

FATF



BEST PRACTICES

# COMBATING THE TERRORIST FINANCING ABUSE OF NON-PROFIT ORGANISATIONS



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The Financial Action Task Force (FATF) is an independent inter-governmental body that develops and promotes policies to protect the global financial system against money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction. The FATF Recommendations are recognised as the global anti-money laundering (AML) and counter-terrorist financing (CFT) standard.

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

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RECOMMENDATION 8

## TABLE OF ACRONYMS

ACRONYM	FULL FORM
AML/CFT	Anti-money laundering/Countering the financing of terrorism
DNFBPs	Designated non-financial businesses and professions
FIU	Financial intelligence unit
INR	Interpretive Note to Recommendation
ML	Money laundering
NGO	Non-government organisation
NPO	Non-profit organisation
TF	Terrorist financing

## BEST PRACTICES PAPER ON COMBATING THE TERRORIST FINANCING 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 Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion.



## 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, support, 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. In the two decades since the abuse of NPOs by terrorists and terrorist organisations was formally recognised as a concern, the sector has taken numerous measures around governance, transparency and accountability to mitigate risks of Terrorist Financing (TF) abuse. In rare cases, 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. Thus, NPOs are expected to take mitigation measures, supported by appropriate government oversight, to detect and counter such abuse.

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. Many NPOs rely on donations and on having reliable access to banking and other financial 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 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, the donor community, and the financial institutions they use.

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 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 typology 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.8,<sup>1</sup> 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

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<sup>1</sup> The FATF and its regional bodies were also part of the multiyear project led by the United Nations (UN) 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 [www.globalcenter.org/wp-content/uploads/CGCC-Prevent-Protect-Report-pgs.pdf](http://www.globalcenter.org/wp-content/uploads/CGCC-Prevent-Protect-Report-pgs.pdf)

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 Standards<sup>2</sup> underlined the persistence of significant issues regarding the focused, 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 without unduly disrupting or discouraging legitimate activities by imposing inappropriate or unwarranted measures.

7. In June 2023, in parallel to updates to the BPP, 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. In addition, countries may have the flexibility to consider NPO self-regulatory measures. Moreover, NPOs should be subject to 'oversight' or 'monitoring', to make a distinction between these terms and 'supervision', which is generally used in the context of financial institutions and designated non-financial businesses and professions ("DNFBPs").

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

- TF abuse of NPOs refers to the exploitation by terrorists and terrorist organisations of NPOs to raise or move funds, provide logistical support, encourage or facilitate terrorist recruitment, or otherwise support terrorists or terrorist organisations and operations.
- 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").<sup>3</sup>
- 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 which fall 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 the majority may represent low risk:

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<sup>2</sup> See the High Level Synopsis of the Stocktake Report on Mitigating the Unintended Consequences of the FATF Standards, [www.fatf-gafi.org/content/dam/fatf-gafi/reports/Unintended-Consequences.pdf](http://www.fatf-gafi.org/content/dam/fatf-gafi/reports/Unintended-Consequences.pdf)

<sup>3</sup> Throughout this report, the term NPO refers only to those NPOs which fall within the FATF definition.

countries should identify the 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.
- 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 and international law, in particular, international human rights law, international refugee law, and international humanitarian law.<sup>4</sup>

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

- Chapter 2 – May assist countries<sup>5</sup> 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 in Annexes - This paper also contains numerous examples of implementation and misapplication of R.8 that should be useful for countries, financial institutions and NPOs when it comes to correctly implementing 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 countries, financial institutions and NPOs. Rather, they are illustrative of the types of measures that, depending on the circumstances, may be helpful for 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 NPOs and financial institutions.

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<sup>4</sup> See UN Security Council Resolution 2462 (2019), paras. 6 and 23, Preamble to UN Security Council Resolution 2129 (2013) and UN Security Council Resolution 2664 (2022) para. 1.

<sup>5</sup> All references to country or countries apply equally to territories or jurisdictions.

## HOW CAN COUNTRIES COMBAT TF ABUSE OF NON-PROFIT ORGANISATIONS

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

13. This chapter provides some considerations and good approaches based on jurisdiction experience to meet the requirements under R.8. R.8 requires countries to understand and mitigate TF risks for the NPO sector. That means that, in the first place, they should identify the NPO subset as defined by FATF and assess and understand the TF risks in this subset (2.1). Based on that assessment, countries should have in place focused, proportionate and risk-based measures (2.2). These mitigating measures are at the core of a country's effective approach in identifying, preventing and combatting TF abuse of NPOs (2.3).

### A. ASSESSING AND UNDERSTANDING THE TF RISK

14. NPOs are at varying degrees of risk of TF abuse by virtue of their types, activities or characteristics, **R.8 require countries to periodically identify organisations which fall within the FATF definition of NPO and conduct a risk assessment to identify the nature of TF risks posed to them.**<sup>6</sup> 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.

#### 1. IDENTIFY THE ORGANISATIONS WHICH FALL UNDER THE FATF DEFINITION OF AN NPO

15. R.8 requirements do not apply to the entire universe of organisations working in the not-for-profit realm. Understanding the scope of the FATF definition of a "NPO" is at the core of the correct implementation of R.8/INR.8.

16. 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 which may put it at risk of TF abuse, rather than on the simple fact that it is operating on a non-profit basis.<sup>7</sup>

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<sup>6</sup> Para.6 INR.8.

<sup>7</sup> Para.1 INR.8.

### 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”.

17. 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.

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

19. The first step in a risk assessment is to conduct a domestic review to identify the subset of organisations which fall within the FATF definition of an NPO. In undertaking this exercise, countries should use all relevant and reliable sources of information to identify all the organisations that qualify as an NPO for FATF purposes (see 2.1.3).<sup>8</sup> This 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, etc.)
- the nature and location of their activities (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 of funding, frequency of funds movement, means of payments, cash intensity, etc).

## 2. ASSESS TF RISKS POSED TO NPOS

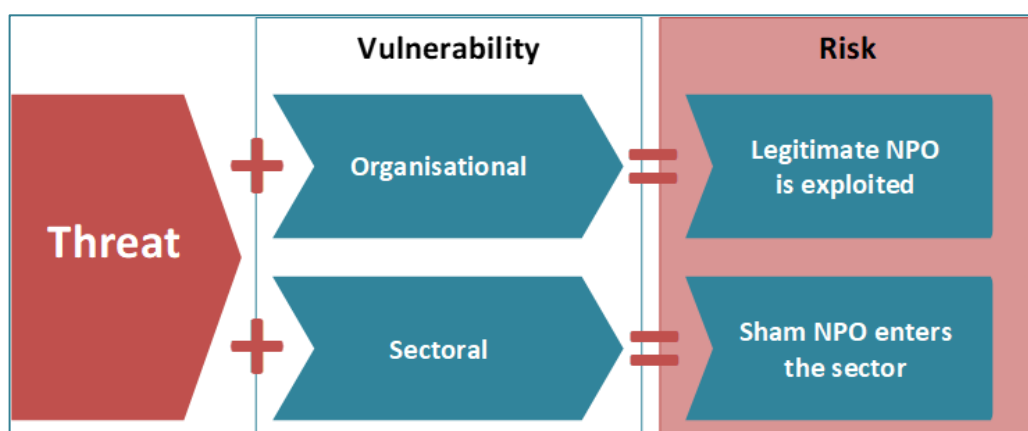
20. One of the key requirements of the FATF Recommendations is for countries to identify, assess and understand ML and TF risks they face. Once these risks are properly understood, countries will be able to implement Anti-Money Laundering (“AML”) and Countering the Financing of Terrorism (“CFT”) measures that mitigate these risks. This risk-based approach is central to the effective implementation of the FATF Standards and also applies to NPOs.

<sup>8</sup> See also 2019 FATF Terrorist Financial Risk Assessment Guidance, [www.fatf-gafi.org/en/publications/Methodsand Trends/Terrorist-financing-risk-assessment-guidance.html](http://www.fatf-gafi.org/en/publications/Methodsand Trends/Terrorist-financing-risk-assessment-guidance.html)

21. **R.8 requires countries to conduct a risk assessment of these NPOs to identify the nature of TF risks posed to them.**<sup>9</sup> A TF risk assessment is a product or process based on a methodology that attempts to identify, analyse and understand TF risk and serves as a first step in addressing them. While assessments may take different forms, a TF risk assessment should generally cover all aspects of raising, moving, storing and using funds or other assets (including goods, vehicles, weapons etc.) to meet the needs of a terrorist or terrorist organisation.<sup>10</sup> The understanding and identification of potential TF risks, will assist authorities to elaborate a tailored and proportionate mitigating response. Some authorities decide to categorise NPOs according to the different levels of risks they may face, 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 Error! No text of specified style in document..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.

22. **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. When a 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) there is a possibility for sham NPOs to enter the sector. When vulnerability is specific to an organisation (for example an NPO that would not conduct verification of the use made of its funds), it can still impact other legitimate NPOs working with it, and potentially exploited for TF purposes. In this context, consequence is the harm that a TF threat may cause if eventuated.<sup>11</sup>

Figure Error! No text of specified style in document..1 **Threat + Vulnerability = Risk**



<sup>9</sup> Para.6(b) INR.8.

<sup>10</sup> Para. 15, FATF (2019), FATF Terrorist Financing Risk Assessment Guidance, [www.fatf-gafi.org/en/publications/Methodsand Trends/Terrorist-financing-risk-assessment-guidance.html](http://www.fatf-gafi.org/en/publications/Methodsand Trends/Terrorist-financing-risk-assessment-guidance.html)

<sup>11</sup> Para. 15, FATF (2019), FATF Terrorist Financing Risk Assessment Guidance, [www.fatf-gafi.org/en/publications/Methodsand Trends/Terrorist-financing-risk-assessment-guidance.html](http://www.fatf-gafi.org/en/publications/Methodsand Trends/Terrorist-financing-risk-assessment-guidance.html)

**Figure Error! No text of specified style in document..2. Example of volume of most at-risk NPOs in a country's sector**



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.

23. **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**.<sup>12</sup> 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.

24. Identifying TF risks posed to 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.

25. 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.

<sup>12</sup> Para.6(d)(ii) INR.8.

26. For 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, in a manner that upholds the right to privacy, will likely be important in ongoing efforts to identify and assess TF risk. Lower capacity jurisdictions often face additional challenges in assessing TF risk.

27. 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)*, the 2014 FATF typology report on *Risk of Terrorist Abuse in Non-Profit Organisations*, and the 2022 World Bank Non-Profit Organizations TF Risk Assessment Tool.

**Box 2. Identifying all NPOs as high risk, without risk differentiation, is not consistent with R.8 requirements**

Where countries have failed to conduct an adequate risk assessment of their NPOs, 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 is not consistent with adopting focused, proportionate 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 for the organisations in the not-for-profit realm to get access to financial services. This is not in line with the risk-based approach.

### 3. USING ALL SOURCES OF INFORMATION TO IDENTIFY NPOS AND TF RISKS

28. R.8 requires countries to **use all relevant and reliable source of information** to identify the organisations which fall within the FATF definition of NPO and to identify the nature of TF risks posed to them.<sup>13</sup> Based on jurisdiction experience, collection techniques in the NPO identification and 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 reliable open-source information. Caution should be exercised when utilising open-source information, as it may contain misinformation.

29. To ensure an efficient and effective NPO identification and 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 by government and NPOs), 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.

30. A good practice to support participation in the risk assessment processes would be for countries to use protected channels (including online), ensure transparency about how

<sup>13</sup> Paras.6(a), (b) and (d)(i) INR.8



contributions will be used and share the main findings of the risk assessment with participants once it is finalised.

### Government agencies

31. National coordination can pose particular challenges for conducting a risk assessment of NPOs, as relevant information is often spread across several 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 risk.<sup>14</sup> 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 Units (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,
- Law enforcement authorities (including customs authorities) 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 TF 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, peacebuilding reconstruction, and development cooperation.

### NPO Sector

32. It is vital that efforts to identify NPOs and assess TF risk include engagement with NPOs.<sup>15</sup> It is important to ensure the participation of a representative sample of NPOs in the risk assessment

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<sup>14</sup> See also FATF Recommendation 2.

