

ORGANISATIONS

& TERRORISM FINANCING

NON-PROFIT

REGIONAL RISK ASSESSMENT 2017



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA



Australian Government
AUSTRAC



NON-PROFIT

ORGANISATIONS

& TERRORISM FINANCING

REGIONAL RISK ASSESSMENT 2017

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CONTENTS

04

Summary

- Key findings
- Priority actions

08

Introduction

- In-scope region
- Purpose
- Methodology
- Report structure
- Key terms

12

Regional landscape

- Regional NPO landscape
- Regional terrorism and TF landscape

16

Threat

- Level of misuse
- Links to terrorist groups
- Sophistication of TF methodologies

26

Vulnerability

- Sectoral vulnerabilities
- Regulatory vulnerabilities

38

Consequences

- Use of funds
- NPOs
- Individuals/beneficiaries
- Political

43

At-risk NPOs—subsets and indicators

- Main characteristics of high-risk NPOs

44

Priority actions

- Country-to-country information sharing
- High-risk NPO indicators
- NPO vetting of personnel
- Identifying at-risk NPO subsets
- Identifying unregulated NPOs
- Risk-based monitoring, supervision and disruption
- Targeted TF-specific outreach
- Enhanced information sharing among authorities

48

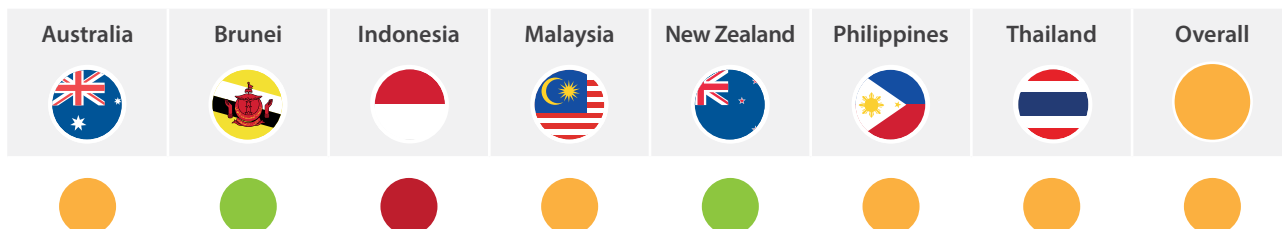
Appendix

- Methodology and risk matrix

SUMMARY

KEY FINDINGS

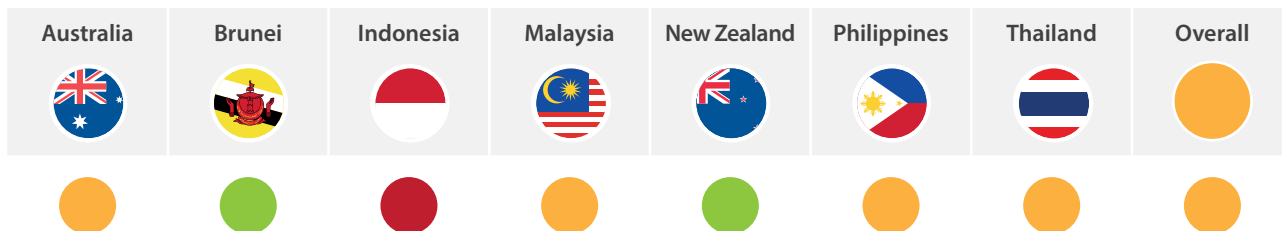
Overall risk rating



The overall terrorism financing (TF) risk for the region's non-profit organisation (NPO) sectors is assessed as **medium**. This is based on a regional assessment of the TF threat environment, NPO sector vulnerabilities and associated consequences of misuse.¹

While the regional risk assessment on TF in 2016 (RRA 2016) assessed NPOs as high risk, it noted there were fewer cases of NPO misuse than expected. It also recognised that more analysis was required to clarify the extent of the risk. This specific, deeper assessment of NPOs, based partly on a number of national NPO risk assessments, has confirmed the level of misuse is generally limited in most countries, with the overall regional risk adjusted accordingly to medium.

Threat



The regional threat of TF through NPOs is assessed as **medium**. This rating reflects the level of NPO misuse, NPO links to terrorism and the sophistication of TF methodologies.

The level of misuse of NPOs is relatively low across most of the region. While intelligence suggests misuse is potentially more than the limited number of investigations indicates, NPOs are probably not currently a primary source of funds for terrorism. By contrast, in Indonesia NPOs are linked in many investigations to larger terrorist groups and appear to have been a significant vehicle for financial support of terrorists and terrorist networks.

KEY



High



Medium



Low

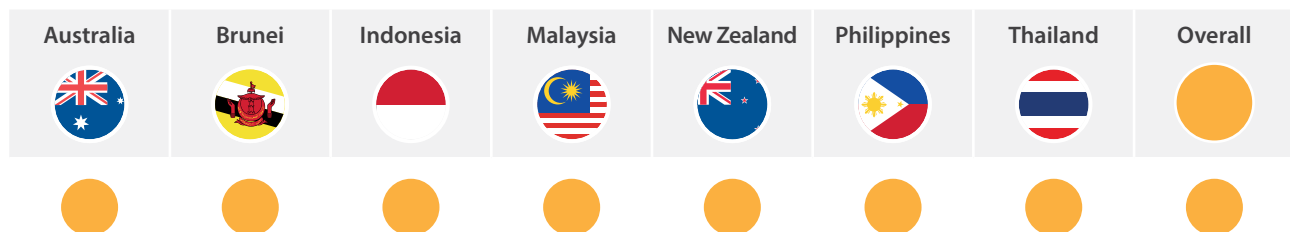
¹ Singapore assesses its NPO TF risk as low (threat – low, vulnerability – low, consequences – moderate).

NPO links to domestic, regional and international terrorist groups vary across regional countries and can be hard to determine. However, ties to the so-called 'Islamic State of Iraq and the Levant' (ISIL)—both in the Middle East and domestic ISIL-inspired or directed groups—have been detected or suspected in several cases. NPOs are mainly victims of misuse, rather than set up as a sham or fake NPO for TF purposes. In several cases, terrorists or their supporters have infiltrated or manipulated an NPO.

Regional NPOs have links to foreign countries considered high risk for TF (source or destination countries). Limited visibility over international funds flows hinders any estimate of the amount or level of potentially suspicious funds involved. Emerging signs of NPOs in Indonesia and the Philippines, possibly linked to terrorist groups in the southern Philippines, suggest NPOs provide a TF source and channel to a high-risk area in the region.

In known and suspected cases of TF involving an NPO, established and trusted channels are primarily used to raise and transfer funds. This usually involves legitimate banks and remitters. However, there are signs of some use of less visible channels such as crowdfunding and online payment platforms. Indonesia sees growing social media misuse and considers it could displace NPOs as a key channel.

Vulnerabilities

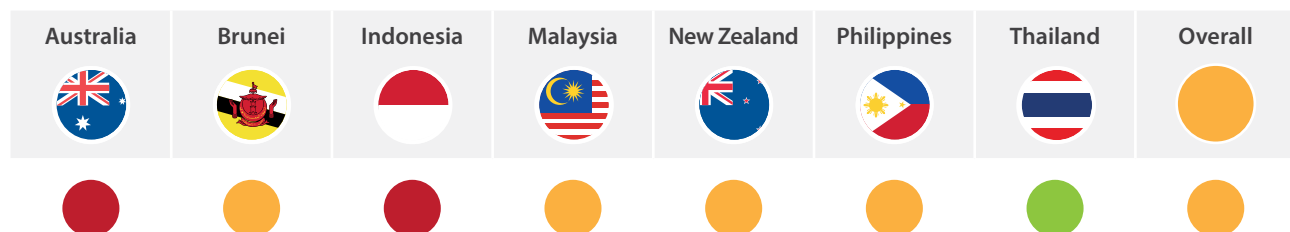


The region's NPOs pose a **medium** vulnerability to TF overall. This is based on an assessment of both sectoral vulnerabilities and the adequacy of regulatory controls and measures for NPO sectors across the region.

The main sectoral vulnerability is the limited visibility of the funding cycle. The cash intensive nature of the NPO sector creates vulnerabilities, particularly concerning the transparency and accountability of the end-to-end funding cycle (fundraising through to expenditure). NPOs that send or receive funds from high-risk countries are also vulnerable to money being diverted for terrorism purposes. Due diligence and screening of personnel may also be a vulnerability NPOs need to address, as cases of terrorist infiltration and manipulation indicate. Awareness of TF risk among NPOs varies but generally requires improvement, particularly for at-risk NPOs.

All regional countries have laws and regulations in place to govern and oversee NPOs. Regulatory strengths include the reasonable level of understanding among authorities of TF risks, national and international cooperation and coordination arrangements, and enforcement measures available to authorities. However, most countries identify gaps in their capacity to proactively identify suspicious NPOs, and few countries have identified their high-risk subset of NPOs. Another major area for improvement is specific TF outreach to educate and protect NPOs at most risk from misuse. While most countries conduct some form of outreach, it mainly addresses general governance rather than TF. Limited TF outreach from authorities partly accounts for the mixed understanding of TF risk among NPOs.

Consequences



The consequences associated with TF in the region's NPO sectors are assessed as **medium**.

NPO funds that are diverted for TF are more likely to be used to support operational costs for terrorist groups and to fund travel for foreign terrorist fighters. This poses significant security consequences within regional countries or in relation to foreign conflict zones.

The diversion of funds for TF also directly affects NPOs and their intended beneficiaries. It can limit, in the short term at least, the funds available for development, humanitarian support and other important social goals.

Higher-risk TF subset

International standards on combating money laundering and the financing of terrorism and proliferation, set by the Financial Action Task Force (FATF), require countries to identify the subset of NPOs that are likely to be at risk of TF abuse. While it is difficult to generalise across a diverse region, this assessment has identified some common characteristics of NPOs that are more exposed to TF risk.

