

GIBRALTAR BASED NON-PROFIT ORGANISATIONS & THE RISK OF ABUSE FROM TERRORIST FUNDING

August 2017

NO NEED FOR COMPLACENCY

Whilst Gibraltar has had a strong and vibrant NPO sector for many years it cannot be immune to the threat of mis-use by those seeking to exploit weaknesses.

To date there have been no known cases of Gibraltar NPOs being mis-used.

This newsletter highlights where such weaknesses could exist in order to permit NPOs to be aware and mitigate the threats.

Non-Profit Organisations (NPOs) are a vibrant and integral part of the contemporary global environment and play a significant role in combatting terrorism. The wide range, geographic reach, and operational endurance of their activities arguably make NPOs unique among international actors.

However, the concept of carrying out good works has been a target for those whose goals are not purely benevolent. The most extreme threat of abuse is posed by those engaged in terrorist activity. While the vast majority of NPOs work tirelessly to better the lives of people around the world, a small number of organisations and individuals, not based or located in Gibraltar, have taken advantage of the NPO sector for the most contrary of reasons: to support those who engage in terrorism or support to terrorist organisations.

The abuse of NPOs to finance or materially support terrorism may seem to be a risk with low probability, yet the impact of these activities can be acute for both the victims of terrorism and those who should benefit from the good work of NPOs. This immediate impact is multiplied when one considers the loss of public confidence in the integrity of the NPO sector.

THREATS AND VULNERABILITIES

Several important findings emerged from the analysis of case studies submitted by FATF member states or compiled from open sources as well as current research on the threat environment as it affects the NPO sector. These findings can be summarised as follows:

The NPO sector has interconnected vulnerabilities, and terrorist entities seek to exploit more than one type of vulnerability. The diversion of NPO funds by terrorist entities was a dominant method of abuse.

However, other types of non-financial abuse such as the abuse of programmes, or the support for recruitment, also appeared regularly as a feature.

The NPOs most at risk appear to be those engaged in 'service' activities, and that operate in a close proximity to an active terrorist threat. This may refer to an NPO operating in an area of conflict where there is an active terrorist threat. However, this may also refer to an NPO that operates domestically, but within a population that is actively targeted by a terrorist movement for support and cover. In both cases the key variable of risk is not geographic, but the proximity to an active threat.

Disruption of abuse, or the mitigation of substantial risk, was dealt with through multiple means including, but not limited to, criminal prosecution. Administrative enforcement, financial penalties, and targeted financial sanctions play important roles in disruption of abuse.

CATEGORIES OF RISK

The examination of the available case studies and literature identified five categories of abuse or risk

The diversion of funds was a significant method that focused on the substantial financial resources within the sector. Actors inside an NPO, or external actors such as foreign partners, were responsible for the diversion.

In other cases of abuse, NPOs or directing officials maintained an affiliation with a terrorist entity, either knowingly or unknowingly. In these instances, an NPO could be abused for multiple purposes, including general logistical support to the terrorist entity.

In several cases, NPOs were abused to provide support to recruitment efforts by terrorist entities.

NPOs were also targeted for abuse of programming. In these instances, the flow of resources was legitimate, but NPO programmes were abused at the point of delivery.

Finally, some terrorist entities abused the NPO sector through false representation. In these instances, terrorist entities started 'sham' NPOs or falsely represented themselves as the agents of 'good works' in order to deceive donors into providing support.

NPO SECTOR OPERATIONS AND VULNERABILITIES

Before establishing how abuse can manifest itself in the NPO sector, it is necessary to have a model of NPO operations that is generally applicable, particularly to the service activity organisations as discussed earlier. The case studies analysed for this newsletter, as well as available literature on NPOs, indicates that NPO operations can be reduced to five general elements:

The collection of resources refers to any activity undertaken by an NPO to acquire resources either directly or through third parties such as volunteers.

The retention of resources refers to the storage or maintenance of resources by an NPO. Retention includes activities ranging from the maintenance of funds within bank accounts to the management of property or facilities.

The transfer of resources can occur at multiple instances during NPO operations and refers to any point at which the resources of the NPO are transferred between different actors.

