

Comments on the Draft FATF NPO BPP

We, a collective of Norwegian NPOs deeply engaged in collaboration with local partners, hereby submit this proposal for an amendment to the Best Practices Paper. Our impassioned plea arises from a shared concern for the tangible and adverse impacts that CFT measures have imposed upon our work as well as that of our partners. These measures have not only disrupted essential funding channels for critical humanitarian and development efforts, but have also been misappropriated to justify the enactment of draconian laws that unjustly stifle the civic space and suppress the voices of those striving for positive change. This, in turn, hinders progress towards a more locally led humanitarian response and is contributing to a shrinking space for civil society. While we remain steadfast in our commitment to global security and financial integrity, we earnestly implore the FATF to do its utmost to remedy these unintended consequences and consider adjustments to Recommendation 8 that promote a more delicate equilibrium between combating illicit financial flows and safeguarding the fundamental principles of free and vibrant civil societies.

We want to highlight our comment with regard to Box 3 on Page 18 which provides examples of measures that countries could decide to apply to all or a specific group of NPOs according to identified risks. We are of the opinion that these measures, when used against all NPOs in countries with authoritarian governments, are detrimental to civil society. It is an unfortunate reality we have witnessed and that our partner organizations continue to endure. Therefore, the Best Practices Paper should have a stronger emphasis on these measures being adopted in a risk-based approach and that the potential effects on legitimate NPO activities should be highlighted.

In addition to our comments, we wholeheartedly endorse the input of the Global NPO Coalition on this Best Practices Paper.



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DRAFT FOR PUBLIC CONSULTATION

Public Consultation on the FATF Best Practice Paper to Combat the Abuse of NPOs

The Financial Action Task Force (FATF) is considering proposals for the update of the FATF Best Practice Paper to Combat the Abuse of NPOs. This project is being undertaken in parallel to the proposed amendments to Recommendation 8 and its Interpretive Note (also under public consultation) to better clarify the implementation of a risk-based approach.

In June 2022, the FATF Plenary agreed to review the Best Practice Paper and established a Project Team of FATF delegations to consider the necessary changes and gather relevant information.

The Guidance/BPP proposed for public consultation reflects the work and discussion of the Project Team, as well as members' and other stakeholders' input of relevant case studies and data on best practices to combat the abuse of NPOs.

The FATF is consulting all interested stakeholders in advance of finalising the Guidance/BPP. Views from practitioners, experts and stakeholders from the NPO sector and the financial institutions are welcome.

Of particular interest, comments and additional input is welcome regarding:

- Mitigating TF risk at an NPO individual level (section 3.2 and Annex B of the BPP);
- Implementing good governance at an NPO individual level to meet R.8 objectives (section 3.4 and Annex B of the BPP);
- Financial institutions' initiatives to ensure access of legitimate NPOs to financial services, including risk-based mitigating measures (section 4.2 and Annex C of the BPP);
- NPOs and donors' initiatives to ensure access of legitimate NPOs to financial services (section 4.3 and Annex C of the BPP); and
- Examples of misapplication of R.8, to identify avoidable practices and to help countries, financial institutions and NPOs correctly implement the risk-based approach.

Please provide your response, including any drafting proposals FATF.Publicconsultation@fatf-gafi.org with the subject-line "Comments of [author] on the draft FATF NPO BPP", by **18 August 2023 (18h00 CET)**.

While submitting your response, please indicate the name of your organisation, the nature of your activity, and your contact details. Please note that all submissions received during public consultation will be shared with FATF delegations.

You may insert any specific drafting proposals directly in the attached text of the draft **in tracked changes**. We will use your contact information only for the purpose of this public consultation and for further engagement with you on this issue.

At this stage, the FATF has not approved the draft Guidance/BPP and will consider the views received to revise the text before its proposal for adoption at the FATF October 2023 Plenary.

We thank you for your input in advance.

Annex A. Best Practices Paper on Combating the Abuse of Non-Profit Organisations (Recommendation 8)

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TABLE OF ACRONYMS

AML	Anti-money laundering
CFT	Countering the financing of terrorism
DNFBP	Designated non-financial businesses and professions
FIU	Financial intelligence unit
ML	Money laundering
NGO	Non-government organisation
NPO	Non-profit organisation
RBA	Risk-based approach
TF	Terrorist financing

*BEST PRACTICES PAPER ON COMBATING THE ABUSE
OF NON-PROFIT ORGANISATIONS
(RECOMMENDATION 8)*

This guidance paper should be read in conjunction with:

- the FATF *Recommendations*, especially Recommendation 8 and its Interpretive Note, and Recommendation 1 and its Interpretive Note,
- the FATF typologies report on the Risk of Terrorist Abuse in Non-Profit Organisations, and
- the FATF Terrorist Financing Risk Assessment Guidance.

Other relevant FATF documents include:

- the guidance on National Money Laundering and Terrorist Financing Risk Assessment,
- the typologies report on Terrorist Financing,
- the Risk-Based Approach Guidance for the Banking Sector, and
- the Revised Guidance on AML/CFT and Financial Inclusion.

1. INTRODUCTION

1. NPOs play a vital role in the world economy and in many national economies and social systems. Their efforts complement the activity of the government and business sectors in providing essential, sometimes life-saving, services, comfort and hope to those in need. Well-functioning NPOs may also help to prevent terrorism by preventing radicalisation and extremism through targeted support to vulnerable persons and communities.

2. More than two decades after the abuse of NPOs by terrorists and terrorist organisations was formally recognised as a concern, some NPOs continue to be misused and exploited by terrorists through a variety of means. Terrorists and terrorist organisations may seek to exploit NPOs to raise and move funds, to provide logistical support, to encourage terrorist recruitment, to provide a veil of legitimacy, or otherwise support terrorist organisations and operations. Terrorist actors will often employ deception to mask their activities, particularly those in conflict regions. Well-planned deceptions by terrorists abusing the NPO sector are difficult to identify with the resources available to non-governmental actors, making oversight by appropriate authorities with sufficient capabilities a necessary element to preventing and detecting terrorist threats to the NPO sector.

3. The diversion of NPOs' resources to fund terrorist activities, undermines the entire non-profit sector's reputation and financial institutions' and donors' trust. This has a disproportionate impact on NPO operations at the places where they are most needed. NPOs rely on donations and on having access to banking facilities and other financial

services in order to carry out their services. Donors trust that resources provided to NPOs, either financial or material, will be used for good works in accordance with their stated purpose; this trust is the foundation for the NPO sector. Financial institutions take a range of initiatives to support access of legitimate NPOs to financial services. However, in recent years, there have been some reports of financial institutions terminating or restricting the access of legitimate NPOs to financial services. Therefore, protecting the NPO sector from terrorist abuse is both a critical component of the global fight against terrorism and its financing and a necessary step to preserve the integrity of the NPO sector and donor community.

4. The Financial Action Task Force (FATF) Best Practices Paper on Combating the Abuse of Non-Profit Organisations (BPP) was first written in 2002 at a time when the FATF had just introduced standards to address specific terrorist financing (TF) vulnerabilities and threats in the wake of the 11 September 2001 terrorist attacks. A limited update of the BPP was conducted in 2013 with specific input from the NPO sector to reflect the revised FATF Recommendations and the need to protect the legitimate activities of NPOs. The FATF published a typologies report on the Risk of Terrorist Abuse in Non-Profit Organisations (the typologies report) in June 2014, and the BPP was further revised in 2015 to reflect some of the findings of that report along with additional input and examples of good practice from governments, NPOs and financial institutions.

5. In June 2016, following extensive outreach to the NPO sector and observed instances of overly broad application and misapplication of R.8¹, the FATF revised R.8 and its Interpretive Note. The related Methodology updates were agreed in October 2016. The purpose of these revisions was to clarify that not all NPOs were particularly vulnerable to TF abuse and that only a subset of NPOs identified by countries should be subject to R.8 requirements. The amendments also clarified that a “one-size-fits-all” approach to the measures called for under R.8/INR.8 is inconsistent with a risk-based approach and explained that countries should implement such measures based on the TF risks they have identified. The 2019 FATF Terrorist Financing Risk Assessment Guidance contains a guidance on FATF requirements on identifying and assessing TF risk facing NPOs, including examples of considerations and good approaches.

6. Despite the aforementioned improvements to R.8/INR.8, the 2021 Phase 1 Stocktake Report on Mitigating the Unintended Consequences of the FATF Standards² had underlined the persistence of significant issues regarding the targeted, proportionate and risk-based implementation of R.8 requirements, unduly disrupting or discouraging legitimate NPO activities. The measures reported to have been applied to NPOs include intrusive supervision of NPOs without any consideration of risks; restrictions on NPOs’ access to funding and bank accounts; and forced dissolution, de-registration or expulsion of NPOs in the name of FATF compliance. Within each of these categories are a variety of restrictions, burdens and requirements that impede the ability of NPOs to operate and pursue their missions effectively, to access resources, and in some cases, to continue their legitimate operations. Significant improvements are needed to effectively implement risk-based measures to protect NPOs from potential TF abuse and not to unduly disrupt or discourage legitimate activities by imposing inappropriate or unwarranted measures.

1 The FATF and its regional bodies were also part of the multiyear project led by the United Nations and aimed at developing a common understanding of sound practices to counter the risk of terrorism financing through the non-profit sector, protecting the sector and preventing terrorist abuse of NPOs, available at https://www.globalcenter.org/wp-content/uploads/CGCC_Prevent-Protect-Report_pgs.pdf

2 See the High Level Synopsis of the Stocktake Report on Mitigating the Unintended Consequences of the FATF Standards.

7. In June 2023, FATF proposed revisions to R.8 and INR.8 to improve clarity and consistency of language and to further exemplify the requirements. Specifically, the proposed amendments further clarify that focused, proportionate and risk-based measures addressing identified TF risks posed to FATF defined NPOs are at the core of an effective approach in identifying, preventing and combatting TF abuse of NPOs. The proposed amendments further emphasize that effective risk-based measures should not unduly disrupt or discourage legitimate NPO activities, that countries may have the flexibility to take into account NPO self-regulatory measures and clarify that NPOs should be subject to ‘oversight’ and ‘monitoring’, to make a distinction between these terms and ‘supervision’, which is generally used in the context of financial institutions and DNFBPs.

8. These fundamental elements are to be kept in mind when implementing the requirements of R.8 and its Interpretive Note:

- TF abuse refers to the exploitation by terrorists and terrorists 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.
- The FATF has adopted a functional definition of non-profit organisations, encompassing *“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 “good works””* (hereafter “FATF definition”³).
- R.8 does not apply to the entire universe of organisations working in the not-for-profit realm as a whole: it only applies to those organisations falling within the FATF definition of NPOs.
- NPOs are at varying degrees of risk of TF abuse by virtue of their types, activities or characteristics and some may represent low risk: countries should identify the types of organisations which fall within the FATF definition of NPO, they should assess TF risks faced by NPOs and have in place focused, proportionate and risk-based measures to address these risks.
- Countries should monitor the implementation of these measures, where needed.
- Countries should protect NPOs from TF abuse without unduly disrupting or discouraging legitimate NPO activities, and in a manner which respects countries’ obligations under the Charter of the United Nations, international human rights law and international humanitarian law.⁴

9. The objective of this non-binding Guidance/Best Practices Paper, is to clarify and exemplify R.8 requirements and to support the effective implementation of a risk-based approach. Like all FATF Guidance/BPP, it is not a mandatory element for assessing compliance with the FATF Standards. Countries, NPOs and financial institutions may find

³ Throughout this report, unless otherwise specified, the term NPO refers only to those NPOs falling within the FATF definition.

⁴ The UN Security Council has also repeatedly emphasized that all measures taken to counter terrorism, including measures taken to counter the financing of terrorism with respect to the NPO sector, should comply with countries’ obligations under international law, including international humanitarian law, international human rights law and international refugee law. See UNSC resolution 2462 (2019), paras 6 and 23. In paragraph 23 of this resolution, Security Council encourages Member States to work cooperatively with the non-profit sector in order to prevent abuse of such organizations including front organizations by and for terrorists, while recalling that States must respect human rights and fundamental freedoms, and recalls the relevant recommendation and existing guidance documents of the FATF in that regard, in particular its recommendation 8” (see also Preamble to UNSC resolution 2129 (2013)).

it valuable to consider it when determining how best to protect NPOs from terrorist financing abuse, without unduly disrupting legitimate NPO activities. This Guidance/BPP is composed of four parts:

- Chapter 2 – May assist countries⁵ to have in place an effective approach in identifying, preventing and combatting TF abuse of NPOs, in line with the risk-based approach;
- Chapter 3 – May assist NPOs to protect themselves against TF abuse, by preventing and mitigating TF risks they may face; and
- Chapter 4 – May assist countries, financial institutions and NPOs to ensure that legitimate NPOs have access to financial services.
- Examples, including at Annexes - This paper also contains numerous examples of implementation and misapplication of R.8 that should be useful for countries, financial institutions and NPOs to correctly implement R.8.

10. The good examples contained in the paper are not comprehensive, may not be relevant in all circumstances and should not be used as a checklist of requirements to be applied to or by all NPOs. Rather, they are illustrative of the types of measures that, depending on the circumstances, are good steps towards meeting the objectives of R.8.

11. Similarly, the BPP provides examples of measures that are not in line with the intention of R.8 itself and have led to negative consequences for NPOs, their activities and the recipients of their assistance. Stakeholders should be aware of the unintended consequences resulting from the misapplications of R.8 requirements.

12. The Guidance/BPP has benefitted from extensive input by the FATF Global Network of FATF Members and FATF-Style Regional Bodies and formal and informal consultations with the non-profit organisations and financial institutions' sectors.

⁵ All references to country or countries apply equally to territories or jurisdictions.

2. HOW CAN COUNTRIES COMBAT TF ABUSE OF NON-PROFIT ORGANISATIONS

Specific examples of good practice for countries can be found in **Annex A**.

13. R.8 requires countries to understand and mitigate TF risks for the NPO sector⁶. That means that countries should identify the NPO subset as defined by FATF and assess and understand the terrorist financing risks in this subset. Based on that assessment, countries should have in place focused and proportionate measures, in line with the risk-based approach (RBA)⁷.

14. This chapter provides some considerations and good approaches based on jurisdiction experience to meet the requirements under R.8. Countries should have in place focused, proportionate and risk-based measures (2.2) to address identified TF risks posed to their NPOs (2.1). These mitigating measures are at the core of a country’s effective approach in identifying, preventing and combatting TF abuse of NPOs (2.3).

2.1. ASSESSING and UNDERSTANDING THE TF RISK

15. In line with the requirements of R.1, since organisations working in the not-for-profit realm are at varying degrees of risk of TF abuse by virtue of their types, activities or characteristics, **R.8 require countries to periodically identify which subset of organisations falls within the FATF definition of NPO and assess the nature of TF risks they face**⁸. Recognizing that the FATF Standards do not prescribe a particular method or format for assessing risk, the following paragraphs provide some good approaches based on jurisdiction experience.

2.1.1. Identify the types of organisations that fall under the FATF definition of a NPO

16. R.8 requirements do not apply to the entire universe of organisations working in the not-for-profit realm. The understanding and the scope of the FATF definition of a “NPO” is at the core of the correct implementation of R.8/INR.8.

17. Given the variety of legal forms that NPOs can have, the FATF has adopted a **functional definition of “NPO”** based on activities and characteristics of an organisation

⁶ Recommendations 1 and 24 require countries to assess the potential money laundering risks with all types of legal persons and where necessary enact mitigating measures. This applies to NPOs where they are legal persons. These requirements are separate to the specific and more detailed requirements of Recommendation 8 which relate specifically to understanding and mitigating TF risks to NPOs.

⁷ This is also confirmed by UN Security Council in its resolution 2462 (2019), paragraph 23 calling on Member States “to periodically conduct a risk assessment of their non-profit sector or update existing ones to determine the organizations vulnerable to terrorist financing and to inform the implementation of a risk based approach”

⁸ Para.6 INR.8.

which may put it at risk of terrorist financing abuse, rather than on the simple fact that it is operating on a non-profit basis⁹.

Box 1. FATF definition of a non-profit organisation

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 “good works”.

18. In undertaking this exercise, countries should use all relevant sources of information to identify all the organisations that qualify as an NPO for FATF purposes (see 2.1.3).¹⁰

19. Organisations working in the not-for-profit realm, which are not in scope of the FATF functional definition, include organisations that primarily conduct research and/or advocate for changes in public policy but do not raise or disburse funds for NPO causes.

20. A jurisdiction’s domestic not-for-profit sector review could include information on:

- the size, type, and scope of organisations working in the non-for-profit realm (including legal structure, number of staff, information on executive board members, declarations, etc.)
- the type and location of activities engaged (including whether services are offered internationally or close to active terrorist threats, cross-border activity, etc.)
- the purpose for which they were established,
- their donor base, and
- their financial activity (volume and frequency of movement of funds, means of payments, cash intensity, etc).

21. Importantly, while **FATF’s functional definition of NPOs focuses on their activities** (role of raising or disbursing funds), most countries employ a broader, more comprehensive definition of NPO (classifying NPOs by their legal form e.g. association, charities etc.). In addition, there may be entities which meet the FATF definition of an NPO which do not fall within national NPO legislation. Countries should be aware that for the purposes of compliance with the FATF standards, they will be assessed against the FATF definition.

2.1.2. Assess TF risks posed to NPOs

22. One of the key requirements of the FATF Recommendations is for countries to identify, assess and understand ML and TF risks they are exposed to. Once these risks are properly understood, countries will be able to implement AML and CFT measures that mitigate these risks. This approach, the risk-based approach, is central to the effective implementation of the FATF Standards and also applies to NPOs.

⁹ Para.1 INR.8.

¹⁰ See also 2019 FATF Terrorist Financial Risk Assessment Guidance

23. **R.8 requires countries to conduct a risk assessment of these NPOs to identify the nature of TF risks posed to them.**¹¹ The understanding and identification of these TF risks, will assist authorities to elaborate a tailored and proportionate mitigating response. Some authorities decide to scale risks NPOs may face according to different levels, for example low, medium to high. In most circumstances, only a marginal portion of NPOs would be facing a “high risk” of TF abuse, as shown in the Figure 2.1 below. This helps countries to adjust the intensity and frequency of mitigating measures applied to the NPOs facing the different identified levels of risks and therefore to optimise the resources allocated to protect NPOs against TF abuse.

24. **Risk can be defined as the ability of a threat to exploit a vulnerability.** For there to be a risk, both a threat and a vulnerability must be present. Where that vulnerability affects the entire sector, for instance because there is no oversight over or ability to gain information on new participants moving into the sector, it is possible that sham-NPOs can enter the sector. Where vulnerability relates to a particular organisation (for example a NPO that would not conduct verification of the use made of its funds), it can still have an impact on other legitimate NPOs working with them that can be exploited for TF purposes.

Figure 2.1 Threat+ Vulnerability = Risk

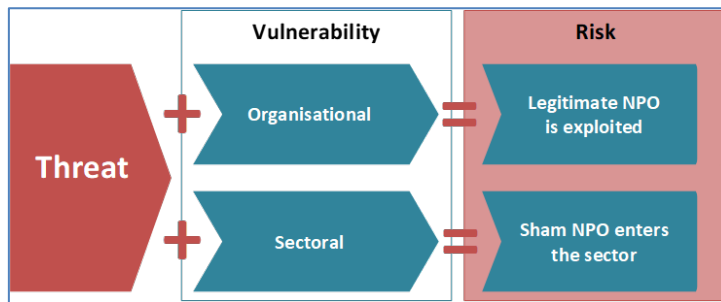


Figure 2.2. Example of volume of most at-risk NPOs in a country’s sector



¹¹ Para.6(b) INR.8.

Note: This figure provides an example of a jurisdiction's sector of organisations working in the not-for-profit realm. The volume of "most at-risk" NPO is small compared to the full subset of FATF defined NPOs.

25. **Each country can determine how it will assess the TF risks posed to their NPOs.** The exercise could be undertaken in the context of the national risk assessment or could be specific to the NPO sector. It could take a **variety of forms and may or may not be a written product**.¹² Many countries have chosen to publish information about the ML/TF risks in general or about the TF risks posed to NPOs in particular. The publication of the risk assessment is not a requirement of the FATF Standards. However, sharing this information will increase global understanding of risk and may help relevant stakeholders, including authorities, NPOs, financial institutions and donors, to identify, assess and understand where their vulnerabilities lie. Regardless of the approach a country has chosen to identify, assess and understand the risk to its NPOs, assessors will look closely at it during the assessment of R.1 and R.8 in the context of a country mutual evaluation.

26. Identifying TF risks posed to the NPOs requires collecting a wide range of quantitative and qualitative information (see 2.1.3), including on the general criminal environment, TF and terrorism threats, TF vulnerabilities of the NPOs and products, and the jurisdiction's general CFT capacity and effectiveness. While much of the focus will be on identifying possible threats, it is important to bear in mind that equal attention should be paid to identifying the vulnerabilities in the legal and regulatory framework, and/or self-regulatory measures that govern NPOs or in their practices.

27. It is vital that efforts to assess TF risks posed to NPOs consider broader criminal networks and activities, which terrorist organisations often draw on to raise, and move, funds or other assets.

28. For developed countries with large financial and trade flows, the development of smart solutions in order to cope with "big data" and the continued development of multi-agency information sharing mechanisms will likely be important in ongoing efforts to identify and assess TF risk. Lower capacity jurisdictions often face additional challenges in assessing TF risk.

29. For more information regarding considerations when identifying TF threats, vulnerability and risks, please refer to Chapter 2 of the FATF *Terrorist Financing Risk Assessment Guidance (2019)*, FATF typology report on *Risk of Terrorist Abuse in Non-Profit Organisations*¹³ (2014), and 2022 World Bank NON-PROFIT ORGANIZATIONS TF RISK ASSESSMENT TOOL (Identifying the FATF NPOs at risk of terrorist financing abuse).

Box 2. Identifying all NPOs as high risk, without risk differentiation, is outside the scope of R.8

Where countries have failed to conduct an adequate risk assessment of their not-for-profit sector, this results in insufficient differentiation of risks between NPOs. Sometimes, this has led to an incorrect identification of high risk for all NPOs, even for those organisations that do not meet the FATF definition of an NPO. Classifying all NPOs as high risk for TF has negative implications on adopting targeted, proportionate

¹² Para.6(d)(ii) INR.8.

¹³ FATF (2014a).

and risk-based measures aimed at protecting NPOs from TF abuse. Moreover, this might cause unjustified wholesale de-risking undertaken by the financial sector and thus consequently might result in difficulties experienced by the organisations in the not-for-profit realm to get access to financial services. This is not in line with the risk-based approach.

2.1.3. Using all sources of information to identify NPOs and TF risks

30. **R.8 requires countries to use all relevant source of information to identify the types of organisations which fall within the FATF definition of NPO and to identify the nature of TF risks posed to them.**¹⁴

31. Based on jurisdictions' experience, collection techniques in the risk assessment process may include review of existing material and gathering of additional material, including aggregate statistics and information from government, NPOs and private sector stakeholders sources. Information can be gathered through focus groups conducting interviews, sending out questionnaires and surveys, standing consultative platforms and *ad hoc* task forces, working groups and seminars, and open source information.

32. To ensure an efficient and effective risk assessment process, there should be clear responsibilities to coordinate and lead the process. Whatever agency or other body is tasked with this (and that can also be jointly, e.g. government and NPO led), it is important to ensure that all relevant parts of government, of the NPO sector and of the private sector are consulted and coordinated in a multi-stakeholder platform to allow for cross sectoral dialogue. "Relevant" here refers to those with an understanding of the NPO sector, of the legal and governance frameworks, of prevalent financial practices and of the TF risks that NPOs are exposed to.

Government agencies

33. National coordination can pose particular challenges for conducting a risk assessment of NPOs, as relevant information is often spread across a number of ministries and agencies. Government agencies that have oversight over a part of the NPO sector will need to play a central role when assessing TF risk¹⁵. In line with R.2, proper coordination should be ensured between responsible agencies to strengthen linkages between national risk assessments and sectoral risk assessments to ensure consistency regarding identified threats, vulnerabilities and risks. In addition, experience shows jurisdictions would typically also consult:

- Competent ministries for CFT policy,
- Competent bodies for NPO policy,
- Financial Intelligence Unit (FIUs) may be able to provide valuable financial intelligence to assist in identifying TF risks posed to NPOs, either through access to suspicious transaction reports, or wire transfers, and/or information on common typologies and trends for TF,

¹⁴ Para.6(d)(i) INR.8

¹⁵ See also FATF Recommendation 2.

