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Not-for-Profit Law

HANDBOOK FOR NON-PROFIT ORGANIZATIONS



PROTECT YOUR ORGANIZATION

Prevention of the Exposure of the
Non-Profit Sector to Money Laundering
and Financing of Terrorism



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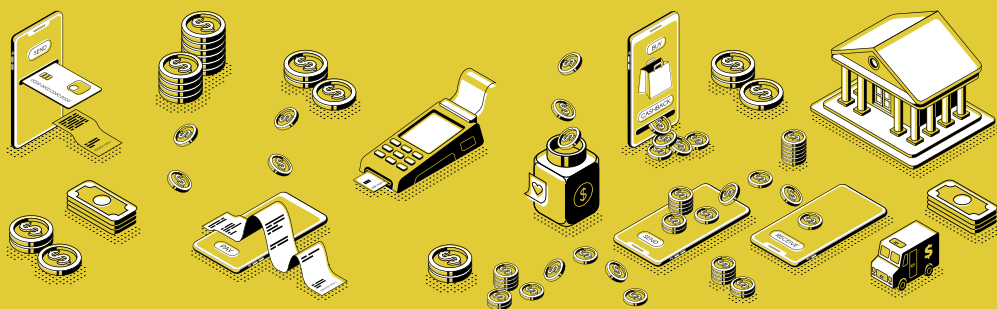
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ABOUT THIS HANDBOOK

The aim of the handbook is to provide clear and understandable information for the non-profit sector regarding the system of protection from money laundering and terrorist financing and the manner in which it relates to the non-profit sector.

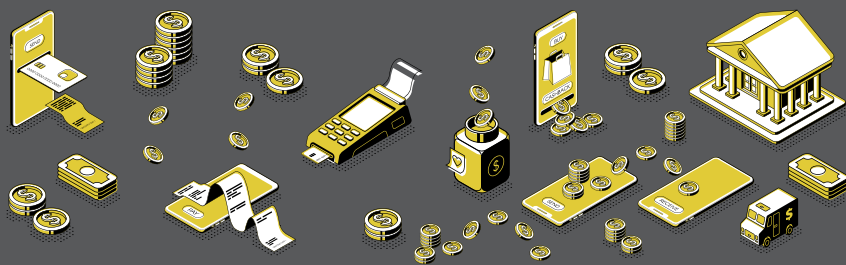


It strives to assist the non-profit organizations (NPOs) to increase their awareness about the potential exposure to risks in this area and to incorporate prevention and mitigation measures into their work. A special focus of this publication is to demonstrate and utilize the risk-based approach that North Macedonia is implementing in the development of the mitigation measures in the area of counter-terrorism abuses related to the NPO sector.

Even though in several of the chapters this publication reflects on the context in North Macedonia, this handbook can also be utilized by non-profit organizations around the world, as well as by the authorities seeking to improve their outreach towards the NPO sector in their respective countries.

This handbook is a collaborative and pioneering effort of the authors from the Financial Intelligence Office of North Macedonia, the European Centre for Not-for-Profit Law (ECNL), the Association Konekt and experts who contributed to the processes of successful implementation of international standards, as well as in the creation of good practices of prevention and safeguarding the NPO sector and the civic space from abuses for the purposes of terrorist financing. This handbook was made possible by the USAID Civic Engagement Project and the ECNL.

This material is educational and tends to be useful for capacity building of all professionals, activists and volunteers in the non-profit organizations. However, this handbook is also a practical guide for the institutions, banks and other stakeholders that interact with the NPO sector. If you wish to deepen your knowledge on the subject matter, please contact Konekt on konekt@konekt.org.mk or +389 (0)2/ 3224 198.



IN BRIEF

THE MEANING FOR MY ORGANIZATION

For every non-profit organization (NPO) it is important to understand how the international standards, the national legislation related to anti-money laundering and countering the financing of terrorism (AML/CFT) and the NPO terrorist financing risk assessment impacts its legitimate activities. This will facilitate your organization's communication and dealings with the institutions, banks, and partners in a way that builds trust and protects the organization and the persons engaged in it.

Most non-profit organizations in North Macedonia are not aware of the relevance of the regulation in this area on their missions and operations. Because of this, they often don't understand the rationale behind the legal and administrative requirements they are expected to fulfil which they experience as unnecessary burden and lack of understanding for their work. On the other hand, driven by their mission and commitment, NPOs rarely reflect on the possibilities that their organization might be misused for illicit financial transactions. To protect the integrity of the organization, every prudent organization would adopt a risk-based approach. This means that the organization will make an effort to understand the pertaining risks that the NPO might face and will adopt targeted measures to mitigate its risks.

This handbook will help the NPOs to navigate through the AML/CFT regulation and understand the ways it relates to their organization and the pertaining impact. Chapter V provides a step-by-step guide that will help your organization in:

-
- Identifying and assessing the risks your organization can encounter in relation to money laundering and terrorist financing. You can use the risk-assessment tool to assess the overall risks in your organization thus support your strategic planning and organization's resilience.
 - Protect the organization against potential misuse by integrating reasonable and practical measures to reduce and mitigate the highest risks. The examples help navigate through the practice of the NPOs' work while each section offers check-lists and menu of measures that you can adopt.
 - Strengthen your organization's overall integrity as many of the general mitigation measures are fully in line with the best practice of NPOs such as good governance, responsible financial management, reliable engagement with key stakeholders, transparency, accountability and adherence to self-regulation mechanisms such as codes of ethics etc.

I.

GLOSSARY OF ACRONYMS

AML	Anti money laundering
CSO(s)	Civil society organization(s)
CFT	Combating the Financing of Terrorism
CTF	Counter-terrorist financing
ECNL	European Centre for Not-for-profit Law
EU	European Union
FATF	Financial Action Task Force
FIO	Financial Intelligence Office
ML	Money laundering
NPO(s)	Non-profit organization(s)
RA	Risk assessment
RNM	Republic of North Macedonia
STR(s)	Suspicious transactions report(s)
TF	Terrorist financing

II.

DEFINITIONS AND EXPLANATION OF TERMINOLOGY

The following assembled definitions are contained in the **Financial Action Task Force (FATF) Recommendations**, the **Glossary of the FATF Recommendations** and other sources.

Expressive NPOs

This term is used by the Financial Action Task Force (FATF) to denote non-profit organisations predominantly involved in expressive functions—such as advocacy, cultural expression, community organizing, environmental protection, human rights, religion, representation of interests, and political expression¹ (such as political parties, think tanks and advocacy group).

According to FATF, the NPOs most at risk of abuse for terrorist financing are engaged in “service activities”.

None of the NPOs in the case studies of NPO TF abuse, analysed by FATF were engaged in “expressive activities”.

1 Global Civil Society An Overview Lester M. Salamon S. Wojciech Sokolowski Regina List 2003, <http://wings.issuelab.org/resources/13784/13784.pdf>

Service activity NPOs

NPOs engaged in “service functions”, such as the provision of health, education, or welfare services².

This is consistent with the FATF definition of non-profit organisation (see below).

Money laundering

The goal of a large number of criminal acts is to generate a profit for the individual or group that carries out the act. Money laundering is the processing of these criminal proceeds to disguise their illegal origin. This process is of critical importance, as it enables the criminal to enjoy these profits without jeopardising their source. Money laundering in Republic of North Macedonia (RNM) is defined in Article 273 of the Criminal Code as follows:

Whosoever brings into circulation or trade, receives, takes over, exchanges or changes money or other property being obtained through a punishable crime or whosoever is aware it has been obtained through a crime, or whosoever by conversion, exchange, transfer or in any other manner covers up their origin from such source or its location, movement or ownership, shall be sentenced to imprisonment of one to ten years.

² Ibid.

Non-profit organisations

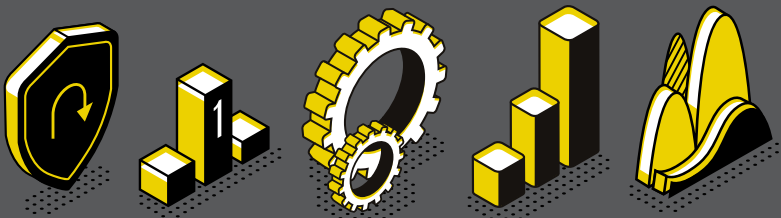
(FATF definition)

In the FATF definition, NPO 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” (as this term is used in the Interpretive note to Recommendation 8).

In North Macedonia, according to the NPO Terrorist Financing Risk Assessment, the following legal entities are compliant to the FATF definition of NPO:

- Associations (partially).
- Foreign and international non-governmental organizations.
- Foundations.
- Red Cross.
- Churches, religious communities and religious groups.



Terrorist

The term terrorist refers to 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.

There is an absence of a universally agreed definition of terrorism as the concept of terror differs in different jurisprudences.

There is a customary rule in the international community that requires the presence of the following three key elements regarding the international crime of terrorism: (i) the perpetration of a criminal act (such as murder, kidnapping, hostage-taking, arson, and so on), or threatening such an act; (ii) the intent to spread fear among the population (which would generally entail the creation of public danger) or directly or indirectly coerce a national or international authority to take some action, or to refrain from taking it; (iii) when the act involves a transnational element.

Source: UNODC (Interlocutory Decision, 2011, para. 85).

Terrorist act

A terrorist act includes:

A

An act which constitutes an offence within the scope of, and as defined in one of the following treaties: (i) Convention for the Suppression of Unlawful Seizure of Aircraft (1970); (ii) Convention for the Suppression of Unlawful Acts against the Safety of Civil Aviation (1971); (iii) Convention on the Prevention and Punishment of Crimes against Internationally Protected Persons, including Diplomatic Agents (1973); (iv) International Convention against the Taking of Hostages (1979); (v) Convention on the Physical Protection of Nuclear Material (1980); (vi) Protocol for the Suppression of Unlawful Acts

of Violence at Airports Serving International Civil Aviation, supplementary to the Convention for the Suppression of Unlawful Acts against the Safety of Civil Aviation (1988); (vii) Convention for the Suppression of Unlawful Acts against the Safety of Maritime Navigation (2005); (viii) Protocol for the Suppression of Unlawful Acts against the Safety of Fixed Platforms located on the Continental Shelf (2005); (ix) International Convention for the Suppression of Terrorist Bombings (1997); and (x) International Convention for the Suppression of the Financing of Terrorism (1999);

B

Any other act intended to cause death or serious bodily injury to a civilian, or to any other person not taking an active part in the hostilities in a situation of armed conflict, when the purpose of

such act, by its nature or context, is to intimidate a population, or to compel a Government or an international organisation to do or to abstain from doing any act.

Terrorist financing

Terrorist financing is the financing of terrorist acts, and of terrorists and terrorist organisations.

Terrorist financing abuse

This refers to the exploitation by terrorists and terrorist organisations of NPOs to raise or move funds, provide logistical

support, encourage or facilitate terrorist recruitment, or otherwise support terrorists or terrorist organisations and operations.

Terrorist financing offence

This refers to the exploitation by terrorists and terrorist organisations of NPOs to raise or move funds, provide logistical

support, encourage or facilitate terrorist recruitment, or otherwise support terrorists or terrorist organisations and operations.

EXPLANATION:

This recommendation broadens the possibilities of criminalization of financing of terrorism. For example, humanitarian organization might be charged for terrorist financing if it provided aid to children of terrorist.

Terrorist organisation

The term terrorist organisation refers to any group of terrorists that: (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.

III.

INTRODUCTION TO THE ANTI-MONEY LAUNDERING AND COUNTER THE FINANCING OF TERRORISM SYSTEM

The states are establishing a system to prevent money laundering and terrorist financing, as a system to protect the financial system and other real sectors, including the NPO sector, from possible abuses for money laundering and terrorist financing purposes. This system is defined by policies and regulations harmonized with international standards and a number of stakeholders with different function and purpose.



"It cannot be stressed enough that civil society representatives are often the first to sound the alarm on human rights abuses related to CT, while simultaneously being targeted and harmed by the misuse of CT measures themselves."

ECNL STATEMENT AT UN COUNTER-TERRORISM WEEK, 2021

THE IMPORTANCE FOR THE NON-PROFITS

Globally, there have been a number of cases when overregulation related to anti-money laundering and counter-terrorism financing (AML/CTF) has intentionally or unintentionally negatively affected the non-profit organizations (NPOs). Governments often justify those measures as necessary in order to comply with the standards of the Financial Action Task Force (FATF). Examples of negative impact on NPOs include:

- Bank de-risking: banks introduce disproportionate requirements or directly limit the access to financial services for NPOs.
- Introducing burdensome requirements for the whole NPO sector instead of targeted, risk-based measures to those NPOs that are at high risk.
- Use of FATF standards to limit fundamental human rights and restrict NPO activities.³

³ See more: <https://ecnl.org/sites/default/files/2021-07/EaP%20AML%20CT%2002072021.pdf>

“...our main concern must be to not disturb the delicate balance between national security and freedoms as a supreme value.”

H.E. Stevo Pendarovski, President of the Republic of North Macedonia at the Regional Government & Civil Society Forum, 2021

As the AML/CTF regulation can directly impact the work of the NPOs, it is of crucial importance that the NPOs are aware of this legislation, protect their organization as well as proactively engage with other NPOs, authorities and other stakeholders in creating policy environment that will not disrupt the legitimate activities of the NPOs and will safeguard the human rights.

AML AND CFT FRAMEWORK IN NORTH MACEDONIA

The anti-money laundering and counter-terrorist financing framework is based on the international standards and set in the **Law on Prevention of Money Laundering and Terrorist Financing (AML/CFT Law)**⁴ which is the key piece of legislation regarding this issue that also defines the system and the responsibility of the various stakeholders.

⁴ Law on Prevention of Money Laundering and Terrorist Financing, Official Gazette of Republic of North Macedonia No. 317/220; 275/19; 120/18; 151/22 www.ufr.gov.mk

The system for prevention of money laundering and terrorist financing of the Republic of North Macedonia consists of financial and non-financial institutions, competent state bodies and bodies that act preventively in detecting and prosecuting persons involved in cases of ML and TF.

In North Macedonia the **Law on Prevention of Money Laundering and Terrorist Financing** defines the entities which are obliged to take measures and actions to prevent and detect ML and TF, defining them as **obliged entities**. Obligated entities are financial and non-financial institutions, such as real estate agencies, auditors, accountants, notaries, lawyers, casinos and others.

