

# **Vulnerabilities in the South African non-profit sector to economic crimes: Money laundering and terrorist financing**

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"Do not despise these small beginnings, for the Lord rejoices to see the work begin, to see the plumb line in Zerubbabel's hand" (Zechariah 4:10). This Master's degree is but the start of what I believe will be a wonderful journey.

# **PREFACE**

This study was completed in the form of articles. Two separate articles (Chapters 3 and 4) were compiled and submitted to accredited journals.

The details of this, at the time of submission, are as follows:

## **Article 1**

This article was submitted for publication on 13 October 2022 to the Journal of Money Laundering Control.

## **Article 2**

This article was submitted for publication on 1 November 2022 to the Journal of Financial Crime.

The articles were co-authored by the study's supervisor (Dr Philip Steenkamp) and co-supervisor (Dr Duane Aslett), each of whom provided valuable insight and guidance. These individuals are both affiliated with the North-West University as senior lecturers in the Faculty of Economic and Management Sciences, specifically the School of Accounting. The supervisor and co-supervisor are both aware that the articles form part of the final dissertation submitted to fulfil the requirements for the degree Master of Commerce.

# **KEY TERMS**

Economic crime; Forensic accounting; Money laundering; Mutual evaluation; Non-profit organisations; Non-profit sector; Risk assessment; South Africa; Terrorism; Terrorist financing

# ABSTRACT

The South African non-profit sector plays a crucial role in developing and maintaining the social welfare of those in impoverished communities. This is done by adding value to services rendered by the government or rendering services where government support is non-existent. Economic crime in this sector, specifically money laundering and terrorist financing, has been prevalent due to the vulnerabilities that accompany the sector. After the results of the 2021 South African FATF Mutual Evaluation were released to the public, it was clear that South Africa's non-profit sector lacks the protection it needs. This adds to the likelihood of South Africa being placed on FATF's grey list, which will have dire consequences for the economy.

This study's main objective was to perform an analysis of the South African non-profit sector, to determine the vulnerabilities present. A specific focus was placed on money laundering and terrorist financing. To meet the main objective, the following was critically analysed:

- The South African non-profit sector. This was done to gain a better understanding of how the sector is set up, how it functions, who regulates it, what vulnerabilities can be identified in it, as well as how to mitigate these vulnerabilities.
- The 2021 South African FATF Mutual Evaluation Report. This provided an in-depth view of the areas in which the South African non-profit sector is lacking regarding the protection thereof against money laundering, terrorism and terrorist financing. The concerns were highlighted and discussed, along with possible measures to address these concerns.

In summary, this study concluded that there are many vulnerabilities in the South African non-profit sector that render it susceptible to economic crime, specifically money laundering and terrorist financing. It was determined that the risk of grey-listing by FATF is still an immediate threat, but that it can be mitigated by following the appropriate guidelines and advice suggested by the author. There is a need for more research in the non-profit sector, with a larger focus being placed on the protection thereof against abuse. The research should be appropriate and inclusive, giving NPOs and the relevant stakeholders an opportunity to provide their input. This is the only way the South African non-profit sector will be able to effectively and proportionately address the risk of abuse that it faces.

## **LIST OF ABBREVIATIONS:**

ACFE – Association of Certified Fraud Examiners

AML – Anti-Money Laundering

CFT – Countering Financing Terrorism

CIPC – Companies and Intellectual Property Commission

DSD – Department of Social Development

ESAAMLG – Eastern and Southern Africa Anti-Money Laundering Group

FATF – Financial Action Task Force

FBI – Federal Bureau of Investigation

FIC – Financial Intelligence Centre

FICA – Financial Intelligence Centre Act

FIU – Financial Intelligence Unit

FP – Forensic Practitioner

FTF – Foreign Terrorist Fighters

GFSC – Guernsey Financial Services Commission

IAs – Intelligence Agencies

ICNL – International Center for Not-for-Profit Law

IDC – Inter-Departmental Committee

IO – Immediate Outcome

IRS – Internal Revenue Service

ISIL – Islamic State of Iraq and the Levant

KPMG – Klynveld Peat Marwick Goerdeler

LEAs – Law Enforcement Agencies

ME – Mutual Evaluation

MER – Mutual Evaluation Report

ML – Money Laundering

MoHC – Master of the High Court

NPC – Non-Profit Company

NPO – Non-Profit Organisation

NPOTT – Non-Profit Organisations Task Team

PBO – Public Benefit Organisation

PF – Proliferation Financing

POCA – Prevention of Organised Crime Act

POCDATARA – Protection of Constitutional Democracy Against Terrorist & Related Activities

PRECCA – Prevention and Combating of Corrupt Activities

PWC - PricewaterhouseCoopers

SA – South Africa

SARS – South African Revenue Services

TF – Terrorist Financing

TF NRA – Terrorism Financing National Risk Assessment

TFS – Targeted Financial Sanctions

TPCA – Trust Property Control Act

UK – United Kingdom

UNSCR – United Nations Security Council Resolution

VAT – Value-Added Tax

VDR – Voluntary Disclosure Reports

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# CHAPTER 1: PURPOSE AND SCOPE OF THE STUDY

## 1.1 Introduction and background

### 1.1.1 The problem of economic crime

On the 11th of September 2001, the world experienced one of the most fatal terrorist attacks in history, with about 3 000 individuals losing their lives (FBI, 2016). Up until that date, the FBI had never dealt with such a large investigation and crime scene. A total of 19 militants from Al-Qaeda hijacked four aeroplanes in order to reach their goal of carrying out suicide attacks against the United States (Onion *et al.*, 2010). Of these four aeroplanes, two were flown into the twin towers in New York City, one was flown into the Pentagon and the fourth crashed into a field in Pennsylvania. According to Roth *et al.* (s.a.) Al-Qaeda was largely dependent on donations to support their terrorist activities, which they funnelled through non-profit organisations (specifically charities). These charities knowingly or unknowingly aided the attacks of 9/11 (Roth *et al.*, s.a.). Events like these are why it is important to consider the effect of the abuse of the non-profit sector by criminals.

Mojsoska *et al.* (2021) state that it has been determined that, on average, for every one percent increase in economic crime, there is a corresponding 0,005 percent decrease in economic growth. This is not a rare occurrence, but rather a yearly phenomenon. In addition to this number, these economic crimes are growing at a fast pace and this only worsens the effect it has on the world's economic growth (Mojsoska *et al.*, 2021). According to Bhasin (2013), economic crime is still a worldwide ungovernable and costly problem that needs to be addressed and it is almost impossible to estimate the true cost of the losses incurred because of it. The term "economic crime" includes various types of crimes and can span many different industry sectors, as it is said to be a multi-dimensional phenomenon (Mojsoska *et al.*, 2021).

Even though the impact thereof is serious, there is no fixed definition for economic crime, but it is said to refer to any crime that is not violent and that leads to a financial loss being made (Eleventh United Nations Congress on Crime Prevention and Criminal Justice, 2005). Europol (2021) defines economic crime as an act of an illegal nature, that is performed by a group of individuals, or a single individual, in order to gain an unfair financial advantage. Economic crime is one of the world's most urgent and pressing concerns, threatening global stability and security (Mojsoska *et al.*, 2021). This was further emphasised by UK Finance (2019) when it was stated that economic crime is present in various aspects of our society. In the context of this study, any reference made to the concept of fraud refers to economic crime as a whole.

PricewaterhouseCoopers (PWC) conducts biennial economic crime surveys in order to provide the public with information on the threat posed by fraud, as well as the impact and cost thereof (PWC, 2020). When conducting the surveys, PWC studied over 5000 responses from individuals in over 99 countries. Economic crime (such as fraud, money laundering, terrorist financing, tax evasion and corruption) is at an all-time global high with 47 percent of the respondents to the PWC survey stating that they had experienced a type of fraud (economic crime) in their companies over the past 24 months (PWC Global Economic Crime and Fraud Survey, 2020). The impact of economic crime can be seen when assessing the severity of the effect it has, both in a financial and social context (Mojsoska *et al.*, 2021). The survey suggests that 7 percent of the South African respondents reported that they had lost more than \$50 million due to the occurrence of economic crime (PWC, 2020). It is however not just the financial aspect that is concerning, but also the social impact, which is often the reason for a low reporting rate in terms of economic crime (Eleventh United Nations Congress on Crime Prevention and Criminal Justice, 2005; Mojsoska *et al.*, 2021).

Economic crime is a serious and growing problem, specifically in South Africa, with 42 percent of the respondents to the PWC survey stating that they did not even perform an investigation after discovering fraud (PWC Global Economic Crime and Fraud Survey, 2020). In South Africa, reported economic crime is currently at a rate of 60 percent, which is much lower than the recorded 77 percent in 2018 (PWC Global Economic Crime and Fraud Survey, 2020). Even though there has been a drop in the reported economic crime rate, PWC detected an increase in high-value fraud. According to Breytenbach *et al.* (2016), the reputational risk for companies experiencing economic crime is becoming bigger as time passes and the schemes implemented by criminals exceed what is already known. Due to South Africa being a developing country, organisations are more vulnerable to financial crimes and the negative impact it has on these institutions is long-lasting (Eleventh United Nations Congress on Crime Prevention and Criminal Justice, 2005; Vorster, 2016). In addition to this, organisations in South Africa report economic crime more regularly than any of their global counterparts, thus only adding to the idea that the country is vulnerable to economic crime (Vorster, 2016).

In order to detect, prevent and combat economic crimes such as fraud effectively, forensic accountants have become a necessary part of the process (Dhar & Sarkar, 2010). Forensic accountants, also known as forensic practitioners (FPs), do not only investigate economic crime, but also testify to their findings in court (Dreyer, 2014). According to Dhar and Sarkar (2010), this specialised field has become increasingly important in the accounting field. Bhasin (2013) states that to be a successful FP, it is important to have certain values, like candour and competence. As society, technology and the economy changes, the role of a forensic accountant changes to suit the newly formed needs (Dreyer, 2014). One of the new roles of a

FP is to support companies in achieving a manageable policy for promoting ethical behaviour in the company (Bhasin, 2013).

Most companies prefer to handle economic crime internally and end up not reporting it to authorities, leading to the numbers not being as accurate as they seem (Eleventh United Nations Congress on Crime Prevention and Criminal Justice, 2005; Association of Certified Fraud Examiners [ACFE], 2020). This happened in 46 percent of the organisations that participated in the 2020 Report to the Nations survey. Companies tend to do this in order to avoid public embarrassment and bad publicity, but end up in a worse situation than they would have been in if they reported the matter. One of the sectors that is severely impacted by the rise in economic crime, is the non-profit sector (Bricknell *et al.*, 2011).

### **1.1.2 Economic crime and the non-profit sector**

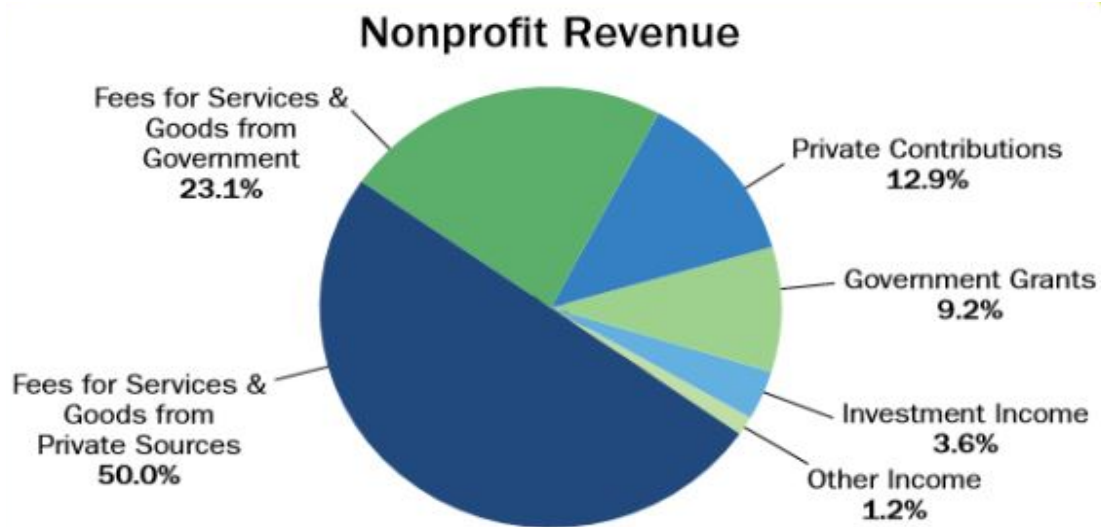
The non-profit sector has a vital role to play in delivering services that are essential to at-risk and impoverished communities (FIC, 2020). According to Bricknell *et al.* (2011), these services are rendered in addition to the contributions made by governments and public sector funders to these communities. The non-profit sector also contributes where there is a complete lack of contribution by governments, thereby fulfilling an essential role in the economy. Even though non-profit organisations (NPOs) are crucial in the process of aiding the development of countries, many are under public scrutiny for their actions (Dwivedy, 2011). The public, as well as many other regulatory bodies are growing increasingly more concerned about the activities carried out by non-profit organisations (Dwivedy, 2011). A non-profit organisations' primary motive is not profit-making, but rather serving, and the organisations are usually founded by individuals who have a shared purpose or goal (Surbhi, 2016). This inherent motive leads to the definition of a non-profit organisation. According to Surbhi (2016), a non-profit organisation is "a legal entity which operates for serving society as a whole". NPOs are vital in creating change in the socio-economic sector, mostly in areas where government services are lacking or non-existent (Dwivedy, 2011). According to Choto *et al.* (2020), NPOs also provide assistance in decision-making for those responsible for making policies and for businesses, whilst improving the economic statistics of the relevant country.

Salamon and Anheier (1996) provide five important characteristics that an organisation should reasonably display in order to be classified as a non-profit. These characteristics were identified by the Johns Hopkins Comparative Nonprofit Sector Project. This project is an international research project designed to place the non-profit sector under a form of observation, specifically those organisations that display all five characteristics (Salamon &

Anheier, 1996). The important characteristics referred to in this project are: organised, private, non-profit-distributing, self-governing and voluntary.

The non-profit sector is generally formed by companies operating in various areas of society – healthcare, religion, education, sports, clubs, societies, activist groups and many others (Bricknell *et al.*, 2011). The non-profit sector functions separately from the public and private sector, but often partners with one of the two (IE School, 2018). There are many types of organisations one can classify as a NPO, for example trusts, religious institutions, clubs, societies, public hospitals and so forth. Examples of global organisations in the non-profit sector are Greenpeace, the Red Cross, as well as Doctors Without Borders.

NPOs function with a limited number of financial resources and rely on mostly donations to cover their costs (Choto *et al.*, 2020). In Surbhi (2016), it is said that NPOs receive income from various sources, including but not limited to donations, legacies, subscription or membership fees, and grants from the government. As there is generally no steady source of income for NPOs, they tend to have fewer resources to protect themselves against fraud and losses (ACFE, 2020). The main categories for the sources of income can be seen in the figure below, as shown in McKeever and Pettijohn (2014):



**Figure 1-1: Non-profit revenue (McKeever & Pettijohn, 2014)**

As seen in the figure above, more than half of the income that NPOs have at their disposal is dependent on contributions made by private sources. This was emphasised in Salamon and Anheier (1996) when it was stated that most NPOs rely on charitable giving as their main source of income, which is what makes them different from other organisations.

On the 3rd of October 2019, the South African NPO Register of the Department of Social Development stated that there are 220 116 NPOs registered in South Africa (Gastrow, 2019). This figure only refers to the registered NPOs, thus in reality the number of NPOs in South Africa will be larger than that. All of these NPOs are constantly in need of funding or some or other form of income, often in the form of a benefit (such as with tax). Globally there has been a rapid increase in the number of NPOs over the past few years, resulting in an even higher demand for funding from donors (Choto *et al.*, 2020). This demand cannot be met, as there is no increase in the resources being made available (Choto *et al.*, 2020).

Most of the areas that these non-profits operate in rely on a deeply rooted basis of trust, especially when dealing with NPOs and the promises made by them. One out of every three South African citizens that partook in the PWC survey, mentioned that distrust had the biggest impact on their lives after incidents of economic crime (PWC Global Economic Crime and Fraud Survey, 2020). Thus, mistrust in the non-profit sector can lead to damage being done to the good name of the sector, employees' willingness to participate in it, and future opportunities. This was affirmed by Grabosky (2001) when he stated that the very essence of fraud-related crime (economic crime) comes down to a breach of trust. Grabosky (2001) made the statement that this leads to the downfall of governments, development in the economy, as well as personal relationships.

Embroker (2022) stated that 39 percent of the individuals that commit fraud at NPOs are either executive members or other high-level employees of the NPO. This means that more than a third of fraud-related incidents in NPOs are caused by internal perpetrators, leading to a lack of trust within the organisation. The fact that 51 percent of economic crime is committed by individuals colluding (multiple fraudsters) only adds to the breach of trust experienced by parties related to NPOs (ACFE, 2020). These colluding individuals are often insiders of the organisation and according to PWC (2020), this usually leads to an even greater financial loss and breach of trust in the sector. It makes related parties feel as if they cannot trust anyone in the non-profit sector, which has a substantial impact on the sector's functionality and effectiveness (ACFE, 2020).