<sup>15</sup> Para.6(d)(i) INR.8.

process, considering factors such as the size of entities, organisational capacities, nature of operations, and diversity of participants, and, when relevant, representatives that have reliable knowledge of unregistered or unlicensed 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 organisations. 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

33. **Relevant actors from the private sector, including the ones that provide financial services to NPOs such as banks, money or value transfer services businesses, and their professional associations 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 countries engage with the private sector to ensure that they fully understand the NPO sector and the TF risk to their NPO customers and that unsubstantiated de-risking is reduced (See Chapter 4).

### Using all relevant and reliable domestic and international sources of information

34. Apart from the expert opinion and perspectives provided by participants in the risk assessment process, reliable 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 and reports from NPOs;
- Reports from intergovernmental organisations;
- Financial institutions' publications;
- International cooperation on NPO and TF-related issues (including law enforcement authorities and oversight bodies); and
- Academic work from accredited institutions.

35. 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

#### 4. REVIEW PERIODICALLY THE IDENTIFICATION OF NPOS, THE ASSESSMENT OF TF RISKS AND THE MITIGATING MEASURES

36. 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.<sup>16</sup>

37. **Countries should be mindful of the constant evolution in trends and methods in how terrorism is funded and how NPOs may be abused to this end.** Specificity and accuracy in identifying NPOs and TF risks are crucial to ensure calibrated and tailored response through focused, proportionate and risk-based 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.

38. **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, and NPOs that may have been unduly affected), 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.

39. 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, red flags indicators 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 and TF threat profile. Jurisdiction experience highlights the benefits of embedding a culture of ongoing risk or threat analysis, having ongoing mechanisms to collect relevant information on TF risk facing NPOs, and conducting sustained 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.

#### B. MITIGATING THE TF RISK

40. 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.**<sup>17</sup> They should review periodically the mitigating measures they have in place to address TF risks identified, using all relevant and reliable sources of information (see also 2.1.2 and 2.1.4).

41. NPOs have different degrees of TF risk exposure and types of measures to proportionally mitigate these risks. The applicable measures that relate to NPOs must be proportionate with the risks identified. The majority of NPOs may face low TF risk exposure, may have adequate self-

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<sup>16</sup> Para.6(d)(iii) INR.8

<sup>17</sup> R.8 and para.6(c) INR.8

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.<sup>18</sup>

42. Before putting in place mitigating measures to address TF risks, countries may consider existing measures in place within NPOs, including legal, regulatory, fiscal, 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 (**See Chapter 3**). 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.<sup>19</sup>

43. **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 or 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, do not receive funding from entities in proximity to active threat areas, or do not move funds to or through such areas. As a consequence, the risk of abuse 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.<sup>20</sup>

44. **Risk-based treatment of low risk NPO is also important from a financial inclusion perspective.** Disproportionate obligations may result in undermining financial inclusion objectives and sustainable development goals and affecting economic and other human rights, by driving NPOs to unregulated financial and payment services as a result of their inability to gain access to regulated financial services or increased costs of compliance that acts as a barrier to maintaining activities (See also Chapter 4).

45. **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.**<sup>21</sup> 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 or delay an NPO's ability to access or transfer resources to carry out its legitimate activities. Rather, such measures should promote transparency and engender greater confidence in the sector, across the donor community, financial institutions and with the general public that charitable funds and services are reaching their intended legitimate beneficiaries.

46. **R.8 does not require or intend countries to designate or supervise NPOs as reporting entities.** FATF Recommendations do not require NPOs to conduct customer due diligence ("CDD"), 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.

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18 Para.5(e) INR.8.

19 Para.6 INR.8

20 Para.6(e) INR.8.

21 Para.5(e) INR.8.

47. **Complying with the FATF Recommendations should not contravene a country's obligations under the Charter of the United Nations, and international law, in particular, international human rights law, international refugee law and international humanitarian law (see also para. 8).** Implementation of R.8 should respect and observe fundamental human rights and freedoms, such as freedom of opinion, expression, religion or belief, and freedom of peaceful assembly and of association. For instance, paragraph 23 of the UN Security Council Resolution 2462(2019) encourages Member States to work cooperatively with the non-profit sector in order to prevent abuse of such organisations including front organisations 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 UN Security Council Resolution 2129(2013)). In addition, UN Security Council Resolution 2664(2022) introduces a humanitarian exemption for asset freeze provisions of UN sanctions regimes. Paragraph 1 states that “without prejudice to the obligations imposed on Member States to freeze the funds and other financial assets or economic resources of individuals, groups, undertakings, and entities designated by this Council or its Sanctions Committees, the provision, processing or payment of funds, other financial assets, or economic resources, or the provision of goods and services necessary to ensure the timely delivery of humanitarian assistance or to support other activities that support basic human needs [...] are permitted and are not a violation of the asset freezes imposed by this Council or its Sanctions Committees”.

48. The measures provided in Box 3 are some examples of measures that countries could decide to apply to NPOs, in line with a risk-based approach. The measures could apply to all NPOs or to a specific group of NPOs in whole or in part, as necessary and proportionate to 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 have in place focused, proportionate and risk-based measures to the NPOs.**

**Box 3. Examples of measures that countries could apply to NPOs to help mitigate TF risks depending on the identified risks.**

**Example 1:** A country could require NPOs to register or obtain a licence.<sup>22</sup> Specific licensing or registration requirements for counter TF purposes might not be necessary. For example, in many 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) or with specialised regulators that are responsible for the NPO sector. 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

<sup>22</sup> The right to freedom of association applies equally to informal associations (groups not registered). Associations may choose to operate without registration and cannot be penalised for doing so (UN A/HRC/29/25). Certain activities, such as the opening of a bank account or the employing of personnel may, however, require associations to obtain legal personality.

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 associate NPOs and that they are not involved with and/or using the NPO funds to support terrorists or terrorist organisations.

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 endeavours to confirm the identity, credential and good standing of associate NPOs, where practicable, recognising the NPO's capabilities. 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 TF 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. NPOs could be required to make this information, along with information mentioned in examples 2 and 3 above, available to competent authorities in accordance with due process procedures. 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 not consistent with R.8 requirements.**

It is inconsistent with R.8 to have in place measures that are non-focused, disproportionate and non-risk-based with TF risks identified.

Misinterpretation and misapplication of R.8 may lead some countries to implement overly burdensome requirements without any thresholds or regard to the risk category of a particular NPO, in contravention of the FATF standards and the risk-based approach.

In some cases, risks of NPOs were not assessed. In other cases, risks of NPOs were assessed to be at different levels, but the same measures were nonetheless applied to all NPOs. In most cases, such measures were excessive, and more suitable for high-risk NPOs than those at lower risk. In some countries, disproportionately heavy measures were taken, despite being environments with a low terrorism and TF

threat, which have made it impossible or unnecessarily challenging for NPOs to remain operational.

The overreach of measures leads to unnecessary administrative burdens for competent authorities and limits the operational space of NPOs.

As a principle, it is inconsistent with 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 as is applied to the subset of NPOs that the sectoral risk assessment has identified as facing medium or high risk of TF abuse.

Non-focused, disproportionate and non-risk-based measures can include, for example the following (regardless of risks identified):

- Reporting requirements,
- Identification and information requirements on beneficiaries<sup>23</sup> (see para. 47).
- Identification and information requirements on all foreign agents and donors or NGOs' local partners (staff, vendors and partners 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.

In humanitarian aid, development, and peacebuilding settings, the identification of beneficiaries would jeopardise principles of neutrality and impartiality, could endanger the safety and security of program recipients and exclude vulnerable people from the assistance that they need.

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.

## C. EFFECTIVE APPROACH IN IDENTIFYING, PREVENTING AND COMBATING TF ABUSE OF NPOS

<sup>23</sup> 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.

49. 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 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 NPOs from TF abuse

An effective approach to protecting NPOs involves the following four elements:

- (i) Sustained outreach to the sector concerning TF issues,
- (ii) Focused, proportionate and risk-based measures, including oversight or monitoring of NPOs,
- (iii) Effective information gathering and investigation,
- (iv) Effective capacity to respond to international requests for information about an NPO of concern.<sup>1</sup>

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

### 1. SUSTAINED OUTREACH CONCERNING TF ISSUES TOWARD NPO SECTOR AND DONOR COMMUNITY

50. **The Interpretive Note to R.8 requires countries to undertake sustained outreach to all NPOs concerning TF issues**,<sup>24</sup> 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.

51. **Countries should have clear policies to promote accountability, integrity and public confidence in the administration and management of NPOs.**<sup>25</sup> 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 in promoting a clear policy framework.

52. **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 TF abuse and TF risks, and the measures that NPOs can take to protect themselves against such abuse.**<sup>26</sup> On-going co-ordination between oversight bodies and other government authorities in their engagement with NPOs ensures clear messages are sent on expectations for TF risk management. Some of the features of a well-coordinated inter-agency and NPOs 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).

53. 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

<sup>24</sup> Para.7(a) INR.8.

<sup>25</sup> Para.7(a)(i) INR.8.

<sup>26</sup> Para.7(a)(ii) INR.8



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 abuse<sup>27</sup> (see **Chapter 3**). This can help NPOs develop their 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.

**54. Countries should work with NPOs to develop and refine best practices to address TF risks and thus protect them from TF abuse.**<sup>28</sup> TF typologies evolve rapidly and the NPO sector may be able to detect these changes and inform the authorities. Authorities should maintain ongoing and regular dialogue with the NPO sector to maintain an accurate and up-to-date understanding of risks, understand self-regulatory measures and related internal control measures in place within NPOs, and develop an adequate policy response (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). Financial institutions could also be included in these activities, to contribute identifying typologies and best practices to address TF abuse of NPOs. 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.

**55. Countries should also encourage NPOs to conduct transactions via regulated financial and payment channels,**<sup>29</sup> whenever there is a reasonable possibility to use the formal financial system, keeping in mind the reliance of the NPO sector on flexible and diverse funding channels, the varying capacities of financial sectors in different countries and areas, and the risks of using cash. Regular dialogue with the NPO sector representatives, as well as other relevant stakeholders 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. In such cases, the NPOs may have no other choice than to use unregulated financial or payment channels. Regular dialogue with the NPOs, financial sector representatives, as well as other relevant stakeholder could help in establishing a collaborative relationship that encourages the use of regulated channels and financial inclusion (see Chapter 4).

## 2. FOCUSED, PROPORTIONATE AND RISK-BASED MEASURES, INCLUDING OVERSIGHT OR MONITORING OF NPOS

**56.** 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.

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<sup>27</sup> Para.7(a)(ii) INR.8.

<sup>28</sup> Para.7(a)(iii) INR.8.

<sup>29</sup> Para.7(a)(iv) INR.8.

### Focused, proportionate and risk-based measures

57. **Countries should be able to demonstrate that they have in place focused, proportionate and risk-based measures applying to NPOs. It is also possible that existing regulatory, self-regulatory and related internal control measures in place within NPOs, or other measures may already sufficiently address the current TF risk to the NPOs in a country.**<sup>30</sup> Countries should have measures at their disposal that they can use on a graduated basis across their population of NPOs, to elaborate a tailored, evidence-based 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.

### Oversee or monitor the compliance of NPOs with the measures

58. **Appropriate authorities should oversee or monitor the compliance of NPOs with the focused, proportionate, and risk-based measures being applied to them.**<sup>31</sup> The concepts of “oversight” and “monitoring” involve a spectrum of activities and tools available to supervisors that should be applied in a risk-based manner.

59. The term ‘monitoring’ is used broadly by competent authorities to cover a range of mechanisms through which authorities can be assured that NPOs are complying with the legal and regulatory framework. It also usually covers activities or processes to detect changes in risk profiles or detect atypical behaviour.<sup>32</sup>

60. **“Oversight”** measures are generally less intrusive and less resource-intensive than **“monitoring”** measures. Effective monitoring requires a range of proactive measures to detect and respond to significant changes in risks (e.g., periodic data returns, periodic updates of risk assessments to identify changing risk profiles, and ongoing monitoring of relevant data or events such as suspicious transaction filings or significant risk events and active interventions with entities as necessary). For example, the system of monitoring helps to detect entities that are consistently failing to comply with specific requirements and these failures may constitute the basis for triggering more intrusive intervention.

61. In deciding whether systems for oversight or monitoring are more appropriate to specific NPOs, appropriate authorities need to take into account the TF risk profile of the NPO. An important consideration in risk-based oversight or monitoring is the risk-proportionate distribution of resources across the different risk areas and NPOs. While most oversight or monitoring resources should be dedicated to the high TF risk NPOs, oversight bodies should also set out their oversight or monitoring approach for medium and low TF risk NPOs, proportionate 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.

