



**Securities and
Exchange
Commission**
PHILIPPINES

NON-PROFIT ORGANIZATIONS - PHILIPPINES

TERRORIST FINANCING

SECTOR RISK ASSESSMENT 2021

The SECURITIES AND EXCHANGE COMMISSION, PHILIPPINES

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Table of Acronyms

AML/CFT	Anti-Money Laundering / Countering the Financing of Terrorism
AMLA	Anti-Money Laundering Act of 2001 (RA1960), as amended
AMLC	Anti-Money Laundering Council
ARRG	AMLC Registration and Reporting Guidelines
ARRS	AML Risk Rating System
BIR	Bureau of Internal Revenue
CDA	Cooperative Development Authority
CDD	Customer Due Diligence
CHED	Commission on Higher Education
Code-NGO	Caucus of Development NGO Networks
CTRs	Covered Transaction Reports
DA-ATI	Department of Agriculture – Agricultural Training Institute
DAR	Department of Agrarian Reform
DepEd	Department of Education
DENR	Department of Environment and Natural Resources
DOLE	Department of Labor and Employment
DSWD	Department of Social Welfare and Development
FATF	Financial Action Task Force
FI	Financial Institution
FIU	Financial Intelligence Unit
LEAs	Law Enforcement Agencies
LGUs	Local Government Units
MDF	Mandatory Disclosure Form
MLPP	Money Laundering and Terrorist Financing Prevention Program
MSB	Money Service Business
NACS	National AML/CFT Strategy of Philippines
NCCA	National Commission on Culture and Arts
NCIP	National Commission on Indigenous Peoples
NCMF	National Commission on Muslim Filipinos
NPO/ NGO	Non-Profit Organisation/ Non-Government Organisation
NRA	National Risk Assessment
PCNC	Philippines Council for NGO Certification
SEC	Securities and Exchange Commission
SOCTA	Serious and Organised Crimes Threat Assessment
STRs	Suspicious Transaction Reports
SWDAs	Social Welfare and Development Agencies
TF	Terrorist Financing

Executive Summary

Overall Terrorist Financing Risk Rating

This risk assessment covers the risk of terrorist financing (TF) for the Non-Profit Organization (NPO) sector in the Philippines. The TF risk has been assessed and rated separately from Money Laundering (ML). This has been done to avoid combining the overall risk rating of these two distinctly different risk environments.

The overall terrorist financing risk for the NPO sector in the Philippines is assessed as **MEDIUM**. This rating is based on assessments of the terrorism threat environment, vulnerabilities in the sector and associated consequences.

Criminal Threat Assessment

The level of crime threat to the NPO sector is rated as **MEDIUM**. This assessment is primarily based on reports on incidents of terrorism, Suspicious Transaction Reports (STRs), the number of investigations into terrorism and terrorist financing involving NPOs, and other intelligence reports. A total of eighteen (18) NPOs were identified in 112 terrorism and terrorist financing-related STRs filed with the AMLC. The identified NPOs disperse across the country, but majority are located in the NCR region. Majority of the identified sub-sets of NPOs at high-risk of TF are foundations and service type NPOs, especially religious, charitable and political organizations.

Vulnerabilities

The vulnerability of the sector to terrorist financing is rated as **MEDIUM**.

Regulatory framework and supervision of the NPO sector is assessed as generally effective. Nonetheless, lack of effective enforcement of these regulations has been identified as an issue. There are sufficient preventive measures and self-regulatory mechanisms in place in majority of the surveyed NPOs which however need to be further strengthened to effectively combat the abuse of the sector for TF. Understanding of the TF risks by the NPOs needs further improvement, including the use of regulated financial channels for collection, spending and transfer of funds. Effective monitoring of delivery of programs by NPOs (including in high-risk jurisdictions), as well as national and international cooperation between authorities to prevent the abuse of the sector for TF also need to be strengthened.

Consequences

The overall consequences of TF activity in the sector is assessed as **MEDIUM**. The degree of impact of suspected or actual misuse of the NPO sector for TF purposes may vary for each NPO, depending upon the extent to which an NPO understands its TF risks, have effective controls and strategies in place to mitigate these risks, and identify and report any suspicious transactions. Diminished revenue due to reputational loss and drop in funding or donations, or any diversion of funds for terrorism can seriously harm an NPO's operation and viability. This may have potentially serious ramifications for intended

beneficiaries when vital services are not delivered, and the funds available for development, humanitarian support and other important social goals are lost or constrained due to crime.

Subset of High Risk NPOs

International standards on combating TF, as set by the FATF, require countries to identify the subset of NPOs at high risk of TF abuse. Based on data gathered in the risk assessment, NPOs at high risk are legal persons or incorporated entities, linked to one or more Suspicion Transaction Reports, registered as Foundations, receive from and/or transmit funds to other jurisdictions, or operating in areas or proximate to areas where there are identified active terrorist threats.

Classification of NPO and their TF Risk Rating

Taking into consideration the gathered data for 2017-2020, the NPOs are described and classified herein based on their primary purpose, characteristics and features as well as their size based on the total number of NPO.

CLASSIFICATION	DESCRIPTION, CHARACTERISTICS AND FEATURES	% TO TOTAL NPOs	RISK RATING
1. RELIGIOUS	<p>Religious NPOs refer to any faith-based or religion-based organization not primarily organized for providing social welfare assistance or charitable functions. Their primary purpose is the promotion, propagation and accomplishment of any form of religion, creed or religious belief.</p> <p>Religious NPOs are primarily engaged in raising or disbursing funds for the furtherance of their operations. These Religious NPOs enjoy Corporate Income Tax exemption pursuant to the National Internal Revenue Code (NIRC).</p> <p>Religious NPOs may also be accredited with the Philippine Council for NGO Certification (PCNC) to achieve a “<i>Donee Institution</i>” status with the Bureau of Internal Revenue (BIR).</p>	29.5%	<p>The risk of TF abuse of Religious NPOs is rated as MEDIUM.</p> <p>Religious organizations are the biggest group of NPOS (29.5% from the total number of NPOs) in the Philippines.</p> <p>Based on the STRs relating to terrorism and terrorist financing from 2017-2020, religious organizations have the biggest percentage (2.75%) of the total no. of STRs linked to NPOs with a total value of transactions amounting to Php110,530,245.</p> <p>Based on the STRS, religious organizations were also linked to TF and conspiracy to commit terrorism in several regional locations in the Philippines, particularly NCR, Regions I, IV-A, VII, VIII, X and XI.</p>

			<p>Taking into consideration the STRs, the organizational size and their nature as being engaged in raising and disbursing funds, the risk to TF of Religious organizations is rated as medium.</p>
<p>2. EDUCATIONAL</p>	<p>Educational NPOs are service NPOs organized to promote and provide access to education, which include primary, secondary and tertiary education or a professional or trade school that has a curriculum, a regular faculty and a regularly enrolled student body in attendance at a place where the educational activities are regularly carried on.</p> <p>Educational NPOs enjoy Corporate Income Tax Exemption under the NIRC for the income they receive pursuant to their operations as such.</p> <p>These NPOs include the following:</p> <ul style="list-style-type: none"> ● Educational Institutions are non-stock corporations engaged in raising and disbursing funds for the primary purpose of providing access to education ● Educational Foundations are non-stock corporations registered as Foundations, engaged in raising and disbursing funds for the primary purpose of providing access to education. 	<p>28.8%;</p>	<p>The risk of TF abuse of Educational NPOs is rated as MEDIUM.</p> <p>Educational NPOs are the second biggest group of NPOs in the country (28.8%) from the total no. of NPOs.</p> <p>Based on the STRs relating to terrorism and terrorist financing from 2017-2019, educational NPOs are third in rank (0.39%) in the total no. of STRs linked to NPOs with the amount of Php 70,930,246 in value.</p> <p>In 2020, an educational institution was investigated based on a suspiciously large transaction. The institution was said to have affiliations with an offshore bank and an investment bank.</p> <p>Taking into consideration the STRs as well as the TF investigations, the organizational size, their nature, the risk of TF abuse of Educational NPOs is rated as medium.</p>
<p>3. SOCIAL</p>	<p>Social NPOs are service NPOs which refer to organizations or associations primarily engaged in promoting and addressing social needs through community-based</p>	<p>Part of the 20.7%</p>	<p>The risk of TF abuse of Social NPOs is rated as MEDIUM</p>

	<p>activities, without necessarily giving grants and endowments.</p> <p>Social Welfare NPOs include Social Welfare and Development Agencies (SWDAs). They may be registered, licensed and accredited with the Department of Social Welfare and Development (DSWD).</p> <p><i>DSWD MC 17, Series of 2018</i> defines SWDAs as organizations which implement either directly or indirectly social welfare and development programs and services in the Philippines whose clients may include but not limited to the poor, disadvantaged and vulnerable individuals, groups, families and communities</p> <p>These NPOs may also be accredited with the Philippine Council for NGO Certification (PCNC) to achieve a “<i>Donee Institution</i>” status with the Bureau of Internal Revenue.</p>	<p>(Foundations)</p>	<p>Social NPOs are counted and form part of Foundations (20.7%).</p> <p>From 2017-2020, there were no STRs relating to terrorism and terrorist financing that were linked to social NPOs.</p> <p>There were however a few NPOs of this type that were the subject of referrals and investigations for possible links to terrorist financing.</p> <p>Taking into consideration the existence of investigations on TF linked to these types of institutions, the risk of TF to Social NPOs is rated as medium.</p>
<p>4. CHARITABLE ORGANIZATIONS</p>	<p>Charitable NPOs are service NPOs primarily organized to raise and disburse funds to provide grants and endowments to the impoverished sectors of society including but not limited to underprivileged, out of school youth, women and children, elderly and the sick.</p> <p>Charitable NPOs are primarily engaged in raising or disbursing of funds. They rely primarily on donations for the furtherance of their operations and for the benefit of their beneficiaries.</p> <p>These NPOs may be accredited with the Philippine Council for NGO Certification (PCNC) to achieve a “<i>Donee Institution</i>” status with the BIR. They also enjoy Corporate Income Tax Exemption under the NIRC.</p> <p>The BIR defines charitable institutions through <i>Revenue Memorandum Order (RMO) No. 38-2019</i>, as organizations which have for its purpose the extending of relief to the poor, the distressed and underprivileged and shall include fighting against juvenile delinquency and</p>	<p>part of the 20.7% (Foundations)</p>	<p>The risk of TF abuse of Charitable NPOs is rated as MEDIUM.</p> <p>Charitable organizations are also counted as part of Foundations (20.7%).</p> <p>Based on the STRs relating to terrorism and terrorist financing from 2017-2020, charitable organizations rank second (1.10%) in the total no. of STRs linked to NPOs with the total value of transactions amounting Php 50,686,421,855.</p> <p>The TF linked STRs involving charitable organizations were found in several regional locations particularly, ARRM, Regions IX and XII.</p>

	community deterioration, and provision for free goods and services to the public.		Taking into consideration the no. of TF-linked STRs, the organizational size and their nature as being engaged in raising and disbursing funds, the risk of TF to charitable organizations is rated as medium.
5. SECTORAL	<p>Sectoral NPOs are service NPOs primarily organized to represent, or to act for and in behalf, of a particular sector of the society. These NPOs are composed of group of citizens or a group of individuals who commonly share similar physical attributes or characteristics, employment, interests or concerns.</p> <p>Sectoral NPOs include the following:</p> <ul style="list-style-type: none"> ● Marginalized Sectors. Under the <i>Social Reform and Poverty Alleviation Act (RA 8425)</i> the following are the basic sectors in the society: <ul style="list-style-type: none"> ▪ Farmers and landless rural workers ▪ Artisanal fisher folk ▪ Urban poor ▪ Indigenous people and cultural communities ▪ Workers in the informal sector ▪ Women ▪ Children ▪ Youth and students ▪ Senior citizens ▪ Persons with Disabilities ▪ Victims of disasters and calamities ▪ Cooperatives 	7.5%; Part of the other expressive NPOs	<p>The risk of TF abuse of SECTORAL NPOs is rated as MEDIUM.</p> <p>Sectoral NPOs are a smaller group of NPOs as to their size and number (7.5%) from the total no. of NPOs in the Country.</p> <p>In 2019, there were 128 STRs linked to TF involving sectoral NPOs, particularly activities of political organizations / women’s sectoral party list. The STRs constitute 4.08% of the total NPO-linked STRs with the amount of Php 36,000,169 in value.</p> <p>Taking into consideration the no. of TF-linked STRs, and referrals for investigations, the risk of TF to sectoral organizations is rated as medium.</p>
6. HUMANITARIAN	Humanitarian NPOs are organizations with the primary purpose of aiding people who are victims of armed conflict, famines, and other natural disasters. They are also called relief organizations.	12.0%; Part of the other service NPOs	<p>The risk of TF abuse of Humanitarian NPOs is rated as MEDIUM</p> <p>Humanitarian NPOs form part of the 12% group of other service NPOs.</p>

	<p>These organizations are involved in raising and disbursing funds. They receive donations through domestic and/or foreign funding.</p>		<p>From the period 2017-2020, there were four (4) STRs related to Humanitarian NPOs and only one (1) STR linked to TF. The single STR was reported from the ARRM.</p> <p>A few humanitarian NPOs have likewise been the subject of referrals for investigation. Given the data related to the possible involvement of Humanitarian NPOs to TF, the risk of TF abuse of this type of NPO is rated as medium.</p>
<p>7. ADVOCACY</p>	<p>Advocacy NPOs are expressive NPOs whose primary purpose is to advocate and promote the organization’s mission, ideas, principles or beliefs and whose activities are mainly focused on the achievement of such purpose.</p> <p>Advocacy NPOs include the following:</p> <ul style="list-style-type: none"> ● Environmental Organizations are organizations engaged in the protection of the environment and promotion of sustainable development through eco-friendly activities ● Cultural/Arts/Associations refers to organizations or associations which undertakes research activities on all aspects of history, social system, customs and traditions; developing, enriching and preserving Filipino arts and culture; developing and promoting the visual and performing arts and participating in vigorous implementation of bilingual policy through translation and wider use of technical, scientific and creative publications, development of an adaptive technical dictionary and 	<p>7.5%; Part of the other expressive NPOs</p>	<p>The risk of TF abuse of Advocacy NPOs is rated as LOW.</p> <p>Advocacy NPOs are also a smaller group of NPOs as to their size and number (7.5%) from the total no. of NPOs in the Country.</p> <p>From the period 2017-2020, there has been no STR linked to TF involving advocacy NPOs. There has also been no report or information pertaining to the involvement of advocacy organizations in TF.</p> <p>Given that there are no TF STRs linked to advocacy NPOs as well as their small organizational size, the risk of TF of this type of NPO is rated as low.</p>

	use of Filipino as the medium of instruction.		
8. MEMBERSHIP ASSOCIATIONS	<p>Membership associations are NPOs primarily organized for the exclusive benefit of the members and for the mutual protection and upliftment of their common interests.</p> <p>Membership associations primarily derive income from payment of membership dues or fees. The income is used as funds for the benefit of the members and the furtherance of the organization’s operations.</p> <p>Membership associations include the following:</p> <ul style="list-style-type: none"> • Fraternal Organizations/Associations are those which operate for the exclusive benefit of the members from the same society, order or association • Alumni Associations • Professional Organizations/Associations which has been defined by the <i>Revised Rules on the Accreditation of Professional Organizations and Integrated Professional Organizations</i> Resolution No. 1089, Series of 2018 as one which is established for the promotion of the benefit and welfare of the professionals of one discipline, the advancement of their profession and the attainment of other professional ends; It is open to all registered professionals of the same discipline without discrimination. • Athletic Clubs/Organization • Social Clubs • Artists/Fans Club • Condominium Organizations/Associations as defined by the <i>Housing and Land Use Regulatory Board (HLURB) Board Resolution No. 877 series of</i> 	12.0% ; Part of the other service NPOs	<p>The risk of TF abuse of Membership NPOs is rated as LOW.</p> <p>Membership NPOs are also a smaller group of NPOs as to their size and number. They form part of the other service NPOs (12%) from the total no. of NPOs in the Country.</p> <p>From the period 2017-2020, there has been no STR linked to TF involving membership NPOs. There has also been no report or data pertaining to membership organizations involved in TF.</p> <p>Given that there are no TF STRs linked to advocacy NPOs as well as their small organizational size, the risk of TF abuse of this type of NPO is rated as low.</p>

	<p>2011 as non-stock corporations organized by –</p> <p>[1] Owners or purchasers of a lot in a subdivision/village or other residential real property located within the jurisdiction of the association;</p> <p>[2] Awardees, usufructuaries, legal occupants and/or lessees of a housing unit and/or lot in a government socialized or economic housing or relocation project and other urban estates;</p> <p>[3] Underprivileged and homeless citizens as defined under existing laws in the process of being accredited as usufructuaries or awardees of ownership rights under the Community Mortgage Program (CMP), Land Tenure Assistance Program (LTAP) and other similar programs in relation to a socialized housing project actually being implemented by the national government or the LGU.</p> <ul style="list-style-type: none"> ● Transportation Associations including operators and drivers’ associations ● Agricultural Organizations refers to an association of persons engaged in raising livestock, harvesting crops or aquatic resources, cultivating useful or ornamental plants or similar pursuits. It may also refer to an organization engaged in cultivating the ground including the preparation of the soil, the planting of seed, the raising and harvesting of crops, and the rearing, feeding and management of livestock. It includes organizations of persons involved in harvesting aquatic resources. 		
<p>8. BUSINESS, TRADE AND INDUSTRY ASSOCIATIONS</p>	<p>Business, trade and industry NPOs are associations of persons having some common business interest, the creation of which is not to engage in a regular business of a kind ordinarily carried on for</p>	<p>7.5%; Part of the other expressive NPOs</p>	<p>The risk of TF abuse of Business, Trade and Industry NPOs is rated as LOW.</p> <p>Business, Trade and Industry Associations are</p>

	<p>profit, but to promote their business or trade.</p> <p>Business, trade and industry NPOs are exempt from Corporate Income Tax under the NIRC provided that they are not organized for profit and no part of the net income of which inures to the benefit of any private stockholder, or individual.</p> <p>For the purpose of the income tax exemption, BIR defines Business, trade and industry NPOs through <i>RMO No. 38-2019</i> as an organization of the same general class as a chamber of commerce or board of trade. Its purposes should be directed to the improvement of business conditions of one or more lines of business and should not engage in a regular business of a kind ordinarily carried on for profit.</p> <p>These include the following:</p> <ul style="list-style-type: none"> ● Business Clubs/Chambers ● Commercial Associations ● Trade/Industry Promotion Association/Organizations 		<p>also a smaller group of NPOs as to their size and number (7.5%) from the total no. of NPOs in the Country.</p> <p>From the period 2017-2020, there has been no STRs linked to TF nor any investigations and prosecutions for TF of this group of NPOs.</p> <p>Given that there are no TF STRs linked to Business, Trade and Industry Associations NPOs as well as their small organizational size, the risk of TF abuse of this type of NPO is rated as low.</p>
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Factors that Increase the Vulnerability of NPOs

The following factors were found to exist among NPOs in the Philippines which increase the vulnerability of at risk NPOs to TF abuse.

