
Funded
by the European Union



Implemented
by the Council of Europe

Project against Money Laundering and Terrorist Financing in Serbia
MOLI Serbia

DGI(2013) 10 April 2013

**The risks of abuse to non-profit organisations for money laundering and terrorist
financing in Serbia**

Technical Paper

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ECCU-MOLI-SERBIA-TP10/2013

April 2013

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Executive Summary

1. This study was commissioned by the Council of Europe within the framework of the Money Laundering in (MOLI) Serbia project to advise upon the risks of abuse by terrorist financing and money laundering within the NPO sector in Serbia. It includes an assessment and recommendations to reduce or close vulnerability gaps to minimise the risks of terrorist financing and money laundering, taking into account any legislative issues which need to be addressed in order to achieve this.
2. Much is now known following the recommendations of the Financial Action Task Force (FATF) in recognising the vulnerabilities of the NPO sector and there is a wide literature. Best practice has been identified with a view to instituting a range of measures which will better enable NPOs to safeguard themselves against criminal exploitation.
3. The optimal strategy for safeguarding NPOs has been found to be the relationship between an empowered regulator with a deep understanding of the scope, scale and workings of the sector and an aware and vigilant sector conducting its own risk assessments, acting upon considered advice and dealing proportionately with issues.
4. The study includes a data gathering exercise within the NPO sector in Serbia in order to determine its structure and characteristics in relation to money laundering and terrorist financing risks.
5. The Business Registers Agency is the lead agency for the registration of associations under Serbian law. The Agency has registered a total of 19,763 Domestic Associations and Federations and a total of 58 Branches of Foreign Operations.
6. The Business Registers Agency register details as mandated under the Act and have no executive authority to seek further information or question its validity beyond face value. As a consequence, there are significant gaps in the recording of and information about NPOs. The recorded information is exceedingly brief and lacks a layer of significant detail. There are consequently examples of inaccurate and fraudulent information recorded within the register.
7. Religious organisations are excluded from the need to register with the Agency and therefore, appear to fall outside of any central recording of associations.
8. Therefore, very little is known about the existence, objects and activities of religious associations which contribute to a heightened level of risk. Because of a lack of

information concerning the holistic nature of the NPO sector, it is not possible to conduct an accurate or meaningful analysis of the scale and scope of the sector and therefore predictions of risk must be qualified.

9. That said, there is consensus within the literature that religious organisations, because of the nature of their objects and activities and the manner in which these are achieved, tend to fall into the higher risk group in terms of potential for money laundering and terrorist financing. There are established links between the two activities.
10. There is no reporting framework within Serbia in which NPOs operate. NPOs are not required to account for their activities according to financial spend (unless the donor is an international partner when the likelihood of having to report back is greater) or submit audited accounts of their financial expenditure. There is no Suspicious Activity Reporting process, contrary to international standards and no system for whistleblowing.
11. An enhanced process of transparency would benefit the sector with more information publically available and legislation needs to be reviewed to enable the creation of a lead agency with responsibility for regulating the entirety of the sector including religious organisations. Information concerning the sector should be more widely accessible and available to all.
12. There is no effective outreach to the sector. Some NPOs exist to assist other NPOs discharge their objects but there is nothing cogent emanating from the state agencies. The government agencies are not configured or resourced to organise and deliver effective outreach. There was limited knowledge amongst the NPO representatives to indicate that they were aware of and equipped to devise control strategies to prevent criminal abuse.
13. International best practice strongly supports outreach as an effective tool for enabling NPOs to create risk assessment protocols and strategies to prevent terrorist financing and money laundering and consequently enhance donor confidence. The increase in international donor partnerships creates a higher imperative for strong outreach programmes and the raising and sustaining of sector confidence.
14. The designated lead agency should create a sustainable outreach plan which builds upon a comprehensive knowledge of the sector, analyses the present position, provides trained staff and markets the plan, ensuring the necessary participation within the sector. This should be prioritised on a risk assessed basis and subsequently evaluated.

15. The NPO sector does not present as an organised cohesive network and requires a significant degree of cultural change. Consideration should be given to create more opportunities for consultation and participation within the sector, possibly through the hosting of conferences and similar large scale assemblies.
16. It is therefore recommended that one lead agency be established to oversee and regulate the work of the entire NPO sector and that there is substantial improvements in the recording of NPO information and data at the point of registration. This should be augmented by the necessity for NPOs to provide freely available annual reports to the lead agency about the work they do and be accountable for their budget spend.
17. Furthermore, NPOs should identify and report, according to clear protocols established and issued by the lead agency, any suspicious criminal activity which occurs or comes to attention. Such information should feed into future strategy and planning within the sector.
18. The study found a general lack of communication relating to the sector, both within government agencies and NPOs. Consideration should be given to reviewing protocols for inter agency information sharing and the inclusion of the sector within a consultative framework.
19. The study identified a complete lack of outreach to the sector and recommends that an outreach strategy and plan be created by the lead agency in order to better inform the sector of present and emerging developments and better equip NPOs to create control strategies to protect themselves from harm.

Introduction

This study has been undertaken by Council of Europe short term expert Grahame Barker within the framework of the MOLI (Money Laundering In) Serbia Project.

The research process included a scoping mission within Serbia between 17-21 October 2012, meeting with several government agencies and representatives of a small number of NPOs in order to ascertain the scope and scale of the sector and refine some terms of reference which would inform the production of a research document.

Emerging findings were identified from the scoping mission and terms of reference were proposed which would enable the development of these preliminary findings following data gathering and further interviews with representatives of identified government departments.

The aims of the research project have been to:-

1. Conduct a literature review to identify what research has previously been conducted to identify risk typologies and vulnerabilities with subsequent action planning for the sector of Non Profit Organisations in Serbia.
2. Carry out data gathering on the NPO sector in Serbia to determine its structure and characteristics relevant to ML/TF risks: Undertake at least one data-gathering mission to Serbia for that purpose.
3. Conduct a risk assessment of the NPO sector based on data gathered as above and make recommendations to reduce or close vulnerability gaps and minimise risks of money laundering and terrorist financing. This shall include a non-legal but informed assessment of legislative and policy issues with due regard for the relevant international AML/CFT standards for NPOs.
4. Design a policy and outreach plan for protecting the NPO sector from abuse from terrorist financing and money laundering.

The short term expert subsequently visited Serbia between 14 – 18 January, 2013, meeting with representatives of the Business Registers Agency and the Tax Administration in Belgrade. The short term expert further visited Novi Pazar and met with representatives from three diverse NPOs:-

- Sandzak Committee for the Protection of Human Rights and Freedoms
- NGO Urban-in
- Mesihat of Islamic Community of Sanjak, Riyasah of Islamic Community of Serbia

These meetings provided the basis for the further formulation of findings and proposals which are set out in the current study.

Much has already been researched and written about terrorist financing and money laundering and there is international experience to draw upon. It is not the intention in this

technical paper to necessarily add new thinking to the subject but to draw upon the experience of countries with a more developed regulatory infrastructure and transpose that research and experience to the findings within the NPO sector in Serbia.

