



INVESTMENT PROMOTION AUTHORITY

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Update to the Non-Profit Risk Assessment

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Update to NPO Risk Assessment

Key findings and recommendations

Key findings

- The risk remains low of terrorist entities or their supporters abusing non-profit organisations (NPOs) for terrorist financing.
- There were 10,256 associations registered on 21 September 2023.
- A total of 7,584 meet the FATF definition of NPOs.
- The sub-set at risk for abuse of terrorist financing totals 1,012. This sub-set comprises public benefits associations (i.e., foundations or charities) and larger foreign NPOs. These features and types of NPOs are more at risk than other FATF-defined NPOs.
- The sub-set at risk crosses all sectors, including social services, community development, religious charities, health, education, agriculture, environment, housing, etc.
- There are potential vulnerabilities among the subset at risk that could be exploited; while possible, it is unlikely given the risk and context of the country.
- In general, the new regulatory measures in the Associations Incorporation Act 2023 are proportionate to the terrorist financing risk in the context of the NPO sector and the country. They do not disrupt legitimate charitable activities.
- Sustained outreach and awareness raising have commenced on the potential risk of terrorist entities or their supporters abusing NPOs for terrorist financing.
- As the NPO risk assessment has just been updated, risk-based monitoring policies and procedures have not been developed.

Key recommendations

- **Further update the NPO risk assessment:** Undertake another update to the NPO risk assessment once all associations have been re-registered. The re-registration process will gather more helpful information, including whether public benefit, member benefit or foreign associations, and their primary and secondary objectives. This update should include broader consultation with the NPO sector and other agencies.

- **Develop educational material and best practice guidance:** Consult more broadly with the NPO sector and donors on developing more comprehensive educational material and best practice guidelines for the NPO sector, focusing on the sub-set at risk of terrorist financing abuse.
- **Develop policies and procedures for monitoring:** Consider developing policies and procedures for monitoring the sub-set at risk as identified in this update to the NPO risk assessment and any future update. Given the risk and context of the NPO sector and the country for terrorist financing, monitoring could be off-site, such as ensuring compliance with annual returns, audited statements, timely reporting of changes, etc.

A. Introduction

1. This report is an update to the Risk Assessment on Terrorist Financing through Non-Profit Organisations, published in April 2022. This report aims to (i) identify the sub-set meeting the FATF definition of NPOs, (ii) the subset of that sub-set at risk of terrorist financing – features and types of NPOs, (iii) potential threats to the sub-set at risk, (vi) regulatory gaps for the sub-set at risk, (vi) content for guidance to the NPO sector, but focused on the sub-set at risk, and (vii) key recommendations.
2. A further update should be undertaken once all associations are reregistered by the end of 2023 under the Incorporation Association Act 2023, as the Investment Promotion Authority is collecting additional information under the re-registration process.
3. The terms associations and NPOs are used interchangeably in this risk assessment report. Likewise, this report uses the terms public benefit associations, foundations and charities interchangeably.

B. Methodology

4. This update is guided by the ***World Bank's Guidance Manual NPO TF Risk Assessment Tool: Identifying the FATF NPOs at risk of terrorist financing abuse***. It is also guided by a review of FATF Recommendation 8 (R.8) and Immediate Outcome 10 in mutual evaluation reports adopted by the FATF global network, guidance issued by the FATF on NPOs, and proposed amendments to R.8.
5. The update also uses the latest information provided by the NPO regulator, i.e., the Investment Promotion Agency (IPA), including an updated list of 10,256 associations registered as of 21 September 2023. The previous NPO risk assessment was based on 8,117 associations registered in October 2019. Open-source research was conducted to leverage information from other studies conducted of the sector.

C. Terrorist financing risk in Papua New Guinea

6. Based on findings from updates to the national risk assessment, the TF risk remains low in the country. The global, regional, and domestic threat environment has remained stable, if not declined. For example, the number of terrorist incidents in the Philippines, a close neighbour, is significantly less than when the Islamic State (IS) supported a five-month siege of Marawi City in 2017.
7. The overall conclusion of the Risk Assessment on Terrorist Financing through Non-Profit Organisations 2022 remains unchanged. No information is held by any agency to suggest that any Papua New Guinean person or entity has been involved in terrorist financing. Furthermore, there is no intelligence or allegations of terrorist financing by NPOs in PNG.