62. 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.

63. The risk-based oversight of at-risk NPOs should include the monitoring of the focused, proportionate, and risk-based measures being applied by countries to them (Section above and 2.2).

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<sup>30</sup> Para.7(b)(i), INR.8.

<sup>31</sup> Para.7(b)(ii), INR.8

<sup>32</sup> Para.15 of the FATF Risk-Based Supervision Guidance, available here : [www.fatf-gafi.org/content/dam/fatf-gafi/guidance/Guidance-Risk-Based-Supervision.pdf](http://www.fatf-gafi.org/content/dam/fatf-gafi/guidance/Guidance-Risk-Based-Supervision.pdf)

For instance, the oversight body could, depending on the risk faced by the NPOs, check whether the NPOs' registration is accurate and up to date or reviewing and/or testing the NPOs' internal controls and governance.

**Box 6. Examples of measures that are not consistent 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 inconsistent with R.8 for countries to conduct monitoring of NPOs across the board, without any consideration 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 or 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

64. **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 NPOs<sup>33</sup>.**

65. 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-registration<sup>34</sup>. 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, they could have the possibility to combine several types of sanctions and to publish the sanction, to reinforce the deterrence.

66. 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.

67. 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.

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<sup>33</sup> Para.7(b) INR.8.

<sup>34</sup> Footnote 6 INR.8.

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

### 3. EFFECTIVE INFORMATION GATHERING AND INVESTIGATION

69. **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 NPOs<sup>35</sup>.** In practice, this may include law enforcement, intelligence and regulatory agencies, accrediting institutions, self-regulatory organisations, to the extent 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 TF risks that they are facing (See section 2.1.3.).

70. 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 do not conflict with or jeopardise actions being carried out by another (See R.2).

71. Information sharing is a key element of prevention and detection of TF abuse of NPOs. 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. Open-source information and information provided by stakeholders can be crucial in identifying terrorist abuse in the NPO sector. However, oversight bodies and other stakeholders should consider the credibility of information as part of the effort to foster an environment of trust.

72. In cases where complicit organisations relied on deception to mislead donors and other NPOs for TF purposes, the use of national security or intelligence-gathered information to detect and breach this deception is important in protecting the sector from specific TF threats. National security intelligence derives from varying sources and reports on a wide range of subject matters. As demonstrated in the FATF typologies reports, 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.

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.<sup>36</sup>** 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 NPOs' activities. Additionally, countries might consider raising awareness among their personnel regarding the importance of the reliability of sources of information. Actions taken for this purpose must respect the rule of law and should, to the extent reasonably possible, minimise negative impact on innocent and legitimate beneficiaries of charitable NPO activity.

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<sup>35</sup> Para.7(c)(i) INR.8

<sup>36</sup> Para.7(c)(ii). INR.8.

74. **Countries should also ensure that access to relevant information on the administration and management of a particular NPO (including financial and programmatic information) may be obtained during an investigation.**<sup>37</sup> In practice, this means that countries should ensure that designated law enforcement authorities have responsibility for TF investigations within the framework of national AML/CFT policies and have sufficient powers to do so, in line with Recommendations 29, 30 and 31.

75. 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, certain financial and programmatic information, which may be obtained should an investigation into possible TF abuse arise. Such requirements could be imposed through 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.

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.7(c)(iv). INR.8, this information is promptly shared with relevant competent authorities,**<sup>38</sup> 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 DNFBPs and should therefore not be subject to the FATF requirements for DNFBPs.

#### 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 TF or involvement in other forms of terrorist support.**<sup>39</sup> 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, which may be 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.

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<sup>37</sup> Para.7(c)(iii). INR.8.

<sup>38</sup> Para.7(c)(iv) INR.8.

<sup>39</sup> Para.7(d) INR.8.

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79. 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.

## 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**.

80. R.8 provides that countries should have in place focused, proportionate and risk-based measures to address the TF risks identified. In doing so, **countries may also consider, where they exist, self-regulatory measures and related internal control measures in place within NPOs.**<sup>40</sup> **Many NPOs may face low TF risk exposure, may have adequate self-regulatory measures and related internal control measures to mitigate such risks, and/or may already be subject to adequate levels of legal and regulatory requirements, such that there may be no need for additional measures.**<sup>41</sup> The FATF recognises the intent and efforts to date of the NPO sector to promote transparency within their operations and to prevent misuse of NPOs, by those wishing to support TF and terrorist organisations. R.8 does not require NPOs 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 TF risks at an individual level (3.1), having in place self-regulatory (3.2), internal control and good governance measures (3.3).

### A. UNDERSTANDING TF RISKS AT AN INDIVIDUAL NPO LEVEL

81. **R.8 requires countries to raise awareness among NPOs about the potential TF vulnerabilities and risks, and the measures that NPOs can take to protect themselves against such abuse, in the context of outreach and educational programmes.**<sup>42</sup> Although the publication of the risk assessment is not a requirement of the FATF Standards, many countries publish information about the TF risks in general or about the TF risks posed to NPOs in particular (para. 24). It is good practice for NPOs to take appropriate proactive steps to 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.

82. 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. 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 them, as needed.

83. 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.

84. 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

<sup>40</sup> Para.6(c) INR.8.

<sup>41</sup> Para.5(e) INR.8.

<sup>42</sup> Para.7(a)(ii) INR.8.

risk assessment (domestic and in the countries where the NPO operates), publicly available information, reports dealing with TF abuse risks facing NPOs with similar activities, characteristics and geographical location. It could further review 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 and TF risk mitigation measures, 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.

85. These factors may include, inter alia:

- (i) Size and structure of the NPO
- (ii) Type of activity
- (iii) Self-regulatory measures
- (iv) Internal controls, and governance measures
- (v) Location of the activity and local conditions where programming takes place
- (vi) NPO procedures for engaging with partners, vendors, beneficiaries, etc.
- (vii) Nature and volume of financial transactions

86. 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, and set up focused, proportionate and risk-based internal control measures to mitigate those risks (see 3.2 for more detail).

87. Such circumstances and risks could be regularly monitored, reassessed, and adapted as necessary to ensure the continued effectiveness of the NPO's internal control 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 7. Inviting professional auditors to conduct independent audits**

A good practice is for NPOs to invite professional auditors to conduct an independent audit on its activities, where appropriate and proportionate to the size, scope, 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. Professional auditors invited to conduct independent audits should have expertise in assessing TF risk and mitigating measures and controls.



## B. SELF-REGULATORY MEASURES

88. 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.

**89. The Glossary of specific terms used in the context of R.8 provides that, self-regulatory measures may include rules and standards applied by self-regulatory organisations and accrediting institutions.**

90. The non-profit sector in many countries has representational and self-regulatory organisations that have developed due diligence standards, good practices 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 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.

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

92. 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.

93. 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 self-regulatory mechanisms to strengthen internal control procedures and other measures to improve transparency of their operations and funding and to prevent terrorist and other abuses.

94. 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.

95. 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.

**96. 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 organisations. 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, or private philanthropy organisations. 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 NPOs 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 often 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 contexts deemed to be at higher risk. 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 are 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.

## C. INTERNAL CONTROL AND GOOD GOVERNANCE MEASURES AT AN INDIVIDUAL NPO LEVEL

97. 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 measures, which include robust internal and financial controls and risk management procedures and measures.**

98. These measures should be focused, proportionate and risk-based, to efficiently respond to their specific TF abuse risks. When deciding the specific scope and types of activities that their TF abuse risk mitigating measures should address, NPOs could build on the domestic risk assessment and their own TF abuse risk assessment, the domestic legislative and regulatory framework and all international guidance and best practices. NPOs should prioritise and address the most likely or impactful risks of TF abuse they face.

99. Depending on their size and institutional capacity, NPOs can design and implement policies and/or procedures of varying degrees regarding governance, financial and project accountability.

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 often the result of a lack of robust internal governance and/or appropriate external oversight.

### Box 8. Good governance for NPOs

Robust internal governance practices for NPOs can be grouped into:

- (i) Organisational integrity;
- (ii) Partner and donor relationships;
- (iii) Financial transparency and accountability; and
- (iv) Programme planning and monitoring.

101. Risk-based internal control measures and some characteristics of a good governance system for NPOs are described below. Often initially implemented for other purposes or to prevent other illicit activity, these measures and systems can also have an important role in preventing TF abuse. NPOs may more easily achieve the characteristics below through engagement with an umbrella or branch organisations (See 3.2). A branch organisation can ensure thorough knowledge exchange, professionalisation and transparency 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.

### 1. ORGANISATIONAL INTEGRITY

102. 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.

103. Large NPOs with a high-risk profile can design and implement policies, codes of conduct addressing CFT specifically. These measures can be regularly assessed by internal monitoring and evaluation mechanisms, which include independent auditing. In addition, requirements for directors, organisation of internal supervision, effective whistleblowing mechanisms and regularly scheduled self-evaluations could be beneficial.

## 2. PARTNER AND DONOR RELATIONSHIPS

104. 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 closely with, before entering into relationships or agreements.

105. NPOs could confirm partners and donors' reputations through the use of selection criteria and searches of reliable publicly available information. Written agreements can also be used to outline the expectations and responsibilities of both parties, which may include detailed information as to the application of funds and requirements for regular reporting, audits and on-site visits.

106. High risk NPOs could also implement measures to conduct targeted screening of beneficial owners of their partners and staff when establishing relationships, including through TF targeted financial sanctions screening, using domestic and UN sanctions lists. Any sanctions screening should be targeted and proportionate and should not result in the undue exclusion of beneficiaries.

## 3. FINANCIAL ACCOUNTABILITY AND TRANSPARENCY

107. NPOs prevent financial abuse and misuse of resources and funds by establishing strong financial controls and procedures, keeping financial records, monitoring and closely following the cash flow of the programmes/projects. 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, or provides the proper recording of transactions and authorisation of transaction above certain thresholds. 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, and carry out transactions through the financial system when possible. 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 when this does not impact the safety of NPOs' staff and beneficiaries. Where NPOs are informed as to the sources of their income, they could establish criteria to determine whether donations should be accepted or refused.

## 4. PROGRAMME PLANNING AND MONITORING

108. NPOs can establish internal control and monitoring systems to ensure that funds and services are being delivered as intended. For example, and depending on their activities and risks, NPOs could clearly define the purpose and scope of their activities, identify beneficiary populations (e.g., refugees, children), and consider the risks of TF 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 services, and equipment. 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.

109. Although many of the measures noted above may primarily be aimed at combatting fraud, tax evasion, embezzlement, money laundering (ML), 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.

110. Additional examples of good practice regarding internal control measures in place to prevent TF abuse at individual NPO level can be found in **Annex B**.

111. It is necessary for such measures to be implemented in a manner which respects countries' obligations under the Charter of the United Nations, relevant treaty law and international human rights law, international refugee law and international humanitarian law.

112. The risk that remains after these internal control measures are applied is referred to as "residual risk".

## 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**.

113. The FATF recognises the importance of ensuring that **implementation of its Recommendations does not adversely and disproportionately affect NPOs**<sup>43</sup>, and further, does **not unduly hinder civil society and the delivery of humanitarian assistance**. NPOs rely on banking facilities and other financial and payment services to carry out important humanitarian and charitable services.

114. However, in recent years, there have been increasing 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 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.

115. 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 TF risks. Termination and closing of NPOs' bank accounts also inhibits the delivery of aid to countries and crisis zones where humanitarian needs are acute and where charitable work contributes positively to the fight against regional and global terrorism.

116. Financial institutions may decide to terminate or not establish customer relationships, on a case-by-case basis, where the terrorist financing risks cannot be mitigated.<sup>44</sup> 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.

117. 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.

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<sup>43</sup> 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".

<sup>44</sup> FATF Stocktake on Mitigating the Unintended Consequences of the FATF Standards, [www.fatf-gafi.org/en/publications/Financialinclusionandnpoissues/Unintended-consequences-project.html](http://www.fatf-gafi.org/en/publications/Financialinclusionandnpoissues/Unintended-consequences-project.html)

## A. COUNTRIES' INITIATIVES

**118.** R.8 require countries to have in place focused, proportionate and risk-based measures to protect NPOs from TF abuse, in line with the risk-based approach and **without unduly disrupting or discouraging legitimate NPO activities.**

### Box 9. 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, as needed.

**119.** Countries may wish to assess, on a regular basis, whether its domestic implementation of R.8 may inadvertently result in undue disruption of legitimate NPOs' access to financial services:

- This review may include analysing regulatory requirements for reporting entities and whether this has resulted in unintended consequences, including financial institutions ceasing or restricting services to entire categories of customer relationships (including NPOs) not in line with the risk-based approach. When carrying out such analyses, countries should focus on effective outcomes and limit rules-based requirements to reduce friction on NPOs and support financial inclusion.<sup>45</sup>
- Countries could consult relevant stakeholders in formulating its analysis of the impact of the application of R.8 on financial access, 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 this analysis, if appropriate, countries could develop mitigating proposals in line with the FATF standards to address the undue disruption of financial services for legitimate NPOs and other related adverse consequences.

