

## **Protecting the NPO sector from potential misuse**

*Findings of the strategic analysis of the NPO sector conducted by the  
Administration for the Prevention of Money Laundering*

### **APML strategic analysis of the NPO sector**

#### **Objectives**

**Overall objective:** Assess general and specific ML/TF risks related to the operation of the NPO sector

**2 specific objectives:**

- to identify NPOs whose activities may raise suspicion on ML or TF or related predicate crimes, which may further have an effect on the operations of the Working Group for NPO Supervision and
- to identify NPOs whose activities do not raise suspicion on illegal (or high-risk) operations, or NPOs that could be considered potential partners in implementing the activities envisaged in the national AML/CFT Action Plan

#### **Methodology**

**Method:** Comparative analysis of various quantitative and qualitative information

**Sample:** a combination of criteria and indicators

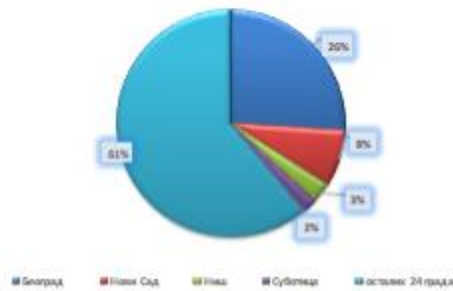
**Some key elements reviewed**

- Structure, size, sources of revenue
- Level of transparency
- Potential existence of cross-border risk
- Beneficial ownership information

## Key findings

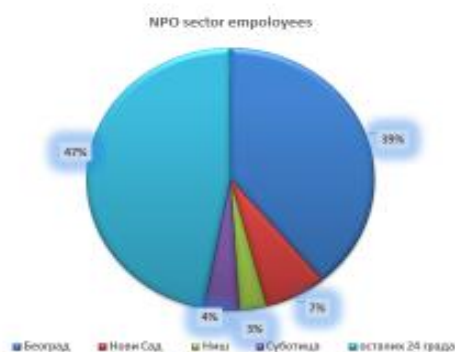
### • Size and regional distribution (2019):

- 2013: approx. 20.000 NPOs
- 2020: 35.482 (NPOs)



Here you can see that the number of NPOs almost doubled since 2013. Most of the NPOs are located in and around Belgrade, followed by the Vojvodina and Niš.

### • Regional distribution of revenue and employees (2019)



The distribution follows the same pattern also when it comes to the amount of revenue and number employees.

In this respect, we could say that we have not noticed any unusual issues here since the number of employees is generally appropriate to the revenue levels identified.

## Key findings

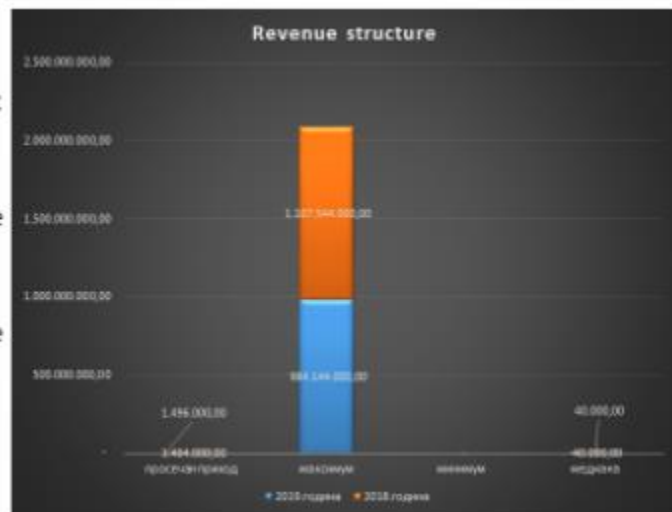
### Funding

- 1% of NPOs account for 51% of the NPO sector's total revenue
- 5% of NPOs account for 65% of the NPO sector's total revenue
- 25% of NPOs account for 99% of the the NPO sector's total revenue

This was a new insight for us. Namely, we found a high concentration of revenue in a small number of NPOs. Specifically, out of roughly 35000 NPOs, 350 organisations generate 51 percent of all revenue in the NPO sector. Also, you will notice that as much as three quarters of the sector accounts for only 1% of the NPO sector in terms of revenue. This is significant information for us as it can help us allocate our resources more appropriately and efficiently.