The obliged entities are responsible for establishing an internal system for AML and CTF which consists of internal rules, a separate organizational department, a designated responsible person and a sophisticated electronic system for automatic data processing.

In carrying out their AML and CTF activities and measures they get to know and analyse their clients (including NPOs) with whom they enter into business relations. They monitor the activities carried out within the business relationship with the clients and they report to the **Financial Intelligence Office** for activities that deviate from the usual way of conducting business. For these purposes the obliged entities perform continuous monitoring and analysis based on the collected data, documents and information. Any suspicious transaction is reported to the Financial Intelligence Office.

The Law on Prevention of Money Laundering and Terrorist Financing contains articles on the due diligence measures that should be performed by the obliged entities when they have clients that are NPOs. At present, the Law states that NPOs that are identified as higher risk (based on the National Risk Assessment) should be subjects to enhanced due diligence. This article of the Law supports the risk-based approach. However, it is expected to have further changes of the Law so that it references the sectoral NPO TF Risk Assessment and directing the obliged entities towards it.

Beneficial ownership

Following the international standards⁵ and the EU directive, the countries are required to have adequate, accurate and timely information on the beneficial owners of the legal persons which can be obtained or accessed in a timely fashion by the competent authorities. In North Macedonia **the beneficial ownership registry** was established in January 2021.

The term “owner” is not common for NPOs and this is a subject of international debate because NPOs do not have owners in the classical sense of the term. However, in North Macedonia **NPOs, as specific forms of legal entities have the legal obligation to register their beneficial owners.**

For this purpose, the NPOs should:



Identify their beneficial owner(s).

The definition of the Law states that in the cases of the NPOs, a beneficial owner is/are:

- a natural person who is authorized to represent or
- who has a controlling position in the management of the property of the organization, i.e. the **legal representative(s)**.

NPOs may have **one or more persons** who meet the definition of a beneficial owner.

In practice, these people are for example: the president, the executive director, the chairmen of the assembly, etc. It is necessary to take into account the internal acts and the organizational management structure. For example, foundations are more specific, so beneficial owners might be persons from amongst the founders, the board, etc.



Register the beneficial owner(s).

The registration is done electronically through the system of the Central Register. The NPO can do this on its own (if it has a digital certificate and user account on the website) or through the registration agent (authorized accountant).

Tip from practice: Since NPOs do not have owners, it is important to select the option “natural person who otherwise controls the legal entity” when entering in the section “03 Property data” under the ownership indicator.



Be aware of deadlines

Newly established NPOs have 8 days to register beneficial owner(s). In case of a change of the real owner(s) you also have 8 days to input the change in the registry of beneficial owners.

If these deadlines are exceeded there are tariffs by the Central Registry that need to be paid in order to accomplish the registration.

Advice from practice: Inform the responsible persons in your NPO that in case of change of the persons from the management structure who are registered as beneficial owners, the change should be reported in the Central Registry and within 8 days from this change (when the Central Registry issues a document containing the change) the information in the beneficial ownership register should be updated.

More support regarding the registration of the beneficial owner(s) can be found on the **following links:**



- [Brief information for NPOs](#)
- [Central Registry: Description of the procedure, preconditions and terms of use](#)
- [Financial Intelligence Office: Guidelines on the manner of identification of a beneficial owner](#)
- [Financial Intelligence Office: Frequently Asked Questions](#)

If you encounter any challenge, please contact Konekt on konekt@konekt.org.mk or 02/3224 198.

FINANCIAL INTELLIGENCE OFFICE

The Financial Intelligence Office (FIO) within the Ministry of Finance of the Republic of North Macedonia is the **central institution in the AML CFT system**. The FIO is responsible for collecting and analysing the suspicious transactions reports (STRs) and other information relevant to the prevention and detection of ML and TF. When there are grounds for suspicion of ML and TF, FIO submits the results of the analysis and the other relevant information to the competent authorities. The FIO gathers data from the obliged entities or upon request.



The FIO also performs duties related to supervision and international cooperation. The supervisory role of the FIO enables effectiveness of the AML and CFT measures implemented by the obliged entities. Pursuant to the Law, the supervision over the implementation of the measures and actions for ML and TF is performed by: the Financial Intelligence Office (independently or in coordination with other competent bodies), the National Bank of the Republic of

North Macedonia, the Insurance Supervision Agency, the Securities and Exchange Commission, the Agency for Supervision of Fully Funded Pension Insurance, the Public Revenue Office, the Postal Agency, the Notary Chamber and the Bar Association.

The membership in the EGMONT Group⁶ and other platforms for international cooperation provide timely exchange of data and information for conducting operational analysis, as well as transfer of knowledge aimed at improving the overall protection systems.

Other competent authorities

Competent authorities for prosecution of perpetrators of ML and TF in North Macedonia are: the Ministry of Interior, the Financial Police, the Customs Administration and the Basic Public Prosecutor's Office for Prosecution of Organized Crime and Corruption. These institutions are notified by the Financial Intelligence Unit of cases where there are grounds for suspicion for ML and TF, after which they act in accordance with the rules of criminal procedure for detecting and prosecuting perpetrators of criminal offences.

When it comes to the NPO sector, the Ministry of Justice implements the regulation governing the establishment, operation and monitoring of the NPO sector. In the process of registration of non-profit organizations, the Central Registry and the courts for the religious organizations also have an important role by enabling

6 The Egmont Group is a united body of Financial Intelligence Units around the world.

fast, simple and safe way for registering NPOs in accordance to the legal requirements.

Banking work explained

The role of the banks in the system for prevention of ML and TF is very important. The reason for this is the fact that the **banks and their employees are the entry point in the financial system** and are directly exposed to the risk of “dirty money” entering the system. The banking sector faces pressure to ensure that it is not being used as a money laundering channel and being abused to remit funds to terrorist groups.

The need to prevent ML and TF, as well as the fines that the banks face in line with the legislation, motivates all banks to manage their financial crime risk. As a result, banks have strict “know your customer” requirements with which the banks must comply to prevent criminals and terrorists accessing financial services. Banks are obliged to perform due diligence to gather information about their clients, including NPOs, such as:

- Where they operate;
- Who they deal with;
- Who controls them;
- Their source of funds.

The timely submission of information for suspicious transaction or suspicious activity is key element of discovery of criminal acts. As in the case of the other legal entities, the NPO financial activity can

be visible through a bank account and it can trigger the reporting of a suspicious activity by the bank or by other entities that are obliged to do so by law. When a suspicious transaction report is issued to the Financial Intelligence Office, the institutions act by making checks and implementing appropriate measures.

The banks conduct analysis of the clients, including NPOs on risk-based approach in accordance with the Law. The banks identify the potential suspicious transactions based on a set of indicators prescribed in the bylaws. The purpose of the indicators and questions is to determine whether an NPO as a customer or its transaction/activity is suspicious or not. These indicators may not always be immediately indicative of a suspicious transaction or activity, but may give rise to further monitoring and due diligence.

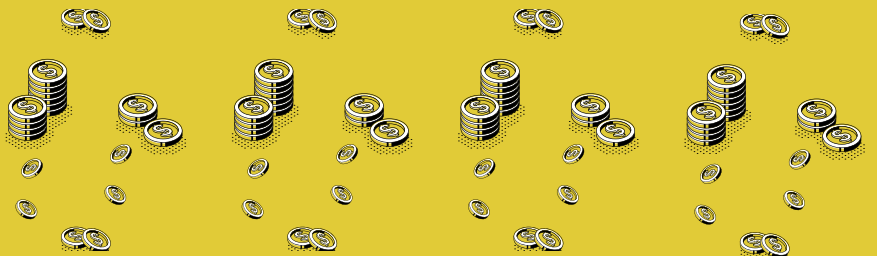
Often the NPOs are complaining about the burdensome requirements by the banks. What is important for the NPOs to understand about the banks' operations is the following:

- Banks must obtain information about the nature and the prospective use of the accounts and services;
- Banks must conduct an AML/CFT risk assessment of each account holder, anticipated use of account and prospective transactions;
- Banks must monitor the transactions and account activity for unusual and suspicious activity.

The banks have the responsibility to conduct these operations in order to comply with the AML/CFT law. Hence, it is of interest of the NPOs to understand these processes, anticipate them and prepare the information for the banks in advance. This will facilitate a relationship of trust between the banks and the NPOs as their clients.

Therefore, key recommendations for NPOs would be to provide the bank with info on:

- The history, size, location(s) of the NPO, as well as names and addresses of trustees /board/ assembly members, and a description of the specific sector the NPO serves;
- The nature and purpose/objectives of the NPO;
- The planned use of the requested account;
- The nature and size of the projected transaction activity;
- Periodic updates of changes in information related to the NPO, or transactions not consistent with prior activity.



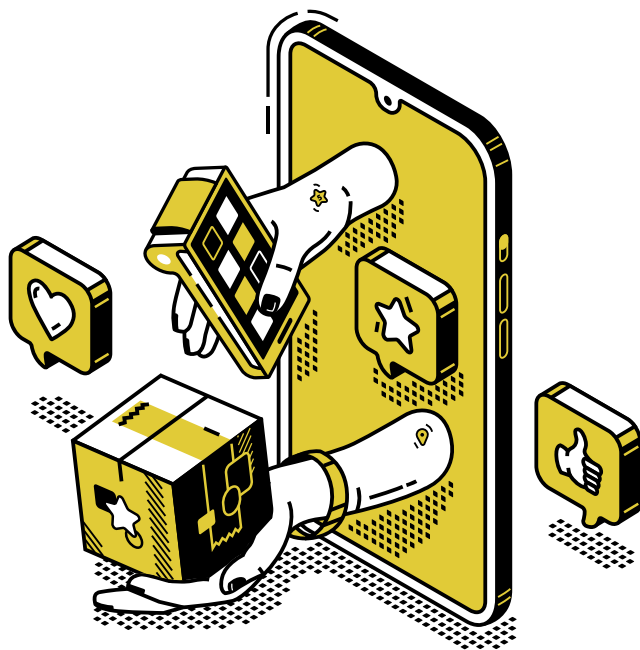
When NPO is transferring funds internationally, it is necessary to do the following:

- Send all accompanying info to the bank up front;
- Send all additional, relevant info – the NPO must not wait until there is a problem;
- When sending a large transfer, outside the NPO's usual pattern of activity, the bank should be notified in advance regarding the timing, amount and purpose of the transfer.
- Inform the bank about specific transactions that, without an explanation, might create concerns for the bank.

Here is some additional advice:

- It would be useful if statutory documentation and information about the current and future activities are made available on the NPO's website.
- If any of NPO's key personnel has been falsely accused of financial crime or has been confused with someone listed in the terrorist database, the bank should be notified before it uncovers the problem on its own.
- If the NPO has a dilemma about certain transactions or notices suspicious behaviour by a donor or other involved party, it is necessary to contact the bank and to inform it about the suspicions that it has.

- NPOs, especially those operating in high risk or sanctioned countries, may also be asked to answer additional questions and undertake some measures of due diligence.
- Banks rely on the NPOs as their customers to perform due diligence processes to the best of their abilities and resources. In this way, the banks and the NPOs will ensure that they all meet their obligations and provide better protection against ML and TF. Use this handbook as a guiding tool in this regard.



INTERNATIONAL REGULATION

The national laws are developed on the basis of the international standards which are defined by the Financial Action Task Force (FATF) in a form of recommendations and immediate outcomes.

Global standards on AML/CFT of relevance for the non-profit sector

The Financial Action Task Force (FATF)⁷ is an inter-governmental body that is committed to preventing and responding to money laundering and terrorist financing. It has developed international standards that measure technical compliance - 40 standards known as “Recommendations⁸” - and effectiveness - 11 standards known as “Immediate Outcomes⁹”.

FATF also assesses compliance with the standards directly or through one of its regional bodies such as MONEYVAL which is responsible for the Council of Europe members including North Macedonia¹⁰. The assessment of the countries’ compliance with the

7 See more here: <https://www.fatf-gafi.org>

8 See more here: <https://www.fatf-gafi.org/en/publications/Fatfrecommendations/Fatf-recommendations.html>

9 See more here: <https://www.fatf-gafi.org/publications/mutualevaluations/documents/fatfissuesnewmechanismstostrengthenmoneylaunderingandterroristfinancingcompliance.html>

10 See more here: <https://www.coe.int/en/web/moneyval/home>

FATF Recommendations is carried out through peer review which results in the adoption of mutual evaluation reports.

Compliance enforcement is considered to be a very effective tool to ensure FATF policy implementation. The evaluation results are important because they are influencing the global rating of the states and their development. Subsequently, the compliance with the FATF recommendations is of national interest for all stakeholders. For example, a lower compliance with the recommendations can lead to international political pressure to change laws and increased credit risk ratings for the country which influence the economic development, result in restrictions on international banking and sanctions (in extreme cases).

FATF, through its regional bodies, implements a process of mutual evaluation during which countries are assessed on their level of compliance with each standard. In 2022 North Macedonia will go through the 5th evaluation by the MONEYVAL Committee which is part of the Council of Europe. The mutual evaluation ends with a report that includes the following ratings for each FATF Recommendation: Compliant, Largely Compliant, Partially Compliant, and Non-Compliant. NPOs are included in the process in order to evaluate the compliance of the countries with Recommendation 8 for which most of the countries in the world have low ratings.

