



CHARITIES OPERATING OVERSEAS: protect your charity against terrorist financing and other risks

A number of New Zealand's registered charities operate overseas, and do so in a variety of ways. Charities send money or goods overseas, undertake work 'on the ground', and fund or deliver programmes in partnership with overseas-based organisations.

Overseas activities are often harder to monitor than activities at home, and charities may be exposed to greater risks. These include risks of being misused by individuals or organisations to assist money laundering, or support terrorism financing or other criminal activities.

Money laundering is the process of concealing the proceeds of crime. Terrorism financing conceals the use of funds for terrorism purposes. The funds can come from both legal and illegal sources.

Charities operating overseas need sufficient policies, practices and controls in place to help identify and manage these risks. These can help ensure that any money, resources or other items that the charity sends overseas are used properly, and any overseas activities are overseen and managed responsibly.

Why are charities vulnerable to terrorist financing and other criminal activity?

Charities may be misused by terrorists or other criminals in many different ways:

- charitable funds can be diverted away from the charity and used for criminal or terrorist purposes (without the knowledge of the charity). For instance, a charity may give financial or other support to an overseas organisation that provides legitimate aid and relief, but that organisation also supports terrorist groups. Volunteers or workers may take money from charitable collections and send or use the funds to support terrorist activities.
- where a charity's funds are moved from one place to another, through international currencies or through cash transfers internationally, some or all of the funds may be diverted before reaching the intended recipients.

- a charity is used to launder money. For instance, a donor loans or gives a significant amount of cash to a charity as a way to dispose of the proceeds of crime, or makes a donation with a request that it be passed on to another group operating overseas (where on the face of it the group looks like it is a charity but is a front for a criminal or terrorist group).
- recipients/beneficiaries of charitable funds misuse the money for criminal or terrorist purposes.
- individuals supporting terrorist activity may claim to work for a charity in order to gain access to a region or territory.
- a charity's overseas premises is used to store cash, weapons or terrorist propaganda, or otherwise used to promote terrorist or criminal activity.

What are some of the risk factors?

Charities in New Zealand face a higher risk of terrorist and other criminal activities if they:

- operate in overseas areas with:
 - » political instability or conflicts
 - » ongoing emergency situations
 - » terrorist or other criminal groups present
 - » widespread corruption
 - » inadequate financial systems or banking infrastructure



- have complex financial operations including multiple donors, investments and currencies; receiving and using cash; having high volumes of transactions; and using informal money transfers, all of which make it harder to identify suspicious transactions.
- have unpredictable and unusual income and expenditure streams, again which makes it harder to identify suspicious transactions.
- have projects delivered overseas that are not under the direct supervision or oversight of the charity.
- contribute funds to other charities, non-government organisations, aid programmes or projects overseas, again where there is little or no oversight of the projects.
- depend on one or two individuals who play a key, often unsupervised, role, particularly in smaller charities.
- rely on goodwill and voluntary support for crucial roles in the organisation, from people who may not be well-known to the charity.

What actions can your charity take to address these risks and vulnerabilities?

Clear policies, processes and controls for overseas activities will help charities safeguard their funds, assets and reputation. In particular, charities should:

- be able to demonstrate a clear understanding of the specific risks of operating in each location overseas.
- have clear policies and procedures for overseas operations (including financial management policies and procedures for checking partner organisations).
- develop clear project plans setting out how projects will be implemented and monitored.
- regularly monitor overseas operations to help ensure resources are only being used to advance charitable purposes.

Identify and manage your charity's risks

If your charity operates overseas, particularly in a high-risk country (e.g. conflict zones, countries where there are well established terrorist groups or known corruption, and countries where it may be difficult for your charity to maintain end-to-end oversight of funds), your charity should take steps to:

- understand the types of risks associated with your charity's activities and operations in these countries. This will depend on a range of factors, including the country your charity is operating in, the amount of charitable funds at stake, the activities your charity will be involved in,

whether partners are involved in delivering those activities, and the degree of oversight your charity has for how the funds are used. Risks might be operational, financial, reputational, or related to compliance with the law and regulations (both in New Zealand and the overseas country).

- manage those risks, including the risk of being a channel for terrorism financing or other criminal activities. The more complex or significant the activity or project is for your charity, the more steps are likely to be required to manage the risks. As part of this process, your charity may need to review its governance arrangements, financial controls and reporting procedures.

It is important that charities regularly review their risks, especially when there are significant changes to the focus or scope of the overseas activities of the charity.



You need to know who your charity is partnering or working with overseas

Charities often work with overseas agents, partners, contractors and others. You need to know who has ultimate control over the project that your charity's money and resources are going towards.

There is no substitute for knowing these people well, understanding their backgrounds and affiliations, finding out about the work the organisation undertakes and satisfying yourself that they do not support terrorism or other corrupt or illegal practices. Conduct research on the internet, review local media and (if possible) contact charities or others that have worked with the organisation. Ask for details where possible and cross-check information from everyone your charity works with.

