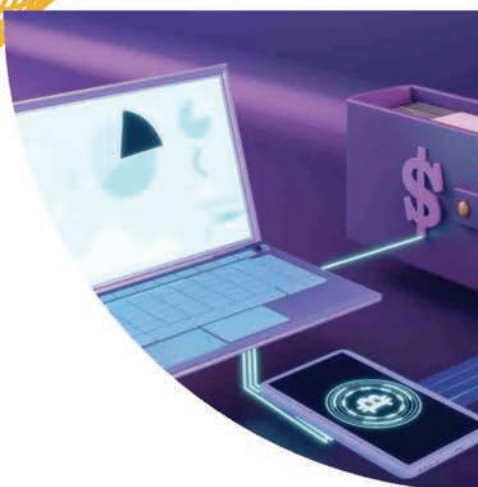


Guidance on Best Practices for NPOs

in Managing Terrorism Financing Risks

[Update to the Best Practice Guides on Managing NPOs 2014]

2025



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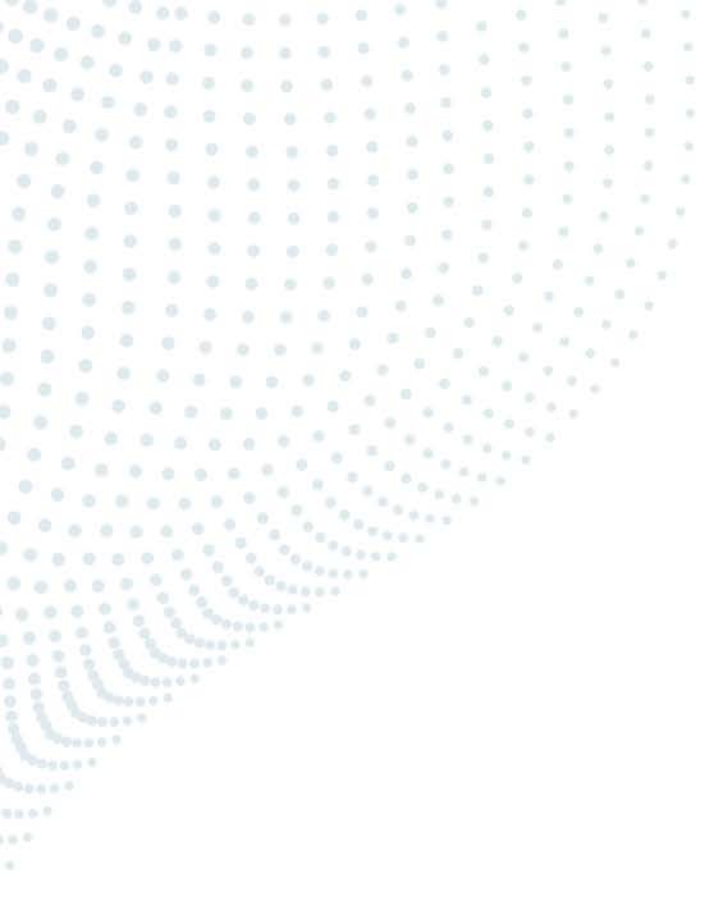
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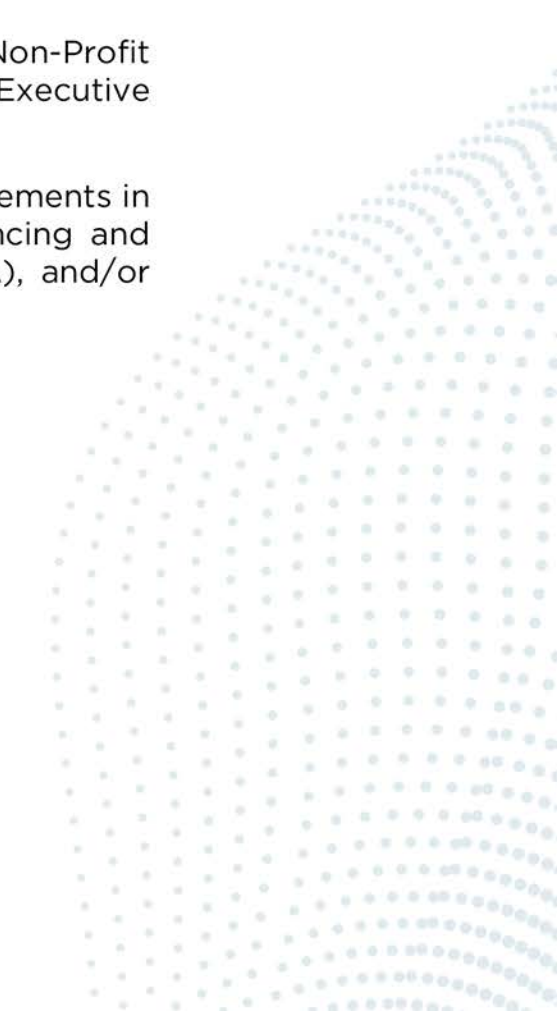
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We would like to thank all Non-Profit Organisations (NPOs) who were involved directly or indirectly in the development of this document.

