

REPUBLIC OF CYPRUS

**MINISTRY OF INTERIOR**

NGOs’ OPERATING MODEL

**MEASURES AND GOOD PRACTISES FOR THE SOUND OPERATION OF NON-GOVERNMENTAL ORGANISATIONS**

**(BASED ON THE FATF RECOMMENDATIONS)**

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# DEFINITIONS

“A Non-governmental Organisation or NGO” is an association, foundation, federation or union registered in the Republic as a legal person in accordance with the Associations and Foundations and other Related Issues Law or a Charity in accordance with the Charities Law, Cap.41.

 “Law or Law that governs the operation” is the Associations and Foundations and other Related Issues Law of 2017 and the Charities Law, Cap. 41.

“FATF” is the Financial Action Task Force (TATF) [[1]](#footnote-1).

# INTRODUCTION

On occasion, NGOs worldwide are used and/or established by natural persons in order to conceal or assist with illegal activities such as the legitimisation of income from illegal activities including Tax evasion or terrorist financing. These are corruption phenomena. Corruption in the operation of certain NGOs undermines the operation of legitimate NGOs that find it difficult to convince that they operate according to good governance principles and therefore are impeded from accessing funds for their public benefit objectives.

The Legislation alone cannot solve the problem of corruption and improve the NGOs reputation. The NGOs’ OPERATING MODEL is not compulsory but aims to offer certain good practices to the NGOs’ Boards of Directors in order to protect themselves but also be able to document their adherence to proper governance principles.

These practices are mainly based on the FATF guidelines (Recommendation 8). A sample Articles of Association is attached as an appendix to the Model.

The Cyprus NGOs Registry includes small organisations with few members and a small annual budget, medium-sized organisations as well as large and complex organisations with complex structure and activities. Irrespectively of their size all NGO’s must operate in a transparent, democratic and lawful manner to serve public benefit goals.

# NGO’s OPERATING MODEL

According to the MODEL, good practices are grouped in 8 sections. Each section corresponds to a certain amount of points, the total sum of which is 100.

The model can also be used by NGOs as a questionnaire. The Board of Directors of a NGO may assess its adequacy and take corrective measures by marking the number of positive answers in each section. For example:

LESS THAN 50% SCORE – the NGO does not apply the minimum requirements of the Legislation

50-70% SCORE - the NGO applies satisfactorily the minimum requirements of the Legislation in an adequate and structured manner.

75% OR HIGHER SCORE – the NGO applies good, transparent, democratic and sound practices

## GOVERNANCE AND STRUCTURE

***Non-governmental Organisations follow specific governance principles and are structured in a multilevel and multifaceted manner in order to avoid concentrating power to a single person. One point is awarded for every positive answer indicating full compliance, otherwise 0 points are awarded.***

1. NGOs have a multilevel and multifaceted decision-making system where the decision-making members are rotated often. This is evidenced by the following good practices:

|  |  |
| --- | --- |
| **Good Practice** | **1/0** |
| The decision making levels are clear and distinguishable. Especially for associations and Federations/Unions, their Articles of Association should state clearly, which decisions are made by the General Assembly and which decisions are made by the Board of Directors.  |  |
| The Members of the Board of Directors are often rotated and no one is allowed to serve on the Board longer than two terms.  |  |
| Relatives of up to four times removed do not serve on the current Board of Directors.  |  |
| Politically exposed persons do not serve on the current Board of Directors.  |  |
| Concentration of power to the same person is avoided. Since the minimum number of members on the Board of Directors of Foundations and Federations/Unions is three and of Associations is five, duties and powers are distributed as equally as possible.  |  |
| The roles of the Chairman of the Board of Directors and the Treasurer who is responsible for keeping the financial data, are discrete, i.e. the Chairman and Treasurer are two different persons.  |  |
| Incompatibility regulations are scrupulously observed when making decisions. Every member of the Board of Directors is obliged to disclose incompatibility in any decision making process and abstain from such process if incompatibility is established. This is recorded in the minutes.  |  |
| In case of Foundations, the Founder does not have a dominant part in the appointment of members apart from the first appointment and does not participate in members’ succession.  |  |
| The members of the Board of Directors are equal in the decision making process.  |  |
| Candidates for the Board of Directors fulfil the set criteria required by the association’s objectives.  |  |

1. Assemblies/ meetings have the largest possible participation and representation. This is evidenced by the following good practices.