- Law enforcement authorities (including customs authorities) (LEAs) are an important source of information on the general threat profile for terrorism and TF and the criminal environment facing those NPOs identified as vulnerable to TF,
- Tax authority may be able to provide important contextual information on NPOs, since in many jurisdictions, NPOs subject to tax exemptions are required to file annual financial statements and statements of purpose with the tax authorities,
- Intelligence agencies or any agencies with operational knowledge of terrorist financing will also be an important source of information on the terrorism and TF threat environment, including information received from foreign counterparts. Other relevant government agency e.g. financial sector supervisor where it has specific expertise in oversight/monitoring/supervising relationships between financial institutions (banks/money service businesses) and NPOs,
- International government organisations, especially those involved in aid, reconstruction, and development.

NPO Sector

34. **It is vital that efforts to identify NPOs and assess TF risk include NPO community engagement¹⁶. It is important to ensure participation of a representative sample of NPOs in the risk assessment process**, and, when relevant, representatives that have reliable knowledge of unregulated NPOs. To make sure that indeed all relevant groups of NPOs are included, the coordinating agency should make every effort to reach as many different constituencies as possible, for instance by administering online surveys and questionnaires and connecting with umbrella organizations. This is particularly important in jurisdictions where a lot of NPO activity is unregistered or unlicensed or otherwise takes place beyond the purview of authorities. In countries where self-regulatory organisations have been established that monitor or otherwise provide certain certification to their members, these should also be included in the risk assessment. Establishing a healthy ongoing productive working relationship with a representative section of the sector is of paramount importance to the success to the risk assessment exercise.

Private Sector

35. **Other relevant actors from the private sector such as banks, money or value transfer services businesses and their professional associations that provide financial services to NPOs could also provide useful input into the risk assessment process.** In some countries, certain financial institutions are more readily disposed to doing business with NPOs than other financial institutions. The risk assessment would certainly benefit from their experience in regularly working with NPOs. Depending on the size of the NPO sector, its regulatory requirements and the volume of funds handled, auditing firms could also be a useful source of information for the process. Additionally, it is beneficial that jurisdictions engage with the private sector to ensure that they fully understand the TF risk to their NPO customers and that the possibility of unsubstantiated de-risking is reduced (See Chapter 4).

16 Para.6(d)(i) INR.8.

Using all relevant domestic and international sources of information

36. Apart from the expert opinion and perspectives provided by participants in the risk assessment process, **domestic and international documents and reports that could provide useful sources of information include:**

- Investigative reports or legal cases;
- Suspicious transaction reports;
- Regional or domestic TF-risk assessments from government, the NPO sector and the private sector;
- Domestic and foreign intelligence reports;
- Legal audits;
- Oversight bodies' or self-regulatory organisations' reports;
- Case studies from NPOs;
- International cooperation on NPO and TF-related issues (including LEA and oversight bodies);
- Investigation and prosecution information; and
- Academic work.

37. Annex D of the 2019 FATF TF Risk Assessment Guidance provides additional examples of potential information sources to support the identification and assessment of TF risks posed to NPOs.

2.1.4. Review periodically the identification of NPOs, the assessment of TF risks and the mitigating measures

38. R.8 require countries to **review periodically** the identification of organisations which fall within the FATF definition of an NPO, the assessment of the TF risks posed to them and the measures to address the TF risks identified.¹⁷

39. **Countries should be mindful of the constant evolution in trends and methods in how terrorism is funded and how NPOs are abused to this end.** Specificity and accuracy in identifying NPOs and TF risks are crucial to ensure calibrated and tailored response through focused and proportionate and risk-based mitigating measures (see 2.2). In that respect, close and continuous engagement with NPOs is key in keeping information up-to-date and accurate regarding the identification of NPOs and TF risks posed to them.

40. **The changing nature of TF threats and vulnerabilities** means that relevant information sources which countries will need to consult when assessing TF risk facing NPOs can change over time. An important part of updating any assessment of TF risk facing NPOs will be to critically review the approach taken, and to identify areas for improving the approach the next time (e.g. identifying blind spots, areas where further information is needed), recognising that some jurisdictions may need to take a phased approach. Risk updates may focus on specific threats or sub-sectors, and/or the development of risk indicators.

41. While a risk assessment presents a snapshot in time, **an assessment of TF risks facing NPOs should be an ongoing and evolving process.** Key competent authorities should be updating their analysis on an ongoing basis, taking into account current terrorism and TF threats and developments e.g. improvement of the systems by NPOs and countries. Importantly, even jurisdictions that assess their domestic TF risk facing NPOs to be low should regularly update their assessment, and remain vigilant to changes in their terrorism

¹⁷ Para.6(d)(iii) INR.8.

and TF threat profile. Jurisdiction experience highlights the particular benefits of embedding a culture of ongoing risk or threat assessment, having ongoing mechanisms to collect relevant information on TF risk facing NPOs, and conducting more targeted TF risk assessments which allow for enhanced stakeholder engagement (e.g. focusing on specific sectors or threats, the development of risk indicators, etc.). On that basis, countries will also review periodically the mitigating measures they have in place to address TF risks identified.

2.2. MITIGATING THE TF RISK

42. **R.8 require countries to have in place focused, proportionate and risk-based measures to address TF risks identified, in line with the risk-based approach.¹⁸ They should review periodically the mitigating measures they have in place to address TF risks identified, using all source of information (see also 2.1.2 and 2.1.4).**

43. NPOs have different degrees of TF risk exposure and different levels of mitigating measures. The applicable measures that relate to NPOs must be in line with the risks identified. Many NPOs may face low TF risks exposure, may have adequate self-regulatory measures to mitigate such risks, and/or may already be subject to adequate level of legal and regulatory requirements, such that there may be no need for additional measures.¹⁹

44. The existing measures to prevent and mitigate other risks and illicit activities may sufficiently address the TF risk faced by NPOs, while additional or different measures may need to be considered when existing measures are found inappropriate to mitigate the risk, or as the TF risk to the sector evolves and changes over time.²⁰ Before putting in place mitigating measures to address TF risks, jurisdictions may consider measures in place for NPOs, including legal, regulatory, administrative, policy measures by government (including outreach to the sector), and national CFT capacity more generally. Countries should consider, where they exist, self-regulatory governance and transparency measures and internal risk mitigating measure at the sector and organisational level.

45. For the NPOs assessed to be exposed to a low risk of TF abuse, there may be no need to apply mitigating measures beyond outreach for general awareness raising. Within a risk-based oversight and monitoring framework, it is expected that there will be areas and segments of NPOs that are assessed to be of low TF risk by virtue of their types, characteristics, nature and activities. This may be the case where NPOs are not conducting activities in direct proximity (domestically or abroad) to active threat areas or populations, nor is their funding or donor base, or their movement of funds. As a consequence, the likelihood of diversion of the NPO's resources for TF purposes would be low. Such considerations may be particularly relevant for NPOs working domestically in countries that have a low exposure to TF risks in general. In line with the risk-based approach, countries may decide to refrain from taking any other mitigating measures, other than outreach.²¹

46. **Risk-based treatment of low risk NPO is also important from a financial inclusion perspective.** Disproportionate obligations may result in undermining financial inclusion objectives, by driving NPOs to unregulated financial and payment services as a

¹⁸ R.8 and para.6(c) INR.8.

¹⁹ Para.5(e) INR.8.

²⁰ Para.6 INR.8

²¹ Para.6(e) INR.8.

result of their failure to gain access to regulated financial services or increased costs of compliance that acts as a barrier to maintaining activities (See also Chapter 4).

47. **Countries should be mindful of the potential impact of measures on legitimate NPO activities and apply them where they are necessary only to mitigate the assessed risks.**²² R.8 expressly acknowledges that the measures taken to protect NPOs should not unduly disrupt or discourage legitimate NPO activities. This implies that, for example, these measures should not unduly or inadvertently restrict an NPO's ability to access resources to carry out its legitimate activities. Rather, such measures should promote transparency and engender greater confidence in the sector, across the donor community and with the general public that charitable funds and services are reaching their intended legitimate beneficiaries.

48. **R.8 does not require or intend jurisdictions to designate or supervise NPOs as reporting entities.** FATF Recommendations do not require NPOs to conduct customer due diligence, nor do they require NPOs to undertake other preventative measures, such as detection and reporting of suspicious activity, along the lines of Recommendation 20. Indeed, unlike FIs and DNFBPs, NPOs do not have customers to whom they provide services; they have donors whose funds pay for the NPOs' activities. That is a fundamentally different relationship.

49. Also, as a matter of principle, **complying with the FATF Recommendations should not contravene a country's obligations under the Charter of the United Nations, international human rights law and international humanitarian law.** Implementation of R.8 should respect and observe fundamental human rights and freedoms, such as freedom of expression, religion or belief, and freedom of peaceful assembly and of association.

50. In considering whether to apply these measures, or any other, countries should always consider TF risks faced by the NPOs. There may be other measures that could be implemented for specific organisations identified as potentially a concern for TF without affecting the larger operations of the NPO sector.

51. The measures provided in Box 3 are some examples among the measures that countries could decide to apply to NPOs. The measures could apply to all NPOs or to a specific group of NPOs in whole or in part, depending on the risks faced by them. On the contrary, The measures provided in Box 4 are some examples of measures that are not aligned with R.8 requirements. **To avoid any unintended consequences of the implementation of the FATF standards, countries should apply focused, proportionate and risk-based measures to the NPOs.**

22 Para.5(e) INR.8.

Box 3. Examples of measures that countries could decide to apply to all or a specific group of NPOs according to identified risks.

Example 1: A country could require NPOs to register or obtain a licence. Specific licensing or registration requirements for counter terrorist financing purposes might not be necessary. For example, in some countries, NPOs are already registered with tax authorities and monitored in the context of qualifying for favourable tax treatment (such as tax credits or tax exemptions). Information about NPO registration or licensing could be made available to competent authorities and to the public.

Example 2: A country could require NPOs to maintain information on: (1) the purpose and objectives of their stated activities; and (2) the identity of the person(s) who own, control or direct their activities, including senior officers, board members and trustees. This information could be publicly available either directly from the NPO or through appropriate authorities.

Example 3: A country could require NPOs to issue annual financial statements that provide detailed breakdowns of incomes and expenditures.

Example 4: A country could require NPOs to have appropriate internal controls in place, with an aim to ensure that funds are fully accounted for and are spent in a manner that is consistent with the purpose and objectives of the NPO's stated activities.

Example 5: A country could require NPOs to take reasonable measures to confirm the identity, credentials and good standing of beneficiaries and associate NPOs and that they are not involved with and/or using the NPO funds to support terrorists or terrorist organisations.

In the FATF Glossary, the term “beneficiaries” refers to those natural persons, or groups of natural persons who receive charitable, humanitarian or other types of assistance through the services of the NPO.

NPOs should not be expected to identify each specific individual. Such a requirement would not always be possible and would, in some instances, impede the ability of NPOs to provide much-needed services.

“Taking reasonable measures” means for NPOs to make best endeavours to verify to confirm the identity, credential and good standing of beneficiaries and associate NPOs. This could include for example, in advance of payment, the NPO assessing whether that the potential partner has the capacity to fulfil the charitable purpose of the grant and to protect the financial resources from potential terrorist financing purposes.

Example 6: A country could require NPOs to maintain, records of domestic and international transactions that are sufficiently detailed to verify that funds have been received and spent in a manner consistent with the purpose and objectives of the organisation and could be required to make these available to competent authorities upon appropriate authority. This also applies to information mentioned in examples 2 and 3 above. Where appropriate, records of activities and financial operations by NPOs could also be made available to the public.

Box 4. Examples of measures that are outside the scope of R.8 requirements.

It is outside the scope of R.8 to have in place measures that are not targeted, disproportionate and non-risk-based with TF risks identified.

In order to comply with R.8, some countries implement overburdensome requirements without any thresholds or regard to the risk category of a particular NPO, without justification based on the FATF standards and the risk-based approach.

In some cases, risks of NPOs were not assessed, in other case risks of NPOs were assessed to be at different levels, but the same measures were applied to all NPOs, nonetheless. In most cases, such measures were excessive, more suitable for high risk NPOs than those at lower risk levels. The overreach of measures is commonly observed, which leads to unnecessary administrative burdens to competent authorities and limits the operational space of NPOs.

In some countries, disproportionately heavy measures were taken, despite being environments with a low terrorism and terrorist financing threat, that have made it impossible for NPOs to remain operational.

Non-targeted, disproportionate and non-risk-based measures can include, for example the following (without any regard to risks):

- Reporting requirements,
- Identification and information requirements on all beneficiaries, all foreign agents and donors or NGOs' local partners (staff, vendors, partners and beneficiaries in some contexts) for programmes implemented by NPOs, including in countries where the risks are minimum,
- Financial reporting,
- Project-based reporting,
- Internal governance requirements,
- Low monetary amount thresholds for reporting individual donations, and
- Excessively punitive measures.

As a principle, it is outside the scope of R.8 for the country to apply the same nature, frequency and intensity of mitigating measures to the subset of NPOs that the risk assessment has identified as facing low risk of TF abuse and to the subset of NPOs that the sectoral risk assessment has identified as facing medium or high risk of TF abuse.

Many countries have erroneously adopted legislation that classifies NPOs as reporting entities, as though they were financial institutions or DNFBPs, thereby wrongly subjecting NPOs to legal obligations regarding entity level risk assessment, AML/CFT preventative measures, identification of suspicious transactions and reporting obligations and record keeping requirements. This is not the intention nor the purpose of R.8.

2.3. EFFECTIVE APPROACH IN IDENTIFYING, PREVENTING AND COMBATING TF ABUSE OF NPOs

52. Focused, proportionate and risk-based measures addressing TF risks posed to NPOs are at the core of a country's effective approach in identifying, preventing and combatting TF abuse of NPOs. There is no "one size fits all" strategy. Rather, a diverse range of flexible, multi-faceted four-pronged approach is recommended. **An effective approach to**

protecting the NPO sector from abuse as conveyed in R.8 should involve all four elements listed in Box 5, without unduly disrupting or discouraging legitimate NPO activities.

Box 5. Effective approach to protecting the NPO sector

An effective approach to protecting the NPO sector involves the following four elements:

1. Sustained outreach to the sector concerning TF issues,
2. Focused, proportionate and risk-based measures, including oversight or monitoring of NPOs, where needed,
3. Effective information gathering and investigation,
4. Effective capacity to respond to international requests for information about an NPO of concern.¹

1. Paragraph 7 of the Interpretive Note to Recommendation 8 (FATF, 2012).

2.3.1. Sustained outreach concerning TF issues toward NPO sector and donors community

53. **The Interpretive Note to R.8 requires countries to undertake sustained outreach to all the NPOs concerning TF issues²³**, including those assessed to be exposed to a low risk of TF abuse. The scope, frequency and intensity of the outreach is expected to be risk-based.

54. **Countries should have clear policies to promote accountability, integrity and public confidence in the administration and management of NPOs²⁴**. These could be made available on a dedicated website to facilitate access and understanding of the NPOs, donors and the public in general. Identifying and communicating which part of the government is mandated for policy oversight, including prevention and enforcement, is an important step of promoting a clear policy framework.

55. **Countries should undertake outreach and educational programmes as appropriate to raise and deepen awareness among NPOs as well as the donor community about the potential vulnerabilities of NPOs to terrorist financing abuse and terrorist financing risks**. On-going co-ordination between oversight bodies and other government authorities in their engagement with the NPO sector ensures clear messages are sent on expectations for TF risk management. Some of the features of a well-coordinated inter-agency and NPO sector outreach system could include regular information sharing, education and outreach with and across the NPO sector. This could take place in the context of a public private multistakeholder partnership (see Chapter 4). As a good practice, outreach activities could cover the result of the TF risk assessment relating to NPOs, the range of measures applying to NPOs, the range of sanctions that could apply for not complying with these measures and information about enforcement processes. **These activities could also cover the measures that NPOs can take to protect themselves against such abuse²⁵** (see Chapter 3). This can help NPOs develop their

23 Para. 7.a. INR.8.

24 Para. 7.a.i. INR.8.

25 Para. 7.a.ii. INR.8.

understanding of the sector’s vulnerabilities to TF abuse, but also TF risks, their obligations and good practices. In practice, outreach should be adapted to focus on various categories and risk profiles of NPOs. Engaging with NPO associations, coalitions, umbrella organisations, self-regulatory organisations and donor organisations can also be a useful way of effectively reaching out to a large number of NPOs.

56. **Countries should work with NPOs to develop and refine best practices to address TF risks and thus protect them from TF abuse.**²⁶ TF typologies evolve rapidly and the NPO sector may be able to detect these changes and inform the authorities. To maintain an accurate and up-to-date understanding of risks, and develop an adequate policy response, authorities should maintain ongoing and regular dialogue with the NPO sector (see 2.1.3 and 2.1.4). This could take the form of standing consultation forums, conferences or committees between a range of government agencies (oversight bodies, law enforcement agencies and the FIU, for example) and a range of participants from NPO sectors (see Chapter 4 on multistakeholder dialogue). This provides an opportunity to discuss risks, guidelines or other policy developments. While the primary purpose of these events is not to provide specific feedback on specific NPOs, they can help to raise awareness of common challenges and responses.

57. **Countries should also encourage NPOs to conduct transactions via regulated financial and payment channels**²⁷, whenever there is a reasonable possibility to use the formal financial system, keeping in mind the varying capacities of financial sectors in different countries and in different areas and the risks of using cash. Regular dialogue with the NPO sector representatives, as well as other relevant stakeholder could help in establishing a collaborative relationship with the sector. Countries should encourage NPOs, to the extent practicable, to use the regulated financial or payments services for receiving and disbursing funds, and any other transfer of funds. When encouraging such type of transactions, it should be taken into considerations that in some countries, the traditional financial and payment channels may not be available due to variety of reasons, including due to increase of bank de-risking in response to the rising complexity of multiple, overlapping sanctions regimes and other regulations, including FATF listings. In such cases, the NPOs may have no other choice than to use unregulated financial or payment channels.

Box 6. Examples of measures that are outside the scope of R.8 requirements.

It does not satisfy the requirements contained under R.8 if outreach and educational programs focus on general AML/CFT regulatory requirements instead of focusing on TF issues relevant for NPOs, including (a) terrorist financing risks, threats and vulnerabilities; and (b) examples of measures to prevent risk from materializing. Moreover, it is not in line with the risk-based approach if the countries do not adapt scope, frequency and intensity of the outreach to the level of risk exposure by different NPOs.

²⁶ Para. 7.a.iii. INR.8.

²⁷ Para. 7.a.iv. INR.8.

2.3.2. Focused, proportionate and risk-based measures, including oversight or monitoring of NPOs where needed

58. The Interpretive Note to R.8 requires countries to take steps to promote focused, proportionate and risk-based oversight or monitoring of NPOs. A “one-size-fits-all” approach would be inconsistent with the proper implementation of a risk-based approach as stipulated under R.1 of the FATF Standards.

Focused, proportionate and risk-based measures

59. **Countries should be able to demonstrate that focused, proportionate and risk-based measures apply to NPOs. It is also possible that existing regulatory, self-regulatory, or other measures may already sufficiently address the current terrorist financing risk to the NPOs in a jurisdiction.**²⁸ Countries should have measures at their disposal that they can use on a graduated basis across their population of NPOs, to elaborate a tailored and up-to-date response to identified TF risks. The nature, frequency, intensity of the application of each of the specific measures should be based on the result of the risk assessment. See section 2.2 for more information on mitigating measures.

Monitoring the compliance of NPOs with the measures

60. **Appropriate authorities should monitor the compliance of NPOs with the focused, proportionate and risk-based measures being applied to them, where needed**²⁹. An important consideration in risk-based oversight and monitoring is the risk-proportionate distribution of resources across the different risk areas and NPOs. While most oversight and monitoring resources should be dedicated to the high TF risk NPOs, oversight bodies should also set out their oversight and/or monitoring approach for medium and low TF risk NPOs, commensurate with the level and nature of risk they are exposed to. That might entail the application of oversight or monitoring tools by a combination of less frequent cycles, sample testing or reactive interventions.

61. It is for instance a good practice for an oversight body to conduct an annual program of risk-based monitoring of the NPOs deemed to be at higher risk. Adequate oversight body staff training is also good practice to support an effective risk-based monitoring framework applying to NPOs.

62. The risk-based oversight of at-risk NPOs should include the monitoring of the targeted and proportionate measures being applied by countries to them (Section above and 2.2). For instance, the oversight body could, depending on the risk faced by the NPOs, check whether the NPO's registration is accurate and up to date or reviewing and/or testing the NPO's internal controls and governance.

Box 7. Examples of measures that are not aligned with R.8 requirements.

Countries should not apply the same oversight to NPOs that were identified by the national/sectoral risk assessment as having a high risk of engaging in TF abuse as they do to those that were considered as having a medium risk. It is outside the scope of R.8 for countries to conduct monitoring of NPOs across the board, without any consideration

²⁸ Para.7.b.i., INR.8.

²⁹ Para.7.b.i., INR.8.

of their exposure to TF risks. This oversight should vary in terms of modalities, frequency and intensity depending on the level of risk faced by at-risk NPOs.

In an effort to comply with R.8, some countries categorize NPOs as DNFBPs and require AML/CFT supervision rather than taking a risk-based approach to oversight and monitoring of the NPOs that are most at risk. R.8 does not require or intend on-site or off-site inspections of NPOs with the same AML/CFT supervision requirements that apply to reporting entities.

Ability to apply effective, proportionate and dissuasive sanctions

63. **Appropriate authorities in charge of monitoring compliance with measures should be able to apply effective, proportionate and dissuasive sanctions for violations by NPOs or persons acting on behalf of these NPOs³⁰.**

64. Oversight bodies should have a sufficient range of sanctions available that can be applied proportionately to greater or lesser breaches of requirements. The range of such sanctions might include freezing of accounts, removal of trustees, fines, de-certification, de-licensing and de-registration³¹. In assessing the appropriate remedial actions or sanctions they should be able to apply in a risk-based monitoring approach, oversight bodies should consider the nature and the potential impact that the violation/non-compliance of the NPO might have. They should make sure to have at their disposal sanctions allowing them to respond in a proportionate manner to violations. For example, the sanction could have the possibility to combine several types of sanctions and to publish the sanction, to reinforce the deterrence.

65. Oversight bodies should be able to apply sanctions addressing specific deficiencies identified, effective at ensuring future compliance by the sanctioned NPOs and dissuasive of non-compliance by others. In addition, oversight bodies may also have access to a range of remedial actions such as issuing guidance or warning letters that should allow to correct weaknesses in NPOs' approach, where appropriate, but also to foster a governance culture that contribute to effective risk management and compliance with measures applying to NPOs.

66. The ability to apply sanctions should not preclude parallel civil, administrative or criminal proceedings with respect to NPOs or persons acting on their behalf where appropriate.

67. To avoid an excessive application of sanctions and unproportionate administrative processes, NPOs should be duly informed, and rule of law should be respected, giving due opportunity for legal recourse when applicable.

2.3.3. Effective information gathering and investigation

68. **In the context of information gathering, countries should ensure effective cooperation, coordination and information sharing to the extent possible among all levels of appropriate bodies, authorities or organisations that hold relevant information on NPOs³².** In practice, this may include law enforcement, intelligence and regulatory agencies, accrediting institutions, self-regulatory organisations, to the extent

30 Para.7.b. INR.8.

31 Footnote 6 INR.8.

32 Para.7.c.i. INR.8

possible and where appropriate, non-governmental authorities such as NPO associations, coalitions, umbrella organisations or NPO self-regulatory organisations. Such bodies may hold relevant information on NPOs operating in the country and the specific terrorist financing risks that they are facing (See section 2.1.3.).

69. Given that multiple types of information from different sources facilitates the detection of abuse, a cooperative and collaborative inter-agency approach to the detection of abuse and risk ensures effective information management as well as that investigative actions being carried out by one body don't conflict with or jeopardize actions being carried out by another (See R.2).

