

# Montserrat Financial Services Commission



## **Terrorist Financing (TF) Sectoral Risk Assessment for Non-Profit Organizations (NPOs)**

**February 2024**

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## Context & Methodology

### Montserrat

A mountainous Caribbean Island of approximately 39.4 square miles, the Island suffered volcanic activities in 1995 which continued for several years resulting in the loss of its capital, Plymouth, and leaving two-thirds of the island uninhabitable.

There has been no growth in the population over the past two years. Since the destruction of the island's capital Plymouth in 1995, and its infrastructure, and ensuing displacement of its residents, the population over the last several years has settled at approximately 4,000. The country has suffered economic decline, affecting the tourism sector which was the major economic contributor prior to the commencement of volcanic activities. Today the main industry is mining of volcanic material. Since the devastation of the eruption, the island's operating budget is largely supplied by the British government and administered through the UK, as an overseas territory, amounting to approximately £25 million per year. Additional amounts are secured through income and property taxes, licenses, and other fees as well as customs duties levied on imported goods.

The financial sector saw the exit of the international bank, Royal Bank of Canada at the end of March 2021, which operated in Montserrat for over 75 years. This left the Bank of Montserrat Limited as the sole commercial bank in Montserrat. Review of the national statistics reveals that in the year 2020 the financial sector contributed 7.2% to Montserrat's GDP.

## Context of the Risk Assessment

- The Financial Action Task Force (FATF) is the international standard setter in the area of Anti Money Laundering/Combating Financing of Terrorism (AML/CFT).
- FATF's Recommendation 8 and Immediate Outcome 10 require that countries, as a first step, identify the subset of organizations that fall under the FATF's definition of NPOs, and use all relevant sources of information in order to identify the features and types of NPOs which by virtue of their activities or characteristics, are likely to be at risk of terrorist financing abuse.
- In 2023, Montserrat undertook its National Risk Assessment of Money Laundering and Terrorist Financing (NRA). Regulation 4(1)(d) of the NPO Regulations under the Proceed of Crime Act (POCA) provides that the FSC as the NPO Supervisor is required "to undertake periodic reviews of the non-profit organization sector in Montserrat for the purpose of identifying the features and types of non-profit organization that are at risk of being used for terrorist financing." However, there is no established framework that guides the steps that should be taken to identify the nature of TF threats to NPOs and how terrorist actors abuse those NPOs.
- As per Montserrat's NRA, there were no known proceeds of funds in support of terrorism entering the financial or other sectors for the period, according to the Police and FCAU. Neither were there any intelligence reports or other forms of threat alerts raised by any international partners over the last five years. The likelihood of money going out of the jurisdiction to support terrorism financing is considered low.
- Given the mitigating factors, such as the demographics of the islanders and the close-knit community, which would make it harder to conceal illicit activity linked to terrorism.
- There are no known terrorist groups or financiers on the island according to intelligence available. There have been no suspicious activity reports (SARs), nor any sanctions related cases in Montserrat over the last five years relating to TF from any sector. There have been no arrests nor prosecutions over the period relating to TF or terrorism.
- The overall risk of terrorist financing linked to Montserrat, or its people, is considered ***Low***.

## **Legal Framework for Countering Terrorism Financing in Montserrat**

The NRA 2023 places the jurisdiction's CFT legislative framework into context. It must be noted that the legislation for CFT is not addressed through the local legislative framework but through the UN legislation and Orders from the UK, given Montserrat's status as an Overseas Territory. As an Overseas Territory, Montserrat cannot ratify international treaties or conventions, such as international treaties or conventions must be extended by the UK. The UN Convention for the Suppression of the Financing of Terrorism has not yet been extended to Montserrat by the UK.