|  |  |
| --- | --- |
| **Good Practice** | **1/0** |
| Early notice is given when calling a general assembly or a meeting of the Board of Directors to assure that members will be able to participate. |  |
| The Articles of Association set the quorum for decision making whether at an assembly or at a meeting of the BoD at a minimum of 30% of total members. If this quorum is not attained, other manners of convening an assembly/meeting are used such as for example allowing participation via teleconferencing.  |  |
| All decision making bodies keep minutes of all their meetings. |  |
| In the case of associations and Federations/Unions a quorum of 50% + 1 is required in electoral assemblies.  |  |

1. NGOs do not conduct financial transactions with their officers. This is evidenced by the following good practices.

|  |  |
| --- | --- |
| **Good Practice** | **1/0** |
| The members of the Board of Directors do not have any financial relationship with the NGO whether as a supplier/client, employee or any other type of relationship.  |  |
| Members of the Board of Directors are not simultaneously the lawyers or accountants of the NGO.  |  |
| There is no remuneration of services for the members of the Board of Directors, even though this is not forbidden for associations and Federations.  |  |
| Companies connected to members of the Board of Directors do not conduct any financial transactions with the Association/Foundation/Federation or Union.  |  |

1. NGOs keep records in which they can locate past decisions. This is evidenced by the following good practices.

|  |  |
| --- | --- |
| **Good Practice** | **1/0** |
| Beneficial owners’ details are kept in digital or physical records. |  |
| A record of all assemblies’/meetings’ minutes is kept.  |  |

**TOTAL SCORE FOR “GOVERNANCE AND STRUCTURE”: ………. /20**

## OPERATION AND ACTIVITIES

***NGOs operate on the basis of an action plan and an activities plan in order to effectively achieve their objectives and prevent corruption. One point is awarded for every positive answer indicating full compliance. Otherwise 0 points are awarded.***

1. Activities are clear and the persons responsible for them are accountable. This is evidenced by the following good practices:

|  |  |
| --- | --- |
| **Good Practice** | **1/0** |
| Activities that relate to money are recorded clearly and are headed by people who are accountable to the Organisation’s management.  |  |
| The NGO’s activities and modus operandi is certified by one or more international standards and models. Below is a list of examples of Organisations that award certificates according to their own methodologies: * European Foundation for Quality Management
* European Fundraising Association
* COA Eighth Edition Standards by the Council on Accreditation
* Foreign Aid Certification
* Global Accountability Report
* HAP Standard in Humanitarian Accountability and Quality Management
* ISO 14000 : Environmental Management Systems
* ISO 9000: Quality Management Systems
* ISO 37001: Anti-bribery Management Systems
 |  |
| All activities are priced and a separate financial report is drafted for each of them upon their completion.  |  |
| The NGO has information technology systems in place that support its operation.  |  |

1. NGOs do not get involved or have checks and balances in place for activities that may be susceptible to money laundering, terrorist financing or other criminal acts. This is evidenced by the following good practices.

|  |  |
| --- | --- |
| **Good Practice** | **1/0** |
| The NGO does not carry out any commercial activities, i.e. activities that may be offered in the free market by companies and businesses, nor does it carry out any gambling activities. Examples of such activities are: * + Dance, exercise or other classes to third parties
	+ Sale of products
	+ Non-original studies and consultancy services
	+ Art exhibitions
	+ Medical, legal, accounting or other services to its members
	+ Bingo or other types of gambling
 |  |
| The NGO has mechanisms in place for the identification of both donors and beneficiaries.  |  |
| The NGO has no activities abroad.  |  |

1. NGOs are open and transparent

|  |  |
| --- | --- |
| **Good Practice** | **1/0** |
| The NGO has drafted a code of ethics that is communicated to its members and the public. The code includes the principles of transparency and anti-corruption.  |  |
| The NGO has a website where it uploads its financial data, activities, objectives as well as its code of ethics.  |  |
| Complaints are managed in a timely manner and the complainant is informed accordingly.  |  |

**TOTAL SCORE FOR “OPERATION AND ACTIVITIES”: ………. /10**

## EMPLOYEES AND PARTNERS

***NGOs select appropriate staff and partners and are acquainted with their volunteers. One point is awarded for every positive answer indicating full compliance. Otherwise 0 points are awarded.***

