Guidance Notes
on
Terrorist Financing Risks and Red Flags
for
Non-Profit Organisations

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SECTION 1 Purpose and scope of these guidance notes

1.1. These Guidance Notes are written specifically for Non-Profit Organisations ("NPOs") operating within the Virgin Islands to assist them in better understanding:

1.1.1. What terrorist financing is and how it can affect NPOs;
1.1.2. Which government agencies, legislation and key terms are relevant to terrorist financing in the Virgin Islands; and
1.1.3. What an NPO's obligations are in the fight against terrorist financing.

1.2. As will be explained further in this document, NPOs are susceptible to terrorist financing abuse. Consequently, these Guidance Notes have been put together to alert NPOs and the general public in the Virgin Islands to the types of terrorist financing risks NPOs should be aware of and be mindful of when undertaking their activities.

1.3. These Guidance Notes are not intended to provide detailed guidance on the types of controls that NPOs should put in place in order to combat terrorist financing (*please see the Guidance Notes on AML/CFT for Non-Profit Organisations*) but are intended to provide an overview of the types of threats and red flags NPOs should be mindful of.

1.4. These Guidance Notes are not law but are meant to provide guidance, practical assistance, and a basis to make NPOs better aware of terrorist financing risks and red flags.

1.5. It is imperative that NPOs operating in the Virgin Islands fulfill their obligations, as failure to do so may result in fines or in some cases imprisonment. Such failures can also cause significant reputational damage, not only to your NPO but also to the reputation of the Virgin Islands.

SECTION 2 What is an NPO

2.1. In the Virgin Islands, an NPO is any group of persons that get together solely or primarily for charitable, religious, cultural, educational, social or fraternal purposes, or other activities or programmes for the benefit of the public, or a section of the public and raise or give out funds to further their objectives.

2.2. If your organisation fits this definition, it is required to register with the Non-Profit Organisation Registration Board ("NPO Board") and ensure that registration is maintained.

2.3. In the Virgin Islands, NPOs are also required to follow certain rules and regulations for the purposes of ensuring that they are not misused for the purposes of money laundering or terrorist financing.

SECTION 3 Terrorism and terrorist financing

3.1. Terrorism is defined as violent, criminal acts committed by individuals or groups for the purpose of furthering ideological goals stemming from domestic or international influences, such as those of a political, religious, social, racial, or environmental nature, or acts associated with designated foreign

terrorist organizations or nations (state-sponsored).

3.2. Terrorist financing is defined as the provision or use of funds for the purpose of terrorism or the acquisition, possession, concealment, conversion, or transfer of funds that are, directly or indirectly, intended to be provided or used for the purpose of terrorism. It can also include the giving of any type of assistance to help further, sponsor, promote or facilitate terrorism or terrorist activity.

3.3. Terrorist financing generally occurs in three (3) stages:

3.3.1. **Raising funds** – this may involve both legitimately and illegitimately obtained sources of funding.

3.3.2. **Transferring funds** – may include the use of various channels of delivery for e.g., bank transfers, the transfer of goods to the end user etc. to ensure the funds are received for their ultimate purpose.

3.3.3. **Using funds** – is when the funds derived whether legitimately or illegitimately are now used to fulfill the terrorist's ultimate agenda.

3.4. Terrorist financing is a crime. So is helping to facilitate it.

3.5. It is therefore imperative that NPOs implement measures within their organisations to reduce the risk of facilitating the offence of terrorist financing.

SECTION 4 The link between terrorist financing and NPOs

4.1. Terrorist organisations and NPOs have very different objectives; however, they often rely on similar logistical capabilities. Funds, material, personnel, and public influence are key resources for NPOs. Unfortunately, for these reasons, NPOs are also very attractive to terrorist organisations. Terrorists and terrorist organisations need and rely on money and funding to be able to carry out their terrorist activities. They also rely on their plans and activities being undetected. For these reasons terrorist organisations often infiltrate or set up sham NPOs to perpetrate their crime making NPOs vulnerable to the abuse of these criminals.

4.2. Across the globe there have been cases of NPOs being used by terrorist organisations to raise, transfer and use funds for the purposes of carrying out terrorist attacks.

SECTION 5 Ways an NPO may be abused for terrorism purposes

5.1. There are several ways an NPO may be abused by terrorists and terrorist organisations.

5.2. An NPO may become involved with a terrorist group or organisation by providing voluntary or involuntary support. This support can take several forms including providing information, becoming interconnected with the organisation through staff or by legitimising its activities. It can also be through inadvertent affiliation, as these terrorist organisations may present themselves as a suitable partner in a conflict zone.