### Funding

- The revenue structure reveals a constant growth, i.e. the revenue maximum in 2018 was RSD 984,144,000 and 1,107,544,000 in 2019.
- In 2018, the average NPO sector revenue was RSD 1,464,000, and the highest-revenue NPO generated RSD 984,144,000.
- In 2019, the average NPO sector revenue was RSD 1,496,000, and the highest-revenue NPO generated RSD 1,107,544,000.



This slide shows that the sector in 2019 grew in revenue compared to 2018. An important piece of information here is that more than half of NPOs generate an annual revenue of 40,000 Serbian dinars (around 350 euros), which will further help us in resource allocation.

## Key findings

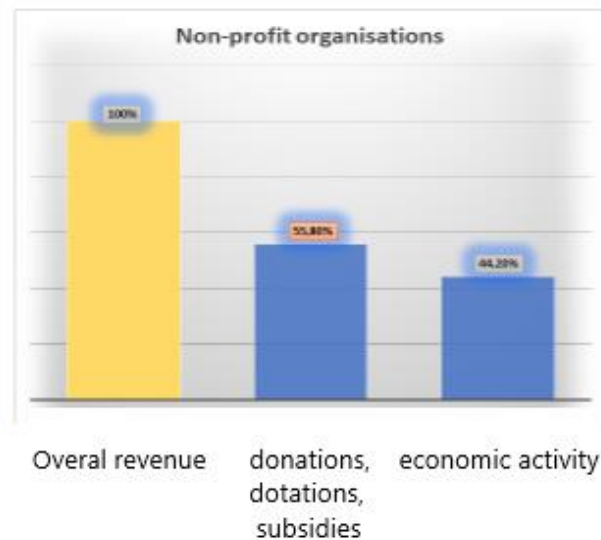
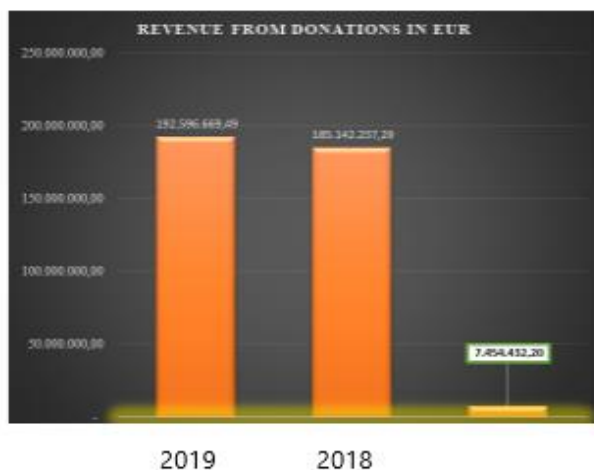
### Funding

Trends in income statement item changes:

In 2019, the total NPO sector revenues grew by RSD 1,492,583,000 compared to 2018



As noted, the sector revenue has a growing trend.



We think NPO revenue structure is particularly informative. As we know, NPOs can finance their activities from membership fees, donations, grants and subsidies. But they can also generate revenue by business activities under the condition, among other things, that such economic activity is at conducted a small scale.

## Key findings

As you can see on this slide, 44% of all revenue of the sector is generated through economic activity.

The analysis has shown that 408 NPOs generated revenue from donations only, and these donations account for 28.51% of all donations in the sector.

Therefore, having in mind the size of revenue from business activities of the NPO, one could draw a conclusion that the real and main purpose behind an NPO could actually be engaging in business activities, rather than in the achievement of the declared aims of the NPO.



As have mentioned previously, we have found nothing unusual when it comes to the number and/or distribution of employees having in mind the revenue criterion.