This guidance should be read together with the Non-Profit Organisation Risk Assessment (NPORA) 2024 Executive Summary.

This guidance does not intend to supersede requirements in the Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 (AMLA), and/or AML Policy Document.





“

Purpose

This guidance aims to equip Non-Profit Organisations (NPOs) with the necessary insights and measures to mitigate the risks associated with terrorism financing. Through awareness and enhanced vigilance, NPOs can safeguard themselves and, in turn, the financial system against the threats posed by terrorist activities.

The guidance is not meant to be prescriptive or exhaustive in nature. Statutory regulations and legislations should take precedence over the best practices provided in the guidance, where applicable.

”



BACKGROUND

BACKGROUND

Given the variety of legal forms that NPOs can take, the Financial Action Task Force¹ (FATF) has adopted a functional definition of “NPO” based on activities and characteristics of an organisation which may put it at risk of terrorism financing (TF) abuse, rather than on the simple fact that it is operating on a non-profit basis.

NPO refers to a legal person or arrangement or organisation that primarily engages in raising or disbursing funds for purposes such as charitable, religious, cultural, educational, social or fraternal purposes, or for the carrying out of other types of “good works”.

In Malaysia, NPOs can be established under any of the following regulators:

The Registry of Societies (ROS) for clubs, societies and associations.

The Companies Commission of Malaysia (CCM) for companies limited by guarantee (CLBG).

The Legal Affairs Division of the Prime Minister’s Department (BHEUU) for trusts and foundations.

The Labuan Financial Services Authority (LFSA) for Labuan charitable foundations and Labuan charitable trusts.

¹ The Financial Action Task Force (FATF) (<https://www.fatf-gafi.org/en/the-fatf.html>) is the global money laundering and terrorist financing watchdog. It sets international standards that aim to prevent these illegal activities and the harm they cause to society.

This guidance is developed by members of the Sub-Committee on Non-Profit Organisation (SCONPO) under the National Coordination Committee to Counter Money Laundering (NCC) as an update to the guidance issued in :

HOW AND WHY THIS GUIDANCE WAS DEVELOPED

2014

BEST PRACTICE GUIDES ON MANAGING NPOS (FOR DIRECTOR / TRUSTEE / OFFICE BEARER)

This guidance follows the completion of :

2018

NPO RISK ASSESSMENT 2018

2024

NPO RISK ASSESSMENT 2024 ² (NPORA 2024)₃ and incorporates the latest best practices paper issued by the FATF.

