

11. IDENTIFYING THE CATEGORIES OF NON-PROFIT ORGANIZATIONS AT RISK OF ABUSE FOR TERRORIST FINANCING

11.1 Introduction

The NPO module of the NRA serves as an instrument for jurisdictions to support the analysis on the abuse of NPOs for TF.

In the Sri Lankan context, the formation, registration, monitoring and supervision of a majority of the NPOs are covered under the Voluntary Social Services Organizations (Registration and Supervision) Act, No. 31 of 1980 (VSSO Act) and the NSNGO is designated as the statutory body which is entrusted with the registration and supervisory functions under the VSSO Act.

The NPOs which are registered under the VSSO Act, are mainly categorized into 3 categories as National, District and Divisional Level NPOs by the NSNGO. Accordingly, the type of registration and the total number of NPOs registered at each Level are as follows.

Table 1: Non-Profit Organizations registered under the Voluntary Social Services Organizations Act (As of 2021)

Registration Type	National Level	District Level	Divisional Level
Source of funding and operational locations	<ul style="list-style-type: none"> All local NPOs with foreign funding; All International NGOs (INGOs) registered overseas and have projects in Sri Lanka; All local NPOs operational in more than one district. 	<ul style="list-style-type: none"> All NPOs financed solely by local funds but operational in more than one division. 	<ul style="list-style-type: none"> All local NPOs financed solely by local funds and operative only in one division.
No. of NGOs ^(a)	1,668	936	35,434

(a) Provisional

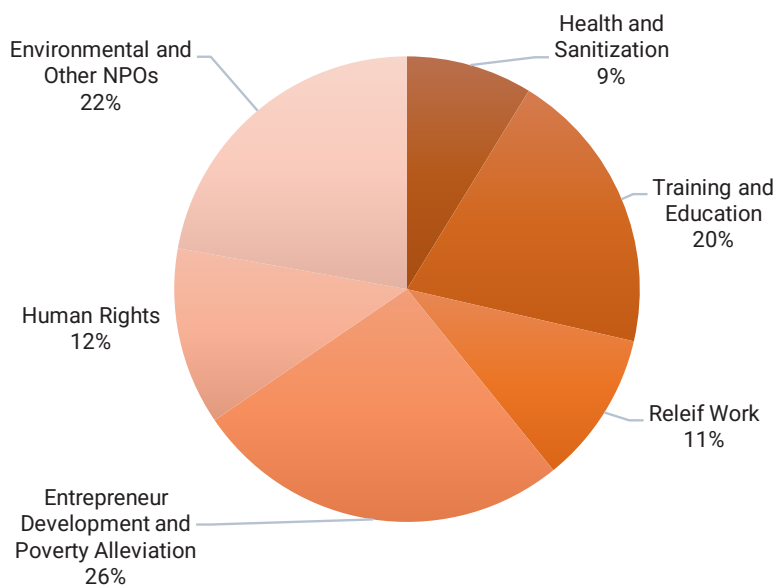
Source: National Secretariat for Non-Governmental Organizations

In view of the above, out of the three categories, it has been identified that the National Level NPOs carry a higher risk as it is the only category which is directly exposed to international risk due to the receipt of foreign funds. Further, it carries a higher risk in terms of the level of income compared to District and Divisional NPOs. As per the information gathered from all 3 levels of NPOs, all NPOs registered under the National Level receive an annual income of more than Rs. 5 million or in any foreign currency equivalent. Conversely, only 18.7 per cent of District Level NPOs and 1.2 per cent of Divisional Level NPOs receive an annual income of more than Rs. 5 million, on average. Even though, a higher number of NPOs were registered under District and Divisional Levels, as per the view of NSNGO, most of those NPOs raise funds mainly from their members and the funds are disbursed among themselves for their own betterment (e.g., Rural Welfare Societies, Death

Donation Societies, Thrift and Credit Societies, etc.) thus, associated with less risk. Hence, risk assessment was performed focusing more on National Level NPOs based on the higher risk exposure.

For the purpose of the assessment, National Level NPOs are further sub-categorized into 6 main categories based on their nature of objectives/functions as “Health and Sanitization”, “Training and Education”, “Relief Work”, “Poverty Alleviation and Entrepreneur Development”, “Human Rights” and “Environmental and Other NPOs”.

