Philippines

Risk Assessment of the

Non-Profit Organization (NPO) Sector

OCTOBER
2018

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EXECUTIVE SUMMARY

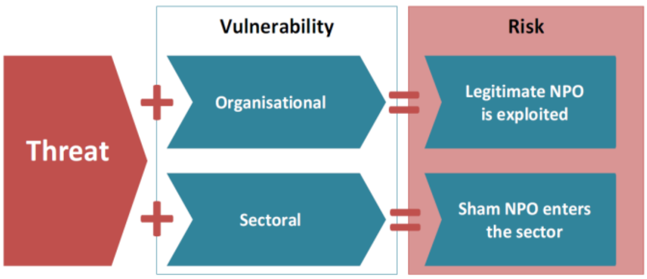
The Philippine risk assessment (RA) of the Non-Profit Organization (NPO) Sector is in line with the Financial Action Task Force (FATF) Recommendation 8 and its interpretative notes which state that countries should review the adequacy of laws and regulations that relate to non-profit organizations which the country has identified as being vulnerable to terrorist financing abuse. Countries should apply focused and proportionate measures, in line with the risk-based approach, to such non-profit organizations to protect them from terrorist financing abuse, including:

(a) by terrorist organizations posing as legitimate entities;
(b) by exploiting legitimate entities as conduits for terrorist financing, including for the purpose of escaping asset-freezing measures; and
(c) by concealing or obscuring the clandestine diversion of funds intended for legitimate purposes to terrorist organizations.

The Anti-Money Laundering Council (AMLC) is the lead agency in the conduct of the NPO RA. It is supported by the Securities and Exchange Commission (SEC), the government agency having jurisdiction and supervision over all corporations, partnerships or associations who are the grantees of primary franchises and/or a license or permit issued by the Government,[1] and the Department of Social Welfare and Development (DSWD), a secondary licensing agency for charitable/social welfare organizations, and foundations. Inputs of the sector were also taken into account in this risk assessment, through the participation of the Philippine Council for NGO Certification (PCNC) and Caucus of Development NGO Networks (CODE-NGO).

FATF provided guidance on the definition of NPO – a legal person or arrangement or organization 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'. This definition closely corresponds to the Philippine Corporation Code's definition of non-stock corporation (Sections 87 – 88), which is defined as one where no part of its income is distributable as dividends to its members, trustees, or officers, and may be formed or organized for charitable, religious, educational, professional, cultural, fraternal, literary, scientific, social, civic service, or similar purposes, like trade, industry, agriculture and like chambers, or any combination thereof. As such, the NPO RA focused on NPOs registered with the SEC.

Money laundering and terrorism financing threats are assessed separately in this RA. Risk is assessed as a function of criminal threat and vulnerability following the FATF Best Practices Paper on Combating the Abuse of Non-Profit Organizations.[2]



[1] Sec 5, Republic Act No. 8799 The Securities Regulation Code
[2] http://www.fatf-gafi.org/media/fatf/documents/reports/BPP-combating-abuse-non-profit-organisations.pdf. Last accessed on 3 June 2018

The RA discussed the regulatory framework of the NPO sector –

a) SEC – the primary registration and supervision agency of all non-stock, non-profit corporations in the Philippines. The NPOs secure primary registration from the SEC in order to obtain legal personality. A total of 101,843 NPOs are registered (active status) with the SEC as of 31 December 2017, while 52,212 NPOs are inactive (i.e. registration is either revoked, suspended, expired, dissolved, canceled, transferred or void). 33.58% of SEC registered NPOs are service NPOs[3], while 2.93% are expressive NPOs[4]. A significant percentage of 51.97% are not clearly classified, hence, category whether expressive or service type cannot be determined. The SEC also mandates NPOs to submit annual reportorial requirements, e.g. financial statements; schedule of income, contributions, and donations; among others.

b) DSWD – the government agency responsible for fulfilling the regulatory and quality assurance roles along development of quality assurance measures in the management of Non- Profit Organization (NPO) that is engaged in social welfare and development activities and implementation of programs and services for the poor, vulnerable and marginalized sectors. It sets standards, registers, licenses and accredits NPOs implementing social welfare and development programs and services. DSWD implements separate registration, licensing and accreditation process for NPOs implementing social welfare and development programs and services. A total of 2,252 NPOs are registered with DSWD as of 31 December 2017. All DSWD-registered NPOs are service NPOs.

c) Other secondary licensing, accrediting and certifying government agencies were, likewise, identified – Bureau of Internal Revenue (BIR), Commission on Higher Education (CHED), Department of Agriculture (DA), Department of Agrarian Reform (DAR), Department of Environment and Natural Resources (DENR), Department of Education (DepEd), National Commission on Culture and the Arts (NCCA), National Commission on Indigenous Peoples (NCIP), National Commission on Muslim Filipinos (NCMF), Technical Education and Skills Development Authority (TESDA), and Local Government Units (LGUs). These agencies have their own standards/requirements for secondary licensing and accrediting of NPOs depending on its program priorities.

d) PCNC – a private, voluntary, non-stock, non-profit organization, tapped by the Department of Finance (DOF)/Bureau of Internal Revenue (BIR) to establish and operate a certification system that aims to determine the qualifications of non-stock, non-profit corporations/non-government organizations (NGOs) to become donee institutions. Total PCNC-certified NPOs as of 31 December 2017 is 428 with 91% classified as service NPOs.

e) CODE-NGO – is the biggest coalition of NGOs dedicated to social development in the Philippines. It was the first Asian NGO coalition to adopt a code of conduct in Asia, and probably one of the first in the global NGO community.[5] CODE-NGO is a coalition of 12 regional and national networks representing more than 1,400 NPOs.

[3] Non-profit organisations predominantly involved in service activities, which include programmes focused on housing, social services, humanitarian aid, education, health care, religious education and affiliated social services.
[4] Non-profit organisations predominantly involved in expressive activities, which include programmes focused on sports and recreation, arts and culture, interest representation, and advocacy.
[5] Overview of NGOs and Civil Society, Philippines. http://www.adb.org/sites/default/files/publication/28972/csb-phi.pdf

Money laundering (ML) and terrorism financing (TF) threats are assessed based on investigations and cases involving NPOs, suspicious transaction report (STR) analysis, and inputs from sector representatives. Pertinent findings are as follows:

a) Money Laundering Threat for the sector is assessed as Medium.

The assessment showed that the sub-set of NPOs exploited for ML are service type NPOs particularly those involved in charitable, agricultural, educational and livelihood activities largely located in the NCR. The NPOs were linked largely to the predicate offenses graft and corrupt practices and fraud. A total of 138 NPOs were identified based on the STRs and ML-related cases on NPOs.

Banks were predominantly used as channel for laundering given that the STRs were largely reported by the banking sector accounting for 81% in volume and 99.78% in PHP value.

The NPOs identified in graft and corrupt cases were sham NPOs, which were established specifically for the purpose of receiving government funding to fund agricultural "ghost projects".

The NPOs identified in relation to fraud and other ML suspicious indicators may have been abused since these largely involve receiving fraudulent banking instruments as donation which were either returned or dishonored.

b) Terrorism Financing Threat is assessed as High-Low.

A total of thirty-two (32) NPOs were identified in terrorism and TF-related STRs, and referrals from the intelligence community. The identified NPOs are dispersed across the country. Their participation in TF activities however, is unconfirmed and based solely on intelligence information with no sufficient data (financial analysis) or evidence to directly link these NPOs to threat groups or terrorist groups. This indicates that while it is possible that NPOs may have been used for terrorism financing purposes, the same is not the preferred mode for raising funds or providing support to terrorist/threat groups.

Majority of the identified sub-sets are service type, specifically, charitable, social development, humanitarian disaster relief, and educational.

The banking sector appears to be the preferred channel for NPOs which may have been used for terrorism financing. This is based on the STRs submitted and on the IIRO case.

Vulnerability assessment of the NPO sector both for ML and TF was rated as medium. Controls are in place particularly for foundations and charitable institutions, which were both identified to be sub-sets at risk for ML/TF. For unregistered organizations, there are laws and regulations requiring permits to conduct public solicitations and fund raising activities.

Regulatory framework, supervision were assessed as generally effective, although enforcement was an issue. The SEC, for its part has issued suspension notices to those who are unable to submit pertinent reports for five consecutive years.

Likewise, preventive measures and self-regulation mechanisms were assessed as generally effective with majority of the surveyed NPOs having in place self-regulatory mechanisms, including know-your-donor and know-your-beneficiaries procedures.

A moderate level of AML/CFT understanding was seen based on the survey conducted on the sector; regulated financial channels were also seen as generally utilized; program delivery to intended beneficiaries are also viewed as generally effective. There is also some degree of abuse in the sector as evidenced by the STRs and cases involving NPOs both for ML and TF, hence the medium vulnerability rating.

Preferred channel is the banking sector, which also serves as an additional preventive measure, as banks provide for financial transaction visibility and are required to submit covered and suspicious transaction reports to the AMLC.

As seen in the threat assessment, there is some degree of abuse in the sector. NPOs have been utilized as a conduit for money laundering in the PDAF scam. There is one confirmed use of the sector for TF purposes, and that is the IIRO Philippines in 2006. Other intelligence information on the abuse of the sector for TF purposes remain unconfirmed, although there is a possibility that NPOs are being used and abused for TF purposes. The existing information however show that it is not the preferred mode of raising funds for local terrorist/threat groups.

Based on the foregoing, overall risk of the sector to ML is assessed as medium, while TF risk is assessed as low medium.

Considering that the sector's vulnerability to both ML and TF is assessed as medium, the following mitigation strategies are recommended:

Activity	Agencies Involved (Private and Government)
Sustained outreach to the NPO sector and various regulators	AMLC, SEC, DSWD, NPO Sector
Communicate results of the risk assessment to the various stakeholders	AMLC, SEC, DSWD, NPO Sector, Bangko Sentral ng Pilipinas (BSP), and other secondary certifying, licensing, accrediting government agencies
New/amendatory risk-based regulations and supervision for NPOs identified to be at risk for ML/TF	AMLC, SEC, DSWD and other NPO regulatory bodies
Revision of classification system of NPOs registered with the SEC in order to accurately capture the type and purpose of the NPO	SEC
Encourage formalization of cooperation and coordination mechanisms between the NPO sector and government/law enforcement agencies to support legitimate investigations relating to the abuse of the sector for criminal purposes	AMLC, SEC, DSWD, other regulatory agencies, LEAs and the NPO Sector

NON-PROFIT ORGANIZATION RISK ASSESSMENT

Introduction

Non-profit organizations (NPOs) play a vital role in society and in a country's economy. It complements government's efforts to provide services and assistance to those in need. In cases where government support is lacking, NPOs usually fill in the gap, particularly in areas where the government has difficulty reaching. As such, NPOs enjoy the confidence of governments and the public, with both governments and businesses funneling funds into NPOs for their "good works" and programs.

The very confidence given to the NPO Sector is what has been exploited by criminal elements. The nature of operations of NPOs – access to large volume of donations, multitude sources of funds, cash-intensive programs and services, global presence and normalcy of operations in high risk areas and conflict zones, make it even more attractive for money laundering (ML) and terrorist financing (TF). In particular, the 11 September 2001 terrorist attack in the United States show the vulnerability of the NPO sector to Terrorism Financing abuse. The ongoing international campaign against terrorist financing has identified cases in which terrorists and terrorist organizations exploit some NPOs in the sector to raise and move funds, provide logistical support, encourage terrorist recruitment, or otherwise support terrorist organizations and operations. This misuse not only facilitates terrorist activity, but also undermines donor confidence and jeopardizes the very integrity of NPOs.

Recent events have shown that Philippine NPOs have been exploited as a channel for corruption or a conduit in laundering proceeds of illegally obtained government funds that were not used for its intended purpose but were rather pocketed by corrupt government officials. Aside from this, the ongoing international campaign against terrorist financing has unfortunately demonstrated that terrorists and terrorist organizations exploit the NPO sector to raise and move funds, provide logistical support, encourage terrorist recruitment, or otherwise support terrorist organizations and operations.[6] Considering that the country has a significant number of NPOs that covers various segments of the society, there exists a potential risk associated with ML/TF. These factors then necessitate the conduct of an NPO Risk Assessment.

Objectives:

The objective of this risk assessment is to assess money laundering and terrorism financing risks affecting Philippine NPOs. In particular, this report aims to:

1. Review legal and regulatory framework that relate to the Philippines NPO sector;
2. Identify nature of money laundering threats and vulnerabilities besetting the NPO sector;
3. Identify nature of terrorism financing threats and vulnerabilities besetting the NPO sector;
4. Identify features and types of NPOs, by virtue of activities and characteristics, are likely to be at risk to money laundering and terrorist financing abuse; and
5. Recommend measures to mitigate and monitor risks identified in the NPO sector.

The risk assessment report intends to support government regulators of the NPO Sector in mitigating ML/TF risks identified in the sector. This includes conduct of targeted outreach to NPOs-at-risk, coordination of information gathering and investigation of high-risk NPOs, and application of

[6] Interpretative Notes to FATF Recommendation 8.

appropriate regulatory measures, when necessary. The report further provides guidance to financial institutions and DNFBPs when dealing with the sector, particularly those at risk to ML/TF.

The report also serves as a guidance to the NPOs to help the sector identify, monitor and mitigate risks.

RESEARCH AND ASSESSMENT METHODOLOGY

A. NPO Working Group

The Anti-Money Laundering Council (AMLC) is the lead agency in the conduct of the NPO Risk Assessment. It is supported by the Securities and Exchange Commission (SEC), the primary registration body for all legal entities in the Philippines, and the Department of Social Welfare and Development (DSWD), a secondary registration, licensing and accreditation agency for charitable organizations and foundations engaged on social welfare and development activities.

Inputs of the sector were also taken into account in this risk assessment, through the participation of the Philippine Council for NGO Certification (PCNC) and Caucus of Development NGO Networks (CODE-NGO).

Key intelligence inputs were also taken from intelligence agencies and law enforcement agencies.

B. Scope

The Philippines has various terminologies for the NPO sector. In a study conducted by CODE-NGO, NPO is broadly termed as Civil Society Organization (CSO). CSOs are legally classified within four types (non-stock organizations, cooperatives, labor unions, and homeowner associations) that are regulated by various government agencies[7]. Still in an earlier study conducted by CODE-NGO, it utilized the term NPO, which includes both registered and unregistered organizations, and are limited to those who do not distribute their profits to their members, plus cooperatives which distribute “surplus” to its members, who are their main customers or beneficiaries. Thus, NPOs refer to all non-stock and non-profit organizations, cooperatives, labor unions, mutual benefit organizations, social development groups and people’s organizations, and other types of organizations not explicitly affiliated with any government entity. Religious and indigenous groups are also included but not political parties and microfinance organizations.[8]

Section 3 of Republic Act No. 10121 or the Philippine Disaster Risk Reduction and Management Act of 2010 also used the term CSO and defined it as "non-state actors whose aims are neither to generate profits nor to seek governing power. CSOs unite people to advance shared goals and interests. They have a presence in public life, expressing the interests and values of their members or others, and are based on ethical, cultural, scientific, religious or philanthropic considerations. CSOs include nongovernment organizations (NGOs), professional associations, foundations, independent research institutes, community-based organizations (CBOs), faith-based organizations, people's organizations, social movements, and labor unions."

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[7] Caucus of Development NGO Networks (CODE-NGO) August 2011. *Civil Society Index: A Philippine Assessment Report*. A collaborative work among CODE-NGO, CIVICUS: World Alliance for Citizen Participation (CIVICUS), United Development Programme (UNDP), and Commission on Human Rights of the Philippines (CHR)

[8] Caucus of Development NGO Networks (2008). *NPO Sector Assessment: Philippine Report*. Report prepared for the NPO Sector Review Project, Charity Commission for England and Wales.

Other literature[9] termed it as Third Sector Organizations (TSO). Excerpts from the paper state that the Philippine TSO includes various types of organizations, i.e. church-initiated or religious groups; educational institutions; professional associations; charities; labor unions; social welfare organizations; social clubs and civic groups; neighborhood associations; intermediary and developmental non-government organizations; non-stock, nonprofit corporations; cooperatives; mutual benefit organizations; corporate and grant-making foundations; grassroots organizations; and other citizens groups. As such, TSOs acquire legal status from different government agencies. The same paper likewise stated the various terms for the Philippine TSO, i.e. non-governmental, community-based, sectoral, and independent people's organizations. These various terminologies, however, are lumped together and commonly referred to as NGOs.[10]

The Philippine Corporation Code defined two broad categories of corporations, stock and non-stock. NPOs fall under the category of non-stock which is defined under Sections 87 and 88 of the Corporation Code as one where no part of its income is distributable as dividends to its members, trustees, or officers, and may be formed or organized for charitable, religious, educational, professional, cultural, fraternal, literary, scientific, social, civic service, or similar purposes, like trade, industry, agriculture and like chambers, or any combination thereof. This definition closely corresponds to the FATF definition of NPOs.

The new definition of NPO under Recommendation 8[11] and its interpretative notes shows that the FATF has recognized that each country may have their own definition of NPO due to diversity of international community. The new definition of a non-profit organization is "a legal person or arrangement or organization 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'."

Given the diversity of the NPO Sector in the Philippines, this risk assessment adopts the FATF definition for NPOs, considering that the same is primarily focused on the prevention of the abuse of the sector for TF purposes. It will also include those sub-sets defined in the corporation code which are considered as having potential risks for ML/TF in this jurisdiction.

In line with the FATF definition, the focus of this assessment will be the NPOs registered with the SEC.

C. ML/TF Risk Methodology

Money laundering and terrorism financing threats are assessed separately in this risk assessment. Risk is assessed as a function of criminal threat and vulnerability following the FATF Best Practices Paper on Combating the Abuse of Non-Profit Organizations.[12]

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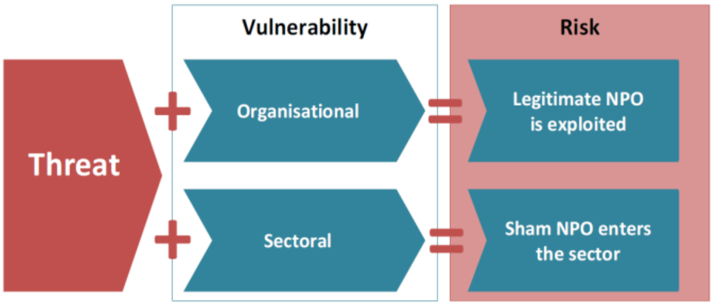
[9]Study by Ma. Oliva Z. Domingo, National College of Public Administration and Governance, University of the Philippines Diliman, Philippines http://ncpag.upd.edu.ph/wp-content/uploads/2014/03/ISTR-2013-PAPER-FINAL.pdf

[10] ibid

[11]Non-profit organizations - Countries should review the adequacy of laws and regulations that relate to non-profit organizations which the country has identified as being vulnerable to terrorist financing abuse. Countries should apply focused and proportionate measures, in line with the risk-based approach, to such non-profit organizations to protect them from terrorist financing abuse, including:
(a) by terrorist organizations posing as legitimate entities;
(b) by exploiting legitimate entities as conduits for terrorist financing, including for the purpose of escaping asset-freezing measures; and
(c) by concealing or obscuring the clandestine diversion of funds intended for legitimate purposes to terrorist organizations.

[12]http://www.fatf-gafi.org/media/fatf/documents/reports/BPP-combating-abuse-non-profit-organisations.pdf.
Last accessed on 3 June 2018



The threat assessment looks into the use of the NPO sector as channel for ML/TF and its exposure to the proceeds of predicate crimes. It considered data from suspicious transaction reports, cases investigated and prosecuted by the AMLC and other law enforcement agencies (LEAs), as well as intelligence reports on involvement of NPOs in ML/TF. It also looks into the channels used by NPOs. (number of instances/involvements)

The vulnerability assessment looks into the registration, regulation (including self-regulation) and supervision of the sector. It also looks into the sources of funding and financial channels used to receive, store, and move funds and donations (e.g. links to high risk countries, use of formal financial channels). Data and information were gathered from banks, money service businesses (MSBs) and NPOs through surveys and consultations.

This risk assessment uses a descriptive-research approach. The descriptive aspect discusses the historical data of the NPOs in the Philippines. It uses quantitative data to explain the nature, profile, regional scope of the NPOs. This process is supplemented by exploratory or qualitative research in order to provide better insights on the relationship between AML/CFT efforts and the NPO sector.

Quantitative analysis uses data from the SEC, DSWD, CODE-NGO, and PCNC.

For qualitative research, the study uses information from regional and national risk assessments, open source documents, and data derived from stratified sampling technique using the following information:

- Data from cases investigated by the AMLC and LEAs
- Insights and feedback given by CODE-NGO and PCNC
- Analysis of STRs
- Intelligence reports from law enforcement and intelligence agencies
- Survey given to member-NPOs of the Area Based Standards Network (ABSNET), established through the DSWD
- Survey given to NPOs certified by and seeking certification from PCNC
- Survey of Banks and Money Service Businesses (MSBs)

Several research works and related studies were also used as reference in this research in order to capture the overall risk of the NPO sector.

D. Limitation

The limitations and challenges encountered during the assessment are as follows:

- This assessment is limited only to NPOs with primary registration with the SEC. Unregistered organizations engaged in charitable, religious, cultural, educational, social or fraternal purposes, or for the carrying out of other types of 'good works' were not considered. There is no accurate picture as to how many unregistered organizations engage in the said activities and represent themselves as NPOs.

- There are multiple regulatory bodies, particularly secondary licensing/accreditation agencies for NPOs in the Philippines, depending on the purpose and activity of the NPO; and

- The SEC's industry classification of non-stock, non-profit corporations includes category of "not elsewhere classified" (NEC), which includes Activities of Other Membership Organizations, (Not Elsewhere Classified)", "Activities of Other Membership Organizations", and "Others". Type, purpose and sub-set of NPOs classified under this category is thus difficult to determine.

- Data and statistics available, particularly financial reports required to be submitted are not updated. As of time of the risk assessment, latest available financial data is for foundations, as of 2015. While 2016 data for foundations is still incomplete as of time of the assessment, it was nevertheless considered, particularly in the discussion of sources of income. The group used other sources in order to obtain data necessary for the assessment. Surveys, research works, and related studies are among the sources of information.

NPO SECTOR AND REGULATORY FRAMEWORK

The Philippines has the largest number of NPOs per capita in Asia.[13] In fact, the NPO Sector in the country is recognized as one of the most vibrant and advanced in the world. The legal environment is generally seen as supportive of the sector. The 1987 Philippine Constitution encourages non-governmental, community-based, or sectoral organizations that promote the welfare of the nation.[14]

There are four (4) regulatory government agencies that issue primary registration to Philippine CSOs/TSOs/NGOs. The scope of this assessment will focus on non-stock, non-profit corporations or NPOs which secure primary registration from the SEC.

A. Primary Registration: Securities and Exchange Commission (SEC)

The SEC is the primary registration and supervision agency of all non-stock, non-profit corporations in the Philippines. The NPOs secure primary registration from the SEC in order to obtain a legal personality. As previously stated, Section 88 of the Corporation Code provides that "Non-stock corporations may be formed or organized for charitable, religious, educational, professional, cultural, fraternal, literary, scientific, social, civic service, or similar purposes, like trade, industry, agricultural and like chambers, or any combination thereof."

Data gathered shows that as of 31 December 2017, there is a total of 101,843 NPOs registered with the SEC. Out of this figure, 51.97% have no clear industry classification[15]. NPOs classified under Activities of Religious Organizations (19.15%) and Education (12.90%), ranked 2nd and 3rd respectively.