The main characteristics of high-risk NPOs include:

- more likely to be service style NPOs than expressive style NPOs²
- high cash intensity
- public donations are the main source of funds, while membership fees can also be another important funding source
- support a particular ethnicity or religion
- based in provincial or capital cities rather than rural or border areas
- operate in, or send or receive funds/goods to and from, high-risk jurisdictions
- have relationships with organisations operating in high-risk jurisdictions.

These factors are not exhaustive and need to be treated carefully. They provide a starting point for developing more nuanced risk profiles of each country's NPO subset and also indicators of potentially high-risk NPOs.

² See the 'Key terms' table for the definition of service and expressive NPOs.

PRIORITY ACTIONS

Based on the main areas of threat, vulnerability and overall TF risk involving NPOs, this assessment has identified a number of improvements and priority actions for regional countries and also the Counter-Terrorism Financing (CTF) Summit to consider.

Country-to-country information sharing

Regional countries that have identified cross-border links among terrorist groups or foreign terrorist fighters and NPOs should strengthen measures to share information proactively.

High-risk NPO indicators

Building on this assessment, a short regional project should be conducted to collate and develop 'red flag' indicators of high-risk NPO activity involving TF across the region.

NPO vetting of personnel

To mitigate the risk of terrorist infiltration and manipulation of NPOs, codes of conduct should be established or strengthened to promote closer scrutiny of NPO personnel including senior staff and directors.

Identifying at-risk NPO subsets

To meet revised international standards and improve targeted monitoring, supervision and outreach, countries should identify their subset of NPOs at risk of TF misuse.

Identifying unregulated NPOs

Countries should consider measures to improve identification of unregulated NPOs and assess the risk such NPOs pose.

Risk-based monitoring, supervision and disruption

Authorities should monitor and supervise NPOs on a coordinated risk basis, to support targeted oversight and disruption of NPOs at risk of, or involved in, TF.

Targeted TF-specific outreach

Countries should refocus their NPO outreach to specifically highlight TF risk and good practice to mitigate it. Depending on a country's NPO risks, TF outreach should be delivered to NPOs, reporting institutions, the public and relevant authorities to improve the understanding, detection and disruption of TF risk related to NPOs.

Enhanced information sharing among authorities

Countries should seek to enhance information sharing among NPO and other regulators (e.g. financial), counter-terrorism authorities and financial intelligence units (FIUs). This should include developing and collecting common data to strengthen oversight, and adopting measures to improve the visibility of international NPO funds flows linked to high-risk foreign countries.



INTRODUCTION

08

In 2016, under the co-leadership of AUSTRAC and Pusat Pelaporan dan Analisis Transaksi Keuangan (PPATK), the world's first regional risk assessment on TF was launched at the second CTF Summit. The RRA 2016 assessed a number of TF channels across Australia and South-East Asia. It identified NPOs as one of the main channels used to raise and transfer funds to support terrorist activity and violent extremism in the region and foreign high-risk countries. It also recommended countries develop a clearer picture of the level of TF misuse and identify higher-risk NPOs and work together to provide a deeper understanding of the specific risks NPOs pose for the region.

“...THIS REPORT HAS BEEN A FURTHER STEP IN THE PROCESS OF STRENGTHENING COLLABORATION AMONG AGENCIES IN SOUTH-EAST ASIA, AUSTRALIA AND NEW ZEALAND...”

Across the region, NPOs deliver a range of important services. They operate nationally, within the region and across the globe to support individuals and local communities, as well as deliver vital humanitarian aid. Some NPOs also perform an important role in combating terrorism through promoting deradicalisation.

THE SECOND CTF SUMMIT

The second CTF Summit was held in Bali, Indonesia in August 2016. Co-hosted by AUSTRAC and PPATK, it was attended by 26 states and 240 representatives and observers from the United Nations, government, industry, academia and independent think tanks. As outlined in the Nusa Dua Statement, CTF Summit members agreed to a number of priority actions identified in the RRA 2016, including the completion of this risk assessment.

IN-SCOPE REGION

For this assessment, the region includes countries involved in the RRA 2016 (Australia, Indonesia, Malaysia, the Philippines, Singapore and Thailand) and two new partner countries (Brunei and New Zealand). Under the coordination of AUSTRAC, Bank Negara Malaysia and PPATK, this assessment draws on information and expertise from the FIUs in these countries. Following the second CTF Summit, these countries committed to delivering this assessment for its findings to be considered at the third CTF Summit in Kuala Lumpur in November 2017.

PURPOSE

The aim of this assessment is to clarify the level and nature of TF risk involving NPOs in the region. It looks more deeply into specific NPO risk than was possible in the broader RRA 2016. It examines the question of why there were fewer cases involving NPOs identified in the RRA than expected, given the large number of NPOs in the region and some of the inherent vulnerabilities to which NPOs can be exposed.³ This assessment identifies the main threats currently facing NPOs and highlights key vulnerabilities that are, or could be, exploited to support or promote terrorism and its financing. It also addresses the FATF requirement for countries to identify the subset of NPOs at high-risk of TF misuse.

METHODOLOGY

This assessment examines risk as a combination of threats, vulnerabilities and consequences. This assessment uses a range of FATF guidance on risk assessment methodology and draws on specific international advice for assessing risk in the NPO sector.

Key terms used in this assessment are on page 11. More information on the methodology and risk matrix is at Appendixes.

REPORT STRUCTURE

This assessment is presented in five sections.

The first section provides a snapshot of the region's NPO sectors including their size, range of activities and their legal and regulatory landscapes. It also summarises the region's NPO sector financial activity.

The second section provides important context for understanding the current TF risk landscape in which NPOs in the region operate. This includes the region's evolving terrorism threat landscape.

The third section presents the assessment's risk ratings. This section is divided into three components: threat, vulnerabilities and consequences.

The fourth section provides an overview of the region's high-risk subset of NPOs.

The fifth section sets out proposed priority actions to address the main areas of threat, vulnerability and overall risk involving NPOs identified in the assessment.

Senior officers and intelligence analysts from the following FIUs developed and completed this assessment:

- AUSTRAC, Australia
- Financial Intelligence Unit, Autoriti Monetari Brunei Darussalam, Brunei Darussalam
- PPATK, Indonesia
- Bank Negara Malaysia
- New Zealand Police Financial Intelligence Unit
- Anti-Money Laundering Council, the Philippines
- Anti-Money Laundering Office (AMLO), Kingdom of Thailand.

Information from the Suspicious Transaction Reporting Office of Singapore is also included in parts of the report.

This assessment builds upon the foundations laid at the first CTF Summit in Sydney, November 2015, and second CTF Summit in Bali, August 2016. It has been a further step in the process of strengthening collaboration among agencies in South-East Asia, Australia and New Zealand. It should enhance the capacity of the countries involved in the assessment to understand and develop responses to mitigate NPO risks better, while deepening the intelligence picture of regional TF risk. By providing new and nuanced insights on NPO risks specific to our region, this assessment should also improve international understanding of the nature of TF risks related to a sector that performs an important role in global development.

The assessment team acknowledges the significant contributions of law enforcement, regulatory and intelligence experts to this project in each country, and extends its thanks to the NPO sector for their engagement.

³ *Terrorism financing in South-East Asia and Australia: regional risk assessment 2016*, page 24. <http://www.austrac.gov.au/regional-risk-assessment-terrorism-financing-2016>

KEY TERMS

NPO SECTOR TERMINOLOGY

Term	Description
NPO	An organisation that does not operate for the profit, personal gain or other benefit of particular people (e.g. its members, the people who run it or their friends or relatives).
'Sham' NPO	An NPO that has formed a legal entity, but operates for the sole or primary purpose of facilitating TF.
Service NPO	An NPO involved in service activities. These include programs focused on housing, social services, education, and health care. In some countries, it also includes religious education and affiliated social services.
Expressive NPO	An NPO involved in expressive activities. These include programs focused on religious activities, sports and recreation, arts and culture, interest representation, and advocacy.

RISK TERMINOLOGY

Term	Description
Risk	Risk is based on the assessment of three factors: threat, vulnerability and consequence.
Threat	A threat is a person or group of people, object or activity with the potential to cause harm. In the TF context 'threat' includes terrorist groups and their financiers, associates and facilitators. It also involves how these actors may seek to exploit funding sources and means of transferring and storing funds.
Vulnerability	Vulnerability refers to the characteristics of a sector that make it susceptible to TF.
Consequence	Consequence refers to the potential impact or harms of TF in the NPO sector. It involves consequences for NPOs and NPO sectors, individuals and beneficiaries, governments, and national, regional and international security.



REGIONAL LANDSCAPE

12

REGIONAL NPO LANDSCAPE

The region's NPO sector is large, diverse and important for enhancing economic and social stability in the region. NPOs operate locally, nationally, intra-regionally and internationally. They provide a wide range of services and undertake a variety of activities from operating local clubs to providing aid to developing countries.

This assessment identified over 890,000 NPOs operating in the region. This figure does not include unregistered or unregulated NPOs, the number of which is difficult to determine. The number of NPOs in each country ranges from 482 in Brunei to almost 337,000 in Indonesia. With assets valued at USD3.5 billion in Malaysia and over USD200 billion in Australia, the NPO sector is economically significant in a number of countries.

Most regional NPOs engage in 'service' activities as opposed to 'expressive' activities.⁴ Of these, charities and religious organisations comprise the largest sub-sectors. In a 2014 report about the risk of terrorist misuse of NPOs, FATF identified service-related NPOs to be at greatest risk of TF.⁵ This finding underscores the importance of countries taking steps to identify their high-risk NPO subset and its characteristics (see the 'At-risk NPOs – subsets and indicators' section).

Most countries have two or more authorities responsible for providing NPO regulatory oversight. While NPOs generally are not required to register with a regulator, in most countries many NPOs opt to register to secure enhanced legitimacy and access to tax concessions, government grants and certain financial services. The majority of regional NPOs are registered with appropriate regulators.