It is developed in consultation with the NPOs to ensure a comprehensive understanding of **effective governance** and **operational strategies to protect against TF abuse**. Insights from the industry were gathered through various efforts such as :



Leveraging on engagements with NPOs throughout the years



Questionnaires



Focus groups with selected NPOs

² For the full details of the NPORA 2024, please refer to the NPORA 2024 Executive Summary.

³ FATF - Best Practices on Combating the Abuse of Non-Profit Organisations.

WHO IS THIS GUIDANCE FOR

This guidance is aimed at entities and individuals working in the NPO sector:



Director



Trustee



Office Bearer



Board Members



Trustees



Key Executives of NPOs

It will also be of interest to:



Employees of NPOs



Volunteers



& those wishing to partner with NPOs.



Risk of NPOs being abused



Exploitation of NPOs

Terrorists and terrorist organisations may seek to exploit⁴ NPOs to:





AML



A good **Understanding** of **TF risks** is the **first step** to **protecting your NPO**



METHODS⁵ OF NPO ABUSED FOR TF

✓ DIVERSION OF FUNDS

Funds raised by NPOs are unknowingly diverted to support terrorism at some point.

✓ AFFILIATION WITH A TERRORIST ENTITY

An NPO, or individuals within the NPO, knowingly or unknowingly maintains an affiliation with a terrorist entity which may result in the NPO being abused.

✓ ABUSE OF PROGRAMME

Legitimate resources from the NPO are abused at the point of delivery.

✓ ABUSE OF NPO

Abuse of NPO programmes, activities, resources or facilities to support terrorism including to support recruitment efforts by terrorists.

✓ FALSE REPRESENTATION

Organisations or individuals use fake NPOs or falsely represent themselves, in order to deceive donors into providing support.

⁵ <https://www.gov.uk/government/consultations/understanding-the-risks-non-profit-organisations-face-from-terrorist-financing-schemes>

Examples of NPOs abused for TF in the region^{6 7}

NPOs have a history of being abused for terrorism financing...

Indonesia

- Indonesian National Police counter-terrorism squad seized 1,540 charity boxes during a raid on the office of the Syam Organizer Foundation.
- The foundation, managed by **Jemaah Islamiyah (JI)**, a militant extremist Islamist terrorist group, claimed it was collecting funds for humanitarian programs, but the **funds were instead destined to finance terrorist activities**.
- **Payroll deduction** from the foundation's staff were made to fund JI members to fight in Syria between 2013-2017.

Thailand

- A private religious school was **suspected of links to terrorism** in the south of Thailand.
- Key individuals connected to the NPO received **donations mainly from members of an insurgent group, and subsequently transferred funds to the school**.
- Authorities suspected an executive of the school (Person A) of abetting and providing financial aid to the insurgents.
- Person A allegedly allowed the insurgent group to use the school to promote violent ideology, deliver training and stockpile arms.
- An NPO received **domestic electronic funds transfers from multiple third parties, and frequent large cash deposits** into its NPO account.
- The NPO had links to a **religious organisation that media reporting claimed was associated with violent extremist views**.
- Some entities transferring funds into NPO account were **reportedly linked to terrorist groups**. While majority of the funds were traced as going to local charitable activity, the funds remained unaccounted for and raised suspicions about their ultimate use.

Australia

Source: APG Typologies 2022 and
NPO & TF Red Flag Indicators, AUSTRAC 2018



- Parties to the transaction (e.g., account owner, sender, beneficiary) are **from countries known to support terrorist activities**.
- NPO **sending funds to multiple entities** in a high-risk country.
- Transactions with NPOs that **contain terms associated with violent extremism and other terrorist ideologies** e.g., ghanimah or fai/fay mujahid/mujaheed/mujahideen, jihad
- Transactions (cash and transfers) **associated with United Nations Security Council designated terrorist entities**.

Why NPOs are being targeted for TF purposes?

01

PUBLIC TRUST

NPOs, especially those with a good reputation, enjoy public trust and are able to raise donations or move funds relatively easily. Bad actors may seek to misuse the name or impersonate the NPO or their representatives to collect and raise funds.