The individuals that perform economic crimes with the use of NPOs tend to focus on third-world (developing) countries, such as South Africa, as a means to perform these crimes (Mojsoska *et al.*, 2021). This is due to the lack of strong regulations that often accompany these countries and the organisations within them (ACFE, 2020). The non-profit sector often experiences the problem of invisibility and a lack of public awareness, which also often causes a multitude of issues for the sector (Salamon & Anheier, 1996). Thus, there is a need for the

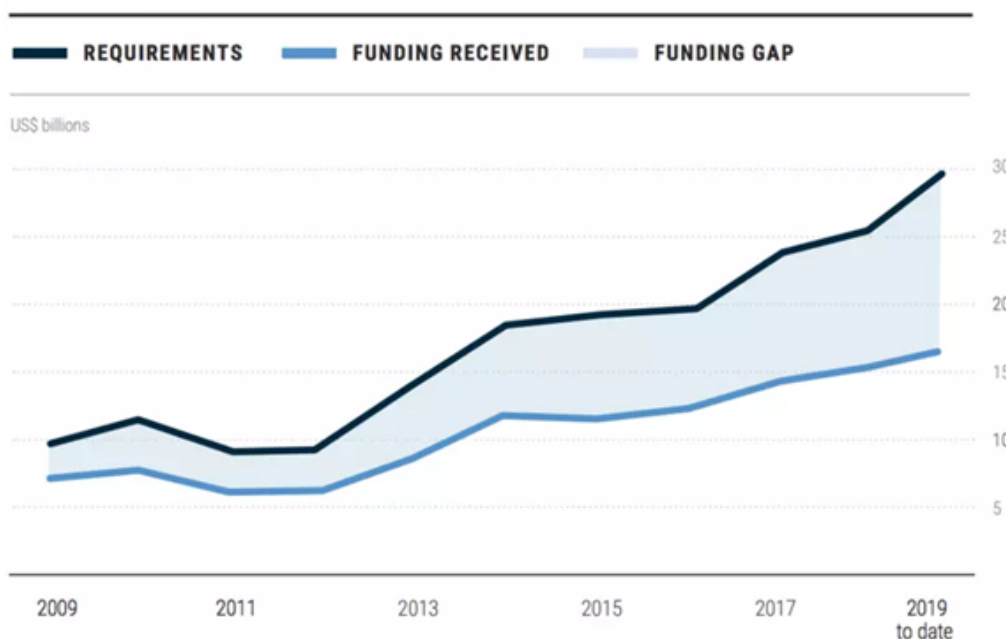
fight against economic crime to become a global effort, with first-world countries providing assistance to third-world countries where possible (Mojsoska *et al.*, 2021).

The most common crime performed by criminals in the non-profit sector is corruption, with the Report to the Nations citing it as being present in 41 percent of cases (Embroker, 2022). However, according to Bricknell *et al.* (2011), the non-profit sector has also been misused for money laundering, the financing of terrorists and other economic crimes for quite a long time. This could be due to the lack of regulation over non-profit organisations in South Africa and the need for internal controls and reviews done by management (Embroker, 2022). The effect of economic crime on the sector is large, as is stated in the Report to the Nations (ACFE, 2020). The report states that the average loss for NPOs (specifically in the 191 cases they examined) is about \$639 000.

Organisations in the non-profit sector most at risk for abuse have been identified as charities, unincorporated organisations (those not regulated by the Companies Act), as well as those that make regular use of informal methods to transfer money (Bricknell *et al.*, 2011; FIC, 2020). NPOs generally do not have as many resources as other types of companies to prevent economic crime from happening and to recover from losses made in the event of such a crime (ACFE, 2020). The ACFE (2020) also concluded that NPOs do not place enough focus on the importance of internal controls and the governance of these entities is inadequate. Anheier (2000) states that this is due to a misunderstanding of how NPOs operate and of how the managing thereof should be conducted to ensure effectiveness. Management has been known to have a negative connotation for many non-profit organisations, as the very foundation of the sector rests upon voluntarism and doing good – rather than a focus on compliance with an ever-increasing set of rules and regulations (Anheier, 2000).

Recently, there have been many changes in terms of the methods NPOs use to obtain funding. These changes came about after the COVID-19 pandemic started in 2019. There has been a massive gap in the funding of humanitarian aid and efforts since even before COVID-19 (World Economic Forum, 2020). This gap can be seen in the figure below:

## Funding Gap (2009–2019)



**Figure 1-2: Funding gap (World Economic Forum, 2020)**

The gap in funding had been growing at a fast pace up until 2019, according to the World Economic Forum (2020) and it is unlikely that this will change. Due to the negative effect that COVID-19 has had on the economy, it is highly likely that NPOs will struggle even more to find funding, not only now, but also in the future. The World Economic Forum (2020) states that the changes brought about by COVID-19, such as social distancing and the wearing of masks, forced NPOs to be more flexible, which has resulted in greater expenses. Non-profit organisations have also made changes to their funding efforts, by focussing on social media and other online methods of campaigning (WealthEngine, 2021).

As a result of these changes to the funding methods of NPOs, there has been an increased demand for greater transparency in terms of financing, as well as good governance (Choto *et al.*, 2020). This is especially due to the shift in focus experienced by NPOs, according to Choto *et al.* (2020), as NPOs now focus more on the donor and his/her goals, than the individuals they are trying to support. Therefore, it is necessary to understand the way NPOs are set up and governed, as well as the possible vulnerabilities in the sector and how criminals misuse it.

### 1.1.3 Regulation of the non-profit sector

In South Africa, there is a separate Act for non-profit organisations designed to regulate and protect these organisations. This is known as the Non-Profit Organisations Act of 1997 (ICNL,

2004). Even though this is an Act specific to non-profits, many other Acts can also apply, but are often subject to the registration of an NPO in terms of that specific Act. The ICNL (2004) states that in terms of the Income Tax Act 58 of 1962, non-profit organisations can register as Public Benefit Organisations (PBO) to obtain a tax benefit. According to the ICNL (2004), the CIPC (Companies and Intellectual Property Commission) also allowed these organisations to register with them, but refers to them as NPCs (Non-Profit Companies). The various Acts that apply to NPOs in South Africa are as follows:

- Non-Profit Organisations Act 71 of 1997 (NPO Act)
- The Income Tax Act 58 of 1962
- Constitution of the Republic of South Africa Act 108 of 1996
- Companies Act of 2008
- Companies Amendment Act of 2011
- Trust Property Control Act 57 of 1988 (TPCA)
- Value Added Tax Act 89 of 1991 (VAT Act)
- Financial Intelligence Centre Act 38 of 2001 (FICA)
- Financial Intelligence Centre Amendment Act 1 of 2017

There are three different structures when it comes to establishing a non-profit organisation. These include voluntary associations (common law), trusts (statutory law) and section 21 companies (statutory law) (ICNL, 2019).

In accordance with the Non-Profit Organisations Act 71 of 1997 (Wyngaard, 2013) a provision is made to establish a Directorate which is responsible for establishing and administering the implementation of policies and procedures that ensure that governance in NPOs is maintained. This is however only the case for NPOs that have registered with the Directorate and not all NPOs (Wyngaard, 2013). NPOs need to apply to become a registered non-profit organisation and only then will they be subject to more intensive oversight and certain requirements as set by the government (ICNL, 2004). Not only does this Directorate have the power to register NPOs, but they also have the ability to de-register NPOs, which often causes harm to the organisation in relation to the receiving of government grants and so forth (Wyngaard, 2013). Another body that oversees non-profit organisations, is the Financial Action Task Force (FATF).

There is a need for these laws and regulations to be considered in the course of determining the susceptibility of NPOs to economic crime, as well as to determine the vulnerabilities and “gaps” left by these laws and regulations.

#### **1.1.4 Specific economic crimes present in the non-profit sector**

Non-profit organisations are misused by criminals for their own, or someone else's benefit by performing many different types of economic crime. These include, but are not limited to, money laundering, terrorist financing, tax evasion, fraud and theft (Barker, 2013). This study will however mainly focus on two forms of economic crime – money laundering and terrorist financing.

##### **1.1.4.1 Money laundering**

In South Africa, money laundering (ML) went up from 7 percent in 2018 to 13 percent in 2020 and it was rated amongst the top five costliest frauds (economic crimes) (PWC Global Economic Crime and Fraud Survey, 2020). This only takes into account the cases of money laundering reported by those that participated in the survey, meaning that there could be many other instances that were not taken into account and the actual number could be larger. Globally, PWC measures a rate of 11 percent, thus South Africa has a rate above this and is one of the key contributors to the high global rate. Madzima (2009) defined money laundering as “any act or attempted act to conceal or disguise the identity of illegally obtained proceeds so that they appear to have originated from legitimate sources”. In developing countries, such as South Africa, money laundering impacts the effectiveness and stability of the country's economy and finance sectors (Eleventh United Nations Congress on Crime Prevention and Criminal Justice, 2005).

The act of money laundering can be split into three stages – placement, layering and integration – each stage specifically designed to ensure that the identity and source of the money is concealed (Madzima, 2009; Durner & Cotter, 2019). Placement is when the funds from illegal activities enter the legitimate financial system. According to Madzima (2009), this creates distance between the money (proceeds of illegal activities) and the crime. Placement is made possible by the second stage, layering, which is when complex transactions are created to hide the placing of the proceeds (Madzima, 2009; Thony, 2007). The last stage, integration, is the return of the funds to the normal economy, to be used by the general public (Thony, 2007).

Money laundering also promotes other types of economic crimes, such as terrorist financing. It does so by providing and transferring the funds that these terrorist organisations need to perform their illegal actions (PWC Global Economic Crime Survey, 2016; Madzima, 2009). Money laundering links with terrorist financing, as it provides terrorist groups with not only cash, but also capital from investments (Eleventh United Nations Congress on Crime

Prevention and Criminal Justice, 2005; Durner & Cotter, 2019). Durner and Cotter (2019) even go as far as saying that the two crimes are linked via a “marriage of convenience”.

#### **1.1.4.2 Terrorist financing**

The Financial Action Task Force (FATF, 2013) has a list of the consequences of money laundering and includes the “increase of terrorism” in this list. PWC concluded that only 50 percent of all incidents related to money laundering and terrorist financing were detected by systems companies had in place (PWC Global Economic Crime Survey, 2016). Thus, it shows that the methods implemented to combat these crimes are not sophisticated enough or are not implemented effectively. The 2016 PWC survey also stated that with terrorist attacks on the rise, governments across the world are considering more proactive approaches to preventing these types of economic crimes (PWC Global Economic Crime Survey, 2016). Terrorist financing differs from money laundering in the sense that the source of the funds could be legitimate, but the purpose they have for the funds is illegal (Durner & Cotter, 2019).

Vlcek (2008) describes terrorist financing (TF) as the collecting/providing of funds with the purpose to use these funds to perform any act of terror. Terrorist financing is a form of organised crime and according to the PWC Global Economic Crime and Fraud Survey, organised crime was rated at 27 percent when respondents were asked to identify the most disruptive financial crimes (PWC Global Economic Crime and Fraud Survey, 2020). According to Madzima (2009), organised crime is any criminal activity that is planned, involving a group of people with a joint purpose to commit this criminal activity and who are motivated by the thought of gaining a benefit from performing this activity. Groups involved in organised crime (such as terrorists) are attracted to economic crime not only for the large number of profits it produces, but also due to the low detection risk (Eleventh United Nations Congress on Crime Prevention and Criminal Justice, 2005). The rewards outweigh the costs significantly and therefore organised crime continues to thrive in the world of economic crime.

Since the events of 9/11, the United States government has grown increasingly more concerned with preventing terrorist attacks and have acknowledged the importance of forensic accountants in this area of economic crime, according to Florida Atlanta University (2008). Terrorist financing can be split into three distinct phases – raising of funds, moving of funds and using of funds (FATF, 2013). According to Brooks *et al.* (2005), terrorists exploit various sectors to obtain the necessary funds to continue with their operations. It is important not to consider the financing of terrorists as a separate problem from money laundering, as terrorist groups make use of complex, illegal transactions to collect and move their funds (Eleventh United Nations Congress on Crime Prevention and Criminal Justice, 2005).

According to the FATF (2013), many terrorist groups use NPOs to finance their operations. They use NPOs as a means to generate, move and use funds (Dwivedy, 2011). Thus, it is important to consider how this happens and what measures are in place to prevent this type of misuse of the non-profit sector.

### **1.1.5 The Financial Action Task Force and risk assessments**

Established in 1989, the Financial Action Task Force (FATF) is a global, inter-governmental body that aims at preventing money laundering and terrorist financing (FATF, 2012). They do this by setting international standards and policies to better guide and protect the countries that form a part of their body. The FATF refers to this set of standards as the FATF Recommendations and this consists of 40 Recommendations that members can comply with (FATF, 2012).

One of these recommendations (Recommendation one), states that it is important for companies to identify the risks they face, to assess these risks, and to understand the mechanics behind it (FATF, 2013). To prevent economic crimes such as money laundering and terrorist financing from happening in organisations, it is important to evaluate the risks and have a contingency plan in place (Mautone, 2019). Companies need to be fully aware of the risks applicable to them in terms of economic crimes – specifically, that which takes on the title “shadow-industry” (PWC Global Economic Crime and Fraud Survey, 2018). PWC refers to the misuse of the non-profit sector as a “shadow-industry” that has a negative impact on every aspect of their business and everyone they conduct business with. The fact that this industry is living in darkness (“the shadows”), makes it increasingly more dangerous and difficult to identify vulnerabilities (PWC Global Economic Crime and Fraud Survey, 2018).

The Financial Action Task Force (FATF, 2013) emphasises the importance of a risk-based approach by stating that it should be seen as an “essential foundation” in effectively combatting crimes, including those that occur in the non-profit sector. The FATF’s Recommendation 8 specifically states that the regulations and laws pertaining to NPOs need to be reviewed regularly, in order to mitigate the risks associated with money laundering and terrorist financing in NPOs (FATF, 2015). In the Report to the Nations, the importance of anti-fraud controls, such as risk assessments, are considered (ACFE, 2020). It was determined that when an organisation had anti-fraud controls, the severity of the loss and time it took the organisation to uncover these risks, were reduced by 50 percent.

The FATF defines risk assessment as the process of identifying, analysing and gaining a deeper understanding of risks – specifically that of ML and TF - in order to mitigate these risks effectively (FATF, 2013). It states that performing a risk assessment involves assessing

various types of threats, vulnerable areas and the effects of these threats (FATF, 2013). Risk assessments are important, because criminals have needed to find new methods to launder money in recent years – due to increased measures in detecting money laundering (PWC Global Economic Crime Survey, 2016). KPMG (2020) remarked that certain industries and areas are more susceptible to economic crime such as money laundering.

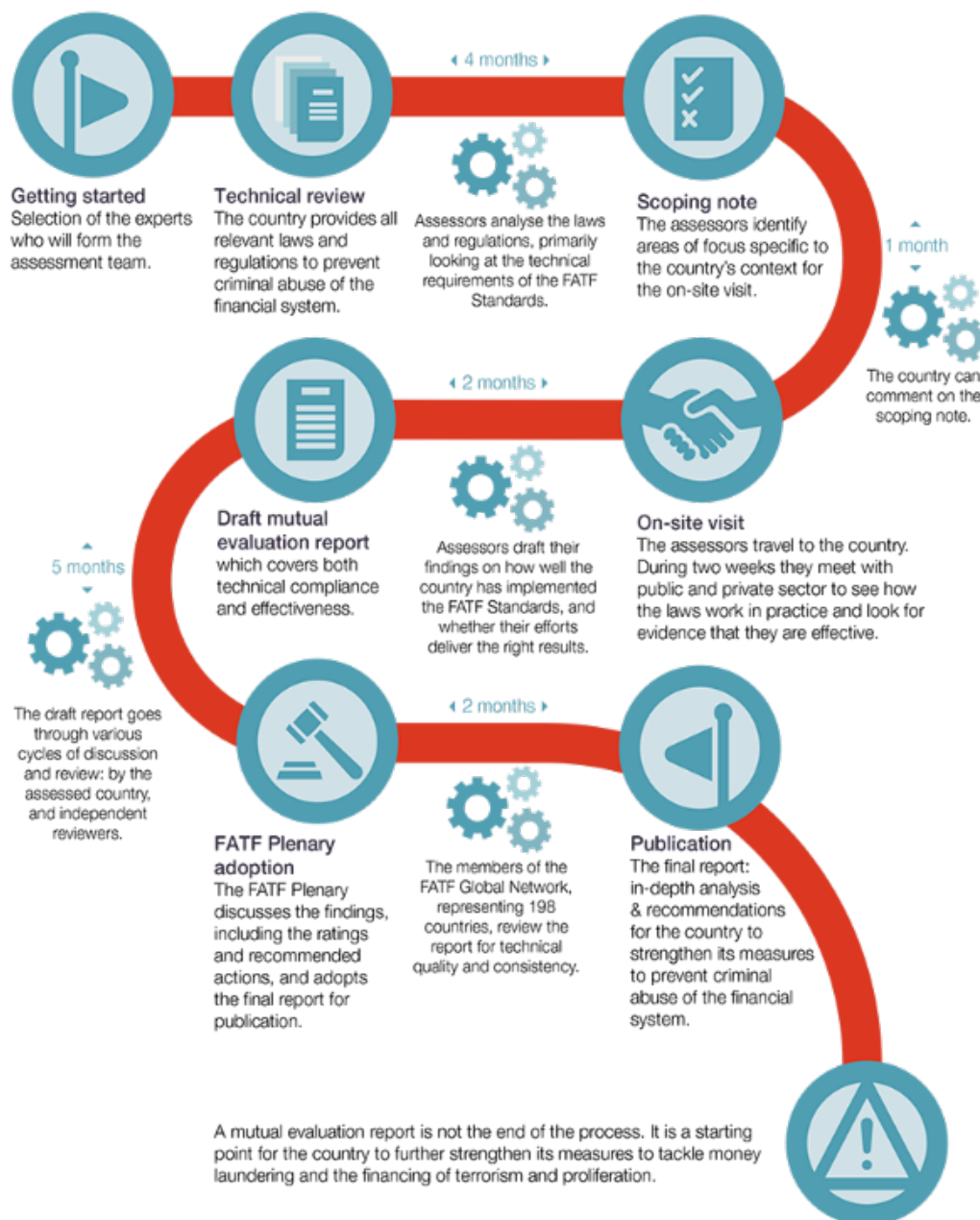
The PWC Global Economic Crime Survey (2016) revealed that 20 percent of respondents have never carried out a fraud risk assessment, even though PWC says that it is critical. This is rather significant, as this means that one out of every five organisations do not even know of the risks that make them vulnerable and much less know how to protect themselves against threats of economic crime. In addition to these numbers, more than 25 percent of companies that offer financial services have not done any anti-money laundering (AML) or combatting the financing of terrorism (CFT) risk assessments (PWC Global Economic Crime Survey, 2016). This makes it clear that there is a big gap when it comes to risk assessments concerning the specific economic crimes that will be discussed in this study. The Financial Action Task Force (FATF, 2013) states that the results of these types of risk assessments can provide information to an organisation, which could prove to be extremely useful. Even though the performing of these assessments is scarce, most organisations are now being required to have such a measure or assessment in place.