- Inadequate due diligence on key NPO personnel, volunteers, partners and beneficiaries
- Lack of understanding of the risk of terrorism financing
- Lack of training
- Inadequate record keeping
- Inadequate Board and Senior Management oversight
- Poor transparency and accountability of the end-to-end funding cycle
- Inexperienced staff
- Weak internal controls
- Inadequate monitoring of project implementation

Introduction and Purpose

The objective of this report is to identify and assess the TF risks affecting the Non-Profit Organisations (NPOs) in the Philippines. It determines and highlights the key vulnerabilities that are exploited for financing of terrorism and the potential impact or harm that TF and other financial crimes activities may cause to the NPO sector. The risk assessment also addresses the Financial Action Task Force (FATF) requirement to identify the subset of NPOs which are at high-risk of TF abuse.

The purposes of the risk assessment are mainly:

- a. To assist the Securities and Exchange Commission (SEC) in the implementation, or enhancement, of its risk-based supervision and monitoring of the NPO sector by getting a better understanding of the overall TF risks facing this sector, and to efficiently assign its resources and priority actions aligned with the identified risks;
- b. To identify the gaps and opportunities for improvement in combating the financing of terrorism (CFT) policies, procedures and processes, including the areas that require mitigating action to be taken on a priority basis;
- c. To improve the NPO sector's own risk awareness and to provide guidance and feedback to help NPOs to protect themselves from TF risks by properly identifying, monitoring and mitigating TF risks, and to report any suspicions or unusual behaviour to the appropriate authority;
- d. To inform the stakeholders and the public in order to enhance their general understanding on the TF risk besetting NPOs; and
- e. To determine the sub-set of NPOs likely to be at a high-risk for TF abuse, due to their activities or characteristics, in accordance with the requirements of the FATF Recommendation 8.

1. Methodology

1.1 Scope

For the purpose of this risk assessment, and following FATF’s Interpretive Note to Recommendation 8 on NPOs, an NPO refers to a legal person or arrangement or organization that primarily engages in raising or disbursing of funds for purposes such as charitable, religious, cultural, educational, social or fraternal purposes and other types of “good works.”

As a regulator, SEC exercises jurisdiction and supervision over Non-Stock Corporations registered with it. Not all Non-Stock Corporations registered with the SEC however falls under the FATF definition. NPOs covered within the scope of this sector review are those registered with the SEC as ‘non-stock corporations’ and satisfies the definition of an NPO as provided under the SEC-issued Memorandum Circular (MC) No. 25, s. 2019 or the “2019 Guidelines for the Protection of SEC Registered Non-Profit Organisations from Money Laundering and Terrorist Financing Abuse” (hereinafter “2019 NPO Guidelines”).

For purposes of supervision, the 2019 NPO Guidelines of the SEC has defined an NPO as a SEC registered ‘non-stock corporation’ 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. Under the 2019 NPO Guidelines, NPOs include Foundations.¹ The definition of an NPO, as provided by the 2019 NPO Guidelines of the SEC, corresponds to the definition of an NPO as provided by the FATF Recommendations² and is thus adequate for the purposes of this risk assessment.

As of 31 December 2020, there are a total of 64,087 NPOs registered with the SEC under different classifications, which are covered within the scope of this risk assessment.

Table 1 - SEC Registered NPOs (as of 31 December 2020)

NPO Classification	No. of NPOs	% to Total
Foundations (Service/Expressive NPOs)	13,255	20.7%
Religious Organizations (Service NPOs)	18,879	29.5%
Education Providers (Service NPOs)	18,427	28.8%
Other Service NPOs (Parent-Teacher; Livelihood & Neighborhood Associations)	7,689	12%
Other Expressive NPOs (Political; Environmental; Alumni; Cultural; Sports)	4,825	7.5%
Not Elsewhere Classified	1,012	1.6%
TOTAL	64,087	100.0%

¹ “**Foundation**” – refers to a non-stock, non-profit corporation established for the purpose of extending grants or endowments to support its goals and/or raising funds to accomplish charitable, religious, educational, athletic, cultural, literary, scientific, social welfare or other similar objectives and registered as a Foundation with the Commission.

² FATF defines a ‘Non-Profit Organisation’ as ‘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”.’.

The risk associated with unregistered NPOs appears to be low considering that they do not have a separate juridical personality that enables them to transact business, own property or open bank accounts under their own names and exercise other rights and privileges granted to registered entities under Philippine law. There is likewise hardly any information on such unregistered organizations operating as NPOs being linked to terrorist financing activities apart from anecdotal information which for the most part is too imprecise and unverifiable to have any substantial impact on this risk assessment. Verifications conducted have likewise shown that certain organizations identified as unregistered may actually be registered but under a different name or registered in other jurisdictions. Online solicitations purportedly being made by unregistered entities could be mere social media profiles that can be created by anyone having access to a computer and the internet.

Based on information gathered in this risk assessment, NPOs most likely to be at risk of terrorism financing abuse are legal persons or incorporated entities. Continued coordination and engagements with law enforcement agencies and the AMLC however is required to further update the risk data on organizations engaged in NPO activities not formally organized and registered under Philippine law.

1.2 Risk Model

The methodology used in this Risk Assessment has been developed using a range of FATF guidance on risk assessment methodology, risk assessment models developed by other institutions, including the World Bank and the IMF, and also draws on specific international advice and best practices for assessing TF risks in these sectors, including the approaches taken by other countries.³ The methodology combines qualitative and quantitative information and professional expertise to identify the key TF risks to the NPO sector of the Philippines and to develop follow-up actions to address them. The methodology has been finalized after having consultation meetings with the SEC, the Anti-Money Laundering Council of the Philippines (AMLC), other relevant authorities and key stakeholders of the Philippines’ CFT regime.

This risk assessment follows the FATF guidance that states that TF risk should be assessed as a function of: criminal threat, vulnerability and consequence. These terms are described in Table 2 below.

Table 2: Risk Terminology

Term	Description
Threat	<p>Threat is a person or group of people, object or activity with the potential to cause harm.</p> <p>In the TF context, ‘threat’ includes criminals, terrorist groups and their facilitators, their funds, as well as past, present and future TF activities.</p>
Vulnerability	<p>Vulnerability refers to the characteristics of a sector that make it attractive for TF purposes.</p>

³ Other risk assessments which utilized the methodology being adopted in this risk assessment are AUSTRAC’s 2017 National Risk Assessment of Australia’s Non-Profit Organization Sector, and the FICG’s 2017 Regional Risk Assessment of NPOs across Australia and South-East Asia.

	This includes features of a particular sector that can be exploited, such as customer types, products and services, delivery channels and the foreign jurisdictions with which it deals. Vulnerability is also influenced by the CTF systems and controls in place across the sector.
Consequence	Consequence refers to the potential impact or harm that TF activity may cause.
Risk	Risk is based on the assessment of the above three factors: threat, vulnerability and consequence.

For terrorist financing risk assessment, 24 risk factors have been considered across three categories – terrorism and terrorist financing threat, vulnerability and consequences. Each risk factor is given equal weight, assessed and scored on the below risk scale of one to ten. Based on the scoring, each risk factor is given a corresponding rating of low, medium-low, medium, medium-high or high (as per the tables in Appendix 1). These assessments are based on a number of quantitative and qualitative inputs.

Figure 1: The Risk Scale

1	2	3	4	5	6	7	8	9	10
Low 0-20%		Medium-Low 21-40%		Medium 41-60%		Medium-High 61-80%		High 81-100%	

In assessing the **TF threat**, the reported presence of terrorists and activities of terrorist groups has been considered including STR submissions involving transactions suspected of having some links to the predicate offenses of terrorism and terrorist financing.

To assess the **TF vulnerability** of the NPO sector, sixteen risk factors have been considered, which were grouped into six subsections – regulation, preventive measures, national cooperation and coordination, links to high-risk countries, use of cash, and transparency and accountability in movement of funds. The average of these factors provided an overall rating for TF vulnerability.

To assess the **consequences of TF activity** within the NPO sector, five risk factors were assessed. The average of these factors gave an overall rating for TF consequences.

Finally, the overall TF risk rating for the NPO sector is established by separately determining the average score of: threat, vulnerability and consequences. Further information on the methodology and risk factors assessed is provided in Appendix I.

1.3. Information Collection

The SEC was the lead agency responsible for the conduct of this TF risk assessment. To support SEC in successfully conducting this risk assessment, a Technical Working Group (TWG) comprising of 20 members, including representatives from the Anti-Money Laundering Council (AMLC), was constituted. The members of the TWG include: AMLC (3 members), SEC-Enforcement and Investor Protection Department (EIPD – 9 members), SEC-Company Registration and Monitoring Department

(CRMD -4) Corporate Governance and Finance Department (CGFD – 2 members) and SEC-Economic Research and Training Department (ERTD – 2 members).

The risk assessment adopts a systematic approach that combines both quantitative (i.e., based on statistical figures) and qualitative (i.e., based on the views of experts in various areas of CFT) data techniques to provide findings. Since both the quantitative and qualitative data techniques have their own advantages and disadvantages, it is considered to be an appropriate approach to use both types of data collection methods so that the advantages of one may best be used to supplement the disadvantages of other.

For the purposes of the current sector-specific TF risk assessment, quantitative and qualitative data from the following sources have been collected and analyzed:

- Suspicious Transaction Reports (STRs) and Covered Transaction Reports (CTRs) submitted to the Anti-Money Laundering Council (AMLC) in the past three years (1st January 2017 to 31st December 2020) involving the NPOs⁴;
- Study on Foreign Terrorist Fighters (FTFs) and Foreign-Linked Terrorism Financing Based on Transaction Reports Submissions;⁵
- Open source materials from official sources such as the Country Report on Terrorism of the Bureau of Counter Terrorism of the US Department of State⁶ and the Rand Countering Violent Extremism Impact Evaluation;⁷
- Other intelligence, information and monitoring reports from SEC,⁸ and a variety of other partner agencies including Anti-Money Laundering Council (AMLC),⁹ law enforcement, and

⁴ Considering that NPOs are not covered persons under the Anti-Money Laundering Act of 2001 (RA1960), as amended, they are not mandated to file STRs/CTRs. Therefore, in order to gather the data for this risk assessment, the collection method used for this risk assessment include: a) The 2017 STRs were lifted from the previous 2018 NPO RA, which took account of the nature of business that was indicated on the STRs. In mining the database, STRs which contained the terms “nonprofit, NPO, non-government, NGO, school, and foundation” on the nature of business were considered regardless of whether the subject of suspicion is a person or entity; b) The 2018 and 2019 STRs were mined from the entire, previously generated, 2018-2019 STR population. Those reports bearing NPO sounding names (e.g. contains foundation, school, association, agriculture, church, parish, education, federation, charitable, college, learning, missionary, ministry, livelihood, medical, hospital, etc.) on the various name fields (i.e. subject of suspicion, accountholder, beneficiary, counterparty, etc.) were primarily considered. The name field keywords were also used in mining the narrative field of the STRs, including the terms “NPO”, “NGO”, “non-profit”, and “non-government”. Consequently, similar to the 2017 STRs dataset, the 2018-2019 STRs dataset captured those STRs possessing the enumerated keywords/criteria regardless of whether the subject of suspicion is a person or entity; c) CTRs containing “foundation” on the various name fields (e.g. accountholder, beneficiary, counterparty) were captured as representative CTRs of the NPO sector covering the period 2017 – 2019. The CTRs were further reduced to cash-related transactions in response to the data requirement in the threat assessment template.

⁵ Conducted by the AMLC

⁶ <https://www.state.gov/reports/country-reports-on-terrorism-2019/philippines/>

⁷ https://www.rand.org/pubs/research_reports/RRA233-2.html

⁸ These intelligence, information and monitoring reports from SEC includes, for instance, a) on-site and off-site compliance inspection reports of NPOs; b) any quarterly/bi-annual/annual compliance reports submitted to SEC - both AML/CFT and other reports under other law and regulations; c) information from MLPP submitted to SEC; d) Information on compliance with other SEC regulations for covered persons, including SRC and R.A.9474 – details on any violations, investigations and fines imposed; e) data on the Mandatory Disclosure Forms (MDF) submitted by Non-Stock Corporations.

⁹ This includes collection of cases detected, investigated, prosecuted covering the period of 2017 to 2019 from the AMLC’s financial analysis, investigation and legal groups.

other relevant supervisory and regulatory agencies across government, such as Department of Social Welfare and Development (DSWD),¹⁰

- Feedback and professional insights offered through survey questionnaire,¹¹ interviews and consultations with a range of NPOs, as well as industry experts and industry associations.

Due to limited statistical data available on vulnerability assessment, a survey questionnaire was designed to obtain the necessary data to assess the TF vulnerability of the sector, which was distributed to all NPOs within the sector through a Notice posted on the SEC website. The survey questionnaires were also sent via email addresses of Non-Stock Corporations collected through the MDF submission. The survey was responded to by 1,152 NPOs. To substantiate the findings of the vulnerability assessment, two online webinars have also been held with the NPO sector in September and October 2020 in which 153 NPOs have participated and provided their input. These findings have been, however, further corroborated by expert input from the supervisors and regulators of the sector, including SEC and AMLC.

To gather insights from competent authorities and information on NPOs involved in TF, the SEC on 08 February 2020, has also conducted a Focus Group Discussion (FGD) with Law Enforcement Agencies (LEAs). The FGD was attended by representatives from the following agencies: Bureau of Internal Revenue (BIR); Philippine Drug Enforcement Agency (PDEA); National Intelligence Coordinating Agency (NICA); Philippine Anti-Organized Crime Commission (PAOCC); Intellectual Property Office of the Philippines (IPOPHL); Philippine Amusement and Gaming Corporation (PAGCOR); Department of Environment and Natural Resources (DENR); and the Department of Social Welfare and Development (DSWD). During the discussion, the SEC inquired on whether there are any on-going investigations against NPOs and/or whether there are instances where in an NPO was involved or suspected to be involved in TF. The inputs from the LEAs are also used in determining the predicate crimes most likely to be the source of TF.

In addition to the above, the study has collected and analysed information from a variety of other available resources, including the 2018 Philippines Risk Assessment of the NPO Sector (hereinafter “2018 NPO Risk Assessment”), AUSTRAC’s 2017 National Risk Assessment of Australia’s Non-Profit Organization Sector, the FICG’s 2017 Regional Risk Assessment of NPOs across Australia and South-East Asia, other national and international guidance documents, and sector-specific typology reports.

1.4. Validation of Results

To ensure the accuracy of the findings, the risk assessment was developed in wide consultation with key government stakeholders, including supervisors, regulators and law enforcement agencies, to collect information, capture a wide range of intelligence, policy and supervisory perspectives, and to evaluate findings and judgments.

Peer review workshop was also conducted, comprising of industry representatives, supervisors and regulators to discuss and review the final risk ratings. They were invited to submit any necessary additional information to support their views.

¹⁰ The information from these agencies includes: a) information on any investigations, prosecutions and convictions or fines of NPOs; b) AMLC intelligence reports, other than STRs; c) Threats assessment reports from law enforcement authorities such as Serious Organized Crime Threats Assessment (SOCTA) published by Philippine Anti-Organised Crime Commission; d) relevant reports by SEC; e) referrals of law enforcement authorities to the SEC of corporations for revocation of their certificates of incorporation, as case studies.

¹¹ The survey questionnaire designed for this risk assessment has been responded to by 1,152 NPOs.

Moreover, open-source information was collected to validate findings and assessments, including a review of relevant publications by FATF, the Asia/Pacific Group of Money Laundering, as well as national and regional sector-specific risk assessments and guidelines.

1.5 Limitations of the Risk Assessment

The following are some of the limitations and challenges identified during this TF risk assessment of the NPO sector:

- The scope of this risk assessment is limited only to NPOs that are registered with SEC as non-stock corporations and satisfies the definition of NPOs under the 2019 NPO Guidelines of the SEC. Nevertheless, this risk assessment has endeavored to obtain information on the general NPO landscape in the Philippines to determine the types of NPOs that fall under the FATF definition and the subset of NPOs that may be considered as at a high risk of TF abuse.
- Availability of limited data and statistics: there has been insufficient availability of detailed data and information to inform some risk areas.
- The SEC's classification of NPOs, as it becomes clear from Table 1 in this report, includes "not elsewhere classified". The number of these unclassified NPOs has reduced significantly from 38.4% in 2019 to 1.6% in 2020 and are considered insubstantial for the purpose of this risk assessment.