Nevertheless, the following Orders have been made by the UK and extended to Montserrat:

- Biological Weapons Act 1974 (Overseas Territories) Order 1975
- The Chemical Weapons (Overseas Territories) Order 2005 No. 854
- Suppression of Terrorism Act 1978 (Overseas Territories) Order 1986 No. 2019
- Terrorism Order (United Nations Measures) (Overseas Territories) Order 2001
- Anti-Terrorism (Financial and Other Measures) (Overseas Territories) Order 2002
- The Extradition Act 2003 (Overseas Territories) Order 2016
- Terrorist Asset Freezing etc. Act 2010 (Overseas Territories) Order 2011
- Cyber (Sanctions) (Overseas Territories) Order 2020
- The Cyber (Sanctions) (Overseas Territories) Order 2020 U.K. Statutory Instrument 2020 No. 1270

Provision in respect of the freezing of terrorist funds is addressed at Section 5 of the Terrorism (United Nations Measures) (Overseas Territories) (TUNMOTO). With respect to the effectiveness of the freezing of assets related to terrorist financing, there is currently a system in place although it has never been tested due to lack of any identified TF.

The Terrorist Asset-Freezing Act 2010 (Overseas Territories) Order 2011 provides for the procedure for dealing with the freezing of Terrorist Assets. This is an Order from the Privy Council in the UK which is directly applicable in Montserrat and other UK Overseas Territories. Asset Freezing is now being put in place through the Governor's Office and the concept of immediate freezing without delay is instructed through SAMLA, as well as mechanisms to be put in place for extraordinary expenses once funds have been seized or frozen. The Attorney General's Office has prepared the Financial Sanction Guidelines, Asset Freezing Forms and Compliance Reporting Forms to work in conjunction with the Governor's Office Sanctions Implementation, which is intended to be implemented in 2023.

The Extradition Act 2003 (Overseas Territories) Order 2016 permits extradition of nationals, and the definition of extradition offences includes terrorism offences.

## Methodology & Data sources for NPO Risk Assessment

- The FATF standards “do not prescribe a particular method or format for assessing risk”. Some general best practices for risk assessments of the NPO sector are included in FATF’s Terrorist Financing Risk Assessment Guidance (FATF, 2019). Additionally, FATF Guidance: National Money Laundering and Terrorist Financing Risk Assessment (FATF, 2013) provides guidance on risk assessments in general. Both documents have informed the risk assessment methodology used by the FSC, particularly in relation to the use of qualitative and quantitative information.
- The NPO risk assessment exercise was solely conducted under the leadership of the Montserrat Financial Services Commission.
- The following *primary information and data sources* were used in this assessment:
  1. The Companies Registry (including data from registration and Annual Returns of NPOs).
  2. FSC’s NPO Register
  3. Data collected from a survey of NPOs and consultations with NPOs;
- The following *secondary information and data sources* guided the process and the methodology, and the typologies outlined in the listed papers were relied upon in instances where primary data was not available:
  1. The Interpretive Note to Recommendation 8 (see International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation – the FATF Recommendations (2012, updated 2016)).
  2. The International Best Practices: Combating the Abuse of Non-Profit Organizations (FATF) (November 2023).
  3. The Risk of Terrorist Abuse in Non-Profit Organizations (FATF, 2014).

## Montserrat's definition of NPOs

- The primary relevant legislation for NPOs in Montserrat is the Proceeds of Crime Act along with guidelines from the FATF Methodology
- FATF Recommendation 8 requires countries to determine as a first step which subset of NPOs in the country even fall under the FATF's definition of NPOs. The FATF defines the term NPO to cover "a legal person or arrangement or organization that primarily engages in raising or disbursing of funds for purposes such as charitable, religious, cultural, educational, social or fraternal purposes, or for the carrying out of other types of "good works." As such, legal persons or arrangements or organizations that are set up for such purposes but without having the raising or disbursing of funds as a main purpose would not be covered by the FATF standards.

## **Assessing the Inherent Risk of NPOs in Montserrat**

Terrorist organizations frequently take advantage of the non-profit sector because they are seen as weak and frequently disregarded because of their emphasis on community benefit and their methods of raising money (donations, etc.). The aim of the NPO Risk Assessment is to ensure Montserrat has systems in place to stop threats, exploitation, sham NPOs, and the placement, layering, and integration of funds through NPOs by having a thorough understanding of the sector and the risks associated with its misuse and abuse.

