



Non-Profit Organisation Risk Assessment (NPORA) 2024



Overview

NPORA 2024¹ (an update to NPORA 2018) examines terrorism financing (TF)-related risk posed to NPOs and identifies recommendations to mitigate TF risks, to protect legitimate NPOs from being misused for terrorism or terrorism financing (T/TF). NPORA is undertaken by the Sub-Committee on Non-Profit Organisation (SCONPO)² of the National Coordination Committee to Counter Money Laundering (NCC).

In general, the **overall net TF risk posed to NPOs in Malaysia remained at Medium**. *Charity and Religious* NPOs have been assessed as more exposed to global T/TF risk compared to other NPO sectors, as they have higher international linkages and fundraising activities. While other types of NPOs such as *Social, Recreation, and Trade* NPOs have reduced to Low TF risk (see “Key Mitigating Factors” for details).

To-date, Malaysia has **not witnessed the usage of NPOs to finance terrorism**. However, the T/TF landscape in Malaysia is heavily influenced by the on-going global geo-political developments. As such, regulatory measures of NPOs in Malaysia needs to be **further strengthened** for more effective oversight by regulators. Furthermore, **mitigating measures must be proportionate to the level of risk and all involved must continue to monitor TF risks** to ensure that legitimate NPOs are not being misused.

Since the last NPORA 2018, the NPO regulators undertook continued outreach programmes on TF risks and vulnerabilities, increased on-site/off-site inspections and exchanged information, particularly on rejected/de-registered NPOs, amongst NPO regulators and financial institutions.

¹ The Financial Action Task Force's (FATF) Recommendation 8 and Immediate Outcome 10 require countries to identify the types of NPOs operating, the potential TF risks, and the likelihood of being exploited for TF purposes.

² Members include regulators of NPOs such as the Registry of Societies, Companies Commission of Malaysia, Labuan Financial Services Authority, and the Legal Affairs Division, Prime Minister's Department.

Landscape of NPOs in Malaysia

The number of *Charity* NPOs has almost doubled since NPORA 2018, representing roughly 40% of the total number of NPOs in Malaysia with the majority registered as *Societal Welfare* and *Members' Welfare*.

This was likely due to more NPOs being setup during the COVID-19 pandemic, primarily to aid Malaysians in need.

Total No. of NPOs under the respective NPO Regulators



Registry of Societies
83,832



1,829

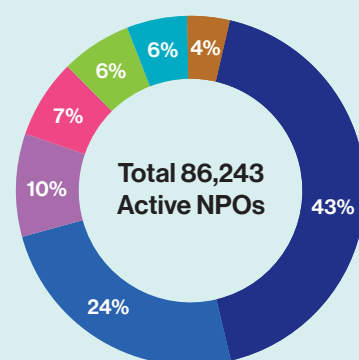


Legal Affairs Division, Prime Minister's Department
558



24

Chart 1: Overall Market Share of NPOs as of December 2022



■ Charity ■ Social ■ Religious ■ Recreation
■ Trade ■ Culture and Art ■ Others³

³ Includes Professional, Mutual Benefit, Safety and Rights Activism.

NPORA 2024 Methodology

The assessment methodology was developed to assess all 10 different NPO sectors by incorporating **quantitative** (e.g., data between 2018 and 2022 from NPO regulators, Financial Intelligence Unit, and law enforcement agencies) and **qualitative** aspects (perception survey, international reports, focus group sessions with regulators, law enforcement agencies, and NPOs).

Diagram 1: Assessment on the Inherent TF risks of the NPOs and Control Measures

Key Inherent Risks



Linkages to High-risk Jurisdictions (HRJ)



Funding Methods
(e.g., public donations,
grants, investment, etc)



Cash
Intensiveness



TF Incidences
on NPOs

Key Control Measures



Adequacy of Malaysia's
Laws on NPOs



Strength of Regulatory
Oversight



Effectiveness of
Enforcement Actions



NPOs' Level of
Compliance

The TF Risk On NPOs

The **Overall Net TF Risk for NPOs is Medium**, after considering the inherent risks and control measures.



General Findings

1. The **Inherent Risk for NPOs** being misused for T/TF in Malaysia has reduced from **Medium to Low**.
2. In general, each NPO sector is distinct in terms of the establishment objectives, characteristics and features, which attract different risks and hence require them to be assessed individually.
3. Two out of the ten of the NPO sectors, i.e., **Charity** (accounting for 43% of NPOs) and **Religious** (10% of NPOs) were rated as **Medium Risk** for TF due to more prevalent risk drivers. However, not all NPOs in these two categories are higher risk and none of the NPO sectors in Malaysia is rated as High or Medium-High risks.
4. **Social NPOs** are the second most common NPO after *Charity* NPOs. However, its biggest sub-categories are **Community** and **Education** (67% of the *Social* NPOs). Although *Education* NPOs conduct some overseas transactions, further analysis of their activities showed that they are not directly exposed to TF due to their niche objectives such as scholarship, training, and conferences. *Community* NPOs, on the other hand, mostly consisted of localised homeowner associations.

