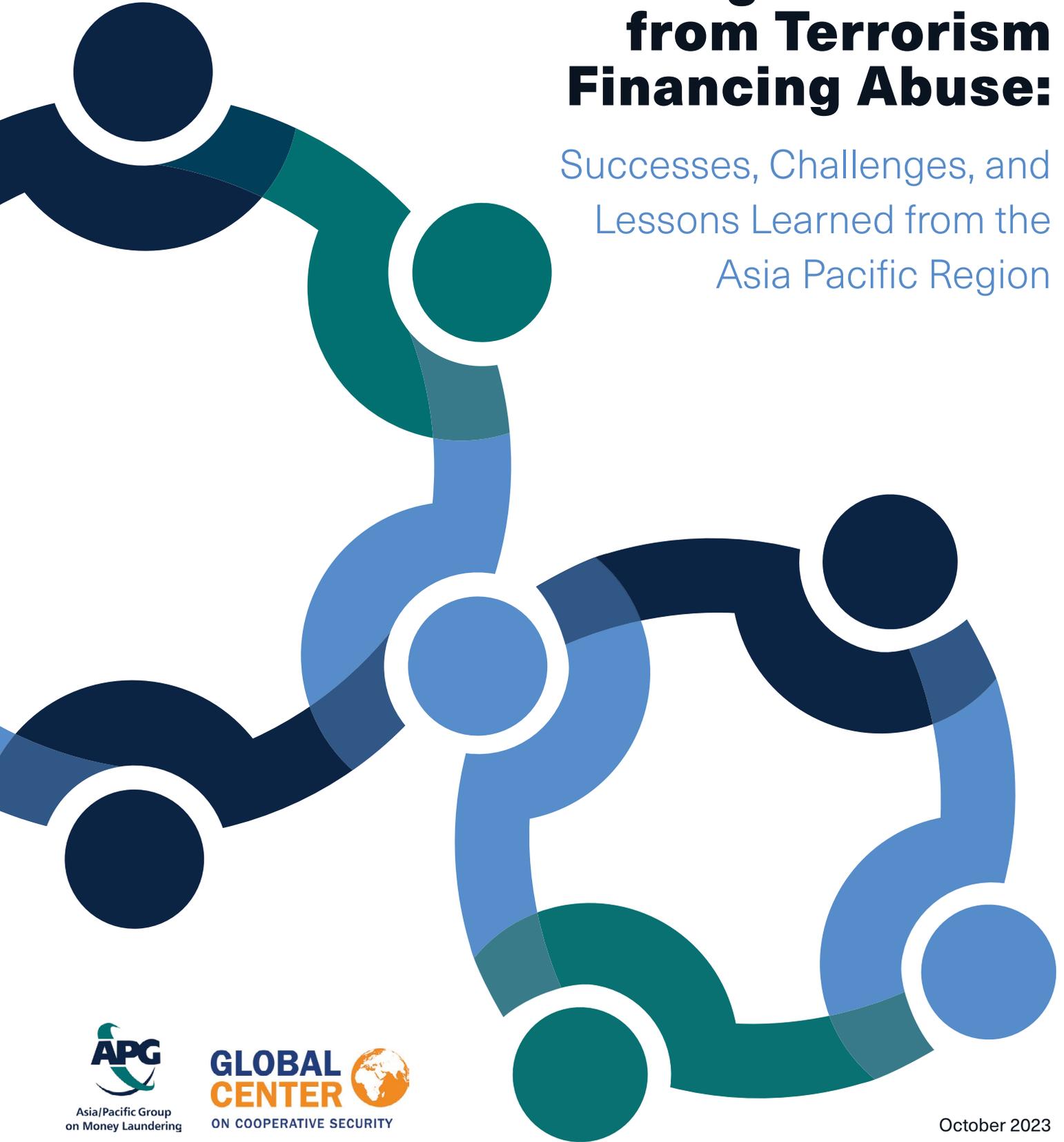


# Protecting Non-Profit Organizations from Terrorism Financing Abuse:

Successes, Challenges, and  
Lessons Learned from the  
Asia Pacific Region



Design: Twothirty Media

The Asia/Pacific Group on Money Laundering (APG) is an inter-governmental organisation consisting of 41 members in the Asia-Pacific region, as well as organisations, and observers from outside the region.

Under Article 1 of the APG Terms of Reference 2012, the APG is non-political, technical body, whose members are committed to the effective implementation and enforcement of the internationally accepted standards against money laundering, financing of terrorism and proliferation financing set by the Financial Action Task Force.

This document, any expression herein, and/or any map included herein, are without prejudice to the status of, or sovereignty over, any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

This report was adopted by the APG at its annual meeting in July 2023. It was produced in partnership with the Global Center on Cooperative Security (Global Center), an international non-governmental organization and observer to the APG.

For more information about the APG, please visit the website: [www.apgml.org](http://www.apgml.org).

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The views expressed do not necessarily reflect those of the APG, the Global Center and its advisory council and board, or the government of the Netherlands.

# Table of Contents

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<b>EXECUTIVE SUMMARY</b> .....	<b>4</b>
<b>INTRODUCTION</b> .....	<b>7</b>
Report Objectives .....	9
Research Methodology .....	9
Heat Map .....	10
<b>TAKING A RISK-BASED APPROACH</b> .....	<b>13</b>
Components of a Risk Assessment .....	14
Risk Assessment Process .....	15
Participation .....	15
Sources of Information .....	16
Sharing Risk Assessment Findings .....	18
Periodic Reassessment .....	18
<b>SUSTAINED OUTREACH ON TERRORISM FINANCING ISSUES</b> .....	<b>19</b>
Outreach on Terrorism Financing Issues .....	19
Collaborative Development of Best Practices .....	20
Promote Accountability, Integrity, and Public Confidence .....	21
Use of Regulated Channels .....	21
<b>TARGETED RISK-BASED SUPERVISION OR MONITORING</b> .....	<b>23</b>
Application of Risk-Based Measures .....	24
Risk-Based Supervision or Monitoring .....	26
Effective, Proportionate, and Dissuasive Sanctions .....	27
<b>EFFECTIVE INFORMATION GATHERING AND INVESTIGATION</b> .....	<b>28</b>
Investigative Capacities .....	29
Information Sharing .....	29
<b>CAPACITY TO RESPOND TO INTERNATIONAL REQUESTS FOR INFORMATION</b> .....	<b>31</b>
<b>EFFECTIVE IMPLEMENTATION</b> .....	<b>32</b>
Without Disrupting or Discouraging .....	34
Key Factors and Information .....	35
<b>OPPORTUNITIES AND LESSONS LEARNED</b> .....	<b>36</b>
Taking a Risk-Based Approach .....	36
Sustained Outreach on Terrorism Financing Issues .....	36
Targeted Risk-Based Supervision or Monitoring .....	37
Effective Information Gathering and Investigation .....	37
Effective Capacity to Respond to International Requests for Information .....	37
Effective Implementation Without Discouraging or Disrupting .....	38

# Executive Summary

Seven years after the amendment of Financial Action Task Force (FATF) Recommendation 8 on protecting non-profit organizations (NPOs) from terrorism financing abuse, 60 percent of countries are still rated non-compliant or partially compliant. Ratings are higher among members of the Asia Pacific Group on Money Laundering (APG), but with 47 percent of members non-compliant or partially compliant, there remains room for improvement. Enhancing compliance with the revised Recommendation 8 can help prevent and mitigate the unintended consequences of countering the financing of terrorism (CFT) measures on NPOs.

This report provides a detailed regional analysis of implementation of FATF Standards on protecting NPOs from terrorism financing abuse. It includes a heat map of strengths and weaknesses for each criterion used to evaluate technical compliance with Recommendation 8. It offers reflections on the effective implementation of measures that do not disrupt or discourage legitimate charitable activity, as considered under Immediate Outcome 10. It concludes by identifying opportunities and lessons learned that can support the APG, its members, other jurisdictions, and NPOs in developing targeted and proportionate responses to prevent and mitigate the risk of NPOs being abused for terrorism financing purposes.

This report is based on a horizontal review of mutual evaluation reports (MERs) and follow-up reports (FURs) from 2015 to 2022 that utilized a key terms index to collate data and ensure a consistent and standardized process. Nineteen APG members participated in a survey collecting qualitative and quantitative data on the mechanisms underpinning compliance with Recommendation 8, including processes, approaches, stakeholders, and perspectives. Key informant interviews and small focus-group discussions were conducted with representatives from civil society and academia and other non-governmental experts to gather diverse opinions, perspectives, and experiences. A multi-stakeholder advisory group oversaw the project and provided feedback on the research methodology, assisted with data collection, reviewed preliminary findings, and provided comments on report drafts.

The biggest area of weakness for APG members is criterion 8.2, on sustained outreach to NPOs and donors on terrorism financing issues. While some outreach is occurring, it tends to be ad hoc, uneven, and almost exclusively focused on NPOs without engaging donor communities. In consultations, questions were raised about how NPOs were selected to engage with government officials and whether those opportunities allowed

for meaningful dialogue and reflection. While 60 percent of evaluated APG members have developed good practices to address terrorism financing risk, it is rarely done in collaboration with NPOs.

Policies are in place to promote accountability, integrity, and public confidence in the non-profit sector (criterion 8.2(a)), but MERs and FURs emphasize regulatory measures and internal controls while providing very little information on whether those measures disrupt or discourage legitimate NPO activities. Forty-three percent of APG members encourage NPOs to conduct transactions via regulated channels (criterion 8.2(d)), but little information was provided as to how these practices are implemented in light of the varying capacities of financial sectors and in different, urgent charitable and humanitarian contexts. While many NPOs view the use of regulated financial channels as desirable, consultations raised concerns that legally mandating formal bank accounts could make the private sector de facto gatekeepers of NPO status.

APG members have mixed results on criteria 8.3 and 8.4, on the application of targeted risk-based supervision or monitoring. A range of regulatory measures are being applied to NPOs, and supervisory and monitoring actions are occurring in parts of the region. However, there is little information to indicate whether those measures and actions are proportionate and risk based. Consultations raised notable concerns that, in some contexts, regulations are intrusive, arduous, and applied in a one-size-fits-all manner. MERs and FURs contained similar information pursuant to criteria 8.2(a), 8.3, and 8.4(a), raising questions about real or perceived differences among the criteria and creation of the perception that compliance is achieved by increased regulation and internal controls. MERs and FURs emphasize examples from the Interpretive Note to Recommendation 8, which may contribute to a misperception that jurisdictions can or should impose all of these examples in order to achieve high levels of compliance.

There is also uneven implementation of criterion 8.1, on adopting a risk-based approach to protect NPOs from terrorism financing abuse. Risk assessments are being widely conducted across the region. Many of these have been updated, or there are policies in place to do so. However, research for this report found notable areas for improvement. The most common gap is the failure to review the adequacy of existing measures to prevent and mitigate identified risks, which can lead to duplicative, contradictory, or overly burdensome compliance obligations for NPOs. There were also gaps related to identifying the subset of nongovernmental entities that meet

the FATF definition of an NPO. Research finds that APG members can foster more inclusive risk assessment processes, specifically to meaningfully engage NPOs and offer the opportunity for key stakeholders to comment on draft assessments. Improving risk-based approaches is critical to overall compliance, as gaps related to criterion 8.1 were the most commonly cited strategic deficiency for partially compliant and non-compliant members.

Areas of strength include criteria 8.5, on effective information gathering and investigation, and 8.6, on the capacity to respond to international requests for information. Cooperation and coordination among the appropriate authorities are supported by access to information on the management of NPOs and mechanisms to promptly share information on a particular NPO if there are reasonable grounds to suspect exploitation for or involvement in terrorism financing. Investigative capacities are mixed, with few instances of terrorism financing abuse noted in the MERs and FURs. Formal and informal mechanisms for international cooperation are available in instances where a particular NPO is suspected of being exploited for or involved in terrorism financing. However, few requests were reportedly made or received.

In terms of effective implementation, there was little information as to whether measures to protect NPOs from terrorism financing abuse were disrupting or discouraging charitable activity. It was also unclear how this consideration was weighed when determining compliance ratings, as just 25 percent of MERs directly or indirectly considered it in their evaluations. Instead, the factors and information provided to support conclusions on Immediate Outcome 10 reinforce a compliance-centric perspective that emphasizes supervision, monitoring, and regulatory measures.

Reflecting on the data collected and consultations with key experts, this report identifies several opportunities and lessons learned to support proportionate, targeted,

and risk-based approaches to protecting NPOs from terrorism financing abuse. These reflections come at a critical moment, as the FATF is in the process of revising Recommendation 8 and related guidance materials.

- Comprehensive risk assessments underpin effective implementation of proportionate, targeted measures to protect NPOs from terrorism financing abuse.
- Sustained outreach involves more than providing periodic training and benefits from the inclusive participation of a diverse range of stakeholders from the public, private, and non-profit sectors.
- Efforts to encourage or mandate the use of regulated channels can inadvertently create barriers for efficient operations and infringe on rights of association, especially in contexts where banking channels are limited or where de-risking practices are prevalent.
- Real or perceived pressures to transpose examples from FATF guidance into national contexts may contribute to one-size-fits-all approaches to the application of measures to protect NPOs from terrorism financing abuse.
- The implementation of mechanisms to promptly share information about a particular NPO must include protections for due process, procedural rights, data, and privacy and uphold states' obligations under international human rights law.
- Regional and global exchanges of good practices among government, civil society, and the private sector can deepen understanding of how to evaluate whether measures on countering the financing of terrorism are disrupting or discouraging legitimate NPO activities.



FATF STANDARDS	MUTUAL EVALUATION METHODOLOGY	RELATED GUIDANCE
Forty Recommendations	Technical Compliance with 40 Recommendations	FATF Best Practice Papers
Interpretive Notes		
Glossary	Effective Implementation Under 11 Immediate Outcomes	Typology Reports

The Financial Action Task Force (FATF) leads global action to combat money laundering, terrorism financing, and the financing of proliferation of weapons of mass destruction. It works with a Global Network of FATF-style regional bodies, including the Asia/Pacific Group on Money Laundering (APG).

The FATF developed a comprehensive framework of measures to help jurisdictions tackle illicit financial flows. The **FATF Standards** comprise of 40 Recommendations and their Interpretive Notes, together with the applicable definitions in the Glossary.

The FATF, APG, and other regional bodies conduct **mutual evaluations** of their members' levels of implementation of the FATF Standards on an ongoing basis. It includes a desk-based review and on-site visit conducted by a team of trained assessors. These are peer reviews, where assessors from different jurisdictions evaluate another jurisdiction. Mutual evaluation reports are public and provide an in-depth analysis of a member's anti-money laundering and counter-terrorist financing measures, as well as focused recommendations to further strengthen its system.