Financial snapshot

Across the region, there is limited visibility of NPO financial transactions. More than half of participating countries cannot easily distinguish funds flows for their NPO sector. Based on available data⁶ and best estimates:

- a large proportion of international transfers into the region originate from the United Kingdom, the United States of America (USA) and Switzerland, while significant intra-regional transfers involve Singapore and Thailand
- there is no discernible pattern for international transfers out of the region.

This likely reflects the global nature of regional NPO networks and operations. Many top source and destination countries have long-standing relationships with NPOs in the region. For example, a regional NPO may have an office or key partner organisation in one of those countries. Available data on foreign country transfers probably also reflects the investment decisions of regional NPOs or NPO use of some locations—such as international financial centres—to coordinate international money movements.

“MOST REGIONAL NPOS
ENGAGE IN ‘SERVICE’
ACTIVITIES AS OPPOSED
TO ‘EXPRESSIVE’ ACTIVITIES.
OF THESE, CHARITIES AND
RELIGIOUS ORGANISATIONS
COMPRISE THE LARGEST
SUB-SECTORS”

4 These terms are described in the 'Key terms' on page 11.

5 www.fatf-gafi.org/publications/methodsandtrends/documents/risk-terrorist-abuse-non-profits.html

6 This is based mainly on data for Australia and to a lesser extent Indonesia and Malaysia. It should be considered as indicative.

REGIONAL TERRORISM AND TF LANDSCAPE

“WHILE ISIL HAS SUFFERED
MAJOR MILITARY SETBACKS
IN SYRIA AND IRAQ, THIS
HAS OPENED UP NEW
SECURITY CHALLENGES
IN REGIONS OUTSIDE THE
MIDDLE EAST, INCLUDING
SOUTH-EAST ASIA”

General regional terrorism environment

Terrorism threats are serious and in some places in the region, increasing. As outlined in the RRA 2016, global terrorism groups have inspired individuals and cells in the region to become radicalised. ISIL⁷ influence in particular has re-energised a generation of terrorist groups and also seen some groups overtly pledge allegiance to ISIL. This has led to attempts to act violently at home or within the region, as well as travel to conflict zones in the Middle East. Terrorist groups and lone actors based in our region have mounted attacks in ISIL's name or under its planning and direction.

While ISIL has suffered major military setbacks in Syria and Iraq, this has opened up new security challenges in regions outside the Middle East, including South-East Asia. It raises the prospect of foreign terrorist fighters returning to their home countries or other parts of the region and inspiring or plotting future attacks. While they face serious difficulties trying to escape from Syria/Iraq, the possibility of foreign terrorist fighters slipping back into the region cannot be discounted. ISIL-aligned groups in the Philippines have called upon foreign terrorist fighters to travel to the Philippines instead of the Middle East.

Most regional partners (Australia, Indonesia, Malaysia, and Thailand)⁸ involved in the RRA 2016 maintain their terrorism threat environments remain high and largely unchanged since 2016. While the insurgency in Thailand's southern border provinces is not currently linked to global terrorism, there are concerns that foreign terrorist fighters returning from the Middle East may transit through the country to other parts of the region. Likewise, there is potential for Malaysia to be used as a transit country for recruits joining terrorist groups active in other countries, with its porous borders vulnerable to terrorists moving funds and other material support into neighbouring countries. Brunei and New Zealand—new partners in the CTF Summit—assess their current terrorism threat environments to be low.

7 This assessment employs FATF's use of ISIL rather than the so-called Islamic State (IS) or Islamic State of Iraq and Syria (ISIS).

8 Singapore's threat environment remains unchanged at low.

The Marawi siege highlights the increasingly tense security situation in the southern Philippines. The scale of the siege and protracted campaign to combat it point to an increased terrorist capability and ambition in that area. It could also signal a growing regional security problem. The siege involves not only terrorists from Indonesia and Malaysia joining Philippines ISIL-aligned groups, but also possibly foreign terrorist fighters from outside South-East Asia.

“THE SCALE OF THE MARAWI SIEGE AND PROTRACTED CAMPAIGN TO COMBAT IT POINT TO AN INCREASED TERRORIST CAPABILITY AND AMBITION IN THAT AREA”

In response, Malaysia and Indonesia have increased their joint counter-terrorism effort with the Philippines to police the tri-border maritime and land area the countries share. These porous borders have been exploited by terrorist groups to move cash, weapons and personnel. Other partners such as Australia and the USA have also committed themselves to strengthen the counter-terrorism posture in the area. These developments underline the importance of multilateral efforts to combat regional terrorist threats.

Regional TF landscape

The regional TF landscape remains largely unchanged since the RRA 2016 was published. However, there are signs of increased external funding into the region and other TF activity due to the evolving terrorism threats discussed above.

The RRA 2016 identified three key TF risks to the region:

- **self-funding** to support local cells and the travel of foreign terrorist fighters
- the use of **NPOs** to raise, mask and transfer terrorism funds
- **cross-border movement** of cash to support regional terrorist groups and fund local attacks.

The RRA 2016 also identified two factors that could potentially change the regional TF environment: increased use of stored value cards and online payment platforms, and increased funds flows into the region from international terrorist groups. Intelligence indicates increased activity with both, which is relevant to this risk assessment.

- The use of online payment platforms by NPOs to collect donations and transfer funds is growing in some regional countries. This is partly a result of bank de-risking activities, but also NPOs shifting their business approach to capitalise on the global reach and marketing value online platforms provide.
- NPOs may be seen as an attractive vehicle to receive terrorism funds from outside the region, and move or disburse funds to support local terrorist groups or violent extremism in the region.

















The Marawi siege points to another possible development in TF methods. Similar to ISIL when it controlled large areas in Iraq and Syria, control over the city of Marawi provides opportunities to raise revenue through looting cash and other assets. If Philippines ISIL-affiliated groups were to seize more territory, access to assets under their control may, at least temporarily, offset their need for external financial support.

A silhouette of a person holding a rifle, positioned on the left side of the frame. The person's head is turned slightly to the right. The rifle is held with both hands, and its barrel points upwards and to the right. The background is a solid red color, with a large, semi-transparent circular area in the center. The word "THREAT" is written in white, uppercase letters across the middle of the image, partially overlapping the red circle and the silhouette. The number "16" is written in a large, pink, sans-serif font in the bottom right corner.

THREAT

16

"OVERALL, THE REGIONAL THREAT OF TF THROUGH
NPOS IS ASSESSED AS MEDIUM"

Australia	Brunei	Indonesia	Malaysia	New Zealand	Philippines	Thailand	Overall
							
							



PHILIPPINES

INVESTIGATIONS/INTELLIGENCE	ACTIONS	NPOs
0 CT 0 TF	0 prosecutions 0 convictions 0 STRs	44,941 total 57% service 43% expressive



THAILAND

INVESTIGATIONS/INTELLIGENCE	ACTIONS	NPOs
3 CT 2 TF	2 prosecutions 2 convictions 18 STRs	77,000 total 48% service 52% expressive



MALAYSIA

INVESTIGATIONS/INTELLIGENCE	ACTIONS	NPOs
0 CT 1 TF	0 prosecutions 0 convictions 14 STRs	63,102 total 64% service 36% expressive



BRUNEI

INVESTIGATIONS/INTELLIGENCE	ACTIONS	NPOs
0 CT 0 TF	0 prosecutions 0 convictions 0 STRs	482 total 63% service 37% expressive



INDONESIA

INVESTIGATIONS/INTELLIGENCE	ACTIONS	NPOs
292 CT 292 TF	39 prosecutions 39 convictions 29 STRs	336,857 total 100% service 0% expressive



AUSTRALIA

INVESTIGATIONS/INTELLIGENCE	ACTIONS	NPOs
2 CT 1 TF	0 prosecutions 0 convictions 27 STRs	257,000 total 71% service 29% expressive



NEW ZEALAND

INVESTIGATIONS/INTELLIGENCE	ACTIONS	NPOs
0 CT 0 TF	0 prosecutions 0 convictions 0 STRs	109,000 total

REGIONAL NPO THREAT ENVIRONMENT























This infographic shows detail about the current threat environment involving NPOs in the **South-East Asia** region. Figures are for 2014-16.



OVERALL THREAT LEVEL



THREAT ENVIRONMENT

	Australia	Brunei	Indonesia	Malaysia	New Zealand	Philippines	Thailand
Threat environment							
Level of misuse		Negligible			Negligible		
Links to terrorist groups		Negligible			Negligible		
Sophistication of methodology		N/A			N/A		

Overall, the regional threat of TF through NPOs is assessed as **medium**. Indonesia is assessed as high threat, while Australia, Malaysia and the Philippines are medium. Brunei and New Zealand are assessed as low.⁹

LEVEL OF MISUSE

Investigations and prosecutions

Apart from Indonesia, very few if any counter-terrorism or TF investigations involving NPOs have been conducted in the region. Most regional countries have not investigated NPOs for terrorism-related matters. Australia and Thailand have undertaken only a small number. During 2014-16, Thailand prosecuted two cases involving NPOs that led to convictions and the seizure of property (see the country experience on page 21) and money (in the other case).

In contrast, Indonesia has investigated a relatively large number (292 cases) of terrorism or TF matters involving NPOs over the past three years, with moderate increases in numbers each year. Indonesia also prosecuted 39 cases during this time, all of which resulted in convictions. The large number of investigations involving NPOs reflects the recent upswing in counter-terrorism investigations in Indonesia. NPOs come under investigation because of the intertwined nature between terrorist groups and some NPOs. Terrorists under investigation often belong to groups that have an NPO arm or are related to an NPO.

In Australia and Malaysia, NPOs become subject to counter-terrorism investigations in a generally similar way to Indonesia. NPOs often come to the attention of authorities through links to individuals or networks under investigation. In many cases, NPO involvement in TF is only suspected or inconclusive.

⁹ Singapore assesses its NPO threat environment as low (misuse – negligible, links to terrorist groups – negligible, methodologies – N/A).

