Civil Society Shadow Report

submission to

The Financial Action Task Force (FATF)

Mutual Evaluation of Sri Lanka 2026

Civil Society for Financial Integrity and Democratic Governance

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1. Executive summary

In Sri Lanka FATF standards are being misused to suppress the activities of non-profit organisations (NPOs) and shrink civic space through laws, administrative directions and practices. The government has justified these measures as imperative to fulfill FATF requirements and accelerated their enactment and implementation, citing Sri Lanka's mutual evaluation that takes place this year.

The most recent of such measures is the draft NGO law, which bestows wide and arbitrary powers without judicial oversight to the police and other administrative entities, such as the power to enter premises without a judicial order and inspect documents as well as suspend registration. The draft law makes it mandatory for a wide range of organisations and entities to register with a central authority and be subject to the supervision of a Competent Authority. The entities include microfinance, non-governmental organisation, trusts, companies limited by guarantee, associations, councils, community hostels, foundations, movements, international organisations not established via an inter-governmental agreement and a group formed by not less than five persons to serve the general public and engage in any voluntary social service or non-profit oriented activity.

Recent amendments to the Financial Transaction Reporting Act (FTRA), the Prevention of Money Laundering Act (PMLA) and the Convention on Suppression of Terrorist Financing Act (CSTFA), centralise decision making power within a few state officials who have the power to subject NPOs to punitive administrative measures. Not only do these amendments provide for limited due process safeguards and appeal processes when imposing severe sanctions, but they also allow regulatory and investigative authorities to exercise powers that go beyond the ambit to which they should be restricted, and even bestow judicial functions upon them.

A 2019 administrative instruction issued by the Central Bank of Sri Lanka (CBSL) requires banks to conduct enhanced due diligence of every NPO that receives foreign funds if the NPO is not registered with the NGO Secretariat. This often results in banks not conducting enhanced due diligence and instead refusing to credit funds if the NPO is not registered with the NGO Secretariat. In such instances, they also often report the NPO without any reasonable suspicion to the Terrorism Investigation Division (TID), which leads to staff being summoned for interrogation and being subject to surveillance and harassment by security agencies.

A survey conducted in 2025 with over 100 NPOs found that NPOs face severe difficulties accessing financial services which leads to financial exclusion and derisking.

These are not unintended consequences; the legislative policy of the state, coupled with their public statements and comments during consultations with NPOs demonstrate a deliberate attempt to create a constrained, highly-surveilled and securitized operating environment for NPOs, where anything, from a minor transaction, a foreign donor or a certain human rights-related project, can trigger the inspection or reporting without any reasonable suspicion of involvement in financing terrorism.

2. Introduction

2. 1. Purpose and scope of the report

The purpose of this report is to provide an account of how the FATF standards have been weaponised by the state, in violation of the right to freedom of expression and association.

This report was authored by the Sri Lanka Civil Society FATF Network, a collective of individuals and organisations working in Sri Lanka that have been documenting the impact of the government's Anti Money Laundering and Countering the Financing of Terrorism (AML/CFT) measures and are advocating adherence to FATF standards.

3. Methodology

This report has used several approaches to assess the state's implementation of AML/CFT measures to highlight their impact on civil society.

3.1. Review of relevant national laws and policy documents

A review of the national legal and policy framework and relevant circulars issued by the CBSL and the NGO Secretariat was conducted. The analysis was done within the framework of the FATF Recommendations, specifically Recommendation 8 and its Interpretive Notes, alongside FATF Best Practices on Combating the Abuse of Non-profit Organisations.

3.2. Survey on access to banking services

A quantitative survey was administered to 100 civil society organisations (CSOs) in Sri Lanka to understand the impact of the government's AML/CFT policies and gather empirical evidence on NPOs' access to financial services. The survey targeted a diverse sample of CSOs, including human rights organisations, and grassroots community groups.

3.3. Qualitative consultations

Interviews and focus group discussions were conducted with CSOs and grassroots organisations across Sri Lanka. These conversations expanded on the survey findings, and documented their lived experiences navigating the overregulation and surveillance of legitimate civil society activities and the coping strategies they employ.

