

Money Laundering and Terrorism Financing Abuse in Non-Profit Organisations: Challenges in Humanitarian Aid

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Abstract

Non-profit organisations (NPOs) play a critical role in delivering humanitarian, social, and developmental assistance. However, their operational structure, funding sources, and global reach can be vulnerable to abuse for money laundering and terrorism financing (ML/TF) purposes. This paper examines the risks and countermeasures associated with ML/TF abuse in the NPO sector. This paper highlights the common reasons why NPOs are considered one of the ML/TF typologies and analyses the existing international bodies and instruments for anti-money laundering and counter-terrorist financing (AML/CFT) measures for the NPOs sector. This paper employs doctrinal legal research by analysing AML/CFT primary and secondary sources to examine preventive strategies that can hinder the NPOs sector from being abused for ML/TF crimes. The study concludes with recommendations for strengthening the NPO sector's resilience while safeguarding legitimate charitable activities, advocating for proportional, risk-based measures that balance financial integrity with operational viability. This paper provides policymakers and NPOs with practical insights on AML/CFT compliance while supporting the vital functions of NPOs as an essential humanitarian channel for delivering aid, without compromising ML/TF risks.

Keywords: Non-Profit Organisations, AML/CFT Compliance, FATF Recommendation 8, Risk-Based Approach, Anonymous Donor

Introduction

The right to life is one of the fundamental rights of human beings, which is to fulfil the basic needs of an individual and society. The right to life is enshrined in Article 6 of the International Covenant on Civil and Political Rights to ensure that the rights to life for individuals and society are protected. No derogation to the right to life is permitted even in a situation of conflict, poverty and public emergencies. Yet, for many, this right is undermined due to poverty, the country's conflict, hardship, inequality and discrimination.

Therefore, the government, along with the help of individuals and organisations such as non-profit organisations (NPOs), plays a role in delivering humanitarian aid. The World Association of Non-Governmental Organisations (WANGO), as one of the leading sources and a global connection for NPOs, has reported that there are approximately 54,000 NPO organisations worldwide, spanning more than 190 countries (WANGO, n.d.). NPOs are organisations that consistently offer support to individuals and society, even during armed conflict, emergencies, and other limitations or disruptions. NPOs are organisations often associated with the social welfare sector and are crucial for the country's development, as well as the welfare of each individual and society (Anuarul Perai, 2024). Another significant role of NPOs is as the foundation of democracy, operating to support public interest without the intention of financial gain (Hasan, 2024).

The terms NPOs are often used interchangeably to refer to non-profit organisations, foundations, and variations of the term, depending on the context and regulations, which denote charitable organisations. The United Nations Development Programme (UNDP) defines NPOs as groups or institutions that operate independently of a government with humanitarian or development objectives (United Nations Development Programme, n.d.). In another, the Financial Action Task Force (FATF), as a leading global standard for AML/CFT, has defined the NPO as a legal entity or arrangement that primarily engages in raising or disbursing funds for purposes like charitable, religious, cultural, educational, social, or fraternal activities, or for other types of "good works" (FATF, 2015).

However, the issue arises because there is an increasingly alarming trend where the third sector, particularly NPOs, is at a higher risk of ML/TF offences globally (Goel, 2022). The NPOs that aim to provide an impartial and neutral channel for resources and communities endure with both opportunities and vulnerabilities. NPOs' unique position has become a vehicle to allow the criminal to channel resources due to its flexibility in channelling the funds and reliance on donations that can expose it to ML/TF risks. Public trust and charitable funds flow from donations, exposing the NPOs to the risks of ML/TF abuse. People's need during armed conflict, emergency, or calamity often leads to humanitarian consequences. In this context, diversion of funds in NPOs enables criminals to disguise illicit proceeds as legitimate charitable use and exploit them for TF as a vehicle to support terrorist activities.