There are two components of a mutual evaluation:

1. **Technical Compliance:** The assessed member must provide information on the laws, regulations, and any other legal instruments it has in place to combat money laundering and the financing of terrorism and proliferation. Members are rated as compliant, largely compliant, partially compliant, non-compliant, or not applicable with the FATF 40 Recommendations.
2. **Effective Implementation:** The assessed member must demonstrate that, in the context of the risks it is exposed to, it has an effective framework to protect the financial system from abuse. Members are rated as high effectiveness, substantial effectiveness, moderate effectiveness, or low effectiveness with the FATF 11 Immediate Outcomes.

Assessors are guided by the FATF mutual evaluation **methodology**, which provides a set of criteria for determining technical compliance and articulates core issues to consider when determining the effectiveness of implementation.

The FATF, APG, and other regional bodies also routinely produce best practice reports and other guidance materials. The reports serve to support members in considering approaches to domestic implementation by compiling existing research, case studies, and expert consultations.

The FATF holds jurisdictions that do not comply with its Standards to account. If a jurisdiction repeatedly fails to implement the FATF Standards, it can be publicly named as a Jurisdiction under Increased Monitoring or a High Risk Jurisdiction—commonly referred to as the “grey and black and grey lists.”

# Introduction

In 2016, the Financial Action Task Force (FATF) amended Recommendation 8 and its Interpretative Note on protecting non-profit organizations (NPOs) from terrorism financing abuse. It clarifies that while some NPOs have been abused for terrorism financing purposes, the risk is neither uniform nor inherently high across the sector. In fact, some NPOs represent little or no risk at all.

The revised Recommendation calls for countries to identify the subset of NPOs that may be vulnerable to abuse by virtue of their activities or characteristics and to apply focused and proportionate measures to such NPOs in line with the risk-based approach. The FATF mutual evaluation methodology articulates a set of criteria used to determine technical compliance with Recommendation 8, as well as core issues to consider regarding its effective implementation as part of Immediate Outcome 10. A core issue of Immediate Outcome 10 considers the extent to which a jurisdiction has applied focused and proportionate measures to NPOs identified as vulnerable without disrupting or discouraging legitimate charitable activities.<sup>1</sup>

## FATF Recommendation 8

Countries should review the adequacy of laws and regulations that relate to non-profit organisations which the country has identified as being vulnerable to terrorist financing abuse.

Countries should apply focused and proportionate measures, in line with the risk-based approach, to such non-profit organisations to protect them from terrorist financing abuse, 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.

Source: Financial Action Task Force, "International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation: the FATF Recommendations," Updated February 2023, <https://www.fatf-gafi.org/en/publications/Fatfrecommendations/Fatf-recommendations.html>.

Recommendation 8 does not apply to all NPOs. Instead, the FATF has adopted a functional definition of an NPO based on the activities or characteristics of the organization. The FATF definition may differ from domestic definitions that classify NPOs by their legal form, such as a community or faith-based organization, charity, or association. In those instances, there may be subcategories of legal NPOs that meet the FATF definition and subcategories that may not. It is also possible for an entity to meet the FATF definition of an NPO but not be captured as an NPO under domestic law.

## FATF Definition of a Non-Profit Organization:

For the purposes of this Recommendation, NPO refers to a legal person or arrangement or organisation that primarily engages in raising or disbursing funds for purposes such as charitable, religious, cultural, educational, social or fraternal purposes, or for the carrying out of other types of "good works."

Source: Financial Action Task Force, "International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation: the FATF Recommendations," Interpretative Note to Recommendation 8, paragraph 1, Updated February 2023, <https://www.fatf-gafi.org/en/publications/Fatfrecommendations/Fatf-recommendations.html>

Misapplication, misuse, or abuse of FATF Standards has a significant impact on civic space, human rights, humanitarian action, and the ability of NPOs to operate and access financial services. The Interpretive Note to Recommendation 8 recognizes that NPOs play a vital role in the world economy, complementing government and business in providing essential services, comfort, and hope to those in need around the world.<sup>2</sup> It also underscores that measures to protect NPOs from terrorism financing abuse should be targeted, proportionate, and risk based and implemented in a manner that respects countries' obligations under the Charter of the United Nations and international human rights law.<sup>3</sup>

Seven years after its amendment, jurisdictions still receive some of the lowest compliance ratings on Recommendation 8. Nearly 60 percent of the 148 jurisdictions evaluated globally are considered non-compliant or partially compliant as of 22 June 2023. Notably, Recommendation 8 has

<sup>1</sup> Financial Action Task Force, "Methodology for Assessing Technical Compliance with the FATF Recommendations and the Effectiveness of AML/CFT Systems," Updated October 2021, Immediate Outcome 10, Core Issue 10.2, p. 123, <https://www.fatf-gafi.org/en/publications/Mutualevaluations/Fatf-methodology.html>.

<sup>2</sup> Financial Action Task Force, "International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation: the FATF Recommendations," Interpretative Note to Recommendation 8, paragraph 2, Updated February 2023, <https://www.fatf-gafi.org/en/publications/Fatfrecommendations/Fatf-recommendations.html>.

<sup>3</sup> Ibid, paragraphs 2 and 4(b).

the highest number of non-compliant ratings (30) and the second-lowest number of fully compliant ratings (7).<sup>4</sup>

Of the 92 jurisdictions that have submitted progress reports since their initial evaluation, one-third received an upgrade (31) and three were downgraded on Recommendation 8.<sup>5</sup> The fact that 88 jurisdictions (96 percent) have received at least one upgrade across other Recommendations suggests that progress on Recommendation 8 is especially elusive for jurisdictions globally.

APG member compliance with Recommendation 8 is better than the global average but still leaves room for improvement (fig. 1). Sixteen members are rated fully or largely compliant (53 percent), 11 members partially compliant (37 percent), and three non-compliant (10 percent). APG members have demonstrated less improvement since their initial evaluation than their global counterparts. Of the 23 APG members who have submitted progress reports, four have received upgrades (17 percent) on Recommendation 8, while two of the three downgrades among all submitters globally are within the APG.

Figure 1: Technical Compliance with Recommendation 8



Source: Financial Action Task Force, "Consolidated Assessment Ratings," updated as of 22 June 2023, <https://www.fatf-gafi.org/en/publications/Mutualevaluations/Assessment-ratings.html>.

The FATF mutual evaluation methodology uses 11 Immediate Outcomes to evaluate how effectively a jurisdiction is implementing its Standards. Measures to protect NPOs from terrorism financing abuse are considered under Immediate Outcome 10, which also assess the implementation of targeted financial sanctions and other matters. The range of issues considered under Immediate Outcome 10 makes it difficult to discern progress on NPOs from aggregate FATF ratings. However, technical compliance traditionally underpins effective implementation. If the jurisdiction does not have the necessary

frameworks in place, it is difficult to prove that they can achieve the intended results of the FATF Standards.

**FATF Immediate Outcome 10:**

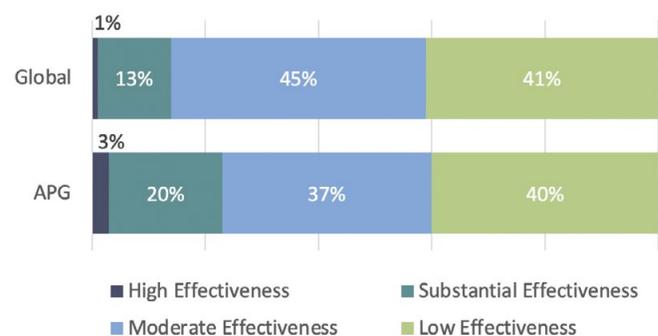
Terrorists, terrorist organisations, and terrorist financiers are prevented from raising, moving, and using funds, and from abusing the NPO sector.

Core Issue 10.2: To what extent, without disrupting or discouraging legitimate NPO activities, has the country applied focused and proportionate measures to such NPOs which the country has identified as being vulnerable to terrorist financing abuse, in line with the risk-based approach?

Source: Financial Action Task Force, "Methodology for Assessing Technical Compliance with the FATF Recommendations and the Effectiveness of AML/CFT Systems," Updated October 2021, p. 123, <https://www.fatf-gafi.org/en/publications/Mutualevaluations/Fatf-methodology.html>.

As of June 2023, only 14 percent of jurisdictions are considered highly or substantially effective on Immediate Outcome 10 (fig. 2). The APG membership includes one of two jurisdictions currently considered highly effective and has 6 members (20%) that are rated substantially effective. However, 23 members (77 percent) are still considered to have moderate or low levels of effectiveness.

Figure 2: Effectiveness Ratings for Immediate Outcome 10



Source: Financial Action Task Force, "Consolidated Assessment Ratings," updated as of 22 June 2023, <https://www.fatf-gafi.org/en/publications/Mutualevaluations/Assessment-ratings.html>.

**REPORT OBJECTIVES**

Enhancing technical compliance with Recommendation 8 and effective implementation under Immediate Outcome 10 can help prevent and mitigate the unintended

<sup>4</sup> Recommendation 15 has the fewest fully compliant ratings, with one jurisdiction compliant as of 22 June 2023.

<sup>5</sup> Not all jurisdictions that submitted follow-up reports will have requested re-rating on Recommendation 8. An additional jurisdiction was initially downgraded, but later received an improved compliance rating.

consequences of countering the financing of terrorism (CFT) measures on NPOs. Topline compliance ratings for evaluated APG members indicate some successes and lessons learned in the region from which other members may benefit. However, compliance is complex and involves a variety of elements related to understanding risks, outreach and engagement, supervision and monitoring, information gathering and investigation, and international cooperation. The complexity of Recommendation 8 makes it difficult to draw conclusive findings from topline assessment ratings.

This report provides a detailed analysis of implementation of FATF Standards on protecting NPOs from terrorism financing abuse in the Asia Pacific region. It includes a heat map of strengths and weaknesses for each criterion used to evaluate technical compliance with Recommendation 8 and offers reflections on the practical implementation of measures that do not disrupt or discourage legitimate charitable activity in accordance with Immediate Outcome 10. It concludes by identifying opportunities and lessons learned that can support the APG, its members, other jurisdictions, and NPOs in developing more targeted, proportionate responses to prevent and mitigate the risk of NPOs being abused for terrorism financing purposes.

This report supports the APG, its members, and NPOs in operationalizing impending best practices on Recommendation 8 from the FATF by providing context-specific analysis of areas where further guidance, support, and capacity development assistance may be beneficial in the Asia Pacific region. In doing so, the research supports the long-term goal of improving risk-based approaches to protecting NPOs from terrorism financing abuse while safeguarding civic space, human rights, humanitarian action, and access to financial services.

## RESEARCH METHODOLOGY

The research process was guided by a multi-stakeholder advisory group that provided feedback on the research methodology, assisted with data collection, reviewed preliminary findings, and provided comments on report drafts. The advisory group included representatives from five APG jurisdictions (Australia, Bangladesh, India, Malaysia, and Pakistan); five nongovernmental organizations (Community World Service Asia, Human Security Collective, International Center for Not-for-Profit Law, Monash University, and Portal Indonesia NGO); and one regional financial institution (Islamic Development Bank).

A horizontal review of technical compliance annexes and sections related to NPOs in mutual evaluation reports (MERs) and follow-up reports (FURs) was conducted to establish a baseline on Recommendation 8 and Immediate Outcome 10. The period of review from 2015 to 2022 includes MERs from 30 jurisdictions<sup>6</sup> and 31 FURs containing information on Recommendation 8 from 20 members. Eleven members underwent evaluation prior to the amendment of Recommendation 8 in 2016, and FURs for those jurisdictions evaluated progress against the revised standard, but do not consistently contain the same level of detail as MERs.

To standardize the review process, a key terms index was developed based on the composite elements of each criterion of Recommendation 8 and Immediate Outcome 10 per the FATF mutual evaluation methodology. An initial review of MERs and FURs used the key terms index to collate updated information for each jurisdiction. A second review examined criterion-specific information across the APG sample to ensure consistency of data collation and classification. Qualitative information was reviewed for contextual factors and to evaluate the consistency of analysis in MERs and FURs across the APG sample.

Building on the findings of the horizontal review, a survey was distributed to APG members. It was organized around the core elements of Recommendation 8: taking a risk-based approach, sustained outreach concerning terrorism financing issues, targeted risk-based supervision or monitoring, effective information gathering and investigation, and capacity to respond to international requests for information about an NPO of concern. The survey requested qualitative and quantitative data on the mechanisms underpinning compliance, including processes, approaches, stakeholders, and perspectives. Data collected from the survey were cross-referenced against horizontal review findings.

Nineteen members responded to the survey, including 18 that had undergone evaluation and one whose evaluation was forthcoming. The sample is largely representative of overall APG compliance ratings, with 5 percent of respondents rated as compliant, 50 percent largely compliant, 37 percent partially compliant, and 10 percent non-compliant. Financial intelligence units (FIUs) and national NPO regulators and supervisors were the most common contributors to the survey, followed by law enforcement and provincial NPO regulators/supervisors.<sup>7</sup> Only one respondent indicated NPO involvement in completing the survey, indicating the survey

<sup>6</sup> MERs were reviewed from the following APG members: Australia; Bangladesh; Bhutan; Cambodia; Canada; China; Chinese Taipei; the Cook Islands; Fiji; Hong Kong, China; Indonesia; Japan; Korea; Macao, China; Malaysia; Mongolia; Myanmar; New Zealand; Pakistan; Palau; the Philippines; Samoa; Singapore; the Solomon Islands; Sri Lanka; Thailand; Tonga; the United States; Vanuatu; and Vietnam. The report excludes Indonesia's FATF MER, which was published in April 2023, outside the period of review.

<sup>7</sup> Not all jurisdictions have provincial NPO regulators and/or supervisors.



predominately represents governmental perspectives. A similar reliance on governmental perspectives exists in the majority of MERs and FURs, creating a limitation in the quantitative data analyzed for this report.

To help address this gap and ensure a comprehensive assessment, key informant interviews and small focus-group discussions were held with representatives from civil society and academia and other nongovernmental experts. In addition, a digital call for information was distributed to civil society actors operating in the Asia Pacific region, including a survey on risk mitigation practices and engagement with CFT authorities, as well as a request to share relevant existing research and analysis. Submissions from government and nongovernmental actors contributed to a literature review of open-source terrorism financing and CFT data, national risk assessments, legal and policy frameworks, public guidance materials, and analysis related to terrorism, terrorism financing, and NPOs.

### HEAT MAP

The “heat map” provides a high-level visualization of strengths (green) and weaknesses (red) pursuant to

the sub-criterion used to evaluate Recommendation 8. Yellow reflects areas where uneven progress has been made across the region, or where there are notable information gaps or stakeholder concerns regarding implementation of risk-based measures.

Classification was based on a variety of factors, including levels of compliance identified in MERs and FURs, the relevant data provided in responses, the relevancy of qualitative responses to key terms in the criteria, cross-verification of information in interviews and consultations, case studies, and other submissions from key experts. The heat map considers information contained in MERs pursuant to effective implementation under Immediate Outcome 10 in the context of the relevant criterion of Recommendation 8.