Of the total number of NPOs, which employ 8,609 people, the 1,300 highest-revenue NPOs (i.e. 5% of the total number of the registered NPOs) employ 5,868 persons, i.e. 68.16%.

### Transparency based on the sample

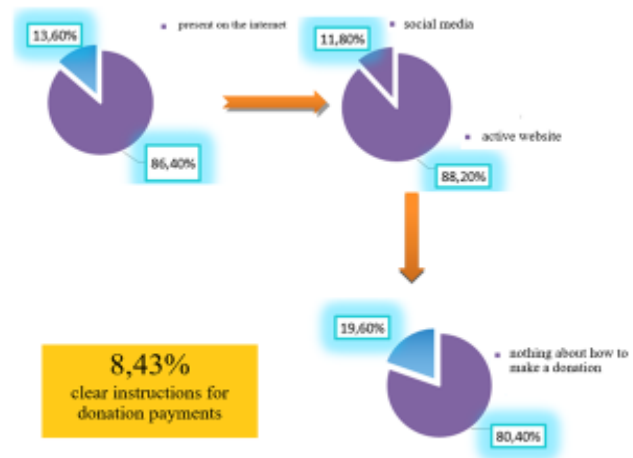
The first thing we analysed is visibility and we found that 86,4% of NPO sector was present on the internet, 88,2% of which had an active website, while 11,8% promoted their activities in other ways, including through social media.

**80,40% of NPOs present on the internet said nothing about how to make a donation, that is, there were no clear instructions as to how to make a payment.**

Alarming, for donation payments 50% of NPOs provided accounts which could not be found in the relevant account register on the website of National Bank of Serbia, examination has shown.

The above indicates that accounts held by natural persons could be used for collecting donations, which raises suspicion that a NPO might not be disclosing all available funds in financial statements, which consequently hinders controls of the use of funds and activities of NPOs.

**Payment services** - 30% said that donations are accepted including through payment platforms  
**Crypto currencies** - 20% receive donations in virtual currencies



This is a very important slide.

We analysed transparency also by looking at whether NPOs published accurate payment instructions for donations.

We were surprised to find that 80.4% had published no instructions for donors on how to pay a donation.

19.6% NPOs have published their donation payment instructions. However, a half of these donation payment instructions were inaccurate. We have come across various situations in this respect: for instance, some of the published bank account numbers could not be found in the Central Bank's legal entity account register, or the indicated bank accounts were held by natural persons, rather than by the specific NPO.

## Key findings

### **Surprisingly, no more than 8.43% of the sample NPOs had accurate and clear instructions for donation payment.**

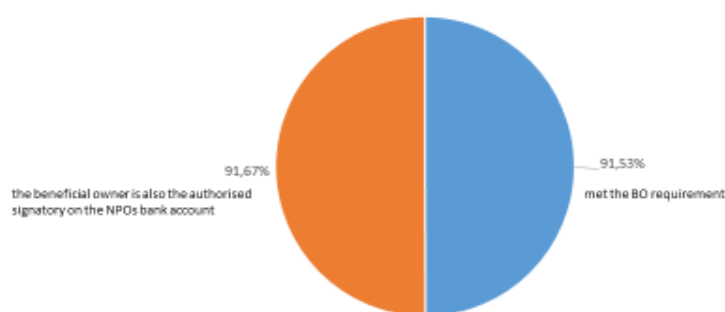
In addition, what we have to pose a particular risk is the fact that as many as 30% of the sample NPOs indicated that they also accepted donations through payment platforms, and 20% also accept donations in virtual currencies.

Even though this is not a legal requirement for NPOs, we believe that publishing or making available the list of donors is an important sign of transparency and an indicator of risk as well.

