



MINISTRY OF THE INTERIOR
OF THE CZECH REPUBLIC

THE RISK OF AN NPO ABUSE FOR THE PURPOSES OF TERRORISM FINANCING AND MONEY LAUNDERING

Public version

2020

(Translated 2021)

Introduction

This document was created within the framework of a working group coordinated by the Ministry of the Interior of the Czech Republic, the focus of which is the abuse of non-profit organisations (NPOs), and which is part of the National Risk Assessment of money laundering and terrorism financing. It was created thanks to the cooperation of the Ministry of Justice, the Ministry of Finance, the Ministry of Culture, the Ministry of Foreign Affairs, the Office of the Government, the Financial Analytical Unit, the Police of the Czech Republic, the General Financial Directorate, and the intelligence services.

The text takes into consideration to the 5th round of mutual evaluation of the Czech Republic in the area of money laundering and terrorism financing and its final report, which considers the absence of risk factors in this area as one of the biggest flaws that were identified by the assessors. The text thus partly fulfils the related Action Plan, which was approved by the Government of the Czech Republic on June 8, 2019 by Resolution No. 488, and further contributes to the proper implementation of the FATF¹ Recommendation 8 in the Czech context.

In line with the FATF R8, an NPO is understood as described in the functional definition – that is as an entity (which in the Czech context shall highly likely be a legal person) which collects and distributes means for charitable, religious, cultural, educational, social, or other purposes, or for other public interest activities.

In the Czech context, NPOs play an important part in many areas, such as building of civil society, provision of humanitarian and development aid, administration of social services, development of advocacy and interest activities, or other activities of for the public benefit.

However, some NPOs, or entities pretending to be NPOs, can be abused for the purposes of money laundering and / or terrorism financing. Such cases are currently not common in the Czech Republic, however, should they occur, they could pose a serious threat to national security, wherefore it is necessary to pay due attention to this area. Specifically because such abuse can occur without any knowledge of the NPO representatives. In this text, terrorism financing is understood in its broader sense – that is including material and non-material support of terrorist entities. Unless otherwise specified, “persons” in this text should be understood as both natural and legal persons.

The aim of this document is to identify the threats that Czech NPOs or NPOs operating in the Czech Republic may face, to identify their vulnerabilities, and thus to enable the control mechanism to focus on the potentially most risky NPOs, and in general, to support the effective application of risk-oriented NPO monitoring. Furthermore, the document aims at serving as a basis for introducing good practices among the NPOs and help in decreasing their risk-level where possible. Last but not least, this document shall also serve as a basis for training NPOs in preventing terrorism financing. It shall be shared with all state subjects that provide NPOs with grants or other forms of support and need to assess the risks of potential recipients.

This document can also serve as one of the bases for risk evaluation concerning other legal persons, such as recipients of means from grant programs, or suppliers of goods and services for state

¹ Financial Action Task Force, is an international intergovernmental organisation which sets standards and recommendations in the areas of money laundering and terrorism financing. Their guidance materials and information provided therein, namely in [“Risk of terrorist abuse in non-profit organisations”](#), helped and were reflected when creating this document.

institutions. However, in such cases and uses, it is necessary to take into account the differences between legal persons and NPOs concerned.

Contrastingly, this material does not aim to introduce new control mechanisms concerning NPOs, or to impose new obligations upon NPOs.

This document is available in two versions – the non-public one is intended for state institutions only and contains the full text that was produced. The public version does not include some of the risk factors, namely in sections 3 and 4. In the public version, it is stated that the omitted factors are only part of the non-public version.

How to use this document in practice?

The way this document shall be used in practice shall differ and shall depend on the needs, available information, personnel, and other capacities of the specific subject. Thus, it is not possible to suggest a one-size-fits-all application of the below-mentioned risk factors. Similarly, it shall be necessary to use different application methods to small local NPOs and international NPOs with hundreds of employees. This document does not foresee a unified set of steps after the risk assessment of an NPO. Apart from the usual steps the subjects normally use, it might be advisable to inform the NPO in question if it is perceived to be at risk, and thus allow it to remedy possible shortcomings, or to inform the Police of the Czech Republic in case of a suspicion of criminal activity committed by the NPO.

