Guidelines for Internationally Active NPOs

Preventing the Misuse of NPOs

Risk-Based Due Diligence on Partners, Beneficiaries and Flow of Funds

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1. Background

Switzerland's NPO sector is diverse and operates transparently and responsibly. Non-profit organisations (NPOs) make an important contribution to social cohesion, humanitarian assistance and international cooperation. Precisely because of this important role, it is essential to prevent them from being abused for unlawful purposes.
This is also an important concern for the international community. In 1989, the G7 established the Financial Action Task Force (FATF). This intergovernmental body has issued 40 Recommendations to combat money laundering, terrorist financing and the financing of weapons of mass destruction. The FATF regularly assesses how its members implement these Recommendations in national law. More than 200 countries and jurisdictions have committed to implementing the FATF Standards. Switzerland is also a member and undergoes regular FATF mutual evaluations.

FATF Recommendation 8 specifically addresses NPOs. It requires countries, in line with a risk-based approach, to identify those organisations that may be at risk of terrorist financing abuse and to put in place focused, proportionate and risk-based measures to mitigate those risks. At the same time, countries should ensure that legitimate NPO activities are not unduly disrupted or discouraged.

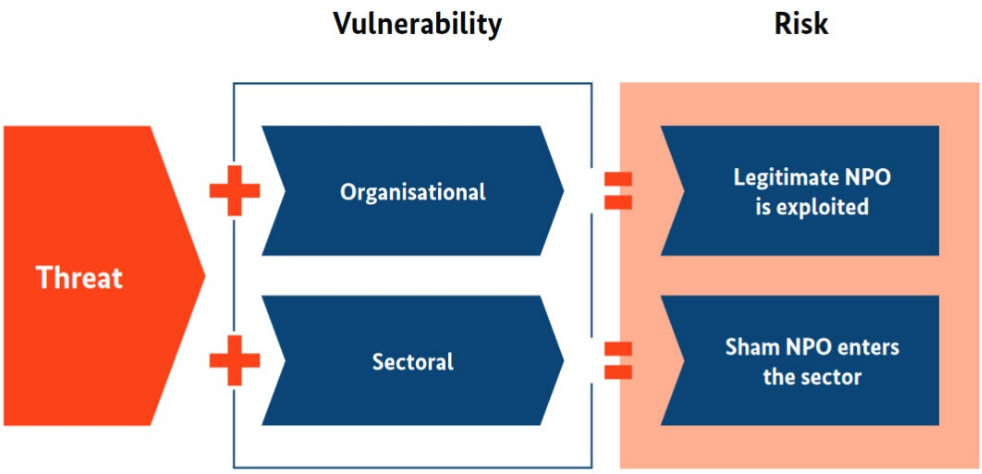
2. Terms and Definitions

The FATF defines terrorist financing as the provision or collection of funds or other assets to support terrorist acts, terrorist organisations or individual terrorists. Both lawful and unlawful funds may be abused for this purpose.
The FATF describes the potential **risk** of NPOs being abused for terrorist financing as the interaction between threat and vulnerability:

- **Threat** describes the potential for abuse by actors pursuing terrorist purposes.
- **Vulnerability** describes weaknesses that can be exploited for such abuse.

A distinction can be made between organisational and sectoral vulnerability:

- **Organisational vulnerability** exists where weaknesses in governance, processes or controls within legitimate NPOs may allow staff, partners or third parties to divert funds or services from their intended purposes.
- **Sectoral vulnerability** exists where NPO structures are deliberately established to conceal terrorist financing activities.



Against this background, the Zewo Foundation prepared this guidance note in consultation with the State Secretariat for International Finance (SIF). It is intended for charitable NPOs in Switzerland, irrespective of their legal form, and aims to help reduce organisational vulnerability by enabling them to:

- understand potential risks;
- assess their risk profile;
- take targeted and proportionate preventive measures where needed.

3. When might NPOs be at increased Risk of Abuse?

Potential risks may arise in certain contexts and circumstances. An increased risk will generally arise only when several risk factors are present. Potential risk factors include in particular:

Geographic Area of Operation

- operating in fragile states where state structures function only to a limited extent, or where government authority is weakened or has collapsed;
- operating in areas where terrorist groups are active or exercise partial territorial control;
- operating in areas where organisations with both political/social and paramilitary structures are active;
- contexts in which due diligence on partner organisations or beneficiaries, or verification of the end use of funds, is significantly impeded.