2. The NPO Sector in the Philippines: Regulatory and Institutional Framework

2.1 An Overview

The NPO sector in Philippines is large and diverse. It plays a vital role in the country's economy and society. In fact, it has been reported that it has the largest number of NPOs per capita in Asia.¹² NPOs registered in the Philippines operate at local, national and international level. They provide a range of services and undertake a range of activities both inside and outside the country.

The legal environment in the country is conducive to NPOs. The Constitution of 1987 requires the state to encourage non-governmental, community-based, or sectoral organizations that promote the welfare of the nation.¹³ The main law and regulations that govern and regulate the operation of NPOs include the following:

- The Constitution of the Philippines, 1987
- The Revised Corporation Code of the Philippines (RA 11232), 2019 (repealing the Corporation Code of the Philippines (Batas Pambansa Bilang 68)
- The Local Government Code (Republic Act No. 7160), Chapter IV (Relations with Peoples and NGOs)
- The National Internal Revenue Code Republic Act No. 8424 ("Tax Code"), as amended by Republic Act No. 10963 (July 24, 2017)
- The Revenue Regulations No. 13-98, December 8, 1998 ("Revenue Regulation No. 13-98") (Deductible contributions to accredited donee institutions); Revenue Memorandum Order No. 20-2013, July 2013 (BIR tax exempt rulings); Revenue Regulation 13-2018 (VAT); BIR Revenue Memorandum Order 44-2016, July 26, 2016 (Specific to educational institutions)
- The SEC Memorandum Circular No. 8, series of 2006 (Foundations); SEC Memorandum Circular No. 10, series of 2016 (Nationality of Corporations); SEC Memorandum Circular No. 15, series of 2018 as amended by SEC Memorandum Circular No. 25, s. 2019 (2019 Guidelines for the Protection of SEC-registered NPOs from Money Laundering and Terrorist Financial Abuse) or the "2019 NPO Guidelines"; Revised Securities Regulation Code (SRC) Rule 68, 2019 (Annual SEC filings);
- The Microfinance NGOs Act (Republic Act 10693), November 2015 and its Implementing Rules and Regulation, August 2016; BIR Revenue Regulation 3-2017 Implementing the Tax Provision of RA 10693; SEC Memorandum Circular No. 2, series of 2006 (Microfinancing).
- Department of Social Welfare and Development (DSWD) Memorandum Circular 17 Series of 2018 Revised Guidelines Governing the Registration, Licensing of Social Welfare Development (SWD) Agencies and Accreditation of SWD Programs and Services

2.2 Regulatory and Administrative Landscape

The registration of NPOs in the Philippines is not mandatory. However, NPOs must register with the Securities and Exchange Commission (SEC) to obtain a separate juridical personality and acquire the rights and powers that a corporation may exercise. Registration with other regulatory agencies is also required if an NPO wants to accept donations or to participate in government projects.

Majority of NPOs in the Philippines are registered with the SEC, Department of Social Welfare and Development (DSWD), Cooperative Development Authority (CDA), or Department of Labor and Employment (DOLE). The NPOs registered with DSWD are SEC registered NPOs engaged in social

¹² AMLC (2018), *The Risk Assessment of the Non-Profit Organisation (NPO) Sector of Philippines* (October 2018) (hereinafter "2018 NPO Risk Assessment of Philippines"), p. 10.

¹³ Constitution Article II, Section 23, The Constitution of the Philippines, 1987.

welfare and development activities and/or services. The NPOs registered with the CDA include cooperatives that register under the Cooperative Law of Philippines and the Cooperative Development Authority Act. The NPOs that register with the DOLE include labor unions, labor federations, and rural worker's associations registered under the Labor Code of the Philippines. However, the NPOs registered with CDA and DOLE are outside the scope of this risk assessment, for this risk assessment is only focused on SEC-registered NPOs that satisfy the definition of an NPO as provided in the 2019 NPO Guidelines of the SEC.

An NPO, as defined in the 2019 NPO Guidelines, is an "SEC-registered Non-Stock Corporation 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 type of good works".

As of December 31, 2020, there are 64,087 NPOs operating in the Philippines that are registered with the SEC. This figure does not include NPOs that are not registered with the SEC and thus it is difficult to determine their number and the scope of their operations.

NPOs in the Philippines are subject to multiple layers of regulation depending on their legal structure, purpose, type and activities or services offered, which is discussed in detail below.

Types and Legal Structure of NPOs in the Philippines

In the Philippines, NPOs are typically organized as "non-stock corporations" registered under the Revised Corporation Code of the Philippines. The SEC serves as the registration authority for non-stock corporations pursuant to the Revised Corporation Code. Non-stock corporations may be formed for charitable, religious, educational, professional, cultural, fraternal, literary, scientific, social, civic service, or similar purposes, such as trade, industry, agricultural and similar chambers, or any combination thereof (Section 87, the Revised Corporation Code). Under Section 86 of the Revised Corporation Code:

- i) no part of the income of non-stock corporation shall be distributed as dividends to its members, trustees, or officers; and
- ii) any profit incidental to its operations shall, whenever necessary or proper, be used in furtherance of its purpose or purposes.

Some non-stock corporations can also register with SEC as "foundations", provided:

- i) they meet the requirements of a non-stock corporation mentioned above under Section 86 of the Revised Corporation Code;
- ii) has initial capital of at least one million Philippine Pesos (PHP 1,000,000, or approximately \$22,800), as evidenced by a Notarized Certificate of Bank Deposit issued by the bank;
- iii) conducts its public fundraising campaigns in compliance with applicable law and consistent with its submitted Modus Operandi or Plan of Operation; and
- iv) submits to the SEC a written statement of its willingness to allow the Commission to conduct an audit of its corporate books and records.

For SEC-registration purposes, "foundation" means a non-stock, non-profit corporation established for the purpose of extending grants or endowments to support its goals, or raising funds to accomplish charitable, religious, educational, athletic, cultural, literary, scientific, social welfare, or other similar objectives (SEC Memorandum Circular No. 8, series of 2006).

As of December 31, 2020, there are 64,087 NPOs registered with the SEC under different classifications. Majority (29.5%) of the NPOs registered with SEC are classified as religious

organisations, followed by education providers (28.8%) and foundations (20.7%). There is a small percentage (1.6%) of NPOs registered with SEC which have not been classified under any specific industry.

Table 3 -SEC Registered NPOs (as of 31 December 2020)

NPO Classification	No. of NPOs	% to Total
Foundations (Service/Expressive NPOs)	13,255	20.7%
Religious Organizations (Service NPOs)	18,879	29.5%
Education Providers (Service NPOs)	18,427	28.8%
Other Service NPOs (Parent-Teacher; Livelihood & Neighbourhood Associations)	7,689	12%
Other Expressive NPOs (Political; Environmental; Alumni; Cultural; Sports)	4,825	7.5%
Not Elsewhere Classified	1,012	1.6%
TOTAL	64,087	100.0%

On the analysis of NPOs registered with the SEC, it becomes apparent that majority (90.2%) of NPOs operating in the Philippines are service NPOs,¹⁴ comprising of religious organizations, education providers and other service NPOs, including parent-teacher, livelihood and neighborhood associations. 7.5% NPOs are clearly classified as expressive NPOs¹⁵, whereas there are 20.7% NPOs that are classified as “foundations” and comprises of both expressive and service NPOs. Since 1.6 % of NPOs are not classified under any specific industry by SEC, it is difficult to determine whether this small percentage of NPOs are expressive or service NPOs.

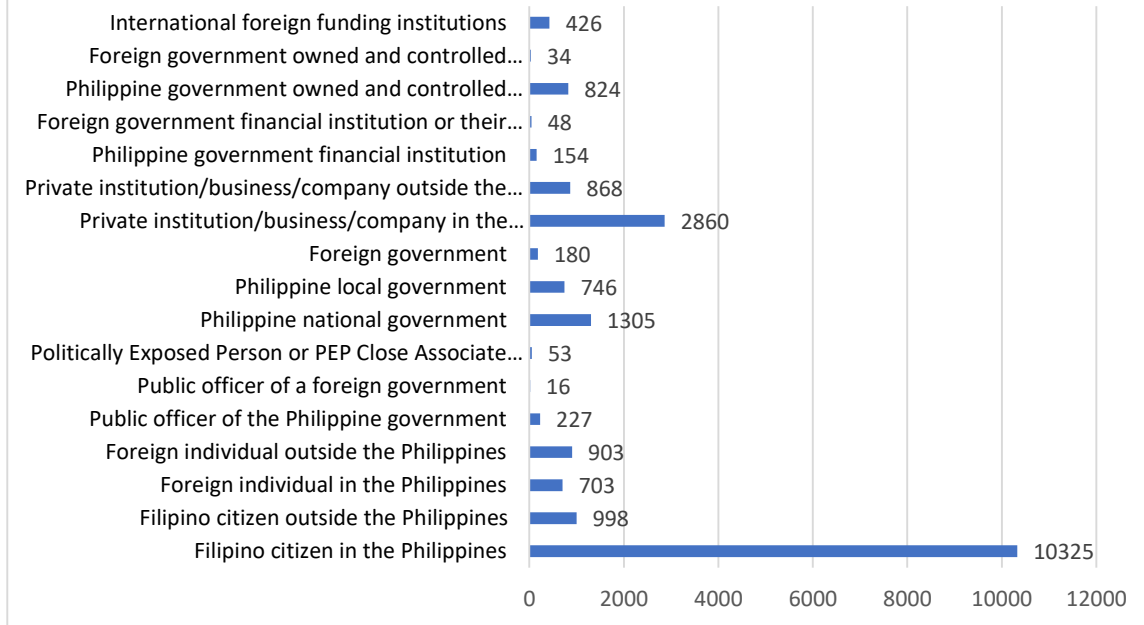
Source of Funds

Based on the MDF submission as of 30 September 2020, the primary source of funds of NPOs are from domestic sources including but not limited to: Filipino citizens, private insitutions/businesses/companies in the Philippine and the Philippine National Government. The NPOs also derive funds from sources abroad such as Filipino citizens outside the Philippines, foreign individuals and private insitutions/businesses/company outside the country.

¹⁴ "Services NPOs" are NPOs involved in diverse activities, such as programmes focused on providing housing, social services, education, or health care.

¹⁵ "Expressive NPOs" are NPOs predominantly involved in expressive activities, which include programmes focused on sports and recreation, arts and culture, interest representation, and advocacy.

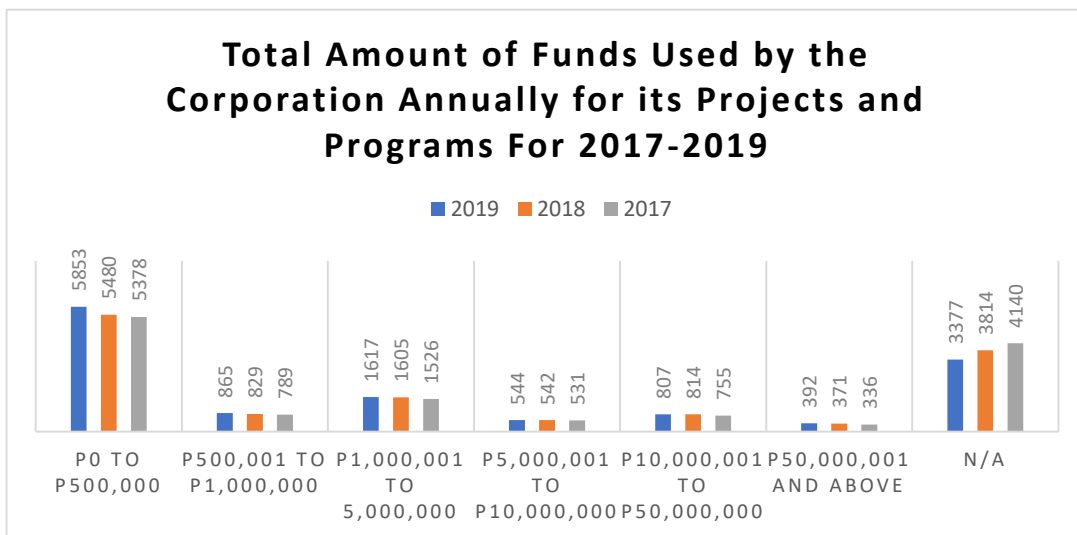
Source of fund, in any form except equity, including but not limited to debt, endowment/grants, contributions and donations



*Data obtained from MDF, deadline of submission: July, 2020

Amount of Funds Annually Used

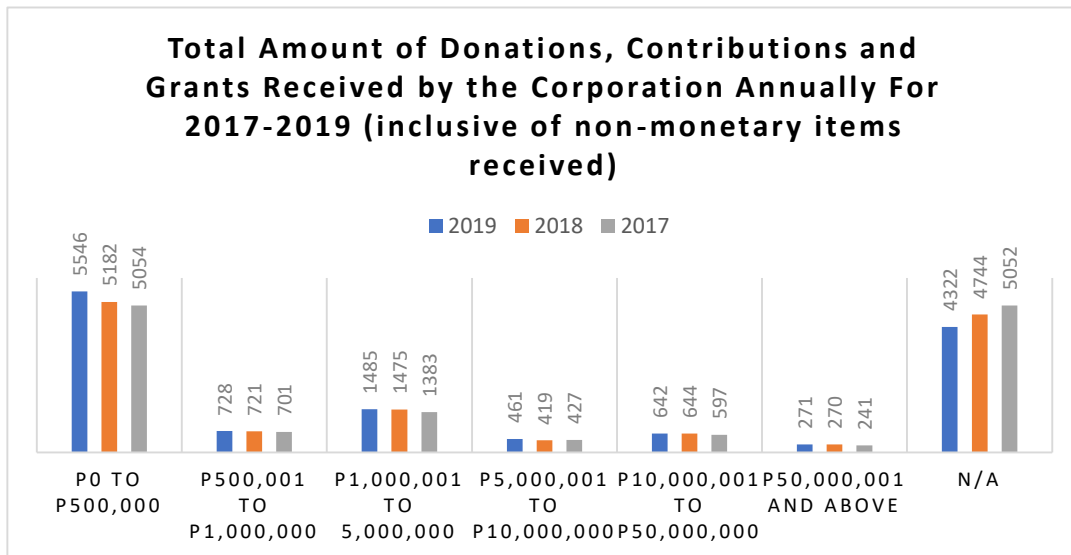
Based on the MDF submission as of 30 September 2020, 41% of the NPOs' total annual funds used from 2017-2019, ranges from 0 to Php 500,000.00 while 12% of the NPOs' total annual funds range from Php 1,000,001 to 5,000,000.



*Data obtained from MDF, deadline of submission: July, 2020

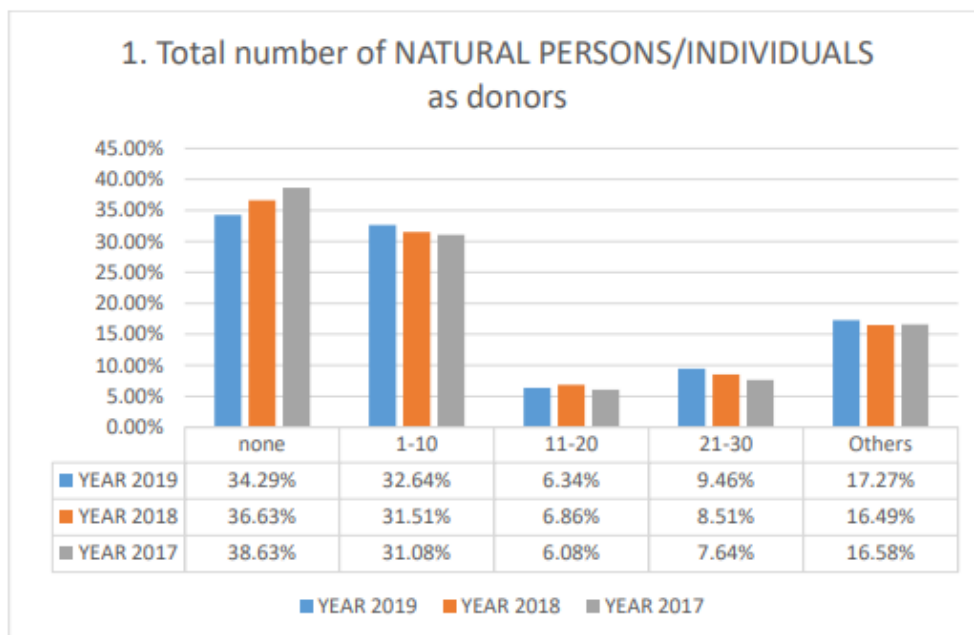
Amount of Donations, Contributions and Grants Received

Based on the MDF Submission as of 30 September 2020, 39% of the total amount of donations, contributions and grants received by the NPOs ranges from 0 to Php 500,000 and 11% range from Php 1,000,001 to 5,000,000.