02

WIDE REACH

NPO programmes aid a significant number of beneficiaries in vulnerable segments of the community. Some NPOs even carry out transactions, conduct programmes or work with stakeholders across borders and in conflict zones which increases their proximity to active terrorist threats.

03

MEDIUM OF TRANSACTION

When operating in disaster zones, locations of active conflict or those with limited financial access, NPOs may need to use cash or rely on third parties to deliver critical aid. These channels pose additional risks to NPOs as the funds and aid could more easily be diverted from its intended purpose.

6 APG Yearly Typology Report 2023

7 Non-Profit Organisations and Terrorism Financing Red Flag Indicators 2018

Malaysia's Risk Assessment of TF Risk on NPO Sector

The NPORA 2024⁸ is the main source document to understand the risk of TF abuse on the NPO sector. It examines TF-related risk posed to NPOs and identifies broad recommendations to mitigate TF risks to protect legitimate NPOs from being misused for terrorism or terrorism financing (T/TF)



This guidance serves as additional guidance to help NPOs understand the risks identified by the NPORA 2024. In summary :

Summary Point 1

Some NPOs may be exposed to Medium risk for TF, depending on the nature and scope of activities that they carry out and the NPO's characteristics.

Summary Point 2

NPOs in Malaysia are exposed to inherently Low risk for TF.

Summary Point 3

To-date, NPOs in Malaysia have not experienced being misused for terrorism financing.

⁸ Depending on when you read this document, there might be an updated iteration of the NPORA. Please check with your regulator's or Bank Negara Malaysia's websites.



WHAT CHARACTERISTIC OF NPOS ARE MORE VULNERABLE TO BEING ABUSED FOR TF

Cash Intensive

Collection and disbursement of fund through cash such as providing cash assistance to target groups are more difficult to trace and are more prone to diversion of funds for other purposes. Sometimes, this can involve diversion to fund terrorism activities.

International Presence or Overseas Activities

Cross-border activities typically involve multiple parties. This provides a challenge to the NPOs involved to ensure the activities and programmes they carry out benefit the intended beneficiaries and not unintended parties seeking to abuse such programmes. This is especially true if those activities are conducted in conflict-prone areas or jurisdictions with active terrorist groups.

Involved in Raising or Disbursing Large Donations from/to Higher Risk Areas

Similarly, the movement of funds across jurisdictions pose a challenge for NPOs to ensure the funds are used in the intended manner. Large donations are also more difficult to account for. In locations where basic financial infrastructure is unavailable, the NPOs may have to utilise riskier means to transport funds such as cash (which is easily converted) or rely on third parties (which limits visibility of the funds' movement). These risks are compounded in higher-risk areas.



Some NPOs may be exposed to Higher Risk for TF, depending on the nature and scope of activities that they carry out and the NPO's characteristic.

YOU SHOULD BE MORE VIGILANT DEPENDING ON YOUR ●●● ANSWERS TO THE FOLLOWING QUESTIONS:



01. Is your NPO or NPO you work with registered as a Charitable and/or Religious NPO?

The risk characteristic mentioned previously are more prevalent in these types of NPOs although not all Charitable and/or Religious NPOs are necessarily higher risk in line with the findings of the NPORA 2024

03. Does your NPO or NPO you work with have internal policies to mitigate those risks?

These can come in a variety of forms such as policies and procedures, SOPs or even good practices that are embedded in your programmes. Some of these good practices are explained on the next page.

02. Are any of the risk characteristics which make NPOs vulnerable to TF abuse present in your NPO or NPOs you work with?

A NPO could still be higher risk even if it is not registered as a Charitable and/or Religious NPO if it exhibits one or more of the risk characteristics.

Best Practices for NPOs to Protect Themselves Against Abuse of TF

How can NPOs protect themselves against TF abuse?