Therefore, it is important to have a list on hand of high-risk industries and areas in order to identify and address the risks effectively. Many companies provide information on national risk assessments that can be used in the high-risk industry identification process and will make the process a lot more efficient (KPMG, 2020). PWC also states that NPOs are one of the typical users of these integrated risk assessments and that the way in which these assessments are performed should be catered to meet the needs of the NPO itself (PWC Global Economic Crime Survey, 2016). One such risk assessment that is recognised internationally and performed by an independent body, is the FATF Mutual Evaluation performed in different countries.

The FATF performs Mutual Evaluations over countries on a regular basis and this is seen as a type of risk assessment. These evaluations are described as meticulous reports that analyse the implementation and effectiveness of the measures set in place to fight money laundering and the financing of terrorists (FATF, s.a.). These evaluations are performed by various members from other countries and also include very specific recommendations for the country that have been evaluated in order to better their regulations. These Mutual Evaluation Reports can be found for perusal under the FATF's website as a very valuable tool in the fight against terrorism and the abuse of the non-profit sector.

Mutual Evaluations performed by the member countries of FATF have two main components on which the country being evaluated is scored (FATF, s.a.). These components are effectiveness and technical compliance. Effectiveness is mainly determined by an on-site visit to the relevant country. The relevant country will then be expected to provide evidence and information that illustrates that their measures and results are adequate (FATF, s.a.). After the Evaluation team has established effectiveness, they will move on to evaluating the relevant country's technical compliance. In this part of the process, the relevant country must provide the team with information regarding their laws, regulations and any other legal instruments in place to combat money laundering and the financing of terrorists, as well as the proliferation of weapons of mass destruction (FATF, s.a.). The whole process of a mutual evaluation can take up to 18 months, as the process has to be performed very thoroughly and in depth. After the completion of an evaluation, countries are expected to address the identified shortcomings that were mentioned in the report and the relevant country becomes subject to post-assessment monitoring. All the countries that fall under the jurisdiction of the FATF are subject to these evaluations, including South Africa. The process followed by the FATF can be seen in the figure below:

# The Mutual Evaluation Process



**Figure 1-3: The Mutual Evaluation process (FATF, s.a.)**

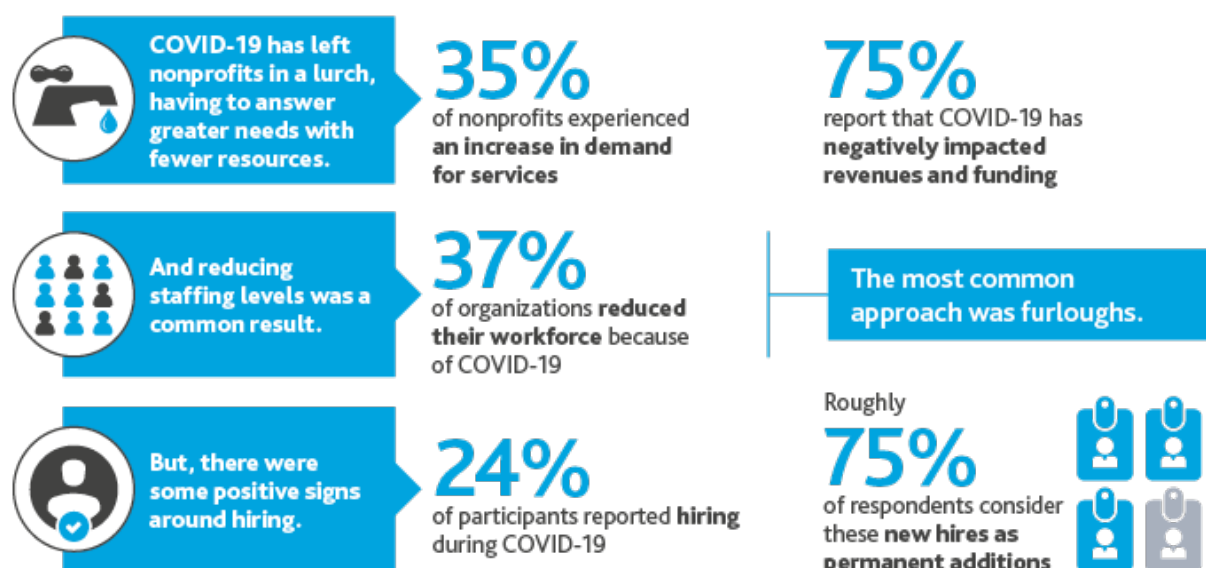
In this study reference will be made to one of these FATF mutual evaluation reports (ME) that were recently published, the 2021 South African (SA) MER. The sections in the report that deal with Recommendation 8 and Immediate Outcome 10 (those specifically focussed on NPOs), will be highlighted and methods to address the concerns made by the FATF will be discussed.

## 1.2 Motivation of topic actuality

Economic crime is a serious and growing problem, specifically in South Africa, with 42 percent of the respondents to the PWC survey stating that they did not even perform an investigation after discovering fraud (PWC Global Economic Crime and Fraud Survey, 2020). According to Breytenbach *et al.* (2016), the reputational risk for companies experiencing economic crime is growing increasingly larger as time passes and the schemes implemented by criminals exceed what we already know.

This has become especially evident after the COVID 19 global pandemic started. South Africa went into a nationwide lockdown from 26 March 2020, which had a variety of positive and negative implications for the country and its residents (Stiegler & Bouchard, 2020). Amongst other negative implications, it had a big impact on the South African economy, resulting in South Africa being downgraded to junk status on 31 March 2020 (Staunton *et al.*, 2020). According to Nivette *et al.* (2021) theories of individual and structural strain state that placing restrictions on a country's residents can result in a higher level of stress, anxiety, anger and frustration. This leads to more motivating factors for criminals in committing crimes. These crimes cannot be limited to physical crimes, but can be broadened to include economic crimes.

The non-profit sector was also significantly impacted by the pandemic and the restrictions that followed. NPOs had to make cuts to their budget, whilst experiencing a massive demand for NPO services, which can be seen in the figure below (Ntoane, 2020):



**Figure 1-4: The impact of COVID-19 on non-profit fundraising (WealthEngine, 2021)**

After the results of the 2021 FATF Mutual Evaluation Report (MER) on South Africa, it is clear that there are vulnerabilities and a lack of research into the non-profit sector that needs to be addressed. The FATF evaluates countries based on their performance in various sectors and

areas of the economy, by giving them a rating based on their effectiveness and technical compliance in preventing, detecting and combatting money laundering and terrorist financing. These ratings are split into various categories, from the highest score (best) to the lowest score (worst). Recommendation 8 in this report states that SA was rated as non-compliant, which is the lowest rating (FATF, s.a.). In terms of Immediate Outcome 10, SA was rated as having a “low level of effectiveness”, which is also the lowest rating that can be given regarding Immediate Outcome 10 (FATF, 2021). It has been determined that SA has never undertaken any assessment in order to identify the nature and extent of threats that have been posed. No specific measures in order to address the terrorist financing risks have been identified and SA has failed to properly follow up on the previous ME (FATF, s.a.). This has led to South Africa becoming at risk of being grey-listed by the FATF (Van Wyk, 2022). Countries that are grey-listed are placed under increased monitoring by the FATF and this grey-listing leads to a variety of negative consequences for the economy (Van Wyk, 2022; Sanctions.io, 2022). South Africa has to respond to the MER by the end of October 2022, and then again by the end of February 2023, to avoid being put on the grey list (Van Wyk, 2022). Thus, the research done in this study is of importance and will be noteworthy to those who are charged with designing and implementing measures to address the concerns raised in the MER.

In addition to the low ratings and lack of risk assessments in the non-profit sector, there is also a very large research gap. Even though NPOs play an important role in the economy, they do not obtain the same amount of research attention as profit-making entities do. Very little to no information is available on the statistics relating to crime in the non-profit sector and the statistics that are available are outdated. There are also very few legislation and regulatory bodies pertaining to NPOs, or it is not implemented effectively. This only adds to the urgency of the matter and the need for research in this regard. The effect that economic crimes have in the medium- and long term will consistently have an effect on corporate, as well as economic governance, the rule of law, the security of a country and the protection of its people (Mojsoska *et al.*, 2021). Thus, the non-profit sector cannot be excluded from current assessments and research.

### **1.3 Problem statement and motivation**

Economic crime is an immediate and growing threat to society (PWC Global Economic Crime and Fraud Survey, 2020). Of the different economic crimes on the rise, money laundering and terrorist financing are some of the most disruptive and damaging (Eleventh United Nations Congress on Crime Prevention and Criminal Justice, 2005; PWC Global Economic Crime and Fraud Survey, 2020). According to Bricknell *et al.* (2011), the misuse of the non-profit sector has been an integral part of what leads to the success of terrorists and the laundering of money

to finance their causes. It is also noted that most organisations do not carry out the necessary risk assessments, and those that do are not performing these risk assessments effectively (PWC Global Economic Crime and Fraud Survey, 2018). A large focus and serious onus is placed on most sectors to ensure that such risk assessments are conducted and adequate research is done into providing solutions for economic crime within the sectors.

However, no such focus or onus is being placed on the non-profit sector. None of the surveys performed by PWC and other organisations include risk assessments on non-profit organisations, thus there is a need for this sector to be assessed. Organisations in this sector do not know of the risks pertaining to the way they are set up and governed, due to a lack of research and expertise.

This study will analyse the vulnerabilities of the South African non-profit sector – specifically in terms of money laundering and terrorist financing.

Therefore, the following research question arises: “What vulnerabilities render the non-profit sector in South Africa susceptible to economic crimes, specifically money laundering and terrorist financing, and how should this be addressed?”

## **1.4 Research objectives**

### **1.4.1 Primary objective**

The primary objective of this study is to perform an analysis of the vulnerabilities of the non-profit sector in South Africa to economic crimes and to formulate recommendations to address these vulnerabilities. This analysis will primarily focus on two different forms of economic crime – money laundering and terrorist financing. This goal will be reached by referring to various case studies and other resources to add context to the issue.

### **1.4.2 Secondary objectives**

To answer the research question, this study will also make use of the following secondary objectives which will be addressed in the study by making use of an article format, consisting of two articles:

1. Provide an in-depth analysis of the South African non-profit sector and its vulnerabilities. This will be done to gain a better understanding of the way the non-profit sector functions and the risks related to it. This will be addressed in Chapter 3 (Article 1).
2. Perform an analysis of the 2021 South African FATF Mutual Evaluation Report in order to highlight the concerns raised in relation to the non-profit sector and the safeguarding

thereof against terrorism and terrorist financing. This will also be used to provide recommendations as to how South Africa can address the concerns raised in the 2021 Mutual Evaluation Report. This will be addressed in Chapter 4 (Article 2).

## **1.5 Chapter overview**

### **Chapter 1: Purpose, scope and progress of the study**

An introduction will be provided to the study, as well as background information in order to provide context for the study. A discussion will be provided on the seriousness of the problem of economic crime, the impact thereof on the non-profit sector, as well as the performance of risk assessments. A motivation of topic actuality, the research objectives and a detailed chapter overview will be provided.

### **Chapter 2: Research methodology**

This chapter will explain which research methodology will be used, as well as which research paradigms will be applicable. The reasoning behind the chosen research methodology will be provided, as well as the considerations used to make this decision.

### **Chapter 3: The South African non-profit sector and its vulnerabilities (Article 1)**

In this article, a discussion will be made as to the susceptibility of the South African non-profit sector to economic crimes and the factors that influence this. It will include a broad discussion as to how NPOs are set up and governed, in order to obtain a better understanding of the sector. An in-depth analysis will be provided into the laws and regulations pertaining to the non-profit sector. It will also be determined to what extent and in which ways non-profit organisations are susceptible. To determine this, a discussion will be provided into the vulnerabilities in the sector, which will add to the susceptibility of this sector to economic crimes.

### **Chapter 4: An analysis of the 2021 South African FATF Mutual Evaluation Report: terrorist financing and NPOs (Article 2)**

As an introduction to this article, an overview will be provided as to the use and effectiveness of risk assessments in the non-profit sector, as well as other sectors. A discussion will follow on the FATF MEs and the methodology employed in performing such an evaluation. The article will then aim at providing an analysis of the 2021 South African MER, that will highlight the concerns raised in relation to the non-profit sector and the safeguarding thereof against terrorism and terrorist financing. The sections relating to Recommendation 8 and Immediate Outcome 10 will be the focus, as these relate directly to NPOs. The results of the ME and

actions of other countries will be used as a guide for the recommendations that can be made for South Africa on how to address the issues highlighted in the 2021 evaluation.

### **Chapter 5: Conclusion and recommendations**

This chapter will provide an overall conclusion on the abovementioned chapters and establish the importance of more research into the non-profit sector. This will be done by referring to each of the abovementioned articles.

#### **1.6 Conclusion**

This chapter provides an introduction to and overview of what will be discussed further in the study, in order to provide context. It provided details concerning the current economic crime situation in the world, specifically in South Africa. Specific economic crimes, i.e. money laundering and terrorist financing, were described and it was identified that non-profit organisations are often used by criminals to perform these crimes. This chapter also identified the need for more research in terms of the risks pertaining to NPOs and the need for risk assessments. It included a motivation of the topic actuality, problem statement and motivation, as well as the research objectives and a detailed chapter overview.

# **CHAPTER 2: RESEARCH ASSUMPTIONS, APPROACH AND METHODOLOGY**

## **2.1 Introduction**

The word research is made up of two different words, “re” and “search”, meaning “to search again” (Pandey & Pandey, 2015). Thus, according to Pandey and Pandey (2015), the definition of the word research is “a systematic investigation or activity to gain new knowledge of the already existing facts”. Many other scholars and intellectuals have provided broader definitions for the word “research”, but the essence of it has been made clear in the definition provided. Kothari (2004) stated that a research methodology is a manner in which a research problem can be solved effectively. It is said to be the science of understanding how research is done and describes the approach that will be followed during the research (Scotland, 2012).

Noor (2008) states that the nature of the research problem and phenomena will determine the research methodology to be used. In order to understand the method of research that has to be followed, it is important to first understand the purpose of that research. The main purpose of research is to scientifically approach a question in order to find answers that have not been discovered yet (Pandey & Pandey, 2015).

## **2.2 Research paradigms and assumptions**

A research paradigm is comprised of ontology, epistemology, methodology, as well as research methods, according to Scotland (2012), and there is a wide variety of research paradigms that could be applied to this study. In order to understand which paradigm will apply to this particular study, it is important to understand the meaning of each component it is comprised of.

Ontology is the “study of being” and constitutes a system of belief showing what a specific individual sees as a fact, meaning it is subjective in nature (Dudovskiy, 2019; Scotland, 2012). When approaching the study, it is important to refer to worldviews and different research philosophies. According to Scotland (2012), epistemology refers to the nature and forms of knowledge, with its assumptions focusing on how knowledge is produced, obtained and conveyed. It defines the relationship between the knowledge and the person responsible for it. Thus, each research paradigm will have different ontological and epistemological assumptions that will determine the methodology, as well as research methods to be used in the study.

As stated above, methodology describes the approach that will be followed whilst conducting the research and answers the “how” questions in relation to performing the research required

(Scotland, 2012). The research methods refer to the processes and procedures used to gather the data that is needed. This data is either quantitative or qualitative, as discussed further on in the study (Scotland, 2012).

There are three main types of research paradigms – the scientific, interpretive and critical paradigms – each with its own separate ontology and epistemology.

- The scientific research paradigm includes a positivist ontology, meaning that there is a focus on realism (Scotland, 2012). This paradigm also includes a positivist epistemology that focuses on objectivity. It is very descriptive and factual, founded on data and facts. Positivists aim at identifying the causes for specific outcomes in order to understand the phenomena (Scotland, 2012). These methods are however not always a possibility in the social context and are often limited to the natural world. As this study is more in line with the social context, the scientific research paradigm will not be used.
- The interpretive research paradigm has a relativist ontological position, which means that each person has a different reality (thus, reality is subjective in nature) (Scotland, 2012; Shah & Al-Bargi, 2013). This paradigm consists of an epistemology of subjectivism, based on real-life phenomena, meaning that the world only exists dependent on the knowledge we have of it. According to Scotland (2012), even though different individuals view the same phenomena in different ways, a truth can be established by the consensus of individuals. This places a focus on the social context, where individuals actively participate and usually make use of a qualitative method of study.
- The critical research paradigm relies on an ontological position of historical realism, which states that a reality is constructed in a social manner by being under constant influence of various values (Scotland, 2012). This includes social, cultural, political, ethnic, gender and economic values. As with the interpretive research paradigm, an epistemology of subjectivism is also present here, with society's ideologies and real-life phenomena as the focus areas. According to Scotland (2012), this means that reality can be changed by the actions of individuals.

In summary, the scientific research paradigm aims to extrapolate, the interpretive research paradigm aims at understanding, and the critical research paradigm aims at liberating (Scotland, 2012).

This study will rest upon an interpretive research paradigm, with a relativist ontological position and an epistemology of subjectivism. For the purposes of this dissertation, the interpretivist research paradigm will be the most relevant, seeing as the study falls under the topic of social

sciences (Shah & Al-Bargi, 2013). According to Shah and Al-Bargi (2013), interpretive research aims to recognise how an individual sees and interprets a certain phenomenon and this is what this study will entail.

### **2.3 Research approach**

The research methods or approach can be split into two main types, namely qualitative research and quantitative research. With qualitative research, the information will be presented in a qualitative data form, whilst with quantitative research, the information is in the form of quantitative data (Pandey & Pandey, 2015). When conducting a quantitative research investigation, a hypothesis is formulated and then tested using a statistical analysis of data (Flick, 2015). Kothari (2004) states that when performing quantitative research, one must measure amounts and/or quantities to express a phenomenon. When assessing what it means to use a qualitative research approach, Flick (2015) says that data is interpreted, rather than statistically gathered, and the research is more theoretically based. In using a qualitative research approach, the study is a means of explaining the motives behind human behaviour or provides information on a phenomenon (Flick, 2015; Kothari, 2004).

This study will be making use of a qualitative (descriptive) research approach, exclusively based on literature (which is a form of qualitative research). This is due to the scientific nature of the field of research on which this study focuses – Forensic Accountancy. It is important to consider human behaviour and the interpretation thereof, as economic crimes occur as a result of human behaviour.

### **2.4 Literature review**

In essence, this study takes on the form of a literature review. Literature reviews are not only concerned with gathering literature, but also focus on providing more information on the area of study and structuring it in such a way that it can be presented effectively (Flick, 2015). Knopf (2006) states that a literature review is focused on evaluating many different resources written on a specific research topic. Thus, it does not entail only summarising the data on a specific topic, but also performing an in-depth analysis thereof (Knopf, 2006).