The heat map is for illustrative purposes only and does not displace compliance ratings in the mutual evaluation process. It should be reviewed in conjunction with the detailed analysis provided in the relevant report sections to allow for proper contextualization of regional aggregate findings.

<b>TAKING A RISK-BASED APPROACH</b>	Risk assessments are being widely conducted across the region, and many assessments have been updated or jurisdictions have policies in place to do so. However, there are notable areas for improvement related to reviewing existing risk mitigation measures, identifying the subset of NPOs that meet the FATF definition, identifying the features and types of NPOs that may be at risk, and identifying the nature of the threats NPOs may face. Participation of NPOs in the risk assessment process is mixed across the region.
<b>8.1(a)</b>	Forty percent of evaluated members have not identified the subset of NPOs that fall within the FATF definition, and 33 percent have not adequately identified the features and types of NPOs that may be at risk of terrorism financing abuse by virtue of their activities or characteristics.
<b>8.1(b)</b>	Forty percent of evaluated members have weaknesses identifying the nature of threats posed by terrorist entities to NPOs identified as at risk, as well as how terrorist actors could potentially abuse those NPOs.
<b>8.1(c)</b>	Fifty percent of evaluated members have not sufficiently reviewed the adequacy of measures, including laws and regulations, that relate to the subset of NPOs that may be abused for terrorism financing.
<b>8.1(d)</b>	The majority of members are periodically reviewing new information to reassess the non-profit sector for potential vulnerabilities through a combination of updated risk assessments, policies to update assessments, or ongoing dialogues.



<b>SUSTAINED OUTREACH ON TERRORISM FINANCING ISSUES</b>	Outreach to NPOs is occurring in the region, but is uneven, ad hoc, and focused on training instead of the collaborative development of good practices. Outreach and education programming is largely not occurring with donor communities. Policies are in place to promote accountability, integrity, and public confidence in the non-profit sector, but there is very little information on whether those policies are disrupting or discouraging legitimate NPO activities.
<b>8.2(a)</b>	Sixty percent of evaluated members have policies considered adequate to promote accountability, integrity, and public confidence in the administration and management of NPOs. MERs and FURs place an emphasis on regulatory measures and internal controls and provide very limited consideration of whether policies are disrupting or discouraging legitimate NPO activities. Consultations indicated that some policies are perceived as intrusive and not risk based.
<b>8.2(b)</b>	Thirty percent of evaluated jurisdictions have not conducted outreach to NPOs, and 40 percent are conducting outreach that is inconsistent and ad hoc. Consultations describe the outreach as limited in scope, insufficiently representative of NPOs, and not resulting in meaningful collaboration to mitigate the risk of NPO abuse. Ninety-four percent have not conducted outreach to donor communities.
<b>8.2(c)</b>	Forty percent of evaluated members do not have good practices to address terrorism financing risks for NPOs identified as potentially vulnerable. Existing good practices were rarely developed in collaboration with NPOs.
<b>8.2(d)</b>	Forty-three percent of evaluated members encourage NPOs to conduct transactions through regulated channels. While many NPOs view the use of regulated financial channels as desirable, consultations raised concerns that legally mandating formal bank accounts could make the private sector de facto gatekeepers of NPO status.

<b>TARGETED RISK-BASED SUPERVISION OR MONITORING</b>	A variety of measures are being applied to NPOs, and supervisory and monitoring actions are occurring in parts of the region. There is little information to indicate whether those measures and actions are proportionate and risk based. Consultations raised notable concerns that, in some contexts, the measures are intrusive, arduous, and applied in a one-size-fits-all manner.
<b>8.3</b>	Members report applying a variety of measures to protect NPOs from terrorism financing abuse, but do not describe how these measures are applied in accordance with the risk-based approach. MERs and FURs emphasize the measures listed as examples in the Interpretive Note to Recommendation 8, which may contribute to a misperception that jurisdictions can or should impose all of these examples to achieve high levels of compliance.
<b>8.4(a)</b>	Eighty percent of evaluated jurisdictions have mandated the appropriate authorities to monitor NPO implementation of measures under criterion 8.3. However, 75 percent of members' overall supervision and monitoring practices are inadequately risk based. Research indicates insufficient clarity between obligations under criterion 8.4(a) and 8.3, with significant overlap in the information presented in technical compliance annexes and duplicative survey responses.
<b>8.4(b)</b>	Sixty percent of evaluated members lacked adequate legal frameworks to apply a range of effective, proportionate, and dissuasive sanctions for violations by NPOs or persons acting on behalf of these NPOs.



<b>EFFECTIVE INFORMATION GATHERING AND INVESTIGATION</b>	Cooperation and coordination among the appropriate authorities are supported by access to information on the management of NPOs and mechanisms to promptly share information on a particular NPO if there are reasonable grounds to suspect exploitation for or involvement in terrorism financing. Investigative capacity is mixed, with limited information and few instances of terrorism financing abuse documented in the region.
<b>8.5(a)</b>	Eighty percent of evaluated members have adequate frameworks to ensure effective cooperation, coordination, and information sharing among the appropriate authorities that hold relevant information on NPOs.
<b>8.5(b)</b>	Investigatory capacity to examine NPOs suspected of being exploited by terrorist actors or of supporting terrorism is mixed across the region. Information used to evaluate capacities is unevenly presented in MERs.
<b>8.5(c)</b>	Eighty percent of evaluated members have frameworks to enable full access to information on the administration and management of a particular NPO during the course of an investigation.
<b>8.5(d)</b>	Sixty-three percent of evaluated members established appropriate mechanisms to promptly share information when there is suspicion of, or reasonable grounds to suspect, a particular NPO of being involved in or exploited for terrorism financing. Twenty percent of members were determined to have some mechanisms in place, but with gaps or weaknesses.

<b>CAPACITY TO RESPOND TO INTERNATIONAL REQUESTS FOR INFORMATION</b>	Formal and informal mechanisms for international cooperation are present and applicable in instances where a particular NPO is suspected of being exploited for or involved in terrorism financing. Few requests have been made or received.
<b>8.6</b>	Sixty-three percent of members had appropriate points of contact and procedures to facilitate international cooperation related to particular NPOs, with 27 percent having partial measures in place.



# Taking a Risk-Based Approach

The risk-based approach is the foundation of the FATF Standards. It recognizes that each jurisdiction faces unique threats and vulnerabilities and encourages states to calibrate anti-money laundering (AML) and CFT efforts to address areas of higher risk while allowing for the adoption of simplified measures for areas of lower risk. Utilizing a risk-based approach can help jurisdictions orient prevention and detection efforts, protect against overregulation, maximize resources, and increase effectiveness.

The risk-based approach is especially important in ensuring that measures to protect NPOs from terrorism financing abuse do not disrupt or discourage legitimate NPO activities. Per the Interpretative Note to Recommendation 8: “A risk-based approach applying focused measures in dealing with identified threats of terrorist financing abuse to NPOs is essential given the diversity within individual national sectors, the differing degrees to which parts of each sector may be vulnerable to terrorist financing abuse, the need to ensure that legitimate charitable activity continues to flourish, and the limited resources and authorities available to combat terrorist financing in each country.”<sup>8</sup>

To adopt a risk-based approach, jurisdictions must understand their threats, vulnerabilities, and existing risk mitigation measures. The process is referred to as a risk assessment, which can be done at the national, sectoral, or institutional level. For NPOs, an additional step must be undertaken first: identifying the subset of nongovernmental entities that meet the FATF definition of an NPO and thus should be considered in the risk assessment. It is important to remember that FATF Standards only apply to those organizations that meet the FATF definition, not to the entire non-profit sector.

This section examines criterion 8.1, on taking a risk-based approach to protecting NPOs from terrorism financing abuse. It includes a summary of horizontal review findings on the components of a risk assessment and of survey findings on the process undertaken by APG members, including participants, sources of information, and practices for disseminating assessment findings.

APG members have made uneven progress on criterion 8.1. Risk assessments are being widely conducted across the region, and many assessments have been updated or members have policies in place to do so. However, there are notable areas for improvement in how assessments are being conducted, including ensuring that all components of criterion 8.1 are adequately completed. The research also indicates that jurisdictions can foster a more inclusive and evidence-based process.

Adopting a risk-based approach was found to underpin compliance with all other aspects of Recommendation 8. Issues related to criterion 8.1 appeared in 64 percent of strategic deficiency charts in MERs and were the most identified deficiency for members found partially or non-compliant.<sup>9</sup> Eighty-three percent of MERs referenced NPO risk assessments in the weighting and conclusion section for Recommendation 8, underscoring its importance in how compliance ratings are determined.

## FATF Methodology for Assessing Technical Compliance

8.1 – Countries should:

- (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;<sup>a</sup>
- (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;
- (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; and

<sup>8</sup> Financial Action Task Force, “International Standards on Combatting Money Laundering and the Financing of Terrorism and Proliferation: the FATF Recommendations,” Updated February 2023, Interpretative Note to Recommendation 8, paragraph 4 (a), <https://www.fatf-gafi.org/en/publications/Fatfrecommendations/Fatfrecommendations.html>.

<sup>9</sup> Strategic deficiency charts included in the MERs for Bhutan, Cambodia, China, Fiji, Japan, Korea, Mongolia, Myanmar, New Zealand, Pakistan, Palau, the Philippines, the Solomon Islands, Thailand, Tonga, and Vietnam. Five MERs did not include strategic deficiency charts: Australia, Malaysia, Samoa, Sri Lanka, and Vanuatu.

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

<sup>a</sup> For example, such information could be provided by regulators, tax authorities, FIUs, donor organisations or law enforcement and intelligence authorities.

Source: Financial Action Task Force, "Methodology for Assessing Technical Compliance with the FATF Recommendations and the effectiveness of AML/CFT Systems," Updated October 2021, p. 39, <https://www.fatf-gafi.org/en/publications/Mutualevaluations/Fatf-methodology.html>.

## COMPONENTS OF A RISK ASSESSMENT

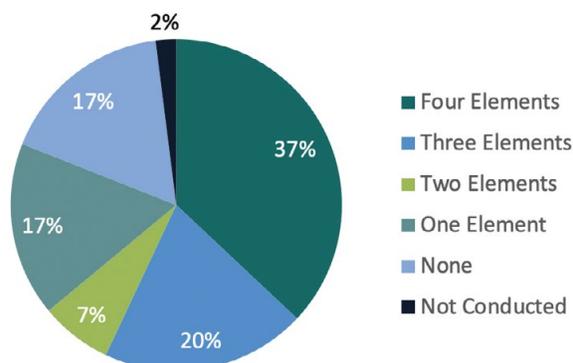
Of the APG members that completed the survey or underwent mutual evaluation, 87 percent finished some form of risk assessment for NPOs, while a further 10 percent were currently undertaking the process. Only one member had yet to conduct or begin an NPO risk assessment. A subset of eight APG members also contributed to a regional assessment of the risk of NPO abuse for terrorism financing in 2017.<sup>10</sup>

Existing guidance on conducting a terrorism financing risk assessment includes considerations for NPOs,<sup>11</sup> but the FATF does not endorse a particular methodology or specify how a jurisdiction should conduct the assessment. APG members have adopted different approaches. Forty-eight percent of evaluated members considered NPOs as part of a broader terrorism financing risk assessment at the national level, while 21 percent of members conducted a separate risk assessment specific to the potential abuse of NPOs for terrorism financing. Thirty-one percent of members did both, often producing specialized NPO assessments to augment national risk assessments or address identified gaps related to NPOs.

Under criterion 8.1, jurisdictions must do four things to complete a risk assessment: identify the subset of NPOs that fall within the FATF definition (criterion 8.1(a)); identify the features and types of NPOs likely to be at risk by virtue of their activities or characteristics (criterion 8.1(a)); identify the nature of the threat, referring to how terrorist actors may seek to abuse NPOs to raise, move, use, or store funds (criterion 8.1(b)); and review the adequacy of measures to mitigate the risks identified for the subset of NPOs that may be vulnerable (criterion 8.1(c)).

Although risk assessments are widely occurring across the region, there is room for improvement. Eleven of the 30 evaluated members (37 percent) were found to have completed all four components of the risk assessment (fig. 3). Six members completed three components (20 percent), two members completed two (seven percent), and five members completed one component (17 percent). Five members undertook a risk assessment but did not adequately complete any of the four components (17 percent).

Figure 3: Number of Completed Risk Assessment Components



Source: Analysis of collated data from the horizontal review.

The most common gap was criterion 8.1(c), on reviewing the adequacy of existing measures to prevent and mitigate identified risks. Half of evaluated members (15) completed this component, while eight members had not (27 percent), and seven had only partially done so (23 percent) (fig. 4). These findings were broadly reinforced in the survey, where 14 respondents indicated their jurisdiction had undertaken a review, two had not, and three were unsure.

Three survey respondents provided information that was notably different from the findings on criterion 8.1(c) in their MERs and FURs. The jurisdictions may have conducted a review of existing measures after publication of their reports. However, research indicates an inconsistent interpretation of criterion 8.1(c) on the part of members and assessors. Ten members provided further qualitative information for criterion 8.1(c) in the survey, but only two clearly described reviewing existing measures applicable to NPOs. Most responses were ambiguous, referring to awareness-raising activities, issuing regulations or amending laws, and collecting data from the media, NPOs, and regulators. It was not clear whether those efforts were linked to gaps identified in existing measures to protect NPOs from abuse.

<sup>10</sup> Australian Transaction Reports and Analysis Centre and Pusat Pelaporan dan Analisis Transaksi Keuangan (PPATK), "Regional Risk Assessment 2017: Non-Profit Organisations & Terrorism Financing," 2017, <https://apo.org.au/sites/default/files/resource-files/2017-11/apo-nid183366.pdf>.

<sup>11</sup> "Terrorist Financing Risk Assessment Guidance," Financial Action Task Force, July 2019, p. 43-51, <https://www.fatf-gafi.org/en/publications/MethodsandTrends/Terrorist-financing-risk-assessment-guidance.html>.

MERs had similar ambiguities in describing compliance with criterion 8.1(c). The adoption or amendment of laws was noted in several instances where the jurisdiction had not reviewed existing measures, where the review did not consider the subset of NPOs that met the FATF definition, or where there was no updated information as to whether a review occurred prior to legal changes.<sup>12</sup> This suggests that the current interpretation of criterion 8.1(c) is focused on taking new actions, rather than on considering the efficacy of existing measures for NPOs identified as potentially at risk for abuse.

Consultations underscore that overlooking the review of existing measures can result in the creation of duplicative, contradictory, or overly burdensome compliance obligations for NPOs. This is most likely to occur when AML/CFT laws are crafted in isolation from existing laws governing NPO operations, when policymakers do not consult with the non-profit sector and existing regulatory or supervisory bodies, or new measures do not take into account existing risk mitigation frameworks, including those adopted proactively by NPOs whose operations expose them to higher levels of risk.