70. Information sharing is a key element of TF prevention and detection in the NPO sector. Open-source information, information provided by legitimate NPOs to oversight bodies where they suspect that an NPO is a fake NPO or is being abused can be crucial in identifying terrorist abuse in the NPO sector. Fostering an environment of trust in which information on particular NPOs of concern for TF or related issues can easily be made available to oversight bodies or government authorities from the public and from the NPO sector itself is key.

71. However, in cases where complicit organisations relied on deception to mislead donors and other NPOs for terrorist financing purposes, the use of national security or intelligence-gathered information to detect and breach this deception is important in protecting the sector from specific terrorist financing threats. National security intelligence derives from varying sources and reports on a wide-range of subject matters. As demonstrated in the FATF typologies report, national security intelligence provides context to the risk environment in which NPOs operate. This includes information on individuals and organisations with relevant links to TF and other support for terrorist activities.

72. Law enforcement information and information from foreign authorities can help provide competent authorities with a better understanding of the TF risk environment in which NPOs are operating, and context surrounding instances of abuse and circumstances of risk. It can provide insight on individuals and organisations supporting illicit activities and linked to NPOs, and their relevant links to TF. International cooperation on NPO and TF-related issues could be a useful source of information.

73. **Countries should have investigative expertise and capability to examine those NPOs which are suspected of being exploited by, or actively supporting, terrorist activity or terrorist organisations**³³. Competent authorities should have skilled personnel who can assess and understand TF risks specific to NPOs. This requires maintaining high professional standards to ensure that individuals have the necessary expertise and capability to carry out investigation of NPOs, which should be commensurate with the complexity of the NPO's activities and TF risk profile.

74. An example of a measure that would support the implementation of this requirement, would be for countries to require all high risk NPO to maintain, at a minimum, some financial and programmatic information, that may be obtained should an investigation into possible terrorist financing abuse arise. Such requirements could be imposed through AML/CFT legislation or may already be in place in other types of legislation. For example, NPOs may be already required by law or regulation to maintain some financial and programmatic information for the purpose of qualifying for favourable tax treatment.

75. **Countries should also ensure that full access to information on the administration and management of a particular NPO (including financial and**

33 Para.7.c.ii. INR.8.

programmatic information) may be obtained during an investigation³⁴. In practice, this means that countries should ensure that designated law enforcement authorities have responsibility for terrorist financing investigations within the framework of national AML/CFT policies and have sufficient powers to do so, in line with Recommendations 29, 30 and 31.

76. **Countries should establish appropriate mechanisms to ensure that, when there is suspicion that a particular NPO is being abused by terrorists or terrorist organisations under the specific circumstances described at para.6.c.iv. INR.8, this information is promptly shared with relevant competent authorities**³⁵, in order to take preventive or investigative action. This does not mean that the FATF Recommendations require or intend 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.

2.3.4. Effective capacity to respond to international requests for information about an NPO of concern

77. **Countries should identify appropriate points of contact and procedures to respond to international requests for information regarding particular NPOs suspected of terrorist financing or involvement in other forms of terrorist support**³⁶. The ability to respond to international requests for information on NPOs can be achieved either through a specific mechanism or through the common existing channels or mechanisms for effective transmission and execution of request for information, in accordance with Recommendations 37 and 40 on international cooperation. Countries should be able to promptly respond to international requests.

78. International cooperation is important in protecting NPOs from terrorist abuse given that their work is often global in nature and may span several jurisdictions. This global presence provides a framework for national and international operations and financial transactions, often within or near those areas that are most exposed to terrorist activity. Information from foreign counterparts can also be helpful in identifying and taking action against TF threats because of the transnational nature of many NPO operations. Such information may be obtained from NPOs' foreign partners as well as information from foreign partner (government) agencies. In particular, international requests that contain information on specific NPOs or TF mechanisms or other forms of terrorist support may inform the understanding of the sector's TF risk exposure, the identification of the subset of relevant NPOs, and the choice of the adequate measures, based on an adequate risk assessment while taking into account the environment where the NPOs operate, to protect them from terrorist abuse, as appropriate.

34 Para.7.c.iii. INR.8.

35 Para.7.c.iv. INR.8.

36 Para.7.d. INR.8.

3. HOW CAN NPOS PROTECT THEMSELVES AGAINST TF ABUSE

Specific examples of good practice for NPOs to prevent TF abuse, especially if they operate in higher risk areas, can be found in **Annex B**.

79. The FATF recognises the intent and efforts to date of the NPO community to promote transparency within their operations and to prevent misuse of the sector, by those wishing to support terrorist financing and terrorist organisations. R.8 do not require NPO to undertake measures to understand and mitigate TF risks. The purpose of this chapter is to guide NPOs that would like to take proactive steps to protect themselves against TF abuse. Three pillars could prove to be particularly useful in that respect: understanding and mitigating TF risks at an individual level (3.1 and 3.2), getting involved in self-regulatory initiatives (3.3), and having in place risk-based internal controls and good governance measures (3.4).

3.1. UNDERSTANDING TF RISKS AT AN INDIVIDUAL NPO LEVEL

80. NPOs should be aware of the NPO TF risk assessment undertaken by the authorities (See 2.1.2). For NPOs that the authorities' TF risk assessment identifies as exposed to high risk of TF abuse, this section provides some guidance, if they wish to understand TF risks at an individual level.

81. The NPO could assess the likelihood of specific forms of TF abuse within the NPO and in external interactions, and the potential consequences on its activities. TF covers many types of methods and situations. NPOs that have most of their operation in foreign high-risk areas have a different risk profile than those that are operating at a domestic level with little to no TF threat. The nature of the risk in the circumstances, the activities that the NPO carries out and how and where they are undertaken are factors for NPOs to understand the TF risks they face and take measures to mitigate these risks.

82. Many NPOs already undertake their own risk analysis before working in a new environment or with new partners, as several examples in Annex B demonstrate. Such internal NPO risk assessments can help mitigate a wide variety of potential risks faced by the NPO, including TF abuse.

83. Each NPO's TF abuse risks are unique and vary from one project to another. To understand TF risks at an individual level, an NPO could consider using external sources such as the national TF risk assessment (domestic and in the countries it operates), publicly available information, reports dealing with TF abuse risks in its sector of activity and its geographical location. It could further look into internal documents such as audit reports on compliance risks and prior examples of non-compliance. Carrying out interviews of the most informed people in the NPO regarding the issue of the TF abuse risks, such as the legal/compliance officers, the internal audit committee, senior management at a local level, is a good way to gather and synthesize information. By analysing this information, NPOs can determine which internal and external factors may have an impact on their exposure to TF abuse.

84. These factors may include, inter alia:

1. Size and structure of the NPO
 2. Sector of activity
 3. Location of the activity and local conditions of the countries destination
 4. Interactions of the NPO with partners, beneficiaries, etc.
 5. Nature and volume of beneficiaries
85. Once an NPO has identified specific risk factors, it could gauge the likelihood of occurrence of each risk and its consequences on the NPO's activities on a scale.
86. Such circumstances and risks could be regularly monitored, reassessed, and adapted as necessary to ensure the continued effectiveness of the NPO's internal controls, ethics, and compliance programme or measures. This could be reviewed periodically, or after any significant changes in its operations, such as a change in structure or after a merger with another NPO.

Box 8. Inviting professional auditors to conduct independent audit

A good practice is for NPOs to invite professional auditors to conduct an independent audit on its activities, where appropriate and proportionate to the scale and activities of the specific NPO. This helps to adjust an NPO's practices to reduce its TF risks and adapt to any changes in its risk context.

3.2. MITIGATING TF RISK AT AN INDIVIDUAL NPO LEVEL

87. The best approach for NPOs to ensure that they are not abused for terrorist purposes is to put in place good governance and strong financial management, including having robust internal and financial controls and risk management procedures. The types of individual NPO internal risk mitigation measures include (See **Annex B**):
- Individual NPO internal risk mitigation measures: Depending on their size and institutional capacity, organizations have policies and/or procedures of varying degrees in place regarding governance, financial and project accountability (See also 3.4).
 - Individual NPO internal risk mitigation measures subject to independent auditing: Larger organizations in particular have the resources and needs for internal policies, procedures and accompanying internal risk management measures regarding codes of conduct, human resources, counter-fraud and due diligence, counter terrorism or CFT specifically, for which internal monitoring and evaluation mechanisms are set up. The evaluation includes independent auditing.
88. The TF abuse risk assessment could be used to implement targeted, proportionate and risk-based internal mitigating measures to efficiently mitigate relevant TF abuse risks. Adequate types and levels of preventive and detective controls could be imposed on each TF abuse risk. The remaining risk after this process is designated as the residual risk.
89. When deciding the specific scope and types of activities that its TF abuse risk mitigating measures should address, the NPO could build on the domestic risk assessment and its own TF abuse risk assessment, the domestic legislative and regulatory framework

and all international guidance and best practices. If the NPO has limited resources, it could prioritise and address the most prevalent forms of TF abuse it faces.

- An NPO should be aware of all relevant legal and regulatory requirements and take specific actions to ensure full compliance with them.
- Second, an NPO could establish risk-based internal mitigating measures addressing or relevant to specific forms of TF abuse to which it is particularly exposed. In line with the risk-based approach, the measures necessary for an NPO operating in a high-risk context (e.g., providing services in a conflict zone) to reduce its TF risks would be more stringent than those for an NPO operating in a low-risk context.
- Depending on their TF risk exposure, NPOs could take a range of practical steps to be confident that they know the donors and partners they work with; and are able to identify and manage associated risks.
- For high risk NPOs, where necessary, they could also implement measures to screen partners, beneficial owners of their partners and staff when establishing relationships with them, including through TF targeted financial sanction screening, apply financial control measures and procedures and keep financial records, monitor the programmes/projects and closely follow the cash flow of the programmes/projects.
- It is also necessary 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.
- Carrying out proper 'know your donor' programs on those individuals and organisations that give money to, receive money from or work closely with the NPO is also important.

90. Specific examples of good practice regarding internal mitigating measures in place to prevent TF abuse at individual NPO's level can be found in **Annex B**.

3.3. SELF-REGULATION

91. The growing complexity in the global environment has placed new demands on all legitimate international actors to safeguard the integrity and accountability of their operations. The NPO sector has responded considerably to these demands by developing several different standards and initiatives to help individual organisations ensure accountability and transparency in their operations.

92. R.8 provides that countries should have in place focused measures to these NPOs to address the TF risks identified, in line with the risk-based approach. **Countries may also consider, where they exist, self-regulatory and relevant internal risk mitigation measures.**³⁷

93. The non-profit sector in many countries has representational and self-regulatory organisations that have developed standards and initiatives to help individual organisations ensure accountability and transparency in their operations. They are a unique resource that can play a role in the protection of the sector against a range of abuses, including terrorist abuse. Such umbrella organisations are directly interested in preserving the legitimacy and

³⁷ Para. 5, INR.8

reputation of the NPOs and have long been engaged in the development and promulgation of good practices for these organisations in a wide array of functions.

94. The NPO sector in various jurisdictions can further work to disseminate their experience in their self-regulatory measures, provide training and build capacity in the sector (and in different jurisdictions) to adopt such measures, and monitor and evaluate effectiveness and relevance of such measures.

95. Collaboration and coordination between NPOs, especially when operating in the same or similar context, may support a coordinated approach to the identification and management of risks. This in turn may facilitate the understanding of financial institutions of the risk management systems that NPOs apply in a particular context. Collaboration may also support smaller NPOs with limited resources and capacity. NPOs could share resources to apply risk management mechanisms. For example, NPOs with similar characteristics (e.g., activities in similar geographical locations or working with similar and intended beneficiaries) could share internal control procedures relating to e.g. staff training, record keeping, financial transparency and auditing.

96. As self-regulatory mechanisms in the NPO sector have continued to evolve in various jurisdictions, NPOs without such mechanisms could also consider the development of their own or additional self-regulatory mechanisms to strengthen internal controls and procedures and other measures to improve transparency of their operations and funding and to prevent terrorist and other abuses.

97. Measures to strengthen effective NPO self-regulation could be encouraged as a significant component of decreasing the risk of misuse by terrorist groups in addition to promoting greater transparency and good governance within the larger NPO sector.

98. Non-profit self-regulation includes various models and initiatives which aim to promote good internal governance, transparency, and accountability. In some cases, the standards set by the self-regulation may contain specific CFT measures, while other measures that aim to achieve other aims (e.g. good governance or accountability) may still have CFT relevance. Self-regulation measures may range from formal (e.g., sector standards tested by an independent accreditation agency) to informal (e.g. through dialogue with donors) and are regularly adapted to reflect up-to-date good practices.

99. Self-regulatory measures have varying degrees of obligations and enforceability. NPOs may be applying multiple types of self-regulation at the same time. The types of self-regulatory measures include (See **Annex B**):

- Voluntary sector standards: Providing a set of general principles, operational principles, and standards for the activities and management of organizations. Voluntary sectors standards or codes of conducts aim to govern and improve conduct in the sector, or specific types of organisations in the sector. Codes may be tailored towards e.g., smaller charities with international activities, large INGOs working as development organisations, private philanthropy organizations. Sector standards may be supported by toolkits, to help organisations implement the standards in practice.
- Sector codes with independent verification of compliance, certification or accreditation: Certification systems require members to adhere to a set of standards, e.g., requirements on transparency in reporting (such as annual financial reports), fundraising expenses thresholds (to control overspending), and adoption of codes of conduct, which are reviewed regularly by the standard setting entity. Certification is fee-based. Failure to adhere to the requirements can be sanctioned by the withdrawal of the accreditation.

- Donor enforced self-regulation: Institutional donors, such as government donors, multilateral donors and bilateral aid agencies, give grants on a structural basis, and set requirements on transparency, financial reporting and program performance reporting, as well as due diligence, including on CFT. More stringent requirements are set for higher risk projects, or those that take place in higher-risk contexts. Compliance with these requirements is tested through often extensive auditing or similar processes, e.g., verification exercises and other assessments. Requirements vary by donor and set to provide accountability to their governments for the use of funds. NPOs subject to these requirements also require compliance with these standards by their partners and grantees.
- Market-based instruments: Fiscal measures, such as exemption from taxes or eligibility for subsidies.
- Co-regulation/government-allied self-regulation: Co-regulation between NPOs and government, where standards are set and verified in conjunction with the government. Self-regulation includes standards set with government affiliation, e.g. through government financing of the standard setting entity or control through participation of the government in the board of the entity.

3.4. IMPLEMENTING GOOD GOVERNANCE TO MEET R.8 OBJECTIVES

100. Many NPOs already implement a wide variety of good governance and risk mitigation measures, which can also help mitigate terrorist abuse. The case studies analysed in support of the typologies report demonstrated that terrorist abuse of the NPO sector was commonly the result of a lack of robust internal governance and/or appropriate external oversight.

101. For the high risk NPOs, an effective approach for NPOs to protect themselves from TF abuse is the by-product of having robust internal good governance practices in place.

Box 9. Good governance for NPOs

Robust internal governance practices for NPOs can be grouped into the following four:

- 1) Organisational integrity;
- 2) Partner and donors relationships;
- 3) Financial transparency and accountability; and
- 4) Programme planning and monitoring.

102. Some characteristics of a good governance system for NPOs are described below. These controls promote good governance, which are often initially implemented for other purposes or to prevent other illicit activity, can also have an important role in preventing TF abuse. The characteristics below may be more easily achieved by NPO's through an umbrella or branch organisations. A branch organisation can ensure thorough knowledge exchange, professionalization and a transparent sector in which the affiliated members know and support each other. Affiliation with a branch or umbrella organisation makes relevant knowledge and expertise accessible and applicable to organisations. In most cases, membership includes the endorsement of codes of conduct and commitment to transparent accountability.

3.4.1. Organisational integrity

103. NPOs are established and operate in accordance with a governing document, for example, articles of incorporation, a constitution, or bylaws that outline purposes, structure, reporting practices, and guidelines for complying with local laws. Members of the governing board understand and act in the interest of the organisation. The governing board maintains oversight over the organisation by establishing strong financial and human resource policies, meeting on a regular basis, and actively monitoring activities. In addition, requirements for directors, organisation of internal supervision, and regularly scheduled self-evaluations could be beneficial.

3.4.2. Partners and donors relationships

104. To prevent the abuse of funds by partners, NPOs could undertake a range of practical steps to be reasonably assured of the provenance of the funds given to them and verify information on those individuals and organisations that the NPO receives donations from, gives money to or works with closely before entering into relationships or agreements. NPOs verify partners and donors reputations through the use of selection criteria and searches of publicly available information, including domestic and UN sanctions lists. Written agreements can also be used to outline the expectations and responsibilities of both parties, which include detailed information as to the application of funds and requirements for regular reporting, audits and on-site visits.

3.4.3. Financial accountability and transparency

105. NPOs prevent financial abuse and misuse of resources and funds by establishing strong financial controls and procedures. For example, the governing board approves an annual budget and has a process in place to monitor the use of funds. These procedures can also see to the use of funds, for example incorporating the principle that a payment or transfer decision must be approved by at least two people. NPOs keep adequate and complete financial records of income, expenses, and financial transactions throughout their operations, including the end use of the funds, both nationally and internationally. NPOs clearly state programme goals when collecting funds, and ensure that funds are applied as intended. Information about the activities carried out is made publicly available. NPOs are informed as to the sources of their income and establish criteria to determine whether donations should be accepted or refused.

3.4.4. Programme planning and monitoring

106. NPOs can establish internal controls and monitoring systems to ensure that funds and services are being used as intended. For example, and depending on their activities and risks, NPOs could clearly define the purpose and scope of their activities, identify beneficiary groups, and consider the risks of terrorist financing and risk mitigation measures before undertaking projects. They maintain detailed budgets for each project and generate regular reports on related purchases and expenses. NPOs establish procedures to trace funds, services, and equipment, and carry out transactions through the banking system when possible to maintain transparency of funds and mitigate the risk of terrorist financing. Project performance is monitored on a regular basis by verifying the existence of beneficiaries and ensuring the receipt of funds. NPOs take appropriate measures, based on the risks, to account for funds and services delivered.

107. Although many of the measures noted above may primarily be aimed at combatting fraud, tax evasion, embezzlement, money laundering, and other financial crimes in the NPO sector, they can also help mitigate terrorist abuse by enhancing the transparency and

integrity of the NPO sector in its operations and flow of funds. The same can be said of government initiatives to enhance transparency and integrity of the NPO sector, even if they are not primarily aimed at combatting terrorist abuse of the NPOs.

4. HOW CAN COUNTRIES, FINANCIAL INSTITUTIONS AND NPOs ENSURE ACCESS OF LEGITIMATE NPOs TO FINANCIAL SERVICES

Specific examples of good practice for countries, financial institutions, and NPOs to ensure access of legitimate NPOs to financial services, can be found in **Annex C**.

108. The FATF recognises the importance of ensuring that implementation of its Recommendations does not adversely and disproportionately affect NPOs³⁸, and further, does not unduly hinder civil society and the delivery of legitimate humanitarian assistance. NPOs rely on banking facilities and other financial and payment services to carry out important humanitarian and charitable services.

109. However, in recent years, there have been reports of financial institutions terminating or restricting the access of legitimate NPOs to financial services, or taking longer to process transactions of NPOs. Occasions of delays for wire transfers, unclear and escalating due-diligence requirements have been reported as well, including those that have impeded NPOs' ability to provide services and support to their beneficiaries, inability to open bank accounts and arbitrary closure of bank accounts as well as wholesale termination of individual customers or entire classes of customer and transaction, without taking into account, disproportionate to or not targeted at their actual level of risk or risk mitigation measures. This is not a proper implementation of a risk-based approach and is not consistent with the FATF Standards.

110. Such practice has the potential to drive financial flows underground, thus reducing financial transparency and the ability to identify and take action against TF abuses, which overall increases ML/TF risks. Termination and closing of NPO's bank account also inhibits the delivery of aid to developing countries and crisis zones where humanitarian needs are acute and where charitable work contributes positively to the fight against regional and global terrorism.

111. Financial institutions may decide to terminate or not establish customer relationships, on a case-by-case basis, where the terrorist financing risks cannot be mitigated³⁹. The FATF is committed to ensuring that countries, financial institutions, and NPOs apply the FATF standards appropriately, including R.8, to protect the NPO sector from TF abuse.

38 In its resolution 2462 (2019), para. 24 UN Security Council urged States, "when designing and applying measures to counter the financing of terrorism, to take into account the potential effect of those measures on exclusively humanitarian activities, including medical services, that are carried out by impartial humanitarian actors in a manner consistent with international humanitarian law".

39 Recommendation 10 (FATF, 2012).

112. This chapter describes the steps countries (4.1), financial institutions (4.2), and the NPO sector and donors (4.3) may take to better ensure that legitimate NPOs have appropriate access to financial services.

4.1. COUNTRIES' INITIATIVES

113. R.8 require countries to have in place focused and proportionate measures, without unduly disrupting or discouraging legitimate NPO activities, in line with the risk-based approach.

Box 10. Assessing unintended consequences of domestic R.8-related measures' implementation

It is good practice for countries to assess whether its application of R.8, including implementation of the risk-based approach by relevant sectors, may inadvertently result in the undue disruption of legitimate NPOs' access to financial services. Further, if necessary, countries should take appropriate mitigating steps in line with the FATF standards. Additionally, it is good practice for countries to maintain sustained and proactive outreach to the NPO and financial sectors, including organising or participating in multi-stakeholder dialogues, and to provide clarifying public guidance.

114. Countries may wish to assess whether its domestic implementation of R.8 may inadvertently result in the unintended undue disruption of legitimate NPOs' access to financial services. Further, if appropriate, countries may develop strategic mitigating proposals in line with the FATF standards:

- Countries could analyse whether its application of R.8 results in the undue disruption of financial services to legitimate NPOs. This review may include analysing regulatory requirements for reporting entities and whether this has resulted in unintended consequences, including financial institutions ceasing services to entire categories of customer relationships, including NPOs, not in line with the risk-based approach.
- Countries could consult relevant stakeholders in formulating its analysis, including competent authorities, financial institutions, and NPOs. Conducting comprehensive consultations will enhance a country's overall understanding of the issue and will result in a more informed product.
- Upon completion of an analysis, if appropriate, countries could develop mitigating proposals to address the undue disruption of financial services for legitimate NPOs and other adverse consequences related.

115. **Sustained and proactive outreach** to the NPO and financial sectors are prerequisites to the success of ensuring access of legitimate NPOs to financial services:

- Countries could maintain a robust dialogue between relevant stakeholders, including NPOs and financial institutions, to reach a shared understanding of risks, the level of due diligence and risk mitigation required, identifying key challenges related to NPO financial transactions, and identification of solutions to financial access difficulties faced by NPOs. This may be achieved through bilateral meetings between government authorities and relevant private sector participants.

- While governing authorities and private sector participants may wish to engage bilaterally regarding sensitive subject matter, governments may also wish to engage in multistakeholder dialogues. Multistakeholder dialogues promote collaboration across industries to better understand and address financial access challenges faced by legitimate NPOs and, most importantly, to identify actionable proposals. Multistakeholder dialogues are more effective when they include all relevant stakeholders, namely government authorities (e.g., oversight body, financial intelligence unit, financial market integrity and financial inclusion policymakers, NPO regulator and tax authority), financial market representatives, NPOs and their donors.
- Governments may wish to organise such events or participate in dialogues hosted by third-parties. Engaging in multistakeholder dialogue requires concerted effort on the part of all stakeholders involved, to sustain integrity and public confidence, garner trust and transparency. A continuous process, rather than an incidental or single engagement, contributes to an active and effective dialogue between stakeholders.
- Multistakeholder engagement may extend to the review of the application of the risk-based approach at the operational level by all stakeholders, ensuring a targeted and proportionate approach. This may occur at the policy level, discussing the application of the risk-based approach depending on the various risk and operational contexts. But this may also occur at the operational level through verifying the relevance of risk profile parameters, through engagement with trusted stakeholders, can support the effectiveness of the operational implementation of the risk-based approach while ensuring that financial access by NPOs is not unduly restricted. This can also include confirming risk indicators that give rise to suspicious transaction reporting.

