

# 2018

## Review on the use of non-profit organizations for illegal purposes



**The State Financial  
Monitoring Service  
of Ukraine**

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### List of abbreviations

<b>The SFMS</b>	The State Financial Monitoring Service
<b>FATF</b>	The Financial Action Task Force
<b>ML</b>	money laundering
<b>USR</b>	The United State Register of Legal Entities, Individual Entrepreneurs and Public Organizations
<b>The Law on Prevention and Counteraction</b>	The Law of Ukraine "On Prevention and Counteraction of the Legalization (Laundering) of the Proceeds from Crime, Terrorist Financing and Financing Proliferation of Weapons of Mass Destruction"
<b>CC of Ukraine</b>	Criminal code of Ukraine
<b>The MONEYVAL Committee</b>	The Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism - MONEYVAL
<b>NPOs</b>	non-profit organizations
<b>AML\CFT</b>	Anti-Money Laundering/Combating Financing of Terrorism
<b>LEA</b>	law enforcement authorities
<b>STR</b>	suspicious transaction report
<b>FIU</b>	Financial Intelligence Unit
<b>Register of NPO and institutions</b>	Register of non-profit organizations and institutions
<b>TF</b>	terrorist financing
<b>WMD</b>	weapon of mass destruction

## INTRODUCTION

An overview on the use of NPOs for illegal purposes has been prepared in the framework of implementation of paragraph 88 of the Action Plan for 2017-2019 on the implementation of the Strategy for the AML/FT/WMD system development for the period up to 2020, approved by the Cabinet of Ministers of Ukraine as of August 30, 2017, No. 601-p.

This Review is an integral part of the Sectoral Risk Assessment of using NPOs for ML/ FT /WMD.

According to the results of conducted MONEYVAL 5th round of mutual evaluation of Ukrainian AML/CFT system, Ukraine has a fairly good understanding of its ML/FT risks, but the NPO sector used for illegal purposes needs constant updating of knowledge and its deepening.

It should be noted that it is quite difficult to trace the machinations in this area, to hinder them through the nature of such organizations (especially their statutory functions).

The international and domestic FT combating has demonstrated that terrorists and terrorist organizations use the NPOs sector to receive and transfer funds, provide logistical support, encourage terrorist recruitment or support terrorist organizations and operations in another way.

The main methods and schemes by which criminals and criminal groups carry out FT (separatism) are covered in the 2017 SFMS typological study, that is published on the SFMS official web-site in the section "Typologies/Recommendations for Detection of Money Laundering Schemes"<sup>1</sup>.

Also, the results of this Review can be used to reduce the potential risks of ML/FT and make it impossible to NPOs illegal use.

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<sup>1</sup> Typological study on "Risks of Terrorism and Separatism". The SFMS. Kiev, 2017. Access mode: [www.sdfm.gov.ua/articles.php?cat\\_id=114&lang=uk](http://www.sdfm.gov.ua/articles.php?cat_id=114&lang=uk)

## I. REVIEW OF INTERNATIONAL DOCUMENTS AND STUDIES

### 1.1. FATF Recommendations

Recommendation 8 and Interpretive Note thereto are the main FATF recommendation, aimed to identify and suspend of using NPO sector for terrorist financing.

According to the FATF position, NPOs are vulnerable to abuse for a number of reasons. Thus, NPOs enjoy public trust, have access to significant sources of funding, and also have a large concentration of money.

FATF 1 Recommendation highlights the importance of identifying and analyzing FT risks, as well as the use of a risk-based approach in terrorist financing combating;

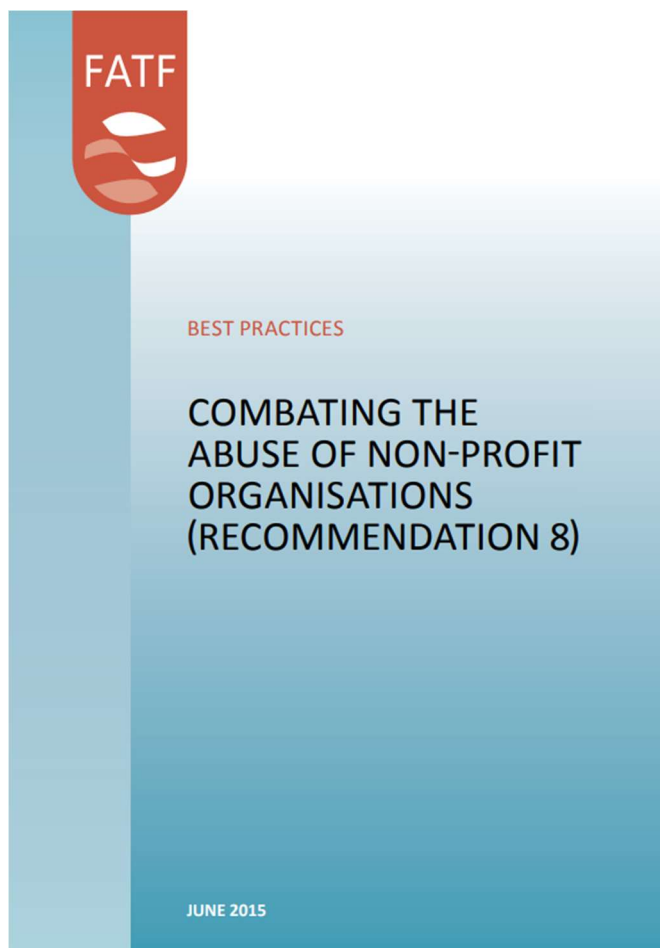
FATF 5 Recommendation contains the requirement for countries to recognize as criminal acts not only the terrorist financing acts but also the terrorist financing organizations, as well as individual terrorists, even in the absence of communication with a specific terrorist act (or acts);

FATF 6 Recommendation establishes an obligation for States and determines the order of freezing/blocking terrorist assets in pursuance of UNSCR.

The FATF has developed and is consistently implementing the appropriate monitoring system for compliance by States with the recommendations of the standards.

First of all, it should be noted that effective monitoring of the FATF standards implementation, including those related to the NPO sector, is ensured by the international FATF status and the membership of this organization.

Conducted FATF studies have shown that most of the money gathered and used by terrorist organizations is not only for the preparation of the terrorist attack but for general organizational support, including new members recruitment, the promotion of their ideology, training/preparation, life support, travel and creation visibility of legal activity.