D. Non-Profit sector in PNG

8. Many NPOs, i.e., associations in the country, are localised and small-scale. There are various interrelated reasons why NPOs are mainly localised, as summarised in the Asian Development Bank's Civil Society Brief on Papua New Guinea 2015, as follows:
9. **Clan:** The clan is the second most important social unit after the family. Clans organise village life around a hierarchy and a set of rules. The clan is the primary identification system for individuals in PNG.
10. **Wantok:** Meaning "one talk," or those who speak the same language system, reinforces the primary allegiance to one's clan, placing the obligation of kinship and the expectation of reciprocity on its members.
11. **Customary land ownership:** Approximately 97% of land in Papua New Guinea is held by its traditional owners under customary principles of land ownership. Landowners' groups are, therefore, common in the country. These associations play a significant role in advocating for the rights and welfare of landowners, particularly land and resource development projects.
12. **Geography:** The country's challenging geography and 85% of the population living in rural areas reinforces the localised nature of NPOs. The mountainous terrain makes it difficult to travel.
13. Nevertheless, there are large NPOs that are nationally focused. Churches or affiliated NPOs are the largest and most prominent components of the country's non-profit or civil society sector, filling primary service-delivery roles, particularly in health and education. Churches are responsible for a high proportion of social services in PNG and provided about 50% of PNG's health services in 2015. This is also reflected in the number of churches or church-related groups registered as associations.
14. In Papua New Guinea, churches or churches affiliated NPOs may be considered public benefits associations delivering secular and spiritual good works.

15. Many associations are secular, including a few nationally based NPOs and branches of foreign NPOs. Numerous associations are foundations, charities, or public benefit associations.
16. Like other countries, some NPOs, while non-profit, undertake economic activities for the benefit of their members, e.g., landowners' associations, private schools, and producers' associations. These are neither charitable nor public benefit purpose NPOs. Some, such as landowners and political parties, are registered under other legislations.

E. Sub-set of NPOs meeting the FATF definition

17. This section aims to identify the sub-set meeting the FATF definition. This is illustrated in the FATF guidance as extracted below for ease of reference:

Figure 4.1. Recommendation 8 Figure

The below figures provides an example of a jurisdiction's NPO sector. The volume of NPOs which fall within the FATF definition will vary between countries.



18. The FATF's functional definition of NPOs is "any 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".
19. Because NPOs may have multiple objectives, selecting NPOs into this subset will use the threshold of 'primarily engaged ...in good works'. For example, a sporting association may occasionally raise funds for public benefit or engage in advocacy but primarily participates in sporting events. Using the criteria of primarily engaged and

good works, such a sporting association would not meet the FATF definition of an NPO. However, a sporting association that primarily exists for charitable purposes and uses sporting activities as the conduit for good works would meet the definition.

20. The criteria of primarily engaged in good works was further refined into sub-criteria to further assist in the assessment process. Essentially, service NPOs or charities (e.g., foundations) were classified as FATF-defined NPOs and expressive and economic NPOs were excluded. Expressive NPOs are those engaged in advocacy, and economic NPOs are involved in economic or commercial activities even though it is registered as a non-profit. However, some NPOs may appear expressive but have charitable purposes as their primary goal, e.g., a few sporting foundations or charities. These were classified as FATF-defined NPOs.
21. The selection is from the total registered association population of 10,256 as of 21 September. This is higher than the 8,117 NPOs registered as of October 2019 in the NPO risk assessment, in which FATF defined NPOs totalled 8,109. Only eight NPOs were not classified as FATF-defined NPOs in the earlier NPO risk assessment.
22. The approach of identifying NPOs by their characteristics and assigning them as either FATF-defined NPOs or excluding them is summarised in **Table 1 below**.

Table 1: FATF definition of NPOs

	FATF definition - Yes/No	Reason (based on primary objective)	Number of registered associations
			Total 10,256
Group 1 - unlikely to meet the FATF definition			Not meeting the FATF definition. 2,672
1. Sporting, social & recreational	No	Expressive/ members only	
2. Landowners' associations	No	Expressive/ Members only/ economic objectives	
3. Political parties	No	Expressive/ members only	
4. Professional, occupational, and business associations	No	Expressive/ members only/ economic objectives	
5. Student associations	No	Expressive/ members only	
6. Economic interest (e.g., coffee, cacao growers, etc.)	No	Expressive/members only/ economic objectives	
7. Cultural /clan associations	No	Expressive/ members only	

