



Sri Lanka Civil Society
FATF Network

REGULATION AND OVERSIGHT OF CIVIL SOCIETY: HOW IS IT CONNECTED TO THE FINANCIAL ACTION TASK FORCE?

What is FATF and why is it important ?

Protecting civic space from FATF misuse

Costs of FATF misuse

Executive weaponises laws

You can ACT now

WHAT IS THE FINANCIAL ACTION TASK FORCE AND WHY IS IT RELEVANT?

What is FATF?

- The Financial Action Task Force (FATF) is the global money laundering and terrorism financing watchdog. It sets international standards that aim to prevent these activities.

Why is being compliant with FATF standards important to a country?

Not adhering to FATF standards can result in a country being found non-compliant, which can result in a country being grey or black listed. This can lead to reduced foreign investment, high borrowing costs and domestic banks losing their correspondent banking relationships with foreign financial institutions. The country's economy will then be viewed as weak and not safe for investment.

What are FATF recommendations?

- FATF Recommendations provide a comprehensive framework of measures to help countries tackle illicit financial flows. Its 40 Recommendations are divided into 7 distinct areas:
 - » Anti money laundering (AML)/countering financing terrorism (CFT) policies and coordination
 - » Money laundering and confiscation
 - » Terrorist financing and financing of proliferation
 - » Preventive measures
 - » Transparency and beneficial ownership of legal persons and arrangements
 - » Powers and responsibilities of competent authorities and other institutional measures
 - » International cooperation

Why is FATF's Recommendation 8 important?

Recommendation 8 is on non-profit organisations (NPOs) and seeks to ensure that NPOs are not adversely impacted by unintended consequences of the implementation of FATF standards.

- » FATF requires countries to identify organisations that fall within the FATF definition of NPOs and assess their terrorist financing and money laundering risks.
- » Any measures countries adopt should be focused, proportionate and risk-based and should not unduly disrupt or discourage legitimate NPO activities.
- » FATF states that **many NPOs are low risk**, due to the fact they may have adequate internal controls and self-regulatory measures that mitigate such risks, or may already be subject to regulatory controls. In these instances FATF states **"there may be no need for additional measures"**.
- » If we study the Sri Lankan context, many measures the NGO Secretariat imposes on CSOs, particularly CSOs in the North and East and those working on human rights issues, do not adhere to FATF's best practices guide as they are **not focused, disproportionate and not risk based**. See [Notes 2](#) and [3](#) for more information.

How does FATF require countries to deal with CSOs/NGOs?

- » FATF requires countries to conduct evaluations to determine whether NPOs are at risk of terror financing.
- » Based on these evaluations, FATF recommends countries to adopt tailored regulatory responses, rather than the imposition of blanket restrictions on all NGOs.
- » FATF emphasizes “targeted, proportionate, and risk-sensitive” controls to avoid hampering the functions of legitimate NPOs.
- » In Sri Lanka, the Central Bank’s circulars prescribe blanket measures, without conducting assessments on the level of risk posed by individual NGOs, and hence violate Recommendation 8. For more information on this see [note 2](#).

What are FATF’s best practices that countries must adopt?

- » FATF reiterates the importance of “cooperative relationships among the public and private sectors and with NPOs” to discuss the unintended consequences of the incorrect implementation of Recommendation 8, and understand and mitigate risks of financing terrorism and money laundering. **Hence, dialogue is imperative to implementing the FATF standards as well and conducting a risk assessment.**
- » FATF also recognises that **arbitrary and blanket measures will undermine financial inclusion** of small organisations, which in turn will have an adverse impact on human rights work and development.
- » As FATF has pointed out, **blanket and arbitrary measures can drive financial flows underground and undermine the purpose** of the FATF standards. **This will increase terror financing and money laundering risks.**
- » Where banks are concerned, FATF states they should take into account any regulatory requirements, self-regulatory or other risk mitigation measures and due diligence procedures that the NPO has in place to manage risk across their organisations and operations when assessing the risk of a NPO.
- » Even when a “residual risk” is found, FATF states “the financial institution should first assess whether that risk can be sufficiently mitigated by proper safeguards and measures so as to allow legitimate NPO activities to continue”.