If your charity is working with, or providing significant funds to, another organisation, check their governing documents. Do these clearly set out their mandate, and governance and accountability arrangements? Are the organisation's aims and values compatible with those of your charity? Verify identities and documents where possible.

It is also important to ask about the organisation's internal management and financial control systems. These need to be sufficiently robust to ensure that charitable funds are not open to fraudulent claims, theft by others, or diversion to terrorist organisations. As a minimum, the organisation should have:

- appropriate controls to ensure that all funds are fully accounted for and are spent in a manner that is consistent with the project or programme your charity is funding.
- adequate financial records for the receipt and use of funds.

If your research uncovers concerns that have been raised about the charity or its activities, consider the nature of the concerns and how long ago they were raised. Consider whether the police or a regulator investigated the concerns, and any outcome of these investigations.

Ultimately, your charity should only deal with organisations and people it can trust.

Under no circumstances deal with any individual or organisation included in the list of **Designated Terrorist Entities** that is maintained by the New Zealand Police. It is a serious criminal offence for anyone to participate in or support the activities of a designated terrorist entity. The list is available at : <https://www.police.govt.nz/advice/personal-community/counterterrorism/designated-entities>



Take care when donations appear to be suspicious

Some donations have suspicious characteristics or appear risky – for instance, if they are unusual or substantial one-off donations (or a series of smaller donations that add up to a substantial amount), particularly cash donations, that:

- come from a donor that is unknown to your charity, or come from a source that cannot be verified or checked.
- come from a known donor, but through an unknown party or an unusual payment mechanism which is not a typical method of payment.

- come with unusual conditions attached – for instance, that they be retained by your charity for a period then returned to the donor (with your charity retaining any interest), or only be applied to benefit particular individuals or groups.

If the donation raises concerns, your charity should consider whether to refuse or return the donation. If you suspect that the donation is related to terrorist financing, money laundering or other criminal activity, report it to the New Zealand Police on the non-emergency contact number **105**. Advice on terrorist financing matters can be provided by the Financial Intelligence Unit in the New Zealand Police, email FIU@police.govt.nz.

Your charity also needs to know who its beneficiaries are

Knowing who your charity's beneficiaries are is particularly important if your charity makes grants of cash or other financial support directly to individuals or groups, or where your charity's funds are distributed to individuals or groups through a third party. Carry out some general due diligence so your charity can be satisfied that it knows (in a general sense) who the beneficiaries are, that appropriate checks are carried out if necessary to minimise any risks, and that processes are in place to ensure that any eligibility criteria are met.

Take care when sending funds overseas

Your charity should have procedures for sending funds overseas (with appropriate controls and clear rules that set out who is able to handle funds and approve transactions) that promote transparency and accountability. Records of overseas transactions should be kept.



When sending money overseas, charities may face risks of their charitable funds being diverted or otherwise misused, even if they are working with a local organisation which has similar charitable purposes. You need to be

confident that funds are sent through the appropriate channels. This includes making sure that if it is not possible to use the formal banking system, any alternative remittance service provider your charity uses is reputable.

It's worth checking the Department of Internal Affairs's list of reporting entities under the Anti-Money Laundering and Countering Financing of Terrorism Act 2009, to see that the money remittance provider your charity uses (or is considering using) is included in the list. If the provider is on the list, there is some regulatory oversight of their activities. The list (which covers a range of businesses, not just money remittance providers) is available at:
www.dia.govt.nz/AML-CFT-List-of-Reporting-Entities

Ensure that your charity's funds and activities undertaken overseas advance your charitable purposes

Where funds are being transferred overseas, it can be easy for charities to lose sight of exactly how these funds are being used. It's important that your charity monitors and evaluates the projects and activities that your charity is funding. This allows you to check that the charity's funds are used for the right purposes.



Your charity should have clear written agreements with agents/contractors/ other partners, in New Zealand and abroad, covering what activities will be undertaken and how they will be monitored and accounted for. Your charity

needs to regularly check that the agreements are being followed. Consider asking for regular progress reports from partners, and visiting the partner organisation on the ground (if your investment is significant and it is safe and practical to do so).

Key points to remember

- Operating overseas carries with it increased risks, and these need to be carefully managed
- Look out for suspicious circumstances and exceptional features
- If there is cause for concern, carry out further checks
- Report suspicious activities to the Police
- Be alert to signs that your charity's funds will not be properly or legitimately used
- Ensure projects are monitored, and keep an audit trail and proper records (such as receipts and invoices) that show your charity's funds have been spent as intended
- Consider asking for project progress reports from partners and others that you fund overseas



If you suspect terrorism financing or other similar suspicious activity, contact the New Zealand Police on **the non-emergency phone number 105.**