

Annex I. NPOs & their categorization

FATF: NPOs & FATF defined NPOs

Identifying all legal entities, arrangements and organizations that could fall under the FATF definition of NPO

Given the variety of legal forms that non-profit organizations (NPOs) can have, depending on the jurisdiction, the FATF has adopted a functional definition of NPO (see box). This means that FATF Recommendation 8 applies to any legal person, legal arrangement or organization that meets the FATF definition, regardless of its legal status in the domestic context - in jurisdictions where there is legislation for NPOs (which is not required by FATF).

Box 1. FATF uses a functional definition of 'NPO'

Under the FATF Recommendations an NPO is *any legal person **or** arrangement **or** organization that **primarily engages in raising or disbursing funds** for purposes such as charitable, religious, cultural, educational, social or fraternal purposes, or for the carrying out of other types of “good works”*.¹

The FATF has established that only NPOs that fall under the FATF definition could be vulnerable to TF abuse.

To enable an informed distinction between the organizations that do and do not meet the FATF definition, the Working Group should:

- First, identify **all** organizations that perform activities for purposes of any type of 'good work,
- Categorize these organizations,
- Document basic information about these organizations in the Excel file (to the best knowledge that the working group has, which may mean that the working group is only able to provide an approximation about the number of organizations, their operating model, activities and purpose – until it obtains more information for future risk assessments),
- Finally, review the information collected about the various categories of organizations against the FATF definition. Only where the organizations meet the FATF definition are they considered FATF-defined NPOs. The Working Group should only apply this risk assessment to this subset of FATF-defined NPOs, to determine the risk level of the different categories of FATF defined NPOs.

When identifying which NPOs could meet the FATF definition, make sure that the widest array of non-government and not-for-profit legal persons, arrangements and organizations are considered. It may be that the FATF defined NPOs overlap entirely with regulated NPOs in the jurisdiction, but this

¹ FATF Recommendations, Interpretive Note to Recommendation 8.

cannot be assumed. Working Groups should ensure that the broadest scope of NPOs is considered, including NPOs registered with another authority and NPOs that are not registered.

Making distinctions between NPOs

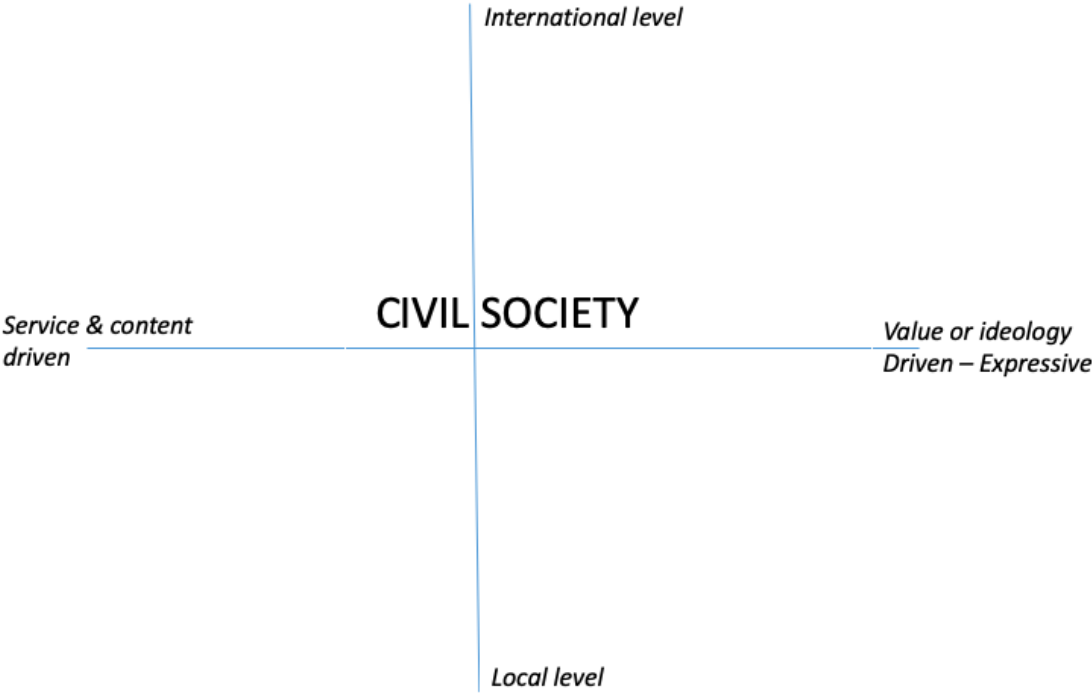
In practice, the terms used for different types of civil society organizations can overlap, or used interchangeably. Also, there might be domestic legal definitions for these terms that are different from the functional definition used for NPOs by the FATF.