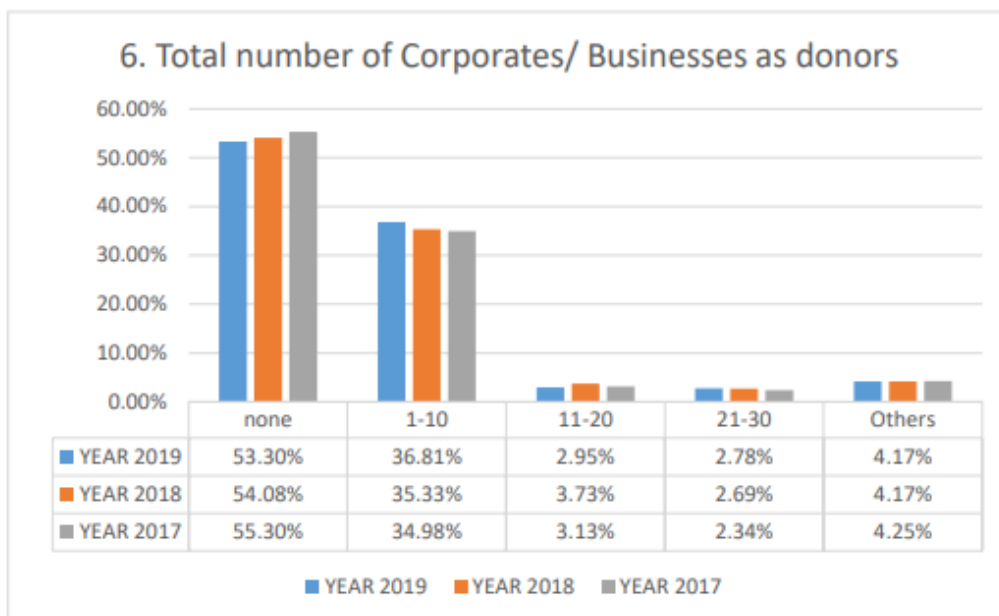


*Data obtained from MDF, deadline of submission: July, 2020

In 2019, based on the NPO survey, 34.29% of the NPOs' total number of donors are natural persons/individual donors while 53.30% are juridical persons/corporations/businesses.

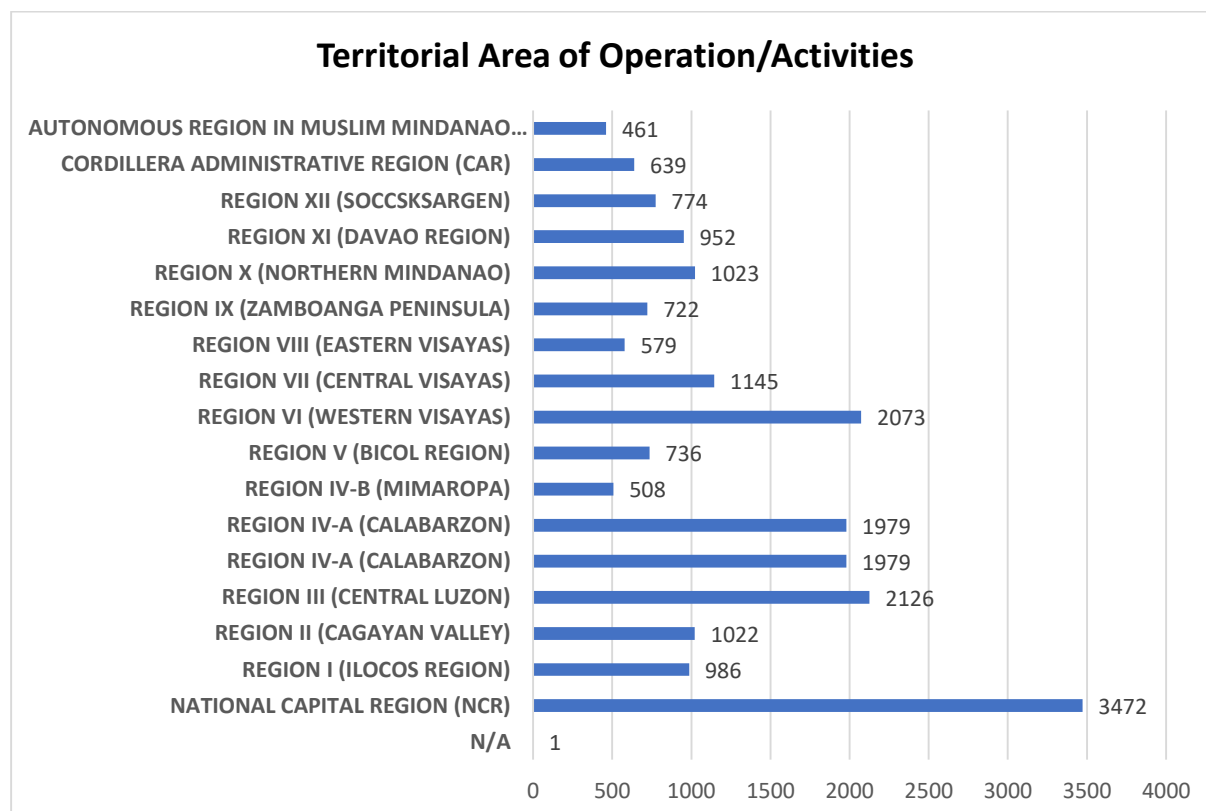


*Data obtained from MDF, deadline of submission: July, 2020



Territorial Operation of NPOs registered with the SEC

As to the territorial area of operation/activities, the top five locations of the NPOs, as reflected from the MDF submission, are NCR, Region III (Central Luzon), Region VI (Western Visayas), Region IV-A (CALABARZON), and Region VII (Central Visayas).



*Data obtained from MDF, deadline of submission: July, 2020

Tax Concession for NPOs

Section 30 of the National Internal Revenue Code Republic Act No. 8424 ("Tax Code"), as amended by Republic Act No. 10963 (July 24, 2017), provides tax exemptions to a number of corporations, including:

- NPOs organized exclusively for religious, charitable, scientific, athletic, or cultural purposes, or for the rehabilitation of veterans (Tax Code Section 30(e));
- Civic leagues or organizations operated exclusively for the promotion of social welfare (Tax Code Section 30(g)); and
- Non-stock, non-profit educational institutions (Tax Code Section 30(h)).

Each of the above entities is exempt from income tax on donations, grants, and gifts, provided that no part of the organization's net income shall belong to or inure to the benefit of any private shareholder or individual and the business is not operated for the benefit of private interest, such as those of the founder or his/her relatives, or conducted with a trade or business purpose that is not related to the organization's tax-exempt status (Revenue Memorandum Order 20-2013 Section 5(b)). Profits generated from business activities are taxed, regardless of the disposition of the income (Tax Code Section 30).

An NPO may seek additional tax benefits by becoming a certified non-stock, non-profit corporation with the Philippines Council for NGO Certification (PCNC). This certification provides the basis for the Bureau of Internal Revenue (BIR) in approving 'donee institution status' of an NPO, which entitles it to receive tax-deductible donations. Donations made to NPOs with 'donee institution status' are exempted from donor's tax and are deductible from the taxable income of donors.

Key Obligations for NPOs

A SEC-registered non-stock corporation or foundation is required to file annually with the SEC the following documents:

- i) General information sheet, within 30 calendar days from the date of actual annual members' meeting or not later than January 30, if unable to hold members' meeting for the calendar year;
- ii) Audited financial statements stamped received by the Bureau of Internal Revenue (BIR), within 120 calendar days after the end of the year specified in the By-Laws, supported by specific fund schedules and with sworn statements by the NPO's President and Treasurer (Revised Securities Regulation Code Rule 68, Part I, Section 5A and Annex 68-C)¹⁶

In addition to the above, if a non-stock corporation or foundation has annual contributions or donations of PHP 500,000 or more, it is also required to file (i) a schedule of Contributions and Donations, (ii) a schedule of application of funds and (iii) a Certificate of Existence of Program/Activity (COEP) (Revised Securities Regulation Code, Rule 68, Part I, Section 5A) issued by the government agency that exercises jurisdiction over the activity of the organization.¹⁷

All SEC-registered NPOs are required to disclose information to the SEC about their operations by submitting the Mandatory Disclosure Form (MDF) to the SEC Anti Money Laundering Division (AML),

¹⁶ These sworn statements embodied in SEC Forms include the following: (a) a willingness to be audited by the SEC, and (b) a schedule of receipts/income/sources of funds apart from contributions and donations

¹⁷ COEPs issued by the heads or officers of private institutions or actual beneficiaries or recipients of the program or activity may be submitted in lieu of a COEP issued by a government office or entity (Revised Securities Regulation Code Rule 68, Annex 68-C).

pursuant to SEC Memorandum Circular No. 25, series of 2019. The MDF is intended to identify the composition and activities of the NPO sector being supervised by the SEC and to revoke the certificate of registration of those that do not comply with the requirement. This will enable the SEC to properly assess the risk to which the registered NPOs are exposed based on the type of activities that they undertake.

The MDFs also serve to promote transparency among NPOs, establish a classification system of the NPO sector being supervised by the SEC and a tool to determine the basis for targeted risk-based supervision and monitoring of NPOs. (e.g., regulatory requirements, outreach programs).

Activity-based registration, licensing, accreditation and Related-Obligations

In addition to the SEC as a primary registration authority for NPOs, there are also other secondary registration, licensing and accreditation authorities in Philippines, with which the NPOs have to register and/or obtain license or accreditation, depending upon their purpose, activities or services offered. These authorities (as discussed below) have their own set standards and/or requirements for licensing or accreditation depending on its programme priorities, as well as obligations and reporting requirements attached to them.

Department of Social Welfare and Development (DSWD)

NPOs that are registered with the SEC and intending to perform social work and development activities are also required to register and obtain licence from the Department of Social Welfare and Development (DSWD). DSWD is an agency of government that is responsible for setting standards, registration, licensing and accreditation of NPOs that are implementing social welfare and development programmes and services for the poor, vulnerable and marginalised sector.¹⁸ Only the NPOs that are registered, licensed and accredited by the DSWD may benefit from fund augmentation or grants from the government specifically recognized under Section 24 of RA No. 4373, as amended and General Appropriations Act of 2017, subject to compliance with other government requirements and procedures.¹⁹

DSWD implements a separate registration,²⁰licensing²¹ and accreditation²² process for NPOs directly or indirectly engaged in social welfare and development (SWD) programs and services. These NPOs are referred to as Social Welfare and Development Agencies (SWDAs). To be accredited by the DSWD, the SWADAs are required to submit the following:

A. Mandatory Requirements

1. Duly Accomplished and Notarized Application Form
2. Manual of Operation containing SWDAs program and administrative policies, procedures and strategies to attain its purpose/s among others
3. Profile of Board of Trustees

¹⁸ Pursuant to Republic Act No. 4373, as amended by R.A.5175 of 1965, Presidential Decree of 1977, and R.A. 10847 of 2016. According to the Executive Order No. 221, s. 2003, the clients of NPOs registered with DSWD may include but not limited to the poor, disadvantaged, and vulnerable individuals, groups, families and communities.

¹⁹ The 2018 NPO Risk Assessment of Philippines, p. 16.

²⁰ Registration refers to the process of assessing the applicant organization to determine whether its intended purpose is within the purview of social welfare and development, where the determination of the same shall result to the inclusion of the agency in the DSWD registry of Social Welfare and Development Agencies (SWDAs).

²¹ Licensing refers to the process of assessing the qualifications and authorizing a registered SWDA to operate as a Social Welfare Agency (SWA) or as an Auxiliary SWDA.

²² Accreditation refers to the process of assessing a licensed SWA if their social welfare and development programs and services are compliant with the DSWD set standards.

4. Profile of Employees and Volunteers

B. Documents Establishing Corporate Existence and Regulatory Compliance

5. Certified True Copy of General Information Sheet (GIS) issued by SEC
6. Certification of no derogatory information issued by SEC (for those operating more than six (6) months upon filling the application)
7. ABSNET Membership – Certification from the Regional ABSNET
8. Declaration of Commitment from the applicant SWDA of no support to tobacco in compliance with provisions of EO No. 16 of 2017.

C. Documents Establishing Track Record and Good Standing

9. Duly signed Work and Financial plan for two (2) succeeding years
10. Notarized certification from the Board of Trustees and/or the funding agency to financially support the organization for at least 2 years
11. Annual accomplishment report for the previous year
12. Audited Financial Report for the previous year submitted to SEC/BIR
13. Profile of Clients/community being served for the preceding and current year

The DSWD requires the SWDAs to submit annual accomplishment reports and audited financial statements. Failure to submit such reports for two (2) consecutive years may result into the suspension of the issued license certificate to the concerned SWDA after due notice.

DSWD also conducts a validation visit to verify the existence and operation of the applicant NPO, including inspections of the principal and satellite offices of the NPO before granting accreditation. DSWD maintains a separate register of Social Welfare and Development Agencies (SWDAs) registered with the DSWD and also monitors their activities in accordance with its set standards and guidelines. As of 31st December 2020, there are 3,855 NPOs registered with DSWD. All DSWD-registered NPOs are service NPOs.

Other Secondary Licensing, Accrediting, and Certifying Government Agencies

As noted in the 2018 NPO Risk Assessment Report of Philippines, there are various other authorities that issue secondary licences, accreditation or certifications to NPOs in Philippines, depending on their type, purpose and activities. These include:

- a) Philippine Counsel for NGO Certification (PCNC).
- b) Bureau of Internal Revenue (BIR), which has the authority to confer 'donee institutions status' on NPOs certified by the PCNC.
- c) Commission on Higher Education (CHED), which provides license to SEC-registered NPOs seeking to operate in higher education sector.
- d) Department of Agriculture (DA-ATI), which grants accreditation to SEC-registered NPOs seeking to offer agricultural extension programs.
- e) Department of Agrarian Reform (DAR), which grants accreditation to NPOs registered with the SEC, DSWD and other government regulatory agencies seeking to participate in DAR programs.
- f) Department of Environment and Natural Resources (DENR), which provides accreditation to NPOs registered with the SEC, DSWD and other government regulatory agencies seeking to participate in community-based forest management agreements.
- g) Department of Education (DepEd), which issues licenses to operate, temporary permits and certificate of recognition (permanent permit to operate) to SEC-registered educational NPOs.

- h) National Commission on Culture and Arts (NCCA), which grants accreditation to NPOs seeking to participate on NCCA programmes, including SEC-registered NPOs or other not-for-profit organisations.
- i) National Commission on Indigenous Peoples (NCIP), which grants accreditation to NPOs categorised as indigenous peoples' organisation.
- j) National Commission on Muslim Filipinos (NCMF), which issues certification to SEC-registered NPOs seeking to participate in NCMF programmes.
- k) Local Government Units (LGUs), which grants accreditation to NPOs participating in local government programs and councils.

Each of the above authorities have their own set standards, licensing or accreditation process to which the relevant NPOs have to comply with in order to continue to operate and to provide services in their intended field or activity.

Funding Arrangement Obligations

Organizations and government departments that provide funding to NPOs often have additional reporting requirements for NPOs to satisfy. For example:

- Under the General Appropriation Act of 2014 to 2017, NPOs seeking funding or grants from the government to implement/co-implement government programs and services are required to be registered, licensed and accredited by the DSWD, in addition to complying with other government requirements and procedures, which may include additional reporting on how funds are spent.
- NPOs that conduct solicitations or fund-raising activities are required to obtain solicitation permit from the DSWD before engaging in such activities (The Public Solicitation Act 1978 (Act No. 4075), as amended by Presidential Decree No. 1564 in 2010). As of October 2020, the DSWD has monitored 356 individuals, groups and organizations conducting unauthorized public solicitation for charitable purposes. Most of these were monitored to be using digital platforms during the onset of the Covid19 pandemic.

Self-Regulation

Philippine NGOs have been at the cutting edge of NGO self-regulation. There are two major initiatives and bodies that have established self-regulatory mechanisms for NPOs in the Philippines: a) Philippine Council for NGO Certification (PCNC), and b) Caucus of Development NGO Networks (Code-NGO). Both these initiatives are repeatedly cited as models of good practice for NPOs and analyzed extensively.

Philippines Council for NGO Certification (PCNC)

In 1998, the Philippine council for NGO certification (PCNC) was established by six of the largest NGO coalitions. PCNC is a private, voluntary, non-stock, non-profit corporation that certifies non-stock, non-profit corporation that meet established minimum criteria for financial management and accountability in the service to underprivileged Filipinos. It represents one of the very few government-recognized NGO certification systems in the world. PCNC certification is used by the Bureau of Internal Revenue (BIR) as a basis for granting "donee institution status" to qualified non-stock, non-profit organisations. Non-stock, non-profit corporations with "done institution status" are entitled to receive tax-deductible donations. In the case of PCNC certified non-stock, non-profit corporation, donations are deductible up to 5 percent of taxable income for corporate donors and 10 percent for individual donors (Section 3(a), the Revenue Regulation No. 13-98). For this purpose, "income" refers to the donor's income derived from trade, business, or profession as computed without the benefit of this deduction (Section 3(a), the Revenue Regulation No. 13-98).

Non-stock, non-profit corporation that can apply for certification by the PCNC must be organised to carry out one or more of the following kind of purposes: religious, charitable, scientific athletic, cultural, rehabilitation of veterans, or social welfare (section 1(a), the Revenue Regulation No. 13-98). The PCNC certification process is rigid. The applicant NPOs' are required to mainly satisfy nine organisational standards/indicators that would measure an NPO's practice of good governance, management, accountability and transparency.²³ The evaluation system and organisational standards established by PCNC are geared towards improving efficiency, effectiveness and accountability of Philippine's NPOs. Depending upon the degree of compliance with the organisational standards set by PCNC, an NPO may receive one-year, three-year or five-year certification. NPOs are usually expected to improve their operations to move from one-year certification to three-year certification and then five-year certification, when they apply for re-certification.

