charity markets and donation funds placed in public places.
  - d. Difficulty in identifying the source of funds because NPOs rely on various sources of income, the most prominent and dangerous of which are donations, and donations may be made in small amounts whose source is difficult to trace.
  - e. Failure to publish the financial records of the NPO.
  - f. NPOs have a legal personality enabling them to have features through which they are permitted to open bank accounts, receive donations and grants, contract with entities and persons, and create legal obligations, which increases the potential risks of being abused for TF purposes.
  - g. Persons authorized to manage these accounts held by non-profit organizations collect donations through them in small amounts, structure them and then transfer the funds through bank accounts to other persons, in the form of grants and donations that may be used to finance the travel of foreign fighters and provide monthly subsistence to those joining terrorist organizations.
6. The main challenges facing investigative authorities are represented in the following:
- a. Weak cooperation, coordination and information-sharing in an effective manner between competent authorities for CFT purposes is noted in the NPO sector, due to poor reporting and low number of TF-related cases in the NPO sector.
  - b. It is not clear whether the investigating authorities have been granted necessary powers to perform their functions, knowing that many countries use information obtained from investigating authorities and collect information regarding these organizations as a primary source and an important database that cannot be overlooked in a number of matters, this fact, in turn, casts a negative shadow on many aspects associated with the monitoring and supervision of this sector and its protection from the risks of abuse in TF activities.
  - c. With regard to the immediate exchange of relevant information between competent authorities, there are difficulties and challenges represented by poor networking and the long time taken to respond to requests for information, which is an obstacle that significantly limits the immediate exchange. No appropriate mechanism as required was found among all countries that participated in the study sample. However, one country concluded a tripartite memorandum of understanding between the FIU, the National Anti-Terrorism Committee and the supervisory authority of Non-Profit Organizations with a view to creating an appropriate link to overcome this dilemma.
  - d. In general, all governmental authorities specialized in investigation and exchange of information have the power to access such information according to the law, when there is a suspicion about any charitable

organization or association. However, the way this aim is reached varies, but without the principle of promptness being achieved in a clear and conclusive way.

### Most Important Outcomes:

1. The necessity of applying FATF's recommendation in appropriate manner, focusing on those associated with NPOs (Rs 1, 5, 6, 8, 24 and 25, as well as IO.10), in a manner that guarantees application of private and public sectors' relevant authorities of their obligations.
2. Stressing on identifying the concerned sub-group as per international standards issued by the FATF, classification of NPOs into appropriate categories to identify risk levels for each category in which was classified in order to put in place appropriate measures to deal therewith (enhanced, simplified), in addition to putting in place appropriate measures to those categories that do not fall under FATF's definition, monitoring them periodically to ensure that such categories do not change their nature under the aforementioned definition, which leads to obligations thereupon.
3. Government supervision over NPOs must be flexible, effective and proportionate to the risks levels of being exposed to abuse, and consideration should be given to mechanisms that might assist in mitigating the burdens of compliance to international AML/CFT standards without creating gaps that could be exploited by terrorist financiers. As for small NPOs that do not have that opportunity to collect large sums from public sources, NPOs or local ones that have a main function of re-disbursement of sources between members, might not necessarily need enhanced governmental supervision.
4. Ensure the existence of enforced effective supervisory policies whilst identifying roles and powers in accordance with competencies laid on the public and private sectors, in addition to tweaking relevant laws and legislation in a manner that allows the relevant authorities to perform their roles effectively.
5. Stressing on the necessity to verify the sources of funding and disbursement of NPOs, ensuring that they apply measures to allowing the supervisory authorities to review such sources without interfering in NPOs management in a reasonable manner as per the regulations, and without creating violations and restrictions to its activities.
6. NPOs must implement the obligations contained in the FATF international standards (according to Recommendation 1 above), and govern their business in a manner that achieves integrity and transparency and enhances public confidence therein, such as publishing financial year reports and final accounts, and obtaining the necessary permissions from the competent authorities to accept funding, while making sure that the assistance is directed towards the ultimate beneficiaries.
7. Paying attention to the technical aspect and linking the national authorities concerned with the NPOs sector in a way that ensures their access and exchange of information in a timely and effective manner.