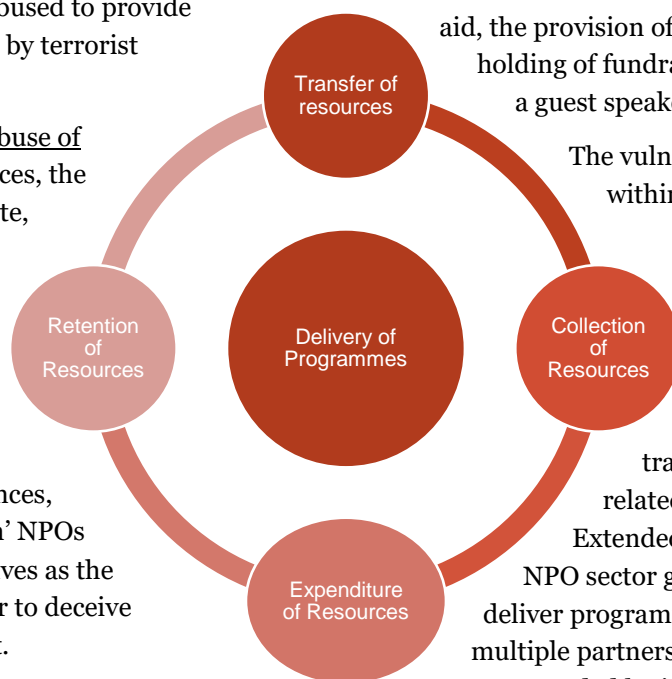
The expenditure of resources refers to any point at which an NPO's resources are exchanged in return for goods or services.

The delivery of programmes refers to the point at which an NPO is carrying out programme activities. This could include activities such as the distribution of aid, the provision of medical treatment, the holding of fundraising events, or the hosting of a guest speaker.

The vulnerabilities can be grouped within four overarching categories:

1. Extended logistical networks

Logistical networks are the linkages through which NPOs collect, retain, transfer, and deliver resources related to their operational activities. Extended logistical networks give the NPO sector greater reach, allowing NPOs to deliver programmes in multiple areas through multiple partners. Conversely, because of their scope, extended logistical networks also increase vulnerability. With more individuals, wider ranges of activities, and possibly substantial geographic distances involved, it can be challenging to maintain adequate control of resources. For NPOs engaged in humanitarian work, logistical networks often flow through geographic areas of conflict or low governance. Also, there is an increased risk that resources will have to flow through other sectors where governance may be less stringent (for example, unregulated money businesses). Both of these aspects increase the risk that resources can be diverted or that the delivery of programmes can be corrupted.



2. Large transitory workforces

The NPO sector also relies heavily on a large transitory workforce. Volunteers make up a significant and important portion of this workforce. However, the nature of the NPO sector workforce can make it difficult to scrutinise staff, particularly volunteers or foreign partners. Additionally, for small- and medium-sized NPOs, this type of workforce can make it difficult to attract and retain personnel that have technical expertise in risk assessment, compliance, and legal matters. These personnel pressures can lead to NPO activities going forward without adequate due diligence and safeguards in place, increasing the risk of abuse.

3. Operational capacity

The NPO sector also possesses high operational capacity. The FATF has already noted that NPOs may be vulnerable because they “have access to considerable sources of funds, and are often cash-intensive. Furthermore, some NPOs have a global presence that provides a framework for national and international operations and financial transactions, often within or near those areas that are most exposed to terrorist activity.” The NPO sector is resource intensive and transnational in nature. These resources and associated logistical networks are valuable to terrorist movements if they can be exploited. Also, NPOs have a unique ability to reach people, particularly those in conflict areas or Diasporas. Exploiting this unique access presents terrorist movements with an opportunity to recruit for their movements through the abuse of NPO resources and programmes.

A further important aspect of the operational capacity of NPOs is the public trust afforded to the sector. Because the sector has generally enjoyed high public trust, scrutiny of NPO activities has often been less consistent and robust than in other sectors. For terrorist entities looking to minimise risk to their own operations and logistical networks, piggybacking on, or mimicking, legitimate NPOs has presented an attractive solution.

4. Organisational culture

The final area of vulnerability has to do with organisational culture. This aspect was explained in a response to the NPO sector questionnaires, where the respondent indicated that the emphasis placed on values in some NPOs could contribute to poor decision-making and risk management. While this is

not a consistent vulnerability, the tendency to trust external and internal actors may leave some NPOs vulnerable to abuse.

TERRORIST ABUSE AND THE RISK TO NPOS

The trends in the terrorist threat environment raise the question of how terrorist abuse, and some specific forms of abuse such as terrorist financing (TF), are developing, and how this impacts the NPO sector. For instance, substantial attention to terrorism post-9/11 has driven some activities, including terrorism financing, further underground, which raises the possibility that the cover afforded by legitimate organisations such as NPOs is more attractive to terrorist entities.