This study will be conducted in the form of various articles. Thus, the study will be divided into two main articles, each contributing to the overall objective of the study. Even though the articles will relate to one another and contribute to the overall objective, each article will have the ability to be read as a separate study and to be understood separately from the others.

In this study, various resources will be consulted, including (but not limited to) internet sources, newspaper articles, journal articles, case studies, dissertations, legislation, research articles, as well as government documents and publications.

As mentioned, this study will be divided into two separate articles. The second article will be an analysis of the 2021 South African Mutual Evaluation report distributed by the FATF.

As stated, reference will be made to one of the FATF MER reports in this study, i.e. the 2021 South African (SA) MER. The results of the report will be used to formulate recommendations as to how SA can address the concerns raised. This report will be important, as it will highlight various vulnerabilities in the non-profit sector.

An analysis will be performed by making reference to the methodology used by FATF assessors in conducting this ME, as well as the results of the rating and results pertinent to SAs evaluation report. A specific focus will be placed on those sections in the report that refer to NPOs, which are Recommendation 8 and Immediate Outcome 10.

In this study, it will be made clear that there is very little to no research on the occurrence and impact of economic crime on the non-profit sector. There are also very few legislation and regulatory bodies pertaining to NPOs, or they are not implemented effectively. This only adds to the urgency of the matter and the need for research in this regard. The study will make use of the available information to perform an in-depth analysis of the South African non-profit sector and the vulnerabilities present within it, including an analysis of the South African ME as a part of this. The study will also provide recommendations as to these vulnerabilities and what can be done to lessen the likelihood of abuse and the effects of it on the non-profit sector, focusing on those concerns raised by the FATF in the report.

## **2.5 Conclusion**

In this chapter, an introduction is provided as to what is meant by the word 'research', as well as the different research paradigms and assumptions that exist. It is determined that the study will rest on an interpretive research paradigm, with a relativist ontological position, as well as an epistemology of subjectivism. The two types of research approaches, quantitative and qualitative, were discussed and it was established that this study will make use of a qualitative research approach. The study will be a literature review, mainly divided into two separate articles. The lack of research regarding the non-profit sector, as well as the recent release of the FATF MER, have necessitated this study and the study will provide recommendations to address the concerns raised in relation to the South African non-profit sector.

## **CHAPTER 3: ARTICLE 1**

### **The South African non-profit sector and its vulnerabilities to economic crime**

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# The South African non-profit sector and its vulnerabilities to economic crime

## Abstract

**Purpose** – In a post-pandemic society, non-profit organisations have become vital. A safe environment for such organisations to function in is therefore important. Despite efforts to safeguard this sector, rampant abuse exists. This paper provides an in-depth analysis of the South African non-profit sector and its vulnerabilities to economic crime, specifically money laundering and terrorist financing.

**Design/methodology/approach** – Secondary sources such as legislation, case law, textbooks and peer-reviewed publications are employed in identifying the vulnerabilities in the South African non-profit sector. Common denominators are identified from these sources to provide a basis for the highlighted vulnerabilities.

**Findings** – The South African non-profit sector is most vulnerable, leaving the sector susceptible to economic crimes. This is highlighted in the 2021 Financial Action Task Force Mutual Evaluation Report. Governance structures in the sector cannot protect it effectively and concomitant regulations have become inadequate. It is necessary for the South African Government and Parliament to review existing laws and regulations to ensure enhanced governance over these NPOs.

**Originality/value** – This paper contributes to a research gap on existing vulnerabilities within the South African non-profit sector relating to money laundering and terrorist financing. The paper provides a comprehensive layout of the South African non-profit sector, highlighting areas at risk of exploitation and identifying key vulnerabilities within the sector.

**Key words** – Economic crime, Forensic accounting, Non-profit organisations, Non-profit sector, South Africa, Money laundering, Terrorist financing, Terrorism.

**Paper type** – Literature review.

## 1. Introduction

Non-profit organisations (NPOs) are experiencing unprecedented pressures in a post-pandemic society. History shows that in such circumstances, these entities are at increasing risk of becoming victims of crime, especially economic crime (Heath *et al.*, 2020). An NPO is “a legal entity which operates for serving society as a whole” (Surbhi, 2016). The Financial Action Task Force (FATF) defines it as “a legal person or arrangement or organisation that primarily engages in raising or disbursing funds for purposes such as charitable, religious, cultural, educational, social or fraternal purposes, or for the carrying out of other types of ‘good works’” (FIC, 2019). The abuse of NPOs for the commission of economic crimes and terror financing is becoming a regular occurrence and many terrorist and extremist groups are involved in this abuse (Dwivedy, 2011).

The aim hereof is to address the following questions: What are the vulnerabilities in the South African non-profit sector that open it up to abuse by money launderers and terrorists? To answer this question, it is necessary to understand the way NPOs are established and governed. This study therefore sets out the regulations, legislation, and supervisory bodies applicable to NPOs resulting in a portrayal of identified areas of risks and vulnerabilities. These vulnerabilities identified within the South African non-profit sector are then discussed, with insight into the known methods used by money launderers and terrorists to exploit this sector.

In 2022, South Africa conducted its first government-sponsored inter-departmental terrorist financing risk assessment, which ultimately determined that the South African authorities must be vigilant to the threats of terrorist financing (National Risk Assessment Working Group on TF, 2022). This risk assessment aims to provide government, the private sector, and the public sector with an understanding of and tools for mitigating the risks and vulnerabilities present in the country. This risk assessment furthermore identifies possible vulnerabilities (areas rendering the NPO sector susceptible) in the South African non-profit sector that should be monitored (National Risk Assessment Working Group on TF, 2022). The risk assessment states that terrorist financing is a significant, direct threat to national security and the integrity of the country’s financial system. Moreover, it creates a risk for NPOs to be abused, knowingly or unknowingly, for the financing of terrorism (National Risk Assessment Working Group on TF, 2022).

There is very little research publicly available on the topic; indeed, this study is the first of its kind to the authors’ knowledge. The study provides a comprehensive analysis of the vulnerabilities, as well as the methods used by criminals to abuse the non-profit sector. It is of the utmost importance that a sector which is meant to aid those who cannot help themselves must function well and be protected from abuse. Unfortunately, this is not always the case.

Many of the sources used are relatively outdated, a reflection of the lack of contemporary research. This integration of the key findings, opinions and recommendations of scholarly works

on the topic fills the current gap in the identified knowledge area and will assist future research in this knowledge area.

## **2. Methodology**

This study takes the form of a literature review based mainly on journal articles, case studies, academic dissertations, legislation and government documents. The focus is on laws and information from government institutions concerned with the regulation of the non-profit sector. The information gathered from the literature is used to establish the vulnerabilities common in the South African non-profit sector and to provide an in-depth discussion of how the sector functions.

## **3. Problem statement**

According to PwC (2022), organised crime remains problematic and is continually expanding as opportunities for organised criminal activity increases. The global economic downturn, caused by the COVID-19 pandemic, creates recruitment opportunities for organised criminal groups among those who have lost employment and are left desperate for financial income. Similarly, the non-profit sector is expanding due to an increase in social needs post the pandemic. Controls and other measures to prevent abuse, in which NPOs are proving to be especially vulnerable, need to form part of the corporate culture of the organisation (FIC, 2019). These are implemented in order to mitigate the risks and establish precautionary methods. The COVID-19 pandemic has led to a new range of crimes perpetrated against NPOs, in particular money laundering and terrorist financing (FATF, 2020).

Little research has been conducted in South Africa on economic crime in the non-profit sector and even less on related vulnerabilities, while some attention has been paid to the situation elsewhere (such as studies performed in Australia). A large focus has been placed on protecting various other sectors in the South African context, however no such focus is being placed on the NPO sector.

## **4. Limitations to the study**

This study is limited by the data that is available to the researcher, with relatively few sources of information – especially related to South Africa – and much of which is outdated and lacks reliable evidence to substantiate statements.

## **5. The South African non-profit sector**

### **5.1 Establishing an NPO**

NPOs differ greatly in terms of size, mission, and the way they conduct themselves (Anheier, 2000). There are, however, a few basic aspects that every NPO will exhibit, and in order to better understand the sector, it is important to discuss these aspects, specifically in the South African context.

Registering an organisation as an NPO in South Africa is not an obligation, as it is in many other countries (FIC, 2020; FIC, 2019). According to the FIC (2020), NPOs can register with various departments, including (but not limited to):

- Department of Social Development (DSD), as a NPO in terms of the Nonprofit Organisations Act 71 of 1997 (herein after “NPO Act”);
- South African Revenue Service (SARS), as a PBO in terms of the Income Tax Act 58 of 1962;
- Companies and Intellectual Property Commission (CIPC), as an NPC in terms of the Companies Act 71 of 2008; and
- Master of High Court (MoHC), as a trust in terms of the Trust Property Control Act 57 of 1988.

Thus, it is difficult to gather information on the exact number of registered NPOs and the regulation thereof is highly fragmented. Even though it is difficult, in 2020 the FIC compiled a list of the registered organisations from the above-mentioned departments. In the figure below, it is clear that the DSD has a large number of organisations registering and therefore those organisations will be subject to the Nonprofit Organisations Act 71 of 1997. The reason why these organisations fall within the remit of the NPO Act is because the DSD is mandated as the NPO Regulator in terms of the Nonprofit Organisations Act (FIC, 2019). Many more NPOs have registered with the DSD since the FIC recorded the number in 2020. The number of registrations has since grown to 260 677 as recorded on 6 July 2022 (DSD, 2022b).

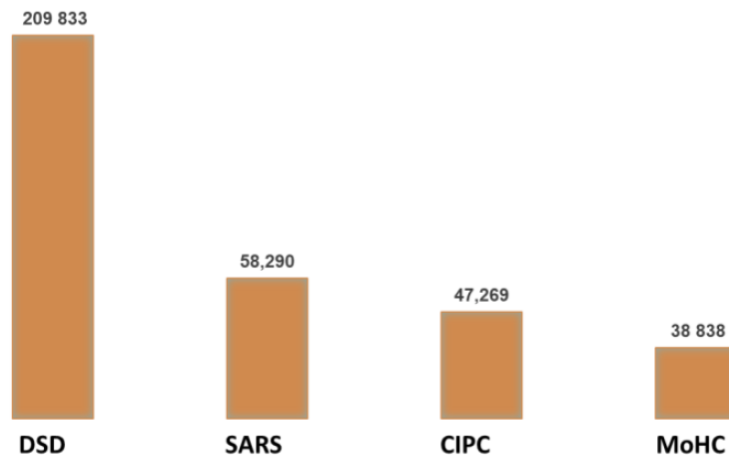


Figure 1: NPO registrations per department (FIC, 2020)

NPOs registering at the DSD are defined in terms of Chapter 1 of the NPO Act as:

“a trust, company or other association of persons—

(a) established for a public purpose; and

(b) the income and property of which are not distributable to its members or office-bearers except as reasonable compensation for services rendered”

This Act provides for specific registration requirements in section 12 and 13 of the NPO Act and prescribes the DSD with certain obligations. One of the obligations is that the DSD must keep a record of the NPOs currently registered, NPOs that have cancelled registration, as well as those which have been deregistered (voluntarily or by being dissolved).

## 5.2 Governance of NPOs

One of the objectives of the NPO Act is that it should encourage NPOs to ensure that they have appropriate and effective governance standards (Nonprofit Organisations Act, 1997). It should create an environment in which the public can acquire information on registered NPOs and where cooperation between the NPO and stakeholders are encouraged. The Act creates a framework in terms of regulations for NPOs to use in the performing of their activities. Any non-compliance with the provisions of the Act, as seen in section 29 (offences), could lead to a penalty as stated in section 30 of the Act (Nonprofit Organisations Act, 1997). Section 30 provides for the imposing of a fine, imprisonment, or both. Taking all the registration requirements and sections of the Act into account, only NPOs registered with a department (such as the DSD), will have some form of oversight or governance over their activities. It is, however, important to note that this means that NPOs not registered at all are at risk of not having any oversight or governance, which could lead

to the misuse of that specific organisation. Adding to this reality, Anheier (2000) makes the statement that much of the non-profit sector is fairly new in terms of the economic influence and impact it has worldwide. This leads to the management of NPOs being more complex in relation to other organisations of the same size in other sectors (Anheier, 2000).

The question “who is responsible for laws and regulations?” is often asked when NPOs are abused by criminals. According to Mitsilegas and Gilmore (2007), the responsibility of protecting the non-profit sector does not rest on only one individual or institution. It is the shared responsibility of the government, the NPO itself, as well as any individual or group that conducts business with the NPO. It is important that these connected parties continuously grow in the understanding they have of the non-profit sector and how it functions as a whole (Mitsilegas and Gilmore, 2007). Various institutions govern NPOs, but only if the non-profit has registered with the relevant institution. These institutions each have their own rules and regulations with which the NPOs registered with them must comply.

Bricknell *et al.* (2011) states that it is important for these institutions and other regulators to balance the response to economic crimes with the risk it imposes on the non-profit sector. This balancing is one of the most important mandates when implementing measures to mitigate the risks of abuse. If the regulation is too harsh, it might limit the non-profit sector’s ability to support their cause and fulfil its mandate. On the other hand, if the regulation is not adequate, it could lead to vulnerabilities in NPOs being exploited and abused for criminal activities. Thus, a good balance is essential to the survival of the non-profit sector (Grabosky, 2001).

### ***5.3 Authorities and supervisory bodies***

The FIC states that regulators should monitor the non-profit sector to ensure that any possible abuse of one such organisation is detected and managed (FIC, 2019). These regulators are also allowed to suggest and implement further regulations and controls that will assist the NPO, as well as the sector as a whole. FATF is said to be the leading authority in regard to governance over NPOs and regularly prescribes to countries what their regulations lack (FATF, 2019). Each country has their own group of authorities and supervisory bodies, but the following four are common in most countries worldwide:

- NPO supervisory body – in SA’s case, the DSD;
- Tax authority – in SA SARS (South African Revenue Service) serves as this authority and NPOs exempt from tax are required to submit their annual financial statements to SARS;
- Financial Intelligence Unit (FIU) – in South Africa, the FIC (Financial Intelligence Centre);

- Law Enforcement Agencies (LEAs), as well as Intelligence Agencies (IAs) – a wide range of these are visible in the SA context.

Other institutions include the United Nations, International Monetary Fund and many regional organisations, such as the European Union (Dwivedy, 2011). The different entities that an NPO can register at are also seen as supervisory bodies aimed at protecting NPOs from abuse. These include the Department of Social Development (DSD), the Companies and Intellectual Property Commission (CIPC), as well as the Master of the High Court (FIC, 2019; ICNL, 2004).

It is strongly advised that NPOs document as much as possible – information about their founders, members, contributors, control measures, policies etc. (FIC, 2019). These documents must then be made available to the relevant regulator or supervisory body for the purpose of conducting an assessment. This allows the regulators to provide feedback and guidance in respect of the information reviewed in the assessments. The FIC also states that it is very important for NPOs to review any information pertaining to a donation, to verify the nature and source of the funds, before accepting it. This information includes the following (FIC, 2019):

- a) Identification of the benefactor and the beneficiary;
- b) Nature and objectives of this benefactor and beneficiary;
- c) Beneficiary's ability to utilise the funds for the objectives stated;
- d) The financial capacity of the donor to make this donation, as well as where these funds originated;
- e) The manner in which the funds will be utilised by the beneficiary;
- f) Ensure that the objectives of the NPO, as well as that of the benefactor and beneficiaries, align with one another.

When the NPO questions whether or not the beneficiary is legitimate, the best practice would be not to provide them with any funding or services (FIC, 2019). Therefore, even though an onus is placed on supervisory bodies to protect the sector, it is the shared responsibility of the NPO itself and those charged with regulating the sector.

#### ***5.4 Regulations and legislation pertaining to NPOs***

Bricknell *et al.* (2011) states that the non-profit sector should not only be aware of vulnerabilities but should also provide for an adequate response to mitigating these risks. The response should be proportionate to the risk of abuse and not set an unnecessarily heavy burden on the NPO. This means that the risk will determine the response and regulators and those responsible for making policies need to be very specific in this process (Bricknell *et al.*, 2011; Van der Does de Willebois, 2010).

The laws and regulations that apply to NPOs include the following (Council of Foundations, 2020):

- Constitution of the Republic of South Africa Act 108 of 1996 (Constitution);
- Nonprofit Organisations Act 71 of 1997 (NPO Act);
- Income Tax Act 58 of 1962;
- Companies Act 71 of 2008;
- Trust Property Control Act 57 of 1988 (TPCA);
- Value Added Tax Act 89 of 1991 (VAT Act);
- Financial Intelligence Centre Act 38 of 2001 (herein after “FICA”), as amended;
- Protection of Constitutional Democracy Against Terrorist and Related Activities Act 33 of 2004 (herein after “POCDATARA”) – specifically section 4, which criminalises the act of terrorism and the financing thereof;
- Prevention of Organised Crime Act 121 of 1998 (herein after “POCA”) – specifically section 4, which criminalises the act of money laundering, as well as sections 5 and 6 which deals with offences related to money laundering; and
- Prevention and Combating of Corrupt Activities Act 12 of 2004 (herein after “PRECCA”).

Other than these South African laws and regulations, there are also International Conventions and Commitments that apply to the non-profit sector. Examples of these are as follows (FATF, s.a.):

- The FATF Recommendations, specifically Recommendation 8
- United Nations Convention Against Corruption

The different sets of domestic legislation and international conventions work together to provide the non-profit sector with protection against abuse and will only be discussed briefly in this paper. These above legislations (specifically POCDATARA and POCA) are supported by FICA legislation, as well as regulatory bodies such as the Financial Intelligence Centre (FIC) and the Financial Action Task Force (FATF).

Included in these laws, are various sections that address the reporting duties that could apply to the sector. NPOs are not designated accountable institutions in terms of FICA, meaning that there is no inherent duty to report mandated by this Act. There is, however, a reporting obligation on NPOs in terms of section 12 of POCDATARA. This means that any NPO that becomes aware (or has a suspicion) that their organisation is being abused by criminals, in order to finance terrorists, has an obligation to report this to the South African Police Services (FIC, 2019). Section 7 of POCA deals with the failure to report these suspicions of unlawful activities and adds to the weight of reporting that is set by section 12 of POCDATARA. Even though there is no reporting

obligation in terms of FICA, the Centre encourages NPOs to submit Voluntary Disclosure Reports (VDR) to them, to create an extra layer of protection for the sector.