To learn more about the mutual evaluation process, see Annex 1

Risk-based approach and the non-profit sector

After the terrorist attacks in USA on 11.09.2001, the international CTF became stricter. The fear that the terrorist can abuse organizations (including non-profits) for transferring funds and financing of their actions grew. As a result, FATF Recommendation 8 portrayed the whole NPO sector as particularly vulnerable to abuse. The absence of adequate proof for this caused some countries to misuse this recommendation for control and over-regulation of the NPO sector. The FATF revised its standards in 2016 after long-term global advocacy efforts¹¹, calling on states to apply a risk-based approach, and to respect international law and avoid over-regulation of NPOs.¹² **The focus towards a risk-based approach emphasises proportionate, targeted and effective compliance measures. In order to comply with the FATF standards, countries can no longer adopt broad regulations that affect all NPOs by claiming the whole sector is at risk. Instead, countries must use a risk assessment process to identify specific NPOs at risk and then take appropriate legislative action or other measures, proportionate to the risk and targeted only to those NPOs found at risk.**

11 See more here: <https://ecnl.org/news/string-successes-changing-global-counter-terrorism-policies-impact-civic-space>

12 FATF definition of NPOs: 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".

FATF standards for the NPO sector

The changes to the FATF standard on NPOs (**Recommendation 8**) aimed to ensure that NPOs are not considered “particularly vulnerable to terrorist abuse”. Now, the recommendation states that *“countries should review the adequacy of laws and regulations that relate to non-profit organisations which the country has identified as being vulnerable to terrorist financing abuse. Countries should apply focused and proportionate measures, in line with the risk-based approach, to such non-profit organisations to protect them from terrorist financing abuse...”*

When assessing the situation with regard to NPOs, countries should comply with and respect several key standards:

Risk-based approach: “Countries should identify, assess, and understand the money laundering and terrorist financing risks for the country, and should take action... aimed at ensuring the risks are mitigated effectively.” (FATF Recommendation 1)

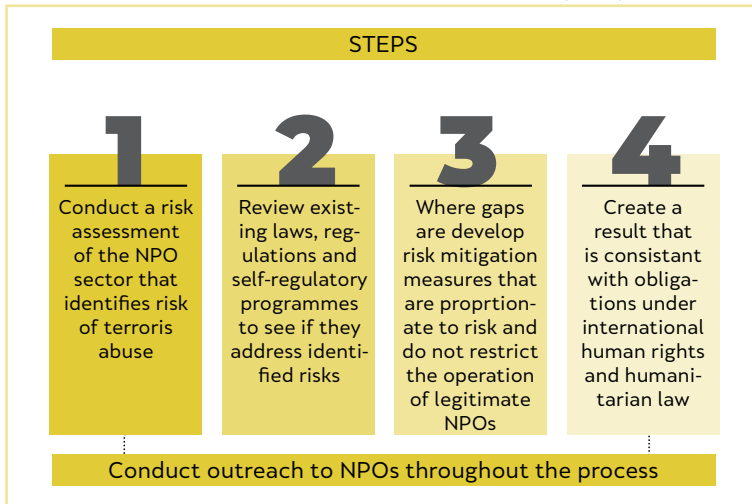
Effectiveness: “10.2. To what extent, without disrupting legitimate NPO activities, has the country implemented a targeted approach, conducted outreach, and exercised oversight in dealing with NPOs that are at risk from the threat of terrorist abuse?” (Immediate Outcome 10)

Respect for fundamental freedoms: “It is also important for such measures to be implemented in a manner which respects countries’ obligations under the Charter of the United Nations

and international human rights law” (Interpretative Note to Recommendation 8)

Outreach to NPOs: “Countries should encourage and undertake outreach and educational programs to raise and deepen awareness among NPOs ” (FATF Methodology, 8.2(b))

Therefore, the countries should take the following steps:



Source: Global NPO Coalition, www.fatfplatform.org

When these standards are not complied with, the mutual evaluation report would not consider that a country is compliant with the FATF standards related to NPOs.

The FATF standards include only countering financing of terrorism (CFT) within its Recommendation 8 specifically targeted to address issues in the NPO sector. Therefore, the FATF obliges governments to review and implement its framework regarding Recommendation 8 on NPOs solely on CFT issues.

Mutual evaluation process

FATF AML standards

The FATF anti money laundering (AML) standards are a part of FATF's recommendations.¹³ However, these FATF AML standards are not targeted at NPOs. In addition, the FATF has clarified in its Best Practices Paper¹⁴ on Recommendation 8 that NPOs should not be treated as 'obliged entities' for money laundering purposes. The recommendations on money laundering cover issues such as proper implementation of international conventions, criminalising certain activities, due diligence and verification (KYC), establishing a Financial Intelligence Unit (FIU) and the collection, retention and sharing of data. The recommendations include standards relating to DNFBPs (designated non-financial businesses and professions), alternative remittances, wire transfers and beneficial ownership. However, **NPOs are not included in the DNFBPs based on the FATF standards.** For this reason, the NPO TF Risk Assessment is mostly concentrated on CFT issues even though it provides valuable ad-

13 See FATF Recommendations 10, 11, 20, 22, 23, 24.

14 *Best Practices Paper on Combating the Abuse of Non-profit Organisations (Recommendation 8) (FATF, 2015)*
"35. Countries should establish appropriate mechanisms to ensure that, when there is suspicion that a particular NPO is being abused by terrorists, this information and any other relevant information are promptly shared with relevant competent authorities, in order to take preventive or investigative action. This does not mean that the FATF Recommendations require countries to impose a suspicious transaction reporting obligation on NPOs, along the lines of Recommendation 20. NPOs are not considered designated non-financial businesses and professions (DNFBPs) and should therefore not be subject to the FATF requirements for DNFBPs."

vice for CSOs on AML aspects. This handbook also includes guidance for the NPOs on AML risks and mitigation measures.

In instances where states are misusing security and counter-terrorism legal framework as justification to restrict civic freedoms FATF actively acts along other institutions such as the UN Special Rapporteurs in the framework of the UN Office of the High Commissioner for Human Rights to which NPOs can reach out. Read more about the recent case in Serbia on the following link

<https://ecnl.org/news/what-can-csos-do-when-they-face-abuse-or-over-regulation-caused-amlcft-standards>

EU standards framework for AML

The EU Directive 2015/849, 2015 is a part of the robust legislation to fight against money laundering and terrorist financing.¹⁵ However, much like the FATF standards, the EU Directive does not include NPOs as obliged entities.

Article 4 of the Directive allows countries “in accordance with the risk-based approach” to extend the list of obliged entities to categories of undertakings “which engage in activities which are particularly likely to be used for the purposes of money laundering or terrorist financing”. The addition of categories of persons and

15 See more here: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32015L0849&rid=2>

activities other than those listed in the Directive should be based on a proven probability or risk that they will be used for money laundering or terrorist financing. Therefore, the inclusion of NPOs can only be based on the risk-based approach, after a specific risk assessment has been conducted to identify those at high risk of money laundering abuse - not all NPOs. Under the EU Directive, country measures must also comply with the EU Charter of Fundamental Rights¹⁶, which includes freedom of association.

The blanket inclusion of all (or generic groups of) NPOs interferes with this right because it provides disproportionate and burdensome obligations for exercising this right freely. A government is allowed to limit the rights in public interest. However, these limits must not exceed beyond the absolute necessary measures.

To learn more about how states engage with NPOs based on FATF recommendations, see Annex 2

16 See more here: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:12012P/TXT>

FATF ENGAGEMENT WITH NPO SECTOR

After the revision of Recommendation 8 in 2016, the FATF started more formal and consistent engagement with NPOs through its Private Sector Consultative Forum where NPOs are invited to attend and Global NPO Coalition on FATF holds four seats to represent the sector.¹⁷ **The FATF also recently opened a communication channel** for the non-profit sector to raise concerns and provide input during the mutual evaluation process¹⁸.

Engagement of NPOs in the risk assessment process

The FATF guidance and standards encourage outreach and consultation with NPO sector when conducting the risk assessment process.¹⁹ Ideally, the NPO sector would be at the table when the government is determining whether the sector is at risk of being abused for terrorism financing. There are several useful tools that can be used to engage the NPO sector in this process.

17 See more here: <https://ecnl.org/news/ecnl-and-partners-global-npo-coalition-offered-seats-fatfs-private-consultative-forum>

18 See more here: <https://www.fatf-gafi.org/faq/mutualevaluations/#d.en.448461>

19 See more here: <https://www.fatf-gafi.org/publications/methodsandtrends/documents/terrorist-financing-risk-assessment-guidance.html>

Surveys of the NPO sector

Wider surveys to the NPO sector can help gather information about risk perception and initial (broader) concerns of NPOs related to TF risk. It is worth noting that any survey should be accompanied

by awareness-raising and information to a) increase an understanding of and underline the importance of the exercise and b) to facilitate better response.

Dialogue and consultation about risk perceptions

The aim of the focused dialogue and consultation is to have a smaller group of NPOs that are more likely to be at risk of TF abuse (or those that have previously been identified as being at risk) discuss ongoing concerns, perceptions and existing mitigating measures to feed into the Risk Assessment process.



Including NPO sector input into risk assessment

It is important to include the NPO sector input into the risk assessment findings and recommendations, as the information provided can help identify the concerns, mitigation measures and potential improvements for both

the NPOs and the government. This also allows the NPO sector to meaningfully contribute to the discussion about countering terrorism risk with real, tangible and concrete actions.

Joint Risk Assessments methodologies

Based on a collaborative approach, the joint Risk Assessment of the NPO sector requires that the assessment is done by an officially established group that represents all of the relevant parts of the government and the NPO sector. The group assists with data and information gathering and provides comments and advice on analysis, conclusions and recommendations.

To learn read more about good country examples see Annex 3

It is important to emphasize that in North Macedonia, the NPO TF RA was conducted using a collaborative approach by a working group which included institutions and NPOs.

Ways NPOs can engage on global/regional level

Civil society faces different challenges when it comes to the implementation of the FATF recommendations. They have few avenues to pursue in order to raise concerns:

1

Raising the issue with the FATF as part of their work on identifying unintended consequences or prior to an upcoming mutual evaluation process. In February 2021, FATF started an initiative to study the unintended consequences of the misapplication of the FATF standards, specifically on NPOs.²⁰

2

Raise concern with different UN Special Procedures, e.g. the Special Rapporteur on the promotion and protection of human rights and fundamental freedoms while countering terrorism, an independent expert appointed by the UN Human Rights Council. The Special Rapporteurs can request clarification and raise the issue with the respective government or other AML/CTF bodies²¹.

20 See more here: <https://www.fatf-gafi.org/publications/financialinclusionandnpoissues/documents/unintended-consequences-project.html>

21 See more here: <https://www.ohchr.org/en/issues/terrorism/pages/srterrorismindex.aspx>

3

Notify a regional human rights mechanism such as the Council of Europe e.g. the Human Rights Commissioner or the Conference of INGOs²².

Global CSO Initiatives to engage with the FATF and other counter-terrorism bodies

The **Global NPO Coalition on FATF**²³ is a loose network of diverse non-profit organizations. The Coalition advocates for protection of the NPO sector in the FATF standards, improvement in the quality and effectiveness of FATF mutual evaluations with sustained outreach to the NPO sector, and the effective, risk-based implementation of FATF Recommendations affecting NPOs, particularly Recommendation 8. The aim is to mitigate the unintended consequences of countering the financing of terrorism (CFT) policies on civil society, so that legitimate NPO activity is not disrupted. The advocacy agenda is driven by policy changes at the FATF/global/national level that require swift action and engagement by NPOs. The Coalition has established a constructive relationship with the FATF Secretariat and successfully contributed to policy change.

22 For the HR Commissioner visit [here](#) and for the Conference of INGOs visit [here](#).

23 See more here: <https://fatfplatform.org>

Civil Society Coalition on Human Rights and Counterterrorism

The Civil Society Coalition on Human Rights and Counter terrorism includes over 30 international, regional, and national human rights, humanitarian and peacebuilding organizations. It is a loose coalition of organisations that engages with UN bodies that work on counter-terrorism issues, and advocates for the inclusion of stronger safeguards around human rights and civic space in UN standards and practices, and human rights-based implementation of such counter-terrorism policies practices. Civil society organisations at national level can engage with the coalition to help document cases and raise awareness about how the counter-terrorism policies of the national governments, but also the UN bodies, impact the civil society space and human rights, engage in global advocacy about strengthening the UN norms and engage with UN bodies to share practices and own recommendations.

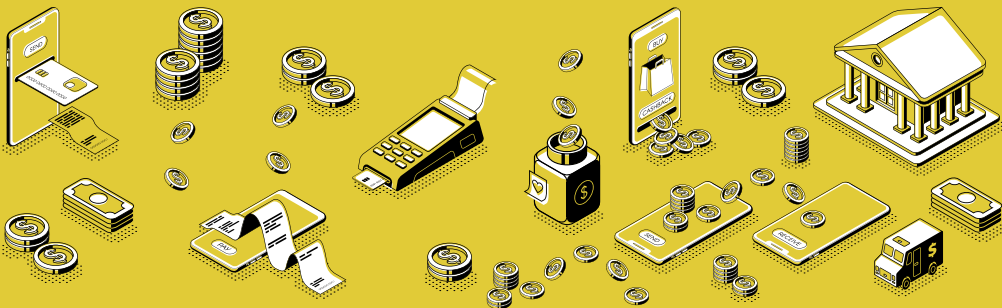
If you are interested to proactively engage globally or at national level in the policy development in this area, please contact Konekt.

IV.

RISK-BASED APPROACH AND ITS RELEVANCE FOR YOUR NPO

THE WAYS NPOs CAN BE ABUSED FOR TF PURPOSES

There are certain risks that NPOs might be abused for TF, even though according to FATF analysis cases of abuse of NPOs for TF purposes are rather rare. In its Report²⁴ analysing real cases of NPO abuse, FATF defines the following methods and risks of abuse that might be beneficial to review when defining the risks for your organization.



24 FATF REPORT: Risk of Terrorist Abuse in Non-Profit Organisations, FATF, June 2014 <https://www.fatf-gafi.org/content/dam/fatf/documents/reports/BPP-combating-abuse-non-profit-organisations.pdf>

Methods and Risks of Abuse

Diversion of Funds	An NPO, or an individual acting on behalf of an NPO, diverts funds to a known or suspected terrorist entity
Affiliation with a Terrorist Entity	An NPO, or an individual acting on behalf of NPO, maintains an operational affiliation with a terrorist organisation or supporter of terrorism
Abuse of Programming	NPO-funded programmes meant to support legitimate humanitarian purposes are manipulated at the point of delivery to support terrorism
Support for Recruitment	NPO-funded programmes or facilities are used to create an environment which supports and/or promotes terrorism recruitment-related activities
False Representation and Sham NPOs	Under the guise of charitable activity, an organisation or individual raises funds and/or carries out other activities in support of terrorism

Here are some international examples from the FATF Report that illustrate the methods of abuse.²⁵

Diversion of Funds

STRs were submitted to the national FIU on the domestic branch of a foreign-based NPO, which was listed locally. The domestic NPO transferred funds to the banned foreign-based NPO through a bank account in a third country. It also transferred funds to NPOs in high risk areas and made cash withdrawals of large banknotes. An investigation by the FIU revealed that directing officials of the domestic NPO carried large amounts of cash out of the country. In the financial intelligence reports relating to the cross-border movement of physical currency, the directing officials indicated that the funds were donations destined for charities located in both high risk and low risk areas. The domestic NPO also transferred funds to a second local NPO. STRs submitted on the second NPO indicated that its directing officials transferred funds to individuals in developed countries in a region not related to the NPO's area of operation. As a result of the investigation, the domestic NPO was listed as a supporter of terrorism and its assets were frozen.²⁶

25 Ibid

26 Ibid – Case Study 3

**Affiliation
with a
Terrorist
Entity**

A foreign-based NPO, listed in multiple countries due to its suspected links to a listed terrorist organisation, transferred funds to several domestic NPOs. Information provided to the national FIU by law enforcement and national security authorities indicated that the domestic NPOs were suspected of providing ideological and financial support to extremist groups, including domestically listed terrorist organisations. According to financial intelligence, the foreign-based NPO transferred over USD 100 000 to a domestic religious centre. A director of the religious centre was suspected of having used both his personal bank accounts and those of the religious centre to provide financial support to extremist groups, including domestically listed organisations. Information provided to the FIU indicated that this individual had previously spoken in favour of terrorist activity. The FIU also found that an international NPO controlled by the foreign-based NPO transferred over USD 150 000 to a second domestic religious centre.