In preparation for the Risk Assessment, FSC conducted a Domestic Sector Review (DSR) of all registered NPOs in August 2023, which is an element of Recommendation 8. Based on the definition of NPOs in the Financial Action Task Force (FATF) Methodology as well as the definition of NPOs in Montserrat's NPO Regulations, the FSC selected the NPOs that fall within the Methodology and the legislation. The Financial Services Commission has a total of 29 NPOs registered under the NPO Regulations. The level of activities for some of these NPOs did not exceed \$27,000 gross income and \$55,000 in assets as per the NPO regulations. As a result, these NPOs were subsequently exempted under the interpretation clause "exempted non-profit organization" of the NPO Regulations.

FSC has conducted a mapping exercise to select the high risk NPOs from the subset using information on its activities, size, features, etc. This will ensure that measures to prevent or mitigate terrorist financing are commensurate with the risks identified. Consequently, this will facilitate the application of enhanced measures where risks are higher and, correspondingly, lower, simplified measures will be applied where risks are lower. Based on the DSR done by the FSC, ten (10) out of the twenty-nine (29) registered NPO met the aforementioned criteria. This will now allow the FSC to concentrate on its risk-based approach, monitoring and assessment of the sector accordingly.

In December 2023, the Financial Services Commission (FSC) facilitated an engagement with the ten (10) NPOs selected from the DSR to strengthen their understanding of the risk-based approach and also to provide information with regards to the sector's understanding of the potential threats faced by NPOs and ascertain what steps and systems each entity has in place to protect themselves from potential TF abuse. In December 2023 to January 2024, the Financial Services Commission (FSC) conducted a risk assessment of the risks of terrorist financing ("TF") in the various Non-Profit Organizations. A comprehensive questionnaire comprising of thirty-two (32) questions was distributed to all NPOs selected based on the DSR. Of the ten (10) NPO's selected from the DSR and registered with the FSC, there was a significant response rate of 80% which represents comprehensive representation of the sector.

The methodology adopted for the assessment of inherent risks follows this guidance and hence the analysis was conducted in two stages:



1. First, data was collected on ‘FATF NPOs’ by way of a detailed questionnaire.
2. Secondly, the collected data was analyzed to (i) assess the level of inherent risk of TF abuse to FATF NPOs; and later on, identify which of the 10 NPOs within the scope of the FATF standards in Montserrat, by virtue of their activities or characteristics, are likely to be ‘at risk’ of terrorist financing abuse.

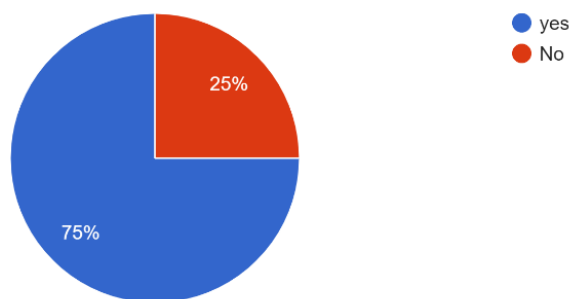
Ten (10) NPOs were selected from the Domestic Sector Review (DSR) exercise from the total 29 registered as of November 2023. An analysis of statutory registration revealed that *religious organizations* are the most numerous in Montserrat, followed by *sporting and community aid organizations and associations*.

Type of Organization	No.
Religious Organizations	8
Sporting organizations (federations/clubs)	1
Community Aid Organizations	1

The NPO’s reported that 75% have a parent body or is affiliated with another NPO locally or internationally, while 25% reported that they have no parent body or affiliated with other NPO’s. This suggests that most of the NPO’s are likely to receive ***funding from overseas or receive aid from parent bodies.***

Does the NPO have a parent body, or is associated or affiliated with any other NPO locally or internationally?