A second stumbling block for many jurisdictions was criterion 8.1(a), on identifying the subset of nongovernmental entities that meet the FATF definition of an NPO, with 12 of the 30 evaluated members not completing this component (40 percent). In nearly all cases, members that overlooked identifying the subset of NPOs were found to have other deficiencies in their compliance with criterion 8.1. Half had not successfully completed any of the four risk assessment components, four members completed only one component, one completed two, and one completed three.

The other element of criterion 8.1(a) is identifying the features and types of NPOs that may be at risk, which had comparatively the highest completion rate. However, ten members (33 percent) were still found to have missed or inadequately completed this aspect of criterion 8.1. There were also challenges with criterion 8.1(b), on understanding the nature of the threat, with 12 members found not to have completed this component (40 percent).

MERs and FURs offer little detail on jurisdictions' missteps in identifying features and types of NPOs at risk and understanding the nature of the threat posed by terrorist entities. MERs and FURs often noted these elements had not occurred or were insufficient without providing further context or articulating areas in need of improvement. Most jurisdictions that struggled with

criteria 8.1(a) and (b) were also found to have deficiencies in other components of the risk assessment process.

*Figure 4: Breakdown of Completion of the Four Elements of Risk Assessment*



Source: Analysis of collated data from the horizontal review.

## RISK ASSESSMENT PROCESS

As it falls outside the scope of criterion 8.1, MERs rarely contained information on the process underpinning risk assessments for APG members. For example, only one MER noted that NPOs were consulted in developing the risk assessment,<sup>13</sup> while six MERs provided information on how assessment findings were shared with domestic stakeholders. To better understand the practice of risk assessment in the Asia Pacific region, consultations and surveys for this report sought further information on stakeholder participation, the sources and types of information used, and whether the findings were made public.

### Participation

Respondents were asked to categorize the actors that participated in their risk assessment. FIUs were the most common participant (95 percent), followed by law enforcement agencies (89 percent), national NPO regulators and supervisory authorities (84 percent), NPO representatives (79 percent), and intelligence agencies (74 percent) (fig. 5). Donors were the least likely to participate in the risk assessment, with 11 percent indicating they had played a role, while private sector representatives, central banks and provincial NPO regulators/supervisors<sup>14</sup> fell in the middle (68 percent, 63 percent, and 53 percent, respectively).

The survey distinguished between the type of participation, as either involved (i.e., responsible for develop-

<sup>12</sup> For example, Bhutan, Cambodia, China, Fiji, Indonesia, New Zealand, Myanmar, and Tonga.

<sup>13</sup> Bangladesh (MER, 2016), paragraph 119, p. 125.

<sup>14</sup> Not all jurisdictions have provincial regulators and/or supervisors, which depresses the response rate.

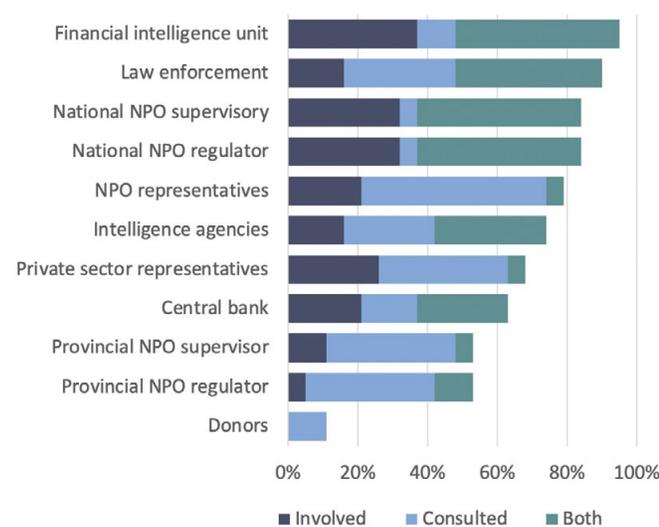
ing assessment methodology, gathering information, analyzing data, or drafting); consulted (i.e., requested to submit information or provide feedback on proposed methodology or draft findings); or both. The survey also inquired whether different actors were invited to review and comment on risk assessment findings prior to finalization (and publication, if applicable).

FIUs and national NPO regulators/supervisors were involved more often than consulted. As such, these authorities were the most likely to comment on draft assessments, reported by 74 percent and 79 percent of respondents, respectively (fig. 6).

Intelligence agencies, central banks, and private sector representatives had a roughly even split between consultation and involvement. Central banks and intelligence agencies were invited to comment on draft assessments by 63 percent and 47 percent of respondents, respectively. The private sector was least likely to comment, with just 21 percent of respondents reportedly offering the opportunity.

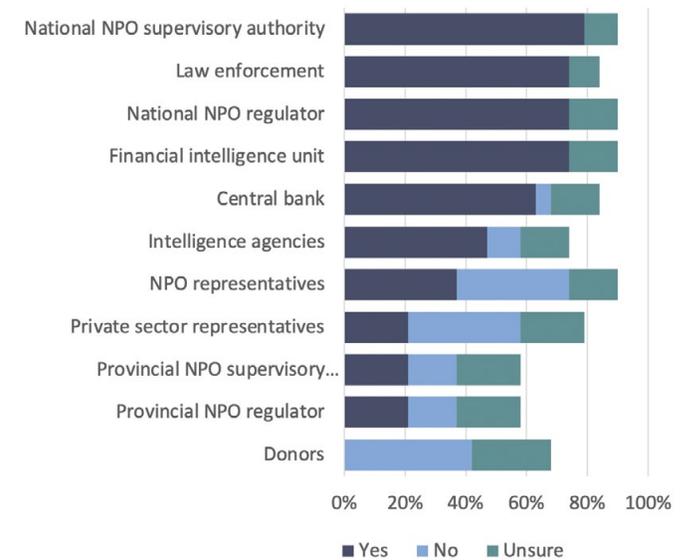
NPO representatives and provincial NPO regulators/supervisors were consulted more often than involved in the risk assessment. Thirty-seven percent of respondents indicated NPOs were invited to comment on draft assessments, while 21 percent indicated that provincial regulators/supervisors had the opportunity to do so. Law enforcement agencies also served in a consultative role, though 66 percent of respondents indicated that law enforcement had an opportunity to comment on draft assessments. In general, donors rarely participated in the process and were not invited to comment.

*Figure 5: Nature of Stakeholder Participation in NPO Risk Assessment*



Source: APG member survey, 2023.

*Figure 6: Stakeholders Invited to Review and Comment on Draft NPO Risk Assessment*



Source: APG member survey, 2023.

Few respondents clearly indicated that specific stakeholders, excluding donors, were not included in their risk assessment. Instead, most respondents opted to indicate they were unsure of participation or that the question was not applicable. The same is true regarding whether an opportunity was afforded to review and comment on draft assessment findings, with an average of 39 percent of respondents indicating they were unsure or the question was not applicable.

The experiences shared in consultations for this report align with survey data. FIUs and NPO regulators/supervisors are often tasked with leading the risk assessment, engaging other stakeholders where appropriate. Although participation of NPOs is good practice, it is often not realized for many potential reasons, including weak political will to secure diverse participation, strained relationships between governments and NPOs, FIUs lacking networks or points of contact within the non-profit community, concerns about sharing sensitive data with nongovernmental actors, or limited CFT and/or risk assessment expertise within the non-profit sector.

### Sources of Information

Respondents indicated a range of qualitative and quantitative data from different sources were used to inform their risk assessment. NPOs, NPO supervisors, FIUs, law enforcement, and regulators were named as sources for more than two-thirds of respondents (fig.7). More than half of respondents listed FATF reports, tax authorities, intelligence agencies, and the media as sources of

*Table 1: Types of Information Used in Risk Assessment*

SURVEY ANSWER OPTIONS	RESPONSES	
Number of different categories/types of NPOs	95%	18
NPO geographic areas of operation	90%	17
Size of NPOs (as determined by annual turnover of funds or number of projects)	90%	17
Sources of NPO funding	90%	17
Nature of NPO primary activities	84%	16
Frequency of supervisory review and monitoring of NPOs	79%	15
Legal and regulatory obligations on terrorism financing for NPOs	79%	15
Methods used for fund transfers by NPOs	79%	15
NPO sources and utilization of funds by categories	79%	15
NPO internal controls and risk mitigation practices	70%	14
Number of convictions related to NPO involvement in terrorism financing	74%	14
Number of investigations related to suspected NPO involvement in terrorism financing	74%	14
Number of sanctions and remedial actions imposed on NPOs	74%	14
Case studies of NPO abuse for terrorism financing	53%	10
Case studies on NPO risk mitigation	42%	8
Other (please specify) <ul style="list-style-type: none"> <li>• Complexity and integration of sector</li> <li>• Donors in high-risk locations</li> <li>• Professionalism and ethics of NPO</li> <li>• Accountability mechanism for NPOs</li> <li>• Type of donor and method of donation</li> <li>• Annual financial statement of NPOs</li> <li>• Value of transfers made/received</li> <li>• Percentage of assets held in cash</li> <li>• Percentage of funds raised and disbursed in cash</li> <li>• Suspicious transaction reports</li> </ul>	21%	4

information, with think tank and third-party reports, independent government agencies, academic journals, and financial institutions listed to a lesser extent.

The types of information used to develop risk assessments can be loosely grouped into three categories: characteristics, features, and operations of NPOs; prevention and risk mitigation measures; and investigation and enforcement actions. The order of those categories aligns with their reported usage, with information on NPOs and risk mitigation measures being the most common, followed slightly by information on investigation and enforcement. Significantly fewer respondents (50 percent) used case

studies of abuse in developing their assessments, which aligns with the limited data on cases of NPO abuse presented under criterion 8.5 (table 1).

Methods used to collect information include desk review of NPO reports and data (84 percent); written or digital surveys, consultations, and desk review of government data (79 percent each); multi-stakeholder roundtables (63 percent); publicly posted calls for information (21 percent); and phone surveys (10 percent). Some APG members also reported using focus group discussions and on-site inspection visits to NPOs to collect information.



Figure 7: Sources of Information for Risk Assessment

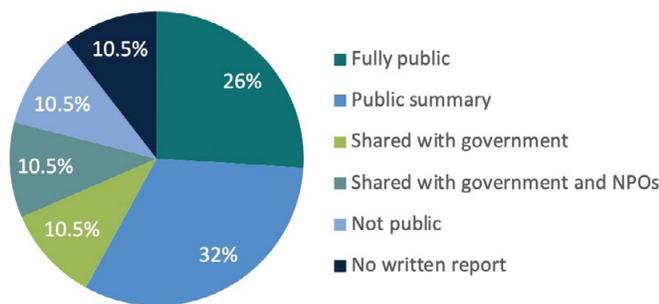


Source: APG member survey, 2023.

### Sharing Risk Assessment Findings

The FATF does not specify what form a risk assessment should take, but most APG members have opted to produce a written report. Per the survey, five members have made the report fully public and six published a summary or sanitized version. Four members shared the report with select stakeholders, while two did not release findings of the risk assessment and two did not produce a written report.

Figure 8: Publication of Risk Assessment Findings



Source: APG member survey, 2023.

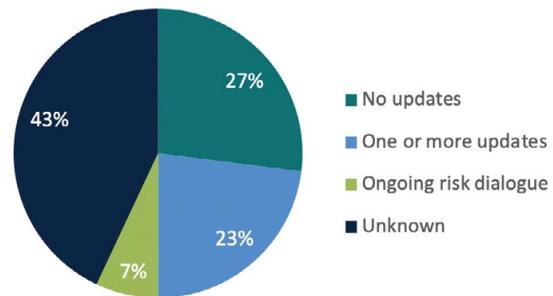
### PERIODIC REASSESSMENT

Risk assessment is not a static process, and criterion 8.1(d) requires jurisdictions to periodically reassess the sector by reviewing new information on potential vulnerabilities. Recommendation 8 does not stipulate how frequently assessments are to be conducted, nor does

criterion 8.1(d) necessarily call for the update of comprehensive risk assessments as discussed above. Instead, risk assessment can refer to dialogues or other mechanisms that allow for the exchange of information on an ongoing basis to maintain an up-to-date understanding of the risk landscape.

The horizontal review indicated that nine of the evaluated APG members have a policy in place to periodically update their risk assessment for NPOs. To date, seven members have updated their initial risk assessments (23 percent) while two have established ongoing risk dialogues or mechanisms to routinely review new information (7 percent) (fig. 9). Eight members had not updated their risk assessment (27 percent), most commonly those that had completed the assessment in the last few years. There was no information provided for 13 members (43 percent), which may reflect the relatively recent nature of their initial NPO risk assessment.

Figure 9: Periodic Reassessment of NPO Risk



Source: Analysis of collated data from the horizontal review.

The survey sought to provide a more current understanding on criterion 8.1(d) and found more activity than that captured in MERs and FURs. Ten respondents reported having a policy in place to periodically update their assessment, while nine reported having done so already. The most significant difference related to ongoing risk dialogues, where nine members reported having such a forum for government and seven having a dialogue that included NPOs and government. It is unclear whether the discrepancy is the result of progress in the region that was not documented in the FURs or whether members are undertaking actions that assessors do not feel are adequate to constitute meaningful compliance with criterion 8.1(d). In addition to updating risk assessments and ongoing risk dialogues, five respondents indicated that other measures were in place, including ad hoc meetings with NPOs, site visits by NPO regulators and the FIU, and media campaigns.

# Sustained Outreach on Terrorism Financing Issues

The Interpretative Note to Recommendation 8 reads, “Developing cooperative relationships among the public and private sectors and with NPOs is critical to understanding NPOs’ risks and risk mitigation strategies, raising awareness, increasing effectiveness and fostering capabilities to combat terrorist financing abuse within NPOs.”<sup>15</sup>

Sustained outreach to NPOs identified as at risk for terrorism financing abuse can be helpful in ensuring that policies and practices reflect the complexity and diversity of NPOs and do not disrupt or discourage their operations. Outreach also can facilitate trust building and resolve potential tensions around the objective and scope of CFT measures that can otherwise negatively affect risk-based implementation.

This section summarizes key findings related to criterion 8.2, including the scope and nature of outreach and educational programs and the status of efforts to collaboratively develop best practices with NPOs. The section includes consideration of how members and assessment teams determine whether jurisdictions have clear policies to promote accountability, integrity, and public confidence in the administration and management of NPOs; what steps are undertaken to encourage the use of regulated financial channels by NPOs; and how those efforts are perceived and operationalized by NPOs.

Sustained outreach is the second-most identified strategic deficiency, appearing in 60 percent of MERs.<sup>16</sup> However, the weighting and conclusion sections do not address outreach as robustly as they did the risk-based approach. Outreach features in two-thirds of weighting sections, compared to 83 percent for the risk-based approach. The slightly lower prioritization of criterion 8.2 in compliance ratings may influence how sustainable members’ efforts are to engage with NPOs and donors.

The biggest area of weakness for APG members is criterion 8.2 on sustained outreach and engagement. While some outreach efforts are occurring, they tend to be ad hoc, uneven, and almost exclusively focused on NPOs without engaging donor communities. Some members have developed good practices to address terrorism

financing risk, but these are rarely done in collaboration with NPOs. Policies are in place to promote accountability, integrity, and public confidence in the non-profit sector, but there is very little information on whether those policies disrupt or discourage legitimate NPO activities.