[13] https://www.adb.org/sites/default/files/publication/30174/csb-phi.pdf
[14] Article II, Section 23 of the 1987 Constitution
[15] Note that these unclassified NPOs were registered before online registration was implemented by the SEC. In November 2017, the Commission started full implementation of the Company Registration System (CRS). The CRS is a web-based

Table 1. Total SEC Registered NPOs per Industry Classification as of 31 December 2017

INDUSTRY CLASSIFICATION[16]	NO. OF ORGANIZATIONS	% OF TOTAL
ACTIVITIES OF RELIGIOUS ORGANIZATIONS[17]	19,511	**19.15%**
EDUCATION	13,139	**12.90%**
FOUNDATIONS	11,734	**11.52%**
LIVELIHOOD ASSOCIATION	1,313	**1.29%**
ACTIVITIES OF POLITICAL ORGANIZATIONS	970	**0.95%**
ALUMNI ASSOCIATION	706	**0.69%**
SPORTS ASSOCIATION	665	**0.65%**
CIVIC ORGANIZATION FOR ENVIRONMENTAL CONCERN	403	**0.40%**
CULTURAL ASSOCIATION	240	**0.24%**
PARENT-TEACHERS ASSOCIATION	156	**0.15%**
NEIGHBORHOOD ASSOCIATION	89	**0.09%**
ACTIVITIES OF OTHER MEMBERSHIP ORGANIZATIONS, (NOT ELSEWHERE CLASSIFIED)[18]	52917	**51.97%**
GRAND TOTAL	101,843	**100.00%**

Out of the total number of registered NPOs with the SEC 2.93% (comprising of NPOs classified as "Activities of Political Organizations", "Alumni Association", "Cultural Association", "Civic Organization for Environmental Concern", and "Sports Association") are expressive NPOs[19] and 33.58% (comprising of NPOs classified as "Activities of Religious Organizations", "Education", "Livelihood Association", "Parent-Teachers Association", and "Neighborhood Association") are service NPOs [20]. Foundations account for 11.52% and include both expressive and service NPOs. Similar to Foundations, about 51.97% are not properly classified, hence category of whether expressive or service type cannot be determined.

SEC statistics show that about 27.15% of registered NPOs are not classified according to its specific location of business/operation. Regional distribution indicates that the National Capital Region (NCR) has the highest number of registered NPOs, accounting for 20.05%, followed by Southern Tagalog with 11.55% and Central Luzon with 7.34%.

automation of applications for company registration and licensing that minimizes face to face transactions through online submission and pre-processing of documentary requirements.

[16] The SEC classifies NPOs based on the "Philippine Standard Industrial Classification (PSIC)" (pages xx, A-1 to U-1)

[17] For brevity, NPOs classified as "Activities of Religious Organizations", "Corporation Sole", and "Religious Society" are lumped together in the retained industry classification

[18] For brevity, NPOs classified as "Activities of Other Membership Organizations, (Not Elsewhere Classified)", "Activities of Other Membership Organizations", and "Others" are lumped together in the retained industry classification

[19] Non-profit organisations predominantly involved in service activities, which include programmes focused on housing, social services, humanitarian aid, education, health care, religious education and affiliated social services.

[20] Non-profit organisations predominantly involved in expressive activities, which include programmes focused on sports and recreation, arts and culture, interest representation, and advocacy.

Region	No. of NPOs	%
N.C.R.	20,421	20.05%
Ilocos Region	4,814	4.73%
Cagayan Valley	2,331	2.29%
Central Luzon	7,478	7.34%
Southern Tagalog[21]	11,764	11.55%
Bicol Region	2,770	2.72%
Western Visayas	3,678	3.61%
Central Visayas	4,610	4.53%
Eastern Visayas	1,078	1.06%
Western Mindanao (Zamboanga Peninsula)	1,341	1.32%
Northern Mindanao	1,815	1.78%
Southern Mindanao (Davao Region)	5,351	5.25%
Central Mindanao (SOCCSKSARGEN)	1,546	1.52%
Cordillera Administrative Region	2,958	2.90%
ARMM	640	0.63%
CARAGA	1,602	1.57%
Others	27,646	27.15%
Grand Total	**101,843**	**100.00%**

Philippine Map[22]

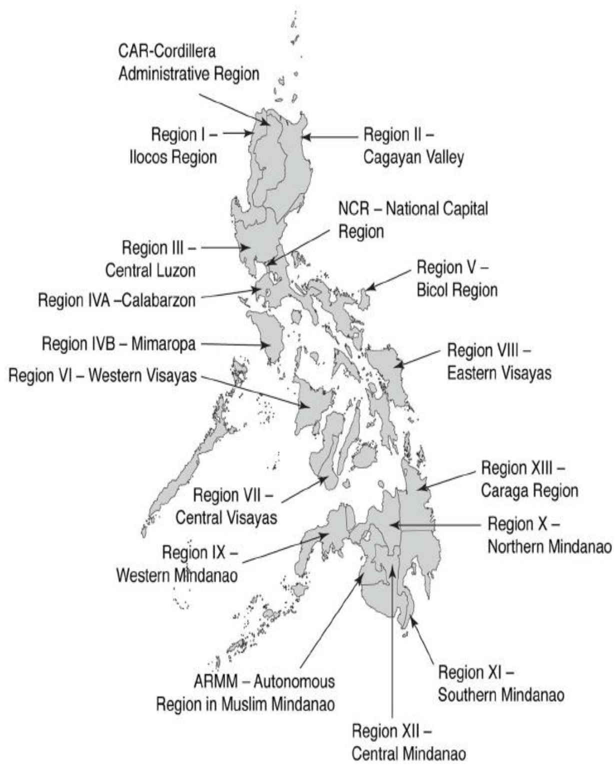


Figure 1: Volume of SEC-Registered NPOs per Regional Location as of 31 December 2017

The registration requirements of the SEC are as follows: duly accomplished company registration form, articles of incorporation (with names, nationalities, and address of incorporators), by-laws, list of members, list of contributions, and board of trustees resolution.

Annual Reportorial Requirements

As non-stock, non-profit corporations, NPOs are required to annually submit to the SEC Annual Financial Statements (AFS). SEC-registered NPOs may submit *unaudited* AFS when the corporation's gross receipts are less than One Hundred Thousand (Php100,00.00) or the corporation's total assets are less than Five Hundred Thousand (Php500,000.00), provided that said AFS is duly signed by the Treasurer and President.

Pursuant to SEC Memorandum Circular No. 4, Series of 2013, the following documents shall be filed with the annual AFS and in the interim financial statements of Non-Stock and Non-Profit Organizations:

> "A sworn statement of the organization's President and Treasurer on the accuracy and completeness of the following schedules:
>
> i. Schedule of Receipts or Income other than Contributions and Donations;
> ii. Schedule of Contributions and Donations; and
> iii. Schedule of Disbursements according to Sources and Activities."

[21] Southern Tagalog Region is composed of Region IVA – Calabarzon and Region IVB- Mimaropa
[22] Philippine map downloaded from *https://www.researchgate.net/figure/Map-of-the-Philippines-showing-the-administrative-17-regions-19-20-The-Republic-of-the_fig1_267872402*

For purposes of these requirements, contributions or donations reportable on the Schedule per paragraph (ii) shall be grants, bequests, devises, and gifts of money or property, amounting to Php100,000.00 or more from each contributor or donor. A contributor or donor includes individuals, partnerships, corporations, associations, trusts and organizations.

To strengthen compliance of corporations with the reportorial requirements, particularly financial reports, the SEC implements SEC Memorandum Circular No. 8, series of 2009 entitled *Scale of Fines for Non-Compliance with the Financial Reporting Requirements of the Commission*. Said Circular applies both to stock and non-stock corporations and the penalties for the violations cited therein shall be in addition to the fine imposable for the late filing of the financial statements. Further, the imposition of monetary penalty shall be without prejudice to any action that the SEC may institute against the corporation, its directors and officers, in accordance with existing laws and regulations.

The SEC imposes stricter measures for Foundations, as compared with other types of registered NPOs. SEC Memorandum Circular No. 8, Series of 2006 (Section 1) defines "foundation as 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."

Among the requirements of SEC Memorandum Circular No. 8, Series of 2006, is for foundations to submit a Sworn Statement of the Sources, Amount and Application of Funds and Program/Activity Planned, Ongoing and Accomplished (SS) and Certificate of Existence of Program/Activity (COEP). A Certification from the Office of the Mayor, the Office of the Barangay Captain, or the Head of either the DSWD or Department of Health (DOH) on the existence of the NPO's program or activity in the locality must be attached to the sworn statement.[23] In 2013, the SEC required the use of a prescribed form for the submission of the foundation's SS[24]. The SS must be executed under oath by the foundation's President and Treasurer. All foundations are likewise required to deposit all of their funds in a banking institution regulated by the Bangko Sentral ng Pilipinas (BSP).[25]

The SEC-prescribed SS form requires the foundation to indicate, among others: (a) the names, addresses and nationalities of donors/contributors, (b) its sources of income, (c) the application of funds to accomplished and on-going projects, and (d) the beneficiaries of the foundation's projects as well as the project location.

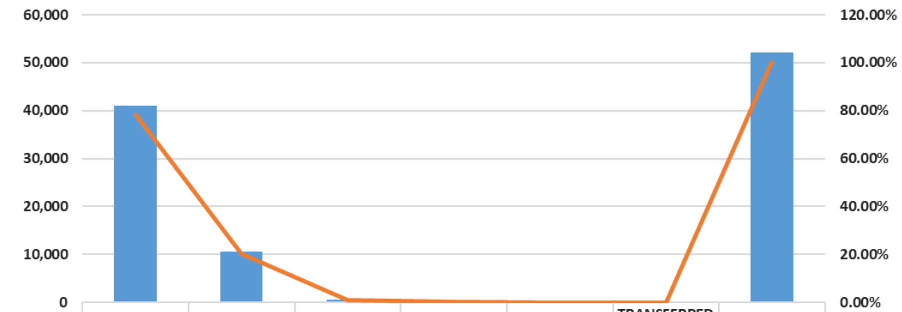
SEC through its examiners/specialists conducts offsite inspection/table audit of registered foundations at least once a year. Onsite examinations/ocular inspections are conducted on a risk-based approach, such as those with complaints, violation of reportorial requirements, and/or material findings based on table audit/examinations of submitted documents are given priority.

SEC imposes sanctions for non-filing of yearly reportorial requirements. Section 144 of the Corporation Code explicitly state penalties for violations of the code (which includes non-filing of reports). Stricter fines are meted on foundations for non-compliance. A foundation that fails to comply with any of the rules or violates any of the provisions in the Revised Guidelines on Foundations will be fined according to an amount determined by the SEC, which will not be less than PHP10,000. Where a foundation fails to submit the required documents for two consecutive years, the SEC may, after due notice and hearing, revoke the registration of the foundation.[26] A penalty of P5,000 for the non-

[23] Also required by SEC Memorandum Circular No. 4, Series of 2013 and SEC Notice dated 18 April 2013 (to all foundations).
[24] SEC Notice dated 18 April 2013 (to all foundations)
[25] Sec. 8, SEC M.C. No. 8, series of 2006.
[26] SEC Memorandum Circular No. 8, Series of 2006, Section 9

submission and P2,500 for the late submission of SS and COEP will be imposed. Late submission is submission within one (1) year from the deadline. Submission after the said one (1)-year period will already be considered non-submission. The said penalty will be in addition to a fine provided in SEC MC No. 8, Series of 2009 for any material deficiency or misstatement in the annual financial statements and its components.[27]

Graph 1: Non-Profit Organizations with Inactive SEC-Registration as of 31 December 2017



	REVOKED	SUSPENDED	EXPIRED	DISSOLVED	CANCELED	TRANSFERRED and VOID	TOTAL
N	40,965	10,599	481	145	9	13	52,212
%	78.46%	20.30%	0.92%	0.28%	0.02%	0.02%	100.00%

As of 31 December 2017, there are 52,212 NPOs with inactive status. "Inactive" means the status of registration with the SEC is either revoked, suspended, expired, dissolved, canceled, transferred or void.

Grounds for revocation and suspension of corporations may include:

(i) Fraud in the procurement of Certificate of Registration;
(ii) Corporation fails to formally organize and commence operation within two years from the date of its incorporation;
(iii) Continuous inoperation for a period of a least five years;
(iv) Failure to file or register any of the following for a period of at least five years: (a) Financial Statements, (b) General Information Sheet, and (c) Stock and Transfer Book or Membership Book; or
(v) Serious misrepresentation as to what the corporation can do or is doing to the great prejudice of or damage to the general public.

Limited financial information on NPOs was provided by the SEC. Data available were purely on foundations for the year 2015, with limited financial data for 2016.[28] The generated financial information on a number of foundations, specifically the total assets, was used as proxy data for universal NPO data to serve as baseline in comparing the ML and TF exposure of the sector. The generated data failed to provide a fair estimate as to the asset size of the entire NPO universe, however, it provided a significant baseline in computing the ML and TF exposure of the sector. The amounts identified on cases, STRs and information from the intelligence community on alleged or confirmed involvement of NPOs in ML and/or TF when compared to the asset size of a limited number of foundations reflected a small percentage of abuse of the sector. In this regard, the impact of having a complete picture in terms of the financial size of the entire NPO universe would likely result to a lesser degree of ML/TF exposure for the sector. As such, the gathered data are considered fairly substantial in computing the ML/TF exposure under threat assessment. On one hand, the absence of information was considered in assessing the vulnerability of the sector.

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[27] SEC Notice dated 18 June 2012

[28] At time of risk assessment, 2016 reports were not yet all due and processed. Nevertheless, the figures remain significant as the 2016 data provide significant amounts pertaining to asset size and donations received.

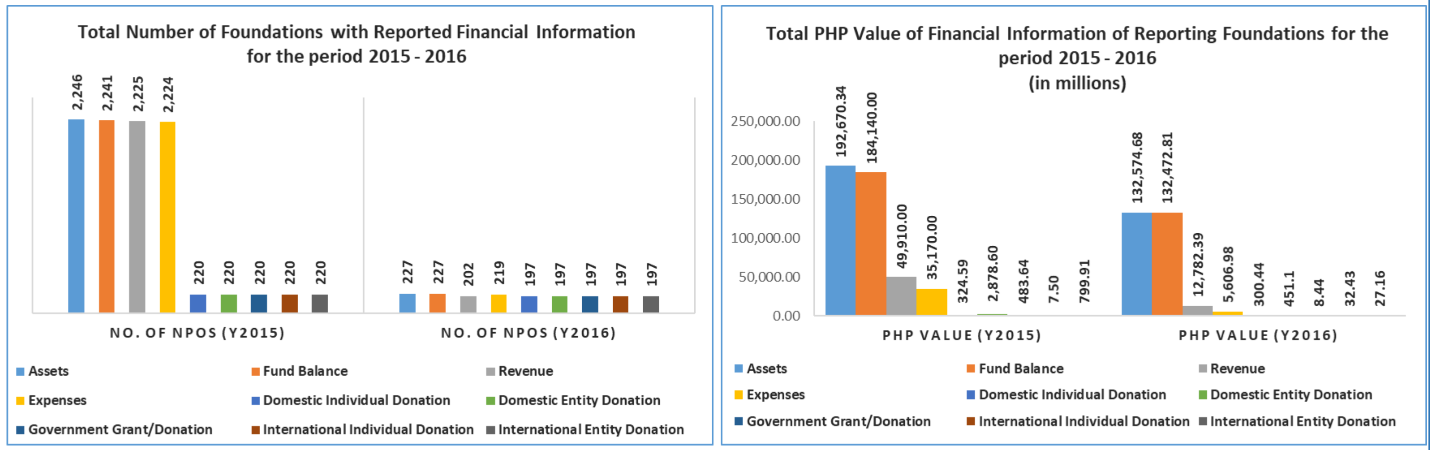

Figure 2: Volume of Foundations with Available Financial Information and PHP Value for the Period 2015 – 2016

SEC data showed that in 2015, the total assets of 2,246 foundations amounted to Php192.67 billion, while in 2016, total assets of 227[29] foundations amounted to Php132.57 billion. Fund balances covering the 2,241 foundations in 2015 totaled Php184.14 billion, while Php132.47 billion accounted for the 227 foundations in 2016. Total revenues in 2015 of 2,225 foundations amounted to Php49.91 billion, while Php12.78 billion accounted for 202 foundations in 2016. Reflected total expenses for 2,224 foundations in 2015 amounted to Php35.17 billion and Php5.61 billion for 219 foundations in 2016. This reflects only the reports of about 19% of registered foundations by end of 2017. While in comparison to the entire NPO universe of 101,843 by end of 2017, the financial information only reflects about 2.20% (Y2015) and 0.22% (Y2016).

Preliminary data from the SEC showed that for the period 2015 – 2016, 220 and 197 foundations, respectively, reported donations from domestic and international benefactors, and government grants as among their sources of income. Total domestic donations from individual and corporate benefactors ranged from Php300.44 million to Php2.88 billion. Total donations from overseas individuals and entities ranged from Php7.5 million to Php799.91 million. The most common countries of origin of international donations/grants are the United States, United Kingdom, Canada, Australia, Germany, Korea, Singapore, China and Japan. On one hand, government grants totaled Php8.44 million (2016) and Php483.64 million (2015).

B. Secondary Registration - Department of Social Welfare and Development (DSWD)

The DSWD is the government agency responsible for fulfilling the regulatory and quality assurance roles along development of quality assurance measures in the management of Non- Profit Organization (NPO) that is engaged in social welfare and development activities and implementation of programs and services for the poor, vulnerable and marginalized sectors. It sets standards, registers, licenses and accredits NPOs implementing social welfare and development programs and services.

NPOs who wish to perform social work and/or social welfare activities are required to obtain registration, license, and/or accreditation. Pursuant to Republic Act No. 4373 as amended by R.A. 5175

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[29] The limited financial information was due to the SEC's difficulty in generating the information from the SEC online facility. Based on discussions with SEC representatives, the process involved the downloading of uploaded pdf copies of FS reports from the SEC i-view facility and manually extracting the information from the printed reports. However, due to the expiration of the SEC's document management software (DMS) in Sept. 2017, scanned reports of SEC-registered entities for upload to the SEC website faltered due to database storage issues. As such, while there were report submissions (financial, etc.), a great portion cannot be viewed using online access and are thus not included in the data provided for the risk assessment.

of 1965, Presidential Decree 603 of 1977, and R.A. 10847 of 2016, DSWD is mandated to register, license and accredit social welfare and development agencies[30] (SWDA) as well as suspend and revoke any issued registration, license and accreditation certification after due notice and hearing.[31] Among its functions are to set standards, accredit and provide consultative services to public and private institutions, organizations and persons engaged in social welfare activities, and monitor, performance and compliance to standards by institutions, organizations and persons engaged in social welfare activities, both public and private[32]; NPOs must first registered with SEC to have juridical personality and be registered and licensed with DSWD to operate as SWDAs. Only NPOs implementing social welfare and development programs and services that are registered, licensed and accredited by 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.

In July 2015, a memorandum of agreement (MOA) was signed between DSWD and SEC to facilitate the process of incorporating SWDAs. Through this MOA, DSWD no longer endorse SWDAs applying for registration with SEC except for those needing amendment of SWDAs' By-laws and Articles of Incorporation. Further, the SEC is expected to provide to DSWD a quarterly report indicating newly incorporated entities with purpose of implementing social welfare and development activities as basis for DSWD registration.

DSWD Administrative Order No. 16, series of 2012 established the mechanism and procedures for the registration, licensing and accreditation of SWDAs. A SWDA refers to non-stock non-profit corporation, organization or association implementing or intending to implement, either directly or indirectly, social welfare and development (SWD) programs and services in the Philippines, and assessed as having the capacity to operate administratively, technically, and financially. Its clients may include but not limited to the poor, disadvantaged, and vulnerable individuals, groups, families, and communities.[33]

Based on AO 16 Series of 2012, DSWD implements a separate registration, licensing and accreditation process for NPOs implementing social welfare and development programs and services. 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 SWDAs. 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. 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.

DSWD Memorandum Circular No. 17, Series of 2010, provides enhanced guidelines in monitoring SWDAs and service providers. The DSWD, through the Standards Bureau (SB) by virtue of DSWD Memorandum Circular No. 3, Series of 2004, installed a comprehensive monitoring system with accompanying monitoring tools cognizant to the types of SWDAs and SWD programs and services.

DSWD implements a separate registration, licensing and accreditation process. **Registration** is an official recognition of the operation of a SWDA within the purview of SWD through the issuance of

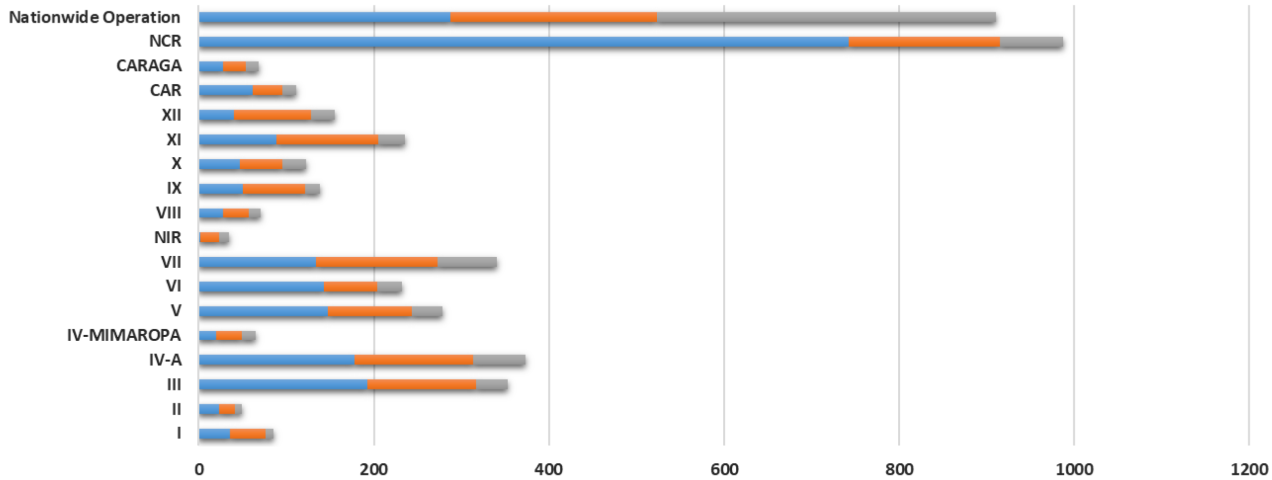
[30] Section 23, RA 4373, as amended
[31] Section 25, RA 4343, as amended
[32] Executive Order No. 221 s. 2003
[33]https://www.dswd.gov.ph/dswd-issues-guidelines-on-handling-of-complaints-against-erring-social-welfare-and-development-agencies/

a certificate of registration issued by DSWD and inclusion in the registry of SWDAs.[34] **Licensing** is the provision of a legal permit to operate as such, after having met or complied with certain standards and requirements[35]. **Accreditation** is the process by which the DSWD officially recognizes an NPO as eligible to be an implementing entity of programs or projects using government or public funds.[36] It ensures that delivery of programs and services are within set standards by officially recognized NPOs, who are considered as implementing entity of programs or projects using government or public funds.

The DSWD follows a rather stringent accreditation process. Among the requirements for accreditation under DSWD Memorandum Circular No. 05, Series of 2005 are that the NPOs must, (a) be registered with the SEC; (b) be in operation for at least three (3) years in the geographical area of activity being applied for accreditation; (c) not have any derogatory record with any government agency; and d) not be in default or delay in liquidating funds received from any government agency. DSWD will conduct a validation visit to verify the existence and operation of the applicant, including ocular inspections of the principal and satellite offices of the NPO. In case there are several programs/projects implemented, the most important and biggest project shall be considered for validation assessment.