General information on information availability in order to assess individual risk factors and their selection

The below-mentioned list of risk factors is complex. It is expected that each assessing subject shall select those criteria which are purposeful and evaluable in terms of their focus. Individual risk factors are likely to be assessed by individual subjects in case of a specific need (e.g. during an inspection, before issuing a decision on the provision of state aid, etc.). However, in the case of some subjects, it might be more convenient to assess some factors on a regular basis.

Examples of suitable sources for evaluation and assessment include data available from public registers, data that the NPO presents on its website or social network profiles, or information from the media, and other information that can be found on the Internet, such as when searching for the name of NPOs and their representatives.

Another category of easily accessible information is data that the subject conducting the NPO risk assessment already has access to thanks to their communication with the NPO, or which they receive regularly as a result of their competencies, or that can be easily obtained by contacting the NPO. In relevant cases, it is of course possible to ask other state administration subjects for information, including consultation and sharing relevant information within a respective working group.

Below are a few examples of the possible practical uses of the document at hand, according to the individual subjects that are foreseen to use this material.

A) Public aid provider or public tender contracting authority

For this entity, it is important to verify that the financial means are not provided to subjects at risk or directly abused for illegitimate purposes. When providing funds, this entity usually has the possibility to request a lot of information about NPOs in advance. In this context, it is advisable to take into account some of the risk factors listed below in preparation of e.g. grant calls or other procedures, where certain information is required from NPOs. In the case of a state aid provider, this entity is

further entitled to check the use of funds, and can thereby gain access to additional information, which shall make it easier to better assess the riskiness of a particular NPO in the future. These entities shall generally assess the riskiness of NPOs on an ad hoc basis, when necessary.

B) Entity with inspection authority

For this entity, generally speaking, it shall be important to target its inspection activities on riskier NPOs. The inspection authority is likely to apply easy-to-evaluate criteria to a larger set of NPOs, so that it could focus its activities on those NPOs which are understood to be of a higher risk. At the same time, considering its authority, this entity shall have the possibility to obtain additional information about NPOs which might not be otherwise publicly available. For entities with inspection authority, a continuous assessment of the riskiness of NPOs that are of interest is possible, too.

C) Law enforcement agencies and intelligence services

For these entities, the list of risk factors can serve as a lead for checking individual NPOs in cases where they become suspected of criminal activity, or other activities that might threaten the interests of the Czech Republic. These entities shall, thanks to their competencies, have the broadest access to information about specific NPOs, and shall generally check only a small subset of NPO entities, based on a concrete suspicions.

D) NPO

NPOs can use this list of risk factors to increase their resilience and decrease the risk of being abused for illegitimate purposes. Some of the risk factors can be eliminated by increasing transparency, introducing control mechanisms, and increasing awareness about possible risks among employees. It might be convenient for NPOs to self-assess, taking into account the character of their activities and capacities. For the purposes of awareness-raising in the NPO sector, a separate document shall be presented, which shall focus on raising awareness in the area of risk factors and decreasing the riskiness of NPOs.

Possible NPO abuses

The following are some of the common ways of how an NPO, or its status, can be abused:

- 1) Conscious abuse of NPO means or of an NPO as such** – an NPO, or its employee, abuses NPO's means – financial or other, for the direct support of a terrorist entity or its infrastructure, criminal proceeds can be also laundered through the NPO with its knowledge. Further, the NPO's educational or training activities can be abused, as well as its identity.
- 2) Inadvertent abuse of the means and outputs of an NPO, or an NPO as such** – humanitarian or other aid provided by an NPO in conflict zones is abused by a terrorist entity, the infrastructure built by an NPO (hospitals, schools, sources of energy and water, ...) is abused by a terrorist entity without the knowledge of the NPO. This type of abuse can also take the form of theft or embezzlement, or legalization of proceeds from criminal activity, without the knowledge of the NPO.
- 3) Affiliation of an NPO to a terrorist entity** – an NPO supports a terrorist entity, provides it with information, has personnel ties to it, legitimizes its activities, provides cover-ups, etc. It can also be the result of inadvertent affiliation, as the terrorist entity might pretend to be a trustworthy partner in a conflict area.