1. The permanent staff employed by the NGO has legitimate and sound relations with the NGO. This is clear from the following good practices.

|  |  |
| --- | --- |
| **Good Practice** | **1/0** |
| The staff is selected according to merit-based criteria and subject to the NGO’s objectives. Staff salaries and benefits are secured and all relevant Laws of the Republic are complied with.  |  |
| Members of the staff are not related (up to four times removed) with the officers of the NGO.  |  |
| The main responsibilities that deal with financial issues, supplies and the distribution of financial or other aid are not in the hands of a single employee but are distributed among more employees and/or officers.  |  |

1. Volunteers are selected according to appropriate criteria and their transactions are checked.

|  |  |
| --- | --- |
| **Good Practice** | **1/0** |
| Volunteers are not paid.  |  |
| Volunteers’ details as well as their financial transactions on behalf of the NGO are kept on record.  |  |
| Volunteers are not beneficiaries of the NGO.  |  |

1. Partners are selected according to criteria.

|  |  |
| --- | --- |
| **Good practice** | **1/0** |
| There are agreements in writing with external partners for the provision of services that cost more than €1000 annually. In case the partners are used for the distribution of financial or other aid, the agreement includes terms against withholding money for their own use or terrorist financing.  |  |
| Partners are selected according to criteria that ensure that they also follow a code of ethics similar to the NGO’s code. Partners are not related to members of the Board of Directors and do not have any other financial relationship with them.  |  |
| Due diligence is carried out for partners who are active in areas exposed to terrorist activity. Those who actually control a partner company are identified as well as any relations they may have to terrorists. |  |
| When an NGO offers humanitarian aid in areas exposed to terrorist activity or to people who come from such areas, their partners undergo an in-depth assessment to exclude any suspicion of them working with terrorists.  |  |

**TOTAL SCORE FOR “EMPLOYEES AND PARTNERS”: ………. /10**

## SECURING FINANCIAL RESOURCES

***NGOs ensure that their financial resources are legitimate and protected from corruption and legitimisation of income from illegal activities. Two points are awarded for every positive answer indicating full compliance. Otherwise 0 points are awarded.***

1. NGOs ensure that their donors can be identified. This is evidenced by the following good practices.

|  |  |
| --- | --- |
| **Good Practice** | **1/0** |
| Only named donations are accepted for amounts over €100.A donors’ record is kept including their first and last name, contact details and donation amount.  |  |
| The names of large donors are recorded in the NGO’s audited accounts.  |  |
| Donations are directly deposited by the donor to the NGO’s bank account with a banking institution operating in the Republic of Cyprus.  |  |
| No donations in cash are accepted for amounts larger than €10.  |  |
| A receipt, signed by an authorised person, is always given for donations.  |  |
| Income from any services the NGO may offer is recorded and reported to the Tax and VAT Departments.  |  |
| The Organisation secures funds through the EU structural programmes.  |  |

1. Donations from abroad are fully traceable. This is evidenced by the following good practices.

|  |  |
| --- | --- |
| **Good Practice** | **1/0** |
| Amounts transferred from abroad are fully recorded and traced from the source to the NGO.  |  |
| Amounts from abroad go through the Cyprus banking system. |  |
| There is no influx of money from countries other than the EU |  |

**TOTAL SCORE FOR “SECURING FINANCIAL RESOURCES”: ………. /20**

## TRANSFER OF FINANCIAL RESOURCES AND AID TO BENEFICIARIES

***NGOs know their beneficiaries and are fully aware of what is offered to them and what amounts are allocated in order to avoid corruption and in particular terrorist financing. Two points are awarded for every positive answer indicating full compliance. Otherwise 0 points are awarded.***

1. NGOs know who their beneficiaries are. This is evidenced by the following good practices.

|  |  |
| --- | --- |
| **Good Practice**  | **1/0** |
| A beneficiaries’ record is kept regarding all money or aid granted to them. In case a legal person is given financial aid then it is ensured that its beneficial owners are known.  |  |
| There is a system of double-checks in place for the distribution of financial aid exceeding €500, i.e. at least two signatures from the NGO are required.  |  |
| Financial aid is transferred through the Cyprus banking system.  |  |
| No financial aid is given in cash and receipts are always issued.  |  |