116. Countries could, when deemed necessary, provide public guidance geared towards ensuring financial access to legitimate NPOs:

- Countries could engage their financial sector and oversight bodies to foster a mutual understanding of what constitutes appropriate implementation of a risk-based approach and work towards facilitating financial inclusion objectives. When doing so, countries may wish to consult the FATF *Risk-Based Approach Guidance for the Banking Sector* and the FATF *Revised Guidance on AML/CFT and Financial Inclusion*.
- Countries may wish to provide specific public guidance, and issue updates as needed, tailored towards NPOs and financial institutions on best practices for combatting financial access challenges for legitimate NPOs. This guidance may be developed and informed by ongoing engagements and multistakeholder dialogues with the aim of better facilitating financial services for NPOs in line with the risk-based approach.

Box 11. Examples of multistakeholder dialogue

Multistakeholder dialogues are held in at least sixteen countries, bringing together NPOs, oversight bodies, financial institutions, financial sector supervisors, financial intelligence units, policy makers for financial integrity or illicit finance, as well as humanitarian aid, to discuss unintended consequences possibly resulting from the incorrect implementation of R.8, including de-risking, financial exclusion, and undue targeting of NPOs and seek appropriate solutions. Outcomes have included:

- Providing knowledge and information on the NPO sector,
- Practical guidance to financial institutions, incorporating knowledge and information on the composition of the NPO sector, characteristics of various NPOs, and information on existing NPO measures that support CTF, e.g. applicable laws and regulations, donor requirements, self-regulation, and (voluntary) sector codes and standards,
- Practical information for NPOs on the FATF, CFT obligations of financial institutions and TF risks,
- Studies into the extent and nature of de-risking domestically,
- Multistakeholder representation in risk assessment processes, or consultation and verification of perceived risks,
- Ongoing engagement between stakeholders.

While the outcome of each multistakeholder dialogue differs per country, they are all marked as a good practice by the stakeholders involved. See also **Annex C**.

4.2. FINANCIAL INSTITUTIONS' INITIATIVES

117. Financial institutions can take a range of initiatives to support access of legitimate NPOs to financial services.

118. In the first place, a solid and well documented NPO-customer risk assessment should be the basis for potential mitigating measures.

119. Financial institutions should not view all NPOs as high risk. Most organisations working in the non-for-profit realm, including FATF-defined NPOs, may face little risk of TF abuse. For example, financial institutions should not view NPOs as high risk simply because they may operate in cash-intensive environments or in countries of great humanitarian need.

120. When considering the potential risks posed by an NPO customer, financial institutions should take appropriate steps to identify and assess their TF risks (for customers, countries or geographic areas; and products, services, transactions or delivery channels), and risk mitigation measures being applied by the NPO. Financial institutions should also be required to have policies, controls and procedures that enable them to effectively manage and mitigate the risks that have been identified (either by the country or by the financial institution).

121. In practice, when assessing the potential risk of a particular NPO, financial institutions should take into account any regulatory requirements, self-regulatory or other risk mitigation measures and due diligence procedures that the NPO has in place to manage

risk across their organisations and operations. This should include those measures which are not specifically aimed at CFT, but which nevertheless help to mitigate terrorist financing risk, such as good governance, due diligence measures and reporting requirements on its activities for tax or other purposes (See Chapter 3).

122. In practice, if after conducting a risk assessment, a specific risk has been identified in relation to a particular NPO, the financial institution should first assess whether that risk can be sufficiently mitigated by proper safeguards and measures so as to allow legitimate NPO activities to continue. Such measures could include: the mandatory use of consent regimes for particular transactions; excluding certain types of transactions; agreeing to approved routes for transmission of transactions (See 4.3).

123. Additionally, the financial sector should consider **greater engagement with the NPO sector and/or its specific NPO customers** to help exchange views on the risks and work towards more effective risk mitigation measures, including the level of due diligence and risk mitigation required in a given context, acceptable to all parties, share knowledge, and achieve practical solutions to facilitate financial inclusion.

124. In addition, financial institutions could provide **transparency regarding their requirements for NPOs**, reflecting the necessary information and documentation. They could communicate regarding the decision-making process to open new accounts, to approve cross border transactions transfers and more generally to manage accounts relating to NPOs. This information could be specific, for example for lower, medium and higher risk contexts. This would allow to pre-emptively address uncertainty regarding documentation requests (See Example C.16, **Annex C**). This could be shared publicly, e.g. through their websites. Also, their information and documentation requests should take into consideration the NPOs' obligations to safeguard the safety of their beneficiaries.

125. **Innovative fintech and other financial products can support NPO activities**, especially the delivery of aid to hard-to-reach areas, reducing the reliance on cash. Financial product innovation may increase the range of the regulated financial system, which greatly improves the traceability of financial transactions, thereby not only reducing the risk of diversion but also supporting a secure audit trail for aid delivery. Financial institutions could also leverage digital information and documentation for CDD processes.

Box 12. Measures taken by financial institutions and DNFBPs, that are not in-line with a risk-based approach

Financial institutions and DNFBPs miscategorising all NPOs as high-risk clients and/or applying enhanced CDD to all NPOs.

Either because of the absence of a government-led risk assessment or due to insufficient risk differentiation by financial institutions or DNFBPs themselves, cases have been reported of all NPOs being assessed as high-risk customers to which enhanced CDD needs to be applied. This is not in line with the risk-based approach and leads to an unnecessary compliance burden for financial institutions and DNFBPs and impacts the access to financial services by NPOs.

Applying CDD requirements on beneficiaries of NPO activities.

A concern in non-profit work are requests to NPOs to screen the identities of the recipients of their assistance and provide identity information to financial institutions, donors or other entities. This could prevent humanitarian actors from operating in accordance with humanitarian principles, such as impartiality, and that may be

incompatible with international humanitarian law. It may not only impact the neutrality of humanitarian NPOs, but also exclude people in need from the humanitarian assistance that they have been determined to be needing based on the eligibility criteria developed by a humanitarian organization.

Disproportional practices that limit the operational capacity of NPOs

Other measures that have been taken to address TF risks, may be disproportional or so limiting to NPOs that it effectively incapacitates them. Examples of these disproportional practices include are restrictions against NPOs to accept cash donations or banning cash transactions in areas where regulated financial or payment channels are absent.

Similarly, refusal to start a customer relationship or decision to terminate a customer relationship should be done on a case-by-case basis and be based on justified reasons, e.g., inability to perform CDD and monitoring obligations

4.3. NPOs AND DONORS' INITIATIVES

126. NPOs can take a range of initiatives to positively impact their ability to access to financial services both from financial institutions and from donors.

127. NPOs that handle funds should consider maintaining registered bank accounts, keep their funds in them. **Where feasible, NPOs should use regulated systems to conduct their financial and payment transactions.** This brings the accounts of non-profit organisations, by and large, within the regulated financial system and under the relevant controls or regulations of that system.

128. There may be circumstances in which cash may be the only means possible for the NPO to operate, for example, to provide assistance to a particularly remote region where financial services are not available. While the use of cash is inherently more risky to terrorist abuse, when cash is used, it should be used appropriately in line with international and national laws and regulations, including cash declaration and/or cash disclosure requirements to promote greater transparency and accountability of the funds. The use of informal MVTs in many instances may be necessary where use of the regulated financial or payment system is not feasible, in particular for cross-border transactions into conflict affected areas. In such instances NPOs should take appropriate measures to reduce their TF risk by using an MVTs with good systems and controls for managing TF risk.

Box 13. Examples of measures that NPOs can have in place to positively impact their ability to access to financial services

Many NPOs have adopted a professionalized approach to risk management to ensure that their assistance reaches the intended beneficiaries. As a starting point, NPOs could show awareness of any terrorist financing risks to which they might be reasonably perceived to be vulnerable.

In addition, through the adherence to voluntary accreditations, sector codes/guidelines, requirements for tax status and donor requirements, broader due diligence and risk management mechanisms are implemented by NPOs that support CTF safeguards, yet financial institutions may not necessarily have knowledge of.

See Chapter 3 for more examples of internal measures and good governance.

129. In general, developing constructive working relationships with their financial institution can support legitimate NPOs' access to financial services. **NPOs could engage in proactive dialogue with the financial institution, including providing relevant documentation to the financial institution** about measures that they have implemented to mitigate identified TF risks, either to fulfil regulatory obligations, to fulfil the requirements imposed by their donors, or at their own initiative. If potential problems arise, NPOs could ascertain whether financial institution's concerns stem from a particular individual involved with the NPO, or from transactions in a particular country or region, and considering and discussing with the financial institution whether the NPO could take additional actions or already has sufficient risk mitigation measures in place.

130. **NPOs, especially through sector or umbrella organisations and donors, could provide clarifying guidance to financial institutions on how their broader risk management mechanisms support the prevention and detection of CTF and inform how this works in various contexts**, such as those described above, where cash is necessary and where normal procurement or personal identification systems are not functioning. This may be most beneficial when this guidance is provided both for the general due diligence and risk management mechanisms, and those that apply in specific operational contexts, in particular when there are higher risk contexts within which NPOs operate.

131. **NPOs may also want to involve other NPOs, umbrella organisations, self-regulatory organisations, or donors, when faced directly with financial access challenges, in their engagement with financial institutions**, in their effort to clarify risk situation, risk mitigation measures that are in place, or to seek redress or when advocating against restrictions. They may also work together in seeking legal recourse together where such mechanisms are available. Most effective solutions are achieved when coupling such activities with multistakeholder dialogues.

132. While many NPOs have an increasing knowledge and understanding of the CDD obligations that financial institutions must meet for CFT purposes, there may still be NPOs that can benefit from more awareness. **NPO sector organisations and umbrella NPOs should utilize their central positions to provide NPOs with information on CFT in general, risk assessment and the risk-based approach, and the CDD requirements of financial institutions and their possible impact on financial access of NPOs**. This may include information on the types of (additional) CDD information and documentation that financial institutions may need from NPOs for opening accounts and performing wire transfers or similar transactions, particularly where there are higher risks involved.

133. To strengthen due diligence and risk management mechanisms of NPOs that lack the necessary resources and capacity, **support from donors to sector organisations or umbrella NPOs** by means of training or shared resources can be beneficial. Practical guidance, tailored to specific contexts, operational or organisational characteristics can support better alignment of risk management mechanisms and broader implementation.

134. For donors it is good practice to **undertake reasonable steps to research publicly available materials** in order to ascertain how an NPO operates, how it is managed, the nature of its programmes and where they operate. This is especially true for NPOs that operate in areas where there is known risk of terrorist activity.

Annex A. COUNTRIES' EXAMPLES

135. These are some examples of measures that have been implemented by countries and which may, depending on the circumstances, help to mitigate TF risk. In practice, the unique circumstances and context of each case will determine whether a particular measure is a good practice that is partially or fully mitigating the specific risk involved. The types of circumstances and context which are relevant to such a determination and unique to each jurisdiction include: the level and type of TF risk, the size and type of charitable funds or assets being distributed, the geographical context, and existing measures in place by government authorities, among other considerations.

136. These examples should not be used as a checklist or “gold standard” of measures to be applied in all circumstances. A “one size fits all” approach would not be consistent with proper implementation of a proportionate, risk-based approach, as called for by R.8.

137. The examples are provided under the following elements:

- a) Identify NPOs, assess and understand their TF risks
- b) Sustained outreach to NPOs
- c) Targeted, proportionate and risk-based measures, including oversight and monitoring of NPOs, where needed
- d) Information gathering and investigation regarding NPOs of concern
- e) Capacity to respond to international requests for information about NPOs of concern

Identify NPOs, assess and understand their TF risks

Box A.1. NPO Risk Assessment: Malaysia

Separate from its ML/TF NRA, Malaysia carried out a TF risk assessment of those that fall within the FATF definition of an NPO in 2017.

The first part involved a comprehensive domestic review of NPO sector’s landscape in Malaysia, which included understanding the overall NPO population, distribution of services and expressive NPOs, value of NPO assets, and the movement of NPO funds. This domestic review also included an overall assessment of the legal and regulatory regime for administration of NPOs to identify those that fell within the FATF definition.

The second part was the assessment of TF risks in relation to NPOs, specifically aimed to identify inherent TF risks facing NPOs identified as vulnerable to TF and the control measures in place to mitigate identified risks. The analysis of the findings was then subject to validation, involving regulators, LEAs, NPOs and academics, to ensure the robustness of the assessment, before the findings were finalised for deliberation and adoption by the National Coordination Committee to Counter Money Laundering.

Box A.2. Domestic Review of NPO sector 2017: UK

The U.K.'s Domestic Sector Review of its NPO sector had three primary components:

Identifying and examining the size, scope, and composition of the entire NPO sector in the U.K. Data from published reports on the NPO sector was augmented with information requested from various government departments and agencies with responsibility for registering/regulating NPOs.

Evaluating NPO structures and oversight. To understand the legal structures and reporting requirements of organisations within the U.K. NPO sector, the review determined what information each regulatory body/agency collected to help assess levels of transparency and oversight.

Identifying the subset of NPOs that operate in the U.K., that fall within the FATF definition, which may be at the greatest risk of terrorist financing abuse and therefore subject to Recommendation 8. The analysis took into account the findings of the FATF 2014 report on Risk of Terrorist Abuse in Non-Profit Organisations ('the Typologies Report') and the U.K.'s 2015 National Risk Assessment ('NRA').

Box A.3. NPO Risk Assessment 2020: Mexico

In 2020, based on information from the FIU, Mexico National Risk Assessment consider the following risk factors and mitigating factors relating to financial transaction to elaborate a risk matrix:

Intrinsic risk factors:

- Sending and receiving funds to and from overseas.
- The ratings of NPOs identified in the FIU's risk model
- Unusual Transaction Reports (UTR) involving international transactions.
- Relevant Transaction Reports (RTR) involving cash.
- Cash Dollar Reports.
- Mitigating factors:
- The NPO qualifies as an "Authorized Donor" (AD) or as a "registered Religious Association" in consideration to its level of compliance with relevant TF regulatory mitigating measures The NPO has not been subject to a UTR/RTR in prior three years.
- A residual rating (out of 100) is assigned to NPOs, based on the consideration of risk factors and mitigating factors. A higher rating denotes a greater theoretical TF abuse risk.
- The results of the TF risk matrix indicated the following: less than 1% of the entities (nine NPOs) are high-risk, while the remaining 2542 (>99%) were identified as low-risk. The nine NPOs rated high risk were all Religious Associations.

Box A.4. Identifying subset of high-risk NPOs: Australia

In 2017, the Australian FIU, AUSTRAC, and the Australian Charities and Not-for-Profits Commission (ACNC) completed a series of steps to identify Australia's subset of high-risk NPOs, as well as common vulnerabilities and indicators for identifying at-risk organisations within the sector. This involved the following steps:

- Collating a list of high-risk NPOs informed by reviewing relevant criminal investigations, compliance activities, intelligence holdings and suspicious matter reports (SMRs)
- Examining high-risk NPOs to identify common vulnerabilities and potential risk indicators. This included details of operations and financial statements, movement of funds, categories of risk identified by the FATF and any other relevant information available from intelligence holdings.
- Comparing various information inputs to validate the high-risk subset including removing false positives. This helped determine potential gaps in reporting by industry (e.g., where an organisation was investigated by law enforcement or a regulator but was not reported in SMRs by financial institutions).
- Australia established a multi-agency working group after identifying the high-risk NPO subset in order to examine entities in more depth and coordinate operational responses accordingly.

Box A.5. Using open data technology to create transparency regarding NPO activities: Brazil

Brazil is making use of open data technology with geocoding capabilities which enables better transparency and understanding on NPO activities. Geocoding allows for accurate understanding of the geographical locations of projects and programs, which could support a more detailed national, sector and financial institution assessment of their exposure to active terrorist and terrorist financing threat.

Box A.6. Australia's 2017 National NPO Risk Assessment Approach: Data collection and stakeholder engagement

When developing Australia's 2017 National NPO risk assessment, the collection of information was divided into two stages:

The first involved identification and collection of existing documents and other relevant data holdings. This included open source documents, as well as classified data, financial intelligence and details of criminal/national security investigations. Australia's FIU (AUSTRAC) led the collation of a NPO high risk dataset (which was later analysed to identify key risk indicators) comprised of 28 Suspicious Matter Reports (SMRs), case studies, investigations and intelligence holdings. During this phase, Australian Charities and Not-for Profits Commission (ACNC) and (Australian Tax Organisation (ATO) also

led a review of current regulatory landscapes to identify sector vulnerabilities in existing laws, reporting requirements and governance.

The second part involved stakeholder engagement. A formal request for information was sent to 23 agencies including all Commonwealth, state and territory law enforcement bodies and NPO regulators. The ACNC and AUSTRAC convened round-table meetings with NPO members and peak body representatives to gather sector insights regarding the nature and extent of TF misuse of the sector. During this phase, AUSTRAC and ACNC also developed and distributed a TF risks perceptions survey. The survey gathered views from government, industry, NPO peak bodies and experts to understand the scale of concerns regarding the nature and extent of NPO abuse for TF (threat), sector and organisational vulnerabilities, and develop key findings regarding overall risk. AUSTRAC was able to use some of the quantitative data to undertake unique data-match activities to help identify higher-risk NPOs (e.g. matching the list of NPO names against national security intelligence holdings). To ensure the accuracy of the risk assessment findings, the assessment was developed in consultation with members of the NPO sector. This included providing the final risk ratings for review. Structured consultations were also held with key government stakeholders and terrorism financing experts to collect information, capture a wide range of intelligence, policy and supervisory perspectives, and evaluate findings and judgements.

Box A.7. NPO Engagement During the TF Risk Assessment: Kyrgyzstan, North Macedonia and Paraguay

Kyrgyzstan

During the first half of 2019, NPOs in Kyrgyzstan have been included in the government-led working group on conducting the NPO sector risk assessment. The FIU issued a public call for civil society representatives to become formal members of the risk assessment working group, with three NPOs appointed to the group. NPO representatives worked with government to identify and adapt a methodology developed by an international consultancy for use in Kyrgyzstan. The implementation of this methodology required active engagement with the NPO sector and had positive impact, including on the quality of the data collected. As a result, increased NPO engagement during the TF risk assessment process increased awareness about the potential risks and protective measures, strengthened trust in the NPO sector and between stakeholders and enhanced buy-in for the recommendations and results.

North Macedonia

Similarly, in 2020, North Macedonia's FIU established a multi-stakeholder working group with high level of engagement of NPOs, with data collected both through surveys and direct consultations with the NPO sector.

The risk assessment showed that most NPOs were facing low TF risk, and about 13% low to medium TF risks.

The high level of engagement of the NPOs in the process was crucial to the quality of the risk assessment in several ways: a) helped to properly identify the FATF NPO subset; b) provided knowledge, expertise and understanding on the ways NPOs operate resulting in improved understanding of the collected data and of the implementation of

the NPO legislation; c) supported the data collection; and d) raised awareness among the NPOs themselves on the issue.

The NPO risk assessment motivated a set of policy, outreach and capacity building measures which lead to improved compliance with international standards and operationally focused preventive and mitigation measures. NPO risk-based approach measures were subsequently introduced in the Government's Strategy for combating money laundering and financing terrorism 2021.

To raise awareness and disseminate the results of the risk assessment, FIU in cooperation with an NPO organised a series of informational and educational events and shared the risk assessment with over 5 000 NPOs. In addition a user-friendly briefer (in different languages) was developed on the NPO TF RA, its implications for NPOs and mitigation measures they can adopt.

Paraguay

As a result of a participatory process with a coalition of more than 60 NPOs, the Paraguayan FIU published a regulation that categorizes NPOs by risk levels corresponding to their characteristics and activities and applies different oversight requirements.

Box A.8. National Terrorist Financing Risk Assessment and National Strategy to Combating Terrorist and Other Illicit Financing Risks: United States

In 2022, through the United States' National Terrorist Financing Risk Assessment and its corresponding National Strategy for Combating Terrorist and Other Illicit Financing, the U.S. government is able to analyse the potential for terrorist financing (TF) abuse of non-profit organizations (NPOs) and issue a strategy to address these issues, including financial inclusion and access challenges for NPOs.

2022 National Terrorist Financing Risk Assessment

The United States' 2022 National Terrorist Financing Risk Assessment (NTFRA) identifies the terrorist financing (TF) threats, vulnerabilities, and risks that the United States currently faces, updating the results from the 2018 NTFRA. This assessment is informed by several sources, including, but not limited to, the use of intelligence, including financial intelligence and analysis of Suspicious Activity Reports, criminal investigations, prosecutions, and convictions. Terrorism and TF remain a significant concern for the United States as terrorist groups at home and abroad still seek to conduct attacks inside the United States utilizing the U.S. financial system and financial transactions denominated in U.S. dollars. As part of the NTFRA, the United States specifically analyses the threats, vulnerabilities, and risks stemming from TF abuse of non-profit organizations (NPO).

In the 2022 NTFRA, the U.S. government noted that, while some charities and NPOs have been abused to facilitate terrorist financing, most charities and NPOs fully comply with the law, not all tax-exempt charitable organizations present the same level of TF risk, and the vast majority of U.S.-based tax-exempt charitable organizations face little or no risk of being abused for TF.

However, some organizations, based on their activities and geographic profile, may be more vulnerable to TF abuse. As noted in earlier NTFRAs, those U.S.- based

organizations operating in conflict zones where terrorist groups are active may face risk that their local activities, including social services or financial support, will benefit terrorist groups. This could include in-country staff, partners, or contractors who are knowingly or intentionally but clandestinely providing funds or material from the organization to terrorist supporters.

At the same time, the U.S. government acknowledged that many of the reputable, legitimate organizations involved in this work implement a range of risk-mitigation measures, including due diligence, governance, transparency, accountability, and other compliance measures, even in crisis situations. Since the publication of the 2018 NTFRA, these organizations have sought to enhance and adapt these measures in response to changing risks and their activities in areas where terrorist groups operate. Additionally, organizations that receive funding from the U.S. Agency for International Development (USAID) and are active in high-risk environments are subject to additional vetting measures by USAID and must implement due diligence and risk-mitigation requirements to ensure full compliance of U.S. sanctions, including threats posed by terrorist organizations.

Finally, the U.S. government also explicitly noted in the 2022 NTFRA that U.S. charitable organizations have reported increasing financial access challenges when dealing with high-risk jurisdictions. These financial access challenges have led to some organizations resorting to other ways to transfer funds, including physically moving cash, which can introduce other risks, including for terrorist financing abuse. As such, the U.S. government has and will continue to encourage the implementation of proportionate and risk-based AML/CFT measures to ensure legitimate humanitarian assistance flows to those most in need.

2022 National Strategy for Combating Terrorist and Other Illicit Financing

Additionally, in response to the NTFRA and other national risk assessments, the United States issued its National Strategy for Combating Terrorist and Other Illicit Financing (National Strategy), which included a section on financial inclusion and access. Specifically, the U.S. government stated that a more transparent and efficient international financial system and AML/CFT framework should not be a barrier to increased financial access for legitimate uses. Further, the indiscriminate and wholesale denial of financial access to broad categories of customers (de-risking) is not only economically inefficient, but also has negative implications for AML/CFT:

- Entire classes of transactions may be shifted to less transparent financial channels, resulting in less visibility for law enforcement, supervisors, and other government authorities;
- The provision of unregistered financial services can also create a new source of profit for criminals, while the lack of financial access for charities providing humanitarian assistance to conflict zones can make their critical work even more challenging, particularly if they are driven to work in cash; and
- While profitability concerns are usually the main reason for de-risking, concerns regarding transparency and the quality of regulation, supervision, and private sector AML/CFT compliance worldwide can worsen de-risking by leaving banks with the belief that they must mitigate the inherent risks entirely on their own and may not be able to trust local regulatory and supervisory effectiveness.
- Thus, the U.S. government issued the following benchmarks for progress in the effort to address de-risking:
- Work both domestically and internationally to strengthen the risk-based approach to AML/CFT compliance, particularly with regards to financial

institutions that service organizations providing humanitarian assistance and remittances;

- Continue efforts to strengthen global supervision of the businesses most necessary for the needs of customers at risk of exclusion, especially money transmitters;
- Establish a working group of policymakers, NGOs, and financial institutions to discuss banking access and humanitarian-assistance-related issues; and
- Prepare the Anti-Money Laundering Act-mandated strategy on de-risking that aims to promote responsible financial inclusion as a complement to financial transparency, not a competitor.