## FATF Methodology for Assessing Technical Compliance

8.2 - 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.

Source: Financial Action Task Force, “Methodology for Assessing Technical Compliance with the FATF Recommendations and the effectiveness of AML/CFT Systems,” Updated October 2021, p. 39-40, <https://www.fatf-gafi.org/en/publications/Mutualevaluations/Fatf-methodology.html>.

## OUTREACH ON TERRORISM FINANCING ISSUES

Criterion 8.2(b) calls for jurisdictions to conduct outreach to and educational programs for NPOs and donors to deepen awareness of potential vulnerabilities, terrorism financing risks, and mitigation measures. Per the horizontal review, nearly all APG members have the

<sup>15</sup> Financial Action Task Force, “International Standards on Combatting Money Laundering and the Financing of Terrorism and Proliferation: the FATF Recommendations,” Interpretative Note to Recommendation 8, paragraph 4(f), Updated February 2023.

<sup>16</sup> Strategic deficiency charts included in the MERs for Bhutan, China, Fiji, Indonesia, Japan, Korea, Macao China, Mongolia, Myanmar, New Zealand, Palau, Singapore, the Solomon Islands, Tonga, and Vietnam. Five MERs did not include strategic deficiency charts: Australia, Malaysia, Samoa, Sri Lanka, and Vanuatu.

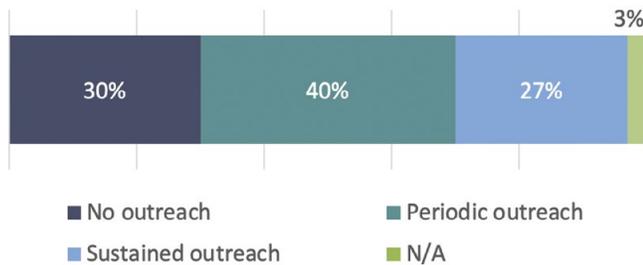
appropriate mandate to conduct outreach and education to NPOs and donors. However, in practice, donors are rarely included in outreach activities, with just two APG members reporting having done so.

The survey sought further detail on the scope and nature of outreach activities in the region. Most often, efforts are led by NPO supervisors, registration/licensing authorities, or FIUs. Ninety-four percent of respondents indicated that outreach topics included FATF Recommendation 8, domestic legal and regulatory frameworks, potential vulnerabilities for NPOs, and good practices for risk mitigation. Fewer reported discussing NPO concerns about CFT measures or challenges experienced in their implementation (68 percent and 62 percent, respectively).

Research shows that NPO outreach efforts are uneven across the region, with several jurisdictions citing ad hoc meetings or one-time trainings. Ten members were determined not to be conducting any form of outreach to NPOs (thirty percent), while 12 were periodically engaging NPOs (40 percent), most often through trainings that were described as being organized as needed (fig. 10). Eight members were found to have sustained outreach (27 percent), most commonly through standing forums or meetings that are routinely held more than once per year.

The horizontal review found different perspectives on the appropriate audience for outreach and engagement, specifically whether it should include all NPOs that meet the FATF definition or just those identified as higher risk. MERs or FURs for eight members specifically noted that outreach and engagement efforts were targeted for NPOs identified as higher risk,<sup>17</sup> while reports for two jurisdictions noted that outreach was not targeted and one specifically indicated that targeting was unclear.<sup>18</sup> For the remaining two-thirds of evaluated members, MERs and FURs did not indicate whether NPOs were engaged on the basis of their risk profiles, and several implied that outreach was broad based.

Figure 10: Outreach to NPOs on Terrorism Financing Issues



Source: Analysis of collated data from the horizontal review.

Consultations raised questions about how NPOs are selected to participate in outreach activities and trainings. There was a perception that only NPOs that have positive relationships with their governments were invited and that often their participation was to “rubber stamp” outcomes without providing avenues for meaningful reflection and engagement. Others expressed concern about the potential for reprisals by their government if NPOs were to share information that was not positively received, either in multi-stakeholder forums or as part of assessment visits conducted pursuant to a mutual evaluation. Some NPOs described instances where they proactively sought to contact CFT officials on laws or risk mitigation measures and received no response.

The horizontal review found that training was emphasized over dialogue in the implementation of criterion 8.2, with a focus on local organizations over international ones. Training refers to the delivery of technical information to support action on the part of participants, while dialogue focuses on an exchange of perspectives and experiences among parties. The majority of outreach activities reported in the survey were meetings to raise awareness on terrorism financing risks and obligations under CFT laws (88 percent), the distribution of guidance materials (75 percent), and training on risk mitigation (69 percent). This matches experiences shared in consultations, in which nongovernmental stakeholders described an emphasis on risks and mitigation measures in interactions with government, with few opportunities to raise concerns or challenges encountered by NPOs.

Recommendation 8 does not explicitly call for jurisdictions to establish multi-stakeholder dialogue forums, although their establishment has emerged as an example of global good practice to prevent and mitigate the unintended consequences of CFT measures. Seven survey respondents (44 percent) indicated having multi-stakeholder roundtables or establishing designated points of contact for NPOs to engage with CFT authorities, suggesting that there are some good practices and lessons learned within the APG that could be promulgated among its members.

### COLLABORATIVE DEVELOPMENT OF BEST PRACTICES

Under criterion 8.2(c), jurisdictions should work with NPOs to collaboratively develop and refine best practices to address terrorism financing risks. The ad hoc nature of outreach and the absence of sustained forums for dialogue have adversely affected the ability of APG

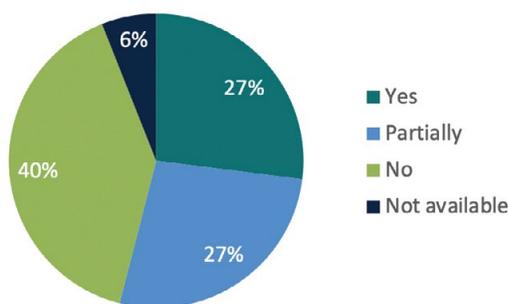
<sup>17</sup> Canada (FUR, 2021), Hong Kong, China (MER, 2019), Indonesia (MER, 2018), New Zealand (MER, 2021), the Philippines (MER, 2019), Vanuatu (FUR, 2018), and Vietnam (MER, 2022).

<sup>18</sup> Macao, China (MER, 2017), Mongolia (FUR 2020, 2021), and Palau (MER, 2018).

members to meet this criterion. Research reveals that 12 members have not developed best practices (40 percent), while eight have only partially done so (27 percent) (fig. 11). There was insufficient information to determine whether best practices existed for 6 percent of evaluated members.

When good practices were developed, they were rarely done in collaboration with NPOs. In many cases, the findings of the horizontal review did not align with survey responses from APG members, even when MERs or FURs were released after best practices were published, suggesting a difference of opinion on what constitutes best practice materials.

*Figure 11: Existence of Good Practices to Address Terrorism Financing Risks*



Source: Analysis of collated data from the horizontal review.

## PROMOTE ACCOUNTABILITY, INTEGRITY, AND PUBLIC CONFIDENCE

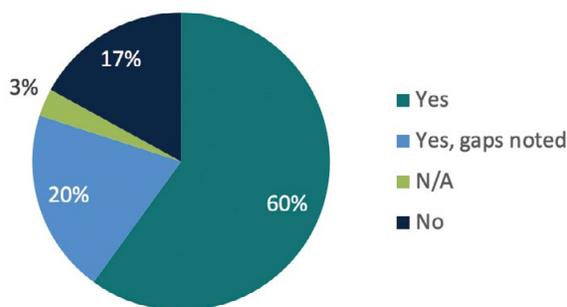
NPOs with robust internal controls are typically less vulnerable to terrorism financing abuse as they are better positioned to effectively and consistently implement risk mitigation measures tailored to their specific activities and unique risk profiles and appetites. Criterion 8.2(a) requires jurisdictions to establish clear policies that will promote accountability, integrity, and public confidence in the administration and management of NPOs.

The horizontal review found that 18 members had such policies in place (60 percent), while six had noted areas for improvement (20 percent) (fig. 12). Where supporting information was provided, it referred to laws and regulations such as licensing and registration procedures, the submission of annual financial reports, and auditing and record keeping requirements. The information provided to support criterion 8.2(a) overlaps with the monitoring and supervisory practices detailed under criteria 8.3 and 8.4, raising questions about real or perceived differences between the criteria and

creating the perception that compliance is achieved predominately by imposing regulatory measures. Questions were raised in consultations about whether regulation, internal controls, and supervision are the only mechanisms to promote accountability, integrity, and public confidence. Furthermore, the review did not find information on whether measures imposed under criterion 8.2(a) applied only to NPOs identified as vulnerable to abuse or whether the measures disrupt or discourage legitimate NPO activities.

Some MERs and FURs noted measures that were described as intrusive in the consultation process, including mandated reports on activities or the submission of work plans, obligations to publish or routinely submit lists of all donors, special licenses or approvals for fundraising, or preauthorizations to receive international fund transfers. There is concern that references to these measures can be interpreted as endorsing them as an appropriate application of FATF Standards. Some MERs have noted perceptions from stakeholders that specific measures were overly burdensome or arduous.<sup>19</sup>

*Figure 12: Policies for Accountability, Integrity, and Public Confidence*



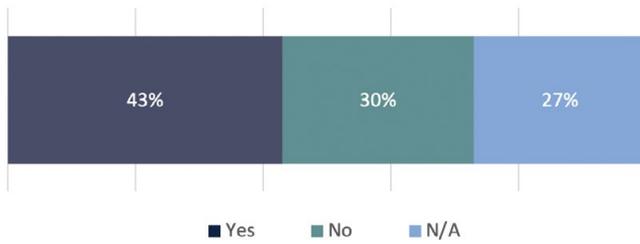
Source: Analysis of collated data from the horizontal review.

## USE OF REGULATED CHANNELS

Criterion 8.2(d) indicates that countries should encourage NPOs to conduct transactions via regulated financial channels wherever feasible. The horizontal review found that 13 of the evaluated APG members were doing so (43 percent) and nine were not (30 percent) (fig. 13). Eight members were evaluated prior to the addition of this criterion, when Recommendation 8 was amended in 2016, and did not provide sufficient information in FURs to make a determination (27 percent).

<sup>19</sup> Cambodia (MER, paragraph 192), Korea (MER, paragraph 279), and the Philippines (MER, paragraph 310).

Figure 13: Encourage Use of Regulated Channels



Source: Analysis of collated data from the horizontal review.

Contextual information describing how this criterion was met was included in 11 of the MERs and FURs. Five referred to outreach programs that encouraged the use of regulated channels by NPOs. Six referred to legal requirements for NPOs to have or use a bank account as a prerequisite for registration or as part of general operations. These findings broadly align with the qualitative survey responses, with some respondents noting that policies for using regulated channels applied for excesses of a certain transaction limit or specifically to foreign NPOs or funding sources.

The horizontal review and survey responses provided little information on how policies on the use of regulated financial channels were implemented in light of the varying capacities of financial sectors in the different countries and in different areas of urgent charitable and humanitarian concerns. Two MERs noted conditions that might make the use of regulated channels challenging, such as low bank penetration rates, and the advisement of additional risk mitigation measures for NPOs when using cash or unregulated financial channels.

Consultations highlighted that the use of regulated financial channels is desirable by many NPOs, but there was hesitation about imposing legal requirements to obtain and use a bank account. Given the de-risking challenges experienced by many NPOs, such legal obligations were described as making the private sector de facto gatekeepers to NPO status, which infringes on the freedom of association. In some contexts, further concerns were raised about the extent of governmental oversight on NPO bank accounts, including requirements to register bank account numbers with the relevant ministries or to receive preauthorization from governmental authorities to open bank accounts.

# Targeted Risk-Based Supervision or Monitoring

The FATF Standards call for risk-based supervision or monitoring for reporting entities, including financial institutions, designated non-financial businesses and professions, virtual asset service providers, and NPOs. The application of risk-based supervision or monitoring to NPOs is different than for other sectors because NPOs are not required to be reporting entities under the FATF Standards.<sup>20</sup> The FATF's 2021 guidance on risk-based supervision hints at the need to differentiate approaches because it specifically states that it does not apply to supervision in the context of Recommendation 8 on protecting NPOs from terrorism financing abuse.<sup>21</sup>

This section focuses on criteria 8.3 and 8.4, on targeted risk-based supervision or monitoring for NPOs. It includes findings from the horizontal review on the application of risk-based measures to NPOs identified as at risk for terrorism financing abuse and mandates of relevant authorities to conduct supervision or monitoring of NPOs. It also reflects qualitative survey responses on the approach to such efforts, data on the implementation of measures to protect NPOs, and perceptions of supervisory and monitoring practices by governmental and nongovernmental actors.

MERs and FURs contained similar information pursuant to criteria 8.3 and 8.4(a), suggesting there was insufficient clarity among assessors and APG members as to the different obligations. To facilitate a comparative analysis, the horizontal review relied heavily on the key term index as the framework for collating relevant information. Review of criterion 8.3 focused on the type of measures applied to NPOs under domestic law, as well as qualitative information as to whether those measures were or could be applied in accordance with identified risk profiles. For criterion 8.4(a), the horizontal review captured information on whether the relevant authorities had the ability and capacity to monitor NPO implementation of risk-based measures. There was less overlap in the information presented under criterion 8.4(b), which focused on actions taken by the relevant authorities in instances where NPOs were found not to be implementing the required measures.

Criteria 8.3 and 8.4 appear to have some of the highest levels of compliance. However, a qualitative review of MERs

and FURs raises questions about whether these efforts are adequately risk based. Consultations raised notable concerns that, in some contexts, measures are intrusive, arduous, and applied in a one-size-fits-all manner. Weaknesses in a jurisdiction's risk assessment, including failures to review existing risk mitigation measures, will have downstream effects on whether additional measures adopted to mitigate perceived risks of NPO abuse are targeted, proportionate, and risk based. Further, measures are more likely to be met with skepticism, fear, and resistance from NPOs when there has been inadequate sensitization, outreach, and dialogue regarding risk assessment findings and the scope and objectives of CFT measures.

## FATF Methodology for Assessing Technical Compliance

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.<sup>a</sup>

8.4 – Appropriate 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<sup>b</sup>; and
- (b) be able to apply effective, proportionate and dissuasive sanctions for violations by NPOs or persons acting on behalf of these NPOs.<sup>c</sup>

<sup>a</sup> Some examples of measures that could be applied to NPOs, in whole or in part, depending on the risks identified are detailed in sub-paragraph 6(b) of INR.8. It is also possible that existing regulatory or other measures may already sufficiently address the current terrorist financing risk to the NPOs in a jurisdiction, although terrorist financing risks to the sector should be periodically re-assessed.

<sup>b</sup> In this context, rules and regulations may include rules and standards applied by self-regulatory organisations and accrediting institutions.