The purpose of this part is to guide NPOs on proactive measures you can adopt to protect your NPOs against TF abuse.

A

A good **Understanding** of TF risks is the first step to protecting your NPO.

Be aware of national risk assessments relating to TF (such as the National Risk Assessment 2023 and NPORA 2024). The results and findings can help in identifying your own NPO's risk exposure.

Undertake your own risk analysis before embarking on activities or programmes, to assess all aspects of the programme. This can be undertaken by independent parties such as partner NPOs, professional auditors or any other suitable stakeholders.

Stay updated and be aware of recent developments that could affect your NPO's risk exposure. These developments can be external (political changes, geo-political shifts, social movements, etc.) or internal (mergers, resource re-allocation, programmatic changes, etc.)

Share your experience and own best practices in conducting programmes with other NPO partners, to build capacity within the sector.

In addition, if your NPOs are actively engaged in overseas or cross border activities, you should consider:

- Familiarising yourselves to similar risk assessments conducted by the overseas jurisdictions.
- Developments in the specific and surrounding location where the activities take place.
- Gauging the understanding of TF risk of stakeholders who will be involved and their ability to mitigate those risks via interviews or formal and informal engagements. Checks with regulators, other NPOs or social media/web scanning.

B

Alignment to Objectives ensures funds and programmes reach intended beneficiaries.

Assess and carefully consider if funds and programmes meet the overarching objective of your NPO's establishment.

Consult your NPO's constituent documents if uncertain. Reach out to your regulatory authority and engage them for clarification, if required.

Select partners who are themselves aligned with your NPO's aims and objectives, which are of good standing and properly registered.

Consider attaining an accreditation or certification matching your NPO's aims.

Prepare reports for each programme, activity, mission or stream. Share those reports with staff, volunteers, partners and stakeholders.

Appoint independent parties or experienced auditors to periodically check that your NPO's activities, programmes and utilisation of funds are in line with objectives.

In addition, if your NPOs actively rely on overseas partners, you should consider:

- Developing methods of assessing the prospective partner or "Know-Your-Partner". This can include independent checks, as well as limiting the extent, scope of collaboration or financial amount involved for first-time collaborators.
- Having in place clear, written agreements with the partner to outline each parties' responsibilities and monitor their performance on a regular basis.

C

Practising Good Governance including sound financial management retains trust.

Establish policies and procedures or SOPs to aid staff and volunteers in navigating programme delivery, financial management and incident reporting/whistleblowing.

Ensure decisions are made collectively and in the best interest of the NPO and beneficiaries. Conflict of interest should be disclosed and properly recorded.

Ensure proper record-keeping and provide access to the records upon request of donors, members, partners and, where possible, the public.

Provide voluntary reporting to donors, partners and the public on how funds are utilised. This can be in newsletters, annual reports, website/social media updates.

Have two or more people control and oversee any movement of funds out of the NPO. No one person should have full control of the NPO's finances.

In as many situations as possible, especially non-urgent transactions, favour the use of payment channels such as banks, instead of relying on cash.

In addition, if your NPO frequently use cash, you should consider:

- Making sure any cash collected and transported is properly recorded and banked in at the earliest convenience or as soon as practicable.
- To only trust the handling of cash to experienced NPO representatives. Even then, the NPO should always practice the 'four-eyes principle'.

Identification

of Sanctioned Entity associated to TF

Sanctions Related to Terrorism Financing

The purpose of this part is to give awareness on Targeted Financial Sanctions (TFS) to NPO. While the implementation of TFS are imposed on reporting institutions¹⁰ under the AMLA, it is pertinent for NPO to be aware of TFS and sanctioned entity to strengthen your vigilance and safeguarding from potential TF abuse.

What are Targeted Financial Sanctions?

TFS are the measures of asset freezing and prohibitions to prevent funds or other assets from being made available, directly or indirectly, for the benefit of sanctioned entity without delay.