8. Work to sign framework memorandums of understanding, especially between financial institutions, regulatory and supervisory authorities, the FIU, and LEAs, and find an appropriate mechanism for exchanging information between them.
9. Attention to the issue of tippin-off and filing STRs and taking into account the applicable local regulations and legislation (FATF standards did not classify NPOs among the bodies required to report to the FIU or any other party, however, there are local legislations that require them to report to the supervisory authorities), ensuring that appropriate measures are taken in this regard in line with the risk levels and categories identified when determining the risk levels for each category.
10. Activate local and international cooperation in terrorist financing cases related to the NPOs sector, and ensure that the competent authorities are granted the necessary powers to achieve constructive, effective and timely cooperation.
11. Provide appropriate powers for supervisory authorities and LEAs to obtain information and access databases, and grant them powers to conduct investigations and exchange information with counterparts within the framework of international cooperation.
12. The importance of applying measures to protect NPOs from terrorist violations, consistent with a risk-based approach, and commensurate with the identified risks, while respecting human rights, obligatory legal measures and the rule of law.

## Annexes

### Annex No. (1) Samples of case studies enclosed with the questionnaires for the request of information

#### Case study No.1:

An NPO holds an account with a local bank to receive public donations. Transactions recorded on its account showed that cash deposits were made into the account from different persons and in parallel, cheques were issued in favor of various persons. It appeared that among the beneficiaries of the cheques, a person (H) who is the president of the NPO's board of trustees, was the one who presented indicators of suspicion related to the case.

The FIU financial inquiries revealed that the NPO's account subject of suspicion received cash deposits (as donations) totaling around USD 154,934.62 from different persons between April 2016 and April 2021. The total debit activities regarding this amount were mostly represented in cheques paid in favor of different persons, among which was person (H) who is the president of the NPO's board of trustees.

Considering the foregoing and considering that the purpose behind issuing the cheques from the NPO's account subject of suspicion in favor of person (H) could not be perceived, the FIU requested security bodies to conduct inquiries. These security bodies reported that the leaders of the terrorist group who fled the country held organizational meetings during which they devised a scheme aimed at providing the necessary material support to finance their hostile movement against the State, harming the national interest and economic security, and carrying out attacks against officers, army and police with the aim of overthrowing the State system. They assigned members of the group and some elements associated with them within the country, including the president of the suspected NPO's board of trustees and they agreed during these meetings to activate the role of the financial support committees for the elements of the terrorist groups, by exploiting the profits of the economic entities of the group, receiving funds from fleeing leaders from abroad, and raising donations from the group's elements within the country, to provide logistical support, such as arms and explosives to carry out their hostile plan against the State.

A decision was issued, ordering the detention of the accused persons, including the president of the suspected NPO's board of trustees, for investigation and the court ordered to designate 13 members of the terrorist groups on the lists of terrorism for a period of 5 years.

Case study No.2

The suspect is a Non-Profit Organization. Local bank X submitted a notification to the FIU about a non-profit organization stating that when the organization applied for opening a bank account (A), the required documents represented in a letter of approval from the regulator of the organizations were not enclosed. When the bank confirmed the request for documents supplementing the account opening procedures from the organization, the latter backed down on the request to open the account. (b) The application for opening the account came with several questions that the persons authorized to sign and to manage the NPO's account asked about the procedures of the bank and due diligence, which raised the doubts of the bank about the nature of the organization's activity.

The FIU initiated the financial analysis and searched in its database but could not find any information on the NPO or its authorized signatories or managers. The NPOs supervisory authority was then reached out and reported that the said organization was in fact registered with it. Upon asking about the balances and accounts of the NPO or its authorized managers, there was no information on any balances or accounts for the suspects.

Upon inquiring about the travel movement of the NPO's board of directors, it appeared that two of its members traveled from and to countries classified as high-risk (territories where Da'esh and Taliban are based).

The indicators of suspicion related to the case are reflected in the failure to complete the procedures for opening the bank account and the reluctance to provide the required information, as well as the frequent travel to high-risk countries. In addition, the suspects have previously been to high-risk jurisdictions and countries classified as an active hub for terrorist groups and organizations. By investigating and analyzing financial information about them, it appeared that they do not have any accounts, balances or assets in banks or the State, which indicates that they are avoiding dealing through the State's formal channels to avoid the expected prosecution. Moreover, the reluctance shown by the NPO's board of directors (the suspects) to open the account and provide the required documentation and their backing down on opening the account confirms their keenness to avoid monitoring and prosecution.

A terrorist financing case was opened and referred to the General Intelligence Department to continue the investigation process.

**Case study No.3:**

The suspect was reported by a local bank on a suspicion of falsifying identity documents for a bank account (a forged foreign passport) of the person authorized to sign for the account of a charity. The passport's date of issuance was reviewed and appeared to coincide with an official holiday, in addition to a lack of clarity of the personal passport photo.