8 responses

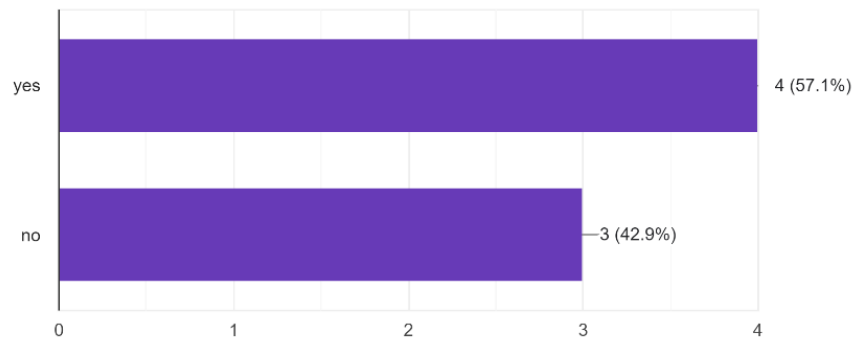


The NPOs were asked whether they are being managed or controlled by a foreign body or individual. There were only seven (7) responses. 57.1% responded in the affirmative, while 49.9% of the respondents indicated that they are not being managed or controlled by a foreign body or individual. Majority of the NPOs are tied to or has headquarters residing in a high-risk

jurisdiction known/exposed to terrorist activities, namely: Trinidad, Jamaica, United States of America, Switzerland and the United Kingdom. Although they are tied to these headquarters, the NPOs that are registered and selected in the DSR are based in Montserrat, which is not a high-risk country. This reduces the geographical risk and other potential threat to the sector at large.

Is the NPO managed or controlled by a foreign body or individual?

7 responses



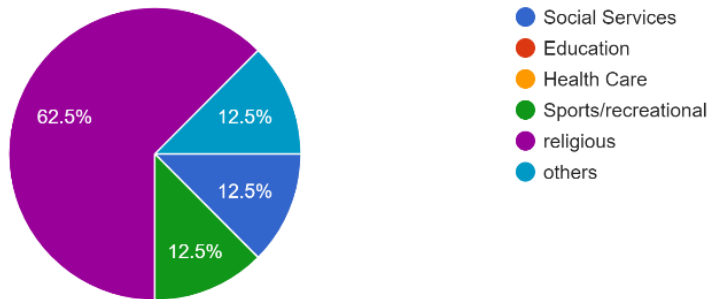
Based on the analysis, Sporting organizations (federations/clubs) and Community Aid Organizations were identified as the NPOs most at risk since funding is received primarily from international bodies based in Switzerland, United States, United Kingdom which are high risk jurisdictions.

The NPOs were questioned about the type of premises they occupied with 87.5% reported that they occupied premises that they owned.

The majority of NPOs 62.5% reported that their main aims and objectives are centered around Religion (worship and Christianity), while 12.5% have aims and objectives related to Social Services (providing assistance to victim's social ills, improvement of healthcare, prevention of diseases, prevention and alleviation of human sufferings) and 12.5% for Sports and recreation (the facilitation of sporting activities).

What are the types of activities and percentages performed by the NPO?

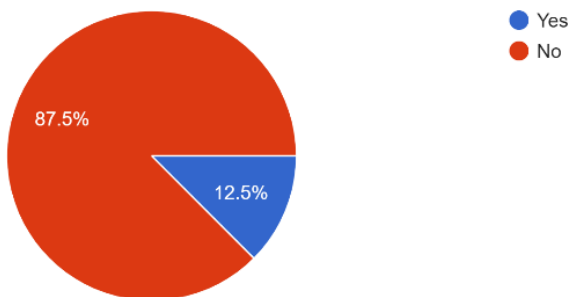
8 responses



The NPO's predominant organizational structures include boards, committees, directors, staff, volunteers, pastors and heads of ministries and executive bodies. Board meetings are held either: monthly, quarterly, weekly, every two months or as the need arises. It was reported that 87.5% of staff/board of directors did not receive training in the Countering of Terrorism (CFT). Lack of training can contribute to the lack of guidance, unawareness of how to treat certain TF situations which would allow the NPO to make rational and informed decisions in the NPO's best interest if a risk arises.