Results

The results of the U.S. government's work on the 2022 NTFRA and National Strategy have been praised by the NPO community for highlighting the true risk of TF abuse of NPOs as well as outlining the detrimental AML/CFT effects of de-risking and crafting a corresponding U.S. government national strategy to address the issue.

Sustained outreach NPOs most vulnerable to TF abuse

Box A.9. Best practices and recommendations paper: Spain

Spain's Treasury (Tesoro Publico), under the Ministry of Economy and Competitiveness, published a best practices and recommendations paper on combating money laundering and terrorist financing for the non-profit organisations sector¹. The paper² was developed in consultation with the authorities that have supervisory powers over NPOs and NPOs' sectoral organisations. The paper underlines the need to apply proportionate measures, in line with the risk-based approach. It emphasises the need for NPOs to analyse and assess the risks to identify which projects carry higher risks. The paper discusses how NPOs can strengthen oversight in the following three areas to protect both integrity and reputation:

- **Functioning of directing bodies.** The paper emphasises the need to implement measures that ensure the ethical and professional suitability of directing officials and key employees, and recommends that NPOs establish rules on the powers vested in directing bodies and clearly define duties and procedures by which resolutions are adopted. Ensuring that directing officials act in the best interest of the NPO and that directing bodies are accountable and transparent can help prevent the infiltration of individuals that may abuse NPOs for multiple purposes, including terrorism and terrorist financing.
- **Planning and technical monitoring of activities.** NPOs can use planning and monitoring to prevent the misappropriation of funds for terrorist financing or other criminal activities. The paper recommends that NPOs clearly define their purposes and beneficiaries, and refrain from carrying on any activity not designated to attain those purposes. Understanding where risks exist, setting clear guidelines for the delivery of activities and monitoring those activities on a regular basis can help NPOs ensure that resources are being used as intended.
- **Financial transparency.** NPOs should ensure financial transparency and accountability. Strong financial controls to track and monitor the source and use of funds can assist NPOs in preventing and mitigating the misuse of resources for terrorist activities.

Notes

While this document pertains to both money laundering and terrorist financing, it is referenced in this report for terrorist financing purposes.

https://www.tesoro.es/sites/default/files/mejores_practicas_osfl_english.pdf

Box A.10. Sustained dialogue and focused outreach: France

France has engaged in sustained dialogue and focused outreach activities with the French NPO sector, being umbrella organisations or NPOs directly, to raise awareness on issues related to financial crimes, including abuse by terrorist organisations, fraud or corruption and to provide support to any difficulties faced by NPOs.

The French Treasury publishes on its website a guide of good conduct for the associations with regards to the terrorist financing risk to which they are exposed. This guide is also distributed to any NPO during their official registration process at the regional Prefecture in addition to being widely available online on their website. This document intends, in particular with regard to R.8 of the FATF, to warn the associations and their managers to this specific risk, to improve their diligences measures, and to help them to put in place adequate internal policies, procedures and controls to this end. This guide explains the R.8 of the FATF and the expected measures of the FATF (awareness, control and monitoring of the sector, effective collect of information and investigations, capacity to answer to foreign requests on NPOs). It also exposes the national and European regulation and devices on terrorist financing in particular on assets freezing; the risk assessment on the threat; legal requirements related to the financing including donations; expectations for good financial management; requirements for the nomination of the managers, and legal provisions concerning associations.

TRACFIN, France's FIU, publishes in its annual activity reports and on the website of the Ministry of Finances typology cases and some warning criteria and indices focused on the misuse of associations for terrorist financing.

In addition, the French Treasury, the Interior Ministry and the Ministry of Foreign Affairs have published a specific guide on TF-TFS sanctions and TF risks related to humanitarian operations in sensitive areas. It provides relevant information on how to understand and mitigate risks, understanding CFT regulation and related financial institutions obligations as well as for NPOs how to comply with CFT regulation, particularly in terms of TFS. It also provides information of dedicated focal points to support NPOs on various issues inside these ministries.

Moreover, annual seminars are also organized with key stakeholders to raise awareness among the NPO sector – specifically the one considered at high-risk of abuse - of the risks related to AML/CFT issues.

Finally, an official tripartite dialogue gathering the French authorities, including the French supervisory authority for compliance monitoring, NPOs and financial institutions has been set up with the objective to solve challenges the NPO sector is facing in relation to access to financial services. Part of its work consists in elaborating a specific guidance on the best practices to facilitate access to financial services for NPOs operating in sensitive environments, in particular where terrorist groups are operating.

Box A.11. Dedicated outreach team to raise NPO awareness: United Kingdom

Since 2012, the Charity Commission of England and Wales ('the CCEW') has formally engaged in sustained outreach and dialogue with the NPO sector through its dedicated outreach team to raise awareness about a range of issues including abuse by terrorist organisations, within several key charity sectors and the public. The outreach team focuses on NPOs working in areas of highest risk, targeting them through virtual and in-person engagement events and bespoke 1:1 support as part of a rolling programme, by speaking at third party events, promoting and signposting to existing guidance and developing and publishing new guidance. This compliments the CCEW's investigative and enforcement work and provides increased opportunities to socialise the lessons learnt from operational work where NPOs have been abused for terrorist financing purposes or where they were vulnerable to such abuse. Working with the Metropolitan Police's SO15 (Counter Terrorism Command), the CCEW published an updated regulatory alert (2022) to NPOs which sets out the risks of cash couriership and updated the CCEW's Compliance Toolkit for trustees on Charities and Terrorism – all of which is published and accessible on the CCEW's website. The CCEW also supports the development and promotion of guidance for NPOs from the UK Government, such as the Treasury's Office for Financial Sanctions Implementation and its guidance on international sanctions regimes.

The outreach team primarily targets its engagement to those NPOs which have been identified, through the UK's National Risk Assessment, to be at greater risk of terrorist financing abuse. The impact and effectiveness of its physical and virtual engagement is measured through pre and post event attendance assessments completed by the attending delegates to test their knowledge of key issues, legal duties, regulations and risks. Effectiveness is also measured by how successful the CCEW is at reaching its target audience of those NPOs (i) working in one or more high-risk jurisdiction, (ii) its size (income) and (iii) the length of time that it has been operating for.

Box A.12. Sustained dialogue with the NPO sector: USA

The U.S. government maintains a robust line of communication with the NPO sector, including charities, donors, and specific communities. Specifically, the U.S. hosts roundtables with NPOs on any significant AML/CFT or sanctions actions, provides training to raise awareness of NPO vulnerabilities, and participates in NPO-hosted discussions or dialogues. The US also publishes extensive guidance materials for the humanitarian sector on AML/CFT and U.S. sanctions policies. Lastly, relevant U.S. agencies maintain an open-door policy and will often have one-on-one meetings with requesting NPOs and charities. This holistic approach to NPO outreach enables the U.S. government to continue its strong partnership with the NPO sector on AML/CFT issues.

Sustained Outreach from U.S. Government

While several U.S. government agencies conduct sustained outreach to NPOs (Internal Revenue Service, the State Department, the Department of Homeland Security, and the U.S. Agency for International Development, among others), the U.S. Department of the Treasury is the lead agency for engaging NPOs on issues relating to AML/CFT and U.S. sanctions. As such, the U.S. Treasury engages in its own sustained, direct outreach to a

wide variety of U.S. charities, donor communities, and specific diasporas communities with linkages to conflict regions and sanctions programs, such as the Iranian American community, the Syrian American community, the Somali American community, and the Arab- and Muslim-American community more broadly. The events have focused on a variety of issues, including safeguarding charitable giving and mitigating terrorist abuse through the NPO sector and other sectors, and financial inclusion.

Treasury invites dozens of U.S. charities and representatives from the charitable sector to participate in regular meetings hosted by the U.S. government. For example, Treasury hosted dozens of charity working group meetings between January 2020 and October 2022 covering issues ranging from major U.S. sanctions actions to the 2022 National Terrorist Financing Risk Assessment and accompanying National Strategy for Combating Terrorist and Other Illicit Finance to various meetings on the situation in Afghanistan. Even during the COVID-19 pandemic, the U.S. government continued with an increased pace in meeting with the NPO community holding dozens of virtual meetings. These discussions centred around advocacy groups or other representatives of the charitable sector and ongoing issues of concern such as NPO licensing procedures for operating in sanctioned jurisdictions, U.S. CT enforcement actions, and more recently access to financial services and other challenges. Most charities find these meetings valuable opportunities to provide direct feedback on CT issues affecting the sector.

Specifically on de-risking, Treasury has hosted and participated in several dozen meetings with U.S. charitable sector representatives over the past decade specifically related to access to financial services and banking challenges perceived by the sector. Treasury also meets with specific NGOs and NGO umbrella organizations periodically to discuss challenges they face, including banking challenges and due diligence measures.

Additionally, the U.S. participates in a variety of NPO conferences and other NPO-hosted outreach events. For example, the U.S. continues to participate in international multi-stakeholder dialogues on de-risking and other panels. The U.S. also engages with foreign-based NPOs and foreign governments on relevant issues, including the misapplication of R.8 and the passage of NPO-related laws under the guise of improving compliance with international AML/CFT standards. The U.S. government has also heavily engaged the international NPO community on efforts to address financial sector de-risking.

Box A.13. Checklist to help charities identify vulnerabilities to terrorist abuse: Canada

The national regulator of registered charities in Canada, the Canada Revenue Agency (CRA), provides information on its website to assist charities in meeting the legislative and regulatory obligations. It advises charities to develop and implement sound internal governance and accountability procedures, financial controls, risk management systems, and transparent reporting, in order to protect themselves against actual or alleged abuse of any kind, including allegations of fraud, money laundering, or support for terrorism. The CRA has posted the following checklist to its website to help charities identify vulnerabilities to terrorist abuse.

- Do you know about the individuals and entities associated with terrorism, which are listed in Canada under the United Nations Act and the Criminal Code? Are you aware of the Criminal Code and the Charities Registration (Security Information) Act provisions on financing and supporting terrorism—and the consequences of breaching the provisions?
- Do you have a good understanding of the background and affiliations of your board members, employees, fundraisers, and volunteers?
- Have you read the CRA guidance about [keeping adequate books and records, activities, engaging in allowable activities, operating outside Canada, and charities in the international context](#)?
- Do you have appropriate, sound, internal financial and other oversight and verification controls—for example, appropriate delegations and separations of authority over the collection, handling, and depositing of cash and the issuing of receipts?
- Do you transfer money using normal banking mechanisms, wherever possible? When it is not, do you use reputable alternative systems, and have strong additional controls and audit trails to protect your charity's funds and show how and when they were used?
- Do you know who uses your facilities and for what purpose—for example, your office or meeting space, name, bank account, credit cards, website, computer system, telephone or fax—what they are saying, and what materials they are distributing or leaving behind?
- Do you try to find out who else might be supporting a person or cause that you are endorsing in public statements, and who uses your name as a supporter?
- Do you know where your donations and other support really come from?
- Do you know who has ultimate control over the project that your charity's money and resources are benefiting, and what the money and resources are used for, including after the particular project is finished?
- Do you know your partners in delivering the work you are doing, and their affiliations to other organisations?
- Do you have clear written agreements with agents/contractors/other partners, in Canada and abroad, covering what activities will be undertaken and how they will be monitored and accounted for? Do you check that the agreements are being followed?

Source: <https://www.canada.ca/en/revenue-agency/services/charities-giving/charities/checklists-charities/checklist-charities-on-avoiding-terrorist-abuse.html>

Focused, proportionate and risk-based measures, including oversight or monitoring of NPOs, where needed

See also examples at section 2.2 of the BPP.

Box A.14. Data-led oversight and monitoring: UK

Certain NPOs registered in England and Wales are required by law to submit an Annual Return ('AR') to the Charity Commission for England and Wales ('the CCEW'). The CCEW sets the questions and information that NPOs are required to provide in their AR. AR data collected by the CCEW includes information about a NPO's overseas income and expenditure and whether a NPO has operated outside of the regulated banking sector during the reporting period. Informed by the risks and assessment outlined in Chapter 15 of the UK Government's National Risk Assessment 2020 (and earlier versions), the CCEW conducts an annual programme of risk-based supervision of those NPOs operating in higher risk jurisdictions in close proximity to an active terrorist and/or non-governmental armed actor threat, including smaller and/or newly registered NPOs.

These engagements serve as a preventative measure to ensure that NPOs exhibiting certain risk indicators are subject to proportionate oversight and monitoring by the CCEW as regulator. Such engagement allows the CCEW to test the controls and governance of the NPO and ensure that its trustees receive regulatory advice, guidance and support to enhance its governance or otherwise address deficiencies within it – this could also include issuing Action Plans to an NPO to make improvements and/or reforms within a defined period of time; compliance with which will be monitored by the CCEW. During these engagements CCEW staff check and test policies, controls and processes as they have been applied by the NPO in practice whilst taking into consideration the challenges the NPO faces in the context of the areas it operates in. In addition to providing assurance that the trustees of the NPO are alert to and informed of the risks to terrorist financing abuse, this work supports the CCEW's wider risk and intelligence assessment picture. The learning from this programme of work informs the CCEW's outreach work and feeds into the development of its guidance and resources for NPOs to assist them to protect themselves from terrorist financing, and other, abuse.

Box A.15. Supervisory measures and funding from the government: Norway

Norwegian NPOs active in higher risk areas generally receive part of their funding from the Norwegian government. As a result, they are subject to a number of monitoring measures, including the requirement to register, report on the use of funds, provide statements of income and expenditure, and ensure that they know their beneficiaries and associated NPOs. These measures, which are aimed at uncovering fraud, corruption and terrorist financing, also apply to foreign NPOs receiving funds.

The Norwegian Agency for Development Cooperation (Norad) and the Ministry of Foreign Affairs' Foreign Service Control Unit (FSCU) monitor the use of international development assistance to prevent and detect irregularities and crime, including terrorist financing. This is done through various means, including audit reports and spot-checks of projects and funding recipients. The FSCU and Norad conduct investigations when

required and may share information with the FIU and the Police Security Service, where appropriate.

NPOs are also required to register in order to open a bank account. In addition, Norway encourages voluntary registration of NPOs by providing incentives such as preferential taxation treatment.

Box A.16. Specified Non-Profit Organisation: Isle of Man

The Anti-Money Laundering and Countering the Financing of Terrorism (Specified Non-Profit Organisations) Code 2019 ('the SNPO Code') came into operation on 1 June 2019.

Through consultations with the sector, the Isle of Man developed an approach narrowing the focus of the regime to only those NPOs considered to be at greatest risk of terrorist financing, rather than the whole NPO sector.

The Isle of Man developed the Specified Non-Profit Organisation (SNPO) designation for NPOs that would be subject to the registration and oversight regime. Criteria for the designation were based on the FATF definition of NPO and several factors related to the risk of terrorist financing.¹ By narrowing its focus to the areas of the sector that are of greatest concern, the Isle of Man is able to make efficient use of its resources while protecting low-risk NPOs from the unnecessary burden associated with meeting the requirements of the registration and oversight regime.

This law subjects the SNPO to a number of requirements, including to carry out an assessment that estimates the risk of ML/FT posed by the SNPO's business and customers (business risk assessment must have regard to all relevant risk factors); to carry out an assessment that estimates the risk of ML/FT posed by the SNPO's beneficiary; to carry out an assessment that estimates the risk of ML/FT posed by any technology to the SNPO's business.

A SNPO is defined as: "means a body corporate or other legal person, the trustees of a trust, a partnership, other unincorporated association or organisation or any equivalent or similar structure or arrangement established solely or primarily to raise or distribute funds for charitable, religious, cultural, educational, political, social, fraternal or philanthropic purposes with the intention of benefitting the public or a section of the public.

Source: <https://www.iomfsa.im/media/2579/anti-moneylaunderingandcounteringthefinancingofterrorism-snpocode2019.pdf>

Box A.17. Monitoring applicant and registered charities: Canada

In Canada, the Review and Analysis Division (RAD), a specialized Division within the Canada Revenue Agency's Charities Directorate, has developed a risk-based monitoring program to protect registered charities (a subset of NPOs in the Canadian context) from potential TF abuse.

Through its monitoring function, RAD's risk based approach identifies charities with potential risks through leads identified by:

- Media monitoring,
- Internal leads from file reviews conducted elsewhere in the Directorate,
- The CRA's public leads program,
- Annual charity information returns,
- Information received from other national security partners.

Each lead is independently assessed for relevancy, and then assessed for reliability; a process wherein additional information is sought in order to corroborate or challenge the information, or the allegations presented, in the lead. If the information is confirmed to be reliable and relevant, RAD then conducts an in-depth risk assessment, analysing all available information in order to evaluate the possible risks of TF abuse and determine whether terrorism risk indicators are met. RAD's risk indicators have been developed based upon extensive literature review, lessons learned from domestic instances of TF abuse, case studies, and participation in international forums such as the FATF. RAD also maintains an internal review process to ensure that conclusions on risk can be supported by multiple staff, including the final review and approval conducted at the manager level.

Charities at risk are then referred to the audit area within RAD for further action. Based on the risk assessment, the audit area identifies what appropriate course of action should be taken to align with the nature of the identified risks, whether that be a full-scope audit or desk audit for those as high or medium risk, or other risk-mitigating actions for those at lower risk. This ensures that enforcement and/or education activities are proportionate to the risks identified and implemented in a risk-based manner.

Information gathering and investigation regarding NPOs of concern

Box A.18. FEC TF Task Force and TF Platform: Netherlands

FEC TF Task Force is a public-private initiative established in 2017 to allow investigative service to share concrete TF signals and personal data (specific operational information) with banks, giving them concrete information that enable them to perform CDD. UTRs identified by banks trigger FIU-NL's investigation and dissemination to LEAs. Such sharing of signals and reporting of unusual transactions takes place under strict legal conditions.

The TF Platform is a public-private initiative established in 2012, by the Dutch Banking Association and FIU-NL. The purpose of the Platform is to enhance the quality and effectiveness of UTRs reported on TF. Via this Platform, the FIU shares knowledge of themes, phenomena and typologies with the four Dutch major banks. This information is used to develop TF risk profiles.

Box A.19 Interagency approach: USA

United States Government takes an interagency approach to detect, deter and disrupt cases of terrorist abuse within the NPO sector. Several agencies, each operating within the parameters of its own authorities, work together to analyse available data, threats and trends, and to determine an appropriate government response.

A number of agencies work closely with the Department of Justice and the law enforcement community to identify and take action against TF threats in the NPO sector. They include the Internal Revenue Service (IRS), as the NPO regulator, as well as several offices of the Department of the Treasury, including the Office of Intelligence and Analysis (OIA), the Financial Crimes Enforcement Network or FinCEN (the financial intelligence unit or FIU of the United States), the Office of Foreign Assets Control (OFAC), and a policy office. In addition to identifying and responding to terrorist threats to the NPO sector, the various offices of the Treasury are also involved in and conducting outreach and international engagement on this issue.

OIA works with the US intelligence community to identify specific illicit finance threats, including terrorist threats within the NPO sector, then initiate broader interagency discussion about responses to these threats, particularly administrative sanctions actions.

This interagency approach has led to the designations of several NPOs that have specifically been linked to terrorist financing. Most recently, in February 2022, OFAC designated World Human Care, a non-governmental organization established by the Indonesia-based designated terrorist group Majelis Mujahidin Indonesia (MMI), for providing financial support for MMI extremists in Syria under the guise of humanitarian aid.

MMI was designated by the U.S. Department of State on June 12, 2017, for having committed, or posing a significant risk of committing, acts of terrorism that threaten the security of U.S. nationals or the national security, foreign policy, or economy of the United States. MMI was formed in 2000 and has conducted attacks in Indonesia, including claiming responsibility for a May 2012 attack at a book launch of Canadian author Irshad Manji. MMI has also been linked to the Al-Qaida-linked Hayat Tahrir al-Sham in Syria, another U.S. designated terrorist group.

In the same announcement, Treasury also highlighted the importance of legitimate humanitarian aid providers providing essential, life-saving humanitarian assistance around the world. The announcement noted that actions by entities such as World Human Care are deplorable not only for their support for terrorist organizations but also because they do so by abusing the work and reputation of genuine humanitarian aid providers worldwide. The announcement also noted that the United States remains committed to helping ensure the free flow of legitimate humanitarian assistance and the reputation of legitimate providers, including by exposing deceptive and malign actors.

Box A.20. Record keeping and information sharing obligations: Canada

Record keeping obligations for NPOs

Comprehensive record-keeping obligations apply to registered charities in Canada. For example, as part of the application process, all charities provide comprehensive information to the CRA on their activities, financial information, and directors.

Once registered, charities have an obligation to file annual information returns with the CRA that provide information on their financials, certain activities, and their directors. Much of this information is published on the CRA webpage to promote greater transparency.

They may also be required to file information returns in their capacity as corporate entities with their provincial or territorial government, or with the federal registrar, depending on where their corporation is established. Similarly, charities may also be required to file information returns to the CRA in relation to their payroll remittances or sales taxes.

Charities are also required to keep books and records that support financial information provided to the CRA in annual information and tax returns for a period of six years. The onus is on the charity to ensure that the information provided is factual and complete in every respect. Failure to maintain proper books and records can result in sanctions against the charity or revocation of an organization's charitable status.

All of the above information may be requested in the context of an audit to support effective information gathering, and investigations if necessary.

Information sharing between authorities

In Canada, the Royal Canadian Mounted Police (RCMP) and the Canadian Security Intelligence Service (CSIS) have responsibilities for investigating organisations suspected of being exploited by, or actively supporting, terrorist activity or organizations. There are formal and informal mechanisms in place to ensure cooperation and information sharing between these agencies and other domestic authorities.

First, the Canada Revenue Agency (CRA) (federal regulator of registered charities in Canada) has Memoranda of Understanding with the RCMP and the CSIS, who lead on terrorism investigations, to exchange information in relation to charities and NPOs of concern, or individuals of concern associated with such organisations. This allows for the exchange of information either on request or proactively. It also enables these national security partners to exchange classified information with the CRA, and for the CRA to exchange otherwise protected information with national security partners.

Another example of cooperation and information sharing is Canada's FIU, FINTRAC, which is required under the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA) to disclose information to police and the CRA with regards to registered charities and non-charity NPOs when it has reasonable grounds to suspect that the information would be relevant to investigating or prosecuting a money laundering offence or a terrorist activity financing offence.

Capacity to respond to international requests for information about NPOs of concern**Box A.21 On-line tools for information on NPOs: Canada, New Zealand, Germany and United Kingdom**

Several countries, including Canada, New Zealand, Germany and the United Kingdom, have developed online tools to make certain information about NPOs publicly available.

These countries provide online databases that allow the general public to search for and access information related to the status, activities, finances and governing boards of NPOs. Some of these tools allow users to display information graphically in charts and tables, make connections between NPOs, and to access copies of governing documents, by-laws and financial statements.

These tools help promote transparency and maintain public trust in the NPO sector. They also provide a means through which information can be shared internationally. Because the databases are public, international partners can access them to find information on NPOs operating outside of their jurisdiction.

Annex B. NPOs' EXAMPLES

138. These are examples of measures that have been implemented by some NPOs and umbrella organisations and which may, depending on the circumstances, help to mitigate TF risk. In practice, the unique circumstances and context of each case will determine whether a particular measure is a good practice that is partially or fully mitigating the specific risk involved. The types of circumstances and context which are relevant to such a determination include: the level and type of TF risk, the type of funds or assets being distributed, the geographical context, and other controls and due diligence measures in place, for example.

139. These examples reflect national and sectoral contexts should not be used as a checklist or “gold standard” of measures to be applied to all NPOs. A “one size fits all” approach would not be consistent with proper implementation of a risk-based approach, as called for by R.8. They are given to illustrate the range of options which countries and NPOs apply.

Adopting a risk-based approach and mitigating the risks

Box B.1. Sectoral risk assessment by an umbrella organisation based in Germany

A German umbrella organisation of development and humanitarian non-governmental organisations conducted sectoral risk assessment on behalf of a broad coalition of some 140 NPOs. The findings and recommendations of the shadow sectoral risk assessment was taken into account and incorporated by public authorities when conducting the government’s sectoral risk assessment. This collaboration has contributed to a better understanding both within the NPO sector as well as in government and law enforcement agencies of risks, mitigating measures (in particular of self-regulation and capacity building measures by the NPO sector) and the effectiveness and proportionality of measures to address TF risks. The overall quality of Germany’s sector risk assessment was increased as a result.

