



**Republic of North Macedonia**

***REPORT ON THE CONDUCTED NON-PROFIT ORGANIZATION  
TERRORIST FINANCING RISK ASSESSMENT  
IN THE REPUBLIC OF NORTH MACEDONIA***

**Skopje, April 2021**

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## **Abbreviations**

NPO- Non-Profit Organization

FATF - Financial Action Task Force

RNM - Republic of North Macedonia

FIO – Financial Intelligence Office

NRA – money laundering and terrorist financing risk assessment

CRRCG- Commission for Relations with Religious Communities and Groups

LAF - Law on Associations and Foundations

LLSCRCRG - Law on the Legal Status of Churches, Religious Communities and Religious Groups

ISIS - Islamic State of Iraq and Syria

The relevant international institutions, including FATF as a leader in the fight against money laundering and terrorist financing, in addition to setting international standards for the prevention of terrorist financing, also identify typologies of terrorist financing by which the terrorists and terrorist organizations use the NPOs in several ways: for the collection, transfer and use of the raised funds (what is also known as the funding cycle); providing logistical support; encouraging terrorist recruitment; creating sham charities or misuse of the funds raised for these purposes and other forms of support. FATF standards that refer to the NPOs are Recommendation 8 and Immediate Outcome 10.

This assessment was made in order to ensure the implementation of these standards. The NPO TF Risk Assessment was prepared by a working group formed by representatives of the state bodies responsible for the establishment, registration, operation and monitoring of the NPOs, coordinated by the Financial Intelligence Office, as well as by representatives of NPOs, coordinated by KONEKT. The process of NPO Terrorist Financing Risk Assessment Process uses the NPO Terrorist Financing Risk Assessment Methodology of Greenacre Group, as well as the expert support and guidance of Ben Evans of the Greenacre Group. Following the methodology, data were provided from various sources and they were analysed by the working group, which with its heterogeneity provided extensive inter-departmental consultations and multidisciplinary approach in identifying the potential risks and risk factors. The conducted analysis is presented in this report, which consists of two parts, Assessment of the Risks of Terrorist Financing for Non-Profit Organizations in the Republic of North Macedonia and Assessment of the Measures for Mitigation of Terrorist Financing Risk for the Non-Profit Organizations. Following the best practices and guidelines for risk assessment for the NPO sector, this report identifies the subset of NPOs that fall within the FATF definition of NPOs, identifies the types of NPOs that, based on their activities or characteristics, are likely to be at risk from terrorist financing, identifies the nature of the threats, the manner in which the NPOs can be abused, and it provides an overview of the adequacy of the measures, including the laws and regulations that relate to the subset of NPOs that may be abused for TF. Consequently, the FATF requirements for NPO TF risk assessment have been complied with in this report in the following manner:

<b>FATF Requirement</b>	<b>Respective part of the report that complies with the prescribed requirement</b>
<i>To identify the subset of organizations that fall within the FATF definition of NPOs</i>	1.1 FATF NPOs
<i>To identify the characteristics and types of NPOs that, according to their activities or characteristics, are likely to be at risk of abuse of terrorist financing</i>	1.4. Identification of non-profit organisations at risk of terrorist financing
<i>To identify the nature of the threats of terrorist entities for the NPOs, as well as the manner in which the terrorist entities abuse those NPOs</i>	1.3 Threats of terrorist financing for non-profit organisations in the Republic of North Macedonia.
<i>To review the adequacy of the measures, including the laws and regulations, which refer to the subset of NPOs that may be abused for support of terrorist financing,</i>	2.1.Laws and regulations 2.2. Mitigation measures related to the policies and the engagement of the NPOs 2.3. Measures in the NPOs

<i>To take proportionate and effective activities for dealing with the identified risks;</i>	2.5 Recommended measures and activities
<i>Make a periodic assessment of the risk of the sector by reviewing new information on potential vulnerabilities to terrorist activities to ensure efficient implementation of the measures</i>	2.4 Assessment of the measures for mitigation of the terrorist financing risk for the non-profit organizations

This report is a basis for further measures, and thus, in the section Recommended Measures and Activities, a list is included of recommended measures which in the segment of laws, strategic documents and mechanisms for promoting dialogue, will contribute to adequate management and reduction of the terrorist financing risk and protection against possible abuses of the NPOs for the purposes of terrorist financing.

The preparation of this Report is supported by the Global Program for Combating Illicit Financial Flows of the German Society for International Cooperation (GIZ) for combating illicit financial flows and the European Center for Not-for-Profit Law (ECNL) based in The Hague.

***ASSESSMENT OF THE RISKS OF TERRORIST FINANCING FOR NON-PROFIT  
ORGANISATIONS IN THE REPUBLIC OF NORTH MACEDONIA***

## INTRODUCTION

1. The relevant international institutions, in the fight against terrorist financing, identify typologies of terrorist financing by which the terrorists and terrorist organizations use the NPOs in several ways: for the collection, transfer and use of the raised funds (what is also known as the funding cycle); providing logistical support; encouraging terrorist recruitment; creating sham charities or misuse of the funds raised for these purposes and other forms of support.
2. FATF is an international body whose purpose is to set standards for the prevention of money laundering and terrorist financing. FATF standards that refer to the NPOs are Recommendation 8 and Immediate Outcome 10 (see Annex 1).
3. FATF Recommendation 8 and Immediate Outcome 10 (hereinafter referred to as: R8 and IO.10) require that countries, as a first step, to identify the subset of NPOs that fall under the FATF's definition of NPOs, and to identify the types of NPOs, which by virtue of their activities or characteristics, are likely to be at risk of terrorist financing abuse.
4. The Republic of North Macedonia is a member of the Moneyval Committee of the Council of Europe, the FATF-Style Regional Body (FSRB) for Europe. The anti-money laundering and anti-terrorist financing system was evaluated by the Moneyval Committee as part of the fourth evaluation round and the FATF Compliance Evaluation Report was published in April 2014<sup>1</sup>. The 2019 Annual Report of the US Bureau of Counterterrorism<sup>2</sup>, states that North Macedonia continuously cooperates with the competent US institutions and is a member of the Global Coalition to Fight ISIS. In the course of 2019, no terrorist attacks were registered on the territory of the RNM and no departure of its citizens to join ISIS was reported. The main terrorist threat faced by North Macedonia is the returnees from Syria and Iraq. Furthermore, it is assessed that the legal framework of North Macedonia is adequate for prosecuting individuals and groups suspected of committing or aiding terrorist activities or participating in foreign wars.

## **Methodology**

5. The purpose of this risk assessment is to conduct a comprehensive review to understand the features and types of NPOs at risk of TF abuse and the nature of the threat.
6. The FATF standards “do not prescribe a particular method or format for assessing risk” of terrorist financing in NPOs.<sup>3</sup>
7. General best practices and guidelines for risk assessments of the NPO sector are included in FATF's Terrorist Financing Risk Assessment Guidance (FATF, 2019) and the FATF Guidance: National Money Laundering and Terrorist Financing Risk Assessment (FATF, 2013).
8. This risk assessment is based as closely as possible on FATF requirements and guidance. In accordance with the FATF Methodology (paragraph 8.1) each country should:

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<sup>1</sup> MER is prepared in accordance with the Methodology for Assessment of Compliance with the FATF Recommendations established for the third round of evaluation, and not according to the current methodology that assesses the compliance with Recommendation 8 and Direct Outcome 10.

<sup>2</sup> <https://www.state.gov/reports/country-reports-on-terrorism-2019/north-macedonia/>

<sup>3</sup> Terrorist Financing Risk Assessment Guidance (FATF, 2019)

*(a) Without prejudice to the requirements of Recommendation 1, since not all NPOs are inherently high risk (and some may represent little or no risk at all), identify which subset of organizations fall within the FATF definition of NPO, and use all relevant sources of information, in order to identify the features and types of NPOs which by virtue of their activities or characteristics, are likely to be at risk of terrorist financing abuse;*

*(b) identify the nature of threats posed by terrorist entities to the NPOs which are at risk as well as how the terrorist entities abuse those NPOs;*

*(c) review the adequacy of measures, including laws and regulations, that relate to the subset of the NPO sector that may be abused for terrorism financing support in order to be able to take proportionate and effective actions to address the risks identified;*

*(d) periodically reassess the sector by reviewing new information on the sector's potential vulnerabilities to terrorist activities to ensure effective implementation of measures.*

9. The FATF requirements for NPO TF risk assessment have been complied with in this report in the following manner:

*Figure 1.1: Table presenting the compliance with the international requirements in this report*

<b>FATF Requirement</b>	<b>Respective part of the report that complies with the prescribed requirement</b>
<i>To identify the subset of organizations that fall within the FATF definition of NPOs</i>	1.1 FATF NPOs
<i>To identify the characteristics and types of NPOs that, according to their activities or characteristics, are likely to be at risk of abuse of terrorist financing</i>	1.4. Identification of non-profit organisations at risk of terrorist financing
<i>To identify the nature of the threats of terrorist entities for the NPOs, as well as the manner in which the terrorist entities abuse those NPOs</i>	1.3 Threats of terrorist financing for non-profit organisations in the Republic of North Macedonia.

10. This part of the report is complementary to the assessment of the adequacy of the measures for mitigation of the TF threats (the second part of this Report), which makes an overview of the adequacy of the measures, including the laws and regulations, which refer to the subset of NPOs that may be abused for TF. This part provides a basis for taking additional proportionate and effective measures adequate to the identified risk in accordance with paragraph 8.1 (c) of the FATF Methodology<sup>4</sup>.

11. The NPO TF Risk Assessment was prepared by a working group formed by representatives of the state bodies responsible for the establishment, registration, operation and monitoring of the NPOs, coordinated by the Financial Intelligence Office, as well as by representatives of NPOs, coordinated by KONEKT. The process of NPO TF Risk Assessment Process uses the Greenacre methodology, as well as the expert

<sup>4</sup> See the part: Recommended measures and activities



support and guidance of the Greenacre Group representative, Ben Evans. Following the methodology, data were provided from various sources (official statistics of the competent institutions, conducted surveys and other academic research and analysis of the civil society sector) and they were analysed by the working group, which with its heterogeneity provided extensive inter-departmental consultations and multidisciplinary approach in identifying the potential risks and risk factors.

### **Used data and sources**

12. The following primary data and sources are used in the risk analysis:

A) Interviews and questionnaires: interviews and questionnaires were conducted with representatives of the following institutions in the period July-September 2020:

Macedonian Banking Association (MBA),

Banks that are members of the Macedonian Banking Association (MBA),

Faculty of Security - Skopje.

B) Request for submission of data: Formal written requests were sent to the institutions for providing the data required for this risk analysis and formal replies were received comprising data from:

-Central Registry of the Republic of North Macedonia,

-State Statistical Office,

-National Bank of the Republic of North Macedonia,

-Intelligence Agency,

-National Security Agency.

C) Information on terrorist financing in the non-profit sector and information for cases, threats, investigations and perceptions of vulnerability to abuse were provided by:

-Intelligence Agency,

-National Security Agency,

-Judicial and investigative bodies.

D) Data from reports on suspicious transactions: FIO provided a summary of the reports on suspicious transactions received in the period 2017-2019 involving NPOs.

E) Data from analyses and researches by civil society organizations: For the purposes of the risk analysis, researches<sup>5</sup> of civil society organizations reflecting the work, size and financing of the associations and foundations were also used.

F) Survey of civil society organizations: A survey on the perceptions of the risks of terrorist financing and the effectiveness of the measures and actions for its prevention was conducted in 2019. A statistically relevant random sample was selected and answers were collected from 379 CSOs, which were interviewed over the telephone. A balanced geographical distribution

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<sup>5</sup> Survey of civil society organizations

of civil society organizations was provided, including respondents from all regions in the country. In line with the actual situation of the population of civil society organizations, most of the respondents were citizens' associations, wherein organizations with different programmatic focus of action were also included.

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

13. Overview of the legislation: The following laws and related bylaws that directly regulate the establishment and operation of the NPOs were subject to review. Their effecting and implementation was reviewed with persons from the institutions responsible for their implementation (see interviews above).

- Law on Prevention of Money Laundering and Financing Terrorism,
- Law on Associations and Foundations,
- Law on the Red Cross,
- Law on the Legal Status of Churches, Religious Communities and Religious Groups,
- Law on Donations and Sponsorships in Public Activities,
- Law on the Central Registry of the Republic of Macedonia,
- Law on Accounting of Non-Profit Organizations.

14. The following reports on anti-money laundering and anti-terrorist financing measures for the Republic of North Macedonia were taken into account:

- The report from the 4<sup>th</sup> round of evaluation of the system for prevention of money laundering and financing of terrorism conducted by the Moneyval Committee (2013-2014<sup>6</sup>),
- Report on the conducted national assessment of the risk of money laundering and terrorist financing, Government of the Republic of North Macedonia, March 2020.

15. Secondary data sources were also used. This information and data do not carry the same weight as the primary sources. They were primarily used to inform the methodological approach, but also to provide contextual information and make the assessments where primary data were not available:

- Interpretive note on FATF Recommendation 8 (2012, updated 2016).*
- Methodology for assessing compliance with the FATF Recommendations and the effectiveness of AML/CFT systems (FATF, 2013).*

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<sup>6</sup> Including the 2016 and 2018 Progress Reports and the implementation of the recommended measures given in the Evaluation Report (2014)

*International Best Practices: Combating the Abuse of Non-Profit Organizations (FATF, 2015).*

*-Risk of Terrorist Abuse in Non-Profit Organizations (FATF, 2014).*

*-Terrorist Financing Risk Assessment Guidance (FATF, 2019).*

## EXECUTIVE SUMMARY

16. This risk assessment was made as an ongoing activity as part of the national efforts to improve the system for combating the money laundering and terrorist financing. This assessment used the Greenacre Group NPO Terrorist Financing Risk Assessment Methodology.
17. This Risk Assessment meets the basic requirements of FATF in relation to R 8 and IO 10. More specifically, according to paragraph 8.1 of the FATF Methodology, each country is required to:
  - 8.1 (a) identify the subset of organizations that fall within the FATF definition of NPOs;
    - (a) identify the characteristics and types of NPOs that, according to their activities or characteristics, are likely to be at risk of abuse of terrorist financing
    - (b) identify the nature of threats posed by terrorist entities to the NPOs which are at risk, as well as how the terrorist entities abuse those NPOs.
18. This analysis identifies five categories of NPOs that are in accordance with the definition of FATF, namely: associations (with the exception of trade associations and sports associations and clubs, which are not registered in accordance with the law), foundations, foreign organizations (organizational forms of foreign organizations), the Red Cross and the religious and faith-based organizations (churches, religious communities and religious groups).
19. This analysis uses statistical data of the competent institutions (FIO, MoI, Public Prosecutor, Intelligence Agency, National Security Agency, National Bank, State Statistical Office, and Central Registry), answers to questionnaires sent to the intelligence authorities, answers to questionnaires sent to the banks and answers to questionnaires provided by the Faculty of Security. Analysis was made of the quantitative and qualitative data.
20. There have been no identified cases and no suspicion of abuse of the NPOs for the purposes of TF and thus this assessment considered the following:
  - a) the size and nature of the terrorist threats, TF in the Republic of North Macedonia
  - b) qualitative analysis of the risk and its nature
21. Three types of threats have been identified in terms of the abuse of the NPOs for terrorist financing.

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

  - Abuse of NPOs for promotion of religious radicalism
  - Abuse of NPOs for recruitment of people
  - Abuse of NPOs for logistical support
22. Characteristics, i.e., activities of NPOs have been identified that increase the risk for terrorist financing.

**Risk factors:**

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

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

**The inherent risk of terrorist financing for the NPOs**

**in the Republic of North Macedonia is**

**low to medium.**

24. This report is complementary to the Report on the Measures for Management of the Risk of Terrorist Financing by NPOs, which assesses the adequacy of the existing measures for adequate and efficient management of this risk and proposes measures for their improvement.

## 1.1 FATF NPOs

25. Paragraph 8.1(a) of the FATF Methodology states that countries should “identify which subset of organizations fall within the FATF definition of NPO”.
26. FATF defines the term NPO to cover “a legal person or arrangement or organization that primarily engages in raising or disbursing of funds for purposes such as charitable, religious, cultural, educational, social or fraternal purposes, or for the carrying out of other types of “good works”.
27. This definition excludes:
- Informal groups of people which do not meet the definition of legal arrangement;
  - Legal persons or arrangements or organizations which are not established for "good works", such as political parties, trade unions, or cooperatives which are primarily engaged in economic activities for the financial benefit of members;
  - Legal persons or arrangements or organizations not engaged in the raising or disbursing of funds as a main purpose. This might include those sports clubs, social associations or religious groups that do not or only incidentally engage in the raising or disbursing of funds.

*Figure 1.2: Graph of FATF NPOs*



*Source: Terrorist Financing Risk Assessment Guidance, FATF*

28. Identification of FATF NPOs in the Republic of North Macedonia
29. At the initiative of the FIO, a working group was set up in order to meet the requirements defined in FATF Recommendation 8 and for the purposes of this analysis of the risks of terrorist financing in the non-profit sector. The group has a mixed composition of representatives of relevant institutions as well as civic organizations and other entities representing the FATF NPO subgroups in the country.

30. The working group participated in a workshop<sup>7</sup> which was led by an external consultant. The workshop reviewed the FATF Guide for “FATF NPOs” and the scope of Recommendation 8 for risk assessments, with the aim of identifying which NPOs would meet the FATF definition and should therefore be included in the framework of this risk assessment.

31. The activity of the group began by identifying all organizations in the country that are part of the non-profit sector. The following categories were identified:

- associations,
- foundations,
- Red Cross,
- trade associations,
- sports associations and clubs (registered under the Law on Associations and Foundations),
- chambers of commerce,
- trade unions,
- branches of foreign and international non-governmental organizations,
- churches, religious communities and religious groups,
- political parties,
- tenant associations,
- informal interest groups and initiatives.

32. The associations and foundations (with the exception of the trade unions and sports associations and clubs, which are not established under the Law on Associations and Foundations) clearly meet the criteria of the FATF definition as non-profit organizations established to serve the public interest.

33. The Red Cross is established by a special law (*lex specialis*) as a voluntary, mass, autonomous and independent humanitarian organization of the citizens. The humanitarian purpose and non-profit operation of this organization obviously meets the criteria of the definition.

34. The trade unions pursue a narrower interest for their members and they are forms of economic association, and consequently are not in line with the FATF definition.

35. The foreign organizations (organizational forms of foreign organizations) operate in the RNM as a special form of NPOs established, pursuant to the Law on Associations and Foundations (Article 38), through a subsidiary, office or other organizational form of foreign organizations. They are based in the RNM. Many of them implement development programs and humanitarian programmes in accordance with the LAF and meet the criteria of the FATF definition.

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<sup>7</sup> February, 2020

36. The institutions are closely linked to the institutional social protection mechanisms and do not meet the FATF definition.
37. The political parties, tenant associations, chambers of commerce and trade unions were excluded from the scope of the definition because they are formed for a narrower and specific interest of their founders and members, and not for the promotion of "good works" and wider public interest.
38. The group consensually agreed that there is no significant activity or collection and distribution of resources when it comes to the informal interest groups and civic initiatives.
39. The churches, religious communities and religious groups are established and regulated by a special law (*lex specialis*). They are established for religious purposes and actively perform humanitarian activities as a result of which they meet the criteria of the definition.
40. In summary, the following five categories of NPOs that include legal entities are part of the subset of FATAF NPOs.<sup>8</sup>

*Figure 1.3: Table of NPOs in North Macedonia that are in line with the FATF definition.*

	Type	Relevant law	FATF NPO
1	Associations	Law on Associations and Foundations	Partially
2	Foreign and international non-governmental organizations	Law on Associations and Foundations	Yes
3	Foundations	Law on Associations and Foundations	Yes
4	Red Cross	Law on the Red Cross	Yes
5	Churches, religious communities and religious groups	Law on the Legal Status of Churches, Religious Communities and Religious Groups	Yes

41. For the purposes of defining the NPOs that are part of the subset of FATF NPOs, the national classification of activities was considered.

*Figure 1.4: A cross-check table of the national classification of activities and the subject of analysis of the subset of FATF NPOs in North Macedonia.*

Categories	Code	Sub-code	Title	Subject of analysis
94			Activities of membership organisations	
	94.1		Activities of business, employers and professional membership	NO

<sup>8</sup> Note: not all entities in these categories fall under the FATF definition of NPO.



			organisations	
		94.11	Activities of business and employers membership organisations	NO
		94.12	Activities of professional membership organisations	NO
	94.2		Activities of trade unions	
		94.20	Activities of trade unions	NO
	94.9		Activities of other membership organisations	
		94.91	Activities of religious organizations	YES
		94.92	Activities of political organizations	NO
		94.99	Activities of other membership organisations n.e.c.	PARTIALLY <sup>9</sup>

## 1.2 NON-PROFIT ORGANIZATIONS IN THE REPUBLIC OF NORTH MACEDONIA

42. Five categories of organizations have been identified in the subset of FATF NPOs. These are: associations, foundations, foreign and international non-governmental organizations, the Red Cross and the religious and faith-based organizations (churches, religious communities and religious groups).

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<sup>9</sup> According to the methodology, an analysis was made which subtypes of NPOs meet the elements of the FATF definition of NPOs. This classification is considered in the register and under 94.99 it is established that there are entities that meet and entities that do not meet the definition; therefore it is marked with partial

43. **The associations** are established in accordance with the Law on Associations and Foundations and constitute the largest part of the non-profit sector in the country. A register for them is kept by the Central Registry. The scope of this analysis includes the associations with activity code 94.99 *Activities of other membership organizations, n.e.c.* Not all associations have a humanitarian character and there is diversity in their missions and activities, but in terms of character they serve the public interest.
44. **The foundations** are established in accordance with the Law on Associations and Foundations under the code of activity 94.99 Activities of other membership organisations n.e.c.. They have a different organizational structure<sup>10</sup> compared to the associations. In the domain of their work they can be humanitarian, have a different goal, or both.
45. **The Red Cross** is established and regulated under a special law which defines it as a voluntary, mass, autonomous and independent humanitarian organization that achieves humanitarian goals of public interest and tasks in the field of health, social protection and education, based on the principles of humanism and solidarity.
46. **The churches, religious communities and religious groups** are regulated by the Law on the Legal Status of Churches, Religious Communities and Religious Groups and their registration is kept in the Basic Court Skopje II, in the unique court register of churches, religious communities and religious groups.
47. **The foreign organizations** (organizational forms of foreign organizations) may take the legal form of an association or foundation established under the same law, and they have the code of activity 94.99 Activities of other membership organisations n.e.c. They are formed for the same function and purpose regardless of the fact that their strategic approach is related to foreign development programs or bilateral relations.
48. The majority of the subset of FATF NPOs in the RNM comprises associations and foundations.
  49. Up until 2010, 11,457 associations and foundations<sup>11</sup> were registered in the RNM. After the adoption of the Law on Associations and Foundations in 2010, the organizations were required to re-register. By the end of March 2020, 6,566 entities were registered in the registry kept by the Central Registry pursuant to the new Law on Associations and Foundations. The number of entities registered in the records that have complied with the new law, i.e., that have re-registered, is 4,279. Accordingly, the total number of registered organizations established pursuant to the LAF within the afore-stated period is 10,845. The registry records also include 5,975 organizations that have not re-registered, i.e. have not harmonized their statute with the LAF. Taking into consideration that only 19 out of 5,975 organizations submitted final accounts and/or decisions stating that they do not have an obligation to submit a final account, it can be concluded that the others do not perform any activity, but cannot be deleted because it is contrary to the principles of the right of association and the LAF does not offer that opportunity.
50. The entities, in a total number of 10,845, registered in the registry in accordance with the organizational forms<sup>12</sup>, are shown below.

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<sup>10</sup> The foundations have a board and a director. The board is highest governing body of the foundation. A director manages foundation.

<sup>11</sup> Data from the Report on Conducted National Risk Assessment of Money Laundering and Terrorist Financing

<sup>12</sup> Two manners of classification are considered:

*Figure 1.5: A crosscheck table of the code of the organizational forms and the subject of analysis of the FATF NPOs in North Macedonia*

Code	Organizational form	According to the new Law	Harmonized	Total entities	FATF NPO
10.01	social humanitarian association	28	326	354	Yes
10.02	sports association	1,294	1,194	2,488	Partially
10.03	cultural association	117	246	363	Yes
10.04	professional (trade) association	34	306	340	NO
10.05	environmental association	34	72	106	Yes
10.06	foundation	92	72	164	Yes
10.09	other social organizations, foundations and civic associations	4,967	2,063	7,030	Yes
	Total number of entities	6,566	4,279	10,845	

51. The number of registered legal entities belonging to the subgroup of FATF NPOs registered under the Law on Associations and Foundations is a challenge in terms of precise determination because in the code of the organizational forms there is no adequate distinction that would reflect the activities of the organizations, including also those engaged in educational activity. However, following the methodology, the working group made a rough estimate that the subset of FATF NPOs includes about 65% of the total registered entities. The following challenges that were faced in the process of determining the size of this group should also be considered. Namely, in the segment of sports associations, the register includes organizations that are sports clubs and do not meet the definition of FATF, as well as organizations that deal with wider activity and recreational sports that fall under the definition. Additionally, in the register, under the organizational form 10.09, it is difficult to state the exact number of organizations that meet the FATF definition because the titles are not a sufficient methodological basis to make such distinction. Additionally, taking into account the organizational forms, the Red Cross is also included (the municipal organizations are registered in accordance with the LAF and they meet the FATF definition). The CRRCG has a total of 38 registered churches, religious communities and religious groups, which is taken as the number of active entities registered in the court register.