Examinations of contemporary TF trends note the decentralisation of terrorist movements and indicate that for local supporters of terrorism, self-financing based on locally available opportunities is increasingly a preferred strategy. Localised TF corresponds to the operational strategies examined earlier for several important reasons:

Current terrorist strategies de-emphasise spectacular attacks, such as 9/11, in favour of a higher rate of less complex attacks. This makes localised TF a more viable strategy.

Counter-terrorism measures have increased the risk of exposure in international TF activity. The international logistical networks of terrorist organisations are high-value assets that groups try to protect. Localised TF allows terrorist groups to insulate their core logistical networks from their operational networks.

Localised TF allows terrorist supporters to exploit local opportunities. The supporters' existing networks become viable sources of funds from fraud, theft, narcotics sales, or even legitimate businesses.

METHODS AND RISK OF ABUSE

The main way in which the risk of terrorist abuse of the NPO sector can be understood is through the examination of case studies (none of which are Gibraltar related). While there is no question that the study of actual instances of abuse is important to gauge the extent of the problem, it is equally important to examine cases where the risk of terrorist abuse has been observed. Terrorism financing occurs in preparation for subsequent serious criminal acts, as

opposed to money laundering which follows from serious criminal acts. Until the risk environment is fully understood, it will not be possible to implement measures to effectively address the risk of terrorist abuse of the NPO sector.

Methods and Risks of Abuse	
Diversion of Funds	An NPO, or an individual acting on behalf of an NPO, diverts funds to a known or suspected terrorist entity.
Affiliation with a Terrorist Entity	An NPO, or an individual acting on behalf of NPO, maintains an operational affiliation with a terrorist organisation or supporter of terrorism.
Abuse of Programming	NPO-funded programmes meant to support legitimate humanitarian purposes are manipulated at the point of delivery to support terrorism.
Support for Recruitment	NPO-funded programmes or facilities are used to create an environment which supports and/or promotes terrorism recruitment-related activities.
False Representation and Sham NPOs	Under the guise of charitable activity, an organisation or individual raises funds and/or carries out other activities in support of terrorism.

Table 1 - Methods and risks of abuse of NPO sector

Diversion of Funds

The most commonly observed method and risk of abuse of NPOs to support terrorism involves the diversion of funds. In this typology, funds raised by NPOs for humanitarian programmes—disaster relief, humanitarian relief, cultural centres, relief of poverty, advancement of education, advancement of religion—are diverted to support terrorism at some point through the NPO’s business process. Essentially, the diversion of funds occurs when funds raised for charitable purposes are re-directed to a terrorist entity.

Diversion of funds was seen at different stages of the NPO business process, such as during the collection

and transfer phases. Diverted funds were used to support terrorist organisations, such as the financing of an organisation’s infrastructure and its military operations. Cases included the procurement of munitions, equipment and communications devices, as well as the financial support of the families of terrorists. Cases identified that diverted funds were used to support terrorist individuals and organisations both domestically and abroad.

The diversion of funds typology can be divided into cases where the diversion was carried out by actors internal to the organisation as well as external to the organisation. Internal actors are named individuals of the NPO, such as directing officials and staff. External actors, however, are merely associated with the NPO as third-parties, such as fundraisers and foreign partners. In some cases, it was unclear whether or not the diversion of funds was carried out by actors internal or external to the NPO.

Diversion of funds by actors internal to NPOs

Of the cases demonstrating the diversion of funds typology, an overwhelming majority involved actors internal to the NPO. Diversion of funds by internal actors occurs when a portion of the funds raised by an NPO, for a charitable purpose, is syphoned off and diverted to a terrorist organisation for different purposes. Cases analysed also demonstrated instances where funds raised by third-parties (ostensibly for charitable purposes) were channelled through the NPO to a terrorist organisation. The use of the NPO to facilitate such transactions has the effect of obscuring an audit trail, severing or distancing any link to a terrorist entity, and decreasing the likelihood of detection by authorities.

Internal NPO actors are well positioned during the collection, retention, and transfer phases of NPO operations to divert funds for nefarious purposes using a variety of techniques. This particular vulnerability, paired with the threat of insiders who aspire to support terrorism, present considerable risk to the NPO sector.