The research undertook to identify the scale, scope and identifiable features of the NPO sector within Serbia. It was important to identify precisely what is known about the NPO landscape and the regulatory framework which surrounds it. Emanating from this high level picture and utilising international best practice, it was sought to identify emerging strategic gaps and risks, culminating in recommendations which would mitigate risk and improve the regulatory processes which would increase trust and confidence within the sector. Additional work for other regulators within Serbia through a process of action planning could be identified which would enable identified vulnerabilities to be addressed by the respective agencies and improve inter agency cooperation.

The study methodology was intended to be based upon a combination of qualitative and quantitative analysis of both formal and informal NPO data and included the following stages:-

- The scoping exercise including research of available information sources and the identification of key partners to probe the range of existing data
- Elaboration of structured interviews for selected and representative NPOs and government agencies
- Following the results of the scoping exercise, conducting further focused interviews of representatives of NPOs and government agencies
- Analysis of data concerning the scale and scope of NPOs within Serbia and identification of strategic regulatory gaps and risks to the sector
- Making recommendations to reduce or close the strategic gaps and mitigate risk
- The drafting of a core research paper and consultation with key stakeholders
- Presentation of the study and key findings

The study also incorporated other available data, including that gathered through the national risk assessment exercise under the MOLI Project.

Literature review on ML/TF risks posed by the sector of non profit organisations.

1. Following the recommendations of the Financial Action Task Force (FATF), much has been achieved in recognising the vulnerabilities of the NPO sector and this is generally well documented. It is known that opportunities have previously been taken by terrorist organisations to exploit the weakness of NPOs to finance and support their operations.
2. Long established organisations such as the Charity Commission for England and Wales regularly publish documents which support a regulatory framework for charities and NPOs and can be found within the organisation's extensive website.
3. There is also no shortage of best practice and principles which, if followed within the context of effective support and regulation, will provide an effective shield against terrorist infiltration and manipulation.
4. The importance of NPOs cannot be understated. The sector is growing and contributes evermore financially and employs large numbers of people. It is clear that NPOs also provide a service neglected or underfunded by governments and offer a platform to minority or marginalised communities. This was very clear within Serbia.
5. There is consensus amongst international regulators concerning what constitutes best practice. Mostly such practice is aspirational and rarely, if ever, can individual regulators, for a variety of reasons, provide for or enforce a framework which is beyond improvement.

Basic principles for good NPO practice

6. High level principles for good practice are espoused by nearly all international jurisdictions and will always include a statement of the intent to operate with honesty and integrity coupled with an openness to provide information to interested parties. Of prime importance is the question of relevant financial dealings and the primacy of fundraising, donations and associated costs.
7. Stemming from these should be clear and unambiguous statements of the objects and aims of the organisation and detail of how it seeks to achieve its aims. All of the activities must be lawful and incorporate relevant national protocols regarding the disbursement of assets for exclusive charitable or other authorised and legitimate purposes.
8. Proper risk assessments should be undertaken by NPOs which seek to understand and identify the risks impacting upon the work that they undertake, particularly within known high risk areas where, for example, terrorist activity is known to occur or within environments where money laundering or other types of financial

irregularity is prevalent. The general rule is that the depth of risk assessment and the actions needing to be taken to mitigate the identified risks increase according to need. Thus, there should be a greater degree of risk assessment for NPOs working abroad than there might be for an NPO working in the field of domestic deliverables.

9. Care and consideration should be given to the proportionate use of publically available information in determining the appropriateness of forming partnerships to deliver the objects of the NPO, extending as far as those employees tasked to deliver them.

Good Governance

10. NPOs should have strong and solid governance. This links to the governing instruments and should ideally define the NPO's objectives and purpose. There should be published standards of accountability and practices, particularly relating to funds. Emphasis is also made to the independence of the sector. Governance is present to enable good practice, not to disable it. The emergence of NPOs are generally linked to expertise and the ability to deliver and it is not in the interests of the sector to over regulate, but to better enable.

Accountability and Transparency

11. NPOs must follow the accounting practices of the host country. Proper financial accounting and the keeping of records subject to independent audit are essential. The requirements for accounting practice and audit are best achieved when stratified for NPO size. Annual reporting in a transparent format is key to public and peer review.
12. Accurate audit trails and all associated records will be kept for a designated period which will enable the appropriate regulator to maintain sufficient oversight of activity. The focus and sources of funding require a high degree of transparency, coupled with a statement concerning the financial controls utilised by the NPO in order to minimise the risk of misuse.
13. Proper reporting of the NPO spend should be made which will include a declaration of instances where any spend has been utilised for activity or activities which are not linked to the objects of the organisation.
14. Formal channels for cash flows for all transactions should be used and recorded. This principle needs to be cognizant of the different and varying capacity of financial sectors and recognising the demands of rendering urgent charitable and humanitarian assistance in challenging arenas. Thus, as far as can be reasonable, financial transactions should be conducted within mainstream financial channels such as bank accounts. Recognition should be made of the increasing use of alternative money systems such as Hawala in more remote areas.

Relations to the Donor

15. Great care should be taken over the relationship between the NPO and the donor. Donors have the right of reassurance that finances are applied directly and according to the declarations made by the NPO. The policies and procedures of the NPO should adequately reflect this position.

Relations to the Beneficiary

16. There is international consensus of the requirement of NPOs to follow the “Know your” principles which ensures that NPOs make their best endeavours to verify the bona fides of beneficiaries, donors and associates. This would extend to the principle that potential beneficiaries have the ability to accomplish and deliver the purposes of grant and make every effort to protect the resources from any kind of criminal exploitation.
17. It must also be incumbent upon NPOs to properly but proportionately audit their beneficiaries to ensure financial compliance and preventative measures against criminal exploitation.

Suspicious Activity Reporting

18. NPOs should comply with protocols of Suspicious Activity Reporting and make reports to the relevant law or civil enforcement authorities according to the facts. There is a general recognition that NPOs may find that their object deliverables can be within an environment of money laundering or terrorist financing. Such discovery must be reported to the appropriate authority.
19. These recommendations reflect the general consensus of research across international borders and organisations and very adequately reflect what needs to be done to enable optimal protection. It is clear however, that there are many barriers and challenges. These are summed up in the Typologies Report (Asia Pacific Group), 2011:
 - NPO regulation is often considered a low priority
 - An efficient comprehensive regulatory mechanism also requires substantial financial and human resources
 - Regulation can itself be very difficult, particularly with respect to monitoring the activities of humanitarian NPOs operating in foreign conflict zones
 - Many NPOs have resisted government oversight and regulation
 - Many jurisdictions have complicated, overlapping and/or contradictory laws and regulations for historical or cultural reasons
 - Effective regulation requires an in-depth knowledge of one’s NPO sector, its vulnerabilities and the current laws and regulations affecting it.

Gap analysis methodology for the NPO sector

20. Gap analysis is an effective tool to ascertain the strategic gaps in NPO regulation and the ramifications of these gaps will be discussed with focus upon the study findings. The list of strategic gaps below are considered relevant:-

Information Gap

A lack of knowledge concerning the characteristics and vulnerabilities of one's NPO sector.

Effectiveness Gap

A lack of knowledge regarding the effectiveness of current laws and regulations (i.e. their capacity to address actual risks to the NPO sector).