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- 1) Organizational forms that exist as codes in the CR and refer to the organizational subtype  
2) Code of activities chosen by the organizations

52. An additional criterion is also the status of the activity of these entities related to the adoption of an annual financial statement or a written statement to the Central Registry affirming that they are not required to submit an annual financial statement, pursuant to the Law on Accounting of Non-Profit Organizations, due to revenues lower than EUR 2,500. Such NPOs that submitted such documentation have a formal status of active entities, i.e. entities that perform their activity.
53. Non-profit organizations that have submitted such documentation for the year 2019 as per the data obtained from the Central Registry include the following:
- 3,518 NPOs have submitted an annual account (annual financial statement) with the exception of political parties; the economic chamber and the other chambers and business associations;
  - 5,936 have submitted a document with which they have declared to have generated revenues lower than EUR 2,500 (an active status in the trade registry);
  - 25 religious organizations have submitted an annual account.
54. On the basis of the afore-stated data it may be concluded that the total number of active NPOs registered pursuant to the LAF is 9,479 entities. Based upon the data obtained with reference to the annual financial statements, the majority of these entities are small, i.e. 62% of them have generated revenues lower than EUR 2,500.
55. The non-profit organizations have a small share in the gross domestic product. In accordance with the data obtained from the State Statistical Office, the share in the gross value added in the gross domestic product of the non-profit sector is lower than 1%.

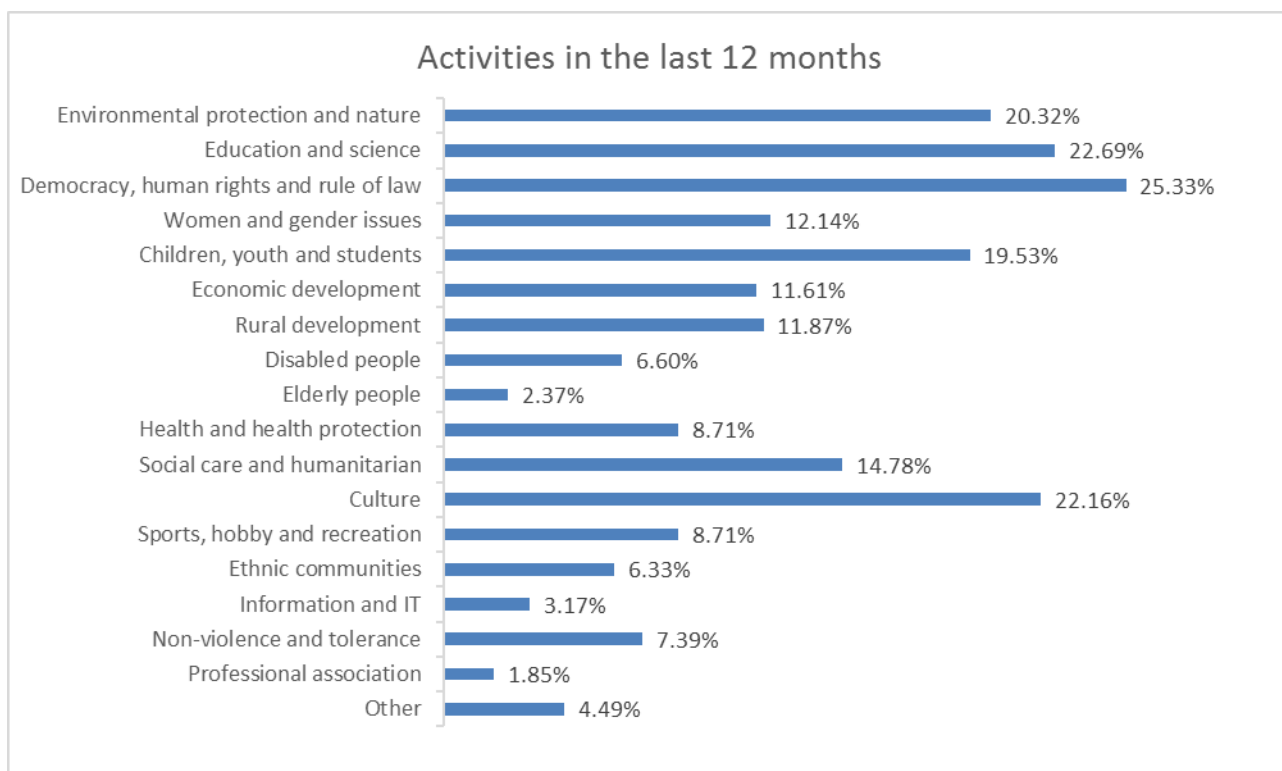
### **Features and funding of the associations and foundations**

56. **The associations and the foundations have diverse missions and activities.** As previously stated, in accordance with the methodology used and in order to determine different aspects of the functioning of the NPOs in the context of determining the risks of terrorist financing, a Survey on the perceptions of the risks of terrorist financing and the effectiveness of measures and actions for its prevention was conducted in 2019. The survey was conducted on a selected statistically relevant random sample and responses were collected from 379 associations and foundations. The survey was conducted over the telephone. A balanced geographical distribution of associations and foundations was provided, including respondents from all regions in the country. In line with the actual situation of the population of associations and foundations, most of the respondents were associations, wherein organizations with different programmatic focus of action were also included.<sup>13</sup> The results of this survey are presented in the following part. The conducted survey indicates that 22.69% of the 379 surveyed associations and foundations deal with education and science, whereas 14.78% of the respondent organizations deal with social protection and humanitarian activities.

*Figure 1.6: Graph of activities of associations and foundations*

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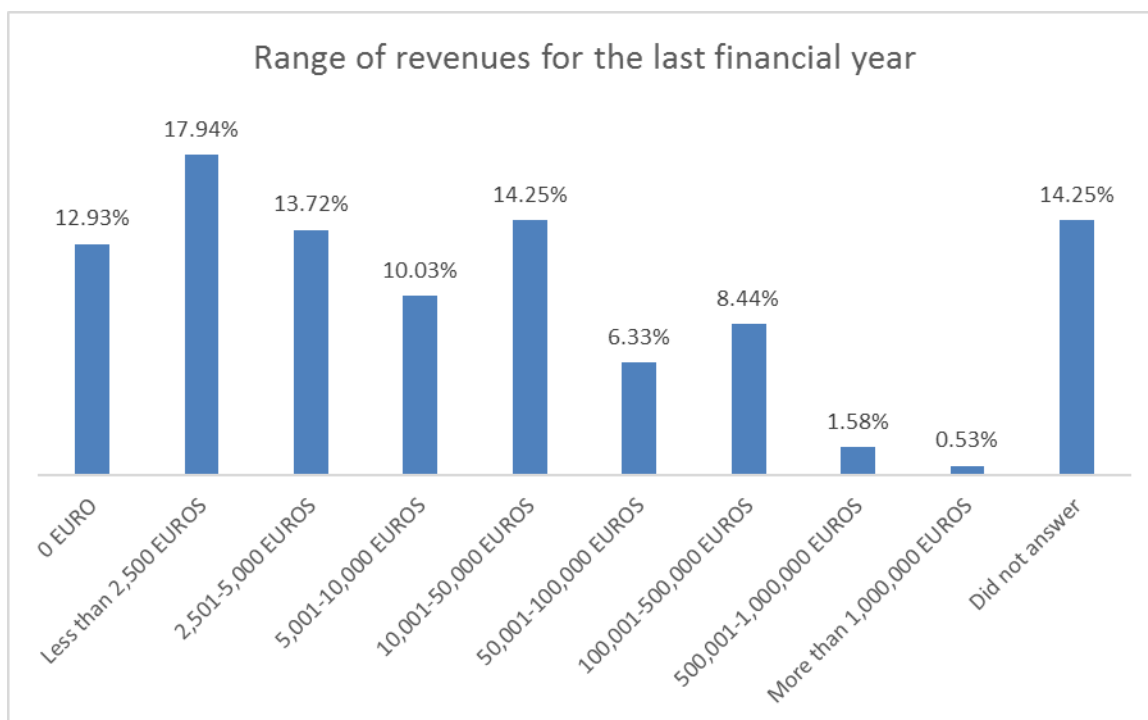
<sup>13</sup> For illustration purposes, the national surveys in the RNM, for statistical relevance of the conclusions for the entire population use samples of about 2,000 respondents.



*Source: Survey of associations and foundations – P22*

57. Based upon the submitted annual financial statements, in 2019, 3,518 non-profit organizations, on the basis of membership fees, donations and revenues from other sources, generated total revenues in the amount of MKD 7,567,186.402 or approximately EUR 123,043,681 (Central Registry, summary data ADP 244). On the basis of revenues from services they generated MKD 647,841,538 or EUR 10,534,008 (Central Registry, summary data ADP 242). Pursuant to the obtained data on the annual financial statements, the majority of these entities are small, i.e., 62% have generated revenues lower than EUR 2,500. Accordingly, the revenues are concentrated in a smaller number of organizations.
58. The civic organizations (associations and foundations) from which answers have been obtained have indicated the revenue levels shown below.

*Figure 1.7: Range of revenues of the surveyed associations and foundations for the last financial year*



Source: CSO Survey

59. The survey, as well as third party surveys<sup>14</sup> of associations and foundations, emphasize the dependency of the sector on international donors. Most civil society organisations are funded by EU development programmes and developed countries (USA, Switzerland, etc.). The survey also addressed the relations of the civic organizations with other countries. Funding from abroad has been noted in 35.36% of the respondents, whereas activities abroad (10.82%) or management by foreign citizens are a rare phenomenon (7.12%).

Figure 1.8: International dimension of operations of the surveyed associations and foundations

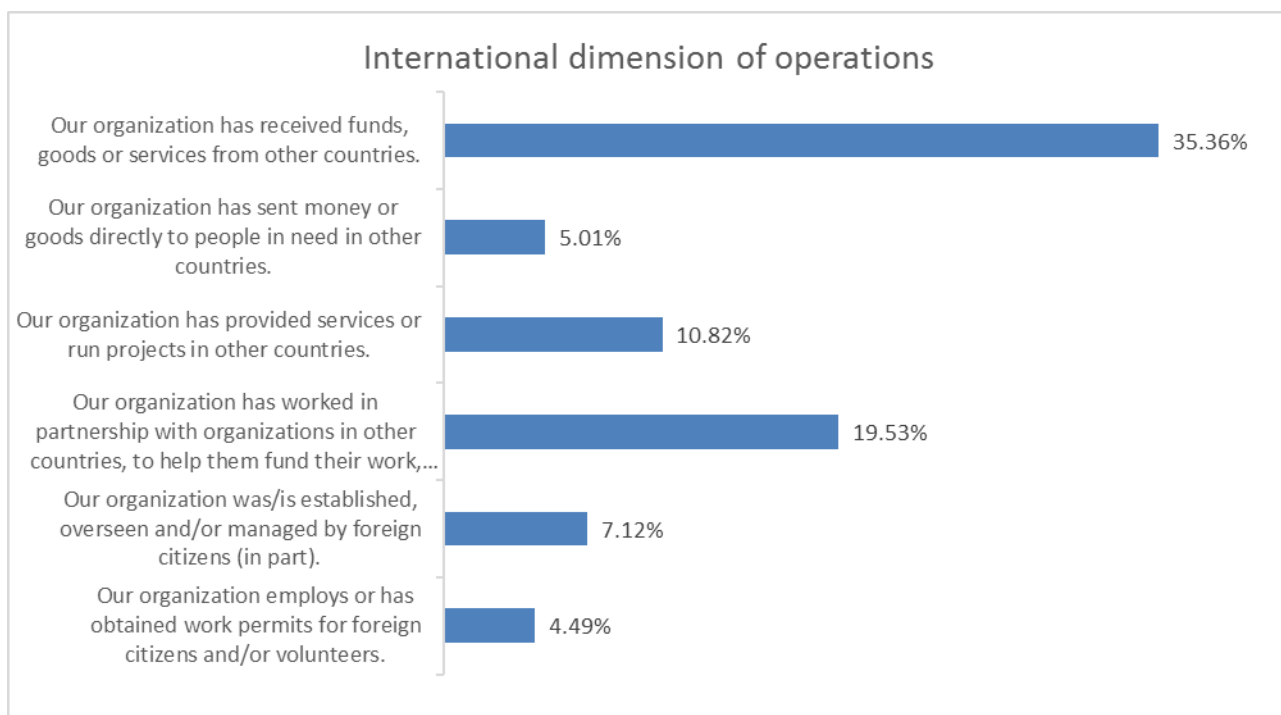
<sup>14</sup> Ivanovska Hadzievska M., Report on Governance Practices, Transparency and Accountability of Civil Society Organizations, Macedonian Center for International Cooperation, 978-608-4848-29-5, Skopje, 2020

Assessment on the State of the Enabling Environment and Capacities of Civil Society against the Guidelines for EU Support to Civil Society in Enlargement countries, 2014-2020 for the period 2018-2019, EU Technical Assistance for Civil Society Organisations in the Western Balkans and Turkey, 2020

Ognenovska S., Report on Enabling Environment for Civil Society Development 2019, Macedonian Center for International Cooperation, ISBN 978-608-4848-33-2, 2020

CAF. World giving index (2018). [Internet] World Giving Index. Address: <https://www.cafonline.org/about-us/publications/2018-publications/caf-world-giving-index-2018> [Accessed on: 15/4/2019]

Bueno Momcilovikj T., Bekcic, E. (2019) North Macedonia Donates – Annual Report on the State of Philanthropy. [Internet] Skopje, Catalyst Balkans. Address: <https://www.slideshare.net/CatalystBalkans/2018-193149173> [Accessed on: 15/4/2019]



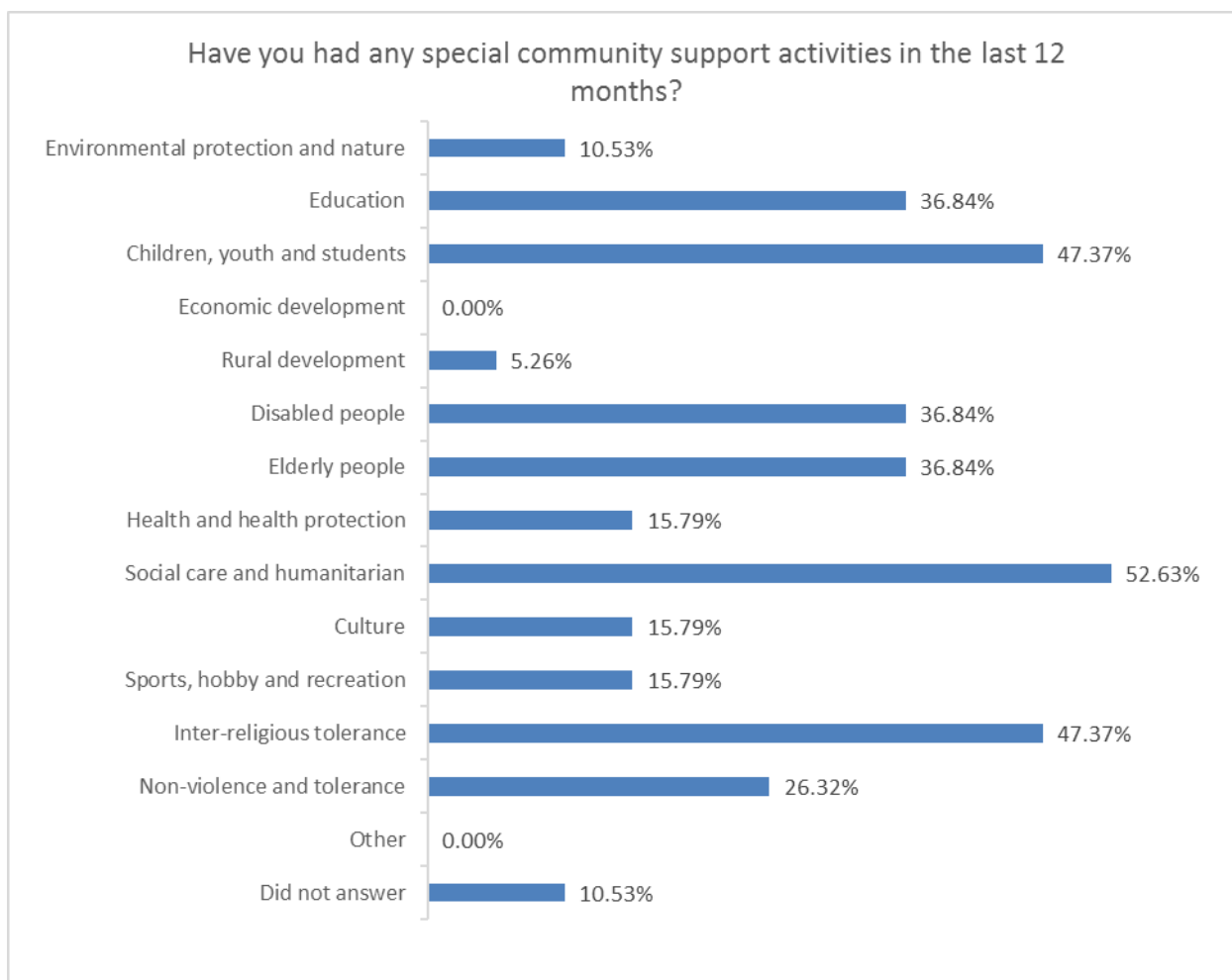
*Source: CSO Survey*

60. Cash donations are very rare phenomenon among the surveyed civic organizations (10.03% or 38 out of 379 organizations). The survey shows that the organizations can identify the donors from which they have received a cash donation.

### **Characteristics and funding of churches, religious communities and religious groups**

61. The religious and faith-based organizations (churches, religious communities and religious groups) pointed out in the survey that they deal with social protection and humanitarian activities in 52.63% of the answers (10 of 19 answers) and education in 36.84% (7 of 19).

Figure 1.9: *Activities of the surveyed religious and faith-based organizations*

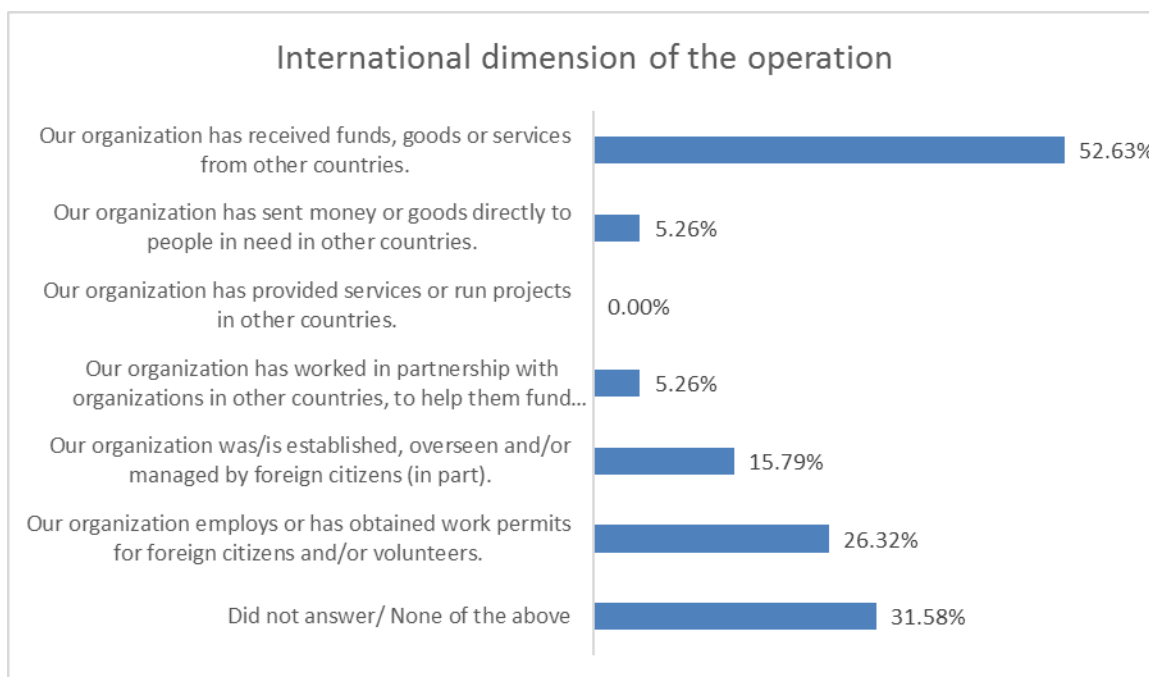


*Source: Religious and faith-based organizations survey*

62. More than half of the surveyed religious organizations have received funds, goods or services from abroad.

*Figure 1.10: International dimension of the operation*

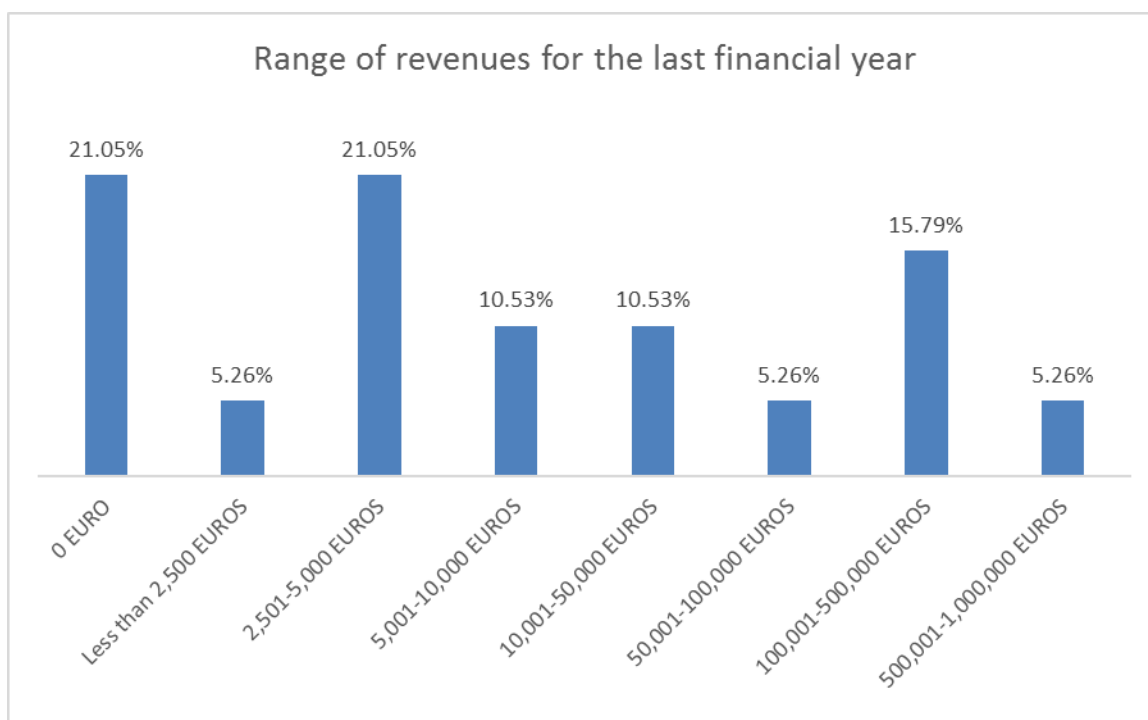




*Source: Religious and faith-based organizations survey*

63. Based upon the submitted annual financial statements (25 from a total number of 38 organizations have submitted them), in 2019, 25 **churches, religious communities and religious groups**, on the basis of membership fees, donations and revenues from other sources, generated total revenues in the amount of MKD 115,757,556 or approximately EUR 1,882,236 (*Central Registry, summary data ADP 242*), while on the basis of revenues from services MKD 18,450 or approximately EUR 300 have been reported (*Central Registry, summary data ADP 242*). Such data are limited to the range of the organizations that have submitted annual accounts and due to these reasons they do not provide a full picture of the financial size of the sector. The religious organizations from which answers have been obtained (19 in total) have indicated the following revenue levels:

*Figure 1.11: P17. Range of revenues of the surveyed religious and faith-based organizations in the last financial year*



*Source: Religious and faith-based organizations survey*

64. In the survey of religious and faith-based organizations, more than half of the surveyed organizations (52.63%) are funded from foreign sources and 3 out of 19 organisations (15.79%) are managed by foreigners. 5 out of 19 have foreign employees or volunteers (26.32%).
65. 42% or 8 out of 19 surveyed religious and faith-based organizations received cash donations. According to the survey, the organizations can identify the donors from which they have received a cash donation.

### 1.3 THREATS OF TERRORIST FINANCING FOR NON-PROFIT ORGANISATIONS IN THE REPUBLIC OF NORTH MACEDONIA

66. According to the FATF Methodology (item 8.1 (b)), each country should “identify the nature of the threats of terrorist entities for the NPOs, as well as the manner in which the terrorist entities abuse those NPOs”.
67. This part of the risk assessment assesses the nature of the threat of terrorist financing to NPOs. This assessment was made by analysis of quantitative data (evidence of the manifested threat) and qualitative data (expert assessment of the threat).

#### Threats of terrorist financing in North Macedonia

68. The Government of the RNM adopted the Report on the conducted NRA<sup>15</sup> in March 2020. It has been established that **the risk of terrorism is low**. Organized forms of activity of terrorist organizations have not been registered in the RNM. Furthermore, the RNM is not a target of international terrorist organizations (their plans to carry out terrorist attacks are oriented and aimed at Western European countries). However, some individuals have been or are members of international terrorist organizations and have taken part in combat operations. Contacts of radicalized persons from the country with members of international terrorist organizations (groups, networks, cells) have been registered as well. Also, other radicalized persons, members of religious radical groups and self-radicalized persons operate on different grounds in the RNM. All these categories of persons pose a potential threat of extreme radical action and commission of terrorist acts.
69. **The risk of terrorist financing is low to medium<sup>16</sup>**. It has been identified that most of the financing takes place in cash from own sources or from members of the group to which like-minded people from abroad belong, while to a lesser extent the financing is done with funds obtained from crimes (thefts, blackmails, racketeering, threats, illicit trade and smuggling). The transfers were made through the formal banking system and the fast money transfer system (using the services of Western Union, Money Gram and RIA), by persons who mostly come from Western European countries, as well as Middle East countries.
70. In the period 2017, 2018 and 2019, no terrorist acts were committed on the territory of RNM. During this period, the number of reports of suspicious terrorist financing transactions submitted to the FIO was constant and low<sup>17</sup>. During the same period, the competent authorities did not initiate procedures for criminal investigations, submitted indictments or adopted judgements for terrorist financing.