3.4. Limitations

The limitations of the report include:

- **Fear of reprisals: due to the monitoring, surveillance, and harassment of CSOs by the security sector, NPOs were reluctant to speak for fear of reprisals, which may have prevented organisations from responding to the questionnaire.**

- **There are no independent complaint mechanisms CSOs can approach to report problems encountered due to AML/CFT policies, such as issues with banks, or harassment by intelligent services. Thus, there is no official documentation or statistics of complaints/incidents that can be analysed, reviewed and tracked. This means the findings of this report form the sole documentation of such incidents, and are likely a conservative estimate.**

- **There were significant challenges in reaching remote, community-based organisations, as the reliance on online survey tools created an inherent bias toward organisations that have the capacity and access to such tools, potentially excluding organisations that do not have that capacity.**

4. Setting the context

4.1. Securitisation of civil society in Sri Lanka post war and post-Easter Attacks

Successive Sri Lankan governments have viewed CSOs with suspicion, with key state officials and members of the government publicly calling for increased control and supervision of CSOs that receive foreign funds[1]. CSOs have also been portrayed as security threats, with claims that foreign funds are being disbursed to local CSOs to "radicalize" ethno- religious minorities, interfere with local education[2] and ''ruin the reputation'' of the government by raising human rights issues[3]. Human rights defenders, particularly in former war-affected areas, and groups, such as the families of forcibly disappeared persons, are the primary targets of these demonization campaigns that began during the armed conflict and were entrenched post-war. Mechanisms to probe the activities of CSOs were introduced following the conclusion of the war[4] in 2009 and such surveillance has significantly intensified since then.

After the Easter Sunday attacks in 2019, the Muslim community and Muslim religious groups and charities were also deemed threats to national security, with a Qatari-funded charity organisation being banned as a result of allegations of terror funding.[5] The charges against the organisation were later dropped during the fuel crisis in Sri Lanka, to repair diplomatic relations with the country[6] and ensure uninterrupted fuel supplies.

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1 https://www.dailymirror.lk/print/breaking-news/NGOs-spend-billions-unchecked/108-294744
2 https://adaderana.lk/news/59892?nid=59892
3 https://timesofindia.indiatimes.com/world/south-asia/lankan-govt-not-to-succumb-to-pressures-from-ngos-president-gotabaya-rajapaksa/articleshow/72224484.cms
4 https://adaderana.lk/news/23000?nid=23000&mode=beauti
5 https://dohanews.co/crisis-hit-sri-lanka-scraps-ban-on-qatar-charity-as-it-scrambles-to-secure-fuel/
6 https://island.lk/lanka-lifts-ban-on-qatar-charity-as-it-tries-to-secure-fuel-supply-from-doha/

In 2021, the then Director General of the NGO Secretariat stated that, "In the current context, the public perception on (sic) NGOs and their operation have dramatically changed and generally are not favourable across the country due to recent Easter Sunday suicidal bomb attack. In addition, there are multiple factors such as mismanagement of funds, directly or indirectly supporting terrorism and separatism, national security concerns, threats to sovereignty, religious and cultural concerns that contribute to this unsavoury public perception."[7]

By accusing CSOs of directly or indirectly supporting terrorism, amongst other accusations, successive governments have justified the need to increase the monitoring and supervision of CSO activities and interfere with their ability to receive foreign funds. Civil society groups, community organisations and activists working in the North and East of the country in particular have experienced heightened monitoring and scrutiny by different entities of the security sector, such as the TID, the Criminal Investigation Division (CID) of the police and military intelligence, since the end of the armed conflict.[8,9]

The election of Gotabaya Rajapakse as President in November 2019, led to further securitization of CSOs[10]. Organisations and activists, largely in the North and East, reported visits by security agencies, who demanded details of the organisations, funding sources and activities as well as personal details of individual members of the group and their beneficiaries, to their offices as well as homes.[11,12]

CSOs routinely receive letters from the NGO Secretariat requiring them to register with the NGO Secretariat under the Voluntary Social Services Organisations Act (VSSO Act) as they are in receipt of foreign funds.[13] This is despite these organisations already being registered under other laws, such as the Companies Act as (non-profit) company limited by gurantee, and therefore subject to the oversight of the Registrar of Companies.

The NGO Secretariat was under the purview of the Ministry of Defence (MOD) since the conclusion of the war in 2009, and although was moved temporarily under the Ministry of Foreign Affairs in 2022, it has largely remained under the purview of the Ministry of Public Security. This demonstrates that maintaining oversight of NGOs has been viewed as a matter of public security, with NGOs being treated as threats to national security until proven otherwise. In September 2025, when Sri Lanka was being reviewed by the United Nations Human Rights Council, the NGO Secretariat was moved to the purview of the Ministry of Rural Development, Social Security, and Community Empowerment. However, even the shifting of the Secretariat from the public security sector has not led to a change in the securitized lens through which NGOs are viewed or resulted in changes in policy or practice.