The FIU initiated the financial analysis and it appeared that:

1/ The passport used to open the account is forged, as communicated by the Passports and Immigration Departments.

2/ The suspect manages a suspected charity whose membership includes 41 persons, part of whom are family members.

3/ It appeared that the suspect manages 4 other charities engaged in the fields of (awareness and guidance - ecology - women and children welfare - education).

5/ Banking transactions in US Dollars in account 1 held with bank X amounted to \$ 239,302, and transactions in Euros amounted to €194,292.90.

6/ Banking transactions in US Dollars in account 1 held with bank Y amounted to \$645, and transactions in Euros amounted to €22593.

7/ 14 remittances amounting to \$ 67,874 and € 227,685 were issued from the country of the person to Country S and the purpose and justification of the transfers is to finance projects. In addition, there are no penal judgments rendered against the suspect in his home country, as reported by the counterpart FIU of the country from which the suspect is.

The indicators of suspicion related to the case are reflected in falsified documents, large transfers without an apparent justification, and multiplicity of the activities of the organizations managed by the suspect.

A terrorist financing case was opened and referred to the General Intelligence Department to continue the investigation process.

**Case study No.4:**

The FIU received suspicious financial transactions reports related to a religious association X, managed by person "M" as president. The reasons given by the reporting entity for filing the STR are that it has received a request for information from the Ministry of Interior's authorities regarding the association and its president for suspicions about the activity of the association, which shelters a group of children and young people in unfavorable conditions, and who are being subjected to ill-treatment and economic exploitation.

By examining the accounts opened in the name of the association and its president, it appeared that the association's account recorded only cash deposits amounting to \$3,222, while the personal account of the association's manager had registered the acceptance of transfers from abroad amounting to \$310,270. Financial transactions for the benefit of extremist persons suspected of terrorism were also detected, in addition to transfers made to travel agencies and other organizations.

The indicators of suspicion related to the case are reflected in the detection of foreign transfers made by organizations suspected of extremism, as well as the detection of suspicious financial transactions with natural persons also suspected of extremism and terrorism, and with travel agencies and other organizations.

According to information received from law enforcement entities, "42 children and 27 adults were found gathered within the same shelter, in conditions that do not meet the minimum requirements for health, hygiene and safety, all of whom were out of school, subjected to violence and ill-treatment, and are being exploited in agricultural and construction work and indoctrinated with extremist ideas and practices.

The owner of the shelter was detained with a permit from the Public Prosecution for "trafficking in persons, economic exploitation of children and violent abuse" and for "suspicion of belonging to a terrorist organization".

The file was referred to the attention of the Public Prosecution and person "M" and his association were included on the National List of Terrorist Persons, Organizations and Entities.

An investigative inquiry into the terrorist financing case was opened and the case is under investigation.

**Case study No.5:**

The FIU received suspicious financial transaction reports related to the Association Y, which has social and charitable objectives, represented in "contributing to the alleviation of poverty on the needy and strengthening the spirit of social solidarity among members of society", the association is managed by person "A.H." as president.

The reasons for the suspicious report were related to a suspicion of accepting bank transfers made by suspicious associations, knowing that the cause of such transfers relates to the financing of charitable projects. By examining the financial flows of the association, it appeared that that its sources of funding were totally based remittances from abroad originating from associations located in country "A". These amounts were then diverted, after being accepted, to associations of a religious nature located in different regions of the country, in addition to transfers made for the benefit of natural persons. It was also noticed that the president of the association, "Ahmed", runs another association on which the FIU has previously referred a report to the attention of the judiciary for TF suspicions.

Following the identification of the sources of the association's financial flows, namely those derived from foreign financing (100% of the credit operations), it was possible to detect their whereabouts, by identifying an important part of the persons benefiting from these flows, and the features of the practical approach adopted by the managers of the association, which relied on the following points, became clear:

- Association Y was linked to an important network of sources of associations funding in foreign countries.
- The Association Y's account opened with local banks is considered as a central account for receiving foreign funds, with the purpose of diverting them to a significant number of associations with a religious background.
- Some members of the associations are suspected of terrorism.

The indicators of suspicion related to the case are reflected in the fact that the financial report of the association has not been published in accordance with the provisions of the circular regulating the associations, which provides for the publication of all foreign aids, donations, and grants; the report did not mention their source, value and subject matter, in addition to suspicions regarding some of the parties involved in extremism and terrorism. Communication with the FIU revealed that there are some suspicions abroad about the association's manager.