#### Threats of terrorist financing for NPO

71. The NRA Report includes analysis of the risks and threats of terrorist financing for NPOs, detecting certain conditions, but a comprehensive analysis was made with this report. As established by the NRA Report, according to the data obtained from the

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<sup>15</sup> This report analyses the period 2016-2019 and does not analyse the events and data relating to 2020

<sup>16</sup> According Report on the conducted NRA

<sup>17</sup> In 2017, 3 pages for TF were submitted, in 2018, 2 pages, and in 2019, 2 pages for TF were submitted to the FIU

competent investigative bodies pertaining to identifying the threats of terrorism and abuse of NPOs for terrorist financing, there is information on registration and establishment of associations and foundations by radicalized persons, who receive donations for projects that finance social-humanitarian, cultural-educational and religious activities. This is evidenced by the number of submitted requests (from competent authorities) for conducting financial analysis of associations and foundations whose activities are of social-humanitarian, cultural-educational and religious nature for which there were grounds for suspicion of terrorist financing. The conducted financial analysis and operational checks do not exclude the possibility of their abuse.

72. The NRA Report did not identify cases of NPOs involvement in terrorist financing. Data on involvement of NPOs in terrorist financing were requested from the competent authorities. No cases of judgments, indictments, regulatory measures, active or closed investigations into terrorist financing in the NPO sector have been recorded.
73. Pursuant to the Law on Associations and Foundations, the Ministry of Justice supervises the legality of the application of the provisions of this Law. Namely, in accordance with the principle of independence in the operation of the organizations and supervision within organizations and supervision within the organization, the competence of the Ministry of Justice in accordance with Article 58 of the Law on Associations and Foundations refers to the legality of the application of the provisions of the law, but not the internal work of the organizations, the application of the statute, which is an internal act that is adopted by the association itself and based on which it is operating. The Ministry of Finance (LAF, Article 101) and the Public Revenue Office have legal competence to control the financial operations of the organizations. In the period subject to analysis (2016-2018), a total of 37 controls were conducted at civic associations and foundations on the basis of personal income tax. No controls in terms of prevention of money laundering and other proceeds of crime and terrorist financing have been carried out<sup>18</sup>.
74. In the period 2017, 2018 and 2019, a total of 4 reports were submitted to the FIO on suspicious transactions for terrorism financing involving NPOs. The NPOs all reported activities of a social-humanitarian, cultural-educational and religious nature. Also, 8<sup>19</sup> requests for financial analysis from the competent authorities in the RNM and 3 requests<sup>20</sup> from Financial Intelligence Offices of other countries were submitted to the FIO, where the subject of analysis were NPOs all reported activities of a social-humanitarian, cultural-educational and religious nature. During this period, 1 report on TF and 8 notifications on suspicion of another crime involving NPO were submitted to the competent authorities by the FIO in accordance with its competencies. This report makes and presents an analysis of "misuse of funds" obtained on the basis of a pre-established program.
75. The possibility of abuse of terrorist financing by the NPO is also subject to analysis by the competent authorities<sup>21</sup>. Namely, the object of interest were NPOs whose activity was of social-humanitarian, cultural-educational and religious nature, for which there were indications of misuse of funds received as foreign donations on the basis of projects and their use for purposes that do not correspond to the activities for which NPOs were registered. The analysis indicates that some of the founders and owners of

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<sup>18</sup> NPOs are not entities obliged to implement measures and actions to prevent money laundering and terrorist financing

<sup>19</sup> 2017: 3 requests, 2018: 4 requests and 2019: 1 request

<sup>20</sup> 2017: 1 request, 2018: 0 requests, 2019: 2 requests An answer was provided to all requests

<sup>21</sup> Intelligence Agency and National Security Agency

activities in the NPOs are residents and exponents of religious-radical ideology who have connections with founders and owners of activities of NPOs in the region and beyond (European countries and Middle East countries). In their work, the respective NPOs cooperate with domestic and foreign NPOs and religious communities from which they receive inflows of funds that they do not use in accordance with the basis of their obtaining (instead, they use them for humanitarian activities and projects, scholarships for people from the Balkans to study in the Arab countries for the purpose of their indoctrination and infiltration into the official religious communities and further action in the direction of radical religious discourse). In one case, indirect cooperation was established between a domestic NPO and a branch-subsiary of a global humanitarian organization for which there are indications of links to terrorist financing and terrorist organizations abroad and is on the list of certain countries with a work ban.

76. Although NPOs links have been established in the segment of indoctrination of religious radicals, through scholarships for education in other countries, a direct link to the involvement of NPO through reallocation or misuse of funds or other type of activity **has not** been established and therefore it is considered that the level of threat is low<sup>22</sup>.

### *Identification of the nature of threats*

The NRA rates the terrorist and terrorist financing threat to RNM as low. Whilst there is no direct evidence of NPO complicity in terrorist financing, some regulatory concerns have been raised, particularly in relation to social-humanitarian, cultural-educational and religious NPOs. It is therefore assessed that the most likely TF threats to NPOs in RNM relate to abuse of NPO for promotion of religious radicalism, for recruitment of foreign terrorist fighters, and for logistical support.

Nature of threats of terrorist financing for NPOs in the Republic of North Macedonia:

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

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<sup>22</sup> According to the sources of threat from the NRA, it has been determined that the returnees from foreign armies and paramilitaries are the main threat for terrorism, where it has been determined that the manner in which they were financed in order to go to these battlefields is by using cash from their own funds and from criminal activities. The trip to the battlefields itself does not require large funds and, according to the estimates, 200 euros are enough

## 1.4 IDENTIFICATION OF NPOs AT RISK OF TERRORIST FINANCING

77. According to the FATF Methodology (item 8.1 (a)) “each country should use all relevant sources of information in order to identify the characteristics and types of NPOs which, according to their activities or characteristics, may be at risk from terrorist financing abuse.”
78. This part of the risk assessment focuses on determining the risk factors for terrorist financing in the NPOs in the RNM. This assessment combines quantitative data (evidence of risk manifestation) and qualitative data (expert views).

### **Quantitative data on the threats of terrorist financing for NPOs**

79. For the purposes of analysing the threats of terrorist financing through NPOs, the following was provided:
- Data on judgments for NPOs for terrorist financing;
  - Data on indictments for NPOs for terrorist financing;
  - Measures of regulatory and supervisory bodies for conducted controls of NPOs;
  - Data on (active and completed) criminal investigations of NPOs for terrorist financing and their outcomes;
  - Reports on suspicious transactions and requests for financial analysis of NPOs for terrorist financing; and
  - Requests for international legal assistance for NPOs for terrorist financing.
80. According to the obtained data on NPOs involvement in terrorist financing from the competent authorities, no cases of judgments, indictments, regulatory measures, active or closed investigations into terrorist financing in the NPO sector have been recorded.
81. As previously stated, in the period 2017, 2018 and 2019, 4 reports of suspicious terrorist financing transactions involving NPOs were submitted to the FIO.

*Figure 1.12: Table of the reports on suspicious TF transactions involving NPOs*

Year	Typology <sup>23</sup>	Significant characteristics (size, type, location, NPO activity, etc.)
2017	1.1 Redirection of funds, 1.3 Misuse of the programme,	-Humanitarian organization -Organizational form: 10.1 social humanitarian association Registered activity: - 87.90 – Other social work activities with

<sup>23</sup> Typologies: 1.1 Redirection of funds, 1.2 Belonging to a terrorist organization, 1.3 Abuse of the programme, 1.4 Support for recruitment and 1.5 Misrepresentation/false NPO

		<p>accommodation, n.e.c.</p> <ul style="list-style-type: none"> <li>-Operates in Skopje</li> <li>-Authorized person - natural person from RNM</li> <li>-Financial operations: <i>inflows from Turkey and legal entity from RNM (based on sponsorships)</i> <i>outflows: natural persons (payment of rents, payment of salaries) and invoices to legal entities from Skopje)</i></li> </ul>
2018	1.2. Possible connection with a terrorist organization	<p>Civic association</p> <ul style="list-style-type: none"> <li>- Activity: Association for education and culture (education-culture)</li> <li>- Registration activity: 94.99 Activities of other membership organizations;</li> <li>- Organizational form: 10.3 Cultural association</li> <li>- Operates in Kumanovo</li> <li>- Authorized person: Natural person from RNM</li> <li>- Financial operations: <i>Inflows from NGOs from Turkey that are known to be linked to the Al-Qaeda terrorist organization. The funds are donated as sponsorship to children who lost their parents during the 2001 conflict. In addition to these inflows, the NGO is also funded by donations from natural persons and legal entities from several countries.</i> <i>Outflows: Withdrawal of funds by the authorized person in order to distribute them to children whose parents died in 2001 during the conflict. Payments of overheads, personal taxes to the Ministry of Finance for the</i></li> </ul>

		<i>persons who have been granted assistance.</i>
2018	1.1 Redirection of funds,	<ul style="list-style-type: none"> <li>-Foundation</li> <li>-Activity: Foundation for Education and Culture</li> <li>-Registered activity: 94.99 Activities of other membership organizations;-Organizational form:10.6 Foundation</li> <li>- Operates in Skopje</li> <li>- Authorized person – natural person from RNM -Financial operations: <i>inflows from natural persons and legal entities from Turkey outflows to legal entities (including a private university, educational and cultural foundation and Islamic civilization) in RNM</i></li> </ul>
2019	1.1 Redirection of funds,	<ul style="list-style-type: none"> <li>-Foundation (subsidiary of a foreign Foundation)</li> <li>-Activity: foundation</li> <li>-Registered activity: 94.99 Activities of other membership organizations;-Organizational form: 10.9 Other social organizations, foundations and civic associations</li> <li>-Operates in Skopje (subsidiary of a foundation from Canada)</li> <li>-provides assistance to families registered with the foundation in Skopje</li> <li>-Owners: legal entity – foundation from Canada-</li> <li>Authorized person: Natural person from Canada</li> <li>-Financial operations: The natural person receives inflows from Canada, withdraws them in cash which is handed over to another natural person (branch</li> </ul>



		manager) to be given to the registered families)
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82. The competent intelligence institutions acted in 8 cases of observation of NPOs. From the analysis of the provided data, in accordance with the methodology, the following typologies of possible abuse of NPOs have been identified:

- support for recruitment,
- redirection of funds and
- misuse of funds.

83. In the analysis of these cases, it was established that these are small NPO entities, whose main activity is of:

- social-humanitarian,
- cultural-educational and
- religious character.

84. These NPOs are mostly registered and active in regions mapped according to the risk of terrorism in the RNM<sup>24</sup>.

85. From the analysis of the work of the NPOs that were subject to observation, it was established that their activities are:

- in the framework of humanitarian activities and projects,
- scholarships for people from the Balkans to study in the Arab countries for the purpose of their future infiltration into the official religious communities in the region and their action in the direction of a radical religious discourse,
- financing the construction of various religious buildings used as religious educational institutions and various other purposes,
- participation in providing logistics in organizing a trip through Turkey to Syria for jihadists from the Balkan, etc.

86. Some of the founders of the NPOs have prior criminal history and involvement in perpetration of financial crimes (abuse of official position and authority and tax evasion), and some of them are exponents of religious radical ideology.

#### ***Typology:***

*The responsible persons in the NPO misused the funds received as foreign donations. Contrary to the internal rules of the NPO, the funds were used for other activities that do not correspond to the activity for which the NPO was registered, i.e., they were*

<sup>24</sup> Regions with high risk of terrorism: Skopje, Kumanovo, Tetovo and Gostivar, Report on NRA, 2020

*misused compared to the purpose for which they were obtained.*

**Typology:**

*NPOs whose founders and owners of activities are residents, exponents of religious radical ideology, cooperate and contact with related exponents, founders and owners of activities in RNM, the countries of the Balkan region and beyond (EU, USA, Turkey and Arab countries). They receive funds from domestic and foreign persons. The founders of the NPO and other exponents of religious radical ideology have been involved in the process of recruitment, mediation and other logistics (most probably financial as well) for transferring people from the Balkan region to Syria, since the beginning of the war in Syria.*

87. As in these analyses, the Report on the conducted NRA also does not identify terrorist financing through the NPOs in the country.

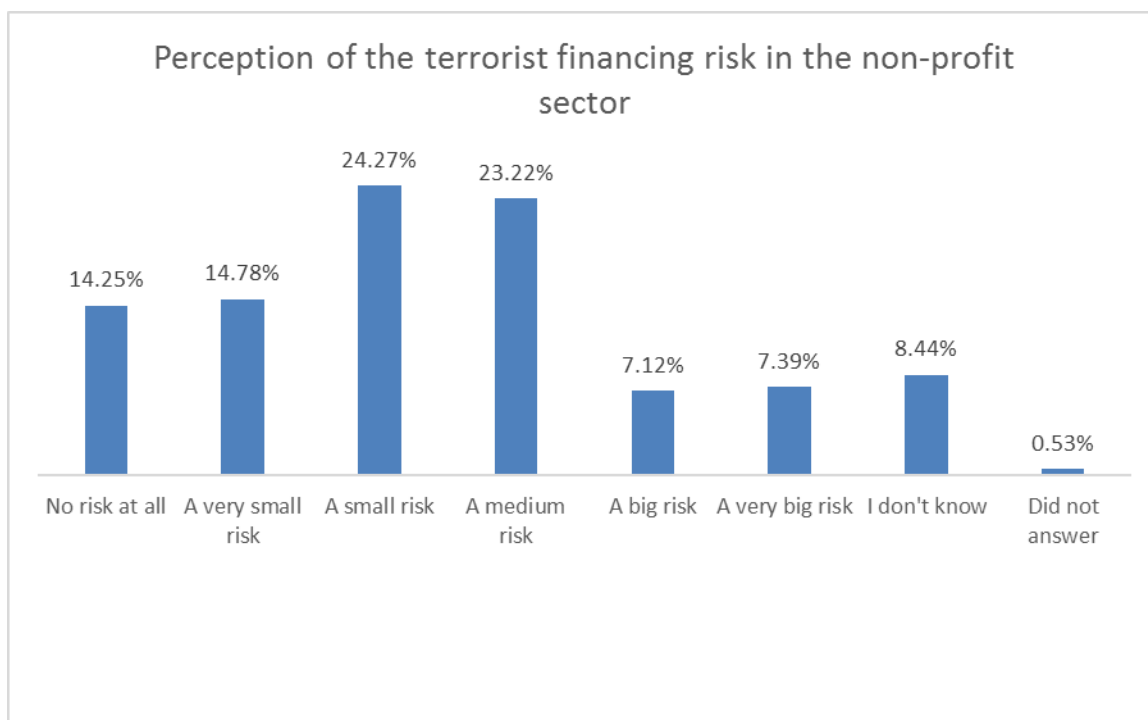
**Qualitative data on terrorist financing threats to NPOs**

88. In the period 2016-2018, the Public Revenue Office conducted a total of 37 controls at civic associations and foundations on the basis of personal income tax.
89. In order to make a more comprehensive analysis of this problem, a survey was conducted with representatives of the financial system through which the financial activities of the NPOs are performed. In accordance with the used methodology, in 2020, a Survey on Banks' Perception of the Terrorist Financing Risks was conducted. The answers were provided by the representatives of the banks working in the departments for prevention of money laundering and terrorist financing<sup>25</sup>.
90. From a professional point of view, in the provided answers, the risk of terrorist financing in the NPO sector is considered to be medium to high.
91. The surveys, as set out in paragraph 57, of the associations and foundations and the religious organizations have also identified the perceptions of the organizations in terms of terrorist financing. The majority of surveyed civic organisations and religious organizations believe that the risk in the country is small: 14.25% of the COs and 36.84% of the religious organizations claim that the risk does not exist; 14.78% of the COs and 21.05% of the religious organizations claim that the risk is very low and 24.27% of the COs and 21.05% of the religious organizations claim that the risk is low. A significant minority of the COs (23.22%) assess the risk as moderate.

Furthermore, asked about the risk of abuse of their organizations for terrorist financing, the majority of COs state that such risk does not exist (68.34%), and the largest majority of the religious organizations share this stand (18 out of 19 or 94.74%).

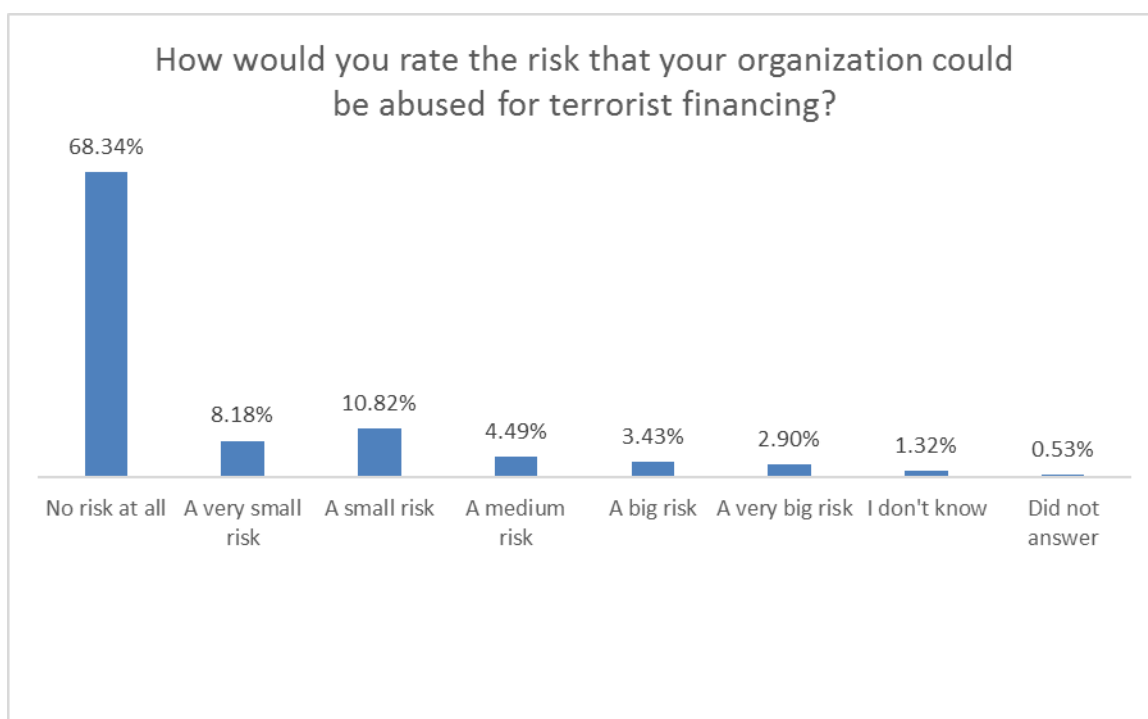
*Figure 1.13: Perception of the surveyed associations and foundations of the risk in the non-profit sector*

<sup>25</sup> In accordance with the Law on Prevention of Money Laundering and Terrorist Financing, every Department for Prevention of Money Laundering and Terrorist Financing is obliged to implement the measures defined in the Law on Prevention of Money Laundering and Terrorist Financing (client analyses, analysis and monitoring of transactions, delivery of reports on STR or CTR, etc.)



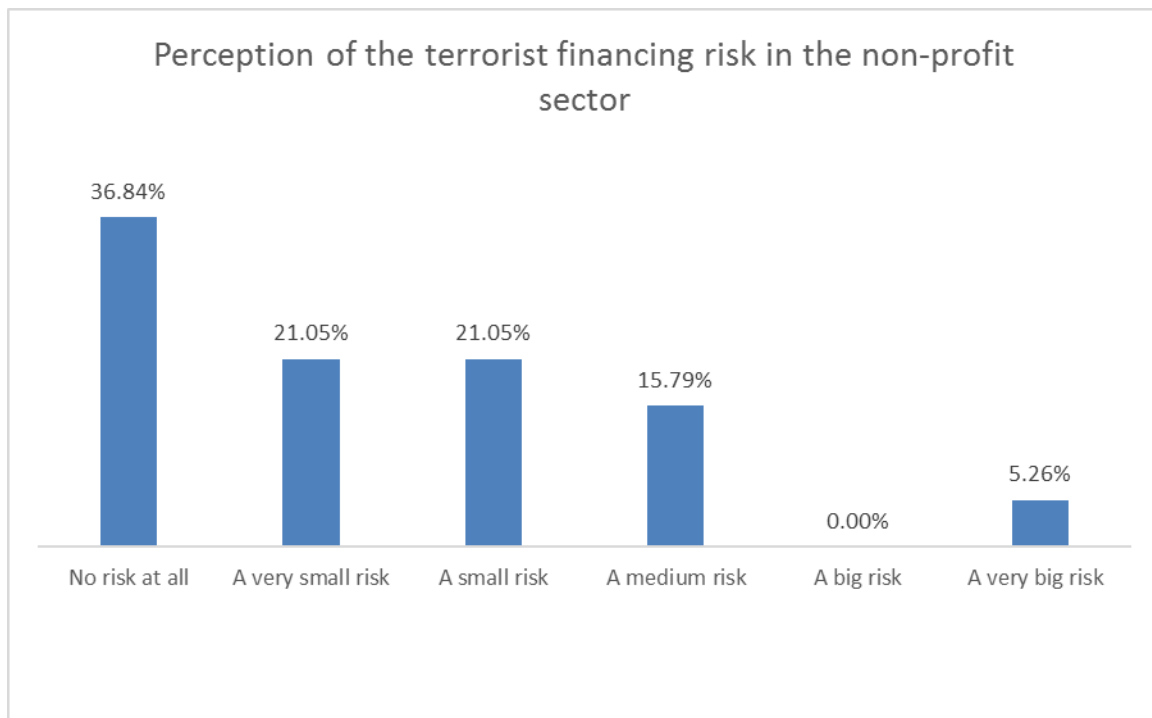
*Source: Survey of associations and foundations*

**Figure 1.14: Perception of the surveyed associations and foundations of the risk for their organization**



*Source: Survey of the civil society organizations*

**Figure 1.15: Perception of the surveyed religious organizations of the risk in the non-profit sector**



Sou

*rce: Religious and faith-based organizations survey*

*Figure 1.16: Perception of the surveyed religious and faith-based organizations of the risk for their organization*



*Source: Religious and faith-based organizations survey*

92. Methodologically, the primary case analysis requires the cases to meet two conditions, as follows:

- Involve TF abuse in the RNM;
- Involve an NPO.

93. There are no known cases that meet these conditions. In the absence of such primary evidence, any assessment of which NPOs may potentially be at risk depends on (1) secondary analysis by analogy (an analysis of cases which meet one of the above-defined conditions in order to identify any relevant common factors) and (2) qualitative assessment of experts and stakeholders (institution and NPO officials).
94. Although no case of an NPO involved in terrorist financing has been recorded to date, there has been a case of an NGO being involved in other serious financial crimes.

***Case description:***

*By abusing their programme, the authorized persons of the NPO are involved in collecting funds from natural persons (owners of profitable legal entities). Following an investigation, the Public Prosecutor's Office for Prosecuting Organised Crime and Corruption has filed charges against five people for the crimes of Fraud, Money Laundering and Receiving Rewards for Illegal Mediation. In the period from 08.07.2017 to 13.04.2018, the president of the accused non-governmental organization, with the intention to obtain illegal property gain for himself, misled and kept misleading two injured parties - managers of companies. He falsely claimed that he would provide state-owned undeveloped land for the construction of a European Center for the Elderly and a Mobile Service, as well as state subsidies. Thus misled, the injured parties, to the detriment of their property, paid him, through the Macedonian Authors Agency, amounts that exceed a significant value, i.e. around 1 million euros. Three defendants intentionally assisted the first defendant in the fraud. Two defendants made funds available to him - drafted contracts, withdrew the paid money and handed it over to the first defendant and intentionally helped him to put it into circulation even though they knew they were arising from the crime Fraud and Receiving Rewards for Illegal Mediation. The second defendant, after the first defendant would give her cash, although she had no legal coverage, paid in the cash in the form of a donation or on the basis of a loan to the legal entities related to the first defendant. The third defendant, with her reputation and authority, supported the first defendant in the meetings with the injured parties, giving him advice and instructions so that the injured parties would gain confidence in the alleged project and pay a certain amount of money in advance and sign the contracts.*

**The nature of the terrorist financing risks to the NPOs**

95. The interaction of the identified activities and risk factors identifies the civic organizations that could potentially be abused for TF purposes. In the absence of clear quantitative data, the analysis is based largely on the qualitative data. It has been determined that there is a possibility for NPOs whose activity is of social-humanitarian, cultural-educational and/or religious nature to be involved and abused for TF purposes in cases when one of the following risk factors is fulfilled:

- The management of the NPOs is comprised of exponents of religious radical ideology;

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

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

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

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

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

98. **Donations/sponsorships transferred from high-risk countries or countries where there is conflict or war.** The analysis made of the financial operations of the NPOs that were subject to observation indicates that they are financed with funds obtained on the basis of donations and projects from individuals and legal entities on whose territory terrorist attacks were carried out, extremist radical and terrorist organizations and groups operate or which border countries with military conflicts.

99. **The NPOs do not provide information on their activities and performed financial transactions in a manner that can be verified by the institutions.** It was found that the NPOs that were subject to analysis do not have easily accessible information (e.g. web pages) about their goals and activity, method of financing, ownership and management structure, annual reports, etc. In addition, they do not provide information for the institutions to be able to verify whether the realized transactions are in accordance with their purpose.

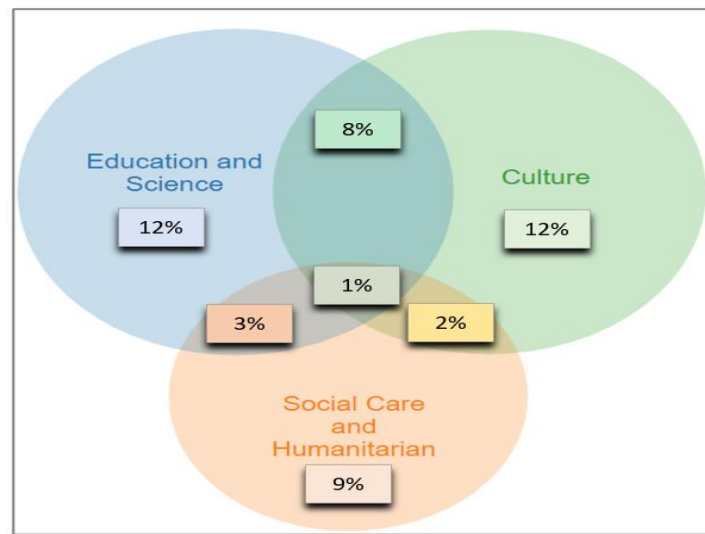
#### **Analysis of the survey findings from the NPOs in relation to the risk categories**

100. The risk assessment concludes that the potential risk of TF is limited to those NGOs of a social-humanitarian, cultural-educational and religious nature. The survey of the associations and foundations provides statistically valid data on the activities of the organizations. The religious and faith-based organizations were surveyed with a special questionnaire.