Of all organisations having a website, 37.8% have published their donor list. (It should be noted here that some organisations are not funded by donations but by membership fees only.) However, an analysis has shown that the disclosed donors on the lists match the persons who have paid donations into the NPOs' bank accounts in less than a half of these NPOs, i.e. in 41.18% of them, which **indicates that out of the entire sample only 15.46% NPOs have fully disclosed the list of their donors.**

#### • Beneficial owner

Article 4 of the Law Amending the Law on Centralised Records of Beneficial Owners (Official Gazette of the Republic of Serbia, 91/2019), required NPOs to register data on the beneficial owner into the centralised records no later than 31 January 2020



Beneficial ownership information are extremely important. Serbia has invested serious efforts to ensure transparency of legal entities, by being able to obtain accurate and up-to-date beneficial ownership information.



## Key findings

As part of these efforts, Serbia established a Centralised Records of Beneficial Owners.

NPOs are also required to register their BOs in this register, and the level of compliance of NPOs with this requirement is a very important indicator of transparency and risk.

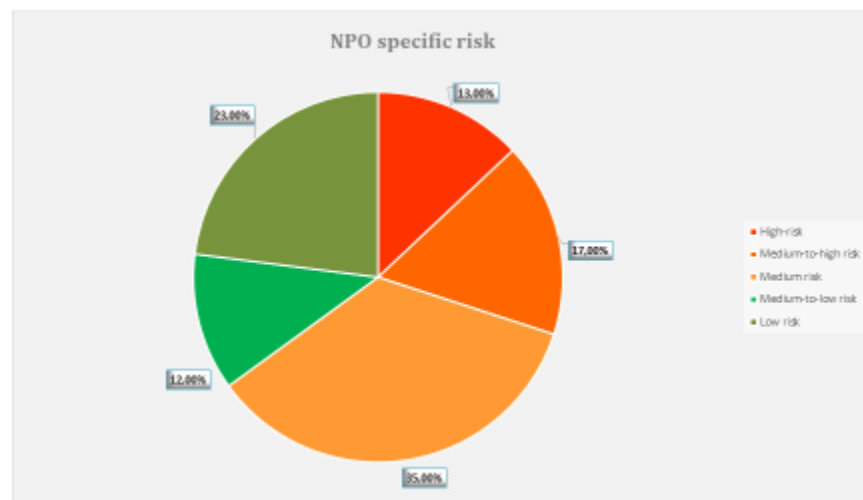
We found that 91.53% of the sample NPOs registered their BOs in the Centralised Records.

However, the APML went further in examining this particular indicator, and this was done by testing whether the registered BO is also the person authorized to use the bank account of that NPO.

**This analysis has revealed that in 8.33% of those NPOs who registered their BO, the registered BO was not the authorized signatory on the NPOs account, but this was a different person.**

We think that such situations pose a particular risk.

- Risk assessment based on the sample
- 6 BO-related disseminations
- 3 cases with serious suspicion on ML/TF/predicate crime



Finally, the above analyses have lead us to some conclusions as to the level of risk based on the sample.

## Key findings

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We established that most of the NPOs can be classified as medium-risk, but there is also a significant percentage of those posing higher risk than we would like to have.

The analysis has also revealed a number of high-risk NPOs whose activities may indicate the presence of ML, TF or predicate crimes, and therefore could be a subject-matter of further action by other authorities and institutions.

In this regard, it is relevant to say that the APML has shared with the competent authority 6 reports concerning the compliance of NPOs with their BO obligations, and it opened 3 cases where it found reasons for suspicion on illicit activities.

However, the analysis has also shown that a certain number of low and medium-to-low risk NPOs may be considered as potential partners our further work planned under the national strategy and action plan, such as in the national risk assessment activities.