This second centre was identified to the FIU as being linked to a domestic terrorism plot. In addition, the foreign-based NPO and its affiliated organisations transferred approximately USD 120 000 to a third domestic NPO. The third NPO was already a subject of interest of the FIU as it had transferred funds to foreign NPOs known to be front organisations for terrorist groups. According to information provided to the FIU by a partner in the domestic security and intelligence community, a directing official of the third NPO used his position to promote a radical ideology. The third NPO was also the recipient of an EFT from a second international NPO for nearly USD 1 000 000. According to information provided to the FIU, the second international NPO was seeking to further its radicalisation agenda by providing financial assistance to domestic entities with links to extremism.²⁷

Abuse of Programming

The national NPO regulatory body opened an investigation following media allegations that a domestic NPO, established to advance education, was being run by senior members and activists of a group that promoted violent extremism. Reportedly, these individuals were using the NPO's schools to teach and promote extremism that was known to result in violence. The regulator accessed and considered multiple sources of information including information provided by the media outlet in support of its allegations, information provided by the NPO itself and material provided by the board of education. The regulator's investigation uncovered that one of the NPO's directing officials was formerly a member of an organisation that was engaged in radicalisation towards violence. However, the directing official's membership had ceased several years earlier and they no longer agreed with some of the radical organisation's political views.

The regulator also uncovered that one of the NPO's directing officials was married to an individual who acted as the media representative for the radical organisation. However, that relationship had also ended since the media report was published.²⁸

Support for Recruitment

A foreign national ordered a wire transfer from his personal account at a foreign bank, to the account of a domestic NPO. When justifying the request, the foreign national made reference to sponsoring an individual. Specifically, funds were meant to provide for the individual's living expenses. An investigation by the national FIU found that the individual to be sponsored was on a terrorism watch-list. The investigation also revealed that the NPO was closely linked to a network of groups that financed terrorist activity.²⁹

28 Ibid Case Study 77

29 Ibid Case Study 84

**False
Representation
and Sham NPOs**

Two individuals were raising funds domestically for a family member who was fighting alongside a listed terrorist organisation abroad. The individuals, claiming to be representatives of a well-known domestic humanitarian aid NPO, were raising the funds by way of public street collections. The collection efforts were in breach of the domestic law. The individuals in question did not have the consent of the domestic NPO to solicit donations on its behalf nor did they deliver to funds raised to the NPO. Once a sizeable amount of money had been collected, it was sent to the family member abroad using wire transfers. As a result of a joint investigation between the FIU, NPO regulator, and law enforcement authorities, the two individuals were arrested and convicted of terrorist fundraising and sentenced to jail.³⁰

THE NPO TF RISK ASSESSMENT IN NORTH MACEDONIA EXPLAINED

Following FATF standards and recommendations on NPOs described in the previous chapter, in 2021 the Republic of North Macedonia issued the report on the conducted Non-Profit Organization Terrorist Financing Risk Assessment (NPO TF RA).

The aim of the NPO TF RA was to ensure compliance and implementation of FATF Recommendation 8 and Immediate outcome 10³¹ thus enabling the implementation of a risk-based approach and proportional measures to protect the NPOs identified as being vulnerable. The full report of the NPO TF RA is publicly available on the web page of the **Financial Intelligence Unit** www.ufr.gov.mk on this <<link>>. This chapter provides overview of the key finding and explains their meaning.

Who prepared the NPO TF RA?

The NPO TF Risk Assessment is a document adopted by the Government. The report was conducted and prepared by a cross-sector working group comprised of representatives of the state institutions responsible for the establishment, registration, operation and monitoring of the NPOs, coordinated by the Financial Intelligence Office, as well as by representatives of NPOs, coordinated by

31 *FATF Immediate Outcome 10: Terrorists, terrorist organisations and terrorist financiers are prevented from raising, moving and using funds, and from abusing the NPO sector, Source: FATF*

the Association Konekt Skopje³². The process is a product of wide consultations and participatory approach.

The process used the NPO Terrorist Financing Risk Assessment Methodology of Greenacre Group, UK. The development and promotion of the NPO TF RA involved data collection and analysis, capacity building, workshops, stakeholder consultations and wide engagement, presentation of findings on array of national and international events supported by the European Center for Not-For-Profit Law, the German Society for International cooperation (GIZ), USAID and other partners and donors.

What are the benefits from the NPO TF RA?

The NPO TF RA:

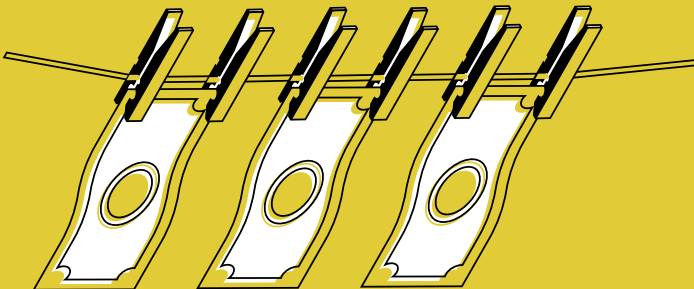
- enables the state to comply with the international standards and the NPOs to understand the risk they face and its level
- is a document that contains information useful for development of an effective system of protection from NPO abuse for TF purposes. The measures that mitigate the risks are implemented by the state institutions, the financial institutions and the NPOs themselves.

32 The NPO TF RA working group team comprises of 14 members, 8 from the public institutions and 6 from the NPOs. The group was comprises of 25 professionals (members and deputy members).

provides solid ground for further improvement and development of such mitigation measures because: it assesses the level of risk for particular sub-sets of the NPO sector in the country; it defines the risk-factors and provides review of the current state of play recommending further actions, etc.

enables all stakeholders to define or further develop measures that are risk based, proportionate and do not hamper the legitimate NPO activities and the freedom of association.

along with other supporting stakeholder engagement, activities were internationally recognized as a good practice because the process enabled raised awareness and improved understanding of the threats and potential for TF risks in the NPO sector and provided a platform for stronger cooperation between the relevant institutions, the NPO sector and other stakeholders in this area.



What does the NPO TF RA contain?

The report of the NPO TF RA contains information on:

- the subset of organizations that fall within the FATF definition of NPOs;
- the characteristics and types of NPOs that, according to their activities or characteristics, are likely to be at risk of abuse of terrorist financing;
- threats of terrorist financing for non-profit organizations in the Republic of North Macedonia;
- review of the adequacy of the measures, including the laws and regulations, which refer to the subset of NPOs that may be abused for support of terrorist financing such as: laws and regulations; mitigation measures related to the policies and the engagement of the NPOs; and measures in the NPOs;
- Recommended measures and activities that take proportionate and effective approach for dealing with the identified risks.

Which are the key findings of the NPO TF RA and what do they mean?

The following legal entities fall under the definition of FATF NPO: associations (roughly around 65% of the legal entities), foundations, the Red Cross, foreign and international non-governmental organizations, churches, religious communities and religious groups.

EXPLANATION:

In the focus of the risk assessment were the NPOs that are in compliance with the FATF definition on NPOs. In North Macedonia there are non-profit legal entities which do not fall under the FATF definition such as: trade unions, tenant associations, political parties, informal interest groups and civic initiatives. Part of the legal entities registered as associations are not FATF NPOs such as the professional (trade) associations and sport clubs³³ that serve their members' interests. These entities were not part of the analysis and the risk assessment.

There are no cases judgments, indictments, regulatory measures, active or closed investigations into terrorist financing in the NPO sector in North Macedonia.

33 Organizations that deal with wider activity and recreational sports fall under the FATF definition on NPO.

EXPLANATION:

In the period 2017, 2018 and 2019, 4 reports of suspicious transactions involving terrorist financing and NPOs were submitted to the FIO. In the absence of formal cases in order to assess the threats, risk factors and identify the level of the inherent and the residual risk for the NPO sector, vast analysis on primary and secondary data was conducted including intelligence information on analyses and observations.

Three types of threats have been identified in terms of the abuse of the NPOs for terrorist financing.

Nature of the terrorist financing threats for the NPOs in the RNM:

- Abuse of NPOs for promotion of religious radicalism
- Abuse of NPOs for recruitment of people
- Abuse of NPOs for logistical support

EXPLANATION:

Since direct link to the involvement of NPO through re-allocation or misuse of funds or other type of activity has not been established it is considered that the level of threat is low. The nature of the threats for NPO abuse is foreseen in indoctrination of religious radicalism for example through scholarships for education in other countries, recruitment of people, logistical support such as abuse of printing equipment and premises, etc. See the international cases of abuse on page 48.

Risk factors:

- | The management of the NPOs is comprised of exponents of religious radical ideology;
- | The NPOs are registered or are active in regions identified as regions at risk of terrorism;
- | Donations/sponsorships transferred from high-risk countries or countries where there is conflict or war;
- | The NPOs do not provide information on their activities and performed financial transactions in a manner that can be verified by the institutions.

EXPLANATION:

The NPO TF RA defines the risk factors which may lead to the realization of the risk. Following is the explanation of each risk actor contained in the report:

The management of the NPOs is comprised of exponents of religious radical ideology.

The intelligence agencies indicate involvement of persons with radical religious discourse who appear in the founding or governing structure of the NPO. A link has been noted between ethnic, religious or socio-cultural groups known to be sympathetic to extremist causes. This is also noted in international typologies, where it is noted that NPOs may be used to disseminate extremist ideologies, to recruit individuals to extremist causes, and to support foreign terrorist fighters. **No such abuse has yet been observed in the RNM.**

The NPOs are registered or are active in regions identified as regions at risk of terrorism

According to the terrorism risk assessment carried out by the intelligence services, mapping of regions with high risk of terrorism was made. This statement is also confirmed by the number of people who were recruited and went to the battlefields in Syria. The NPOs that were subject to analysis are registered and perform their activities in these high risk regions.

Donations/sponsorships transferred from high-risk countries or countries where there is conflict or war.

The analysis of the financial operations of the NPOs that were subject to observation indicates that they are financed with funds obtained on the basis of donations and projects from individuals and legal entities on whose territory terrorist attacks were carried out, extremist radic

Your notes

The NPOs do not provide information on their activities and performed financial transactions in a manner that can be verified by the institutions.

It was found that the NPOs that were subject to analysis and observation do not have easily accessible information (e.g. web pages) about their goals and activity, method of financing, ownership and management structure, annual reports, etc. In addition, they do not provide information for the institutions to be able to verify whether the realized transactions are in accordance with their purpose. al and terrorist organizations and groups operate or which border countries with military conflicts.

According to the conducted analysis, no terrorist financing through NPOs in North Macedonia has been established or proven. **For most NPOs the risk is small.** The possibility for NPOs to be involved and abused for the purposes of TF exists in the performance of activities of social-humanitarian, cultural-educational and religious nature of NPOs in conjunction with the realization of risk factors. In this context, **the inherent risk of TF for the stated types of NPOs is low to medium.**

EXPLANATION:

The interaction of the identified activities and risk factors identifies the civic organizations that could potentially be abused for TF purposes. Namely, by conducting the analysis of the qualitative data, it has been determined that there is a possibility for NPOs whose activity is of social-humanitarian, cultural-educational and/or religious nature to be involved and abused for TF purposes in cases when one of the above risk factors is fulfilled.

As stated in the FATF Report on the Non-Profit Organizations' Risk of Abuse for Terrorism³⁴, which also defines the typologies, it has been noted that the risk of TF is exclusively limited to NPOs that provide services because there are no cases or suspicions of TF among the expressive NPOs

There is a possibility for an NPO whose activity is of social-humanitarian, cultural-educational and religious nature to be involved and abused for the purposes of TF in the cases when some of the risk factors elaborated above is met. **Consequently 87% of NPOs that comply with the FATF's definition of NPO have a low risk, and about 13% have a low to medium risk. In this context, the inherent risk of TF for the subset of NPOs is low to medium.**

34 FATF Report on the Non-Profit Organizations' Risk of Abuse for Terrorism, Available at: <https://www.fatf-gafi.org/en/publications/Methodsand Trends/Risk-terrorist-abuse-non-profits.html>

EXPLANATION:

The risk assessment concludes that the potential risk of TF is limited to those NGOs of a social-humanitarian, cultural-educational and religious nature.

For the purposes of the NPO TF RA, a survey of the associations and foundations was conducted providing statistically valid data on the activities of the organizations³⁵. The religious and faith-based organizations were surveyed with a special questionnaire³⁶. The NPO TF RA analyses the survey findings from the NPOs in relation to the risk categories. The segment of NPOs in which it is estimated that

35 A survey on the perceptions of the risks of terrorist financing and the effectiveness of the measures and actions for its prevention was conducted in 2019. A statistically relevant random sample was selected and answers were collected from 379 CSOs, which were interviewed over the telephone. A balanced geographical distribution of civil society organizations was provided, including respondents from all regions in the country. In line with the actual situation of the population of civil society organizations, most of the respondents were citizens' associations, wherein organizations with different programmatic focus of action were also included.