As of 31 December 2018, PCNC has conducted more than 2,500 evaluations (including renewals) involving about 1,190 NGOs, and 1,018 of which were certified by the PCNC. Among the PCNC certified organizations, 1,002 received BIR "Donee Institution Status". PCNC has also developed and published two manuals on basic NPO governance and management²⁴ and a set of primers on NPO management. A total of 830 small NPOs are also trained by the PCNC on good governance and management.

Caucus of Development NGO Networks (Code-NGO)

Code-NGO, with its 6 national and 6 regional member networks, representing more than 1,600 development NGOs, people's organisations and cooperatives nationwide, is the country's largest coalition of NGOs working for social development. It was formally established in 1990 by the 10 largest NGO networks in the Philippines and got registered with the SEC as a non-stock, non-profit organisation in 1991. It has established its "Code of Conduct for Development NGOs" in 1991 and became the first Asian NGO coalition to adopt a self-regulating mechanism (in the form of a Code of Conduct) in Asia, and probably one of the first in the global NGO community.²⁵

Code-NGO's code of conduct has been signed by more than a thousand NGOs and was later amended in 2001 to provide for clearer enforcement mechanisms. The Code of Conduct aims to improve the quality of services provided by NGOs, ensure transparency and accountability in the operation of NGOs and improve relationships between them and with various stakeholders. Any member NGO which breaches Code-NGO's Code of Conduct is subject to sanctions by the network.

Publicly-available information about NPOs

The availability of information on NPOs in public registers usually enables the donors to ensure they are dealing with legitimate NPOs. In the Philippines, the public register of NPOs is available at the SEC. The SEC maintains a list of the registered NPOs as well as its classifications.

The PCNC also has its own publicly available information posted on their official website. The website publishes the names of the PCNC accredited organizations with their addresses.

²³ These include: i) vision and mission; ii) governance; iii) administration; iv) program operations; v) financial management; vi) collaborative linkages/networking; vii) organisation/compilation of policies and procedures; viii) cumulative/up-to-date annual reports or accomplishment report for last 2 years; ix) 3 to 5 year strategic plan and financial plan.

²⁴ These include: a) Guidebook on the Basics of NGO Governance, and b) Handbook on Organisational Functioning for Small NGOs.

²⁵ Danilo A. Songco, 'The Evolution of NGO Accountability Practices and their Implications on Philippines NGOs' (n.d). Available from: https://www.icnl.org/wp-content/uploads/Philippines_philacc.pdf (accessed 26 April 2021). See also, 2018 NPO Risk Assessment of Philippines, p. 3.

In the survey responses received for this risk assessment from 1,152 NPOs, 72.66% of the NPOs indicated that the information on their activities is publicly available, including 32.29% of such NPOs which also make the list of their donors available to public. 16.75% NPOs indicated that they make the public disclosure of the information on use of donations to their donors and other parties whereas 60.94% NPOs use regular reporting to inform donors about how donations are spent. 32.20% of the surveyed NPOs also reported that they publish regular reports on the spending of funds and implementation of their activities and 19.10% make this information available on their website.

3. Crime Threat Assessment

Threat is a person or group of people, object or activity with the potential to cause harm. In the ML/TF context, 'threat' includes criminals, terrorist groups and their facilitators, their funds, as well as past, present and future ML or TF activities.

The crime threat for the NPO sector is primarily determined based on reported incidents of terrorist activity and the suspicious indicators reported to the AMLC in the STRs, as well as other relevant data collected from the supervisory authorities and law enforcement authorities (LEAs).

3.1. Terrorism Threat

The assessment of the level of threat of terrorism in the Philippines is based on reports of the presence and activities of groups, individuals or organizations designated or identified as terrorists or supporters of terrorism or engaged in terrorist acts. This includes the threat arising from two major terrorist orientations which are offshoots of Islamist Extremism and Communism and these include Groups associated with ISIS Philippines and the Communist Terrorist Group (CTG). The level of Terrorism Threat is assessed as **MEDIUM**.

Country Reports on Terrorism and the Global Terrorism Index

The Country Reports on Terrorism 2019: Philippines of the Bureau of Counter Terrorism of the US Department of State provides the following information:²⁶

“Groups affiliated with ISIS-Philippines continued efforts to recover from battlefield losses, recruiting and training new members, and staging suicide bombings and attacks with IEDs and small arms that targeted security forces and civilians. ISIS-Philippines affiliates active in 2019 included elements of the Abu Sayyaf Group (ASG), Bangsamoro Islamic Freedom Fighters (BIFF), Ansar al-Khalifa Philippines (AKP), and the Maute Group. The Philippines remained a destination for FTFs from Indonesia, Malaysia, and countries in the Middle East and Europe.” xxx

2019 Terrorist Incidents: Terrorists continued to target civilians and security forces with IEDs and small arms, and the emergence of suicide bombings posed new challenges for Philippine security forces.

An Indonesian couple carried out a complex suicide attack during Mass at the Jolo Cathedral in Sulu on January 27, killing 23 people and wounding 102. Philippine officials linked the plot to the ASG and ISIS, both of which claimed responsibility for the bombing.

In Sultan Kudarat, the BIFF was implicated in IED attacks on civilian targets that wounded dozens, and a foiled IED attack at a Catholic chapel.

²⁶ <https://www.state.gov/reports/country-reports-on-terrorism-2019/philippines/>

Two men, including the first Filipino implicated in a suicide bombing, carried out a complex suicide attack against a military unit deployed to combat the ASG in Sulu on June 28, killing eight and wounding at least 20.

A woman conducted a suicide attack at the entrance to a military camp in Sulu on September 8.

Security forces thwarted an apparent suicide bombing plot in a November 5 firefight in Sulu, recovering suicide vests from two FTFs killed in the encounter. Terrorist groups abducted Filipino, Malaysian, Indonesian, and British victims.

Two British citizens were kidnapped in Zamboanga del Sur on October 4 by armed men the government later said were members of ASG. The victims were recovered on November 25 in Sulu following military operations in the area.”

In the Country Reports on Terrorism 2020: Philippines, the following information was provided:

“The Philippine government placed significant resources toward countering threats from terrorist groups that operate primarily in the country’s South. A new antiterrorism law increased police and prosecutorial tools. Philippine military forces remained engaged in counterterrorism operations. The government enjoyed close counterterrorism cooperation with the United States that enhanced law enforcement and CVE efforts.

Groups affiliated with ISIS remained the deadliest terrorism threat in the Philippines. These groups continued to recruit, fundraise, and stage attacks on security forces and civilians alike, including suicide attacks that used female relatives of previous attackers. ISIS affiliates active in 2020 included elements of the Abu Sayyaf Group (ASG), Bangsamoro Islamic Freedom Fighters (BIFF), Ansar al-Khalifa Philippines, and the Maute Group. The Philippines remained a destination for FTFs from Indonesia, Malaysia, and countries in the Middle East and Europe. The Communist Party of the Philippines/New People’s Army (CPP/NPA) continued attacks on both security forces and civilians.

The government intensified actions against CPP/NPA through military operations and legal actions to cut off financing. The government’s response to the COVID-19 pandemic, including strict travel regulations, limited the ability of terrorist groups to travel and conduct operations.”

“2020 Terrorist Incidents: Terrorist attacks using suicide bombings, IEDs, and small arms continued to target civilians and security forces.

On August 24, in Jolo, Sulu province, ASG killed more than a dozen people and injured more than 70 others in twin bombings. A female suicide bomber detonated a motorcycle bomb near a military truck next to a food market. An hour later, another female suicide bomber approached the area and detonated a bomb, likely targeting first responders.”

In the Global Country Index in 2019, the Philippines was reported as the only Southeast Asian country which ranked in the top ten countries most impacted by terrorism at number 9. In 2020, the Philippines was ranked number 10 with a slight reduction in terrorist activities.²⁷

The data on terrorist activity in the Philippines has led to the observation that the Philippines faces a very high level of threat from terrorist and extremist activity.²⁸

Countermeasures

The countermeasures implemented by the Philippine government however has resulted in significant progress in meeting the level of threat. On July 3, 2020, the Anti-Terrorism Act of 2020 (ATA) was signed into law replacing the Human Securities Act. The CPP/NPA was designated as terrorists by the Anti-Terrorism Council in its resolution No. 12, Series of 2020. A Sanctions Freeze Order was subsequently issued by the AMLC against the property and funds of the CPP/NPA. Law enforcement and judicial actions disrupted plots and led to the prosecution and conviction of terrorists. On September 28, a Regional Trial Court convicted seven defendants for a 2016 terrorist bombing in Davao City that killed 15 people and wounded 69 others and sentenced them to reclusion perpetua. On October 10, Philippine authorities arrested four ASG members in Jolo, including one Indonesian: Rezky “Cici” Fantasya Rullie, the pregnant daughter of the couple responsible for the 2019 Jolo Cathedral bombing and widow of terrorist leader Andi Baso. Authorities said Cici was the subject of months of surveillance and was found to have been planning a suicide bombing in Sulu before the arrest and that Cici is a high-value target. Cici was said to have began to plan another bomb attack after her compatriot and husband Andi Baso was allegedly killed in a fight with security forces on Aug. 29. His body was not found. Andi Baso was reportedly an ardent recruiter for the Abu Sayyaf in Malaysia and Indonesia.²⁹

3.2. Terrorist Financing Threat

The threat of terrorist financing in Philippines’ NPO sector is assessed as **MEDIUM-LOW**.

1	2	3	4	5	6	7	8	9	10
Low 0-20%		Medium-Low 21-40%		Medium 41-60%		Medium-High 61-80%		High 81-100%	

The threat of TF in the NPO sector is assessed as **MEDIUM-LOW**. This assessment is based on the volume of terrorism and terrorist financing-related STRs received by the AMLC involving NPOs, intelligence reports, and the number of NPOs identified and investigated during counter-terrorism investigations.

Between 2017 and 2020, a total of 112 terrorism and terrorist-financing related STRs involving NPOs have been submitted to the AMLC. Eighteen (18) NPOs have been identified in these STRs which disperse across the country, but majority are located in the NCR region. Majority of the identified subsets are foundations and service type NPOs, especially religious, charitable and political organizations. An increasing number of terrorism and terrorist financing related STRs in the past three years

²⁷ <https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Fwww.visionofhumanity.org%2Fwp-content%2Fuploads%2F2020%2F12%2FIEP-GTI-Presentation-2020.pptx&wdOrigin=BROWSELINK>

²⁸ Rand Countering Violent Extremism Impact Evaluation available at https://www.rand.org/pubs/research_reports/RR233-2.html

²⁹ <https://newsinfo.inquirer.net/1346456/hunt-on-for-8-foreign-terrorists>

demonstrate that NPOs will remain attractive to terrorist financiers and their associates as a channel to raise funds and move them offshore.

Compared to all STRs reported to the AMLC, the volume and value of STRs linked to NPOs has remained relatively low. From 2017 to 2020, there were 3,196 STRs submitted to the AMLC for suspected criminal misuse (including terrorism and terrorist financing) linked to NPOs, which represent 0.05% of the total STRs (1,401,983) received by AMLC during this period. The total value of STRs involving NPOs is approximately Php 827,536,679,314.48. In 2017, the number of STRs linked to NPOs was relatively high compared to 2018 and 2019, whereas in 2018, the value of NPO-linked STRs was extremely high despite low volume of STRs. In 2020, the number of NPO-linked STRs have significantly increased, however the value did not exceed that for the year of 2018.

Table 4: No. of NPO-linked STRs received by the AMLC (2017-2020)

Year	2017	2018	2019	2020	TOTAL
Total No. of STRs	535	343	395	1923	3,196
a. ML STRs*	428	304	330	1922	3,096
b. TF STRs**	7	39	65	1	112
Total Value of STRs (in Php)	168,720,843,357.52	322,524,191,815.83	66,090,403,008.48	270,201,241,132.65	827,536,679,314.48
a. ML STRs*	168,670,845,841.23	322,470,720,778.54	66,038,489,431.30	270,201,175,132.65	827,381,231,183.72
b. TF STRs**	49,997,516.29	53,471,037.29	51,913,577.18	66,000.00	155,448,130.76

*ML STRs in this Table includes STRs related to ML unlawful activity, suspicious circumstance and for determination of predicate crime.

**TF STRs in this Table includes TF and terrorism-related STRs.

During the sample period for this risk assessment, there were 112 STRs received by the AMLC under the predicate crimes classified as “terrorism and conspiracy to terrorism” and “terrorist financing” involving NPOs, which represents 8.72% of the total STRs received by the AMLC involving NPOs. As Table 5 below shows, there has been a significant increase in the number of terrorism and terrorist financing STRs involving NPOs in 2017 to 2019; however, the value of STRs does not significantly vary each year. In 2020, there is only one STR linked to TF with a minimal amount as compared to the prior years.

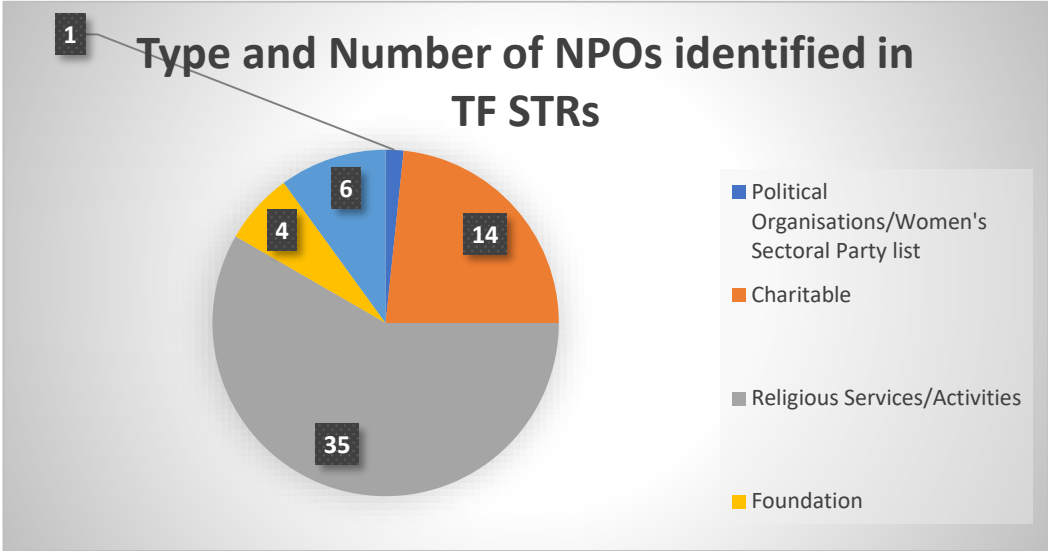
Table 5: No. of Terrorist Financing STRs filed with AMLC involving NPOs (2017-2019)

Year	No. of STRs	Value of STRs (in Php)
2017	7	49,997,516.29
2018	39	53,471,037.29
2019	65	51,913,577.18
2020	1	66,000.00
TOTAL	112	155,448,130.76

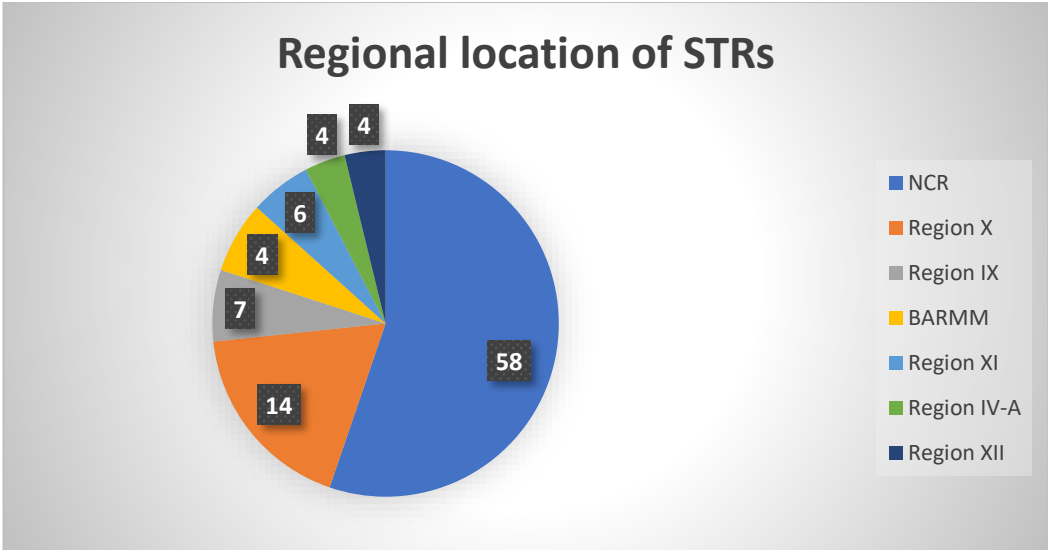
The total value of the STRs for suspected terrorism and terrorist financing involving NPOs is Php 155,448,130.76, which represents 0.04% of the total value of NPO-linked STRs received by the AMLC.

While significant in the current TF environment, the value of suspected terrorism and terrorist financing STRs involving NPOs is still relatively low, compared with the economic size of the sector.

For 2017-2020, 112 NPOs were identified in the STRs relating to terrorism and terrorist financing. Majority of these NPOs are political organisations/women’s sectoral Party list (1) religious organizations (35), charitable organizations (14), educational (6) and foundations (4)



The top regional locations of STRs filed under Terrorism/Financing of Terrorism (TFT) involving NPOs are the NCR (58 STRs, 4.48%), Region 10 (19 STRs, 1.49%), Region 9 (7 STRs, 0.55%), BARMM (7 STRs, 0.55%), Region 11 (6 STRs, 0.47%), and Regions 4-A and 12 tied with 4 STRs or 0.31% each.