The objective is to prevent terrorists, terrorist organisations and terrorist financiers from raising, moving and using funds, consistent with the relevant United Nations Security Council Resolutions (UNSCRs).



- **UN Security Council Resolutions (UNSCR) 1267 and 1988 lists**
- **The Ministry of Home Affairs (MOHA) list.**



Where can you find the sanction entities list?

UN Security Council Resolutions (UNSCR) Lists:

- **1267 Sanctions List – Sanctioned entities related to ISIL (Da’esh) and Al-Qaida**
(https://main.un.org/securitycouncil/en/sanctions/1267/aq_sanctions_list)
- **1988 Sanctions List – Sanctioned entities related to Taliban**
(<https://main.un.org/securitycouncil/en/sanctions/1988/materials>)



Ministry of Home Affairs List

<https://www.moha.gov.my/index.php/en/maklumat-perkhidmatan/memban-teras-pembiayaan-keganasan2/senarai-kementerian-dalam-negeri>

What is required of the NPO upon finding a name match?

In a situation where the NPOs find a person or entity as a match against the sanction entities lists, NPOs are advised to immediately take the following steps on a best effort basis, where applicable:

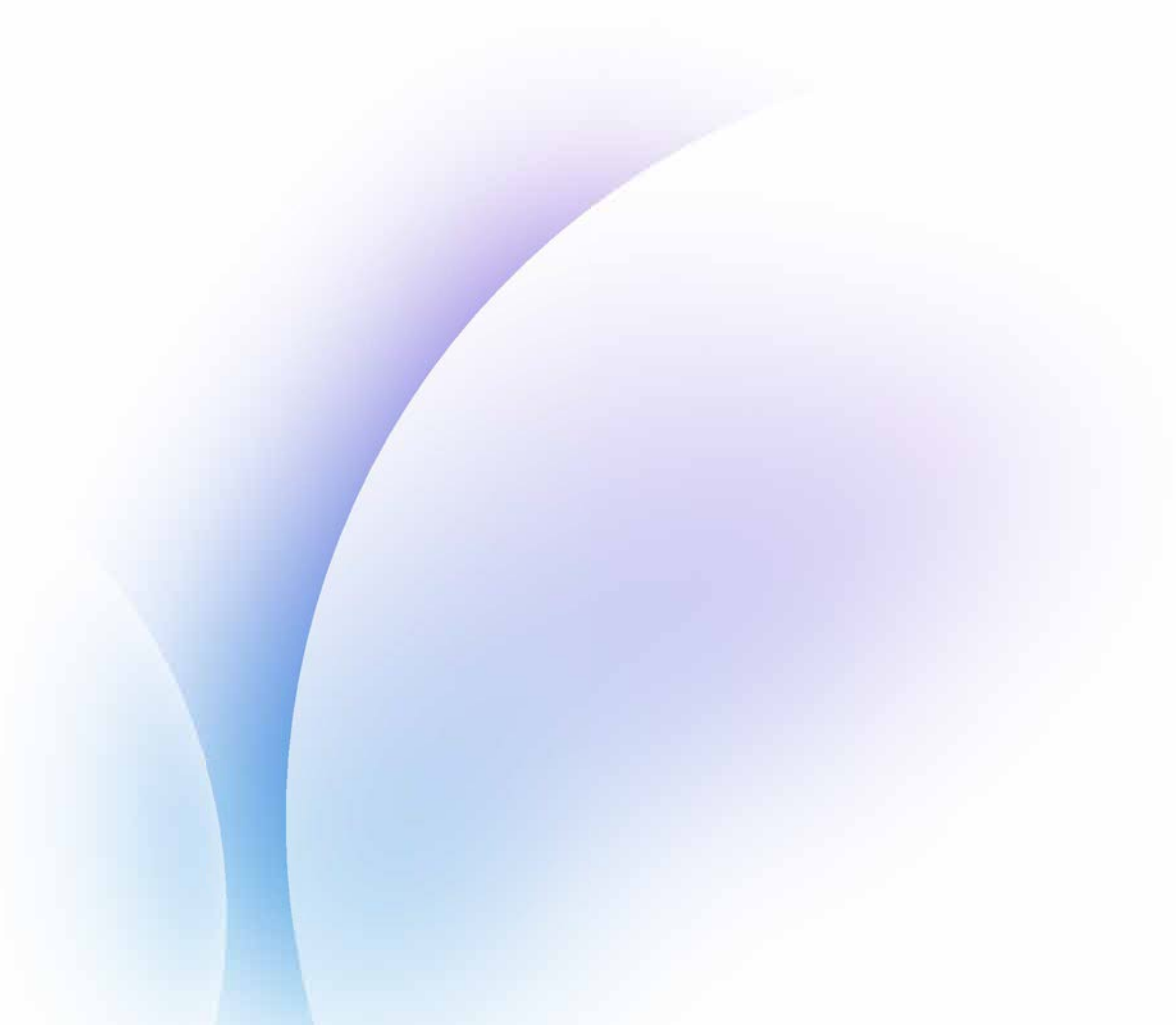
Cease from dealing with or acting for or assisting or facilitating any financial activities related to the sanctioned entity.