Governance Weaknesses

- limited risk awareness within the organisation;
- missing or insufficient internal policies and procedures for risk prevention;
- insufficient awareness-raising and training within the organisation;
- lack of checks and balances within the organisation;
- inadequate internal controls, in particular insufficient due diligence of partner organisations and beneficiaries;
- insufficient monitoring of projects and programmes;
- missing or inadequate documentation of fund flows;
- use of alternative money transfer systems outside the regulated banking system without adequate safeguards.

De facto Control and Lack of Transparency

- The organisation is de facto controlled by individuals who are close to or associated with terrorist groups.

- The organisation has significant transparency deficiencies regarding its governing bodies and structures, activities, funding and use of funds.

As a rule of thumb: the higher an organisation's specific risk profile, the more important it is that preventive measures are targeted and effective.

4. How NPOs Can Mitigate Potential Misuse

The following measures draw on good-practice elements that are particularly relevant to the risks described in sections 1 to 3. The measures should reflect the NPO's specific risk profile. The key consideration is not simply the size or financial scale of the NPO, but above all whether and to what extent funds, projects or services flow into fragile, conflict-affected or difficult-to-monitor contexts. The larger and more significant this exposure, the more carefully partners, beneficiaries and financial flows should be subject to due diligence, monitoring and documentation.

Risk Assessment and Risk Profile

As part of its risk assessment, the NPO regularly assesses whether its activities, partner relationships, beneficiary groups or fund flows present an increased risk of abuse. It considers in particular fragile or conflict-affected areas, limited state control, indications of terrorist group activity, sanctions-related risks and challenges in conducting verification on the ground.

The risk assessment is documented, periodically updated and submitted to the responsible governing body. The following sources of information may be useful:

- Corruption Perceptions Index (CPI)
- Fragile States Index
- CIVICUS Monitor
- Sanctions lists: Switzerland (SECO[1]), UN, EU and US (OFAC)[2], as well as other information from authorities, e.g. SDC or FDFA
- Private compliance and sanctions screening platforms, e.g. CSIWatchDOG Elite, Sanction Scanner, OpenSanctions, ComplyAdvantage or LSEG World-Check
- References from partner organisations or local experts
- Global Terrorism Index (GTI)
- ACLED (Armed Conflict Location & Event Data Project)
- INFORM (Index for Risk Management)

Governance and Responsibilities

The NPO ensures compliance with laws, standards and the organisation's values by adopting appropriate rules of conduct in a Code of Conduct or compliance policies and ensuring they are known and followed throughout the organisation.

Segregation of duties, joint signing requirements, the dual-control (four-eyes principle), clearly defined responsibilities and decision-making powers, documented declarations of interests, and established procedures for managing conflicts of interest reduce organisational vulnerability. The governing body approves key policies and receives regular information on risks, controls and relevant incidents.

[1] State Secretariat for Economic Affairs
[2] Office of Foreign Assets Control

Project and Partner Due Diligence

New projects and partner organisations are subject to risk-based due diligence; existing partnerships are reviewed periodically. Documented due diligence criteria include, in particular, purpose and activities, registration, governance and control structures, experience, financial situation, sources of funds, reputation, local presence and possible links to sanctioned individuals or organisations.

The due diligence review is based on publicly available sources, relevant supporting documents such as governing documents, annual reports and audited financial statements, reference checks, direct enquiries, and screening against relevant sanctions lists, in particular those of Switzerland (SECO), the UN, the EU and the US (OFAC).

On 9 December 2022, the UN Security Council adopted Resolution 2664, establishing standing and standardised humanitarian exemptions from the targeted financial sanctions it imposes, in order to increase legal certainty for NPOs operating in conflict-affected areas. The FATF also amended Recommendation 6 (targeted financial sanctions related to terrorism and terrorist financing) in line with Resolution 2664. The exemption covers the provision of funds and economic resources by certain humanitarian actors to listed persons and organisations provided this occurs in the context of humanitarian assistance. The Federal Council has incorporated these exemptions into the sanctions ordinances issued under the Embargo Act (see, for example, Art. 3 para. 3 of the Ordinance on Measures Against Certain Individuals, Groups, Companies and Organisations Associated with ISIL (Da'esh) and Al-Qaida or Art. 10 para. 2*quater* of the Ordinance on Measures against Syria). A full list of sanctions ordinances currently in force is available on the SECO website: https://www.seco.admin.ch/de/sanktionsverordnungen.