Regional statistics obtained from the DSWD shows 2,252 NPOs registered with the agency as of December 2017. Covered NPOs under the DSWD *Registration* are private Auxiliary SWDAs which provide support activities in the delivery of SWD programs and services to the disadvantaged sectors. These may include People's Organizations, Resource Agencies and SWD Networks. 60% of these registered NPOs are located in the National Capital Region (NCR) while 22.46 % of the NPOs are operating nationwide. All DSWD-registered NPOs are service NPOs.

Graph 2: DSWD Registered/Licensed/Accredited NPOs as of 31 December 2017



	I	II	III	IV-A	IV-MIMAROPA	V	VI	VII	NIR	VIII	IX	X	XI	XII	CAR	CARAGA	NCR	Nationwide Operation
Registration	36	23	193	178	20	148	143	134	2	28	50	47	89	40	62	28	743	288
Registration and Licensing	40	18	124	135	29	95	61	139	21	29	71	49	116	88	33	26	172	235
Accreditation of programs and services	9	8	36	60	16	36	28	68	11	14	17	27	30	27	16	15	73	388

[34] DSWD Administrative Order No. 17, Series of 2008
[35] Ibid.
[36] DSWD Memorandum Circular No. 05, Series of 2005

NPOs granted with registration and license to operate cover those private *Social Welfare Agencies (SWAs) and Resource Agencies providing direct services* which employ social workers and other paraprofessionals that directly provide remedial, preventive and developmental programs and services to individuals, families, groups and/or communities; and those agencies providing direct services engaged in social welfare and development activities. Of these 1,481 registered and licensed NPOs, 1,041 NPOs provide community-based programs and services, while 440 offer residential-based programs and services.

The DSWD conducts monitoring of NPOs through submission of annual accomplishment reports and audited financial statements and through the conduct of on-site visits, both announced and unannounced to a priority set of NPOs. The reports submitted by registered, licensed, and/or accredited NPOs are reviewed by the DSWD Standards Bureau and/or DSWD Field Office, if the accomplishments are in accordance to SWDAs set purpose and if the financial statements are in compliance to the set ratio of 20% for administrative expenses and 80% for program expenses and the corresponding comments are provided to the NPOs registered and or licensed as SWDAs.

DSWD Administrative Order No. 16 series of 2012 also provides grounds for reprimand, suspension and revocation of the issued DSWD license and accreditation certificates to SWDAs. These include (a) agency used for immoral purposes, (b) commission of any act showing unworthiness and incompetence to continue acting as a SWDA; (c) falsification of the requirements for registration of SWDAs; (d) exploitation or abuse of its beneficiaries; (e) revocation of SEC registration; (f) mismanagement of funds; (g) insolvent or is not in a financial position to support and maintain the children therein or to perform the functions for which it was granted license; and among others. This was further enhanced by the DSWD Memorandum Circular No. 16 series of 2018 "Guidelines on Handling of Complaints against SWDAs" which provides the grounds for the reprimand, suspension and revocation including those found to have committed or involved on money laundering and terrorist financing.

General Appropriation Act (GAA) of 2014 to 2017 mandated the DSWD as the centralized accrediting agency for Civil Society Organizations (CSOs) seeking government funds. The DSWD follows a rather stringent accreditation process for those NPOs that intends to seek government funds to implement/co-implementor of government programs and services. Among the requirements for accreditation of CSOs seeking government funds under DSWD Memorandum Circular No 05 series of 2015 include (a) must be registered with SEC; (b) be in operation for at least three (3) years in the geographical area of activity being applied for accreditation; (c) not have any derogatory record with any government agency; and (d) not be in default or delay in liquidating funds received from any government agency. The DSWD conducts a validation visit to verify the existence of the operation of the applicant CSOs, including ocular inspections of the principal and satellite offices of the CSOs. In case there are several programs/projects implemented, the most important and biggest project shall be considered for validation assessment.

Guided with the GAA provision on 2014-2016, DSWD Memorandum Circular No. 05 series of 2015 that provides more stringent guidelines and procedures on accreditation of NPOs or Civil society organizations (CSOs) seeking government funds to implement or co-implement government programs and projects likewise lay down the grounds for revocation of DSWD issued CSO accreditation certificate including grounds or causes for blacklisting. This includes: (a) misrepresentation in, or falsification of, any document submitted in support of the application for accreditation; (b) failure to comply with terms of reference involving transfer of funds; (c) violation of any law, rule or regulation involving the use of government or public funds received from government agency; (d) bankruptcy or insolvency of the CSO; and revocation, cancellation or expiration of the principal or any secondary registration of the CSO, or any material license or permit required by the CSO to operate. The CSO accreditation revoked for the first time shall be disqualified from applying for accreditation within one (1) year, unless the ground for revocation is misrepresentation or falsification or violation of any law involving the use of government funds, the CSO shall be blacklisted and perpetually disqualified from applying for accreditation. Likewise, a CSO whose certificate for Accreditation is revoked for a second time, shall be blacklisted and disqualified. The name of the organizations that have certificates that are blacklisted and or revoked are posted in the DSWD website.

Other functions of the DSWD is the authority to grant public solicitation or authority to conduct fund raising activities. Act No. 4075 as amended by PD No. 1564 otherwise known as the "Solicitation Permit Law" gives the DSWD the authority to regulate public solicitations in the country of NPOs, associations and individuals. Authority/solicitation permit should be secured from the DSWD prior to engaging in any solicitation or fund-raising drives. This was further intensified by Executive Order No. 24 Series of 2001 "Delegating to the Department of Social Welfare and Development the Authority to Grant Authorization for the Conduct of National Fund Raising Campaigns" and Section 3(e) of Executive Order No. 15 series of 1998 (Redirecting the Functions and Operations of the Department of Social Welfare and Development) which mandate the DSWD to regulate fund drives, public solicitations and donations for charitable or welfare purposes, consistent with the provisions of the Administrative Code of 1987 and of the Local Government Code.

DSWD Memorandum Circular No 17 series of 2014 "Revised Omnibus Rules and Regulations on Public Solicitation" provides the requirements and procedures on applying a solicitation permit for the conduct of fund raising activities covering more than one municipality/city or regional as well as national. The same circular defined applicant as "any person, corporation, organization or association desiring or intending to conduct solicitation activities for public welfare and charitable purposes". This demonstrates a form of regulating the fund-raising capabilities even of those organizations not registered with the SEC. It also contains the general requirements for applicants and specific requirements for each methodology to be used in conducting solicitation and fund-raising activities (i.e. tickets, ballots, cards and similar forms; donation boxes, coin banks and similar forms; benefit shows such as fashion show, concert and similar activities; photo or painting exhibits and similar activities; text messages, and other types of solicitation using electronic devices such as e-mail; mass media campaign through radio, television, cinema, magazines, newspapers, billboards and other similar forms; sports activities for a cause such as fun run, marathon, cycling and similar activities; rummage sale, garage sale, sales of goods and other similar forms). The circular likewise includes the provisions in handling of offenders and penalty clause.

C. Other Secondary Licensing, Accrediting, and Certifying Government Agencies

Various government agencies including local government units (LGUs) provide secondary licenses to and accredit/certify NPOs, depending on the purpose, type and activities of the NPO. Each has its own standards/requirements for secondary licensing or accreditation depending on its program priorities.[37]

- Bureau of Internal Revenue (BIR)
  BIR Regulation 13-98, 1998 gives authority to the BIR to confer "Donee Institution Status" on NPOs previously certified by the PCNC.

[37] Study by Ma. Oliva Z. Domingo, National College of Public Administration and Governance, University of the Philippines Diliman, Philippines http://ncpag.upd.edu.ph/wp-content/uploads/2014/03/ISTR-2013-PAPER-FINAL.pdf

- Commission on Higher Education (CHED)
  R.A. No. 1994 or the Higher Education Act of 1994 mandates the CHED to license higher education institutions (e.g. colleges, universities, post-graduate institutions) previously registered with the SEC. Some educational institutions are registered as non-stock corporations.

- Department of Agriculture (DA)
  By virtue of R.A. No. 8435 or the Agriculture and Fisheries Modernization Act (AFMA) of 1997 the DA encourages the participation of farmers and fisher folk associations or corporations previously registered with a government regulatory agency such as the SEC

- Department of Agriculture – Agricultural Training Institute (DA-ATI)
  Section 4 of DA AO No. 11, Series of 2012 refers to the DA-ATI's accreditation coverage which includes NPOs offering organic agriculture extension programs. Section 11 of the same AO provides SEC registration as eligibility requirement for NPOs applying for DA-ATI's accreditation.

- Department of Agrarian Reform (DAR)
  DAR AO No. 11-89, Series of 1989 pertains to the rules and regulations governing the accreditation of NGOs (NPO) participating in DAR programs. While the Comprehensive Agrarian Reform Act of 1988 (R.A. 6657) refers to the accreditation of agrarian reform communities. NPOs applying for DAR accreditation must first be duly registered with appropriate government regulatory body such as the SEC.

- Department of Environment and Natural Resources (DENR)
  Per DENR Administrative Order Nos. 99-36 and 99-53, NPOs seeking to participate in community-based forest management agreements must seek accreditation with the DENR. These NPOs need to have prior registration with the SEC, DSWD or other government regulatory agencies.

- Department of Education (DepEd)
  Batas Pambansa Blg. 232 or the "Education Act of 1982" apply to and govern both formal and non-formal systems in public and private schools in all levels of the entire educational systems. DepEd is mandated to issue license to operate, temporary permit, and certificate of recognition (permanent permit to operate) to SEC-registered educational NPOs.

- National Commission on Culture and the Arts (NCCA)
  Created by virtue of Republic Act 7356 otherwise known as the "Law Creating the National Commission for Culture and the Arts". The NCCA grants accreditation to NPOs who wish to participate in NCCA programs. Depending on the type of organization or NPO applying for accreditation, the NCCA requires submission of SEC registration, or official recognition/endorsement of cultural agencies, local government units (LGUs), academic institutions, or other government agencies or recognized individuals or organizations in Philippine society.[38]

- National Commission on Indigenous Peoples (NCIP)
  The NCIP grants accreditation to NPOs categorized as indigenous peoples organizations. Republic Act No. 8371 or "The Indigenous Peoples' Rights Act of 1997" created the NCIP. Indigenous Cultural Communities (ICC) /Indigenous Peoples (IP) as defined in RA No. 8371,

[38] http://ncca.gov.ph/wp-content/uploads/2018/08/NCCA-AGPS-Accreditation-Information-Brocuhure-1.pdf

refer to a group of people or homogenous societies identified by self-ascription and ascription by others, who have continuously lived as organized community on communally bounded and defined territory, and who have, under claims of ownership since time immemorial, occupied, possessed and utilized such territories, sharing common bonds of language, customs, traditions and other distinctive cultural traits, or who have, through resistance to political, social and cultural inroads of colonization, non-indigenous religions and cultures, became historically differentiated from the majority of Filipinos. ICCs/IPs shall likewise include peoples who are regarded as indigenous on account of their descent from the populations which inhabited the country, at the time of conquest or colonization, or at the time of inroads of non-indigenous religions and cultures, or the establishment of present state boundaries, who retain some or all of their own social, economic, cultural and political institutions, but who may have been displaced from their traditional domains or who may have resettled outside their ancestral domains.

- National Commission on Muslim Filipinos (NCMF)
  Republic Act No. 9997 or the "National Commission on Muslim Filipinos Act of 2009" created the NCMF and defined its powers, functions and responsibilities and appropriating funds therefor and for other purposes. This law ensures the rights and well-being of Muslim Filipinos with due regard to their beliefs, customs, traditions and institutions, as well as to further ensure their contribution to national goals and aspirations and to make them active participants in nation-building.

  Among the functions of the NCMF[39] is to issue a certificate of registration and recognition for madrasah[40] also to issue certificate of recognition for NGOs[41] participating in NCMF programs. SEC registration and Mayor/Barangay Certification as to existence are required for NGOs applying for accreditation or recognition of the NCMF. However, for madrasah SEC registration is not mandatory, other requirements are letter from the madrasah owner/administrator, Mayor's permit or Barangay Certificate, pictures and profile of the madrasah and endorsement of the concerned NCMF Regional Offices.

- Technical Education and Skills Development Authority (TESDA)
  Republic Act No. 7796 otherwise known as the "Technical Education and Skills-Development Act of 1994" or the "TESDA Act of 1994" created the TESDA. Among its powers is to administer and accredit private and public technical education and skills development centers.

- Local Government Units (LGUs)
  LGUs issue accreditation to NPOs participating in local government programs and councils. Sections 34 – 36 of Republic Act No. 7160 otherwise known at the Local Government Code of 1991 promulgates the LGUs relations with NPOs. To quote " Section 34. Role of People's and Non-governmental Organizations. - Local government units shall promote the establishment and operation of people's and non-governmental organizations to become active partners in the pursuit of local autonomy. Section 35. Linkages with People's and Non-governmental Organizations. - Local government units may enter into joint ventures and such other

[39] Based on the NCMF Operations Manual http://ncmf.gov.ph/wp-content/uploads/2017/02/NCMF-Manual-of-Operations-2016.pdf

[40] As defined in NCMF's Operations Manual, Madrasah (singular of Madaris) – refers to an institution for the study of Islamic education, such as, Theology, Arabic Language and religious law.

[41] As defined in NCMF's Operations Manual, Non-Government Organizations (NGOs) - refers to duly registered non-stock, nonprofit organizations focusing on the upliftment of the basic or disadvantaged sectors of society by providing advocacy, training, community organizing, research, access to resources and other similar activities, as understood under Philippine context.

cooperative arrangements with people's and non-governmental organizations to engage in the delivery of certain basic services, capability-building and livelihood projects, and to develop local enterprises designed to improve productivity and income, diversity agriculture, spur rural industrialization, promote ecological balance, and enhance the economic and social well-being of the people. Section 36. Assistance to People's and Non-governmental Organizations. - A local government unit may, through its local chief executive and with the concurrence of the sanggunian concerned, provide assistance, financial or otherwise, to such people's and non-governmental organizations for economic, socially-oriented, environmental, or cultural projects to be implemented within its territorial jurisdiction."

D. Self-Regulatory Mechanism - Philippine Council for NGO Certification (PCNC)

The PCNC is a private, voluntary, non-stock, non-profit organization, tapped by the Department of Finance (DOF)/Bureau of Internal Revenue (BIR)[42] to establish and operate a certification system that aims to determine the qualifications of non-stock, non-profit corporations/non-government organizations (NGOs) to become donee institutions. Donors of donee institutions are exempted from donor's tax and 12% VAT and donations can also be deducted as expense from the donor's gross taxable income.

The authority of PCNC was explicitly stated in Executive Order No. 720, s. 2008 which states the **"**Establishment of a Government-Nongovernment Partnership in the Accreditation of Donee Institutions Relative to the Tax Deductibility of Charitable Contributions under Section 34(H) of the National Internal Revenue Code, as Amended", specifically in sections 2 and 3[43]**.**

Eligible for PCNC certification are non-stock, non-profit domestic corporations organized under Philippine Laws and operated exclusively for any or a combination of the following purposes:

- Charitable
- Education
- Health
- Rehabilitation of Veterans
- Religious
- Scientific Research
- Cultural
- Social Welfare
- Youth Development
- Sports Development
- Non-stock, non-profit educational institutions
- Civic league or organization not organized for profit but operated exclusively for the promotion of social welfare;

The PCNC's accreditation process looks into six areas of organizational functioning, namely: (a) Vision, Mission and Goals; (b) Governance; (c) Internal Management; (d) Program Operations; (e) Financial Management; and, (f) Collaborative Linkages.

Being certified by PCNC means undergoing a rigid assessment by peers on the areas of governance, financial management, administrative and personnel management, project development and management and networking/partnership building. An NGO can be certified with validity or duration of 1, 3 or 5 years depending on its performance in the assessment. Those that qualify for a one-year certification are expected to improve operations so they can move on to at least a three-year period when they apply for re-certification.

[42] Executive Order No. 720
[43] http://www.officialgazette.gov.ph/2008/04/11/executive-order-no-720-s-2008/ , accessed on 2/19/2018

From 1999 to 2016, PCNC conducted a total of 2,229 evaluations (includes renewal of applications) involving more than 1,120 NGOs. Majority of those evaluated or 948 received PCNC certifications, and 929 were given the BIR certificate of "donee status". The NGOs which were denied PCNC certification failed to comply with the requirements and/or did not meet the organizational standards set by PCNC.

For the period covering 2010 to 2013, the average number of PCNC certified NGOs was 364 and was increased to 418 or by 54 NGOs for the period covering 2014 to 2016. By end of 2016, a total of 425 organizations with valid PCNC certifications and applications for certification of about 60 organizations, respectively, are in process. As of end of 2017, 428 NPOs of various types were given PCNC-accreditation.

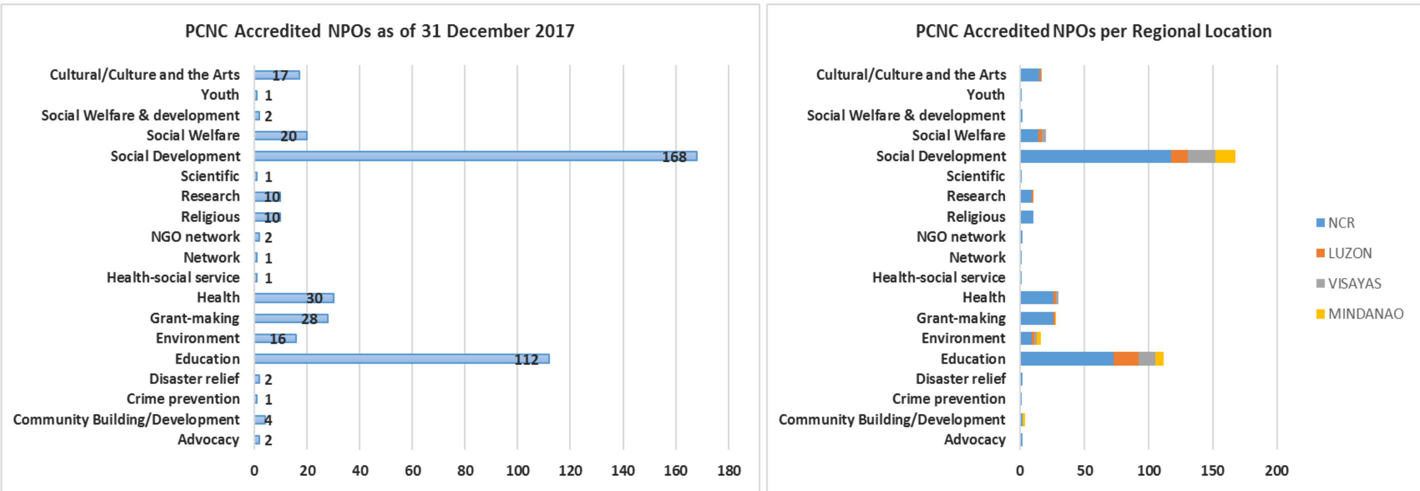


Figure 3: PCNC Total Accredited NPOs per Type and Regional Location

73.6% or 315 of the NPOs that were given PCNC certifications are based in the NCR, while Luzon and Visayas got 9.81% or 42 NPOs each. Majority of these NPOs are engaged in social development and education. On the other hand, 29 or 6.78% of the NPOs with PCNC certification, most of which are engaged in providing education services, are located in Mindanao.

Majority of PCNC-accredited NPOs are service in nature. Distribution per type and region are as follows:

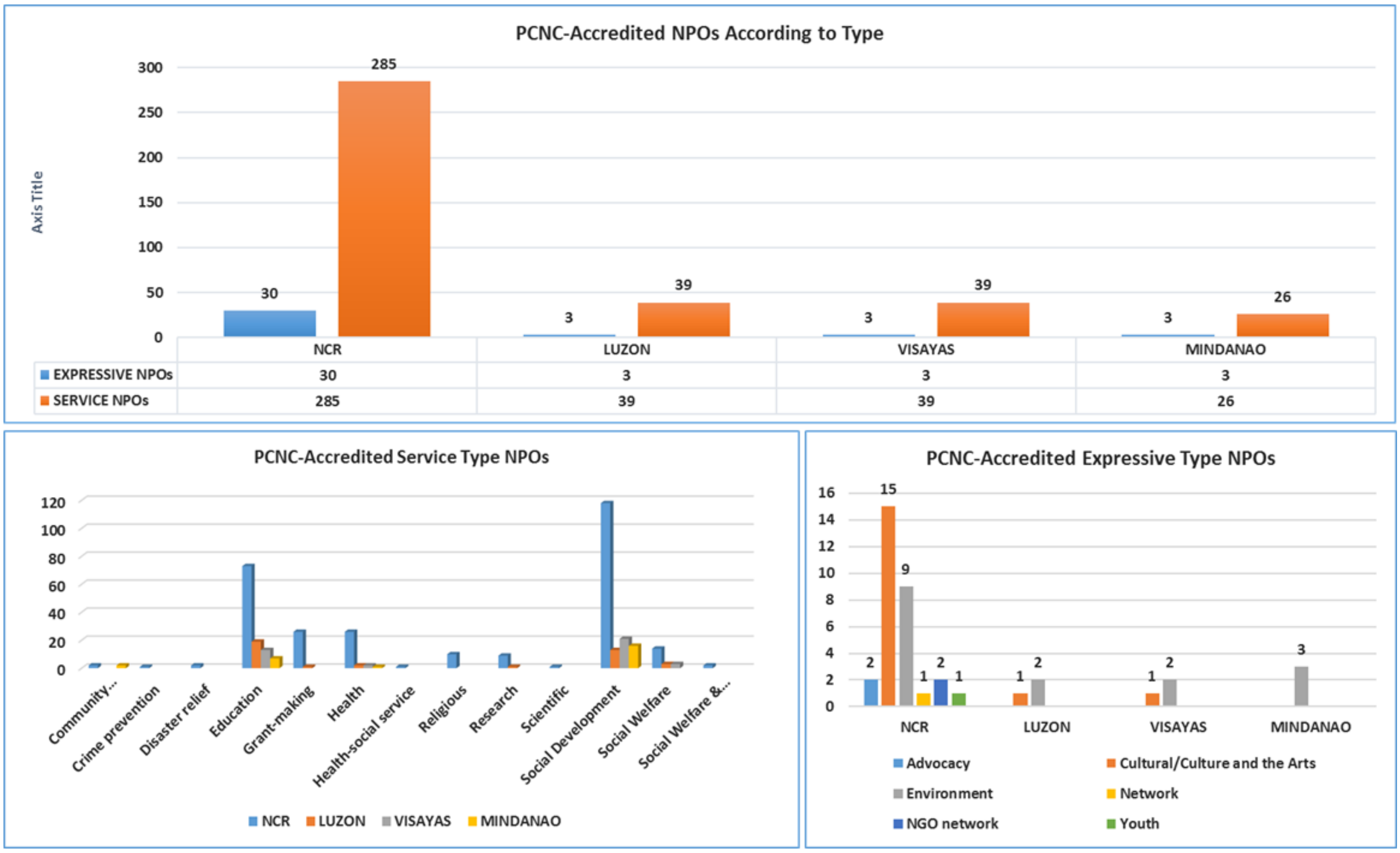


Figure 4: Total PCNC Accredited NPOs Classified as Service / Expressive Types and Regional Count

Almost 91% of PCNC accredited NPOs across all regions in the country are classified as service type, while only 9% are expressive in nature.