Another section worth mentioning is section 25 of POCDATARA, which makes it mandatory for the relevant regulators to screen a list of the NPO's founders, members, beneficiaries, trustees, and representatives, against the Targeted Financial Sanctions (TFS) list. This section is supported by section 26B of the FIC Act 38 of 2001. Section 26B makes it clear that NPOs are not allowed to accept, provide, or make available any financial support for any individuals or entities identified by the UNSC (United Nations Security Council) resolutions as being on a Consolidated Targeted Financial Sanctions List (Financial Intelligence Centre Act, 2001).

To evaluate whether the laws and regulations briefly discussed are adequate, FATF performed a Mutual Evaluation of South Africa, with the final report released in October 2021 (FATF, 2021). This evaluation assesses the effectiveness and technical compliance of South Africa in the prevention and combating of money laundering and terrorist financing (FATF, s.a.). South Africa was rated non-compliant in the section referring to NPOs (FATF, 2021). For purposes of this paper, only Recommendation 8 in this FATF Report – which specifically deals with NPOs – will be discussed.

The Financial Action Task Force has adopted Special Recommendation 8, which was essentially introduced to provide more adequate regulations to prevent, detect and combat the abuse of NPOs as conduits for the financing of terrorists. The recommendation specifically applies to NPOs but only provides some general guidance to these organisations (FIC, 2020; Schott, 2003). This is done to allow for each of the individual organisations to adjust their measures as they deem appropriate, as well as to consider the different legal forms and nature of operations that accompany each organisation (Schott, 2003). This recommendation is to be dealt with alongside the other recommendations made by FATF (Bricknell *et al.*, 2011). Recommendation 8 states that countries need to regularly review the laws and regulations they have regarding non-profits, specifically to ensure that NPOs do not get abused (International Monetary Fund, 2003; Bricknell *et al.*, 2011):

- a) by organisations set up by terrorists that pose as legitimate organisations;
- b) by legitimate organisations that are used as channels to fund terrorists;
- c) to perform the financial crime of money laundering to hide the purpose for which these funds are set out.

This FATF recommendation is not as prescriptive as other recommendations, as it allows different countries and jurisdictions to perform a risk assessment (to analyse the non-profit sector's vulnerability towards money laundering and terrorist financing). These individual jurisdictions are then allowed to decide which changes need to be brought into their legislation, procedures and

policies already in place, to mitigate and combat these risks (Bricknell *et al.*, 2011). There is also no Interpretive Note on this recommendation, but FATF has issued international best practice notes and governs other supervisory bodies in order to ensure that the sector is sufficiently supported (Schott, 2003).

Notwithstanding FATF and the FIC, the DSD has also made attempts to better support the NPO sector, albeit unfruitful. In 2001, the DSD issued Codes of Good Practice for South African NPOs to better regulate the sector in terms of the Nonprofit Organisations Act (DSD, 2022a). Since then it has not been updated. In 2009, the DSD did, however, start the process of developing good governance practices within the South African NPO sector, but the results thereof have not been published (DSD, 2009). In recent years, there have been new ideas on the rise. The Minister of Social Development, through the Department of Social Development, proposed a Non Profit Organisation Amendment Bill of 2021 that was posted in the Government Gazette in May 2022 for public input. The outcome and comments are still pending, but many of the changes suggested could be a move in the right direction. The 2022 South African terrorist financing risk assessment also states that South Africa is in the process of reviewing its National Counter-Terrorism Strategy and Implementation Plan, along with a revision of the POCDATARA Act (National Risk Assessment Working Group on TF, 2022). This will also be accompanied by an effort to raise public awareness, so that NPOs, donors and all other stakeholders are aware of how to safely conduct business in the NPO sector, by being vigilant of the known vulnerabilities (National Risk Assessment Working Group on TF, 2022).

### ***5.5 Vulnerabilities in the sector***

In the prevention of economic crimes, specifically in the non-profit sector, it is important to first and foremost be aware of the vulnerabilities in the sector (Grabosky, 2001). Various vulnerabilities in this sector have been identified by organisations and writers seeking to make the public aware of these grey areas. The 2022 terrorist financing risk assessment, conducted by an Inter-Departmental group to assess the risk in South Africa, led to the identification of various vulnerabilities in the sector that make it susceptible to economic crime, specifically terrorist financing (National Risk Assessment Working Group on TF, 2022). Most of these vulnerabilities were already made known by the FIC in a list of characteristics that could lead to possible vulnerabilities (FIC, 2020):

#### **a) Built upon trust with the public**

The non-profit sector tends to attract less speculation as to the reasoning behind their activities (Bricknell *et al.*, 2011). This relationship between the NPO and the public, being

built upon trust, includes the assurance that donors who want to stay anonymous can do so. Bricknell *et al.* (2011) states that in these instances NPOs do not perform any inquiries to verify the legality of the source of the funds, which is a risk. The FIC (2019) states that donations are often made due to donors feeling a need to support and thus it is easy for criminals to manipulate this.

**b) Wide use of crowdfunding**

Bricknell *et al.* (2011) emphasises that NPOs typically raise small amounts of money from many people – creating complex transactions. Due to the global nature of many of these transactions, many different currencies are used and without the proper regulations and controls, the sector becomes vulnerable to abuse.

**c) Donations are regularly made in cash**

According to the National Risk Assessment Working Group on TF (2022), the fact that cash is mostly untraceable makes it an easy way to fund terrorists. Funding from foreign donors and the opacity that goes with these transactions are a matter of concern throughout the whole non-profit sector (Dwivedy, 2011). The donations received are often obtained using personal connections (Bricknell *et al.*, 2011). South Africa has a large community that works mostly in cash and makes use of remittance systems such as *hawala*. This makes it very difficult to trace the money being moved, with up to 70 percent of the cross-border transactions between South Africa and neighboring countries being informal (National Risk Assessment Working Group on TF, 2022).

**d) Present across the world and in conflict areas**

This leads to NPOs having to regularly make use of intermediaries to deliver their services and to obtain or move the funds, without the necessary controls being adhered to (Bricknell *et al.*, 2011). Added to this, South African borders are known for being long and penetrable, with many areas being too remote and difficult to access by border patrol (National Risk Assessment Working Group on TF, 2022).

**e) Regulation is not adequate**

According to Bricknell *et al.* (2011), the non-profit sector has always been known for having less regulatory controls and management in terms of their finances, how they function and how they are governed. This is usually due to the NPOs in the sector not having enough resources to fill the gaps and comply with all the necessary regulations (Bricknell *et al.*, 2011). There are also instances where regulation is limited, due to NPOs not being registered with a department (FIC, 2020; FIC, 2019). The Association of Certified Fraud Examiners

(ACFE) states that NPOs do not have the necessary controls and procedures to prevent and detect economic crime and that makes them more vulnerable to misuse (ACFE, 2020). Internal controls are non-existent or not adequately implemented. Management does not regularly review controls and controls are being surpassed. The inadequateness of regulation is further supported by NPOs not allocating enough resources towards internal controls and review (Bricknell *et al.*, 2011). This is due to the nature of the sector, where giving to the community is often more important to the organisation than having the appropriate preventative measures in place.

**f) NPOs can be established easily and at a low cost**

As NPO registration is voluntary in South Africa, establishing one is done very easily (FIC, 2020; FIC, 2019). This means that unregistered NPOs can operate daily, without any regulation whatsoever, opening them up to misuse by criminals (FIC, 2019).

Bricknell *et al.* (2011) states that of those mentioned, the biggest vulnerability NPOs face lies in the social responsibility it holds and the trust with the community on which it was built. This creates the perfect opportunity for criminals to embed themselves in this trusting relationship and misuse it. When assessing the vulnerability of NPOs it is important to consider the type and size of the NPO. An example of this is clear in the ACFE report when it was stated that small organisations are more susceptible to economic crimes than large organisations (ACFE; 2020).

**5.6 Examples of how the non-profit sector is misused by criminals**

The various vulnerabilities that accompany the non-profit sector can promote economic crime in NPOs. This is achieved through a variety of methods and Bricknell *et al.* (2011) lists the most common and serious of those methods as:

**a) The misuse of funding**

NPOs use the funding they receive for activities that fall outside the scope of their organisation's goals (Dwivedy, 2011). Funds are given to criminals to further their objectives, rather than for the cause for which the NPO was established (Bricknell *et al.*, 2011).

According to Bricknell *et al.* (2011), funds could even be kept by the recipients themselves (for example, by management).

**b) The misuse of assets**

Dwivedy (2011) states that NPOs could use their assets for something other than the use it was initially intended and awarded for. It has transpired that donated vehicles or property are

used by NPOs to move, or hold contraband or to further a criminal enterprise (Bricknell *et al.*, 2011).

**c) The misuse of name and status**

NPOs are trusted in the community and are seen as institutions that can be relied on to always act with integrity (Grabosky, 2011). This trustworthiness is easily abused by criminals to further their goals in raising funds for their causes, instead of the cause the NPO was established for (Bricknell *et al.*, 2011). Another way that criminals misuse the name and status of an NPO, is by establishing an organisation towards which the NPO can contribute their donations and funding – a front company for the criminal enterprise (Bricknell *et al.*, 2011).

**d) The misuse of the identity of NPOs**

Criminals establish fake NPOs (such as charities) to collect and use funds donated to them to further their own agenda (Bricknell *et al.*, 2011). These NPOs are normally registered and comply with regulations, even if that means that the documents submitted to the authorities were falsified.

**5.7 The support of money laundering and terrorist financing**

It often happens that NPOs, knowingly or unknowingly, support economic crimes – such as money laundering and terrorist financing. Most publicly available information provides very little in terms of evidence to support the role of these organisations in the furthering of these crimes (Bricknell *et al.*, 2011). Case studies on the subject are poorly documented or lack substantial evidence, but still clearly show that NPOs create opportunities for exploitation. The Guernsey Financial Services Commission (GFSC) made the statement that very few allegations of NPOs being abused by terrorists have been proven and thus, very few credible case studies exist (GFSC, 2008). According to Bricknell *et al.* (2011), this could suggest that the detection rate for these economic crimes is relatively low, indicating that there are larger issues at hand, such as non-reporting.

Exploitation of the non-profit sector usually takes place by establishing a fake non-profit, primarily to launder money and finance terrorists (Bricknell *et al.*, 2011). This means that the NPO will be registered and comply with all the regulatory requirements, making it very difficult to spot as a sham entity. Exploitation can also take place through using a legitimate NPO, already in existence, to move funds to an organisation involved with terrorists (Bricknell *et al.*, 2011). In this way, money is collected, moved, used – all three stages of terrorist financing – as well as

laundered through legitimate channels. Thus, there is no set method of abuse of NPOs, but rather various methods being used by criminals.

As previously stated, NPOs are often used to channel funds meant for the funding of terrorists and any related activities (International Monetary Fund, 2003). According to Bricknell *et al.* (2011), funds that were obtained illegally are washed through the NPO and come out as clean due to the legitimacy and credibility that goes with the nature of the organisation.

According to Hübschle (2007), donations made via charities and NPOs were once the largest source of funding for terrorists and extremist groups. This has been a concern for many countries, especially after 9/11, when institutions that make use of charities – in particular Muslim charities and religious institutions – were scrutinised and many were even forced to close. Charities were reportedly the main source of funds for Al-Qaeda to carry out the 9/11 attacks in America (Roth *et al.*, s.a.).

Figure 2 provides for various ways in which the funds received by volunteers of NPOs can be misused throughout the donation cycle (KYC360, 2016). Money can enter and exit the cycle at any time and this creates even more opportunities for the abuse of these NPOs.

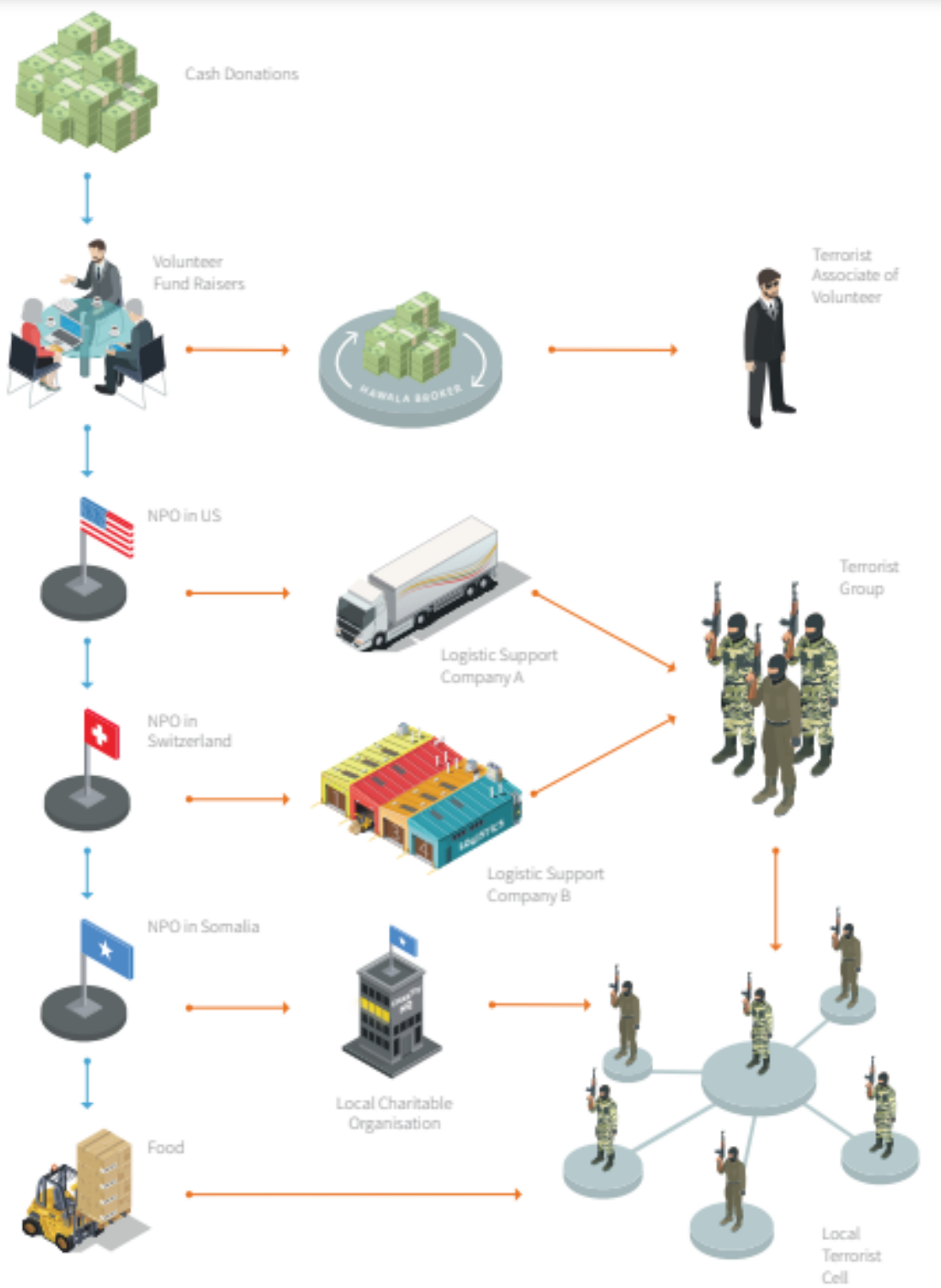


Figure 2: Abuse of Charities and NPOs (KYC360, 2016)

In the figure, funds donated can be diverted for a different use than what it was intended for, in every step of the donation cycle. The main cycle is shown on the left, with the donations being received by volunteers, then distributed to various NPOs across the world, who then provide food to the community. In all the various steps of the figure, the funds never make it to that end goal of

providing food to those in need. Instead, it is used to support terrorists by providing them with support in the form of cash, logistics, food and other resources they might require.

According to Van der Does de Willebois (2010), the work performed by NPOs often take place in conditions that promote the spread of terrorism, rather than preventing it. This is one of the many reasons (other reasons will not be discussed in detail in this paper), that FATF adopted the Special Recommendation 8 to deal with NPOs and to limit their abuse to further terrorist activities and the financing of terrorists.

The UK Government reports that although the links between terrorism and non-profit activities are small in relation to the whole of the non-profit sector, the risks associated with NPOs are too significant to be ignored (Bricknell *et al.*, 2011). In 2020, the FIC established that one of the general sources of funds for terrorists is through donations made to or from NPOs (FIC, 2020). This is because NPOs often work with cash, which creates a sense of anonymity – transactions are difficult to trace and do not leave an audit trail to follow (FIC, 2019). Due to the nature of an NPO, it hardly ever seems suspicious when large cash transactions are made, and this creates the ideal environment for terrorists to abuse.

An NPO is most likely to be abused by terrorists when it has any of the following characteristics (Bricknell *et al.*, 2011):

- NPO is closely related to religious or cultural institutions.
- It regularly moves funds to conflict areas.
- Funds are moved internationally.
- No formal systems are used for moving funds.
- The financial records are complex.

In the South African terrorist financing risk assessment conducted in 2022, the FIC states that South African-based NPOs are vulnerable to abuse by terrorist groups, even though the risk is not yet significant (National Risk Assessment Working Group on TF, 2022). In determining how susceptible South African NPOs are to money laundering and terrorist financing, the 2021 FATF Mutual Evaluation Report is of particular importance. The report makes it clear that South Africa is non-compliant in the manner in which the country protects the non-profit sector from abuse (in terms of Recommendation 8) (FATF, 2021). It identifies clear vulnerabilities and a lack of research on the sector that needs to be addressed. FATF (2021) states that there has been no proper assessment performed to identify the NPOs at risk of money laundering and terrorist financing abuse. It is also noted that no specific measures to address terrorist financing risks have been identified and that South Africa had failed to follow-up on the recommendations made in the previous mutual evaluation report from 2009 (FATF, 2021).

## **6. Conclusion**

The importance of the South African non-profit sector is highlighted throughout the study, as well as the risks inherent to it. The abuse thereof not only affects the sector, but society as a whole, by promoting an unethical culture, as well as money laundering and terrorist financing. Little to no effort has been made to rectify the dire state in which this sector has found itself since issues were identified by FATF in 2009. This has led to a ‘non-compliant’ rating being issued by FATF in 2021, with serious effects on not only our overall FATF Mutual Evaluation rating, but also the economy. The National Risk Assessment Working Group on TF’s risk assessment is the first step towards identifying vulnerabilities, in order to mitigate the risks and put preventative measures in place. It is necessary for existing regulations to be reviewed and better implemented, taking the vulnerabilities identified by the Working Group and FATF into account.