Box B.2. NPO training in implementing RBA in South America

An NPO, working in a South America region, has collaborated with umbrella organisation and regional experts to help NPOs engage knowledgeably and constructively in defining NPO sector TF risk. In 2019-2020, the NPO provided intensive training to NPO sector experts in several countries on R.8 and its Interpretive Note, plus good practices in sector engagement on implementing the RBA as well as in Mutual Evaluations.

The trained experts replicated the trainings with dozens of NPOs in each country, building the capacity of approximately 1 000 NPO representatives to better understand and identify indicators of sectoral TF risk.

Next, the organisation and its regional partners implemented an extensive survey of NPO perceptions of risk and country compliance with R.8 that was crafted with the dual purpose of educating NPOs on FATF standards and gathering relevant evidence. Finally, the organisation published a regional report, in several language, based on survey responses from over 725 NPOs from those 17 countries. One key takeaway was that engagement between the countries and the NPO sector should be reinforced to support the implementation of a risk-based approach to combat TF abuse of NPOs.

The NPO organised multi-stakeholders dialogues including NPO partners from 16 countries focusing on the findings of the report. In some instances, this initiative led to the launch of a formal multisector technical group to assess sectoral TF risk and draft regulations, that came into effective in 2022.

Box B.3. Guidelines to identify and mitigate TF risks by an NPO organisation based in Latvia

An NPO organisation has developed guidelines for ethical funding providing for the procedure to be followed when assessing whether to accept funding to prevent potential ethical risks associated with the potential funding and the financier, the basic principles of transparency regarding the financier, the funding and its use. The guidelines are part of organisation's commitment to develop a range of policies to promote self-regulation and good governance among its members and the non-governmental sector in general, as well as to disseminate good practice.

The guidelines help the organisation in managing financial risks by identifying specific steps to be taken before accepting funding, thus eliminating any suspicion of control or conflicts of interest, reputational risks and other risks that acceptance of funding could pose to the organisation and/or its direct partners.

Partner organisations acknowledged that the guidelines are useful for preventing financial risks, which is essential for successful cooperation between the non-governmental and banking sectors.

Box B.4. Toolkit to raise awareness about risks and risks management from an NPO based in Norway

An independent humanitarian organisation has developed a publicly available toolkit, to raise awareness of counter terrorism-related risks, and to make risk management approaches accessible to a broad range of staff who can use them in their day-to-day work. This toolkit is developed for use by a wide variety of staff covering various responsibilities from programme implementation or partnerships with donors, to operational, risk management or policy responsibilities. The toolkit has three objectives:

- To provide an overview of current counter-terrorism measures and their potential impact on principled humanitarian action.

- To highlight counter terrorism-related risks that humanitarian organisations may need to manage and mitigate, and to provide a collation of some risk management practices employed in the sector.
- To encourage organisations to mainstream consideration of counter terrorism-related risks throughout the project management cycle.

Compliance and Risk Management

The organisation employs the Three Lines of Defence Model in compliance and risk management.

The first line of defence is Field Operations Management at the country office (CO) and regional office (RO) levels. To fulfil these responsibilities Field Operations Management is expected to do the following within their own operations on a day-to-day basis:

- Design and implement effective local internal controls including those specified in global handbooks, policies and SOPs;
- Supervise the execution of those controls by their employees; and
- Execute risk and control procedures.
- All COs are now required to have at least a Risk and Compliance Coordinator; ROs have a Risk Management and Compliance Unit, and the head office (HO) has a Governance, Risk and Compliance Unit which encompasses anti-corruption, legal, risk management and compliance functions. The function is the focal point for cross-cutting high-risk issues such as data protection, as well as serving a second line of defence for spot checks of other functions. Risk identification and assessment take place every year at CO level during the strategy revision process, whereas risk monitoring takes place three times a year. Risk mitigation is a continuous activity focusing in improving the availability, design and implementation of control measures to prevent the occurrence of prioritised risks and/or mitigate their consequences.

The second line of defence is the compliance and risk management units at all levels (CO, RO, HO), as well as the Health, Safety and Security (HSS), Support functions, and Programme functions at the RO and Global levels. Functions within this second line are to help ensure the first line of defence is properly designed, in place, and operating as intended. Specifically, the compliance and risk management roles are as follows:

- Developing and maintaining systems, including policy, frameworks, guidance, tools, risk management information management system, governing documents management and dissemination;
- Providing continuous monitoring of routine controls to identify weaknesses and gaps with a focus on crosscutting issues;
- Providing guidance and support to management to strengthen and/or establish routine controls;
- Ensuring that that risk registers/global risk map are updated and maintained in accordance with the organisation's policy and procedure;
- Helping to ensure risk-based decision making.

The third line of defence is the Internal Audit (IA) function based in HO. The role of the IA function is to understand the key risks and to examine and evaluate the adequacy and effectiveness of the risk management and internal controls. In 2018, Board of Directors established an Audit and Risk Committee to provide the board with independent advice and guidance regarding the adequacy and effectiveness of

management’s practices and potential improvements to those practices. Responsibilities under the IA function include, but are not limited to:

- Evaluating risk exposure;
- Assessing the effectiveness of the risk management and control processes;
- Evaluating control systems;
- Assessing the extent to which programming and systems comply with the organisation’s policies and procedures and with relevant internal quality standards;
- Reporting significant risk exposures and control issues;
- Evaluating specific operations at the request of the Board or the Secretary General.

Box B.5. Participatory approach in the NPO sector in North Macedonia

Participatory approach to NPO risk assessment

In 2020, a targeted [NPO TF RA](#) was conducted in North Macedonia. The high level of engagement of the NPO association as an intermediary and coordinator of NPOs was crucial in the process to

- outreach to the broader group of NPOs as the organisation is well networked and enjoys high reputation in the sector;
- build the AML/CFT capacities of NPOs to engage in the multi-sector working group in meaningful ways;
- facilitate dialogues,
- managing the expectations and,
- serving as “interpreter” of the terminology in the process.

Raising awareness and understanding of TF risks among religious organizations

To enhance the understanding of the TF risks and mitigation measures among religious organisations, the association, in partnership with the government and supported by other associations, initiated policy dialogue among the stakeholders. To support the process, the association commissioned a comparative analysis on [“Religious NPOs and the CTF/ AML System - Comparative Analyses and Recommendations”](#) - the first of its kind contributing to the topic of religious NPOs and risk-based approaches in AML/CFT.

To broaden the engagement with counterparts from the Balkan region, the association in partnership with the government and other associations organised a regional learning forum “Religious organisations on the pathways to risk-based approach in CTF/ALM”. A total of 54 key stakeholder representatives from 13 countries took part (Albania, Andorra, BiH, Bulgaria, Kosovo, Montenegro, The Netherlands, North Macedonia, Romania, Serbia, Turkey, Ukraine) to exchange good practice examples for RBA in CTF/ALM.

Box B.6. RBA examples from NPOs based in Argentina and Peru

The RBA remains an enormous challenge for Latin American countries. Most countries have little capacity to assess TF risks, some state that they have no risk at all, while others include NPOs as reporting entities and apply same measures as for DNFBPs.

Argentina requested technical support from the EU AML/CFT Global Facility to implement a sectoral risk assessment in 2023.

In the past Argentina has designated NPOs as obliged entities, until having reviewed this decision recently and taken two key steps:

- Amending the AML/CFT law to remove NPOs from the list of obliged entities (this bill is currently being discussed in parliament).
- Including in its National Strategy, as one of its main objectives, the implementation of a risk assessment of the non-profit sector in line with Recommendation 8, with the support of an umbrella organisation.

Peru is one of the few countries in the region that conducted a collaborative sectoral risk assessment in 2021 in line with R.8 with the technical support of the umbrella organisation. Peru is following up on the assessment and has yet to translate its results into focused and proportionate AML/ CFT measures.

The first part of phase focused on strengthening knowledge on AML/CFT issues applicable to NPOs to mitigate their risks, through an understanding of national standards, regulations and public policies. The activities implemented included:

- On-site and online workshops to involve stakeholders, training and strategies for replicability to a larger group of NPOs.
- Manual to facilitate access to financial services (with a specific chapter for NPOs providing microcredit and guidelines to obtain information on beneficial ownership). The manual was built on inputs from the banking sector and NPOs.

The second part of phase 2022 focused on raising awareness on an enabling environment for NPOs to adopt ML/TF risk mitigation strategies and implement good self-regulatory practices. The activities implemented included:

- Documentation of good practices in Peru and other Latin American countries
- Pilot program for the exchange and appropriation of best practices in accountability and transparency

In the final part of the 2022 phase, stakeholders have agreed on a roadmap to address the ML/TF challenges identified and are designing a public-private dialogue mechanism.

Box B.7. Individual NPO internal risk mitigation measures subject to independent auditing

An international NPO providing humanitarian assistance, with large infrastructure, and working in high-risk environments has adopted internal risk management policies and procedures based on the core principles of the Institute of Internal Auditors. The standards are implemented through a three-lines of defence model: a) at country level, management ensures the application of due diligence and anti-diversion standards, b) the regional office functions as a knowledge hub for compliance, and conducts a quarterly review of the country office's risk levels and mitigation measures, and c) at the head office, the independent audit function assesses the compliance, about which it reports directly to the board. The NPO passes its policies and procedures on to partners through their agreements. It further provides funding to its partners to support the implementation of the policies and procedures.

Box B.8. Vendor due diligence and cash distribution controls for an NPO based in the USA

Vendor due diligence

Organisation's procurement processes adopt a RBA which considers the value, location and types of services and goods to avoid TF risks. All vendors above a specified low value threshold undergo basic background check including an anti-terrorism compliance (ATC) check which screens the supplier as well as its shareholders, directors and managers against worldwide sanctions and debarment databases.

Enhanced due diligence is applied when goods or services are procured above a higher value threshold, in regions where there is a need for higher risk services such as cash transfer and distribution. Quality Assurance (QA) team within the Global Supply Chain unit is responsible for proactive risk mitigation in the procurement process for all procurement activities where the value is above a particular threshold. The QA department has 3 levels of due diligence:

- Level 1: Confirm that the organisation's Standard Operating Procedures have been adhered to and that supporting documents are available and check supporting documents for red flags of collusive practices including fraud and other misconduct
- Level 2: Enhanced due diligence to determine and confirm the bona fides of the entity itself as well as its owners. This includes the application of open-source information to build a profile of these entities and then determine their level of risk. This information includes sentiment analysis from news reports, court cases, bankruptcy/registration/licensing checks, social media network analysis, global searches, discreet inquiries to peer agencies etc. Its purpose is to determine with a high level of confidence that the vendors are who they say they are.
- Level 3: Where additional risk is identified, retention of an external corporate intelligence firm to perform background checks on the vendor.

Cash distribution controls

The organisation's priority for cash distribution services is to use established banking facilities for transferring funds. In some locations and due to the unavailability of the financial institutions and where there are security and accessibility issue, informal money transfer systems which remains the only viable means will be vetted through a detailed request for proposal process, which requires due diligence on potential providers prior to the engagement of their services. Recognising that there are several unique risks involved in the use of informal money transfer systems, we have developed processes for risk identification and mitigation.

The organisation uses a reimbursement-only mechanism and only transmits money to an informal money transfer systems provider after staff have confirmed delivery of cash to the intended recipients.

The organisation has developed Cash Relief Operating Procedures (CROPs), in coordination with Program, Finance and Supply Chain departments to govern the transfer of cash. It consists of guidance to country staff detailing how to develop specific country-level Standard Operating Procedures for cash transfers, including ensuring that programmatic and financial controls are implemented effectively throughout the project cycle, that financial management and control procedures are in place, and that the organisation remains compliant with donor rules and regulations, and national laws.

Self-Regulating Measures

Box B.9. Self-regulatory schemes in Germany

In Germany there are various self-regulatory schemes and some few independent monitoring organisations which can serve to address TF risks. They should be clearly distinguished from each other and could be classified as follows:

- Independent Monitoring Organisations
 - [DZI](#) (annual monitoring based on comprehensive standards)
 - [Phineo](#) (onetime monitoring primarily focused on impact)
- Basic NPO transparency initiative with sector-wide governing structure (including independent monitoring and consumer organisations as well as umbrella organisations)
 - [Initiative Transparente Zivilgesellschaft](#)
- Umbrella Organisations with self-regulatory codes of conduct
 - [VENRO](#)
 - [Bundesverband Deutscher Stiftungen](#)
 - [Deutscher Spendenrat](#) etc.

Good governance measures are promoted by most self-regulation schemes provided by NPO umbrella organisations in Germany. In particular, good governance standards are required in detail by the [DZI Seal-of-Approval](#) as an independent monitoring scheme. In addition, a special instrument has been developed by the German chapter of Transparency International (TI). Since 2020, TI Germany promotes a sophisticated [Anti-Corruption Self-Assessment Guideline for NPO](#).

Box B.10. Voluntary sector standards

Examples include:

An independent monitoring organisation, whose aim is to increase public confidence in the country's NPOs and help donors take responsible decisions, developed a report on Standards of Transparency and Best Practices. The report took into account domestic legislation, the specific characteristics of the non-profit sector, and responses to a survey of representatives of the non-profit sector. The Standards, which are used to assess compliance by the NPO sector, are structured in blocks, most of which are relevant to countering terrorist abuse of NPOs, including:

- The operation and regulation of the governing board;
- The clarity and publicity of the organisation's mission;
- The planning and monitoring of activities;
- Communication and truthfulness of the information provided;
- Transparency of funding;
- Plurality of funding;
- Control over spending of the funds;
- Annual reporting and compliance with legal requirements; and
- Promotion of volunteering.

In Uganda, a voluntary NPO is implementing an NPO-driven self-regulatory program titled the “NGO Quality Assurance Mechanism (QuAM)” which aims to promote ethical standards and operational norms within the NPO sector. It sets principles and standards of behaviour for responsible practice to protect the credibility and integrity of certified NGOs and their networks in Uganda.

Code of Standards for NPOs in Albania

An umbrella organisation based in Albania introduced a Code of Standards about self-regulatory mechanism for the NPO sector, aiming to improve their work effectiveness, good governance, transparency, and accountability.

It is a public, self-regulatory tool to build stronger and more effective organisations in the NPO sector for leadership and management practices. This code guides NPOs towards a higher standard, thus developing trust with stakeholders and enhancing the legitimacy and credibility of NPOs. It is a set of principles and commitments on operation, governance, resource management, transparency and accountability, relationship-building, management of conflicts of interest. The Code is structured in 4 guiding principles and 7 commitments that NPO' members must meet and maintain.

The initiative was introduced in 2018, and 16 NPOs joining the volunteering working group to develop the code. Based on international experiences and models of standards for civil society organisations such as the Global Standard for CSO Accountability, the code was adapted to the dynamics of development of the non-profit sector in Albania. Besides the code an implementation framework that enables monitoring and self-assessment of the organisation was established.

Membership of the Code is public and constitute the Assembly. Since its launch in 2021, 21 organisations that have gone through the self-assessment process have joined the CS Assembly. Fulfilment of the basic obligations and requirements set out in the Code and the Self-Assessment Framework are ensured by the Code Committee, which serves as an evaluation structure for participating NPOs. The Committee is a voluntary structure,

consisting of 5 members proposed and elected by the Assembly of the Code, based on a set of professional and organizational criteria. A dedicated online platform standards4npo.al/ was established, serving as an informative and promoting tool that enables a preliminary and rapid evaluation of NPOs practices and opportunities for improvement, in compliance with the Code.

Box B.11. Sector codes with independent verification of compliance, certification and accreditation

Many country-specific codes of ethics and conduct have been adopted and are subject to independent verification of compliance, certification, accreditation, including in **Botswana, Cambodia, Georgia, Philippines, Peru, South Africa and Uruguay.**

Several leading international NPOs have developed and committed to abide by a charter that promotes transparency and accountability in the areas of political and financial independence, responsible advocacy, participatory and effective programmes, transparency in reporting, accuracy of information, good governance and professional and ethical fundraising. Member NPOs commit themselves to applying the provisions of the charter to all their programmes, conducting annual independent fiscal audits, and submitting annual compliance reports, which are reviewed by an independent panel whose assessment is made publicly available. They get certified or accredited as a result of an independent review.

Good Governance

140. The following examples, which were provided by NPOs and umbrella organisations, are presented under the following four categories:

Box B.12. Good governance for NPOs

Robust internal governance practices for NPOs can be grouped into the following four categories:

1. Organisational integrity;
2. Partner relationships;
3. Financial transparency and accountability; and
4. Programme planning and monitoring.

Organisational Integrity

Box B.13. Key features of NPO accountability systems

An international NPO has provided key features of NPO accountability systems that address the concept of organisational integrity. These features are addressed in the following charts:

Essential elements of NPO internal governance indicators

<p>Clear governance structure, particularly role of the governing body (the Board).</p>	<ul style="list-style-type: none"> • Name of body • Description of relationship to other organisational entities (board functions must be separate from management) • List of current Board members with occupations and cities/towns of residence (where appropriate, the controller/beneficial owner of NPO should also be identified)
<p>Governing body description to include:</p>	<ul style="list-style-type: none"> • Basic responsibilities and powers • Duties of individual board members • Minimum number of board members • Membership rules (including eligibility, suspension and expulsion) and terms of office (length of terms, limits on re-election) • Clear election procedure • Minimum number of board meetings and method of convening meetings • Decision-making procedures (number needed for quorum, how to vote and record decisions) with explicit indications that decisions are to be taken collectively • Record of Board meeting minutes • Conflict-of-interest provisions (for the Board and organisation overall) • Board member remuneration (Board Members should <u>not</u> receive compensation beyond reimbursement of expenses)
<p>Board competencies to include:</p>	<ul style="list-style-type: none"> • Annual review of CEO performance • Review of financial (management) performance / annual financial statements • Responsibility to recruit CEO • Responsibility to engage auditor

Essential financial management indicators

<p>Existence of basic accounting tools:</p>	<ul style="list-style-type: none"> • Books of accounts (general ledger, general journal etc.) • Cash receipts book • Cash disbursements book • Bank accounts records
<p>Basic accounting practices:</p>	<ul style="list-style-type: none"> • Written policies and procedures that follow accepted principles of accounting and control • Division of functions: the approving officer for fund releases (e.g. CEO) is different from the bookkeeper and the cash custodian.
<p>Financial reporting and record-keeping</p>	<ul style="list-style-type: none"> • Annual audits commissioned by the Board (auditor must not have a relationship to anyone in the organisation)
<p>Fraud prevention and anti-money laundering practices</p>	<ul style="list-style-type: none"> • Existence of full and accurate audit trails of funds transferred outside NGO jurisdiction/country • Use of registered bank accounts for money flows in case of every transaction (small amounts of cash for daily expenditure excepted) • Procedures to verify the identity, credentials and good faith of their beneficiaries, donors and associate NPOs • Secure and confidential maintenance of the list of bank account numbers under the name of the NPO and any document on identifying information of persons
<p>Advanced systems (for more developed organisations)</p>	<ul style="list-style-type: none"> • Sound investment policies • Resource generation plan

Box B.7. Code of Ethics of an umbrella NPO organisation based in Canada

An umbrella NPO organisation based in Canada developed a Code of Ethics¹, which encompasses a statement of principles of development as well as a code of conduct, and outlines the ethical principles that must be adhered to, and promoted, by the organisation and its members.

Below is an excerpt from the Code which relates to organisational integrity, as defined in the report:

Governance:

- Each Organization shall be governed fairly and responsibly by an independent, active and informed governing body (e.g. Board of Directors).
- All voting members of the governing body shall serve without compensation, except for reasonable expenses incurred to fulfil their organizational duties.
- Each Organization shall establish and periodically review a governance framework suitable for fulfilling its mandate. The structure shall enable the Organization to make timely decisions and to meet its responsibilities. The framework shall include an appropriate governance structure and operations; relationship of senior staff and the governing body; and clear decision-making processes.
- Each Organization will put in place policies and procedures to ensure a safe and respectful work places that promote equality and are free from violence, harassment, exploitation and abuse. Furthermore, each Organization commits to putting in place specific policies and mechanisms to prevent incidents and respond to allegations of sexual exploitation and abuse, using a trauma-informed approach. The Organization's governing body shall review and approve the Organization's annual budget, significant policies, key financial transactions, compensation practices, plans and programs, and hold officers, committees and staff accountable for actions taken and results achieved under delegated authority.
- The Organization shall adopt a policy preventing and effectively managing conflict of interest situations.
- The Organization shall have policies prohibiting discrimination and promoting gender equality and inclusion of disadvantaged groups at all levels of the Organization.
- The governing body shall periodically reassess the Organization's governing documents and objects, vision, mission, goals, priorities, policies, alignment of resources and effectiveness through consultation and collaborative planning.

Organizational Integrity

- The affairs of the Organization shall be conducted with integrity and transparency. The Organization shall make full, open and accurate disclosure to the public of relevant information concerning its goals, programs, finances, activities, results, effectiveness and governance. Exceptions are personnel matters, legal matters, proprietary information, and ethical and legal requirements of personal privacy.

- The Organization shall ensure that allegations, including but not limited to allegations of sexual harassment, exploitation and abuse are addressed in a timely manner and impartially, respecting the rights of involved parties for confidentiality and disclosure.
- The Organization shall comply with all applicable federal laws and regulations as well as laws and regulations of provinces or municipalities in which it is based or operates. Each Organization conducting activities outside of Canada shall be aware of foreign laws and regulations governing its activities.
- The Organization shall oppose and shall not be a participant to any wrongdoing or financial impropriety. It shall take prompt and firm corrective action whenever and wherever wrongdoing of any kind has been committed by any member of its governing body, employee or volunteer

Finances

- The Organization shall conduct its finances in such a way as to ensure appropriate use of funds and accountability to donors. It shall operate according to a budget approved by its governing body and have sound internal controls and documented financial policies and procedures.
- The Organization shall ensure that there are sufficient resources for effective administration and appropriate fundraising.
- The Organization shall have annual audited financial statements and shall make them easily accessible to the public.
- The Organization shall ensure that it (and, if applicable, its affiliates) manage its funds prudently. Any Organization with available assets for investment shall have and follow an investment policy.
- Each Organization that is a registered charity shall file its Registered Charity Information Return within six (6) months of its fiscal year end and such returns shall be complete and accurate.

1. Canadian Council for International Co-operation “Code of Ethics”, [Code-of-Ethics-English.pdf \(cooperation.ca\)](#)

Box B.8. Best Practice document on transparency and good governance

An NPO has produced a series of best practices to improve transparency and good governance. These best practices are designed to provide other organisations with a guide to develop internal guidelines.

Organisational integrity guidelines are included in the following chart:

<p>General guidelines</p>	<ul style="list-style-type: none"> • Inclusion of ethical behaviour and equality policies • Non remuneration concept for board members
<p>Description of the board</p>	<ul style="list-style-type: none"> • Basic responsibilities and powers • Obligations and responsibilities of individual board members • Requirement of self-evaluation • Right of board members to receive information on financial accounts and activities of the organisation • Conflict of interest provisions
<p>Description of the management team</p>	<ul style="list-style-type: none"> • Recruitment standards and definition of functions • Encouragement of professional development, equal opportunities and accessibility • Requirement to evaluate management of employees of the organisation • Conflict of interest provisions

Partner relationships

Box B.9. Standards and Best Practices about partner relationship

An independent monitoring organisation, whose aim is to increase public confidence in the country's NPOs and help donors make responsible decisions, developed a report on *Standards of Transparency and Best Practices*. The Standards, which are used to assess compliance by the NPO sector, are structured in blocks, most of which are relevant to countering the financing of terrorism, including some that address partner relationships:

- NPOs should have a documented procedure and criteria for the selection of counterpart organisations. This procedure should be approved by the governing body. Criteria could include the requirement that the counterpart organisation

be linked to the organisation's mission, have demonstrated experience in similar projects, have received funds from its government or from international public organisations, comply with legal and tax obligations, and have sound financial structure.

- NPOs should have written agreements with their partner organisations. A written agreement or understanding should be drafted and signed by the participants. This should include the funding organisation and the end user, whether it is an individual, organisation or network. Such an agreement should outline what the funds are to be used for and how the user will report back for accountability purposes. The agreement should also include requirements regarding the management of local employees according to defined ethical standards.