101. The survey of associations and foundations asked them to self-identify their activities. They were permitted to give more than one response. 45% of the associations and foundations identified education, humanitarian or culture as one of their areas of

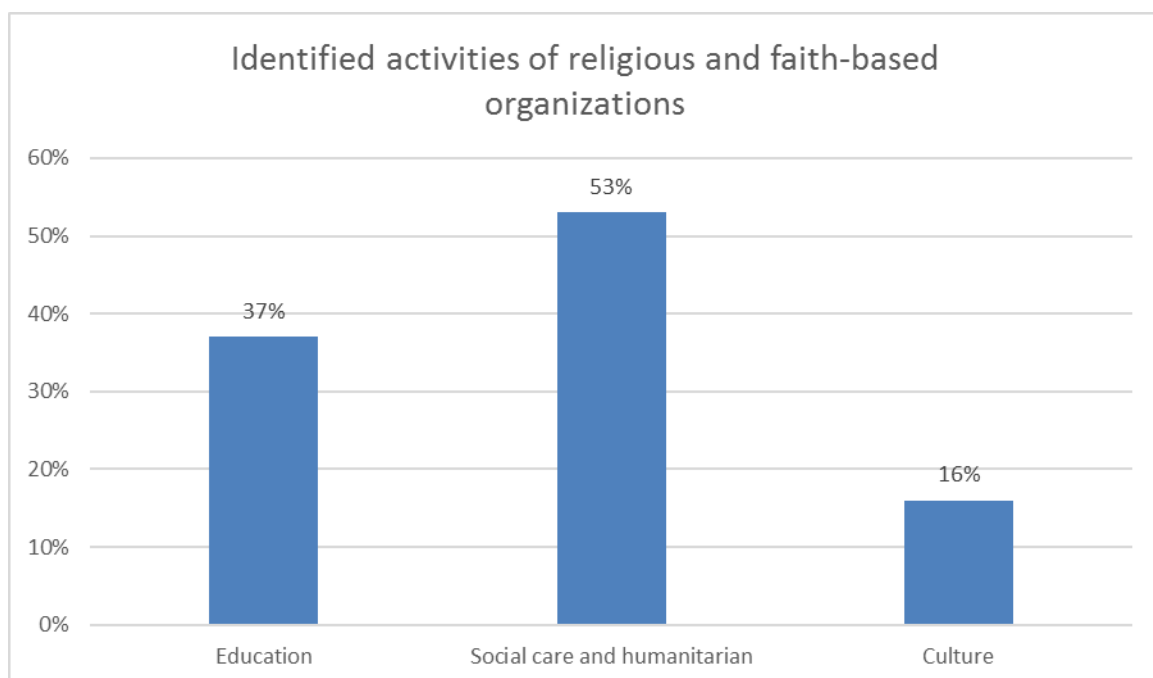
activity. Significant numbers reported more than one of these activities, as illustrated in the graph below.

*Figure 1.17: Cross-analysis of the areas of activity of the associations and foundations*



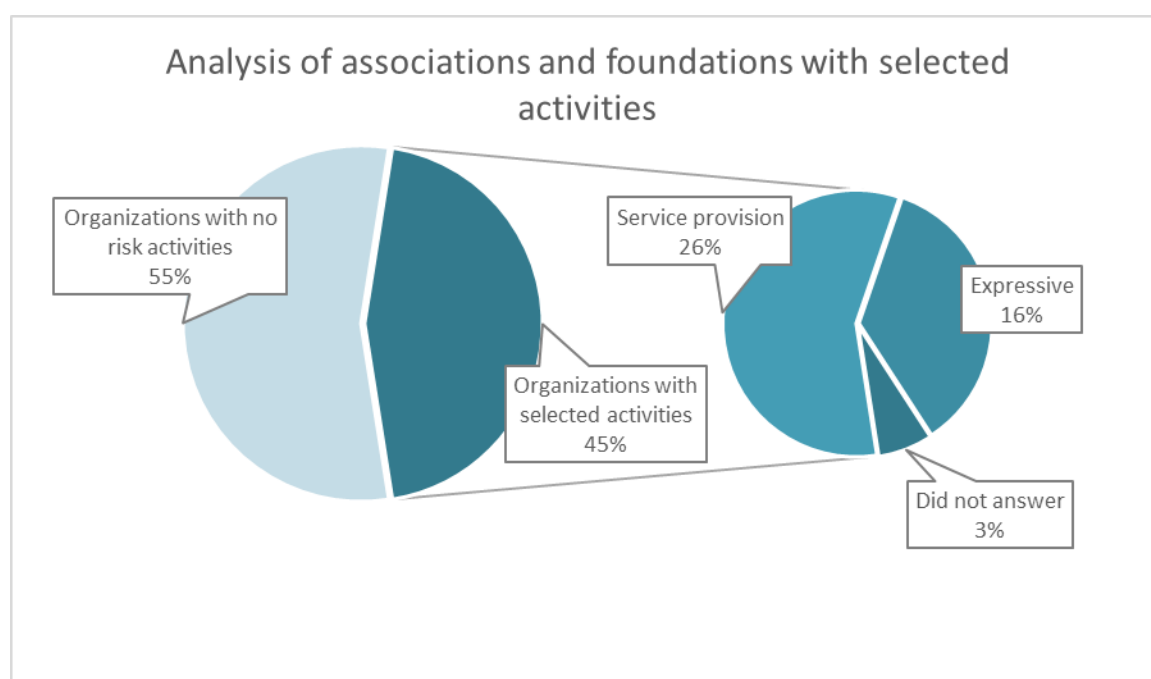
102. The religious and faith-based organizations were surveyed with a special questionnaire. Although the response rate of the questionnaire was good (19 out of 38, i.e. 50% of the total number of organizations filled in the questionnaire), the total number of organizations is small which means that it is not possible to claim statistical validity. The following graph illustrates the percentage of religious and faith-based organizations with the identified activities. (Note: the organizations had the opportunity to select multiple answers).

*Figure 1.18: Cross-analysis of the areas of activity of the religious and faith-based organizations*



103. As stated in the FATF Report on the Non-Profit Organizations' Risk of Abuse for Terrorism<sup>26</sup>, which also defines the typologies, it has been noted that the risk of TF is exclusively limited to NPOs that provide services because there are no cases or suspicions of TF among the expressive NPOs<sup>27</sup>. Of the 45% of associations and foundations that had activities in the three selected areas, just over half reported engaging in service provision.

*Figure 1.19: Cross-analysis of the areas of activity and the typology of NPOs*



104. Through the process of cross-analysis stated above, the potential TF risk is confined within these 26%. This is not to say that 26% of the identified associations and foundations are “at risk” but rather, that these are necessary pre-conditions for cross-consideration with the risk factors. Any association or foundation that does not fall within this section may be considered to be of insignificant risk for TF purposes.

105. When it comes to faith-based and religious organizations, 9 out of 19 respondents (47%) reported that they provide services. In the absence of raw data and individual questionnaires, it is not possible to identify which of these organizations that provide services perform activities other than the identified ones.

### **Analysis of specific risk factors within the sub-sector**

<sup>26</sup> FATF Report on the Non-Profit Organizations' Risk of Abuse for Terrorism, Available at: <https://www.fatf-gafi.org/documents/documents/risk-terrorist-abuse-non-profits.html>

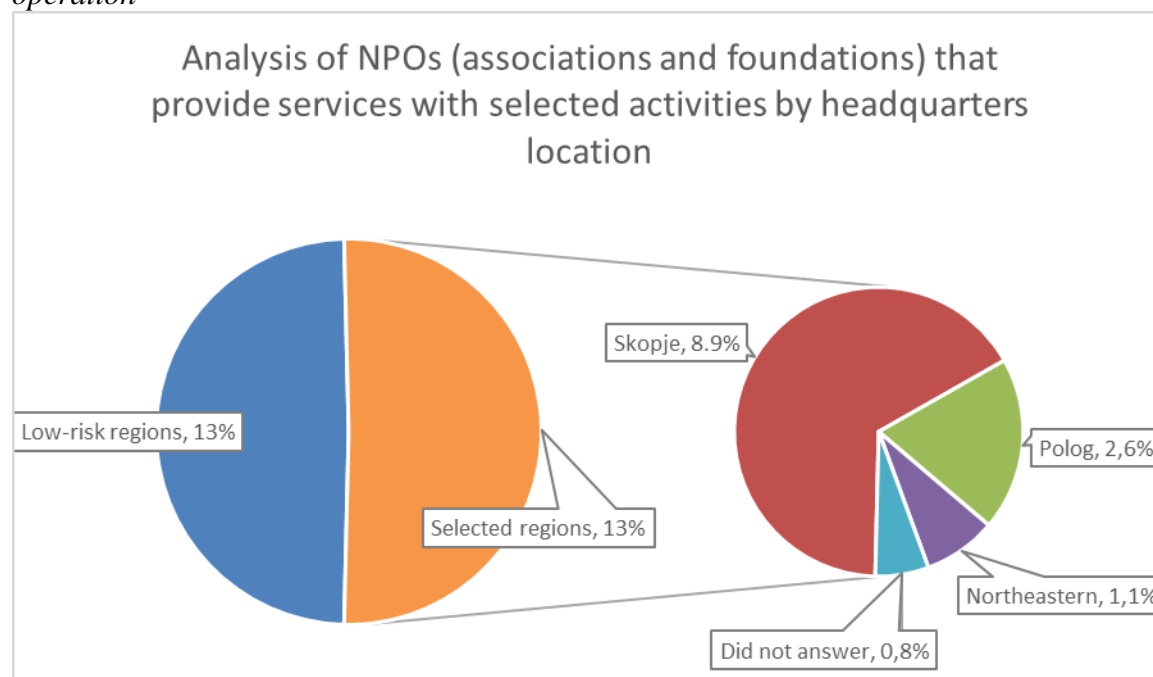
<sup>27</sup> The term "expressive NPOs" is used by the FATF to denote non-profit organisations predominantly involved in expressive activities, which include programmes focused on sports and recreation, arts and culture, interest representation, and advocacy.

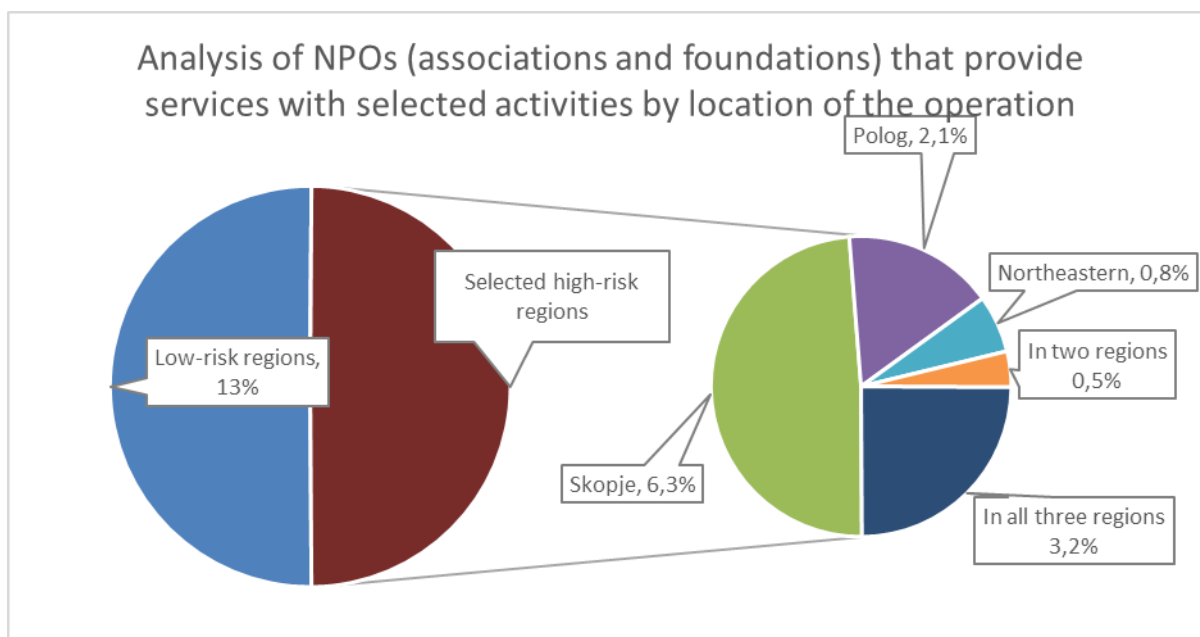


106. The assessment identified the following specific risk factors that are to be considered within the 26% of associations and foundations operating in areas of risk, including the religious and faith-based organizations.
- 1) The management of the NPOs is comprised of exponents of religious radical ideology;
  - 2) The NPOs are registered or are active in regions identified as regions at risk of terrorism;
  - 3) Donations/sponsorships transferred from high-risk countries or countries where there is conflict or war.
  - 4) The NPOs do not provide information on their activities and performed financial transactions in a manner that can be verified by the institutions.
107. A cross-analysis of the survey results and these risk factors was performed.
108. Risk factor 1 refers to a very small number of cases and is not suitable for further analysis.
109. Analysis by location is possible using the data we have. Consequently, the cross-sectional analysis of risk factor 2 is shown below.
110. Risk factor 3 requires further analysis.
111. Risk factor 4, by its nature, requires further risk analysis because there is not enough information, and the very absence of information that can be checked and verified by the institutions is its essence.

**112. Analysis of the sub-sector by location**

*Figure 1.20 and 1.21: Analysis of the sub-sector (26%) by headquarters location and operation*

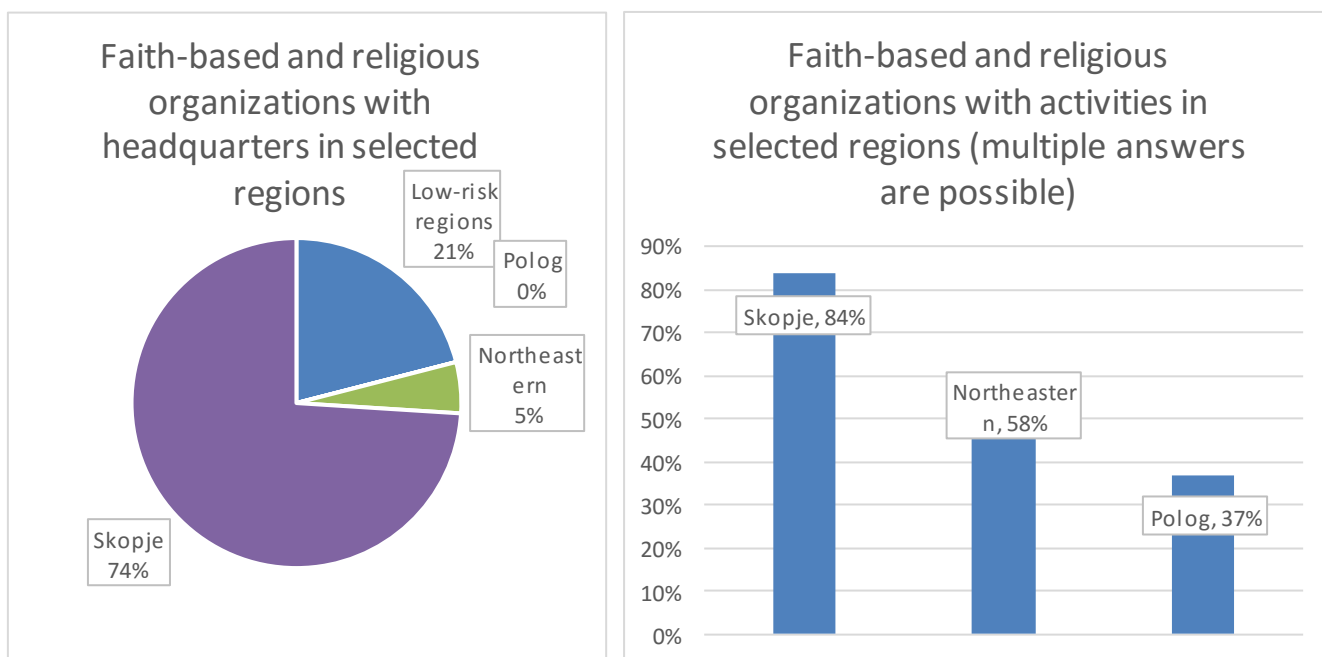




113. The above figures show that about 13% of the identified sub-sector (out of 26% of the associations and foundations working in risk areas) have headquarters or activities in high-risk regions of the country as defined by the NRA. It is important to emphasize that this does not mean that all associations and foundations in this segment are risky, but that if the risk does manifest it will appear in this sub-sector. It is therefore necessary for the risk mitigation measures to target this segment of the sub-sector.

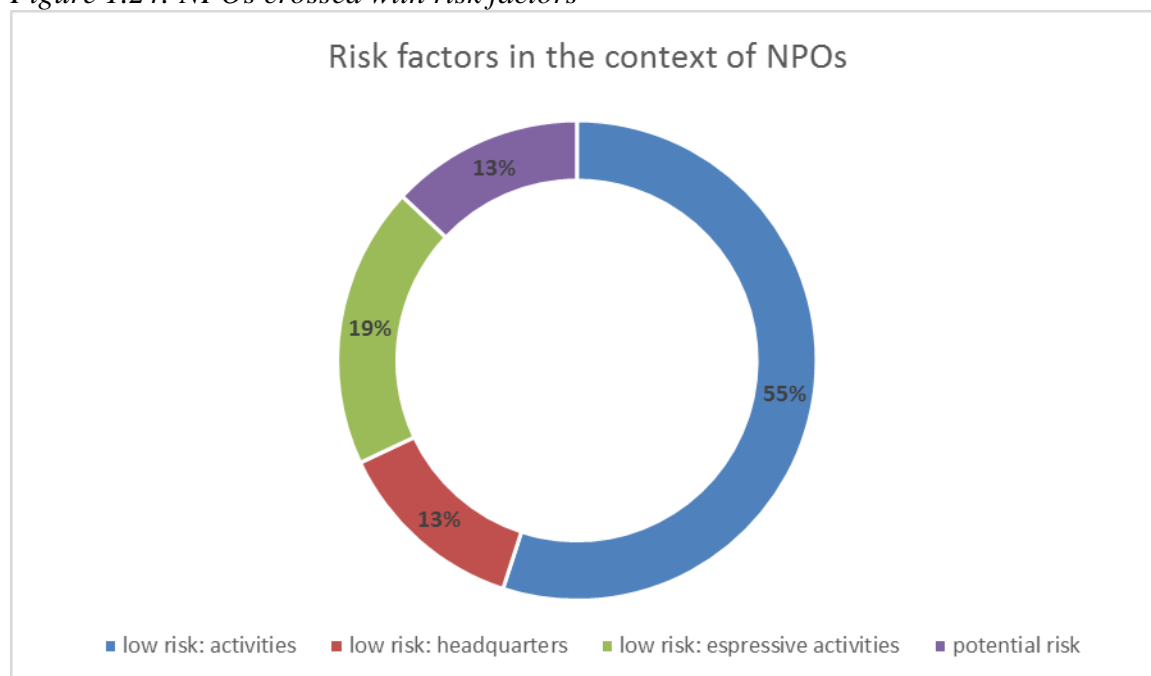
114. The faith-based organizations are largely based in the Skopje region and operate throughout the country. Although the access to individual questionnaires limits the analysis, it can be estimated that at least 84% of the respondents are exposed to a certain level of risk based on the location of their activities.

*Figure 1.22 and 1.23: Analysis of the faith-based and religious organizations by headquarters location and activities*



### **Final assessment of the inherent risk of terrorist financing for the NPOs in the Republic of North Macedonia**

*Figure 1.24: NPOs crossed with risk factors*



115. The graph above shows the segment of NPOs in which it is estimated that a potential risk may be manifested (13%). To clarify, this does not mean that all NPOs in this segment face a specific risk, but that if the risk is manifested, it is expected that it will

be manifested in this segment. Therefore, following the risk-based approach, the TF risk mitigation measures should be targeted at this segment.

116. In the RNM, the total number of registered organizations established in accordance with the LAF in 2020 is 10,845.
117. This analysis identifies five categories of NPOs that are in accordance with the definition of FATF, namely: associations (with the exception of trade associations and sports associations and clubs, foundations, foreign organizations and organizational forms of foreign organizations), the Red Cross and the religious and faith-based organizations (churches, religious communities and religious groups). The total number of active associations and foundations in accordance with the FATF definition registered under the LAF is estimated at around 65%.
118. The analysis of qualitative and quantitative data identifies three types of threats for the NPOs in terms of terrorist financing:
  - abuse of NPOs for promotion of religious radicalism,
  - abuse of NPOs for recruitment of people and
  - abuse of NPOs for logistical support.
119. Risk factors that increase the likelihood of abuse of the NPOs for TF purposes are:
  - The management of the NPOs is comprised of exponents of religious radical ideology;
  - The NPOs are registered or are active in regions identified as regions at risk of terrorism;
  - Donations/sponsorships transferred from high-risk countries or countries where there is conflict or war.
  - The NPOs do not provide information on their activities and performed financial transactions in a manner that can be verified by the institutions.
120. According to the conducted analysis, no terrorist financing through NPOs in North Macedonia has been established or proven. There is a possibility for an NPO whose activity is of social-humanitarian, cultural-educational and religious nature to be involved and abused for the purposes of TF in the cases when some of the risk factors elaborated above is met. Consequently 87% of NPOs that comply with the FATF's definition of NPO have a low risk, and about 13% have a low to medium risk. In this context, the inherent risk of TF for the subset of NPOs is low to medium.

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



**ASSESSMENT OF THE MEASURES FOR MITIGATION  
OF TERRORIST FINANCING RISK FOR THE NON-PROFIT ORGANIZATIONS  
IN THE REPUBLIC OF NORTH MACEDONIA**

## INTRODUCTION

121. The purpose of this part of the report is to “review the adequacy of measures that relate to the subset of the NPO sector that may be abused for terrorism financing support in order to be able to take proportionate and effective actions to address the risks identified” as required by Recommendation 8.1 (c) of the FATF Methodology.
122. The subset of NPOs that may be abused for terrorism financing is identified in the first part of this report - Assessment of the Threats of Terrorist Financing for the Non-Profit Organizations in the Republic of North Macedonia ("Risk Assessment"). NPOs whose activity is of social-humanitarian, cultural-educational and religious character are identified as potentially "at risk" from terrorist financing in cases when some of the risk factors is met:
- The management of the NPOs is comprised of exponents of religious radical ideology;
  - The NPOs are registered or are active in regions identified as regions at risk of terrorism;
  - Donations/sponsorships transferred from high-risk countries or countries where there is conflict or war.
  - The NPOs do not provide information on their activities and performed financial transactions in a manner that can be verified by the institutions.
123. The nature of terrorist financing threats for the NPOs has also been established.

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

***-Abuse of NPOs for promotion of religious radicalism***

***-Abuse of NPOs for recruitment of people and***

***-Abuse of NPOs for logistical support.***

124. According to the conducted analysis, no terrorist financing through NPOs in North Macedonia has been established or proven. For most NPOs the risk is small. Given the abovementioned risk factors, there is a possibility for an NPO whose activity is of social-humanitarian, cultural-educational and religious nature to be involved and abused for the purposes of TF in cases when some of the above-mentioned risk factors is met. In this context, the inherent risk of TF for the stated types of NPOs is low to medium.

## ***Methodology***

125. The international standards (prescribed by FATF) do not stipulate a particular method for conducting a terrorist financing risk assessment in terms of NPOs. Nevertheless, for

the purposes of conducting such an assessment, the relevant FATF guidelines and recommendations have been relied upon<sup>28</sup>.

126. This analysis has been conducted according to the Greenacre Risk Assessment Methodology and with the expertise of Ben Evans from the Greenacre Group. This analysis uses the "case analysis" model according to which the efficiency of the measures is assessed with regards to a particular risk factor.
127. An analysis was conducted in three areas:
  - laws and other regulations
  - policies and other measures for NPO engagement and
  - NPO self-regulation measures.
128. Based upon the FATF recommendations, an analysis has been conducted as to whether the measures are "risk based" and "effective", i.e.:
  - Effective* – whether the countries implement efficient measures for combating terrorist financing<sup>29</sup> and whether adequate resources have been provided to that end<sup>30</sup>
  - Relevant and risk-based* – whether the countries implement adequate risk-based measures, i.e. measures that are relevant in terms of the defined laws related to the abuse of NPOs for terrorist financing purposes<sup>31</sup>
  - Unrestrictive* – i.e. the measures do not hinder the legitimate activity of the NPO<sup>32</sup> and they are consistent with the international human rights.<sup>33</sup>
129. By following the methodology, an assessment was made of the "residual risk"<sup>34</sup>.
130. This analysis, including the residual risk assessment, has been made on the basis of quantitative and predominantly qualitative data. The assessment was conducted with the support of the Greenacre Group pursuant to their methodology and it was developed with the expert support of the Greenacre Group representative – Ben Evans. The analysis and the resources used during this process have also been supported by the expertise of the European Center for Not-for-Profit Law and the Association Konekt, as well as with the support of GIZ.
131. The assessment of the effectiveness of the mitigation measures was conducted within the discussion held at the workshop for determining the residual risk. This online workshop was held in Skopje during the period 13<sup>th</sup> – 15<sup>th</sup> October 2020 and it was attended by the working group (refer to the Annex) in an extended composition with representatives of the General Secretariat of the Government of the Republic of North

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<sup>28</sup> FATF's Terrorist Financing Risk Assessment Guidance (FATF, 2019). Additionally, FATF Guidance: National Money Laundering and Terrorist Financing Risk Assessment (FATF, 2013)

<sup>29</sup> 4(c), Interpretive Note R8

<sup>30</sup> "Countries should provide their appropriate authorities, which are responsible for supervision, monitoring and investigation of their NPO sector, with adequate financial, human and technical resources".7, Interpretive Note

<sup>31</sup> 4(a), Interpretive Note R8.

<sup>32</sup> Immediate Outcome 10.2 'must not restrict legitimate NPO activity'.