The vulnerabilities identified are inherent to the non-profit sector and cannot be separated from it. Thus, it is important to mitigate the risks associated with the sector, rather than attempting to rid the sector of it – as this would limit the reach of NPOs. The response should not place an undue burden on the sector and the authors are of the opinion that ‘soft controls’ will be more fitting. Soft controls are informal and intangible, focusing on creating trust, strong ethical cultures, and ensuring competence. As the NPO sector is reliant on the ‘human element’, the authors believe this will have the biggest impact. There is not one sole responsible party – NPOs, regulators, government, as well as those donating and receiving goods or services from NPOs, need to work in unison to drive a change in the sector.

Although there has been some progress with identifying vulnerabilities in the sector (such as the risk assessment performed by the Working Group), nothing has been done about addressing these vulnerabilities. Clearly there is still much research and ‘trial and error’ to be done before SA’s FATF rating will change. However, a change in the culture in which the sector’s organisations operate will have a positive impact in preventing further abuse thereof.

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## **CHAPTER 4: ARTICLE 2**

**An analysis of the 2021 South African FATF Mutual Evaluation Report: terrorist financing and NPOs**

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# **An analysis of the 2021 South African FATF Mutual Evaluation Report: terrorist financing and NPOs**

## **Abstract**

**Purpose** – In the aftermath of the 2021 Financial Action Task Force Mutual Evaluation Report, legislators, supervisory bodies, law enforcement and the like are focusing on preventing South Africa from being grey listed. This paper performs an analysis of the 2021 South African FATF Mutual Evaluation, specifically Recommendation 8 and Immediate Outcome 10. It addresses concerns raised and assists those tasked with implementing remediation measures.

**Design/methodology/approach** – Secondary sources such as legislation, case law, textbooks and peer-reviewed publications are employed in addressing the concerns. A major focus is placed on the evaluation itself, with an analysis of Recommendation 8 and Immediate Outcome 10.

**Findings** – Despite the non-compliance rating and a low level of effectiveness received regarding NPOs, authorities might not place a large focus on remediating this, as more pertinent issues arise in the report. The lack of focus in this area adds to the likelihood of grey listing by FATF. However, with co-operation from the relevant stakeholders, these low ratings can be improved.

**Originality/value** – Since the Mutual Evaluation’s release in October 2021 there have not been any papers addressing the highlighted issues in the non-profit sector in South Africa, to the authors’ knowledge. This paper will be the first of its kind and will be of use to authorities as regards mitigating the concerns raised by FATF.

**Key words** – Economic crime, Forensic accounting, Non-profit organisations, Non-profit sector, South Africa, Terrorist financing, Mutual evaluation, Recommendation 8, Immediate Outcome 10, FATF.

**Paper type** – Literature review

## 1. Introduction

The International Monetary Fund (IMF) (2003) states that the non-profit sector plays a vital role in the economy and social development of the world. They do this by improving the lives of others through donations of funds, supplies, or services. Non-profit organisations (NPOs) face many fraud-related risks, making it increasingly difficult to mitigate these risks (PWC, 2018). These organisations now need to question whether they are aware of how their entity is affected by fraud and if adequate measures are in place to combat it. A passive approach to preventing the abuse within the non-profit sector has rendered no real yield and the focus must shift to a more active approach (PWC, 2016). The 2018 PWC Global Economic Crime and Fraud Survey states that a fraud risk assessment is the first step in detecting possible vulnerabilities in organisations (individually) and within a country's regulatory system. A risk assessment can be viewed as a preventative mechanism to make use of irrespective of the context required.

The Financial Action Task Force (FATF) performs its own risk assessment to establish whether countries are complying with the regulations and recommendations it provides. These are called 'Mutual Evaluations' (MEs) and refer to the 40 Recommendations related to money laundering (ML) and the financing of terrorists (TF), as well as the 10 Immediate Outcomes (Schott, 2003). South Africa (SA) was scheduled to undergo a mutual evaluation in 2019, but due to the impact of COVID-19, the final Mutual Evaluation Report (MER) was only completed and made available for public perusal by the end of 2021 (FATF, s.a.). The results were poor, with half of the 40 Recommendations being rated as 'partially compliant' or 'non-compliant' (van Wyk, 2022). According to Brown (2022), the report made it clear that although South Africa's legislative framework is adequate enough to combat ML and TF, the problem lies in the effective implementation thereof.

The two tables included in the MER – one setting out the effectiveness ratings, and the other setting out the technical compliance ratings – make it clear that the results are poor. This study focuses specifically on Recommendation 8, rated 'non-compliant' (see Table 2 below), and Immediate Outcome (IO) 10, rated at a 'low level of effectiveness' (see Table 1 below), both of which relate to NPOs. In Table 1, 'Moderate' and 'Low' refer to different levels of effectiveness.

<b>Immediate Outcome:</b>	<b>Rating:</b>
1: risk, policy and co-ordination	Moderate
2: international co-operation	Moderate
3: supervision	Moderate
4: preventive measures	Moderate
5: legal persons and arrangements	Low

6: financial intelligence	Moderate
7: ML investigation and prosecution	Moderate
8: confiscation	Moderate
9: TF investigation and prosecution	Low
10: TF preventive measures and financial sanctions	Low
11: PF financial sanctions	Moderate

**Table I:** Effectiveness Ratings (Authors' representation)

In Table 2 below, 'PC' is 'Partially Compliant', 'LC' is 'Largely Compliant', 'NC' is 'Non-Compliant', and 'C' is 'Compliant'.

<b>Recommendation:</b>	<b>Compliance level:</b>
1: assessing risk and applying risk-based approach	PC
2: national co-operation and co-ordination	PC
3: ML offence	LC
4: confiscation and provisional measures	LC
5: terrorist financing offence	PC
6: targeted financial sanctions – terrorism and TF	NC
7: targeted financial sanctions – proliferation	PC
8: NPOs	NC
9: financial institution secrecy laws	LC
10: customer due diligence	PC
11: record keeping	LC
12: politically exposed persons	NC
13: correspondent banking	LC
14: money or value transfer services	PC
15: new technologies	NC
16: wire transfers	LC
17: reliance on third parties	NC
18: internal controls and foreign branches and subsidiaries	PC
19: higher-risk countries	LC
20: reporting of suspicious transactions	LC
21: tipping-off and confidentiality	C
22: DNFBPs – customer due diligence	PC
23: DNFBPs – other measures	PC
24: transparency and beneficial ownership of legal persons	PC

25: transparency and beneficial ownership of legal arrangements	PC
26: regulation and supervision of financial institutions	PC
27: powers of supervision	PC
28: regulation and supervision of DNFBPs	PC
29: financial intelligence units	LC
30: responsibilities of law enforcement and investigative authorities	C
31: powers of law enforcement and investigative authorities	C
32: cash couriers	PC
33: statistics	LC
34: guidance and feedback	LC
35: sanctions	LC
36: international instruments	LC
37: mutual legal assistance	LC
38: mutual legal assistance – freezing and confiscation	LC
39: extradition	LC
40: other forms of international co-operation	LC

**Table II:** Technical Compliance Ratings (Authors’ representation)

Law enforcement and legislators tend to focus on corruption, fraud and tax crimes, as these are most prevalent in SA (FATF, 2021). TF is not a focal priority, with authorities having a limited understanding of offences related thereto (FATF, 2021a). Table 1 and 2 also highlight this – with TF-related recommendations and immediate outcomes rated very low. As TF is prevalent in the non-profit sector, and with little understanding as to how, why and when this form of NPO abuse occurs, the sector is left vulnerable (FATF, 2021a). The larger issues brought to light by the MER, which authorities tend to focus on, lead to concerns raised about issues in the non-profit sector being left either unaddressed or addressed incorrectly (FATF, 2021a).

The results of the FATF MER suggest that working groups for NPOs and co-operative, local oversight are important factors to consider for the survival and protection of this sector (FATF, 2019a). Most countries that fall under the ambit of FATF, are not adequately conducting the risk assessments as provided for under Recommendation 8 (FATF, 2021b). South Africa is no exception to this rule and the results of the 2021 MER has led to a risk of grey listing. The gravity of this is highlighted by van Wyk (2022), who points out that the SA National Treasury itself says that “We are almost certainly headed to be greylisted by the Financial Action Task Force next Feb 2023 unless we perform a few miracles”. This will have a detrimental impact on the economy, specifically in respect to international trading and cross-border transactions (van Wyk, 2022).

Given the effects of a potential grey-listed status, the SA Government, regulators, supervisory bodies and law enforcement have many concerns to address, with not much time. Treasury proposes a revision to the FIC Act, as well as other remediating measures (van Wyk, 2022). Treasury's acting director-general highlights that the political will to address the weaknesses FATF have identified has increased a considerable amount, and that he is confident the country will avoid being placed on the grey list (Theunissen, 2022).

The authors add to this value chain by providing insight into the MER results pertaining to NPOs (Recommendation 8 and IO 10) and possible solutions to pertinent issues. To do this, reference is made as to how the FATF MEs are carried out and what the methodology entails. A short discussion of the requirements of Recommendation 8 and IO 10 follows, with an in-depth discussion into the results of the MER. The authors refer to steps taken by other countries in their MERs to address NPO concerns and provide possible methods that SA can use in mitigating these issues highlighted by FATF.

## **2. Methodology**

This study is a literature review based mainly on journal articles, case studies, academic dissertations, legislation and government documents. The most important document referred to and which forms the basis of this study, is the 2021 South African Mutual Evaluation Report from FATF. The information gathered from the literature is used to understand the evaluation and the effects of the results, and to aid those charged with implementing remediation measures.

## **3. Limitations to the study**

This study is mainly limited to Recommendation 8 and Immediate Outcome 10 of the FATF MER. Although reference is made to other secondary sources, the predominant focus is on these two areas. No in-depth discussion is made into the specific requirements of Recommendation 8 and Immediate Outcome 10, as the focus of the discussion is on the results and the proposal of remediation measures.

## **4. FATF Mutual Evaluation**

### **4.1 Methodology**

FATF appoints assessors in each country who rely on the methodology documents provided to them by FATF to perform the ME. In the South African ME, the group of assessors comprised 10 individuals from various international and regional bodies, namely FATF, the IMF, the Eastern and

Southern Africa Anti-Money Laundering Group (ESAAMLG), and a few specialists (Theunissen, 2022). These assessors started by gaining an understanding of the country's risks and context, allowing them to make country-specific recommendations (FATF, 2013-2021). Schott (2003) states that one of the main objectives of FATF is to promote and enhance the usage and application of AML and countering the financing of terrorism (CFT) in countries worldwide. This is, however, limited to the countries that are overseen by FATF and have a local financial intelligence unit (FIU) to assist in conducting this assessment (Schott, 2003). In SA, the local FIU is the Financial Intelligence Centre (FIC). Countries are assessed on its technical compliance, and its effectiveness in implementing the FATF Recommendations (FATF, 2013-2021). Thus, the methodology is split into two sections, which the report is based upon, namely: (1) technical compliance, and (2) effectiveness.

Technical compliance refers to the 40 Recommendations, of which Recommendation 8 refers specifically to NPOs. There are four ratings a country can be given, based on its level of technical compliance to the FATF Standards, namely: compliant, largely compliant, partially compliant, and non-compliant (FATF, 2013-2021). Effectiveness gets measured by referring to 11 IOs and then attributing one of the following four ratings to the country: high level of effectiveness, substantial level of effectiveness, moderate level of effectiveness, and low level of effectiveness. IO 10 references NPOs, stating that "Terrorists, terrorist organisations and terrorist financiers are prevented from raising, moving and using funds, and from abusing the NPO sector" (FATF, 2013-2021).

#### ***4.2 Requirements: Recommendation 8***

In the context of Recommendation 8, a non-profit refers to "a legal person or arrangement or organisation that primarily engages in raising or disbursing funds for purposes such as charitable, religious, cultural, educational, social or fraternal purposes, or for the carrying out of other types of 'good works'". For a country to fully comply with Recommendation 8, it should meet criteria set in the FATF Methodology document. This criteria is split under various main standards that the non-profit sector needs to adhere to, in order to be allocated a high rating of compliance, namely (FATF, 2013-2021):

- "Taking a risk-based approach (RBA) (criterion 8.1);
- Sustained outreach concerning TF issues (criterion 8.2);
- Targeted risk-based supervision or monitoring of NPOs (criterion 8.3 and 8.4);
- Effective information gathering and investigation (criterion 8.5); and
- Effective capacity to respond to international requests for information about an NPO of concern (criterion 8.6)".

The detailed requirements of Recommendation 8 will not be discussed in this study, as the focus is on the results and remediation methods.

### ***4.3 Requirements: Immediate Outcome 10***

In the context of the FATF MER (specifically IO 10), a terrorist is “any natural person who: (i) commits, or attempts to commit, terrorist acts by any means, directly or indirectly, unlawfully and wilfully; (ii) participates as an accomplice in terrorist acts; (iii) organises or directs others to commit terrorist acts; or (iv) contributes to the commission of terrorist acts by a group of persons acting with a common purpose where the contribution is made intentionally and with the aim of furthering the terrorist act or with the knowledge of the intention of the group to commit a terrorist act”. For the non-profit sector to comply with IO 10, there are four core issues that must be considered for the outcome to be deemed as being achieved, namely (FATF, 2013-2021):

- Country’s implementation of TFS in accordance with UNSCR1267 (United Nations Security Council Resolution) (and descendant resolutions) and UNSCR1373.
- Extent to which the country has applied appropriate measures, in line with a RBA, to NPOs identified as vulnerable to TF abuse, without negatively impacting legitimate NPO activities.
- Extent to which terrorists, terrorist organisations and TFs are stripped of their assets and aid provided to them.
- Extent to which the above measures are consistent with the country’s overall TF risk profile.

The detailed requirements of IO 10 will not be discussed in this paper, as the focus is on the results and remediation methods.

### ***4.4 Results: Recommendation 8***

Individual ratings of technical compliance are given in terms of each Recommendation and SA is rated ‘non-compliant’ for Recommendation 8 due to major shortcomings (FATF, 2021b; FATF, 2013-2021). In the previous MER conducted in 2009, SA was rated ‘partially compliant’ with this Recommendation (FATF, 2021a). Many of the concerns raised in that report are still not addressed. The two main factors that form the basis for the current low rating are described as the following (FATF, 2021a):

- a) There has been no assessment identifying NPOs at a high risk of TF abuse.
- b) Those charged with monitoring and investigating NPOs at risk of TF abuse do not have the necessary capacity to perform their duties.

Brown (2022) states that the MER emphasises that law enforcement in SA does not understand the complexities that accompany NPOs, trusts and companies, rendering them unable to effectively investigate crimes in this regard. The rating given by FATF is a result of the following key findings under each Criterion (FATF, 2021a):

- Criterion 8.1: SA adopted the Nonprofit Organisations Act 71 of 1997 (herein after “NPO Act”) to define and regulate the sector. Since the last MER, a Strategic Risk Assessment has been done (in March 2012) identifying issues regarding NPO registration, outreach, supervision, and international co-operation. There has, however, been no indication of progress made by way of a follow-up report or any other communication. The nature of the TF risks and the methods employed by terrorists to abuse NPOs have never been assessed, except for by the Strategic Risk Assessment, which only acknowledged some inherent TF risks, as have previously been recognised on an international level. SA has not determined specific types or groups of NPOs especially vulnerable to TF abuse (based on their activities and characteristics). After the Strategic Risk Assessment, SA reviewed its laws and regulations regarding NPOs, but still did not identify the groups of NPOs at a higher risk of exploitation and the measures that are required to address the identified risks. In 2019, a similar assessment took place, but the results were the same. SA has the ‘Annual Report on the State of NPOs’ (published annually), which contains information on the income and expenses of NPOs. There has, however, been no consideration of new information obtained through these reports on the sector’s vulnerabilities. The preliminary Terrorism Financing National Risk Assessment (TF NRA) that started in 2022 has yielded many results on the vulnerabilities, but not yet on how these will be mitigated. The vulnerabilities identified are also closely related to those identified by the FIC (FIC, 2020).
- Criterion 8.2: Although the policies in the NPO Act promote accountability, integrity and public confidence in the management of NPOs, this Act only applies to those registered in terms of the NPO Act and therefore the scope is limited. The Act states that NPOs who register must conduct their financial transactions by way of a bank account, but given that registration is voluntary, this only applies to some NPOs. In accordance with Chapter 2 of the NPO Act, the Department of Social Development (DSD) – who is the NPO Directorate – and the FIC have implemented joint outreaches to educate NPOs on the TF risks they face. There has, however, not been any outreach to educate the donors. The DSD also have workshops and outreach programmes focused on assisting the boards of NPOs in determining whether they have adequate controls and compliance measures in place to comply with the Act, and their own internal value system.
- Criterion 8.3: The NPO Directorate (DSD), can scrutinise any document it obtains from an NPO, or require any supplementary documents, to ensure that the NPO complies with the NPO Act. SA has not been able to furnish any proof that effective supervision and monitoring is implemented in the sector, failing to demonstrate that risk-based measures apply to NPOs at risk of abuse.

- Criterion 8.4: NPOs registered in terms of the NPO Act are required to submit financial statements to the NPO Directorate. However, it is not clear that compliance in this is monitored. Individuals who are convicted of an offence as described in the NPO Act will be liable to a fine, imprisonment, or both. The amount of the fine and length of imprisonment are, however, not mentioned in the Act and no other information regarding sanctions against NPOs or those acting on their behalf has been furnished.
- Criterion 8.5: The DSD, responsible for co-operating with other stakeholders and authorities, is a member of the Inter-Departmental Committee (IDC) on AML and CFT. The DSD recently began liaising with the FIC by providing them with information on directors of NPOs applying for registration to verify the director. At the end of 2018, SA established a Non-Profit Organisations Task Team (NPOTT) to identify organisations at risk of TF. The NPOTT is chaired by the DSD, and they are mandated to respond to Recommendation 8 and IO 10. Thus, there is some form of co-operation and information-sharing.
- Criterion 8.6: There has been no indication as to the policies and procedures that would be followed when an international request has been received, pertaining to information about an NPO possibly involved in TF.