8. Advocacy associations	No	Expressive/ members only	Meeting the FATF definition 7,584
Group 2 – more likely yes than no in meeting the FATF definition.			
9. Education and training	Yes/No	Yes, if social services (e.g., disadvantaged groups) No, if fees for service (e.g., private schools)	
10. Women’s and youth’s associations	Yes/No	Yes, if for social services No, if for advocacy	
11. Associations of socio-economically marginalised groups, e.g., poor people, homeless	Yes/No	As above	
12. Environmental associations	Yes/No	As above	
13. Other associations	Yes/No	As above	
Group 3 – most likely to meet FATF definition			
1. Faith-based organisations	Yes	Fundraising and charitable good works (both secular and spiritual)	
2. Foundations or charities	Yes	Fundraising and charitable good works	
3. Local community development associations (e.g., supporting community development, literacy, health, social services, etc.)	Yes	Fundraising and charitable good works	
4. Foreign NPOs delivering services	Yes	Fundraising and charitable good works	

23. In summary, the subset of NPOs meeting the FATF definition totalled 7,584 from the registered population of 10,256. A total of 2,672 were excluded from the sub-set.

24. The excluded NPOs included (i) political parties or advocacy associations, (ii) landowners or resource owners' associations, (iii) farmers and growers'/producers' associations (e.g., coffee and cacao), (iv) sporting associations, (v) professional, occupational or student associations (vi) business or trade associations (vii) private schools (viii) cultural associations or friendship societies.

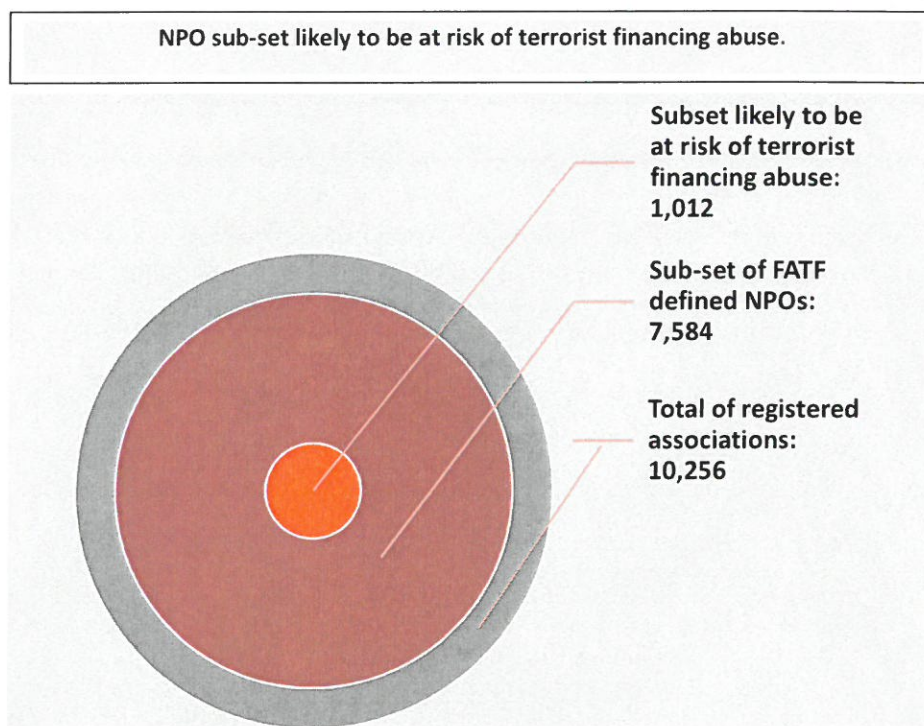
25. Some sporting, educational or advocacy groups are foundations and charitable, so they have not been excluded. They exist primarily for charitable purposes. They were included in the list of FATF-defined NPOs.
26. The identification process has a margin of error, given that 10,256 associations were reviewed. Therefore, a more cautious approach was undertaken in this identification process; an association was classified as a FATF-defined NPO when in doubt.