FATF is constantly updating its documents, as well as regular typological studies. Such measures contribute to a better understanding of international FATF standards.

Thus, in relation to the non-profit sector, in 2015 the FATF issued document on best practice "Combating the abuse of non-profit organizations"<sup>2</sup>, based on the 2014 typological study on «Risk of Terrorist Abuse in Non-Profit Organisations».

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<sup>2</sup> <http://www.fatf-gafi.org/media/fatf/documents/reports/BPP-combating-abuse-non-profit-organisations.pdf>

## 1.2. The results of MONEYVAL Committee national system evaluation of AML/CFT system



In 2017, the MONEYVAL Committee, based on the results of the 5th round of mutual evaluation of the national AML\CFT system of Ukraine, evaluated the implementation by Ukraine of FATF Recommendations and identifies a number of aspects that need to be improved.

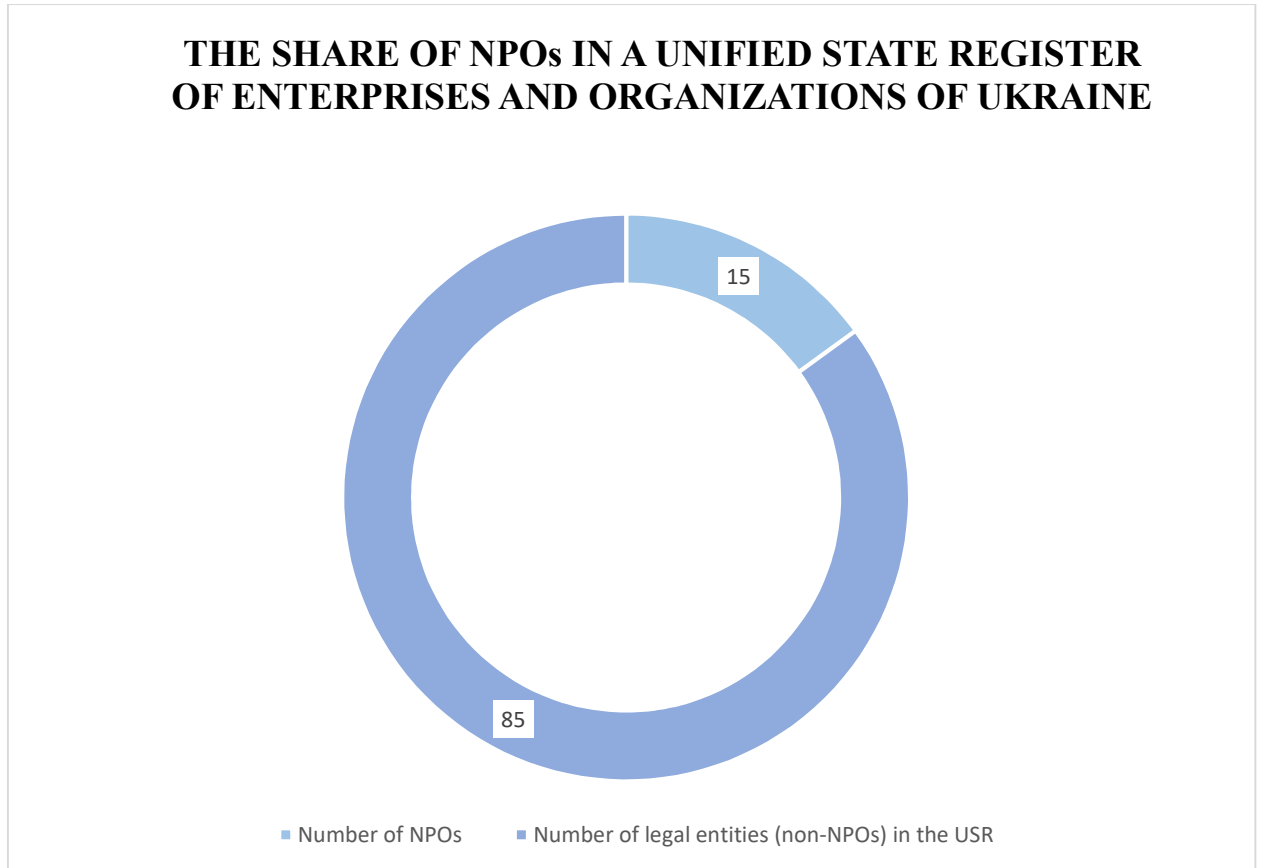
Experts note that from 2014, Ukraine has turned into a transit country for those seeking to join ISIL fighters in Syria.

The non-profit sector is considered to be vulnerable to FT. This sector was abused to money transfer for terrorists and terrorist organizations.

## II. GENERAL TRENDS ON THE NPOs MARKET

### 2.1. Number of registered non-profit organizations

In the Unified State Register of Enterprises and Organizations of Ukraine<sup>3</sup>, as of 01.01.2019, **1 298 435** legal entities were registered, of which **197 952** NPOs<sup>4</sup>, representing **15%** of the total number of entities.



<sup>3</sup> Indicators of the Unified State Register of Enterprises and Organizations of Ukraine [Electronic resource] Access mode: [www.ukrstat.gov.ua](http://www.ukrstat.gov.ua)

<sup>4</sup> According to the State Fiscal Service of Ukraine



## 2.2. Data on received STRs

In 2018, the SFMS received **169,312** STRs which were conducted with the participation of **7,661** NPOs, for a total amount of **UAH 439 billion**.

Information on the distribution of received STRs by the SFMS, carried out with the participation of NPOs, for 2018 in the context of features of financial monitoring is provided in the table.

Indicator	Number of STRs, unit	%	Sum of STRs, UAH million	%
<b>Total</b>	<b>169 312</b>	<b>100%</b>	<b>439 731,3</b>	<b>100%</b>
Mandatory financial monitoring	167 399	98,9%	436 963,1	99,37%
Internal financial monitoring	869	0,5%	141,5	0,03%
Mandatory and internal financial monitoring	1 044	0,6%	2 626,7	0,6%

It should be noted that 98,9% of STRs regarding NPOs were received on the basis of mandatory financial monitoring.