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7 https://www.dailymirror.lk/hard-talk/Govt-to-introduce-fresh-legislations-to-supervise-NGOs-INGOs-Raja-Goonaratne/334-220774
8 https://documents.un.org/doc/undoc/gen/g25/136/66/pdf/g2513666.pdf
9 https://www.ohchr.org/en/documents/reports/ahrc6021-situation-human-rights-sri-lanka-comprehensive-report-united-nations
10 https://colombogazette.com/2020/07/06/special-probe-to-commence-on-non-governmental-organisations
11 https://monitor.civicus.org/explore/civic-freedom-violations-persist-sri-lanka-president-expands-his-powers/
12 https://www.amnesty.org/en/documents/asa37/1678/2020/en/
13 Interviews with CSOs;
https://www.ft.lk/opinion/Weaponisation-of-Financial-Action-Task-Force-and-impact-on-CSOs/14-773063

Furthermore, despite the heightened suspicion with which NGOs are viewed in Sri Lanka and the myriad of measures in place to control and curtail their activities, to date, criminal charges have never been brought against a single NGO for financing terrorism. To the contrary, NGOs are contributing to the national economy and overall human development of the country. However, state restrictions and controls in the name of FATF implementation negatively impact the contribution of NPOs towards social development and hinder the country's progress on achieving the Social Development Goals' targets. Furthermore, during the COVID-19 pandemic when the government was struggling to meet the healthcare needs of the public, the Director-General of the NGO Secretariat called upon NGOs to support the health infrastructure[14].

The 'Report of the proposals for formulation and implementation of relevant laws required to ensure national security that will eliminate new terrorism and extremism by strengthening friendship among races and religions' issued by the Parliamentary Sectoral Oversight Committee on National Security in February 2020 made the following recommendations with regards to NGO oversight[15]:

- **'Establishing a mechanism (sic) enabling to integrate the Financial Intelligence Unit of the Central Bank, Chief of National Intelligence and the NGO secretariat so that it will be possible to regulate all the funds and assistance received by Sri Lanka from non governmental organizations.**

- **To establish an Act like Foreign Contribution Regulation Act under the NGO Secretariat and take steps to properly audit the foreign assistance received by Sri Lanka. Similarly, it should be ensured that these funds are utilized in a manner that leads to the betterment of all the ethnic groups of the society.'**

The report further states that:

"In a situation where a large number of organizations which receive foreign funds have not been registered, money which is circulated in the country is not properly monitored. It has been disclosed by the security forces and by the mass media on different occasions that money is received through bank accounts of non-government organizations which function based on different foreign funds but are not properly regulated. When this is further inquired, it is visible that a lot of organizations that receive funds even from the middle eastern countries, function even at the regional level and the quantity of said funds and the purposes for which they are utilized are not subjected to a formal supervision."

The 2022 Aragalaya, which was a mass protest by citizens calling for the resignation of President Gotabaya Rajapaksa and led to a change in government, was similarly misrepresented by the government at the time, which alleged that foreign funds transferred through NGOs had led to the ouster of President Rajapakse.[16]

[14] https://www.sundaytimes.lk/210516/news/govt-seeks-funds-from-ingos-and-ngos-for-covid-battle-444172.html
[15] https://www.parliament.lk/uploads/comreports/1582610584075624.pdf#page=1
[16] https://hirunews.lk/en/446285/namal-rajapaksa-vows-probe-into-aragalaya-funding-under-future-government

Such narratives have resulted in CSOs being regarded with deep suspicion, which is further exacerbated by the harassment and intimidation by the criminal/terrorist investigation divisions and intelligence services. Thus, the weaponisation of FATF to regulate NGO funding sources on the pretext of preventing money laundering and terror financing must be viewed as part of the long running campaign by successive governments to delegitimise calls by civil society for accountability for human rights violations, and democratic governance.[17]

There have been no publicly reported cases of non-governmental organisations (NGOs) in Sri Lanka being prosecuted or convicted for terrorist financing, money laundering, or large-scale financial fraud. In contrast, recent large-scale financial crimes involving Sri Lanka's banking sector have highlighted significant vulnerabilities in financial controls and anti-money laundering systems within the financial sector. In 2026, National Development Bank PLC disclosed an internal fraud initially estimated at approximately Rs. 13.2 billion,[18] making it one of the largest banking frauds in the country's history. Separately, Sri Lankan authorities uncovered a major foreign exchange fraud involving 227 bank accounts across 13 commercial banks, through which an estimated USD 85 million was allegedly transferred overseas using fraudulent import transactions.[19] These cases demonstrate that although financial crime and money laundering risks are concentrated within the formal financial systems, the (excessive) oversight applied to civil society is not applied to the banking sector because if they had been these transactions would have raised red flags at every stage.

