

Executive Summary

Crowdfunding is a significant international market and experts expect that it will continue to grow and evolve over the coming years. Crowdfunding is an innovative fundraising solution, used by people from all over the world to fund legitimate ideas, projects or business ventures, but it can be exploited by bad actors. Terrorist actors have shown to be adaptable, and they take advantage of permissive environments to conduct their activities.

Although the majority of crowdfunding activity is legitimate, Financial Action Task Force (FATF) research has shown that the Islamic State of Iraq and the Levant (ISIL), Al-Qaeda and ethnically or racially motivated terrorist (EoRMT) individuals and groups have exploited it to raise money for terrorist financing (TF) purposes. The possibility of quickly and easily reaching a global audience can make crowdfunding an attractive method of fundraising for TF.

This FATF report is the FATF's first comprehensive international study on TF linked to crowdfunding. It draws on experiences from the FATF Global Network, industry experts, academia and civil society to build a deeper knowledge of the crowdfunding methods and techniques used by terrorists and to examine best practices in combatting this type of threat. It also builds on previous FATF Global Network reports on similar topics.

In this project, the definition of crowdfunding covers formal crowdfunding platforms and crowdfunding activities on social media, messaging applications or other dedicated websites. It also considers hybrid means of crowdfunding that combine digital and physical fundraising. The variety in possible crowdfunding methods means that multiple funding sources and financial intermediaries can be involved, wittingly or unwittingly, to crowdfund support for TF.

The report notes four main ways in which crowdfunding platforms can be abused for TF purposes, and in practice, terrorists and violent extremists rely on multiple methods to raise funds and may combine various techniques. For example, a terrorist may establish a fundraising campaign on a dedicated crowdfunding platform, share the campaign on social media, and request payment in virtual assets (VA).

- **Abuse of Humanitarian, Charitable or Non-Profit Causes** - Crowdfunding inherently relies on the goodwill of supporters to donate to a particular initiative. Humanitarian, charitable and non-profit causes can serve as effective covers for financial solicitation and are in some cases abused for TF purposes. This report identifies three ways in which this activity manifests: individuals (unaffiliated to a registered charity or non-profit organisation) launch a financial appeal for a humanitarian or social cause, but funds raised actually support a terrorism-related offence or actors. In other cases, a charity launches an appeal for funds but does not undertake the advertised humanitarian activity and diverts all or part of the funds to TF. Finally, there is also a risk that non-profit organisations (NPOs) crowdfunding for a legitimate purpose could become victims of extortion or skimming if they operate in high-risk environments controlled by terrorist groups.

CROWDFUNDING FOR TERRORISM FINANCING

- **Use of Dedicated Crowdfunding Platforms or Websites** - In 2022, there were over 6 million crowdfunding campaigns around the world.¹ The volume and variety of activity on crowdfunding platforms makes it difficult to detect illicit activity. Effective self-regulatory practices are important to help ensure activity on platforms are legal and do not contravene terms of service. Unfortunately, specialised platforms have emerged to provide services to individuals that have been banned from mainstream platforms. EoRMT individuals and groups have been found to use these platforms to raise money for various activities, some of which may be protected by law (e.g., fundraising for legal fees, to support political campaigns, pay membership fees and fund protests). These actors in particular may take advantage of crowdfunding for activities that promote hate or violence, but do not necessarily meet the threshold of terrorism.
- **Use of Social Media Platforms and Messaging Apps** - Social media sites and online messaging services enable users to connect with local or global communities, amplify their message and generate momentum for their causes. However, these sites are also integral to the success of a crowdfunding campaign and therefore tend to be used strategically by terrorist actors for TF purposes. These actors share campaign links or payment instructions with their followers, recruit supporters, share advice on how to avoid detection, and take advantage of features like encryption to transmit sensitive details. Sophisticated algorithms on social media also direct users to content based on their search history, which in the context of terrorism can play a role in reinforcing extremist beliefs and lead users to specific fundraising causes that they would not otherwise have been exposed to.
- **Interaction of Crowdfunding with Virtual Assets** - As digital forms of payment continue to evolve globally, the crowdfunding industry has also incorporated funding options tied to VA. While Bitcoin has been the most visible, other types of VAs such as privacy coins are increasingly noted and pose unique challenges for investigators. Anonymity enhancing services such as tumblers and mixers can also be used by threat actors to further conceal the origin and destination of funds linked to TF. However, the use of VA may also have some limitations for TF, as it is not always convenient to convert VA to fiat currency and the value of certain VA can fluctuate dramatically. The adoption of VA for TF crowdfunding campaigns can therefore vary and should continue being assessed by countries.