5.3. Terrorist organisations may also try to take advantage of the success of an NPO and may abuse it for recruitment purposes or to obtain the needed support. The misuse of programmes is an additional form of abuse in which the legitimate activities of NPOs are manipulated to support terrorism.

5.4. In addition, many terrorist financiers create fake NPOs to raise and launder money for their ultimate agenda. If the funds are derived from criminal activity, the terrorist organisation would need to legitimise the proceeds gained.

SECTION 6 Reasons NPOs are vulnerable to terrorist abuse

6.1. There are several key reasons that may make an NPO vulnerable to terrorist abuse.

6.2. Trusted organisation.

6.3. The purpose of an NPO is to join persons and communities together for a particular cause, generally to help and support a part of the community or to do some type of good work. Many people in different communities trust NPOs to provide services with the aim to bettering a community or country in one way or another. Unfortunately, terrorist financiers can abuse this trust for their own illicit purposes.

6.4. Offer diversity and easy setup.

6.5. The diversity levels of NPOs are far reaching. For example, categories of NPOs that are established around the world include but are not limited to religious organisations, service organisations and community organisations.

6.6. In addition, the general process of setting up an NPO as opposed to any other business can be considered quite easy in most countries. This has allowed terrorist organisations to have more options to choose from to fulfill their purpose.

6.7. Involve (often) large cash transactions

6.8. The activities undertaken by NPOs usually generate large volumes of cash. Many NPOs have a global presence, some in areas of conflict, which means they often conduct overseas cash transactions. This enables terrorist groups access into the financial system through such means and are able to make transfers that may appear to be legitimate in nature. NPOs also have the ability to pass funds to other organisations rather than deliver services directly which makes them a preferred vehicle for terrorist organisations.

6.9. Regulatory restrictions and reluctance to comply

6.10. NPOs usually have very different and often much lower levels of regulation in other parts of the world and are subject to decreased levels of supervision and monitoring as persons often view the establishment of internal controls as being an onerous obligation on volunteers of such organisations. As such it is important to ensure that your NPO fully complies with all its regulatory and registration requirements and undertakes

the appropriate checks!

SECTION 7 Terrorist financing risks and red flag indicators

7.1. The following are some different types of ways NPOs have been and can be abused by terrorist organisations/groups. It should be noted that the following is not an exhaustive list. You should always remain mindful of suspicious activity or behaviour, which may impact your NPO. If in doubt, you should contact the Financial Investigation Agency ("FIA") and file a suspicious activity/transaction report!

7.2. Financial support to known or suspected terrorist entities

7.2.1. NPO bank accounts are used by entities whose own accounts are under restrictions.
7.2.2. NPO funds are commingled with personal or private business funds.
7.2.3. NPO bank accounts related to some programs or activities are concealed.
7.2.4. NPO funds are transferred to organisations not associated with declared programs or activities.
7.2.5. NPO funds are transferred to other organisations believed to be engaged in, or supporting, terrorist activities.
7.2.6. NPO receives funds from entities believed to support terrorist activities.
7.2.7. NPO receives unusual or substantial one-off donations from unidentifiable or suspicious sources, which cannot be verified.

7.3. Material support to known or suspected terrorist entities

7.3.1. Procurement of dual-use equipment/goods by the NPO.
7.3.2. NPO's resources are transferred to an organisation known to be engaged in, or supporting, terrorist activity.
7.3.3. NPO receives resources from an organisation believed to support or be engaged in terrorist activities.
7.3.4. NPO shares resources with another organisation believed to support terrorist activity such as operational spaces or technological equipment.
7.3.5. NPO received or made payments using an unusual payment mechanism.

7.4. Financial material or logistical support to prescribed terrorist organisations

7.4.1. NPO's activities support individuals or organisations whose identities correspond to other persons or entities that may be found on various sanctions lists, or persons or groups who have been suspected of engaging in criminal activity.
7.4.2. Proscribed terrorist organisations are found to match the identities of an NPO representative.

7.5. Operations in areas where there are active terrorist threats

7.5.1. Engaging in activities or accepting donations from other NPOs who transfer resources or conduct activities in terrorist or conflict zones.
7.5.2. NPO records are maintained in an area where terrorist organisations are known to have a substantial presence.

7.5.3. Frequent travels by the NPO's representatives to areas where terrorist organisations are known to have a large presence.

7.6. General operations and governance

7.6.1. NPO's expenditures are not consistent with its stated programs and activities.
7.6.2. NPO is unable to account for the final use of its resources.
7.6.3. Persons managing the NPO are or have connections with other NPOs which are believed to support terrorist activity.
7.6.4. Project involves delegating work/funds to other third parties or newly formed organisations, who cannot be verified.
7.6.5. Structure or nature of a project makes it difficult to identify the partner(s) or verify their details.