5. Review of legal and policy framework for compatibility with FATF Recommendations

In July 2026 the government made amendments to three laws, namely, the FTRA, the CSTFA and the PMLA, reportedly to bring the laws in line with FATF standards in preparation for the mutual evaluation. The amendments however, did not adhere to international human rights standards and constitutional protections.

These laws, operating in tandem, centralise decision making power within a few state officials and create space for CSOs to be subject to punitive administrative measures. These amendments provide for limited due process safeguards and appeal processes when imposing severe sanctions and allow regulatory and investigative authorities to exercise powers that go beyond the ambit to which they should be restricted. They also bestow judicial functions upon them. These factors render the amendments incompatible with FATF standards that endorse a proportionate and risk-based approach to AML/CFT measures, with interagency cooperation rather than centralised authority.

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17 https://www.ft.lk/columns/Central-Bank-NGO-Secretariat-and-weaponisation-of-Financial-Action-Task-Force/4-770882; https://srilankabrief.org/repression-by-regulation-when-fatf-mutual-evaluations-become-government-weapons/

18 https://cdn.cse.lk/cmt/announcement_portal_prod/Corporate%20Disclosure-%20National%20Development%20Bank%20PLC%2006.04.2026_49238571050043746.pdf

19 https://www.newswire.lk/2026/06/09/sri-lanka-uncovers-major-import-scam-that-smuggled-millions-of-dollars-out-of-the-country/

5.1. Legislative amendments

1. The Convention on the Suppression of Terrorist Financing (Amendment) Act 2026

The amendment to the CSTFA contains provisions that contravene FATF standards and recommendations.

As per the original Act, police officers, where they have reasonable grounds to believe that a person may be involved in the commission of an offence of terrorism, are empowered to freeze funds and property belonging to that person for a period of seven days. The amendment extends this period to fourteen working days, nearly triple the time period.

Such extension without judicial oversight is severely lacking in the safeguards recommended by FATF and the constitutional requirement to follow due process. The amendment also extends the period of days a police officer has to make an ex parte application to the High Court for the confirmation of a freezing order, to fourteen working days. There are no means to appeal or challenge the order provided by the Act, prior to the confirmation of the freezing order by the High Court.

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 and can amount to inhuman treatment, especially where it deprives a person of access to basic necessities.

A petition challenging the amendment was made at the Supreme Court of Sri Lanka to review its constitutionality. In its determination, dated 28 April 2026, the Court held that the extension of the time period was not unconstitutional for extending the existing seven day period to fourteen working days.[20] The Court concluded that none of the provisions of the Bill were incompatible with the Constitution.

2. The Financial Transactions Reporting (Amendment) Act 2026

Several provisions in the amendment to the FTRA contravene FATF standards and exceed its requirements. For instance, the law 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 the need for parliamentary approval.

This is of particular concern for NPOs, as broad and undefined regulatory requirements can be imposed through administrative measures rather than legislation, potentially creating arbitrary and repressive compliance obligations.

The law also extends the period the FIU can suspend a person's or organisation's financial transactions from seven days to fourteen working days (nearly three weeks), combined with ex parte High Court procedures and in-camera hearings. This raises grave concerns about due process and transparency, and risks enabling arbitrary restrictions on financial transactions, which can adversely impact people's livelihoods and commercial activity.

[20] https://supremecourt.lk/wp-content/uploads/special_dt/sc_sd_17_2026.pdf

The amendment imposes severe sanctions and compliance obligations through administrative mechanisms that lack clear objective criteria, transparency, procedural safeguards and independent judicial oversight, creating a significant risk of arbitrary and inconsistent enforcement.

The amendment requires banks to report all transactions above a yet unspecified threshold to the FIU. 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.

Furthermore, the law grants the National Committee chaired by the Governor of the CBSL 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.

The amendment was challenged in the Supreme Court prior to enactment, for being incompatible with the fundamental rights chapter of the Constitution. In its determination, however, the Supreme Court did not concur.[21] It found the amendment contained adequate safeguards to limit the exercise of power by the Head of the FIU when making regulations and even in the imposition of severe sanctions. The Court only recommended minor changes to the wording of certain clauses, to render the amendment compatible with the Constitution.

3. The Prevention of Money Laundering (Amendment) Act 2026

The 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 law 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 amendment 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.