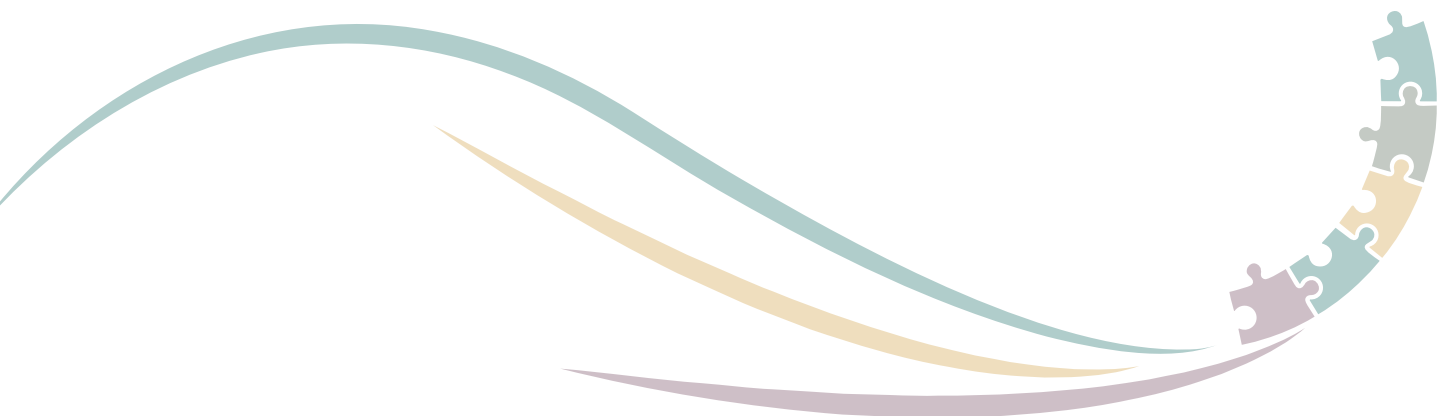
What is a mutual evaluation?

- » FATF conducts mutual evaluations, which are reviews of the implementation and effectiveness of measures to combat money laundering and terrorist financing.
- » These are peer reviews, where members from different countries assess another country.
- » Mutual evaluation reports provide an in-depth description and analysis of a country’s anti-money laundering and counter-terrorist financing system, as well as focused recommendations to further strengthen its system.

- » During a mutual evaluation, the assessed country must demonstrate that it has an effective framework to protect the financial system from abuse.
- » A mutual evaluation can take up to 18 months and includes an on-site visit. **CSOs can submit a shadow report to the process.**
- » Sri Lanka is currently undergoing a mutual evaluation and a site visit by FATF will take place from 26 October to 6 November 2026.

Arbitrary Risk Classification of NGOs

- » As part of the on-going mutual evaluation process, the government of Sri Lanka conducted a risk assessment of NPOs. The report dated January 2026 concludes that the overall inherent terrorist financing (TF) risk within Sri Lanka's **non-profit sector** is "**low to medium**" - in comparison, **Banks and Finance Companies** are "**medium to high**".
- » The assessment classifies environmental, health and sanitation and entrepreneurial development organisations as "low risk", citing the absence of evidence of terrorist financing abuse, the ability to physically verify their activities and their perceived distance from active terrorist threats.
- » Human rights and relief organisations are classified as "medium-low risk". However, the report provides no evidence to substantiate the higher rating and does not identify any convictions for terrorist financing or money laundering involving such organisations. Instead, the assessment relies largely on the views of intelligence agencies and unnamed 'sector experts,' who suggest that these organisations could be susceptible to abuse for terrorist financing purposes.
- » The report notes that **intelligence services** continue to **monitor** certain organisations engaged in **human rights and relief work**, particularly in areas considered high risk, but does not specify the objective criteria used to identify these organisations or explain the basis for treating them as presenting elevated risk.
- » This contravenes FATF Recommendation 8 on NPOs, which **explicitly requires** countries to adopt "**focused, proportionate and risk-based measures**" and recognises that many NPOs are inherently low-risk. The current approach instead treats foreign funding itself as suspicious, contributing to the **stigmatization** of civil society that receives foreign funds.



PROTECTING CIVIC SPACE IN SRI LANKA: THE IMPACT OF THE WEAPONISATION OF FATF ON CIVIL SOCIETY

1. What is the state of civic space in Sri Lanka?

Sri Lanka's current anti-money laundering and counter-terrorism financing (AML/CFT) framework is increasingly being used in ways that restrict civic space, undermine freedom of association and subject civil society organisations (CSOs) to repressive surveillance, intimidation and harassment.

While the Government of Sri Lanka asserts these measures are necessary to comply with the standards of the Financial Action Task Force (FATF), evidence demonstrates that many current practices are inconsistent with FATF's own fundamental requirement that measures must be "targeted, proportionate and risk-based".