- 4) **Abuse of the reputation or the outputs of an NPO** – a terrorist entity pretends that success of an NPO is their own and abuses it for the recruitment or gathering of support from locals, or it pretends that it represents the NPO locally, while “collecting” funds for it.
- 5) **Fictitious NPO** – a terrorist entity founds an NPO in order to obtain funds or to cover its real activities.
- 6) **NPO take-over and its subsequent abuse for the support of a terrorist entity** – abuse of the good name and history of an NPO. This can manifest e.g. as a personnel take-over based on the membership principle – a larger number of new members sign up and they, in the voting procedures, achieve to divert the course of activities of the NPO; this can also manifest as taking over the social media profiles that are managed by a particular NPO and their subsequent abuse.
- 7) **Terrorist entity profits financially from NPO activities** – either via direct collection of funds from an NPO as a racketeering fee in an area controlled by the terrorist entity, or via local suppliers, who are connected to the terrorist entity, or have to pay taxes, fees, or other payments to the terrorist entity (such as protection racket).

Risk factors increasing the possibility of the abuse of an NPO

The risk of abuse of an NPO for the purposes of terrorism financing and legalization of proceeds from criminal activity is assessed through specific risk factors, which, taken as a whole, may result in an incentive to inspect a particular entity. However, neither these factors, nor any combination thereof, can in themselves constitute a clear indication of the abuse of an NPO.

At the same time, it is important to realize that for some NPOs, what is otherwise understood as a risk factor, is a feature of their mission (e.g. working in a specific geographical zone), which the NPO cannot forego without forfeiting its basic function. However, such an NPO should be aware of these factors, and actively mitigate them by applying appropriate preventive measures. Some of these factors may be caused, for example, not only by conscious behaviour of persons within the NPO, but also by the mere ignorance of legal norms and obligations imposed by the law, other unintentional actions, or omissions.

In the text, the individual factors are described and commented on, including their significance in the context of the risk factors on a scale low – medium – high. This scale reflects the practical knowledge as well as FATF international standards and methods, as valid on January 1, 2020. High significance indicates a higher risk of possible abuse of an NPO due to the presence of a specific feature – it has therefore mainly a signalling function, yet, in some cases, it also corresponds with a possible higher impact that the possible abuse of such an NPO could have on society. Factors that can be caused by mere negligence or inconsistency of NPO representatives are often assessed as having low significance. On the other hand, factors that in themselves may pose a risk of abuse of an NPO, are considered to be highly significant.

It is necessary to always consider the individual risk factors within the context of the specific NPO – the individual significance of e.g. non-disclosure of a financial statement shall differ between a small local association which operates with no property or finances, and a big NPO, whose budget amounts to millions of CZK. That is why this document does not offer any point-based evaluation of NPOs based on these risk factors, as it is not possible to develop such a system in a one-size-fits-all manner for all NPOs.

Furthermore, there is also information on possible detection methods, whether it is possible to gather data from open sources, prior to contacting the NPO in question. Due to the diversity of individual

factors, it is clear that some of them can be detected very easily thanks to open sources, while others cannot be identified without intensive contact with a specific NPO.

It is possible to draw a general conclusion that NPOs most at risk of possible abuse for the purposes of terrorism financing are those that operate in conflict zones, as well as those whose activities, management and personnel structure, or financing, are not transparent, and, at the same time, which do not have functional control mechanisms in place, do not comply with legal obligations, do not inform the public or supervisory authorities about their activities, do not communicate with the public administration, and operate with a large amounts of funds, mainly in cash.

Similarly, it is possible to draw a conclusion that local NPOs that operate only in the Czech Republic, with very little or minimal cash, and have no or very few assets, face smaller risks. However, it is not possible to exclude the risk of such NPOs (or e.g. their facilities) to be abused for radicalisation and recruitment of foreign terrorist fighters.

It is important to highlight that, according to available information, the majority of NPOs that operate in conflict areas show a high awareness of the risk of abuse for terrorism financing (further also referenced as TF), and seem to have robust risk mitigation systems. A positive impact on the reduction of risk, particularly in the case of large NPOs operating in several countries, is achieved also thanks to strict controls by institutional and state donors (e.g. EU grant schemes, USA, etc.), and, last but not least, the efforts of the NPOs themselves in the area of risk management – especially transparent functioning of the organizations themselves, including their management and personnel structures. It is thus likely that the actual level of vulnerability of these types of NPOs will be very low.