<sup>c</sup> The range of such sanctions might include freezing of accounts, removal of trustees, fines, de-certification, delicensing and de-registration. This should not preclude parallel civil, administrative or criminal proceedings with respect to NPOs or persons acting on their behalf where appropriate.

Source: Financial Action Task Force, "Methodology for Assessing Technical Compliance with the FATF Recommendations and the effectiveness of AML/CFT Systems," Updated October 2021, p. 40, <https://www.fatf-gafi.org/en/publications/Mutualevaluations/Fatf-methodology.html>.

<sup>20</sup> Per the 2015 FATF Best Practice Paper: "NPOs are not considered designated non-financial businesses and professions (DNFBPs) and should therefore not be subject to the FATF requirements for DNFBPs." Financial Action Task Force, "Best Practices: Combatting the Abuse of Non-Profit Organisations (Recommendation 8)," para 35, June 2015, <https://www.fatf-gafi.org/en/publications/Financialinclusionandnpoissues/Bpp-combating-abuse-npo.html>.

<sup>21</sup> Financial Action Task Force, "Guidance on Risk-Based Supervision, March 2021, p. 10, <https://www.fatf-gafi.org/en/publications/Fatfrecommendations/Guidance-rba-supervision.html#:~:text=The%20risk%2Dbased%20approach%20will,after%20a%20crime%20has%20occurred.>

## APPLICATION OF RISK-BASED MEASURES

The Interpretive Note to Recommendation 8 provides examples of measures that can be applied to the NPOs that meet the FATF definition and have been identified as at risk for terrorism financing abuse. MERs and FURs frequently cited these examples as evidence of compliance with criterion 8.3, but provided little information as to whether and how measures were applied to NPOs, in whole or in part, depending on the risks identified. This aligns with the global findings from the FATF stocktake on the unintended consequences of misapplication of its Standards, which found that, “In the majority of cases, assessments note whether the measures were applied on a risk-basis, but do not consider if the measures were proportionate or focused, thereby impacting legitimate NPO activities.”<sup>22</sup>

The survey of APG members for this report listed eight examples<sup>23</sup> from the Interpretive Note and asked respondents to select all that were applied within their jurisdiction, as well as provided space to list any additional measures. Respondents provided a more robust picture of applicable measures, on average citing seven of the eight examples compared to the average of three listed in MER and FURs.

It is difficult to discern what accounts for this significant discrepancy. MERs and FURs do not undertake to provide an exhaustive stocktake of all measures imposed. There is also the possibility that survey responses are influenced by a perception that it is desirable for members to showcase the application of a diversity of measures on NPOs. The emphasis on listing examples under criterion 8.3 in MERs could be contributing to such misperceptions, including by inadvertently implying that compliance ratings are driven predominately by the type of measures imposed, rather than on how such measures are, or could be, adapted and applied in the context of evaluated and lower-risk NPO populations.

### Excerpt from the Interpretive Note to Recommendation 8

The following are some examples of measures that could be applied to NPOs, in whole or in part, depending on the risks identified:

- (i) 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>a</sup>
- (ii) 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.
- (iii) NPOs could be required to issue annual financial statements that provide detailed breakdowns of incomes and expenditures.
- (iv) 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.
- (v) NPOs could be required to take reasonable measures to confirm the identity, credentials and good standing of beneficiaries<sup>b</sup> and associate NPOs and that they are not involved with and/or using the charitable funds to support terrorists or terrorist organisations.<sup>c</sup> However, NPOs should not be required to conduct customer due diligence. NPOs could be required to take reasonable measures to document the identity of their significant donors and to respect donor confidentiality. The ultimate objective of this requirement is to prevent charitable funds from being used to finance and support terrorists and terrorist organisations.
- (vi) NPOs could be required to maintain, for a period of at least five years, records of domestic and international transactions

<sup>22</sup> Financial Action Task Force, “High-Level Synopsis of the Unintended Consequences of FATF Standards,” p. 5, 27 October 2021.

<sup>23</sup> The key terms index separated 6b(ii) into two examples: (1) maintain information on the purpose and objective of stated activities and (2) maintain information on the identity of the person(s) who own, control, or direct their activities. Paragraph 6b(v) was also divided into two: (1) measures to confirm the identity, credentials, and good standing of beneficiaries and association NPOs and (2) reasonable measures to document the identity of their significant donors.

that are sufficiently detailed to verify that funds have been received and spent in a manner consistent with the purpose and objectives of the organisation, and could be required to make these available to competent authorities upon appropriate authority. This also applies to information mentioned in paragraphs (ii) and (iii) above. Where appropriate, records of charitable activities and financial operations by NPOs could also be made available to the public.

- <sup>a</sup> Specific licensing or registration requirements for counter terrorist financing purposes are not necessary. For example, in some countries, NPOs are already registered with tax authorities and monitored in the context of qualifying for favourable tax treatment (such as tax credits or tax exemptions).
- <sup>b</sup> The term beneficiaries refers to those natural persons, or groups of natural persons who receive charitable, humanitarian or other types of assistance through the services of the NPO.
- <sup>c</sup> This does not mean that NPOs are expected to identify each specific individual, as such a requirement would not always be possible and would, in some instances, impede the ability of NPOs to provide much needed services.

Source: Financial Action Task Force, "International Standards on Combatting Money Laundering and the Financing of Terrorism and Proliferation: the FATF Recommendations," Interpretative Note to Recommendation 8, paragraph 6(b), Updated February 2023, <https://www.fatf-gafi.org/en/publications/Fatfrecommendations/Fatf-recommendations.html>.

In the survey, the most commonly cited measure applied to NPOs was an obligation to provide annual financial statements containing detailed breakdowns of income and expenditures, reported by 94 percent of respondents (table 2). It was followed closely by licensing/registration, maintaining information on the purpose and objective of stated activities, and maintaining information on the identity of individuals who own, control, or direct the NPOs' activities; each was reported by 89 percent of respondents. The requirement to have appropriate financial controls to account for and ensure the proper use of funds was noted by 79 percent of respondents. Requirements for keeping records of financial transactions was cited by 74 percent of respondents, while reasonable measures to confirm the identity, credentials, and good standing of applicable beneficiaries and associate NPOs was cited by 72 percent. Slightly fewer respondents noted requiring reasonable measures to document the identity of significant donors (61 percent). Four members reported applying additional measures such as an annual renewal of registrations, an online registration process, and on-site visits to evaluate compliance. (*See Table 2 below*)

The survey sought to address gaps in MER and FUR data by querying whether and which factors influenced the application of different measures to NPOs identified as at risk for terrorism financing abuse. Two respondents indicated that they did not take any fac-

*Table 2: Measures Applied to NPOs at Risk of Terrorism Financing Abuse*

	% of Respondents	# of Respondents
Provide annual financial statements with detailed breakdowns of incomes and expenditures	94%	17
License or registration requirement	89%	16
Maintain information on the purpose and objective of stated activities	89%	16
Maintain information on the identity of the person(s) who own, control or direct activities, including senior officers, board members, and trustees	89%	16
Establish appropriate controls to ensure that all funds are fully accounted for, and are spent in a manner that is consistent with the purpose and objectives of NPO activities	83%	15
Maintain, for a period of at least five years, records of domestic and international transactions that are sufficiently detailed	78%	14
Reasonable measures to confirm the identity, credentials and good standing of beneficiaries [natural persons or groups of natural persons who receive NPO services] and associate NPOs	72%	13
Reasonable measures to document the ID of significant donors and to respect donor confidentiality	61%	11
Other	22%	4
None of the above	0%	0

tors into consideration or applied a blanket set of measures, while seven selected all of the options provided (table 3). On average, respondents indicated taking into consideration five factors when applying measures to NPOs. The most common was the type of NPO (83 percent) followed by its geographic location (72 percent). About two-thirds of respondents considered whether the NPO was foreign or domestic, its sources of funding, and the nature of its operations. About half considered the size of the NPO and its unique risk profile, while 39 percent considered the scale of funding.

*Table 3: Factors in Determining Measures Applied to NPOs*

	% of Respondents	# of Respondents
Type of NPO	83%	15
Geographic Location of Operations	72%	13
Nature of Operations (i.e., type of work/ services)	67%	12
Foreign vs. Domestic NPO	67%	12
Source(s) of Funding	61%	11
Size of the NPO	56%	10
Entity-Level Risk Profiles	56%	10
Scale of Funding	39%	7
None of the above	10%	2

In consultations, the scope, nature, and extent of measures applied to NPOs emerged as a key point of contention. NPOs often described them as arduous, burdensome, and sometimes duplicative. Many were aware that compliance with the FATF Standards was the stated reason for legal reforms and the introduction of new measures for NPOs but felt there was inadequate transparency on the specific gaps or risks these measures sought to address. This was especially underscored where jurisdictions had been rated largely compliant and still undertook significant reforms. As part of its stocktaking of unintended consequences, the FATF was made aware of similar instances of misapplication of its Standards, which it described as “allegedly introduced by jurisdictions to address AML/CFT deficiencies identified through the FATF’s mutual evaluation or [International Co-operation Review Group] process, potentially as an excuse measure with another motivation.”<sup>24</sup>

Some stakeholders felt that the technical nature of the FATF Recommendations could be effectively weaponized, whereby NPOs lack the technical knowledge and familiarity with FATF processes to be meaningful participants or to ensure the risk-based implementation of FATF Standards in compliance with states’ obligations under international law, including protecting fundamental rights and freedoms. Others noted the importance of the political context surrounding implementation of FATF Recommendation 8. For example, changes in key government leadership can make the implementation of action items from MERs more fraught than when the evaluation was first conducted. Others indicated an ebb and flow in the level of implementation, which corresponded with critical political moments, such as immediately prior to elections or in the wake of protests or other demonstrations.

### RISK-BASED SUPERVISION OR MONITORING

With regard to criterion 8.4(a), this report focuses on whether the relevant authorities had the mandate to conduct risk-based supervision or monitoring, whether such supervision was occurring, and what forms it was taking. Consultations highlighted that supervisory or monitoring activities were the primary point of engagement for NPOs with government officials on CFT matters, as many were unaware of the risk assessment, mutual evaluation process, or training opportunities provided by government officials.

The horizontal review found that 80 percent of evaluated members have mandates for the relevant authorities to conduct risk-based supervision or monitoring of NPOs. Across the APG region, diverse actors are responsible for the different components of monitoring and supervisory regimes. In most jurisdictions, licensing and registration responsibilities fall within specific ministries based on the type of NPO, including ministries of foreign affairs for international NPOs and ministries of health, gender, education, social services, labor, or interior for domestic organizations. In some cases, these ministries were also responsible for supervision, while in others there was a separate designated body such as an NPO authority. A small number of jurisdictions also noted supervisory obligations at the national and provincial levels. Notably, there were no references to self-regulatory bodies.

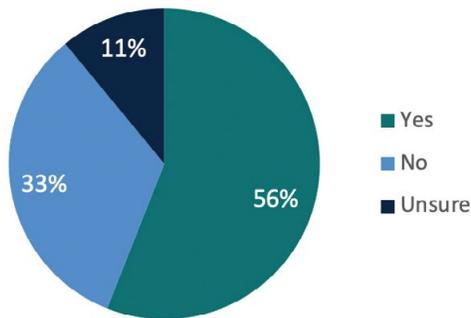
The horizontal review found that 57 percent of evaluated members had engaged in some form of supervisory or monitoring activity, while 23 percent had not. Six MERs (20 percent) lacked information specific to supervision and monitoring activities. In most instances, those reports focused on the application of measures to NPOs and the existence of supervisory

<sup>24</sup> Financial Action Task Force, “High-Level Synopsis of the Unintended Consequences of FATF Standards,” p. 5.

mandates, underscoring the overlap of information presented under criteria 8.3 and 8.4(a). In terms of the scale of activity, MERs and FURs noted five members that had conducted desk reviews related to NPOs and five that had conducted on-site visits. The number of reported supervisory actions was higher in the survey: 13 members reported desk-based reviews, and 9 reported on-site visits.

In the survey, members were asked if they had adapted their approach to supervision and monitoring on the basis of their risk assessment findings. Forty-four percent said they had not or were unsure (fig. 14). A small number provided further information on the basis for adapting supervisory approaches, which included the types of NPOs identified as higher risk, supervisory strategies that set routine inspection timelines, desk reviews of annual reports identifying red flags, and intelligence and information from law enforcement.

*Figure 14: Changes to Supervision and Monitoring based on Risk Assessment*



Source: APG member survey, 2023.

Risk assessments may not inherently require changes to supervision and monitoring practices, but this data point should be viewed in conjunction with MER findings. In the horizontal review, 11 jurisdictions (37 percent) were found to have weaknesses in monitoring and supervision, primarily because these efforts were inadequately risk based. Qualitative reviews of the MERs and survey responses suggest that the terms “supervision” and “monitoring” are viewed as synonymous and that APG members may need further clarification on how monitoring and supervision practices may be different for NPOs than for other sectors, specifically those that are considered reporting entities.

## EFFECTIVE, PROPORTIONATE, AND DISSUASIVE SANCTIONS

Criterion 8.4(b) calls for the appropriate authorities to be able to apply effective, proportionate, and dissuasive sanctions for violations by NPOs or persons acting on behalf of those NPOs. A footnote to the criterion offers a range of potential sanctions measures, including the freezing of accounts, removal of trustees, fines, decertification, delicensing, and deregistration. It also notes that the imposition of sanctions for noncompliance should not preclude parallel civil, administrative, or criminal proceedings, where appropriate.

The horizontal review found that 60 percent of evaluated members lacked adequate legal frameworks to impose sanctions for non-compliance. In the survey, a small number of members reported having imposed specific sanctions measures (table 4). Members who indicated they had imposed sanctions were asked to provide further detail on the nature of the compliance violation. Most reiterated that their legal frameworks enabled the imposition of sanctions rather than noting specific instances where such measures were necessary. In one instance, the respondent indicated specifically that there had not been instances of noncompliance to date.

*Table 4: Type of Sanction or Enforcement Action*

	% of Respondents	# of Respondents
No sanctions imposed	39%	7
Warning letters	22%	4
Freezing of accounts	22%	4
Decertification, delicensing, and/or deregistration	22%	4
Temporary suspension of license/registration	17%	3
Fines	11%	2
Deferred prosecution agreements	6%	2

Source: APG member survey, 2023.

# Effective Information Gathering and Investigation

The Interpretive Note to Recommendation 8 notes, “Where NPOs suspected of, or implicated in, terrorist financing or other forms of terrorist support are identified, the first priority of countries must be to investigate and halt such terrorist financing or support. Actions taken for this purpose should, to the extent reasonably possible, minimize negative impact on innocent and legitimate beneficiaries of charitable activity.”<sup>25</sup>

Many aspects of investigating and prosecuting terrorism financing offenses are consistent regardless of whether individuals, groups, businesses, NPOs, or other legal entities are involved. In all cases, there are significant financial, operational, and reputational consequences for parties accused of terrorism financing. Accusations and suspicions can be particularly impactful for NPOs that rely on public trust to facilitate their critical services and support to communities.