#### ***4.5 Results: Immediate Outcome 10***

Of the four possible ratings of effectiveness, SA was given a ‘low level of effectiveness’ rating, resultant from the following key findings (FATF, 2021b; FATF, 2021a):

- Although the review process of the non-profit sector in SA has begun, no focus has been placed on TF abuse. The government officials charged with oversight of the sector do not understand TF and are not trained to deal with the risks of TF abuse in NPOs.
- The NPOTT was established to identify organisations at risk of TF – both registered and unregistered. They have, however, not started the process of monitoring or implementing measures against those at-risk organisations. This is partly due to the lack of proper oversight across the sector, as well as the broad focus the NPOTT review took. The review of the sector did not focus on TF, but rather on other risks such as ML, proliferation financing (PF), and good governance, therefore limiting the scope of results.
- Registration with the NPO Directorate is voluntary and there is no central database for registration. Those not registered with the DSD are often registered under another governmental body, such as the Master’s Office (trusts), the Companies and Intellectual Property Commission (CIPC) (non-profit companies), or the South African Revenue Services (SARS) (public benefit organisations). The fact that there is no single authority designated to protect the non-profit sector makes it difficult to effectively address TF risks.

- Forfeiture of assets owned by terrorists and measures taken to combat NPO abuse are not on par with SA's TF risk profile. This method of forfeiture is limited, as it does not allow for the forfeiture of any asset of the designated individual, but only for specific identified property in SA.
- The Targeted Financial Sanctions (TFS) measures implemented are not in line with SA's TF risk profile. Most of the cases of TF in SA have been transnational in nature and could be due to SA being used as a conduit to facilitate TF in surrounding African countries. Authorities in SA have identified links to the Islamic State of Iraq and the Levant (ISIL), various facilitation networks and terrorist cells, and have also dealt with foreign terrorist fighters (FTFs) – emphasising that the risk is more extensive than the mitigation measures.
- At the time of the evaluation, SA was still in the process of conducting a TF NRA to determine the country's TF risk exposure. This assessment determined that SA is at risk of international terrorism and has not had any domestic terrorism. The DSD was not in any way involved in the TF NRA.
- Authorities identified some extensive vulnerabilities in the sector through the TF NRA, but have not been able to determine whether these vulnerabilities are being exploited, or to what extent. Thus, they have only been able to determine that there is a potential for abuse and exploitation by terrorists. These vulnerabilities include those present in NPOs, along with other areas of concern. The NPOTT has also identified steps to be taken in addressing the identified risks but has not started the process of implementing these steps. The identified NPO TF vulnerabilities are:
  - a) NPOs in SA provide relief in areas of conflict, where exploitation by terrorists is a high risk.
  - b) Not all NPO funding channels are overseen, only those which circulate through an already regulated sector.
  - c) Beneficiaries of NPO funding are not always identified and there is no method to ensure that funds are not diverted to terrorists.
  - d) NPOs in SA have been active in making ransom payments to negotiate the release of hostages.
  - e) Cash transactions are prevalent in the sector, with many cross-border transactions, resulting in a less regulated environment.
  - f) Registration for NPOs is voluntary, making it possible for terrorist-led NPOs to thrive.
  - g) Regulations over NPOs are lacking and oversight is limited.
  - h) There is a lack of co-operation between government stakeholders, which makes identifying TF cases more difficult.

- i) The DSD does not have the ability to monitor or investigate NPO risks, as these risks are national security risks that are not meant to be dealt with by the DSD.
- j) Those charged with oversight of the sector are not trained in the risks associated with TF abuse and NPOs.
- k) The sector is not aware of the TF risks it faces.

These main concerns noted by the MER directly address the questions asked when reference is made to the requirements set for determining the effectiveness measured by IO 10.

## **5. Consequences of the results**

### ***5.1 Grey listing***

Countries that do not substantially comply and co-operate with the FATF Recommendations are placed on one of two lists (Sanctions.io, 2022). The first being the list of ‘Jurisdictions under increased monitoring’ (also known as the ‘grey list’) and the second being the list of ‘High-risk jurisdictions subject to a call for action’ (also known as the ‘black list’).

Countries strive to prevent themselves from being added to these lists, as it often leads to a loss of investments, international relations and transactions (Sanctions.io, 2022; van Wyk, 2022). The ‘listed’ countries are encouraged to make the necessary changes as soon as possible and ensure that the changes are relevant (Schott, 2003; FATF, 2022a). According to FATF (2022a), the countries on the grey list are only placed there (instead of the black list) if the country is committed to resolving the identified issues. This country is then placed under increased supervision and must resolve the issues within an agreed timeframe (FATF, 2022a). Countries on the black list have such a large extent of ML, TF and PF present that FATF encourages member countries to perform enhanced due diligence when transacting with these countries (FATF, 2022b). There are currently only two countries on this list (North Korea and Iran), whilst the grey list has 23 listings (FATF, 2022a; FATF, 2022b). If SA does not improve the ratings received in the MER by the end of the one-year observation period (ending October), SA could be grey listed by February 2023 (van Wyk, 2022).

Grey listing will result in a variety of negative consequences for SA. According to Brown (2022), SA will be deemed a ‘high-risk environment’ by the rest of the world, specifically concerning ML and TF. This will lead to stringent due diligence from investors and international banks, possibly resulting in an increase in the cost of transacting internationally (Brown, 2022). Many international banks and investment companies not only impose enhanced monitoring, but completely refrain from engaging with grey listed countries (Brown, 2022).

FATF states that there are four main unintended consequences that result from these evaluations, other than the risk of grey listing or black listing (FATF, 2021b). These are:

- De-risking
- Financial exclusion
- Undue targeting of NPOs
- Curtailment of Human Rights

Of these four, only two directly impact the non-profit sector, and will be briefly discussed below.

### ***5.2 De-risking***

This refers to the situation where financial institutions end or restrict the business relationship held with certain clients, to avoid the risks associated with said clients (FATF, 2021b). De-risking is a strategy used by companies when it is not possible for them to safely manage the ML and TF risks they face when conducting business with an NPO (FATF, 2020a). As a result of various types of risk assessments, companies and other third parties could de-risk NPOs; but the FIC cautions them against taking such drastic measures (FIC, 2019). The results of risk assessments often lead to entities needing to improve their compliance and methods to deal with the risk of abuse to their organisation (KPMG, 2020). The de-risking of an NPO can lead to inflated transaction costs or can even result in most transactions taking place outside of the formal and regulated financial services sector.

### ***5.3 Undue targeting of NPOs***

As the abuse of the NPO sector for ML and TF became evident, FATF revised Recommendation 8 in 2016 to ensure that the associated risks are not being disproportionately mitigated (FATF, 2021b). Regardless of this focus, there are still many countries that apply the FATF standards too rigorously and incorrectly, leading to various constraints on the sector. These constraints include (FATF, 2021b) NPO supervision being intrusive; limitations on access to accounts and funds; forced dissolution; and de-registration or suspension of NPOs.

## **6. What have other countries done to address low Recommendation 8 ratings?**

It typically takes countries between five to 10 years to get off of the grey list once they are put on it, but a shorter time frame is not impossible, as can be seen with the country of Mauritius (Theunissen, 2022). Mauritius was placed on the grey list in February 2020 and managed to get itself off of the list within a period of two years (Theunissen, 2022).

Zimbabwe (another ESAAMLG country) recently managed to improve their Recommendation 8 rating from ‘non-compliant’ to ‘partially compliant’, which is one step up on the rating scale. Zimbabwe had its MER finalised and released to the public in September 2016 (FATF, 2016). Although it did not improve the original IO 10 rating of ‘moderate level of compliance’, it did improve its Recommendation 8 rating, and can be used by SA as a case study on how to improve its

low rating. Zimbabwe also lacked outreach activities and had no risk assessment to identify NPOs at a higher risk of TF abuse (FATF, 2016). To mitigate and resolve these issues, Zimbabwe conducted such an assessment of NPOs and identified six NPOs at a higher risk for TF (FATF, 2019c). It did this by determining where the main source of funding comes from, which was said to be ‘high TF risk jurisdictions’. It also started the process of amending its version of an NPO Act (called the ‘Private and Voluntary Organizations Act’) (FATF, 2019c). Its outreach programmes were started in the form of two workshops to raise awareness among the non-profit sector, adding to the result of being re-rated and Recommendation 8 now being rated as ‘partially compliant’.

Morocco also managed to be re-rated from a rating of ‘non-compliant’ to ‘largely compliant’, which is the second highest rating of technical compliance, after just 18 months (FATF, 2019b). It received the ‘non-compliant’ rating due to a number of reasons, including the following (FATF, 2019b):

- Authorities did not educate donors or NPOs on the TF risk.
- Authorities did not collaborate with NPOs to develop best practices to combat TF abuse, and did not promote the use of regulated financial channels to NPOs.
- No identification of the groups or types of NPOs more likely to be abused for TF.

To address the concern raised regarding not identifying NPOs at risk for TF abuse, Moroccan authorities conducted a comprehensive study in September 2019 (FATF, 2020b). The study categorised NPOs into three different categories, namely: High, Medium, and Low risks. To do this, authorities considered the sources and final destination of funds, the size of the relevant sector (are they local, or national etc.), the physical geographical area in which the NPOs function, as well as other key factors (FATF, 2020b). Authorities conducted a review of the current NPO legislation and regulations to determine whether it is still appropriate. They made it mandatory for NPOs to provide certain documents and information when the NPO is established, and when there is a change in management (FATF, 2020b).

Authorities issued a guide to NPOs that aims to assist them in, for example, having more transparency and accountability in terms of the NPOs financial activities, how they identify donors, and publicising their activities. The guide assists directors of NPOs in warning them of the TF risk, methods employed by terrorists in abusing NPOs, and creating stronger internal controls (FATF, 2020b).

Moroccan authorities did not, however, ask for the assistance of the non-profit sector in developing this guide, nor did they employ many awareness programmes to make the guide known to the whole sector. Morocco has an NPO Supervisory Authority (The Ministry of Interior), who has the legal power to do onsite or offsite inspections at NPOs as it deems necessary (FATF, 2020b). This ensures continuous supervision of high-risk NPOs. This Authority also established a detailed database that contains data from NPOs, which is regularly updated. The database assists the FIU in proactively monitoring those NPOs deemed as high-risk (FATF, 2020b). Due to Morocco addressing most of the

concerns raised by FATF in 2019, it managed to redeem its ‘non-compliant’ rating and received a re-rating of ‘largely compliant’. Thus, South African authorities could refer to Zimbabwe and Morocco to determine what changes will promote a re-rating of Recommendation 8 and consequently IO 10 results, making it less likely for SA to be grey listed.

## **7. SAs attempt to avoid grey listing**

SA was given 18 months to respond to the FATF report and address the concerns highlighted, with the final deadline set as February 2023 (Theunissen, 2022). These 18 months are filled with many deadlines, one of them being the October 2022 deadline by which SA has to respond to three of the 40 recommendations, and the 11 IOs (Theunissen, 2022). Theunissen (2022) states that this October deadline is very important, as it will impact FATF’s decision on whether SA should be placed on their grey list. In order to comply by this deadline, the Minister of Finance has proposed a new Bill, called the ‘General Laws (Anti-Money Laundering and Combating Terrorism Financing) Amendment Bill’ (Minister of Finance, 2022). This new Bill proposes various changes and additions to the NPO Act, some of which the authors believe are advantageous, while others may be detrimental.

Regulations and assessments can only function effectively when there is regular monitoring (Bricknell *et al.*, 2011). This can only be achieved through regularly assessing an organisation’s individual risks, as well as those of the sector as a whole. Grabosky (2001) makes the statement that the NPO, as an individual entity, is an important factor to consider when putting protocols in place and ensuring that an adequate response to the risk of abuse is provided. Countries need to apply the RBA when mitigating risks in the non-profit sector and ensure that the funds, goods and services reach those they were intended for (FATF, 2021b).

FATF (2013-2021) states in its methodology that it is important for countries to consider that not all NPOs are ‘inherently high risk’, in fact, many have no risk, or the risk is very small. Thus, when assessing the sector (such as the TF NRA), SA has to consider this and identify a group or type of NPO that is at a higher risk for TF abuse than others. The TF NRA must be completed so that authorities can create a basis for understanding SAs TF risk (FATF, 2021a). The TF NRA already underway should consider the same factors that Morocco did in its assessment. SA should consider where an NPO primarily functions, whether it has international donors or beneficiaries, along with other factors, and then classify it into a category related to its risk profile. Categorising these NPOs will make it easier for the DSD and the FIC to determine which NPOs or groups of NPOs need to be placed under increased monitoring and which do not. This way, there is no undue burdening of the whole sector, and those NPOs at a higher risk of TF are kept accountable and are forced to be transparent.

After performing such an assessment, the relevant laws and regulations should be reviewed to determine whether they still apply and are considered effective. As stated above, SA authorities have decided to introduce new additions and amendments to the NPO Act, with two of the seven clauses in the Bill – Clauses 8 and 10 – making it mandatory for NPOs to register in order to operate in the country (Minister of Finance, 2022). This places an undue burden on the sector as a whole, with many organisations at little to no risk now being made subject to the same rules as the high risk NPOs. NPOs identified as having a higher risk of TF need to be identified and dealt with separately (FATF, 2021a). The Bill states that the intention of Clauses 8 and 10 is to promote oversight by the DSD over the whole non-profit sector. Different types of NPOs should be involved in the process of compiling new codes of best practice, as well as legislation, as those are the only stakeholders that know the real effect that these new regulations will have on the sector. This mandatory registration will place a large financial burden on NPOs to produce financial statements and other information that they normally do not have to produce to such a detailed extent.

There are, however, some positive outcomes envisaged, as can be seen in the summary of additions and amendments to the NPO Act, in Table 3 below:

<b>Clause:</b>	<b>Addition/amendment:</b>
9	Allows the NPO Directorate to liaise with other organs of state to function effectively and optimally.
11 and 12	Requires NPOs to submit documents relating to their management, governance, administration, control structure, office bearers and everyday operations, ensuring that transparency is promoted.
13	Includes more grounds for being disqualified as an office-bearer of an NPO, enabling directors to remove a person from the position of office-bearer if they fail to comply with the Act, or become a disqualified person.
14	Includes more offences in relation to failing to comply with other sections in the current NPO Act, highlighting that accountability is an important factor in NPO legislation.

**Table III:** Additions/amendments to the NPO Act (Authors’ representation)

Thus, many of the amendments and additions are a good indication of the commitment of authorities to avoid the grey list.

FATF (2021a) also states that mitigating the TF abuse risk in NPOs can be done by having a plan that sets out the responsibilities of various departments within government and what their expected outcome should be. The department or authority responsible for supervising the non-profit sector should be competent and understand TF, ML, and accompanying risks in the non-profit sector. Thus,

training should be provided to the DSD, the FIC, and any other relevant role players, to ensure that those responsible for the well-being of the non-profit sector are aware of the vulnerabilities and risk of TF, as well as methods to mitigate and address this. The results of the TF NRA should be shared with those in the private sector who are subject to CFT and AML obligations, including NPOs and donors (FATF, 2021a).

## **8. Conclusion**

The risk of TF abuse in NPOs can only be mitigated when adequate and proportionate measures are in place. Even though there is a global effort to protect NPOs, international standards are often not implemented as intended (nationally) and the RBA is not always performed adequately. SA authorities have begun the process of addressing the concerns raised in the 2021 FATF MER and have proposed amendments to the NPO Act. The authors have established that although many of these show promise and display a will to protect the sector, some amendments will have a dire impact on the sector. Authorities should consult NPOs when proposing new rules and legislation, allowing for input from those who will be affected by it. This will lead to informed changes to existing legislation and enhanced effectiveness thereof, rather than a rushed approach to mitigate the risk of grey listing. Although SA is at risk of grey listing, collaboration between different stakeholders in the sector can improve the low ratings received regarding Recommendation 8 and IO 10, which will, in turn, lower the odds of being grey listed.

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# CHAPTER 5: CONCLUSION AND RECOMMENDATIONS

## 5.1 Introduction

The non-profit sector generally does not have a steady source of income, resulting in fewer resources to protect themselves against abuse. South Africa has a large non-profit sector and many individuals are reliant on the services and goods offered by these NPOs. The sector has been vulnerable to abuse for many years and the 2021 SA FATF Mutual Evaluation Report has made this clear by the low ratings it attributed to the non-profit sector. The purpose of this dissertation was to identify the vulnerabilities in the SA non-profit sector to economic crime (specifically money laundering and terrorist financing), as well as the factors that led to the low ratings received in the FATF MER. The dissertation further aimed at providing mitigation methods and advice on what authorities can do to enhance the protection of the sector and obtain a re-rating from the FATF.

This study's problem statement (as stated in section 1.3) was addressed by the primary and secondary objectives (as stated in section 1.4). The research paradigm employed in this study, is an interpretive research paradigm, with a relativist ontological position – by means of a qualitative method of research. Various resources were consulted, including (but not limited to) internet sources, journal articles, legislation, research articles, and other government publications.

To address the problem statement and make the relevant recommendations, this study needed to answer the following research questions:

- What is the state of the current South African non-profit sector, what are the vulnerabilities present therein, and how can it be mitigated?
- Why did South Africa receive such low ratings of effectiveness and technical compliance in the 2021 FATF MER, and how can the concerns raised be addressed?

These questions were answered through the secondary objectives, and a conclusion on this will follow as per the secondary objectives. These two secondary objectives were met in the form of two articles, each addressing a specific secondary objective. Article 1 (Chapter 3) addresses the first secondary objective, whilst Article 2 (Chapter 4) addresses the second.

## 5.2 Conclusion on article-specific research objective

### **5.2.1 The South African non-profit sector and its vulnerabilities to economic crime**

Chapter 3 (Article 1) aimed to provide an in-depth analysis of the South African non-profit sector and the vulnerabilities identified therein. This was to be done by providing a discussion of how the NPO sector is set up and governed, to gain an understanding of the way it functions, as well as the risks related to the sector. The susceptibility of NPOs to money laundering and terrorist financing was to be determined by discussing the vulnerabilities identifiable in the sector.

Through reviewing the relevant literature, such as reports, journal articles, websites and practice notes, a discussion was provided to sketch an overview of the South African non-profit sector and to identify the vulnerabilities present in it. Common denominators (from the relevant literature) were identified to accurately identify the vulnerabilities in NPOs.