The largest number of STRs on financial transactions conducted with the participation of NPOs were received from the following features of financial monitoring:

- **features of mandatory financial monitoring** (the following features cover 75.7% of STRs conducted with participation of NPOs received on the basis of mandatory financial monitoring):

- «**5500**. Funds transfer by NPO» (28,0%);
- «**5510**. Receiving funds by NPO» (25,2%);
- «**5610**. Financial transaction operations for high-risk persons» (11,8%);
- «**5600**. Financial operations on receiving funds for high-risk persons» (10,7%);

- **features of internal financial monitoring** (the following features cover 81,7% of STRs conducted with participation of NPOs received on the basis of internal financial monitoring):

- «**900**. Other financial operations for which the reporting entity has grounds to consider that a financial transaction is conducted for the purpose of legalization (laundering) of proceeds or terrorist financing or financing of proliferation of weapons of mass destruction» (59,1%);
- «**115**. The acceptance of funds (billing documents before their payment) by the reporting entity from the person who transfers funds to the address of the other party of the civil law agreement, as a result of which such funds are returned without performing a financial transaction in connection with its refusal to accept them» (11,8%);
- «**416**. Regular receiving or provision of financial assistance, including from non-residents, or provision of financial assistance to non-residents» (10,8%).

### 2.3. Analysis of NPOs types – participants of suspicious transactions

In 2018, the SFMS received **169,316** STRs on financial transactions conducted with the participation of **7,682** NPOs.

Among the received STRs the largest share is occupied:

*by the number of participants* – by non-governmental organizations (20%), association of apartment building co-owners, association owners of residential houses (18%), trade unions, their associations and trade union organizations (16%), and charitable foundations (organizations) (13%);

*by the number of STRs* – non-governmental organizations (19%), charitable foundations (organizations) (17%), trade unions, their associations and trade union organizations (13%);

*by the sum of STRs* – non-governmental organizations (16%), charitable foundations (organizations) (6%).

Detailed information on the analysis of STRs participants is provided in the table.

№	NPO type	Number of entities, unit	%	Number of STRs, Unit	%	Sum of STRs, UAH million	%
<b>Total</b>		<b>7 861</b>	<b>100%</b>	<b>16 312</b>	<b>100%</b>	<b>439 731,3</b>	<b>100%</b>
1	Non-governmental organizations	1 566	20%	31 469	18,6%	73 677,4	16,8%
2	Charitable foundations (organizations)	998	13%	27 950	16,5%	26 225,6	6%
3	Trade unions, their associations and trade union organizations	1 218	15,9%	21 320	12,6%	11 951,7	2,7%
4	Association of apartment building co-owners, association owners of residential houses	1 346	17,5%	19 349	11,4%	9 161,3	2,1%
5	Other legal entities whose activity does not involve the profits receiving	378	4,9%	16 043	9,5%	18 348,1	4,2%
6	Institutions, organizations created by the Ukrainian state authorities, which are keeping at the expense of funds of relevant budgets	511	6,7%	15 866	9,4%	15 877,5	3,6%
7	Other types of NPOs	1 664	21,7%	37 315	22,0%	284 499,7	64,7%

## 2.4. Information on termination/restriction of business relations with NPOs

In 2018, reporting entities sent information to the SFMS on a dissolution of business relations, refusal to conduct financial transactions with **498** NPOs.

Such informing was carried out by the reporting entities because of:

- **402 NPOs** were not provided clarifying information upon the request of the reporting entity:
  - *210 non-governmental organizations;*
  - *89 charitable organizations;*
  - *87 religious organizations;*
  - *15 political parties;*
  - *1 other NPO.*
- **92 NPOs** were at high risk:
  - *53 non-governmental organizations;*
  - *27 charitable organizations;*
  - *6 political parties;*
  - *3 religious organizations;*
  - *3 association owners of residential houses;*
- **1 NPO** (charitable organization) detected negative information;
- **3 NPO** denied for other reasons.

## **2.5. Termination of financial operations**

In 2018, the SFMS has suspended financial transactions on bank accounts of **3** NPOs (non-governmental organizations) that may be related to FT (separatism) for a total amount of **UAH 10.5 million**.

The SFMS has submitted to the Security Service of Ukraine an additional case referral on suspended financial transactions of persons who may be related to the FT (separatism).

### III. TYPICAL SCHEMES AND MECHANISMS ON THE NPOs ILLEGAL USE

#### 3.1. The ways of NPOs illegal use, according to the FATF

FATF 8 Recommendation defines the ways of NPOs use by terrorist organizations for FT, incl. for the purpose of:

- to proclaim oneself as legitimate entities;
- to use legal institutions as channels for the terrorism financing, including in order to avoid the accounts freezing;
- to conceal or disguise the secret movements of funds intended for legitimate purposes, but used for terrorist purposes.

According to the results of typological and situational studies, the FATF identified five most actively used methods of NPOs illegal use or risks of such use:

- funds redirection;
- ensuring interaction with terrorist arrangements;
- facilitating recruitment;
- terrorists use of NPOs programs/projects;
- actions on behalf of legitimate NPOs and the creation of fictitious NPOs.

##### A. Funds redirection

One of the main ways of illegal use of significant financial resources available in the sector and the illegal use of NPOs to support terrorism.

This method is that funds raised by NPOs for humanitarian programs (for the purpose of providing assistance after natural disasters, humanitarian assistance, cultural centers support, poverty alleviation, education development) are redirected to support terrorism at a certain stage of a non-profit organization.

The fund's redirection takes place at the moment when funds collected for charitable purposes are redirected to the benefit of terrorist organizations.

Redirection of funds is occurred at various stages of NPOs activity, including during the gathering and transfer of funds. Such funds are used to support terrorist organizations or to finance their infrastructure and prepare for terrorist attacks.

Transmitted funds were used to support individual terrorists and terrorist organizations both inside and outside the country.

In the existing FATF typologies, in most cases, there are individuals (leadership, ordinary NPOs employees, persons involved under the service agreement, etc.). Such persons redirect funds collected by NPOs, to charitable purposes, for terrorist organizations.

The use of NPOs to carry out such operations has helped to confuse traces during inspections and overlap with a terrorist or terrorist organization.

### **B. Support for communication with terrorist entities**

Also, the most common way and the risk of illegal NPOs use is the link between a non-profit organization and a terrorist arrangement.

There are cases where non-profit organizations or their leadership maintain ties with terrorists, terrorist organizations, or terrorist supporters.

In these cases, NPOs can be used illegally for various purposes, including for the financing and logistical support of terrorist arrangements.

### **C. Promoting recruitment**

In the conducted FATF studies a significant number of cases of illegal use of NPOs sector in order to facilitate recruitment by terrorist organizations are identified.

In this situation, NPOs resources are used for propaganda and assistance in activities directly related to terrorist violence.