7.7. Support for recruitment

7.7.1. Publications being distributed by an NPO which provide information that support terrorism or terrorist entities.
7.7.2. Directing officials or employees/members/volunteers of an NPO that are engaged in activities that support recruitment to violence.
7.7.3. Beneficiaries with identical characteristics and addresses or multiple identical or similar names and signatures.
7.7.4. Fake or suspicious looking ID and verification documents.

SECTION 8 Case studies

8.1. The following case studies are taken from the FATF's report "Risk of Terrorist Abuse in Non-Profit Organisations" (June 2014) and show how NPOs can be abused for terrorist financing purposes.

8.2. **Case Study # 1**

8.3. This case study shows two individuals who were falsely representing themselves as members of a well-known NPO to raise funds to support a militant fighting abroad.

8.4. Two individuals were raising funds domestically for a family member who was fighting alongside a listed terrorist organisation abroad. The individuals, claiming to be representatives of a well-known domestic humanitarian aid NPO, were raising the funds by way of public street collections. The collection efforts were in breach of the domestic law. The individuals in question did not have the consent of the domestic NPO to solicit donations on its behalf nor did they deliver to funds raised to the NPO. Once a sizeable amount of money had been collected, it was sent to the family member abroad using wire transfers. As a result of a joint investigation between the FIU, NPO regulator, and law enforcement authorities, the two individuals were arrested and convicted of terrorist fundraising and sentenced to jail.

8.5. **Case Study #2**

8.6. In another case of diversion of funds involving external actors, the transferred funds meant for humanitarian relief were systematically passed on to persons or organisations which were part of, or affiliated with, a known terrorist organisation.

8.7. A domestic NPO was established to support charitable work in foreign areas of conflict. An investigation by the national FIU, initiated by suspicious transaction reporting, revealed that locally collected funds were being transmitted to foreign-based charitable organisations. The investigation also uncovered that once the funds were received by the foreign-based charitable organisations, they were systematically passed on to persons or organisations which were part of, or affiliated with, a known terrorist organisation. While there were established connections between the foreign-based charitable organisations and the terrorist organisation, direct links between the domestic NPO and the terrorist organisation could not be substantiated.

SECTION 9 NPO Obligations

10.1. NPOs within the Virgin Islands are required to undertake certain steps and implement policies, processes and procedures to prevent them from being abused by the financiers of terrorism. These include:

10.2. **Registration** - to legitimise your NPO and avoid being associated with sham NPOs that may have been set up for illicit purposes, you must register your NPO with the NPO Board in accordance with the requirements of the Non-Profit Organisations Act 2012, as amended ("NPO Act"). Details of the registration process and guidelines on the NPO Act can be obtained from:

Non-Profit Organisation Registration Board
Ministry of Health and Social Development
Road Town, Tortola VG1110
British Virgin Islands
Email: npoboard@gov.vg
Tel: 284-468-5147

10.3. **Implement written policies, processes, and procedures** – these must be relevant and applicable to your NPO and must include information such as the types of work the NPO does and does not undertake; what to do with donations and payments; how to undertake due diligence; how to report suspicious activity, etc. Having these written procedures will ensure that your NPO is able to mitigate the risk of it being abused by terrorist financiers.

10.4. **Appoint a Designated Person** - this person is responsible for filing any suspicious activity or transactions that the NPO may come across. Please note that the name of this person should be provided to the FIA and a designated person form should be filled out. A copy of the form can be downloaded from the FIA's website.

10.5. **Conduct due diligence** - this is a critical step as it ensures that you and your NPO know who you are dealing with. Due diligence must be undertaken when taking donations as well as when making

payments/donations or sending monies to another NPO/business.

10.6. **Keep accurate records** - this can aid the authorities in any investigation into any suspicious persons or donation your NPO may have come across or even ones you may have missed. So, an NPO should make it a priority to keep accurate records of all donations and payments and ensure that all records maintained are easily retrievable and readily accessible should they be required by the NPO Board, the FIA or another law enforcement agency.

10.7. **Report suspicious activities and transactions** – SARs/STRs must be filed where NPOs come across any activity that creates reasonable grounds for suspecting that potential terrorist financing may be occurring.

10.8. **Train staff/members and volunteers on terrorist financing risks** – a critical component in the fight against terrorist financing is awareness of the risks and red flags. You should, therefore, ensure that all staff/members and volunteers who are involved in the operations of your NPO receive appropriate training, so they know what to look out for!

The Agency has a webinar on terrorist financing risks for NPO, which you can find on its website: https://fiabvi.vg/Media-Centre/Videos