Framework Gap

A lack of consensus as to what strategic framework of regulation would be best suited to your sector (i.e. tax regulation, internal security, law enforcement, self regulation, etc) without a clear consensus; legislation/regulations cannot clearly identify the appropriate lead regulatory authority.

Legal Gap

The absence of appropriate legislation relating to the regulation of NPOs or the ineffectiveness of present statutory measures in relation to actual risks. As per FATF SR VIII, the legislation must allow for supervision or monitoring of the NPO sector, as well as the ability to effectively gather information and carry out investigations.

Structural Gap

The failure to designate a lead organisation with sufficient legal authority and resources to regulate the NPO sector, which is necessary in order to centralise the information. Also, the failure to define the mandates or extent of authority of other stakeholders.

Resource Gap

Although a lead organisation is designated, it does not have the necessary funding, personnel, data/records systems or analytical systems in place to perform essential tasks. These tasks include sector analysis, risk identification and secure data management.

Co-operation Gap

The co-operation gap is divided into 2 sub sections:-

Internal: Where there are insufficient measures in place for co-operation. The body responsible for NPO regulation is unable to maintain liaison and co-operation with other stakeholders including (but not limited to) financial intelligence units, law enforcement, security services and immigration authorities.

External: Where there are insufficient measures in place for co-operation with other governments, multilateral bodies or self regulatory bodies.

Outreach Gap

Efforts to educate NPOs regarding risks posed to the sector by terrorists and the need to conduct due diligence are insufficient.

Participation Gap

The failure to include the NPO sector throughout all stages of enhancing regulation.

21. The strategic gaps can thus be translated into action planning to address the gaps:-

Information Gap

Knowing the risks

- Conduct an NPO sector review and subsequent risk analysis to determine where the vulnerabilities are. The most accurate information may require consulting and co-ordinating with all stakeholders.

Effectiveness Gap

Assessing current tools

- Once a risk assessment of the NPO sector is completed, conduct a review of existing laws and regulations to determine inconsistencies with actual risks. This phase is required by SR VIII and should ensure that classes of NPOs previously overlooked will be incorporated under the new regulatory system.

Framework Gap

Defining concepts and strategies

- Determine the strategic framework best suited to regulate your sector (tax regulation, internal security, law enforcement etc.).

Legal Gap

Drafting and implementing legislation

- Design legislation around the primary method of regulation, ensuring it addresses actual risks and gives adequate authority to the body involved.
- Being mindful of the directives provided by SR VIII with regard to supervision, monitoring and investigation, will the method of regulation be passive (a registration and reporting regime), active (intelligence and auditing), or a mixture of both?

Structural Gap

Putting necessary structures in place

- Designate a lead organisation that fits the initial chosen method of regulation. For example, if regulation is to be tackled through tax enforcement, the lead agency should be the tax authority.
- Begin to define mandates or the extent of authority of other stakeholders.
- Plan for the operational aspects of regulation.

Co-operation Gap

Ensuring internal and external co-operation

- Put in place mechanisms to ensure co-operation between the lead organisation and other government stakeholders (e.g. information sharing laws, memoranda of understanding, invitations to working groups/inter agency committees etc.).
- Ensure bilateral and multicultural engagement with lead organisations in other jurisdictions on information sharing, strategic planning, risk management etc.

Outreach Gap

Planning and implementing research programmes in consultation with the NPO sector

- Inform the NPO sector about the risks of abuse from terrorists.
- Maintain donor confidence in the NPO sector through outreach programmes.
- Ensure due diligence procedures form part of outreach programmes.

Participation Gap

Integrating/consulting the NPO sector

- Ensure the NPO sector is included in discussions/decision making during each phase of this framework. Experience has shown that best results are achieved when the NPO sector is continually involved and consulted.

Turning to the question of risk assessing the vulnerability of the NPO sector in Serbia, there is unanimity concerning the process of assessment and the scope of the NPO fields which require due consideration.

22. Determining the risks within the sector is seen as that which requires two steps. Firstly, the completion of a detailed analysis of the sector itself. Relevant information is how many NPOs there are; what activities they pursue and their areas of operation. Financial information such as detailed income and expenditure and size of the organisation.

23. The Asia Pacific Group suggest the following as relevant factors:

- Types of NPOs
- Revenue
- Sources of revenue
- Means of distributing funds and materials

- Whether they are primarily donors or recipients
- Partners
- Geographical areas of operations
- Types of activities
- Personnel and other associated individuals (such as Directors and volunteers)
- Beneficiaries

24. The second step is seen as beginning a risk assessment of the sector. For example, effective regulation requires an understanding of specific threats, knowledge of historic abuse and any and all intelligence emanating from these. This information should be gathered and analysed by competent authorities to determine the most common and most significant ML/TF threat scenarios with regard to the NPO sector.

25. Further to the consideration of risk, the Charity Commission for England and Wales offers cogent advice concerning due diligence and what factors are likely to affect the level of risk:

- What activities are being carried out?
- How are activities going to be delivered and the timescales involved?
- Who will carry them out? Will it be staff controlled and supervised by the NPO? If an NPO is using other organisations as partners or agents, this may or may not increase the risks. By using third parties, Directors may manage the risks to their staff and to the NPO, but only as long as the Directors put in place good monitoring and reporting arrangements and formalise the relationship to protect the NPO. If proper safeguards are not put in place, this may increase the risks to the NPO.
- Where will the project be based? The risks may increase where it is in a conflict zone or within a local community under the influence of individuals linked to terrorism, or where criminals are known to operate. The risk will vary if it is in a region or country which is currently unstable or where the infrastructure is poor.
- There may be additional factors to consider in respect of risks because of local issues. Are there local disputes which will affect the delivery of the project? For example, will the local dispute mean certain people may be excluded from participating in the charitable activity or that certain people will be given preference or only allowed to participate, whether or not they have charitable needs? Or, for example, do the partners or beneficiaries who may operate in a different regulatory system understand what they need to do for the NPO?
- What methods are used to safeguard NPO funds? In order to operate effectively and transparently when delivering aid or undertaking other charitable work, every NPO should have access to formal banking facilities. It is a decision for the NPO as to which bank or organisation they choose to hold their account. However there must be serious concerns if an NPO were unable to operate because of a lack of formal banking

services. If financial services are declined or withdrawn, harm could result to its charitable work, its ability to operate transparently and ensure it can safeguard its funds. If an NPO or a local partner has to use cash or alternative money systems and payment mechanisms, such as Money Service Businesses or cash couriers, they will need to take extra precautions and do more to protect their funds and ensure close monitoring of their use.

- The public profile of the proposed work and the likely media and/or public interest in it.
- Where third parties may be involved and not just delivery partners, what degree of influence or control does the NPO exert? For example, is the NGO able to carry out adequate monitoring?
- It is important to realise that some risks may only become evident once a relationship with a donor, beneficiary or partner or the work has begun. As these materialise, the risks are likely to need to be reassessed.