Figure 1: Categories of Non-Profit Organizations



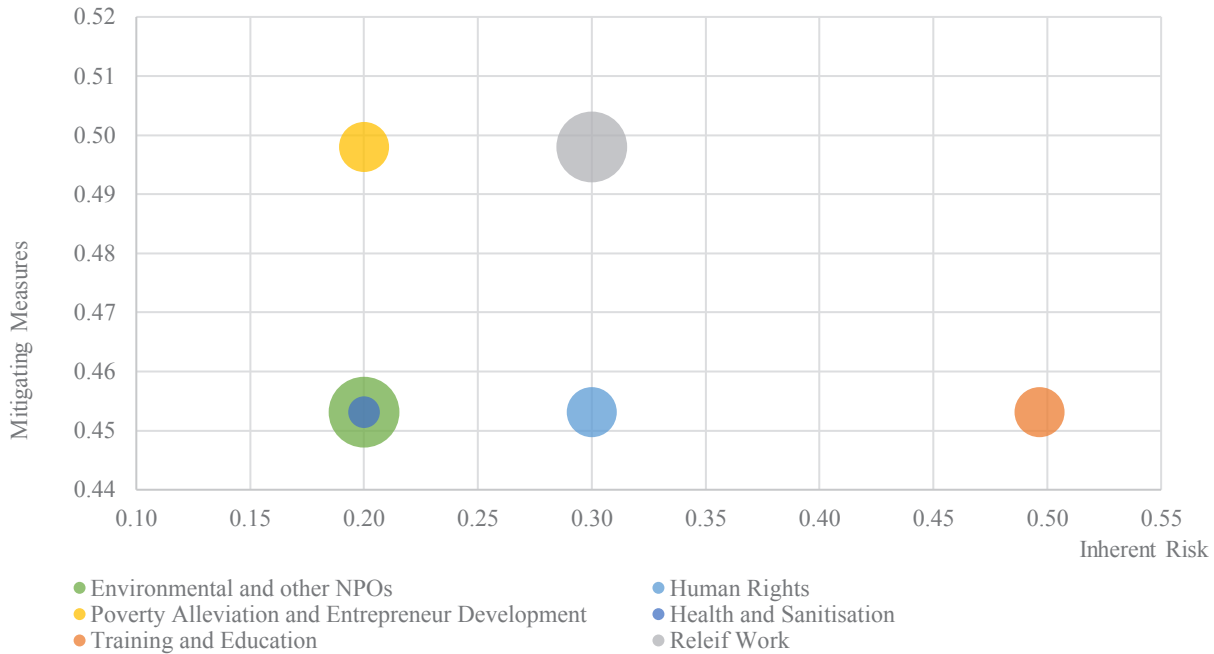
Source: National Secretariat for Non-Governmental Organizations

11.2 Overall Assessment¹

According to the quantitative and qualitative data and information gathered for the assessment period, the final ratings of the inherent risk of abuse of the NPO sector in Sri Lanka for TF, distributed from **Low** to **Medium** for the 6 different categories of NPOs while mitigation measures implemented by the government and the respective categories of NPOs rated as **Medium** (refer Figure 2).

¹ The level of inherent risk and the quality of mitigating measures spans in a scale of 0 to 1.

Figure 2: Inherent Risk and Mitigating Measures of Non-Profit Organizations in Sri Lanka



11.3 Sector Assessment

As shown above, NPOs included in “Health and Sanitization”, “Poverty Alleviation and Entrepreneur Development” and “Environmental and Other NPOs” categories carry a comparatively **Low** inherent risk as there were less number of TF investigations (5 per cent out of total TF investigations for all 3 categories) conducted by the CTID, less number of STRs (refer Table 2) and intelligence reported, and no specific evidence and typologies of TF abuse was identified within these categories of NPOs.

Regarding the “Relief Work” and “Human Rights” categories, some intelligence and circumstantial evidence indicate that certain NPOs carrying out charitable work in the areas of Northern and Eastern provinces have more exposure to active terrorist threat and the organizations formed to safeguard the human rights of the minority nationalities are also vulnerable to the threats of collection, transfer and expenditure of funds to promote terrorist ideology. Accordingly, the 2 NPO categories are having a medium level of proximity to active terrorist threat. However, both NPO categories are assessed to have **Medium Low** inherent risk due to the low level of specific typologies identified.