It was determined that the SA non-profit sector is very diverse, with organisations being offered the option of registration with four different departments. These include the DSD, SARS, CIPC and MoHC. Although registration is voluntary, making the exact number of NPOs difficult to determine, the DSD shows there is growth in the sector. The study revealed that governance over the non-profit sector is lacking, as only those registered with one or more of the departments mentioned will have some form of oversight. Other than the four departments, the FIC is also partly responsible for suggesting and implementing regulations and controls over the sector, along with Law Enforcement Agencies and Intelligence Agencies.

There are many laws and regulations that pertain to NPOs, as well as certain International Conventions and Commitments (such as the FATF Recommendations and the United Nations Convention Against Corruption). These work in unison to provide South African NPOs with protection against abuse, if implemented effectively and appropriately. Attempts to better support the sector have been unfruitful, with the DSD's Codes of Good Practice for South African NPOs never being updated since publication in 2001.

South African authorities have only recently started the process of identifying the vulnerabilities in the non-profit sector, although the FIC released a list in 2019. Nevertheless, the six main vulnerabilities have been identified and the study also mentions the methods generally used by criminals to abuse the sector. It was determined that, of the economic crimes present in the sector, money laundering and terrorist financing are some of the most prevalent. The study shows that NPOs provide many opportunities for exploitation, in a variety of ways. The vulnerabilities identified in the study are inherent to the sector and cannot be

separated from it. In theory, South Africa has a solid legal framework and adequate number of supervisory bodies responsible for protecting the non-profit sector from abuse, but practically the effectiveness of these is lacking.

### **5.2.2 An analysis of the 2021 South African FATF Mutual Evaluation Report: terrorist financing and NPOs**

Chapter 4 (Article 2) aimed at performing an analysis of the 2021 South African FATF Mutual Evaluation Report to highlight the concerns raised that specifically relate to the non-profit sector. These specifically refer to the safeguarding of the sector against terrorism and terrorist financing. The analysis was also performed to enable the provision of recommendations as to how SA can address the concerns raised in the report.

In performing this analysis, a variety of relevant literature was consulted, such as reports, journal articles, websites, and newspaper articles. The information gathered was also used to emphasise the urgency within which change is needed in the non-profit sector, to aid in lowering the risk of South Africa being grey-listed by the FATF.

A short introduction to the importance of risk assessments was provided, following a discussion on the risk assessment conducted by the FATF – called a mutual evaluation. A discussion was provided explaining the methodology employed by FATF assessors when conducting a mutual evaluation of a country. It was determined that only two sections relate to NPOs – Recommendation 8 and Immediate Outcome 10. A specific focus was placed on these sections of the MER by referring to the requirements set in the methodology document, as well as the results of the evaluation conducted of South Africa.

The consequences of the FATF MER results were discussed and grey listing was determined to be an immediate threat. The other two pertinent threats were: the de-risking of NPOs, and the undue targeting of NPOs. Being placed on the grey list will have a variety of negative consequences for the country, especially economically. South Africa will be deemed a high-risk country and cross-border transacting will become difficult and expensive. Thus, there is a need to address the concerns raised, which includes those raised in terms of Recommendation 8 and Immediate Outcome 10. It was determined that law enforcement tends to focus on other forms of crime, and not the crime of money laundering or that of terrorist financing in NPOs. Thus, insight and recommendations were provided by referring to actions taken by other FATF member countries to address concerns related to their non-profit sectors. The study highlighted the progress already made by authorities in addressing the concerns and mitigating the risk of being placed on the grey list.

It was determined that the additions and amendments to the NPO Act will yield positive results, as well as have some dire consequences for the sector. Although most of the proposed additions and amendments in the new Bill are a step in the right direction, there are some (specifically Clauses 8 and 10) that will restrict the sector from operating at its full potential. Compulsory registration will hinder the ability of NPOs to appoint all of the funds they procure for the good of society, and will instead impose an undue burden on them to, for example, provide financial statements to the DSD. Thus, there is a need for authorities to embrace a different set of measures to combat economic crime in the non-profit sector and allow for a more inclusive rule-making process where NPOs and relevant stakeholders can raise their concerns.

### **5.3 Conclusion on the problem statement and main objective**

This dissertation's problem statement and main objective aimed to determine what vulnerabilities were present in the South African non-profit sector to economic crimes, specifically money laundering and terrorist financing. It also aimed at determining how these should be addressed. It was determined that there are many vulnerabilities present in the non-profit sector, with the study identifying six (Chapter 3 – Article 1) and further highlighting those mentioned in the FATF MER (Chapter 4 – Article 2). The study provided some guidance as to possible methods to mitigate and address the concerns related to the protection of the non-profit sector in South Africa. This dissertation emphasises the need for research in the sphere of NPOs, to understand which mitigation methods will work, as authorities and those charged with protecting the non-profit sector lack an understanding of the functioning of the sector.

### **5.4 Limitations of this study**

This dissertation had the following limitations:

- Research in the area of NPOs is very limited, which has led to the use of older sources in reaching the objectives set. The lack of research has also forced the author to repeatedly use the same sources, and sources often lack reliable evidence to substantiate statements. Any outdated data referred to as a limitation in this study was countered by taking any relevant international mirror data sources from credible sources into consideration and exercising quality control when utilising existing and or available literature sources.
- This dissertation is a qualitative study, and it is solely based on secondary resources, but in all instances, the most relevant and accurate secondary sources were consulted.

- Chapter 4 (Article 2) was limited by means of only referring to Recommendation 8 and Immediate Outcome 10 in the FATF MER, no reference was made to other recommendations or immediate outcomes discussed in the report.

## **5.5 Recommendations for future research**

In conclusion, the research conducted proposes that authorities and researchers consider a new range of mitigation methods. The vulnerabilities identified and the concerns raised by the FATF can only be mitigated by considering a new approach to the problem. There is a need for a more flexible model, in which NPOs and other relevant stakeholders play a crucial role in providing authorities with feedback and suggestions as to how the non-profit sector should be regulated.

It is recommended that further developing and implementation of remediation methods employ an inclusive approach, and consider the use of soft controls, instead of the default implementation of more legislation. The fragility and purpose of the NPO sector should be at the forefront of each decision made by authorities in addressing the concerns raised by the FATF, especially when responding to the FATF on the changes made to motivate a re-rating.

The non-profit sector has a valuable and important role to play in society and the responsibility to protect it from abuse, is a shared responsibility.

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# ANNEXURE A: DECLARATION OF LANGUAGE EDITING

18 November 2022

## Statement by language editor

Accept herewith my declaration that I language edited a dissertation (BCom in Forensic Accountancy) authored by Bernice Bissett with the title:

“Vulnerabilities in the South African non-profit sector to economic crimes: Money laundering and terrorist financing”

Jennifer Lake



Accredited Professional Text Editor, SATI (APEd)  
Membership no: 1002099  
M. St. Linguistics (OXON)

# ANNEXURE B: AUTHOR GUIDELINES – Journal of Money Laundering Control

Author guidelines



## Before you start

For queries relating to the status of your paper pre-decision, please contact the Editor or Journal Editorial Office. For queries post-acceptance, please contact the Supplier Project Manager. These details can be found in the Editorial Team section.

## Author responsibilities

Our goal is to provide you with a professional and courteous experience at each stage of the review and publication process. There are also some responsibilities that sit with you as the author. Our expectation is that you will:

- Respond swiftly to any queries during the publication process.
- Be accountable for all aspects of your work. This includes investigating and resolving any questions about accuracy or **research integrity**
- Treat communications between you and the journal editor as confidential until an editorial decision has been made.
- Read about our **research ethics** for authorship. These state that you must:
  - **Include** anyone who has made a substantial and meaningful contribution to the submission (anyone else involved in the paper should be listed in the acknowledgements).
  - **Exclude** anyone who hasn't contributed to the paper, or who has chosen not to be associated with the research.
- If your article involves human participants, you must ensure you have considered whether or not you require ethical approval for your research, and include this information as part of your submission. Find out more about **informed consent**.

## Research and publishing ethics

Our editors and employees work hard to ensure the content we publish is ethically sound. To help us achieve that goal, we closely follow the advice laid out in the guidelines and flowcharts on the **COPE (Committee on Publication Ethics) website**.

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We are a signatory of the [Transparency and Openness Promotion \(TOP\) Guidelines](#), a framework that supports the reproducibility of research through the adoption of transparent research practices. That means we encourage you to:

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- Follow appropriate international and national procedures with respect to data protection, rights to privacy and other ethical considerations, whenever you cite data. For further guidance please refer to our [research and publishing ethics guidelines](#). For an example on how to cite datasets, please refer to the references section below.

# Prepare your submission

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Before you submit your manuscript, it's important you read and follow the guidelines below. You will also find some useful tips in our [structure your journal submission](#) how-to guide.

<b>Format</b>	<p>Article files should be provided in Microsoft Word format</p> <p>While you are welcome to submit a PDF of the document alongside the Word file, PDFs alone are not acceptable. LaTeX files can also be used but only if an accompanying PDF document is provided. Acceptable figure file types are listed further below.</p>
<b>Article length / word count</b>	<p>Articles should be between 3000 and 7000 words in length. This includes all text, for example, the structured abstract, references, all text in tables, and figures and appendices.</p> <p>Please allow 280 words for each figure or table.</p>
<b>Article title</b>	<p>A concisely worded title should be provided.</p>
<b>Author details</b>	<p>The names of all contributing authors should be added to the ScholarOne submission; please list them in the order in which you'd like them to be published. Each contributing author will need their own ScholarOne author account, from which we will extract the following details:</p> <ul style="list-style-type: none"><li>• <b>Author email address</b> (institutional preferred).</li><li>• <b>Author name.</b> We will reproduce it exactly, so any middle names and/or initials they want featured must be included.</li><li>• <b>Author affiliation.</b> This should be where they were based when the research for the paper was conducted.</li></ul> <p>In multi-authored papers, it's important that ALL authors that have made a significant contribution to the paper are listed. Those who have provided support but have not contributed to the research should be featured in an acknowledgements section. You should never include people who have not contributed to the paper or who don't want to be associated with the research. Read about our <a href="#">research ethics</a> for authorship.</p>
<b>Biographies and acknowledgements</b>	<p>If you want to include these items, save them in a separate Microsoft Word document and upload the file with your submission. Where they are included, a brief professional biography of not more than 100 words should be supplied for each named author.</p>

<p><b>Research funding</b></p>	<p>Your article must reference all sources of external research funding in the acknowledgements section. You should describe the role of the funder or financial sponsor in the entire research process, from study design to submission.</p>
<p><b>Structured abstract</b></p>	<p>All submissions must include a structured abstract, following the format outlined below.</p> <p>These four sub-headings and their accompanying explanations must always be included:</p> <ul style="list-style-type: none"> <li>• Purpose</li> <li>• Design/methodology/approach</li> <li>• Findings</li> <li>• Originality</li> </ul> <p>The following three sub-headings are optional and can be included, if applicable:</p> <ul style="list-style-type: none"> <li>• Research limitations/implications</li> <li>• Practical implications</li> <li>• Social implications</li> </ul> <p>You can find some useful tips in our <a href="#">write an article abstract</a> how-to guide.</p> <p>The maximum length of your abstract should be 250 words in total, including keywords and article classification (see the sections below).</p>
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<p><b>Article classification</b></p>	<p>During the submission process, you will be asked to select a type for your paper; the options are listed below. If you don't see an exact match, please choose the best fit:</p> <ul style="list-style-type: none"> <li>• Scholarly Article</li> </ul> <p>You will also be asked to select a category for your paper. The options for this are listed below. If you don't see an exact match, please choose the best fit:</p> <p><b>Research paper.</b> Reports on any type of research undertaken by the author(s), including:</p>
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	<p><b>Literature review.</b> This category should only be used if the main purpose of the paper is to annotate and/or critique the literature in a particular field. It could be a selective bibliography providing advice on information sources, or the paper may aim to cover the main contributors to the development of a topic and explore their different views.</p> <p><b>General review.</b> Provides an overview or historical examination of some concept, technique or phenomenon. Papers are likely to be more descriptive or instructional ('how to' papers) than discursive.</p>
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	<p><b>If you choose to use an institutional or personal repository</b>, you should ensure that the supplementary material is hosted on the repository ahead of submission, and then include a link only to the repository within the article. It is the responsibility of the submitting author to ensure that the material is free to access and that it remains permanently available.</p> <p>Please note that extensive supplementary material may be subject to peer review; this is at the discretion of the journal Editor and dependent on the content of the material (for example, whether including it would support the reviewer making a decision on the article during the peer review process).</p>
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	<p>e.g. Calabrese, F.A. (2005), 'The early pathways: theory to practice – a continuum', Stankosky, M. (Ed.), <i>Creating the Discipline of Knowledge Management</i>, Elsevier, New York, NY, pp.15-20.</p>
<i>For journals</i>	<p>Surname, initials (year), 'title of article', <i>journal name</i>, volume issue, page numbers.</p> <p>e.g. Capizzi, M.T. and Ferguson, R. (2005), 'Loyalty trends for the twenty-first century', <i>Journal of Consumer Marketing</i>, Vol. 22 No. 2, pp.72-80.</p>
<i>For published conference proceedings</i>	<p>Surname, initials (year of publication), 'title of paper', in editor's surname, initials (Ed.), <i>title of published proceeding which may include place and date(s) held</i>, publisher, place of publication, page numbers.</p> <p>e.g. Wilde, S. and Cox, C. (2008), 'Principal factors contributing to the competitiveness of tourism destinations at varying stages of development', in Richardson, S., Fredline, L., Patiar A., &amp; Ternel, M. (Ed.s), <i>CAUTHE 2008: Where the 'bloody hell' are we?</i>, Griffith University, Gold Coast, Qld, pp.115-118.</p>
<i>For unpublished conference proceedings</i>	<p>Surname, initials (year), 'title of paper', paper presented at [name of conference], [date of conference], [place of conference], available at: URL if freely available on the internet (accessed date).</p> <p>e.g. Aumueller, D. (2005), 'Semantic authoring and retrieval within a wiki', paper presented at the European Semantic Web Conference (ESWC), 29 May-1 June, Heraklion, Crete, available at: <a href="http://dbs.uni-leipzig.de/file/aumueller05wiksar.pdf">http://dbs.uni-leipzig.de/file/aumueller05wiksar.pdf</a> (accessed 20 February 2007).</p>
<i>For working papers</i>	<p>Surname, initials (year), 'title of article', working paper [number if available], institution or organization, place of organization, date.</p> <p>e.g. Moizer, P. (2003), 'How published academic research can inform policy decisions: the case of mandatory rotation of audit appointments', working paper, Leeds University Business School, University of Leeds, Leeds, 28 March.</p>
<i>For encyclopaedia entries (with no author or editor)</i>	<p><i>Title of encyclopaedia</i> (year), 'title of entry', volume, edition, title of encyclopaedia, publisher, place of publication, page numbers.</p> <p>e.g. <i>Encyclopaedia Britannica</i> (1926), 'Psychology of culture contact', Vol. 1, 13th ed., Encyclopaedia Britannica, London and New York, NY, pp.765-771.</p> <p>(for authored entries, please refer to book chapter guidelines above)</p>
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<i>For newspaper articles (non-authored)</i>	<p><i>Newspaper</i> (year), 'article title', date, page numbers.</p> <p>e.g. <i>Daily News</i> (2008), 'Small change', 2 February, p.7.</p>
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<p><i>For data</i></p>	<p>Surname, initials (year), <i>title of dataset</i>, name of data repository, available at: persistent URL, (accessed date month year).</p> <p>e.g. Campbell, A. and Kahn, R.L. (2015), <i>American National Election Study, 1948</i>, ICPSR07218-v4, Inter-university Consortium for Political and Social Research (distributor), Ann Arbor, MI, available at: <a href="https://doi.org/10.3886/ICPSR07218.v4">https://doi.org/10.3886/ICPSR07218.v4</a> (accessed 20 June 2018)</p>

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	<p>e.g. Calabrese, F.A. (2005), 'The early pathways: theory to practice – a continuum', Stankosky, M. (Ed.), <i>Creating the Discipline of Knowledge Management</i>, Elsevier, New York, NY, pp.15-20.</p>
<i>For journals</i>	<p>Surname, initials (year), 'title of article', <i>journal name</i>, volume issue, page numbers.</p> <p>e.g. Capizzi, M.T. and Ferguson, R. (2005), 'Loyalty trends for the twenty-first century', <i>Journal of Consumer Marketing</i>, Vol. 22 No. 2, pp.72-80.</p>
<i>For published conference proceedings</i>	<p>Surname, initials (year of publication), 'title of paper', in editor's surname, initials (Ed.), <i>title of published proceeding which may include place and date(s) held</i>, publisher, place of publication, page numbers.</p> <p>e.g. Wilde, S. and Cox, C. (2008), 'Principal factors contributing to the competitiveness of tourism destinations at varying stages of development', in Richardson, S., Fredline, L., Patiar A., &amp; Ternel, M. (Ed.s), <i>CAUTHE 2008: Where the 'bloody hell' are we?</i>, Griffith University, Gold Coast, Qld, pp.115-118.</p>
<i>For unpublished conference proceedings</i>	<p>Surname, initials (year), 'title of paper', paper presented at [name of conference], [date of conference], [place of conference], available at: URL if freely available on the internet (accessed date).</p> <p>e.g. Aumueller, D. (2005), 'Semantic authoring and retrieval within a wiki', paper presented at the European Semantic Web Conference (ESWC), 29 May-1 June, Heraklion, Crete, available at: <a href="http://dbs.uni-leipzig.de/file/aumueller05wiksar.pdf">http://dbs.uni-leipzig.de/file/aumueller05wiksar.pdf</a> (accessed 20 February 2007).</p>
<i>For working papers</i>	<p>Surname, initials (year), 'title of article', working paper [number if available], institution or organization, place of organization, date.</p> <p>e.g. Moizer, P. (2003), 'How published academic research can inform policy decisions: the case of mandatory rotation of audit appointments', working paper, Leeds University Business School, University of Leeds, Leeds, 28 March.</p>
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<i>For newspaper articles (non-authored)</i>	<p><i>Newspaper</i> (year), 'article title', date, page numbers.</p> <p>e.g. <i>Daily News</i> (2008), 'Small change', 2 February, p.7.</p>
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