Access and availability of information on NPOs and the NPO sector

26. The scoping mission to Serbia in October, 2012 had previously identified a paucity of information held on NPOs and further potential shortcomings in the range of data available across government departments. These findings were reported to the Council of Europe by the author of this study on 4 November, 2012.
27. This study investigated further and in more detail, the range of available information relating to the sector and the potential for discovery of information from other government departments outside of the scoping mission.
28. The Serbian Business Registers Agency had already been identified as the primary source of information. The agency maintains a list of associations in order to comply with the relevant Serbian law on associations. This is a self funding organisation and the imposition of fees enables it to operate on a governmental cost free basis. It was apparent that there was little or no scope to access information outside of these governmental registration requirements. Moreover, very little information is required to be stored within the agency's systems. The definition of an NPO is very wide and only the most basic information relating to the NPO was stored.
29. Enquiries were made as to what information could be made available for the short term expert and the agency agreed to release a list of registered associations to the short term expert through the offices of the APML. It was made clear that this list was the only data which could be furnished and there was no further opportunity for the searching of data, primarily owing to the sparse nature of the information and the configuration of the agency's IT systems.
30. This list of associations was released to the author on 22 January, 2013. There are two lists of associations:

- Domestic Associations and Federations
 - Branches of Foreign Associations
31. The Registrar explained to the author that the law on associations requires brevity within the treatment by the aspiring association of its goals. This is highly significant and is a bar to the effective understanding of precisely what the association's aims and objects are. Put simply; the quality of the construction of the narrative is the only enabler to understanding the nature and scope of the association. The narrative is not subject to any quality check, nor is it tested as to its veracity. Thus, the objects of the NPO are distilled into little more than a sentence.
32. The fields of entry for the registration of aspiring associations are:
- Name of the association
 - Address
 - Name of legal representative
 - Contact details
 - Whether contact is member of another association
 - Whether operation is domestic or abroad
 - Goals of the association
33. The Serbian Law of Associations was amended in 2009 enabling the expansion of the Business Register. Many new associations took the opportunity to register and thus avail themselves of the opportunities of becoming a legal entity. Benefits following registration for example, are the option of banking and financial services. The Register was also expanded to incorporate State organisations, for example, associations for the blind and war veterans.
34. It was further explained that the list of associations is diverse and not restrictive. Within the list can also be found Trade Unions and Professional Associations.
35. By definition, and following the parameters of registration, there are many existing unregistered groups, some operating within a virtual internet environment. This was reinforced to the author by representatives of active and registered NPOs in both Belgrade and Novi Pazar.
36. The Business Registers Agency have no right in law or mandate to make any further enquiries of those seeking registration, save for that detail required by statute. It is rare (but not unknown) for staff within the Agency to raise enough suspicion following the provision of data for registration, to challenge or escalate issues to management either during or post registration. Staff are not expected to make any enquiries and certainly have no training in spotting fraud or querying identification. The registration of associations is exactly that; a business process and not an enquiry.
37. The list of associations provided to the author provides the following information:

- 19,763 entries in date order within the list of Domestic Associations and Federations and 58 entries in date order within the list of Branches of Foreign Operations which offer the following fields:
 - Business registration number
 - Full business name
 - Founding date
 - Status
 - Description of business
 - Region
 - Municipality
 - Town
 - Street
 - House number
 - Tax number
 - Notes
38. The author was struck by the extreme brevity of the entries. The description of business is reflected in a short single sentence and in both lists there are no observations entered at all within the Notes field.
39. The author had hoped to conduct meaningful statistical analysis of the lists, prior to supply, which would have indicated in far greater detail, the scope, scale, objects, budget and operations of the associations. This was clearly impossible.
40. It is also apparent that the lists do not necessarily reflect a list of active NPOs, given their broad definition. Incorporated are also other associations, Trade Unions and professional bodies.
41. There is no legal requirement for religious associations to register with the Business Registers Agency or any other government department. The author has been unable to establish any government agency within Serbia which either maintains an accurate list of religious associations and their objects or, if such was maintained, access to it.
42. It was suggested at the meeting with the Registrar of the agency that one NPO operating in Belgrade maintained a list of active NPOs and referred the author to it for further information. Enquiries revealed this not to be the case.
43. Following information gleaned during the scoping mission to Serbia, it became apparent that the Serbian Tax Administration may have relevant information relating to the analysis of the scale and scope of NPOs. Within Serbia, NPOs have an obligation to register for tax purposes and declare finances for tax evaluation and collection. Registered NPOs are treated as legal entities and thus need to file tax returns.
44. The Tax Authority confirmed the findings of the author that the budgets for NPOs were generally small, around 40-50,000 Euros. Larger NPOs generally attracted

budgets of around 90-100,000 Euros. Numbers of employed staff were also relatively small with around 3 paid employees in NPOs attracting a budget of, say, 50,000 Euros. Further generalisations are uncertain.

45. Additional data was not available concerning NPOs from the Tax Administration.
46. It has not been possible to access any further information concerning the scale and scope of NPOs from any other source. The study concludes that if any further information does exist, it is inaccessible or unavailable. That said, the most likely scenario is that there is no other useful information concerning the sector.

Oversight, Checks and Inquiries

47. It is not the function of the Business Registers Agency to perform any oversight role of the NPO sector. Oversight is not part of their mandate and the Head of the Agency is very clear on this.
48. Enquiry revealed that there is no single government department or agency which has a specific oversight role across the sector. Although there are some regulations concerning the process of registration, albeit brief, the remaining regulatory framework ends with the Serbian Tax Authority with solely a tax remit and the obvious enforcement agencies of the police and the APML.
49. It necessarily follows that there are few checks and a general single regulatory absence within the sector.
50. There was some frustration expressed concerning the paucity of information required for registration by the Business Registers Agency which necessitated additional work by the Tax Administration. Because of the lack of challenge and verification of data at the point of registration, later instances were discovered of false identification details and other irregularities.
51. Close working arrangements with the APML enabled many of these issues to be corrected and the proper supervisions instituted following agreed 'red flag' indicators. Additional data was not available concerning NPOs from the Tax Administration.
52. Following meetings with representatives of NPOs, including the Islamic Community in Novi Pazar, it was confirmed that there is no substantive registration process for religious communities; they are exempt by law from registering with the Business Registers Agency and no other agency is charged with oversight.
53. The author considers this an omission and a serious risk to the sector for opportunities for money laundering and terrorist financing.
54. Analysis of the list of Branches of Foreign Associations does not reveal the international areas of operations of these associations explicitly. In some of the entries, this may be deduced from the names of the association, but the information relating to objects and area of operation is far from clear.

Awareness in the NPO Sector

55. Meetings with representatives from the selected sample of NPOs resulted in a collective agreement that increased regulation of the sector would be beneficial. There was unanimity that there were opportunities for abuse within the sector and pointed to the lax regulatory processes and lack of transparency. It was pointed out that bona fide NPOs working at the heart of their communities would welcome increased regulation and enhanced transparency.
56. Representatives from the NGOs found it very difficult to access information about the work and activity of other NGOs, even if they were operating within the same fields of delivery or areas of operation. Reporting of working in isolation and without means of help and support were common.
57. Comment was made concerning the existence of NPOs being registered but apparently dormant with no evidence of outcomes or contact details and operating premises. These were referred to as 'ghost' NGOs and appeared to be common. Suspicions were aroused amongst representatives of functioning NGOs that the lack of regulation allowed potentially fraudulent or other criminal activity. This appeared to be exacerbated within an environment where information concerning the activities and objects of other NGOs was difficult to obtain and the lack of reporting structures encouraged isolationism. There was confusion as to which agency any reporting of child abuse or human trafficking could be made. There are no established 'whistleblowing' procedures.
58. The work of NPOs within Serbia covers a wide range of objects and communities. The author heard much about the poor and disadvantaged communities, particularly in the south of the country. One of the representatives of a community based NPO raised the question of Safeguarding in the context of NPO work with children. There was believed to be scope following a lack of regulation which offered opportunities for abuse within the sector.
59. There is no requirement for NPOs to submit any type of annual return. Generally, those NPOs which operated with donations from international partners were obliged, through the contractual donation process, to provide to the donor some evidence of delivery and accounts. No obligations exist for any independent review of audited spend and there is no requirement for annual or periodic reporting upon project delivery.
60. There are no requirements for the provision of self reported Suspicious Activity Reporting (SAR) and no governmental assistance available for NPOs with regard to internal or external problem solving or general project management. Some NPOs exist to provide such assistance to other NPOs, but a lack of access to information appears to be a strategic issue in preventing availability of assistance.

