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# Know Your Charity to Protect Against Fraud and Terrorist Financing

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# Know Your Charity to Protect Against Fraud and Terrorist Financing

HANY ABOU-EL-FOTOUH

## **Abstract**

Genuine and fake charities have been misused for terrorist financing and fraud. Financial institutions must protect themselves from being used by terrorist to financing terror operations. Similarly, individuals must be alert no to donate their hard-earned money before they are confident that the money would not fall in the wrong hands.

**KEYWORDS:** money laundering, terrorism, charity, Hany Abou-El-Fotouh,



## **Know Your Charity: How to protect yourself from fraud and fight terrorist financing**

Originally, charities were formed to provide aid to groups of the community that need assistance. The majority of charities are legitimate channels to help people in need. However, some charities are frauds that have been created to take advantage of the needy and the generous.

And some charities have been used for money laundering or terrorist financing. For example, In February 2004, the assets of Al Haramain Foundation's (AHF) branch in Oregon were blocked. AHF has allegedly violated currency and monetary instrument reporting requirements, tax laws, and other money laundering offences. According to International Narcotics Control Strategy Report of 2005, individuals connected with AHF appear to have concealed movement of over \$100,000 to Chechen mujahideen.

### **How Charities Raise Funds?**

Charities rely on several methods to collect funds for philanthropic or humanitarian purposes. Most rely on a variety of income sources that can include:

- Public support,
- Government funding,
- Private foundations grants; or
- Fees collected for services they provide as part of charitable programs.

There are several solicitation methods, which include mandatory religious donations. A charity can raise funds in many different ways. Examples of most popular solicitation techniques are:

- Fundraising events, i.e., raffles, and marathons/races
- Direct in-person requests
- Direct mail or telephone solicitation requests
- Newspaper and magazine advertisement
- Sales of tickets to special events or sales of products

Part of these funds have been and are vulnerable to being diverted to terrorist networks, often without the donor's knowledge.

### **How Financial Institutions Apply 'Know Your Charity'**

Financial institutions must carry out enhanced due diligence on charitable organization accounts. The relationship must be approved at a senior management level and risk-rated 'high'. The relationship officer should visit the premises of the charitable organization and prepare a visit report. The report should include sufficient details such as:

- The organization's legal type, license of activity, source of capital (if applicable), number of employees, years established, years at present location, nature of activity, geographical location of activity etc
- Details about owners/directors and their powers

- Check if a Politically Exposed Person (PEP) or a connected individual owns the charitable organization partly or fully
- Check if the charitable organization is authorized to accept donations locally or overseas

Financial institutions should recognize the 'indicators' or "red flags" that call for further scrutiny. Some of the indicators are listed below:

- Corporate layering: transfers between bank accounts of charities and directors or staff of the charitable organization for no apparent reason
- Wire transfer by charitable organizations to beneficiaries located in countries known to be bank or tax heaven or countries of concern
- Lack of apparent fund-raising activity (i.e. lack of small checks or typical donations) connected with charitable bank deposits
- Transactions with no logical economic purpose (no link between the activity of the charitable organization and other parties involved in the transaction)

### **Tips Before You Donate Money**

As a donor, you should have some answers before you give money. Questions frequently asked are "How do I know that this charity is legitimate?" and "Where does this money go once I make a donation?" The following tips are designed to help you know whether a charity is genuine and how to avoid being victimized by a charity that is not legitimate or that may fund terrorists without your knowledge:

- **Do not give cash to strangers.** You do not know if that person would use your hard-earned money for the charitable purpose or divert it elsewhere.
- **Do your homework.** Take the time to learn about the charitable organization you support or considering supporting. Ask for literature and read it. Tell the solicitor that you would like to do some research on the charity. Read and understand everything before you make a decision. Ask questions e.g. ask where and how your contribution will be used.
- **Don't be deceived by a convincing name.** A fake or dishonest charity will often have an impressive name, or one that looks like the name of a reputable, legitimate charity.
- **Don't let pressure win.** Don't surrender to pressure and feel that you must contribute on the spot. Legitimate organization will not expect you to donate instantly. Remember, you can say no.
- **Don't pay cash.** Once you have a satisfactory answer to all your questions, you can make all donations by check to the charitable organization or by credit card. But beware! Do not give your credit card number to someone you do not know.

On November, 7 2002, the US Treasury Department issued a document entitled "U.S Department of the Treasury Anti-Terrorist Financing Guidelines: *Voluntary* Best Practices for U.S Based Charities." The guidelines are mainly aimed at financial institutions and charitable organizations. However, the Treasury Department also advises individual companies that donate directly to charities to regularly check its list of individuals and organizations the department has designated as related to terrorism. (The list and the guidelines can be found at [www.treasury.gov](http://www.treasury.gov))

Donating to a charity is a way to support the needy during these troubled times. Sadly, there are some people ready to take advantage of your kindness. Therefore, you must do your homework before donating your hard-earned money and reasonably take all measures to ensure that the money does not fall in the wrong hands.

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