F. Sub-set of NPOs likely to be at risk of terrorist financing abuse

27. The NPO sector in Papua New Guinea can be broadly classified into whether they are for members' benefit only or public benefit (i.e., foundations). And whether they are domestic or foreign. This aligns with the consultation process and subsequent adoption of the Associations Incorporation Act 2023.
28. Building on that consultation process, an exercise was undertaken to identify the features or characteristics of NPOs that would likely be at risk of terrorist financing abuse. The purpose was to identify the key inherent risk indicators. To identify these indicators, an examination was conducted of some of the key indicators mentioned in the NPO Risk Assessment Report 2022, the World Bank guidance and other Pacific countries, focusing on the inherent risk indicators.
29. These indicators include:
- Geographic risks– H/Q, sources of funds, location of beneficiaries
 - Size - budget, offices, staff
 - Structure of association – public benefit or members' benefit
 - Method of service delivery – formal financial institutions, alternative remittance, or cash
 - Risk Appetite
30. These indicators focus on inherent risks rather than the presence or effectiveness of mitigation measures at the NPO level; there is insufficient information to assess NPO-level mitigation measures.
31. On geographic risk, foreign NPOs from countries with strict counter-terrorist financing regimes rated largely compliant or compliant on R8, or where terrorism is low risk, are at lower risk than NPOs from countries with low levels of compliance on R8, R5 and R6, for example. Based on a review of foreign NPOs, they are from well-regulated and FATF-compliant countries (for terrorist financing-related measures), such as Australia and other FATF member countries.
32. A handful of NPOs are from countries at a relatively higher risk for terrorism and terrorist financing based on past events. However, they are more cultural associations

and not engaged primarily in charitable activities, noting a sizeable expatriate Filipino community residing in the country.

33. For foreign NPOs, while on geographic risk indicators, they would not be included in the sub-set; they are relatively larger in financial size, geographic coverage, donors, and beneficiaries. Because of these features, the larger foreign NPOs have been included in the at risk sub-set.
34. On domestic geographic risk, consideration was given to the Autonomous Region of Bougainville and whether NPOs located in that autonomous province should be included in the sub-set of NPOs at risk. However, after careful consideration, they were not included because of this, as the conflict ended in 1998, and a peace agreement concluded in 2001.
35. Associations that serve the public are primarily foundations that are charities, as they receive donations from the public and undertake charitable works for the public good. They are inherently higher risk than member-only associations that receive funds from and provide support only to their members in most instances. Members-only associations know their donors and beneficiaries better than foundations, and donors and beneficiaries are limited by their membership base, unlike foundations. Members-benefit-only associations are more localised, both in terms of financing and expenditure. Because of these factors, foundations are generally larger, broader in geographic coverage and less localised, increasing their risk of abuse for terrorist financing.
36. The use of size as an indicator is consistent with other Pacific countries that obtained a Largely Compliant rating or higher for R.8, i.e., Cook Islands and Vanuatu, reflecting the risk and context of Pacific countries compared with other geographic regions.
37. On the method of service delivery – such as cash compared to regulated financial institutions- their usefulness as inherent risk indicator is limited, as it would require a survey or sample of associations, which would be time-consuming, and the response rate may be low.
38. Based on available information, 1012 NPOs fall within the sub-set considered at risk of terrorist financing abuse. The sub-group comprises those primarily engaged in charitable activities, particularly foundations, large associations and larger foreign NPOs. The sub-set includes NPOs from all the main sectors: agriculture, health, education, community development, social services, environment, women's groups and youth groups, church-affiliated charities, and sports charities.
39. This is summarised in the Chart below:



G. Nature of potential threats posed to the NPO subset at risk

(i) Threat environment

40. There has never been any terrorist financing or terrorism case in PNG or any STR or police investigation of an NPO for terrorist financing or terrorism. Nevertheless, there are potential threats, although the threats are very low.
41. **International and regional terrorist groups/supporters:** Globally, the threat of terrorism and terrorist financing have been dominated by the two UNSC sanction groups, namely the ISIL (Da'esh) Al-Qaida and the Taliban. The ISIS threat remains but has diminished, and the number of ISIS-inspired attacks in the West has declined after peaking in 2017. However, ASIS and Al-Qaida affiliates such as Al-Shabab appear to grow in Africa.¹
42. Regionally, the threat has been dominated by Jemaah Islamiya (JI) in Indonesia and the Abu Sayyaf Group (ASG) in Mindanao, the Philippines, and to a lesser extent Mujahidin Malaysia (KMM) in Malaysia. The threat from these and other groups remains, and terrorist activities have been ongoing, but not to the scale of the 2009

¹ [A Survey of the 2023 Terrorism Threat Landscape | The Washington Institute](#)

bombings in Jakarta and the Marawi siege in the Philippines in 2017. There have been significant disruptions to their terrorist activities in the region.