36 Survey of churches, religious communities and religious groups: In cooperation with the Commission for Relations with Religious Communities and Groups (CRRCG), a questionnaire was conducted on the perceptions of the risks of terrorist financing and the effectiveness of the measures and actions for its prevention among the churches, religious communities and religious groups. The survey questionnaires were distributed in paper form and the answers were provided by 19 entities from a total of 38 registered churches, religious communities and religious groups registered in the public registry of the CRRCG

a potential risk may be manifested (13%) includes FATF NPOs conducting activities from social-humanitarian, cultural-educational and religious nature, providing services in the risk regions of the country according to National Risk Assessment (Regions with high risk of terrorism: Skopje, Kumanovo, Tetovo and Gostivar, Report on NRA, 2020). **To clarify, this does not mean that all NPOs in this segment face a specific risk, but that if the risk is manifested, it is expected that it will be manifested in this segment.**

Furthermore, this part of the risk assessment is focused on the inherent risk meaning risk that exist without any measures applied such as the legal regulation and internal measures of the organizations.

The NPO TF RA assessed the efficiency level of the measures for mitigating the terrorist financing risk

	Group of measures	Efficiency
1	Laws and regulations	Medium – high level
2	Policies and measures for NPO engagement	High level
3	NPO self-regulation measures	Medium

EXPLANATION:

The risk assessment identified the groups of measures that exist and mitigate the inherent risk such as the laws and regulations, policies and measures for NPO engagement and existing self-regulatory measures in the NPO sector. These measures were analysed in detail and their level of efficiency was assessed as it is portrayed in the table above.

The residual risk of terrorist financing for NPOs in the Republic of North Macedonia is **low to medium**.

THE MEANING FOR MY ORGANIZATION

For every non-profit organization it is important to understand how the international standards, the national legislation related to AML and TF and the NPO TF RA impacts its legitimate activities. This will facilitate your organization's communication and dealings with the institutions, banks, and partners in a way that builds trust and protects the organization and the persons engaged in it.

Regardless whether your organization falls under the FATF definition of NPOs, every prudent organization would adopt a risk-based approach, i.e. understand the pertaining risks that the NPO might face and adopt targeted measures to mitigate its risks. It is not a complicated process and the tool provided in the following section will assist you in this regard.

It is important for you to understand whether your organization falls under the FATF definition of NPOs. If it does, it means that probably the AML and TF regulation discussed in the previous chapters will impact your organization more than other organizations. This does not mean that your organization is doing anything wrong, nor that is of high risk. It only indicates that the great work that you are doing to provide public good and help people is a type of activity that might be more vulnerable to potential misuse from terrorist financing and in rare cases of money laundering. This also does not mean that you should be scared to continue pursuing your mission and legitimate activities but rather, that you need to adopt a more careful approach and protect your organization of any potential misuse.

To learn if your organization falls under the FATF definition of NPO in North Macedonia, answer the questions below. If you are an NPO based in another country, the options provided under the first question might differ depending on the regulatory framework for not-for-profit organizations in your country and it might also include informal organization. In that case, you can refer to the different legal forms in your respective country.

Your notes

1	Is your organization registered as one of the following legal entities?		
	Association	YES	NO
	Foundation	YES	NO
	Church	YES	NO
	Religious community	YES	NO
	Religious group	YES	NO
	Red Cross	YES	NO
	International non-governmental organization	YES	NO

2	Does your organization provide any kind of direct services/assistance (including financial) to beneficiaries who are natural persons, or group of natural persons?	YES	NO
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3	Does your organization provide support and does good work for wider public benefit and the community and is not limited exclusively to serve its members?	YES	NO
----------	---	-----	----

4	Does your organization predominantly raise funds and use them for charitable, religious, cultural, educational, social or fraternal purposes?	YES	NO
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If you responded “YES” to all or most of the questions, then your organization falls under the FATF definition of NPO.

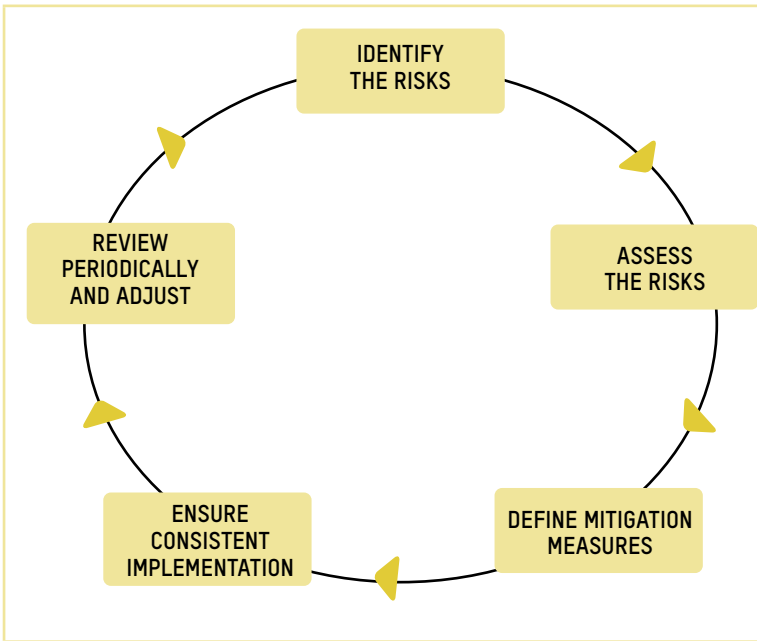
FOR EXAMPLE

If you are a foundation that raises funds to provide educational courses for young persons in rural areas then your organization is a FATF NPO. Similarly, if you are an association that provides humanitarian aid (clothes, hygiene products, donations etc.) for persons on social welfare you would also be a FATF NPO. On the other hand, if you are a sports club registered as an association that mostly provides basketball courses for your members who pay membership fees then most likely you are not a FATF NPO.

V.

PROTECT YOUR ORGANIZATION

To protect your organization from potential misuse for terrorist financing and money laundering, implement internal preventive measures consisting of the following steps:



Make sure to document the conclusions and the plan of action from this process and report to the governing bodies on the progress.



Recommendation:

Utilize the proposed process for a general risk assessment of your organization where the money laundering and terrorist financing risks would be one element of all the other risks your organization might encounter.

This will streamline the risk management of your organization and will help you to efficiently use your resources.

STEP 1

Identify and understand your potential risks

Very few organizations in our country would consider their organization at risk of potential abuse for money-laundering and financing terrorism as we believe that we act in a good faith to fulfil our missions and to serve our communities and beneficiaries. Nevertheless, we might be exposed to some types of risks simply because of the type of work that we do, transactions we engage in or the geographical location of our organization or of our activities. For example, if you collect cash contributions or make cash payments, you are more exposed to risk than if almost all of your transactions are via bank transfers. Or, if your activities are in the geographical areas more exposed to potential terrorist activity, then the organ-

ization is exposed to higher risk than similar organization located in areas with no potential terrorist activity. Thus, identifying and understanding the risks your organization might be exposed to is the first step to effectively protect your organization.

Risk doesn't automatically mean something bad - they are normal part of our everyday private and professional lives. For example, every day when we go on the streets outside we are exposed to safety risks in the traffic as pedestrians or drivers. We are aware of these risks and undertake measures to protect ourselves. The risks become negative and potentially dangerous only when they are being ignored. The risks related to AML and TF are not different than any other risks we experience in life.

In this regard, when we talk about risk in this context, we talk about the "inherent" risk i.e. the risk that exists because of the nature of our work as non-profits. It does not include the measures that we undertake (policies, procedures, etc.) to protect our organizations and mitigate the risks.

To assist you in identifying the potential risks in your organization, you can use the proposed tool that we have devised taking into consideration the specifics of the activities and the transactions (transactional relationships) in the NPOs. The tool also helps to understand which of these potential risks are most important for your organization so that you can focus your limited resources to mitigating those risks. The tool is designed to serve larger organizations as well as small NPOs and can be adapted and simplified accordingly. We recommend that for this task you set-up a working group in your organization that will comprise of representatives

from your organization including: members of governing bodies, management positions, finance and administration positions, persons responsible for fundraising, program implementation staff especially persons which are in direct communication with the final beneficiaries. Because a large part of the NPOs in North Macedonia are small organizations it will be easy to include all members of the core team. It might be practical to include this risk assessment at your next annual planning workshop or strategic planning process and then reflect and revise periodically.

The risk to your organization can be identified by the activities that the organization conducts or by the types of transactions (financial and non-financial) it engages in.

Assisting tool for identification of the potential risk

Risk per activity

Membership and governance

Services to beneficiaries (education, legal aid, accommodation and transportation, psycho-social support, etc.)

Financial assistance to beneficiaries and target groups (scholarships, voluntary contributions and other humanitarian aid, donations, etc.)

Promotional activities and events

Fundraising (grants, donations, sponsorships, etc.)

Cooperation with other organizations and stakeholders

Procurement

Risk per transaction (financial and non-financial)

Cash payments

Cryptocurrencies

Financial transactions from/to high risk countries/
jurisdictions and tax havens

Receiving donations and other gifts

Receiving sponsorships

Providing donations/humanitarian aid

Human resources (employees, part-time and volunteers)

Covering costs for beneficiaries

Use of premises and equipment

Working abroad (high-risk country and tax havens)

The risks will widely vary between organizations, they will be unique to your organization so avoid copying risks identified and assessed by other organizations.

Discuss each type of activity and identify what kind of risky scenarios might incur in relation to that particular activity or transaction. Skip those that might not be relevant to your organization (for example you don't have any crypto currency transactions, etc.). To utilise this process for general risk assessment, reflect what other risks you might encounter in respect to the above-listed activities and transactions. Feel free to add other activities or transactions if relevant to your organization.

To illustrate with an example, you might identify that the cash stipends you are providing to some of your beneficiaries might be misused by them for TF. To take into consideration the broader frame of risks, the stipends might also be misused by persons who falsely claimed they are from deprived socio-economic background. Or that some of your volunteers might misuse the organization to promote radical ideologies, etc. In the broader context, the volunteers might use inappropriate communication with your beneficiaries or mistreat them thus creating reputational risk; or they might be injured while working with volunteers etc. At this stage just outline all the potential activities and transactions you have in your organization that might create a risk. Again, we don't take into consideration what we are doing to prevent this (as internal policies and procedures).

STEP 2 | Assess the risks

After you have listed all possible scenarios (per activity and/or transaction) that might lead to AML and TF related risks, assess each of them using numbers (ex.. 1-5) based on the probability for this risk to happen and the potential consequences. Discuss the following factors:

To assess the probability - How likely that scenario will happen based on our previous experience, how dominant this activity is in our organization, the national NPO risk assessment, etc.? How often these types of activities or transactions are being practiced in our organization (in the period of 12-24 months)?

To assess the potential consequences - How severe would be the impact and the consequences for our mission, our beneficiaries and donors, the country and the organization (legal, reputational, financial, etc.) if the particular scenario happens?

If you are a large organization with branch offices in different countries and geographical areas, the assessment may vary and thus you should assess them separately. The multiplication of the scores for the two factors (probability x consequence) will give you the assessment score of the inherent risk. Some potential scenarios might receive a score of 2 (ex. 2 on probability x 1 on conse-

quences) which would mean a low inherent risk, while others might have a score of 20 (ex. 4 on probability x 5 on consequences) which would indicate a high inherent risk. Some might be considered as a medium risk. Tentatively scores 1-6 would be considered low risk, 7-14 medium risk while 15-25 combined score would indicate high risk.

Based on the assessment, you will be able to compile a list of risks that would be a priority for your organization and would need a primary attention. In the following steps, you will have to allocate time and resources to address the areas with high inherent risk, and also consider some of the medium inherent risks. At this stage you don't have to further address the areas with low inherent risks.

To illustrate the logic, given below is a fictional example of how an NPO organizational risk identification might look like. In the process of defining the risk for your organization consider the risk factors defined in the TF NPO RA in North Macedonia presented on the previous pages.

EXAMPLE

The organization "Helping Hand" is providing humanitarian aid to people in need. This is the main program of the organization that occurs in Kumanovo which is the risk area of the country. During the risk assessment the organization defined the following top 3 risks:

Risk 1

Direct aid might be provided to persons related to terrorism

Reasoning and factual findings: Providing direct financial and material aid to citizens in need is the core function of the organization and it happens regularly to a significant number of beneficiaries respective to the size of the community. In practice, people from the community just reach out to the organization to get aid which is provided based on certain criteria related to their socio-economic position. Most of the aid is disbursed in Kumanovo and the neighbouring villages.

As this activity is central to the mission of the organization, potential misuse by the beneficiaries to support terrorism would lead to significant reputational damage, might lead to closing down the program which eventually would deprive the vulnerable people from valuable immediate support. Thus, the scenario scored high in both probability and impact. "Helping Hand" decided to fully review their policies and procedures for distributing humanitarian aid.

Risk 2

The premises of the organization might be abused for logistical support of terrorism

Reasoning and factual findings: "Helping Hand" received donation of few computers and printers from a local company. Because the organization does not have a need to use this equipment regularly it decided for part of the office to be a community sharing space in which individuals or organization can use the equipment. Often people are using this opportunity to print different materials such as leaflets.

As this service occurs often, it has relatively high probability (even though a bit lower than risk 1), and medium to high impact as this is not a vital service for the beneficiaries, however it might pose a reputational and financial risk among the corporate donors if they are perceived as involved in a potential misuse. Thus, the organization decided to create rules and conditions under which the equipment can be used because they scored this scenario as medium.

Risk 3

The reputation of an organization in the community might be abused for fundraising by third parties by false representation

Reasoning and factual findings: The organization is fundraising in the community using door-to-door approach. Small cash donations are received by citizens and adequately recorded. Potentially, a third party might use their name to collect donations from the citizens. In practice,

this risk was small because the local citizens know their volunteers. However, the group decided to consider mitigation measures for this risk as well, since the potential consequences for their future local fundraising efforts and the trust among the local citizens could be damaged.

Checklist

Is your organization able to list the top three priority potential risks from ML/TF throughout the organization's activities and/or transactions?

STEP 3 | Define mitigation measures

After you defined the priority risks you should develop measures that will prevent and mitigate their realization in real life. The logic of the risk based approach is the following: where there are higher risks, enhanced and more detailed measures should be taken to manage and mitigate those risks even if you are a small organization. The approaches towards the identified priority risks can vary and include following measures: Avoidance (stopping the risky activity); reduction (changing something so the risk is less likely to happen); mitigation (actions to minimise the impact of a risk if it were to happen); insurance (taking measures to compensate yourself if a risk were to occur); acceptance (a deliberate decision that the risk cannot be mitigated but that you will continue anyway, usually because it is a mission-critical activity). Following one of the examples above, the organization might decide to stop offering the use of the computers and equipment to the local community members (avoidance approach). However, they might also decide that this is vital resource for the local community in which case they could use reduction approach and limit the ways and the persons allowed to use the equipment is used or mitigate by developing rules on the use of the equipment.