Agreements

Written agreements are concluded with partner organisations. They set out the purpose, activities, location, period, budget, target groups, roles, reporting requirements, audit and inspection rights, restrictions on the use of funds, payment terms, and options for suspension or termination where reporting requirements are not met or abuse is suspected.

Project Monitoring and Reporting

The NPO defines how projects are planned, monitored and evaluated. Narrative and financial reports, supporting documents, bank statements, project progress, site visits, internal or external evaluations and audits are requested and reviewed on a risk-based basis. Where possible, disbursements are made in tranches and further payments are conditional on adequate reporting. Where risk is elevated, additional local audits, external reviews, site visits or independent checks may be appropriate. This applies in particular to high-value projects, difficult-to-monitor regions, complex partner structures or unclear reporting.

Traceable, Staged Financial Transactions

Financial flows must be documented at each stage so that it is always possible to trace where funds have gone and how they have been used. The NPO defines who may initiate and authorise payments, maintains an overview of planned and completed transfers, and reconciles these with budgets, project progress and reports. Project funds are generally transferred to a contractually designated account held in the legal name of the partner organisation. Changes to bank details are accepted only in writing and after verification. Cash transactions and alternative money transfer systems outside the regulated banking system are avoided or, where unavoidable, are subject to additional controls, supporting documentation and approvals.

Transparency in Complex Structures and Networks

Where partner organisations have complex structures involving country offices, affiliated organisations or international networks, the NPO assesses whether financial linkages are transparently disclosed and whether material financial flows are traceable. The key is that governing bodies, project managers and auditors can trace which funds flow to which entities.

Awareness and suspected Abuse

Governing bodies, staff, volunteers and relevant partners are appropriately informed and trained on abuse risks and reporting channels. Clear procedures are in place where abuse is suspected: notify the designated internal functions, suspend payments where necessary, review documents, conduct on-site checks or seek external expertise, document decisions and involve the authorities where appropriate.

5. Checklist for Internationally Active NPOs

This checklist is intended for foundation and association boards, as well as for the executive management of NPOs operating internationally. Many of the measures listed are already part of sound and responsible governance, project management and financial control. In practice, they are often implemented for other reasons as well. In the context of potential misuse risks, they help NPOs apply a risk-based approach to reviewing partners, beneficiaries and flows of funds and to document these reviews in a clear and traceable manner.

The checklist can be used at two levels: The basic measures provide guidance for NPOs operating internationally. Additional enhanced measures are appropriate where a significant share of funds, projects or activities is directed to higher-risk contexts, such as fragile, conflict-affected or difficult-to-monitor regions.

Review points	**Baseline for all**	**Enhanced - elevated risk**
Share of funds, projects or activities in higher-risk contexts assessed and reflected in controls	☐	☐
Risk profile reviewed regularly and updated when material changes occur	☐	
Risk assessment documented and appropriate mitigating measures defined	☐	
Responsibilities, dual-control (four-eyes principle), segregation of duties and declarations of interests defined	☐	
Due diligence process or criteria for project and partner checks approved and applied	☐	☐
Relevant sanctions lists and information from authorities considered on a risk-based basis		☐
Applicability of relevant humanitarian exemptions under the various sanctions regimes assessed		☐
Written agreements with partner organisations in place and up to date	☐	
Reporting requirements, audit and inspection rights, payment terms and restrictions on the use of funds defined	☐	
Narrative and financial reports and supporting documents	☐	
Payments made in tranches; further tranches released only after adequate reporting has been received	☐	
Bank details verified; cash or alternative transfers only with additional controls	☐	☐
For networks: structure, responsibilities, flows of funds and earmarking of funds are clearly traceable	☐	
Local audits, external reviews or independent evaluations proportionate to project volume	☐	
Staff and relevant partners informed and trained; procedures for suspected abuse and payment suspension defined	☐	☐