43. Even during the height of these terrorist groups, there were no links to Papua New Guinea and no incidents in the non-profit sector. While the threat remains, it remains at a low level.
44. Papua New Guinea borders West Papua, part of Indonesia. The Indonesian Government has designated the West Papua National Army-Free Papua Organisation (OPM) as a terrorist organisation; it is not designated by Papua New Guinea or other countries such as Australia. Some countries have actively supported West Papua's right to independence and self-determination. Therefore, this group is not considered a threat at this stage.
45. **Ethnically or racially motivated terrorism:** While there has been a growth in ethnically or racially motivated terrorism globally, there has been no such growth in the country. While there are ongoing village group conflicts and violence, particularly in the country's Highlands, these do fall into the category of ethnically or racially motivated terrorism.
46. **Violent anti-government movements:** The issue of Bougainville was discussed earlier in the risk assessment. With the Bougainville Peace Agreement in 1998 and the founding of the Autonomous Bougainville Government, this is no longer a threat.

(ii) Likelihood of threat exploiting vulnerabilities

47. The following examines the potential vulnerabilities should a threat occur, even though unlikely.
48. **Sham NPOs/false representation:** There is no evidence or reasonable grounds to believe that bad actors abuse potential vulnerabilities to establish sham NPOs or falsely represent themselves as agents of legitimate NPOs. Groups or organisations who seek incorporation status under the Associations Incorporation Act 2023 must apply to register or re-register. Under the new Act, the names and addresses of the applicant, committee members and public officers, plus governing documents of the proposed association, primary objectives must be provided, and a formal declaration must be made. The authorised representation must provide a valid ID upon application. There are sanctions in the Act for any false statement. While the risk remains that a person may still establish a sham NPO, the risk is mitigated as compulsory registration and due diligence are part of the registration process.
49. **Affiliation with terrorist persons or entities:** There is no evidence or reasonable grounds to believe that bad actors are abusing potential vulnerabilities to misuse NPOs in furtherance of terrorism or terrorist financing. Individuals supporting terrorist activity may claim to work for an NPO and trade on its good name and

legitimacy to gain access to a region or community or conduct other activities supporting their cause. They may use the NPO and its name as a seemingly legitimate cover to travel to difficult-to-reach places to participate in apparently appropriate but inappropriate activities, such as attending terrorist training camps. Given the risk and context of the country, this is possible but unlikely.

50. **Diversion of funds:** While the registration process is adequate, there has been minimal monitoring of NPOs. There are enhanced requirements to identify significant donors, partners and beneficiaries based on a monetary threshold in the Associations Incorporation Act 2023. However, there has been limited guidance on implementing those new requirements. Given the context of Papua New Guinea, with no domestic terrorism and no domestic charities operating in high-risk jurisdictions or conflict zones, the risk of diversion is low.
51. Overall, the fact that there are no known NPOs in Papua New Guinea who sympathise or condone terrorism or are linked to terrorist groups and the fact that the vast majority of the NPO sector has a domestic focus on social/community services limits the risk from vulnerabilities to the above scenarios. Vulnerabilities are more likely to be abused for fraudulent purposes than for terrorist financing, based on an open-source review.

Consequences

52. It is possible, but unlikely, that a sham NPO could be formed, or funds diverted by an insider. Nevertheless, there are consequences in the unlikely event it occurs. It could reduce donations to charitable NPOs, including from overseas, as Papua New Guinea is a receiving and not a donor country. This would adversely affect beneficiaries and their providers.

H. Adequacy of regulatory measures for the NPO sub-set at-risk

53. The following is an examination of whether the existing regulatory measures are aligned with the risk and context of the sub-set at risk of terrorist financing abuse and the country's TF risk. It also examines whether the approach has any unintended negative consequences in disrupting legitimate charitable activities to the detriment of beneficiaries.

Gap analysis of sub-set of NPOs at risk	
(i)	Are NPOs required to be licensed or registered?