Civil society organisations (CSOs), particularly in the North and East, face heightened scrutiny, surveillance, harassment and state action that undermine and limit their activities and prevent them from accessing financial services. They:

- » are summoned to the Terrorism Investigation Division (TID) for interrogation.
- » plainclothes officers visit offices of CSOs and demand information on their staff, projects etc.
- » CSOs as well as networks, such as families of the disappeared, receive phone calls from security agencies demanding information about their events, planned protests etc.
- » CSOs all over the country face challenges opening bank accounts and receiving foreign funds- this differs from bank to bank and even between branches of the same bank.



2. Do Sri Lankan laws, rules and practices abide by FATF standards?

No. Certain Sri Lankan laws, rules and practices **do not abide by FATF standards**. This places Sri Lanka at risk of being found non-compliant or partially compliant with certain FATF recommendations.

Several government actions contravene FATF Recommendation 8 on NPOs, which explicitly requires countries to adopt "focused, proportionate and risk-based measures" and recognises that **many non-profit organisations (NPOs) are inherently low-risk** ([See note 1 for more information on FATF](#)). The current approach instead treats foreign funding itself as suspicious, contributing to the stigmatization of civil society organisations that receive foreign funds.

3. Which Sri Lankan laws, rules and practices do not adhere to FATF standards?

1. Circular No. 01/19 dated 23 May 2019 issued by the Financial Intelligence Unit (FIU) of the Central Bank of Sri Lanka (CBSL) to all licensed banks.

- ❖ The Circular refers to Rule 51 of the Financial Institutions (Customer Due Diligence) Rules, No. 01 of 2016, which requires every financial institution to conduct enhanced due diligence measures when entering into a relationship with a NGO that is not registered with the NGO Secretariat under the Voluntary Social Services Organisations (VSSO) Act and receives foreign funds. Where relevant, the bank may report the NGO to the FIU under Section 7 of the Financial Transactions Reporting Act (FTRA) No. 06 of 2006.
- ❖ Section 7 of the FTRA states that where the bank has reasonable grounds to suspect that any transaction may be related to any unlawful activity or criminal offence, the bank has to inform the Financial Intelligence Unit (FIU) of the Central Bank.
- ❖ According to Section 7 (2) (c) of the FTRA, the report the bank submits to the FIU has to state 'the grounds on which Institution holds the suspicion', i.e. the suspicion has to be based on reasonable grounds and cannot be frivolous, spurious or arbitrary.
- ❖ Circular no 01/2019 does not require the bank to refuse to credit the account of a CSO if it is not registered with the NGO Secretariat. It only requires banks to conduct enhanced due diligence.
- ❖ In instances where there is reasonable suspicion the funds received by a NGO that is not registered with the NGO Secretariat might be used to commit a criminal offence, the bank has to submit a written report to the FIU.
- ❖ There is, to date, no law or regulation that requires banks to refuse to remit foreign funds merely because the CSO is not registered with the NGO Secretariat.
- ❖ In practice, banks are refusing to credit foreign funds received by NGOs if they are not registered with the NGO Secretariat, and are demanding they register with the NGO Secretariat if they want foreign funds to be credited to their accounts.
- ❖ Banks are also submitting reports under section 7 of the Financial Transactions Reporting Act about NGOs to the FIU without reasonable suspicion the funds will be used for terrorism. This leads to CSOs being summoned by the Terrorism Investigation Division (TID) for interrogation.
- ❖ This prevents NGOs from functioning freely and adversely impacts the communities they serve.



2. Instructions issued by the NGO Secretariat in December 2024

- ❖ On December 12 2025, instructions were issued by the NGO Secretariat calling on all NGOs, local and international, to register with the NGO Secretariat even if they are registered under another law.
- ❖ It states that once a CSO makes an application for registration, the application will be sent to the Ministry of Defence (MOD) “for clearance”. When the NGO Secretariat receives the ‘clearance reports’ from the MOD, if the NGO Secretariat finds “there is a problem in the clearance reports, the registration will be rejected”.
- ❖ **“A problem” is not defined** in the instructions. There are also no stipulated objective criteria based on which the MOD or NGO Secretariat conducts the assessment and arrives at the conclusion “a problem” exists.
- ❖ Ways to appeal the rejection of the application for registration are not mentioned. There is no mention of the status of the organisation after the rejection of the application for registration, particularly if it is already registered under a different law.