Cases of illegal NPO use to facilitate recruitment have shown that NPOs have been used illegally for:

- the funds transfer to terrorists;
- providing financial support to the terrorists' families;
- organization and provision of places for carrying out activities in support of terrorism or terrorist arrangements;
- publishing materials on the Internet or other media in support of terrorism or terrorist arrangements.

Organizations funded by NPOs can also be illegally used for:

- recruitment and training of individuals for participation in terrorist acts, including the manufacture of explosives and the commission of terrorist attacks by suicide bombers;
- providing a place for meetings of terrorist organizations members;
- propagandists' invitation to spread and promote terrorism ideas.

### **D. Use of terrorist programs/projects by NPOs**

Programs funded by NPOs and aimed at legitimate humanitarian purposes can be the subject of terrorist manipulation for the purpose of financial and material support for terrorism.

There are cases of the NPOs' websites use for the terrorism propaganda, as well as the use of charitable activities to propagate ideas that facilitate the recruitment of new members and supporters of a terrorist organization.

Programs and projects funded by NPOs may also be used illegally to recruit members and supporters of terrorist movements.

### **E. Actions on behalf of legal NPOs and the creation of fictitious NPOs**

Another way of using non-profit organizations for the FT purpose is to act on behalf of legal NPOs and to create fictitious NPOs.

In the first case, under the guise of charitable activities, organizations and individuals on behalf of the legally existing NPOs are engaged in raising funds, propaganda and other activities in support of terrorism.

In case of creation of fictitious NPOs stated goals of such organizations are obviously fictitious and serve as a cover for terrorist activities support.

In general, FATF typological studies show that the illegal use or risk of illegal use of the NPO sector by terrorist arrangements is often the result of the lack of proper rules for internal control and management of NPOs.

### 3.2. Typologies of international organizations

According to FATF typological and situational studies, examples have been identified in which NPOs are used for illegal purposes.

Detailed information on the international organizations' publications is presented in the table

Title	Link on the web-site
<b>Publications of the Financial Action Task Force on Money Laundering (FATF)</b>	
Financing of recruitment for terrorist purposes (2018, English version)	<a href="http://www.fatf-gafi.org/media/fatf/documents/reports/Financing-Recruitment-for-Terrorism.pdf">http://www.fatf-gafi.org/media/fatf/documents/reports/Financing-Recruitment-for-Terrorism.pdf</a>
FATF guidance on counter proliferation financing the implementation of financial provisions of United Nations Security Council resolutions to counter the proliferation of weapons of mass destruction (2018, English version)	<a href="http://www.fatf-gafi.org/media/fatf/documents/reports/Guidance-Countering-Proliferation-Financing.pdf">http://www.fatf-gafi.org/media/fatf/documents/reports/Guidance-Countering-Proliferation-Financing.pdf</a>
FATF guidance on anti-money laundering and terrorist financing measures and financial inclusion with a supplement on customer due diligence (2017) (English version)	<a href="http://www.fatf-gafi.org/media/fatf/content/images/Updated-2017-FATF-2013-Guidance.pdf">http://www.fatf-gafi.org/media/fatf/content/images/Updated-2017-FATF-2013-Guidance.pdf</a>
FATF report on money laundering/terrorist financing risks and vulnerabilities associated with gold (2015, eng. version)	<a href="http://www.fatf-gafi.org/media/fatf/documents/reports/ML-TF-risks-vulnerabilities-associated-with-gold.pdf">http://www.fatf-gafi.org/media/fatf/documents/reports/ML-TF-risks-vulnerabilities-associated-with-gold.pdf</a>
FATF report on emerging terrorist financing risks (2015, English version)	<a href="http://www.fatf-gafi.org/media/fatf/documents/reports/Emerging-Terrorist-Financing-Risks.pdf">http://www.fatf-gafi.org/media/fatf/documents/reports/Emerging-Terrorist-Financing-Risks.pdf</a>
FATF report on financing of the terrorist organisation Islamic State in Iraq and the Levant (ISIL) (2015, English version)	<a href="http://www.fatf-gafi.org/media/fatf/documents/reports/Financing-of-the-terrorist-organisation-ISIL.pdf">http://www.fatf-gafi.org/media/fatf/documents/reports/Financing-of-the-terrorist-organisation-ISIL.pdf</a>
Best practices on combating the abuse of non-profit organisations (Recommendation 8) (2015, English version)	<a href="http://www.fatf-gafi.org/media/fatf/documents/reports/BPP-combating-abuse-non-profit-organisations.pdf">http://www.fatf-gafi.org/media/fatf/documents/reports/BPP-combating-abuse-non-profit-organisations.pdf</a>
FATF report on risk of terrorist abuse in non-profit organisations (2014, English version)	<a href="http://www.fatf-gafi.org/media/fatf/documents/reports/Risk-of-terrorist-abuse-in-non-profit-organisations.pdf">http://www.fatf-gafi.org/media/fatf/documents/reports/Risk-of-terrorist-abuse-in-non-profit-organisations.pdf</a>
International best practices targeted financial sanctions related to terrorism and terrorist financing (Recommendation 6) (2013, English version)	<a href="http://www.fatf-gafi.org/media/fatf/documents/recommendations/BPP-Fin-Sanctions-TF-R6.pdf">http://www.fatf-gafi.org/media/fatf/documents/recommendations/BPP-Fin-Sanctions-TF-R6.pdf</a>
FATF report on terrorist financing in West Africa (2013, English version)	<a href="http://www.fatf-gafi.org/media/fatf/documents/reports/TF-in-West-Africa.pdf">http://www.fatf-gafi.org/media/fatf/documents/reports/TF-in-West-Africa.pdf</a>
Proliferation financing report (2008, English version)	<a href="http://www.fatf-gafi.org/media/fatf/documents/reports/Typologies%20Report%20on%20Proliferation%20Financing.pdf">http://www.fatf-gafi.org/media/fatf/documents/reports/Typologies%20Report%20on%20Proliferation%20Financing.pdf</a>
Terrorist financing (2008, English version)	<a href="http://www.fatf-gafi.org/media/fatf/documents/reports/FATF%20Terrorist%20Financing%20Typologies%20Report.pdf">http://www.fatf-gafi.org/media/fatf/documents/reports/FATF%20Terrorist%20Financing%20Typologies%20Report.pdf</a>