<p>The obligations to register with the IPA under the Associations Incorporation Act 2023 and its processor have already been covered earlier in this report. As noted, all associations or any group or organisation who seek incorporation status under the Associations Incorporation Act 2023 must apply to register or re-register by the end of 2023.</p> <p>An applicant must provide a public notice of the intent to incorporate under Article 6 (3) with details of the association. Under Article 9, any person may object to the association's incorporation within 60 days of the public notice.</p>
<p>(ii) Are NPOs required to maintain information on (1) the purpose and objectives of their stated activities and (2) the identity of the person(s) who own, control or direct their activities, including senior officers, board, members and trustees</p> <p>Under the Associations Incorporation Act 2023, the purpose of the associations, committee members, and senior offices must be identified, updated, and notified to members and the IPA if there are any amendments, as stated in Article 6 of the Act and elsewhere.</p> <p>Article 89 requires an association to keep updated beneficial ownership (owns or controls the membership) information of its members, even when the BO is not named on the member register.</p> <p>Not only are they required to maintain such information, but they are also required to provide and attest to the trustfulness of such information in their application for registration in the IPA's application form.</p>
<p>(iii) Is this information, i.e. (i) and (ii), available to the public and competent authorities?</p> <p>The IPA's website has a Business Entity Search feature allowing users to search the Registry for information on active and inactive entities. The basic entity search feature is free to all users, and a user can find the entity name, registration number, type of entity, status, and registered office address. If the user has a client account, the search features are expanded to view details of any entity, such as director or shareholder details and past filings. There is a fee of 10 kina for this detailed search.</p>
<p>(iv) Are NPOs required to issue annual financial statements that provide detailed breakdowns of incomes and expenditures?</p> <p>All registered associations must keep accounting records for seven accounting records under Article 72. Under Article 73, the records must include details of revenues and expenditures sufficient for it to be audited if required. Article 78-80 imposes obligations on preparing financial statements and audits.</p> <p>For the sub-set identified at risk of terrorist financing abuse, the measures in the Act are risk-based and consistent with this updated risk assessment. Enhanced mitigation measures are applied based on size, including from donors, partners</p>

<p>and beneficiaries. Article 78 requires financial statements to be prepared if a revenue threshold is exceeded in an accounting period and must be audited under Article 80.</p>
<p>(v) Are NPOs required to have appropriate controls in place to ensure that all funds are fully accounted for and are spent consistent with the purpose and objectives of the NPO's stated activities?</p> <p>The above response applies; namely, enhanced mitigation measures apply to the sub-set at risk of terrorist financing abuse. In addition, under Article 75, an annual report must be prepared and available for inspection by members. Article 76 stipulates that the annual report's content includes activities, total donations or grants received, payments or remuneration to members or employees, and names and details of committee members and public officers.</p>
<p>(vi) Are NPOs required to take reasonable measures to confirm the identity, credentials and good standing of beneficiaries and associate NPOs?</p> <p>Enhanced mitigation measures are applied based on size and public benefits associations, i.e., charities. For example, Article 73 (2) requires any donor that provides over Kina 10,000 (about USD2,000) to be identified, including country and contact details. More details are required of any expenditure over Kina 20,000 (about USD 4,000). This would cover major beneficiaries or development partners.</p> <p>Given the low risk of terrorist financing and the lack of terrorist or terrorist financing incidents, the measures are proportionate to the risk. Imposing more onerous measures may disrupt the charitable objectives of public benefit associations. This is consistent with the proposed amendments to R.8 by the FATF.</p>
<p>(vii) Are NPOs required to maintain, for at least five years, records of domestic and international transactions?</p> <p>Under Article 72 of the Associations Incorporation Act 2023, associations must keep accounting records for the current accounting period for the last seven accounting periods. The accounting period is 12 months. Article 73 details accounting records that must be kept, covering all financial transactions, domestic or international.</p>
<p>(viii) Is there encouragement for NPOs to conduct transactions via regulated financial channels?</p> <p>Based on the summary of the IPA's public consultation process, consideration was given that payments made by an association must be made using a commercial banking system designed for rural areas. Similarly, all deposits to the association must be banked using a commercial banking system. However, IPA was wary of requiring that remote/rural association may not be able to comply with. This is understandable so as not to have a disrupting impact on legitimate NPO activities. Nevertheless, while not mandatory, it should be strongly encouraged for the sub-</p>