3. Circular No. 01/2025 dated 4 April 2025, issued by the Central Bank.

- ❖ The Circular states that NGOs can open bank accounts based on a “Confirmation Letter of Eligibility for Registration as a Non-Governmental Organisation”, because obtaining clearance reports from Ministries can take time.
- ❖ However, there is **no requirement in law** for NGOs to present a Certificate of Registration under the VSSO Act or obtain clearance from Ministries to open a bank account.
- ❖ For example, an NGO incorporated as a (non-profit) company limited by guarantee under the Companies Act can present the relevant documents to a bank to open a bank account.
- ❖ By including the need to present a Letter of Confirmation, the circular goes beyond the legal requirements for registration.

4. The proposed amendments to the Financial Transactions Reporting Act (FTRA), Prevention of Money Laundering Act (PMLA) and Convention on the Suppression of Terrorist Financing Act (CSTFA) – [See Note 4.](#)



IMPACT OF THE MISUSE OF FATF STANDARDS

Financial Exclusion of Civil Society Organisations

- © Many measures the NGO Secretariat has imposed on CSOs, such as demands to provide information on the beneficiaries of their projects and on all donors or local partners, are not in line with FATF's best practices guide because they are not focused or risk-based and are disproportionate.
- © Blanket and arbitrary measures taken by the government have led to CSOs, particularly in the war-affected North and East and those working on human rights issues being viewed as a threat.

A major concern is the manner in which banks and financial institutions are misinterpreting circulars issued by the Financial Intelligence Unit (FIU). These include:

- » Refusing to credit foreign grants to organisations not registered with the NGO Secretariat;
- » Demanding mandatory NGO Secretariat registration even when organisations are legally registered under other laws, such as the Companies Act;
- » Reporting organisations to the FIU without reasonable suspicion of financing terrorism or laundering money;
- » Triggering TID interrogations and security agencies' scrutiny based merely on receipt of foreign funding.

A survey conducted amongst 100 CSOs on access to financial services revealed significant barriers to financial inclusion.

- » 69% of respondents reported difficulties accessing foreign funding, which undermined their ability to implement programmes.
- » Among those experiencing such difficulties 42% were required by banks to register with the NGO Secretariat as a condition to receive foreign funds, despite the absence of a clear legal basis for such a requirement.
- » 50% of non-for-profit organisations (NPOs) reported difficulties opening new bank accounts, indicating broader challenges accessing basic banking services.
- » 37% of NPOs were requested to submit additional documents/information to carry out transactions.
- » 32% of NPOs experienced delays when conducting bank transactions.
- » 22% of NPOs faced difficulties withdrawing/ depositing funds from their accounts.
- » 57% of NPOs face frequent problems accessing banking services.
- » 17.5% face constant issues.
- » Only 17% faced no issues

Impact

This has had severe consequences for local organisations, particularly small grassroots groups outside Colombo that rely on international funding to implement programmes to support women heads of households, provide psychosocial support, legal aid, implement livelihood programmes and provide humanitarian assistance. Difficulties accessing funds undermine service delivery to vulnerable communities.

- » 43% of NPOs stated they responded by allocating more time to meet such compliance demands, alluding to the increased administrative burden.
- » 21% of respondents had to postpone projects or activities as a result of such requirements.
- » The most significant consequence of restricted access to financial services was the inability to comply with donor/project timelines, which affected 45% of respondents.
- » 37% experienced difficulties paying staff salaries/had to terminate employment.
- » 31.5% reported suffering reputational damage
- » 29% stated that such challenges affected their service delivery to the beneficiary communities they served.

“

We were unable to complete projects within the scheduled time, so donors lose confidence in our ability to deliver services to beneficiaries. Livelihood support and awareness programs are delayed, which affects our credibility within local communities.

”

“

We experienced harassment through repeated requests for organisational and financial policy documents. The bank demanded our organisation's registration certificate every month. The bank asked for proof that the funds will be used for the people's benefit.

”

“

Most of the time, banks are also struggling due to constant changes and pressure from the Central Bank. We have to request that they send detailed communication, including communicating in writing and not make requests for records via the phone.

”

FATF has recognised that blanket and arbitrary restrictions on NPOs can **undermine financial inclusion and drive financial flows underground**, thereby **weakening rather than strengthening efforts to combat terrorism financing**.



EXPANSION OF EXECUTIVE POWERS THROUGH AML/CFT LEGISLATION

Recently proposed amendments to the Financial Transactions Reporting Act (FTRA), the Prevention of Money Laundering Act (PMLA) and the Convention on the Suppression of Terrorist Financing Act (CSTFA) raise grave concerns about excessive executive discretion and weak safeguards.