Key Risk Drivers and Mitigating Factors For NPOs In Malaysia

These risk drivers were more prevalent within the *Charity* and *Religious* NPOs, but not all NPOs within these two categories are at higher risk of TF abuse. Meanwhile, global developments and certain nature or operation of the NPOs in Malaysia might also mitigate some of the risk factors.

Key Risk Drivers

1. International linkages (i.e., cross-border funds transfers to/from HRJ, overseas presence (including foreign partners), etc) and cover wider scope of activities.
2. Collecting donations is the primary source of fundraising activities.
3. Higher usage of cash transactions and/or cash intensity than other NPOs of similar features/ activities.
4. Growth of the NPO sector over the years, especially with *Charity* NPOs during and post the COVID-19 pandemic.

Key Mitigating Factors

1. A general decline of T/TF risks globally and the absence of TF cases associated with NPOs in Malaysia, supported by proactive monitoring by relevant authorities.
2. The nature and objective of most NPOs (e.g., chambers of commerce, educational, recreational purposes, etc.) do not have direct exposure to T/TF activities.
3. Most cross-border fund transfers appeared to be for intended purposes e.g., a reputable *Recreation* NPO has a high volume of transfers from/to HRJ because it caters to international sports with global members.
4. Increasing use of formal payment channels such as banks by the NPOs as opposed to sole reliance on cash.

Key Recommendations

A list of recommendations was developed to address the identified gaps and will form the basis for the action plans in the NCC Roadmap 2024-2026.



1. Understanding of Risk

Continuously improving the understanding of TF risks by all stakeholders

- Conduct regular and sustained outreach programs aimed to engage higher-risk NPOs.
- Update the existing guidance to reflect best practices to mitigate potential risks.



2. Transparency and Strengthening Laws and Regulations

Strengthen risk-based regulatory and supervisory framework by NPO regulators

- Improve the submission rate of annual returns by NPOs by taking proportionate enforcement actions against non-submissions or delays.
- Standardise the on-boarding measures of NPOs among regulators where possible.
- Ensure effective oversight (including offsite review of annual returns) of NPOs with higher TF-risk exposure or when the situation requires (e.g., change in TF risks, etc.).
- Continuous exchange of information, including of de-registered NPOs among regulators.
- To encourage NPOs to utilise formal payment platforms (e.g., banks, money services).



3. Capacity Building

Collaboration among agencies to make informed decisions on NPOs oversight

- Active engagements between NPO regulators with law enforcement agencies, reporting institutions, and NPOs to exchange insights on ongoing ML/TF risks.

Risk Outlook

The future TF risk outlook within NPOs will remain consistent if the T/TF landscape does not change significantly in the next few years.



1. Current TF Risk Outlook

- T/TF landscape in Malaysia is **heavily influenced by global geo-political developments**, but in general, T/TF risks in Malaysia have declined in the past few years.
- Although the recent Palestine-Israel conflict may raise concerns on Hamas and the misuse of NPOs, Hamas is not classified as a terrorist group by the United Nations Security Council and no TF cases have emerged in Malaysia.
- Most TF cases in Malaysia were perpetrated by individuals who **sympathise** with overseas conflicts (e.g., provide donations). There are also no incidences that show the **misuse of legal structures** such as companies and NPOs for T/TF purposes.



2. Emerging Trends

- Depending on the development of the global geo-political landscape, **TF risks may evolve in tandem** and could heighten the risk exposures to the domestic NPOs that provide humanitarian aid to HRJ.
- The use of social media for sympathy calls and fundraising could reach a wider audience and may cause foreign TF risks to spill over domestically.
- While global trends such as the use of cryptocurrencies or alternative donation platforms have not been observed among the NPOs in Malaysia, stakeholders should remain mindful and monitor the TF risks (if any) associated with these technologies.
- As NPOs return to full-scale operations following the economic recovery from the COVID-19 pandemic, heightened risks could ensue (e.g., fundraising activities). As such, relevant authorities and reporting institutions need to keep abreast of NPOs' activities and continuously monitor their risk exposure.

Conclusion

Malaysia aims to protect legitimate NPOs from being misused for TF purposes, as part of the FATF Standards. As such, the NPORA 2024 sought to assess relevant TF risks within the NPOs, which led to the identification of key risk drivers and mitigating factors.

In this regard, the public and private sectors are expected to understand the TF risks on NPOs and implement the appropriate risk-based measures, where relevant. Additionally, public and private sectors are encouraged to regularly update their internal risk management procedures and risk profiles to effectively address any

current or emerging risks. Regular engagements with NPOs are also encouraged to gain a better understanding of their operations and activities as well as to foster a better understanding of risk and exposure by all parties.

A collective effort from the public and private sectors will play an important role in preventing the misuse of NPOs for TF purposes. Finally, by staying vigilant and exercising caution, all stakeholders may effectively mitigate risks, especially since the TF landscape is constantly evolving. Ultimately, our shared goal is to ensure legitimate NPOs continue to operate without any disruption.