A number of factors may explain the low number of NPO-related investigations across the rest of the region. The most likely reason is that NPOs are not a major source of funding for terrorism in many regional countries. The RRA 2016 identified self-funding as the dominant source of TF across the region. Criminal activity (Indonesia and the Philippines) and social media/crowdfunding (Indonesia and Malaysia) are also important in some countries. The inconclusive nature of background intelligence checks of a number of NPOs suspected of TF may also account for limited operational investigations.

“A NUMBER OF FACTORS
MAY EXPLAIN THE
LOW NUMBER OF NPO-
RELATED INVESTIGATIONS...
THE MOST LIKELY REASON
IS THAT NPOS ARE NOT
A PRIMARY SOURCE
OF FUNDING FOR
TERRORISM IN MANY
REGIONAL COUNTRIES”

National counter-terrorism strategies are another factor. A number of countries (Australia, Malaysia and Thailand) focus attention on disrupting and dismantling individual terrorists or terrorist networks, rather than targeting NPOs unless required. Australia, for example, pursues a broad approach that can involve, depending on the circumstances, activity other than investigations or prosecution to disrupt groups or plots.

COUNTRY EXPERIENCE: THAILAND

STRs submitted to AMLO identified suspected terrorism in the south of Thailand involving an NPO. Key individuals connected to the NPO received funds into their own bank accounts as well as to the NPO's bank accounts. Funds were then transferred to a school linked to suspected terrorism activities. An executive of the school (Person A) was suspected of abetting and providing financial aid to an insurgent group. Person A allegedly allowed an insurgent group to use the school as a place to promote violent ideology, deliver training and stockpile arms. A seizure order was issued to restrain the school's land, valued at 591,090 Baht (USD17,853). In December 2015, the Civil Court forfeited the land and vested it to the state. Person A was prosecuted for terrorism offences, but was later acquitted in court.

Intelligence indicators

Based on STRs,¹⁰ authorities in all regional countries have received or collected relatively limited to no financial intelligence related to NPOs and TF. Between 2014 and 2016, only 90 STRs were reported across the region for suspected TF involving an NPO. Indonesia (29 reports), Australia (27), Thailand (18) and Malaysia (14) accounted for all STRs.¹¹ New Zealand, Brunei (consistent with each country's low terrorism risk profile) and the Philippines received none. While only measuring STRs, the volume of reporting is small compared with the size of the NPO sectors in most countries. This is despite recent increases in reporting of general TF STRs in several countries, as well as improved guidance to reporting institutions on indicators of suspicious activity related to NPOs.

With the exception of Indonesia, this low level of financial intelligence probably reflects the limited extent of NPOs involved in TF, as well as the current threat environment in each country. It also likely shows a limited capacity in some countries to detect and report suspicious financial transactions. However, financial reporting institutions and government agencies generally face significant difficulties in distinguishing TF from ordinary legitimate financial activity, not only in relation to NPOs. Following money trails to foreign destinations, particularly conflict zones or through conduit countries, is challenging and often inconclusive.

The overall intelligence picture on suspected TF involving NPOs is broader than is reflected in financial transactions and STRs. Wider sources include counter-terrorism operations and other surveillance activity. The Philippines, for example, has not received any TF-related STRs on NPOs but possesses other intelligence to suggest NPO involvement in TF. As noted above, in some countries NPOs come to attention through links to persons of interest that are subject to terrorism, or at times criminal, investigations.

Funds flows with high-risk countries

This assessment has not been able to estimate or quantify at a regional level the amount of potentially suspicious NPO-related funds connected to high-risk countries.¹² This is largely due to challenges most regional FIUs and authorities face in identifying NPO transactions amid the vast volume of international funds flows. However, figures available from three regional FIUs show NPOs send a significant amount of funds (at least in the current TF context) to high-risk countries. While most of these funds are almost certainly legitimate, they can mask money intended for terrorist purposes (for example through commingling). These funds are also vulnerable to diversion or siphoning for TF once they reach high-risk environments.

Australia has identified NPO funds suspected to be linked to Australian foreign terrorist fighters travelling to, or operating in, high-risk countries (Iraq and Syria). Malaysia, through STRs, has seen incoming funds from high-risk countries go to individuals linked to NPOs. Although these STRs may have led to a general counter-terrorism or CTF investigation, to date none has resulted in an investigation specifically into an NPO. While Brunei has not identified any suspicious links involving NPOs, it recognises that NPOs sending funds to high-risk countries pose a potential vulnerability that donations given in good faith may be misused when they reach the destination country.¹³

10 International AML/CTF standards require financial institutions and other reporting bodies to report promptly to the national FIU if they suspect or have reasonable grounds to suspect that funds are the proceeds of criminal activity or related to TF. STR is the common term for this type of report, as is suspicious analysis report (SAR). In Australia it is called a suspicious matter report (SMR).

11 Singapore has received two TF-related STRs involving NPOs.

12 Countries that receive or send funds which have terrorists or terrorist groups active are considered high-risk. Countries that are used as a conduit for TF, particularly those that border areas with terrorist activity and/or have weak AML/CTF controls, may also be high-risk.

13 Singapore has a small number of charities that provide disaster relief to high-risk regions.

MEASURING FUNDS FLOWS WITH HIGH-RISK COUNTRIES

Visibility of NPO financial activity varies. International NPO money movements are not captured in a consistent fashion across the region. Thresholds for reporting of international money movements vary across countries. Amounts of incoming and outgoing funds below the threshold will not be reported to the FIU and therefore not easily available to authorities. Other financial reporting to NPO regulators may partly offset this gap but is unlikely to be readily available to authorities or contain sufficient information to be of actionable intelligence value.

LINKS TO TERRORIST GROUPS

The nature and extent of confirmed links between NPOs and terrorist groups—domestic, regional and international—vary across the region. Domestic links largely depend on the level of domestic terrorist activity in each country. NPO links to foreign terrorist groups reflect long ties to overseas conflict zones (particularly in South Asia and the Middle East) or recent support of foreign terrorist fighters from the region operating in the Middle East. As regional terrorists gravitate towards the southern Philippines, NPOs may be exploited to send financial and other support to groups in that area under the cover of humanitarian aid.

“AS REGIONAL TERRORISTS GRAVITATE TOWARDS THE SOUTHERN PHILIPPINES, NPOS MAY BE EXPLOITED TO SEND FINANCIAL AND OTHER SUPPORT TO GROUPS IN THAT AREA UNDER THE COVER OF HUMANITARIAN AID”

COUNTRY EXPERIENCE

Australia, Indonesia, and the Philippines all have suspected or confirmed cases where NPOs have links to international terrorist organisations including ISIL and al Qaeda. While Indonesia and Malaysia have seen foreign terrorist fighters travel recently to contested areas in the southern Philippines, only Indonesia and the Philippines have identified links between their NPOs and regional terrorist organisations (mainly ISIL affiliates). These links relate partly to historic ties between groups in these three countries and major global terrorist groups, as well as to foreign terrorist fighters from each country that have travelled to the current conflict in Syria and Iraq. In line with the call from ISIL-aligned groups in the Philippines for foreign terrorist fighters to travel there instead of the Middle East, NPOs in other regional countries may start to be used to channel funds to support travel to and operational activity in the southern Philippines.

Indonesia is the only regional country with identified links between NPOs and terrorist groups at all three levels: domestic, regional and international. Four Indonesian NPOs have been listed in their own right under United Nations Security Council resolutions as designated entities subject to targeted financial sanctions.¹⁴ Indonesia also banned Hizbut Tahrir Indonesia (HTI) in 2017 (see the country experience in the 'Enforcement' section). A further two Indonesian NPOs have identified links with designated entities.

Australia and Thailand show contrasting linkages that reflect each country's current terrorism environment. Australia has identified suspected links between NPOs and foreign terrorist groups, mainly ISIL and its affiliates. Radicalised individuals in Australia associated with violent extremism may be loosely linked to a small number of NPOs, but it is unlikely NPOs are funding or supporting any domestic terrorist activities. However, this may change as Australia's security environment continues to evolve.

In contrast, Thailand has identified links only between NPOs and domestic terrorist groups. Thailand's higher risk NPOs are connected to the ongoing insurgency in Thailand's southern border provinces with Malaysia. There are currently no known or identified links between the southern insurgents and foreign terrorist organisations (although there are concerns that foreign terrorist fighters may transit through Thailand as they return from the Middle East to their home countries in the region).

The Philippines identified suspected links between NPOs and domestic terror groups (for example, the Rajah Solaiman Movement Foundations).

New Zealand has not identified any links between terrorist groups and NPOs. Despite its generally low terrorism threat environment, New Zealand remains potentially exposed to the threat of overseas groups using the country as a conduit for suspicious funds flows.

14 These are Hilal Ahmar Society Indonesia (HASI), Jemaah Islamiyah (JI), Jemaah Anshorut Tauhid (JAT) and Mujahdin Indonesia Timur (MIT).

SOPHISTICATION OF TF METHODOLOGIES

‘Sophistication’ refers to the level of expertise, complexity and effort required for a terrorist financier to raise, store or transfer funds through an NPO.

In known and suspected cases in the region, TF methods involving NPOs have largely involved straightforward, well-known typologies. These primarily include use of legitimate banking and remittance services, cash carrying and online payment platforms.

In some instances, individuals have employed more sophisticated methods, such as hacking and use of false identities. Multiple bank accounts have also been used to transfer funds through conduit

countries to mask the money trail, rather than directly to high-risk destinations. Several regional countries have also seen signs of occasional use of online payment platforms and social media to solicit and move suspected TF funds. In Indonesia’s case, the authorities recognise the evolving TF methods being deployed by ISIL and judge social media to be an emerging TF channel that may be displacing NPOs as a high-risk funding source.

Terrorists and their associates have also infiltrated legitimate NPOs to access and divert funds. This usually involves substantial planning and at least a moderate level of understanding and sophistication to covertly raise and divert funds for TF. While international reports identify terrorists establishing sham NPOs as a cover for TF, in the region there has been to date only one suspected case of a sham NPO being established for the sole purpose of TF.