<sup>33</sup> Implementation of R8 must be "consistent with countries' obligations to respect freedom of association, assembly, expression, religion or belief, and international humanitarian law".6, Best Practices Paper. See also ibid 22, and Typologies 28.

<sup>34</sup> The residual risk has been calculated in the following manner: Inherent risk – Mitigation measures impact = Residual risk



Macedonia, the National Committee for Countering Violent Extremism and Countering Terrorism and the Ministry of Interior.

### ***Data sources and data***

132. In addition to the listed data sources, for the purposes of this analysis, special use has been made of the data provided by means of:

**-Survey of civil society organizations:** The survey of the perceptions of the terrorist financing risks and the effectiveness of the measures and actions for its prevention was conducted in 2019. A statistically relevant random sample was selected and answers were collected from 379 civil society organizations which were interviewed over the telephone. Furthermore, in cooperation with the CRRCG, a questionnaire was conducted in terms of the perceptions of the terrorist financing risks and the effectiveness of the measures and actions for its prevention, among churches, religious communities and religious groups. The survey questionnaires were distributed in paper form and the answers were provided by 19 entities from a total of 38 registered churches, religious communities and religious groups registered in the public registry of the CRRCG.

**-An overview of the legal regulations:** the following laws, related by-laws and regulations were subject to consideration: Law on the Prevention of Money Laundering and Terrorist Financing, Law on Associations and Foundations, Law on the Red Cross, Law on the Legal Status of Churches, Religious Communities and Religious Groups, Law on Donations and Sponsorships in Public Activities, Law on the Central Registry, Law on Accounting of Non-Profit Organizations, Law on Restrictive Measures.

**-An overview of strategic documents:** the Strategy on Cooperation of the Government with the Civil Society Sector and the Action Plan for the Implementation of the Strategy, the National Strategy for Combatting Terrorism (2018-2020), the National Strategy for Combatting Violent Extremism (2018-2020), the National Strategy for Combatting Money Laundering and Financing of Terrorism (2018-2020), the Guide for the Exposure of NPOs to Terrorist Financing.

133. The FATF requirements for NPO TF risk assessment have been complied with in this report in the following manner:

*Figure 2.1: Table presenting the compliance with the international requirements in this report*

<b>FATF requirement</b>	<b>Respective part of the report that complies with the prescribed requirement</b>
<i>To review the adequacy of the measures, including the laws and regulations, which refer to the subset of NPOs that may be abused for support of terrorist financing,</i>	2.1.Laws and regulations 2.2. Mitigation measures related to the policies and the engagement of NPOs 2.3. Measures in the NPOs
<i>To take proportionate and effective activities for dealing with the identified risks;</i>	2.5 Recommended measures and activities

<i>Make a periodic assessment of the risk of the sector by reviewing new information on potential vulnerabilities to terrorist activities to ensure efficient implementation of the measures</i>	2.4 Assessment of the measures for mitigation of the risk of terrorist financing for the non-profit organizations
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## EXECUTIVE SUMMARY

134. This report provides an assessment of the mitigation measures related to the four risk factors. The analysis of the measures has been conducted in accordance with the FATF recommendations in order to establish whether such measures are “effective”, “risk-based” and “do not disturb the legitimate activity of the NPO”. The overview comprises three areas:

- (1) laws and regulations;
- (2) policies and measures for NPO engagement; and
- (3) NPO self-regulation measures.

135. It has been established that the level of effectiveness of the legal regulations is medium-high in terms of the reduction of the risk and the established risk factors related to terrorist financing. In line with the prescribed methodology, an assessment has been made of the Law on Associations and Foundations and the Law on the Legal Status of Churches, Religious Communities and Religious Groups, i.e. the laws and regulations relevant for the operation of NPOs.

136. These laws regulate the establishment, registration, financing, management, accountability, transparency of the associations and foundations, the church, the religious communities and religious groups, wherein they do not undermine the freedoms in terms of determining the manner of financing or management of the NPOs. The Law on Associations and Foundations (LAF) regulates the manner, the conditions and the procedure for establishing, registration and termination of associations, foundations, alliances, organizational forms of foreign organizations in the RNM, the property that they operate, the supervision, the status changes and the status of the organizations of public interest. The Law on the Legal Status of Churches, Religious Communities and Religious Groups (LLSCRCRG) regulates the establishment and the legal status of the churches, the religious communities and the religious groups, the practices for performing the liturgy, prayers and religious rituals, the religious teachings and educational activities, the revenues, etc. The Law on the Red Cross regulates the position and the tasks of the Red Cross, the use and the protection of the Red Cross emblem and name and the manner of financing the tasks of the Red Cross of the Republic of Macedonia. In addition to the relevant legal provisions, upon the registration of NPOs, they are obliged to enter the area of activity and the activity that they perform. It has been established that most of the associations and foundations are registered under one code denoting an organizational form (10.09) and an activity code 94.99 "Activities of other membership organisations n.e.c", pursuant to the National Classification of Activities. The wide spectrum of this organizational activity vaguely reflects the activity of the registered NPOs under this code, regardless as to whether these are associations, foundations or foreign associations, which makes the determination of the NPO segment comprised in the FATF NPO definition more difficult. In addition, the Law on Accounting of Non-Profit Organizations prescribes the accounting principles and rules, as well as the contents of the basic financial information, which should be available. The practice shows a different compliance with the obligations for the public availability of the annual reports on the work of the associations and the finances, which gives rise to the need for a more efficient

application of the legal provisions. In the cases of identifying suspicions in terms of NPO activities related to terrorist financing, the competent authorities have adequate possibilities and capacities for detecting and initiating an investigation and prosecution of any involved persons, as well as a timely exchange of information, coordination and further cooperation.

137. An analysis has been made of all strategic documents adopted by the Government of the RNM, in the period subject to analysis in this report, which are aimed at the promotion, transparency and protection of the NPO trust and their protection against any abuse for terrorist financing purposes, as well as additional measures for the engagement of NPOs, trainings, education and other initiatives aimed at increasing the awareness of the exposure to the terrorist financing risks. It has been established that the level of effectiveness of the policies for NPO engagement is high in terms of the reduction of the risk and the established risk factors related to terrorist financing.
138. The Strategy of the Government of the RNM for Cooperation with and Development of the Civil Society (2018-2020), which defines a wide range of measures for building a continuous, transparent and inclusive dialogue with the civil society that contributes for increasing the transparency, integrity and effectiveness of NPOs, does not stipulate any special measures for raising the public awareness of and preventing terrorist financing. The other strategies are more focused on determining and implementing preventive measures (including raising the public awareness as well), but also enhancing the prosecution capacities in the cases of terrorist financing and terrorism. In both cases, a mechanism has been established for monitoring the implementation of the stipulated measures and activities, which ensures an efficient implementation of the action plans. In terms of raising the awareness of the exposure to terrorist financing risks, a Guide has been developed on the exposure of the non-profit sector to terrorist financing, as well as trainings have been delivered mainly focused on explaining the risks of involving the NPO sector in terrorist financing.
139. It has been established that the level of effectiveness of the policies of the NPO is medium in terms of the reduction of the risk and the established risk factors related to terrorist financing.
140. Via a set of activities in the sector (resource centres, development indices, researches, promotions, trainings, educational materials, websites, etc.) the independence of the NPOs is being promoted, including also the independence and the lack of any connection to political impacts and radical ideologies. There are organizations that have been working for a long time with full dedication on these practices and that have been allocating resources which most often originate from foreign donors. In this context, the measures are partially risk-based due to the fact that the measures are open for all NPOs. By analysing the transparency and maintaining good standards and practices related to the governance, management and supervision in the NPOs, a partial effectiveness of the implemented measures was established. It has been estimated that preventive internal control needs to be encouraged also by the standard accounting processes via the authorized accountants. It is deemed that most of the NPOs implement good financial management practices due to the fact that the donors themselves impose high financial control standards and practices, as well as due to the re-granting process. As regards smaller organizations, a special approach is required in terms of emphasizing the significance of a good organizational development via mentoring and technical support. The measures for due diligence of the donors and the funds beneficiaries are related to the system of procedures established by the donors, but the organizations also apply

them in order to be compliant with the good practices. The organizations know where the donated funds come from and the majority of them have good practices in place for knowing the beneficiaries and the partners, which points to the need of formalizing these processes with the NPOs. In order to improve the analyses for establishing the risk and reducing the possibility for abuse for the purposes of terrorist financing, the measures should be enhanced aimed at promoting the existing mechanisms with the NPO sector for reporting any abuse for TF purposes. There are several initiatives and mechanisms of self-regulation in the civil society sector aimed generally at good management at all levels of the organizational process, while there are also some more specific ones that serve for the needs of the donors (individual and corporate) as a “Trust Mark”. It has been estimated that these practices are effective, but they have not yet been applied by a majority of the NPOs. For the most part, the initiatives are applied from a long-term perspective and they comprise a part of the strategies of the implementing organizations which are financed by foreign donors.

*Table 2.2 Presentation of the efficiency level of the measures for mitigating the terrorist financing risk*

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

141. The effective measures for mitigating the terrorist financing risk have an impact on the maintenance of the inherent risk and forming the overall residual risk.
142. From the conducted analysis it can be concluded that the established and implemented various types of activities, grouped, for the purposes of this analysis, in three major areas (laws, policies and engagement of the NPOs and self-regulation of the NPOs) are effective at a medium to high level and have impact on mitigating, i.e., maintaining the level of terrorist financing risk at a manageable level. This analysis determines that the inherent terrorist financing risk for the given subgroup of NPOs is at a low to medium level. The established measures are effective in keeping the financing terrorism risk for the NPOs at the same level, low to medium level”

<b>THE RESIDUAL RISK OF</b>
<b>TERRORIST FINANCING FOR NPOs</b>
<b>IN THE REPUBLIC OF NORTH MACEDONIA IS</b>
<b>low to medium</b>

## 2.1. LAWS AND REGULATIONS

143. During the process, an analysis was conducted of the Law on Associations and Foundations<sup>35</sup>, the Law on the Legal Status of Churches, Religious Communities and Religious Groups<sup>36</sup> and the Law on the Red Cross of the RNM<sup>37</sup> as main relevant laws that regulate the operation of NPOs. The Law on Associations and Foundations (LAF) regulates the manner, the conditions and the procedure for establishing, registration and termination of associations, foundations, alliances, organizational forms of foreign organizations in the RNM, the property that they operate, the supervision, the status changes and the status of the organizations of public interest. The Law on the Legal Status of Churches, Religious Communities and Religious Groups (LLSCRCRG) regulates the establishment and the legal status of the churches, the religious communities and the religious groups, the practices for performing the liturgy, prayers and religious rituals, the religious teachings and educational activities, the revenues, etc. The Law on the Red Cross regulates the position and the tasks of the Red Cross, the use and the protection of the Red Cross emblem and name and the manner of financing the tasks of the Red Cross of the Republic of Macedonia.
144. The analysis was conducted by the representatives of the relevant institutions and the NPOs who participated in the workshop held in October 2020.
145. Pursuant to the prescribed methodology and in line with FATF requirements as set out in the Interpretive Note and elsewhere, an assessment has been made of the laws and regulations relevant for the operation of NPOs based upon multiple criteria: establishment, registration, management, financing, transparency, monitoring, intelligence and information, investigations, intervention and cooperation.
146. An analysis was also made of the effectiveness level of this set of measures in terms of the established risk factors according to their relevance.

### ***Establishment and registration***

147. The level of licensing or registration is one of the factors that may be considered as part of the Effectiveness assessment under Immediate Outcome 10.<sup>38</sup> The Interpretive Note also states that licensing or registration could form a part of an effective regulatory system.<sup>39</sup> FATF Recommendations 24 and 25 also require information to be kept on the beneficial owner of all legal entities (which in the case of NPOs is not the ‘beneficiaries’, but the Board of Directors or equivalent body).<sup>40</sup> Otherwise, FATF is clear that detailed registration requirements are not necessary, particularly in relation to

<sup>35</sup> Official Gazette of the RM No. 52/ 2010, 135/2011 and 55/2016

<sup>36</sup> Official Gazette of the RM, No. 113/ 2007

<sup>37</sup> Official Gazette of the Republic of Macedonia No. 41/94, 7/97, 21/98 and Official Gazette of the Republic of Macedonia No. 101/19

<sup>38</sup> “IO.10 b) Examples of Specific Factors that could support the conclusions on Core Issues ... 10. What is the level of licensing or registration for NPOs?”

<sup>39</sup> “NPOs could be required to license or register. This information should be available to competent authorities and encouraged to be available to the public.” 6(b)(i), Interpretive Note R8

<sup>40</sup> “FATF 40 R.24 and R.25 pertain to transparency and beneficial ownership of legal persons and arrangements. Both recommendations state that “adequate, accurate and timely information” should be maintained on the beneficial ownership of legal persons and legal arrangements, and that this information “can be obtained or accessed in a timely fashion by competent authorities.” Recommendations 24 and 25 indicate the importance of general transparency and good-governance in any legal person, including NPOs.” 27, Typologies.

NPOs where there is little or no risk of terrorist financing.<sup>41</sup> Registration requirements should not be imposed just for TF purposes.<sup>42</sup>

148. When determining the compliance with the requirements defined with the criteria “**establishment and registration**”, an assessment is made of the process through which an NPO is being established as an entity, as well as the manner of its registration. Pursuant to the regulations in the RNM, in order to effectuate financial transactions on the behalf of an organization it is necessary to get formally registered as a legal entity, which significantly formalizes the registration of NPOs, even though the LAF does not restrict the freedom of pursuing an informal activity. The LAF regulates the establishment of associations and foundations<sup>43</sup>, whereas the LLSCRCRG regulates the establishment of churches, religious communities and religious groups<sup>44</sup>. The LAF regulates the registration of associations and foundations<sup>45</sup>, whereas the LLSCRCRG regulates the registration of churches, religious communities and religious groups<sup>46</sup>. All regional organizations of the Red Cross have been established pursuant to the LAF, except for the national Red Cross of the RNM, which has been established under a separate law.
149. These provisions are relevant and effective in terms of the established risk factors. In particular, in the acts of incorporation and in the statutory documents required for registration, the NPOs specify their scope of registration and activity, their mission, area and manner of operation, manner of financing, management and executive bodies, as well as a registry of members. In addition to the relevant legal regulations, upon the registration of NPOs, in the form issued by the Central Registry of the RNM, they are obliged to enter the scope of activity, wherein there is a possibility to specify whether the organizations operate in regions which are at risk of terrorist financing as per the identified risk factor. Furthermore, upon the registration, the names and the PINs of the founders and the legal representative(s) of the non-profit organization are listed. In addition, both the LLSCRCRG and the practice indicate that there are data on the seat and the activity of the organizations established pursuant to this law. Accordingly, the legal provisions adequately address the risk factors (except for the risk factor: Donations and sponsorships transferred from high-risk countries or countries where there is conflict or war).
150. During the analysis of NPO registration, it has been established that most of the associations and foundations are registered under one code denoting an organizational form (10.09) and an activity code 94.99 "Activities of other membership organisations n.e.c", pursuant to the National Classification of Activities. The wide spectrum of this organizational activity vaguely reflects the activity of the registered NPOs under this code, which makes the determination of the NPO segment comprised in the FATF NPO definition more difficult.

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<sup>41</sup> “Detailed registration procedures for NPOs... may not be appropriate for CFT purposes for those NPOs facing little to no TF risk. Any of these or other TF risk mitigation measures should be proportionate to the TF risk they face.” 24, Best Practices Paper

<sup>42</sup> “countries are not required to impose specific licensing or registration requirements for counter-terrorist financing purposes. For example, in some countries NPOs are already registered with tax authorities and monitored in the context of qualifying for favourable tax treatment such as tax credits or tax exemptions” 31, Best Practices Paper

<sup>43</sup> with Articles 6, 16, 27

<sup>44</sup> with Articles 5, 6, 7, 13

<sup>45</sup> with Articles 40, 42, 43

<sup>46</sup> with Articles 9, 11

151. The analysis indicates that the regulations neither undermine the freedoms of choice of the place of establishment or operation of the NPOs, nor do they impose any restrictions as to which persons (including exponents of a radical religious ideology) may be the founders and managers of an NPO or a religious community or religious group.
152. Based upon the assessment system used by FATF, the working group concluded that the process of registering NPOs, religious communities or religious groups, constitutes an adequate measure for mitigating the risk factors since it ensures the required formal data for further processing.

### ***Financing and governance***

153. Poor governance is a consistent factor in observed cases of TF abuse,<sup>47</sup> highlighting the importance of governance and good management as a preventative measure.<sup>48</sup> Often this is a side effect of general measures to improve governance.<sup>49</sup> Good governance is manifested in a number of ways, some of which are listed in Section I.d above. Immediate Outcome 10 will look for evidence that *“NPOs understand their vulnerabilities and comply with the measures to protect themselves from the threat of terrorist abuse?”*.<sup>50</sup> The principle of proportionality applies. FATF states that the *“requirement of appointing a designated staff responsible for counter-terrorism compliance... may not be appropriate for CFT purposes for those NPOs facing little to no TF risk. Any of these or other TF risk mitigation measures should be proportionate to the TF risk they face.”*<sup>51</sup>
154. The Interpretive Note to Recommendation 8 sets out detailed requirements in relation to NPOs financial management. It states that:
  - *“NPOs could be required to issue annual financial statements that provide detailed breakdowns of incomes and expenditures.”*<sup>52</sup>
  - *“NPOs could be required to have appropriate controls in place to ensure that all 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.”*<sup>53</sup>
  - *“NPOs could be required to take reasonable measures to confirm the identity, credentials and good standing of beneficiaries and associate NPOs and that they are not involved with and/or using the charitable funds to support terrorists or terrorist organisations...[and] to take reasonable measures to document the identity of their significant donors and to respect donor confidentiality..”*<sup>54</sup>
  - *“NPOs could be required to maintain, for a period of at least five years, records of domestic and international transactions that are sufficiently detailed to verify that*

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<sup>47</sup> “The case studies analysed in support of the typologies report demonstrated that terrorist abuse of the NPO sector was commonly the result of a lack of robust internal governance and/or appropriate external oversight”, 55, Best Practices Paper. See also 55, Typologies

<sup>48</sup> 55 Typologies, and 49 and 55, Best Practices Paper

<sup>49</sup> “For the subset of NPOs that fall within the FATF definition of NPO and are deemed at higher risk of TF abuse, an effective approach for NPOs to protect themselves from terrorist abuse is the by-product of having robust internal good governance practices in place”. 56, Best Practices Paper. See also paragraph 58.

<sup>50</sup> IO.10, section b). See Annex 1.

<sup>51</sup> 24, Best Practices Paper.

<sup>52</sup> 6(b)(iii), Interpretive Note R8.

<sup>53</sup> 6(b)(iv), Interpretive Note R8.

<sup>54</sup> 6(b)(v), Interpretive Note R8.



*funds have been received and spent in a manner consistent with the purpose and objectives of the organisation...”<sup>55</sup>*

155. It also states that some things are not necessary. For example, “*NPOs should not be required to conduct customer due diligence,*”<sup>56</sup> or be required to have an audit.<sup>57</sup> Additionally, whilst measures should cover “*all NPOs falling within the FATF definition and deemed at higher risk of TF abuse,*”<sup>58</sup> the principle remains that “*Any of these or other TF risk mitigation measures should be proportionate to the TF risk they face.*”<sup>59</sup>
156. The criteria “**financing**” and “**governance**” enable an assessment as to whether adequate minimum standards for NPOs have been established in terms of the governance and management, as well as whether standards have been established for the financial management.. The LAF regulates this manner of management of associations and foundations<sup>60</sup>.
157. The LLSCRCRG regulates the management of the churches, the religious communities and the religious groups<sup>61</sup> (they are entitled to freely organize themselves internally with their own management bodies, hierarchy, etc.). The financing of the associations and foundations has been regulated with the LAF<sup>62</sup>, while the LLSCRCRG regulates the financing of the churches, the religious communities and the religious groups<sup>63</sup> (which points to the application of the Law on Accounting of Non-Profit Organizations). In addition, the Law on Accounting of Non-Profit Organizations<sup>64</sup> prescribes the accounting principles and rules, as well as the contents of the basic financial information, which should be available. In terms of the risk “NPOs do not provide information on their activities and the effectuated financial transactions in a manner that can be verified by the institutions”, in the financial statements and the accounting documentation, information pertaining to the donors and financing sources of the NPOs is available, as well as information as to the manner in which the funds were spent. According to the regulations, the Statute of the NPO also regulates the manner of acquiring and use of the funds of the NPO. In addition, the LAF also comprises additional provisions which define the revenue sources, the use and management of the funds pursuant to the objectives of the organizations and a high level of responsibility of all members of the NPO with their entire property<sup>65</sup>.
158. In the course of the analysis of the restrictions, it was deemed that the regulations do not breach the international standards on the freedoms in terms of determining the manner of financing or management of the NPOs.

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<sup>55</sup> 6(b)(vi), Interpretive Note R8.

<sup>56</sup> 6(b)(v), Interpretive Note R8. See also Best Practices Paper paragraph 34.

<sup>57</sup> “*an external audit of the organisation, may not be appropriate for CFT purposes for those NPOs facing little to no TF risk.*” 24, Best Practices Paper.

<sup>58</sup> 34, Best Practices Paper

<sup>59</sup> 24, Best Practices Paper.

<sup>60</sup> with Articles 11, 21, 22, 23, 25, 30, 33, 34 and 36

<sup>61</sup> with Article 5

<sup>62</sup> with Articles 48, 50, 53, 56, 57

<sup>63</sup> with Articles 13, 32 and 33

<sup>64</sup> Official Gazette of the RNM No. 24/2003, 17/2011, 154/ and 154/2015

<sup>65</sup> with Articles 49, 50 and 51

159. Based upon the assessment system used by FATF, the working group concluded that the regulations related to the financial management are adequate and that they significantly ensure an effective risk management. A need was perceived for enhancing the regulations related to the NPO accounting by breaking down the accounts that pertain to the revenue sources from membership fees, gifts, donations and revenues from other sources with additional classes that would ensure a more precise insight into the various revenue sources. This will ensure a more focused risk-based monitoring.
160. Furthermore, the Law on the Prevention of Money Laundering and Terrorist Financing stipulates for the establishment and maintenance of a business relation with NPO clients to be subject to an enhanced client due diligence measure. The legal provisions impose an obligation on the entities, including the banks, to have an equal approach to all NPOs regardless of their money laundering and terrorist financing risk. 18% of the interviewed associations and foundations focused on the “de-risking” phenomenon which points to the fact that the system and the policies and practices of the banks hinder the financial operation of associations and foundations. Having regard to the fact that the international standards impose obligations on NPOs to adjust to the established risk, legal modifications are needed for the purposes of the harmonization of the anti-money laundering and terrorist financing regulations with the requirements for targeted action in the international standards. Moreover, it is important for the findings of this assessment to be reflected in the indicators according to which an assessment and reporting of suspicious transactions is performed and a risk-based approach is applied, as well as a cross-reference of several risk factors so that the entities focus specifically on areas where the risk is higher.

### **Transparency**

161. The contribution of NPO transparency to investigations is confirmed by the FATF Typologies Report, which states that 96% of the cases examined involved open-source information provided voluntarily by the NPO.<sup>66</sup> The Interpretive Note to Recommendation 8 states that licensing or registration information should ideally be made public. The Interpretive Note sets out requirements in relation to NPOs transparency. It states that:
- *“NPOs could be required to maintain information on: (1) the purpose and objectives of their stated activities; and (2) the identity of the person(s) who own, control or direct their activities, including senior officers, board members and trustees. This information could be publicly available either directly from the NPO or through appropriate authorities.”*<sup>67</sup>
  - *“NPOs could be required to issue annual financial statements that provide detailed breakdowns of incomes and expenditures.”*<sup>68</sup>
  - *“...Where appropriate, records of charitable activities and financial operations by NPOs could also be made available to the public.”*<sup>69</sup>

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<sup>66</sup> “NPOs, not unlike most for-profit organisations, increasingly rely on an online presence to achieve organisational visibility and transparency, and to raise funds. Consequently, information about NPOs, and related internal and external actors, can often be accessed with relative ease. In 96% of the case studies, open source information was identified as contributing to the detection of abuse and risk. Equally, open source information can be valuable in discounting the presence of risk.” 131, Typologies

<sup>67</sup> 6(b)(ii), Interpretive Note R8

<sup>68</sup> 6(b)(iii), Interpretive Note R8

<sup>69</sup> 6(b)(vi), Interpretive Note R8

- *“NPOs could be required to license or register. This information should be available to competent authorities and encouraged to be available to the public.”<sup>70</sup>*

162. The criterion **transparency** provides an assessment as to whether the laws and regulations create an obligation for the NPOs to publish information of a public nature regarding their organization, policies, finances and activities<sup>71</sup>. The LAF stipulates for the operation of the associations and foundations to be public, which is achieved by means of transparently publishing all of their significant acts<sup>72</sup>. Furthermore, associations and foundations have an obligation to publicly publish their annual reports, including their financial statements<sup>73</sup>. Thus, it has been confirmed that the LAF regulates the transparency of the NPOs in a manner that is adequate for all established risk factors. As regards the risk “the members of the NPO are members of radical groups”, via publicly available data from the Central Registry, information may be obtained about the members of the bodies and organs of the associations and foundations.
163. The LLSCRCRG regulates the financing of churches, religious communities and religious groups<sup>74</sup> by applying the regulation on non-profit organizations and organizations of public interest. No explicit provisions about any publication of the significant acts, including the financial statements, have been prescribed.
164. The special Law on the Red Cross does not comprise any provisions about transparency and accountability, while it comprises provisions about the financing sources. The Red Cross is obliged to apply the provisions of the Law on Accounting of Non-Profit Organizations. In practice, the national Red Cross is an example of transparent and accountable reporting.
165. The practice shows a versatile application of these provisions since not all non-profit organizations share their annual reports with the wider public<sup>75</sup>. The conducted analysis points to the possibility for improving the implementation of the legal provisions by means of an enhanced promotion of the significance of NPO transparency in their work.
166. Based upon the assessment system used by FATF, the working group established that the result in terms of adequate management of these risk factors has been largely achieved with the legal regulations, but it is necessary to improve the implementation, due to which it is assessed at a medium level.