Generally, these distinctions can be made:

- **(International) Non-Governmental Organisation / (I)NGO:** legally registered, functioning as an intermediate (professional) organisation, that acts independently between funding agencies/government and target groups. The legitimacy is mostly derived by moral expression, legal setup, funding partners, and proven results/impact of interventions. NGOs have a social aim, not for profit. Funding is obtained through multiple sources, including government funds and membership contributions. May have different operating models, of which it is common that the (I)NGO fundraising is used to fund local organizations, including local organizations in a different jurisdiction. This may occur through subcontracts, or grants. This funding model is used commonly for (I)NGOs that provide assistance in humanitarian aid, health, education, infrastructure, electronic infrastructure, sanitization. This operating model will likely qualify as a FATF NPO, that should be assessed.
- **Community Based Organisation / CBO:** formally and informally organised groups working towards a common social/political/cultural interest. In contrast to an NGO, an CBO is not an intermediate organization, but is 'owned' by its members. The basis for its legitimacy lies in its constituency (mostly reflected in a representative structure). CBOs could meet the FATF definition, when their main activities include the raising and disbursing of funds (pooling of funds). The fact that these funds are raised and disbursed among their members, may result in a low or non-existent TF threat (which is an important factor for analysis). However, for CBOs that are located in areas of active terrorist threat, or with a membership that is closely related to active terrorist threat (e.g. members are sympathizers to terrorist ideology, members or their family and friends are designated terrorists), this consideration will likely not be applicable. These aspects should be reviewed by the Working Group. Consequently, CBOs should not be excluded from the risk assessment if they are primarily raising and disbursing funds.
- **Civil Society Organisation / CSO:** This can be any type of formally or informally organised Civil Society actor. Mostly, CSO is used as a synonym for NGO, as a legal and legitimately organised professional organisation with a social aim.
- **Civil society groups:** This can be the whole range of CS actors, but the term is mostly referring to loosely organized social groups like (grass root) movements and social networks that organize around a theme (e.g. racism, LGBTQ discrimination). The civil society group may be self-funded, locally funded, or supported by an international donor. Their primary activities will often include organization of protests and awareness raising campaigns, rather than raising or disbursing funds. However, this should be validated by the working group.
- **Research and knowledge centers (Think tanks):** These organizations primarily focus on knowledge development, research, awareness building and advocacy. Funds raised are usually used internally, to fund these activities. Will likely not meet the FATF definition, although there

