From Sanctions Lists to Asset Freezes: Strengthening North Macedonia’s Financial Response to Terrorism

Executive Summary

Targeted financial sanctions (TFS) serve as a critical preventive tool in disrupting terrorist financing, offering a more immediate response than lengthy criminal prosecutions. In North Macedonia, the transition from international designations to effective domestic disruption remains a complex operational challenge. Despite establishing a functioning legal and institutional foundation—including rapid notification mechanisms for United Nations list changes—North Macedonia faces persistent gaps in practical implementation, consistency, and depth of understanding across various sectors.A central finding of recent evaluations and training initiatives is that a sanctions regime cannot rely solely on name screening. Effectiveness depends on a coordinated national operating model capable of identifying assets held through indirect ownership or control and executing freezes "without delay." While North Macedonia improved its technical compliance in several anti-money laundering (AML) and counter-terrorist-financing (CTF) areas by 2025, specific frameworks for terrorism-related and proliferation-related targeted financial sanctions remained "partially compliant." The ultimate measure of success for the regime is its ability to convert intelligence and designations into immediate, lawful, and evidence-based financial disruption.

The Strategic Role of Targeted Financial Sanctions

Targeted financial sanctions are designed to prevent designated individuals and entities from accessing funds or economic resources the moment a listing takes effect.

Prevention vs. Prosecution

- **Immediate Action:** Unlike criminal prosecutions, which require proof beyond a reasonable doubt and extensive investigation, an asset freeze is a preventive measure intended to immobilize resources before they can be used or moved.
- **Asset Immobilization:** A freeze does not constitute confiscation or a transfer of ownership to the state; rather, it ensures assets are inaccessible while sanctions apply.
- **Timing:** The value of the regime is contingent on speed. Delays of even a few hours can allow for the flight of funds, sale of securities, or transfer of property.

Scope of Assets

The obligation to freeze extends beyond bank balances to include all "economic resources," such as:

- Real estate and property.
- Vehicles and commodities.
- Contractual rights.
- Assets capable of being used to obtain money, goods, or services.

Legislative and International Frameworks

North Macedonia’s financial response is governed by two primary international architectures established by the United Nations Security Council.

UN Security Council Resolution 1267

- **Focus:** Targets Al-Qaida, ISIL (Da’esh), and the Taliban.
- **Measures:** Includes asset freezes, travel bans, and arms embargoes.
- **Requirement:** Member states must implement changes to the international list "without delay," requiring robust processes for receiving amendments and notifying regulated businesses.

UN Security Council Resolution 1373

- **Focus:** Requires domestic mechanisms for identifying and freezing assets of persons involved in terrorism.
- **Mechanism:** Allows for national designations and actions taken in response to requests from other countries.
- **Standard of Proof:** Does not depend on a prior criminal conviction, ensuring a preventive rather than reactive approach.

Analysis of Implementation in North Macedonia (2023–2025)

In May 2023, the OSCE and UNODC conducted a five-module training program in Veles involving 22 officials from nine national agencies. This initiative highlighted the necessity of inter-agency cooperation.

Inter-Agency Coordination Model

The effectiveness of the regime relies on the seamless flow of information between diverse entities:

- **Intelligence Agency & Agency for National Security:** Identification of threats.
- **Financial Intelligence Office (FIO):** Location of related transactions and list consolidation.
- **Customs Administration:** Detection of cash or goods at borders.
- **Financial Police & Ministry of Internal Affairs:** Investigation of connected individuals.
- **Public Prosecutor’s Office:** Assessment of evidence for domestic designations.

MONEYVAL Evaluation Findings (2023)

While the 2023 evaluation recognized that United Nations list changes received immediate legal effect, several weaknesses were identified:| Strength | Weakness || ------ | ------ || Immediate legal effect for UN list changes. | No assets connected to TFS had been identified or frozen at the time of evaluation. || Automated mechanism for notifying obliged entities. | Uneven understanding of obligations outside of the banking sector. || Functioning inter-agency cooperation. | Legal deficiencies regarding the scope of assets and prevention of indirect access. || Understanding of terrorist financing risks. | Late notification to some entities regarding domestic designations. |

Status as of May 2025

Following legislative reforms, North Macedonia saw technical upgrades in areas such as wire transfers and group-wide internal controls (moving from "partially compliant" to "largely compliant"). However, FATF Recommendations 6 and 7 (covering TFS related to terrorism and proliferation) were not submitted for re-rating and remained **partially compliant**.

Operational Challenges and Failure Points

The transition from a list to an asset freeze often fails due to specific operational and technical hurdles.

Primary Points of Failure

1. **Delayed List Management:** Reliance on manual emails or overnight batch updates instead of real-time ingestion.
2. **Narrow Name Screening:** Failure to account for aliases, alternative scripts, different dates of birth, or transliterated names.
3. **Weak Ownership Analysis:** Inability to identify assets controlled through nominees, relatives, or layered corporate structures where the designated person holds no direct shares.
4. **Fragmented Responsibility:** Confusion within institutions regarding who has the authority to restrict an account immediately.
5. **Overdependence on Banks:** Lack of robust screening in sectors such as real estate, legal services, casinos, and insurance.

The "Without Delay" Requirement

In practice, "without delay" necessitates an emergency workflow that operates outside standard business hours. Institutions must be capable of:

- Preserving the balance at the exact time of the freeze.
- Preventing all outgoing payments, withdrawals, and asset transfers.
- Restricting connected products (cards, safe-deposit facilities, etc.) simultaneously.

Risk Management: De-risking and Safeguards

Effective implementation requires a balance between rigorous control and the protection of legitimate activity.

The Danger of Wholesale De-risking

Inappropriate de-risking occurs when institutions exclude entire categories of customers (e.g., NPOs or diaspora communities) rather than conducting individual risk assessments. This can push transactions into unregulated, informal channels, reducing overall visibility for authorities.

Legal Safeguards and Exemptions

Sanctions are not intended to be indiscriminate. Systems must handle:

- **Authorized Access:** UN regimes allow for funds to cover basic expenses, legal services, and extraordinary costs.

- **Third-Party Rights:** Protection for joint account holders, employees, and creditors who are not designated persons.
- **False Positives:** A documented triage process is required to ensure innocent customers with similar names are not unfairly penalized.

Recommended Control Stack for Financial Institutions

To meet regulatory expectations and achieve operational readiness, institutions should maintain a multi-layered control environment:| Layer | Requirement || ------ | ------ || **1. List Ingestion** | Automated, authoritative, and timestamped ingestion of UN and national lists. || **2. Screening** | Comprehensive screening of customers, beneficial owners, and counterparties. || **3. Ownership Analysis** | Capability to identify indirect control beyond exact-name matches. || **4. Escalation** | 24-hour workflow with predefined authority to impose restrictions. || **5. Reporting** | Documented reporting to the Financial Intelligence Office or relevant authority. || **6. Testing** | Regular use of realistic simulations to test the speed of identification and freezing. |