## **Monitoring**

167. Monitoring and reporting refers to actions taken by governments (usually a regulator) to collect and analyse information on NPOs, or to require NPOs to provide that information through reports. This is a routine activity, which means it need not be

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<sup>70</sup> 6(b)(i), Interpretive Note R8

<sup>71</sup> The criterion transparency requires for the following information to be kept: the purpose and the tasks of their activities, the identity of the person (persons) who is/are the owner/s, who control/s or manage/s their activities, publishing annual financial statements that comprise detailed analyses of the revenues and expenditures, records of charity activities, etc.

<sup>72</sup> Article 11

<sup>73</sup> Article 53

<sup>74</sup> with Article 33

<sup>75</sup> The survey comprising 234 associations and foundations shows that, despite the fact that 89% of the organizations prepare annual financial statements, 60% of them make them available to the general public – Report on the Managing Practices, Transparency and Accountability of Civil Society Organizations, MCIC, 2020

triggered by any particular concern or suspicion. FATF states that “*Information provided by NPOs to regulatory agencies who have, as part of their mandate, the oversight of the NPO sector, is very important to promoting transparency in the NPO sector.*”<sup>76</sup> FATF states that, in most cases, additional reporting requirements for purely TF purposes will not be required.<sup>77</sup> Monitoring is also assessed under Immediate Outcome 10.<sup>78</sup>

168. The issues related to “the mechanisms for obtaining regular financial and other information about the NPO operation” were addressed within the criterion “**monitoring**”. The legal provisions clearly define the competencies in this domain. The LAF stipulates that the supervision over the lawfulness of the application of the provisions of this law is conducted by the Ministry of Justice<sup>79</sup>. The Ministry of Finance and the Public Revenue Office monitor the application of the legal obligations related to financial information. The LLSCRCRG is the only one that does not regulate this matter.

169. The practice has shown an insufficient implementation of these provisions. The competent institutions do not have sufficient resources, including staff with adequate capacities for an effective monitoring of the implementation of the legal provisions.

170. Having regard to the legal regulations and the capacities of the competent institutions to ensure an adequate monitoring of the implementation of the relevant laws, the working group established a medium level of management of the risk factors in terms of “monitoring”.

### ***Intelligence and investigations***

171. FATF places significant emphasis on the ability of regulators and law enforcement to obtain the information they need. It is assessed under 8.5.c of the methodology.<sup>80</sup> The Typologies Report notes that “*detection efforts commonly encompass multiple types of information, from varying sources... The case studies suggest that in the majority of instances, the detection of risk and abuse was achieved through the simultaneous consideration of multiple types of information from different sources.*”<sup>81</sup> Sources of information included:

- NPO regulatory Information
- Open source information
- FIU and other financial information

<sup>76</sup> 37, Best Practices Paper. See also *ibid* paragraph 129, and Typologies paragraphs 34 and 179.

<sup>77</sup> “additional reporting requirements ... may not be appropriate for CFT purposes for those NPOs facing little to no TF risk. Any of these or other TF risk mitigation measures should be proportionate to the TF risk they face.” 24, best Practices Paper

<sup>78</sup> “a) Examples of Information that could support the conclusions on Core Issues. ...4. Information on NPO supervision and monitoring (e.g. frequency of review and monitoring of the NPO sector (including risk assessments)).

a) Examples of Information that could support the conclusions on Core Issues...

4. Information on NPO supervision and monitoring (e.g. frequency of review and monitoring of the NPO sector (including risk assessments));

b) Examples of Specific Factors that could support the conclusions on Core Issues ...

10. ...To what extent is a risk-sensitive approach taken to supervise or monitor NPOs at risk from terrorist abuse and appropriate preventive, investigative, criminal, civil or administrative actions and co-operation mechanisms adopted?”. Immediate Outcome 10, see Annex 1.

<sup>79</sup> in Article 58

<sup>80</sup> “8.5 c. Countries should ensure that full access to information on the administration and management of particular NPOs (including financial and programmatic information) may be obtained during the course of an investigation”. Methodology, see Annex 2.

<sup>81</sup> 126, Typologies. See also paragraphs 15, 29 131, 132, 134, 135, 137, 139, and 143.

- National security intelligence
- Law enforcement information; and
- Foreign information.<sup>82</sup>

172. The Typologies Report further notes that “*Significant due diligence can be achieved through the use of open-source, regulatory, and financial information. However, in cases where complicit actors engage in deception, the case study analysis indicates that access to law enforcement and national security information derived from domestic agencies or foreign partner agencies was required*”.<sup>83</sup>

173. Investigation refers to the capacity and powers of a country to investigate cases of possible terrorist financing in the NPO sector. Countries will be assessed on this under R8<sup>84</sup> and IO.10.<sup>85</sup> (Note, Recommendations 29, 30 and 31 also require countries to have investigative capacity, but this is not specifically NPO focused.) The Interpretive Note to R8 sets out what is expected in relation to investigations of NPOs:

- Countries should have investigative expertise and capability to examine those NPOs suspected of either being exploited by, or actively supporting, terrorist activity or terrorist organisations;<sup>86</sup>
- Countries should ensure that full access to information on the administration and management of a particular NPO (including financial and programmatic information) may be obtained during the course of an investigation.<sup>87</sup>

174. Via the criteria “**intelligence and investigations**” a possibility is established for the regulators and the law enforcement agencies to obtain the required information from NPOs, as well as the capacity and the power of a country to investigate cases of suspected terrorist financing in the NPO sector. These aspects have not been covered in the LAF or the LLSCRCRG, but rather in the respective laws that regulate intelligence and the prevention of money laundering and terrorist financing. The working group established that these issues are regulated in the relevant laws of the competent institutions from which they originate and they define their competencies and the right to access to information. It is also confirmed by the case described in the first part of this report in which a case was presented of an NPO being abused for financial fraud (the case is in a court proceeding).

175. Having regard to the legal regulations and the resources that have been made available for the implementation of this provision which is relevant in terms of all risk

<sup>82</sup> Figures 4.1 and 4.2 in the Typologies Report. See also paragraphs 37, 38, 42 and 45 of the Best Practices Paper and paragraphs 10, 15, 17, 34, 37, 125, 129, 131, 132, 134, 135, 137, 139, 143, 169 and 184 of the Typologies Report.

<sup>83</sup> 184, Typologies

<sup>84</sup> “countries should have investigative expertise and capability to examine those NPOs suspected of either being exploited by, or actively supporting, terrorist activity or terrorist organisations” 8.5 b, Methodology. See also paragraphs 34 of the Best Practice Paper, and paragraphs 10 and 34 of the Typologies.

<sup>85</sup> “a) Examples of Information that could support the conclusions on Core Issues:

2. Examples of interventions and confiscation (e.g; ... investigations and interventions in NPOs misused by terrorists). ...

b) Examples of Specific Factors that could support the conclusions on Core Issues:

10....To what extent is a risk-sensitive approach taken to supervise or monitor NPOs at risk from terrorist abuse and appropriate preventive, investigative, criminal, civil or administrative actions and co-operation mechanisms adopted?” Immediate Outcome 10. See Annex 1.

<sup>86</sup> 6(c)(ii), Interpretive Note R8

<sup>87</sup> 6(c)(iii), Interpretive Note R8

factors, the working group established that the result in the adequate management of these risk factors is at a high level.

## **Intervention**

176. Intervention and sanctions refer to the actions available to governments to disrupt identified instances of terrorist financing, and to punish those responsible for these crimes. Actions taken by government in these areas are assessed under Recommendation 8,<sup>88</sup> Immediate Outcome 10,<sup>89</sup> Recommendation 6<sup>90</sup> and Recommendation 30.<sup>91</sup> Considerable space is given to considering the best actions in both the Best Practices Paper and the Typologies. A range of actions are available. Given the seriousness of the crime, the focus is on preventative measures.<sup>92</sup> In 71% of observed cases in the Typologies Report,<sup>93</sup> administrative measures were used.<sup>94</sup>
177. The mechanisms of the competent authorities for intervention and sanctions for the persons responsible in the identified cases of terrorist financing have been analysed within the criterion “**intervention**”. Pursuant to the LAF<sup>95</sup>, the operation of associations and foundations is banned if they are involved in activities related to terrorism. Furthermore, the procedure for banning associations and foundations has been elaborated in the LAF<sup>96</sup>. Such procedure may be filed before a public prosecutor by anyone. If the public prosecutor establishes that the legal requirements have been met, he/she submits a proposal to the competent court. During the period subject to this analysis, no decision has been adopted on banning the operation of any association or foundation. The LLSCRCRG does not prescribe the requirements for the termination<sup>97</sup> of churches, religious communities or religious groups and no provisions have been stipulated in terms of the manner of proceeding and a possible ban in cases when churches, religious communities and religious groups are involved in terrorist activities.
178. Having regard to the legal regulations and the resources that have been made available for the implementation of these provisions which are relevant in terms of all risk factors, the working group established that the result in the adequate management of these risk factors is at a high level.

## **Cooperation**

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<sup>88</sup> See 8.4 b Methodology, Annex 2.

<sup>89</sup> See Immediate Outcome 10, Annex 1.

<sup>90</sup> “Targeted financial sanctions related to terrorism and terrorist financing \* Countries should implement targeted financial sanctions regimes to comply with United Nations Security Council resolutions relating to the prevention and suppression of terrorism and terrorist financing...” Recommendation 6, FATF Recommendations

<sup>91</sup> “Responsibilities of law enforcement and investigative authorities \* ... Countries should ensure that competent authorities have responsibility for expeditiously identifying, tracing and initiating actions to freeze and seize property that is, or may become, subject to confiscation, or is suspected of being proceeds of crime” Recommendation 30, FATF Recommendations

<sup>92</sup> “Because there is a focus on preventing a terrorist act in terrorist financing cases, instances of abuse or substantial risk are often dealt with through a variety of non-prosecutorial measures, including... the designation of individuals and organisations who are or who support terrorist entities... Many of these measures will occur prior to the case progressing to a level warranting criminal prosecution. In cases where foreign organisations are abusing or may abuse domestic NPOs, prosecution may not be a viable option, making the application of targeted financial sanctions on domestic or foreign entities an alternative method of protecting domestic NPOs”. 11, Typologies.

<sup>93</sup> See Figure 5.1 and paragraph 146, Typologies

<sup>94</sup> See Figure 5.3, Typologies. See also paragraphs 16, 151, 152, 169 and 185 of the Typologies, and paragraphs 31 and 40, Best Practices Paper.

<sup>95</sup> Article 65

<sup>96</sup> Article 66

<sup>97</sup> Article 17

FATF assess whether countries have effective cooperation and coordination between appropriate authorities.<sup>98</sup> Competent authorities includes “law enforcement, intelligence and regulatory agencies, accrediting institutions and self-regulatory organisations) or organisations that hold relevant information on NPOs”.<sup>99</sup> Specifically, there should be “appropriate mechanisms to ensure that, when there is suspicion that a particular NPO is being abused by terrorists, this information and any other relevant information are promptly shared with relevant competent authorities, in order to take preventive or investigative action.”<sup>100</sup> Coordination during investigations reduces the risk that action by one agency may conflict or jeopardize actions by a counterpart.<sup>101</sup> Cooperation also includes sharing information with agencies from other countries, in particular establishing points of contact with foreign counterparts.<sup>102</sup> This will be separately assessed as part of R8<sup>103</sup> and considered under IO.10.<sup>104</sup>

179.

180. **The cooperation** among the competent institutions is analysed within the last criterion of this comprehensive set of criteria which provide an analysis of the impact of the laws on the reduction of the risk factors. The issues related to the cooperation between the competent institutions are regulated with the relevant laws of the competent institutions which define their competencies, cooperation and coordination. The practice thus far has not yielded any examples of absence of cooperation or coordination among the competent prosecution and intelligence institutions.

181. The laws and regulations in the RNM on the establishment, registration, management, financing, transparency, monitoring, intelligence and information, investigations, interventions and cooperation are largely consistent with the requirements of the international standards.

*Table 2.3 Effectiveness level of the laws and regulations*

<i><b>Criterion</b></i>	<i><b>Effectiveness level</b></i>
Establishment	High
Registration	High
Management	High
Financing	High
Transparency	Medium
Monitoring	Medium

<sup>98</sup> “Countries should ensure effective co-operation, co-ordination and information-sharing to the extent possible among all levels of appropriate authorities or organisations that hold relevant information on NPOs.” 8.5 a, Methodology for Assessing Technical Compliance with the FATF Recommendations and the Effectiveness of AML/CFT systems. See also 8.5 d and FATF Recommendations 30 and 31.

<sup>99</sup> 33, Best Practices Paper

<sup>100</sup> 35, Best Practices Paper. See also paragraph 36, and Typologies paragraphs 35, 126, 127, 143, 154, 169 and 184.

<sup>101</sup> “A collaborative, inter-agency approach to the detection of abuse and risk ensures that investigative actions being carried out by one body don’t conflict with or jeopardize actions being carried out by another.” 42, Best Practices Paper

<sup>102</sup> “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.” 45, Best Practices Paper. See also paragraphs 43 and 44, and Typologies paragraphs 141 and 184.

<sup>103</sup> “Countries should identify appropriate points of contact and procedures to respond to international requests for information regarding particular NPOs suspected of terrorist financing or involvement in other forms of terrorist support” 8.6 Methodology for Assessing Technical Compliance with the FATF Recommendations and the Effectiveness of AML/CFT systems

<sup>104</sup> **Note to Assessors:** Assessors should also consider the relevant findings on the level of international co-operation which competent authorities are participating in when assessing this Immediate Outcome. Immediate Outcome 10, see Annex 1.

Intelligence and information	High
Investigations and intervention	High
Cooperation	Significant

182. **The working group established that the level of effectiveness of the legal regulations is medium-high in terms of the reduction of the risk and the established risk factors related to terrorist financing.**
183. **With a view to further enhancement of legal framework and the practice, measures have been recommended in the Chapter titled Recommended Measures and Activities.**



## 2.2. MITIGATION MEASURES RELATED TO THE POLICIES AND THE ENGAGEMENT OF THE NPOs

184. The following documents were subject to analysis: The Strategy for Cooperation of the Government with the Civil Society and the Action Plan for Implementation of the Strategy, the National Strategy for Combatting Terrorism (2018-2020), the National Strategy for Countering Violent Extremism, the National Strategy for Combatting Money Laundering and Financing of Terrorism (2018-2020) and the Guide for the Exposure of NPOs to Terrorist Financing.
185. The analysis was conducted by the representatives of the relevant institutions and the NPOs who participated in the workshop held in October 2020.
186. According to the given methodology, the mitigation measures related to the policies and the engagement of the NPOs were assessed based on several criteria: public trust, awareness raising, education and guidance, best practices, dialogue, environment and development.
187. The level of effectiveness of this set of measures was analysed in relation to the four risk factors identified.

### ***Public trust and environment***

188. FATF places great emphasis on promoting public confidence in the accountability and integrity of NPOs<sup>105</sup>. This is assessed under R8<sup>106</sup>. The fact that FATF assess policies to promote ‘public confidence’ needs some clarification. This measure is not an end in itself. Instead, FATF states that they are “*complimentary to efforts to protect the sector from terrorist abuse*”<sup>107</sup>. Public confidence should be seen as both the result of, and a driver towards, behaviour by NPOs which are beneficial. These behaviours include transparency, integrity and effectiveness.
189. FATF also explicitly recognises that NPOs should be operationally independent, and that implementation of R8 must be “*consistent with countries’ obligations to respect freedom of association, assembly, expression, religion or belief, and international humanitarian law*”.<sup>108</sup>
190. The **public trust** criteria were used to analyse the measures for promoting policies that protect the trust in the NPO sector. This analysis also included the **environment** criterion that determines whether the strategic documents promote or restrict human rights and whether they provide an environment for the smooth and stimulating operation of the NPOs.
191. **Strategy of the Government of the RNM for Cooperation with and Development of the Civil Society (2018-2020)** - the main goal of this strategy is to define measures

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<sup>105</sup> “Systems that promote achieving a high degree of accountability, integrity and public confidence in the management and functioning of NPOs are integral to ensuring they cannot be abused for terrorist financing.” 4(d), Interpretive Note to Recommendation 8

<sup>106</sup> “Countries should... have clear policies to promote accountability, integrity, and public confidence in the administration and management of NPOs.” Paragraph 8.2 (a), *Methodology for Assessing Compliance with the FATF Recommendations and the Effectiveness of AML/CFT Systems* FATF (2016)

<sup>107</sup> From paragraph 184 of the Typologies, which states “Ultimately, the NPO sector’s efforts to increase donor confidence through transparency are complimentary to efforts to protect the sector from terrorist abuse. Making more information on programmes and activities openly available results in better transparency, and this ultimately benefits efforts to detect abuse.”

<sup>108</sup> 6, Best Practices Paper. See also ibid 22, and Typologies 28.

for building a continuous, transparent and inclusive dialogue with the civil society, which contributes to increasing transparency, integrity and effectiveness of the NPOs. The implementation of the Strategy takes place in accordance with the dynamics of the Action Plan. The implementation of this Strategy is monitored by the Council for Cooperation with and Development of the Civil Society Sector, which is an advisory body of the Government for promoting cooperation, dialogue and encouragement of the development of the civil sector in RNM. The reports on the work of this council are published on the website <https://www.nvosorabotka.gov.mk/?q=mk/node/100>. The measures defined in the Strategy Action Plan apply to associations and foundations, but not to churches, religious communities and religious groups.

192. The strategy does not set goals related to strengthening public trust in the NPO sector, and as a consequence there is a lack of appropriate measures by the state in this regard.
193. **The National Strategy for Combatting Terrorism** sets specific goals: prevention, protection, prosecution and response to terrorism developed with specific activities in the Action Plan. The Action Plan envisages a set of measures for prevention of the abuse of NPOs, as well as measures and activities for strengthening the capacities of the investigative bodies for criminal prosecution of possible abuses of NPOs for the purposes of terrorist financing. **The National Strategy for Countering Violent Extremism** - sets specific goals: prevention, protection, enforcement and response to prevent violent extremism. NCCVECT leads the initiative for the implementation of the Action Plans (with contribution from the relevant institutions and Ministries of the Government of the RNM) and it is responsible for coordinating and communicating the efforts of CT and CVE.
194. **The National Strategy for Combatting Money Laundering and Financing of Terrorism** is a medium-term strategic document, which for the period from 2017 to 2020 defines the basic strategic goal, ranks the priorities and defines the activities that should improve the system for prevention of money laundering and financing of terrorism in RNM through the realization of 13 special goals. The action plan of this strategy envisages special measures to achieve the specific goal - to prevent the use of funds and abuse of NPOs for the purposes of terrorist financing, which should result in increased awareness of the terrorist financing risks, analysed exposure of the NPO sector to the terrorist financing risk, control mechanisms for the NPO sector and strengthened capacities for timely prevention and detection of terrorist financing. The Council for Combating Money Laundering and Financing of Terrorism monitors the implementation of the measures set out in this strategy.
195. The implementation of these strategic documents shows that they are highly effective in terms of ensuring smooth operation of NPOs and do not restrict human rights while enabling the management of the identified risk factors. The strategic documents and policies can be further enhanced by integrating targeted goals and measures to strengthen public trust in NPOs.

#### ***Awareness raising, education and guidance, and best practices***

196. Awareness raising involves improving NPOs understanding of the terrorist financing risk, and the methods for mitigating it. *“Risk mitigation measures may be implemented more effectively because NPOs will have a better understanding of their terrorist*

*financing risks and how to best to mitigate them.*<sup>109</sup> This is an important issue for FATF, and is assessed as part of Immediate Outcome 10.<sup>110</sup>

197. FATF also recognises that education of NPOs is a key component of a preventative approach to the terrorist financing risk. *“Because there is a focus on preventing a terrorist act in terrorist financing cases, instances of abuse or substantial risk are often dealt with through a variety of non-prosecutorial measures, including...preventive education.”*<sup>111</sup>
198. Education and guidance requires the development of best practice models. FATF states that *“Countries may obtain useful information from NPOs in their country about their specific needs, concerns, vulnerabilities, risks and challenges. This information can be used to direct the development of more effective policies, guidance and risk mitigation measures for NPOs.”*<sup>112</sup>
199. The following have been taken into account in the analysis of the fulfilment of the **awareness raising** (i.e., whether the measures raise the awareness among NPOs, donors and the public about the terrorist financing risk and how to mitigate it), **education and guidance** (i.e. whether the measures provide skills and information to the NPO sector needed to combat the terrorist financing risk) and **best practices** criteria (i.e. whether the measures provide research, identification and dissemination of information on best practices): the Guide for the Exposure of NPOs to Terrorist Financing, a series of conducted trainings, the initiative for participation of the NPO sector in this assessment and activities for creating risk mitigation measures as well as activities implemented by the NPO sector.
200. The process of creating this risk assessment in cooperation with the NPO sector has contributed to raising the awareness which is generally low. The survey showed that the associations and foundations, as well as the religious organizations are not informed about the existing legal solutions and policies (Figure 2.4 and Figure 2.5). They are also unable to identify specific rules, measures and activities undertaken by the state to protect the NPO sector from abuse for the purpose of financing terrorism.

*Figure 2.4: Awareness of associations and foundations on the existence of policies and measures to reduce the terrorist financing risk*

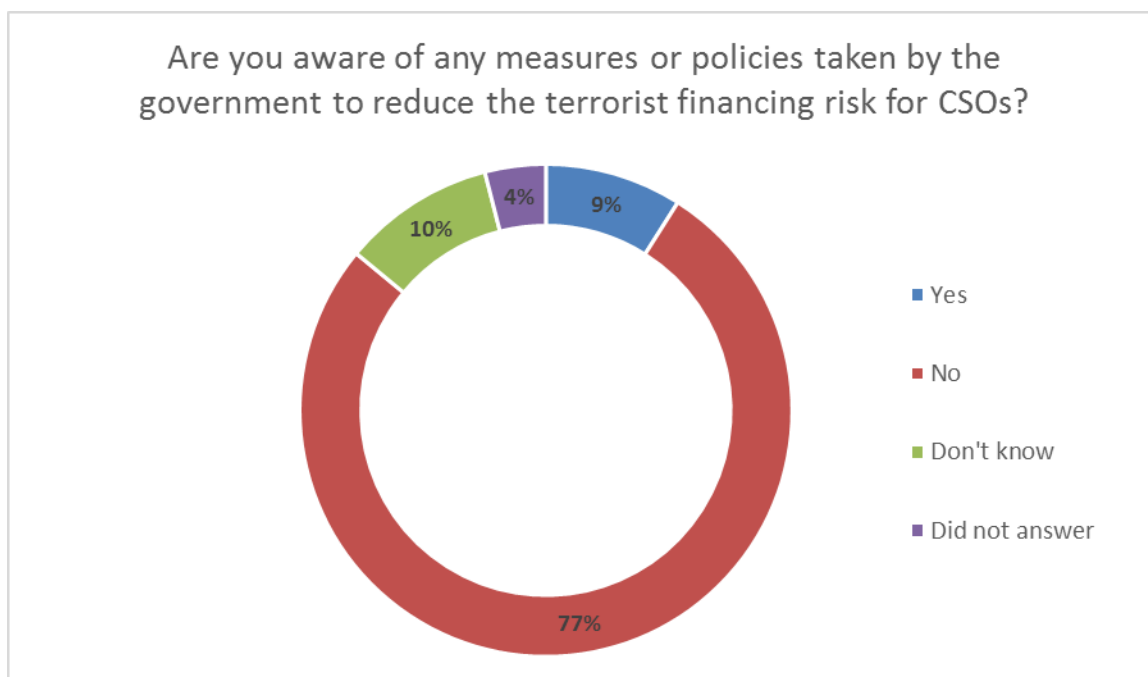
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<sup>109</sup> 27, Best Practices Paper

<sup>110</sup> Examples of Information that could support the conclusions on Core Issues under Immediate Outcome 10 include “4. ...frequency of engagement and outreach (including guidance) to NPO sector regarding CFT measures and trends;” See Annex 1.

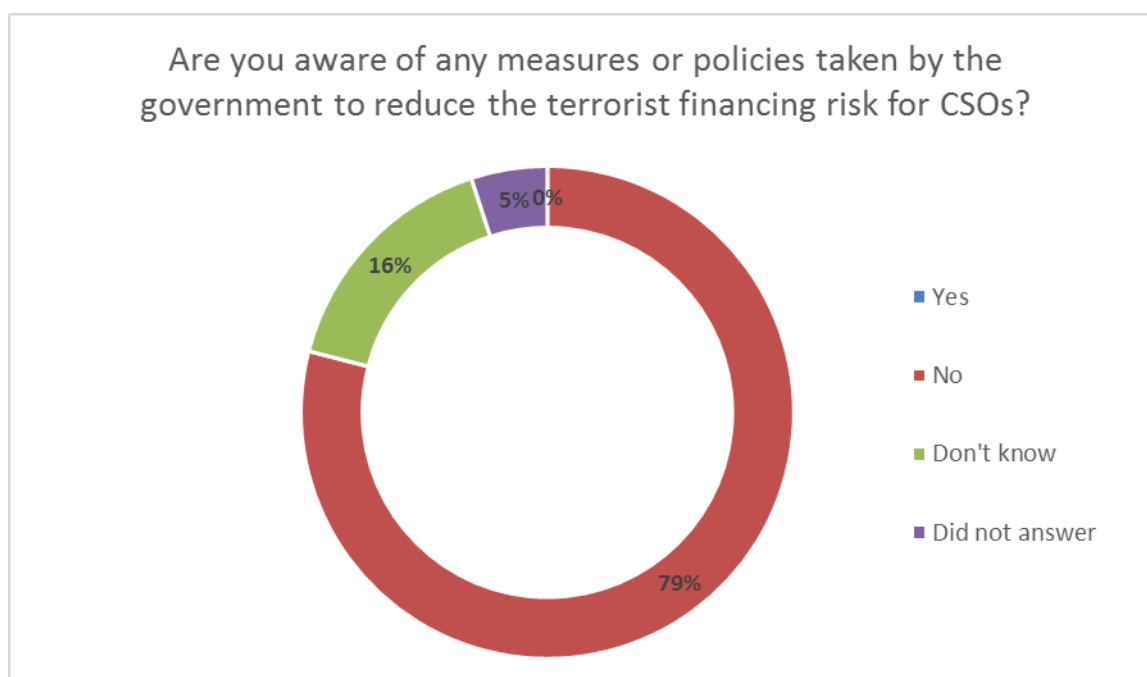
<sup>111</sup> 11, Typologies. See also ibid, 146

<sup>112</sup> 27, Best Practices Paper



Source: Survey of associations and foundations

*Figure 2.5: Awareness of associations and foundations on the existence of policies and measures to reduce the terrorist financing risk*



Source: Survey of churches, religious communities and religious groups

201. **The Guide for the Exposure of NPOs to Terrorist Financing** is intended for the NPO sector, but also for the competent authorities and entities responsible for implementing measures and actions to prevent money laundering and terrorist financing

in order to increase the awareness and knowledge of the methods and risks for abuse of the non-profit organizations for the purposes of terrorist financing. It elaborates the five abuse methods of the NPO sector according to the FATF Methodology, provides a series of examples of good practices of non-profit organizations and develops measures to identify and prevent the abuse of the NPO sector for financing terrorist activities. This guide is publicly available on the official website of the FIO<sup>113</sup>.