While certain jurisdictions and industry participants proactively implement measures to mitigate these risks, anti-money laundering and counter-terrorist financing (AML/CFT) regulation is not consistent across the globe. Donations-based crowdfunding, noted by countries across the Global Network to be the most vulnerable to TF abuse given its characteristics, often falls outside of AML/CFT regulations. One reason for this is that many countries do not systematically assess the risks related to crowdfunding activity and therefore comprehensive data about its misuse is still generally lacking. The diverse nature of the crowdfunding industry, the multiple crowdfunding models that are used, and the rapidly evolving nature of the payment

¹ Crowdfunding Statistics: Market Size and Growth. Retrieved from: www.fundera.com/resources/crowdfunding-statistics (accessed 29 September 2023)

technologies also help explain the different regulatory approaches that exist to date in different jurisdictions.

The report highlights the challenges that government authorities and stakeholders in the crowdfunding ecosystem encounter in detecting and deterring TF. Law enforcement agencies investigating suspected cases of TF linked to crowdfunding face challenges in proving the funds were used for terrorism-related offences. The complexity of crowdfunding operations, lack of data, and the use of anonymising techniques also complicate tracing efforts for law enforcement, reporting entities and supervisors. Intermediary platforms that offer crowdfunding services can have difficulty identifying TF activity on their sites because of limited training and TF expertise among their staff, and often lack reporting mechanisms to flag potential TF to the authorities. Efforts to take action to remove illegal content varies by company.

Countries reported examples of best practices to address these challenges, for example by improving understanding of the nature and scope of the national crowdfunding industry and including crowdfunding in their National Risk Assessment. Conducting outreach in the crowdfunding sector has also proved effective in improving identification and reporting of potential TF activity. Strong domestic and international information sharing mechanisms as well as public-private sector engagement is also at the basis of effective counterterrorism and AML/CFT efforts.

This report recommends that jurisdictions and all stakeholders involved in the crowdfunding industry identify and understand TF risks associated with this activity and have proportionate risk-based measures in place to mitigate potential abuses, in line with United Nations Security Council Resolution 2462. Due to the global reach of crowdfunding, countries should be aware of the cross-border nature of fundraising activity and guard against their jurisdiction being used to finance terrorism abroad. Countries should also take into account that the sector is evolving and therefore TF risks may change over time.

Public-private information sharing should also be a priority for countries, and they should engage in continuous outreach and awareness raising to private sector stakeholders. This practice improves detection of potential TF activity, fosters better mutual understanding of the industry and control mechanisms, and helps ensure that legitimate crowdfunding activity is not restricted. Given the link between crowdfunding and other financial and non-financial sectors, countries should fully implement the FATF Standards relevant to VA, NPOs and money or value transfer services, and avoid treating crowdfunding as a siloed sector. Finally, countries should ensure a multi-stakeholder approach that includes national authorities, private sector, civil society and academia when developing risk mitigation strategies related to crowdfunding, to ensure human rights due diligence and avoid hindering legitimate fundraising activity.

The report also includes a list of risk indicators to help public and private sector entities, and the general public identify suspicious activities related to crowdfunding.