Box B.10. Guidelines to screening donors and partners in area of conflicts

An organisation working in areas of conflict has developed guidelines for screening donors and partners to prevent the abuse of funds. The organisation verifies that partners are not connected with terrorist organisations and that they do not receive donations, contract, partner or share services with any organisation found in violation of or accused of violating human rights. The organisation's accountants conduct background research on partner organisations and trends using open source information from Interpol, FATF and the equivalent of the Ministry of Finance in other jurisdictions, such as the US Department of Treasury OFAC Specially Designated Nationals (SDN) sanctions list. The organisation also coordinates with other international NPOs to learn about possible infractions by a potential donor from the perspective of another organisation.

Accountability and transparency

Box B.11. Standards and Best Practices about accountability and transparency

An independent monitoring organisation, whose aim is to increase public confidence in the country's NPOs and help donors make responsible decisions, developed a report on *Standards of Transparency and Best Practices*. The Standards, which are used to assess compliance by the NPO sector, are structured in blocks, most of which are relevant to countering the financing of terrorism, including some that address financial accountability and transparency:

- NPOs should have a documented policy for the procurement of goods or selection of suppliers and for the approval of expenses. It is recommended to request three quotes from different suppliers and, for high cost goods/services order, to create a call for proposals with specific criteria to ensure the best goods/services are obtained. It is also recommended to create a standard operating procedure to avoid possible conflict of interest between suppliers and the board/employee/partners of the organisation. Finally, it is recommended to conduct periodical monitoring of the suppliers to ensure that their on-going standards of efficiency, effectiveness, sustainability and quality meet organisation guidelines. All these criteria/procedures are required to be

approved by the governing body. This policy should establish who has the power to authorise expenses in the organisation, depending for example on the amount.

- Sources of financing, including details regarding the main contributors, both public and private, as well as the amounts contributed, should be available to the public.
- NPOs should prepare an annual budget for the next year with its corresponding Director's report and analytical review, including variances corresponding to the previous year's budget. The budget and the liquidation should be approved by the governing board and be available to the public.
- NPOs should prepare follow-up and final reports on the projects and make them available to donors.

NPOs should have a documented anti-corruption policy. Organisations should analyse and define the risks of corruption in the specific context they are working in (e.g. fraud, excessive pricing and kick-backs, double payments, cumulated salaries or exchange rate manipulation.) NPOs should have adequate systems in place like accurate project planning, transparent financial reporting, regular project reporting and standards for procurements for goods and suppliers as well as double-checks and independent information sources. There should be a standardised process to be followed when cases of misuse of funds are discovered, including information flow, actions to be taken and sanctions to be imposed.

Box B.19. Internal controls in an NPO

An NPO that provides humanitarian assistance to high risk areas uses a variety of internal controls to prevent, deter and detect fraudulent activities, including the diversion of resources to prohibited parties.

Internal controls which are implemented to promote financial accountability and transparency include:

- Responsibilities in key financial, procurement and asset custody processes are separated among several employees rather than entrusted to one employee. When procuring a good, for example, the following are done by separate employees: originating the procurement request, collecting quotations, selecting the vendor, receipt of goods and payment.
- Signatures are required by the originator, approver and financial reviewer at several stages in any financial transaction process in order to avoid unauthorised transactions. Moreover, the organisation maintains a document which outlines the key transactions and functions for which approval must be sought and who has the authority to approve the transaction and up to what level.
- Regular checks are done to verify the existence of assets. These checks include regular and surprise cash counts and annual physical equipment inventories.
- A system of double-checks or reviews with all financial transactions is used. Every financial transaction is approved by an employee other than the originator, and has a financial review by a separate employee. In addition, when used, checks require two signatures, and all bank transfers require dual signatures.
- Budget versus actual expenditure reports are prepared and reviewed with senior management on a monthly basis.

- Manuals and guidelines which provide procedures for support functions in the areas of finance, procurement, administration and asset management are required to be followed by all of the organisation's field programs.

Box B.12. Accountability and transparency regarding the use of funds in an NPO

An NPO that operates internationally and occasionally contracts UN Agencies and other humanitarian organisations to provide humanitarian relief implements several measures to maintain accountability and transparency over the use of funds. These measures include the:

- Evaluation and review of program design, budget, feasibility, and assessment of the risks associated with prospective projects.
- Implementation of contractual requirements for procurement processes, regular reporting on the program impact, and budgetary allocations with supporting documentation.
- Transfer of financial transactions through major financial institutions whenever possible to ensure that all funds can be traced to the delivery of services or humanitarian items to the beneficiary.
- Examination of partners' bookkeeping practices and confirmation that expenses reported are substantiated and match the allowed expenditures.
- Adherence to generally accepted accounting principles and undertaking of independent annual audits.

Box B.21. Accountability and transparency for an NPO operating in high risk area

An NPO operating in high risk areas uses the following measures to enhance financial accountability and transparency:

Only makes transfers against performance milestones

- Ensures financial reporting expectations are clear
- Asks for copies of original source documents to substantiate expenditures
- Asks for partners to use a separate bank account and/or ledger for your funds
- Requires that partners seek permission for variances from project budgets
- Puts a positive obligation to self-report on non-compliance in the contract terms
- Has clear financial manuals and record keeping guides and manual of operations for overseas employees
- Ensures overseas employees are trained on financial management practices
- Insists that interest on project funds be reinvested into the project activities
- Is clear on financial record keeping expectations
- Maintains and exercises audit rights

The NPO sets out the types of expenses it is willing to fund for each project. Any other expenses are not reimbursable. This mitigates the chances of potential misunderstandings with partners but also lowers the risk of funds being abused.

Programme planning and monitoring

Box B.22. Governance of the operational and management structure from an umbrella organisation in Latvia

In order to promote good governance of the operational and management structure, the following information is published on the website of an umbrella organisation based in Latvia:

- Membership policy, which explains in detail the procedures and how to get involved in the umbrella organisation;
- All annual reports of the organisation and reports of public benefit organization (as the umbrella organisation has public benefit status);
- Information regarding the representatives of the administrative and executive bodies, as well as the employees and the involved experts;
- Guidelines for the prevention of conflicts of interest, including the inclusion of procurement procedures and other regulatory policies and documents;
- Information regarding the procedure for admission of members;
- Information on the feedback and complaint mechanism.

In addition to the above, the umbrella organisation operates in accordance with the principle of openness, therefore the umbrella organisation ensures that its position is based on stakeholder feedback. Its position letters and opinions are published on the website and reported on the news page. An equivalent procedure is followed for all the umbrella organisation's activities. In cases when the expertise of umbrella organisation's employees is covered from the attracted project funding, it is indicated.

The organisation has developed membership policy with aims to promote involvement of its members in the organisation's work, including decision making process, expand members' basic principles of operation, rights, obligations, benefits, etc. The document also includes a feedback and complaints mechanism to encourage active feedback from members and other stakeholders.

The Members' Policy also has a number of accompanying documents:

- Code of Ethics of Associations and Foundations
- Guidelines for Prevention of Conflicts of Interest;
- Regulations on Work and Interest Groups of the organisation Members;
- Procedure for nomination and representation of delegated representatives of the organisation

The organisation has two types of monitoring and evaluating process: 1) strategical goals; 2) operational goals. Strategical goals are set by the organisation strategy and Director is held responsible. There is developed implementing plan with specific tasks for every year. Director plans everyday activities with aim to achieve these goals and monitors and evaluates progress. Director make quarterly report to Board.

Other monitoring and evaluating process is for operational goals and specific tasks, including tasks that are set in projects. The organisation has been developed system with all goals, tasks, deadlines, results, responsibilities set, and progress is monitored in everyday work. Every Monday each employee reports on progress.

The organisation also collects quantitative data relating to strategical activity areas. The data reflect the number of activities or instances conducted per category. Data are used for quarterly and annual report for stakeholders – the organisation uses collected data for progress report and describes impact, including changes and impact to civil society

organisations and specific target groups. During this process organisation monitors and evaluates both quantitative and qualitative indicators.

In addition, organisation organises annual evaluation on its work, asking members for views on activities and collecting proposals for the next period. organisation organises wider evaluating process every three years by including other stakeholders in process – evaluating strategical goals and setting new goals for next strategy.

In order to promote transparency and sound financial management, organisation internal rules stipulate that in cases where the estimated contract amount is at least EUR 1 000 (one thousand euro) over a 12-month period, a market study shall be carried out (the price survey shall be conducted in person or by correspondence, research of offers of potential service providers and suppliers on websites, booklets, catalogues, or according to publicly available information.

Box B.23. Programme planning and monitoring for an NPO operating in high risk area (2)

An independent monitoring organisation, whose aim is to increase public confidence in the country's NPOs and help donors make responsible decisions, developed a report on *Standards of Transparency and Best Practices*. The Standards, which are used to assess compliance by the NPO sector, are structured in blocks, most of which are relevant to countering the financing of terrorism, including some that address programme planning and monitoring:

- NPOs should have a documented policy for planning, monitoring and evaluating their projects. This should include requirements regarding narrative and financial reporting by the implementing partner organisation(s), audits, on-site inspections, and frequency and scope of external or internal evaluations. It should also include periodic payments to partner organisations based on satisfactory reporting and the possibility to withhold money if reporting requirements are not met. The policy should specify how partner organisations and beneficiaries participate in the process of planning, implementing and evaluating of projects, and should be approved by the governing body.
- NPOs should establish a multi-year strategy and/or annual plan, which is approved by governing body. The annual plan should clearly indicate the objectives, indicators, calendar and area responsible of the implementation of the project. Also, the plan should include all areas of the organisation, including activities such as fundraising. It is a good practice to include different stakeholders in the development of the plan, like beneficiaries, volunteers and employees. The governing body should also be involved in the development, discussion and approval of the plan.
- NPOs should establish a policy, which is approved by governing body, that calls for an assessment of the organisation's achievements, effectiveness and impact and that it take place at least every two years.

Box B.24. Programme planning and monitoring for an NPO operating in high risk area (4)

An international NPO engaged in the provision of humanitarian relief through implementing partners takes the following measures when working in areas of conflict in which sanctioned or designated entities or individuals are engaged in territorial control.

- Ensures cultural competency and engages community leaders and stakeholders to help secure the delivery of humanitarian aid in a manner that reduces potential for diversion.
- Actively monitors and ceases aid distribution if diversion occurs.
- Delivers aid to areas bordering or in proximity to conflict zone in cases where a sanctioned or designated entities or individuals is exerting territorial control, to reduce the risk of resources being diverted.

These measures were applied in the following case:

A designated entity took control of a city where the NPO, operating through a domestic implementing partner, was delivering aid services to the beneficiary population. The designated entity attempted to take over the distribution of aid by ‘re-branding’ resources as their own. The implementing partner informed the designated entity that it would cease the distribution of aid, and withdrew from the contested area. The implementing partner moved its resources back to a central warehouse until such time when distribution would be acceptable according to the NPO’s terms. Eventually, the implementing partner was able to distribute aid in surrounding areas that were not under the control of the designated entity and where the beneficiary population had congregated.

Annex C. EXAMPLES TO ENSURE ACCESS OF LEGITIMATE NPOS' TO FINANCIAL SERVICES

Countries' Initiatives

Box C.1. Guidebooks on NPOs due to collaboration between authorities, financial institutions and NPOs in Peru.

Through collaboration between authorities, NPOs and financial institutions, the FIU developed a Guidebook to improve financial inclusion of NPOs and a Guidebook for NPOs on good practices in transparency and accountability. Both documents are secondary positive outcomes of the FIU's engagement with the NPO sector to produce a new sector risk assessment.

Box C.2. Central Bank provides financial services to NPOs

In a response to challenges NPOs have faced to open and maintain bank accounts, a Central Bank has established a department dedicated to providing financial services to NPOs along with small and medium-sized enterprises. The department is staffed by personnel with expertise in the characteristics and activities of the NPO sector.

Box C.3. Guidance for supervised entities assess the impacts of their activities and financial inclusion in Finland

The Finnish Financial Supervisory Authority (FIN-FSA) has published recently a draft for new regulations and guidelines concerning the prevention of money laundering and terrorist financing. In these, the FIN-FSA recommends that supervised entities assess the impacts of their activities, in addition to money laundering and terrorist financing, from the perspective of financial inclusion. In the assessment, attention should be paid on what kind of impacts there will be on a customer or category of customers if they are prevented from using certain products or services. The objective should be a balance of avoiding and mitigating risks on the one hand and providing a level playing field to economic activity in society on the other hand, particularly in respect of people in a vulnerable position.

The FIN-FSA has also otherwise raised awareness on issues relating to de-risking and financial inclusion. E.g. outreach to the financial sector has been done through the FIN-FSA's training activities, supervisory releases and circular letters, as well as blogs, in order to encourage appropriate implementation of a risk-based approach and enhance financial inclusion objectives.

The FIN-FSA has also engaged in a dialogue with NPO sector representatives and financial sector representatives in order to discuss the challenges the NPOs are facing in relation to NPO de-risking concerns.

Box C.4. Exploring practical solutions to de-risking with multistakeholder dialogue in Norway and Denmark

In Norway, multistakeholder dialogues focus on exploring practical solutions to the issue of financial de-risking. The first dialogue focused on the topic of Humanitarian Banking Channels, the second on the use of Hawala systems, the third on technological solutions and the last on policy solutions.

Briefing papers establish a baseline for each discussion. They identify developments to date in each respective area, mapping results, identifying successes, limitations, and stumbling blocks. Each dialogue provides clarity on the detail of each proposed solution, with a focus on establishing what aspects of the de-risking problem each solution would be able to address, and what gaps would remain.

Dialogues also identify next steps for the operationalisation of relevant solutions under future initiatives. This information will be compiled in an outcome document from each dialogue. A steering committee of a small group of key stakeholders from relevant sectors has been appointed at the start of the dialogue series to advise on the direction of the meetings.

In Denmark, cooperation between Finance Denmark, a range of relevant authorities and numerous NPOs, focusing on risk in the NPO sector has been taking place since 2021. The group implemented three initiatives for improving risk mitigation and ensuring better access to financial services for legitimate NPOs:

- i. Development of a guidance for banks with the purpose of improving risk assessment for NPO clients, in cooperation between authorities, NPOs and the financial sector. This is to improve the banks' ability to segment their NPO clients according to risk and their risk-based approach for low risk NPOs.
- ii. An increased focus on digital registration for NPOs with authorities so that both authorities and obliged entities have digital access to key documents and data, thereby facilitating and partly digitalizing processes like KYC and supervision.
- iii. A more structured and streamlined approach to the documents relating to the client NPOs to facilitate a more transparent and uniformed cooperation between NPOs, authorities and obliged entities.

Box C.5. Measures to Mitigate Financial Sector De-risking of NPOs: United States

In an effort to address the disruption of financial services for legitimate NPOs not in line with the risk-based approach, commonly referred to as de-risking, the U.S. government continues to:

- authorize humanitarian-related activities and transactions – in line with United Nations targeted financial sanctions obligations – within U.S. sanctions regimes;
- publish guidance reinforcing the risk-based approach for financial institutions;
- addressing de-risking and financial access challenges facing NPOs; and
- maintain sustained outreach to relevant sectors on this topic, including the NPO and the financial sectors.

Public Guidance

In November 2020, the U.S. federal banking agencies in coordination with U.S. Department of the Treasury’s Financial Crimes Enforcement Network issued a joint fact sheet to provide clarity to financial institutions on how to apply a risk-based approach to charities and other NPOs. The joint fact sheet highlights the importance of ensuring that legitimate charities have access to financial services and can transmit funds through legitimate and transparent channels. Also, the joint fact sheet reminds financial institutions to apply a risk-based approach to customer due diligence (CDD) requirements when developing the risk profiles of charities and other non-profit customers. The fact sheet reaffirms that the application of a risk-based approach is consistent with existing CDD and other Bank Secrecy Act/Anti-Money Laundering (BSA/AML) compliance requirements.

Additionally, the fact sheet more broadly reinforces that the U.S. government does not view the charitable sector as presenting a uniform or unacceptably high risk of being used or exploited for money laundering, terrorist financing, or evasion of sanctions. This perspective is in line with the standards of the FATF. Although some charities and other NPOs have been misused to facilitate terrorist financing, the U.S. government recognizes that most charities and other NPOs fully comply with the law and properly support only charitable and humanitarian causes.

2023 De-risking Strategy

On April 25, 2023, the U.S. Treasury issued the 2023 De-risking Strategy. The first of its kind, the Strategy examines the phenomenon of financial institutions de-risking and its causes, and it identifies those greatest impacted. It also offers recommended policy options to combat it. This strategy reflects the U.S. government’s priority to shape a safer, more transparent, and more accessible financial system, while at the same time maintaining a robust framework to protect the U.S. financial system from illicit actors and bolstering national security.

To inform this report, Treasury engaged in extensive consultation with the public and private sector—including banks, small and medium-size Money Service Businesses (MSBs), diaspora communities that depend on these businesses for remittances, and certain kinds of small businesses and humanitarian organizations—to understand the root cause and negative impacts of de-risking. The strategy found that profitability is the primary factor in financial institutions’ de-risking decisions. The strategy also highlights that profitability is influenced by a range of factors, such as a financial

institution's available resources and the cost of implementing AML/CFT compliance measures and systems commensurate with the risk posed by customers. Other factors the strategy identifies include reputational risk, financial institution risk appetite, a perceived lack of clarity regarding regulatory expectations, and regulatory burdens.

The policy recommendations in this strategy constitute the strongest measures the U.S. Treasury has proposed on de-risking to date, reflecting the importance of this issue for the U.S. government. The strategy provides concrete recommendations on how to promote consistent regulatory expectations, provide better incentives to U.S. banks to avoid de-risking, and to advance public and private engagement and cooperation at home and abroad.

Sustained Outreach

The U.S. government maintains a robust line of communication with the NPO sector, including charities, donors, and specific communities. Specifically, the U.S. hosts NPO roundtables on any significant AML/CFT or sanctions actions, provides training to raise awareness of NPO vulnerabilities, and participates in NPO-hosted discussions or dialogues. The US also publishes extensive guidance materials for the humanitarian sector on AML/CFT and U.S. sanctions policies. Lastly, relevant U.S. agencies maintain an open-door policy and will often have one-on-one meetings with requesting NPOs and charities. This holistic approach to NPO outreach enables the U.S. government to continue its strong partnership with the NPO sector on AML/CFT issues.

Similarly, U.S. Treasury also engages financial institutions to explain major AML/CFT and U.S. sanctions policies, as well as to encourage dialogue between financial institutions and their NPO clients. In the past decade, Treasury has hosted several meetings with financial institutions on the specific topic of de-risking, and has even brought together relevant sectors to discuss these issues. For example, the U.S. Treasury has hosted roundtables with financial institutions and NPO representatives to discuss financial access issues. Additionally, when the U.S. government issues major humanitarian-related actions, including authorizations for NPO-related work, the U.S. government will ensure financial institutions receive this information and remains open to receiving questions on these actions.

Other Efforts

Afghanistan

One example of the United States' work to address financial access challenges for NPOs and civil society is in the Afghanistan country context. After August 2021, the U.S. government carried out several actions to ensure humanitarian assistance and aid continue to reach vulnerable populations in Afghanistan. These efforts endeavoured to reinforce the risk-based approach for financial institutions dealing with NPOs and to further protect humanitarian channels in the country.

The U.S. pursued a United Nations Security Council Resolution (UNSCR) to exempt humanitarian assistance related to basic human needs for the Afghan people involving the Taliban. Prior to this UNSCR, there were no humanitarian exceptions for dealings with the Taliban, which the U.N. designated as a terrorist organisation with sanctions imposed in 2011 (UNSCR 1988).

With the adoption of UNSCR 2615, the U.S. issued authorizations in its domestic sanctions regime to authorize NPOs and financial institutions to process humanitarian assistance-related transactions in Afghanistan. In demonstrating the importance of this action, the Deputy Secretary of the Treasury held a roundtable with over four hundred

NPO representatives to explain the General License and answer questions. NPOs have reported to the U.S. that this authorisation has improved financial access in Afghanistan for NPOs.

Modernisation of U.S. Sanctions

One of the United States' greatest CFT tools remains its domestic sanctions regime. Sanctions allow U.S. policymakers to impose a material cost on adversaries to deter or disrupt behaviour that undermines U.S. national security and signal a clear policy stance. Over the last 20 years, the Department of the Treasury, in close coordination with the Departments of State and Justice, has successfully employed sanctions to address various national security challenges, including designating over 1,600 terrorist entities and individuals since 9/11, targeting, exposing, and undermining terrorist groups and their operations. For example, U.S. sanctions so significantly impaired Hizballah funding streams that in 2019 the organization had to reduce salaries for its military arm and media efforts and publicly solicit donations.

At the same time, the U.S. government recognises that for sanctions to continue to support U.S. national security objectives, the U.S. government must adapt and modernize the underlying operational architecture by which sanctions are deployed. Additionally, sanctions must be carefully calibrated to mitigate unintended economic, political, and humanitarian impacts. That's why the U.S. Treasury undertook a comprehensive review of its sanctions programs which concluded that Treasury should continue to seek ways to tailor sanctions to mitigate unintended economic, humanitarian, and political impacts on U.S. workers and businesses, allies, and non-targeted populations abroad (The Treasury 2021 Sanctions Review).

To further this effort, the U.S. and Ireland co-authored U.N. Security Council Resolution 2664, which implemented a humanitarian carveout from the asset freeze provisions of UN sanctions regimes. On December 20, 2022, the U.S. became the first country to implement UNSCR 2664 by issuing or amending general licenses across U.S. sanctions programs to ease the delivery of humanitarian aid and to ensure a baseline of authorizations for the provision of humanitarian support. This action reflects the United States' commitment to ensuring that humanitarian assistance and related trade continues to reach at-risk populations through legitimate and transparent channels, while maintaining the effective use of targeted financial sanctions, which remain an essential foreign policy tool.

Box C.6. Multistakeholder review of STR indicators in North Macedonia

Following multi-stakeholder dialogue, a cross-sector consultative working group with members of the financial intelligence unit, the supervisory authority, fifteen financial institutions and two umbrella NPOs was composed.

The multi-stakeholder working group jointly reviewed STR indicators relating to TF and NPOs. In a series of five workshops, they also discussed the implementation and interpretation of the indicators in practice, to build a common understanding of the indicators, the actual underlying risks and the operations of NPOs – in order not to obstruct or limit the legitimate work of NPOs and ensure a targeted risk-based approach.

The updated list of indicators was adopted by the financial intelligence unit. The working group developed interpretative notes to enable a unified approach in banking practices and diminish any interpretation biases.

The participatory approach was useful and contributes to a common understanding for execution, and interpretation of the STR indicators. This has improved the effectiveness of suspicious transaction reporting related to TF and NPOs systemically.

Given the complexity and changing nature of any risk context, the multi-stakeholder working group agreed to continue their engagement.

Box C.7. Tri-Sector Group: Multistakeholder outreach in the UK

In 2017, the UK – as part of its sustained outreach and dialogue with the NPO sector and financial institutions - established the Tri-Sector Group ('TSG'). The TSG is a platform for dialogue involving UK Government departments, NPOs and the financial sector. The TSG aims to reduce the barriers to the work of international NPOs in conflict contexts, while ensuring funds or economic resources are not made available to designated individuals and terrorist groups in violation of counter-terrorism legislation and domestic or international sanctions. The TSG was established following a recommendation by the UK Government's Independent Reviewer of Terrorism Legislation that a dialogue be initiated to explore "*how the objectives of anti-terrorism law can be met without unnecessarily prejudicing the ability of NGOs to deliver humanitarian aid, capacity-building and peace-building in parts of the world where designated and proscribed groups are active.*"

The TSG operates according to a set of group principles which form the basis for dialogue and collaboration, including mutual understanding of risks, open communication and consultation, and a collaborative approach to risk management. The outcomes of the group since it was established have involved three key lines of activity: dialogue and consultation; legislative and operational guidance; and outreach and joint capacity building. The regular dialogue has improved understanding between UK civil society organisations, financial institutions, and Government on key issues for NPO operations in high-risk jurisdictions. Among the TSG's achievements is the for information note: operating within counter-terrorism legislation, counter-terrorism sanctions and export control in high risk jurisdictions - GOV.UK (www.gov.uk) which forms a comprehensive guidance note for NPOs on the roles and responsibilities of various government departments involved in delivering the UK's priorities in countering terrorism. The information note, which involved consultation across the three sectors, provides guidance to help ensure compliance with the requirements of UK law, policy and guidance. The TSG holds stakeholder events to discuss thematic case studies, counter terrorism legislation, sanctions regulations and to hear from guest speakers, such as governments, NPOs and financial institutions globally with an interest in humanitarian, peacebuilding and development activities in high-risk areas. The group has also held workshops to help NPOs better understand UK Government processes on proscription, sanctions and terrorism legislation.