The FATF stocktake on unintended consequences found that the misapplication of the FATF Standards may affect due process and procedural rights, including issues relevant to the investigation and prosecution of terrorism financing and money laundering offenses, such as the presumption of innocence and a person’s right to effective protection by the courts.<sup>26</sup> This underscores the critical importance of ensuring that the legal frameworks enabling information gathering and investigation related to suspected abuse of NPOs for terrorism financing purposes are developed and implemented consistent with the rule of law and states’ obligations under international law, including international human rights, humanitarian, and refugee law.

This section examines criterion 8.5, on effective information gathering and investigation. It reviews mechanisms for domestic coordination and information sharing, assessments of investigative capacities, and the collection of and access to information related to instances where NPOs are suspected of being abused for or involved in terrorism financing activities. The survey solicited qualitative data on information exchanges, investigations, prosecutions, and convictions occurring in the Asia Pacific region, as well as on any bodies or

forums intended to facilitate timely information sharing between domestic authorities.

Information gathering and investigation are areas of strength in the APG region. Cooperation and coordination among the appropriate authorities are supported by access to information on the management of NPOs and mechanisms to promptly share information on a particular NPO if there are reasonable grounds to suspect exploitation for or involvement in terrorism financing. As there are few instances of terrorism financing abuse of NPOs documented in MERs and FURs, it is likely that investigative capacity assessments draw from findings of other FATF Recommendations on terrorism financing investigations writ large.

## FATF Methodology for Assessing Technical Compliance

8.5 – 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,

<sup>25</sup> Financial Action Task Force, “International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation: the FATF Recommendations,” Interpretive Note to Recommendation 8, paragraph 4(e).

<sup>26</sup> Financial Action Task Force, “High-Level Synopsis of the Unintended Consequences of FATF Standards,” p. 6.

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 preventative or investigative action.

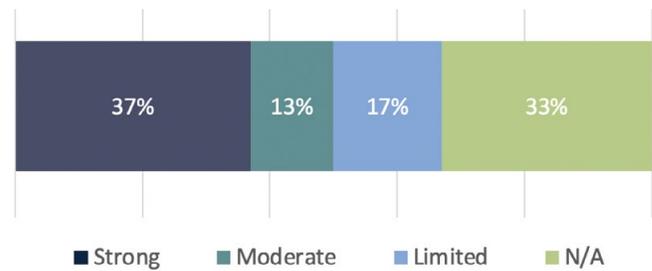
Source: Financial Action Task Force, "Methodology for Assessing Technical Compliance with the FATF Recommendations and the effectiveness of AML/CFT Systems," Updated October 2021, p. 40, <https://www.fatf-gafi.org/en/publications/Mutualevaluations/Fatf-methodology.html>.

## INVESTIGATIVE CAPACITIES

A small number of investigations into terrorism financing involving an NPO were noted. The horizontal review of MERs and FURs indicated that investigations had occurred in three jurisdictions, with one noting specifically that it did not move to prosecution and two providing no further information. In the survey, the reported number of investigations was higher: six respondents indicated that an investigation had occurred, while seven said it had not and five were unsure. Four respondents indicated that a prosecution had been undertaken with one securing a conviction.

Criterion 8.5(b) indicates that countries should have the investigative expertise and capacity to examine those NPOs suspected of being exploited by or actively supporting terrorist activity or terrorist organizations. MERs and FURs did not clearly describe how the strength of investigatory capacities in the APG region was evaluated. Assessors may have drawn on findings related to terrorism financing investigations pursuant to other FATF Recommendations. For the purposes of the horizontal review, key terms were used to quantify expertise as strong, moderate, or limited, based on assessor conclusions and supporting contextual information provided in the MERs and FURs. Eleven members were determined to have strong expertise (37 percent), four had moderate (13 percent), and five were limited (17 percent) (fig. 15). For 10 members, there was insufficient information to draw a conclusion (33 percent).

Figure 15: Investigative Capacity on NPO Abuse



Source: Analysis of collated data from the horizontal review.

The FATF stocktake of unintended consequences included an examination of the misapplication of its Standards to curtail human rights, with a focus on due process and procedural rights. While noting that it was not the core purpose of mutual evaluations, the stocktake found "an inconsistent consideration of due process and procedural rights in the mutual evaluations conducted to date."<sup>27</sup> The horizontal review encountered similar gaps in the APG reports, with the majority of MERs and FURs focused on whether legal frameworks and procedures were in place to support information sharing and investigation but little detail on how those mechanisms were utilized in practice. Consultations underscored that instances of misapplication affected due process and procedural rights, including extrajudicial arrest and arbitrary detention periods.

## INFORMATION SHARING

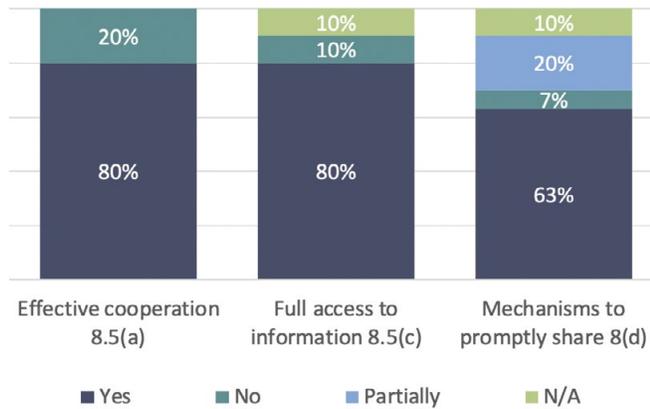
Three of the four subcriteria for criterion 8.5 relate to information sharing, including ensuring the effective cooperation and coordination among all levels of appropriate authorities that hold relevant information on NPOs (criterion 8.5(a)); ensuring full access to information on the administration and management of particular NPOs in the course of an investigation (criterion 8.5(c)); and establishing mechanisms to promptly share information with competent authorities when there is suspicion or reasonable grounds to suspect a particular NPO (criterion 8.5(d)).

The horizontal review indicates that criteria 8.5(a) and 8.5(c) are areas of strength in the APG region, with 24 members having adequate frameworks for both (80 percent) (fig. 16). Criterion 8.5(d) is somewhat less strong, with 19 evaluated members found to have appropriate mechanisms to promptly share information when there are grounds to suspect a particular NPO (63 percent). A

<sup>27</sup> Financial Action Task Force, "High-Level Synopsis of the Unintended Consequences of FATF Standards," p. 5.

further six members were determined to have measures in place that may need improvement (20 percent), while two did not (seven percent) and three members lacking information (10 percent).

*Figure 16: Information Gathering and Effective Coordination*



Source: Analysis of collated data from the horizontal review.

The survey sought further information about the channels for cooperation and information sharing, specifically between the private sector, FIUs, and law enforcement. Half of survey respondents indicated the FIU had requested information from the private sector to support analysis related to a specific NPO suspected of involvement in terrorism financing, while 17% were unsure.

Fifty Five percent of respondents indicated the FIU had provided information or intelligence to law enforcement agencies related to a suspected NPO, while 17% were unsure. Only a few jurisdictions provided further detail regarding the circumstances for the dissemination of information and intelligence, which focused on two main areas: receipt of suspicious transaction reports and information provided in the course of a terrorism financing investigation involving NPOs.

# Capacity to Respond to International Requests for Information

**T**errorism and its financing are transnational threats that require a coordinated global response to effectively disrupt and dismantle. International cooperation is a central component of multilateralist approaches to counterterrorism, including the ability of competent authorities to request and share information from foreign counterparts in support of actions against terrorist actors, affiliates, and financiers.

Jurisdictions are required to have points of contact and procedures in place for international cooperation pursuant to other FATF Recommendations. Criterion 8.6 seeks to ensure that those procedures or similar mechanisms can be used in instances where a particular NPO is under suspicion of terrorism financing or other forms of terrorist support. This section reviews whether such pathways of cooperation exist, through formal mutual legal assistance procedures or informal mechanisms of exchange under bilateral agreements between domestic and foreign counterparts. The survey collected further information on the scale and frequency of information exchanges, including voluntary disclosures.

Given that many elements are addressed elsewhere in the MERs and FURs, the level of detail provided on criterion 8.6 was comparatively less than for other parts of Recommendation 8. The scope of the research was limited to Recommendation 8 and does not consider potentially relevant information contained under other Recommendations.

Criterion 8.6 is an area of strength, as formal and informal mechanisms for international cooperation are present and applicable in instances where a particular NPO is suspected of being exploited for or involved in terrorism financing. Research indicates that, in practice, few requests have been made or received. As with investigative capacity, the absence of requests does not inherently mean that the pathways are not effective. It can equally indicate that there have been no instances where their utilization was necessary.

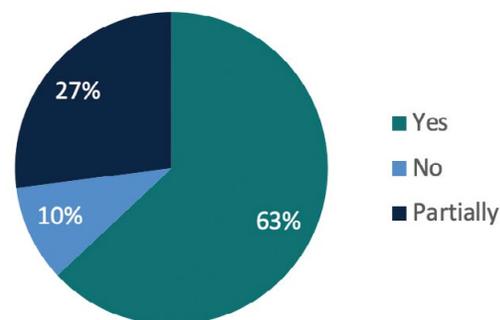
## FATF Methodology for Assessing Technical Compliance

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.

Source: Financial Action Task Force, "Methodology for Assessing Technical Compliance with the FATF Recommendations and the effectiveness of AML/CFT Systems," Updated October 2021, p. 41, <https://www.fatf-gafi.org/en/publications/Mutualevaluations/Fatf-methodology.html>.

The horizontal review found that 19 evaluated jurisdictions had appropriate points of contact and procedures to facilitate international cooperation related to suspected NPOs (63 percent), while three did not (10 percent) (fig. 17). Eight APG members were found to have partially addressed criterion 8.6 (27 percent), with common gaps being not having adequate procedures in place or clarity around pathways for exchange of information between key authorities. Given the complexity of the NPO sector in the Asia Pacific region, compliance with criterion 8.6 involved ensuring that adequate information exchange protocols existed between domestic authorities, typically NPO regulators or supervisors and the bodies mandated for mutual legal assistance. Many MERs and FURs provided examples of formal mutual legal assistance procedures, as well as the availability of informal cooperation channels between FIUs and law enforcement agencies.

*Figure 17: Points of Contact and Procedures for International Cooperation Related to NPOs*



Source: Analysis of collated data from the horizontal review.

The survey sought information on the number of requests made and received specifically related to NPOs suspected of involvement in or support for terrorism financing. Fifty-six percent indicated that they had not received any requests, and 11 percent were unsure. Of the 33 percent who received requests, nearly all originated from FIUs. The results were similar in relation to whether a jurisdiction had initiated requests: 50 percent said no, 17 percent were unsure, and 33 percent said yes. Respondents declined to provide data on the number of requests received or made, and this information was not available in the horizontal review. Respondents indicated there were fewer voluntary disclosures, with 72 percent reporting not having done so, 11 percent unsure, and 17 percent saying yes.

# Effective Implementation

In addition to technical compliance with FATF Standards, the mutual evaluation process examines the effectiveness of a jurisdiction's AML/CFT system. Per the FATF evaluation methodology: "Assessing effectiveness is intended to: (a) improve the FATF's focus on outcomes; (b) identify the extent to which the national AML/CFT system is achieving the objectives of the FATF Standards and identify any systemic weaknesses; and (c) enable countries to prioritise measures to improve their system."<sup>28</sup>

The effectiveness of measures to protect NPOs from terrorism financing abuse is considered as part of Immediate Outcome 10, which seeks to ensure that terrorists, terrorist organizations, and terrorism financiers are prevented from raising, moving, and using funds and from abusing NPOs. The evaluation methodology notes four core issues to be considered in determining if the Outcome is achieved, of which core issue 10.2 pertains specifically to NPOs.

Given the relationship between technical compliance and effective implementation, there is content duplication under Immediate Outcome 10 and the technical compliance annexes for Recommendation 8. This section focuses on elements of Immediate Outcome 10 that are unique, namely its consideration of whether measures to protect NPOs from abuse are disrupting or discouraging legitimate activities. The horizontal review collated information under Immediate Outcome 10 around three questions, which align with the evaluation criteria.

1. To what extent do MERs provide, directly and indirectly, information on whether measures are disrupting or discouraging legitimate NPO activities?
2. Which are the most common factors used to support the conclusion on core issue 10.2?
3. What types and sources of information are used to support the conclusion on core issue 10.2?

## Evaluating Effectiveness: References to NPOs in Immediate Outcome 10

### Excerpt from Mutual Evaluation Methodology for Immediate Outcome 10:

Terrorists, terrorist organizations and terrorist financiers are prevented from raising, moving, and using funds, and from abusing NPOs.

#### Core Issue 10.2:

To what extent, without disrupting or discouraging legitimate NPO activities, has the country applied focused and proportionate measures to such NPOs which the country has identified as being vulnerable to terrorist financing abuse, in line with the risk-based approach?

#### Examples of information that could support the conclusions on Core Issues

- 2) Examples of interventions and confiscation (e.g., significant cases where terrorists, terrorist organisations or terrorist financiers are prevented from raising, moving and using funds or their assets seized / confiscated; investigations and interventions in NPOs misused by terrorists).
- 4) Information on sustained outreach and targeted risk-based supervision and monitoring of NPOs that the country has identified as being at risk of terrorist financing abuse (e.g. frequency of review and monitoring of such NPOs (including risk assessments); frequency of engagement and outreach (including guidance) to NPOs regarding CFT measures and trends; remedial measures and sanctions taken against NPOs).

#### Examples of Specific Factors that could support the conclusions on Core Issues

- 10) To what extent are all four of the following elements being used to identify, prevent and combat terrorist financing abuse of NPOs: (a) sustained outreach, (b) targeted risk-based supervision or monitoring, (c) effective investigation and information gathering, and (d) effective mechanisms for international

<sup>28</sup> Financial Action Task Force, "Methodology for Assessing Technical Compliance with the FATF Recommendations and the Effectiveness of AML/CFT Systems," Updated October 2021, paragraph 39, p. 123, <https://www.fatf-gafi.org/en/publications/Mutualevaluations/Fatf-methodology.html>.

cooperation. To what extent are the measures being applied focused and proportionate and in line with the risk-based approach such that NPOs are protected from terrorist financing abuse and legitimate charitable activities are not disrupted or discouraged?

- 11) To what extent are appropriate investigative, criminal, civil or administrative actions, co-operation and coordination mechanisms applied to NPOs suspected of being exploited by, or actively supporting terrorist activity or terrorist organisations? Do the appropriate authorities have adequate resources to perform their outreach / supervision / monitoring / investigation duties effectively?
- 12) How well do NPOs understand their vulnerabilities and comply with the measures to protect themselves from the threat of terrorist abuse?