Title	Link on the web-site
Money laundering & terrorist financing typologies 2004-2005 (2005, English version)	<a href="http://www.fatf-gafi.org/media/fatf/documents/reports/2004_2005_ML_Typologies_ENG.pdf">http://www.fatf-gafi.org/media/fatf/documents/reports/2004_2005_ML_Typologies_ENG.pdf</a>
<b>Publications of the United Nations Office on Drugs and Crime (UNODC)</b>	
The use of the Internet for terrorist purposes (2012, English version)	<a href="https://www.unodc.org/documents/frontpage/Use_of_Internet_for_Terrorist_Purposes.pdf">https://www.unodc.org/documents/frontpage/Use_of_Internet_for_Terrorist_Purposes.pdf</a>
International instruments related to the prevention and suppression of international terrorism (2008, English version)	<a href="https://www.unodc.org/documents/terrorism/Publications/Int_Instruments_Prevention_and_Suppression_Int_Terrorism/Publication_-_English_-_08-25503_text.pdf">https://www.unodc.org/documents/terrorism/Publications/Int_Instruments_Prevention_and_Suppression_Int_Terrorism/Publication_-_English_-_08-25503_text.pdf</a>

### 3.3. Domestic schemes on terrorism financing and illegal use of NPOs

The Security Service of Ukraine identified the following channels of financial and logistical terrorist's support<sup>5</sup>:

#### A. Support for communication with terrorist entities

##### 1) The scheme of the so-called "interrupted" transit.

Includes: supply of goods and property to the territories temporarily occupied by the Russian Federation part of the territory of the Donetsk and Luhansk oblasts of Ukraine; activity of business entities (residents of Ukraine) and their counterparties with legal entities of foreign countries (non-residents), in the interest of which delivery of goods is carried out etc.

##### 2) Cooperation with individual legal entities located on the temporarily occupied territory of Donetsk and Luhansk oblasts of Ukraine by the Russian Federation.

Activities of Ukrainian enterprises that cooperate with individual legal entities in uncontrolled districts of Donetsk and Luhansk oblasts, or requisites of which (on Ukrainian enterprises) are used to open accounts in Russian banking institutions (so-called «mirror enterprises»).

As a result, there is a risk of illegal budgetary reimbursement of value-added tax in favor of enterprises that are not actually located on the territory under the control of the Ukrainian authorities; tax and fee payment to the budgets of illegal organizations "ORDLO" by enterprises that formally re-registered in the controlled territory, etc.

#### B. Funds redirection

##### 3) Transfer of funds to parts of the Donetsk and Luhansk oblasts of Ukraine, temporarily occupied by the Russian Federation.

Cooperation with individual legal entities that located on the territory of Donetsk and Luhansk oblasts of Ukraine, temporarily occupied by the Russian Federation.

Transfer channels of Donetsk and Luhansk oblasts which temporarily uncontrolled by Ukrainian authorities:

- use of "neting" schemes;
- use of electronic payment instruments for legalization (laundering) of proceeds from crime, for the purpose of their further use for the terrorist financing activities;
- cash transferring using "cash couriers";
- use of bearer financial instruments that promote the anonymity of the owner or emitter;
- international money transfer systems, international payment card systems, electronic payment systems used by terrorist organizations, groups, and individuals

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<sup>5</sup> According to the SSU information.

to finance terrorist activities;

- funds of non-profit organizations and individuals from among Ukrainian citizens and foreigners who are permanently or temporarily staying in Ukraine, that regularly transfer from abroad through international transfer systems;
- cash is withdrawn by individuals from bank cards in ATM or cash desks of banks, incl. emitted by Russian banks and their subsidiary financial institutions in Ukraine;
- "Conversion centers" controlled by terrorist organizations, groups and individuals involved in terrorist activities;
- funds of enterprises, individuals-entrepreneurs, who are temporarily staying on uncontrolled by the Ukrainian authorities territories, paid to the budgets of terrorist organizations;
- funds transferred from the state budget and funds by enterprises, institutions, and organizations of different ownership forms (pensions, social benefits, wages, etc.) on card accounts of individuals who are staying on uncontrolled by Ukrainian authorities territory;
- funds received from other types of illegal activities (the sale of illegally mined minerals, excisable goods, narcotic substances and precursors, fraudulent actions with citizens property assets, etc.);
- direct supply (provision of supplies) from the Russian Federation of material resources (including military purposes) to temporarily uncontrolled territories of Luhansk and Donetsk oblasts in order to support of so-called "ORDLO".

#### Current Mechanisms for Terrorist Financing:

- the receipt of small amounts of funds from different persons over a short period of time in favor of one person with the appointment of "help", "for treatment", "charity", etc.;
- payments are made by persons who are not fully acquainted or does not want to inform payment details (address, contact and other information);
- electronic payment transfer operation, in which there is no full information on the initiator or recipient;
- transfer of funds to the account/card account of the person or transfer to the name of an individual, that is carried out without account opening if the available information indicates that the source of such enrolment/transfer is funds that transferred through payment systems, whose operators are not registered on the territory of Ukraine, including by means of electronic money.

In the case of illegal origin of funds, terrorist financing schemes are complicated by elements called to reduce the risk of disclosure the linkage between funds and their source of origin.

In such schemes, criminals rely on the criminal incomes placement and their layering by changing the assets form, the use of various financial instruments,

fictitious persons, etc. Such schemes have some analogies with the legalization of proceeds from crime schemes, with the difference that it is implemented without the last phase - the integration of funds into the financial system, but with the subsequent transfer of funds to the final recipient.

At the same time, the recent information technologies allow to carry out the above-mentioned financial transactions quickly in the absence of direct contact of the transfer initiator with the reporting entity.

Cyberspace has no limitations, therefore, with the presence of technical capacity, there is a possibility of the large number of virtual participants creation by criminals (electronic wallets, virtual means of payment, etc.) in order to transfer funds to terrorists (organizations).

In 2018, the SFMS submitted **65** case referrals to LEAs related to suspicious transactions conducted with NPO participation.

The distribution of submitted to LEAs materials by types of possible signs of crime is provided in the table.

Indicator	Number of case referrals units	%
<b>Total</b>	<b>65</b>	<b>100%</b>
Legalization (laundering) of proceeds from crime	36	55,4%
Terrorist financing	4	6,2%
The commission of another crime, defined by the Criminal Code of Ukraine	119	38,5%

As part of such materials, **2,890** STRs were submitted to LEAs, which were carried out with the participation of **127** NPOs, for the total amount of **UAH 2,994.8 million**.