Level of sophistication	Raising funds	Storing funds	Transferring funds
Less sophisticated	<ul style="list-style-type: none"> • Cash collection from the public • Electronic transfers to bank account • Cash deposits to a bank account • ATM deposits • Zakat¹⁵ • Payment platforms e.g. PayPal • Proceeds of crime e.g. hacking 	<ul style="list-style-type: none"> • Cash holdings/cash boxes • Personal bank accounts (i.e. link to an NPO may not be obvious/evident) • Purchase of high-value goods/assets e.g. shop, building, house • Business bank accounts directly linked to NPO • Commingling with business funds/business front • Virtual currency e.g. Bitcoin 	<ul style="list-style-type: none"> • Interbank transfer • Internet banking • ATM withdrawals • Cash withdrawal • Electronic transfers offshore • Cash carrying across borders • IVTS/hawala • Payment platforms e.g. PayPal • Foreign exchange/currency exchange to enable transfer to high-risk jurisdiction
More sophisticated			<ul style="list-style-type: none"> • M-banking • Virtual currency e.g. Bitcoin

Financial services and methods used to finance terrorism through NPOs

Note: The level of sophistication required to use a particular financial service or method generally does not match the vulnerability it carries. Some financial services and methods require little sophistication to use, but are highly vulnerable because they are easy to use and difficult for authorities to monitor or detect misuse. High vulnerability services and methods are listed in red.

















15 Zakat is an obligation on Muslims to give a specific amount of their wealth (with certain conditions and requirements) to prescribed beneficiaries – called al-mustahiqqin – with the main objective of achieving socioeconomic justice. Zakat in Malaysia, for example, is subject to a centralised and closely monitored system of government controls.



VULNERABILITY

26

"IT IS ASSESSED THAT THE REGION'S NPO SECTORS POSE A MEDIUM VULNERABILITY TO TF. THIS RATING CONSIDERS TWO GENERAL CATEGORIES OF VULNERABILITY: FACTORS SPECIFIC TO NPO OPERATIONS (SECTORAL), AND FACTORS RELATING TO MONITORING AND DISRUPTION CAPABILITY (REGULATORY)"¹⁶


















































Australia	Brunei	Indonesia	Malaysia	New Zealand	Philippines	Thailand	Overall
							
							

16 Singapore assesses its vulnerability as low (sectoral: understanding risk – medium, compliance – low, due diligence – high, high-risk countries funds flows – low, funding cycle visibility – high; regulatory: oversight – low, understanding risk – low, outreach – medium, national cooperation/coordination – low, international cooperation/coordination – medium, enforcement – low).

SECTORAL VULNERABILITIES

Category of vulnerability	Australia	Brunei	Indonesia	Malaysia	New Zealand	Philippines	Thailand
Understanding of TF risks	Orange	Orange	Red	Orange	Red	Orange	Orange
Compliance	Orange	Orange	Orange	Orange	Orange	Red	Orange
Due diligence and probity check	Red	Orange	Orange	Orange	Red	Orange	Orange
Funds flows with high-risk countries	Orange	Green	Orange	Orange	Green	Orange	Green
Visibility of the funding cycle	Red	Red	Red	Red	Red	Orange	Red

REGULATORY VULNERABILITIES

	Australia	Brunei	Indonesia	Malaysia	New Zealand	Philippines	Thailand
Category of vulnerability							
Regulatory oversight							
Understanding of TF risk							
Outreach to NPO sector (TF specific)							
National cooperation and coordination							
International cooperation							
Enforcement measures							

How to interpret the ratings: the ratings relate to the level of vulnerability against each category (for example, a poor understanding of TF risk poses a high vulnerability, whereas a generally sound understanding poses a low vulnerability).

SECTORAL VULNERABILITIES

Understanding of TF risk

Understanding of TF risk poses a medium vulnerability across most of the region, whereas Indonesia and the Philippines both assess it as a high vulnerability. There is room for improved understanding across all NPO sectors. This is probably consistent with the lack of TF-specific outreach to NPOs in most countries. Large and more established NPOs generally better understand their risks and can employ more robust risk mitigation frameworks. It depends largely on an NPO's risk appetite and whether they can afford to implement appropriate controls. For many NPOs, the high turnover of volunteer staff affects the continuity of TF-specific training and risk awareness.

Compliance

NPO compliance with general regulation is reasonable across the region. Service NPOs are reportedly slightly more compliant than expressive NPOs. While most NPO sectors have in place codes of conduct, these are often voluntary and focus on broader governance standards. Many do not address or help to mitigate TF risk specifically.

Due diligence and probity checks

Across the region, most NPOs conduct some level of due diligence on employees and volunteers. However, few NPOs conduct checks that would identify criminal conduct or an individual's link to terrorist or violent extremist activity. Appropriate due diligence checks can be costly and resource intensive. These pressures can also be compounded by the large number of individuals employed in a country's NPO sector.

The level of due diligence conducted on employees and volunteers can depend on the nature of the individual's role within the NPO. Senior staff and those with more financial responsibilities are generally subject to greater due diligence checks. Fewer NPOs apply the same level of due diligence to contractors, partners and beneficiaries. For organisations operating overseas, this can be very challenging, because:

- access to timely and accurate information can be impeded by language or cultural barriers, local conflict, political instability or natural disaster
- smaller NPOs often rely on third-party due diligence or probity reports because they do not have the resources to conduct in-person visits.

An NPO's exposure to this vulnerability will vary according to a number of factors, particularly the level of threat in its home country and if it is connected to a foreign high-risk country. The cases of terrorist infiltration and manipulation of NPOs in some countries highlight the importance of conducting due diligence on NPO personnel and monitoring their activity and associates, particularly for staff with financial responsibilities.

Funds flows with high-risk countries

Visibility of regional NPO financial transactions is generally limited (see discussion in 'Visibility of the funding cycle' below). Most participating countries are unable to identify the frequency and volume of funds flows with high-risk countries. It can also be challenging for those countries that can identify to varying degrees international NPO funds flows. Available data from Australia, Malaysia and Indonesia suggests there are a number of NPOs in the region that transact with high-risk countries.¹⁷ Outgoing funds are vulnerable to diversion or siphoning to support terrorist groups or extremist activity once they reach high-risk locations.

Some countries in the region have also found that their NPO sector receives funds from high-risk countries. Without proper monitoring and mitigation measures, there is a risk those funds may be misused to support terrorism-related activity such as propaganda and radicalisation or domestic attacks.

Visibility of the funding cycle

USE OF CASH

The NPO sector is inherently cash intensive. In many cases, cash is the main or only resource available at the collection and expenditure stages: for example, getting resources on the ground following a major disaster or in a failing state. Anecdotally, in some countries bank de-risking of NPOs (where banks have closed down business with an NPO) has led to some NPOs carrying cash to legitimate partners or beneficiaries overseas, including into high-risk countries.

The use of cash is considered to carry a high level of vulnerability of TF misuse. For many NPOs, transparency and accountability of cash transactions can be challenging. Commingling of illicit funds can occur with relative ease and detection of theft or diversion of funds for TF can be very difficult.

¹⁷ Singapore also has a small number of NPOs that provide humanitarian and disaster relief to high-risk foreign regions.

RAISING FUNDS

The primary source of funding across the region is through public donation (often in cash). This is followed by membership fees and government grants. The latter can afford competent authorities some visibility over NPO funds. In contrast, the low visibility and considerable anonymity of public donations make them a riskier source of funding and more vulnerable to exploitation. This cash vulnerability is compounded in some countries where NPOs are not required to be licensed to raise funds. Self-generated funding and bank loans to NPOs can also be misused for TF.

COUNTRY EXPERIENCE: INDONESIA

New Presidential Regulation Number 18, 2017 requires NPOs to verify the identity of a prospective donor who pledges Rp 5 million (USD375) or more. NPOs cannot accept donations from any person whose identity cannot be confirmed, or from any person listed as a designated entity. A similar rule applies when NPOs want to donate to another party.

STORING FUNDS

Most NPOs use a mainstream bank account as a primary source for storing funds. While this provides competent authorities with some visibility of financial activity, poor internal controls by an NPO can create opportunities for introducing and commingling illicit funds. For example, when an NPO cannot accurately account for the source of funds, they can easily become mixed and lost within a consolidated bank account. In a small number of suspected TF cases, cash has also been stored in private residences or a sandooq (cash box).




































TRANSFERRING FUNDS

Most NPOs use mainstream banking channels to transfer funds (both nationally and internationally). Visibility of these transactions is strong in most countries, particularly when reporting entities can identify the customer as an NPO. However, some NPOs also use remitters, online payment platforms, cash couriers and hawala. These channels are considered to be higher risk because they are difficult to monitor and irregular or illicit transactions are hard to detect. For most countries, visibility of funds once transferred offshore is limited, especially transfers to high-risk countries or countries where weak AML/CTF regimes exist.
































































PROGRAM DELIVERY

Many NPOs rely on subcontractors or foreign partners to expend resources or deliver programs. This can create challenges in ensuring services are delivered as intended, particularly in high-risk countries or where local government control is poor. Foreign partners may also not always have appropriate systems and controls in place to counter corruption or siphoning of funds to terrorist groups. However, foreign partners may be the only people who can reach vulnerable individuals and communities for whom funds are intended. Language and cultural barriers can also compound the limited oversight of in-country program delivery.