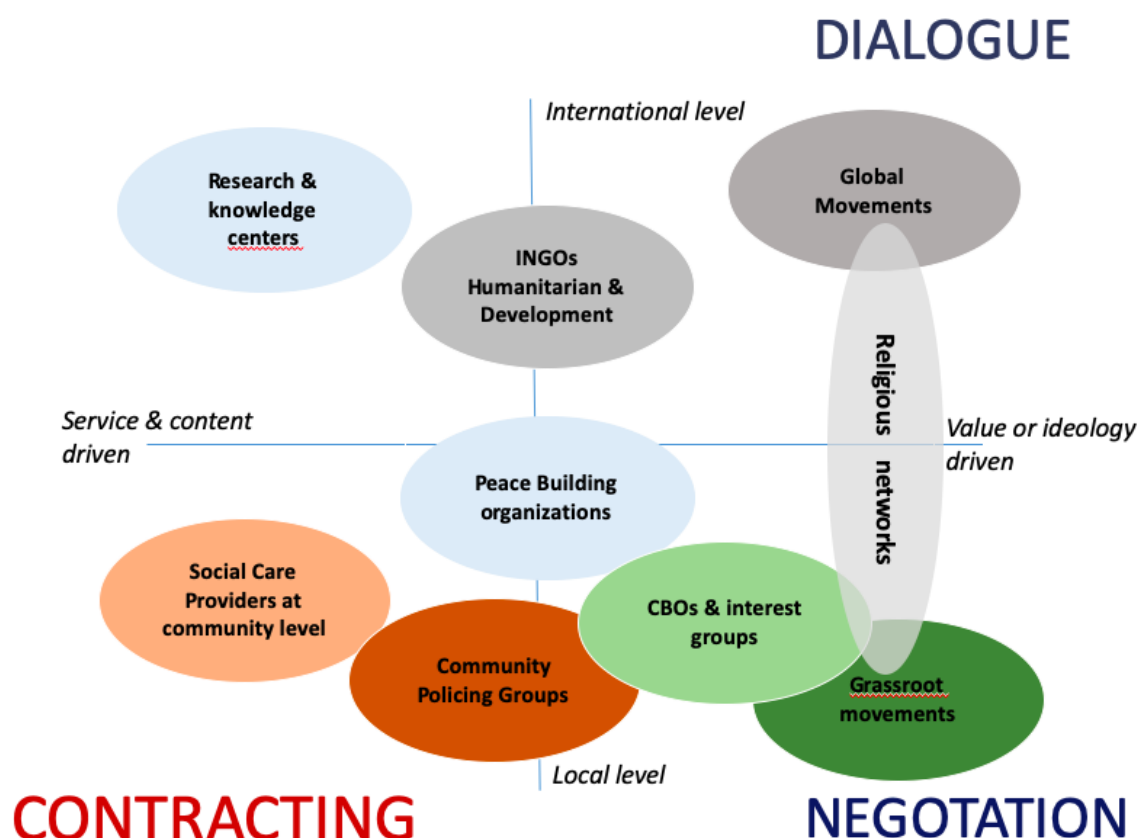
may be exceptions where the research, knowledge or advocacy supports terrorism and terrorist ideology and through such activities provide ‘other resources’ (other than funds) to terrorists.

Figure 1. Placing civil society organizations: the framework



Source: Human Security Collective

Figure 2. Placing civil society organizations in a context: example



Source: Human Security Collective

Exclusion of NPOs from the risk assessment

At this stage, it is better to be comprehensive. If a particular legal category in your jurisdiction includes some organizations which meet the FATF definition and some that do not, it should be included.

Nonetheless, certain types of organizations can be safely excluded. Examples include political parties, trade unions, professional associations and credit unions. These are all normally considered outside of the scope of organizations that engage in “good works”.

Furthermore, the FATF has established that the NPOs most at risk of abuse for terrorist financing are engaged in “service activities”, meaning programs focused on providing housing, social services, education, or health care.

NPOs engaging in “expressive activities”, such as programs focused on advocacy, sports and recreation, arts and culture, interest representation or advocacy such as political parties, think tanks and advocacy groups are much less likely to be exposed to TF abuse. For expressive NPOs, the Working Group should consider whether there are considerations to include expressive NPOs – for example, where there are concerns that expressive NPOs are encouraging terrorist recruitment.

Looking at figure 2, it is likely that in this example, the civil society organizations that fall under the 'Dialogue' and 'Negotiation' quadrant do not meet the FATF definition, since these are not engaged in primarily raising or disbursing funds, even though they would be considered NPOs in the general sense of the word.