Since 1988, research on AML/CFT has been a frequent topic of discussion, where the typologies of ML/TF are always associated with the crimes of narcotic drugs and psychotropic substances, corruption, tax evasion and other forms of *modus operandi*. Nevertheless, a search through the official website of the FATF reveals that the study of ML/TF has been linked to the abuse of NPOs since 2008, when the FATF provided best practices for NPOs to prevent the abuse of ML/TF (FATF, n.d.). Additionally, the FATF reported in June 2014, specifically to address the issue of risk of terrorist abuse in NPOs (FATF, 2014). The United Nations Counter-Terrorism Committee Executive Directorate (CTED) has also stated that the country faces considerable challenges in ensuring that terrorist acts and related violations of international humanitarian law are duly investigated and prosecuted (United Nations Counter-Terrorism Committee Executive Directorate, 2022). The importance of strengthening the position of NPOs against the abuse of ML/TF activities is crucial to ensure legitimate humanitarian activities and enhance the governance of NPOs without disrupting their role in providing humanitarian assistance.

Thus, this paper aims to analyse the importance of combating ML/TF risks in the NPO sector. This study is crucial and timely, as NPOs play a significant role in our society by providing humanitarian aid and support. Any form of abuse of charitable fundraising constitutes an offence. In addition, this paper also examines how NPOs can be safeguarded from ML/TF abuse while preserving their humanitarian role. This study is therefore significant to regulators, policymakers, as well as the NPOs sector to mitigate the risk of misuse of ML/TF risks and provide strategies to mitigate vulnerabilities and maintain the role of NPOs in humanitarian assistance. Hence, to achieve these objectives, this paper highlights the importance of AML/CFT measures in the NPOs sector by analysing the risks and countermeasures for best practices in managing NPOs to prevent ML/TF activities. Additionally, this paper outlines best practices based on international legal instruments and standards to ensure compliance with AML/CFT measures among NPOs.

Research Methodology and Significance

This paper employs doctrinal legal research in order to analyse the issues of ML/TF in the NPO sector. This paper analyses the international instruments and legal standards required for the NPO sector, as well as the risks and countermeasures applicable to the abuse of the NPO sector. This includes examining various international treaties convened by the UN for AML/CFT compliance. The paper also collectively analyses several international standards by the FATF and UNSC Resolutions in order to ensure the NPOs comply with the AML/CFT requirements. In addition, this paper provides protection and proposes suggestions by outlining best practices based on international standards and benchmarks from countries that have established best practices in AML/CFT within the NPO sector. The analysis presented in this paper is suitable for adoption in all jurisdictions, as the FATF standards have a *pari materia* effect, which requires compliance by all jurisdictions pursuant to United Nations Security Council (UNSC) Resolution 1373. In this regard, this paper aims to fill the existing literature gap by contributing to the discussion on AML/CFT and providing a robust examination of AML/CFT compliance in the NPO sector. This paper limits its scope to the NPO sector and how the abuse of ML/TF disrupts the humanitarian purpose and affects the country's economy. This paper also does not include empirical or field-based data collection, as it relies exclusively on the doctrinal legal research method in analysing the data and legal requirements for the AML/CFT compliance in the NPOs sector.

Findings and Discussion

The analysis and findings will begin with the conceptual aspects of AML/CFT measures. This section will establish the interlinkages between the requirements of AML/CFT compliance and international instruments, as well as address issues related to the misuse of ML/TF in the NPOs sector, and outline the best standards and practices required for the NPOs sector.

Money Laundering and Terrorism Financing in the NPOs Sector

ML/TF is a global problem. These financial crimes are not a new phenomenon, but rather an illegal activity that has evolved in response to the latest methods and trends, adapting to a changing economic landscape (Stumbauer, 2025a). Due to its involvement in serious crimes, ML/TF is considered a significant threat that is often referred to as the "dirty little secret" of the country's economy and financial system (Stumbauer, 2025b). Although there are differences between ML and TF, their effects are similar, as they can both pose a global

financial threat. ML/TF offences are connected due to their illicit methods of fundraising, transferring, or withdrawing funds (Woda, 2007).