61. It is clear that the lack of detailed registration and oversight of the whole sector, including NPOs with religious objects which are currently exempt from registration, coupled with a lack of transparency in transactions and project delivery, provide much opportunity for abuse within the sector.
62. Of particular concern must be the complete lack of scrutiny of religious groups which presently operate outside of any regulated or supervised boundaries.
63. This study concludes that an outreach programme would be invaluable in raising awareness of the sector and reducing the risks of terrorist financing, money laundering or any other kinds of criminal enterprise.

Risk Assessment and Threat Analysis

64. The strategic gap framework offers a way to assess the state of the sector and identifying the gaps and vulnerabilities. The most significant blockage emanates from the position that there is a paucity of collectable data which informs an understanding of the scope and scale of the sector. Taking each in turn:-

Information Gap

65. There are 19,763 Domestic Associations and Federations registered with the Business Registers Agency. There are an additional 58 Branches of Foreign Operations registered. What is not known from these lists is an additional layer of detail which identifies a number of factors:
 - Status of the association – which type of organisation
 - Objects and mission of the NPO
 - Areas of operation
 - Number of staff and volunteers
 - Directors and their contact details
 - Source of funding
 - Budget, accounts and annual report of the Directors
 - Suspicious activity reporting
66. There is no identifiable register or recording process for religious organisations. No details are available outlining the work of religious organisations within Serbia or abroad. Exempt from formal registration, the religious sector is unknown in scale and scope beyond regional demographics.
67. It necessarily follows that little is known about the operations and constitution of such organisations, their vulnerabilities and corresponding risks.
68. International experience has determined the vulnerability of religious groups to extremism and criminal manipulation, both domestic and foreign. The risks associated with a lack of knowledge of the nature and extent of the operation of religious associations must be considered to be high.

69. There have been examples internationally, where terrorists and those with extremist views who encourage terrorism or terrorist ideology, have used religious organisations and their events to make their views known and to disseminate their literature. NPOs need to be aware of the risks and to risk manage them effectively.
70. Experience has determined that the risks are higher for those organisations which run speaking events or use literature to promote their objects.
71. Without a more complete understanding of the scale of religious associations, it is not possible to conduct any analysis of this risk.
72. Overall, little is known about the structure, framework and effectiveness of the operations of NPOs within Serbia and an incomplete picture exists of the overall scale and scope. There is no national framework which is mandated to oversee, unite and regulate the sector and no separate government agency exists in order to do this.
73. There is no reporting or regulatory framework in which NPOs can operate. No requirement exists for NPOs to report upon the effective spend of their budgets and no quality assurance is evident. NPOs are not required to provide audited accounts or report upon the extent and content of the work that they do. There is little transparency in the internal controls of NPOs and access to information is very limited.
74. The Business Registers Agency, as mandated by legislation, does register basic information, but this significantly falls short of what is needed to research and provide a full understanding of the characteristics and vulnerabilities of the overall sector. The lack of inclusion of religious groups is a significant omission and this must be seen as a primary vulnerability.
75. Other government agencies hold data which relates to their particular function, e.g. Tax Administration, but this data is clearly not publically available and contributes little to an overall understanding and assessment of the sector.
76. A lack of information and data concerning the whole sector is a significant vulnerability as a full risk assessment cannot be effectively completed without understanding the complete picture.
77. It is therefore recommended that one agency undertake responsibility for the recording of data concerning the structure, function and operation of NPOs and that this be extended to include religious associations. Clearly, the recording and reporting provisions would attract a significant lead in time and the volume of work requires should not be underestimated, but the process has begun with the registration provisions by the Business Registers Agency. Expansion of the scope of registration may seem an attractive opportunity, especially as the agency is self funding.

78. Recommendation

- Enhanced NPO information recording be undertaken by one Agency which includes religious associations.
- NPOs should be required to report annually upon the work that they do and be accountable for budget spend. This reporting should be transparent and subject to audit.
- All NPO information, annual returns and budget data should be freely available.

Effectiveness Gap

79. The primary legislation relating to the registration of the sector is the Law on Associations. As amended, it provides the registration framework for the Business Registers Agency. The legislation starts at a low base and has not been extended to provide for a regulatory framework around the work of the NPO sector.

80. There is presently little or no effective regulation of the NPO sector. Evidence suggests that the sector is expanding and NPOs are doing more within their stated mission. International tensions and events will inevitably have an effect upon the sector within Serbia and without an effective regulatory framework, the sector may be unprotected.

81. Legislation surrounding the operations of law enforcement and specialist organisations such as the Tax Police and the APML are reported as being adequate. The difficulties in regulatory enforcement and intelligence led operations have their genesis in the lack of basic information concerning the entire sector (including religious associations). The importance of a legislative framework which unites the sector and affords single registration and regulation cannot be overemphasised.

82. Given the low base of legislation, much thought needs to be brought to bear upon the type and style of regulatory framework thought appropriate. Presently, there only operates a basic recording scheme which is incomplete in important areas. Once developed, the next steps should be a simple reporting scheme which enables NPOs to report adequately upon their work and methods of operation. Only when this basic framework is in place, can an intelligence led and proportionate interventionist approach be considered, notwithstanding a requirement by existing law enforcement agencies to respond quickly to allegations of criminality.

83. The ultimate goal should be the aspiration of self regulation within the sector. Although strategically an advanced concept, international experience has demonstrated that such can be achieved once effective regulatory measures are put into place.

84. Recommendation

- A process of Suspicious Activity Reporting be created, placing the onus upon NPOs to identify and report, according to clearly defined protocols, any suspicious activities

which occur or come to attention. These will be held centrally by the lead agency and will inform future policy and outreach plans.

Legal gap

85. Legislation needs drafting which affords one agency authority to adequately record all NPOs which must include all religious associations. There is presently no legislation which provides empowerment to a lead agency to administer all recording and reporting procedures.
86. Additionally, there is no legislation which provides for any regulatory framework or practice with appropriate sanctions for non compliance. There are no supervisory or investigatory powers.
87. There is an overall lack of transparency within the sector. Freedom of information legislation should be reviewed to ascertain whether this is a blockage to information being placed freely within the public arena.
88. **Recommendation**
 - Legislation should be drafted which enables the complete registration by one single government agency of all NPOs which shall include religious organisations.
 - Legislation should be drafted which encapsulates all regulatory authority, including powers to access and inspect financial dealings and transactions. The legislation should also require the annual reporting to the lead agency of accounts and annual or periodic reporting of the NPO work.
 - Information sharing legislation requires review in the light of the need for enhanced transparency and information sharing between government departments.