## RECOMMENDATIONS

In order to increase transparency of the sector, NPOs should be given the following recommendations:

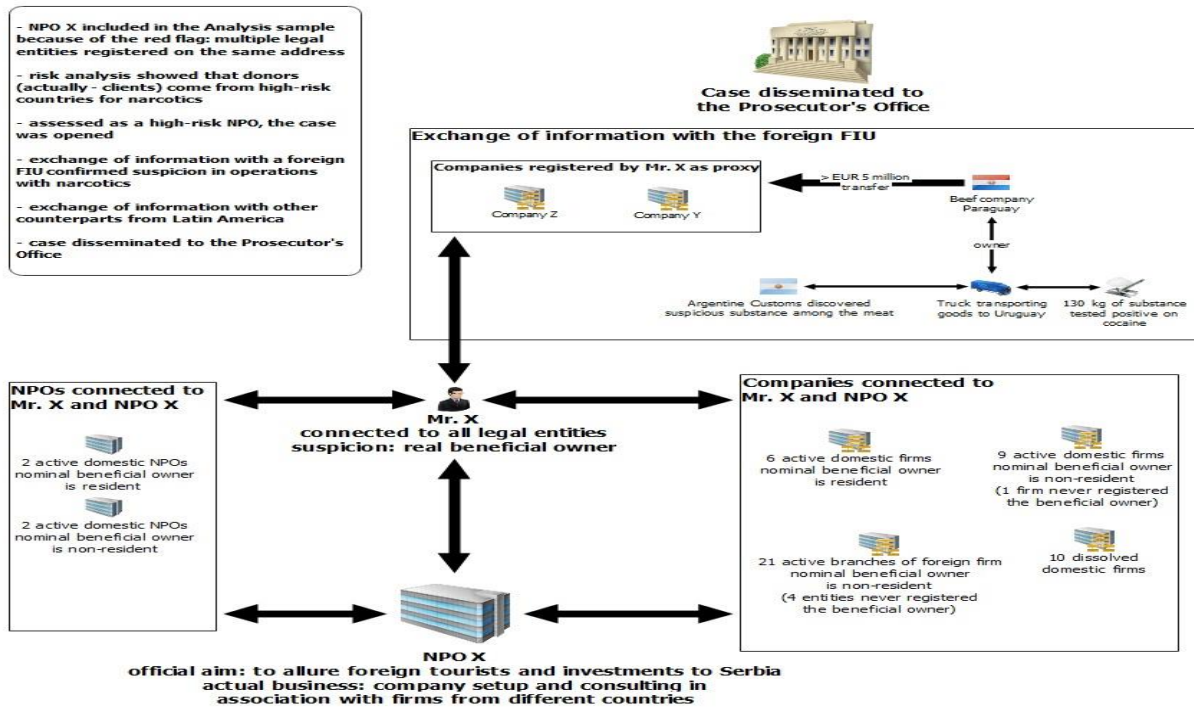
- to regularly update the donation payment instructions
- to make the list of donors publicly available and up-to-date
- to make a clear indication, when raising funds using payment platforms (e.g. PayPal), that such method of fundraising is only available to legal or natural persons outside Serbia
- to regularly check donors and fund beneficiaries against the list of persons designated by the United Nations and Serbian Government as terrorists (APML's search engine at [www.apml.gov.rs](http://www.apml.gov.rs) may be used for these purposes).

**Three case studies**

*Potential misuse of NPOs for ML/TF/illicit purposes*

## Key findings

### Case study 1



Here we have a case of an NPO which was part of our sample, it is NPO X which you can see at the bottom of this page.

In the course of the strategic analysis, the activities of this NPO raised suspicion and after a closer examination we had a reason to believe that this NPO may be involved in drug trafficking and money laundering.

More specifically, you will see that the registered beneficial owner of this NPO is a natural person Mr. X.

We found that the NPO and Mr. X himself are linked to four other NPOs and 52 companies.

Each NPO appears to serve as a mailbox and email box for a certain number of companies (approximately 10 companies per one NPO).

In our further examination we found that two of these companies, in which Mr. X serves as proxy, were involved in transactions with companies based in Latin America.

## Key findings

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We then contacted our counterpart financial intelligence units in that region and found out that 130 kg of cocaine had recently been seized in the trucks of one of those Latin American companies.