REGULATORY CAPABILITIES¹⁸

Category of capabilities	Australia 	Brunei 	Indonesia 	Malaysia 	New Zealand 	Philippines 	Thailand 
Regulatory oversight							
Number of regulators	11	2	10	4	3	2	2
Mandatory registration	No	Yes	No	No	No	No	Yes
Fundraising licence required	Yes	Yes	Yes	Yes	No	Some	Yes
Risk-based approach							
On-site monitoring							
Offsite monitoring							
TF-focused outreach							
							

¹⁸ Singapore has four regulators. Registration of NPOs is mandatory and licensing is required for fundraising for foreign charitable purposes, as well as fundraising through visits from house to house or in streets or public places. It considers its risk-based approach, offsite monitoring, national coordination, revocation/removal and enforcement powers to be significant. It collects a significant amount of information on NPO personnel, finances and activities, most of which is publicly available. Singapore conducts some on-site monitoring and TF-focused outreach, and has some international mechanisms for sharing information on NPOs of concern.

	Australia	Brunei	Indonesia	Malaysia	New Zealand	Philippines	Thailand
Category of capabilities							
Information collected							
Personnel							
Financial							
Activities							
Available to public							
Cooperation / Coordination							
National mechanisms							
International mechanisms							
Regulator powers							
Revocation/ removal							
Enforcement							

KEY



Significant



Some



Limited

Regulatory oversight

All participating countries have laws and regulations in place to govern and oversee NPOs. While only Brunei and Thailand have mandatory requirements for NPOs to register,¹⁹ many NPOs in other countries do so to gain access to financial services, receive tax exemptions and/or to be considered for government grants. These incentives help encourage NPOs to register, bringing more NPOs into the regulated system, increasing visibility and reducing risk of TF exploitation to some extent.

In contrast, strict regulation that excludes non-registered NPOs from using financial services can be counter-productive for visibility. This might force NPOs to use alternative, less visible and higher-risk financial services such as cash couriers and hawala.

Most countries identify gaps in their current capacity to proactively identify suspicious NPOs. This relates partly to some of the intelligence gaps discussed earlier in the 'Threat' section. It is mitigated to some extent by countries using risk-based approaches to monitoring and supervision (for example, in Malaysia supervision is more focused on religious and charity NPOs that are assessed as exposed to higher risks). To a certain extent, most competent authorities conduct on-site and offsite monitoring, and require financial statements and other information regarding NPO operations. Some of this information is made available to the public, and hence helps increase the transparency of NPO activities to some degree.

Understanding of TF risk

The understanding of TF risk among the region's competent authorities is mixed but gradually improving. Nearly all countries have reviewed their NPO sectors either by way of specific NPO risk assessments or as part of broader national risk assessments on money laundering and TF.

Regional countries have only recently identified or started to identify their subset of high-risk NPOs as required under revised FATF standards. While the requirement was only introduced in 2016, Indonesia and Australia have identified their subsets of at-risk NPOs, as well as the characteristics and activities that expose those NPOs to risk. Malaysia and Thailand are currently completing their analysis. This assessment lays the groundwork to support countries that have not yet started to identify their high-risk NPO subsets (see the 'At-risk NPOs – subsets and indicators' section).

Outreach to NPO sector

The breadth and effectiveness of sector outreach vary across the region. It is a key area for improvement for most countries. While most countries conduct some form of outreach, it mainly addresses general governance rather than TF specifically or at all. The limited outreach on TF largely explains the mixed understanding of TF risk among NPO sectors in the region.

Additionally, most NPO regulators or other government agencies do not target outreach to specific high-risk subsets within their sectors. This partly reflects that countries have only recently begun to identify their high-risk subsets. While not a precondition for targeted outreach, identifying the subset of NPOs at most risk would significantly assist authorities to concentrate their resources and efforts on areas in most need of guidance and support. For example, Australia has established a multi-agency working group that meets regularly to monitor NPOs identified in the high-risk subset and take action as required. Likewise Indonesia, under strengthened interagency cooperation, is monitoring a number of at-risk NPOs.

19 In Singapore, NPOs must register and a range of fundraising requires a license (see footnote 18).

COUNTRY EXPERIENCE

In Malaysia, members of the Sub-committee on Non-Profit Organisations (SCONPO) issued a Best Practice Guide on Managing NPOs for directors, trustees and office bearers, in 2014. This guide promotes principles of good governance, effective record keeping, risk management and internal control measures. It also refers to FATF recommendations and reports on the risk of terrorist abuse in NPOs.

SCONPO also hosts an annual conference for NPOs to discuss compliance and governance issues as part of Malaysia's outreach program to the sector. TF issues have featured in these conferences. SCONPO members also conduct awareness programs for NPOs they regulate.

National and international cooperation and coordination

Across the region, there is established national cooperation and coordination among the FIU, law enforcement and national security agencies regarding NPOs suspected to be involved in terrorism or TF.²⁰ However, joint outreach and targeting activities with NPO regulators remain areas that could be improved. Information sharing also needs to be strengthened to help overcome some of the gaps in regulation and oversight of NPOs mentioned earlier. This includes countering 'regulatory shopping'²¹ by enabling regulators to identify NPOs that already have had registration applications rejected by other regulators. This is particularly relevant for the region as most countries have more than one NPO regulator.

Internationally, existing diplomatic, law enforcement and intelligence channels, and information exchange mechanisms such as the Egmont Group²² are assessed to be adequate. This is generally in line with findings from FATF and the Asia/Pacific Group on Money Laundering mutual evaluation reports of a number of regional countries.²³

While functioning generally well, there is scope to enhance information exchange where countries have identified NPOs with links to terrorist groups or foreign terrorist fighters operating in other regional countries. In these circumstances, national authorities should consider proactive sharing of information with regional counterparts on NPOs of potentially mutual concern.

"ACROSS THE REGION,
THERE IS ESTABLISHED
NATIONAL COOPERATION
AND COORDINATION
AMONG THE FIU, LAW
ENFORCEMENT AND
NATIONAL SECURITY
AGENCIES REGARDING NPOS
SUSPECTED TO BE INVOLVED
IN TERRORISM OR TF"

20 Singapore has established the Inter-Agency Committee that includes law enforcement agencies and regulators.

21 'Regulatory shopping' refers to a situation where an organisation which has its application to register rejected by one regulator goes to other regulators with the aim that its application will ultimately be accepted.

22 The Egmont Group is a body of 156 FIUs. The Egmont Group provides a platform for the secure exchange of expertise and financial intelligence to combat ML/TF misuse.

23 The FATF standard requires countries to have the capacity to respond effectively to international information requests on NPOs of concern.

COUNTRY EXPERIENCE

Australia - National Disruption Group

The National Disruption Group (NDG) brings together the Australian Federal Police and other Australian government agencies to coordinate operational disruption activities nationally and internationally against foreign terrorist fighters.

The NDG consolidates the capabilities of participating agencies to prevent, disrupt and prosecute Australian nationals who travel or intend to travel offshore to engage in hostilities and/or undertake terrorism training, as well as those providing support to them.

The NDG is an example of alternative disruption strategies and collaboration across a wide range of government agencies, including non-traditional law enforcement and national security partners such as social justice agencies and Australia's national charity regulator.

Malaysia – SCONPO

Competent authorities cooperate domestically through the SCONPO platform. SCONPO was established under Malaysia's National Coordination Committee for Money Laundering to coordinate the AML/CFT policy on the regulation and supervision of NPO sector. Each member is required to provide a point of contact to respond to domestic and international requests for information regarding NPOs, subject to relevant law.

Thailand

Thailand established an interagency working group to coordinate approaches to organisations including NPOs in the south of Thailand. The working group involves 24 agencies including law enforcement agencies and the FIU, to address issues such as radicalisation and NPO misuse for TF.

Indonesia

Indonesian authorities formed an integrated task force to prevent and disrupt TF misuse of NPOs. Under Presidential Regulation No. 18 of 2017, the task force operates on an as-needs basis. Members include NPO regulators, law enforcement agencies and the FIU. The task force provides a mechanism for coordination and information sharing among authorities, to prevent TF involving NPOs. It also monitors at-risk NPOs.

“THE RANGE OF POWERS
(ADMINISTRATIVE,
CRIMINAL AND CIVIL) ALSO
PROVIDES FLEXIBLE TOOLS
TO SUPPORT COUNTER-
TERRORISM AND CTF
ACTIVITY TO DISRUPT
HIGH-RISK NPOS”

Enforcement measures

Competent authorities in almost all countries have the power to subject NPOs to monitoring and apply sanctions as well as other enforcement measures for breaches of law. Enforcement powers include administrative, criminal and civil actions, in line with FATF standards.

This assessment did not evaluate how well enforcement measures have been implemented or exercised across the region. Instead, it assesses that the availability of these powers in most countries strengthens the preventive framework to deter and mitigate NPO risk. The range of powers (administrative, criminal and civil) also provides flexible tools to support counter-terrorism and CTF activity to disrupt high-risk NPOs. For example, Thailand has seized assets in two cases involving TF and NPOs (see the country experience in the ‘Threat’ section), while Indonesia has banned an NPO (see the country experience below).

Where countries have only a limited range of enforcement powers, authorities should consider expanding them to provide the flexibility to respond proportionately and dissuasively to the level of misconduct and risk identified.

COUNTRY EXPERIENCE: DISBANDMENT OF HIZBUT TAHRIR INDONESIA (HTI)

















In July 2017, the Law and Human Rights Ministry of Indonesia revoked the registration of HTI, effectively dissolving the organisation. HTI is an arm of Hisbut Tahrir (HT) that was founded in 1953 as a pan-Islamist group that seeks to create a caliphate of Muslim-majority countries. Twelve countries have banned HT. HTI's licence was revoked after Indonesian authorities found HTI to be conducting activities contrary to Indonesia's state ideology (Pancasila) and 1945 constitution, as well as promoting social conflict among the nation's religions. HTI's advocacy of a khilafah (caliphate) and suspected links to ISIL indicated it also posed a national security risk.



CONSEQUENCES

38


































"FOR REGIONAL COUNTRIES WITH SERIOUS TERRORISM THREATS ... FUNDS ARE MORE LIKELY TO BE USED FOR OPERATIONAL COSTS THAN ORGANISATIONAL EXPENSES"

Australia	Brunei	Indonesia	Malaysia	New Zealand	Philippines	Thailand	Overall
							
							

CONSEQUENCES

The consequences of TF in the NPO sector are assessed as **Medium**.