**120.** **Sustained and meaningful outreach** to the NPO and financial sectors are prerequisites to the success of ensuring access of legitimate NPOs to financial services. This may be achieved through

<sup>45</sup> See FATF Stocktake on Mitigating the Unintended Consequences of the FATF Standards, [www.fatf-gafi.org/en/publications/Financialinclusionandnpoissues/Unintended-consequences-project.html](http://www.fatf-gafi.org/en/publications/Financialinclusionandnpoissues/Unintended-consequences-project.html)

both bilateral dialogues – especially regarding sensitive subject matters – and multistakeholder dialogues.

- Engaging dialogue requires concerted effort on the part of all stakeholders involved, to sustain integrity and public confidence, garner trust and transparency, namely government authorities (including financial supervisory authorities), financial market representatives, NPOs and their donors. Governments may wish to organise such events to maintain a robust dialogue between relevant stakeholders or participate in dialogues hosted by third parties.
- The purpose of these dialogues could be to promote appropriate implementation of a risk-based approach, to reach a shared understanding of risks, to identify the level of risk mitigation required, the key challenges related to NPO financial transactions and solutions to financial access difficulties faced by NPOs.
- These dialogues may take place at the policy level (e.g., to discuss the application of the risk-based approach depending on the various risk and operational contexts), but also at the operational level (for example to verify the relevance of risk profile parameters) through engagement with trusted stakeholders, which 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.
- A continuous process, rather than an incidental or single engagement, contributes to an active and effective dialogue between stakeholders. In that respect, developing accountability mechanisms to ensure the policy proposals and/or recommendations developed as a result of dialogues are implemented is key.

#### **121. Public guidance geared towards ensuring timely and reliable financial access to legitimate NPOs**

- 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. 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*.
- Among other policy documents, countries may also consider for example



issuing a pre-approved list of countries experiencing regular extreme weather events, such as floods, monsoons, or harsh winters, and encouraging financial institutions to adopt a standardised approach for handling time-sensitive projects during these periods.

#### Box 10. Examples of multistakeholder dialogue

Multistakeholder dialogues are held in at least sixteen countries, bringing together NPOs, oversight bodies, financial institutions, financial sector supervisors, FIUs, policymakers 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, 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 CFT, e.g., applicable laws and regulations, donor requirements, self-regulation, due diligence, risk mitigation measures, 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**.

## B. FINANCIAL INSTITUTIONS' INITIATIVES

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

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

124. In the first place, a **well-documented NPO-customer risk assessment**, duly informed by the result of the national TF risk assessment, should be the basis for potential mitigating measures.

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), as well as the self-regulatory and related internal control measures being applied by the NPO. Financial institutions should also 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 institutions).

125. 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 TF risk, such as good governance, due diligence measures and reporting requirements on its activities for tax or other purposes (See Chapter 3).

126. If after conducting a risk assessment, a specific residual 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). These measures, along with other documentation requests, should not compromise the safety or privacy of the NPO and its beneficiaries.

127. Additionally, the financial sector should facilitate **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.

128. 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 NPOs to pre-emptively address uncertainty regarding documentation requests (See Example C.16, **Annex C**). This could be shared publicly, (e.g., through their websites or by establishing a dedicated assistance line or single point of contact NPOs can engage with for their account) to the extent that this does not jeopardise efforts to combat and prevent financial crime. Financial institutions could also provide avenues for appeal and reassessment in decisions where they choose not to provide services or terminating a relationship with an NPO.

**129. 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 of funds, but also supporting a secure audit trail for aid delivery. Financial institutions could also leverage digital information and documentation for CDD processes, ensuring these technological solutions are not discriminatory in nature, or used in a discriminatory manner. In particular, human oversight may be necessary when using algorithms to avoid perpetuating existing biases (religious, ethnic, gender and others).

**Box 11. 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 negatively impacts the access to financial services by NPOs.

Similarly, a refusal to start a customer relationship or a decision to terminate a customer relationship should be done on a case-by-case basis, rather than for entire categories of customers, and be based on justified reasons, e.g., inability to perform CDD.

***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 philanthropic and humanitarian actors from operating in accordance with humanitarian principles, such as neutrality and impartiality, and that may be incompatible with international humanitarian law. It may not only negatively impact the neutrality of humanitarian NPOs and the safety of their staff, infrastructure and beneficiaries, but also exclude people in need from receiving humanitarian assistance.

***Disproportional practices that limit the operational capacity of NPOs***

Examples of other disproportional practices taken to address TF risks include restrictions against NPOs to accept cash donations or banning cash transactions in areas where regulated financial or payment channels are absent.

## C. NPOS AND DONORS' INITIATIVES

130. NPOs, whether receiving donations or making grants, can take a range of initiatives to positively impact their ability to access financial services.

131. **Where feasible, NPOs should use regulated systems to conduct their financial and payment transactions.** This brings the accounts of NPOs, by and large, within the regulated financial system and under the relevant controls or regulations of that system. However, this relies on the willingness of the financial sector to provide banking services in the first place.

132. There may be circumstances in which cash may be the only possible way for the NPO to operate, for example, to ensure assistance reaches the intended beneficiaries in a particularly remote region where financial services are not available. While the use of cash is inherently at higher risk of 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 12. 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 TF risks to which they might be reasonably perceived to be vulnerable.

In addition, NPOs could proactively inform their financial institution about their adherence to voluntary accreditations, sector codes/guidelines, requirements for tax status and donor requirements, broader self-regulatory due diligence and risk management mechanisms that support CFT safeguards.

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

133. 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. The NPO could also discuss with the financial institution whether risk mitigation measures in place are sufficient or need to be complemented with additional ones.

134. **NPOs, especially through sector or umbrella organisations and donors, could provide additional information to financial institutions on how their broader risk management mechanisms support the prevention and detection of CFT 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 information 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 contexts deemed high risk within which NPOs operate.

135. **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, 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.

136. 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 utilise 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.

137. 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.

138. For donors, it is good practice to **undertake reasonable steps to research reliable 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. COUNTRY EXAMPLES

1. Annex A features 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 partially or fully mitigates 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.

2. These examples should not be used as a checklist, baseline, 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.

3. The examples are provided under the following elements:

- (a) Identify NPOs, assess and understand their TF risks;
- (b) Sustained outreach to NPOs;
- (c) Focused, proportionate and risk-based measures, including oversight or monitoring of NPOs;
- (d) Information gathering and investigation regarding NPOs of concern; and
- (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

In 2017, in addition to its ML/TF National Risk Assessment, Malaysia carried out a separate NPO TF risk assessment, composed of two parts:

- The first part involved a comprehensive review of the NPO sector's landscape operating in Malaysia, which included understanding the overall NPO population, NPOs activities (e.g., distribution of services, funds, or advocacy), NPOs assets' value, and NPOs funds movement. This review also included an overall assessment of the legal and regulatory regime for the administration of NPOs to identify those that fell within the FATF definition.
- The second part consisted in the assessment of TF risks in relation to NPOs, specifically aimed to identify inherent TF risks facing NPOs and the control measures in place to mitigate identified risks. To ensure the robustness of the assessment, the analysis of the findings was subject to validation by regulators, law enforcement authorities, NPOs, and academics, before the National Coordination Committee to Counter Money Laundering adopted the findings.

### Box A.2. Domestic Review of the NPO sector: United Kingdom

The 2017 United Kingdom'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 United Kingdom. Data gathered from published reports on the NPO sector was integrated by information provided by various government departments and agencies responsible for registering/regulating NPOs.
- Evaluating NPOs structures and oversight. To understand the legal structures and reporting requirements of organisations within the United Kingdom 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 operating in the United Kingdom which fall within the FATF definition and which may be at the greatest risk of TF abuse. The analysis took into account the findings of the 2014 FATF report on Risk of Terrorist Abuse in Non-Profit Organisations and the United Kingdom's 2015 National Risk Assessment.

**Box A.3. Identification of NPOs for the sectoral TF risk assessment: France and Germany****France**

In France, three categories fall under the FATF definition of NPOs: associations, foundations and endowment funds.

- The legislative framework governing association (1901 Law) distinguishes between several types of associations according to their status: associations recognised as being of public interest, approved associations and declared associations. The majority of associations are active in the sports (20%), cultural (19%), human rights (15%) and social/charitable/humanitarian (11%) domain. Around 0,2% of French associations are both active abroad and operating in the charitable sector.
- The legislative framework governing foundations covers both to the act by which individuals or legal entities decide to allocate property, rights or resources to the realization of a non-profit activity and of a general interest as well as the legal entity resulting from this act. It distinguishes between public interest foundations and corporate foundations.
- Endowment funds can be established by a single individual or legal entity. The essential purpose of an endowment fund is to capitalise resources with a view to their future use and to carrying out activities of general interest directly and/or via a not-for-profit organisation.

All these structures enable the collection and redistribution of funds for charitable, religious, cultural, educational, social or benevolent purposes. Associations, foundations and endowment funds share the objective of performing a not-for-profit activity in the general interest, but they differ in that an association is a grouping of people whose knowledge or efforts are permanently focused on the pursuit of a common objective, whereas a foundation and endowment fund is concerned with making available goods, rights or resources in order to accomplish an undertaking in the general interest.

The 2023 [French National Risk Assessment](#) concluded that the majority of NPOs pose a minimal risk of TF. However, in the context of the National Risk Assessment, authorities have identified a subset of these organisations that may be at a higher risk of TF abuse on the basis of their activities and characteristics. This subset includes three types of associations:

- associations with a humanitarian or social purpose, whose operations or financial flows are focused towards high-risk areas where terrorist groups operate.
- associations operating in conflict zones or in connection with other associations present in such areas (under a project local partnership for instance).
- associations set up under the guise of a legitimate activity, which may have very heterogeneous characteristics in terms of activity (cultural, worship, social, charitable, humanitarian), or in terms of size or geographical presence, whose activity may be deliberately misused by people linked to terrorist



entities to raise funds to finance or facilitate terrorist acts. Some of these associations may have a “mixed” activity (i.e., religious activities in addition to other non-religious activities).

### Germany

The [2020 German sectoral risk assessment](#) recognises that the very large majority of associations and foundations in Germany are not primarily engaged in raising or disbursing funds and therefore do not fall within the FATF definition of NPOs. It underlines further that organisations whose work primarily consists in raising and disbursing funds for charitable activities are aid organisations. Notably, the risk assessment took into consideration the share of donations and government funding that goes into humanitarian aid, and the main sectors of distribution.

### Box A.4. Sectoral Risk Assessment: Peru

In 2021, Peru conducted a collaborative [Sectoral Risk Assessment](#) with the participation of two NPO umbrella organisations and technical support from an international cooperation agency.

The first phase focused on strengthening knowledge of AML/CFT issues applicable to NPOs by enhancing NPOs 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 phase in 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.
- Roadmap to address the ML/TF challenges identified and design of a public-private dialogue mechanism.

### Box A.5. Identifying high-risk NPOs: Mexico

The Mexico's 2020 National Risk Assessment was the result of a risk matrix based on the following risk factors and mitigating factors relating to financial transactions :

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 involving international transactions;
- Relevant Transaction Reports involving cash; and
- Cash Dollar Reports.

Mitigating factors:

- The NPO qualifies as an "Authorized Donor" (AD) or as a "registered Religious Association" in consideration of its level of compliance with relevant TF regulatory mitigating measures; and
- The NPO has not been subject to Unusual Transaction Reports/Relevant Transaction Reports in the prior three years.

A residual rating (out of 100) is assigned to NPOs based on the risk factors and mitigating factors. A higher rating denotes a greater potential risk of TF abuse.

The results of the TF risk matrix indicated that less than 1% of the entities (nine NPOs) were considered high-risk, while the remaining 2 542 (>99%) were identified as low risk. The nine NPOs rated high risk were all Religious Associations.