202. For the purpose of raising the public awareness and improving the knowledge of the NPO representatives, Konekt, in partnership with FIO, the European Center for Not-for-Profit Law (ECNL) and GIZ organized a series of events and trainings between 2018 and 2020, elaborating on the risks of the involvement of the NPO sector in terrorist financing. Over 110 associations and foundations that are members of the Network for Financial Sustainability of CSOs managed by Konekt were involved and informed.
203. Additionally, a platform for cross-sectoral dialogue between institutions, associations, foundations and financial institutions was developed. This contributed to the involvement of the NPO sector in the creation and promotion of mechanisms for protection against abuse for the purposes of terrorist financing. Additionally, in partnership of FIO, Konekt and ECNL, and in cooperation with the Macedonian Banking Association, training for financial institutions and NPOs was conducted related to the specifics of working with associations and foundations. Good practices from the banking sector in the Kingdom of the Netherlands were also shared.
204. Under the auspices of GIZ and ECNL and in partnership between state authorities and the NPO sector and for the purposes of effective implementation of the FATF Recommendation 8, a terrorist financing risk assessment was conducted. This project activity, in addition to producing a TF Risk Report for NPOs, also has many other positive effects: it increases the mutual trust between the NPOs and the state authorities, it increases the knowledge about the nature of the work and the problems faced by the NPO sector, and it increases the willingness to strengthen the measures for transparent and good governance of NPOs as a way of self-protection from a possible conscious or unconscious involvement in terrorist financing. Complementary to the assessment was the attempt to involve the stakeholders, which leads to sustainability of the results through their inclusion in future strategic documents.
205. The cross-sectoral dialogue in North Macedonia is internationally recognized as a good practice and has been shared with other countries through regional and global forums dedicated to this topic (Global Conference on Illicit Financial Flows, Global Counterterrorism Forum, Global NPO Coalition on FATF, consultative sessions of the Counter-Terrorism Committee Executive Directorate of the United Nations Security Council, etc.).
206. During the analysis of the defined policies and their implementation, it was determined that significant progress has been made in terms of these measures and criteria, and specific measures and activities have been identified in the short and medium term to improve these aspects. The measures at this level are **sustainable** because the tools created are available for use and promotion, the established dialogue mechanisms are deemed useful by the institutions, and the results of this assessment will be reflected in the strategic documents and action plans for fighting terrorism in the country, as well as in the relevant legal regulations. Such institutionalization of the effects ensures a high level of sustainability.

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<sup>113</sup> [https://ufr.gov.mk/?page\\_id=262](https://ufr.gov.mk/?page_id=262)

207. Consequently, the existing policies and activities are largely effective in managing the terrorist financing risk factors. According to the identified risk factors, and given that the activities in this area so far have covered the entire sector, the need for more targeted awareness-raising activities among NPOs that are exposed to several risk factors has been identified for the following steps (e.g. NPOs operating in geographical areas with increased TF risks as well as NPOs receiving and giving donations in high-risk areas abroad, etc.). It is also necessary to target and increase the involvement of religious communities and religious groups in these activities.

*Table 2.6 Level of effectiveness of NPO involvement policies*

Criterion	Level of effectiveness
Promoting public trust	Medium
Raising awareness	High
Educational programs and guidelines	High
Development and promotion of best practices	High
Consultation and dialogue	High
Environment	Medium
Development	High
Sustainability	High

208. **It has been established that the level of effectiveness of the policies for NPO engagement is high in terms of the reduction of the risk and the established risk factors related to the identified terrorist financing risk factors.** The possibility for further upgrade and improvement of the strategic measures and policies presented in the Overview of activities and measures has been defined:

### 2.3. MEASURES IN THE NPOs

209. According to the given methodology, the assessment of the measures in the NPOs was made on the basis of several criteria: environment, formation, transparency, governance, finance, projects, due diligence of beneficiaries, partners and donors, abuse, development, consultations.

### ***Environment and Formation***

210. An analysis of the **environment** criteria (creating an environment that will protect operational independence, while being in compliance with the relevant laws and regulations) and **formation** (a commitment of NPOs to be established in accordance with the relevant laws and regulations) found that the NPO measures are partially effective. Namely, associations and foundations build an environment of independence and legality through the promotion of good practice. A series of activities in the sector (resource centres, development indices, research, promotions, trainings, educational materials, websites, etc.) promotes the independence of the civil society and provides guidelines for registration of NPOs in accordance with LAF. The majority of associations and foundations used their networks to publicly resist external political influences, including radical influences. There are organizations that have been working for a long time with full dedication on these practices and that have been allocating resources which most often originate from foreign donors. In this context, the measures are only partially risk-based because they are general and not precisely targeted at NPOs exposed to risk factors. Active associations and foundations are networked at multiple levels and sectors and have active communication channels. Humanitarian organizations as well as associations and foundations operating in the field of education and social protection are part of these networks. There are civil society resource centres in several cities that provide (intangible) support to new organizations, but no mechanisms have been established to obtain information from institutions on newly registered entities. Although there are some examples, for the most part religious organizations are not involved in the practices, which the working group considers a factor that reduces the effectiveness of the measures related to the following risk factors: *“The management of the NPOs is comprised of exponents of religious radical ideology”* and *“The NPOs are registered or are active in regions identified as regions at risk of terrorism.”* Overall, these measures are not disruptive to the smooth operation of the NPOs.

211. The long-term work of building a culture of commitment to the independence and legality of the NPOs provides a basis for determining a significant level of effectiveness of these measures. However, improvements are needed in the scope and involvement of non-profit organizations that are more vulnerable, including: a) involvement of religious communities in the measures implemented by civil society organizations; b) building a direct involvement mechanism for new NPOs after their formation/registration; c) ensuring appropriate extra support is targeted at those NPOs that are more exposed to several risk factors.

### ***Transparency and Governance***

212. An analysis of the **transparency** criteria (open and voluntary sharing of information on their management, administration and activities) and **governance** (maintaining good standards and practices regarding governance, management and oversight) determined partial effectiveness of the implemented measures. 55% of the surveyed associations and foundations stated that they apply the best practice related to management measures

and procedures. 61% of them cited the attempt to avoid exposing themselves to the terrorist financing risk as the reason, whereas 78% apply management standards because they think it is a good practice, not because they are required to do so. In terms of transparency in sharing management and activity information, organizations regularly share information on social and traditional media, although the formal sharing of information on management structures and reports can be strengthened as the report on management practices, transparency and accountability<sup>114</sup> indicates that more than half of the associations and foundations publicly share the annual narrative reports, while a third of them have publicly shared information about their management structures. In the absence of formal data on the application of the public disclosure obligation for narrative and financial statements, surveys estimate that about 83% of the associations and foundations prepare reports, whereas 52% publish the reports on their websites.<sup>115</sup>

213. In the absence of formal data, a survey of churches, religious communities and religious groups examined financial management, transparency and accountability practices. The data from the Central Registry indicate that 25 organizations out of a total of 38 submitted final accounts for 2019.

*Figure 2.7: Application of financial management, transparency and accountability practices in churches, religious communities and religious groups*

<b>Do you apply any of the following financial management, transparency and accountability practices? Select anything that is applicable.</b>	<b>No. of org.</b>	<b>Percentage of 19</b>
Rules and procedures for financial and administrative operation	6	32%
Financial reporting procedures	4	21%
Internal financial control practices	8	42%
Financial plan (budget)	8	42%
Financial report	12	3%
Final account	16	4%
Annual narrative report	9	7%
Financial reports for donors (per project)	5	6%
Narrative reports for donors (per project)	5	6%
Publication of reports	2	1%
Other	0	%
Did not respond	2	1%

*Source: Survey of churches, religious communities and religious groups*

<sup>114</sup> Survey with 234 CSOs, Report on management practices, transparency and accountability of civil society organizations, MCIC, 2020

<sup>115</sup> Data obtained from Assessment on the State of the Enabling Environment and Capacities of Civil Society against the Guidelines for EU support to Civil Society in Enlargement Region, 2014-2020 for the period 2018-2019, available at <http://tacso.eu/wp-content/uploads/2020/09/Regional-CS-Needs-Assessment-Report-2018-2019-final.pdf>



214. Measures applied to associations and foundations include: training, guidance, mentoring support for organizational development, educational materials and guides. The possibility for direct consultations through help desk tools and Civil Society Resource Centres stands out as a good practice in the sector. NPO initiatives in this field are usually funded by foreign donors. However, there are resource organizations that provide long-term support in the field of organizational development of NPOs. The need for improvement in the field of understanding the importance of management bodies and their role in the organizational development of NPOs was noted. In terms of risk, it is estimated that preventive internal control (e.g., dual signatures and transaction approvals after screening) needs to be driven by standard accounting processes through certified accountants.
215. The analysis showed that organizations funded by major foreign donors (e.g., development agencies, EU, etc.) face a negligible risk of abuse due to stricter project reporting, reviewing and monitoring requirements. Smaller organizations have weaker internal capacity and limited resources to implement financial control (management, procurement, monitoring, etc.) and need structured support to protect themselves from possible abuses. There is no information on good practices related to churches, religious organizations and religious groups.
216. The implemented measures are estimated to have a satisfactory level of effectiveness in managing risk factors. The measures within the NPO sector shown in the proposed measures and activities should be subject to adjustments:

### ***Financial Management***

217. An analysis of the **financial management** criterion (maintaining good standards and practices related to financial control of assets) found that the measures are effective. According to the survey, more than half of NPOs follow good financial management practices. The most common donors in associations and foundations impose higher financial control standards and practices performed through both local and international reviews. There is a trend of re-granting, i.e., awarding smaller grants to small local organizations whereby they introduce improvements in the financial standards and the same standards apply to them. Foundations that support smaller organizations are careful to scale the controls to their size and enable progress. Good financial practices and internal control can prevent individuals in organizations from carrying out financial manipulations and abuses of associations and foundations related to the following risk factors: *“The management of the NPOs is comprised of exponents of religious radical ideology”*; *“The NPOs do not provide information on their activities and performed financial transactions in a manner that can be verified by the institutions”* and *“Donations/sponsorships transferred from high risk countries or countries where there is conflict or war”*; There are guides with detailed guidelines on good financial management practices in NPOs, which are publicly available and well known within the sector. There are specialized associations with expertise in this field. Most of these measures are funded by foreign donors and, for the most part, the products and tools are available and sustainable in the long run.
218. NPO initiatives and measures involve organizations from all over the country regardless of their size, including activities that have been identified as having a higher risk. However, it cannot be claimed that the practices reach all associations and

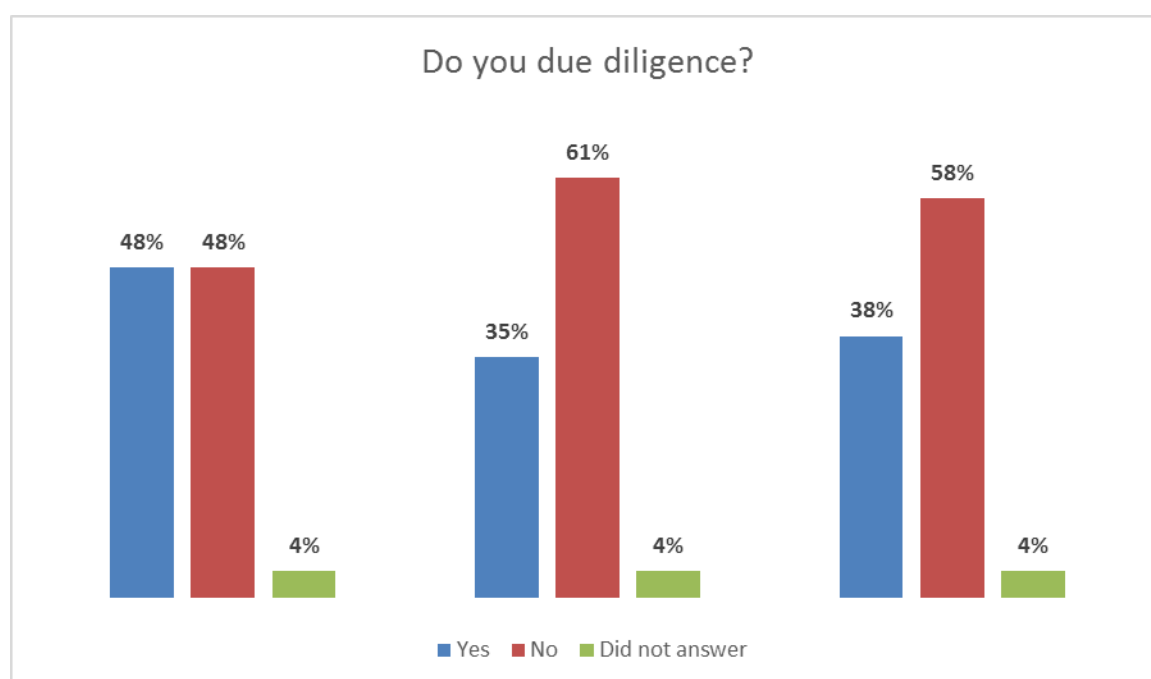
foundations. The survey conducted as part of the assessment indicates that half of the surveyed associations and foundations believe that they apply best practices in terms of the financial management systems and procedures. Smaller organizations face a challenge in this area due to lack of resources and knowledge, which necessitates a special approach to emphasize the importance of good organizational development and support in incorporating good practices appropriate to their size. .

219. The implemented measures have a medium level of effectiveness. Improvements are needed in the scope and inclusion of non-profit organizations exposed to several of the risk factors.

### ***Due diligence measures for beneficiaries, donors and partners***

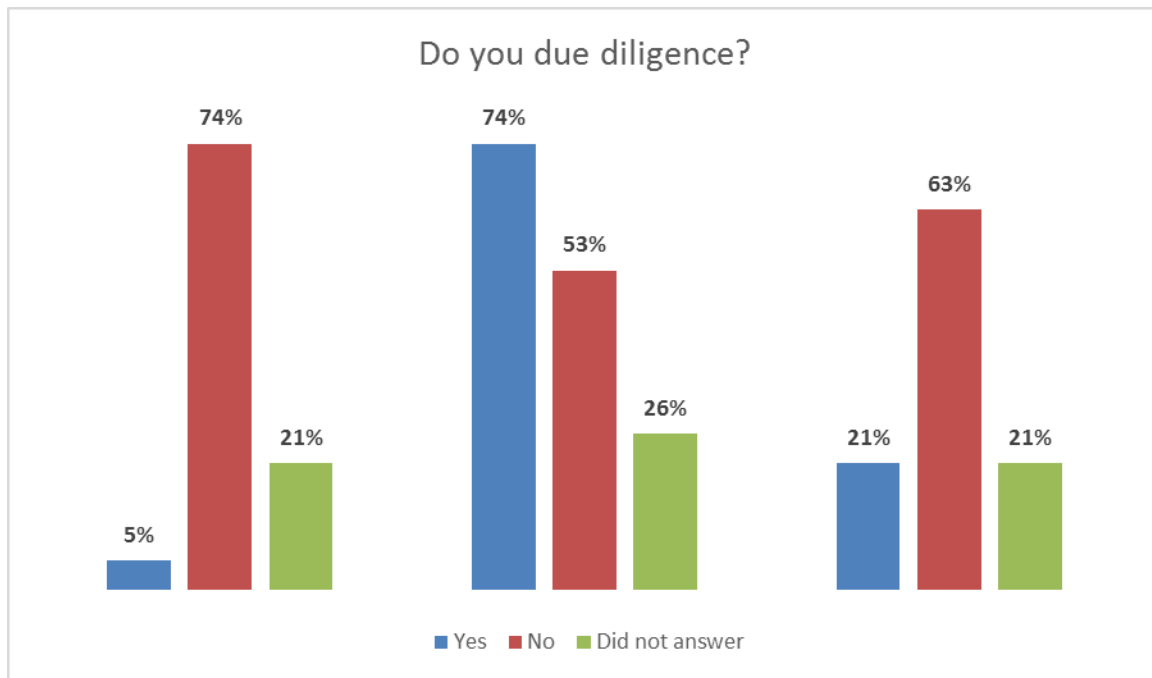
220. An analysis of the **Due diligence** criterion (taking appropriate measures to screen beneficiaries, donors and partners) found that the measures were partially effective. The pre-screening measures are linked to a system of donor procedures (they are sustainable), although associations and foundations also apply them in order to comply with the relevant good practice. The associations and foundations are aware of the source of the donated funds and many of them have good practices of being familiar with the beneficiaries and partners. The analysis showed the need to formalize these NPO processes at a level that corresponds to their capabilities and resources. According to NPO surveys, the majority of respondents do not apply formal due diligence and analysis processes. This is largely due to their modest resources (financial and human) and knowledge to conduct such due diligence. This trend is more pronounced in churches, religious communities and religious groups. (Figure 2.8 and 2.9)

*Figure 2.8: Practice of due diligence and analysis of partners, donors and beneficiaries of associations and foundations*



*Source: Survey of associations and foundations*

*Figure 2.9: Practice of due diligence and analysis of partners, donors and beneficiaries of churches, religious communities and religious groups*



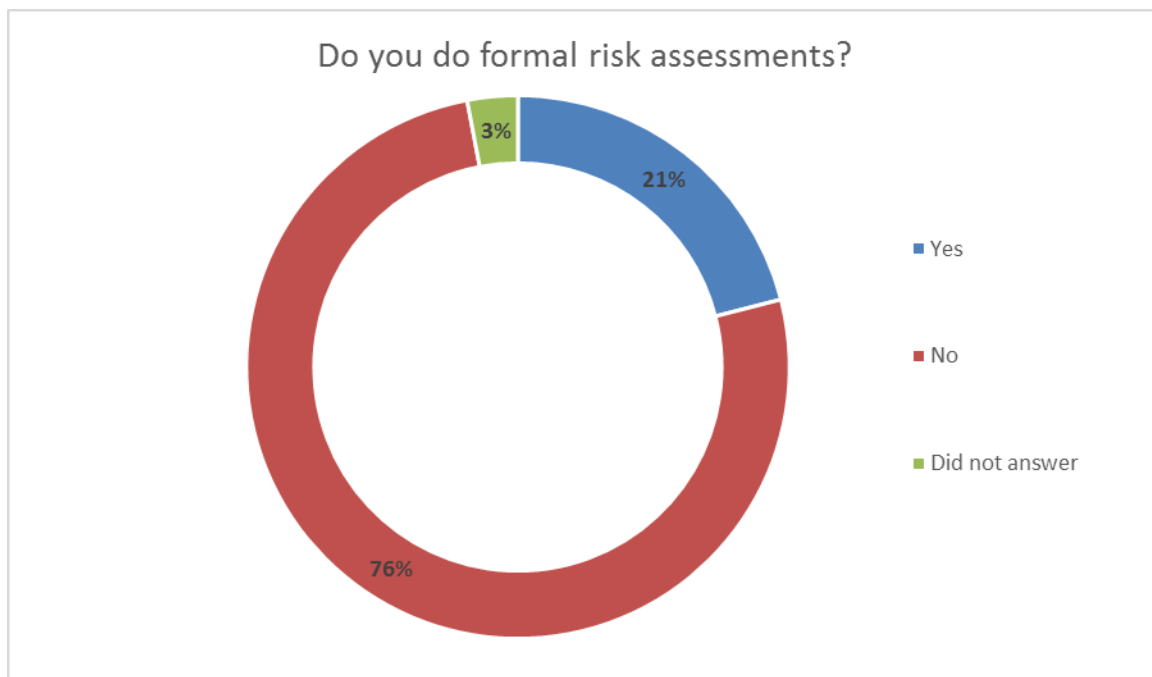
*Source: Survey of churches, religious communities and religious groups*

221. In terms of the risk factor “The management of the NPOs is comprised of exponents of religious radical ideology”, there are good practices in the selection of the management and executive bodies in associations and foundations. At the local level, the organizations are familiar with the members of the management and executive bodies. It is important to introduce this risk factor in the regions with a higher risk of TF, so that these good practices are passed on to organizations in those regions. There is no information on religious organizations.
222. An intermediate level of effectiveness has been identified that requires improvements in the scope and involvement of more vulnerable NPOs, including highlighting the aspect of screening the staff and members of the management and executive bodies. It is also necessary to develop NPO tools and guidelines that are appropriate and applicable to smaller NPOs with modest resources.

### **Risk**

223. An analysis of the **risk** criterion (risk assessment and undertaking mitigation activities) found that the measures are ineffective because formal risk assessment is rare within the NPO sector. About two-thirds of the surveyed associations and foundations do not perform a formal risk assessment. Additionally, 63% of them do not train their staff to identify and prevent risks.

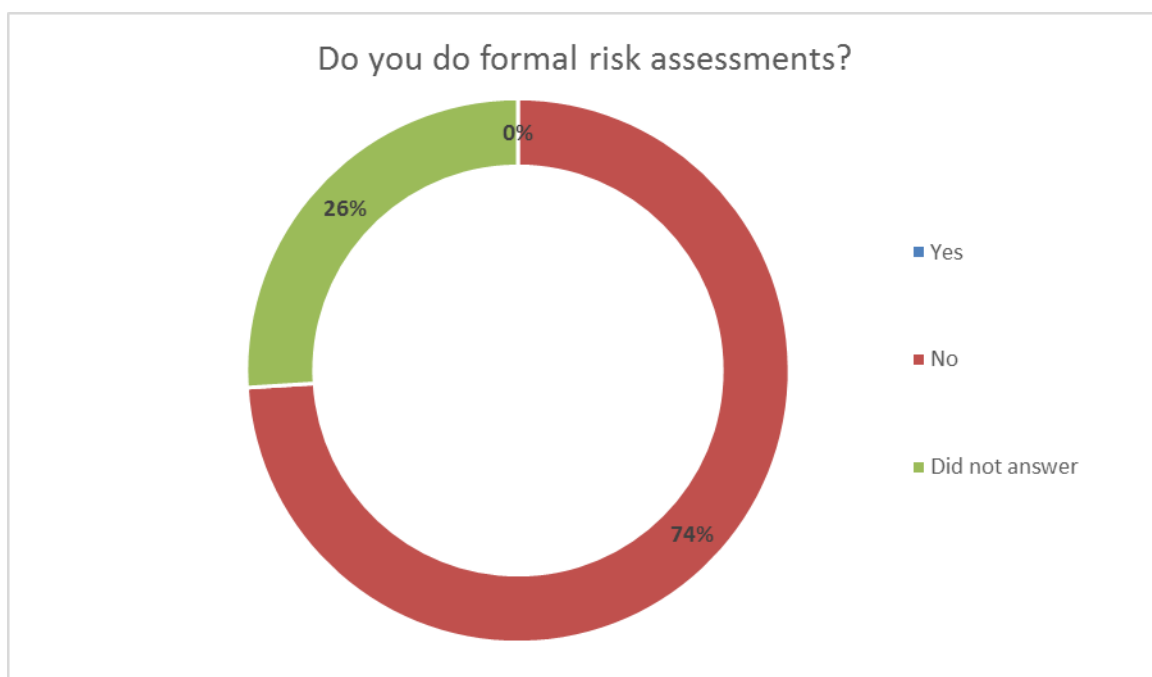
*Figure 2.10: Practice of formal risk assessment in associations and foundations*



Source: Survey of associations and foundations

224. Surveys of churches, religious communities and religious groups show the absence of practicing formal risk assessment for churches, religious communities and religious groups.

*Figure 2.11: Practice of formal risk assessment in churches, religious communities and religious groups*



Source: Survey of churches, religious communities and religious groups

225. The Financial Intelligence Office (FIO) has prepared a Guide for the Exposure of NPOs to Terrorist Financing available on the FIO website. The material needs to be disseminated across the NPO sector. Its content can be improved with guidelines for risk assessment and mitigation in cooperation with the NPO sector.
226. Measures related to the “risk” category have a low level of effectiveness, giving rise to the need for significant changes and improvements defined in the Recommended Measures and Activities.

### *Abuse*

227. The analysis of the **abuse** criterion (identification and reporting of cases of crime, mismanagement and other abuse by the competent authorities) concluded that the reporting mechanisms are institutionalized. Surveys indicate lack of familiarity with the regulations and measures created by the institutions. No cases of NPO allegations of abuse for the purposes of the TF have been identified. The effectiveness of possible NPO abuses for the purposes of terrorist financing or other purposes can be increased by promoting existing mechanisms within the NPO sector.

### *Self-regulation*

228. An analysis of the **self-regulation** (creation of formal and informal mechanisms and networks of mutual support that promote a culture of integrity and high standards within the NPO sector) and **development** criteria (working to develop the role of the sector towards more efficient delivery and higher standards of integrity) concluded that the measures are satisfactorily effective, but that it is necessary to increase their scope. There are several self-regulation initiatives and mechanisms in the civil sector. Some of them are generally aimed at good management at all levels of the organizational process, while others are more specific and serve donors (individual and corporate), such as the Trust Mark and other initiatives and codes within associations and foundations (codes for working with vulnerable groups, service organization standards, etc.). It has been estimated that these practices are effective, but they have not yet been applied by a majority of the NPOs. For the most part, the initiatives are applied from a long-term perspective and they comprise a part of the strategies of the implementing organizations. Self-regulatory mechanisms contain aspects related to risk mitigation. They are based on NPO self-assessment and verification systems. The mechanisms are also available in the risk regions. However, in terms of scope, the survey indicates that 32% of the associations and foundations covered are part of standards established by third parties (voluntary codes, ISO standards, etc.).
229. The survey of churches, religious communities and religious groups indicates a lack of monitoring mechanisms and standards. Namely, only one organization confirmed that it applies standards established by third parties (voluntary codes, ISO standards, etc.), with 16 giving a negative response (84%) and 2 (10%) failing to respond to the survey.
230. The long-term work of building a culture of commitment to the independence and legality of the NPOs provides a basis for determining a significant level of effectiveness of these measures. Medium improvements are needed in the scope and inclusion of non-profit organizations exposed to the risk factors.