Two manuals, the "Guidebook on the Basics of NGO Governance" and "Handbook on Organizational Functioning for Small NGOs" were developed and published by PCNC and these are made available to interested organizations. The guidebook was intended to support NPOs learning how to become better governed and managed organizations. The needs of small and newly formed NPOs were also considered in presenting the basics of NGO governance. Among the performance areas for NPOs/NGOs identified in the handbook are (a) Vision, Misson, Goals; (b) Governance; (c) Financial Management and Administration; (d) Program Operations; and (e) Partnering and Networking.

E. NPO Coalitions - Caucus of Development NGO Networks (CODE-NGO)

CODE-NGO is the biggest coalition of NGOs dedicated to social development in the Philippines. Founded in 1991, its main purpose was to scale up the impact of the work of civil society on national development, as well as to differentiate themselves from fly-by-night NGOs that mushroomed at that time.[44] CODE-NGO's creation in 1991 was anchored on the consensus arrived at by the members of the founding networks as embodied in its basis of unity document – the Covenant on Philippine

[44] The Evolution of NGO Accountability Practices and their Implications on Philippine NGOs: A literature review and options paper for the Philippine Council for NGO Certification By: Danilo A. Songco
How the Caucus of Development NGO Networks (CODE-NGO) of the Philippines Practice Legitimacy, Transparency and Accountability in its Operations as cited by Roselle S. Rasay, Acting Executive Director, CODE-NGO

Development and Code of Conduct for Philippine CSOs.[45] It was the first Asian NGO coalition to adopt a code of conduct in Asia, and probably one of the first in the global NGO community.[46]

Since 2012, CODE-NGO has been organizing a signature campaign among its members to renew their commitment to the CODE-NGO Code of Conduct. To date, close to a thousand or 63% of the more than 1,400 base organizations affiliated with CODE-NGO's member networks have signed this renewal of commitment.

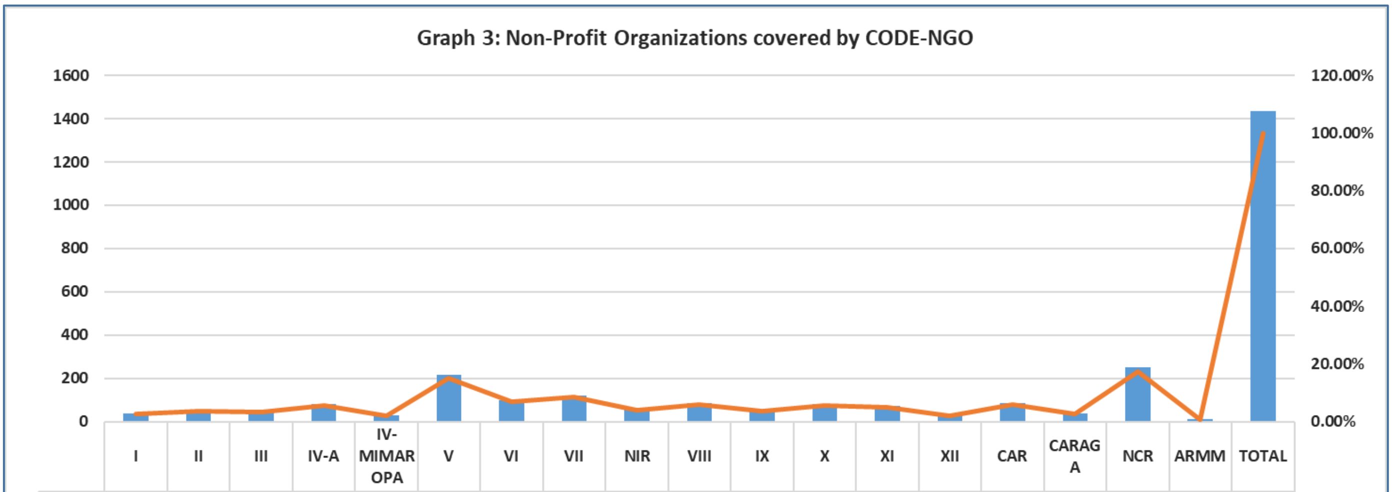
It focuses on policy advocacy and partnership building in the public arena, as well as on developing the capacity and accountability of its member networks and affiliated organizations. It also undertakes policy advocacy, particularly towards transparent, accountable and participatory governance, asset reform and sustainable development. CODE-NGO was also among the CSO networks which established the PCNC in 1998.

For the period 2011-2014, CODE-NGO became part of a 3-year capacity building initiative called "Strengthening the Capacity of Philippine CSOs Project." The project involved the development of a self-assessment tool called the CAT (Capacity Assessment Tool)[47] so that a CSO can evaluate or rate itself in terms of its organizational development or maturity in the areas of Governance and Leadership, Financial Management, Administrative and Personnel Management, Project Development and Management and Resource Mobilization. CAT becomes a basis for CSOs to identify areas of organizational weakness and strength, so they can craft their capacity building plan. Learning from this project, CODE-NGO developed two more CATs – in the areas of Networking and Member Relations and of Advocacy Effectiveness. These two areas are more relevant to networks like CODE-NGO and its direct members.

At present, CODE-NGO is a coalition of 12 CSO networks representing more than 1,400 NGOs, people's organizations and cooperatives in the Philippines. The 12 CSO[48] are as follows:

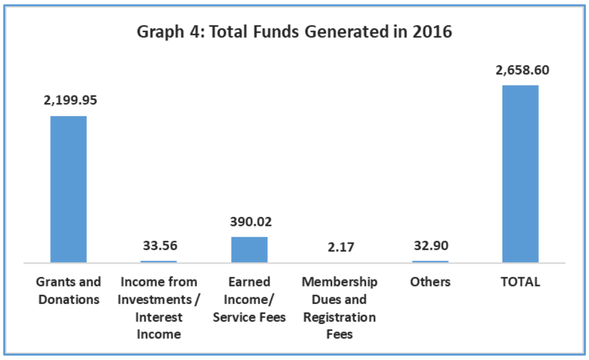
1. Association of Foundations (AF);
2. Central Visayas Network of NGOs (CENVISNET);
3. Eastern Visayas Network of NGOs (EVNet);
4. Western Visayas Network of NGOs (WEVNet);
5. Partnership of Philippine Support Service Agencies (PHILSSA);
6. Philippine Partnership for the Development of Human Resources in Rural Areas (PHILDHRRA);
7. Philippine Business for Social Progress (PBSP);
8. National Council of Social Development Foundation of the Philippines, Inc. (NCSD);
9. National Confederation of Cooperatives (NATCCO);
10. Mindanao Coalition of Development NGOs (MINCODE);
11. Cordillera Network of NGOs & POs (CORDNET); and
12. Coalition for Bicol Development NGOs (CBD).

[45] http://code-ngo.org/basis-ofunity/
[46] Overview of NGOs and Civil Society, Philippines. http://www.adb.org/sites/default/files/publication/28972/csb-phi.pdf
[47] http://code-ngo.org/cat/client/index.html#/page/learn-more-capacity-building-framework
[48] http://code-ngo.org/category/members/



	I	II	III	IV-A	IV-MIMAROPA	V	VI	VII	NIR	VIII	IX	X	XI	XII	CAR	CARAGA	NCR	ARMM	TOTAL
N	38	50	48	81	29	217	99	120	56	83	53	81	70	29	84	37	250	10	1,435
%	2.65%	3.48%	3.34%	5.64%	2.02%	15.12%	6.90%	8.36%	3.90%	5.78%	3.69%	5.64%	4.88%	2.02%	5.85%	2.58%	17.42%	0.70%	100.00%

NCR, Region V, and Region VII ranked 1st to 3rd in terms of the number of NPOs under CODE-NGO networks/coalitions.



The sources of funds/income of CODE-NGO and ten (10) of its twelve (12) NGO networks are grants, donations, income from investments/interest income, earned income/service fees, membership dues, registration fees, and other sources. Total generated funds in 2016 is estimated at Php2.66 billion. An average of 81% of the funds originated from grants and donations, which are categorized as restricted funds specifically allocated for projects or programs approved by donors or funding partners.[49]

The network observes a Code of Conduct which is a set of principles that guides the members' relations with partner communities, staff, fellow NGOs, donors, government and business sector partners. The Code of Conduct was developed when the coalition was established in 1991, together with its Covenant on Philippine Development.

CODE-NGO has what it calls a 'Good Governance Campaign', by mandating members to be certified by PCNC. Of 12 member networks, 3 are certified, 1 is ISO certified and is processing its application for certification, 98 base organizations are currently PCNC-certified. Majority of members are small organizations and could not afford the cost of PCNC certification. In lieu of PCNC certification, CODE-NGO asks its members to submit a filled-out tool called 'Good Governance Checklist'.[50] The checklist is a self-assessment tool with a 17-point item that reflects basic good governance practices of an NGO. To date, 529 CODE-NGO affiliate organizations are compliant with this checklist.

[49] Estimate based on the data provided by CODE-NGO as lifted from the 2016 audited financial statement of CODE-NGO and ten (10) of its twelve (12) member networks.

[50] Annex B

MONEY LAUNDERING THREAT

Money Laundering Threat is assessed based on investigations and cases involving NPOs, STR analysis, and inputs from sector representatives.

A. STR Analysis

The STRs were gathered taking into account 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. The results showed that for the period 2012 – 2017, the STRs found to possess the aforementioned criteria, specifically for money laundering predicate offenses and suspicious indicators totaled 7,518 amounting to PHP625.68 billion. The volume of STRs originated largely from the banking sector (81%) with universal/commercial banks reporting the most number (3,377 STRs) followed by savings & mortgage banks (1,472 STRs) and specialized government banks (1,204 STRs).

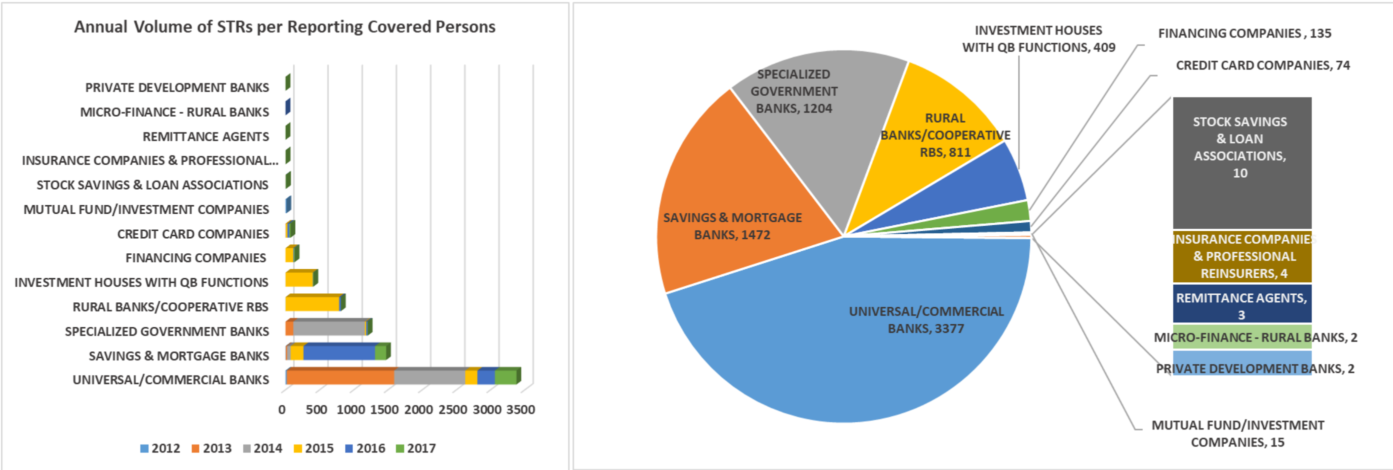


Figure 5: Annual Volume of ML-Related STRs per Reporting Covered Persons for the Period 2012 – 2017

In terms of PHP value, 99.78% originated from the banking sector with universal/commercial banks accounting for 71.26% followed by specialized government banks with 28.52%. The remaining 0.22% of the total PHP value is shared by other covered persons from the remaining eleven (11) industry classifications.

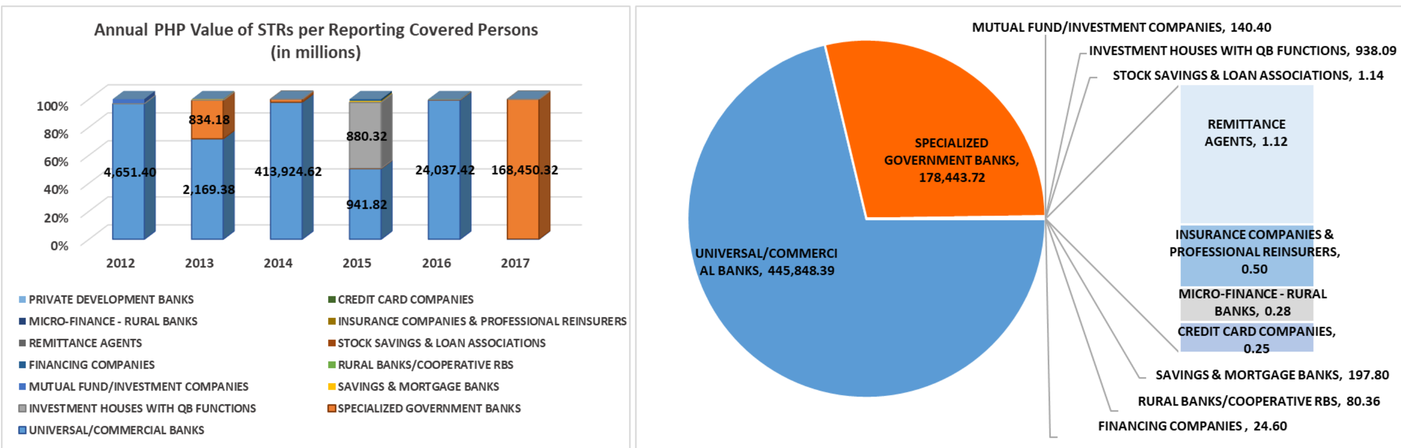


Figure 6: Annual PHP Value of ML-Related STRs per Reporting Covered Persons for the Period 2012 – 2017

Majority of the STRs on NPOs were filed in relation to money laundering predicate offenses which account for 60% of the total volume and 69% in PHP Value. A significant increase was noted in the period 2013 – 2015, which peaked in 2014 both in terms of volume and PHP value. The year 2017 reflected minimal volume of STRs (528) but posted the 2nd highest in PHP value next to 2014.

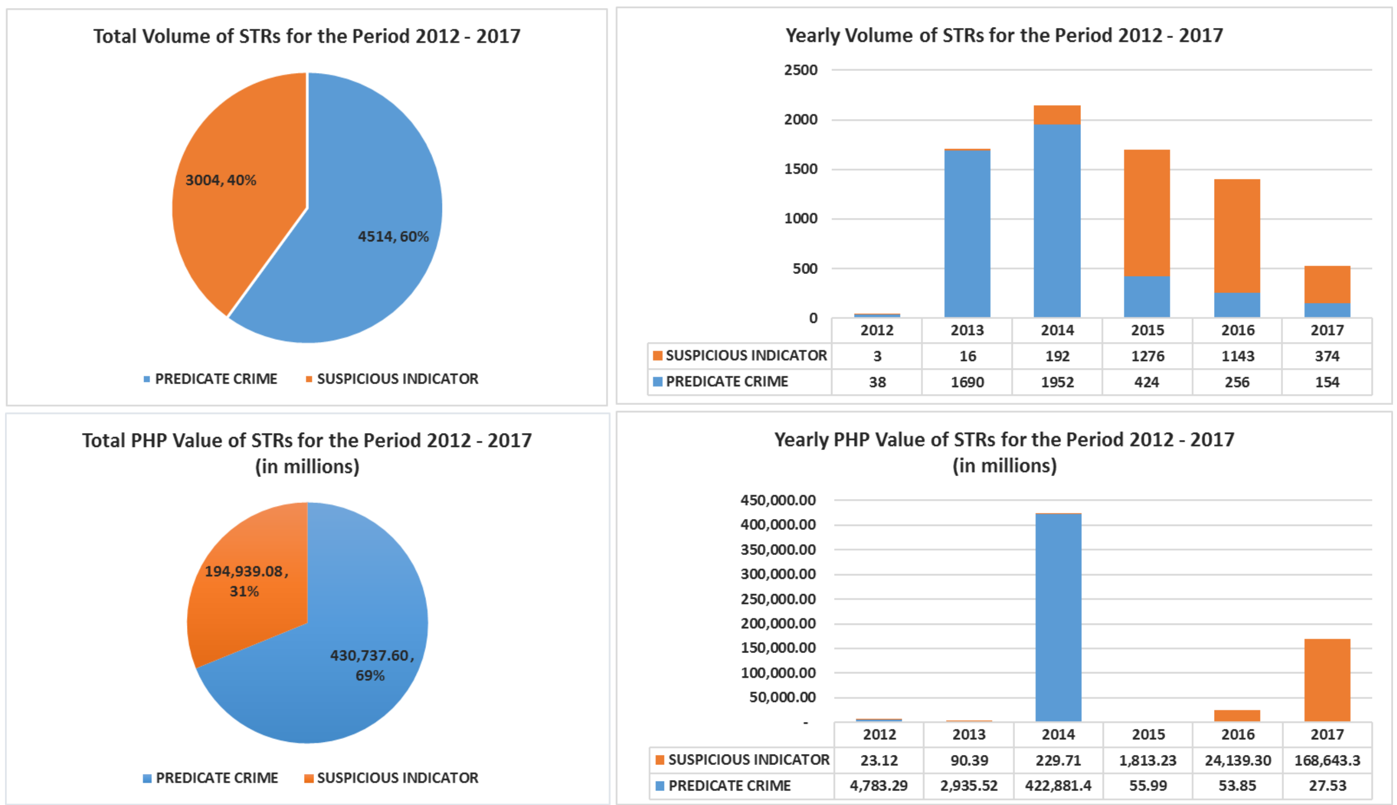


Figure 7: Total and Yearly Volume and PHP Value of ML-Related STRs Subdivided into Predicate Crime and Suspicious Indicator

The predicate offenses which contributed largely as to volume and PHP value vis-a-vis the STRs are graft and corrupt practices, and fraud (comprising of – fraudulent practices and violations under the Securities Regulations Code of 2000, swindling, and qualified theft).

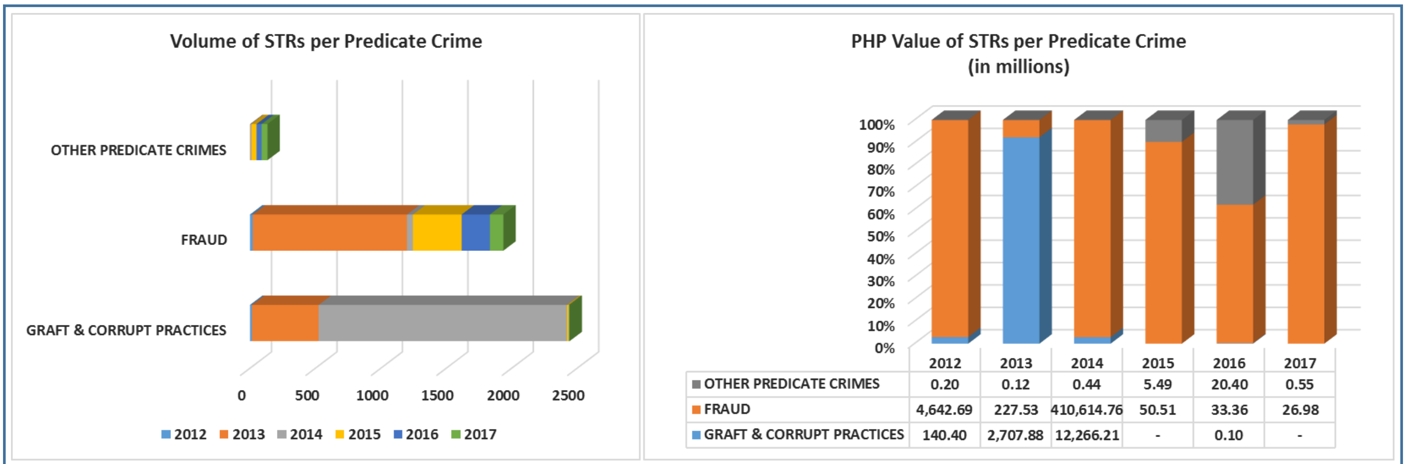
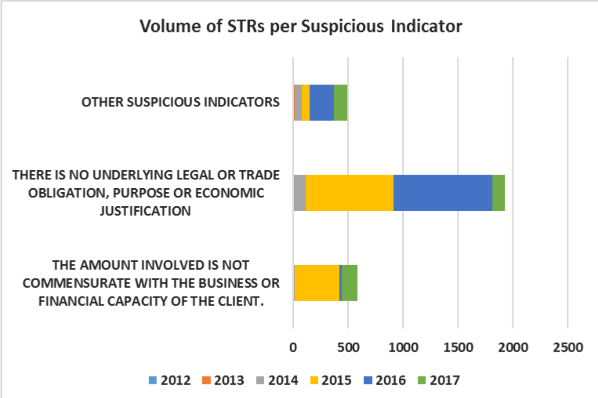
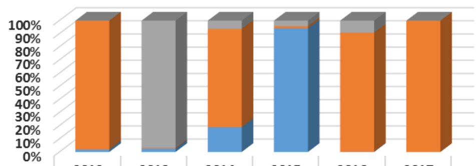


Figure 8: Yearly Volume and PHP Value of ML-Related Predicate Offenses for the Period 2012 – 2017

About 54% of the volume of STRs on predicate offenses are in relation to graft and corrupt practices. However, except for the year 2013, fraud consistently ranked 1st in terms of PHP value.

The following suspicious indicators – no underlying legal or trade obligation, purpose or economic justification; and amount not commensurate with the business or financial capacity of the client were also present in a substantial number of STRs.

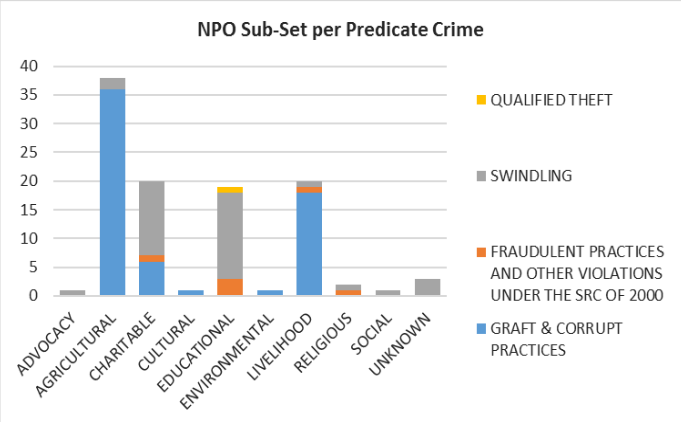




	2012	2013	2014	2015	2016	2017
OTHER SUSPICIOUS INDICATORS	-	87.53	14.36	76.46	2,209.14	16.25
THERE IS NO UNDERLYING LEGAL OR TRADE OBLIGATION, PURPOSE OR ECONOMIC JUSTIFICATION	22.68	0.48	171.87	28.69	21,876.08	168,502.65
THE AMOUNT INVOLVED IS NOT COMMENSURATE WITH THE BUSINESS OR FINANCIAL CAPACITY OF THE CLIENT.	0.44	2.38	43.48	1,708.09	54.08	124.42

Figure 9: Yearly Volume and PHP Value of ML-Related Suspicious Indicators for the Period 2012 – 2017

A total of 106 NPOs located in various regions of the country were identified in the STRs filed in relation to predicate offenses.