Source: Financial Action Task Force, "Methodology for Assessing Technical Compliance with the FATF Recommendations and the effectiveness of AML/CFT Systems," Updated October 2021, pp. 123-25, <https://www.fatf-gafi.org/en/publications/Mutualevaluations/Fatf-methodology.html>.

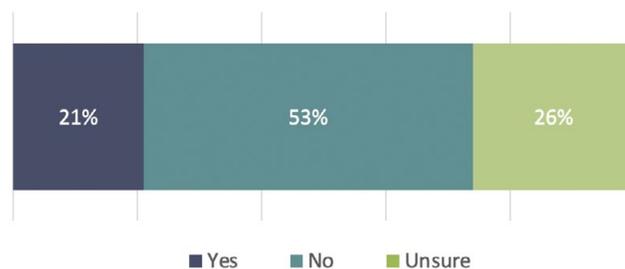
## WITHOUT DISRUPTING OR DISCOURAGING

The FATF stocktake of unintended consequences found that "[a]nalysis of Core Issue 10.2 in the 4th round has not included a consistent assessment of whether the measures applied by a jurisdiction avoided 'disrupting or discouraging legitimate NPO activities,' nor is it clear how much weight has been given to this factor when rating [Immediate Outcome]10 overall."<sup>29</sup>

The same conclusion was drawn for APG members. Survey respondents were asked if they considered whether measures to protect NPOs from terrorism financing abuse were disrupting or discouraging legitimate NPO activities. Four indicated they had (21 percent), compared to 10 who indicated they had not (53 percent) and five were unsure (26 percent) (fig. 16). Only one respondent provided further information on how these considerations were made, describing a roundtable discussion with NPOs, regulators, and other governmental authorities to identify areas where compliance measures could be streamlined. Another

survey respondent underscored that outreach to NPOs is time-consuming and difficult for governmental authorities, who are often met with skepticism from NPOs that, in turn, was perceived to negatively affect NPO compliance.

*Figure 18: Considering Discouraging or Disrupting Legitimate NPO Activities*



In the horizontal review, four MERs made direct mention of whether measures were disrupting or discouraging NPO activities, with two indicating they were disrupting and two indicating they were not.<sup>30</sup> Four MERs noted perceptions from stakeholders that measures were onerous or burdensome,<sup>31</sup> while one indicated that NPOs did not express difficulties in complying with CFT and risk mitigation obligations.<sup>32</sup> That means that just 25 percent of MERs directly or indirectly considered this unique component of core issue 10.2.

It was more common for MERs to indicate weaknesses in NPO risk assessments or in monitoring and supervisory practices, which then affected the adoption or assessment of risk-based approaches. Six MERs noted that certain measures or approaches were not in proportion to identified risks<sup>33</sup> and in two instances, the scope of legal provisions was described as going beyond the FATF Standards.<sup>34</sup> However, none of the MERs made specific mention of abuse or misapplication of the FATF Standards that were affecting NPO operations, despite this being a key concern raised during the consultation process. The FATF stocktaking found a similar gap: "The topic of possible infringements or abuses and their link to the FATF Standards has been largely omitted from MERs, even in cases when concerns about such issues have been widely reported by credible and reliable sources."<sup>35</sup>

<sup>29</sup> Financial Action Task Force, "High-Level Synopsis of the Stocktake of the Unintended Consequences of the FATF Standards," p. 5.

<sup>30</sup> Bangladesh (paragraph 316), Canada (paragraph 188), the Philippines (paragraph 310), and Chinese Taipei (paragraph 261).

<sup>31</sup> Cambodia (paragraph 192), Korea (paragraph 279), the Philippines (paragraph 310), and Vietnam (paragraph 251).

<sup>32</sup> Indonesia (paragraph 214).

<sup>33</sup> Bangladesh (paragraphs 304, 313, 322), the Cook Islands (paragraph 256), Myanmar (paragraph 321), Pakistan (paragraph 295), Singapore (paragraph 279), and the Solomon Islands (paragraph 205).

<sup>34</sup> Cambodia (paragraph 192) and China (paragraph 262).

<sup>35</sup> Financial Action Task Force, "High-Level Synopsis of the Stocktake of the Unintended Consequences of the FATF Standards," p. 5.

## KEY FACTORS AND INFORMATION

Under Immediate Outcome 10, MERs commonly included information about the structure of the non-profit sector and its licensing and regulatory system. Twenty-five MERs (83 percent) included language on the risk level for identified NPOs or provided detail on the features and types of NPOs that were identified as vulnerable to abuse. In most cases, the information drew from national or NPO risk assessments, while in a small number it was described as being based on the perspectives of the assessed jurisdiction.

The horizontal review found notable emphasis on measures applied to NPOs, supervision and monitoring practices, and sustained outreach under Immediate Outcome 10. The prioritization of these factors in the MERs suggests they were weighed heavily in determining conclusions on the core issues, similar to the emphasis found in the technical compliance annexes.

There was little qualitative data provided to support the conclusions on core issue 10.2. This does not mean that the conclusions are inadequately evidence based, as the absence of statistics can also reflect relatively low levels of terrorism financing abuse of the NPO sector in the region. Three MERs provided data on supervisory activities,<sup>36</sup> and three provided data on enforcement actions for noncompliance.<sup>37</sup> Five MERs noted analysis

or the handling of suspicious transaction reports related to NPO abuse,<sup>38</sup> and two reported an investigation of an NPO.<sup>39</sup> Four MERs indicated that there had been no investigations or suspicious transaction reports related to NPOs.<sup>40</sup> Information used to evaluate effectiveness relies heavily on governmental sources. Twelve MERs (40 percent) made reference to information collected from NPOs during the assessment visit,<sup>41</sup> though it is possible that NPOs participated in other mutual evaluations that were not specifically noted in their MER.

The prioritization of governmental data and emphasis on compliance and enforcement likely affect the process for evaluating effectiveness, including by potentially influencing APG member perceptions of the key elements that affect compliance ratings. The lack of specialized NPO expertise within assessment teams may also hinder comprehensive consideration of the effectiveness of measures to protect NPOs from terrorism financing abuse. Most assessors come from legal, supervisory, or law enforcement backgrounds and often lack a nuanced understanding of how CFT measures can negatively affect NPO operations when not adequately targeted and proportionate. The current factors and information that are noted as supporting conclusions on Immediate Outcome 10 reinforce a compliance-centric perspective, offering little guidance on what information and factors are appropriate in evaluating whether measures disrupt or discourage NPO activities.

<sup>36</sup> Bhutan, Canada, and Pakistan.

<sup>37</sup> Canada, Hong Kong China, Malaysia

<sup>38</sup> Bangladesh, Canada, Japan, Macao China, and Malaysia,

<sup>39</sup> Bangladesh and Tonga

<sup>40</sup> China, Japan, Macao China, Malaysia, Singapore, and Thailand

<sup>41</sup> Cambodia, the Cook Islands, Hong Kong China, Indonesia, Japan, Korea, Macao China, Malaysia, the Philippines, the United States, Vanuatu, and Vietnam.

# Opportunities and Lessons Learned

Globally, jurisdictions continue to struggle with the proportionate, risk-based implementation of Recommendation 8 and Immediate Outcome 10. Reflecting on the data collected for this report and consultations with key experts, several opportunities and lessons learned have emerged that can support the APG, its members, and NPOs in developing more targeted responses to preventing and mitigating risks of terrorism financing abuse of NPOs. These reflections come at a critical moment, as the FATF is in the process of revising its best practice paper related to Recommendation 8. The APG region can utilize the lessons learned below to prioritize and adopt context-specific practices that address key compliance gaps and promote risk-based measures that safeguard civic space, human rights, and access to financial services.

## TAKING A RISK-BASED APPROACH

- 1. Comprehensive risk assessments underpin effective implementation of proportionate and targeted measures to protect NPOs from terrorism financing abuse and ensure that policymaking is evidence based.** Failure to complete all four components of the risk assessment process has a significant impact on compliance with Recommendation 8. Weaknesses in identifying the subset of NPOs that fall within the FATF definition and in reviewing the adequacy of risk mitigation measures can lead to duplicative obligations or misapplications of FATF Standards that are not in line with the risk-based approach and may inadvertently disrupt and discourage NPO activities. As many APG members are or will soon be embarking on revised risk assessments, there is an opportunity to address the identified gaps to establish a more robust and comprehensive understanding of risk profiles for the future.
- 2. Evidence-based, inclusive, and transparent risk assessment processes result in a comprehensive picture of the risk landscape and help foster collaboration on risk mitigation measures.** Risk assessments that draw on a diversity of sources and types of information and enable the meaningful participation of governmental, NPO, and private sector actors correlated with higher levels of compliance with criterion 8.1 and Recommendation 8 overall. Including NPOs as partners in the process, inviting comment on draft findings, and publishing the outcomes of the risk assessment process were found to fos-

ter buy-in from key stakeholders and support follow-on efforts to effectively mitigate and respond to identified risks for those NPOs identified as vulnerable to abuse. Engaging with donor communities can also be beneficial, including deepening understanding of grant-based compliance and due diligence measures and supporting NPOs in the implementation of proportionate risk mitigation measures.

## SUSTAINED OUTREACH ON TERRORISM FINANCING ISSUES

- 3. Sustained outreach involves more than providing periodic training and benefits from inclusive participation of a diverse range of stakeholders from the public, private, and non-profit sectors.** The technical nature of CFT measures can be a barrier for many NPOs, creating a need for ongoing outreach to NPOs identified as higher risk to raise awareness, establishing a common understanding of the threat and appropriate mitigation measures, and fostering dialogue on practical implementation challenges. Outreach efforts can be challenged by the scale and complexity of the non-profit sector. Working with NPO networks, associations, and umbrella organizations with broad and diverse memberships can help maximize the reach and impact of outreach efforts.
- 4. Collaborative development of best practices by the governmental, NPO, and private sectors can address complexities in the non-profit sector and supports the consistent adoption of proportionate risk mitigation measures.** Participation of all relevant stakeholders ensures common understanding of the challenges, articulation of the key objectives, and the defined scope of risk mitigation measures. Further, the process of developing good practices can foster trust and rapport building that enables longer-term exchanges on new and emerging risks and sustains the implementation of effective risk mitigation measures.
- 5. Efforts to encourage or mandate the use of regulated channels can inadvertently create barriers for efficient operations and infringe on rights of association, especially in contexts in which banking channels are limited or where de-risking practices are prevalent.** In some cases, practices for monitoring compliance

with policies on the use of regulated channels are perceived as intrusive, thereby weakening trust between governments and NPOs. Some jurisdictions adopted a flexible approach, providing policy statements that encouraged the use of channels and offering guidance on enhanced risk mitigation practices for circumstances where regulated channels were accessible.

## TARGETED RISK-BASED SUPERVISION OR MONITORING

- 6. Guidance and capacity development opportunities are needed to deepen the understanding of good practices for risk-based supervision and monitoring specific to NPOs identified as at risk for terrorism financing abuse.** A qualitative review of information related to criteria 8.3 and 8.4 indicates that the terms “supervision” and “monitoring” are considered synonymous and there is a lack of understanding on how to conduct supervision and monitoring appropriate to the risks facing certain NPOs. Further guidance, training, and support to members are needed to advance the adoption of a risk-based approach consistently across the APG region.
- 7. Real or perceived pressures to transpose examples from FATF guidance into national contexts may be contributing to one-size-fits-all approaches to the application of measures to protect NPOs from terrorism financing abuse.** MERs and FURs emphasize measures listed as examples in the Interpretive Note to Recommendation 8, which may inadvertently be creating a perception that jurisdictions can or should impose all of these examples to demonstrate high levels of compliance. Further clarity, guidance, and capacity development support will help members apply targeted, proportionate measures that are efficient and effective while avoiding unintended consequences for NPOs.
- 8. Engagement with regulators and the ability of appropriate authorities to apply effective, proportionate, and dissuasive sanctions for violations by NPOs or persons acting on behalf of these NPOs can reinforce cultures of compliance.** Many NPOs are already implementing risk mitigation measures as part of their internal controls or in response to donor obligations. The horizontal review and survey found few reported cases of noncompliance or suspicion of NPO involvement in terrorism financing activities in the region. Existing cultures of compliance within NPOs can be reinforced through

engagement with regulators and supervisors to support consistent approaches across NPOs identified as higher risk, reinforced by the ability of the authorities to apply proportionate corrective actions ranging from simple corrective action plans for inadvertent noncompliance to dissuasive sanctions in cases of willful, repeated, or egregious noncompliance.

## EFFECTIVE INFORMATION GATHERING AND INVESTIGATION

- 9. Feedback channels among the private sector, FIUs, NPO supervisors, and investigators can support context-specific identification of red flag indicators of suspicious activity and help orient investigations.** Establishing channels for feedback between the public and private sectors can help identify trends and risks that support prevention and detection efforts. Given the significant operational, reputational, and legal consequences for entities investigated for involvement in terrorism financing offenses, it is important to ensure that such activities are undertaken only in instances where there are reasonable grounds to suspect abuse and in accordance with international law.
- 10. To avoid undue targeting of NPOs, mechanisms to promptly share information related to a particular NPO must include protections for due process, procedural rights, data, and privacy and uphold states’ obligations under international human rights law.** Mechanisms should be clear as to what constitutes reasonable grounds for suspicion, and information sharing protocols should clearly define the types of information to be shared, the mechanisms for sharing, and the legal frameworks and safeguards that govern the sharing process.

## EFFECTIVE CAPACITY TO RESPOND TO INTERNATIONAL REQUESTS FOR INFORMATION

- 11. Coordinated global responses to terrorism financing are supported by mechanisms for formal and informal cooperation across the region.** Relevant authorities have the ability to share information related to particular NPOs suspected of being exploited for or involved in terrorism financing. Ensuring that points of contact remain current, fostering exchanges to build trust, and ensuring that requests are sent and received in a timely fashion are important to global efforts to combat terrorism and its financing, including the potential abuse of NPOs.

## EFFECTIVE IMPLEMENTATION WITHOUT DISCOURAGING OR DISRUPTING

**12. Evaluation of the effectiveness of measures to protect NPOs from terrorism financing abuse does not consider whether such efforts are disrupting or discouraging legitimate NPO activities.** Research suggests that there is room to strengthen the risk-based application of measures to protect NPOs from terrorism financing abuse, but evaluations are currently providing inadequate attention to considering the effectiveness of measures as called for under Immediate Outcome 10. In particular, there is insufficient information collected to support conclusions as to whether measures are disrupting or discouraging legitimate NPO activities. Given the expected emphasis on effective implementation in future

evaluation cycles, it is important to ensure a holistic consideration of effective implementation that draws on information provided by governments and NPOs and emphasizes the application of measures in a proportionate, targeted, and risk-based manner.

**13. Regional and global exchanges of good practices among government, civil society, and the private sector can deepen understanding of how to evaluate whether CFT measures are disrupting or discouraging legitimate NPO activities.** Collation of global experiences and good practices can assist evaluators with achieving comprehensive consideration of NPO issues contained under Immediate Outcome 10, including consistent examination of factors and sources of information to support conclusions.