Risk factors categories

1) Public registers and registration

Code	Risk factor	Significance	Possible detection	Description and commentary
1A	A fictitious NPO	high	Checking public registries or open sources	The NPO is not listed in public registries, and therefore it is not a legal person according to the Czech law. There is a risk that the persons in charge might be only pretending to be an NPO.
1B	The NPO does not comply with legal obligations in relation to public registers	low	Checking public registers in the context of legal obligations	The NPO does not submit financial statements, does not update its statutory bodies and other information, does not enter required documents – or only fulfils these obligations formally or belatedly – these documents do

				not contain complete information or this information does not correspond to known facts.
1C	Lack of publicly available data on founding legal acts	low	Checking public registries, NPO website	No founding-related information is available, which would make it possible to identify the purpose and declared main activity of the NPO.
1D	Lack of information on the beneficial owner of an NPO ²	medium	Checking the records of beneficial owners	As a rule, these will be persons who are already listed in the public register (i.e. persons who are members of the statutory body). NPOs are obliged to add information about beneficial owners by January 1, 2021.
1E	NPO has a fictitious seat that does not correspond to the actual seat	medium	Attempt to serve a document, on-the-spot inspection	It is not possible to contact the NPO at its official headquarters, nor does it receive documents. This is linked to 5A.
1F	The name of the NPO is easily mistakable / interchangeable	medium	Checking public registries, NPO website	The NPO purposefully uses a name similar to another NPO, or an international NPO, which can lead to mistaking them; the “unknown” NPO piggy-backs on the good name of the one that is known.
1G	An NPO carries out activities that are not subject to (sectoral) inspection	low	The NPO carries out activities which only the Financial Administration is authorized to check	NPO is only subject to supervision for tax purposes, and there is only limited information available to the authorities on its activities.
1H	This risk factor is not part of the public version.			

² In the NPO context, these will be namely those persons, who – in the legal person – ultimately have the final influence.

1I	Unknown foreign NPO	medium	Checking public registries and their foreign counterparts	An unknown NPO can be a foreign NPO; considering different registration standards (e.g. foreign associations operating in the Czech Republic should also be registered in the appropriate register, but it is not fully possible to rely on it).
----	---------------------	--------	---	--

2) Focus of the NPO activities

Code	Risk factor	Significance	Possible detection	Description and commentary
2A	A large part of the NPO activities takes place in conflict zones, in countries on sanction lists, or an area close by	high	NPO website, annual reports, grant projects, media	Countries on sanction and related lists. ³
2B	A local partner of an NPO is linked to activities associated with terrorism	high	Media, grant projects	If the information comes from reliable sources.
2C	This risk factor is not part of the public version.			
2D	This risk factor is not part of the public version.			
2E	It is difficult to prove or verify the actual implementation of an NPOs' activities	medium	NPO website, annual reports, media	This factor is risky especially in connection with afore-mentioned factors. Working in very remote areas, conducting activities without clear and tangible results, missing outputs – documentation, lists of beneficiaries, no media presence, information on social networks, etc., the NPO does not work with public funds and is not subject to subsidy control.

³ <http://www.financnianalytickyrad.cz/stanoviska-fau.html>

2F	NPO programs and activities are only vaguely explained to supervisory authorities	low	NPO website, public register, annual reports, media, program and grant reports	This factor is risky especially in connection with afore-mentioned factors. E.g. it may not always be clear who is the final recipient, if the help or assistance in the field is outsourced, the goals of individual programs and recipient selection are not clear, etc.
2G	The activities of an NPO support persons from conflict zones, or the purpose of the NPO has a different apparent relation to these countries	medium	NPO website, annual report, grant projects, media	Namely the countries on sanction and related lists. ³

3) Financial resources

This group of risk factors is not part of the public version.

4) The use of funds

This group of risk factors is not part of the public version.