In the sample period of 2017 and 2020, a small number of financing of terrorism STRs (2 STRs) were identified to have links with foreign jurisdictions. Similarly, there were 2 STRs relating to terrorism and conspiracy to commit terrorism which were found to have links with foreign countries. The countries identified in terrorism and terrorist-financing related STRs, both from incoming and outgoing international remittances, are Belgium (19 STRs), Kuwait (2 STRs), Peru (1 STR), Canada (1 STR), and Nepal (1 STR).

Cash Related STRs

There are 654 cash-related STRs involving NPOs for the period 2017 – 2020 with an estimated value of Php 148,610,840,348.74.

Terrorism and financing of terrorism (TFT) cash-related STRs accounted for 7.91% (46 STRs) with an estimated value of Php2,687,810.43 or 1.48% of the total cash-related STRs' volume and Php value, respectively.

Targeting by serious organised crime/ terrorist organisations/groups/networks/cells/individuals

In the survey conducted for this risk assessment, a small percentage (6.25%) of surveyed NPOs have indicated that to the best of their knowledge, NPOs in Philippines have links with domestic, regional and foreign terrorists/organisations or serious organised crime groups, although this number of suspected NPOs remain small (i.e., less than 15). 4.25% of surveyed NPOs have also expressed their knowledge of main active designated domestic terrorist or threat groups that have links to NPOs in the Philippines, which includes CPP-NPA, Abu Sayyaf Group and Maute Group. 1.74% NPOs in fact also indicated three main active designated regional /international terrorist groups that have links to NPOs in Philippines, which includes Boko Haram, Islamic Jihad Union and Jemaah Islamiyah. These findings of the survey results have a considerable impact on the terrorism and terrorist financing threat facing the NPO sector.

Prosecution and Investigation of NPOs linked to TF

During the period of 2017 and 2019, only one case involving NPOs related to the offense of terrorist financing was investigated by the law enforcement authorities, and there was one prosecution based on this offense. This TF case involving NPOs was based on the SEC's 2019 referral to the AMLC involving Foundations for Social and Educational Development. The said foundations were considered suspicious by the SEC for the following reasons:

- donations received by both foundations were from donors located in countries where there was an active terrorist threat, and
- most of the foundations' beneficiaries are located in the area in the Philippines where there are known terrorist activities and foreign terrorist fighters.

A civil forfeiture case estimated at Php 15,045,543.16 has been filed against the said NPOs.

In 2020, a total of 18 cases involving NPOs were investigated for TF.

A case investigated by the AMLC involved seven organizations identified to be possibly linked to terrorism and terrorism financing activities. Some of these organizations were subjects of a former request, which focused on non-government organizations associated with a communist terror and secessionist group (CTG). Three of the seven subject organizations could be closely related to one another based on the following observations: (1) they have a common address; (2) they shared and participated in certain projects with two subject organizations from previous requests to the AMLC in relation to terrorism and financing; and (3) they have a common employee who was reportedly detained by the military together with the employee's mother, identified as a volunteer in one of the subject organizations.

A suspiciously large transaction was also reported by a specialized government bank (PHP 16,678,419.67) which involved an educational institution which claimed to have affiliations with an offshore bank and an investment bank. The NPO requested for an escrow account which it allegedly intends to use to receive remittances from those offshore entities. During the conduct of CP's enhanced due diligence process, however, the representative of the subject NPO was unable to provide any supporting documents and gave inconsistent statements. Further, one of the offshore institutions proved to be non-existent.

4. Vulnerabilities Assessment

Vulnerability refers to the characteristics of a sector that make it susceptible to criminal exploitation. For the NPO sector, the risk factors have been identified and assessed to understand its vulnerability to TF grouped under six sub-sections. These include regulation and supervision of the sector, preventive measures, national cooperation and coordination, links to high-risk jurisdictions, use of cash, and transparency and accountability of money movement.

As discussed earlier, the TF vulnerability of the NPO sector has been assessed by an approach identified to be helpful to the supervising and regulating authorities, as well as for NPOs to better understand and effectively mitigate the ML and TF risks facing their specific sector.

4.1 Terrorist Financing Vulnerability

The NPO sector’s vulnerability to terrorist financing is assessed as **MEDIUM**.

1	2	3	4	5	6	7	8	9	10
Low 0-20%		Medium-Low 21-40%		Medium 41-60%		Medium-High 61-80%		High 81-100%	

Here is the snapshot of ‘Vulnerability’ risk rating for terrorist financing.

Category of Vulnerability	Terrorist Financing
Regulations	MEDIUM
Preventive Measures	MEDIUM
National Cooperation and Coordination	MEDIUM
Links to high-risk countries	MEDIUM-LOW
Use of Cash	MEDIUM-LOW
Transparency and accountability of money movement	MEDIUM

4.2. Regulation and Supervision

The TF vulnerability of the NPO sector on analyzing the domestic regulatory landscape is assessed as **MEDIUM**.

Category of Vulnerability	Terrorist Financing
Quality of legal and regulatory framework, including NPO supervision and monitoring	MEDIUM
Level of regulatory bodies coverage of relevant NPOs and their involvement in reducing ML/TF risks	MEDIUM

The regulatory landscape for the NPO Sector is multi-layered with different regulatory authorities, as discussed under section 3 of this report. The regulatory agencies are responsible for the primary and secondary regulation and supervision of the sector. Correspondingly, these agencies have separate policies and documentary requirements. It must be noted that the reason for this is that these agencies have different functions:

The Securities and Exchange Commission (SEC) is the agency which is the primary body which regulates the corporations including the Non-Stock and/or Non-Profit Organizations (NPOs). Registration with the SEC vests the corporation a separate juridical personality. The Department of Social Welfare and Development (DSWD) as discussed earlier, is the department which provides standards, consultative services and accreditation to organizations engaged in social welfare and development activities. The Philippine Council for NGO Certification (PCNC) among others, is the organization designated under its Memorandum of Agreement with the Department of Finance (DOF) as the certifying organization of NGOs seeking donee institution status from the Bureau of Internal Revenue (BIR). This means that the BIR will issue donee institution status only to those endorsed by the PCNC.

Hence, this results into varying degrees of oversight and supervision across the NPO sector, as well as the shifting of resources and responsibility to meet the various requirements. As discussed earlier, a SEC-registered non-stock corporation or foundation is required to file annually with the SEC the following documents:

- i) General information sheet, within 30 calendar days from the date of actual annual members’ meeting or not later than January 30, if unable to hold members’ meeting for the calendar year;
- ii) Audited financial statements, stamped received by the Bureau of Internal Revenue (BIR), within 120 calendar days after the end of the year specified in the By-Laws, supported by specific fund schedules and with sworn statements by the NPO’s President and Treasurer (Revised Securities Regulation Code Rule 68, Part I, Section 5A and Annex 68-C)³⁰

In addition to the above, if a non-stock corporation or foundation has annual contributions or donations of PHP 500,000 or more, it is also required to file (i) a schedule of Contributions and Donations, (ii) a schedule of application of funds and (iii) a Certificate of Existence of Program/Activity

³⁰ These sworn statements embodied in SEC Forms include the following: (a) a willingness to be audited by the SEC, and (b) a schedule of receipts/income/sources of funds apart from contributions and donations

(COEP) (Revised Securities Regulation Code, Rule 68, Part I, Section 5A) issued by the government agency that exercises jurisdiction over the activity of the organization.³¹

As discussed earlier, all SEC-registered NPOs are required to disclose information to the SEC about their operations by submitting the MDF to the SEC Anti Money Laundering Division (AML), pursuant to SEC Memorandum Circular No. 15, series of 2018. The non-submission of the MDF within the time provided is punishable with fine and other penalties, including it being a ground for suspension or revocation of the certificate of registration of an NPO, subject to due process requirements.

Despite this requirement, the MDF forms have only been submitted by 11.54% (19,906 out of 172,749 non-stock corporations) or 31% (19,906 out of 64,087) of NPOs by 31 December 2020. In the sample period of 2017 to 2020. This is in part due to the growing number of non-stock corporations which are no longer active and likewise due to lack of awareness of the requirement on the part of some corporations.

From 2017-2020, the SEC has imposed the total amount of Php 2,550,443.82 monetary penalties on non-compliant NPOs for late and/or non-submission of MDF forms.

On 14 February 2019, the SEC issued a cease-and-desist order against a non-stock non-profit organization and its officers, trustees, agents and representatives for operating a scam. The said organization promised its members a 30% interest per month for life on their investment referred to by it as a "Donation". Possible ML methods of the investment scheme's facilitators include: (1) transactions in millions of pesos were mostly done in cash and were observed to have occurred during the commission of the investment scam, (2) numerous bank accounts were created which facilitated inter-account transfers and purchase of insurance policies, and (3) the facilitators established numerous entities and obtained real properties, motor vehicles and sea vessel. A civil forfeiture case estimated at Php96.5 million has been filed on the NPOs and facilitators.

A TF case was detected involving NPOs based on the SEC's 2019 referral to the AMLC pertaining to social and educational foundations. Said foundations were considered suspicious by the SEC for the following reasons: (1) donations received by both foundations were from donors located in countries where there was an active terrorist threat, and (2) most of the foundations' beneficiaries are located in an area in the Philippines where there was known terrorist activity and the suspected presence of foreign terrorist fighters.

On the other hand, the DSWD also implements a separate registration,³²licensing³³ and accreditation³⁴ process for NPOs directly or indirectly engaged in social welfare and development (SWD) programs and services, termed Social Welfare and Development Agencies (SWDAs). Only the NPOs that are registered, licensed and accredited by the DSWD may benefit from fund augmentation or grants from

³¹ COEPs issued by the heads or officers of private institutions or actual beneficiaries or recipients of the program or activity may be submitted in lieu of a COEP issued by a government office or entity (Revised Securities Regulation Code Rule 68, Annex 68-C).

³² Registration refers to the process of assessing the applicant organization to determine whether its intended purpose is within the purview of social welfare and development, where the determination of the same shall result to the inclusion of the agency in the DSWD registry of Social Welfare and Development Agencies (SWDAs).

³³ Licensing refers to the process of assessing the qualifications and authorizing a registered SWDA to operate as a Social Welfare Agency (SWA) or as an Auxiliary SWDA.

³⁴ Accreditation refers to the process of assessing a licensed SWA if their social welfare and development programs and services are compliant with the DSWD set standards.

the government specifically recognized under Section 24 of RA No. 4373, as amended and General Appropriations Act of 2017, subject to compliance with other government requirements and procedures.³⁵

To be accredited by the DSWD, the SWDAs are required to fulfil certain minimum requirements (detailed in Chapter 3 of this report). The SWDAs are also required to submit annual accomplishment reports and audited financial statements to the DSWD. Failure to submit such reports for two (2) consecutive years may result into the suspension of the issued license certificate to the concerned SWDA after due notice.

DSWD maintains a separate register of SWDAs registered with the DSWD and also monitors their activities in accordance with its set standards and guidelines. According to the DSWD Memorandum Circular No. 16 series of 2018, one of the grounds for revocation of registration, licensing and accreditation of the SWDA is the use of SWDA for immoral purposes, such as but not limited to trafficking, gambling, prostitution, money laundering and terrorist financing.

Under the General Appropriation Act of 2014 to 2017, stricter registration, licensing and accreditation requirements are imposed by the DSWD on NPOs that are seeking funding or grants from the government to implement/co-implement government programs and services.

NPOs that conduct solicitations or fund-raising activities are further required to obtain solicitation permit from the DSWD before engaging in such activities (The Public Solicitation Act 1978 (Act No. 4075), as amended by Presidential Decree No. 1564 in 2010). As of October 2020, the DSWD has monitored 356 individuals, groups and organizations conducting unauthorized public solicitation for charitable purposes. Most of these were monitored to be using digital platforms during the onset of the Covid19 pandemic.

In addition to the above, as discussed under Chapter 3 of this report, PCNC and Code-NGO are two major initiatives and bodies in Philippines that have established self-regulatory mechanisms for NPOs. To become certified or members of these initiatives, the applicant NPOs have to satisfy certain minimum standards relating to good governance, management, accountability and transparency. These networks have also issued guidelines and organise regular trainings for their member NPOs on good governance and sound management.

4.3 Preventive Measures

The TF vulnerability of the NPO sector on analyzing the preventive measures implemented by the sector is assessed as **MEDIUM-HIGH**.

Category of Vulnerability	Terrorist Financing
Understanding criminal misuse and TF risk	MEDIUM-HIGH
Due Diligence of NPO personnel	MEDIUM
Due diligence of donors, partners, beneficiaries and intermediaries	HIGH

³⁵ The 2018 NPO Risk Assessment of Philippines, p. 16.

The NPO sector in the Philippines is not directly covered by the Anti-Money Laundering Act. Since NPOs are not covered persons under the AMLA, they are not subject to any AML/CFT obligations under the said law. To provide protection to the NPOs, the SEC issued the “2019 NPO Guidelines”. The Guidelines provide for a risk-based approach of protecting SEC registered NPOs from money laundering or terrorist financing abuse, establishes mechanisms that would enable the NPO to protect itself and provides for enforcement mechanisms to ensure compliance.

Understanding of TF Risk and establishment of appropriate Mitigating Strategies

In a survey responded by 153 NPOs during online webinars conducted for this risk assessment, majority (88.9%) NPOs have indicated to be aware of the risk of ML and TF to which the NPO sector is exposed. However, a small percentage (11.1%) of NPOs have also indicate to be unaware of any ML and TF risks facing the NPO sector.

Despite the high level of awareness shown by NPOs on ML/TF risks, only a few NPOs (31) have acknowledged their exposure to various methods of abuse for TF and ML purposes. Majority (79.7%) have indicated that they are not exposed to any of the methods of TF abuse.

Method of Abuse	No. of NPOs indicated to be exposed to this method of abuse
Diversion of Funds	15
Abuse of Programming	9
Affiliation with Terrorist Entity	3
Support for Recruitment	2
False Representation and Sham NPOs	10

The sophistication of risk mitigation frameworks and strategies NPOs have in place also varies. It depends largely on an NPO’s risk appetite and whether they have sufficient resources to implement appropriate controls.

From the information obtained through the survey responses for this risk assessment (which has been responded to by 1,152 NPOs), only 23.96% NPOs have indicated to have their documented organizational level risk assessment policies and procedures. Majority (63.04%) of these NPOs’ organizational risk assessments cover ML and TF risks, whereas 36.96% do not assess ML and TF risks as a part their institutional level risk assessment.

Notwithstanding the documented risk assessments, majority (51.65%) have indicated to put in place the code of good conduct to strengthen their self-regulation, and ML and TF has been addressed by 57.98% of these NPOs in their code of good conduct manual.

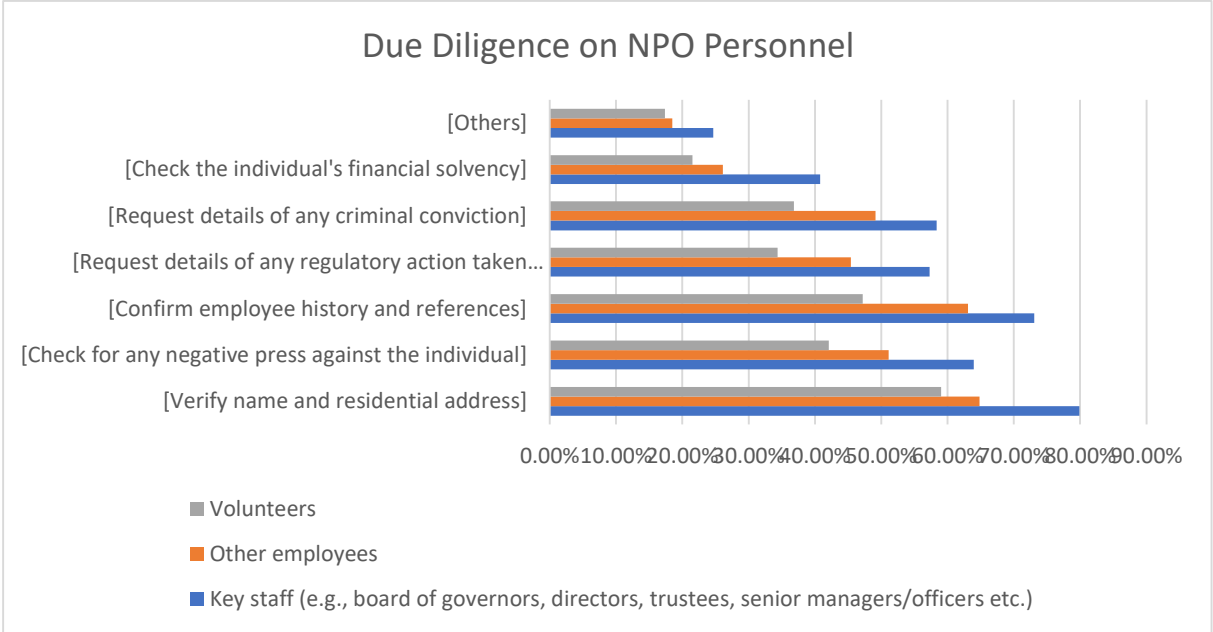
The provision of staff training and support to increase risk awareness of ML and TF is also assessed to be inconsistent among the NPO sector in Philippines. Only 26.56% of surveyed NPOs have indicated to have participated in any outreach programs organised by various regulatory or competent authorities (including SEC, DSWD, AMLC or LEAs) for the NPO sector. It has been reported that only in 21.88% of the outreach programmes attended by these NPOs any education or knowledge is provided on ML, terrorism or TF risks.