Has any member of staff / board of directors received training in Countering the Financing of Terrorism (CFT)?

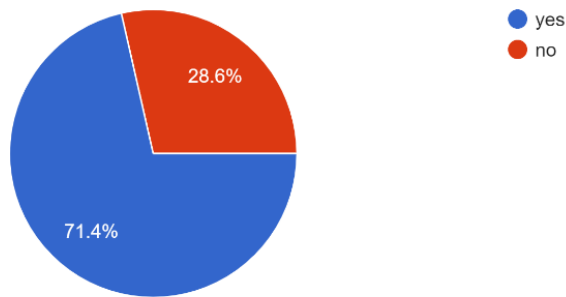
8 responses



When asked whether there is an annual report for the NPOs, 87.5% of the respondents responded in the affirmative. When asked whether annual returns are completed by the NPOs, 71.4% reported that they complete annual returns, while 28.6% indicated that no annual returns are completed. For the Sporting Organization, books are audited by a reputable chartered accountant.

Are annual returns completed by your NPO?

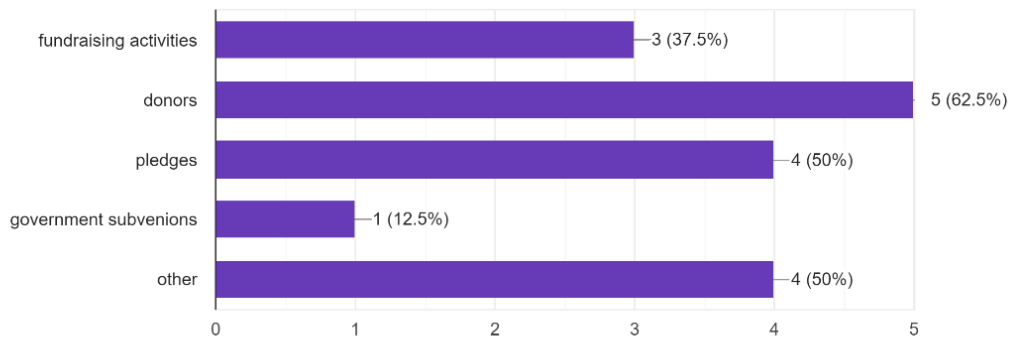
7 responses



The predominant sources of income were fundraising activities, donors, pledges, government subventions and other methods. There were eight responses to this question. 37.5% indicated fundraising activities, 62.5% indicated that they raise funds through donors, 50% through pledges and 12.5% through government subventions. The most popular or modal source of income for the NPOs are donors and pledges. Since they receive donations from their parent bodies, they know the identity of their donors, as well as if they receive donations from regular members.

What are your main sources of income for the NPO?

8 responses



The respondents that indicated that they have other sources of income were asked to specify the source. This method was predominantly through tithes and offerings except for one NPO (Community Aid Organizations) whose source of income includes grants from their British parent body. Funding was received from jurisdictions such as: the United Kingdom, United States, Switzerland, Montserrat and other Caribbean countries. The NPOs were asked to indicate

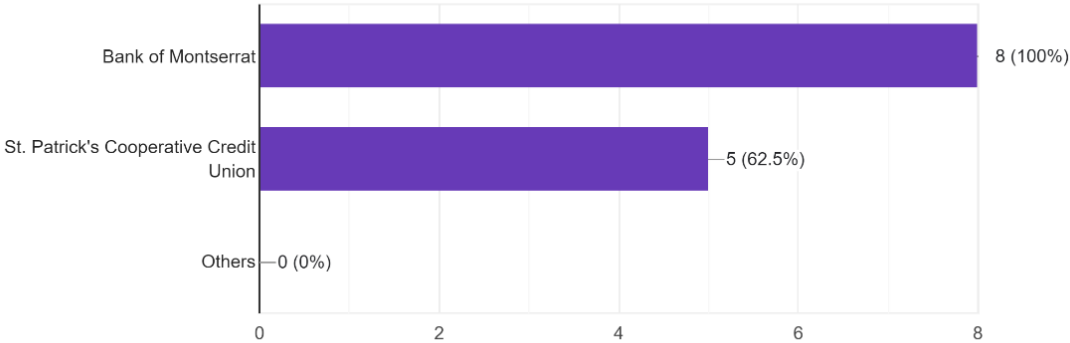
their raising methods. Among the options available were *cash, public donations, membership fees and other methods*.