NPOs in the “Training and Education” category carry a **Medium** level of inherent risk compared to the other categories due to the fact that NPOs in this category are allegedly involved in the Easter Sunday Bomb Attack taken place on 21st April, 2019. In the aftermath of the Easter Sunday Bomb Attack, several local extremist NPOs which were apparently formed to promote radical Islamic ideology, were proscribed under the Emergency Regulations as terrorist organizations which are directly and indirectly connected with the attack. Most of the said extremist organizations abused their legitimate programmes and diverted funds to promote radical

Islamic ideology mainly through education and training programmes. Further, the majority of STRs reported on the suspicion of TF abuse of NPOs was based on the “Training and Education” sector (refer Table 2).

The distribution of STRs reported on the suspicion of TF during the assessment period for different NPO categories are given below.

Table 2: Suspicious Transaction Reports Submitted on Non-Profit Organizations on the Suspicion of Terrorist Financing (2015 - 2022)

NPO Category	STRs on NPOs	As a percentage of total STRs on the suspicion of TF
Entrepreneur Development and Poverty Alleviation	16	0.79%
Training and Education	73	3.62%
Health and Sanitization	1	0.05%
Relief Work	26	1.29%
Human Rights	17	0.84%
Environmental and Other	25	1.24%
Total	158	7.84%

Source: Financial Intelligence Unit - Sri Lanka

11.4 Mitigating Measures

With regard to the mitigating measures, the government as well as the respective NPOs have taken proactive mitigating measures in order to mitigate the risk associated with the NPOs being abused for TF.

The NSNGO has initiated district wise awareness programmes covering all National and District Level NPOs, carried out district wise risk based on-site visits to project sites to maintain the quality of outreach and directed to submit mandatory reports on a quarterly basis on their operational and budgetary conditions to emphasize the quality level of their financial and project management. In addition to the above, the NPO sector has been addressed in the CDD Rules² and circulars issued by the FIU on conducting Enhanced Due Diligence on NGOs, NPOs and Charities under Financial Institutions (Customer Due Diligence) Rules, No. 1 of 2016 based on the importance and the gravity of the sector.

Based on the responses received in terms of the mitigating measures implemented by the individual NPOs, most of the NPOs maintain the quality of governance, financial management, project management and staff vetting and oversight, level of commitment to ethics and transparency and the level of self-regulation at a satisfactory level.

In overall, mitigating measures taken by the government and the respective NPOs in all 6 categories were rated as **Medium**.

2 Financial Institutions (Customer Due Diligence) Rules, No. 1 of 2016 – Extraordinary Gazette No. 1951/13, January 27, 2016
Designated Non-Finance Business (Customer Due Diligence) Rules, No. 1 of 2018, Extraordinary Gazette No. 2053/ 20, January 10, 2018
Insurers (Customer Due Diligence) Rules, No 1 of 2019 – Extraordinary Gazette No. 2123/14, May 13, 2019

11.5 Gaps Identified

The VSSO Act and its only amendment in 1998 empower the NSNGO with the registration and supervisory functions of NPOs. However, the NSNGO has identified the following salient weaknesses in the existing legislation which hinder its ability to effectively supervise and monitor NPOs.

- No adequate penal provisions to deal with non-registration, refusal to register and non-compliance with regulatory requirements.
- No express provisions to deal with re-registration, de-registration, or provisional/ temporary registration and blacklisting of non-complying NGOs.
- No clear legal framework for onsite inspection.
- No specific provisions to depoliticize INGOs and NGOs.
- No statutory requirement to disclose financial status, funding sources, funds utilization of equitable apportionment of funds for projects and beneficiaries.

Even though a majority of the NPOs are registered with the NSNGO under the VSSO Act, it was observed that several other NPOs are getting registered under different Laws, Acts and Ministries without any proper regulatory or monitoring mechanism. Therefore, the absence of a single legislation to cover registration and effectively monitoring of all NPOs operating in the country, has been identified as a limitation.

In view of the above, the NSNGO is currently in the process of amending the existing legislation to address the aforesaid limitations. Accordingly, the new legislation will enable the NSNGO to enhance its powers as the primary agency of registration, supervision and monitoring of all NPOs operating within the country including taking effective regulatory actions against the failure to register, non-compliance and violations of the provisions. It will facilitate deepening awareness of TF risk, promote accountability and better data management which safeguard NPOs from the risk of abuse for TF.

Further, it was observed that the NSNGO has limited capacity and resources to effectively regulate and monitor the substantial number of NPOs registered at the District and Divisional Levels. This needs to be addressed by providing necessary technology, human and other resources enabling NSNGO to effectively carry out the required service to the nation.

Figure 3: Highlights of the Assessment of Categories of Non-Profit Organizations at Risk of Abuse for Terrorist Financing