Priority should be given to the higher risk scenarios and in this case, the measures taken by the NPO should be wider in range, degree, frequency and intensity. For instance, the mitigation measures for the higher risks should include more levels of internal checks and control and might entail detail procedures that will be

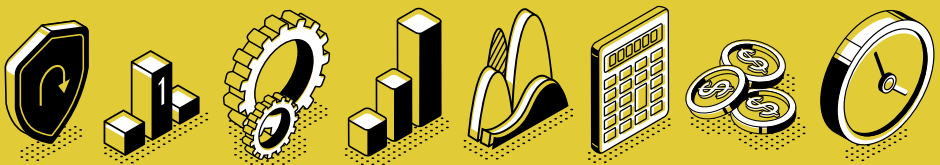
followed regularly. On the contrary, low risks will not require instant and intense measures and for example might be covered with informational activities or materials for the NPO staff.

It is very important that the preventive and mitigating measures that your organization will develop and undertake are proportionate to your size and capacity. This will strengthen their effectiveness because the organization will have the capacity and resources to implement the identified measures.

Following are the mitigation measures for our example:

EXAMPLE

After identifying the organizational risks, “Helping hand” developed mitigation measures as part of the organizational annual plan that was adopted by the Assembly of the organization.



RISK 1

Direct aid might be provided to persons related to terrorism

Mitigation measures

1. Review and update the procedures to provide clear responsibility for staff to check whether the potential humanitarian aid recipients are fulfilling the criteria.
2. Develop check list for each of the criteria that should be filled by designated responsible staff (include cross-check of the names of the potential recipient against available sanction lists)
3. Develop additional internal control mechanism that will enable more than one staff member to be involved in this process (such as: approval of form; additional cross-check of sample, etc.)
4. Introduce a written statement in which the aid recipient will declare that the humanitarian aid will be solely used for their basic needs and that the recipient is not involved in terrorism and terrorist financing. The statement should be signed before the aid is provided.
5. Maintain regular contacts with the beneficiaries and community members to ensure their needs are met through the institutional settings. This would also protect the beneficiaries from being misused by illicit groups.

RISK 2

The premises of the organization might be abused for logistical support of terrorism

Mitigation measures

1. Introduce application procedure for using the premises and equipment in which applicant will describe the activities for which they will use this service and provide basic information about the organization/citizen.
2. In the process of reviewing the application form, verify the data provided using available sources of information.
3. Introduce a written statement in which the aid recipient will declare that he/she is not involved in terrorism and terrorist financing that should be signed before the possibility for using the premises is provided.
4. Request sample of the promotional materials that will be produced in-house from the beneficiaries of the services.

RISK 3

The reputation of organization in the community might be abused for fundraising by third parties by false representation

Mitigation measures

1. Issue identification name tags for the fundraisers stamped by the organization which will be visibly worn by them.
2. Issue written consent for the fundraisers to solicit donations on behalf of the organization.
3. When possible, organize the fundraisers to collect donations in pairs and based on rotating principles in order to prevent misconduct.
4. On the organizational website, publish information about the fundraisers including the use of identification cards.
5. Enable and encourage donors to report the cases of false representation to the organization.

As it is obvious from the example, the measures for protection from abuses will vary from case to case and will depend on the particularities of the activities of the NPOs. On the subsequent pages you will find guidelines around the main topics that are important to be taken into consideration when developing your own preventive or mitigation measures.

GENERAL PREVENTIVE OR MITIGATION MEASURES

DEMOCRATIC GOOD GOVERNANCE

Democratic and good governance practice is an important prerequisite for any risk that the NPO might encounter. The governance structure and decision making process should be defined in the statutory documents of the NPOs and fully implemented in practice. The rights and obligations of all organizational bodies should be defined in writing: governing, executive and supervisory. Limitation of discretionary decision-making power (such as clear division of governance and executive powers) and placement of system of prevention of conflict of interest will enable NPOs to prevent any major misconduct. In practice, even if you are small organization the basic principle for decision-making in all of your key functions is that at least two persons should be informed and involved in making the decisions about the projects and activities of the organizations, people the organization engages with, the transactions (legal and financial) the organizations makes, etc.

Good governance structure in your organization should ensure that the work that you do:

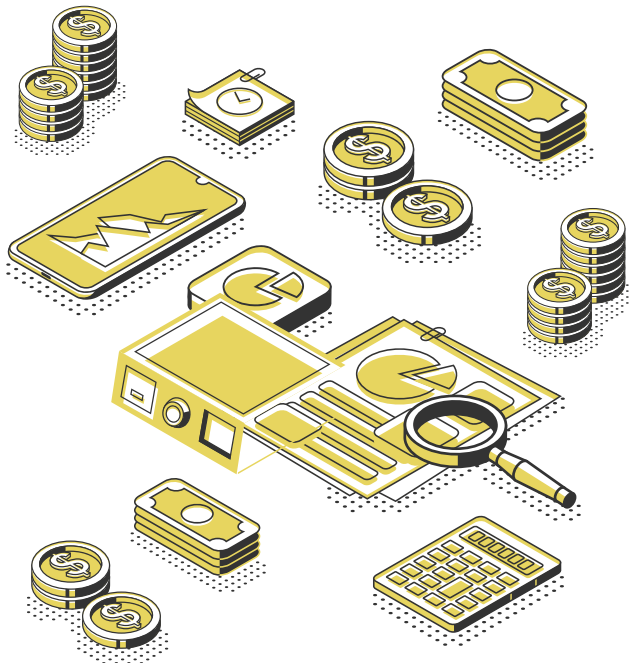
- a** | is aligned with your mission,
- b** | complies with legislation and does not engage in criminal activities,
- c** | ensures all members and staff act with integrity and mitigate conflict of interest,
- d** | protects the independence from outside influence.

Since abuses may come from within the organization, the defined system of governance of the organization is the most important mitigation measure. All positions in the organization should be held responsible for their legal conduct and the organization should have in place mechanisms with which it can secure legal liability and compliance such as: clear responsibility for staff members to follow the regulations that are within their scope of work; internal capacity building and sharing of knowledge; internal compliance check; following the regulatory changes; consultations with NPOs and/or professionals with legal expertise, etc.

Enabling independence of the organization from outside influence is also an important aspect of good governance that finds its role in preventing abuses for the purposes of terrorist financing and money laundering. In this regard, it is of crucial importance that you know your members and in particular, the members of the bodies of your organization that have access to your resources and program decision-making. This does not mean that you personal-

ly know them, but that you ensure they are not part of a terrorist group or involved in a criminal group. If a member of your organization is a politically exposed person, make sure that their political function does not interfere with the decision-making of the organization, including the fundraising and the use of the organization's resources.

Throughout the work of your organization, it is inevitable that you will make mistakes in terms of managing your finances, unintentionally breaching some legal obligations because you lacked knowledge, partnering with entities that turn out untrustworthy, etc. It is important that your governance system also include policies and procedures on how the organization will act to resolve the issue, undertake corrective measures and prevent future misconduct.



Checklist

<input type="checkbox"/>	Does your organization have clear division between the executive and non-executive decision-making functions and mitigates conflict of interests?
<input type="checkbox"/>	Does your organization have at least two persons involved in key decisions such as programs, projects and activities of the organization and the use of the finances?
<input type="checkbox"/>	Does your organization take steps to ensure that your projects and activities are in line with the mission?
<input type="checkbox"/>	Does your organization take steps to protect its independence and outside influence?
<input type="checkbox"/>	Does your organization have follow-up plans and procedures when mistakes and misconduct have been identified?

KNOW YOUR PRINCIPLES – DUE DILIGENCE

The public and those donating to NPOs should have confidence that the donated money is used for legitimate purposes and is reaching its intended beneficiaries. The philanthropic and voluntary nature of NPOs leads to wide network of donors, partners and beneficiaries with which NPOs have transactions. In the most simplistic manner of speaking, terrorist financing is related to the use of funds for

terrorist activities and money laundering is the disguise of money that are gained through illegal activity. Consequently, NPOs should be reasonably assured about the origin of the funding they receive and the end use of the funds, goods and assets they provide to others.

In order to protect your organization, the practice of due diligence on those individuals and organisations that your NPO gives money to, receives money from or works closely with should be performed. When your organization gives money to partners and beneficiaries (especially large amounts of money or in high risk situations), make sure that adequate monitoring is implemented. This means that the NPO should verify that its funds or property reach their proper destinations and are used as the NPO intended.

Make sure that the measures you undertake are reasonable

The control bodies of the organization should assess what reasonable is for your organization taking into account the risk and the nature of the activity.

Reasonable measures should be adequate to size of your organization and the scope of the activities and **you should be able to implement them with the existing resources of the organization.**

Among others, the existing resources³⁷ stress the following core principles of due diligence that NPOs should follow:

- **Identify** – know who are you dealing with (donors, beneficiaries and partners)
- **Verify** – when reasonable and when the risks are high verify identities using available sources

To the best of its knowledge and possibility, the NPO should implement measures to be assured that it is appropriate and legal to interact with natural and legal persons especially at the level of transaction and activity. NPOs should know their donors, beneficiaries and partners. There are similar requirements and expectation for other sectors. For example, banks have to take reasonable steps to know their clients.

Your notes

37 See: Anti-Money Laundering Authority (Barbados, 2019), Combating Terrorist Financing Guideline for Charities and Non-Profit Organizations [online] and Charity Commission for England and Wales (2011), Compliance toolkit: Protecting charities from harm Chapter 2: Due Diligence, monitoring and verifying the end use of charitable funds: summary [online].

KNOW YOUR DONOR

NPOs mostly rely on donor support. In order to protect your organization from ML and TF the expectation is to know, at least in broad terms, the source of the money that is being given (grants, sponsorships from particular company, cash donations from individuals, etc.). This does not mean that each donation should be questioned or that you should collect a lot of personal and other details for each individual donor. The practice should be related to your risk assessment and in particular, when significant sums are being provided to your NPO you should take reasonable steps to know their donors adequate to the identifies risk.³⁸

The following guidance, advices and examples will help you in that process:

- Ensure that it is appropriate to receive funds from that particular donor.
- To the best of your knowledge, check the source of the funds.
- Make sure that the conditions related to the donation are appropriate and can be accepted.

38 Source: Anti-Money Laundering Authority (Barbados, 2019), Combating Terrorist Financing Guideline for Charities and Non-Profit Organizations [online]. Available from: <https://caipo.gov.bb/home/index.php/forms-documents/category/11-documents?download=115:combating-terrorist-financing-guideline-for-charities-and-non-profit-organizations>

Here are some red flag situations and examples:



A company wishes to make a donation to your NPO for a particular project. It communicates informally that a condition to receive the donation is the services needed to implement the project activities (to be financed by the donation) to be purchased from a daughter company. Except for conflict of interest and ethical reasons this might be also a possibility for tax evasion or potentially money laundering. In principle, avoid accepting donations where the donor specifies names of persons/legal entities that you should hire, subcontract or subgrant. This does not apply if the donor conditions the donation in terms of specific features such as to give preferential treatment to hire persons from vulnerable groups, subcontract to companies with certain environmental standards, provide subgrant or provide donations for certain specific purpose or you have stated the recipients in your project proposal, etc.



An organization wishes to make a donation on behalf of a donor that wants to remain anonymous. Sometimes donors may request anonymity from different reasons (for instance, the public announcement of their donation may influence public opinion or disclose information about their identity, values, etc.). However, it is a common practice the donor to be known for the donation recipient (the NPO), but not for the public. Subsequently, in this case your NPO should check the reputation of the organization acting on behalf of the donor and explore the possibility the donor's name to be known for your management structure but not for the public.

In case of public collection of cash donations through use of donation boxes and similar fundraising methods, the individual donors and the amount donated are not traceable. In this case the NPO should document the process. At the end of the collection, form a commission of 2-3 representatives from your organization that will count the amount, write up a report and transfer the money to the NPO bank account notifying that the funds are from donation boxes.



An organization wishes to make a donation. A smaller portion of the amount will be for your NPO and the rest is requested to be transferred to organizations abroad. This situation should be closely analysed by your NPO since it is a red flag for money laundering or disguising the origin. Make sure to provide all the details and reasoning from the potential donor. Reflect on how this activity is linked to and will benefit your mission.



Donations from high risk countries and tax heavens. Be especially careful if you decide to receive funding from entities that come from countries formally identified as high risk for terrorist activities as well as those registered in tax heaven countries (where it is difficult to establish the source and the real owner of the company). To mitigate this risk, you can refer to the FATF List of High-risk and Other **Monitored Jurisdictions publicly available online** <<link>>



Larger donation amounts offered by the donor in cash. While cash donations are usual in live fundraising events, be aware if a single donor approaches you directly offering larger cash donation. When determining what is a large donation refer to the usual practices in your country regarding cash payments i.e. what amount of good/service would be considered as normal to be paid in cash in your country by an average person/company?

EXAMPLE OF GOOD PRACTICE

An individual from a high risk country wishes to transfer a donation to an NPO in North Macedonia. Checking the transaction, the bank requests an agreement with the donor in order to transfer the money to the NPO bank account. Since the NPO did not receive a donation from this individual before, it contacts the donor directly, checks the purpose of the donation and after it decides that the donation is acceptable and signs a contract.

Checklist



Does your organization conduct a due diligence to ensure you know your donors, especially for larger donations (larger than what you normally receive and certainly for amounts over the average salary in the country)?



Do you maintain documentation on the received donations?

KNOW YOUR BENEFICIARY

NPOs provide variety of services, humanitarian aid, but also finance to organization and individuals. Developing measures and practices to know your beneficiary will enable your NPO to make sure that the provided help goes to the intended beneficiary and it is not abused in any way.

NPOs use different ways to identify their beneficiaries and are often bonded to their communities, knowing the needs of their members. In the process of selection of beneficiaries, the NPOs have direct approach to the end users (for example civil society organization that directly provides help to vulnerable persons including financial aid) or they indirectly distribute their support via third parties (for example, a foundation that provides grants for an organization that distributes scholarships to students with limited opportunities). In both cases the NPO should minimise the risk of abuse by knowing their beneficiaries. In the first case the measures will be directed directly towards the end beneficiaries (example criteria for selection, checking and verifying if needed etc.), and in the second the foundation will make sure that the grantee is in compliance with a set of rules which will be checked (e.g.: guidelines for selection of scholarship beneficiaries, requirement of list of beneficiaries, random check of identity, ensure that formal channels for financial transactions are being used, etc.).