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[21] https://www.parliament.lk/uploads/bills/gbills/scdet/6423.pdf

The Supreme Court determined that the PMLA Bill is largely consistent with the Constitution and may be passed by a simple majority in Parliament, except for certain provisions that require amendment.[22] The Court did not find the Bill's expanded framework for freezing and forfeiture of assets and enhanced investigative powers inconsistent with the safeguards in the Constitution, and accepted the arguments of the state that **they are legitimate measures to strengthen Sri Lanka's anti-money laundering regime in line with FATF standards.** However, the Court found that Clause 14 (relating to freezing connected property) and parts of Clause 18 (requiring suspects to provide affidavits admissible in evidence and allowing summary punishment for false evidence) were overbroad and infringed constitutional guarantees of equality and due process process under Articles 12(1) and 13(3) of the Constitution.

The Court held that these provisions would require a special majority in parliament unless amended to (i) introduce stricter judicial oversight and time limits for freezing orders, (ii) preserve the protections in the Evidence Ordinance for statements made while in police custody, and (iii) require a separate summary trial before punishing a witness for giving false evidence. The Court determined that if these amendments are incorporated, the entire Bill could be enacted by a simple majority.

Following the Supreme Court determination, on 09 July 2026, the Parliament passed the bill, with a special majority, after amending only one clause. Amendment to Clause 18 included provisions that the Evidence Ordinance shall apply with regard to the admissibility of affidavits made by suspects while in custody or while under arrest, and to require a separate summary trial before imposing a penalty on the witness for giving false evidence, as suggested by the Court. The suggestion made by the Court to amend Clause 14 to include some judicial oversight and time limits was disregarded by the government, which passed it with a special majority.

4. Draft NGO law

In 2024, the Ranil Wickremesinghe government shared a draft of the Non-governmental Organisations (Registration and Supervision) Act, intended to replace the VSSO Act with civil society. The draft was critiqued by civil society for its overbroad provisions that bestowed power on the state to restrict legitimate CSO activities and undermined freedom of association. The draft law did not reach Parliament during the tenure of the then government.

In June 2025, the same draft was shared with select CSOs by the Ministry of Public Security of the Anura Kumara Dissanayake government. CSOs communicated their critique of the draft law, namely that it does not adhere to international human rights standards, bestows wide and arbitrary powers without judicial oversight to the police and other administrative entities, which undermine the right to association. Despite this, in July 2026, the government presented the same draft again with the inclusion of new clauses on AML/CFT that allow the Competent Authority to monitor NGOs to detect ML/FT and suspend the operations of a NGO. The inclusion of provisions on AML/CFT indicates the current government is continuing with the previous governments' strategy of weaponising FATF

[22] https://www.parliament.lk/en/business-of-parliament/bill-details/G6422

to justify measures that do not adhere to international human rights standards, undermine freedom of association and shrink civic space.

This demonstrates that the intent to control CSO activities through the weaponisation of FATF is a systemic strategy that does not change despite change of government. It should be noted there was no consultation with CSOs during the drafting of the law, either during the Ranil Wickremesinghe government or the Anura Kumara Dissanayake government. The Human Rights Commission of Sri Lanka was also not consulted during the drafting process, despite the Commission being mandated to review national laws to ensure they are in line with international human rights standards.[23]

Several provisions of the draft law are incompatible with Recommendation 8. For instance, the draft law makes it mandatory for all organisations engaged in non-profit activity to register and be subjected to **supervision** by the Competent Authority. The categories of entities include international organisations not established via an inter-governmental agreement, microfinance institutions, trusts, and companies limited by gurantee, associations, councils, community hostels, foundations, movements and a group formed by not less than five persons to serve the general public and engages in any voluntary social service or non-profit oriented activity. Non-registration is an offence under the proposed law. This is contrary to FATF standards, as FATF requires oversight measures to be proportionate and targeted, based on identified risks rather than blanket reporting requirements. Where NGOs are registered as companies limited by grantee or as trusts, they are subjected to the reporting requirements stipulated by the relevant laws, such as the Companies Act and Trusts Ordinance respectively and should not be compelled to re-register with the NGO Secretariat. A centralized monitoring entity is not required nor endorsed by FATF.

FATF Recommendation 8 states that of all organisations that fall within the FATF definition of NPOs, only a small portion may be at "high risk" of TF abuse. However, the proposed law uses a highly securitised framework that treats all organisations as carrying the same level of risk of ML/TF abuse.