Many cases have been reported in which the NPOs have misused the aid and have abused the funds received for illicit purposes, including ML/TF activities. The FATF has recognised that NPOs may be exploited as conduits for illicit financial activities under the guise of humanitarian assistance, underscoring the need for adequate safeguards that do not undermine their humanitarian mission (FATF, 2014). Similarly, under international humanitarian law, the Geneva Conventions acknowledge the central role of impartial humanitarian relief, while also stressing the importance of ensuring that aid is not diverted for unlawful purposes (International Committee of the Red Cross, n.d.). This tension underscores the pressing need for regulatory and compliance measures that both safeguard the integrity of NPOs and preserve their vital role in conflict settings. The risks arising from the NPO sector are diverse. At the international level, the primary risk is the exploitation of NPOs in the region or neighbouring countries due to the activities of foreign terrorist groups in high-risk areas or conflict zones (Egmont Group of Financial Intelligence Units, 2024). Meanwhile, local risks arise from the activities of domestic terrorist groups due to radical activities and lone wolves.

NPOs are facing unprecedented pressures, particularly in the aftermath of the COVID-19 pandemic (Bissett et al., 2023). Financial scandals and the manipulation of donors' money have become an ongoing crisis of accountability and transparency in the NPO sector (Abdullah & Othman, 2023). The FATF has reported that delivery aid through NPOs is one of the ML/TF abuses that have occurred during the COVID-19 pandemic, due to the global public health emergency, which has exacerbated the vital work of charities (FATF, 2020). In this regard, the FATF has reported that there are two types of vulnerability threats to the NPO sector, which are organisational threats that can lead to the risk of exploitation of legitimate NPOs (FATF, 2023). The second threat is the vulnerability sector, which poses a risk of sham NPOs.

The National Coordinator for Anti-Money Laundering and the Combatting of Terrorist Financing (NCC) (2017) reported that diversion of NPO's funds is one of the methods for the conduit of ML/TF activities. This method has misused humanitarian programs, such as disaster relief and poverty programs, whereby charitable funds have been collected and used for ML/TF activities (NCC, 2017). The FATF reported in July 2025 that humanitarian, charitable, and non-profit causes serve as effective covers for financial abuse and solicitation (FATF, 2025). The World Bank deliberated that the NPOs are often at high risk for ML/TF in highly vulnerable or conflict zones (*van der Does de Willebois, 2010*).

The FATF also reported that sham NPOs or NPO organisations, and individuals associated with the diversion of funds for ML and supporting terrorist organisations, are the main abuse or risk facing NPOs (FATF, 2023). In another instance, the Asia/Pacific Group on Money Laundering (APG) reported in November 2024 in Malaysia that an abuse of NPOs was due to criminal breach of trust and ML offences involving MYR 39.5 million, which involved the misappropriation of NPO funds and their diversion for gold purchases and luxury assets. In another case, the APG has also reported numerous instances of misuse of community funds collected by cooperatives in Indonesia, involving the misappropriation of IDR 4.7 trillion, which the cooperatives' partners had collected.

Hence, although NPOs fulfil their indispensable humanitarian and charitable role, the perpetrators may render the NPO sector susceptible to misuse for ML/TF purposes. Thus, the subsequent section examined the international AML/CTF instruments that are designed to mitigate the vulnerability of ML/TF risks in the NPO sector, which a jurisdiction can adopt to ensure that NPOs are protected.

International Instruments on AML/CFT for the NPOs

The United Nations (UN) and the FATF are among the significant international bodies that established international instruments and standards in order to combat ML/TF in the NPOs sector. Thus, this part will examine how compliance with international instruments and standards is crucial to ensure that the NPO sector can mitigate its ML/TF risks.