### Box A.6. Data collection and stakeholder engagement: Australia

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 an NPO high risk dataset (which was later analysed to identify key risk indicators and refined to eliminate false positives) comprised of 28 Suspicious Matter Reports, case studies, investigations, and intelligence holdings. During this phase, Australian Charities and Not-for Profits Commission (ACNC) and Australian Tax Organisation 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 umbrella organisations, 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**

During the first half of 2019, NPOs in Kyrgyzstan have been included in the government-led working group conducting the NPO sectoral risk assessment. Three NPOs were appointed as members of the risk assessment working group after an FIU's public call. NPO representatives worked with the government to identify and adapt a methodology developed by an international consulting firm. The implementation of this methodology required active engagement with the NPO sector and had a positive impact, including on the quality of the data collected. The NPOs' engagement during the TF risk assessment process increased their awareness about the potential risks and protective measures, strengthened trust within the NPO sector and between stakeholders, and enhanced buy-in for the recommendations and results of the assessment.

**Box A.8. NPO Engagement during the TF Risk Assessment: North Macedonia**

In 2020, North Macedonia's FIU established a multi-stakeholder working group with data collected through surveys and direct consultations with the NPO sector.

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

The high level of NPO engagement in the process was crucial to the quality of the risk assessment in several ways, it: a) helped to properly identify NPOs subset that fell within the FATF definition; b) provided knowledge, expertise and understanding of the ways NPOs operate, which improved understanding of the collected data and the implementation of NPO legislation; c) supported the data collection; and d) raised awareness among the NPO sector.

The NPO risk assessment inspired a set of policy, outreach, and capacity building measures leading to improved compliance with international standards and operationally focused preventive measures. NPO risk mitigation measures were subsequently introduced in the government's 2021 Strategy for combating ML and TF.

In cooperation with an NPO, the Macedonian FIU organised a series of raising awareness 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 Risk Assessment, its implications for NPOs, and mitigation measures NPOs can adopt.

**Box A.9. NPO Engagement during the TF Risk Assessment: 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.10. NPO Engagement during the TF Risk Assessment: Tunisia**

In 2019, a consortium of national and international NPOs joined efforts with the FIU and other government agencies to work on updating the NPO TF Risk Assessment using a methodology that identifies both the inherent and the residual risks. After over [a year-long process](#) of building trust and meaningful discussions around practical challenges and relevant actions to mitigate TF risks within the NPO sector, the updated NPO TF Risk Assessment was presented at the MENAFATF plenary in November 2019.

**Box A.11. NPO Engagement during the TF Risk Assessment: Nigeria**

Nigeria conducted an NPO TF Risk Assessment as a follow-up to the National Risk Assessment carried out in 2016. In 2021, NPO representatives in Nigeria were included in the technical working group conducting the NPO TF Risk Assessment co-ordinated by the Special Control Unit against Money Laundering, a unit within the Economic and Financial Crimes Commission. The technical working group comprised representatives from diverse law enforcement agencies, AML/CFT authorities, and various subsets of NPOs operating in the country.

In addition to developing a methodology adapted to suit the peculiarities of the local context, the technical working group convened workshops to identify the NPOs that fell within the FATF definition. Unlike the 2016 National Risk Assessment that did not involve NPOs, the participation of NPOs in various stages of the sectoral Risk Assessment strengthened the NPO sector's trust and confidence in the assessment processes and results. In May 2022, NPOs in Nigeria were no longer classified as designated non-financial institutions. As such, NPOs were removed from the list of obliged reporting entities, exempting them from the onerous compliance requirements as well as multiple registration and reporting obligations.

**Box A.12. National Terrorist Financing Risk Assessment and National Strategy to Combating Terrorist and Other Illicit Financing Risks: United States**

In 2022, the United States updated its 2018 National TF Risk Assessment to analyse the potential for TF abuse of NPOs and issued its corresponding National Strategy for Combating Terrorist and Other Illicit Financing.

**2022 National Terrorist Financing Risk Assessment**

The United States' 2022 National Terrorist Financing Risk Assessment (NTFRA) was informed by several sources, including, but not limited to, 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 utilising the United States financial system and financial transactions denominated in US dollars. As part of the NTFRA, the United States specifically analyses the threats, vulnerabilities, and risks stemming from TF abuse of NPOs.

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

Some organisations, based on their activities and geographic profile, may be more vulnerable to TF abuse. As noted in earlier NTFRAs, those United States-based organisations 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 but clandestinely providing funds or material from the organisation to terrorist supporters.

The 2022 NTFRA also acknowledged that many of the reputable, legitimate organisations 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 organisations have sought to enhance and adapt these measures in response to changing risks and their activities in areas where terrorist groups operate. Additionally, organisations that receive funding from the United States 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 United States sanctions, including threats posed by terrorist organisations.

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

### **2022 National Strategy for Combating Terrorist and Other Illicit Financing**

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 United States 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 denial of financial access to certain 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 United States 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 organisations providing impartial 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.

## SUSTAINED OUTREACH TO NPOS

**Box A.13. Best practices and recommendations paper: Spain**

Spain's Treasury, under the Ministry of Economy and Competitiveness, published a [best practices and recommendations paper](#) on combating ML and TF for the NPO sector. The paper was developed in consultation with the authorities with 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 and discusses how NPOs can strengthen controls in the following three areas to protect both integrity and reputation:

- **Functioning of directing bodies.** The paper emphasises the need to implement measures ensuring the ethical and professional suitability of directing officials and key employees. It 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 TF.
- **Planning and technical monitoring of activities.** NPOs can use planning and monitoring to prevent the misappropriation of funds for TF or other criminal activities. The paper recommends that NPOs clearly define their purposes and beneficiary populations, 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 regularly 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.

Note: While this document pertains to both ML and TF, it is referenced in this report for TF purposes.



**Box A.14. Sustained dialogue and focused outreach: France**

France has engaged in sustained dialogue and focused outreach activities with the 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 support NPOs facing difficulties.

The French Treasury published a [guide of good conduct for associations](#) with regards to the TF risk to which they are exposed. This guide is also distributed to NPOs during their official registration process at the regional Prefecture. This document intends to warn the associations and their managers of this specific risk, improve their due diligence measures, and help them implement adequate internal policies, procedures and controls. This guide explains R.8 and the expected measures of the FATF (awareness, control and monitoring of the sector, effective gathering of information and investigations, and capacity to answer foreign requests on NPOs). It also outlines the national and European regulation and accompanying measures on TF, 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 Ministry of Finances' website typology cases and some red flags and matrixes focused on the misuse of NPOs for TF.

In addition, the French Treasury, the Interior Ministry, and the Ministry of Foreign Affairs 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, understand CFT regulation and related financial institutions obligations. and provides information to NPOs on how to comply with CFT regulation, particularly in terms of TF. It also provides information on dedicated focal points to support NPOs on various issues inside these ministries.

Moreover, annual seminars are organised 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 to solve challenges the NPO sector faces in relation to access to financial services. Part of its work consists of elaborating 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 A.15. Dedicated outreach team to raise NPO awareness: United Kingdom**

Since 2012, the Charity Commission of England and Wales (CCEW) has engaged in sustained outreach and dialogue with the NPO sector through its dedicated outreach team to raise awareness about several issues, including abuse by terrorist organisations, within several key charity sectors and the public. The outreach team focuses on NPOs working in high-risk areas, targeting them through virtual and in-person engagement events and offer bespoke one-on-one 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 complements 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 TF purposes or where they were vulnerable to such abuse. Working with the Metropolitan Police's Counter Terrorism Command, in 2022, the CCEW published an updated regulatory alert 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 United Kingdom 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 United Kingdom's National Risk Assessment, to be at greater risk of TF 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, and (iii) the length of time that it has been operating for.

**Box A.16. Sustained dialogue with the NPO sector: United States**

The United States government maintains a robust line of communication with the NPO sector, including charities and donors. Specifically, the United States 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 government also publishes extensive guidance materials for the humanitarian sector on AML/CFT and United States sanctions policies. Lastly, relevant United States agencies maintain an open-door policy and will often have one-on-one meetings with requesting NPOs and charities.

**Sustained Outreach from United States Government**

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

outreach to a wide variety of United States 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. The events have focused on a variety of issues, including safeguarding charitable giving and mitigating terrorist abuse through the NPO sector.

Treasury invites dozens of charities and representatives from the charitable sector to participate in regular meetings hosted by the government. For example, Treasury hosted dozens of charity working group meetings between January 2020 and October 2022 covering issues ranging from major United States' 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 United States 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, counterterrorism enforcement actions, and more recently access to financial services and other challenges. Most charities find these meetings valuable opportunities to provide direct feedback on counterterrorism issues affecting the sector.

Specifically on de-risking, Treasury has hosted and participated in several meetings with the 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 NPOs and NPO umbrella organisations periodically to discuss challenges they face, including banking challenges and due diligence measures.

Additionally, United States government representatives participate in a variety of NPO conferences and other NPO-hosted outreach events, including on de-risking. The government 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 United States government has also heavily engaged the international NPO sector on efforts to address financial sector de-risking.

#### **Box A.17. Sustained dialogue with the NPO sector: the Netherlands**

The [Dutch Roundtable on Financial Access for NPOs](#) was co-convened in 2017 by a Dutch NPO, the Ministry of Finance, and the National Banking Association to address issues related to de-risking by banks and payment service providers that have made it difficult for NPOs to access financial services. The roundtable brings together key stakeholders to promote financial inclusion for NPOs and ensure they can continue their important work.

The roundtable has led to the creation of a web-based portal for NPOs hosted by a bank, in collaboration with the umbrella NPO and others (see Box C.10 for more detail).

The National Banking Association, with support from the Central Bank and the Ministry of Finance, also supported a multi-stakeholder working group, which issued several risk-based standards applicable to NPOs for banks and their customers. This multi-stakeholder group, convened by the supervisory and legislative governmental entities, includes the three biggest national banks and several NPOs, and meets on a regular basis.

## FOCUSED, PROPORTIONATE AND RISK-BASED MEASURES, INCLUDING OVERSIGHT OR MONITORING OF NPOS

### Box A.18. Data-led oversight and monitoring: United Kingdom

Certain NPOs registered in the United Kingdom are required by law to submit an Annual Return (AR) to the Charity Commission for England and Wales (CCEW). The CCEW sets the questions and information that NPOs are required to provide in their AR. The AR includes information about NPOs' overseas income and expenditure and whether NPOs have operated outside the regulated banking sector during the reporting period. Informed by the risks and assessment outlined in Chapter 15 of the 2020 United Kingdom Government's National Risk Assessment (and earlier versions), the CCEW conducts an annual programme of risk-based supervision of those NPOs operating in high-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. Such engagement allows the CCEW to test the controls and governance of an 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 considering the challenges the NPO faces in the context of the areas it operates. In addition, 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 developing its guidance and resources for NPOs to assist them in protecting themselves from TF and other abuse.

### Box A.19. Supervisory measures and funding from the government: Norway

Norwegian NPOs active in high-risk areas generally receive part of their funding from the Norwegian government. 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 beneficiary populations

and associated NPOs. These measures, which are aimed at uncovering fraud, corruption and TF, 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 TF. 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 required to register to open a bank account. Norway encourages voluntary registration of NPOs by providing incentives such as preferential taxation treatment.

#### Box A.20. Specified NPO: Isle of Man

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

The Isle of Man established the 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 TF. 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 registration and oversight regime requirements. The AML/CFT Specified NPO (SNPO) Code came into operation on 1 June 2019.

An SNPO is defined as: “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.”

The SNPO Code subjects the SNPO to several requirements, including carrying out an assessment that estimates the risk of ML/FT posed by i) the SNPO's business and customers (business risk assessment must have regard to all relevant risk factors); ii) the SNPO's beneficiary; and iii) any technology to the SNPO's business.

**INFORMATION GATHERING AND INVESTIGATION REGARDING NPOS OF CONCERN****Box A.21. FEC TF Task Force and TF Platform: the Netherlands**

The FEC TF Task Force is a public-private initiative established in 2017 to allow investigative services to share concrete TF signals and personal data (specific operational information) with banks, giving them concrete information that enables them to perform CDD. Unusual Transaction Reports identified by banks trigger the FIU's investigation and dissemination to law enforcement agencies. 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 the Dutch FIU to enhance the quality and effectiveness of Unusual Transaction Reports on TF. Via this Platform, the FIU shares knowledge of themes, phenomena and typologies with the four Dutch major banks, and the information is used to develop TF risk profiles.