<p>set at risk, given they are more significant and likely to be engaged in larger transactions – from donors, development partners and beneficiaries.</p>
<p>(ix) Regulatory outreach and monitoring</p> <p>While there was an extensive consultation process leading before the enactment of the Associations Incorporation Act 2023, there has been limited written guidance on implementing some of the best practices in the Act. The IPA has undertaken face to face awareness raising. However, given the number of NPOs, greater use of the IPA's website to undertake awareness raising and disseminate guidelines, including measures to reduce the risk of potential abuse of the non-profit sector, particularly the sub-set at risk. The IPA could work with significant NPOs and the donor community in crafting these guidelines or educational material on terrorist financing matters.</p> <p>The IPA does not have a risk-based monitoring strategy or procedures. The findings of the updated NPO risk assessment (as further updated in the future) will provide the foundation for a risk-based approach to monitoring.</p>
<p>(x) Avoiding disruption of NPO activities</p> <p>The IPA undertook a process of consultation leading to the new Associations Incorporation Act 2023. One main reason for the proposed amendments was to bring the country into greater compliance with FATF Recommendation 8. Against this background, IPA sought public comments on proposed changes.</p> <p>As noted in the IPA's summary of its public consultation process outcomes, numerous comments were received on various topics that all amounted to a call for more Government oversight and regulation of associations and their committee members.</p> <p>IPA understood the sentiment behind those comments and agreed that additional oversight would be beneficial. It decided that the most efficient approach to those issues of good governance was to empower the actual members of each association to better police the entity themselves. This would be accomplished through such mechanisms as mandating financial transparency, requiring annual meetings, and ensuring fair voting procedures for committee members. The Registrar would still be necessary for oversight and enforcement, but giving members more definitive rights will provide even greater accountability. These measures were included in the Associations Incorporation Act 2023. The adopted approach balanced enhancing governance and compliance without disrupting legitimate NPO activities.</p>

54. Overall, the adopted approach from a FATF Recommendation 8 perspective is consistent with the conclusion of this risk assessment and the risk and context of Papua New Guinea. It balances greater governance and oversight and avoids excessive

regulatory burdens that could lead to unintended negative consequences for charitable associations and their beneficiaries.

I. Recommendations

55. There are three thematic areas for the IPA to consider moving forward:

- i. **Further update the NPO risk assessment:** Undertake another update to the NPO risk assessment once all associations are re-registered. The re-registration process will gather more helpful information, including whether public benefit, member benefit or foreign associations, and their primary and secondary objectives associations. The future update should include consultation with the NPO sector and other agencies.
- ii. **Develop educational material and best practice guidance:** Consult more broadly with the NPO sector and donors on developing comprehensive educational material and best practice guidelines for the NPO sector, focusing on the sub-set at risk of terrorist financing abuse.

Attachment A provides an example of key points for inclusion in outreach and awareness-raising material focused on terrorist financing risk.

- iii. **Develop policies and procedures for monitoring:** Consider developing policies and procedures for monitoring the sub-set at risk, as identified in this update to the NPO risk assessment and in the proposed further update. Given the risk and context of the NPO sector and the country for terrorist financing, monitoring could be off-site, such as ensuring compliance with annual returns, audited statements, timely reporting of changes, etc.

56. All the above-proposed measures should be undertaken cognisant of the need to balance the need to mitigate the risk of potential abuse of the sector for terrorist financing while not disrupting legitimate charitable activities. This balance is increasingly recognised by the FATF, as further reflected in proposed amendments to FATF Recommendation 8.

J. Attachment A

Outreach and Awareness Raising on Terrorist Financing and Associations (Key Points)

1. Purpose

- To enhance awareness within associations regarding the potential threats and risks linked to their potential vulnerability to terrorist financing.

2. Context

- The Investment Promotion Authority (IPA) is the government entity responsible for implementing the Association Incorporations Act of 2023.
- The IPA conducts outreach and educational initiatives to facilitate associations' compliance with AIA 2023 and their understanding of relevant laws, notably the Anti-Money Laundering and Counter-Terrorist Financing Act of 2015.
- Papua New Guinea is a member of the Asia/Pacific Group on Money Laundering (APG), an international organisation.
- Papua New Guinea, as an APG member, is obligated to adhere to the International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation established by the Financial Action Task Force (FATF), encompassing terrorist financing, non-profit organisations and UN Security Council sanctions.

3. Understanding Terrorist Financing

- In simple terms, terrorist financing denotes providing financial support, regardless of the form, to terrorism or those involved in planning, endorsing, or executing acts of terrorism. Terrorists require funds for their operations, and terrorist financing provides these necessary resources.
- These funds can be either legally obtained, such as through donations, or illicitly acquired through criminal activities. Assets include cash, real estate, stocks, vehicles, and other tangible and intangible possessions.
- Terrorist financing is a criminal offence punishable by up to 25 years in prison and fines of K500,000 for individuals and K1,000,000 for corporate entities (Section 508J of the Criminal Code Act of 1974).
- Both individuals and organisations can be held accountable for terrorist financing.