United Nations

Combating the ML offences dates back to the 1980s (Karimi, 2013). The UN is among the earliest international bodies that frame instruments to combat ML/TF for all jurisdictions. The efforts to combat ML began when the UN convened the '*United Nations Convention Against Illicit Traffic In Narcotic Drugs and Psychotropic Substances 1988*', which was signed in Vienna on 20th December 1988, and is also commonly referred to as the Vienna Convention 1988 (Vienna Convention 1988, Article 34). The Vienna Convention 1988 is a global strategy to ensure that the State Party criminalise ML offences and enforces in domestic law to forfeit illicit wealth of funds from the abuse of narcotic and psychotropic abuse (Jimmay, 1998). Article 3(1)(b) of the Vienna Convention 1988 further requires all the States Parties to take measures by establishing in domestic law for the ML offences. Article 3(1)(b) describes ML offence as the conversion or transfer of property where the property is derived from the offence in relation to a narcotic drug or any psychotropic substance. Pursuant to the same Article, the ML offence occurs when the criminals have concealed or disguised the illicit origin of property by concealing or disguising the true nature, source, location, or ownership of property. Also, disguising the illegal origin of the criminal proceeds is a pivotal step to enable the criminal to enjoy the illegally obtained property without jeopardising the source or origin of the property (United Nations, n.d.)

In another, an *International Convention for the Suppression of Terrorist Bombings* was adopted in 1997, followed two years later by the *International Convention for the Suppression of the Financing of Terrorism* (1999) (Beyani, 2003). This Convention 1999 requires the State Party to prosecute the financing of terrorist activities and take measures to prevent any act of TF (Pierre, 2009). The Convention was introduced due to the awareness by the United Nations General Assembly Resolution 51/210 to eliminate the funding of terrorist activities and the movement of funds which have been contributed by organisations that claim to have charitable, social and cultural goals and also organisations that are involved in unlawful activities such as illicit drug and arms trafficking (Pierre, 2009). Also, the UNSC Resolution 1267 and Resolution 1373 have required all states to criminalise TF and establish sanctions against terrorist organisations. These instruments collectively create binding obligations on signatory states to implement measures that prevent financial crimes.

Financial Action Task Force (FATF)

The FATF is the leading global body for AML/CFT, established in 1989 to develop international measures and examine ML/TF trends. In the early establishment, the FATF focused solely on

stopping the flow of funds from the illicit narcotic trade. In the decades that followed, the focus has been broadened to include transnational crime, TF, proliferation of weapons of mass destruction, and financial exclusion (Nance, 2018). Thus, as the leading AML/CFT organisation, the FATF has issued the FATF Recommendations, which have become a key document in the fight against global ML/TF. While FATF Recommendations are not legally binding in the same manner as ratified international instruments, UNSC Resolution 1617 (2005) urged all countries to implement international standards embodied in the FATF Recommendations to combat ML/TF risks (UNSC, 2005). Over 200 countries have adopted the FATF Recommendations, which have become highly influential in shaping the international AML regulatory framework (Stuart, 2022). Compliance with the FATF Recommendation is crucial as the FATF has been mandated to assess the AML/CFT compliance level through the Mutual Evaluation Report (MER). The MER provides an in-depth report on the implementation of AML/CFT measures adopted by every jurisdiction, demonstrating that it has effective measures in place to combat ML/TF abuse and protect its financial system. In the event of non-compliance, the FATF has the authority to list the country as a 'grey-list' or 'black-list' to address the deficiency in the country's level of implementation of the FATF Recommendations and counter the ML/TF risk in its jurisdiction. The 'grey-list' refers to the jurisdictions that are under the monitoring of the FATF due to strategic deficiencies in combating ML/TF risks. Currently, 24 countries have been listed as 'grey-list' due to AML/CFT non-compliance. These countries are required to rectify their AML/CFT compliance issues within agreed-upon timeframes, which are subject to FATF monitoring (FATF, 2025a). Meanwhile, 3 countries have been listed for the black-list, due to the countries showing severe cases of ML/TF abuse and depicting significant strategic deficiency of AML/CFT non-compliance (FATF, 2025b).