The NPOs were asked whether their bank accounts are held at Bank of Montserrat, St Patrick’s Cooperative Credit Union or neither. There were eight responses. 62.5% indicated they have bank account at St. Patrick’s Cooperative Credit Union and 100% indicated Bank of Montserrat. Having Bank of Montserrat as the clearing house or filter for fund transfers from persons overseas or local, assures greater levels of the necessary due-diligence checks are done as well as monitoring of the geographical location, the identity of the client/donor and purpose of the funds especially for fund transfers from overseas.

The NPO’s reported that 75% have 3-4 signatories while 37.5% have 1-2 signatories, depending on the nature of the transaction. Having multiple signatories on an account in order to conduct a transaction makes it more difficult for one person to withdraw money, perpetrate fraud, embezzlement, or other misdeeds.

Which of the following financial institutions is the account held?

8 responses

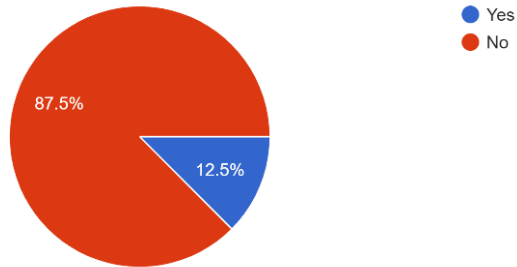


Expenses are predominantly made through cheques, cheques with vouchers, wires or through their NPO checking account.

12.5% of the NPO’s have a compliance officer and all refer to their Board of Directors.

Is there a compliance officer for the NPO?

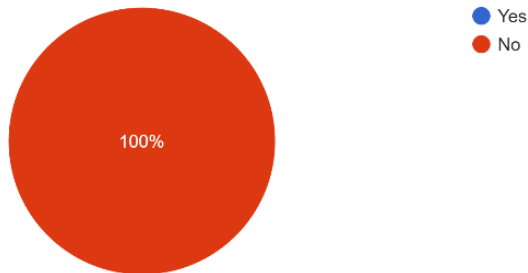
8 responses



100% of the NPO's reported that they have not adopted a risk-based approach to identify measures, monitor, and mitigate CFT risks faced which is essential in avoiding the consequences of inappropriate de-risking behavior. Implementing a risk-based approach for each of their respective NPO's allows for improved safety performance, enhanced regulatory compliance, more efficient resource allocation and better decision-making capabilities.

Has your institution adopted a Risk Based approach to identify measures, monitor, and mitigate CFT risks faced?

7 responses



Based on responses, 12.5% of NPOs reported that they categorized its level of CFT risk faced, while 85.7% indicated that their NPO has not categorized its level of CFT risk faced. When asked at what level would the NPOs assess their institutional risk as it relates to CFT risks faced, there were six responses, 100% of which indicated a low risk.

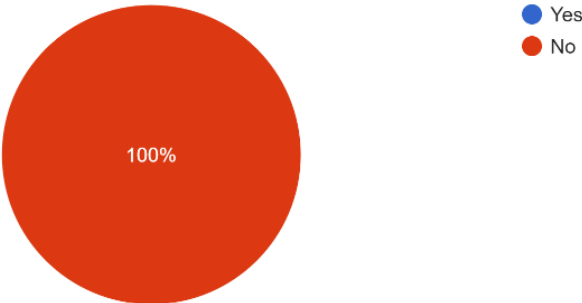
Large transactions and donations are approved predominantly by directors, pastors, and church boards. In the case of one NPO, once a transaction is over EC \$10,000 it goes to the LBA for approval especially if the donor is not a regular (known) member or attendee.