The “know your beneficiary” principle might not always be applicable. For example, an NPO that grows an urban garden with playground which is available on a public space is not in a position to choose its beneficiaries, nor it is logical to identify and verify the identities of its users.

In general terms, the NPO should assess the risks that some people or organizations can abuse the support provided by making false applications, including creating beneficiaries that do not exist. NPOs should reasonably check if their beneficiaries are genuine and if they suspect that their help is being used for criminal activity to report the institutional authorities.

EXAMPLE

A foundation is providing grants to a small NPO. The NPO is running a social enterprise that hires and buys products by a large number of beneficiaries. The project involves payment in cash and the NPO requests a grant tranche to be transferred to a bank account that is not in the name of the grant recipient. The foundation will perform on spot monitoring visit, will check the documentation for the project beneficiaries (see Know your beneficiary section) and request a written explanation why the money should be transferred to an account that is not owned by the NPO, after which it will refuse the option.

When it is difficult for you to know your beneficiaries due to limited resources, the size of the beneficiary groups, etc., you might consider using self-declaration by the beneficiary i.e. for the beneficiary to confirm that the support they receive from you will not be used to finance terrorism-related activities, corruptive behaviour or other criminal acts. If you sign contracts with your beneficiaries, you can include such articles in the contract itself.

When working with beneficiaries in foreign countries, special attention and check of documentation should be placed on countries with weak AML/CTF regimes. For this purposes you can use the FATF List of High-risk and Other **Monitored Jurisdictions which is publicly available online** <<link>>

Checklist



Does your organization check, where possible, that it does not support individuals and/or organizations associated with terrorism?

KNOW YOUR PARTNER

Partnerships are essential for the NPOs, especially in North Macedonia. It enables wider social impact of the NPOs and is especially important for financial sustainability, enabling the organization to apply for funding and jointly implement programs.

Based on risk assessment, the NPOs should decide on the level to which due diligence steps will be taken for their partners and the measures of prevention that will be implemented. Knowing your partner is particularly important if it involves financial or material transactions between you and the partner. Here are some red flag situations and examples:

Your notes



An NPO intends to apply for a grant and is searching for a partner organization. It has been approached by several organizations. In the process of selection, the NPO is conducting the following due diligence steps: checks the identity of the organization using publicly available sources (web page check, use of the search engine of the Central Registry); checks the reputation of the organizations (internet search, asking other NPOs that previously cooperated with the organization, etc.); and directly communicates with the potential partners assessing their capacity and motives.



An NPO cooperates with a smaller organization from another municipality that is identified under increased risk of terrorist activity. As the NPO wants to support their local partner, they allow them to use their premises and equipment when they need to work from the city where the NPO is based. In this case, your NPO needs to make sure that the partner organization and the people representing it are using your facilities solely for the legitimate activities of the organization and not for potentially criminal acts such as extremist's propaganda and the like.

Prevention mechanisms and measures that NPOs can implement in terms of their potential and ongoing partners include:

Ensure that you know your partner;

Check the reputation of the potential partners;

Partner with organizations that carry out activities in accordance with their mission;

When in partnership that involves financial transactions, sign formal agreements with the partners that define the roles and responsibilities of both parties, regulates the use of funds, monitoring, spending and reporting, oversight, etc. Include AML/CTF clauses in the agreements;

Ensure that your partners work legally, settle their tax liabilities and have good financial management. In the due diligence process, check the list of international and domestic sanctions;

Maintain the relationship with the partners, encouraging them to express any concerns and dilemmas they may have.

On the following links you will find information regarding the international and domestic

lists of sanctions which you can use in your process of due diligence:

International list of sanctions



Information source for the procedures for issuing non-conviction certificates and information from criminal records by the court authorities



Procedure for issuing information on offenses, penalties and prohibitions by the Central Registry



Checklist



Does your organization check the reliability and accountability of the partners you engage in joint projects, advocacy and other initiatives?

FINANCIAL MANAGEMENT

Strong financial management and robust internal control is an approach that will prevent possibilities for financial abuse and misconduct. The NPOs should efficiently use the funds to fulfil their mission in accordance with the aim of the funding. The process of development of written financial procedures should aim to minimize all risks of misuse of funds. Even if you are a small organization you should strive to document basic procedures and standards for managing the finances in your organization. In this regard, consider the following elements of the financial management system that will enable you to protect your organization from potential ML/TF abuse:

- Internal control that ensures proper use of funds. Make sure that different levels in the organization periodically (and at least once a year) review how you raise funds and spend the resources of the organization. Ask your accountant to double check your documents and make sure you reconcile your internal reports with their accounting records.
- Financial documentation that is clear and easily verifiable.
- Records of receipt and execution of funds including their purpose.

Especially for larger organizations, several levels of check and financial control: initiation of expenses, approval and execution (check and approval of spending) – as indicated in the good governance section, make sure that at least two persons in the organization are involved in the process of financial transactions. For small organizations, as a good practice you might have for example one person filling out the payment order (check) while the authorized person only signs it.

Accounting and bookkeeping in accordance with the legal obligations (depending of the size of the organization).

Internal and external audits (in line with the possibilities of the organization).

Minimal use of cash.

Use of formal financial transfers and services.

Special attention when working with foreign countries. Follow the guidance for due diligence of donors, beneficiaries and partners and document properly.

- Documentation of the donations (issuing a confirmation of received donation after its acceptance, signing agreements with AML/CTF clauses where relevant, lists of donors, etc.).
- Daily check of the financial transactions and identification of unusual transactions.
- Reasonable due diligence checks.

To learn more about financial planning and taxes in the NPO sector use Konekt’s guides that you can find on these **links** in **Macedonian** and **Albanian** language.



Checklist



Does your organization keep detailed record of all income and expenditures of the organization and makes sure they are in line with the work of the organization?



Does your organization regularly publicize annual program and financial reports in a manner that is clear and provides sufficient details to inform the public?



Does your organization have policies and procedures for internal financial control to ensure transparency and accountability?

HUMAN RESOURCE MANAGEMENT

When employing or engaging personnel (including volunteers), the NPO should perform basic due diligence i.e. background checks. Working with reliable people is primary to protect the organization from potential abuse. Good human resources management practices provide adequate protection, but the risk factors in the NPO TF RA should be taken into consideration (infiltration of exponent to radical ideology).

RED FLAG EXAMPLE

A small NPO is being asked for a favour from an associate. A well-known foreign citizen who lives in the town needs to provide legal status for the residence permit of his wife. The NPO is asked to sign a volunteering agreement which will resolve the situation. The NPO refuses since genuine volunteering will not happen in practice, which is a breach of the law. Furthermore, the volunteers of the NPOs have limited right to act on behalf of the organization.

While it is unrealistic to expect that NPOs will conduct detailed background checks, some of the mitigation measures you implement may include:

- Background check of the potential staff or volunteers (call to check references, previous employees, etc.)
- Check the international and domestic lists of sanctions
- Develop mechanism for staff to report or raise concerns
- Use written forms/statements for engaged persons, employees and volunteers to declare that they are not involved in terrorism and terrorist financing
- Build integrity culture, develop or participate in existing Codes of Conduct

To learn about organizing of volunteer work in NPOs, use Konekt's guides that you can find on these **links** in **Macedonian** and **Albanian** language.

Your notes

TRANSPARENCY AND ACCOUNTABILITY

Transparency and accountability are important pillars of civil society. Publicly available information for the NPO have multi-layered benefits and build the trust in the NPO by its constituencies, beneficiaries, donors and communities.

In terms of ALM/ CTF, one of the risk factors that the NPO TF RA defines is when the NPOs do not provide information on their activities and performed financial transactions in a manner that can be verified by the institutions. Be aware that the public sources like the NPOs' webpages and social media platforms are an important resource that is essential for the work of all institutions that comprise the system for TF /ALM protection, so make sure that the NPO maintains its transparency and accountability.

To comply with the legal obligation and good practice make sure that the following is available publicly:

- Annual financial statements (reports). Make sure that your reports provide easily understandable and comprehensive information about your sources of funding, and the purpose and use of the organization's funds.
- Annual narrative reports.
- Accurate information about the members of your governing, managing bodies and employees (names, surnames and bios).

- Statutory documents.
- Information regarding the vision, mission, objectives and ongoing activities.
- Lists of donors and sources of funding (in some cases when approved by the donor).
- Direct contact information.

Additionally, in terms of ALM/CTF, the NPO may decide to publish information (for example on the webpage) that it conducts due diligence check of donors, beneficiaries and partners. This also acts as a preventive mechanism that demotivates those who wish to abuse the organization.

To learn about the transparency and accountability obligations of the NPOs use Konekt's guides that you can find on these [links](#) in [Macedonian](#) and [Albanian](#) language.

Checklist



Does your organization regularly publicize annual narrative and financial reports, as well as other relevant information in a manner that is clear and provides sufficient details to inform the public?



SELF-REGULATION

Self-regulation is an effective way for NPOs to define higher standards of soft regulation and to strive towards best practices. Self-regulation mechanisms in North Macedonia are becoming more popular in the NPO sector. It is recommendable to join initiative such as the Code of Conduct for Civil Society organizations, self-regulation for service provider organizations, the TrustMark, etc.

TrustMark is a self-regulation mechanism whose purpose is to facilitate the access of citizens and companies to trusted organizations to which they can make their donations. It is aimed at long-term enhancement of the trust between the civil society organizations (CSO) and the local donors. To serve the AML/CTF purposes, the TrustMark was upgraded, embodying criteria compliant to the FATF standards. The methodology was developed by the European Center for Not-for-Profit Law – ECNL and Konekt by reviewing similar models in array of countries and localizing the mechanism on the context of North Macedonia. In order to obtain the Trust Mark, the CSO should adhere to a set of principles and criteria related to the following areas:

- | Mission and values.
- | Democratic and good governance.
- | Financial management.

- | Transparency and accountability.
- | Communication and advocacy.
- | Fundraising.
- | Human resources.

In order to obtain a Trust Mark, as a first step, civil society organizations carry out a self-evaluation. Next, the Trust Mark Board checks the provided supporting documentation and organizes additional meetings with the CSOs. At the end of this process, the Board, which is comprised of experts in multiple areas, determines whether a CSO will receive a Trust Mark.

STEP 4 | **Ensure consistent implementation**

Once you have defined the mitigation measures based on the assessed risks and have adequately integrated them in the organization's statutes, policies and procedures, it is important that you consistently implement them throughout the organization's programs and structures. Inform the responsible persons, governing bodies and the staff of the organization of the identified risks and provide support to them in implementing the measures.

As part of the implementation of the mitigation measures, it is important that your organization defines procedures in cases when

they notice any suspicious activity related to its work. For example, try to reflect in your policies on the following questions: What should a staff member do if they suspect misuse of the organizations funds such as ML or TF by another staff member or a beneficiary? What if a member of the Assembly has concerns of a new-coming member suspecting s/he might be connected to extremist groups? What steps should the financial manager take if they suspect the origin of the donation coming from a particular donor?

Checklist



Does your organization have policies in place to ensure the implementation of the mitigation measures, including when suspecting suspicious activity?

STEP 5 | Review periodically and adjust

Finally, as with any strategic and planning process, make sure that from time to time your organization reviews the assessed risks and the effectiveness of the mitigation measures. This could be done every two years where your core team will review any changes in the overall context of the country (level of terrorist risk, levels of corruption and criminality, etc.), changes in the programs and focus of the organization, the types of beneficiaries, etc. Review whether the same risks are still a priority for the organization and if not, adjust the risk assessment accordingly. Review the effectiveness of the mitigation measures and adjust the policies and procedures as needed.

VI. ANNEXES

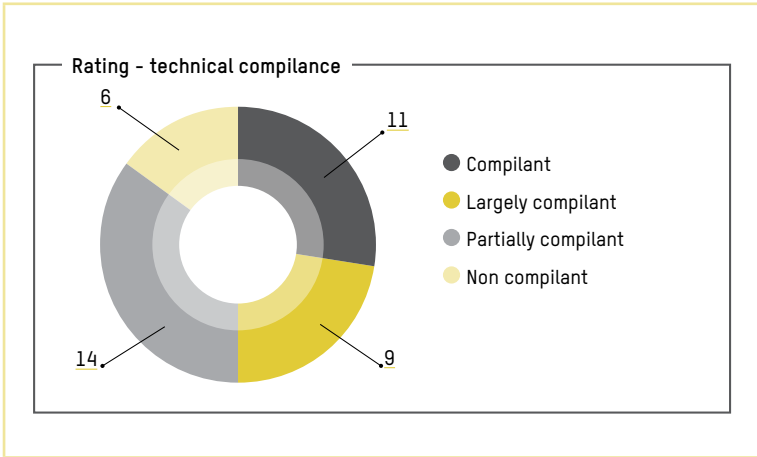
ANNEX 1

MUTUAL EVALUATION PROCESS

In 2014, FATF introduced a new methodology for evaluations, which includes an effectiveness component that reviews the implementation of standards beyond mere technical compliance (only laws and regulation). In addition to checking that the laws and regulations meet FATF standards, evaluators focus on the impact of any existing measures for AML/CFT, asking if they are actually effective on the ground. The scope of the evaluations involves two inter-related components:

Technical compliance component will assess whether the necessary laws, regulations or other required measures are in force and effect, and whether the supporting AML/CFT institutional framework is in place.

Effectiveness component will assess whether the AML/CFT systems are working, and the extent to which the country is achieving the defined set of outcomes. Effectiveness is determined based on the 11 Immediate Outcomes (IO) for effectiveness check. There are 11 IOs which can be rated as Low Level, Medium Level, Substantial Level and High Level of Effectiveness. The one relating to NPOs is IO 10, on TF Preventive Measures and Financial Sanctions.