Structural gap

89. There is no lead agency defined for the purposes of regulation; only that of registration. It is the author's belief that the agency mandated for registration is unlikely that which should be defined for regulation.
90. The Tax Administration is defined as lead agency for tax matters and in Serbia, NPOs are liable for tax purposes. Consideration needs to be given as to which agency within Serbia be most appropriate to operate as a regulator for the sector in a developmental environment.
91. Although there are many possible stakeholders within the sector scenario, only individual mandates apply to activity. There needs to be wider and enhanced stakeholder participation and consultation with the introduction of inter agency memoranda of understanding which clearly set out joint and individual responsibilities for the developing sector.
92. Planning for the operational aspects of the new regulatory framework will require wide and active consultation. Agencies must work and plan together to meet the needs of a new regulatory framework. This must also include representation from the wider sector.

93. There should be agreement in principle of regulation by consent which will involve the active consultation and participation by the sector.

94. **Recommendation**

- There should be one government lead agency appointed to oversee and regulate the work of the entire NPO sector.

Co-operation gap

95. Following from the previous discussion, plans should be generated which afford, alongside an agreed timeline, the planning cycle for the regulatory framework. There must be a package of measures put into place enabling the new lead agency to maintain an adequate and evolving dialogue with the wider sector. Without these effective measures in place, there is a risk that the sector will become disaffected and dysfunctional.

96. Communities which are part of the work of NPOs will need to be included within the consultation process and seen as significant stakeholders.

97. Ineffective communication between government agencies appears to be the norm. This theme emerged strongly within the author's research and apparently few formal information sharing protocols exist.

98. There is little effective inter agency co operation internationally, the effect of which may be to leave Serbian authorities with oversight of the sector, isolated and operating within the margins of identified best practice.

Outreach gap

99. There is no evidence of any effective outreach to the sector, or at all. Some NPOs offer assistance and self help awareness, but this feels uncoordinated and unsupervised by the centre.

100. Government agencies are not configured, trained or resourced to adequately organise and oversee effective outreach. As discussed, there is so little information available centrally to inform the process, lack of outreach should not be surprising.

101. The short term expert identified little knowledge amongst representatives of the NPOs visited to indicate that the NPOs could adequately protect themselves against money laundering or terrorist financing issues. In some ways, these concepts appeared incomprehensible and the author had no doubt that effective outreach programme would be an effective method of reaching into the sector and raising and developing awareness.

102. There was little or no evidence of evidence of sector abuse emanating from the centre. Given the lack of primacy for sector oversight, this was unsurprising.

103. Experience in other places has shown that outreach is a significant and powerful tool in maintaining donor confidence. This is especially so within the arena of charitable donations from abroad and community based donating. Although the latter is still uncommon within Serbia, there is evidence that international partners are becoming

increasingly relevant with a corresponding degree of higher donor confidence. This was reinforced to the author by representatives of NPOs who, working in partnership with international donors, were required by them to justify spend on project based work. This was a novel experience for most NPOs.

104. Lack of effective outreach is a major risk to donor confidence and inhibitory to sector growth.

105. Partners need to be reassured that the NPOs, with whom partnerships are arranged, will not become party to money laundering or terrorist financing vulnerabilities. These issues are at the heart of confidence. Effective outreach is a natural by product of a working regulatory regime and can achieve much in raising awareness of criminal activities and manipulation.

106. There was little awareness shown of basic due diligence principles. These principles are central to any outreach programme and the protection of NPOs from harm.

107. The lack of any outreach programmes is a significant risk.

108. Recommendation

- Outreach should be an integral part of the regulation of NPOs. The designated lead government agency should create an outreach strategy and subsequent plan which should be the product of consultation with NPOs and delivered according to identified risk and priority.

Participation gap

109. This area relates to the extent NPOs are included within the consultation process and their representative views are sought. It also relates to the extent to which NPO representatives are motivated to understand more and take part in any enhancements to the regulatory process.

110. Ensuring participation is a well rehearsed and expected part of the consultative framework in western European and other countries with a developed regulatory regime.

111. It was interesting to note that there was a very low take up of places by NPO representatives at a Seminar in Belgrade on 14 June, 2012, hosted by the MOLI project team in Belgrade and presented by the author alongside another short term expert. The seminar was aimed at NPO delegates, but the attendance by representatives of the sector was disappointing.

112. To ensure effective and representative participation at all stages of the development of a regulatory regime, it is necessary to effect some degree of culture change. This requires a high degree of energy and commitment.

113. Recommendation

- All NPO strategy should enshrine the principles of consultation and participation by the NPOs. Consideration should be given to the hosting of regular conference style assemblies for NPOs.

Likely typology of threats to the NPO sector

114. Whilst such a list can never be exhaustive, the following represent the most likely high level typology of threats to the sector:-

Crime and regulatory risks

- NPOs set up for illegal purposes
- Legitimate NPOs used as a cover for criminal activity
- NPOs as victims of crime
- Financial crime at all levels
- Fundraising abuse
- Misuse of NPO for criminal extremism
- Criminal abuse of vulnerable beneficiaries
- Terrorist abuse, financing and threats to national security
- Fostering of extremism

Financial crime typologies

- NPOs can be used to raise, move, store and use funds
- Illicit fundraising or 'skimming' legitimate fundraising
- Abuse of NPO resources or facilities
- International transfer of funds followed by cash withdrawals (end use of funding)
- Crime operating under the cloak of humanitarian relief
- False recipients or beneficiaries

Why are NPOs vulnerable to abuse?

115. NPOs are uniquely positioned to harbour vulnerabilities which make criminal exploitation more likely. These opportunities are considerably enhanced where there is a lack of knowledge by the state about the size, scale and scope of the sector and, where there is a lack of, or gaps in, sector regulation.

116. The reasons why such vulnerabilities exist are generally accepted within the international community as:

- NPOs attract high levels of trust
- They are diverse in nature
- They are easy to set up
- Can depend upon one or two individuals to play a key and unsupervised role
- Powerful vehicle for bringing people and groups together
- Lack of commercial experience
- Lack of segregation of duties
- Large volumes of cash transactions

- Internal controls can be seen as onerous for volunteers
- May have a global presence; often in areas of conflict
- Working overseas, difficulty in verifying end use of funds
- Can pass funds to other organisations rather than deliver services directly
- Very different and often much lower levels of regulation in other parts of the world
- Subject to varying levels of evaluation and monitoring

Threats to the sector within Serbia

117. This study draws some preliminary and significant conclusions regarding threat, vulnerability, risk and consequences to the NPO sector within Serbia. The primary strategic issues which preface the assessment are that very little is actually known about the NPO sector at all and there is almost a complete lack of regulation of the sector. These overarching issues can be broken down into discrete areas of concern, but it is the primary recommendation of this study that these two themes combine to create the greatest risks, should they not be addressed in the first instance.