During the collection phase, diversion of funds involves the interception of cash prior to the deposits 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 organisations. Cases involving the diversion of funds by internal NPO actors demonstrate that the following means are used:

- wire transfers;
- cash transactions and cash couriers;

- unrelated persons and personal accounts;
- unrelated businesses and business accounts;
- money services businesses; and/or
- travellers' cheques and cashiers' cheques.

Diversions of funds by actors external to NPOs

Other instances of the diversion of funds involve actors external to the NPO. In these cases, third-party associates of the NPO, such as external fundraisers or foreign partners, are diverting funds that are destined for, or provided by, an NPO. Diversion of funds by external actors occurring during the collection, retention and transfer phases of NPO operations.

Affiliation with a terrorist entity

The second most commonly observed method and risk of abuse in the submitted case studies relates to the existence of, or suspicion of, an operational affiliation between an NPO and a terrorist entity. This affiliation translates into activity that is meant to financially or otherwise support activities carried out by one or both parties. Affiliations observed range from informal personal connections involving NPO directing officials and terrorist entities, to more formalised relationships between NPOs and terrorist entities.

There are two main types of affiliation resulting in abuse and/or risk.

Where NPOs' internal actors, namely directing officials and staff, have established or suspected links to a terrorist entity. The cases where NPOs are abused by internal actors affiliated to terrorist entities demonstrate that these individuals are able to exercise influence over the operations of the NPO that ultimately support terrorist entities.

Where a more formalised relationship exists between the NPO and a terrorist entity. The characteristics that make NPOs effective international actors can also make them particularly vulnerable to abuse. The cases of this type show that terrorist entities that operate regional NPO branches can broaden their operational support network. The cases demonstrate that these branches are being used to carry out activities relating to fundraising, the diversion of funds, the procurement of weapons, the recruitment of supporters, military training, and other operation tasks.

Abuse of programming

Another observed method in which terrorists may abuse NPOs is through the abuse of their programming. The cases in this typology demonstrate that deviations to benevolent NPO-funded programmes, at the point of delivery, can result in abuse intended to support terrorism. The case studies also demonstrate varying levels of involvement of actors both internal and external to NPOs in abuse. While activities relating to this typology were carried out at a domestic level, affected parties were commonly more widespread.

Support for recruitment

The existence of activities or material that supports recruitment by terrorist movements is a signal that NPO funds are being, or are in danger of being, intentionally misappropriated. Recruitment-related activities are, in themselves, a form of support to terrorist organisations and often an indicator of a wider intent to support terrorism. Additionally, the existence of such activities or material can represent the corruption of NPO programmes at the point of delivery. An NPO may have a legitimate educational programme, devote resources to it, and hire teachers, all of which are legitimate activities. However, if the teachers then engage in recruitment for terrorist causes, the educational programme and the resources devoted towards it become corrupted.

Support for recruitment cases included instances of abuse and risk where existing terrorist entities were using, or believed to be using, NPOs to promote and recruit for their activities. This method of abuse concerns instances where NPO resources were used to promote causes directly associated with terrorist violence. NPO-funded activities in support of recruitment were observed at the collection, transfer and delivery phases of NPO operations, both domestically and internationally. Cases of support for recruitment demonstrate NPO involvement in the following:

- transferring funds to terrorists;
- providing financial support to families of terrorists;
- carrying out of a fire bomb attack (by an NPO directing official);
- organising and hosting events that support terrorism or terrorist entities; and
- publishing materials, online or otherwise, supporting terrorism or terrorist entities.

Cases also demonstrate that NPO facilities were used to:

- recruit and train individuals to engage in acts of terror such as bomb manufacturing and suicide bombing;
- provide a meeting place for terrorist entities; and
- host speakers that advocate terrorism.
- False representation and sham NPOs
- False representation occurs when, under the guise of charitable activity, organisations and individuals raise funds, promote causes and carry out other activities in support of terrorism. Specifically, the false representation cases can be divided into two categories. The first category involves ‘sham NPOs’ where the NPO is created as a front to support terrorist activity and its stated purposes are false. The second category involves situations where individuals or groups of individuals falsely claim to be acting on behalf of existing legitimate NPOs.
- Sham NPOs and individuals falsely claim to be acting on behalf of existing legitimate NPOs, scheme to collect funds to support terrorism, and/or deliver programmes in support of terrorism.