Addressing the Challenges for the NPOs

This part examines the pressing vulnerabilities in the NPO sector, focusing on the issues of anonymous donors and the implementation of a risk-based approach aimed at strengthening AML/CFT compliance for the NPO sector. The discussions framed within the international organisations' standards, such as the UN and the FATF Recommendations, aim to ensure that NPOs are not exploited for ML/TF purposes while not undermining the sector's humanitarian and charitable mandates.

Anonymous Donor

An anonymous donor is one of the main challenges, as criminal perpetrators often make anonymous gifts to conceal the source of the funds and refuse to reveal information about the underlying beneficial owner or beneficiary (Sirait & Rangkuti, 2023). Although there is no specific definition to denote who is considered an anonymous donor, it is often understood that an anonymous donor refers to an individual who obscures their true identity. Although it may seem difficult to prevent a person from contributing donation funds without disclosing their identity, this action has often been exploited, making it challenging to detect suspicious funds linked to ML/TF abuse and identify pseudonyms or anonymous donors (FATF, 2023). In this matter, the NPOs or the charities are expected to conduct due diligence checks on donors as far as practicable, while balancing the need to respect donor confidentiality. The purpose of these checks is to identify red flag indicators that may signal unusual or suspicious activity, such as donations that exceed the typical amount given by a donor's profile, transactions inconsistent with the charity's usual operations, or contributions made through third parties

without legitimate justification. Other warning signs include unusual refund requests, instructions to redirect donations to unknown third parties for purposes unrelated to the charity's mission, and contributions involving virtual assets where ownership cannot be easily verified. Ultimately, such due diligence measures aim to mitigate the risk that charities will be exploited as conduits for ML/TF (Office of the Commissioner of Charities, 2023).

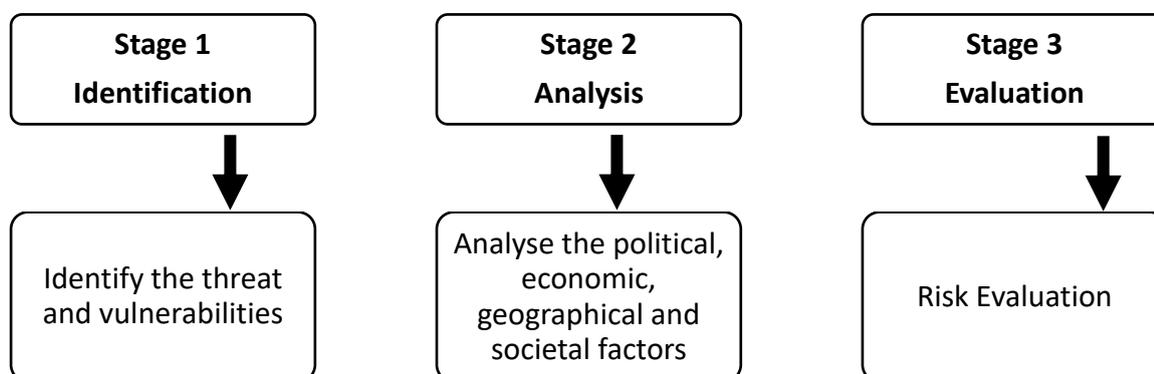
Risk-Based Approach

The NPOs have faced continuous ML/TF risks since 9/11, resulting in the FATF issuing a dedicated Recommendation 8 to protect the NPOs sector (Aloyaymir, 2021). A risk-based approach is one of the measures to protect the NPO sector from abuse of ML/TF. Recommendation 8 of the FATF Recommendations is one of the significant compliance requirements for regulating the NPO sector. This Recommendation 8 requires that the laws and regulations governing NPOs be reviewed to prevent their misuse for the financing of terrorism, while respecting the legitimate actions of NPOs (Akullo & Wanjala, 2024).