Level of Due Diligence checks on NPO Personnel

Often the level of due diligence conducted on employees and volunteers depends on the nature of the individual’s role within the organisation and their access to information, finances or beneficiaries. Key staff and those with more financial responsibilities are generally subject to greater due diligence checks.

Majority NPOs surveyed for this risk assessment have reported that they conduct some level of due diligence at the time of hiring on their key staff, including board of governors, directors, trustees or senior managers and officers. More than 70% of the NPOs reported to have at least verified the name, residential address, employee history and references of the key staff members. At least 65% of the NPOs also indicated to have checked any negative press release against the key staff and more that 55% of NPOs also request details of any criminal conviction or regulatory action.

The surveyed NPOs have also indicated to conduct some level of due diligence on their other employees and volunteers, although the level of due diligence on volunteers is low as compared to other employees, which becomes clear from Table below.



Due Diligence checks and monitoring of relationships with donors, beneficiaries, partners and intermediaries

As compared to due diligence on NPO personnel, fewer organisations surveyed for this risk assessment apply the same level of due diligence to donor, beneficiaries and partners. The oversight and control over third parties also varies depending on the regulatory scheme an NPO falls under.

Only 17.80% of the NPOs surveyed for this risk assessment have a defined criterion in place to accept or refuse donations. Only a small number of NPOs (between 20 to 25%) conduct proper due diligence on their individual donors, asking them about their source of wealth or source of funds; however, approximately 35% NPOs do ask the donors about the reason or objective of intended donation. However, the level of due diligence on corporate donors is much low compared to individual donors.

Compared to low level of due diligence on donors, the level of due diligence reported on beneficiaries is high. 64.5% of the surveyed NPOs have reported to conduct due diligence on the organisation’s beneficiaries.

On conducting due diligence and on-going monitoring of programmes implemented by partners and/or associate NPOs to ensure the proper application of funds, 58.85% of NPOs surveyed for this risk assessment indicated to have no such monitoring or oversight mechanisms in place. 41.15% of NPOs which have such procedures in place use either regular reporting (36.20%), auditing (30.30%), on-site visits (25.26%) or a combination of these mechanisms to oversee the efficient delivery of programmes by their partners/associated NPOs.

Less than 10% of the NPOs surveyed for this risk assessment have indicated to have access to various lists, databases or websites, including Philippines Anti-Terrorism Council Designated list (9.72%), UN Sanctions list (8.77%), EU Sanctions list (6.25%), US Office of Foreign Assets Control list (3.73%) or FATF list (4.60%). Approximately 12% of NPOs have indicated to have normally, as a practice, screen their donors, beneficiaries and delivery partners against these lists, whereas nearly 30% of NPOs screened their donors, beneficiaries and delivery partners against these lists when needed. In case of any positive matches with these lists, 47.14% of the surveyed NPOs reported to have filed a report to their appropriate regulatory authority or LEAs. 21.79% NPOs have indicated to have returned the funds, while 3.04% still accept these funds.

4.4 National coordination and cooperation

The TF vulnerability of the NPO sector on analysing the effectiveness of national coordination and cooperation mechanisms is assessed as **MEDIUM**.

Category of Vulnerability	Terrorist Financing
National Cooperation and Coordination	MEDIUM

To increase coordination among the SEC, DSWD and PCNC and to review the requirements of these offices in relation to supervision or monitoring of NPOs under their jurisdiction, the SEC organized a series of meetings with DSWD and PCNC. From 2019 to March 2021, a total of four (4) coordination meetings have been conducted. During the initial meetings, the group discussed the compliance policies, guidelines and requirements for registration, licensing, and accreditation of certain types of NPOs that seek to engage in social welfare and social welfare and development activities.

As a result of the discussion, the group was able to identify areas where they may be able to increase coordination so as to reduce the registration and monitoring requirements for such NPOs. There is however no duplication of functions since the requirements of the DSWD or the PCNC are only for purposes, respectively, of being given the privilege to undertake those social welfare and development activities or be able to avail of tax exemption as a donee institution.

In subsequent meetings, the SEC, DSWD and PCNC deliberated on the steps to be taken in the enforcement of the action plans agreed upon. The following are now being implemented:

- a. Streamlining of the respective documentary requirements of the agencies with the inclusion of the Certificate of No Derogatory Information (CNDI) issued by SEC;

- b. Inclusion in the SEC registration system a Pro Forma Articles of Incorporation (AOI) and By-Laws template for NPOs intending to accredit with the PCNC;
- c. Designation of an SEC Email exclusive for NPOs and SEC contact person to process CNDI requests.
- d. Exchange of information regarding the NPOs for purposes of risk information sharing

4.5 Links to High-Risk Countries

The TF vulnerability of the NPO sector based on the sector’s NPOs links to high-risk jurisdictions is assessed as **MEDIUM-LOW**.

Category of Vulnerability	Terrorist Financing
Operation in high-risk countries	MEDIUM-LOW
Communal or family ties to high-risk TF countries	MEDIUM-LOW
Value of funds sent to or received from high-risk countries	MEDIUM LOW

Operation in high-risk countries

Only a relatively small number of NPOs surveyed for this risk assessment operate in high-risk countries for TF, or areas under sanctioning clauses dealing with complex emergencies (such as conflict), and/or where terrorist or prescribed groups are known to operate. However, these NPOs may be more vulnerable to attempted misuse by terrorism financiers or their associates.

In the survey responded to by 1,152 NPOs for this risk assessment, less than 1% of NPOs operate in high-risk TF countries. At least 0.43% of NPOs have majority or significant proportion of their programmes in conflict zones or where terrorist or prescribed groups are known to operate. However, 1.74% of NPOs have at least one of their programmes in such areas. While this comprises a very small proportion of the NPO sector, these entities face significant TF risks.

Value of funds sent to or received from high-risk countries

One incoming transaction from a country identified as having strategic deficiencies in its regime to counter money laundering, terrorist financing and proliferation financing amounted to 4,457,659.70 PHP. As per AMLC report, this transaction comprises those with no underlying legal or trade obligation, purpose or economic justification. There were no other transactions involving funds received from or sent to high risk countries.

4.6 Use of Cash

The cash vulnerability for TF abuse is assessed as **MEDIUM**.

Category of Vulnerability	Terrorist Financing
Use of Cash	MEDIUM

The NPO sector is inherently cash intensive. In many cases, cash is the main or only resource available at the collection and expenditure stages: for example, getting resources on the ground following a major disaster or failed state. In a survey conducted for this risk assessment, 13.19% of NPOs responded that their 76% or above donations are in cash, while 28.99% responded to have cash donations below 25% of their transactions. In majority NPOs (92.10%), there is no maximum limit imposed on accepting donations in cash from donors. Similarly, 14.06% of NPOs responded to have transferred 76% or above of their funds/donations to their beneficiaries in cash while 22.92% responded to use cash in funds transfer in less than 25% transactions.

Compared to other payment channels, 15% of the surveyed NPOs have indicated the use of physical cash in their 75% or more transactions relating to sending/transferring funds. Nearly 74% of the NPOs use physical cash to send/transfer money in at least 25% of their transactions. Although no data is provided in the use of banks for collection and transfer of funds, bank de-risking of NPOs (where banks have closed down business with an NPO) might be a strong reason for some entities to carrying cash to legitimate partners or beneficiaries overseas, including into high-risk countries.

In the Philippines, the AMLC uses Covered Transaction Reports (CTR) and Border Cash Transaction Reports (BCTR) to analyse trends in the use of cash. CTR demonstrate domestic money movements, while BCTR demonstrate cross-border money movements.

CTRs

The value of CTRs illustrates the cash-intensive nature of the sector. NPOs are not covered persons under the AMLA and therefore not required to submit CTRs to the AMLC. Nonetheless, during the sample period for this risk assessment (2017 to 2020), CTRs linked to NPOs have been submitted by AMLA covered persons. The analysis of these CTRs, which are filed on foundations only, suggest a huge cash activity in the sector. Between 2017 and 2020, a total of 74,177 CTRs have been filed with the AMLC in the total value of Php 148,610,840,348.83. The number of CTRs have increased each year; however, the value of CTRs has been significantly high in 2018, as compared to 2019 and 2017. All these CTRs relate to foundations only. In 2020, there cash related CTRs decreased to 18,237 but the value thereof amounting to 35,787,889,794.74 is slightly higher than the value of the CTRs for 2019.

Table 15: No. of CTRs filed with AMLC involving NPOs (2017-2019)

Year	No. of CTRs	Value of CTRs (in Php)
2017	15,595	36,717,804,366.93
2018	19,326	41,911,655,130.09
2019	21,019	34,193,491,057.07
2020	18,237	35,787,889,794.74
TOTAL	55,940	148,610,840,348.83

BCTRs

On the analysis of BCTRs, it has been assessed that between 2017 and 2019, there were only 2 NPOs recorded in BCTRs (in 2018) with a combined total of Php 4,133,774.40. The countries involved in these BCTRs were South Korea and USA. There are no reported BCTRs, however, for the year 2020.

The total volume and value of BCTR reporting by NPOs is lower than expected given the significant use of cash within the sector. This might be due to various reasons, for instance:

- the use of other financial channels by NPOs to move money overseas; or
- failure to declare cash transaction activity by NPO personnel at the border; or
- declaring the cash movement at the border, but not advising that the cash is being carried out on behalf of an NPO; or
- carrying cash amounts that are below the reporting threshold.

STRs

Between 2017 and 2020, there were a total of 3,196 STRs received by the AMLC linked to NPOs. Out of these 3,196 STRs, 112 STRs relate to terrorism/financing terrorism and related offences.

On an in-depth analysis of these STRs, it has been identified that, the number of TF STRs (46) involving cash transactions and linked to NPOs has increased in 2019, as compared to 2018, representing 40.5% of total TF STRs between 2017 and 2019. The total combined value of cash involved in ML and TF STRs linked to NPOs is significant at Php182,172,305.73, which constitutes 0.033% of the total value of NPO-linked STRs submitted to the AMLC in the sample period of this risk assessment.

Table 16: No. of NPO-linked ML and TF STRs filed with AMLC involving Cash (2017-2019)

Year	TF STRs involving Cash	Value of combined ML and TF STRs (in Php)
2017	0	77,595,630.69
2018	9	19,284,495.44
2019	36	85,292,179.60
TOTAL	45	182,172,305.73

Breakdown of Foreign-Linked Terrorism/Terrorism Financing STRs by Transaction Type/Transaction Value³⁶

Based on the data on foreign-linked terrorism/terrorism financing STRs by transaction type, most of the STRs in the dataset pertain to international inward remittances, implying that the country is at a significantly higher risk of being recipient rather than source of terrorism financing.

It was also noted that a sizeable number of transactions pertain to cash deposits. A breakdown of foreign-linked terrorism/terrorism financing STRs by transaction value shows that most STRs in the dataset refer to small value transactions (i.e. less than PHP10,000) of which there were 65 reports having nominal values of Php0 to Php1. Most of these transactions are international inward remittances sent through MSBs. Specifically, out of the 477 non-nominal transactions below Php10,000.00, 350 transactions totalling Php1.6 million were done through MSBs. This represents 73.1 % of the volume and 83% of the total value of transactions. Said transactions which are small in value, at amounts significantly lower than the Covered Transaction Report (CTR) threshold of Php500,000.00 makes them even more difficult for the AMLC to detect.

³⁶ AMLC, "A Study on Foreign Terrorist Fighters (FTFS) and Suspected Foreign-Linked Terrorism Financing, January 2021"

4.7 Transparency and Accountability of Movement of Funds

On assessing the transparency and accountability of movement of funds in the NPO sector, its TF vulnerability is assessed as **MEDIUM**.

Category of Vulnerability	Terrorist Financing
Collection of Resources	MEDIUM
Retention of Resources	MEDIUM
Transfer of Resources	MEDIUM
Expenditure of Resources	MEDIUM
Delivery of Programmes	MEDIUM

The nature of the NPO sector makes transparency and accountability of the end-to-end funding cycle extremely challenging, exposing NPOs to significant vulnerability. A number of factors limit visibility of the funding cycle, including the cash-intensive nature of the sector, internal controls that cannot accurately account for what resources have been stored and where, limited visibility of funds once they leave Philippines, especially transfers to high-risk countries or where poor AML/CFT regimes exist, reliance on local partners to expend resources or deliver programs, particularly in high-risk countries or where poor AML/CFT regimes exist, and limited oversight of in-country program delivery for NPOs operating overseas.

Fund Raising and Retention

The 2017 NPO risk assessment of Philippines has highlighted that NPOs in the Philippines generally raise funds through membership dues, donations, government subsidies and revenue from income-generating activities.³⁷

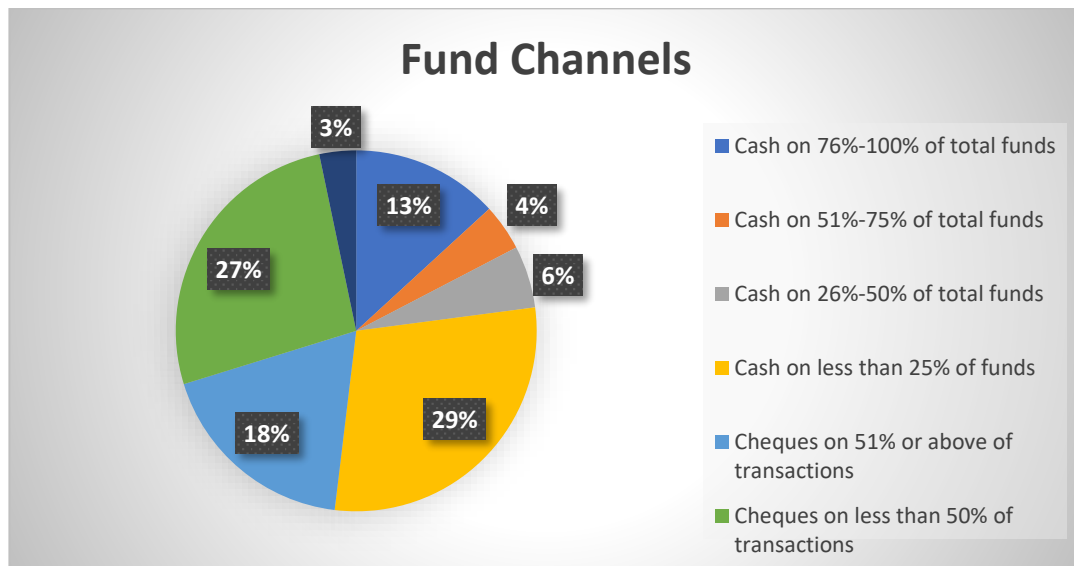
Based on the survey conducted for this risk assessment, domestic donations or fundraising operations constitute the major source of funding for NPOs in Philippines; however, international donations and government grants also constitute a significant funding source. On raising funds for their services or activities, NPOs have responded that 67.15% of the total value of their funds has been raised domestically while only 15.45% has been raised overseas. Government grants and donations constitute 17.39% of the total funds raised by NPOs surveyed for this risk assessment. Major jurisdictions from where the funds have been raised overseas include United States of America (27.84%), Germany (8.53%), Australia (6.21%), Canada (5.83%), Italy (4.40%) and United Kingdom (4.40%).

From the survey responses for this risk assessment, majority of NPOs (53.65%) receive their donations face to face, while 34.11% receive donations online. There is also a small number of NPOs (9.64%) that collect donations via third-party agents. However, when third-party agents or intermediaries provide donations, 60.36% of surveyed NPOs have reported they require additional verification documents to verify the identity of the third-party (including special authorisation letter or valid IDs) whereas 29.73% do not exercise any enhanced due diligence on third-party agents.

³⁷ Philippines Risk Assessment of the Non-Profit Organization (NPO) Sector, p. 49, accessible at <http://www.amlc.gov.ph/images/PDFs/NPO%20Risk%20Assessment.pdf>

On the financial channels used to collect funds, there are two main channels reported in the survey responses i.e., cash and cheques.

Cash appears to be constituting a major fund-raising method for NPOs in Philippines; for instance, 13.19% of NPOs surveyed for this risk assessment noted that cash donations constitute 76%-100% of their total funds, 4.17% reported to have between 51%-75% cash donations, 5.56% reported 26%-50% cash donations and 28.99% noted less than 25% cash donations. 92.10% of the NPOs surveyed for this risk assessment have not imposed any maximum limitation to donations in cash from donors.



On the second major fund-raising method (i.e., cheques), 18.32% of NPOs noted that they are collecting funds using cheques in 51% or above of their donations whereas 26.48% reported to be using cheques in less than 50% transactions.

In addition to the above, other two main methods that have been used by NPOs to collect donations include domestic online transfers and international online transfers. A small number of NPOs have also indicated the use of bankers' draft, debit card, credit card and use of cryptocurrency and other virtual currencies to collect donations.

Transfer and Expenditure of Funds/Resources

Majority (99.08%) of the funds raised by the NPOs surveyed for this risk assessment has been spent domestically whereas only small portion (0.92%) of the NPO funding has been spent overseas. The top five jurisdictions where the NPO funds have been spent overseas include United States of America (0.26%), Indonesia (0.19%), Vietnam (0.16%), Cambodia (0.16%) and South Korea (0.16%).

On the financial channels used to transfer and disburse funds, there were two main channels reported in the survey responses i.e., cash and cheques. Cash couriering is noted as a significant method of transferring funds either domestically or internationally. In the survey responses for this risk assessment, 14.06% NPOs reported to be using cash couriering to transfer 76% to 100% of their funds, 3.91% reported to be using this method for 51%-75% transfers, 4.77% reported 26%-50% cash couriers, and 22.92% noted as using cash couriering in less than 25% of their funds' transfers. Cash clearly represents a high risk for ML and TF both, for it is difficult to monitor and irregular or illicit transaction are hard to detect as it leaves no transaction trail.