RISK INDICATORS AND TERRORIST ABUSE INDICATORS

Indicators are used extensively in sectors where prevention is paramount, such as the business and medical sectors. Indicators can increase forewarning, helping to mitigate risks before they become reality, or help to detect existing abuse. The analysis of the case studies identified numerous elements that indicated existing abuse of an NPO, or substantial risk of abuse. While the list of indicators presented here is substantial and transnational in nature, it is not complete; there are likely additional indicators that are unique to particular contexts.

Indicators are ultimately leads that require further investigation to assess the nature or risk of abuse.

Indicator Categories

The indicators are grouped under six general categories. However, many indicators can fall under numerous categories. For the sake of simplicity, this newsletter lists them only once under the most applicable category based on the analysis.

Category 1: Financial Support to Known or Suspected Terrorist Entities

The direct abuse of NPO financial resources is what most often comes to mind when considering abuse or risk in the NPO sector.

Risk Indicators	Terrorist Abuse Indicators
NPO bank accounts are used by entities whose own accounts are under restrictions.	NPO funds are transferred to other entities believed to be engaged in, or supporting, terrorist activities.
NPO funds are comingled with personal or private business funds.	NPO receives funds from entities believed to support terrorist activities.
Bank accounts related to some programmes or activities are concealed.	
NPO funds are transferred to entities not associated with declared programmes or activities.	

Category 2: Material Support to Known or Suspected Terrorist Entities

NPOs are abused by terrorist organisations because of their access to material resources as well as financial resources. These material resources can range widely from facilities to dual-use equipment. Warning indicators are more prevalent in this category because the category itself applies to known or suspected terrorist entities.

Risk Indicators	Terrorist Abuse Indicators
NPO procures dual-use equipment.	Resources of an NPO are transferred to an entity known to be engaged in, or supporting, terrorist activity.
	NPO receives resources from an entity believed to support or be engaged in terrorist activities.
	NPO shares property with another

organisation believed to support terrorist activity.

Category 3: Financial, Material, or Logistical Support to Proscribed Terrorist Entities

The identification of proscribed entities (often termed 'listed' entities) in association with NPOs appeared consistently throughout the case studies. Often, the presence of proscribed entities was an indicator of wider compliance failures that could have been intentional or unintentional. Warning indicators are more prevalent in this category because the category itself applies to proscribed terrorist entities.

Risk Indicators	Terrorist Abuse Indicators
NPO activities are found to support individuals or organisations whose identities correspond to those of listed entities.	The identities of proscribed terrorist entities are found to match the identities of NPO directing officials or employees.

Category 4: General operations and governance

Several indicators arise from the general operations and governance of NPOs. Several of these indicators stem from attempts by complicit actors (either internal or external to an NPO) to disguise their actions, such as the concealment of information on programmes, activities, or funding. Other indicators in this category stem from attempts by complicit actors to gain influence or control of non-complicit NPOs.

Risk Indicators	Terrorist Abuse Indicators
NPO expenditures are not consistent with its programmes and activities.	Directing officials of an NPO are, or have been, directing officials of other organisations believed to support terrorist activity.
NPO is unable to account for the final use of all of its resources.	NPO suffers from an internal conflict, where one faction is known to be sympathetic or actively supportive towards terrorist entities.
NPO is unable to account for the origin of its income.	
NPO has inconsistencies in its accounting and/or mandatory reporting.	

NPO has opaque leadership or decision-making structures.

NPO or NPO representatives use falsified or conflicting documentation.

Category 5: Support for recruitment

In several cases, NPO resources are committed towards activities that support the recruitment of followers by terrorist movements. The case studies indicated that activities in support of recruitment are often connected to further risks to financial or material resources. Also, otherwise legitimate charitable programmes meant to further religious or educational purposes can be corrupted to support recruitment activities.

Risk Indicators	Terrorist Abuse Indicators
NPO publications or speakers support terrorism or terrorist entities.	Directing officials or employees of an NPO engage in activities that support recruitment to violence.

Category 6: Other criminal activities

Abuse of NPOs for terrorist purposes can come to the attention of government authorities or the NPOs themselves because of other criminal activities. As in the cases of terrorism, NPOs may not be complicit in these criminal activities, but may be victims themselves of external or internal actors. The presence of other criminal activities, especially in conjunction with indicators specific to terrorism, presented a strong sign of risk in the case studies.

Risk Indicators	Terrorist Abuse Indicators
NPO facilities conceal criminal activities.	Criminal activities consistent with terrorist operations are concealed in NPO facilities.
NPO directing officials or employees are engaged in other criminal activities.	NPO directing officials or employees are engaged in other criminal activities consistent with terrorist operations.

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