The recent June 2025 update to Recommendation 8 requires that all countries identify the NPOs' organisation and assess the terrorist financing risks in line with the risk-based approach (RBA) measures (Recommendation 8, 2025). The aims of conducting RBA measures are to protect the NPOs from terrorist abuse, including:

- (a) by terrorist organisations posing as legitimate entities;
- (b) by exploiting legitimate entities as conduits for terrorist financing, including for the purpose of escaping asset-freezing measures; and
- (c) by concealing or obscuring the clandestine diversion of funds intended for legitimate.

Thus, the countries should follow the criteria set by the FATF, as well as the criteria set by the FATF-Style Regional Bodies (FSRBs), and provide necessary legislative grounds (Murrar, 2022). The countries can also follow the risk assessment measures adopted by the country's National Risk Assessment (NRA) as a proactive step in mitigating any ML/TF risks. To conduct RBA measures, NPOs should identify and assess proportionate risks associated with ML/TF risks. This approach is crucial to ensure that appropriate risk measures are adopted to address the risks adequately. The methods that could be adopted for the NPO are as follows:



Source: Author's modification based on the FATF Guidance National Money Laundering and Terrorist Financing Risk Assessment (February 2013)

The first stage for the RBA method that can be employed by the NPOs is to identify a major known or suspected ML/TF risk. The identification can be based on collective reports, including recent threats and vulnerabilities identified by the FATF and FRSB, reports from the countries' supervisors and regulators, and information from the authorities. For instance, NPOs can adopt a due diligence method as a structured process for ensuring legal compliance and good governance. The methods for identifying threat and vulnerability levels are exhaustive, but these measures could be adopted to ensure that NPOs have effective identification methods.

- (1) Referring to the reports published by the FATF. The FATF has published several documents that update the latest ML/TF threats and risks. Additionally, through the Mutual Evaluation Report, a country can assess the effectiveness and compliance level of its AML/CFT preventive measures.
- (2) Next, the NPOs can refer to the latest methods and trends published by the FATF-Style Regional Bodies (FSRBs). Currently, there are nine FSRBs that have formed a global network for implementing effective AML/CFT measures. The FSRBs also play a role in identifying and addressing AML/CFT technical assistance and coordination works to help jurisdictions implement the FATF standards (FATF, 2019).
- (3) The supervisor and regulators, such as the National RBA measures or the National Coordination Committee, submit local reports. The national supervisor and regulators are crucial, as they are a responsible body that coordinates, implements, and monitors the country's AML/CFT initiatives.

The second stage is to conduct an analysis. The analysis is important in the RBA process to understand the nature, resources, likelihood, and consequences for the ML/TF risks. The FATF has identified broad environmental factors, such as relevant political, economic, geographical, and social aspects, that can be taken into account when conducting an analysis of the RBA measures. Among the pertinent analyses that can be performed are as follows:

- (1) Political stability and instability of the country can be one of the crucial factors to analyse the RBA measures. For instance, NPOs can assess the country's corruption level by referring to the Corruption Perception Index published by Transparency International. This is crucial as a high level of corruption within law enforcement or regulatory agencies may allow illicit funds to flow through NPOs undetected.
- (2) Economic and geographical factors are also among the factors analysed for the NPOs to ensure AML/CFT compliance. The question that should be asked based on this aspect is 'Is the donor or NPOs organisation coming from the high-risk countries or countries under continuous monitoring by the FATF?'. This question is crucial as the high-risk jurisdictions show the FATF has black-listed the countries due to strategic deficiencies for countering the ML/TF risks. Meanwhile, the countries under increased monitoring are listed on the 'grey-list', indicating that they are actively working with the FATF to address AML/CFT compliance issues within agreed-upon timeframes and are subject to monitoring by the FATF. The FATF has reported that the presence of NPOs is active in overseas conflict zones or in countries or regions known to have a concentration of terrorist activity whereby the modus operandi use is by raising funds for recipients in a third country which engages in violent or paramilitary activities as well as disbursing funds or resources to grantees without conducted written grant agreement, no due diligence or disburse of large sums to grantees (FATF, 2013).