The distribution of submitted STRs in terms of NPO types is provided in the table.

№	NPO type	Number of entities, unit	%	Number of STRs, unit	%	Sum of STRs, UAH million	%
	<b>Total</b>	<b>127</b>	<b>100,0%</b>	<b>2890</b>	<b>100,0%</b>	<b>2994,8</b>	<b>100,0%</b>
1	Charitable funds (organizations)	26	20,5%	1222	42,3%	1701,8	56,8%
2	Association of apartment building co-owners, association owners of residential houses	53	41,7%	882	30,5%	553,8	18,5%
3	Other legal entities whose activity does not involve the profits receiving	9	7,1%	376	13,0%	223,5	7,5%
4	Non-governmental organizations	13	15,7%	33	2,2%	19,3	1,4%

№	NPO type	Number of entities, unit	%	Number of STRs, unit	%	Sum of STRs, UAH million	%
5	Political parties	3	2,4%	4	0,1%	0,9	0,03%
6	Other types of NPOs	19	15,0%	344	11,9%	486,6	16,2%

Distribution of submitted STRs to LEAs in terms of financial monitoring is provided in the table.

Indicator	Number of STRs, unit	%
<b>Total</b>	<b>2890</b>	<b>100%</b>
Compulsory financial monitoring	2749	95,1%
Internal financial monitoring	22	0,8%
Compulsory and Internal financial monitoring	119	4,1%

Distribution of crimes, on which case referrals were submitted, in which NPOs were involved, in the context of the articles of the Criminal Code of Ukraine, is provided in the table:

Article number CCU	Title of the article
<b>109</b>	Actions aimed at forceful change or overthrow of the constitutional order or take-over of government
<b>110<sup>2</sup></b>	Financing of actions committed for the purpose of forceful change or overthrow of the constitutional order or take-over of government, changing the territory bounds or state border of Ukraine
<b>149</b>	Human trafficking
<b>190</b>	Fraud
<b>191</b>	Misappropriation, embezzlement or conversion or property by malversation
<b>205</b>	Sham business
<b>210</b>	Violation of law on budget system of Ukraine
<b>212</b>	Evasion of taxes, fees or other compulsory payments
<b>255</b>	Creation of a criminal organization
<b>256</b>	Assistance to members of criminal organizations and covering up of their criminal activity
<b>258<sup>5</sup></b>	Terrorist financing
<b>358</b>	Forgery of documents, stamps, seals or letterheads, and sale or use of forged documents
<b>364</b>	Abuse of authority or office
<b>366</b>	Forgery in office

#### **IV. RISK SIGNS AND INDICATORS OF NPOs ILLEGAL USE**

The conducted by the SFMS research indicates the presence of NPO illegal use and a significant risk of such illegal use.

The most widespread risk signs of using NPOs for ML/FT are:

- misleading, creating fictitious NPOs;
- breaking financial transactions carried out by the NPO participation;
- conducting financial transactions involving NPOs without proper explanation of the nature of such operations;
- NPOs funds remittance in favor of legal entities whose activities have no joint interests;
- participation in the financing of the acquisition of the dual-use goods;
- NPOs conducted activities on the territories that are adjacent to the commission of military actions;
- transfer of funds in favor of persons related to NPOs;
- spending NPOs funds without formation of appropriate reporting about their using;
- for opening bank accounts NPOs use third parties which acting under order;
- NPOs expenses do not correspond to the declared activity directions;
- involvement of persons related to the commission of crime to the NPOs activities;
- fictitious NPOs activities.

These features are not exhaustive but are only indicators for further detailed analysis of NPOs activities. The set of established signs of risk activity indicates a high risk of such NPO entity for the ML/ FT.

## V. DETERMINING OF NPOs USE FOR ILLEGAL PURPOSES

The FATF's typological and situational studies have identified different types and sources of information that can be used to identify cases and risks of illegal use of NPOs sector for criminal purposes listed in the table.

<b>Sources of information</b>	<b>Types of information</b>
Information of the authorities responsible for regulating NPOs	<ul style="list-style-type: none"> <li>▪ Initiative citizens notifications;</li> <li>▪ Data provided by informants;</li> <li>▪ Inspection results of existing and created NPOs;</li> <li>▪ Collection and analysis of compulsory NPOs reporting:               <ul style="list-style-type: none"> <li>- information on programs and activities;</li> <li>- information on leadership and other internal entities;</li> <li>- information on partners and other external entities;</li> <li>- information on sources and recipients of resources;</li> <li>- information on financial activity;</li> </ul> </li> <li>▪ Information volunteered (initiated) submitted by NPOs.</li> </ul>
Open sources information	<ul style="list-style-type: none"> <li>▪ Articles in mass media and other open sources;</li> <li>▪ A list of persons involved in the commission of terrorist activities or in respect of which international sanctions have been applied;</li> <li>▪ Lists of terrorist organizations;</li> <li>▪ Open databases of companies and institutions;</li> <li>▪ NPO web-sites and related organizations;</li> <li>▪ Other information from the Internet.</li> </ul>
Foreign FIUs information	<ul style="list-style-type: none"> <li>▪ Notifications submitted to the FIU;</li> <li>▪ Data on the financial information analysis conducted by the FIU.</li> </ul>
Security-related information	<ul style="list-style-type: none"> <li>▪ Results of threats and risks evaluation;</li> <li>▪ Geopolitical assessments;</li> <li>▪ Intelligence and other restricted information.</li> </ul>
Law enforcement authorities information	<ul style="list-style-type: none"> <li>▪ Criminal cases materials;</li> <li>▪ Links between internal and external NPOs entities according to criminal investigations;</li> <li>▪ NPOs links with criminals and crime;</li> <li>▪ Results of searches and analysis of seized documents;</li> <li>▪ Intelligence and other restricted information.</li> </ul>
Information received from other jurisdictions	<ul style="list-style-type: none"> <li>▪ Information from domestic (foreign) NPOs partners;</li> <li>▪ Information from foreign competent authorities (public sector);</li> <li>▪ Intelligence information from foreign national security authorities, from foreign law enforcement authorities or foreign FIUs;</li> <li>▪ Information from foreign regulatory authorities.</li> </ul>

## VI. MEASURES ON RISK REDUCTION OF NPOs USE IN THE FT SCHEMES

Measures to reduce the risks of using NPOs in the FT schemes can be roughly divided into the following categories:

- informational and educational work in the sector and self-regulation;
- criminal prosecution;
- administrative measures, fines and targeted sanctions.