118. Without a better knowledge and understanding of the sector and the creation and designation of an empowered lead agency to regulate the sector, the following threats cannot be mitigated:

- Criminality at all levels which will include:-
- Financial crime including money laundering, tax evasion, theft and fraud
- Terrorism which will include:-
- Terrorist financing, training, purchase and distribution of arms, recruitment and extremism

Vulnerabilities within Serbia

119. The principle vulnerability within Serbia is that very little is known about the sector and the regulations concerning registration of NPOs and recording of any subsequent data are weak. As the study has found, very limited data is available and there is a complete absence of registration of the internationally acknowledged highest risk group; religious organisations.

120. There is no lead agency which is mandated to regulate the sector. Save for the established state organisations such as the police, tax administration, financial enforcement organisations and the like, there is almost a complete absence of regulation of the sector.

121. Consequently, data, statistics and intelligence is neither kept nor shared. There is a substantial gap in the communication and interoperability of state departments and agencies and put simply, information of value concerning activities within the sector are rarely, if ever, shared.

122. Whilst the Business Registers Agency undertakes the lead for the registration of associations which, by definition, includes NPOs, the threshold for registration is very low and very little information is recorded. Vital data, such as the recording of authenticated personal details of those responsible for the running of the NPO, objects and scope of delivery and reporting of deliverables are missing.
123. It is very easy to register an NPO and no additional checks and safeguards are made. Once registered, there is no effective support from the state or any other organisation which may enable the effective and efficient running of the NPO and there is no outreach strategy or programme.
124. The sector is consequently highly vulnerable to wide criminal exploitation, both in terms of terrorist financing and activity and money laundering. The study has identified that there are 58 entries in the Business registers Agency list of Branches of Foreign Operations, yet almost nothing is known about the extent to which NPOs within Serbia have objects and deliverables abroad or the extent to which, they may be particularly susceptible to terrorist exploitation.
125. The National Risk Assessment Document for Serbia has already identified that tax evasion is a significant issue within Serbia and may be particularly vulnerable because Serbia is a cash reliant country with around 30% of overall transactions in cash. Cash reliance and the vulnerability of unregulated NPOs in cash environments would predict a particularly high risk.
126. The extent and reach of religious organisations within Serbia is not largely known because of the exemption of these groups to register with any government agency. Thus, the vulnerabilities of these types of NPO are unclear, but they must be considered highly vulnerable from internationally accepted classes of vulnerability to terrorist manipulation. It is not known, for example, in which countries outside of Serbia, NPOs operate or maintain relationships.
127. There is no universally recognised criteria for assessing and determining risk in particular counties or regions, however those which may pose a higher risk may include:-
- Countries subject to sanctions or embargoes
 - Countries identified by credible sources as lacking appropriate anti money laundering or counter terrorism regulation
 - Regions where it is known that terrorist organisations operate
 - Regions identified as having significant levels of criminal activity or poor infrastructure

Overall risk assessment

128. The overall conclusion of this study is that there exists a very high risk within Serbia in terms of NPO activity. This must be predicated on the basis that there is so little known about the sector and the almost complete lack of regulation. Although this is high level risk analysis, detailed and specific analysis of single issues, appertaining to

money laundering and terrorist financing can only be accurately measured once basic remedies are instituted.

129. The study suggests that this overall threat analysis be augmented by remitting to the relevant authorities, for example, APML and law enforcement, for supplementing by their own data and threat analysis.

Consequence

130. The consequences of criminal exploitation of NPOs in all of their guises are always serious. They may range from localised harms, such as the inability of an NPO to discharge its objects and deliver adequately, to harm affecting confidence in the State. The absence of an effective regulatory regime would always be attractive to criminality wishing to exploit weakness and seek profit and terrorists, seeking to expand their membership and avail themselves of available criminal opportunities.

131. Again, at a high level, the absence of effective regulation coupled with a lack of sector knowledge, will likely enable criminal exploitation of NPOs to pass unnoticed.

132. There is international unanimity upon the need for NPOs to operate in an environment of confidence. Erosion of confidence in the sector is intensely damaging and has many effects ranging from inability to generate effective partnerships and deliver stated goals to a complete breakdown in the NPO environment and an international lack of confidence of the ability of the State to self regulate.

Creating an Outreach plan for protecting the sector from abuse from terrorist financing and money laundering.

First Principles

133. Outreach must comprise an end to end programme which includes the following elements:-

- Identification of the NPO base which the plan is intended to serve. This will include NPO typology, geographical location and NPO objects
- An analysis of the present position of current practice and the state of awareness of NPOs of the issues of terrorism financing and money laundering
- Developing the strategic objectives of the outreach programme and identification of the resources which will be used to implement the programme. These resources will need to be appropriately prioritised
- Development of the service programme in detail, identification of the training needs of the staff which will be required to provide the programme
- Training of the staff providing the service
- Creation of a rolling programme of outreach support aligned to timelines
- Marketing and implementation of the outreach programme
- Programme review and evaluation
- Identification of best practice and incorporation of this into the plan

134. The first stage in the plan is gaining an understanding of the range of NPOs, their typologies and corresponding objects. The plan will need to be stratified in order to maximise impact and ensure that the resource implications of delivery are not diluted by attempting too broad a delivery. Without a comprehensive understanding of the NPO base, outreach plans are unlikely to have gravitas or lasting impact.

135. The next stage is undertaking a present position analysis of the depth of understanding of the range of NPOs of terrorist financing and money laundering issues. There is likely to be a range of awareness, depending upon the type of NPO and its objects. The plan will need to be flexible enough to accommodate the varying depth of understanding and thus, analysis will need to have been undertaken in advance in order to plan this effectively.

136. A clear statement of what is intended to be achieved is required. Will the programme be intended to raise awareness of the issues or will it drill down into a deeper understanding of what is required to be done in order for NPOs to optimally protect themselves? This is likely to be resource dependent and therefore, priorities need to be identified and practical timeframes considered.

137. Given the imperative of resources and sector penetration, the outreach programme requires careful consideration and planning. The deliverables of the plan need

identification and setting down in appropriate format. The style of delivery also requires consideration. Will the programme be delivered on site by a team or individuals, or by distance learning package with appropriate follow up support?

138. Staff require selection and training to deliver the programme. Selected staff will require a training needs analysis prior to effective training on outreach being delivered. Decisions regarding timelines will need to be taken and analysis of what will be delivered and to whom. The programme should be published and reviewed as necessary.

139. Once agreed, the plan should be appropriately publicised throughout the sector. At an agreed point, it will be necessary for the plan to be reviewed and properly evaluated. Consideration needs to be given to who will be responsible for that review process.

140. Feedback should be sought from the NPOs with the benefit of the delivery and best practice identified which should be published and incorporated within the rolling programme.

What needs to be delivered?

Money laundering

141. The outreach plan must include a working definition and understanding of what money laundering is and how it could affect the NPO in practical terms. The Directors of the NPO need to be informed how they can take reasonable steps to prevent the NPO being used for money laundering purposes and what they should do if they have any suspicions. The manifestations of money laundering usually involve the receipt of funds which may then be paid out to different people in different forms and possible currencies.