Consequence ratings²⁴

Category of consequence	Australia 	Brunei 	Indonesia 	Malaysia 	New Zealand 	Philippines 	Thailand 
Use of funds		N/A			N/A		
NPOs							
Individuals (e.g. beneficiaries)							
Political							

²⁴ For countries that have no identified cases of NPO misuse, ratings include assessed potential consequences for NPOs, individuals/beneficiaries and political factors including security.

Tracing the ultimate use of TF, and therefore estimating its consequences, is challenging. It can be difficult to detect and follow money trails where funds are handled and moved behind the veil of legitimacy that NPOs provide.

For regional countries with serious terrorism threats that can trace or estimate use, most (Australia, Indonesia and the Philippines) assess that funds are more likely to be used for operational costs than organisational expenses. These countries consider funds are mainly used to purchase weapons, support travel for foreign terrorist fighters and finance attacks.

Generally, operational funding has more immediate significant consequences than organisational funding (see below). Organisational funding can have broader consequences over time by way of supporting propaganda, as observed in Thailand, that creates a climate in which radicalisation and violent extremism can breed. The combined effect of operational and organisational funding in fuelling terrorism increases national security threats, with potentially adverse consequences overseas.

Regional countries report that NPOs and individual beneficiaries also experience differing degrees of harms from suspected or actual misuse for TF.²⁵ NPOs often operate on limited budgets and rely on government funding and/or charitable donations. Diminished revenue due to reputational loss and a drop in funding or donations, or any diversion of funds for terrorism, can seriously hamper an NPO's operations and viability. This may have potentially serious ramifications for intended beneficiaries when vital services are not delivered.

COUNTRY EXPERIENCE

In Australia, NPO sector representatives report different levels of impact on the volume of donations received and public support, following adverse media reporting of suspected terrorist activity involving an NPO. Smaller NPOs reportedly experience a greater drop in charitable giving. Larger NPOs reportedly experience a short-term impact, but donations usually resume to normal within six months. Despite this, the impact on beneficiaries during this time can be significant given the scale of donations NPOs handle and disburse.

In Indonesia, an NPO that was connected to Jemaah Islamiyah provided support for a terrorist attack the Jamaah Anshorud Tauhid (JAT) group mounted. Public awareness of this illegal NPO support of terrorism has led to decreased community trust and public donations.

25 Similar to Brunei and New Zealand, Singapore has no detected or suspected cases involving NPOs. Use of funds is therefore not applicable. Singapore assesses the overall consequence to be medium, with the potential impact of TF misuse on NPOs as high and for individuals/beneficiaries as medium.

USE OF FUNDS

Estimates of consequence are based primarily on how funds are used. They include:

- operational funding or direct use (e.g. moving personnel, weapons, explosives, training, attacks)
- organisational funding or indirect use (e.g. supporting family or widows, salaries, propaganda, maintaining terrorist networks).

Generally TF operational funding will have more severe consequences culminating in attacks and physical harm. The consequences of organisational funding can be less immediate but help support terrorist actors and networks to conceal themselves, build operational capability, and prepare for and stage attacks. Organisational funding helps terrorist groups to recruit, expand networks and entrench their presence in communities.

NPOS

Consequences can include:

- reputational damage and loss of public trust, confidence and charitable donations
- loss of government funding
- regulatory or law enforcement action
- breakdown in the relationship with financial institutions, including potential costs to repair or establish new banking relationships (should an NPO be de-risked), which can have implications for program delivery at crucial times
- increased administrative costs if more onerous requirements are needed to mitigate threats.

INDIVIDUALS/BENEFICIARIES

Consequences can include:

- loss of funding and assistance to beneficiaries, including the potential flow-on impacts when vital services are not delivered
- personal loss for individuals connected to the NPO, including loss of employment or resources
- personal loss for donors should their donations not reach intended beneficiaries.

POLITICAL

Consequences can include:

- AML/CTF reputation is damaged
- global image is damaged
- public trust in government is diminished
- bilateral or multilateral government relationships are damaged.

AT-RISK NPOS —SUBSETS AND INDICATORS

The FATF standards require countries to identify the subset of NPOs which, due to their activities or characteristics, are likely to be at risk of TF misuse. This is intended to enable a targeted and proportionate approach to outreach and monitoring or supervision of NPOs at most risk, rather than a blanket sector-wide approach. It also recognises that not all NPOs are inherently high risk and some may represent low or no risk of TF misuse.

While it is difficult to generalise across a diverse region, this assessment has identified a number of fairly common characteristics that by their nature leave NPOs more exposed to TF risk. Several of these characteristics have been observed through intelligence and operational insights into high-risk NPOs.

MAIN CHARACTERISTICS OF HIGH-RISK NPOS

- More likely to be service-style NPOs than expressive
- High cash intensity
- Public donations are the main source of funds, while membership fees can also be another important funding source
- Support a particular ethnicity or religion
- Based in provincial or capital cities rather than rural or border areas
- Operate in, or send or receive funds/goods to, high-risk jurisdictions
- Have relationships with organisations operating in high-risk jurisdictions

These common factors are not exhaustive and need to be treated with some care. They provide a starting point for developing more nuanced risk profiles of each country's NPO subset, not a fixed typology.

One area where a country-specific focus, instead of a regional view, is required relates to use of financial channels. Higher-risk NPOs use a range of channels (banking, electronic transfer, remitters, cash storage and couriering), depending on the country. Some of these channels, such as cash storage/couriering and hawala, are inherently risky due to their limited-to-no visibility. For each country, identifying the financial channels its high-risk NPOs use will enable authorities to better target monitoring of and provide guidance to affected NPOs and financial institutions.

As noted in the 'Vulnerabilities' section, the FATF requirement to identify the high-risk NPO subset is new and, as a result, only a few countries have done so to date. Other regional countries should undertake this analysis. It will help to not only meet international standards but also provide a more detailed picture of the high-risk NPO subsets in countries across the region. This should support regional partners to detect and mitigate the activity of high-risk NPOs, particularly where suspected TF involving NPOs occurs between regional countries.

A more complete understanding of the high-risk NPO subset in each country would also feed into developing a set of high-risk indicators (red flags) of NPO-related TF activity. This work is important for enabling authorities and reporting institutions to better identify suspicious NPO financing behaviour. It should help support ongoing efforts to provide more refined guidance to reporting institutions on TF activity and improve the intelligence quality of STR reporting related to NPOs.



PRIORITY ACTIONS

44

Based on the main areas of threat, vulnerability and overall TF risk involving NPOs, this assessment has identified a number of improvements and priority actions for regional countries and also the CTF summit to consider.

COUNTRY-TO-COUNTRY INFORMATION SHARING

Regional countries that have identified cross-border links among terrorist groups or foreign terrorist fighters and NPOs should strengthen measures to share information as a priority. This would support other regional initiatives to improve intelligence sharing, such as the July 2017 Manado statement,²⁶ and improve efforts to detect and disrupt TF related to critical regional security threats.

HIGH-RISK NPO INDICATORS

Following on from this assessment, the CTF Summit through the Financial Intelligence Consultative Group should conduct a short project to collate and develop 'red flag' indicators of high-risk NPO activity involving TF across the region. This should help national authorities, NPOs and reporting institutions that handle NPO finances to better identify and mitigate suspicious activity. It would support recent general efforts to provide better guidance to reporting institutions to improve STRs related to TF. Insights from country assessments of their at-risk NPO subsets should provide valuable information for developing red flag indicators.

NPO VETTING OF PERSONNEL

Some regional countries identified deliberate NPO infiltration or internal manipulation by terrorists or their associates. To mitigate this risk and improve internal safeguards generally, closer scrutiny of NPO personnel including senior staff and directors is required. Authorities should cooperate with NPO associations and peak bodies to establish or strengthen codes of conduct that promote strong governance over employment and management of personnel.

IDENTIFYING AT-RISK NPO SUBSETS

Countries should identify their subset of NPOs at risk of TF misuse. The main characteristics of high-risk NPOs identified in this assessment can serve as a starting point but each country should develop its own NPO subset risk profile. This is in line with the revised FATF standards. It should enable targeted and proportionate outreach and monitoring or supervision of NPOs at most risk. By building on the work of this assessment, it should also provide a more refined understanding of high-risk NPOs across the region.

26 Joint Statement Sub-Regional Meeting on Foreign Terrorist Fighters and Cross Border Terrorism (Manado – Indonesia, 29 July 2017), in which ministers emphasised the importance of enhancing law enforcement cooperation and intelligence sharing, at the bilateral and regional level.

TARGETED TF-SPECIFIC OUTREACH

Countries should refocus their NPO outreach to specifically highlight TF risk and good practice to mitigate it. While this should ideally be targeted to the identified subset of high-risk NPOs, enhanced outreach should be started as a priority even if the subset of NPOs has yet to be identified. In line with FATF standards, NPO use of generally safer, regulated financial channels should be encouraged where possible and without stifling legitimate NPO activity. NPOs should also be encouraged to implement robust measures for monitoring third-party service delivery to ensure funds and programs are delivered as intended—particularly those operating in high-risk communities or countries.

Depending on a country's NPO risks, TF outreach should be delivered to:

- **NPOs**, using NPO associations and peak bodies or large NPOs with networks to extend the scope of outreach
- **reporting institutions**, incorporating findings when available from identified high-risk NPO subsets and the proposed red flag indicator project
- **the public**, noting public donations are a characteristic of identified high-risk NPOs, to raise awareness about donating to recognised, trustworthy NPOs
- **regulators and other authorities** to improve the understanding of TF risk and capacity to mitigate it among agencies that monitor NPOs.