**Box A.22. Interagency approach: United States**

The 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 United States FIU), 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 conducting outreach and international engagement on this issue.

OIA works with the United States 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.

**Box A.23. 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 on their activities, financial information, and directors to the Canada Revenue Agency (CRA), which is the federal regulator of registered charities in Canada.

Once registered, charities have an obligation to file annual information returns with the CRA providing 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 organisation'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) are responsible for investigating organisations suspected of being exploited by, or actively supporting, terrorist activity or organisations. Formal and informal mechanisms are in place to ensure co-operation and information sharing between these agencies and other domestic authorities.

First, the CRA has Memoranda of Understanding (MOU) with the RCMP and CSIS, who lead terrorism investigations, to exchange information about charities and NPOs of concern, or individuals of concern associated with such organisations. These MOUs provide guidance and best practices when applying legislation that permits the exchange of information either proactively or on request. They also provide direction to these national security partners on exchanging classified information with the CRA, and to the CRA on exchanging otherwise protected information with these national security partners.

Another example of co-operation and information sharing is Canada's FIU, FINTRAC. Under the Proceeds of Crime (ML) and Terrorist Financing Act (PCMLTFA), the FINTRAC is required 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 ML or TF offences.

## CAPACITY TO RESPOND TO INTERNATIONAL REQUESTS FOR INFORMATION ABOUT NPOS OF CONCERN

### **Box A.24 On-line tools for information on NPOs: Canada, Germany, New Zealand, and United Kingdom**

Several countries, including Canada, Germany, New Zealand, 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 data graphically in charts and tables, make connections between NPOs, and 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. International partners can also access these public databases to find information on NPOs operating outside of their jurisdiction.



## Annex B. NPO EXAMPLES

1. Annex B features examples of measures that have been implemented by 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 partially or fully mitigates 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, among other considerations.
2. These examples reflect national and sectoral contexts, and should not be used as a checklist, baseline, 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. Many of these measures, while practical for larger or international NPOs, may be difficult for smaller and local/national organisations to implement due to limited resources. They are given to illustrate the range of options which countries and NPOs apply.

### ADOPTING A RISK-BASED APPROACH

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

A German NPO umbrella organisation of development and humanitarian non-governmental organisations conducted a shadow sectoral risk assessment on behalf of a broad coalition of 140 NPOs. The findings and recommendations of the shadow NPO risk assessment were taken into account and incorporated by public authorities when conducting the German NPO 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. As a result, the overall quality of Germany’s sector risk assessment increased.

**Box B.2. Regional analysis and outreach on TF risks and mitigation by the NPO sector in South America**

An NPO, working in South America, has collaborated with an umbrella organisation and regional experts to help NPOs engage knowledgeably and constructively in defining the NPO sector TF risk. In 2019-2020, the NPO provided intensive training to NPO experts in several countries on R.8 and its Interpretive Note, good practices in sector engagement on implementing the risk-based approach, and mutual evaluations.

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

Following the training, the organisation and its regional partners conducted an extensive survey of NPOs' perceptions of risk and country compliance with R.8 to raise awareness among NPOs on FATF standards and gather relevant evidence. The organisation also published a regional report, in several languages, based on survey responses from over 725 NPOs from 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-stakeholder dialogues including NPO partners from 16 countries focusing on the report's findings. 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 effect in 2022.

**Box B.3. Awareness raising and training on TF risk mitigation measures by an NPO in Nigeria**

In 2020, a Nigerian NPO established the NGO Regulatory Compliance Clinic designed to enhance AML/CFT knowledge and compliance culture for non-profits in Nigeria. The Clinic is delivered by a multistakeholder faculty comprising representatives of NPOs, national AML/CFT bodies, regulatory bodies with oversight for NPOs, financial institutions, and the private sector. The Clinic is based on a unified curriculum on AML/CFT jointly developed by faculty members.

The Clinic has increased the capacity of NPOs operating in the country to follow the rules and regulations applicable to the non-profit sector and AML/CFT requirements. Between 2020 and 2023, nine editions of the Clinic have been held nationwide, reaching over 200 national NPOs and 24 international NPOs. These Clinics have built awareness and increased the capacity of NPOs to understand and comply with licensing, filing, reporting, and AML/CFT requirements applicable to non-profit entities.

**Box B.4. Guidelines to identify and mitigate TF risks by a NPO organisation in Latvia**

A Latvian NPO has developed guidelines for ethical funding when deciding to accept financing to prevent potential ethical risks, outlining the basic principles of transparency regarding the donor, the funding, and its use. The guidelines are part of the NPO's commitment to develop a range of policies to promote self-regulation and good governance among its members and the NPO sector in general, and 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 co-operation between the non-governmental and banking sectors.

**Box B.5. Guidelines and awareness raising to mitigate TF risks by a NPO association in North Macedonia****Raising awareness and building capacities on preventing TF risks among NPOs**

In the Macedonian NPO TF Risk Assessment, awareness raising was identified as one of the key preventive measures for NPOs to be able to identify risks and protect their organisations from being misused for TF. NPOs and public institutions jointly developed a capacity building program that was comprised of:

- [The "Handbook for NPOs: Protect your organization – Prevention of the exposure of the non-profit sector to ML and FT"](#) (adaptable to other geographical contexts);
- A targeted risk assessment tool for NPOs to identify and understand the potential risks of ML and TF abuse; and
- A training workshop for NPOs named “Protect your organisation”.

**Raising awareness and understanding of TF risks among religious organisations**

NPOs, in partnership with the government, initiated policy dialogue among relevant stakeholders to enhance the understanding of the TF risks and mitigation measures among religious organisations. To support the process, the association commissioned a [comparative analysis](#) on religious NPOs and risk-based approaches in AML/CFT - the first of its kind on the topic.

The NPO association, in partnership with the government and other associations, also organised a regional learning forum called “Religious organisations on the pathways to risk-based approach in AML/CFT”. A total of 54 key stakeholder representatives from 12 countries (Albania, Andorra, Bosnia and Herzegovina, Bulgaria, Kosovo, Montenegro, The Netherlands, North Macedonia, Romania, Serbia, Turkey, Ukraine) gathered to exchange good practices for a risk-based approach in AML/CFT.

### Box B.6. Risk management and toolkit to raise awareness about risks by a large international NPO

An international NPO providing humanitarian assistance, with large infrastructure and working in high-risk environments, has adopted internal risk management policies and procedures and developed a toolkit to raise awareness.

#### Compliance and Risk Management

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

The first line of defence is the Field Operations Management at the country office (CO) and regional office (RO) levels, which design and implement effective local internal controls. All NPO's COs are required to have at least a Risk and Compliance Coordinator; ROs to have a Risk Management and Compliance Unit, and the head office (HO) to have a Governance, Risk and Compliance Unit encompassing anti-corruption, legal, risk management and compliance functions.

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, 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 operating as intended through continuous monitoring, providing support and ensuring that risk management systems are up to date.

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, the NPO's 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.

#### Toolkit

The NPO developed a publicly available toolkit to raise awareness of counterterrorism-related risks and 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 counterterrorism-related risks that humanitarian organisations may need to manage and mitigate, and to collate of some risk management practices employed in the sector.
- To encourage organisations to mainstream consideration of counterterrorism-related risks throughout the project management cycle.

**Box B.7. Participatory approach in the NPO sectoral risk assessment in Honduras**

A coalition of Honduran NPOs and officials from the FIU have established a constructive relationship in conducting an NPO sectoral risk assessment. The low rating on R.8 and the authorities' determination to improve this allowed them to be receptive to an initial approach from NPOs. Another key factor was the participation of FIU officials in a GAFILAT workshop, where experts from an NPO umbrella organisation served as panellists. These conditions enabled a group of NPOs, previously trained by the same NPO umbrella organisation, to approach FIU representatives and share relevant sector information for the risk assessment. Similarly, this group informed the officials about the self-regulation efforts they were undertaking to enhance their accountability and transparency practices.

As a result, NPO experts and representatives of the FIU and other oversight agencies have established an ongoing relationship that has lasted approximately five years, overcoming changes in administration and lead officials. The sector provided the FIU with data captured from its own risk assessment, which took into account the mitigating impact of the self-regulation system developed by the NPO coalition. These inputs have been incorporated into a sector and national risk assessment that the FIU is still finalizing, but officials have shared its main findings with NPO representatives. These advances, achieved with technical support from members of the umbrella coalition, are a model for the Central American region.

**Box B.8. Vendor due diligence and cash distribution controls for an NPO in the United States****Vendor due diligence**

The NPO's procurement processes adopt a risk-based approach 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 check, which screens the supplier as well as its shareholders, directors and managers against worldwide sanctions databases.

Enhanced due diligence is applied when goods or services are procured above a higher value threshold or in regions where there is a need for higher risk services such as cash transfer and distribution, and consists of 3 levels of due diligence:

Level 1: Confirm that the organisation's Standard Operating Procedures have been adhered to and check supporting documents for red flags.

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 NPO's priority for cash distribution services is to use established banking facilities for transferring funds. In those locations where informal money transfer systems remains the only viable means for the NPO to operate, the organisation has developed specific processes for risk identification and mitigation.

After due diligence checks at onboarding, 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), which consists of guidance to country staff detailing how to develop specific country-level Standard Operating Procedures for cash transfers. This includes 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-REGULATORY MEASURES

### Box B.9. Self-regulatory schemes in Germany

In Germany, there are various self-regulatory schemes and a few independent monitoring organisations which can serve to address TF risks. They can 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](#)

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. Since 2020, Transparency International Germany promotes a sophisticated [Anti-Corruption Self-Assessment Guideline for NPO](#).

### Box B.10. Self-regulatory schemes in Honduras

With funding from international co-operation and technical assistance from an NPO umbrella organisation, a coalition of Honduran NPOs designed a self-regulatory system that was implemented in 2017. This system draws inspiration from the peer certification model and encompasses six areas in which participating organisations must demonstrate advancements in performance: a) sound internal governance; b) financial management; c) accountability and transparency; d) relationships and communications; e) quality and services; and f) human resources management. Specific performance standards have been established for each area, against which participating organisations must be evaluated every two years to achieve "certification" from their peers regarding their level of compliance.

The periodic execution of assessments and the publication of their results necessitate significant resources from NPOs and the NPO coalition has experienced limitations in



expanding the number of participating NPOs due to insufficient funding. The scheme is therefore dependent from domestic and international donors, and government entities.

#### Box B.11. Voluntary sector standard in Albania

In 2018, an umbrella organisation based in Albania conducted an initiative to introduce a [Code of Standards](#) (“CS”), a self-regulatory mechanism for the NPO sector to improve their work effectiveness, good governance, transparency, and accountability. Sixteen NPOs joined the volunteer working group to develop the CS. Based on international experiences and models of standards for civil society organisations, such as the Global Standard for CSO Accountability, the CS was adapted to the dynamics of development of the NPO sector in Albania. An implementation framework that enables monitoring and self-assessment of the organisation was also established.

The CS 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 operations, governance, resource management, transparency and accountability, relationship-building, and management of conflicts of interest. The CS has four guiding principles and seven commitments that member NPO must meet and maintain.

Membership of the CS is public and gives access to the CS Assembly. Since its launch in 2021, 21 NPOs that have completed the self-assessment process have joined the CS Assembly. Fulfilment of the basic obligations and requirements set out in the CS and the Self-Assessment Framework is ensured by the CS Committee, which serves as an evaluation structure for participating NPOs. The Committee is a voluntary structure, consisting of five members proposed and elected by the CS Assembly based on professional and organisational criteria. A dedicated online platform 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 CS.