142. NPOs should be invited to assess their own levels of risk and adopt appropriate anti money laundering procedures, for example:

- Due diligence checks on the donor, taking into account factors such as the size of the donation, source of funds and the location of the donor
- Further verification checks when the donor is considered to be higher risk
- Ensuring staff know how to recognise the warning signs of possible money laundering
- Robust methods for recording and documenting donations and grants; and
- Protocols for monitoring the effectiveness of the money laundering procedures

143. NPO staff need to understand how to spot signs of money laundering and may be drawn to examples such as:

- Large unexpected donations from unknown individuals, organisations or other sources new to the Directors
- Donations conditional upon particular individuals or organisations, who are unfamiliar with the NPO, being engaged to carry out work
- Money being offered as a loan for a period of time after which it is to be returned or sent elsewhere. Typically, the NPO is allowed to retain the interest earned or some other sum in return for agreement to take part in the arrangement
- Similar 'loan' arrangements in which the money is received by the NPO in a foreign currency but is to be returned in a different currency
- Unexpected or unexplained requests for the repayment of all or part of a donation
- Requests for assistance in recovering large sums of money where the NPO is offered a percentage of the amount recovered. The NPO may be asked to provide its bank account details or permit the donor to use its name on correspondence on the pretext that this is part of the recovery process
- Unsolicited offers of short term loans of large cash amounts, repayable by cheque or bank transfer, possibly in a different currency
- Being asked to allow transactions to pass through the NPO's bank account; and
- The offer of goods or services which seem very expensive, unusual or carry high administration and other charges

Due Diligence and the 'know your' principles

144. The principles of due diligence should be part of the outreach plan. Put simply, this necessitates the Directors of NPOs to understand where the funds come from, how the funds will be applied to the NPO objects and who will be involved in delivering the services of the NPO.

145. The 'know your' principles are widely used within the financial sector and apply equally to the management of NPOs. There are three principles:-

- Know your donor
- Know your beneficiaries
- Know your partner

146. Reasonable steps will need to be taken to ensure that Directors of NPOs:-

- Identify – know who you are dealing with
- Verify – where reasonable and where the risk is high, verify identities
- Know what the organisation's or individual's business is and can be assured that this is appropriate for the NPO to do business with

- Know what their specific business is with the NPO and have confidence that they will deliver what is required; and
- Looking out for unusual or suspicious activities, conduct or requests.

Terrorist financing

148. Similarly, as with money laundering, NPOs must be provided with a workable definition of terrorist financing and the principles surrounding it. Put simply, this is the raising, moving, storing and using of financial resources for the purposes of terrorism. Links have been demonstrated between money laundering and terrorist financing.

149. The outreach plan should include details and examples of how abuse of NPOs for terrorism purposes can take different forms:

- Raising funds in the name of the organisation. Funds are then diverted away and used for criminal and terrorism purposes. This may happen without the knowledge of the NPO
- Establishing and registering an NPO for the purpose of providing cover for channelling funds for the purposes of terrorism, directly or indirectly
- Where funds are being moved from one place to another, or in different forms, for example through international currencies or cash transfers and in particular internationally, that may be diverted before reaching the intended recipients
- An NPO may be used to launder money
- Cash may be transported in a way that looks legitimate under the name of the NPO and its work so its transportation may be less likely to be questioned or challenged; or

- Recipients of NPO funds, whether partners or individuals, may misuse the money they have been given for terrorism purposes.

150. All of these risks will increase if financial, due diligence and monitoring controls are weak.

151. The outreach programme should be augmented by interactive discussion of participants through case studies and exercises. Emerging findings should be collated and disseminated widely amongst the sector.

Conclusion

152. Data relating to the complete picture of the NPO sector within Serbia is very difficult to find. The scale and scope of the sector is resistant to analysis owing to the brevity and paucity of available information. Religious groups which, internationally, are acknowledged to be amongst the highest risk group, are exempt from registration with the Business Registers Agency and only fragmented information concerning such groups is available elsewhere.
153. The data held concerning domestic and foreign NPOs is very brief and potentially unreliable given the lack of effective verification and non intervention by the agency. This is not to render the agency culpable in any way. The law on associations is meticulously followed. But much more data and information concerning the extent and detail of the work of NPOs needs to be known before any accurate and meaningful analysis of the sector can be made.
154. Legislation which designates a lead agency and considerably expands the registration and reporting requirements of all NPOs (including religious organisations) will need enacting to remedy this gap.
155. The picture emerging from what is known about the sector is that there are many (up to 19000) domestic NPOs and few (58) branches of foreign associations, which appear to be small in scale and scope (larger NPOs having a budget of around 100,000 Euros) but little regulatory infrastructure and networking. Much needs to be done to create a more cohesive NPO background with a lead government agency which operates as a regulator and advisor, taking accountability for a creative and productive outreach programme.
156. Given the difficulties in assessing the true scale and scope of the sector, the risks associated with terrorist financing and money laundering must be assessed as high, particularly with regard to religious associations which operate unregistered and unregulated. There is no direct evidence forthcoming which implicates any part of the sector, but more certainty of this can only be achieved by greater transparency.
157. The lack of a lead agency with any responsibility for the sector is the main blockage in achieving regulatory change. There is a fragmentation of responsibilities across a range of government departments and a reluctance to share and communicate information.
158. What seems to be required is a cultural change which results in greater cohesiveness of the sector and a general tightening up on policy and rules which govern the creation of an NPO and subsequent operating protocols. The existence of apparently registered NPOs which operate in the margins and have no obvious place of business or contractibility is evidence for this. Unless there is prima facie evidence of a criminal offence or tax avoidance where there are agencies empowered to intervene, no structure exists alone to ensure sector consistency and reliability.

159. In an environment with ever increasing international partnership dimensions, work needs to be done to ensure that potential partners' confidence in the Serbian NPO sector remains high.
160. Much of this can be achieved by the introduction of a single regulatory framework with a cogent outreach programme which binds NPO experience and offers a safety net when things inevitably go wrong.
161. Within the NPO sector, confidence is hard won and easily lost.

List of recommendations

1. Enhanced NPO recording be undertaken by one agency which includes religious associations.
2. NPOs should be required to report annually on the work that they do and be accountable for budget spend. This reporting should be transparent and subject to audit.
3. All NPO information, annual returns and budget data should be publically available on the internet.
4. A process of Suspicious Activity Reporting be created, placing the onus on NPOs to identify and report, according to clearly defined protocols, any suspicious activities which occur or come to attention. These will be held centrally by the lead agency and will inform future policy and outreach plans.
5. Legislation should be drafted which enables the complete registration by one single government agency of all NPOs which will include religious organisations.
6. Legislation should be drafted which encapsulates all regulatory authority, including powers to access and inspect financial dealings and transactions. The legislation should also require the annual reporting to the lead agency of accounts and an annual report of the NPO work.
7. Information sharing legislation requires reviewing in the light of the need for enhanced transparency and information sharing between government departments.
8. There should be one government lead agency appointed to oversee and regulate the work of the entire NPO sector.
9. Outreach should be an integral part of the regulation of NPOs. The designated lead government agency should create an outreach strategy and subsequent plan which should be the product of consultation with NPOs and delivered according to identified risk and priority.
10. All NPO strategy should enshrine the principles of consultation and participation by the NPOs. Consideration should also be given to the hosting of regular conference style assemblies for NPOs.