Cheques also constitute one of the main methods used to transfer funds. 19.70% of NPOs noted to be transferring funds using cheques in 51% or above of their transactions whereas 17.71% reported to be using cheques in less than 50% transactions.

In addition to the above, formal banking channels – domestic and international online transfers, bankers’ drafts, debit cards and credit cards - also constitute an important channel for NPOs to collect and transmit funds. Other financial channels, such as prepaid cards, Money Service Businesses or Electronic Money Issuers, also appear to have been used by NPOs, although in very small percentage. In the last few years, the use of crowdfunding, virtual currencies and other online payment platforms by NPOs also appear to have evolved, which are considered to be high risk for ML and TF due to their potential to hide the origin and destination of money.

In Philippines, foundations are required by law to deposit all their funds in a banking institution.³⁸ It provides an additional safeguard against the abuse of foundations for TF or ML purposes, for banks (as covered persons under the AMLA) are required to apply AML/CFT measures to verify the source of funding.

16.75% NPOs surveyed for this risk assessment indicated that they make public disclosure of the information on the use of donations whereas 60.94% NPOs use regular reporting to inform donors about how donations have been spent. 32.20% of the surveyed NPOs also reported that they publish regular reports on the spending of funds and implementation of their activities. 19.10% of NPOs also make this information available on their website.

Delivery of Programmes

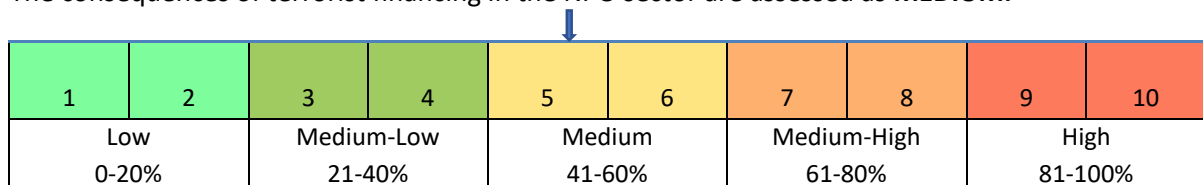
On conducting due diligence and on-going monitoring of programmes implemented by partners and/or associate NPOs to ensure the proper application of funds, 58.85% of NPOs surveyed for this risk assessment indicated that they have no such monitoring or oversight mechanisms in place. 41.15% of NPOs which have such procedures in place use either regular reporting (36.20%), auditing (30.30%), on-site visits (25.26%) or a combination of these mechanisms to oversee the efficient delivery of programmes by their partners/associated NPOs.

5. Consequences Assessment

‘Consequences’ refers to the potential impact or harm that ML/TF and other financial crimes may cause. Financial crime in the NPO sector has consequences for NPOs, potential beneficiaries and connected individuals to NPOs, the broader Philippines economy and community, national and international security, as well as Philippines’s global image and bilateral relationships.

5.1 Terrorist Financing Consequences

The consequences of terrorist financing in the NPO sector are assessed as **MEDIUM**.



³⁸ Sec. 8, SEC M.C. No. 8, series of 2006.

Here is the snapshot of 'Consequences' risk rating for money laundering and terrorist financing.

Category of Consequence	Terrorist Financing
NPOs	MEDIUM-HIGH
Individuals/Beneficiaries	MEDIUM
Philippines economy and community	MEDIUM
National and International Security	MEDIUM
Philippines Global Image and Bilateral Relationships	MEDIUM

The severity of the consequences for NPOs would vary, depending on the extent to which they understand the TF risks they face, have effective controls and strategies in place to mitigate these risks, and identify and report any suspicious transactions. Consequences for individual NPOs include in general: reputational damage and loss of public trust, confidence and charitable donations; loss of government funding; regulatory or enforcement action; breakdown of relationship with financial institutions, including potential costs to repair or establish new banking relationships which can have implications on programme delivery; and increased administrative costs if more onerous requirements are needed to mitigate threats.

Consequences for beneficiaries, donors and personnel connected to NPOs include, for instance, loss of funding and assistance to beneficiaries, including the potential follow-on impact on their living and survival; loss of employment or resources for individuals connected to NPOs; and loss of donor resources when their donations do not reach intended beneficiaries.

ML and TF in the NPO sector has the potential to have an impact on the broader Philippine economy and community. The following impact or harm to the economy is more or less likely to occur should ML, TF and other financial crime happens in the NPO sector: diminished tax revenue when used to facilitate tax evasion; adverse impact on the reputation and integrity of Philippines's NPO sector; making the Philippines's NPO sector attractive to criminals for laundering proceeds of crime, financing terrorism and/or for other criminal abuse.

The national and international security consequences of terrorist financing in NPO sector is assessed as medium, given the level and potential of terrorism and terrorism financing activity in the sector in terms of likelihood and impact. The national and international security consequences might include the use of Philippines' NPO sector to finance and facilitate terrorist attack or to promote a terrorist activity, as well as damage to key bilateral and multilateral relationships of the country. ML and TF in the NPO sector of the Philippines has the potential to harm its global image, AML/CFT reputation, as well as diminish the international community's trust in the Philippine government.

6. Action Plan and/or Mitigating Measures

In light of the findings of the risk assessment, below is the action plan and/or the mitigating measures that should be put in place at sectoral level to effectively combat the criminal misuse of the NPO sector for terrorist financing.

- i) Establish mechanisms that promote regular reporting by NPOs to SEC and assist in the collection of adequate, accurate and up-to-date information and data relating to NPOs financial information, activities and operations (including, for instance, their assets, transactions, donations, donors, delivery channels etc.).
- ii) Develop and effectively implement the TF risk-based supervisory model through regular off-site and on-site examinations (based on risk-assessment), including effective supervision and monitoring of high-risk subset of NPOs, to prevent the abuse of the sector for TF purposes.
- iii) Conduct regular TF-specific outreach activities, including seminars, workshops and conferences, for NPOs to develop their understanding of ML/TF risks facing the sector and to develop their risk-based documented institutional-level risk assessments covering TF risks.
- iv) Issue sectoral-specific CFT guidance to NPOs to develop their understanding of major crime threats and ML/TF vulnerabilities of the sector, as well to promote their compliance with their reporting obligations.
- v) Establish formal coordination and cooperation mechanisms between SEC, AMLC and other regulatory agencies of NPOs, including LEAs and NPO sector representatives, for exchange of any relevant information that could assist in legitimate investigations and to timely inform the relevant parties on emerging ML and TF trends and typologies.
- vi) Establish adequate information-sharing mechanisms and enhanced international cooperation with foreign jurisdictions and foreign counterparts.

APPENDIX I: TF RISK ASSESSMENT METHODOLOGY

CRIME THREAT ASSESSMENT

1	2	3	4	5	6	7	8	9	10
Low 0-20%		Medium-Low 21-40%		Medium 41-60%		Medium-High 61-80%		High 81-100%	

Low	Medium-Low	Medium	Medium-High	High
Low incidence of terrorist activities	Few incidents of terrorist activities	Moderate number of incidents of terrorist activities	High incidence of Terrorist activity	Extremely high incidence of terrorist activity
No/minimal links or targeting by domestic, regional or international terrorist groups, networks, cells or individuals (suspected or proven)	Limited links or targeting by terrorist groups, networks, cells or individuals (suspected or proven)	Moderate links or targeting by terrorist groups, networks, cells or individuals (suspected or proven)	Significant links or targeting by terrorist groups, networks, cells or individuals (suspected or proven)	Widespread and systematic links or targeting by terrorist groups, networks, cells or individuals (suspected or proven)
No/minimal instances of misuse, or unwittingly abuse for TF (suspected or proven)	Few instances of misuse, or unwittingly abuse for TF (suspected or proven)	Moderate instances of misuse, or unwittingly abuse for TF (suspected or proven)	Significant instances of misuse, or unwittingly abuse for TF (suspected or proven)	Extremely high instances of misuse, or unwittingly abuse for TF (suspected or proven)

VULNERABILITY

1	2	3	4	5	6	7	8	9	10
Low 0-20%		Medium-Low 21-40%		Medium 41-60%		Medium-High 61-80%		High 81-100%	

Low	Medium-Low	Medium	Medium-High	High
Regulation				
The sector operates under a strong and consistent regulatory framework; there is an extremely high level of oversight and supervision, including enforcement actions	The sector operates under a reasonably sufficient and consistent regulatory framework; there is a high level of oversight and supervision, including enforcement actions	Regulatory frameworks apply to specific parts of the sector or their activities; there is a moderate level of oversight and supervision, including enforcement actions	Regulatory frameworks are mostly variable across the sector; there is only a low level of oversight and supervision, including enforcement actions	Regulatory frameworks are highly variable across the sector; there is only a very low level of oversight and supervision, including enforcement actions

Regulatory bodies have wide coverage of relevant NPOs and are actively involved in reducing risks in the sector	Regulatory bodies have sufficient coverage of relevant NPOs and are well involved in reducing risks in the sector	Regulatory bodies have moderate coverage of relevant NPOs and are involved in reducing risks in the sector	Regulatory bodies have limited coverage of relevant NPOs and are not actively involved in reducing risks in the sector	Regulatory bodies have no/minimal coverage of relevant NPOs and are not actively involved in reducing risks in the sector
It is not possible to establish a sham NPO	It is difficult to establish a sham NPO, with minor possibilities	It is difficult to establish a sham NPO, but with moderate possibilities	It is difficult to establish a sham NPO, but with major possibilities	It is possible to establish a sham NPO
Preventive Measures				
Very large number of NPOs have a strong understanding of their risks and have appropriate mitigation strategies in place	High number of NPOs have a strong understanding of their risks and have appropriate mitigation strategies in place	Some NPOs have a strong understanding of their risks and have appropriate mitigation strategies in place	Minor number of NPOs have a strong understanding of their risks and have appropriate mitigation strategies in place	Very low/minimal NPOs have a strong understanding of their risks and have appropriate mitigation strategies in place
Very large number of NPOs conduct robust and appropriate probity checks on personnel	High number of NPOs have a strong understanding of their risks and have appropriate mitigation strategies in place	Some NPOs conduct robust and appropriate probity checks on personnel	Minor number of NPOs have a strong understanding of their risks and have appropriate mitigation strategies in place	Very low/minimal NPOs conduct robust and appropriate probity checks on personnel
Very large number of NPOs have systems and procedures to confirm the legitimacy of partners, beneficiaries and third-parties	High number of NPOs have systems and procedures to confirm the legitimacy of partners, beneficiaries and third-parties	Some NPOs have systems and procedures to confirm the legitimacy of partners, beneficiaries and third-parties	Minor number of NPOs have systems and procedures to confirm the legitimacy of partners, beneficiaries and third-parties	Very low/minimal NPOs have systems and procedures to confirm the legitimacy of partners, beneficiaries and third-parties
National Cooperation and Coordination				
National cooperation and coordination between AMLC, SEC, law enforcement and national security agencies and NPO regulators is highly effective with minimal gaps	National cooperation and coordination between AMLC, SEC, law enforcement and national security agencies and NPO regulators is sufficiently effective with minor gaps	National cooperation and coordination between AMLC, SEC, law enforcement and national security agencies and NPO regulators is moderately effective, with some gaps	National cooperation and coordination between AMLC, SEC, law enforcement and national security agencies and NPO regulators is mostly inconsistent and ineffective, with major gaps	National cooperation and coordination between AMLC, SEC, law enforcement and national security agencies and NPO regulators is extremely inconsistent and not always effective.
Links to High-Risk Countries				
No/very few NPOs operate in a high-risk country	Minor number of NPOs operate in a high-risk country	A moderate number of NPOs operate in a high-risk country	Significant number of NPOs operate in a high-risk country	A very large number of NPOs operate in a high-risk country
No/very few NPOs are based in a community with strong communal or family links to a high-risk country	Few NPOs are based in a community with strong communal or family links to a high-risk country	Moderate number of NPOs are based in a community with strong communal or family links to a high-risk country	Significant number of NPOs are based in a community with strong communal or family links to a high-risk country	Extremely large number of NPOs are based in a community with strong communal or family links to a high-risk country

In TF terms, NPOs send or receive no/very small amounts of funds to or from high-risk countries	In TF terms, NPOs send or receive small amounts of funds to or from high-risk countries	In TF terms, NPOs send or receive moderate amounts of funds to or from high-risk countries	In TF terms, NPOs send or receive significant amounts of funds to or from high-risk countries	In TF terms, NPOs send or receive extremely high amounts of funds to or from high-risk countries
Use of Cash				
Donations and transactions rarely involve cash or involves cash in very small amounts	Donations and transactions sometimes involve cash or involves cash in small amounts	Donations and transactions often involve cash or involves cash in moderate amounts	Donations and transactions often involve cash or involves cash in significant amounts	Donations and transactions usually involve cash or involves cash in very large amounts
Transparency and Accountability in Movement of Funds				
Very large number of organisations have strong internal transparency and accountability practices concerning how funds/resources are collected, including the amount of cash and sources of donation. High risk channels are rarely used.	Significant number of organisations have strong internal transparency and accountability practices concerning how funds/resources are collected, including the amount of cash and sources of donation. High risk channels are rarely or sometimes used.	Some organisations have strong internal transparency and accountability practices concerning how funds/resources are collected, including the amount of cash and sources of donation. High risk channels are sometimes used.	Minor number of organisations have strong internal transparency and accountability practices concerning how funds/resources are collected, including the amount of cash and sources of donation. High risk channels are increasingly used.	Extremely few/negligible organisations have strong internal transparency and accountability practices concerning how funds/resources are collected, including the amount of cash and sources of donation. High risk channels are often used.
Very large number of organisations have strong internal transparency and accountability practices concerning how funds/resources are stored	Significant number of organisations have strong internal transparency and accountability practices concerning how funds/resources are stored	Some organisations have strong internal transparency and accountability practices concerning how funds/resources are stored	Minor organisations have strong internal transparency and accountability practices concerning how funds/resources are stored	Extremely few/negligible number of organisations have strong internal transparency and accountability practices concerning how funds/resources are stored
Very large number of organisations have strong internal transparency and accountability practices concerning how funds/resources are transferred. High risk channels are rarely used.	Significant number of organisations have strong internal transparency and accountability practices concerning how funds/resources are transferred. High risk channels are rarely used.	Some organisations have strong internal transparency and accountability practices concerning how funds/resources are transferred. High risk channels are sometimes used.	Minor number of organisations have strong internal transparency and accountability practices concerning how funds/resources are transferred. High risk channels are sometimes used.	Extremely few/negligible organisations have strong internal transparency and accountability practices concerning how funds/resources are transferred. High risk channels are often used.
Very large number of organisations have strong internal transparency and accountability practices concerning how funds/resources are expended. High risk channels are rarely used.	Significant number of organisations have strong internal transparency and accountability practices concerning how funds/resources are expended. High risk channels are rarely, but sometime, used.	Some organisations have strong internal transparency and accountability practices concerning how funds/resources are expended. High risk channels are sometimes used.	Minor number of organisations have strong internal transparency and accountability practices concerning how funds/resources are expended. High risk channels are increasingly used.	Extremely few/negligible organisations have strong internal transparency and accountability practices concerning how funds/resources are expended. High risk channels are often used.

Very large number of organizations have strong internal transparency and accountability practices to ensure programs are delivered as intended.	Significant number of organizations have strong internal transparency and accountability practices to ensure programs are delivered as intended.	Some organizations have strong internal transparency and accountability practices to ensure programs are delivered as intended.	Minor number of organizations have strong internal transparency and accountability practices to ensure programs are delivered as intended.	Extremely few/negligible organizations have strong internal transparency and accountability practices to ensure programs are delivered as intended.
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CONSEQUENCES

1	2	3	4	5	6	7	8	9	10
Low 0-20%		Medium-Low 21-40%		Medium 41-60%		Medium-High 61-80%		High 81-100%	

Low	Medium-Low	Medium	Medium-High	High
TF has no/minimal impact on potential beneficiaries and/or individuals connected to the NPO	TF has minor impact on potential beneficiaries and/or individuals connected to the NPO	TF has moderate impact on potential beneficiaries and/or individuals connected to the NPO	TF has significant potential impact on potential beneficiaries and/or individuals connected to the NPO	TF has catastrophic impact on potential beneficiaries and/or individuals connected to the NPO
TF has negligible or minimal impact on an NPO's reputation, financial performance and operation	TF has limited impact on an NPO's reputation, financial performance and operation	TF has moderate impact on an NPO's reputation, financial performance and operation	TF has significant impact on an NPO's reputation, financial performance and operation	TF has extreme impact on an NPO's reputation, financial performance and operation
TF has no/minimal impact on the Philippines economy and community	TF has minor impact on the Philippines economy and community	TF has moderate impact on the Philippines economy and community	TF has significant impact on the Philippines economy and community	TF has extreme impact on the Philippines economy and community
TF is not likely to have much impact on the national and/or international security	TF is likely to have minor impact on national and/or international security	TF is likely to have moderate impact on national and/or international security	TF is likely to have significant impact on national and/or international security	TF is likely to have extreme impact on national and/or international security
TF causes no/minimal damage to Philippines's global image and bilateral relationships	TF causes limited damage to Philippines's global image and bilateral relationships	TF causes moderate damage to Philippines's global image and bilateral relationships	TF causes significant damage to Philippines's global image and bilateral relationships	TF causes catastrophic damage to Philippines's global image and bilateral relationships