4. Understanding the Risk of Terrorist Financing

- Charitable organisations play a crucial societal role by aiding those in need, but they can also be susceptible to exploitation by individuals or groups seeking to finance terrorism.
- The risk of terrorist financing is relatively low in the country.
- Nevertheless, some charities in other countries have been manipulated by terrorists and terrorist organisations to fundraise, transfer funds, offer logistical support, promote terrorist recruitment, or otherwise aid terrorist groups and their activities.
- Despite the low risk, to pre-empt any potential threats and safeguard the integrity of our associations and charitable sector, it is essential to actively contribute to the global counterterrorism effort and remain vigilant against possible misuse.

5. Recognising Designated Persons and Entities Subject to Targeted Financial Sanctions

- As Papua New Guinea is a member of the UN, the Government is obliged to enforce United Nations Security Council (UNSC) sanctions as a matter of international law.
- The United Nations Financial Sanctions Act of 2015 (Sanctions Act) was enacted to fulfil the country's UN obligations, particularly targeted financial sanctions.
- Targeted financial sanctions necessitate that all individuals and entities in Papua New Guinea refrain from engaging with or providing assets to individuals and entities designated by the UN Security Council or the Prime Minister under the Sanctions Act.
- Under no circumstances should you or your association conduct transactions with individuals or entities listed in the Consolidated Sanctions List published by the Papua New Guinea Sanctions Secretariat.
- Violating the Sanctions Act is a criminal offence that can result in imprisonment, fines, or both.
- The Consolidated List is available via the following link: [Consolidated List – Papua New Guinea Sanctions Secretariat \(pngsanctionssecretariat.gov.pg\)](https://pngsanctionssecretariat.gov.pg)

6. Threats and Vulnerabilities

- Associations can be exploited by terrorists or other criminals in various ways, including:
- Diverting charitable funds for criminal or terrorist purposes without the charity's knowledge.

- Volunteers or employees misappropriating funds from charitable collections to support terrorist activities.
- Donors having connections to known terrorist organisations.
- Beneficiaries of charitable funds misuse the money for criminal or terrorist objectives.

7. Mitigating Potential Terrorist Financing Abuse

- The following are some best practice mitigation measures, some of which are included in the Associations Incorporation Act 2023.
- **Implement Robust Governance and Oversight:** Establish a transparent and accountable board of directors or trustees responsible for overseeing the association's charitable activities, including financial management.
- **Develop and Maintain Written Governance Policies and Procedures:** Ensure transparency, accountability, and compliance with all relevant laws and regulations.
- **Maintain Accurate Financial Records:** Keep detailed, accurate, and up-to-date financial records that can undergo auditing.
- **Implement Strong Financial Controls and Segregation of Duties:** Prevent fund misuse by implementing strong financial controls and separating financial duties.
- **Use Regulated Financial Institutions:** Conducting financial transactions through regulated banks or non-banking financial institutions is a prudent way to safeguard funds and create audit trails.
- **Limit Cash Transactions:** While some cash transactions may be necessary, set clear maximum thresholds, maintain records, and verify the identities of donors, recipients, or beneficiaries involved.
- **Develop Project Plans and Monitor Activities:** Establish clear project plans outlining implementation and monitoring procedures.
- **Know Your Partners and Stakeholders:** Conduct due diligence to verify the identity and legitimacy of development partners, contractors, staff, and others involved in service delivery.
- It is also essential to ask about your partner's organisation's internal management and financial control systems. These must be sufficiently robust to ensure that charitable funds are not open to fraudulent claims, theft by others, or diversion to terrorist organisations.
- **Know Your Donors:** Document significant donors' identities and respect donor confidentiality.
- **Know Your Beneficiaries:** Verify beneficiaries' identities, credentials, and affiliations to ensure charitable funds are not used for terrorist purposes.

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- **Screen Against the Consolidated Sanctions List**: Confirm that none of your partners, staff, contractors, beneficiaries, and significant donors are on the Consolidated Sanctions List.
- Remember that the specific measures required may vary depending on your association, location, and charitable activities.