The Competent Authority has the power to attend any meeting of the Executive Committee (EC) of a NGO on the written request of all or majority of members of the EC or the concurrence of the officer bearers of the organisation. The registration issued by the Competent Authority is valid for only three years after which it has to be renewed via a fresh application.

According to the proposed law, every registered NGO shall not "Engage in any activity that adversely affect (sic) sovereignty or territorial integrity of Sri Lanka" or "Induce or cause to induce any public disorder which affect (sic) safety and interests of the general public. These are undefined terms that can be interpreted broadly to label any activity that is critical of the government and even human rights work as an illegal activity.

The proposed law bestows broad, arbitrary powers that are not subject to judicial review upon the Competent Authority and Police. For instance, the Competent Authority, alongside a police officer, has the power to enter the premises of any NGO without a warrant and upon prior notice, to access or examine its records. Additionally, the draft law

[23] https://www.hrcsl.lk/press-notice-on-draft-non-governmental-organisations-registration-and-supervision-bill/

enables the Competent Authority with substantial powers to review, monitor and interfere with the functions, projects and activities of NGOs, contrary to international human rights standards on the right to freedom of association and protection of civic space. The Authority has the power to suspend registration of a NGO on prima facie evidence of money laundering, terrorist financing or financial irregularity as well as where their activities or existence are "prejudicial or a threat to national security, territorial integrity, sovereignty".

5.2. Administrative instructions and guidelines

1. Circulars

a. Circular No. 01/19[24]

On 23 May 2019, Circular No. 01/19 was issued by the FIU of the CBSL to all licensed commercial 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 when a NGO that is not registered with the NGO Secretariat receives foreign funds. Where relevant, the bank may report the NGO to the FIU under Section 7 of the FTRA.

Section 7 of the said Act states that where the bank "has reasonable grounds to suspect that any transaction or attempted transaction may be related to the commission of any unlawful activity or any other criminal offence" the bank has to inform the FIU of the CBSL. According to Section 7 (2) (c), the report the bank submits to the FIU has to "contain a statement of the grounds on which the 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 remit foreign funds if the organisations is not registered with the NGO Secretariat. It only requires banks to conduct enhanced due diligence and only in instances where there is reasonable suspicion the funds received by a NGO that is not registered with the NGO Secretariat might be used for the commission of a criminal offence, and submit a written report to the FIU. There is also, to date, no other law or regulation that requires banks to refuse to remit foreign funds merely because the organisations 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 FTRA about NGOs to the FIU without reasonable suspicion that funds will be used for unlawful activities. This creates a climate of fear, leads to CSOs being summoned by the TID for interrogation and prevents them from functioning freely.

[24] https://fiusrilanka.gov.lk/docs/Circulars/2019/Circular-01-2019.pdf

Circular No. 01/2025[25]

On 4 April 2025, the CBSL issued Circular No. 01/2025 which states that NGOs can open bank accounts based on a "Confirmation Letter of Eligibility for Registration as a Non-Governmental Organisation", as 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. A NGO incorporated as a (non-profit) company limited by gurantee, for example, can register with the Registrar of Companies and 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.

2. CBSL MOU with NGO Secretariat[26]

On 6 November 2024, the CBSL and the NGO Secretariat entered into a Memorandum of Understanding to "bolster the national program on anti-money laundering and countering financing terrorism".

The CBSL press release stated: "NGOs could be misused for ML/TF and related crimes, and thereby could threaten the stability of the national and global economic and financial systems. This MOU will facilitate the exchange of information with the FIU relating to any incident, investigation or prosecution stemming from the activities carried out by the National Secretariat or on any person connected to such activity, which will be an important aspect in prevention, detection and prosecution of ML/TF and related crimes."

Such language labels all NGOs as potential threats, particularly when it is framed as a threat to "the stability of national financial systems". This is contrary to FATF Recommendation 8 which states that most NPOs present minimal risk, and measures should be targeted rather than blanket.

3. Instructions issued by the NGO Secretariat – December 2024[27]

On 12 December 2024, instructions were issued by the NGO Secretariat calling on all NGOs, local and international, to register with the NGO Secretariat, regardless whether they are registered under another law.

It states that once a CSO makes an application for registration, the application will be sent to the MOD "for clearance". Upon receipt of 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 and there are no stipulated objective criteria based on which the MOD or NGO Secretariat conducts the assessment and arrives at the conclusion "a problem" exists. Avenues to appeal the rejection of the application for registration are not mentioned. Nor is the status of the organisation following the rejection of the application for registration mentioned, particularly if it is already registered under a different law.