When read together, the three laws are intended to operate in tandem, and may give rise to a cascading effect. The combined operation of these frameworks could result in overlapping regulatory and penal consequences, thereby compounding the impact on individuals, without adequate safeguards, leading to disproportionate interference with rights.

1. *The Bill to Amend the Financial Transactions Reporting Act*

- » The Bill grants the Head of the Financial Intelligence Unit (FIU) broad rule-making powers, including the authority to issue binding directions and circulars and guidelines with legal effect, without parliamentary oversight. This effectively confers law-making powers on the FIU. This is of particular concern for NPOs, as broad and undefined regulatory requirements can be imposed through administrative measures rather than legislation, creating arbitrary and repressive compliance obligations.
- » It extends the period the FIU can suspend a person's or organisation's financial transactions from seven to fourteen working days (nearly three weeks), combined with ex parte High Court procedures and in-camera hearings. This raises serious concerns about due process and transparency and risks enabling arbitrary restrictions on financial transactions, which can adversely impact people's livelihoods and commercial activity.
- » The imposition of severe sanctions and compliance obligations through administrative mechanisms that lack clear objective criteria, transparency, procedural safeguards and independent judicial oversight, creates a significant risk of arbitrary and inconsistent enforcement.
- » The proposed amendment requires banks to report all transactions above a yet unspecified threshold. This introduces a blanket reporting obligation that is not based on reasonable suspicion and **departs from FATF's risk-based and proportionate approach**. It also imposes **significant administrative burdens on financial institutions**.
- » The amendments permit extensive information-sharing by the FIU, including with international entities, but **does not establish adequate safeguards on data retention, protection of privileged information or deletion of personal data**, raising significant privacy and cybersecurity concerns.
- » The National Committee chaired by the Governor of the Central Bank grants broad powers to issue **binding directions to regulators and stakeholders**, with escalation to the Cabinet of Ministers, effectively overriding existing legal and institutional accountability frameworks.

2. *The Bill to Amend the Prevention of Money Laundering Act (PMLA)*

- » The proposed amendment confers **wide and unguided discretionary powers** on investigative and enforcement authorities, particularly in relation to freezing, forfeiture and investigative measures.
- » It lacks adequate procedural safeguards and permits intrusive interference with property rights, livelihood and lawful financial activity through expansive freezing and forfeiture powers.
- » It contains vague and overbroad provisions, including undefined standards governing “special investigation techniques”, derivative property freezing and the expanded scope of “unlawful activity”.
- » The Bill creates investigative mechanisms that **undermine the presumption of innocence and protections against self incrimination** through compelled affidavits and penal consequences arising from purported contradictory statements.
- » The Bill authorises extensive sharing of financial and personal information with foreign agencies without adequate safeguards relating to necessity, proportionality, accountability or oversight. Concerningly, it permits regulations to come into operation prior to Parliamentary approval, thereby undermining Parliamentary control over delegated legislation.

3. *The Bill to Amend the Convention on the Suppression of Terrorist Financing Act (CSTFA)*

- » The Bill extends the period of validity of freezing orders issued by a police officer. Such extension without judicial oversight is **severely lacking in the safeguards** recommended by FATF and adopted in a number of jurisdictions.
- » The proposed amendment extends the period given to a police officer to make an ex parte application to the High Court for the confirmation of a Freezing Order.
- » The ex parte application **undermines the due process** rights of the person whose funds are subject to the order. The extension of the time period in which freezing orders without judicial oversight may remain in force **falls short of human rights standards**.
- » Prolonged asset freezing without judicial supervision can amount to **inhuman treatment**, especially where it deprives a person of access to basic necessities.



HOW CAN CIVIL SOCIETY GET INVOLVED?

- If you would like to join the Sri Lanka Civil Society FATF Network or would like more information about FATF and its impact on CSOs please contact **Ambika Satkunanathan, Maheshi Herat or Maithreyi Rajasingham** at csosfatfnetwork@gmail.com
- If you have faced similar issues and wish to share them with the Network, explore solutions and engage in advocacy, please contact **Ambika Satkunanathan, Maheshi Herat or Maithreyi Rajasingham** at csosfatfnetwork@gmail.com
- Share the briefing notes on your websites and social media platforms
- Share the briefing notes with other civil society organisations, Members of Parliament, banking sector professionals and the media.



Sri Lanka Civil Society
FATF Network