1. NGOs select their beneficiaries. This is evidenced by the following good practices.

|  |  |
| --- | --- |
| **Good Practice** | **1/0** |
| The Board of Directors has approved certain criteria to determine whether a person can be an aid beneficiary or not.  |  |
| Following any financial or other aid the NGO monitors whether the money was used to meet the specific need. |  |
| No financial aid is given to people involved in gambling or illegal activities.  |  |

1. Donations abroad are fully traceable. This is evidenced by the following good practices.

|  |  |
| --- | --- |
| **Good Practice** | **1/0** |
| Projects abroad are funded only if due diligence has been carried out and beneficiaries have been identified.  |  |
| Money transfers are carried out only through the Cyprus banking system and regulated banking systems abroad.  |  |
| If the main activities of the NGO take place abroad then the NGO should seek to be recognised and registered abroad.  |  |

**TOTAL SCORE FOR “TRANSFER OF FINANCIAL RESOURCES AND AID TO BENEFICIARIES”: ………. /20**

## PROPERTY MANAGEMENT

***NGOs ensure that their movable and immovable property is protected and not exploited by any illegal activities of its officers, founders or third parties. Two points are awarded for every positive answers indicating full compliance. Otherwise 0 points are awarded.***

1. There’s sound financial management, evidenced by the following good practices.

|  |  |
| --- | --- |
| **Good Practice** | **1/0** |
| There are policies in writing and accounting and financial management procedures in place.  |  |
| Accounting records are kept, if possible, by experts within the NGO |  |
| Receipts and invoices are always issued and copies are kept.  |  |
| Dual check is required for payments and the treasurer and the officer approving expenses have separate and distinct responsibilities.  |  |
| Annual financial statements are drafted and audited in accordance with the international accounting standards.  |  |
| Actual expenses are checked against budgeted expenses.  |  |

1. Immovable property and cash are rationally managed. This is evidenced by the following good practices.

|  |  |
| --- | --- |
| **Good Practice** | **1/0** |
| Immovable property is not sold or alienated without the prior approval of multiple decision making levels and by informing the Registrar. |  |
| Available funds are kept in bank accounts in the Republic of Cyprus or the European Union.  |  |
| Available funds are invested in safe low risk investments.  |  |

1. The NGO property is completely separate from the officers’ property.

|  |  |
| --- | --- |
| **Good Practice** | **1/0** |
| No money is transferred from the NGO to the officers’ or founders’ personal accounts.  |  |
| There is no lending from and to either side between the NGO and its officers.  |  |

**TOTAL SCORE FOR “PROPERTY MANAGEMENT”: ………. /20**

# MODERNISATION PLAN

|  |  |  |
| --- | --- | --- |
| **SECTION** | **SCORE** | **MODERNIDATION PRIORITY [[2]](#footnote-2)** |
| GOVERNANCE AND STRUCTURE |  |  |
| OPERATION AND ACTIVITIES |  |  |
| EMPLOYEES AND PARTNERS |  |  |
| SECURING OF FINANCIAL RESOURCES  |  |  |
| TRANSFER OF FINANCIAL RESOURCES AND AID TO BENEFICIARIES  |  |  |
| PROPERTY MANAGEMENT |  |  |

TOTAL …………………..

Specific activities are selected based on the score and the priority determined (1, 2, 3) that may be implemented within a year. It is advised that no more than five activities are chosen in order to be able to complete them. The last activity should be the new assessment as per the Model in order to record progress and determine next year’s activities.

ACTIVITIES AND IMPLEMENTATION FRAMEWORK

1. …………………………………………………………………………………………………………………………………………

………………………………………………………………………………… by ……………………………………………….

2. …………………………………………………………………………………………………………………………………………

………………………………………………………………………………… by ……………………………………………….

3. …………………………………………………………………………………………………………………………………………

………………………………………………………………………………… by ……………………………………………….

4. …………………………………………………………………………………………………………………………………………

………………………………………………………………………………… by ……………………………………………….

5. NEW ASSESSMENT AS PER THE OPERATING MODEL by ……………………………………. [12 months later]

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1. The Financial Action Task Force (TATF) is an independent inter-governmental body that develops and promotes policies to protect the global financial system against money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction. The FATF recommendations are recognized as the global anti-money laundering (AML) and counter-terrorist financing (CTF)standard [↑](#footnote-ref-1)
2. The following are used 1 = high priority, 2 = medium priority, 3 = low priority [↑](#footnote-ref-2)