The case was referred to the Public Prosecution. The predicate offense is reflected in the financing of terrorism. An investigative inquiry into the case was opened and the case is under investigation.

**Annex (2) Questionnaire for the request of information and case studies for the private sector, regarding the typologies project on the abuse of NPOs in terrorist financing activities**

*Participation of the private sector*

1. What are the main purposes/objectives for which the NPO was established? (May choose more than one answer)
- Educational/scientific
  - Cultural
  - Charity
  - Athletic
  - Religious
  - Humanitarian or social
  - Citizenship/rights/democracy

Other purposes/objectives: ..... ..

2. Does the organization have knowledge of the potential risks of abusing NPO sector for TF purposes?
- Yes
  - No
3. If yes, how did the NPO obtain this information?
- Training courses/awareness days
  - The National Risk Assessment Process
  - Open sources (Internet/media...)
  - Exchange of expertise between NPOs or other relevant bodies in the field.
4. Have the NPOs' managers or employees ever participated in training or awareness sessions (at the local or international level) about the risks of abusing the sector for the TF purposes? (Please provide the number, topic, organizer...)
- Yes
  - No

Subject of the activity: .....

Organizer .....

5. Has the NPO participated in a National Risk Assessment for the NPOs Sector, or any other sectoral assessments related to the risks of abusing NPOs for TF purposes?
- Yes
  - No

- I do not know what the AML/CFT/CPF NRA is:

**6. Has the NPO sector, to your knowledge, participated in any risk assessments for the NPO sector?**

- Yes
- No
- I do not know.

**7. What was the nature of that participation?**

- Filling a Format
- Participation in awareness sessions
- Participation in preparing the study.
- Other forms....

**8. Does the NPO take any measures to avoid being abused for TF purposes?**

- Yes
- No

**What type of measures: (May choose more than one answer)**

- Assessment of the integrity of the source of funds and the good use thereof
- Refrain from accepting any anonymous donations or donations from persons or entities proven to be involved in terrorist cases.
- Keep a record of NPOs members and volunteers (information related to identity verification)
- Keeping a special record of the NPOs' financial resources, especially those related to subscriptions and contributions, and the nature, source and value of each resource.
- Obtain information on the motive to donate or subscribe.
- Working on accepting donations, especially those coming from abroad, through banking institutions
- Other measures.

**9. What are the challenges that NPOs face in detecting TF?**

.....

**10. What is the impact of the implementation of the regulations issued for combating the financing of terrorism on the work of NPOs (unintended consequences arising from the application of international standards)? For example:**

- Principle of de-risking or financial exclusion, banks' avoidance of dealing with NPOs in this framework:
  - High impact
  - Moderate impact
  - Limited impact

- Multiple supervisory missions; especially on-site visits

- High impact
- Moderate impact
- Limited impact

- Asset tracing, investigations and precautionary measures such as seizure and freezing:

- High impact
- Moderate impact
- Limited impact

- Others (please identify the importance of this impact: High, Moderate, Limited)

.....

**11. Has COVID-19 affected the exploitation of the NPO sector by terrorist groups in financing terrorism?**

**Please specify the forms, methods and patterns used therein.**

.....

**Annex (3) Questionnaire for the request of information and case studies for the public sector, regarding the typologies project on the abuse of NPOs in terrorist financing activities**

***Participation of governmental bodies***

12. Please provide an overview of the NPO sector in your country, in terms of:
- The concept or definition of NPOs and any relevant synonyms used in your country and to what extent do they fall under FATF's definition<sup>22</sup>? To what extent does FATF definition apply to your NPOs currently?  
 .....
  - Are NPOs in your country subject to governmental regulation, monitoring or supervision? Or are they subject to other forms of self-regulatory frameworks (unions, federations etc.)?  
 .....
  - Are NPOs being compulsorily registered prior to the exercise of their activities? What are the main registration conditions?  
 .....
  - Do they enjoy financial governmental support, please give a brief of the financing forms of which they enjoy and the sources of expenditures?  
 .....
13. Are they being outreached on regular bases or not? Please explain the form of outreach and
14. The timeliness of such outreach?  
 .....
15. Did the country carry out the NRA exercise that includes NPOs? Are there any other specific studies aimed at understanding and identifying TF risks with relation to NPOs? Please provide us with the following details in response to such question:
- Date of Assessment/ Study  
 .....
  - What are the most important inputs used in the assessment/study as sources of information, and who are the authorities that participated therein.  
 .....
  - What are the most important outputs/outcomes the study reached with regards to TF risks, with a focus on mentioning the patterns and methods used in carrying out criminal acts as well as the suspicion indicators inferred.