100% of the respondents indicated that their NPO does not provide services on behalf of any individual or organization outside of Montserrat. This reduces the level of vulnerability of these

NPOs in this regard as their volume of international or cross border activities is limited regarding foreign source of funds. The NPOs were asked whether any of their donor(s) or individual(s) with whom they conduct transactions is/are categorized as Politically Exposed Person(s) {PEP(s)}. There were eight responses. 100% of the respondents answered with a 'no'. This indicates that there are no inherent financial risks to these NPOs through association with PEPs as the NPOs cannot be used by PEPs for any form of fraud or terrorist financing activities.

Does any of the donor(s) or individual(s) with whom you conduct transactions with is/are categorized as Politically Exposed Person(s) {PEP(s)}?

8 responses



Although, the NPOs were not previously risk rated, throughout conducting this SRA, the NPO's were risk rated based on their respective features, vulnerabilities, characteristics, meetings/discussions with the NPO's and internal controls. In response to the risk assessment survey, 100% of participants indicated that the overall risk of TF abuse posed to their specific NPO would be low.

**Ranking of the following risks to the NPO sector in order, with 4 being the highest risk and 1 the lowest risk**

	1	2	3	4
Terrorist Financing	√			
Corruption	√			

**Area of Supervisory Focus for NPO sector**

The table below shows ‘NPO TF risk ratings and areas of focus’, with 4 being the highest risk and 1 the lowest risk between the NPO’s selected from the DSR.

Type of Organization	Risk Ratings			
	1	2	3	4
Religious Organizations	√			
Sporting Organizations				√
Community Aid Organizations				√



# Analysis of Mitigating Measures

## Legislation and Regulatory Framework

Regulation 4(1)(d) of the NPO Regulations under the POCA provides that the FSC as the NPO Supervisor is required “to undertake periodic reviews of the non-profit organization sector in Montserrat for the purpose of identifying the features and types of non-profit organization that are at risk of being used for terrorist financing.” But at present no framework exists to guide what steps should be taken to identify the nature of TF threats to NPOs and how terrorist actors abuse those NPOs.

Regulation 4 of the NPO regulations provide that the NPO Supervisor must monitor the effectiveness of the NPO Legislations in protecting NPO from being used for terrorist financing and ensuring compliance with the FATF recommendation to the extent they apply to NPOs. Periodic reviews of the NPOs Sector are also to be undertaken to identify the features and types of NPOs that are at risk of being used for TF. There is also the requirement that the NPO legislation be reviewed so that recommendations could be made for appropriate changes.

The legislative framework and regulatory framework to allow authorities to apply focused and proportionate measures on NPOs has not yet been developed but it is being worked on at present. The framework will include requirements for enhanced reporting requirements, and other specific obligations for NPOs based on their risk profile.

## Risk-Based Approach

The FSC risk-based approach to addressing vulnerabilities within the NPO sector is in its infancy stages of development, the FSC has however reviewed NPOs compliance certificates and financial statements to get an understanding of their level of activities in the jurisdiction.

Additionally, TF assessment done rated the jurisdiction as **Low**. Additionally, the NPOs in the jurisdiction are primarily religious and charitable organizations, with the community aid organization and the sporting organization being the most prominent given their international affiliations.

## Monitoring and Oversight

The FSC has commenced the monitoring of the NPOs selected as susceptible to TF and will therefore concentrate its resources to monitor these NPOs by employing its risk-based approach.

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## **Financial Reporting**

Some deficiencies in the financial reporting practices were noted which could undermine the overall effectiveness of the system. Specifically:

- The Annual Return as currently formatted does not facilitate the identification of the potentially risky activities or characteristics identified.
- The NPOs are not required to have any form of independent verification of the financial statements.