[25] https://www.fiusrilanka.gov.lk/docs/Circulars/2025/Circular_01_2025.pdf
[26] https://ngosec.gov.lk/news-events/anti-money-laundering-measures-to-be-strengthened
[27] https://ngosec.gov.lk/news-events/notice

4. Guidelines on Preventing Money Laundering and Terrorist Financing for NGOs in Sri Lanka[28]

In February 2026, the NGO Secretariat issued Guidelines on Preventing Money Laundering and Terrorist Financing for NGOs in Sri Lanka.

The Guidelines identify NGOs receiving large donations and those operating in remote areas as risk factors. NGO platforms being used for 'radicalisation or promotion of extremist ideologies' is also listed as a concern. But the terms radicalisation or extremist ideologies are not defined and hence can be construed as broadly as the state wishes. For instance, advocating for rescinding the IMF agreement could be deemed 'extremist'.

The Guidelines require NGOs to issue annual certificates confirming compliance with AML/CFT as well as appoint a coordinator for AML/CFT, none of which are mandatory requirements stipulated by FATF to be applied to all NPOs. Foreign donors are automatically deemed suspicious, which the Guidelines state demands enhanced due diligence by CSOs.

5.3. The national risk assessment of NPOs

In January 2026, a summary of the Risk Assessment (RA) of NPOs conducted by the government was published.[29] The full report was obtained via a right to information request made to the FIU.

The report concludes that the inherent risk of the non-profit sector is low to medium. Environmental, health and sanitation and entrepreneurial development CSOs are rated low risk 'due to no evidence of terror financing abuse of these categories'. Additionally, the RA states, 'These NPOs are not proximity (sic) to active terrorist threats as per views of sector experts due to the fact that most of the projects done by them can be physically verified'.

Relief and human rights NPOs are rated medium-low risk, yet, there is no evidence provided in the nine page report to substantiate the higher risk rating, compared to environmental/health/development CSOs. The report goes on to say, 'The information collected transpired that the intelligence services are still monitoring several NPOs which carry out relief work in areas identified as high risk and NPOs formed for the purpose of safeguarding of human rights'. This shows all NPOs that work on human rights are viewed with suspicion and yet the objective criteria on which these organisations were identified as a higher risk is not specified. The RA asserts that unnamed and an unknown number of 'Sector experts are of the view that these NPOs could be susceptible to be abused for TF activities'. Once again, there is no evidence provided to substantiate this claim.

The report reveals the TID is investigating several NPOs of which 13% are human rights organisations, 80% work on education and training and 7% provide relief. The elements the report deems are gaps in the legal and regulatory framework reveal of the true intent of the state, i.e. to control and restrict the activities of NPOs. For example, one of the gaps

[28] https://ngosec.gov.lk/images/download/guidelines/2026/AML%20CFT%20Guideline%20for%20NGOs%20English.pdf
[29] https://fiusrilanka.gov.lk/docs/Other/NRA_Report_2024-25/Sri_Lanka_NRA_on_ML_2024_25_Executive_Summary_E.pdf

identified is the lack of punitive measures against CSOs that do not register under the VSSO Act as well as the absence of a legal requirement to re-register. Another gap is ‘no specific provisions to depoliticise INGOs and NGOs’; there is no explanation provided on what politicising means in this context nor how that is connected to preventing terrorism financing.

5.4. Non-compliance with revised FATF Recommendation 8

The current regulatory standards and practices with regard to NGOs are in conflict with FATF guidelines. For example, FATF requires states to conduct evaluations to determine whether NPOs are at risk of terror financing. Based on these evaluations, tailored regulatory responses should be adopted in accordance with the identified level of threat, rather than imposing blanket restrictions on all NGOs. FATF emphasizes the need to implement "targeted, proportionate, and risk-sensitive" controls to avoid hampering functions of legitimate NPOs. The circulars issued by the CBSL, on the other hand, prescribe blanket measures for all NGOs, without conducting assessments of the level of risk posed by specific NGOs, thereby restricting the activities of all NGOs in Sri Lanka.

FATF’s compilation of best practices indicates that indiscriminate, excessive, and non-risk-aligned requirements—such as detailed data on beneficiaries, full disclosure of donors or partner organisations—are inconsistent with its standards. In contrast, the current NGO reporting standards impose broad and sweeping restrictions that have a particularly egregious effect on organisations operating in the Northern and Eastern provinces, and those working on issues of justice and human rights protection. These groups are frequently subjected to visits by security and intelligence personnel and face ongoing (extra-legal) monitoring and intimidation.