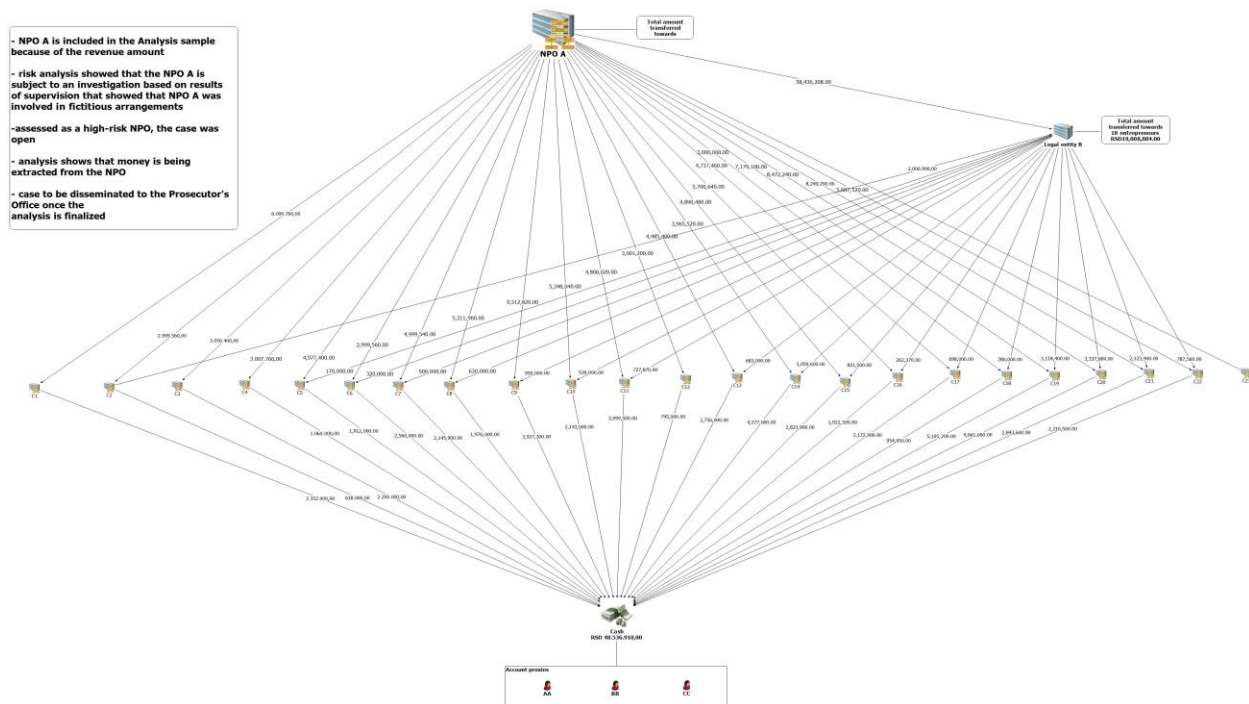
Meanwhile, we received additional information from our foreign partners which corroborated our initial suspicion. In particular, a foreign national was identified by the relevant authorities of a foreign country as being involved in drug trafficking and money laundering.

The case was disseminated to the prosecutor's office promptly, but we too are still following the case and we are currently exchanging information with a dozen foreign FIUs.

The chart you can see is simplified for the purpose of this slide, but the diagram of links and transactions is much more complex, and it is growing as we are establishing new links and transactions within this scheme.

## Key findings

### Case study 2



The following case is a good example how the kind of analyses that the APML conducts can actually detect misuse for illicit purposes.

In particular, here we can see an NPO, which was a part of our sample, NPO A which you can see on top of this page.

This NPO was found to be linked to twenty-two sole traders (we call them entrepreneurs) to whose bank accounts this NPO transferred significant amounts of money.

There may be nothing unusual in this kind of relationships. However, a closer look at these sole traders and their bank accounts revealed that no more than three individual were registered as the authorized signatories on the bank accounts of all of these sole trader businesses.