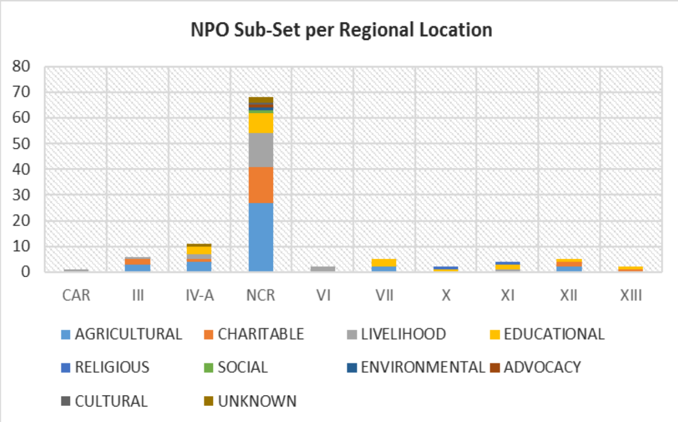
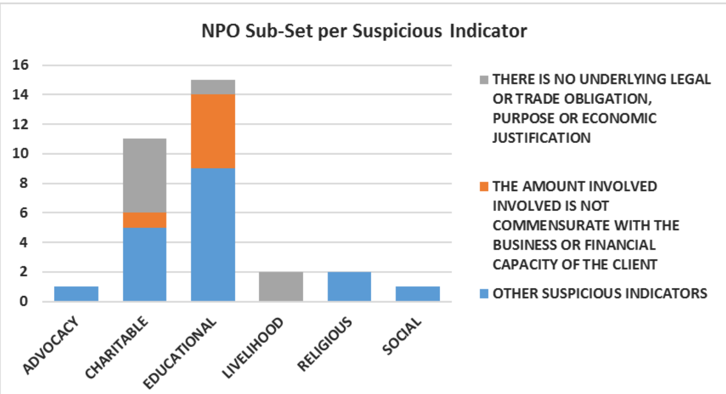


Figure 10: Distribution of NPO Sub-Sets per Predicate Crime and Regional Location

Majority of the identified NPOs are involved in agricultural (36%), charitable (19%), livelihood (19%), and educational (18%) activities/programs, accounting for 92%. Top regional locations are the NCR with 64% followed by nearby regions, IV-A (10%) and III (6%).

In terms of suspicious indicators, thirty-two (32) domestic and one (1) international NPOs were identified. The sub-sets and regional distribution of these NPOs are shown below.



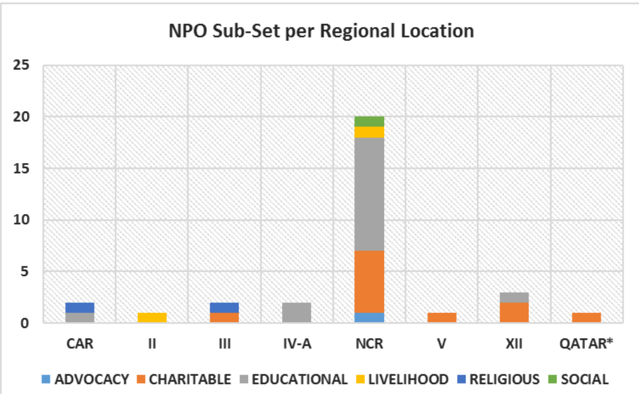


Figure 11: Distribution of NPO Sub-Sets per Suspicious Indicator and Regional Location

The NPOs reported under various suspicious indicators are largely involved in educational (47%) and charitable (34%) activities/programs, accounting for 81%. Top regional locations are the NCR with 63% followed by regions XII (9%) and CAR, III, IV-A, which are tied with 6% each.

Identification of the NPO type is based on the primary purpose indicated by the NPOs in their SEC registration documents and on open-source information. The SEC treats foundations as a distinct class hence, the primary purpose indicated in the articles of incorporation of these NPOs are considered in order to identify their specific sub-sets. A total of 138 NPOs were identified in the combined STRs on money laundering predicate offenses and suspicious indicators. The status of NPO registration with the SEC and corresponding industry classification as assigned by the SEC are shown below:

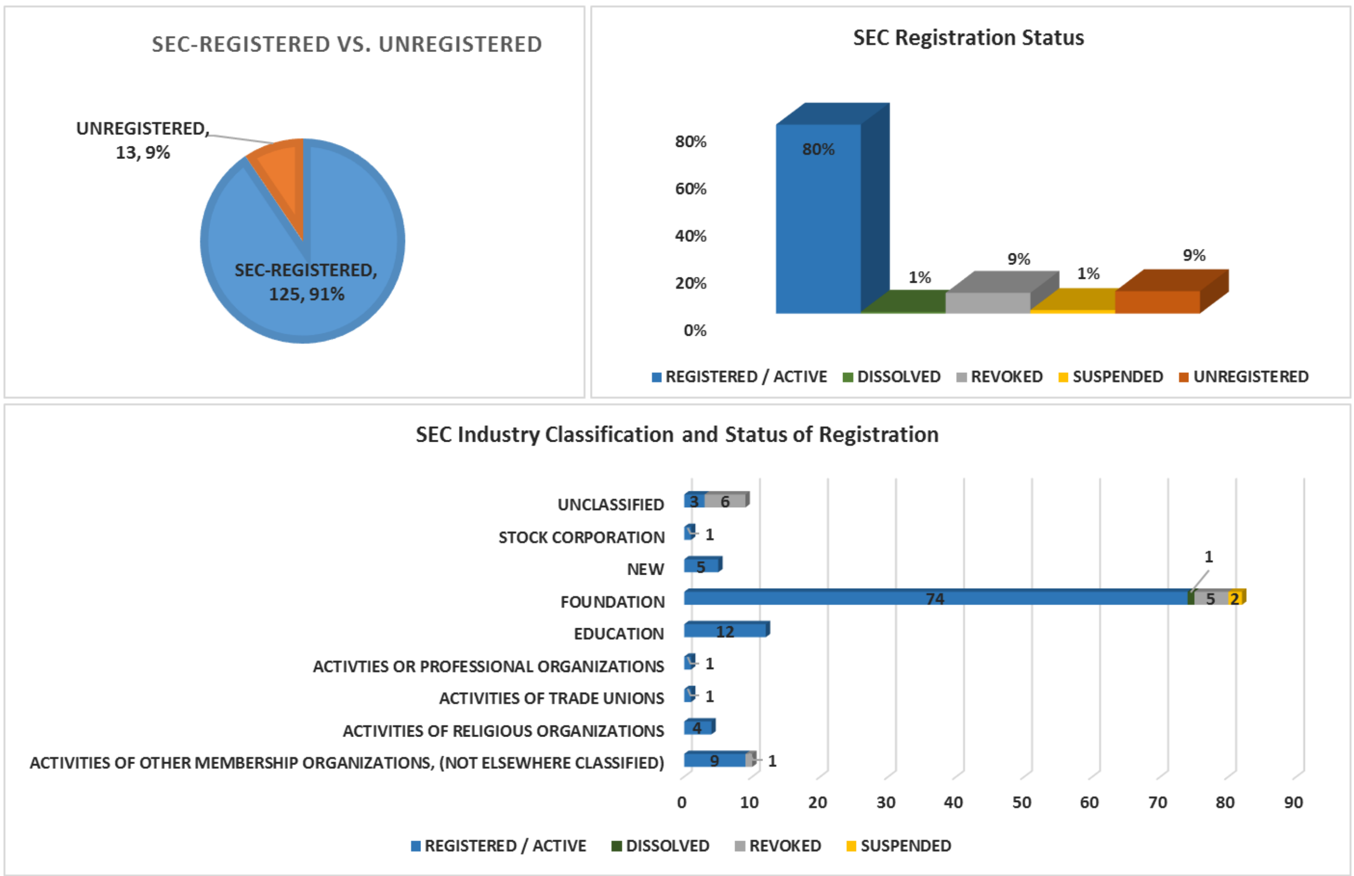


Figure 12: SEC Registration Status and Industry Classification of NPOs Identified in ML-Related STRs

91% of the subject NPOs secured registration with the SEC while 9% were unregistered[51]. Company status of 80% (85 NPOs) are active, while 11% make up those with suspended, dissolved or revoked company registration status. Further, 82 NPOs or 59% are classified by the SEC as foundations followed by education with 9%. Nine (9) NPOs were unclassified[52] and one was classified as stock corporation[53].

[51] NPOs not found in the SEC registry
[52] Industry classification for these NPOs was not indicated in the SEC iview (online registry)
[53] Classified as stock corporation but corporate name contains "Foundation", which is a classification of NPO. SEC Memorandum Circular No. 8, Series of 2006, contains the guidance on the inclusion of the term "Foundation" in an entity's corporate name.

B. Significant Predicate Offenses and Suspicious Indicators

Graft & Corrupt Practices

Majority are NPOs involved in agricultural and livelihood projects/programs, and a few involving charitable, environmental, and cultural activities. These NPOs are linked to the PDAF scam which involved legislators who diverted their discretionary funds to bogus/sham NPOs and obtained kick-back in the process. The projects are overvalued and in most cases nothing was delivered to the intended beneficiary and everything went to the perpetrators.

The Pork Barrel Scam

In 2013, high level government officials were charged with plunder, malversation, direct bribery, and graft and corrupt practices due to their participation in the Priority Development Assistance Fund (PDAF)[54] - scam or the “pork barrel scam”.

It involved the funding of agricultural "ghost projects" using the PDAF of participating lawmakers. These agricultural projects were primarily concocted by JLN, and implemented through her companies, with the projects producing no tangible outputs. The scam starts when the Lawmaker and JLN agree on the list of projects, corresponding Implementing Agency (IA), project cost, and the designated NPO to be used as recipient of the fund.

Funds would be processed through NPOs established under the wing of JLN’s Group of Companies, with her employees, even her nanny, named as incorporators. In some of the cases identified, the lawmaker also has his/her own preferred NPO in which the funds will be transferred. There was no corresponding appropriation law or public competitive bidding involved which violated the government procurement law. The MOA between the IA and the NPO also lack provisions on control and management of funds and monitoring of project implementation.

Each NPO had a number of bank accounts where the allotted PDAF would be deposited for the supposed implementation of the projects. The funds would either be withdrawn on the same day of the transfer, or withdrawn in bulk after a few days. Withdrawals are either in cash or in check, which will also be encashed on the same day. Only the minimum maintaining balance is left in the NPO’s account.

In exchange for selecting the JLN’s NPO, the lawmaker in turn will receive from JLN between 40% - 60% of the cash value of the project as ‘kickback’ or ‘commission’, while 10 to 15% are released to local government units/national government agencies—beneficiaries of the ghost projects. JLN’s employees eventually became whistleblowers, exposing the scam and testifying against JLN, legislators and their staff.

It is estimated that 21 non-government organizations, which were incorporated by JLN, were used as dummies to funnel about PhP420 Million government funds in favor of JLN and the legislators.

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[54] The Priority Development Assistance Fund (PDAF), or “pork barrel” is well entrenched in Philippine political history and is often used as a means to generate legislative support for the programs of the Executive. Since the 1920s, it is a lump sum discretionary fund granted to each members of Congress for spending on priority development funds of the Philippine government, mostly on the local level, where every member of the House of Representatives usually receives an annual PDAF allocation of P70 million, while every Senator receives an annual allocation of P200 million. disbursements under the PDAF are coursed via implementing agencies of the Philippine government, and are limited to "soft" and "hard" projects: the former largely referring to non-infrastructure projects (such as scholarships and financial assistance programs, although small infrastructure projects are also considered "soft" projects), and the latter referring to infrastructure projects which would be coursed via the Department of Public Works and Highways

Investigations also show that at least eight (8) “preferred” NPOs of legislators were likewise used to facilitate the money laundering scheme.

No NPO accounts were frozen since these were used as pass-through accounts only. Corruption and money laundering cases were filed against the mastermind, legislators and their cohorts.

Information and documents pertaining to all SEC-registered JLN foundations have been forwarded by the SEC to the AMLC in August 2013 for the latter’s appropriate action. Simultaneous investigation and enforcement actions on the said foundations are being undertaken by the SEC. The SEC has since revoked registration of these foundations.

Fraud

The spike in STRs in 2013 is a result of the reports received on NPOs and members of NPOs who are presumed victims of investment fraud wherein funds are invested to a wide-scale investment scheme involving an investment fraud case. Php13.43 million was reported as subject of freeze order and Php207.75 million transactions were merely on alleged involvement in the investment scheme.

Commodity Futures Investment Scam

The case is a large scale “Ponzi scheme” operated in Southern Philippines. A request for information on the bank accounts of alleged mastermind and cohorts was received by the AMLC from a Philippine LEA in 2013. Said accounts were allegedly being utilized as destination of funds originating from victims (public) who were enticed to invest with a promise of 30% investment returns within eight days from placement. The AMLC further received several e-mails from various citizens reporting the purported scam. Its corporate vehicle, Inc. was issued a cease and desist order (CDO) by the SEC due to four violations of the Securities Regulation Code of 2000. Investigation on the account movements revealed indications of money laundering involving the opening of several bank accounts in various banks which served as temporary repositories of funds and the unusual large or structured deposits followed by layers of transfer transactions which were eventually withdrawn and used by the perpetrators to purchase luxury vehicles, real properties and engage in other businesses.

The AMLC conducted parallel financial investigation on the case. During financial intelligence analysis, it was discovered that some of the alleged perpetrators have foundations under their names. However, investigations reveal that there is no linkage between the bank accounts of the foundations and the investment scam. As such, the bank accounts of the foundations were not included in the application for the issuance of freeze order filed by the AMLC.

Swindling

The significant 2014 figures (Php410.61 billion) relate to the presentation of bogus/spurious documents (e.g. check, demand draft, bank guarantee) by NPO representatives which were either returned or dishonored by the covered persons (CPs). The spike resulted from the CPs’ reporting of the value of the spurious documents as transaction amounts of the STRs.

Qualified Theft

The STRs involved an alleged qualified theft of a signatory of an educational institution (NPO) who purportedly forged the signature of another signatory on several issued checks which were either deposited or encashed. The NPO authorities alleged that the transactions involving their account/s should be signed/authorized by any two signatories, however the questioned transactions allegedly contained forged signatures.

Some of the STRs involved employees of educational NPOs who executed fraudulent authorization letters to the NPO's branch of account to execute the transfer of funds from the NPO's account to the employees' payroll accounts.

No Underlying Legal or Trade Obligation, Purpose or Economic Justification

The reported STRs reflected substantial amounts of Php21.87 billion in 2016 and Php168.45 billion in 2017 which involved the presentation of seemingly fraudulent guarantees in the form of "Deed of Gift" and "Standby Letter of Credit" of a foreign central bank as proof of incoming remittances/donations to the NPOs' accounts. The actual figures were not transacted but were nonetheless reported as transaction amounts by the covered persons in the STRs.

Amount Not Commensurate with the Business or Financial Capacity of the Client

In 2015, a total of Php1.7 billion was reported on NPOs pertaining to this suspicious indicator. In one case, three (3) members of an NPO's board of trustees allegedly made transfers from the NPO's account to their personal joint account in a period of seven (7) months totaling Php845 million. They alleged that the funds will be used for the daily operations of the NPO. The covered person deemed it reportable considering that the combined monthly income of the trustees is only Php400K and the flow of transfer to their account is not commensurate with their business or financial capacity. In another case, an NPO submitted an audited financial statement (AFS) to the covered person showing total assets of merely P688K, however noted transactions reached Php242.91 million. Further, another NPO submitted an AFS reflecting total assets of Php2.63 million, however reported transactions totaled Php607.87 million.

ASSESSMENT

The financial data on a limited number of foundations (2,246 in 2015 and 227 in 2016) from the SEC was used as proxy data for the years 2012 – 2017. Considering that this represents a small portion (about 2%) of total SEC-registered NPOs by end of 2017, a complete data as to total asset size of the NPO sector for the period 2012 – 2017 is presumably higher. Hence, the information may serve as minimum baseline for purposes of computing exposure of the sector to predicate offenses. Based on the foregoing, the ML Threat for NPOs is rated as Medium.

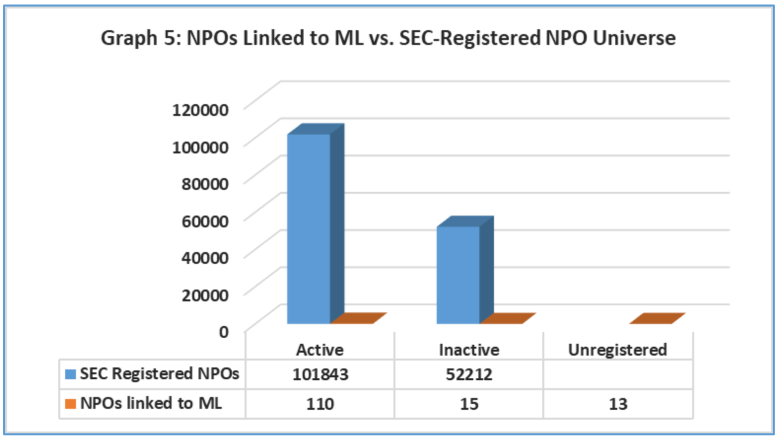
Parameters	Low 0 - 1	Medium Low 1.1 - 2	High Low 2.1 - 3	Low Medium 3.1 - 4	Medium 4.1 - 5	High Medium 5.1 - 6	Low High 6.1 - 7	Medium High 7.1 - 8	High 8.1 - 9	%	SCORE
	(0 - 10%)	(11 - 21%)	(22 - 33%)	(34 - 44%)	(45 - 55%)	(56 -67%)	(68 - 78%)	(79 -89%)	(90 -100%)		
Percentage of identified NPOs vs. 2017 SEC-registered NPO universe	1									20%	0.2
Percentage of identified/confirmed amounts (STRs - consummated transactions, and freeze / confiscated funds) vs. total declared assets of foundations* (category of NPOs per SEC classification)	1									20%	0.2
Percentage of total reported amounts (includes unconsummated STR amounts) vs. total declared assets of foundations* (category of NPOs per SEC classification)									9	20%	1.8
Location percentage (number of regions) identified in ML predicate offenses and suspicious indicators							7			20%	1.4
Percentage of at risk sub-sets of NPOs with suspected and identified involvement in ML vs. total NPO sub-sets in the country**				4						20%	0.8
Total ML Threat Score (Medium)											4.4

**Based on limited financial information from the SEC on 2,246 foundations in 2015 and 227 foundations in 2016; represents 2% (2015) and 0.22% (2016) compared to the SEC-registered NPO universe of 101,843 by end of 2017*

***Total NPO sub-sets in the country (22)[55] was based on the combined classifications of the SEC, PCNC and DSWD*

[55] Philippine NPO combined sub-sets from SEC, PCNC and DSWD: (1) Foundations; (2) Livelihood; (3) Agricultural; (4) Alumni Association; (5) Sports Association; (6) Parent-Teachers Association; (7) Neighborhood Association; (8) Charitable; (9)

The assessment showed that the sub-set of NPOs exploited for ML are service type NPOs particularly those involved in charitable, agricultural, educational and livelihood activities largely located in the NCR. Majority of the NPOs in the identified sub-sets were classified by the SEC as foundations. Of the total 138 identified NPOs, 91% (80% active, 9% revoked, 1% suspended, 1% dissolved) secured registration with the SEC while 9% are unregistered. The NPOs were linked largely to the predicate offenses graft and corrupt practices and fraud. Significant values were likewise seen on the suspicious indicators – no underlying legal or trade obligation, purpose or economic justification, and amount not commensurate with the business or financial capacity of the client, which upon further assessment, were largely fraud in nature involving presentation of fraudulent banking instruments (98% of total PHP value of ML suspicious indicators).



Graph 5: NPOs Linked to ML vs. SEC-Registered NPO Universe

A comparative analysis of the total number of identified NPOs versus the total SEC-registered NPO universe will show a low number of NPOs suspected of involvement in money laundering. The total figures as reflected in the STRs, particularly involving graft and corrupt practices (Php15.11 billion), and estimated proceeds subject of forfeiture proceedings (Php1.1 billion) also on the same grounds will show an apparent misuse of the sector. However, the figures involving fraud (96% of the total PHP value of ML predicate offenses), though highly significant, were largely unconsummated since these involved the presentation of fraudulent documents (e.g. spurious checks, demand drafts, letters of credit, bank guarantees, etc.) which were either returned or dishonored by the covered persons. Further, the financial information on NPOs gathered from the SEC for the period 2015 – 2016 showed that total assets for 2,246 foundations in 2015 amounted to Php192.67 billion and Php132.57 billion for 227 foundations in 2016. The number of foundations represents a small percentage (2% for 2015 and 0.22% for 2016) of the entire NPO universe by the end of 2017. Compared to the asset size of a limited number of NPOs in the sector, the total amount transacted in relation to ML predicate offenses over a five-year period is relatively low (8% compared to 2015 figures and 12% compared to 2016 figures).

The total reported ML suspicious transactions on NPOs is Php625.68 billion, though these are largely unconsummated (96% of fraud and 98% of ML suspicious indicators), it still resulted in a high rating compared to the limited financial information on the NPO sector's asset size.

Twelve (12) out of the country's seventeen (17) autonomous and administrative regions were identified as the locations of NPOs based on the combined STRs on ML predicate offenses and suspicious indicators resulting to a low high rating. However, majority are located in the NCR.

Banks were predominantly used as channel for laundering given that the STRs were largely reported by the banking sector accounting for 81% in volume and 99.78% in PHP value.

The NPOs identified in graft and corrupt cases were sham NPOs, which were established specifically for the purpose of receiving government funding to fund agricultural "ghost projects". The

Educational; (10) Health; (11) Activities of Political Organizations / Women's Sectoral Party List; (12) Rehabilitation of Veterans; (14) Religious; (15) Scientific Research; (16) Cultural; (17) Social Welfare / Development; (18) Youth Development; (19) Civic League; (20) Advocacy; (21) Humanitarian – Disaster Relief; (22) Indigenous People's Organization funds were ultimately distributed to the operators of the NPOs, legislators who allocated their discretionary funds, officials of the implementing agency responsible for facilitating the transfer of funds, and local mayors or governors.

The NPOs identified in relation to fraud and other ML suspicious indicators may have been abused since these largely involve receiving fraudulent banking instruments as donation which were either returned or dishonored. There are also cases wherein the board of trustees transferred substantial NPO funds to their personal accounts purportedly for operational expenses. Still others (employees) executed fraudulent authorization letters to effect fund transfers from the NPOs' accounts to their payroll accounts.

TERRORISM FINANCING THREAT

Terrorism Financing Threat is assessed based on intelligence information, STR analysis, and inputs from sector representatives.

A. STR Analysis

A total of 9 STRs on NPOs, classified under the predicate crimes “financing of terrorism”, “acts of terrorism”, and “hijacking; destructive arson; murder”[56] valued at Php50.25 million were gathered for the period 2012 – 2017.