**Box B.12. Sector codes with independent verification of compliance, certification and accreditation**

Many country-specific codes of ethics and conduct have been adopted. They are subject to independent verification of compliance, certification, and accreditation, including in Botswana, Cambodia, Georgia, Mozambique, Philippines, Peru, South Africa, Uganda, 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 charter's provisions 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

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

- Organisational integrity;
- Partner relationships;
- Financial transparency and accountability; and
- 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

##### Clear governance structure, particularly role of the governing body (the Board)

- 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)

<b>Governing body description to include</b>	<ul style="list-style-type: none"> <li>■ Basic responsibilities and powers</li> <li>■ Duties of individual board members</li> <li>■ Minimum number of board members</li> <li>■ Membership rules (including eligibility, suspension and expulsion) and terms of office (length of terms, limits on re-election)</li> <li>■ Clear election procedure</li> <li>■ Minimum number of board meetings and method of convening meetings</li> <li>■ Decision-making procedures (number needed for quorum, how to vote and record decisions) with explicit indications that decisions are to be taken collectively</li> <li>■ Record of Board meeting minutes</li> <li>■ Conflict-of-interest provisions (for the Board and organisation overall)</li> <li>■ Board member remuneration (Board Members should not receive compensation beyond reimbursement of expenses)</li> </ul>
<b>Board competencies to include</b>	<ul style="list-style-type: none"> <li>■ Annual review of CEO performance</li> <li>■ Review of financial (management) performance / annual financial statements</li> <li>■ Responsibility to recruit CEO</li> <li>■ Responsibility to engage auditor</li> </ul>
<b>Essential financial management indicators</b>	
<b>Existence of basic accounting tools</b>	<ul style="list-style-type: none"> <li>■ Books of accounts (general ledger, general journal, etc.)</li> <li>■ Cash receipts book</li> <li>■ Cash disbursements book</li> <li>■ Bank accounts records</li> </ul>

<b>Basic accounting practices</b>	<ul style="list-style-type: none"><li>■ Written policies and procedures that follow accepted principles of accounting and control</li><li>■ Division of functions: the approving officer for fund releases (e.g., CEO) is different from the bookkeeper and the cash custodian</li></ul>
<b>Financial reporting and record-keeping</b>	<ul style="list-style-type: none"><li>■ Annual audits commissioned by the Board (auditor must not have a relationship to anyone in the organisation)</li></ul>
<b>Fraud prevention and AML practices</b>	<ul style="list-style-type: none"><li>■ Existence of full and accurate audit trails of funds transferred outside NGO jurisdiction/country</li><li>■ Use of registered bank accounts for money flows in case of every transaction (small amounts of cash for daily expenditure excepted)</li><li>■ Procedures to verify the identity, credentials and good faith of their donors and associate NPOs</li><li>■ 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 (excluding beneficiaries)</li></ul>
<b>Advanced systems (for more developed organisations)</b>	<ul style="list-style-type: none"><li>■ Sound investment policies</li><li>■ Resource generation plan</li></ul>

**Box B.14. Code of ethics of an umbrella NPO organisation based in Canada**

An umbrella NPO organisation based in Canada developed a Code of Ethics, 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 related to organisational integrity:

**Governance**

- Each Organisation shall be governed fairly and responsibly by an independent, active and informed governing body (e.g., the Board of Directors).
- All voting members of the governing body shall serve without compensation, except for reasonable expenses incurred to fulfil their organisational duties.
- Each Organisation shall establish and periodically review a governance framework suitable for fulfilling its mandate. The structure shall enable the Organisation 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. [...]

**Organisational Integrity**

- The affairs of the Organisation shall be conducted with integrity and transparency. The Organisation 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 Organisation 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 Organisation 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 Organisation conducting activities outside of Canada shall be aware of foreign laws and regulations governing its activities.
- The Organisation 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.

**Box B.15. 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:

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

## PARTNER RELATIONSHIPS

### Box B.16. 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 CFT, 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.17. Guidelines to screening donors and partners in area of conflict

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 do not receive donations, contracts, 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 United States Department of Treasury OFAC Specially Designated Nationals sanctions list. The organisation also co-ordinates with other international NPOs to learn about possible infractions by a potential donor from the perspective of another organisation.



## ACCOUNTABILITY AND TRANSPARENCY

### Box B.18. Standards and Best Practices about accountability and transparency

The *Standards of Transparency and Best Practices* (see Box B.16 for more detail) include some provisions addressing 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 kickbacks, 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 of goods and selection of 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 control measures in an NPO**

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

- Responsibilities in key financial, procurement and asset custody processes are separated among several employees rather than entrusted to one employee. For instance, the tasks of procuring a good are conducted 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. Checks and bank transfers require two signatures.
- Budget versus actual expenditure reports are prepared and reviewed with senior management on a monthly basis.

**Box B.20. Accountability and transparency regarding the use of funds in an NPO**

An NPO that operates internationally and occasionally contracts 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 areas deemed high risk**

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 organisation (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; and
- Information on the feedback and complaint mechanism.

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 Members' Policy includes a feedback and complaints mechanism to encourage active feedback from members and other stakeholders.

The Members' Policy also has the following 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; and
- Procedure for nomination and representation of delegated representatives of the organisation.

The organisation monitors the implementation of both strategical goals and operational goals. Strategical goals are set by the organisation strategy and the Director is held responsible. There is a developed implementation plan with specific tasks for every year. The Director plans everyday activities with aim to achieve these goals and monitors and evaluates progress. The Director makes quarterly reports to the Board.

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

The organisation collects quantitative data relating to strategic activity areas. The organisation uses collected qualitative and quantitative data for quarterly and annual

progress reports and describes impact, including changes and implications to civil society organisations and specific target groups.

In addition, the organisation carries out annual evaluations of its work, asking members for views on activities and collecting proposals for the next period. The organisation organises a wider evaluation process every three years including other stakeholders– evaluating strategic goals and setting new goals for the next strategy.

### **Box B.23. Programme planning and monitoring for an NPO operating in areas deemed high-risk (1)**

The *Standards of Transparency and Best Practices* (see Box B.16 for more detail) include some provisions addressing 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, approved by governing body, which calls for an assessment of the organisation’s achievements, effectiveness and impact and that takes place at least every two years.

**Box B.24. Programme planning and monitoring for an NPO operating in areas deemed high risk (2)**

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 abuse.
- Actively monitors and ceases aid distribution if abuse 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 aid distribution by 're-branding' resources as their own. The implementing partner informed the designated entity that it would cease aid distribution and withdrew from the contested area. The implementing partner moved its resources back to a central warehouse until the 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 Peruvian 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 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 response to NPOs' challenges in opening and maintaining bank accounts, a Central Bank established a department dedicated to providing financial services to NPOs and 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 recently published guidelines concerning the prevention of ML and TF, which recommend supervised entities to assess the impacts of their activities, including from a financial inclusion perspective. In the assessment, attention should be paid to 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 with respect to people in a vulnerable position.

The FIN-FSA has also raised awareness on de-risking and financial inclusion through training activities, supervisory releases, circular letters, and blogs to encourage appropriate implementation of a risk-based approach by financial institutions.

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

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

In Norway, four multi-stakeholder dialogues were organised to explore practical solutions to the issue of de-risking, covering the topics of banking channels in the humanitarian sector, the use of Hawala systems, technological solutions, and policy solutions.

A small group of key stakeholders has been appointed as a steering committee at the start of the dialogue series to advise on the strategic direction of the meetings. For each dialogue, briefing papers outlined developments to date in each respective area, mapping results and identifying successes, limitations, and stumbling blocks. The dialogues also identified the next steps for operationalising relevant solutions under future initiatives, and this information was compiled in an outcome document.



**Box C.5. Exploring practical solutions to de-risking with multistakeholder dialogue in Denmark**

In Denmark, co-operation between the Danish financial institutions association, 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:

- Development of a guidance for banks to improve risk assessment for NPOs' clients, in co-operation between authorities, NPOs, and the financial sector. This is to strengthen the banks' ability to segment their NPO clients according to risk and their risk-based approach for low risk NPOs.
- 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 Know Your Customer and supervision.
- A more structured and streamlined approach to the documents relating to NPOs' clients to facilitate a more transparent and uniform co-operation between NPOs, authorities, and obliged entities.

**Box C.6. 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, the United States government continues to:

- authorise humanitarian-related activities and transactions – in line with UN targeted financial sanctions obligations – within United States 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 financial sectors.

**Public Guidance**

In November 2020, the United States federal banking agencies in co-ordination with the United States 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 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 United States government does not view the charitable sector as presenting a uniform or unacceptably high risk of being used or exploited for ML, TF, 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 TF, the United States government recognises that most charities and other NPOs fully comply with the law and properly support only charitable and humanitarian causes.

Furthermore, as part of broader message to reinforce the risk-based approach, in July 2022, the United States federal banking agencies and the United States Department of Treasury issued statement recognizing that it is important for customers engaged in lawful activities to have access to financial services. Financial institutions, such as banks, must apply a risk-based approach to CDD. The statement reminds banks that not all customers of a particular type automatically represent a uniformly higher risk of money laundering, terrorist financing, or other illicit financial activity.

**2023 De-risking Strategy**

On 25 April 2023, the United States 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 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 financial system from illicit actors and bolstering national security.

To inform this report, Treasury engaged in consultations with the public and private sectors – including banks, small and medium-size Money Service Businesses, diaspora communities that depend on these businesses for remittances, and certain kinds of small businesses and humanitarian organisations – 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 United States Treasury has proposed on de-risking to date, reflecting the importance of this issue for the government. The strategy provides concrete recommendations on how to promote consistent regulatory expectations, provide better incentives to banks to avoid de-risking, and to advance public and private engagement and co-operation at home and abroad.

### **Sustained Outreach**

The government maintains a robust line of communication with the NPO sector, including charities, donors, and specific communities. Specifically, the United States 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 United States also publishes extensive guidance materials for the humanitarian sector on AML/CFT and national sanctions policies. Lastly, relevant state 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 government to continue its strong partnership with the NPO sector on AML/CFT issues.

The United States Treasury engages financial institutions to explain major AML/CFT and United States sanctions policies, as well as to encourage dialogue between financial institutions and their NPO clients. In the past decade, the 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 Treasury has hosted roundtables with financial institutions and NPO representatives to discuss financial access issues. Additionally, when the United States government issues major humanitarian-related actions, including authorizations for NPO-related work, it will ensure financial institutions receive this information and remains open to receiving questions on these actions.

### **Other Efforts**

#### **Afghanistan**

After August 2021, the United States 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 United States pursued a UN Security Council Resolution to exempt humanitarian assistance related to basic human needs for the Afghan people involving the Taliban. Prior to this UN Security Council Resolution, there were no humanitarian exceptions for dealings with the Taliban, which the UN designated as a terrorist organisation with sanctions imposed in 2011 (UN Security Council Resolution 1988).

With the adoption of UN Security Council Resolution 2615, the United States issued authorisations in its domestic sanctions regime to authorise 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 400 NPO representatives to explain the General License and answer questions. NPOs have reported to the United States that this authorisation has improved financial access in Afghanistan for NPOs.

### **Modernisation of United States Sanctions**

One of the United States' greatest CFT tools remains its domestic sanctions regime. Sanctions allow policymakers to impose a material cost on adversaries to deter or disrupt behaviour that undermines national security and signal a clear policy stance. Over the last 20 years, the Department of the Treasury, in close co-ordination with the Departments of State and Justice, has 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.

The government also recognises that for sanctions to continue to support national security objectives, the government must adapt and modernise 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 Treasury undertook a comprehensive review of its sanctions programs which concluded that it should continue to seek ways to tailor sanctions to mitigate unintended economic, humanitarian, and political impacts on national workers and businesses, allies, and non-targeted populations abroad (The Treasury 2021 Sanctions Review).

To further this effort, the United States and Ireland co-authored UN Security Council Resolution 2664, which implemented a humanitarian carveout from the asset freeze provisions of UN sanctions regimes. On 20 December 2022, the United States became the first country to implement UN Security Council Resolution 2664 by issuing or amending general licenses across United States sanctions programs to ease the delivery of humanitarian aid and to ensure a baseline of authorisations 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.7. Multistakeholder review of Suspicious Transaction Reports indicators in North Macedonia**

In North Macedonia, a multi-stakeholder consultative working group comprising of the FIU, the supervisory authority, 15 financial institutions, and 2 umbrella NPOs was created as the result of the ongoing dialogue between the oversight authorities and the NPO sector.

The multi-stakeholder working group jointly reviewed Suspicious Transaction Reports indicators related to TF in the NPO sector. In a series of five workshops, group members also discussed the implementation and interpretation of the indicators, as well as the actual underlying risks to the operations of NPOs to avoid unduly disrupting or limiting the legitimate work of NPOs. The indicators were adopted by the FIU, and the working group developed interpretative notes so that financial institutions could adapt their reporting practices.

The participatory approach was useful and contributed to a common understanding of the implementation of the STR indicators. This has improved the effectiveness of suspicious transaction reporting related to TF and NPOs.

