

Protecting Purpose: Strengthening Non-Profit Defences Against Terrorist Financing in Jersey

Executive Summary

In January 2023, Jersey launched a targeted engagement campaign and regulatory framework designed to protect the non-profit organization (NPO) sector from terrorist financing exploitation. Led by the Jersey Financial Services Commission (JFSC), the initiative introduced a new legal category—"Prescribed NPOs"—subjected to enhanced oversight based on their international financial exposure. A national risk assessment determined that while the majority of Jersey's NPO sector (approximately 90%) presents low-to-standard risk, a subset of 11% displays characteristics that increase vulnerability to abuse. The policy objective is strictly risk-based and preventive: to secure legitimate charitable activity without imposing disproportionate restrictions that could lead to financial exclusion or "de-risking" by banks. Key takeaways from the framework's first year of implementation include:

- **Diversion as the Primary Threat:** The central operational risk is the redirection of funds or resources to terrorists, often occurring after resources leave the primary NPO's direct control.
- **Implementation Gaps:** Early supervisory examinations revealed that while donor record-keeping is strong, many organizations struggle to evidence the ultimate end-use of funds and provide adequate staff training.
- **Proportionality is Essential:** Effective controls must distinguish between the inherent complexity of humanitarian work in conflict zones and actual terrorist intent to avoid disrupting essential aid.

The Vulnerability of the Non-Profit Sector

NPOs provide essential services in environments where governments and commercial entities cannot operate, such as conflict zones and disaster areas. However, the very characteristics that enable this work also create exposure to terrorist financing (TF).

Drivers of Vulnerability

- **Rapid Resource Movement:** The ability to raise and distribute funds quickly across borders.
- **Complex Operating Environments:** Frequent operations in areas with limited financial infrastructure, requiring the use of cash, mobile money, or informal remittance systems.
- **Reliance on Intermediaries:** Working through local partners or volunteers who may be less transparent or harder to vet.

Methods of Exploitation

Terrorist organizations exploit NPOs through several distinct methods, often without the knowledge of the legitimate organization:

- **Diversion:** Redirecting funds, goods, or services to a terrorist entity.

- **Infiltration:** Placing individuals within an NPO to influence payments or beneficiary selection.
- **Sham Charities:** Creating fraudulent organizations to conceal fundraising and recruitment.
- **Non-Monetary Abuse:** Misusing an NPO's vehicles, buildings, communications equipment, or reputation.

Jersey's Regulatory Framework: "Prescribed NPOs"

Effective January 1, 2023, Jersey introduced the category of **Prescribed NPOs** to apply targeted scrutiny to organizations with elevated international risk.

Criteria for Classification

An organization is designated as a Prescribed NPO if, during the preceding 12 months, it:

1. Raised more than **£1,000** from outside Jersey, Guernsey, the Isle of Man, or the UK; or
2. Distributed more than **£1,000** outside those same jurisdictions.

Enhanced Obligations

Organizations meeting these thresholds must adhere to additional financial and transparency requirements:

- **Financial Records:** Maintenance of annual financial statements and accounting systems that clearly show how funds are received and spent.
- **Control Information:** Records identifying individuals who own, direct, or exercise significant influence over the organization.
- **Significant Donor Records:** Information must be kept for at least five years on any donor providing £10,000 or more (or more than half the NPO's total donations) in a 12-month period.
- **Associate and Beneficiary Oversight:** NPOs must take reasonable steps to identify associate organizations and beneficiaries to confirm they are not assisting terrorism.

Operational Risk: The Centrality of Diversion

Diversion is identified as the primary operational risk for NPOs. It can occur at any stage: before resources leave Jersey, during transfer, or at the point of final distribution. | Type of Diversion | Mechanism of Abuse || ----- | ----- || **Partner Redirection** | A foreign partner deliberately misuses assistance for unauthorized purposes. || **Inflated Costs** | Employees or intermediaries create false beneficiaries or inflate project expenses. || **Unofficial "Taxes"** | Local armed groups demand "checkpoint" payments or access fees in conflict zones. || **Procurement Risk** | Purchasing goods from suppliers controlled by sanctioned individuals or armed groups. | The JFSC emphasizes that transferring money to a reputable partner does not end the NPO's responsibility; it merely changes the nature of the required control from direct oversight to partner due diligence and end-use verification.

Supervisory Findings and Implementation Gaps

A 2023 JFSC examination of eight Prescribed NPOs revealed a disparity between technical compliance (having policies) and operational effectiveness (proving outcomes).

Strengths

- High levels of compliance regarding significant-donor records.
- Most organizations possessed documented risk assessments and risk-appetite statements.

Weaknesses

- **End-Use Evidence:** Only 75% of examined NPOs could fully demonstrate that diversion risk was mitigated. Many could prove a transfer to an associate NPO but lacked evidence of how the money was ultimately utilized.
- **Training:** Most organizations failed to prove that employees and volunteers had received appropriate terrorist-financing training.
- **Independent NPO Limitations:** Organizations not administered by professional trust companies often lacked access to specialist compliance resources, leading to higher rates of negative findings.

The Role of Financial Institutions

Banks and payment providers are critical to the delivery of humanitarian aid but often engage in "de-risking"—the indiscriminate closing of NPO accounts to avoid risk.

Risks of De-Risking

Closing accounts based solely on an NPO's geographic footprint can push transactions toward cash or informal mechanisms. This reduces transparency and increases the very risks banks seek to avoid.

Expectations for Financial Institutions

The Financial Action Task Force (FATF) and Jersey authorities recommend a risk-based approach:

- **Contextual Monitoring:** Transaction monitoring should compare activity against the NPO's specific mission and expected payment patterns.
- **Due Diligence:** Banks should understand an NPO's delivery channels and control environment rather than applying broad sector classifications.
- **Sanctions Integration:** While sanctions screening is necessary, a "clean" result should not replace a deep assessment of ownership and program purpose.

Conclusion: The Resilient NPO Control Stack

For an NPO to be resilient against terrorist exploitation, it must move beyond trust-based management to a multi-layered control environment.

Layer	Component	Description
1	Risk Assessment	Programme-specific analysis of geography, partners, and payment methods.
2	Risk Appetite	Documented position refusing to tolerate deliberate

diversion. || 3 | **Governance** | Board-level approval of high-risk programs and oversight of incidents. || 4 | **Transparent Accounting** | Tracing funds from the donor to the end-use expenditure. || 5 | **Due Diligence** | Proportionate vetting of significant donors and associate organizations. || 6 | **End-Use Verification** | Using independent evidence (reports, photos, audits) rather than just partner declarations. || 7 | **Training & Escalation** | Role-specific education and clear internal procedures for reporting suspicion. |

Ultimately, Jersey's framework aims to demonstrate that preventing misuse and allowing legitimate funds to reach vulnerable communities are not mutually exclusive goals, provided that regulation remains targeted, evidence-based, and proportionate.