Source: FATF website

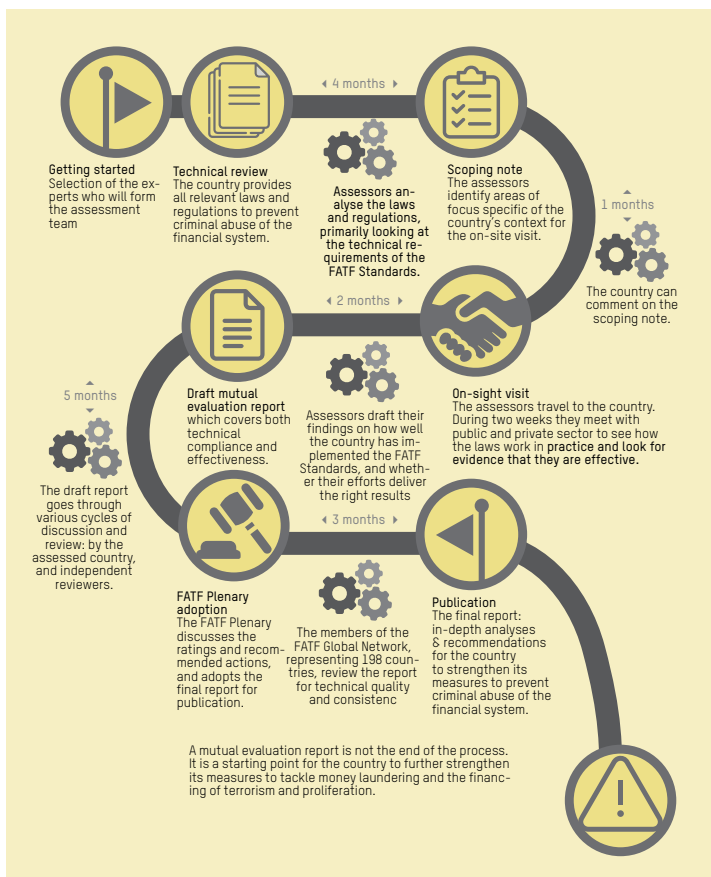
The entire evaluation process typically lasts over a year and consists of several steps that can roughly be divided into three phases:

- 1 **Preparations** for the evaluator’s visit to the country (onsite-visit), during which the evaluation team is being formed, preparatory materials are shared and the technical compliance check of laws and regulations begins (desktop review);
- 2 **Onsite visit** of the evaluator’s team to the country, during which the evaluators meet and discuss the effectiveness of the AML/CFT system with government officials, institutions and different sector representatives, including NPOs;

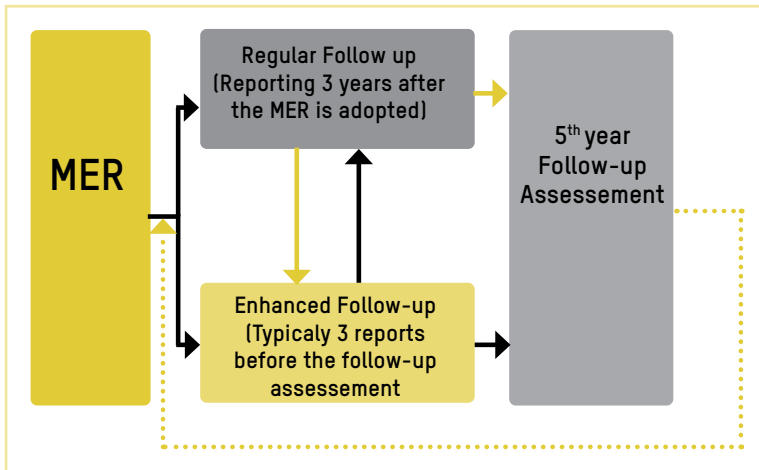
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Post onsite visit, during which the evaluators prepare a mutual evaluation report (MER), discuss and refine the inputs and comments from the country and the FATF Secretariat. Finally, the report is adopted and published.

The Mutual Evaluation Process



After adopting and publishing a MER, the country could be placed in either regular or enhanced follow-up procedure, depending on its overall rating and compliance with the FATF standards. FATF and FATF SRBs adopt follow up reports where the progress of each country can be tracked, including on NPO standards. The follow-up is intended to continuously incite and assess the progress the country is making in implementing the AML/CFT standards. Therefore, in practice, the evaluation cycle never stops.³⁹



Source: *FATF website*

Regarding the confidentiality of the process, typically, all documents, comments and information produced during the evaluation process, other than the published report, are treated as confidential. This makes it very difficult, if not impossible, for third parties

39 See more here: <https://www.fatf-gafi.org/en/publications/Fatfgeneral/Universal-procedures.html>

(such as the NPO sector) to have a formal, meaningful input in the process.

There is a prominent role of the FATF/FSRB Secretariat during the process:

- Supports the assessment team and the assessed country;
- Focuses on quality and consistency;
- Ensures compliance with process and procedures;
- Assists assessors and assessed country in the interpretation of the standards, methodology and process in line with past plenary decisions;
- Ensures that assessors and assessed countries have access to relevant documentation; Project-leads the process and other tasks as indicated in these procedures.

Given the overarching role of the Secretariat and the confidentiality of the entire process, the point for engagement during the process for civil society should be the FATF/FSRB Secretariat.⁴⁰

40 See more about the follow up process and the role of FATF/FSRBs in this publication: <https://ecnl.org/publications/how-can-civil-society-effectively-engage-counter-terrorism-processes>

ANNEX 2

FATF ENGAGEMENT WITH THE NPO SECTOR

The FATF provides multiple guidelines on the outreach to and engagement with the NPO sector. For example:

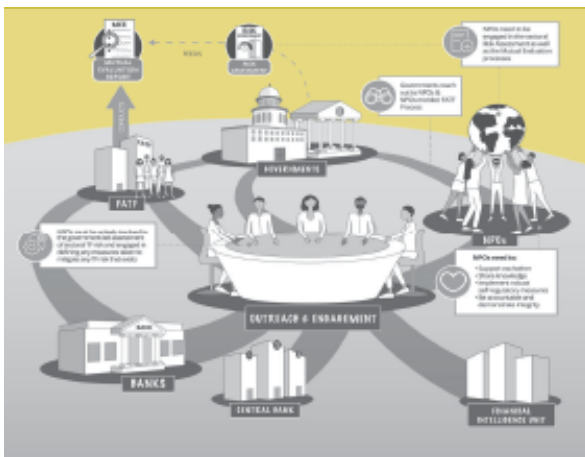
Countries are assessed based on whether and how they reached out and consulted private stakeholders in terms of policies, laws and risk assessments (FATF Recommendation 1 and Immediate Outcome 1);

Countries should work with NPOs to develop and refine best practices to address terrorist financing risk and vulnerabilities and thus protect them from terrorist financing abuse (FATF Methodology, Recommendation 8.2(c)); Participatory approach to Risk Assessments is a Best Practice (FATF Terrorist Financing Risk Assessment Guidance, p 68).

The FATF has long recognised the vital importance of NPOs in providing crucial charitable services around the world, as well as the difficulties in providing that assistance to those in need. FATF encourages countries to work with relevant NPOs to ensure that much needed aid is getting to its intended recipients in a transparent manner. (FATF 2020 statement on the NPO sector and Covid 19).

Sustained engagement with and outreach to the NPO sector is also encouraged within the FATF Best Practices Paper on Combating the Abuse of Non-Profit Organisations (Recommendation 8)⁴¹.

The engagement with the NPO sector should be a continuous effort and be based on different levels of involvement, from awareness and education to long-term dialogue and cooperation.



Source: Global NPO Coalition website

41 See more here: <https://www.fatf-gafi.org/media/fatf/documents/reports/BPP-combating-abuse-non-profit-organisations.pdf>

Awareness raising about CFT issues for the NPO sector

As part of the larger effort to mitigate terrorist financing risks, raising awareness and providing correct information to the NPO sector is a crucial first step. This includes publishing information, advice, resources, as well as typologies of potential TF abuse and how to recognize them. It also entails organizing joint meetings, discussions and dialogue to learn about NPO perceptions and concerns, and to inform them directly about the issues. Countries can publish awareness materials and information online for easy access and open direct lines of communication for concerns and questions.

Developing and providing educational materials for the NPO sector

Several countries have developed and published educational and guidance materials, in consultation with NPOs, on various topics that help the NPO sector understand and mitigate its own risks. The topics can include recommendations on best practices for risk mitigation, guidance on good governance and financial management, protection from fraud and abuse, sharing of practical examples, and could also include the development of an online toolkit for NPOs. Many of these already exist within the NPO sector as self-regulation, codes of conduct or similar. Therefore, reaching out to NPOs and asking about existing self-regulatory mechanisms, internal standards and codes of conduct can help efforts to develop guidance and educational materials.

Engaging in a sustained outreach and (multi-stakeholder) dialogue with NPO sector

Sustained dialogue is the best way of understanding the different issues related to risk mitigation (security, development, humanitarian principles, financial integrity, regulation) and engaging effectively with the sector on specific aspects. It is critical that countries, especially regulatory authorities, play a consistent and engaged role in multi-stakeholder forums to ensure that dialogue is ongoing and institutionalized, and that the outcomes are sustained. Efforts should be made to identify and engage smaller NPOs that may experience challenges or require different responses or support. To ensure that the dialogue translates into practice, there must be dedicated resources and support to build the capacity of the government, the NPOs and the private sector to address the identified issues.

Good practice examples:⁴²

In Kyrgyzstan and Kosovo, good working relations have been established between the NPO and government representatives, and there is a sustained and ongoing dialogue and engagement on AML/CFT issues.

42 The examples are based on internal material developed by ECNL and also from the Global NPO Coalition on FATF.

The Netherlands: A formalized roundtable process comprising the Ministries of Finance, Justice and Security and Foreign Affairs, the Financial Intelligence Unit, NPOs – umbrella/membership organizations, as well as individual organizations, the NPO fund-raising regulator, the Banking Association and international banks, to discuss financial access issues faced by the NPOs as a result of the AML/CFT regulations, among others. The roundtable is co-convened and co-facilitated by the Ministry of Finance and an NPO that is knowledgeable about AML/CFT regulations and the broader CFT framework. An agreement document is in place, put together by the NPO, the Dutch Banking Association, and the ministries involved, which outlines the rationale for the roundtable, the responsibility of each of the stakeholders to contribute to the dialogue, and the objectives of the dialogue. This type of modality is a condition for the legitimacy and sustainability of the multi-stakeholder dialogue, as the agenda is driven by the concerns and practices of NPOs, the AML/CFT and sanctions-related policy analyses of NPOs and government agencies, and the policies and practices of banks with regard to customer due diligence. The outcome of the roundtable meetings are circulated amongst all participants and so far have not been publicized. The ministries, the NPOs and the Dutch Banking Association foresee a series of smaller stakeholder dialogue processes that will address specific issues for subsets of NPOs, coupled with a comprehensive

ANNEX 3

RISK ASSESSMENT PROCESS ENGAGEMENT: GOOD PRACTICE EXAMPLES:⁴³

United Kingdom: The **2020 National Risk Assessment** provided opportunity for broad NPO consultation, including some NPO input, and assessed the risk of abuse of non-profits for terrorism financing as 'low'. It also flagged the issue and impact of bank de-risking on charities.⁴⁴

Tunisia: State institutions (including the FIU, the General Directorate of Associations and Political Parties at the Presidency of the Government, the Anti-Terrorism Commission) and local NPOs collaborated effectively to update the Risk Assessment of the sector using a methodology provided by a Global Coalition member. The collaboration, and the work done on implementing R.8 in a way which protects civil society freedoms, has been much valued all round, leading to Tunisia being found Compliant with R.8 in 2019 – one of only six countries globally to be rated so. Just as importantly, there is now a genuine partnership between the government and the civil society on issues relating to possible TF risks in the NPO sector and measures to be imple-

43 The examples are based on internal material developed by ECNL and also from the Global NPO Coalition on FATF.

44 See more here: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/945411/NRA_2020_v1.2_FOR_PUBLICATION.pdf

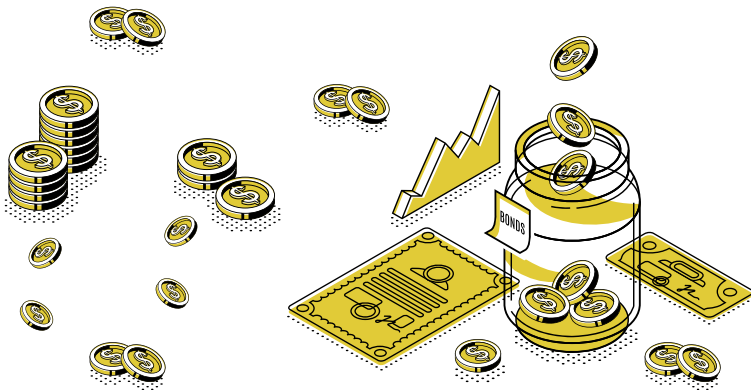
mented to mitigate these risks. The FATF has also now removed Tunisia from its ‘high-risk and other monitored jurisdictions’ list.

In North Macedonia, the government and NPO sector conducted a joint risk assessment exercise and then continued a sustained dialogue on developing mitigating measures, issues of financial exclusion together with the banking sector and further complementary activities of outreach to those organizations found at risk of abuse. The stakeholders agreed that when measures are developed in partnerships their effectiveness increases. For example, institutions, banks and NPOs are jointly working on revision of the indicators for suspicious transactions reporting in the NPO sector. It is expected this process to enable a set of indicators that will be more easily implemented in practice and will prevent de-risking on the NPO sector.

Nigeria: Nigeria **published** a **National Risk Assessment** for TF and ML (completed in 2016), which identified the Designated Non-Financial Businesses and Institutions (DNFIs), of which NPOs are a subset, as being amongst those sectors most vulnerable to ML/TF. Spaces for Change, a Global NPO Coalition member, **challenged** (2019) this assessment of risk for the non-profit sector, disputing the official classification of NPOs as DNFI and teasing out the nuances between vulnerability and threat, among other issues. The report led to increased and constructive engagement with the FIU (SCUML) and other government and NPO stakeholders, including GIABA, the FATF-Style Regional Body for West Africa.⁴⁵

45 See more here: <https://spacesforchange.org/unpacking-the-official-construction-of-risks-and-vulnerabilities-for-the-third-sector-in-nigeria/>

Germany: In preparation for the country assessment, a German non-profit network conducted a survey among the NPO sector in 2019 to find out how they assess the risk of terrorist financing and what measures they take to minimize the risk. The report analysed the results, current legal framework and self-regulatory NPO measures, and made recommendations for enhancing the NPO awareness of the issue. It also served as a catalyst for further engagement among all stakeholders. The government included findings and recommendations from the NPO report into their official risk assessment in 2020.⁴⁶



46 See more here: <https://ecnl.org/news/how-can-civil-society-meaningfully-contribute-discussions-preventing-terrorist-financing-npo>

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