IDENTIFYING UNREGULATED NPOS

NPOs that fall outside or attempt to evade regulatory oversight pose inherent risks for TF. Countries should consider measures to identify unregulated NPOs (e.g. through intelligence and financial activity) and assess the risk such NPOs pose. This could be part of work to identify high-risk NPO subsets. Authorities should also consider measures to encourage NPOs to become regulated, promoting the benefits (such as tax concessions, access to grants and public legitimacy) regulation provides.

RISK-BASED MONITORING, SUPERVISION AND DISRUPTION

Authorities should monitor and supervise NPOs on a coordinated risk basis. This should also support targeted oversight of at-risk NPOs and disruption of those involved in TF.

ENHANCED INFORMATION SHARING AMONG AUTHORITIES

In line with better regulatory practice identified in this assessment, countries should seek to enhance information sharing among NPO and other regulators (e.g. financial), counter-terrorism authorities and FIUs. This should include agreement on collecting common information (based on FATF standards and including the administration and management of NPOs, financial and service delivery information, links to foreign countries and donors) to improve oversight and help identify non-compliance and TF-related risk. Measures to improve the visibility of international funds flows involving NPOs, particularly in relation to high-risk countries, should also be adopted. For countries with multi-regulators overseeing large NPO sectors, authorities should also consider establishing a centralised NPO database. Better quality and more consistent data that relevant authorities can access easily from a central point should enhance NPO monitoring or supervision, counter regulatory shopping and improve coordinated targeted outreach.



APPENDIX

48

APPENDIX: METHODOLOGY AND RISK MATRIX

Aim

This assessment aims to support participating FIUs and other authorities to improve risk-based supervision and monitoring of NPOs to detect and deter their misuse for TF. This assessment:

- assesses the risk of TF to each country's NPO sector
- highlights similarities and differences in vulnerabilities that can be exploited to promote or support terrorism
- identifies key indicators and characteristics of the subset of high-risk NPOs to support targeted oversight and outreach.

Scope

This assessment used the FATF definition of NPO: 'A legal person or arrangement or organisation 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"'. The definition was used as a guide rather than a strict rule. Any NPO assessed as high risk was included in this assessment even if it did not exactly fit the definition.

Risk model

This assessment employs the standard risk framework (likelihood x consequence = risk) and FATF guidance on national money laundering and TF risk assessments as a general guide. Estimates of likelihood are based on a combined assessment of the threat and vulnerability related to TF activity.

Measuring threat: the overall threat rating was informed by STRs and other intelligence holdings, number of investigations, prosecutions and convictions, NPO links to terrorism groups, level of sophistication of financial typologies, and qualitative data.

Measuring vulnerability: vulnerability ratings were informed by key partner and stakeholder engagement, country national risk assessments or sector assessments and reviews (as required under FATF Recommendation 8), and other open-source reports (e.g. FATF/APG mutual evaluation and typology reports).

Measuring consequences: consequence ratings were informed by information collected from key partners and stakeholders.

Weighting

Rating risks across a diverse region, such as that in scope for this assessment, is challenging. Apart from different political and economic conditions in each country, the region presents contrasting security environments. Brunei and New Zealand face low domestic terrorist threats, negligible TF activity generally and no known involvement of NPOs in such activity. The other countries in scope face moderate to serious threats, with correspondingly higher NPO risks in some cases.

In reaching overall findings, this assessment has given weight to countries where higher risks exist. This is intended to reflect those higher areas of risk that are likely to have more impact on the countries concerned and also potentially for regional security, either directly for NPOs or indirectly due to wider security repercussions. Equally, the absence of any NPO involvement in TF in either Brunei or New Zealand can potentially affect the overall result. Hence ratings are weighted towards areas of concern in other parts of the region.

Information collection

A comprehensive questionnaire was used to gather information from project members and other experts in the region. Each participating FIU completed the questionnaire, comprising a series of questions collecting quantitative and qualitative data on its own country's terrorism threat environment, NPO landscape, and NPO administrative and regulatory framework. FIUs were also asked to engage their national competent authorities to provide a range of data and insights regarding TF risks to their NPO sector. This included information on threat indicators, key vulnerabilities and consequences of misuse, as well as current capabilities to monitor NPOs and detect and disrupt TF.

The project team drew on the following classified and unclassified sources of information:

- FATF mutual evaluation reports (mainly on Recommendation 8 and Immediate Outcome 10 related to NPOs, but also Immediate Outcome 1 for understanding general risk and coordination, and Immediate Outcome 2 on international cooperation)
- NPO risk assessments (Australia, Indonesia and Malaysia —in-progress) or relevant sections of national risk assessments

- relevant outputs from FATF/Egmont/APG working groups
- FIU data holdings
- intelligence and regulatory risk assessments and data holdings (quantitative and qualitative)
- case studies and/or typologies
- qualitative data collected during stakeholder engagement.

Validation of results

A regional workshop was held in Bogor, Indonesia in March 2017, to refine the assessment methodology, share information and explore areas of concern.

A second workshop was held Langkawi, Malaysia in August 2017, to promote analytical rigour and test the accuracy of assessment findings. Most participating FIUs attended this workshop. Structured consultations with a number of TF and sector experts were held to collect additional information, capture a wide range of intelligence, policy and supervisory perspectives, and evaluate findings and judgements. Open-source information was also collected to validate findings and assessments including a review of relevant publications produced by FATF, the Asia/Pacific Group on Money Laundering and other peak bodies.

TF RISK MATRIX

The TF risk matrix covers 18 risk factors across three categories: TF threat environment, vulnerabilities and consequences. Each risk factor was assessed and scored on a scale of one to nine, and given a corresponding rating of low, medium or high (as per the table below). These assessments were based on a range of quantitative and qualitative inputs.

The assessment also uses 'negligible' (Neg) for countries with no cases of detected or suspected TF activity involving NPOs. This recognises the low threat environment in those countries, but also the possibility that undetected cases, while unlikely, may exist. Similarly, 'not applicable' (NA) is used where countries do not have evidence to rate activity (e.g. sophistication of methodologies) or the use of TF involving NPOs.

TF THREAT ENVIRONMENT

LOW	MEDIUM	HIGH
Limited targeting by domestic and/or foreign terrorists and their financiers	Some targeting by domestic and/or foreign terrorists and their financiers	Significant to widespread targeting by domestic and/or foreign terrorists and their financiers; or concentrated targeting and major exploitation by terrorist groups
Few known or suspected links to terrorist groups	Some known or suspected links to terrorist groups	A significant number of known or suspected links to terrorist groups
Mainly unsophisticated methods used	Some sophisticated methods are used	Mainly sophisticated methods are used

VULNERABILITIES

LOW	MEDIUM	HIGH
Sectoral		
NPOs understand TF risks and have appropriate mitigation strategies in place	NPOs have some understanding of TF risks and have some mitigation strategies in place	NPOs have limited understanding of current TF risks with few or no mitigation strategies in place
NPOs demonstrate a high level of compliance and a sound compliance culture	NPOs demonstrate a moderate level of compliance with areas of non-compliance identified or remedial action required	NPOs demonstrate a low level of compliance with significant non-compliance identified and enforcement action required
Most NPOs conduct due diligence on personnel	Some NPOs conduct due diligence on personnel	Few NPOs conduct appropriate due diligence on personnel
For TF, NPOs send or receive limited amounts of funds to/from high-risk countries	For TF, NPOs send or receive moderate amounts of funds to/from high-risk countries	For TF, NPOs send or receive significant amounts of funds to/from high-risk countries
Most NPOs have adequate internal transparency and accountability practices for their funding cycle. High-risk channels are rarely used.	Some NPOs have adequate internal transparency and accountability practices for their funding cycle. High-risk channels are sometimes used.	Few NPOs have internal transparency and accountability practices for their funding cycle. High-risk channels are often used.

VULNERABILITIES cont.

LOW	MEDIUM	HIGH
Regulatory		
Regulatory oversight is strong: NPO registration or licensing frameworks are consistent and cover most of the sector; regulators have effective powers to manage risks	Regulatory oversight is moderate: NPO registration or licensing frameworks are variable with some gaps in coverage; regulators have some powers to manage risks	Regulatory oversight is weak: NPO registration or licensing frameworks are inconsistent and do not cover most of the sector; regulators lack effective powers to manage risks
Authorities have a reasonable understanding of TF risks in their NPO sector	Authorities have a mixed understanding of TF risks in their NPO sector, but improvements are needed	Authorities have a poor understanding of TF risks in their NPO sector
Authorities conduct TF-focused outreach	Authorities conduct outreach with some TF elements	Authorities conduct limited or no TF-focused outreach programs
National cooperation and coordination among authorities is generally effective with only minor improvements needed	National cooperation and coordination among authorities is moderately effective with improvements needed	National cooperation and coordination among authorities is inconsistent with major improvements needed
Authorities are able to share information on NPOs of concern with foreign counterparts	Authorities are only able to share limited information on NPOs of concern with foreign counterparts	Authorities are not able, or have not designated an authority, to share information on NPOs of concern with foreign counterparts
Authorities possess a range of enforcement and other measures to flexibly address non-compliance and disrupt terrorist abuse of NPOs	Authorities have some enforcement and other measures to address non-compliance and disrupt terrorist abuse of NPOs	Authorities have limited enforcement and other measures to address non-compliance and disrupt terrorist abuse of NPOs

CONSEQUENCES

LOW	MEDIUM	HIGH
TF funds are primarily used to support organisational expenses	TF funds are sometimes used to support operational costs	TF funds are primarily used to support operational costs
TF has a minimal impact on an NPO sector's reputation, financial performance or operations	TF has a moderate impact on an NPO sector's reputation, financial performance or operations	TF has a significant impact on an NPO sector's reputation, financial performance or operations
TF has a minimal impact on potential beneficiaries and/or individuals connected to the NPO	TF has a moderate impact on potential beneficiaries and/or individuals connected to the NPO	TF has a significant impact on potential beneficiaries and/or individuals connected to the NPO
TF issues cause limited if any damage to a country's international reputation and relationships	TF issues cause some damage to a country's international reputation and relationships	TF issues significantly damage a country's international reputation and relationships