## Key findings

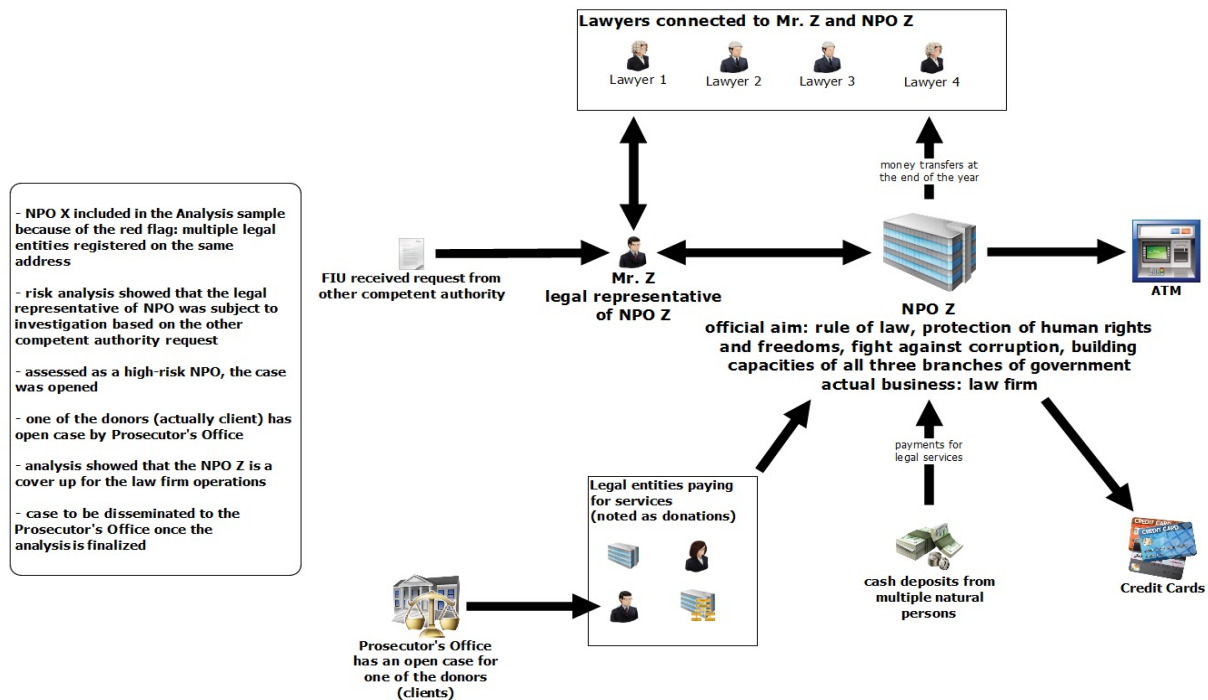
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What actually happened is that all of the money that the NPO transferred to the bank accounts of these twenty-two sole traders was withdrawn in cash by these same three individuals.

We are still examining this case as we are trying to establish the origin of the funds transferred by the NPO to these sole traders, so we are still missing some pieces of the puzzle, but we hope we will finalise the case soon and potentially transfer it to the prosecutor's office.

## Key findings

### Case study 2



This case study again involves an NPO that was part of our sample. The case merited further examination because the NPO appeared to be misused as a front for engaging in actual business activities.

More specifically, this NPO officially engages in the rule of law area. It is associated with a number of lawyers.

Various legal and natural entities made deposits to the NPO's bank account, and these transactions were described as donations, but the analysis has revealed that these transactions may have actually served as payment for services provided by the lawyers that are linked to this NPO.

Some of the alleged donors, which are actually believed to be clients to these lawyers, are being investigated by other competent authorities.

The funds in the NPOs bank account is spent using credit cards, or is withdrawn from ATMs, and at the end of the year all the outstanding balance is transferred to personal bank accounts of the lawyers.



## Key findings

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This case is still being examined by our office and if our reasons for suspicion are corroborated by the further course of examination, it will be promptly disseminated to the relevant authorities.