**Box C.8. Tri-Sector Group: Multistakeholder outreach in the United Kingdom**

In 2017, the United Kingdom established the Tri-Sector Group (TSG) as part of its sustained outreach and dialogue with the NPO sector and financial institutions. The TSG is a platform for dialogue involving United Kingdom 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 CFT legislation and domestic or international sanctions. The TSG was established following a recommendation by the United Kingdom 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 peacebuilding 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 activities of the group have consisted in:

- (i) Dialogue and consultation. 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.
- (ii) Legislative and operational guidance. For example the TSG issued the [for information note: operating within counter-terrorism legislation, counter-terrorism sanctions and export control in high risk jurisdictions](#), which provides guidance to help ensure compliance with the requirements of UK law, policy and guidance

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. The group has also held workshops to help NPOs better understand United Kingdom government processes on proscription, sanctions, and terrorism legislation.

**Box C.9. Government backed access to financial services for NPOs in Belgium**

In 2023, Belgium implemented a mechanism ensuring that legitimate companies and legitimate NPOs have access to financial services through a “basic minimum banking service for businesses”. In the case it received three refusals, a company or an NPO can request the Ministry of Economy to mandate a financial institution to provide financial services. The appointment of a financial institution is conditional upon the conclusion of a Ministry of Economy case review and in consultation with the FIU.

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 payment transactions through a payment card; and
  - Execution of credit transfers, including standing orders.

## FINANCIAL INSTITUTIONS' INITIATIVES

### TRANSPARENT GUIDANCE AND AWARENESS RAISING FOR NPOS

#### **Box C.10. Web-based portal developed by a financial institution in the Netherlands that provides detailed CDD guidance to NPOs**

In collaboration with NPOs and other government entities, a financial institution 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 seeking 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 CDD based on AML/CFT legislation. It provides an overview of the documents and information that the financial institution commonly requires to identify and verify NPOs and their ultimate beneficial owners.

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

- (i) Countries in which the NPO is active;
- (ii) The type of activity the NPO engages in;
- (iii) Organisational structure, including staff, board members, and partners of the NPO;
- (iv) NPO's ultimate beneficial owner; and
- (v) Type of transactions and sources of funding.

The portal refers to good governance instruments that NPOs can use to mitigate any TF risks. It also raises awareness for NPOs on their TF risks associated with their ownership/control and organisational 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 CDD DECISION-MAKING PROCESSES

### **Box C.11. Working in multidisciplinary teams for NPOs related CDD processes and monitoring of transactions in a financial institution**

A financial institution has created a Client Acceptance Committee consisting of a multidisciplinary team of AML/CFT experts, relationship managers, and human rights experts to address de-risking issues, considered a high priority. This Committee addresses reports on cases of NPOs being inappropriately denied access to services or where their services were unduly terminated or limited. The multidisciplinary team proceeds to assess NPO risks on a case-by-case basis in an equitable manner. AML/CFT experts have in-depth knowledge of ML/TF risk indicators, typologies, suspicious transactions, and activities. The relationship managers may know the NPO's activities and operations well, including the financial crime governance measures the NPO takes to mitigate risks. 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 the consequences of the measure for the NPO.

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

### **Box C.12. Training for Know Your Customer specialists on NPOs and de-risking in a financial institution in the Netherlands**

A financial institution partnered with an NPO to develop an in-house training on NPOs and de-risking for Know Your Customer 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 highlighting the need for careful consideration of open-source information that Know Your Customer 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 training to its staff on an ongoing basis. It also organises monthly de-risking meetings, bringing together staff from various commercial divisions, where training needs and cases relating to any NPOs for which risk indicators were raised can be discussed, together with onboarding decisions, in order 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.13. Connecting self-regulatory standards with CFT measures in a financial institution**

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

To provide accreditation, the self-regulatory body reviews NPOs against standards on mission, independence of the board and its composition, governance, whether activities align with stated mission, financial, project and risk management, transparency of annual budget, and integrity - on an ongoing basis. The bigger the NPO, the more stringent the standards they must comply with. The accreditation standards are continuously refined.

After analysing the conformity of standards set by the self-regulatory body, relevant domestic CFT measures, and organising 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 NPOs TF risk profile.

Reliance on the accreditation information and audit report provides the financial institution with comprehensive CFT relevant data that has been audited independently. This would contribute to a more reliable risk assessment, especially when combined with the financial institution's own monitoring and assessment of transactions, Politically Exposed Person information, and reliable open-source information that may impact the risk assessment.

**Box C.14. 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, and 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 CFT RISKS

### Box C.15. Proposal to leverage technology for CDD: Denmark

In Denmark, there is a proposal 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 digitalise processes like Know Your Customer and offsite supervision of financial institutions. Another proposal focuses on a new voluntary digital self-service solution for NPOs to ease the burden on NPOs and financial institutions in relation to physical documentation requirements.

### Box C.16. Innovative financial payment product to reduce CFT risks by financial institutions and NPOs

Owned by two financial institutions and an NPO, a social enterprise has developed fintech solutions for humanitarian aid delivery as a direct response to de-risking challenges that are common in conflict-affected areas.

One of the fintech solutions that the social enterprise developed for the NPOs 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 the donor NPO (who are the clients of the social enterprise).

Fieldworkers of the donor NPO 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 so that only they can use it. The biometric key becomes a 'store of value' to be used for essential goods and services that beneficiaries 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.

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 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 NPO and sanctions screening is performed by the social enterprise. This information is shared with financial institutions prior to entering 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.17. 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.

##### ***Risk assessment***

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

- (i) (New) customers open a new account;
- (ii) An event occurs that justifies a review of an NPO customer (e.g., allegations in reliable news sources against the NPO); and
- (iii) 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 is required. 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.

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
- Organisational 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, only some of these documents might be available. On a case-by-case basis, other documents can be requested instead (for example, half-yearly numbers, budgets, or administration structure).

##### ***Risk assessment: Sector risks for NPOs***

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

- (i) Jurisdictions in which the NPO is active,
- (ii) The type of activity the NPO engages in,
- (iii) Organisational structure, including staff, board members and partners,
- (iv) Ultimate Beneficial Owner, and
- (v) 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 TF 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.

- (a) The jurisdictions in which the NPO is active

Financial institutions consider whether the NPO is active in higher risk jurisdictions identified by the FATF<sup>46</sup> and assess 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 monitor possible violations of these sanctions.

*For NPOs to consider:*

- Does the name of your organisation 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 organisation 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

<sup>46</sup> The FATF reports annually on jurisdictions and territories identified as non-cooperative, see [www.fatf-gafi.org/en/publications/Fatfgeneral/Aboutthenon-cooperativejurisdictionsandterritoriesnccinitiative.html](http://www.fatf-gafi.org/en/publications/Fatfgeneral/Aboutthenon-cooperativejurisdictionsandterritoriesnccinitiative.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.

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?

(b) 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 TF (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). In many geographical contexts, cash is often the only way to ensure funds reach their intended recipients.

*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)? Organisations mainly working with volunteers may have less capacity and resources to develop 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 organisation been active? What is your (expected) turnover and income, funding sources and who are your beneficiary populations? Are these logical and consistent with your activities?
- Have there been any adverse media reports on your organisation (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.

(c) Organisational structure, including staff, board members and partners

The organisational structure of the NPO needs to be transparent. Certain legal structures are favoured 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 linked to the NPO (a board member, for example) requires enhanced CDD by the financial institution. Politically Exposed Persons are considered to have an increased risk of ML, 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 organisational structure? Provide the financial institution with an organisational 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 organisation have three 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 Politically Exposed Person? Please note that in some cases persons that are a family member or close associates of a Politically Exposed Person are also considered during the risk assessment.

*[Add relevant resources on identifying Politically Exposed Person(s).]*

- Does the Politically Exposed Person(s) involved in the NPO have any control over the transactions of the NPO?
- It is evident from the articles or charter of the organisation that the financial resources that remain after the dissolution of the organisation will be spent on an NPO with a similar objective.

#### (d) Ultimate Beneficial Owner

The person who ultimately owns or controls the NPO is identified as the Ultimate Beneficial Owner. FATF defines the Ultimate Beneficial Owner 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 Ultimate Beneficial Owner]*

*To consider:*

- Is it clear who the Ultimate Beneficial Owner of the NPO is? Be aware you are required to provide this information in the Ultimate Beneficial Owner - register (kept by the Chamber of Commerce).
- Is the Ultimate Beneficial Owner of the NPO a Politically Exposed Person? Do the funds of this Ultimate Beneficial Owner come from a reliable, legitimate source?
- The following information of the Ultimate Beneficial Owner is required: - Surname(s)- First name- Date of birth- Jurisdiction of permanent residence.

#### (e) 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 organisation 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 organisation, 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 organisation, the type of organisation 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? This is especially important for major donors, (major meaning share proportional to total donations).
- Does your organisation 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 organisations 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 organisations 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 you 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 organisations?
- What measures do you have in place to trace donors?

#### ***Tools on governance and organisational 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 CFT, ML and Sanctions***

*[List relevant legislation and risk assessment reports (incl. National Risk Assessment)]*

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

#### **Higher risk jurisdictions’ reports**

- [www.fatf-gafi.org/publications/high-risk-and-other-monitored-jurisdictions/documents/increased-monitoring-june-2022.html](http://www.fatf-gafi.org/publications/high-risk-and-other-monitored-jurisdictions/documents/increased-monitoring-june-2022.html)
- [www.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](http://www.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)

## NPO INITIATIVES

### **Box C.18. Guidance to increase NPO understanding of financial institutions' 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 CFT, following a multistakeholder seminar where most participants, representing internationally operating NPOs, indicated a need for clarity on the CFT 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.

### **Box C.19. Open data on NPOs in Brazil**

The Institute for Applied Economic Research (IPEA) has developed the Civil Society Organisations Platform. It 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 co-operation with the public administration in delivering public policies and services.

The platform integrates a large and increasing amount of official data originating from public and private sources and is 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 organisations 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 other, as reported to the Annual Report of Social Information (ARSI).

The map provides insight into the distribution of non-governmental organisations, 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.

**Box C.20. Clarifying how existing voluntary NPO accreditations and standards support CFT by an NPO based in the Netherlands**

On their website, a Dutch sector organisation 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 for example how the internal control mechanisms of associated NPOs are examined, 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 organisations that operate in high-risk locations and performs enhanced measures relating to these organisations. This may result in requests to the NPO to implement further mitigation measures.

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

**Box C.21. Including CFT in a voluntary accreditation in an NPO based in North Macedonia**

The “Trust Mark” is a self-regulation mechanism developed by a Macedonian and a European Union-based NPO to facilitate the access of citizens’ and financial institutions’ access to trusted organisations. The NPOs that hold the Trust Mark are considered trustworthy, dedicated to their mission, and with sound governance and financial management.

In order to obtain the Trust Mark, an NPO needs to adhere to a set of principles and criteria related to seven areas: 1) mission and vision; 2) democratic and good governance; 3) financial management; 4) transparency and accountability; 5) communication and advocacy; 6) fundraising; and 7) human resources.

The process of assigning a Trust Mark consists of two steps: a self-assessment by the CSO following a comprehensive questionnaire, and an assessment carried out by the Trust Mark Board. The assessment is based on the application documents provided by the NPO and spot interviews with the NPO. The independent Board is comprised of experts from the civil society, auditing companies, public relations, and human resources. The “Trust Mark” features a complaints mechanism from any stakeholder and is subject to renewal every three years.

In 2021, the “Trust Mark” was upgraded to include criteria aligned with the FATF standards to integrate AML/CFT-related considerations. An “entry level” version of the Trust Mark was also created to lower the bar for smaller CSOs to access the Trust Mark. As CSOs’ codes of ethics in the country are still in a nascent phase, after piloting the “Trust Mark” it is expected it will grow in scale and uptake by the CSOs.

The Macedonian FIU recognised the value and endorsed the “Trust Mark” mechanism as an effective self-regulatory mitigation measure for CSOs in the NPO TF Risk Assessment. These aspects of the “Trust Mark” are clearly communicated in the [informational booklet](#). The FIU and the national NPO have an ongoing discussion to promote the dissemination of the Trust Mark among NPOs and its recognition by financial institutions.

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# FATF



## BEST PRACTICES

### COMBATING THE TERRORIST FINANCING ABUSE OF NON-PROFIT ORGANISATIONS

This best practices paper aims to help countries, the non-profit sector and financial institutions understand how best to protect relevant non-profit organisations from abuse for terrorist financing, without unduly disrupting or discouraging legitimate charitable activities. It also helps stakeholders by identifying examples of bad practices and specifically explains how not to implement the FATF's requirements.

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