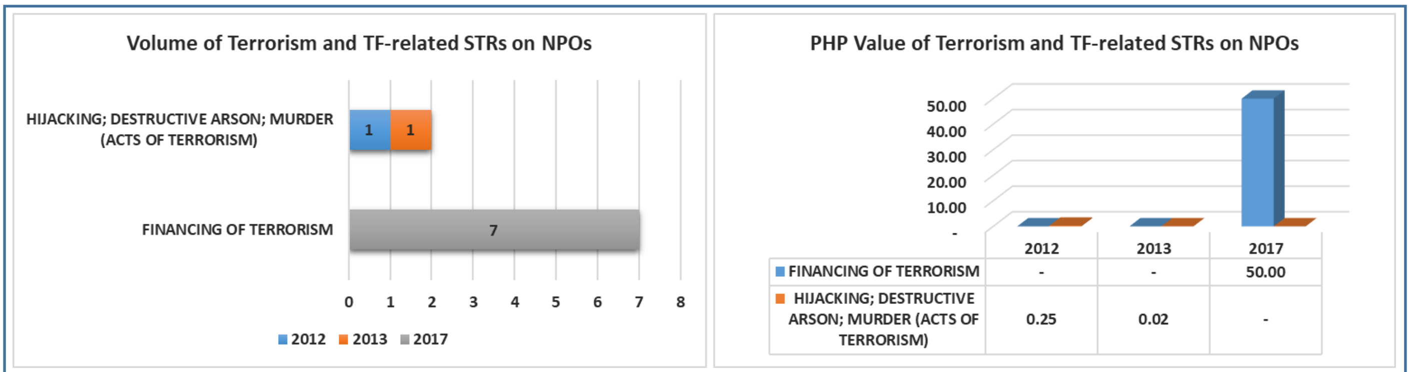


Figure 13: Total and Yearly Volume and PHP Value of Terrorism and TF-Related STRs for the Period 2012 – 2017

Majority of the reports both in volume and PHP value were in 2017, all involving financing of terrorism.

The STRs originated from the banking sector, particularly universal/commercial banks (8) and savings & mortgage banks (1).

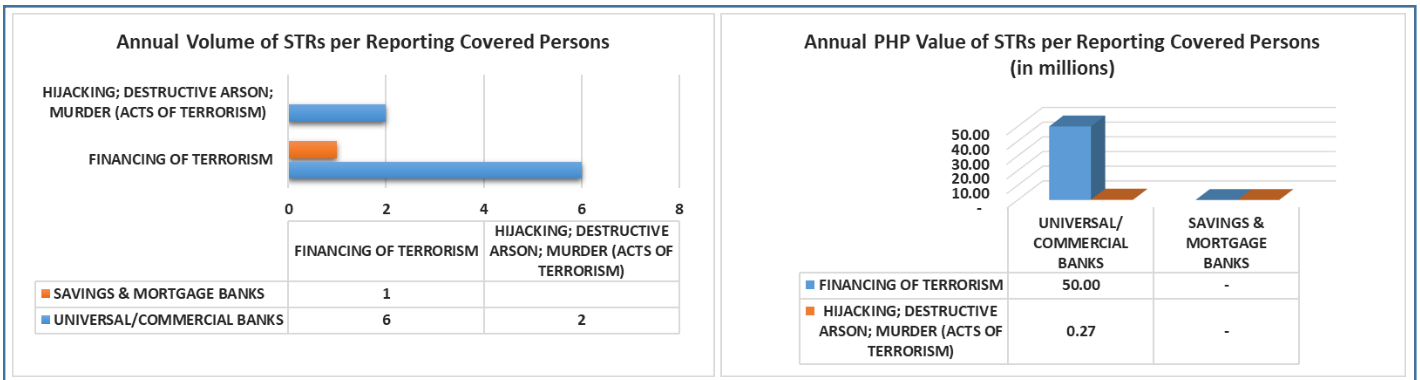


Figure 14: Annual Volume and PHP Value of Terrorism and TF-Related STRs per Reporting Covered Persons for the Period 2012 – 2017

The CPs generally mentioned that the STRs were based on adverse information gathered on the NPOs or member/s of NPOs for alleged links to terrorism. 78% of the volume and 99% of the PHP value of the STRs were in relation to financing of terrorism. A total of five (5) charitable NPOs were identified in the STRs. Four (4) are domestic NPOs located in Region XII (2), ARMM (1), and NCR (1); and one (1) international NPO located in Qatar.

Referrals from law enforcement agencies (LEAs) on terrorism and financing of terrorism cases between 2012 – 2017 revealed a number of NPOs with alleged links to threat groups and terrorist

[56] The predicate offense “hijacking; destructive arson; murder” is lumped with acts of terrorism

organizations. A total of 27 NPOs, 22 domestic and five (5) international, alleged of either providing or receiving funds were identified.

All in all, 32 NPOs were identified in the combined information from the STRs and referrals from LEAs. Shown below are the NPOs' distribution per sub-set, crime type, and location (i.e. Philippine regions of domestic NPOs, and countries of international NPOs).

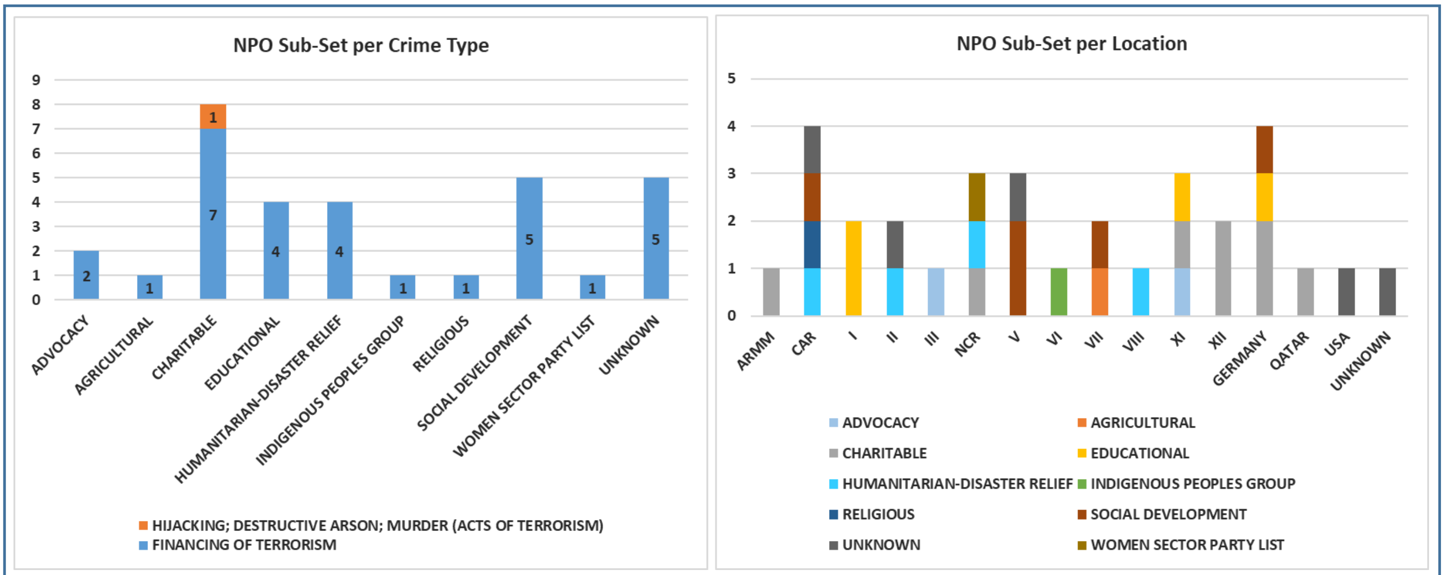


Figure 15: Distribution of NPO Sub-Sets per Predicate Offense and Regional Location

The above figure shows that majority of the NPOs are service type (i.e. charitable, social development, humanitarian disaster relief, educational, agricultural, and religious). Charitable NPOs posed a higher risk than most types both for financing and acts of terrorism. Though service type NPOs are more at risk, a few number of expressive types were also identified (i.e. advocacy, indigenous peoples group, and women's sectoral party list). The sub-set for about five (5) of the assessed NPOs are not known. The regional location of the identified domestic NPOs are dispersed throughout the country. Twelve (12) of the country's seventeen (17) autonomous and administrative regions were identified as the regional location of about 78% of the total NPOs linked to terrorism and financing of terrorism. About 19% are international NPOs located in Germany, Qatar, and USA. However, the total number of NPOs is small (32 NPOs) compared to the entire NPO universe as of 2017. Their participation in TF is also unconfirmed since majority (84%) of the NPOs were identified based solely on intelligence information and no sufficient data (financial analysis) or evidence have been established to directly link these NPOs to threat/terrorist groups or TF-related activities.

As discussed in the previous chapter (ML), the bases for identifying the NPO sub-set are the primary purpose in the SEC-registration documents and open-source information. Considering that the SEC has a standard classification for NPOs, shown below are the identified NPOs as classified by the SEC and their corresponding registration status:

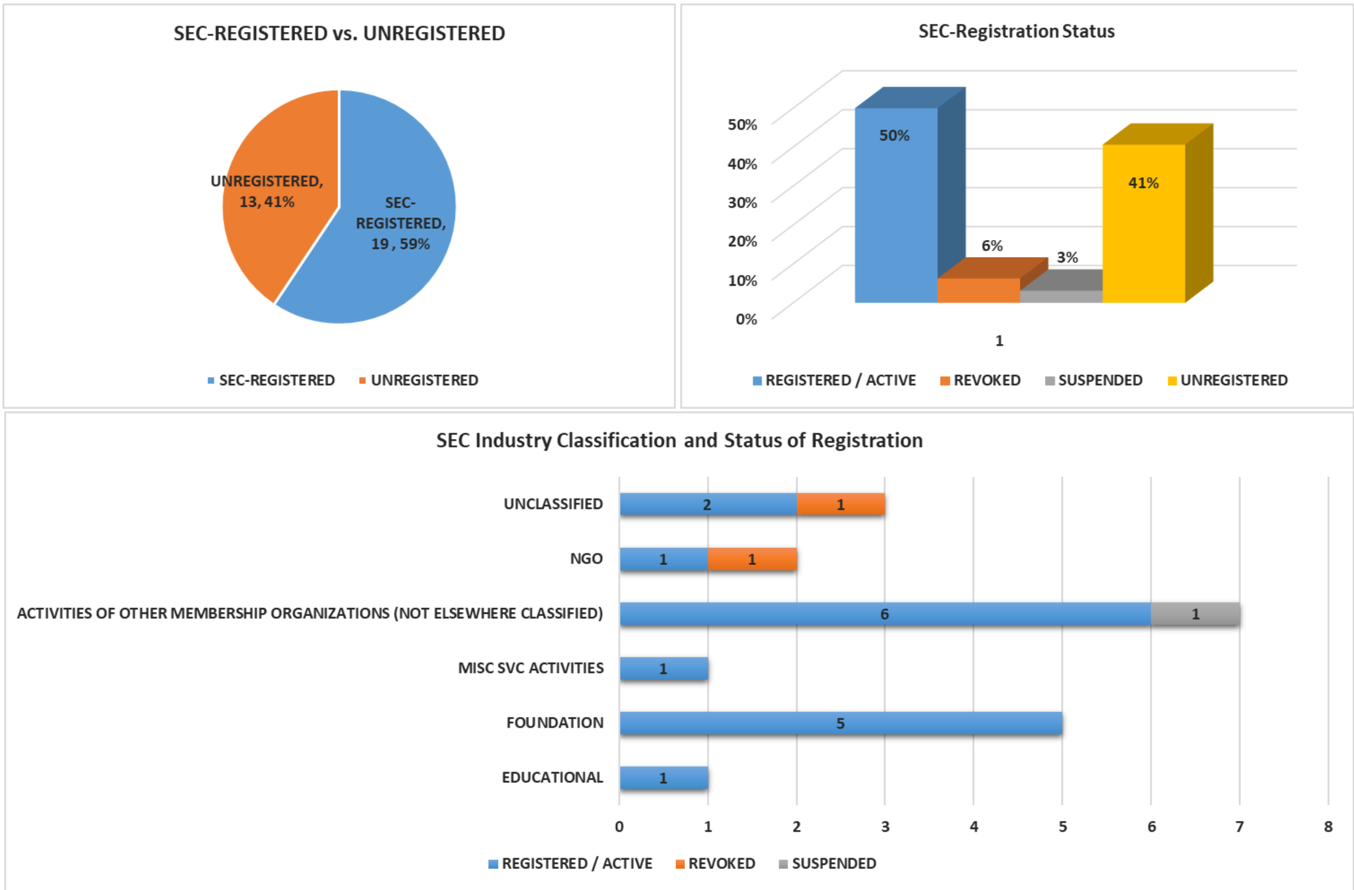


Figure 16: SEC Registration Status and Industry Classification of NPOs Identified in Terrorism and TF-Related STRs

Above figure shows that 59% of the identified NPOs secured registration with the SEC while 13 or 41% were unregistered. Company status of 50% are active, while 9% are inactive (i.e. revoked, suspended). Majority are not clearly classified followed by NPOs classified as foundations.

B. Case Studies/Intelligence Reports

1. **International Islamic Relief Organization** (IIRO)

The International Islamic Relief Organization (IIRO) is a charity based in Saudi Arabia. Following the 9/11 terror attacks, it was alleged that Osama Bin Laden's brother-in-law, Mohammed Jamal Khalifa (Khalifa), utilized IIRO Philippines and Indonesia to work with terrorist organizations worldwide. He was said to have arrived in the Philippines in 1988 and became the founding director of the Philippine branch of the IIRO. Khalifa then established several charities and Islamic organizations in the Philippines ostensibly for charity and religious work but which channeled Al Qaeda funds to extremist groups, including the Abu Sayyaf Group (ASG) and the Moro Islamic Liberation Front (MILF). The IIRO was behind the construction of mosques, school buildings and other livelihood projects", but only "in areas penetrated, highly influenced and controlled by the Abu Sayyaf. According to an ASG defector, "only 10 to 30% of the foreign funding goes to the legitimate relief and livelihood projects and the rest go to terrorist operations." [57]

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[57]Zachary Abuza, "Funding Terrorism in Southeast Asia: The Financial Network of Al Qaeda and Jemaah Islamiyah Archived December 23, 2015, at the Wayback Machine.," *The National Bureau of Asian Research* 14, no. 5 (December 2003): 176.

On 3 August 2006, the UN 1267 Sanctions Committee approved the addition of IIRO Philippines to its list of individual/entities associated with Osama Bin Laden, the Taliban and/or Al-Qaida. On the same date, the US Treasury Department designated IIRO Philippines and Indonesia as fund-raisers for the Al-Qaeda terror network and moved to freeze the financial assets of one of its officials for allegedly helping bankroll terror attacks. The department also alleged that, among other things, the IIRO offices in the Philippines raised money for the Abu Sayyaf bandits. The IIRO's offices in Indonesia have funneled money to foundations affiliated with the JI regional terror network and have helped to finance training facilities for use by Al-Qaeda associates, the department alleged.[58]

Following the UN 1267 designation, the AMLC looked into the deposit accounts of the IIRO in two (2) Philippine banks. The said accounts were subject freeze order and an action for civil forfeiture. In 2008, the funds were forfeited in favor of the Philippine government.

The IIRO Philippines and Indonesian branch were subsequently delisted by the UN Security Council on 6 January 2014 and by the US Department of State on 16 August 2016.

2. Implementation of NPO project coursed through business owned by the Maute Family

News reports[59] [60] point to a foreign government and international NPO donating funds to build classrooms and laboratories in the Autonomous Region of Muslim Mindanao (ARMM). Portion of the money was allegedly diverted to fund terrorist activity.

The project, which ran from 2012 – 2017, involved the building of classrooms, science laboratories and school libraries across the ARMM. Funding is made by a foreign government and coursed through an internationally known NPO. A project audit conducted by the foreign government confirmed that the local NPO implementing the project contracted some of the classroom construction work to a local construction firm owned by the Maute family. It is however unconfirmed if part of the funding extended by the international NPO was diverted by the Maute construction firm to fund the Marawi siege.

3. Other intelligence reports/media reports

The TF Risk Assessment in the 2nd NRA identified NPOs as a possible channel for TF. Anecdotal and intelligence information point to NPOs in Southern Philippines used to channel funds, both wittingly and unwittingly, for TF-purposes. NPOs used were service NPOs (socialized housing, educational NPOs, charities and foundations). These NPOs not only serve as a channel for TF-related funds, but also to recruit new members and earn goodwill from surrounding communities. It is however unclear whether these NPOs are registered entities with government regulators

Some of the sources of fund appear to be coming from abroad, although it is not known, at that time, which countries are the funds coming from. It is also unknown what financial channel was used by the NPO in receiving the funds. Some of the funders appear to know that the funds are to be used to fund terrorism-related activities, while others did not.

[58] https://www.philstar.com/headlines/2006/08/05/351109/us-freezes-funds-qaeda-linked-muslim-charity-rp. Last accessed 9 September 2018

[59] https://www.theaustralian.com.au/national-affairs/foreign-affairs/ausaid-cash-went-to-marawi-terrorist/news-story/69136cb9d46649d7a2c069fa308ab45a

[60] https://www.rappler.com/nation/190161-ph-govt-probe-report-ausaid-maute-terrorist

Anecdotal and intelligence information also show that NPOs use portions of the donations received for the project, and the rest are diverted to support operations of the terrorist/threat groups. This is true for NPOs operating in Southern Philippines, and for NPOs said to be supporting a threat/terrorist organization with nationwide presence.

No TF-related case has been filed arising in relation to NPOs, arising from this intelligence information.

ASSESSMENT

FATF Recommendation 8 requires countries to identify the subset of NPOs which, due to their activities or characteristics, are likely to be at risk to TF abuse.

The financial data on a limited number of foundations (2,246 in 2015 and 227 in 2016) from the SEC was used as proxy data for the years 2012 – 2017. Considering that this represents a small portion (about 2%) of total SEC-registered NPOs by end of 2017, a complete data as to total asset size of the NPO sector for the period 2012 – 2017 is presumably higher. Hence, the information may serve as minimum baseline for purposes of computing exposure of the sector to TF.

Based on the foregoing, the TF Threat for NPOs is rated as <u>High Low</u>.

Parameters	Low 0 - 1 (0 - 10%)	Medium Low 1.1 - 2 (11 - 21%)	High Low 2.1 - 3 (22 - 33%)	Low Medium 3.1 - 4 (34 - 44%)	Medium 4.1 - 5 (45 - 55%)	High Medium 5.1 - 6 (56 -67%)	Low High 6.1 - 7 (68 - 78%)	Medium High 7.1 - 8 (79 -89%)	High 8.1 - 9 (90 -100%)	%	SCORE
Percentage of identified NPOs vs. 2017 SEC-registered NPO universe	1									20%	0.2
Percentage of identified/confirmed amounts (STRs - consummated transactions, and freeze / confiscated funds) vs. total declared assets of foundations* (category of NPOs per SEC classification)	1									20%	0.2
Percentage of total reported amounts (includes unconsummated STR amounts) vs. total declared assets of foundations* (category of NPOs per SEC classification)	1									20%	0.2
Location percentage (number of regions) identified in TF and terrorism related reports							7			20%	1.4
Percentage of at risk sub-sets of NPOs with suspected and identified involvement in TF and terrorism related cases vs. total NPO sub-sets in the country**				4						20%	0.8
Total TF Threat Score (High Low)											2.8

**Based on limited financial information from the SEC on 2,246 foundations in 2015 and 227 foundations in 2016; represents 2% (2015) and 0.22% (2016) compared to the SEC-registered NPO universe of 101,843 by end of 2017*
***Total NPO sub-sets in the country (22) was based on the combined classifications of the SEC, PCNC and DSWD.*

The regional presence of the identified NPOs are dispersed across the country. Twelve of the country's seventeen (17) autonomous and administrative regions were identified as locations of NPOs, however their number is minimal (32 NPOs) compared to the entire NPO universe as of 2017. Their participation in TF is also unconfirmed since majority (84%) of the NPOs were identified based solely on intelligence information and no sufficient data (financial analysis) or evidence have been established to directly link these NPOs to threat groups or terrorist groups. The value of reported suspicious transactions and alleged funds received by these NPOs over a five-year period is less than 1% of the total assets of 2% of SEC-registered NPOs in 2017. This indicates that while it is possible that

NPOs may have been used for terrorism financing purposes, the same is not the preferred mode for raising funds or providing support to terrorist/threat groups.

Majority of the identified sub-sets are service type, specifically, charitable, social development, humanitarian disaster relief, and educational. Still a few expressive types (i.e. advocacy, indigenous peoples group, and women's sectoral party list) were also identified. A portion of the identified NPOs however cannot be classified under the present classification system of the SEC. About 59% of those subject of the STRs are registered with the SEC with 50% currently active while registration of 9% were either revoked or suspended.

All the STRs were submitted by the banking sector, which may be the preferred channel for NPOs that may have been used for terrorism financing.

Based on referrals and intelligence information, it appears that NPOs are knowingly used and abused for TF purposes. Tactic employed is diversion of funds and exploitation of legitimate entities as conduits for TF. These NPOs are associated with or abused by terrorist/threat organizations found in Southern Philippines and by one with nationwide presence. Validation of intelligence information is still on-going by different law enforcement and intelligence agencies.

To date, there has only been (1) NPO designated and identified with a terrorist group. A family member of a known international terrorist established a branch of an international NPO within the country and utilized the said NPO to funnel funds to local terror groups. The funds of the said NPO were made subject of confiscation under the AMLA. Other than this, there are no current TF related cases filed against an NPO before the courts.

VULNERABILITY

I. REGULATION AND SUPERVISION

There are unregistered organizations engaged in charitable, religious, cultural, educational, social or fraternal purposes, or for the carrying out of other types of 'good works', but there is no accurate picture as to how many unregistered organizations engage in the said activities and represent themselves as NPOs. There is however a great incentive for formal registration as only registered NPOs can benefit from a legal personality, enjoy tax exemptions and donee institution status, open bank accounts, accept donations and participate in government projects.[61]

As discussed above, the domestic regulatory landscape provides for multiple primary and secondary regulatory bodies for NPOs. This provides for varying degrees of oversight and supervision across the NPO sector. There are also different regulations and reporting requirements imposed by the different agencies, depending on the purpose and activity of the NPO.

In the case of SEC, it imposes stricter requirements for foundations as compared with other types of registered NPOs. This includes submission of sworn statement on the names and nationalities of donors, sources of income, application of funds, and beneficiaries of the projects. Foundations that receive donations, grants or contributions in the amount of at least Php 500,000.00 in one or aggregate transaction are required to submit SS and COEP.[62] Those receiving funds from the government, or any of its branches, instrumentalities, as well as government-owned and/or controlled corporations are likewise required to file the SS and COEP regardless of the amount so received.[63]

Manpower constraints on the part of SEC limit the enforcement of the reporting requirements, as seen in the limited financial information provided for the period 2015 – 2016. As of 31 December 2017, there are 11,734 active foundations. However, reportorial submission compliance rate is estimated at about 60%. Non-compliance with reportorial requirements are punishable by fines and other penalties, including suspension and revocation of registration, subject to due process requirements. For late and non-submission of reporting requirements, the SEC has imposed the following monetary penalties on foundations:

Table 2. Volume of Foundations Penalized and Equivalent Fine Imposed for the Period 2015 – 2017

Year	Volume of Foundations Penalized	Fines Imposed and Paid (in Php)
2015	142	2,653,168.38
2016	152	3,936,709.70
2017	94	2,550,443.82

Inadequate enforcement of reporting requirements is also evident by the fact that NPOs were registered and operated for the purpose of facilitating criminal activity. This is true for the sham NPOs used in the PDAF scam, for the purpose of receiving government funds for "ghost projects". Suspension notices were given to those who are unable to submit the necessary documents for five consecutive years.

A number of the NPOs identified to be possibly at risk for TF purposes cannot be classified, by purpose of type under the present classification system of the SEC. Thirteen (13) of those identified are also unregistered with the SEC. This presents a possible source of vulnerability for the sector.

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[61] Overview of NGOs and Civil Society, Philippines. http://www.adb.org/sites/default/files/publication/28972/csb-phi.pdf
[62] SEC Memorandum Circular No. 15, series of 2016
[63] *Id.*

Despite manpower constraints, SEC has nevertheless taken proactive steps in monitoring foundations that may be at risk to TF.

Identification of 2 High Risk Foundations in the Course of Monitoring

In the course of its monitoring, the SEC identified two (2) foundations that may be at risk for TF.