5) Other activities and attributes of an NPO

Code	Risk factor	Significance	Possible detection	Description and commentary
5A	The NPO does not communicate with state authorities	medium	Attempt to communicate with the NPO	Calls for fulfilling public registry obligations, tax obligations, public funds management obligations, etc.
5B	Concealment of the real functioning of the NPO	high	Searching in open sources	The NPO's publicly declared activities or representatives do not correspond with reality.
5C	Carrying out gainful activities not related to the main activity of the NPO	low	NPO website, media	
5D	The NPO does not inform about its activities	low	Searching in open sources	The NPO does not have a website, social media accounts,

				noticeboards, or other information channels.
5E	Purchased or leased property is used by an NPO in a way that is contrary to its mission	low	Searching in open sources	E.g. the NPO rents a real estate property for the purpose of carrying out first aid training, but, in fact, carries out activities aimed at radicalizing individuals.
5F	Lack of awareness about sanction lists and other legal obligations in the area of AML/FT	low	Communication with NPO	Inadvertent or negligent abuse may occur. Such NPOs may also be targets of abuse from terrorist entities precisely because of their lack of information awareness or negligence.
5G	Absence of internal rules mitigating the risk of NPO abuse	low	Internal NPO documentation, NPO website, communication with NPO	It makes it difficult to e.g. oversee programs, employees, etc., both internally and externally.
5H	No specific persons made responsible for reducing the risk of NPO abuse	low	Internal NPO documentation, NPO website, communication with NPO	It makes it difficult to e.g. oversee programs, employees, etc., both internally and externally.
5I	No mechanism for screening foreign partners and NPO suppliers	low	Internal NPO documentation, NPO website, communication with NPO	E.g. against sanction lists.
5J	Large operational capacities	low	Internal NPO documentation, NPO website, communication with NPO, media	Access to resources, often in cash; global presence, especially in risk areas – NPO can be targeted for misuse of resources, networks, and programs (e.g. for recruiting).
5K	NPO records are stored in an area where terrorist entities are present in larger numbers	high	Internal NPO documentation, NPO website, communication with NPO, media	Information on personnel and recipients of assistance can be misused – particularly sensitive, if the recipient is also a target of terrorist actors in the area; account access may be misused.

5L	An NPO merges with another organisation, which is, however, suspected of supporting terrorism or related activities	medium	Internal documentation, information from the media	The NPO's assets and resources can thus be abused to support terrorism without the NPO's intention.
5M	An NPO's premises are used as cover criminal or other illegitimate activities	high	Internal documentation, information from the media	The NPO's assets and resources can thus be abused to support terrorism without the NPO's intention.
5N	A sudden change in the nature of activities, staffing, method of financing, or other essential requirements of the NPO, leading to higher overall riskiness	low	NPO website, communication with NPO, media	It may indicate takeover, control, or abuse of legitimate NPO for illegal activity.

6) Personnel

Code	Risk factor	Significance	Possible detection	Description and commentary
6A	High risk persons or organisations within an NPO	high	Public registers, media, open sources, criminal record register	E.g. persons with ties to a conflict area or a neighbouring country are in the management, among the employees, internal and external, straw persons, fictitious persons, persons lawfully convicted of an intentional crime, persons on sanctions lists.
6B	High risk persons conducting public collections	high	Public registers, media, open sources, criminal record register	Please see 6A.
6C	An unusual increase in the net worth of persons involved in an NPO	high	Tax returns, NPO accounting	This may be increased affluence related to e.g. the founder, director, employee, co-worker. If they do not correspond to established or claimed data.

6D	Excessive radicalism of NPO representatives or inclinations towards extremist ideologies	high	Communication with NPO, NPO website, media	It can also be an internal NPO conflict.
6E	Large amounts of associates and temporary workers	low	Grant projects, annual reports	Vetting of temporary workers can be complicated; the NPO may face frequent personnel changes and thus lose know-how needed for mitigating the FT risks.
6F	Decentralized communication and management	low	Internal NPO documentation, annual reports, NPO website	This can make control and understanding of the organization functioning difficult.
6G	NPO representatives often travel to conflict or neighbouring areas	low	Communication with NPO, NPO website, media	Without proper links to declared NPO activity in the area.

Conclusion

It is necessary to assess the NPO risks through all the available information, out of which the selection above is only a fraction. The goal of the document is by no means to impede on the legitimate activities of the NPO sector, but to provide the inspection entities and entities providing public funding or calling for public tenders with a tool to assess the risk of individual NPOs, while assessing available information on the individual risk factors. At the same time, this tool directly can help NPOs to self-assess, and possibly take steps to gradually decrease any risks they might identify, and, by extension, to decrease the risk of being abused, whether intentionally or not. A follow-up document is going to directly address awareness-raising in the NPO sector.

This document, as well as all the risk factors within it, shall be regularly updated by the working group as necessary, at least every two years.