## Action Plan

Existing regulatory measures are already in place to sufficiently address the current TF risks in Montserrat. However, as the NPO supervisor, we shall take measures to mitigate any future potential risks by:

- Implementing continuous outreach measures to create awareness and comprehensiveness of TF in the NPO sectors as well as to seek input and feedback. Feedback can contribute to the developmental policies and guidelines. NPOs self-report several good practices in their management operations, although there is a need for more reliable data on NPOs practices, particularly in relation to potentially at risk NPOs. Continued and sustained outreach is necessary for educating the sector on measures to mitigate the potential risk. Since the risk for NPO in Montserrat is low, the Commission is able to determine how frequently and what type of outreach is conducted.
- The significant improvement to regulation of NPOs is recognized in this report, and these improvements will create a sound regulatory basis for mitigating TF risks. Simple targeted measures, particularly in relation to annual returns, systematic identification of potential risk, and targeted support and monitoring for NPOs likely to be at risk would have a significant impact on inherent risk.
- Continue risk-based monitoring and implementing effective information gathering. The Company Registry should develop and implement a formalized and standardized system for monitoring NPO annual returns. The systems employed should ensure that potentially at-risk entities are prioritized for detailed monitoring; and that the metrics used to assess NPOs are consistently applied.
- Greater international cooperation. The NPO Supervisor and other relevant competent authorities in Montserrat should collaborate with other international Supervisory bodies for guidance, new trends, awareness, and collaborative approach to monitoring the NPOs and sharing relevant information to help prevent TF abuse within the NPO sector.
- Deciding the need for onsite and how often it should be conducted. Place priority on specific NPOs based on trends in the data collected and allow tracking of progress to

ensure NPOs take steps to make required or recommended improvements to their systems to ensure it is protected from TF abuse.

- Greater cooperation with other competent authorities on matters related to NPOs. Continuous cooperation with other competent authorities to foster information sharing for matters pertaining to TF risks.

Ensure the NPO Guidance manual is updated in line with international standards.

- Ensures measures taken to protect NPOs from TF does not disrupt or discourage legitimate charitable activities and restrict NPO abilities to access resources including financial resources to carry out legitimate activities.
- Ensure the NPO's keep abreast of methodologies, regulations and trends.
- Ensure that staff and board of directors of the NPOs are adequately trained regarding TF matters.

## Conclusion

In essence, the NPO sector in Montserrat is low risk and there is no misuse of the sector. This is a result of:

1. The NPO's are not cash intensive.
2. All NPO's registered (No sham NPOs)
4. Funding received by parent bodies or donations from well-known donors.
5. The NPO's report to their parent body (increased level of oversight)
6. Funding goes through the Bank of Montserrat Limited to filter fund transfers from persons, ensuring that the necessary due-diligence checks are done.
7. Although the NPOs have parent bodies in high-risk jurisdictions, the registered NPOs that are operating in Montserrat are low risk.
8. The donors or individuals with whom the NPOs conduct transactions with, are not PEPs.

Based on the Domestic Sector Review (DSR) and Sectoral Risk Assessment (SRA) of NPOs, the Commission has identified the level of risk as *low* and can apply simplified measures to commensurate with its risk and focus their resources on higher risk sectors. Additionally, once the FSC concludes its risk based onsite visits of the NPOs that potentially posed higher potential risk for TF, it will position the Commission to guide its next steps with greater assertiveness related to the monitoring of the sector on a risk sensitive basis for potential TF abuse going forward.

# **NPO Risk Assessment Dissemination and frequency of updates**

## **Dissemination of results**

The Financial Services Commission (FSC) will disseminate the NPO Risk Assessment to the NPO sector via email correspondence and engage the sector in a conference to discuss its results and the way forward. The FSC will dispatch the NPO RA during February 2024 and will host a conference with the NPO sector in March 2024 to allow for further engagement on its results, findings, and next steps.

## **Frequency of Updates**

The Financial Services Commission (FSC) will update the NPO Risk Assessment annually or as maybe required based on the changing risk landscape, laws, regulations, codes, policies and procedures, international standards, updates to FATF Methodology and guidance, further engagement with the NPO sector to include training/outreach, off-site monitoring, onsite visits, data calls, inter alia.