It was observed that 90% of the initial contribution (upon incorporation) of ***Foundation X*** (educational NPO) was provided by a national from a high risk jurisdiction. Donations received by the foundation since its incorporation came from an educational institution located in the high risk jurisdiction, with total donations from 2010-2017 amounting to around Php150 million. Beneficiaries include schools located in Philippines cities that were involved in armed conflict in recent years.

As for ***Foundation Y,*** it was observed that majority of contributions at the time of incorporation came from a Middle East country. Donations received from 2011-2016 amounted to more than Php450 million, which primarily came from a reform society located in the contributing Middle East country. Other donations originated from, among others, a regional neighbor, Europe and another Middle East country. Per its 2017 GIS, two (2) officers and directors were foreigners – one of which came from a high risk jurisdiction. Common projects include the construction/rehabilitation of mosques and a deep well water facility, as well as the distribution of relief goods to victims of calamities. Beneficiaries of the foundation are located in various provinces in Mindanao.

The SEC's Corporate Governance and Finance Department (CGFD), as the handling department, prepared a detailed preliminary report on the foregoing findings. The same were thereafter referred to the SEC's Enforcement and Investor Protection Department (EIPD), which coordinated the same with the Anti-Money Laundering Council for the latter's appropriate action in accordance with its AML and CFT mandate;

The above preliminary findings were also referred to the SEC's extension offices for the conduct of an onsite audit regarding the declared beneficiaries and projects of both foundations, which fall within such offices' geographical jurisdiction. In addition, onsite audits will be conducted by the SEC CGFD on the principal offices of the said foundations, which are both located in Metro Manila; and

In the recently conducted outreach jointly held by the SEC and AMLC on NPOs and Foundations, both Foundation X and Y were invited to attend. Foundation Y sent one representative to attend the 16 October 2018 outreach while three (3) representatives of Foundation X attended the outreach on 17 October 2018.

The SEC, through the assistance of the Asian Development Bank (ADB), has the Guidelines for the Protection of SEC-Registered Non-Profit Organizations from Money Laundering and Terrorist Financing. The new guidelines is expected to take into effect by early November.

DSWD requires the SWDAs to submit annual accomplishment reports and audited financial statements. Failure to submit such reports for two (2) consecutive years, issued license certificate to concerned SWDA may be suspended after due notice following the set procedures. It also conducts announced and/or unannounced onsite visits to monitor the operations of the SWDAs. In its recent issuance, 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.

To further assist the DSWD in the licensing, registration and accreditation process, the Area Based Standards Network (ABSNET) was established. ABSNET is an organization of DSWD registered/licensed/accredited SWDAs that assists the DSWD in implementation and monitoring of SWD programs and services, provision of technical assistance and conduct of advocacy activities on regulatory services of the Department. [64] ABSNET is seen as an effective strategy with the end goal of institutionalizing collaboration between the DSWD and SWDAs. It has become the avenue, as well as the promotion of standard guidelines of the DSWD to all SWDAs.

Following the involvement of NPOs in the PDAF scam, the government introduced stricter measures for NPOs who wish to access government funds. In 2015, in accordance with the General Appropriations Act of 2014 and Joint Resolution 2014-001 of DSWD, DBM, and the Commission on Audit (COA), the DSWD started implementing an additional accreditation requirement—beyond registration—for NPOs seeking to access government contracts or grants.[65]

The process, as laid down under DSWD Memorandum Circular No. 05, Series of 2015, is quite stringent: out of 215 applications that DSWD received in 2015, they accredited only fifteen, returned 179 applications for further completion, denied fourteen, and blacklisted one. Six other applications still awaited a response at the end of the year.[66]

The DSWD publishes in its website the list of NPOs applying for accreditation, the list of accredited NPOs with date of expiration of accreditation, list of revoked accreditations with reason for revocation, and the list of blacklisted NPOs disqualified from applying for accreditation.[67]

While there may be no active supervision or monitoring of unregistered organizations engaged in charitable, religious, cultural, educational, social or fraternal purposes, or for the carrying out of other types of 'good works', there is a law that regulates public solicitation and fund-raising activities.[68] Furthermore, DSWD Memorandum Circular No. 17, Series of 2014[69] defined an applicant for public solicitation permit as "any person, corporation, organization or association desiring or intending to conduct solicitation activities for public welfare and charitable purposes". This includes fund-raising activities even of those unregistered organizations.

ASSESSMENT

Based on the foregoing, regulation and supervision vulnerability both for ML and TF is assessed as Medium

Degree	Parameters	Sector Vulnerability
Low	Sufficient controls in place; Regulatory framework and supervision in place are highly effective; zero abuse of the sector	
Medium	Moderate controls in place; Regulatory framework and supervision are generally effective; some degree of abuse in the sector	**X**
High	Insufficient controls in place; Regulatory framework and supervision are largely ineffective; high degree of abuse in the sector	

[64] DSWD Memorandum Circular No. 4-2018
[65] Ibid 28
[66] 2015 Asia CSO Sustainability Index (https://2012-2017.usaid.gov/asia-civil-society)
[67] Part VIII, DSWD MC No. 05, Series of 2015
[68] Act No. 4075 as amended by PD No. 1564
[69] Revised Omnibus Rules and Regulations on Public Solicitation, 31 July 2014

Controls are in place, particularly for foundations and charitable institutions, which were both identified to be sub-sets at risk for ML/TF. Stricter controls were in fact introduced by the DSWD following the PDAF scam. While there are regulations requiring annual submission of pertinent reports (e.g. audited financial statements, sworn statements, general information sheets), compliance is not strictly enforced. Monitoring of NPOs in general, and NPOs at risk, in particular, is expected to improve following the issuance of the new SEC Guidelines on NPOs.

Moreover, the sub-set for about five (5) of the NPOs identified to be possibly at risk for TF are not known. Thirteen (13) of those identified are also unregistered with the SEC.

For unregistered organizations, there are laws and regulations requiring accreditation in order to access government funding, and securing permit to conduct public solicitations and fund raising activities.

Some degree of abuse is present in the sector for ML purposes as evidenced by the PDAF scam. There is only one confirmed abuse of the sector in the case of TF, and this was IIRO Philippine branch in 2006. Intelligence reports point to the possible abuse of the sector for TF purposes, but there is no sufficient data (financial analysis) or evidence to directly link these NPOs to threat groups or terrorist groups.

II. PREVENTIVE MEASURES

NPOs in the Philippines are largely unregulated for AML/CFT purposes. Nevertheless, there exists mechanisms within the sector that help mitigate ML/TF risks.

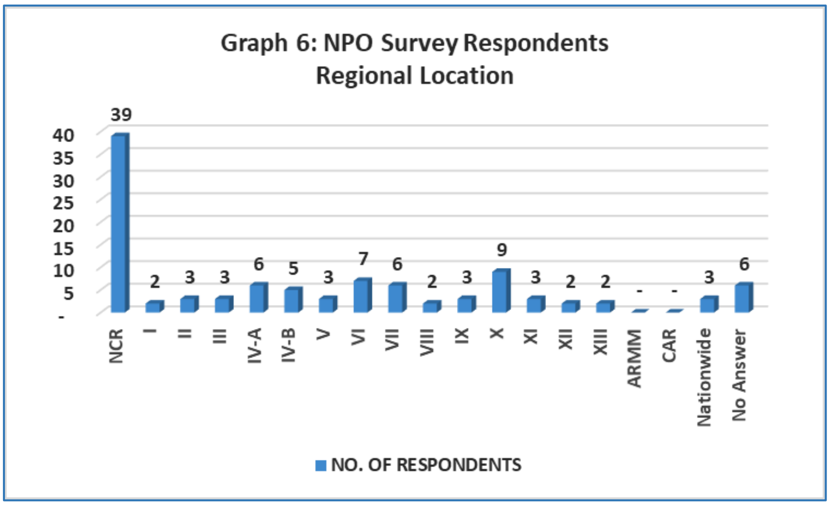
Preventive measures are assessed in six (6) areas – existence of professional ethics standards (due diligence and probity checks); use of governance mechanisms; sound internal management; program operations; financial management; and collaborative linkages.

The PCNC, a self-regulatory body and the CODE-NGO, the largest NPO coalition in the country, have Codes of Conduct in place. In particular, being certified by PCNC means undergoing a rigid assessment by peers on the areas of governance, financial management, administrative and personnel management, project development and management and networking/partnership building. However, their membership base covers only a small portion of the entire sector.

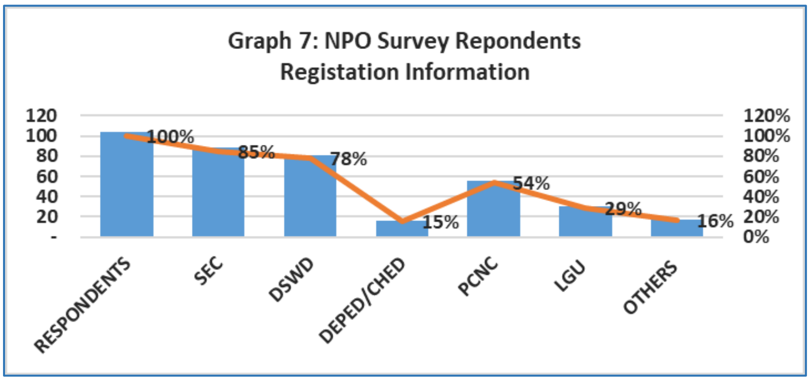
Other certifying, licensing and accrediting government agencies and LGUs also have their specific requirements and standards in assessing NPOs who wish to seek government grants and participate in the concerned agencies' programs/activities.

The ABSNET also provides collaborative linkages between the DSWD as regulator and SWDAs, as regulated NPOs. It serves as an avenue to strengthen cooperation and coordination among SWDAs, and ensure quality implementation of SWD programs and services for the disadvantaged and marginalized sector.

In order to assess the degree of understanding and compliance of the sector in the six areas identified above, surveys were conducted during the various ML/TF-focused outreach activities of the AMLC in coordination with DSWD and PCNC. A total of 104 NPO representatives from different regions of the country provided responses to the NPO survey.



The NPO respondents cover nearly all regions of the country. While there were no respondents from CAR and ARMM, three (3) respondents have nationwide operations or offices whose programs extend to the said regions.



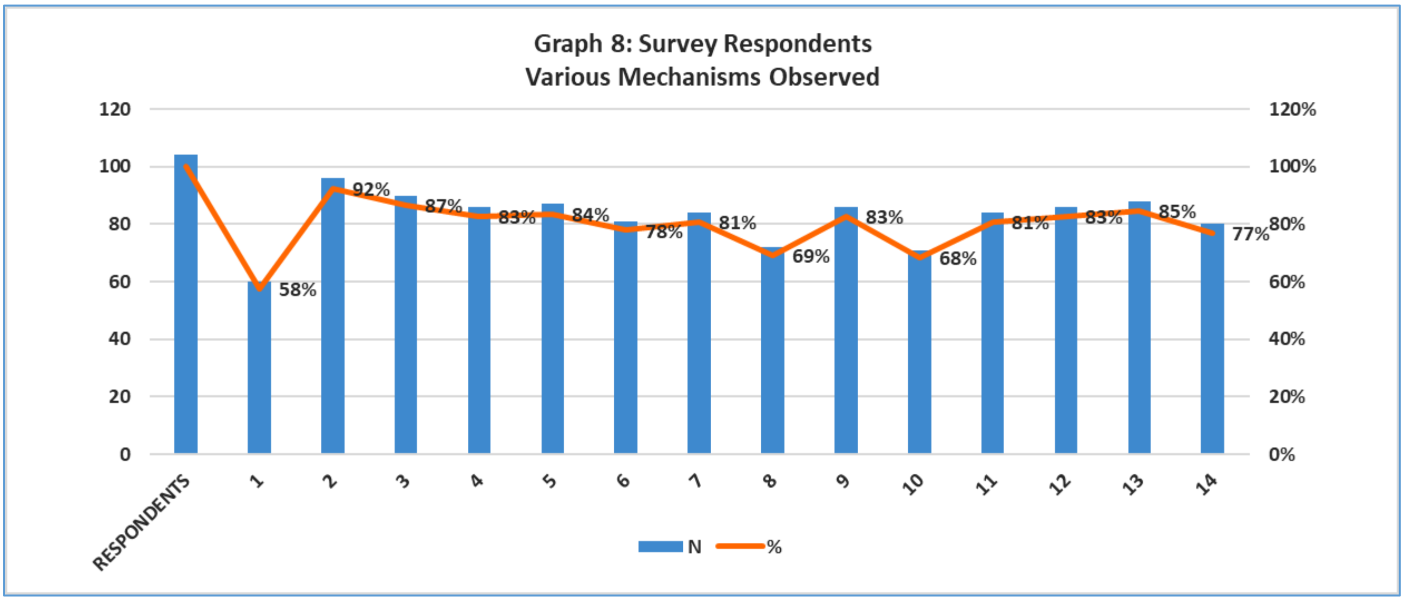
Majority of the respondents (85%) secured primary registration with the SEC. 78% are registered/licensed with the DSWD and 54% are PCNC-certified. There were others which also secured accreditation or licensing from various government agencies such as the DEPED/CHED, and LGUs.

The survey also attempted to measure existence of the various mechanisms (14 aspects) in the NPO sector, which may relate to the six key areas under preventive measures.

Table 3. Survey Respondents Percentage of Adherence to Self-Regulation Mechanisms

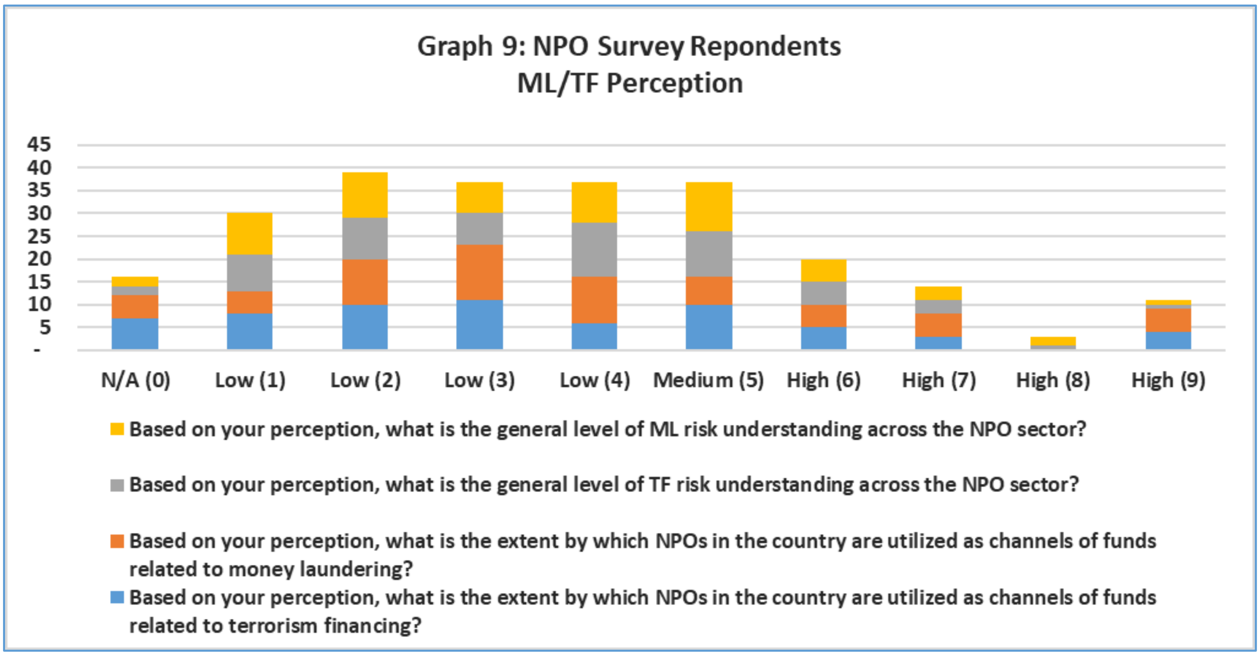
	Mechanisms	%
1.	Internal Risk Assessment	58
2.	Vision, Mission, Goals	92
3.	Codes of Good Conduct	87
4.	Separate Board and Management Function	83
5.	Ethical Behavior and Equality Policies	84
6.	Know-your-employees procedures	78
7.	Recruitment and performance standards (for staff)	81
8.	Know-your-donors procedures	69
9.	Know-your-beneficiaries procedures	83
10.	Anti-corruption policies	68

11.	Documented policy for planning, monitoring, evaluation of their projects (i.e. requirements on narrative and financial reporting, audits, on-site inspections, and frequency and scope of external or internal evaluations)	81
12.	Multi-year strategy and/or annual plan, clearly indicating objectives, indications, calendar and area responsible for the implementation of the project	83
13.	Assessment of the organization's achievements, effectiveness and impact on a regular basis	85
14.	Delivery verification process, such as beneficiary verification, distribution and post-distribution monitoring	77



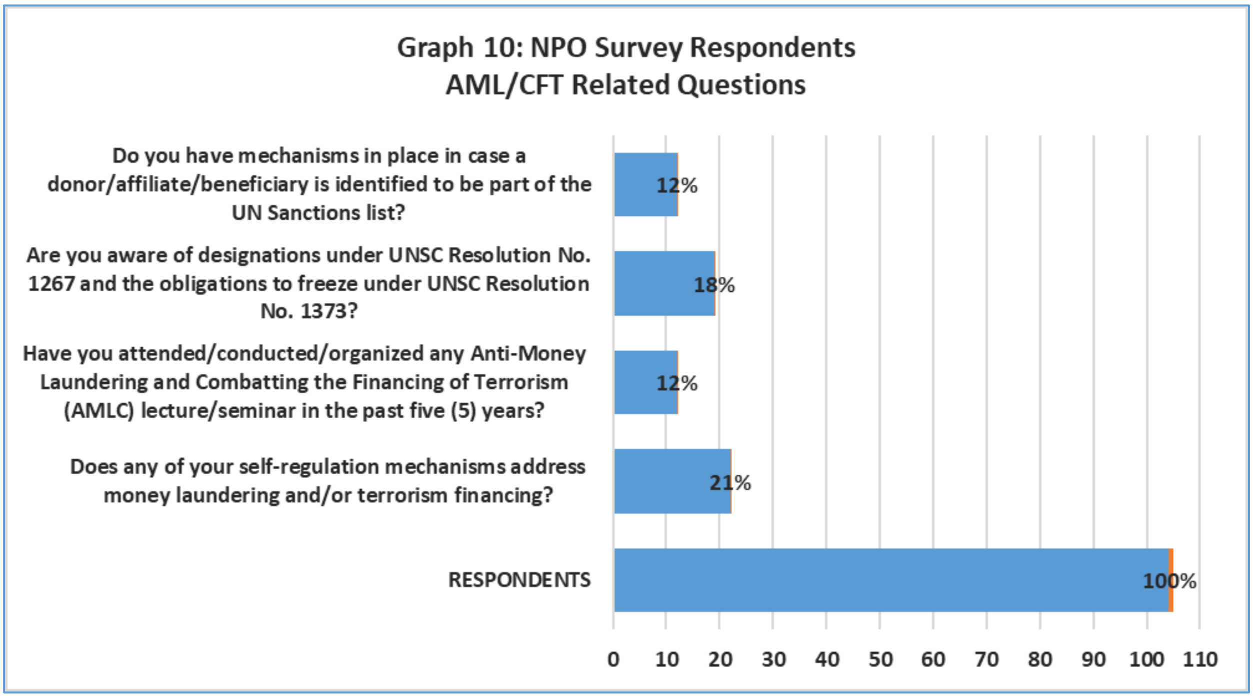
The survey showed that majority of the respondents have existing mechanisms in place which could prevent and mitigate possible ML/TF abuse of their organizations. Compliance ratio ranged from 58 – 78%, involving the following areas – mechanisms for internal risk assessment; anti-corruption policies; know-your-donors' procedures; delivery verification process; and know-your employees' procedures. Between 81 – 92% have documented policy for planning, monitoring, and evaluation of their projects; recruitment and performance standards (for staff); multi-year strategy and/or annual plan; separate board and management functions; know-your-beneficiaries' procedures; ethical behavior and equality policies; regular assessment of the organization's achievements, effectiveness and impact; codes of good conduct; and operates with a clearly defined vision, mission, and goals.

The ML and TF perception of the surveyed respondents was likewise assessed.



The results showed that the general level of understanding on ML and TF risks across the NPO sector is between low to medium. Perception as to the extent by which NPOs in the country are utilized as channels of funds in relation to both ML and TF, likewise, showed a similar trend (low to medium).

The AML/CFT knowledge of the respondents were also measured. The results showed that only 12% have attended AML/CFT lectures conducted by the AMLC over the past five (5) years, and have mechanisms in place in case a donor/affiliate/beneficiary is identified to be part of the UN Sanctions list. 18% are aware of designations and the obligations to freeze under UNSC Resolution Nos. 1267 and 1373, respectively. About 21% have self-regulation mechanisms to address ML and/or TF.



Assessment

Based on the foregoing, preventive measures vulnerability both for ML and TF is assessed as Medium

Degree	Parameters	Sector Vulnerability
Low	Sufficient dissuasive controls in place; Preventive measures and self-regulation mechanisms are highly effective; High level of AML/CFT understanding; zero abuse of the sector	
Medium	Moderate dissuasive controls in place; Preventive measures and self-regulation mechanisms are generally effective; Moderate level of AML/CFT understanding; some degree of abuse in the sector	**X**
High	Insufficient dissuasive controls in place; Preventive measures and self-regulation mechanisms are largely ineffective; Level of AML/CFT understanding is minimal to none; high degree of abuse in the sector	

Various control mechanisms are present in 58 – 92% of the surveyed NPOs, with 69% having know-your-donor procedures, and 83% having know-your-beneficiaries procedure. 87% of the surveyed NPOs also have codes of conduct in place. These measures have been identified as best practices in FATF's Best Practices Paper on Combating Abuse of Non-Profit Organizations.

The general perception and understanding of the surveyed respondents on the sector's ML and TF risks ranged from low to medium. The extent by which NPOs are utilized as channel of funds for ML/TF are also viewed as low to medium

There are reports on NPO personnel (e.g. employees, board of trustees) unduly benefitting from the NPO's resources through fraudulent means (unauthorized transfers from the NPOs' accounts to their personal accounts). As already discussed above, there are pending cases involving NPOs utilized for graft and corruption. There are also media reports on suspected links of NPOs to TF and acts of terrorism. Though TF-related information are largely unconfirmed, there is the possibility that NPOs are being used and abused for TF purposes. The existing information however show that it is not the preferred mode of raising funds for local terrorist/threat groups.