Inform your relevant regulatory authority, i.e. ROS, LFSA, CCM and/or BHEUU.

Lodge a police report.

“ —

Sanctions Related to Terrorism Financing –
The objective is to prevent terrorist, terrorist organisations and terrorist financiers from raising, moving and using funds, consistent with the relevant United Nations Security Council Resolutions (UNSCR).



USEFUL REFERENCES

Bank Negara Malaysia (2022), Publications, National Risk Assessment, Other Risk Assessments,
<https://amlcft.bnm.gov.my/publications>

Financial Action Task Force (2024), Best Practices on Combating the Abuse of Non-Profit Organisations,
<https://www.fatf-gafi.org/en/publications/Financialinclusionandnpoissues/Bpp-combating-abuse-npo.html>

Jabatan Pendaftaran Pertubuhan Malaysia (2021), Legal Frameworks, Anti-Money Laundering / Counter-Financing of Terrorism, Publication,
<https://www.ros.gov.my/www/portal-main/publication-details?id=9500f21b-dc7f-11ef-b2d2-005056b18274>

Bank Negara Malaysia (2022), AML/CFT Requirements, Are you a Reporting Institution?,
<https://amlcft.bnm.gov.my/are-you-a-reporting-institution>

Relevant website of respective NPO regulatory agencies in Malaysia:

- a. Bahagian Hal Ehwal Undang-undang (BHEUU),
<https://www.bheuu.gov.my/>
- b. Jabatan Pendaftaran Pertubuhan Malaysia (ROS),
<https://www.ros.gov.my/www/portal-main/home>
- c. Suruhanjaya Syarikat Malaysia (CCM),
<https://www.ssm.com.my/bm/Pages/Home.aspx>
- d. Labuan Financial Services Authority (LFSA)
<https://www.labuanfsa.gov.my/>

ABBREVIATIONS & ACRONYMS

AMLA	Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2021
BHEUU	The Legal Affairs Division of the Prime Minister's Department
CCM	Companies Commission of Malaysia
FATF	Financial Action Task Force
LFSA	Labuan Financial Services Authority
MOHA	Ministry of Home Affairs
NPO	Non-Profit Organisations
NPORA	Non-Profit Organisations Risk Assessment
NRA	National Risk Assessment
RI	Reporting Institution
ROS	Registry of Societies Malaysia
SCONPO	Sub-Committee on Non-Profit Organisation
TF	Terrorism Financing
T/TF	Terrorism / Terrorism Financing
TFS	Targeted Financial Sanctions
UNSCRs	United Nations Security Council Resolutions