<sup>22</sup> R.8 from the FATF recommendations defines NPOs as: "any legal persons and arrangements or organizations that primarily engage in raising or disbursing funds for purposes such as charitable, religious, cultural, educational social or fraternal purposes, or for carrying out other types of good works".

- .....
- Have the NPOs been identified/classified based on the outcomes of the risk assessment study into appropriate categories in terms of the level of risk (knowing that some of them may not pose any risks), and has the sub-set/sub-list to which the definition of the FATF applies, and which may be exposed to risks and exploited in carrying out TF activities by virtue of its characteristics or activities been identified?  
 .....
  - Has the adequacy of the procedures, including the laws governing the NPOs sector, been reviewed based on the risk study for the NPOs sector?  
 .....
16. Are supervisory and monitoring policies applied to the NPO sector? Are they risk-based approach related, or another basis? Please explain what these policies include and the obligations they impose on the sector?  
 .....
17. In your opinion, what are the best practices in applying appropriate measures to supervise the NPO sector in line with the risk-based approach? Please give an overview, based on your expertise?  
 .....
18. In your opinion, how can NPOs be used to finance terrorist activities? And what are the practices that may lead to such risks?  
 .....
19. Is there an effective periodic reassessment of procedures and laws to ensure that the NPO sector is not abused according to potential vulnerabilities?  
 .....
20. What steps have been taken to enhance effective supervision and oversight of NPOs and to monitor their compliance with the application of relevant-CFT standards?  
 .....
21. Have any penalties been imposed on the NPO sector or its directors and staff for breaching CFT obligations?  
 .....
22. What are the challenges facing governmental bodies involved in detecting TF through NPOs in terms of
- Domestic and international cooperation.  
 .....
  - Asset tracing, investigations and precautionary measures such as seizure and freezing:  
 .....
  - Others.  
 .....

23. Are there programs offered to raise awareness of the TF risks that NPOs may be exposed to, in order to clarify the appropriate measures to deal with these cases and to indicate possible vulnerabilities through which they can access the sector?  
 .....
24. Is the NPO sector encouraged to use formal financial channels? And to ensure that appropriate actions are taken that reflect the transparency and integrity of the organization in the disposition of financial resources?  
 .....
25. Is there cooperation, coordination, and exchange of information between the authorities concerned with CFT in the NPO sector? Is there cooperation between these authorities and these organizations?  
 .....
26. Do the authorities concerned with investigation and information gathering have powers to inspect and examine the activity of NPOs and ensure that they are not being used in TF? Or support to TF activities?  
 .....
27. Do the authorities concerned with investigation and information gathering have the right to see the information of any NPOs, also when conducting investigations?  
 .....
28. Do the authorities concerned with investigation and information gathering have mechanisms to ensure immediate exchange of relevant information with the competent authorities when it is suspected that a NPO may be (1) a party to a terrorist financing operation, or may be used as a front for a terrorist entity, or (2) the organization is being exploited for the purpose of evading assets freezing or any other form of support for terrorism, or (3) concealment of financial resources or transfers that are redirected to the benefit of terrorist entities?  
 .....
29. Are there focal points or authorized entity to respond to requests for international cooperation for information regarding NPOs with relation to TF cases?  
 .....

**Annex (4) Form for the request of information and case studies enclosed with the questionnaires distributed to the public and private sectors**

**Case studies template**

**Case description:**

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**The type of entity through which the case was carried out (bank, exchange companies, others to be mentioned):**

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**Tools, methods, and techniques used in the case (cash, cheques, remittances, others to be mentioned):**

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**Suspicion indicators related to the case:**

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**Results of the FIU financial analysis and results of inquiries and/or investigations:**

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**Predicate offense and sanctions/status of the case (on-going before court/under investigation/under further inquiries):**

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### List of Main Terms and Acronyms

<p>1. International Standards/FATF Standards/the Forty Recommendations/Any relevant references mentioned in the report.</p>	<p>Mean the forty Recommendations issued by the FATF on combating money laundering and terrorist financing and proliferation financing</p>	<p><u>Money Laundering - Financial Action Task Force (FATF) (fatf-gafi.org)</u></p>
<p>2. Non-Profit Organizations/Voluntary Organizations/Charitable Organizations/Foundations/Non-Governmental Civil Associations and any references similar to these terms.</p>	<p>Mean non-profit organizations, according to the FATF definition mentioned in the report.</p>	<p>NPOs/NGOs</p>

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