**Consultation** An analysis of the **consultation** criterion (positive contribution to wider discussions in society on a wide range of policy issues) indicates proactivity and involvement of associations and foundations in policy-making consultation processes.

232. The associations and foundations are organized into networks according to their needs and cover a wide range of policies. They proactively get in touch with relevant institutions and participate in formal consultation processes; they follow the processes of adopting strategies, policies and laws; they contribute to their creation with expertise, knowledge of the needs of the affected groups and practical and field experience at local and international level; they monitor and engage in application and implementation; they create recommendations for future improvements, etc. Networks provide pooling of resources, but also: addressing issues of common interest to organizations in many aspects and in a coordinated manner<sup>116</sup>; regional and international exchange<sup>117</sup>; coordinating the interests of associations and foundations and involving small local organizations in advocacy processes promoting policies and regulation<sup>118</sup>; etc. Due to the principle of secularism, there are individual examples of the involvement of churches, religious communities and religious groups in consultations on legislative issues.
233. The process of this FT risk assessment in NPOs established practices and a good example of cooperation and consultation process that is necessary to improve the protection system. Through a series of workshops, consultation events and working meetings, the associations and foundations have contributed their capacities, research, knowledge, networking and access to international expertise for this assessment and defined risk-based and non-restrictive recommendations for the NPO sector. At the level of consultation, the implemented measures are highly effective.
234. The consultation process needs to continue to further improve the policies and ensure the risk-based approach. The process of consultation and dialogue as well as the established mechanisms of cooperation between NPOs and institutions such as FIO and other services is an appropriate approach that should be maintained continuously. Its institutionalization is recommended for the purpose of sustainability in monitoring the trends, analysis of the situation and successful improvement of the protection systems against abuses of the NPOs related to FT.

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<sup>116</sup> For example, the Platform of Civil Society Organizations (CSOs) for Fight Against Corruption that brings together organizations working on this topic or the Macedonian Anti-Poverty Platform - MAPP; Network 23 and many others

<sup>117</sup> For example, BCSDN Balkan Civil Society Development Network

<sup>118</sup> For example, the Network for Financial Sustainability of CSOs



## 2.4. ASSESSMENT OF THE MEASURES FOR MITIGATION OF TERRORIST FINANCING RISK FOR THE NON-PROFIT ORGANIZATIONS

235. In accordance with the given methodology, in addition to the analysis of the effectiveness and adequacy of the three groups of measures, an assessment of the adequacy and effectiveness of this set of measures on each risk factor was made.
236. In general, several national short-term and medium-term strategic documents have been implemented, which in various aspects encourage the public confidence in the NPO sector and raise the awareness of the possible terrorist financing risks. Certain strategic documents target the terrorism and terrorist financing risks and have positive impact on raising the awareness of the possibility of terrorist financing risks in the NPOs. In order to increase public awareness of terrorist financing risks, a Manual on the exposure of the NPOs to the terrorist financing risks was prepared and made publicly available. This manual, by developing five methods of NPO abuse in accordance with the FATF methodology, indirectly enables its users to gain additional knowledge about the identified risk factors, which imposes the need to upgrade this manual taking into account the conclusions of this report, as well as to prepare additional materials that are easy to use for smaller organizations and applicable in their day-to-day operations.
237. **The risk factor "The management of the NPOs is comprised of exponents of religious radical ideology"** is addressed by the set of measures that are being implemented.

Specifically, the LAF and the LLSCRCRG are an adequate measure to mitigate the risk factor, and based on these legal provisions, the necessary formal data are provided for further processing in the registration process, based on the mandatory publication of the most important acts of the NPO and the annual reports, including the financial statements. The legal regulations have largely designated a competent authority to monitor the implementation of legal provisions. On the other hand, in the process of preventing and prosecuting abuses of the NPOs for the purposes of terrorist financing, the competent institutions have legal competencies, capacities, resources and mechanisms for cooperation and exchange of information for prevention, monitoring and prosecution. Additionally, in case of involvement of an NPO in terrorist activities, there are legal grounds for termination of the operation of the NPO on these grounds.

Based on the conducted analysis, the legal measures are adequate and effective at a medium to high level in mitigating this risk factor; however, there is room for improvement in the areas of increasing transparency and monitoring the financial operations of the NPOs and the cooperation within the NPO sector.

A series of activities in the NPO sector (resource centers, development indices, research, promotions, trainings, educational materials, websites, etc.) promotes the independence of the civil society and provides guidelines for registration of NPOs in accordance with LAF. The NPO sector rejects the political influences and radical ideologies. Practice also shows that there are organizations that work dedicatedly and long-term on these practices and allocate resources mostly from foreign donors to ensure proper registration and development of capacities for responsible and transparent work dedicated to the mission and the purpose of establishing an NPO.



238. **The risk factor "The NPOs are registered or are active in regions identified as regions at risk of terrorism"** is addressed by the set of measures that are being implemented.

Specifically, the LAF and the LLSCRCRG are an adequate measure to mitigate this risk factor. The publicly available information from the Central Registry provided in the registration process, as well as the publication of data from the most important acts of the NPO provide the necessary formal data for further processing of potential cases in which NPOs are involved, and for the purpose of determining their activities and areas of action. Despite the fact that the legal regulations have largely designated a competent authority for monitoring the implementation of the legal provisions, insufficient implementation of these provisions has been identified due to lack of resources and capacities within the competent institutions. On the other hand, in the process of preventing and prosecuting abuses of the NPOs for the purposes of terrorist financing, the competent institutions have legal competencies, capacities, resources and mechanisms for cooperation and exchange of information for prevention, monitoring and prosecution. Additionally, in case of involvement of an NPO in terrorist activities, there are legal grounds for termination of the operation of the NPO on these grounds. Based on the conducted analysis, the legal measures are adequate and effective at a medium to high level in mitigating this risk factor; however, there is room for improvement in the areas of increasing transparency and monitoring the financial operations of the NPOs, as well as creation of grounds for more precise indication of the organizational activity.

239. **The risk factor "Donations/sponsorships transferred from high-risk countries or countries where there is conflict or war"** is addressed by the set of measures that are being implemented.

In addition to the LAF and the LLSCRCRG, the Law on Accounting of Non-Profit Organizations is an adequate measure to mitigate this risk factor because with its application, the institutions have access to the financial reports and the accounting documentation, which provide information on the donors and the sources of the NPO. Despite the fact that the legal regulations have largely designated a competent authority for monitoring the implementation of the legal provisions, insufficient implementation of these provisions has been identified due to lack of resources and capacities within the competent institutions. On the other hand, in the process of preventing and prosecuting abuses of the NPOs for the purposes of terrorist financing, the competent institutions have legal competencies, capacities, resources and mechanisms for cooperation and exchange of information for prevention, monitoring and prosecution. Additionally, in case of involvement of an NPO in terrorist activities, there are legal grounds for termination of the operation of the NPO on these grounds. Based on the conducted analysis, the legal measures are adequate and effective at a medium to high level in mitigating this risk factor; however, there is room for improvement in the areas of increasing transparency and monitoring the financial operations of the NPOs, strengthening the capacities of monitoring the implementation of the legal regulations.

The analysis of the measures implemented by the NPOs, and especially the transparency and maintenance of good standards and practices related to the governance, management and supervision in the NPOs, identified partial effectiveness of the implemented measures. It has been estimated that preventive internal control needs to be encouraged also by the standard accounting processes via the authorized accountants. It is deemed that most of the NPOs implement good financial management practices due to the fact that the donors themselves impose high financial control standards and practices, as well as due to the re-granting process. As regards smaller organizations, a special approach is required in terms of

emphasizing the significance of a good organizational development via mentoring and technical support. The measures for due diligence of the donors and the funds beneficiaries are related to the system of procedures established by the donors, but the organizations also apply them in order to be compliant with the good practices. The organizations know where the donated funds come from and the majority of them have good practices in place for knowing the beneficiaries and the partners, which points to the need of formalizing these processes with the NPOs. In the absence of risk analysis and identification, there is a possibility of abuse of the NPOs for the purposes of terrorist financing, which should increase the measures to promote the existing mechanisms within the NPO sector for checking and reporting abuses for FT purposes.

240. **The risk factor "NPOs do not provide information on their activities and performed financial transactions in a manner that can be verified by the institutions"** is addressed by the set of measures that are being implemented.

The Law on Accounting of Non-Profit Organizations is an adequate measure to mitigate this risk factor because with its application, the institutions have access to the financial reports and the accounting documentation, which provide information on the donors and the sources of the NPO, as well as the manner in which the funds are being spent. Despite the fact that the legal regulations have largely designated a competent authority for monitoring the implementation of the legal provisions, insufficient implementation of these provisions has been identified due to lack of resources and capacities within the competent institutions. On the other hand, in the process of preventing and prosecuting abuses of the NPOs for the purposes of terrorist financing, the competent institutions have legal competencies, capacities, resources and mechanisms for cooperation and exchange of information for prevention, monitoring and prosecution. Additionally, in case of involvement of an NPO in terrorist activities, there are legal grounds for termination of the operation of the NPO on these grounds. Based on the conducted analysis, the legal measures are adequate and effective at a medium to high level in mitigating this risk factor; however, there is room for improvement in the areas of increasing transparency and monitoring the financial operations of the NPOs and the cooperation within the NPO sector.

In addition to the above findings, the need to strengthen the preventive internal control prompted by the standard accounting processes through certified accountants, good organizational development and ensuring greater transparency is emphasized.

241. From the conducted analysis it can be concluded that the established and implemented various types of activities, grouped, for the purposes of this analysis, in three major areas (laws, policies and engagement of the NPOs and self-regulation of the NPOs) are effective at a medium to high level and have impact on mitigating, i.e., maintaining the level of terrorist financing risk at a manageable level.
242. This analysis determines that the inherent terrorist financing risk for the given subgroup of NPOs is at a low to medium level. The established measures are effective in keeping the financing terrorism risk for the NPOs at the same level, low to medium level.
243. In addition to determining the effectiveness of the measures, this analysis also detects the areas that can be improved, the practices and mechanisms that can be upgraded or established for the purpose of maintaining or reducing the predetermined level of terrorist financing risk for the NPO. In the part "Recommended Measures and Activities" a list of measures is proposed to both the state authorities and the representatives of the NPO sector for the purpose of further improvement of the

capacities and the effectiveness for prevention of NPO abuse for the purposes of terrorist financing.

244. 8.1 (d) of the FATF methodology requires countries to “*periodically reassess the sector by reviewing new information on the sector’s potential vulnerabilities to terrorist activities to ensure effective implementation of measures*”. In addition, the provisions of the Law on Prevention of Money Laundering and Financing Terrorism, require the national assessment of money laundering and terrorist financing risk is conducted at least every four years. This assessment, as part of the national assessment, should be conducted when facts, circumstances or events that affect, i.e., alter the terrorist financing risk are identified, but not for a period longer than four years.



## 2.5. RECOMMENDED MEASURES AND ACTIVITIES

245. This analysis defines the areas that can be improved, the practices and mechanisms that can be upgraded or established for the purpose of maintaining or reducing the predetermined level of terrorist financing risk for the NPO. A list of measures is defined and proposed to both the state authorities and the representatives of the NPO sector for the purpose of further improvement of the capacities and the effectiveness for prevention of NPO abuses for the purposes of terrorist financing.

246. From the aspect of increasing the **effectiveness of the laws**, it is recommended the FIO and the competent institutions in cooperation with the NPO to:

- Prepare a comparative analysis of the good practices from Europe and the region in order to improve the definition of the organizational areas and/or the activities of the NPOs within the National Classification of Activities and the NPO registration.

- Prepare a comparative analysis of the good practices and the positive legal regulations from Europe and the region on the mechanisms of transparency and oversight of RG and religious communities and to develop recommendations for the promotion of these mechanisms in the regulation on the LLSCRCRG and religious communities.

- Based on a comparative analysis of good practices, prepare a methodology for conducting targeted surveillance and monitoring, in accordance with the risk-based approach, for those NPOs that, according to their characteristics and activities, have been identified as vulnerable to terrorist financing abuse.

- Strengthen the capacities of the state institutions for performing effective supervision over the application of the LAF and LLSCRCRG.

- Conduct an analysis in cooperation with representatives of the NPO sector and make appropriate amendments to the Law on Prevention of Money Laundering and Financing Terrorism for its harmonization with the FATF Recommendation 8 and the findings of the NPO risk assessment.

- Conduct a comparative analysis and revision and prepare guidelines for additional explanation of the Indicators for recognizing suspicious transactions in NPO.

- Develop and efficiently implement a methodology for comprehensive statistical management of bans or other sanctions imposed upon the NPOs.

247. From the aspect of increasing the **effectiveness of policy measures and the involvement of the NPOs**, the following is recommended:

- The National Committee for Countering Violent Extremism and Countering Terrorism in cooperation with the Unit for Cooperation with the NPOs, the Ministry of Justice, the FIO and others institutions will organize regular meetings once a year to share experiences and develop recommendations for policy improvement in this segment.

- The FIO, in cooperation with the NPOs and other relevant stakeholders (the NBRM, the Macedonian Banking Organization, the Central Registry, the Public Revenue Office, the CRRRCRG and others), will hold regular meetings (semi-annual) through which the trust will be further strengthened, relevant issues will be discussed and through cooperation and

consultation will promote good practice in managing the terrorist financing risks and the prevention of possible abuse of the NPOs for the purposes of terrorist financing.

-Organization of an annual national forum (conference) for wide range dialogue, including FT issues and coverage of a wider circle of stakeholders by the NPO.

-Continuous strengthening of the capacities and the knowledge of the institutions competent for establishment, registration, operation and monitoring of the NPOs and the banking sector for the specifics of the NPO operations, exchange of experiences for implementation of the policies and measures, to continuously strengthen the trust between the key stakeholders and to ensure effective implementation of the policies.

-Establishment of a special section on the FIO website dedicated specifically to the NPOs. Request and provision of access to the FIO website for timely provision of information and educational materials to raise the public awareness and adequate management of the terrorist financing risk.

-The FIO, in cooperation with the NPOs, establishes and implements programs for inclusion and capacity building of the NPOs which will provide:

- Further increase of the public awareness of the possible abuses for the purposes of terrorist financing between the NPOs and the donor community, as well as the measures to be implemented for their protection.
- Increasing the public awareness of the possible abuses of the religious communities and groups. The CRRC should also be included in this activity.
- Development of additional tools and resource materials (manuals, workshops, online self-assessment, etc.) with good practices to strengthen the NPO's awareness and capacity for the purpose of management of the risks and prevention of terrorist financing abuse, with a particular focus on those NPOs identified as being at risk of terrorist financing.
- Improvement of the cooperation with the NPOs and the banks to facilitate the use of regulated financial systems whenever possible.
- Special program for further awareness raising and capacity building of those NPOs that are identified as more vulnerable in accordance with the risk assessment for potential vulnerabilities to terrorist financing risks and the measures that can be implemented for protection against this type of abuses.

- The FIO, in cooperation with the National Committee for Countering Violent Extremism and Countering Terrorism and the NPOs, every four years and when necessary more often, will conduct an analysis of the status of the of terrorist financing risks for the NPOs and a new assessment.

248. From the aspect of increasing the efficiency of the **sectoral and individual good practices in the NPOs**, especially in NPOs that are identified as more vulnerable, which are aimed at mitigating the identified terrorist financing risks, the following measures that will be implemented in cooperation with the NPOs, the FIO, the CRRC and the Unit for Cooperation with the NPOs are recommended:

-Further promotion, strengthening and analysis of the self-regulatory mechanisms that promote transparency, good governance, financial and project management, due diligence (checking the users, the partners and the donors). This includes the provision of the "Trust

Mark” for associations and foundations, etc., and the increase of the number of NPOs that are compliant in their work.

- Sectoral support for adapting the self-regulatory mechanisms for the smaller organizations and those NPOs identified as vulnerable. Capacity building and support to align their operations with the good practices.

- Further education and promotion in the NPOs to understand and identify the TF risks, with a particular focus on those NPOs identified as being at risk of terrorist financing. Acquainting the NPOs with the existing terrorist financing risks. Develop a special approach to analysis, capacity building and raising of awareness, especially among the NPOs that are exposed to several risk factors for recognition and mitigation of risks.

- Adaptation of the religious communities and the religious groups to the measures implemented by the associations and foundations to strengthen their financial transparency, good governance and TF risk assessment in terms of their organization.

- Raise the awareness among the NPOs about the importance of transparency, good governance, financial and project management, due diligence (checking the beneficiaries, the partners and the donors). In this regard, to intensify the activities towards the NPOs that are identified as more vulnerable, for education and sectoral mentorship of the organizations in the area of practices for transparent reporting (narrative and financial), organizational structure and members of the management and governance bodies, capacity building, etc.

- In cooperation with the Unit for NPOs within the Government of the RNM, to build a sectoral mechanism for direct involvement of new NPOs after their establishment/registration in the activities for information and capacity building.

- Encourage the accountants to point out good practices from the non-profit organizations they work for (especially the smaller ones).

- Updating the existing materials and manuals prepared by the FIO for raising the awareness among the NPOs, the donor community about the terrorist financing risks for the NPOs and the measures for protection against this type of abuse. Wide distribution and availability of these materials especially to the NPOs that are identified as more vulnerable due to the geographical region or area of operation (translation in different languages, distribution, promotion, etc.).

- Knowledge building coordinated by the National Committee for Countering Violent Extremism and Countering Terrorism for the need of cooperation with the services related to the identified risk and encouraging the NPOs to create mechanisms for reporting non-compliance.

## **Annex 1: FATF Recommendations**

### **Recommendation 8 for NPOs<sup>119</sup>**

*Countries should review the adequacy of laws and regulations which refer to the non-profit organisations which the country has identified as being vulnerable to terrorist financing abuse. Countries should apply focused and proportionate measures, in line with the risk based approach, to such non-profit organisations to protect them from terrorist financing abuse, including:*

*(a) by terrorist organisations posing as legitimate entities;*

*(b) by exploiting legitimate entities as conduits for terrorist financing, including for the purpose of escaping asset-freezing measures; and*

*(c) by concealing or obscuring the clandestine diversion of funds intended for legitimate purposes to terrorist organisations*

The Methodology for Assessing Technical Compliance with the FATF Recommendations and the Effectiveness of the Anti-Money Laundering/Countering Financing of Terrorism Systems (2013) provides guidelines for assessing the compliance with Recommendation 8.

It asks the questions that need to be answered in the mutual evaluation process. The methodology for Recommendation 8 is as follows:

#### ***Taking a risk-based approach***

##### ***8.1 The countries should:***

*Without prejudice to the requirements of Recommendation 1, since not all NPOs are inherently high risk (and some may represent little or no risk at all), identify which subset of organizations fall within the FATF definition of NPO, and use all relevant sources of information, in order to identify the features and types of NPOs which by virtue of their activities or characteristics, are likely to be at risk of terrorist financing abuse;*

*(b) identify the nature of threats posed by terrorist entities to the NPOs which are at risk as well as how terrorist actors abuse those NPOs;*

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<sup>119</sup> Extract from the FATF Recommendations: International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation (FATF, June 2016).



*(c) review the adequacy of measures, including laws and regulations, that relate to the subset of the NPO sector that may be abused for terrorism financing support in order to be able to take proportionate and effective actions to address the risks identified;*

*(d) periodically reassess the sector by reviewing new information on the sector's potential vulnerabilities to terrorist activities to ensure effective implementation of measures.*

### **Outreach concerning terrorist financing issues**

#### **8.2 The countries should:**

*(a) have clear policies to promote accountability, integrity, and public confidence in the administration and management of NPOs;*

*(b) encourage and undertake outreach and educational programmes to raise and deepen awareness among NPOs as well as the donor community about the potential vulnerabilities of NPOs to terrorist financing abuse and terrorist financing risks, and the measures that NPOs can take to protect themselves against such abuse;*

*(c) work with NPOs to develop and refine best practices to address terrorist financing risk and vulnerabilities and thus protect them from terrorist financing abuse; and*

*(d) encourage NPOs to conduct transactions via regulated financial channels, wherever feasible, keeping in mind the varying capacities of financial sectors in different countries and in different areas of urgent charitable and humanitarian concerns.*

### **Supervision of NPO based on the identified risk**

**8.3** *Countries should take steps to promote effective supervision or monitoring such that they are able to demonstrate that risk-based measures apply to NPOs at risk of terrorist financing abuse.*

#### **8.4. Competent authorities should:**

*(a) monitor the compliance of NPOs with the requirements of this Recommendation, including the risk-based measures being applied to them under criterion 8.3; and*

*(b) be able to apply effective, proportionate and dissuasive sanctions for violations by NPOs or persons acting on behalf of these NPOs.*

### **Effective information gathering and investigation**

#### **8.5 The countries should:**

*(a) ensure effective co-operation, co-ordination and information-sharing to the extent possible among all levels of appropriate authorities or organisations that hold relevant information on NPOs;*

*(b) have investigative expertise and capability to examine those NPOs suspected of either being exploited by, or actively supporting, terrorist activity or terrorist organisations;*

*c) ensure that full access to information on the administration and management of particular NPOs (including financial and programmatic information) may be obtained during the course of an investigation; and*

*(d) establish appropriate mechanisms to ensure that, when there is suspicion or reasonable grounds to suspect that a particular NPO: (1) is involved in terrorist financing abuse and/or is a front for fundraising by a terrorist organisation; (2) is being exploited as a conduit for terrorist financing, including for the purpose of escaping asset freezing measures, or other forms of terrorist support; or (3) is concealing or obscuring the clandestine diversion of funds intended for legitimate purposes, but redirected for the benefit of terrorists or terrorist organisations, that this information is promptly shared with competent authorities, in order to take preventive or investigative action.*

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

**8.6** *Countries should identify appropriate points of contact and procedures to respond to international requests for information regarding particular NPOs suspected of terrorist financing or involvement in other forms of terrorist support.*

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***Excerpt from the Methodology for Assessing the Compliance with the FATF Recommendations and the Effectiveness of the Anti-Money Laundering/Countering Financing of Terrorism Systems, updated in February, 2019, FATF, Paris, France***

**IMMEDIATE OUTCOME 10**

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

***Characteristics of an effective system:*** *Terrorists, terrorist organisations and terrorist support networks are identified and deprived of the resources and means to finance or support terrorist activities and organisations. This includes proper implementation of targeted financial sanctions against persons and entities designated by the United Nations Security Council and under applicable national or regional sanctions regimes. The country also has a good understanding of the terrorist financing risks and takes appropriate and proportionate actions to mitigate those risks, including measures that prevent the raising and moving of funds through entities or methods which are at greatest risk of being misused by terrorists. Ultimately, this reduces terrorist financing flows, which would prevent terrorist acts. This outcome relates primarily to Recommendations 1, 4, 6 and 8, and also elements of Recommendations 14, 15, 16, 30 to 32, 37, 38 and 40.*

***Excerpt from the Methodology for Assessing Technical Compliance with the FATF Recommendations and the Effectiveness of the Anti-Money Laundering and Countering Financing of Terrorism Systems (FATF, 2013)***

*Immediate Outcome 10 provides examples of information that can support the conclusions of the assessors:*

*“A) Examples of information that could support the conclusions on core issues*

- 2. Experiences of law enforcement, FIO and counter terrorism authorities (e.g., trends indicating that terrorist financiers are researching alternative methods for raising/transmitting funds; intelligence/source reporting indicating that terrorist organisations are having difficulty raising funds in the country).*
- 3. Examples of interventions and confiscation (e.g., ... investigations and interventions in NPOs misused by terrorists).*
- 4. Information on supervision and monitoring of NPOs (e.g. frequency of supervision and monitoring of the NPO sector) (including risk assessments); frequency of engagement and outreach (including guidance) to NPOs regarding CFT measures and trends; remedial measures and sanctions taken against NPOs.*

*”*

***Excerpt from the Methodology for Assessing Technical Compliance with the FATF Recommendations and the Effectiveness of the Anti-Money Laundering and Countering Financing of Terrorism Systems (FATF, 2013)***

*It further provides examples of specific factors that could support the conclusions of the assessors.*

*“B) Examples of Specific Factors that could support the conclusions on core issues*

*... 10 What is the level of licensing or registration for NPOs? To what extent is a risk-sensitive approach taken to supervise or monitor NPOs at risk from terrorist abuse and appropriate preventive, investigative, criminal, civil or administrative actions and co-operation mechanisms adopted?*

*11. How well do NPOs understand their vulnerabilities and comply with the measures to protect themselves from the threat of terrorist abuse? “*

**Excerpt from the Methodology for Assessing Technical Compliance with the FATF Recommendations and the Effectiveness of the Anti-Money Laundering and Countering Financing of Terrorism Systems (FATF, 2013)**

*The Methodology for Assessing Technical Compliance provides “Notes to Assessors” on how to assess the Immediate Outcome 10. The notes relevant to NPOs are as follows:*

*“Note to Assessors: Assessors should also consider the relevant findings on the level of international cooperation which competent authorities are participating in when assessing this Immediate Outcome. Core Issues to be considered in determining if the Outcome is being achieved*

*... 10.2. To what extent, without disrupting legitimate NPO activities, has the country implemented a targeted approach, conducted outreach and exercised oversight in dealing with NPOs that are at risk from the threat of terrorist abuse?*

*... 10.4. To what extent are the above measures consistent with the overall terrorist financing risk profile? “*

**Excerpt from the Methodology for Assessing Technical Compliance with the FATF Recommendations and the Effectiveness of the Anti-Money Laundering and Countering Financing of Terrorism Systems (FATF, 2013)**