Box C.8. Government backed access to financial services for NPOs in Belgium

Belgium has implemented a mechanism ensuring that legitimate companies and legitimate NPOs have access to financial services (“service bancaire de base minimum pour entreprises”). After three refusals, a company (or NPO) can request the Ministry of Economy, after a fit-and-proper investigation and after consulting the FIU for advice, to appoint a financial institution. The appointed financial institution has to provide financial services to the legitimate NPO.

This mechanism entered into force early 2023.

A basic banking service consists of one or more of the following:

- Services enabling cash to be placed on a payment account as well as all the operations required for operating a payment account.
- Services enabling cash withdrawals from a payment account as well as all the operations required for operating a payment account.
- Execution of payment transactions, as follows, including transfers of funds on a payment account with the user's payment service provider or with another payment service provider, including the following:
 - Execution of direct debits
 - Execution of payment transactions through a payment card
 - Execution of credit transfers, including standing orders

Financial Institutions’ Initiatives

Transparent guidance and awareness raising for NPOs

Box C.9. Web-based portal that provides detailed CDD guidance to NPOs in a financial institution

The financial institution has developed a web-based portal that guides NPOs through the issues that are relevant to financial institutions to understand NPO TF risks. It supports the understanding and awareness among NPOs on the various AML/CFT risk considerations when wanting to open an account, and when accessing and using any financial services.

The portal explains that the financial institution functions as a gatekeeper to the financial sector and is subject to obligations on customer due diligence based on AML/CFT legislation. It provides an overview of the documents and information that the financial institution commonly requires to identify and verify the NPO and its ultimate beneficial owner.

Then the portal guides an NPO through various questions that the financial institution must consider when performing its risk assessment and CDD procedures regarding:

1. Countries in which the NPO is active,
2. The type of activity the NPO engages in,
3. Organizational structure, including staff, board members and partners of the NPO,
4. Ultimate Beneficial Owner (UBO) of the NPO, and

5. Type of transactions and sources of funding

Also, the portal refers to good governance instruments that NPOs can use to mitigate any TF risks.

The guidance that the portal provides does not only increase understanding of the legal obligations that apply to financial institutions and the steps it takes to meet these, but also creates awareness for NPOs that they themselves should be aware of any TF risks associated with their ownership/control and organizational structure, geographical reach, activities and operations, sources of funding, their (intended) financial transactions and financial crime governance measures they can take to counteract any risks.

Due care in customer due diligence decision-making processes

Box C.10. Working in multidisciplinary teams for NPO related CDD processes and monitoring of transactions in a financial institution

An institution works with a standard procedure involving multidisciplinary teams (Client Acceptance Committee) that consist of AML/CTF experts, relationship managers and human rights experts, to address de-risking issues, considered as a high priority. This committee address reports made about cases of NPO being inappropriately denied access to services, or have their services unduly terminated or limited. the multidisciplinary teams, proceed to NPO-customer assessment of risks, on a case by-case basis, performed in an equitable manner. Experts bringing in diverse views and considerations to reach a common position. AML/CFT experts have in-depth knowledge of ML/TF risk indicators, typologies, suspicious transactions and activities, whereas relationship managers may know the NPO's activities and operations well, including the financial crime governance measures the NPO takes to mitigate risks and the business and human rights specialists are able to review any interventions to mitigate risks – such as the termination of a relationship or denial of a request to open an account - against consequences of the measure for the NPO.

Where the financial institution ultimately decides to refuse an onboarding request of an NPO, it takes a proactive approach in communicating with the NPO, it provides adequate explanation and steps the NPO could take to address the concerns.

Box C.5. Training for KYC specialists on NPOs and de-risking in a financial institution

A financial institution partnered with an NPO to develop an in-house training on NPOs and de-risking for KYC specialists. The training raises awareness on the social impact of de-risking, the responsibilities of financial institutions and the importance of forming balanced decisions on risk to compliance staff. For example, it shares examples that highlight the need for careful consideration of open-source information that KYC specialists draw on for their compliance decisions, such as adverse media reports which contain media misinformation or may have been the result of undue political influence.

The financial institution provides similar trainings to its own staff on an ongoing basis. It also organizes monthly de-risking meetings, bringing together staff from various commercial divisions, where training needs and cases can be discussed relating to any NPOs for which risk indicators were raised, onboarding decisions need to be made or whose risk profiles are considered, to ensure a coordinated treatment of NPOs across the different divisions of the bank.

Working with self-regulatory standards of the NPO sector

Box C.6. Connecting self-regulatory standards with CTF measures in a financial institution

In a given jurisdiction, NPOs can obtain an accreditation from an independent self-regulatory body if they meet minimum accreditation requirements.

To provide accreditation, the self-regulatory body review NPOs against standards on e.g. mission, independence of the board and its composition, governance, whether activities are in line with stated mission, financial, project and risk management, transparency of annual budget and integrity on an ongoing basis. The larger the NPO's is, the more stringent the standards they must comply with are. The accreditation standards are continuously refined.

After analysing conformity of standards set by the self-regulatory body and CFT domestic relevant measures, and organizing multiple working sessions with the financial sector supervisor, the banking association and other financial institutions, the financial institution decided to rely on the accreditation when assessing NPO TF risk profile.

Reliance on the accreditation information and audit report provide the financial institution comprehensive CTF relevant data that has been audited independently, which would contribute to a more reliable risk assessment, especially when combined with the financial institution's own monitoring and assessment of transactions, PEP information and of credible open-source information that may impact the risk assessment.

Box C.7. Developing targeted risk profiles for better risk-differentiation between NPOs together with oversight authorities in a financial institution

Together with the supervisory authority and relevant policy makers, a group of financial institutions are participating in ‘operational roundtables’ to develop more targeted risk profiles for NPOs on TF. The focus is to identify a set of risk indicators and factors that either mitigate or increase TF risk, agreed by all the participants (e.g. when an NPO needs to comply with good governance, financial crime governance, financial and project management requirements to receive government funding). This set will constitute the foundation for the risk assessment framework for the financial institutions.

Leveraging technology to reduce CTF risks

Box C.8. Streamlining CDD information/ leveraging technology for CDD: Netherlands

Two Dutch systemic banks developed an NPO Portal in order to facilitate access to banking services. The Dutch Banking Association and the Dutch Central Bank have shown interest in the portal.

In Denmark, it is proposed to increase digital registration for NPOs with authorities so that both authorities and obliged entities have digital access to key documents and data. This would aide and partly digitalize processes like KYC and offsite supervision of financial institutions. Another proposal focuses on a new voluntary digital self-service solution for NPOs in order to ease the burden on NPOs and financial institutions in relation to requirements on physical documentation.

Box C.9. Innovative financial payment product to reduce CTF risks by financial institutions and NPOs

Owned by two financial institutions and an NGO, a social enterprise develops fintech solutions for humanitarian aid delivery as a direct response to de-risking challenges.

Last mile delivery of humanitarian aid is often more exposed to diversion, scams, other types of fraud and TF (in contexts where there is terrorist activity). These are contexts where regular financial channels and other formal institutions suffer the effects of crisis, conflict, or disaster, or are not reaching due to international sanctions or their remoteness. This presents major challenges and impacts people that are most vulnerable, under-served and excluded. The use of cash may frequently be the only method through which aid can be delivered to them.

One of the fintech solutions that the social enterprise developed for NGOs is a digital platform by which beneficiaries can receive essential goods and services from approved local vendors that have been subjected to due diligence by donor NGOs (who are the clients of the social enterprise).

Fieldworkers of the donor NGO or local implementing partner use an app to onboard beneficiaries. When a new beneficiary is enrolled an encrypted pseudonymous

biometric key is created for them. The key is biometrically linked to each individual beneficiary - only they can use it. The biometric key is assigned value by the donor NPO and becomes a 'store of value' to be used for essential goods and services that they can 'buy' from approved local vendors. When beneficiaries 'buy' goods or services they use their bio-print to confirm receiving the goods or services from the approved local vendor. Through the biometric authentication, only the intended beneficiary can obtain the goods and services meant for them. All transactions are recorded in real time, are time-stamped and geo-coded. This creates a secure audit trail.

On the approved local vendor's side, the platform registers the delivery of the goods and services to the beneficiary. The vendor uses the app for the biometric verification through a point-of-sale terminal, after which a settling payment is made by the NPO to the vendor. Financial transactions are made only from the donor NPO to approved local vendors through regulated financial channels.

To facilitate the transactions by the financial institutions, various efforts are undertaken to ensure CDD and ECDD prior to making the payments, which helps prevent transactions from being stalled or stopped by correspondent banks.

In higher risk environments, extended due diligence information is requested from the donor NGO and sanctions screening is performed by the social enterprise. This information is shared with financial institutions prior to the program. For the local vendors, pre-approval is sought by the social enterprise with the compliance department of the financial institution before payments are made. This CDD process is also performed for any local implementing partners that may be needed for the aid delivery.

Box C.10. Information on financial institution decision making by a financial institution

This box provides an example of information that a financial institution provides to NPOs on their decision-making process to meet their legal obligations when opening new accounts, facilitating cross border transactions transfers and general account managing relating to NPOs.

In a given country, financial institutions are required through Anti-Money Laundering and Counter Terrorist Financing (AML/CFT) legislation to assess and monitor potential risks of money laundering, financing of terrorism, violations of (international) sanctions and other indicators of financial crime, perform related customer due diligence (CDD) and report any suspicious transactions to the Financial Intelligence Unit (FIU). As such, they act as gatekeepers to help prevent, deter and detect financial crime - while balancing commercial interests, access to the financial system and preventing financial exclusion. The CDD processes financial institutions perform to meet these legal obligations can impact NPOs' (continued) operations. Financial institutions can request information and documentation and ask questions to understand the operational and organizational practices of individual NPOs.

Risk assessment

Financial institutions assess the potential risks of an NPO being abused or engaging in the financing of terrorists when:

1. (New) customers open a new account,

2. An event occurs that justifies a review of an NPO customer (e.g. allegations in credible news sources against the NPO), and
3. Periodically, depending on the risks identified in prior assessments.

Documents (usually) required for onboarding of new customers

For opening accounts (onboarding), customers are asked to identify themselves (provide name) and documentation that allows verification of the identity. For natural persons, an official ID document would be asked. Since most NPOs are legal entities, more information is needed about the ownership and control structure and the natural person that is the ultimate beneficial owner (UBO).

The documents that financial institutions request, may differ between organisations (the list below is indicative)

- Extract of the registration at Chamber of Commerce
- Charter/mission statement
- Annual report
- Organizational chart
- Articles of Association
- Copy of certificate of registration in the charity register (or equivalent) of the jurisdiction of incorporation)
- Integrity policy/ Code of conduct
- Information on identification and documentation on the verification of the ultimate beneficial owner of the NPO.

For new organisations not all these documents might be available. On a case-by-case basis other documents can be requested instead (for example half-yearly numbers, budgets, structure of the administration).

Risk assessment: Sector risks for NPOs

In addition, the NPO may be asked to provide information related to enable financial institutions to make a risk assessment. Risk factors relevant to the NPO may relate to:

1. Jurisdictions in which the NPO is active,
2. The type of activity the NPO engages in,
3. Organizational structure, including staff, board members and partners,
4. Ultimate Beneficial Owner (UBO),
5. Type of transactions and the way and sources of funding.

This does not mean that an NPO for which there are risk factors relating to these areas is actually engaged in financial crime, however for each of these areas the financial institution might ask more detailed questions to assess the likelihood of financing of terrorism occurring. The risk assessment in its entirety gives an indication of the risk level and does not only comprise the sum of the individual answers, but also the coherence and logic between different risk factors.

1. The jurisdictions in which the NPO is active

Some jurisdictions are more exposed to financing of terrorism, money laundering, or other financial crime (including production and transportation of drugs, corruption and favourable to tax evasion) than others.

Financial institutions consider whether the NPO is active in higher risk jurisdictions identified by the FATF⁴⁰ and assesses the jurisdiction in which the NPO is registered or operates from. They consider foreign bank relationships, board members that are residents in a foreign jurisdiction and transactions to or from foreign jurisdictions. In addition, financial institutions have to adhere to international sanction legislation and monitors possible violations of these sanctions.

For NPOs to consider:

- Does the name of your organization mention a higher risk or sanctioned jurisdiction? This may raise red flags with the financial institution or with a correspondent bank necessary to facilitate transactions.
- Is funding received from conflict or post-conflict jurisdictions, higher risk jurisdictions or sanctioned jurisdictions? Illustrate the measures your organization takes to ensure funding does not originate from designated terrorist individuals/groups or illegitimate sources in these jurisdictions.
- Do you fund activities in conflict or post-conflict areas, higher risk or sanctioned jurisdictions? Have you undertaken steps to mitigate risks related to those?
- Are activities conducted outside of conflict or high-risk jurisdictions, but are beneficiaries from high-risk jurisdictions?
- Are you contracting services from third parties in conflict, higher risk or sanctioned jurisdictions/areas?
- Are your beneficiaries, board members, or staff from areas controlled by designated terrorist individuals/groups?
- In case foreign elements are present: what is the reason the NGO wants to start a banking relationship with a financial institution in this jurisdiction?

2. The type of activity the NPO engages in

Financial institutions need to understand the activities that the NPO engages in. Some activities are known to be particularly vulnerable to financing of terrorism (e.g., high use of cash or a relatively large part of funding for printed promotional flyers in combination with engagement in a conflict area with an active terrorist threat).

To consider:

- Is there a coherent link between your stated mission and actual activities?
- *[Add any resources on guidelines or tools on the coherence between stated mission and activities.]*
- Do you have evidence of your activities, such as an annual report? Quality reporting helps in the assessment of the financial institution. An established track record of the NPO, such as benchmarks, references, or reports on previous activities, gives the financial institution a better idea of the types of activities that are conducted. Make your track record visible through media links, project summaries, references and brief case descriptions.
- Do you have an online presence (social media or website)? Organizations mainly working with volunteers may have less capacity and resources to develop

40 The FATF reports annually on jurisdictions and territories identified as non-cooperative. <https://www.fatf-gafi.org/en/publications/Fatfgeneral/Aboutthenon-cooperativejurisdictionsandterritoriesnctinitiative.html> Reports include details of identified deficiencies and actions these jurisdictions and territories have taken to remedy them, including an indication of the timelines in which the change took place and the specific progress that was made. The European Commission creates a similar list. Most jurisdictions also identify and publish reports on higher risk jurisdictions.

websites, public reports and/or are not driven to seek media coverage. Similarly, NPOs focusing on human rights issues in authoritarian regimes sometimes work under the radar and purposefully will not seek media attention and/or profile themselves.

- How long has your organization been active? What is your (expected) turnover and income, funding sources and who are your beneficiaries? Are these logical and consistent with your activities?
- Have there been any adverse media reports on your organization (or any of its partners, beneficiaries and board members). If there has been, provide further information on these reports to the financial institution. Do not try to hide past incidents, but discuss it with the financial institution proactively.

3. Organizational structure, including staff, board members and partners

The organizational structure of the NPO needs to be transparent. Certain legal structures are favored to create anonymity and conceal the persons who are actually in control increasing the risk of criminal assets being laundered or terrorist being financed.

[Add any resources or guidelines on risk factors to consider in the governance of NPOs.]

Politically Exposed Person

A Politically Exposed Person (PEP) linked to the NPO (a board member, for example) requires enhanced customer due diligence by the financial institution. PEPs are considered to have an increased risk of money laundering, corruption and embezzlement, related to their prominent political function. For example, they may misuse an NPO to conceal funds or assets that have been misappropriated because of abuse of their official position or resulting from bribery or corruption.

To consider:

- Do you have a clear organizational structure? Provide the financial institution with an organizational chart, the responsibilities of each of the parties and the separation between the functions of the director and finances of the NPO.
- Is the majority of the board (the supervisory members) independent? Too much distance of board members to the daily operation of the NPO (e.g. when majority of members are non-residents) can be a risk factor because they may not be sufficiently able to detect risks and act accordingly if needed.
- Does your organization have 3 or more board members? Is there an equal 'involvement or control' – meaning that one board member cannot dominate decision making?
- Is one of your staff or board members a PEP? Please note that in some cases persons that are a family member or close associates of a PEP are also considered during the risk assessment.

[Add relevant resources on identifying PEPs.]

- Does the PEP involved in the NPO have any control over the transactions of the NPO?
- It is evident from the articles or charter of the organization that the financial resources that remain after the dissolution of the organization will be spent on a NPO with a similar objective.

4. Ultimate Beneficial Owner (UBO)

The person who ultimately owns or controls the NPO is identified as the Ultimate Beneficial Owner (UBO). FATF defines UBO as “the natural person(s) who ultimately owns or controls a customer and/or the natural person on whose behalf a transaction is being conducted. It also includes those persons who exercise ultimate effective control over a legal person or arrangement.”

[*Cite domestic legal definition of UBO*]

To consider:

- Is it clear who the UBO of the NPO is? Be aware you are required to provide this information in the UBO-register (kept by the Chamber of Commerce).
- Is the UBO of the NPO a politically exposed person (PEP)? Do the funds of this UBO come from a credible, legitimate source?
- The following information of the UBO is required: - Surname(s)- First name- Date of birth- Jurisdiction of permanent residence

5. Transactions and funding

Financial transactions may be blocked or delayed by financial institutions. Reasons for this may be due to the fact that transactions are not in line with the transactions that the NPO has stated it would make when opening the account, incomplete or unclear transaction descriptions, or the lack of requisite information requested by a correspondent bank (often a foreign bank which performs the foreign component in the payment chain).

The funding mechanisms of the NPO, as well as the (expected) transactions, need to be coherent with the NPO’s mission. A lot of transactions to and from foreign jurisdictions, adverse media reports on the funding of the NPO or inconsistent funding might raise concerns during the risk assessment. It is important that the organization ensures that the funds, goods or services are reaching the intended beneficiaries. Also, it needs to have in place mitigating measures, including reporting mechanisms, to ensure that they are not diverted or used for TF or other financial crimes.

To consider:

- What types of transactions are you expecting to make? Explain the different types of transactions.
- Can you demonstrate that your transactions logically flow from your activities? Do you have supporting material for your payments (and donations) such as receipts, quotations, invoices? If you are a new organization, indicate what your practice will be on transactions.
- Can you demonstrate that you have a clear understanding of the origin of your funds and the ultimate destination/beneficiary? Provide examples of the aid-chain in conflict and high-risk areas and explain downward and upward accountability and transparency.
- Can you explain the link between the funding source of your organization, the type of organization and its activities? Provide a coherent link between these three elements. If you expect that this might be difficult to understand, think about ways to give better understanding like examples from well-established NPOs or develop some case examples.
- Do you receive domestic funding from constituencies that may be sympathetic to terrorist individuals/groups or ideology or from individuals that are politically exposed persons (PEPs)? This is especially important for major donors, (major meaning share proportional to total donations).

- Does your organization engage in crowdfunding online? Does the crowdfunding platform have a license for this (* if required by domestic legislation). In case the platform is required to have a license but does not (yet), the financial institution cannot open an account until the platform fulfils its legal requirements.
- Especially smaller and volunteer organizations that work project-based deal with irregular sources of funding. Indicate this clearly towards the financial institution and make the intention and periods for funding transparent.

New NPOs

Newly established NPOs do not have the same track record and proven practice of conducting their activities and finances compared to organizations which have been active for a longer period of time. For new NPOs, the following points are especially important:

- Do you have (at least) two members of the board? (preferably three)
- Are you sufficiently aware of potential risks in foreign jurisdictions you are planning to be active in? How do plan to mitigate these risks and, for example, ensure that funding reaches the intended recipients or beneficiaries?
- Who are your counterparties? Do you work with reputable, larger organizations?
- What measures do you have in place to trace donors?

Tools on governance and organizational structures for NPOs

[*List sources on information on e.g. how to establish an NPO, instruction materials on good governance – sound board structure – division of tasks and interest, coherence mission, vision and activities, director’s liability, internal policy, codes of conduct, annual reports, financial statements and certification possibilities]*.

Tools on funding for NPOs

[*List any sources on e.g. finding financial support, fundraising, international transactions for NPOs*]

Sector organisations that can help answer questions

[*List sector organisations, including self-regulatory bodies, certification providers and umbrella organisations that provide information on CFT, AML and Sanctions related obligations.*]

Legislation on CTF, ML and Sanctions

[*List relevant legislation and risk assessment reports (incl. NRA)*]

- FATF Recommendations and guidance papers
- EBA Revised Guidelines on ML/TF risk factors (2020)

Higher risk jurisdictions reports

- <http://www.fatf-gafi.org/publications/high-risk-and-other-monitored-jurisdictions/documents/increased-monitoring-june-2022.html>
- https://ec.europa.eu/info/business-economy-euro/banking-and-finance/financial-supervision-and-risk-management/anti-money-laundering-and-countering-financing-terrorism/eu-policy-high-risk-third-jurisdictions_en

NPOs' initiatives

Box C.11. Guidance to increase NPO understanding of FI obligations by an umbrella organisation in the Netherlands

A Dutch umbrella NPO organisation is working closely with the Dutch fundraising regulator on an overview for NPOs on the legal framework for CTF, following a multistakeholder seminar where most participants, representing internationally operating NPOs, indicated a need for clarity on the CTF legal framework and understanding where risks may occur.

The overview explains the legal obligations that financial institutions face when onboarding NPO customers and monitoring the business relationship, including their transactions. The overview is publicly accessible.

Box C.12. Open data on NPOs in Brazil

The Civil Society Organizations Platform is an open, free and public on-line portal that provides a wide variety of information on the profile and performance of the population of CSOs in Brazil.

Its core mission is to provide data, knowledge, information and transparency on the role played by the almost 400 000 CSOs active in Brazil and their cooperation with the public administration in delivering public policies and services.

The Institute for Applied Economic Research (IPEA) has developed this platform. It **integrates a large and increasing amount of official data originating from public and private sources and constantly updated.** It is updated with information sent directly from the CSOs and federative members in a large collaborative process.

Information on CSOs originated from administrative records and official data about organizations certified by Federal Agencies, and from the CSOs. Data include: company name, trading name, address, telephone number, e-mail, number of formally employed workers and so forth, as reported to the Annual Report of Social Information (ARSI).⁴¹

The map provides insight into the distribution of non-governmental organizations, their projects and activities, and their execution capacity. It supports data on CSOs and fosters research. As such, it facilitates public officials in making decisions about public policies which had or may have interactions with CSOs as well as financial institutions.

41 <https://mapaosci.ipea.gov.br/arquivos/posts/7728-proceedingscompletoipea-cp.pdf>

Box C.13. Clarifying how existing voluntary NPO accreditations and standards support CFT in an NPO based in the Netherlands

On their website, a Dutch sector organization on fundraising (independent foundation for self-regulation of NPOs) explains how their independent and external review works to mitigate potential risks of TF. It explains e.g. how the internal control mechanisms of associated NPOs are examined, understanding how feedback is received on expenditures and activities, if they have been executed according to the programs and signalling where this has deviated. Financial reporting is scrutinized, as are the measures surrounding financial management. Moreover, the self-regulation body conducts research on TF, including trends in the NPO sector based on their collected data, and identifies organizations that operate in high risk locations and performs enhanced measures relating to these organizations. This may result in requests to the NPO to implement further mitigation measures.

The organization uses their experience in these areas to inform and train compliance departments of financial institutions on NPOs affiliated with the sector organization on fundraising.

Box C.20. Including CTF in a voluntary accreditation in an NPO based in North Macedonia

To integrate the CFT-related considerations, a self-regulation mechanism for NPOs was amended to include criteria regarding CTF.

To facilitate smaller NPOs in their efforts to enhance their good governance standards, new basic level standards were introduced.

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