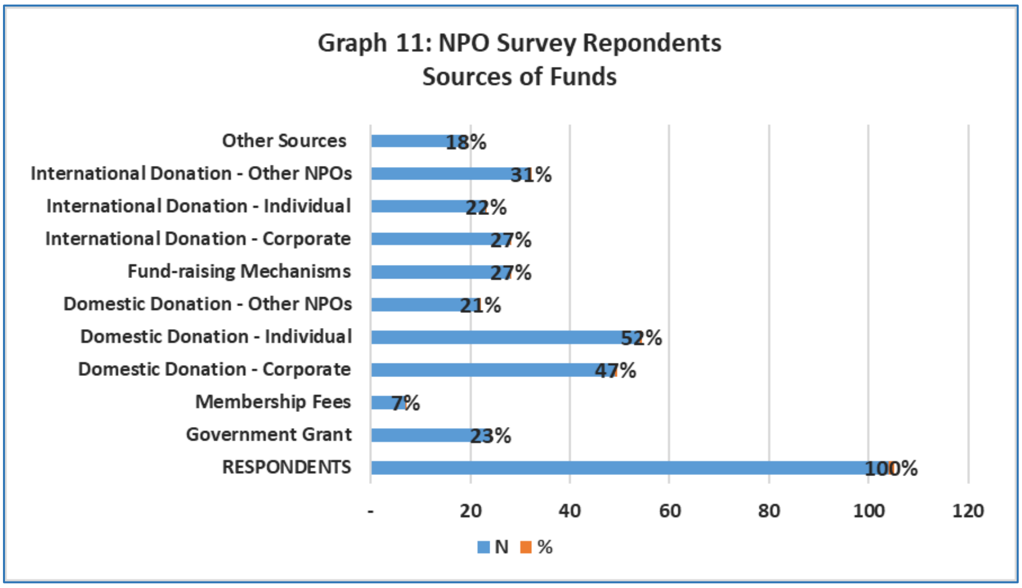
III. FUNDING, CHANNELS AND DELIVERY

a. Source of Funds

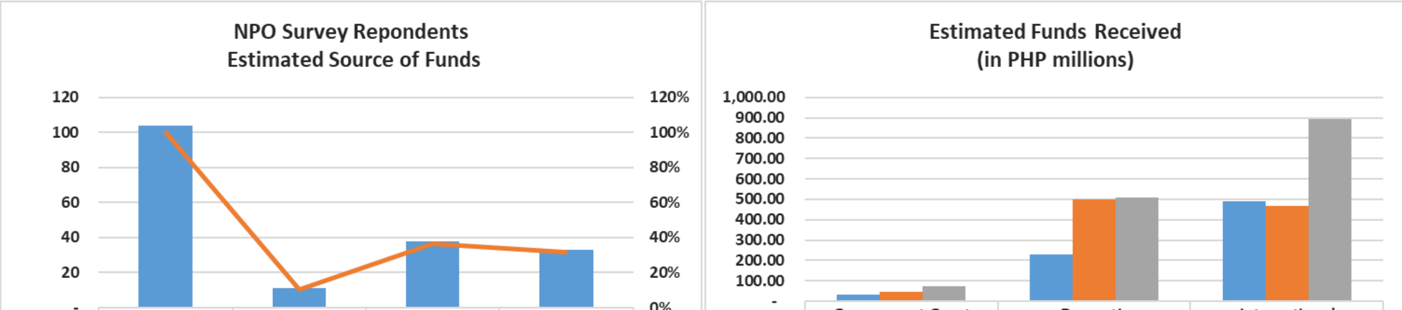
NPOs generally raise funds through membership dues, donations, government subsidies, and revenue from income-generating activities.[70]

Survey results showed that 21 – 52% of the NPOs' funding are sourced from domestic and international donations, fund-raising mechanisms, and government grants. Securing funding from these sources generally require corresponding accreditations and/or permits from relevant government agencies.

[70] Overview of the NGOs and Civil Society Philippines https://www.adb.org/sites/default/files/publication/28972/csb-phi.pdf



Between 11 – 50% of the respondents provided estimates of their sources of funds for the period 2015 – 2017. Thirty-eight (38) NPOs or 37% of the respondents received Php227.55 – Php 509.16 million in domestic donations and Php467.37 – Php893.90 million in international donations.



	RESPONDENTS	Government Grant	Domestic	International
N	104	11	38	33
%	100%	11%	37%	32%

	Government Grant	Domestic	International
2015	31.28	227.55	489.94
2016	45.83	500.30	467.37
2017	71.42	509.16	893.90

Figure 17: NPO Survey Respondents Estimated Sources and Amount of Funds Received in the Period 2015 – 2017

Interviews with representatives from CODE-NGO and DSWD also revealed that there is usually an influx of international donations during calamities such as typhoons and earthquakes. They specifically stated that massive international aid was coursed through several local NPOs after typhoons Sendong and Yolanda in 2011 and 2013, respectively. There are also grants given by international organizations to local NGOs/NPOs for purposes of doing studies or research papers.

b. Beneficiaries

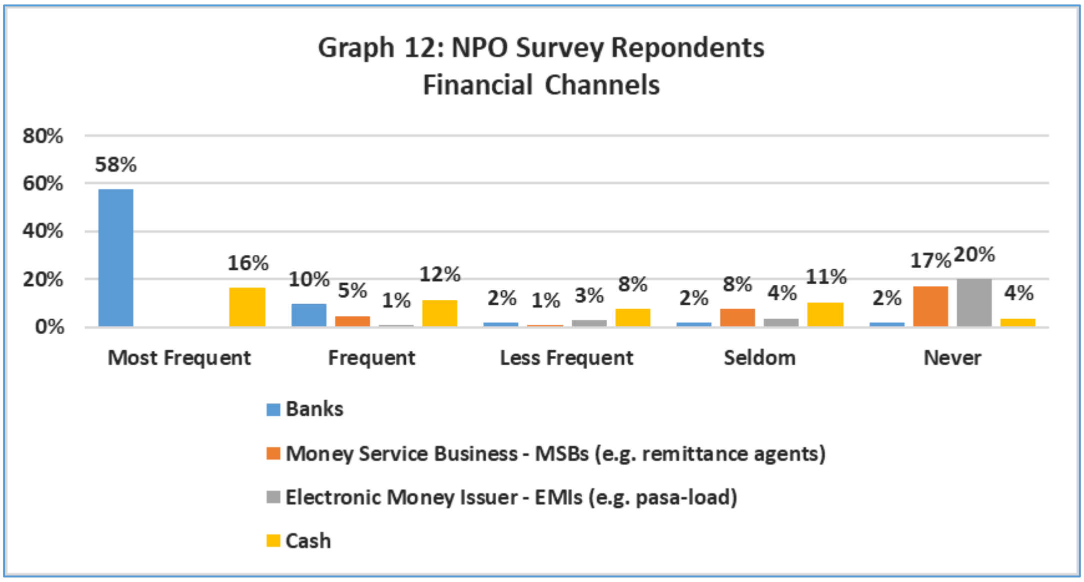
Foundations receiving donations of at least PhP500,000.00, as well as those receiving government funds, regardless of the amount, are required to file a SS, which includes disclosure of the foundation's projects and/or beneficiaries, as applicable. Along with the SS, submission of the Certificate of Existence of the Project, to be issued by the corresponding government agency or unit having jurisdiction over the geographical area where the project/activity was implemented, is required.

DSWD likewise conducts assessment/validation visit, which may include interviews with identified beneficiaries of the project. Certain types of NPOs are also required to get accreditation from the PCNC and other government agencies to get tax-exempt status and enjoy other benefits. In said cases, NPOs are required to declare their beneficiaries, which are usually members of specific groups.

Majority of the respondents generally have know-your-beneficiaries' procedures, accounting for 83% of the total surveyed respondents.

c. Use of Formal Financial Channels and Use of Cash

Foundations are required to deposit all of its funds in a banking institution.[71] This provides an additional check on the ML/TF risk inasmuch as by requiring funds to be deposited with banks, ML and TF prevention frameworks of the SEC are then simultaneously complemented by the AML/CFT measures implemented banks, thereby reducing said risks with respect to funds deposited by foundations.



Survey results indicate that banking is the preferred financial channel of NPOs both for receiving donations and in executing its programs, accounting for 68% in frequency ratio. This is followed by cash transactions with 28%. MSBs and EMIs are used less frequently with even 17 – 20% indicating that said channels were never used.

In the middle of 2018, the AMLC conducted a survey on the banking and MSB sectors in order to assess the general view and risk profile of NPOs on industry specific covered persons (CPs). Survey forms were distributed to senior bank and compliance officers from 19 banks and 22 MSBs during the MSB meeting. Less than 50% responded to the survey. Respondents from the MSB sector all stated that they have no former or existing NPO clients or clients transacting on behalf of an NPO.

Respondents from the banking sector all rated NPO clients as high risk regardless of the type and source of funding declared by the NPO.

[71] Sec. 8, SEC M.C. No. 8, series of 2006.

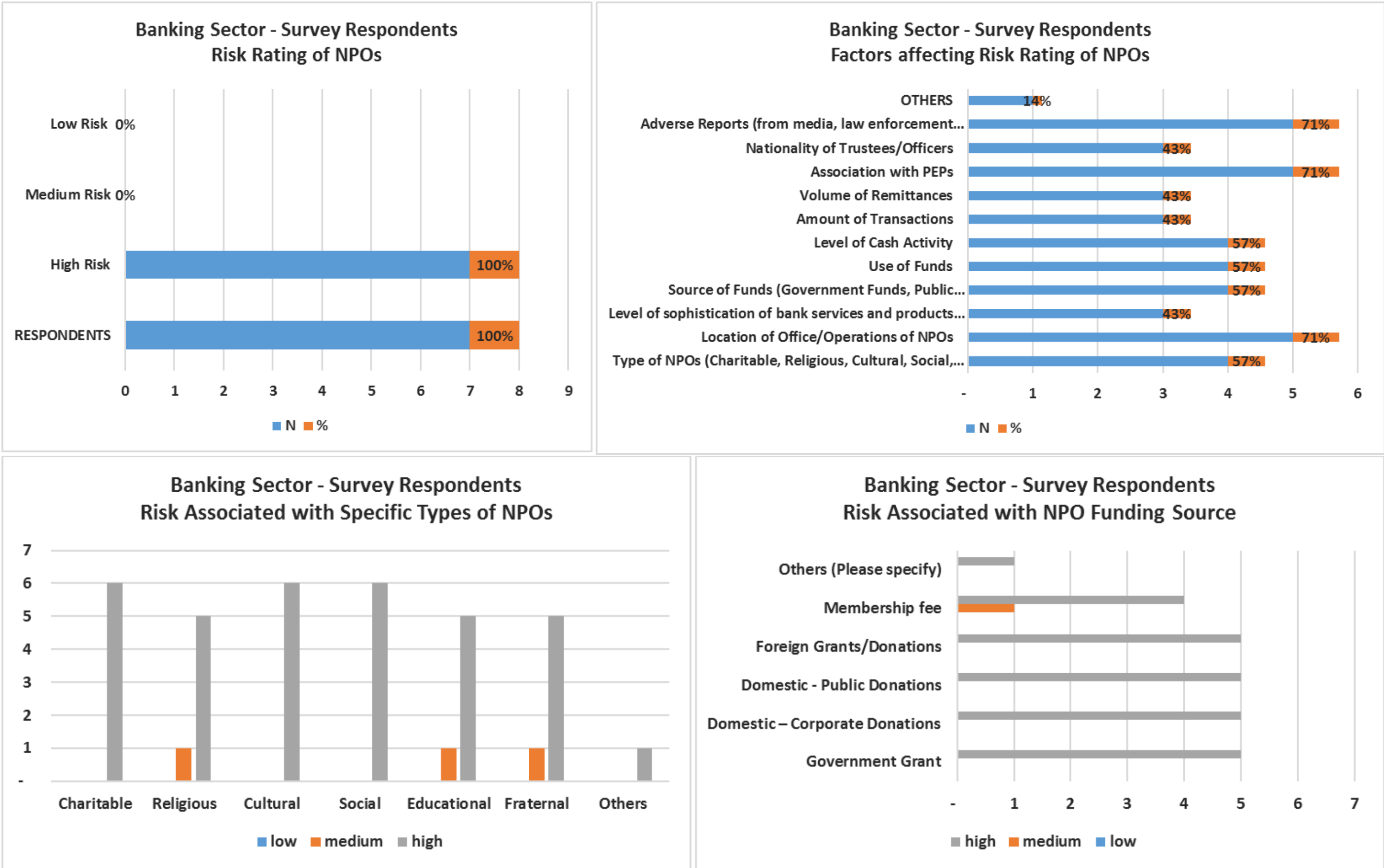


Figure 18: Banking Sector Survey Respondents Over-all Risk Rating of NPO Clients

The above translates into the conduct of enhanced due diligence on the part of banks when dealing with NPO clients. While this appears to have a negative impact on the sector, it is still viewed as a mitigating factor to hamper sham NPOs from accessing regulated financial channels which may bring undue harm to the sector. As previously stated, the benefit of opening/maintaining a bank account is only accorded to NPOs with legal personality through registration with a government regulatory body.

NPO bank clients are largely located in the NCR followed by regions IV-A, III, VII and XI. These NPOs are predominantly charitable, religious, educational and social types.

Figure 19: Volume of NPO Clients per Sub-Set and Regional Location for the Period 2015 – 2017

Notably, the predominant types (i.e. charitable, religious, educational and social) and regional locations (NCR, regions IV-A, III, VII, and XI) of NPO bank clients remained constant for the period 2015 – 2017.

The top three donor jurisdictions based on the responses from the banking sector are USA, UK and Japan which went largely to the NPOs in the NCR and regions IV-A and III.

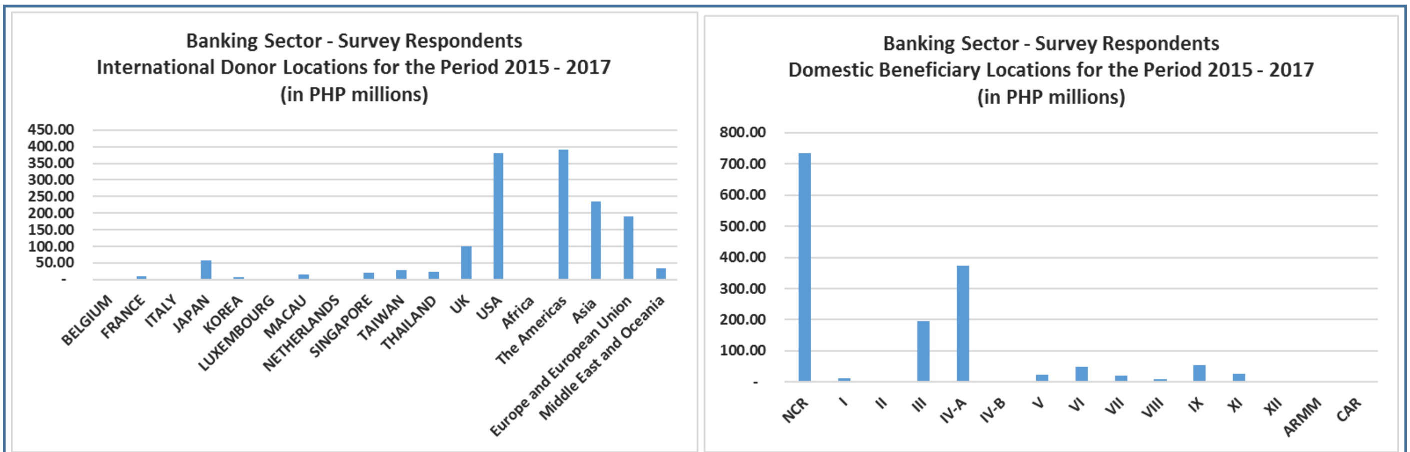


Figure 20: International Donor Locations vis-à-vis Domestic Beneficiary Locations for the Period 2015 – 2017

Interestingly, the international outward remittances from domestic donors also originated from the top three domestic beneficiaries (NCR, regions IV-A and III) which went to beneficiaries in the USA, Singapore and Italy.

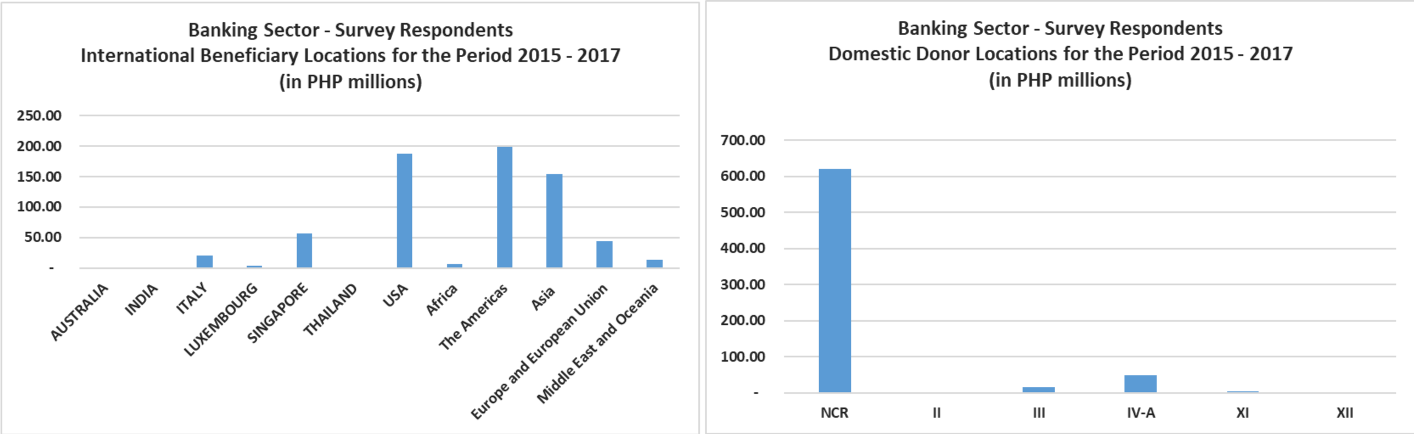
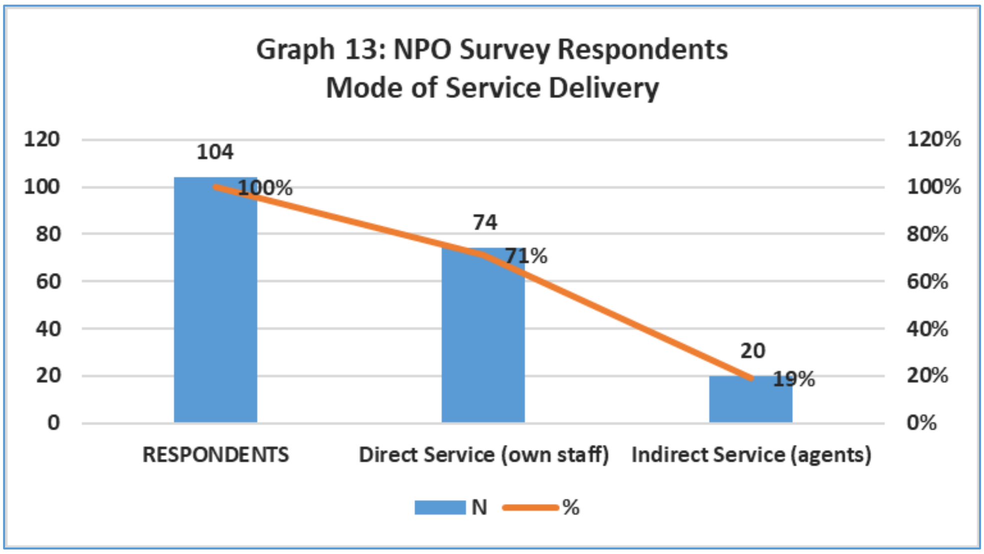


Figure 21: Domestic Donor Locations vis-à-vis International Beneficiary Locations

d. Delivery of Programs

Delivery of service/programs to intended beneficiaries/recipients are normally done through direct service by the NPO's own staff.



71% of the respondents use their own staff which may correlate with the compliance ratio (ranging from 77 – 83%) of the surveyed NPOs on the following control mechanisms of the sector: delivery verification process, such as beneficiary verification, etc.; know-your employees' procedures; documented policy for planning, monitoring, and evaluation of their projects; recruitment and performance standards (for staff); and, know-your-beneficiaries' procedures.

ASSESSMENT

Based on the foregoing, vulnerability rating in relation to funding visibility, financial channels utilized and program delivery both for ML and TF is assessed as Medium

Degree	Parameters	Sector Vulnerability
Low	Sufficient visibility of the sources of funds; Regulated financial channels are highly utilized; Program delivery to intended beneficiaries are highly effective; zero abuse of the sector	
Medium	Moderate visibility of the sources of funds; Regulated financial channels are generally utilized; Program delivery to intended beneficiaries are generally effective; some degree of abuse in the sector	**X**
High	No clear visibility of the sources of funds; Regulated financial channels are largely unutilized; Program delivery to intended beneficiaries are highly ineffective; high degree of abuse in the sector	

To a certain extent, visibility of the sources of funds, amounts, donor and beneficiary locations including movement of funds can be derived from the regulators and banking institutions. The survey revealed that the banking sector (which are covered persons under the AMLA, as amended) is the major financial channel utilized by the NPO sector. In so far as AML/CFT measures are concerned, this provides as an additional preventive measure specifically on financial transaction visibility to mitigate possible ML/TF involvement of NPOs, since banks are required to submit transaction reports, both covered and suspicious, to the AMLC.

Despite this, there is some degree of abuse in the sector. As seen in the PDAF case, bank accounts were utilized by the identified sham NPOs to funnel about PhP420 Million government funds in favor of the mastermind and the legislators. Similarly, in the case of IIRO Philippines, two (2) bank accounts were frozen and subject to forfeiture by the AMLC. Recent intelligence reports as to the possible misuse of the sector for TF purposes did not identify possible channels for funds.

OVERALL RISK ASSESSMENT

Risk Assessment	Threat Rating	Vulnerability Rating	Risk Rating
Money Laundering	Medium	Medium	Medium
Terrorism Financing	High Low	Medium	Low Medium

The overall risk rating of the NPO sector to money laundering is assessed as Medium, while the risk rating to terrorism financing is assessed as Low Medium.

The risk assessment showed that for NPOs in the Philippines, money laundering risk is comparatively higher than terrorism financing risk. This is evidenced by the use of at least 21 NPOs in the PDAF scam. These NPOs were specifically incorporated to serve as dummies to funnel about PhP420 Million government funds in favor of the PDAF scam mastermind and the legislators. The NPOs identified in relation to fraud and other ML suspicious indicators may have been abused since these largely involve receiving fraudulent banking instruments as donation which were either returned or dishonored.

The assessment showed that the sub-set of NPOs exploited for ML are service type NPOs particularly those involved in charitable, agricultural, educational and livelihood activities largely located in the NCR.

For terrorism financing, there is only one (1) confirmed report of use, and this was IIRO Philippines back in 2006. IIRO Philippines was specifically established by a family member of Osama Bin Laden to provide support to local terrorist groups. Other than this, there are no established linkages between an NPO and a local terrorist/threat. Intelligence reports point to the possible abuse of the sector, although based on existing information, NPOs are not the preferred channel for TF purposes.

Majority of the identified sub-sets for TF, based on intelligence information are service type, specifically, charitable, social development, humanitarian disaster relief, and educational.

The sector suffered reputational risks following the use of the sector for ML purposes, and the perception of possible abuse for TF purposes. According to NPO representatives, financial viability of NPOs suffered during that period. Government imposed additional measures to prevent a repeat of the PDAF scam.

Considering that the sector's vulnerability to both ML and TF is assessed as medium, the following mitigation strategies are recommended:

Activity	Agencies Involved (Private and Government)
Sustained outreach to the NPO sector and various regulators to raise awareness on ML/TF risks and develop best practices to address the said risks	AMLC, SEC, DSWD, NPO Sector
Communicate results of the risk assessment to the various stakeholders	AMLC, SEC, DSWD, NPO Sector, Bangko Sentral ng Pilipinas (BSP), and other secondary certifying, licensing, accrediting government agencies
New/amendatory risk-based regulations and supervision for NPOs identified to be at risk for ML/TF	AMLC, SEC, DSWD and other NPO regulatory bodies
Revision of classification system of NPOs registered with the SEC in order to accurately capture the type and purpose of the NPO	SEC
Encourage formalization of cooperation and coordination mechanisms between the NPO sector and government/law enforcement agencies to support legitimate investigations relating to the abuse of the sector for criminal purposes	AMLC, SEC, DSWD, other regulatory agencies, LEAs and the NPO Sector