### 6.1. Typological studies

Typological studies assist in raising awareness of the possible NPOs use for illegal purposes.



The SFMS, jointly with state financial monitoring entities, as well as state authorities, including law enforcement authorities, prepared a typological study on "Risks of terrorism and separatism" (2017).

In the Typological studies presented the main methods and schemes by which criminals and criminal groups conducted terrorism (separatism) financing.

Typological studies published on the official website of the SFMS in the section "Typologies/Recommendations for detection of money laundering schemes".



## 6.2. List of persons involved in terrorism financing

The mentioned list includes persons with high FT/WMD and ML risks and should be used to identify the customer profile and take appropriate measures against it.



According to the resolution of the Cabinet of Ministers of Ukraine as of November 25, 2015, № 966 "On approval of the procedure for the formation of a list of persons involved in the commission of terrorist activities or in respect of which international sanctions have been applied". The SFMS forms the List of persons connected with the commission of terrorist activities or in relation to which international sanctions are applied, according to the information from the United Nations web site.

The SFMS systematically updates the List of persons and ensures its publishing on the official website of the SFMS ([www.sdfm.gov.ua](http://www.sdfm.gov.ua)) in the section "Combating Terrorism".

### *Including a person to the List*

The grounds for including by the SFMS individuals and legal entities to the list are:

1) court decision that came into force on the recognition of an individual guilty in committing crimes provided for in Articles 258 - 258<sup>5</sup>, 439 and 440 of the Criminal Code of Ukraine, the court decision regarding the assignment (recognition) of an organization, individual or legal entity to such (that) related to the commission of terrorist activities or the proliferation of weapons of mass destruction;

2) the information generated by international organizations or their authorized authorities, about organizations, legal entities, and individuals associated with terrorist organizations or terrorists, as well as persons subjected to international sanctions;

3) court judgments (decisions), decisions of other competent authorities of foreign states in relation to organizations, legal entities or individuals related to the commission of terrorist activities or the proliferation of weapons of mass destruction recognized by Ukraine in accordance with international treaties of Ukraine.

### *Structure of the List*

The list is formed on the basis of the information (documents) specified in paragraph 2 of this Procedure and contains such information:

1) concerning citizens of Ukraine - surname, name and patronymic name, date of birth, series and passport number or other identification document, date of issue and name of the issuing body, place of residence and/or place of living, registration number of taxpayer's registration card or series and passport number (for individuals who, because of their religious beliefs, refuse to accept the registration number of the taxpayer's registration card and have officially informed the relevant supervisory authority and have a mark in the passport) and for citizens of Ukraine, registered as individuals - entrepreneurs, - also (if any) the bank details where the account was opened and the number of the bank account;

2) concerning legal entities - residents - full name, location, identification code according to the USSR, bank details where the account was opened, and the bank account number;

3) concerning foreigners and individuals without citizenship - surname, name and, if available, patronymic name, in the presence of citizenship or allegiance, date of birth, series and passport number or other identification document, date of issue and name of the issuing authority, place of residence and/or permanent or temporary residence;

4) concerning non-resident legal entities - full name, location, bank details where the account was opened, bank account number.

The list includes information on 1 193 individuals and legal entities, including:

- on 53 individuals - citizens of Ukraine;
- on 380 legal entities and 763 individuals - in accordance with the resolutions of the United Nations Security Council.

### **6.3. Implementation of personal special economic and other restrictive measures (sanctions)**

In 2014, the Law of Ukraine "On Sanctions" was adopted with the purpose of protecting national interests, national security, sovereignty and territorial integrity of Ukraine, and counteracting terrorist activity.

The Law provides that sanctions may be applied by Ukraine in relation to a foreign state, a foreign legal entity, a legal entity controlled by a foreign legal entity or non-resident individual, foreigners, stateless persons, as well as entities carrying out terrorist activities.

Also, the national sanction list contains the range of designated persons with high FT/WMD and ML risks, to which certain sanctions should apply.

***The information on the implementation of personal special economic and other restrictive measures (sanctions) specified in the List should be used to limit the ML/FT/WMD risk.***

#### ***Grounds for applying sanctions***

In accordance with Article 3 of the Law of Ukraine "On Sanctions" grounds for applying sanctions are the following:

1) actions of a foreign state, foreign legal entity or individual, other entities that create real and/or potential threats to national interests, national security, sovereignty and territorial integrity of Ukraine, promote terrorist activity and/or violate human and civil rights and freedoms, society and state interests, lead to the territory occupation, expropriation or restriction of property rights, the problem of pecuniary losses, the creation of obstacles to sustainable economic development, the full implementation of the rights and freedoms of citizens of Ukraine;

2) resolutions of the General Assembly and the United Nations Security Council;

3) decisions and regulations of the Council of the European Union;

4) facts of violations of the Universal Declaration of Human Rights, the Charter of the United Nations.

The basis for sanctions applying is also the commission by a foreign state, a foreign legal entity, a legal entity controlled by a foreign legal entity or a individual - non-resident, a foreigner, a stateless person, as well as entities engaged in terrorist activities, acts specified in paragraph 1 of part one of this Article, with respect to another foreign state, citizens or legal entities of the latter.

#### ***Types of sanctions***

The types of sanctions under the Law of Ukraine "On sanctions" are the following:

1) asset blocking is a temporary restriction of the person's right to use and dispose of a vested estate;

- 2) restriction of trading operations;
- 3) restriction, partial or complete suspension of resource transit, flights, and transportation within the territory of Ukraine;
- 4) preventing the capital withdrawal outside of Ukraine;
- 5) suspension of economic and financial obligations execution;
- 6) cancellation or suspension of licenses and other permissions, receipt (presence) of which is a key for carrying out a certain activity, in particular, cancellation or suspension of special permits for subsoil use;
- 7) prohibition of participation in privatization, lease of state property by residents of a foreign state and persons who are directly or indirectly controlled by the residents of a foreign state or act in their interests;
- 8) prohibition of the radio frequency resource of Ukraine use;
- 9) restriction or termination of telecommunication services provision and use of general use telecommunication networks;
- 10) prohibition of conducting public purchases, works and services in legal entities - residents of a foreign state of the state form of ownership and legal entities whose capital share is owned by a foreign state, as well as state purchases from other entities conducting the sale of goods, works, services originate from a foreign state to which sanctions have been applied in accordance with this Law;
- 11) prohibition or restriction to entrance foreign non-military ships and warships into the territorial sea of Ukraine, its internal waters, ports, and aircraft to the airspace of Ukraine or landing in the territory of Ukraine;
- 12) a total or partial prohibition for the execution of the legal transactions on securities emitter of which are persons that are subject to sanctions in accordance with this Law;
- 13) prohibition of issuance of permits, licenses of the National Bank of Ukraine for conducting investments in a foreign state, placement of currency values in accounts and deposits in the territory of a foreign state;
- 14) termination of issuance of permits, licenses for importing into Ukraine from a foreign state or export of currency values from Ukraine and limitation of cash issuance by payment cards issued by residents of a foreign state;
- 15) prohibition of the National Bank of Ukraine registration of a participant of an international payment system whose payment organization is a resident of a foreign state;
- 16) prohibition on increasing the authorized capital of economic companies, enterprises in which a resident of a foreign state, a foreign state, a legal entity the participant of which is a non-resident or a foreign state, owns 10% or more of the authorized capital or has an influence on the management of a legal entity or its activities;

