

Risk scenarios

Non -profit organisations

Private sector consultation meeting

4th October 2016

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Collect of funds through a Non-Profit Organisation (NPO)

Product
<i>Transfer of funds through a Non-Profit Organisation (NPO)</i>
Sector
<i>Non-Profit Organisations</i>
Description of the risk scenario
Criminals may abuse NPOs to fund localised terrorist activity, or may seek to use NPOs to facilitate cross-border financing by sending money to areas where the NPOs are operating close to terrorist areas of activity.
General comments (if relevant)
For this risk assessment, it is agreed that NPOs shall be understood as defined in FATF standards (Recommendation 8): expressive NPOs and service NPOs (i.e. humanitarian). While there is more evidence of TF misuses of humanitarian NPOs, this assessment will be about all categories of NPOs falling under the FATF definition, to avoid singling out one category of NPO. This risk scenario is intrinsically linked to transfers of funds – NPO.
Threat
<p>TF</p> <ul style="list-style-type: none"> • modus operandi is not frequently used by terrorist groups • however, when they are misused, NPOs represent a significant threat, in particular as far as foreign terrorist fighters are concerned. They can use these structures quite easily (easy to set up) and may access to cash to finance their travels • transfers of funds through NPOs do not require specific expertise in particular because cash is still the basis of a large number of transfers of funds considered. <p>=> the level of TF threat related to transfers of funds by NPOs is considered as significant (level 3).</p>
<p>ML</p> <p>=> non relevant</p>
Vulnerability

TF

General remarks on the vulnerability component:

The analysis of the NPO sector from a vulnerability perspective is quite complex. There is an interest to build on the FATF distinction between expressive NPO (NPOs predominantly involved in expressive activities, which include programmes focused on sports and recreation, arts and culture, interest representation, and advocacy) and "service NPOs" (principally engaged in the provision of humanitarian services). Competent authorities and FIUs agree to consider that the two categories present differences in their risk exposure and risk awareness:

- Expressive NPOs present some vulnerability because they can be infiltrated by terrorist organisations that can hide the beneficial ownership making the traceability of the collect of funds less easy. These funds are then made available to terrorist organisations cross-border.
- Service NPOs are more directly vulnerable due to the intrinsic nature of their activity (NPOs on the field): they are most of the time located in conflicts/war areas; in high risk third countries; high risk customers.

However, this distinction does not prevent from drawing common characteristics of the NPOs sector vulnerabilities. Some Member States even tend to consider that this distinction is not relevant and that, whatever the category of NPOs concerned, the sector is characterised by a variety of structures and activities which can have an impact on the level of risk awareness and risk exposure:

(i) risk exposure: as mentioned above, NPOs misused for TF purposes are generally located in high risk areas and exposed to high risk customers. Due to the specific nature of their activities, a large part of the donations is still made in cash which make the traceability of source of funds but also of the transfers (when sent abroad) almost impossible from LEAs and FIUs points of views.

(ii) risk awareness: NPO sector has no centralised organisational framework and the rules applicable to it are not harmonised at EU level and vary from one Member State to another. This lack of centralized organisation limits competent authorities' ability to provide some guidance or assistance. Finally, while the risk awareness is increasing in the NPO sector (FATF recommendations, training, conferences), there are some evidence that many of them have still some difficulties to acknowledge that they are exposed to such TF risks. Sometimes, these AML/CFT requirements may be perceived as overregulation detrimental to NPOs activity. Some of NPOs involved in humanitarian activities consider that due to their humanitarian nature, the delivery of goods and medical care shall prevail on AML/CFT requirements.

(iii) legal framework and controls in place: the existing AML/ CFT requirements are not necessarily considered as adequate to address the specific needs of the NPO sector and controls in place are not equal depending on the Member State concerned. The conditions of registration of NPOs are also not the same. Competent authorities tend to consider that controls in place are quite good concerning the collect of funds within the EU. However, some weaknesses appear when dealing with transfers of funds or expenditures outside the EU.

=> considering that the risk exposure of the NPO is impacted by the intrinsic nature of their activities (in particular when dealing with humanitarian services) and that the risk awareness is currently still quite low, mostly due to an unclear legal framework and different national practices, the level of TF vulnerabilities is considered as significant (level 3).

ML

=> non relevant

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ML

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ML

- risk exposure rather limited although large sums may be engaged in crowdfunding activities.
- when regulated, platforms are well aware of their risks and the level of reporting is quite good.
- controls in place are still, sometimes, weak.

=> **the level of ML vulnerability is considered as moderately significant (level 2).**

