

Guidance for Donors of Non-Profit Organizations (NPOs) on Ensuring Transparency and Understanding Terrorist Financing Risks

Introduction

Non-Profit Organizations (NPOs) play an important role in both the world economy and in national economies, especially within the humanitarian, educational, and development sectors. In order to make sure that donations to NPOs are used effectively and ethically, all donors (including individuals, corporations and foundations) must adopt best practices in financial transparency, due diligence, and risk mitigation.

When the resources of NPOs are diverted to fund terrorist activities, this undermines the reputation of the entire non-profit sector, as well as the trust of both financial institutions and donors towards NPOs. Unfortunately, this disproportionately affects the NPOs that are operating in areas where they are most needed. Furthermore, it negatively impacts their access to funding and financial services, which many NPOs heavily rely on.

Donors expect their contributions to be used in accordance with the stated mission of the NPO and this trust forms the foundation of the non-profit sector. At the same time, financial institutions implement measures to make sure legitimate NPOs have access to the services they need. In recent years, however, there have been increasing reports of legitimate NPOs having their financial services restricted or terminated. This is why protecting the sector from terrorist abuse is not only a key component of global counter-terrorism efforts, but also a necessary step in preserving the integrity of NPOs, the financial institutions that serve them, and the donor community.

For donors, it's good practice to research reliable, publicly available materials in order to understand how an NPO operates, how it is managed, the nature of its programs and where they operate. This is especially true for NPOs that operate in high-risk jurisdictions (in terms of terrorist activity).

This guidance document outlines best practices for donors contributing to NPOs, as well as potential areas of risk, red flags, and examples of the misuse of donors' contributions. This document is intended to raise awareness within the donor community, help them make informed decisions, and safeguard the integrity of their donations.

Understanding Terrorist Financing (TF)

Terrorist financing (TF) involves the direct or indirect collection, transfer, or use of funds to support terrorist activities. Funds can be legally or illegally obtained and may be directed to terrorist groups or individuals. Donors must be vigilant in ensuring their contributions are not exploited by illicit actors.

Potential Risks for Donors

Donors to NPOs may face exposure to TF risks through the following:

1. **Unverified recipients** – If NPOs do not carry out adequate due diligence on their beneficiaries, the funds donated to NPOs may end up in the wrong hands.
2. **Lack of financial transparency** - Poor recordkeeping or unclear financial reports can make it difficult to track how donations are used or obscure the misuse of funds.
3. **Transfers to high-risk regions** - Donations sent to regions affected by conflict or political instability may end up supporting terrorist activities.
4. **Anonymous or untraceable donations** - Donations made in cash or through non-transparent channels are harder to monitor and may be used to support illegal activities.

Best Practices for Donors

1. **Verify the legitimacy of the NPO**
 - Confirm that the NPO is officially registered and compliant with the relevant regulatory bodies.
 - Review the organization's mission, track record, and leadership.
2. **Assess the NPO's financial transparency**
 - Ensure that the NPO publishes annual reports and audited financial statements.
 - Check to see if there are independent audits.
3. **Understand how the funds will be used**
 - Request clear information on how the donations will be managed and allocated.
 - Check to see if there are impact/outcome reports on previously funded projects.
4. **Ensure traceable and transparent transactions**
 - Use secure, traceable payment methods—avoid cash donations.
 - Request receipts and confirm where the funds are going
 - Be cautious of unusual payment requests or frequent account changes.
5. **Evaluate governance and accountability**
 - Confirm that the NPO has active oversight, such as a board of directors or advisory body.
 - Look for documented policies that support ethical practices, internal controls, and conflict-of-interest prevention.
6. **Conduct due diligence**

- Check the organization's public reputation and past funding history.
- Cross-check information with reliable sources, such as watchdog groups or regulatory websites.

7. Report suspicious activities

- If there are concerns regarding the potential misuse of funds, promptly notify the appropriate authority – either the State Revenue Committee of the Republic of Armenia or the Financial Monitoring Center of the Central Bank of Armenia.
- Maintain records of all donations (including the purpose of the donation and recipient details), as this information may be needed for filing a report.

Red Flags

1. The NPO refuses and/or is unable to provide financial records or detailed information about its operations.
2. The NPO's funded projects have unclear or vague descriptions.
3. There is a lack of governance policies or board oversight.
4. The NPO requests donations to be made in an anonymous/untraceable manner.
5. There are sudden, unexplained changes in the NPO's financial activity.

Common Examples of the Misuse of Donors' Contributions

1. Corporate Donor Example

A company donated to an NPO that claimed to support disaster relief efforts. However, due to a lack of proper oversight, the funds were mismanaged. A better due diligence process before the donation could have helped prevent this.

2. Individual Donor Example

A philanthropist donated to a scholarship fund, only to later learn that most of the money never reached the intended students. Implementing strict reporting requirements and accountability measures could have reduced this risk.

3. Foundation Example

A foundation funded a healthcare initiative, but later discovered discrepancies between the reported results and actual outcomes. Ongoing monitoring and impact evaluations could have ensured better transparency and control.

Conclusion

To ensure their donations reach the correct beneficiaries and serve their intended purpose, donors need to be proactive and conduct due diligence on NPOs before making contributions. By conducting due diligence, evaluating the NPO's governance and accountability, and demanding transparency, donors can safeguard their contributions and help maintain the integrity of the non-profit sector.