(3) Social dynamics is one of the factors to examine when considering how funds are collected, distributed, and potentially exploited. It is a reflection of societal practices and perceptions, such as NPOs are viewed as benevolent actors that work for humanitarian or religious purposes, which may be manipulated by channelling the illicit funds under the disguise of legitimate charitable activities. Thus, it is crucial for NPOs to identify red flags or suspicious transactions as a preventive measure against AML/CFT abuse. The list of red-flag indicators is exhaustive, and NPOs may refer to several regulators and supervisors for guidance in identifying and determining the red flags within their organisations. For instance, the Labuan Financial Services Authority in Malaysia has required NPOs to adopt a 'Know-Your-Donor' approach, which involves screening potential donors by verifying their identity and background, as well as the source of funds used by the donor (Labuan Financial Services Authority, n.d.). In addition, the Australian Transaction Reports and Analysis Centre (AUSTRAC) has also issued guidance for the red-flag indicators in the NPOs, for instance, withdrawal of cash from the NPO account to a personal account; the NPO is linked to terrorist organisations, and the account owner, sender, beneficiary or recipient is linked to high-risk countries (AUSTRAC, 2018).

The last stage in the RBA measures is evaluation, which involves determining priorities for addressing the risks.

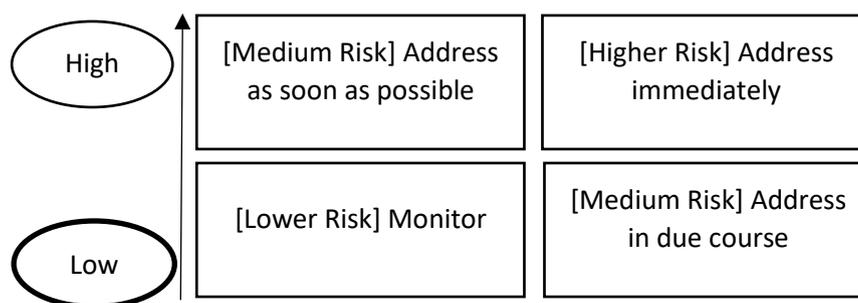


Figure: Risk Evaluation Matrix

Based on the above figure, higher levels of risk require immediate action to mitigate. A higher-risk level also requires the government's response and consultation for policy development and implementation of measures to address the risk level. Meanwhile, lower levels of risk require less action and monitoring to ensure AML/CFT compliance.

Conclusion and Suggestions

The findings of this study highlight the important role NPOs play in societal development. However, their operational structure, funding methods, and cross-border activities make them especially vulnerable to misuse for ML/TF. Despite these advances, notable weaknesses remain in consistent enforcement, sector-specific risk assessments, and capacity building for both regulators and NPO operators. The legal analysis indicates that while there are strong statutory provisions, practical enforcement can be affected by a lack of monitoring resources, poor inter-agency coordination, and limited awareness among smaller NPOs. Therefore, a balanced approach is necessary. This approach should ensure compliance with AML/CFT obligations without imposing excessive administrative burdens that could restrict legitimate charitable activities.

In light of these findings, the following recommendations are proposed for NPOs to follow the RBA model in overseeing AML/CFT compliance in the NPO sector. Meanwhile, regarding anonymous donors, while anonymity can be a key feature of certain donations, it is vital for NGOs to implement due diligence processes to assess the legitimacy of anonymous donors. This involves conducting background checks and evaluating the potential risks associated with accepting funds from unknown sources. For example, organisations may utilise third-party services that specialise in vetting donors to ensure that the funds are not linked to illegal activities or unethical practices. AML/CFT compliance culture should also be adopted by requiring AML/CFT mandatory training for NPOs' relevant individuals, such as trustees, management, and financial officers, to encourage the importance of compliance levels and utilise human cognitive abilities to conduct risk assessments and ensure regulatory measures remain targeted and evidence-based. By implementing these recommendations, policymakers and regulators can strengthen the resilience of the NPO sector against ML/TF abuse, safeguard public trust, and ensure that legitimate charitable activities continue to thrive while upholding the integrity of the financial system.

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