- 17) introduction of additional measures in the ecological, sanitary, phytosanitary and veterinary control area;
- 18) termination of trade agreements, joint projects, and industrial programs in certain spheres, in particular in the security and defense area;
- 19) prohibition of technology transfer, rights to intellectual property objects;
- 20) termination of cultural exchanges, scientific cooperation, educational and sports contacts, entertainment programs with foreign states and foreign legal entities;
- 21) refusal to grant and cancel visas to residents of foreign states, implementation of other prohibitions on entry into Ukraine;
- 22) the termination of international treaties validity, the consent of which was binding by the Verkhovna Rada of Ukraine;
- 23) cancellation of official visits, meetings, negotiation on contracts or agreements conclusion;
- 24) deprivation of state awards of Ukraine, and other distinctions forms;
- 25) other sanctions, corresponding to the principles of their application, established by this Law.

### ***Implementation, cancellation and amendment of sanctions***

Proposals on the implementation, cancellation, and amendment of sanctions are submitted for consideration to the National Security and Defense Council of Ukraine by the Verkhovna Rada of Ukraine, the President of Ukraine, the Cabinet of Ministers of Ukraine, the National Bank of Ukraine, the Security Service of Ukraine.

Decision on the implementation, cancellation, and amendment of sanctions against a foreign state or an indefinite number of persons of a certain type of activity (sectoral sanctions) provided for in paragraphs 1-5, 13-15, 17-19, 25 of the first part of Article 4 of the Law of Ukraine "On Sanctions", is adopted by the National Security and Defense Council of Ukraine, enters into force by the decree of the President of Ukraine and is approved within 48 hours from the date of the issuance of the decree of the President of Ukraine by the resolution of the Verkhovna Rada of Ukraine. The relevant decision comes into force from the day of the adoption of the resolution of the Verkhovna Rada of Ukraine and is mandatory.

Decision on the implementation, cancellation and amendment of sanctions against certain foreign legal entities, legal entities under the control of a foreign legal entity or non-resident-individual, foreigners, stateless persons, as well as entities engaged in terrorist activities (personal sanctions), stipulated by clauses 1 - 21, 23 - 25 of the first part of Article 4 of the Law of Ukraine "On Sanctions", adopted by the National Security and Defense Council of Ukraine and enters into force by a decree of the President of Ukraine.

The relevant decision comes into force from the time of releasing the decree of the President of Ukraine and is mandatory.

***Open sources on verifying individuals for sanctions***

The official documents of the President of Ukraine are published on the official website of the President of Ukraine (<https://www.president.gov.ua>).

Also, information on the sanctions used is published on the official website of the National Security and Defense Council of Ukraine (<http://www.rnbo.gov.ua>).

## Example of information search

An example of an information search on the implementation, cancellation, and amendments to personal special economic and other restrictive measures (sanctions):

### *President of Ukraine*

ПРЕЗИДЕНТ УКРАЇНИ

## Укази

Введіть номер документу  Починається  Міститься  Точне співпадіння

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22-03-2018 — 22-03-2019

Знайдено документів: 3

ХРОНОЛОГІЧНО | ЗВОРОТНЬО ХРОНОЛОГІЧНО

### УКАЗ ПРЕЗИДЕНТА УКРАЇНИ №82/2019

19 березня 2019 року

Про рішення Ради національної безпеки і оборони України від 19 березня 2019 року "Про застосування, скасування та внесення змін до персональних спеціальних економічних та інших обмежувальних заходів (санкцій)"

### *National Security and Defense Council of Ukraine*

Рада національної безпеки і оборони України

## Офіційні документи

Категорія:  Всі категорії...  Дата З: 01 СІЧНЯ 2001

Номер:  Дата ПО: 22 БЕРЕЗНЯ 2019

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УКАЗ ПРЕЗИДЕНТА УКРАЇНИ № 82/2019 20 БЕРЕЗНЯ 2019  
Про рішення Ради національної безпеки і оборони України від 19 березня 2019 року "Про застосування, скасування та внесення змін до персональних спеціальних економічних та інших обмежувальних заходів (санкцій)"

УКАЗ ПРЕЗИДЕНТА УКРАЇНИ № 176/2018 22 ЧЕРВНЯ 2018  
Про рішення Ради національної безпеки і оборони України від 21 червня 2018 року «Про застосування та внесення змін до персональних спеціальних економічних та інших обмежувальних заходів (санкцій)»

## CONCLUSIONS

The analyzed information indicates that there are high risks of using NPOs for committing a predicate crime and/or for ML and/or FT/WMD and serve as a cover for other illegal activities.

There are also new threats associated with hybrid wars and the use of entire territories.

NPOs are used during the commission of predicate crimes and ML, in particular regarding:

- misappropriation, embezzlement or seizure of property;
- fictitious business;
- misuse of budget funds;
- evasion of taxes, fees (mandatory payments);
- terrorist financing;
- abuse of power or official position;
- illegal enrichment.

The most vulnerable types of NPOs are as follows:

- NGOs;
- association of apartment building co-owners, association owners of residential houses;
- charitable foundations.

The most widespread ways and risks of criminal exploitation of NPOs are the following:

- redirecting financial flows;
- connection with the criminal formations;
- inconsistency of NPO activity with stated objectives;
- complicity in financing of criminal formations;
- creating fictitious NPOs for criminal purposes.

Understanding the threats and ways of illegal NPO use and assessing the risks involved will to mitigate the likelihood of their use by terrorists.