Since 2023, FATF has clarified that states should merely "monitor" or maintain “oversight” of NPOs, rather than place them under “supervision”. This distinction is important because NPOs are not classified as reporting entities like financial institutions or casinos, which are legally obligated to alert FIU about suspicious transactions. Further, FATF directives state that regulatory approaches which are too stringent or obstructive violate Recommendation 8 on the appropriate treatment of NPOs. It affirms that most NPOs present minimal risk, either because they have effective internal safeguards or are already under existing regulatory regimes. In such cases, FATF specifies that “additional measures may be unnecessary.”

Circular No. 01/2025 highlighted above indicates that the process for registration under the VSSO Act is time consuming and cumbersome, thus creating the need for an alternative/interim confirmation letter. This contravenes FATF recommendations against imposing stringent and excessive regulatory regimes.

Further, as stated in FATF best practices, broad and blanket regulatory measures can lead to ‘unjustified wholesale de-risking undertaken by the financial sector and thus consequently might result in difficulties for the organisations in the not-for-profit realm to get access to financial services’ - which is the case in Sri Lanka, where NGOs struggle to access their funds due to “wholesale de-risking” measures put in place by banks.

The above mentioned measures have cumulatively created a hostile environment in which NGOs are struggling to operate, which in turn affects the work they do and the communities they serve. It must be reiterated that despite the suspicion with which NGOs are viewed in Sri Lanka and the myriad of measures in place to control and restrict their activities, to date charges have not been brought against a single NGO for financing terrorism. Rather, the securitisation and suspicion of NGOs restricts the fundamental rights of citizens to free expression, association and assembly and undermines the relationship between civil society and the state.

6. Impact of the weaponisation of FATF

6.1. Results of the survey on access to banking services

A survey was conducted in 2025 on the difficulties faced by NPOs when accessing banking services over the last five years, as a result of AML/CFT measures undertaken by the government.

A structured, trilingual questionnaire was disseminated online to NPOs across Sri Lanka and 102 responses were received from all provinces. The survey examined organisational profiles, challenges accessing banking services, responses of banks and strategies employed by NPOs to manage these challenges, as well as the overall operational impact of the struggles faced in accessing banking services.

Respondent organisations predominantly worked on human rights protection, poverty alleviation, livelihood support, and health and education services - areas that primarily serve marginalised and vulnerable communities including ethno-religious minorities and LGBTIQ groups. 21% of respondents identified as women-led organisations.

Nearly half of the organisations operate nationally, while over one-third are community-based. They represent all parts of the island, although heightened challenges were reported by organisations in the North and East. Most organisations are small to medium-sized with up to twenty full-time staff.

Responses to the survey demonstrated that all respondents faced multiple, overlapping obstacles when accessing financial services:

- Nearly 50% of respondents faced difficulties opening new bank accounts.
- A significant proportion - 69% - experienced challenges receiving foreign funds, of which, at least 42% were told by banks to register with the NGO Secretariat to receive foreign funds.
- 37% were asked for additional documentation to complete transactions.
- 32% faced delays in bank transactions and 22% encountered difficulties withdrawing or depositing funds.
- Only 17% of organisations did not experience any issues.

Over half of the respondents (54%) were given reasons for these restrictions, although the explanations tended to be inconsistent and referred to CBSL circulars, and NGO Secretariat registration requirements.

NPOs were asked for additional documentation or proof regarding donors, project activities or the manner in which funds would be used, in order for transactions to proceed. Organisations reported harassment, including repeated requests for organisational and financial policy documents.

The responses indicated a pattern of banks applying disproportionate and extra-legal requirements, citing pressure from the CBSL. The operational consequences for NPOs included:

- **being unable to comply with donor or project timelines, which was reported by 45% of NPOs.**
- **37% experienced difficulties paying salaries or had to terminate staff, while 31.5% reported reputational damage.**
- **29% stated that delays directly affected their ability to serve beneficiary communities.**

With regards to strategies used by NPOs:

- **43% reported having to allocate more time to meet compliance demands and 21% reported postponing projects.**
- **Others resorted to changing banks, engaging directly with bank managers, or providing extensive additional documentation.**

6.2. Case studies – qualitative interviews with civil society

The case studies are in the words of the interviewees.

Case study 1

Location of CSO: **Western Province, Sri Lanka**
Areas of operation: **national - special focus on underserved minority communities**
Areas of work: **humanitarian and disaster response, health and community care, youth empowerment and education.**

For more than two decades, we have maintained bank accounts and received our funding through formal grant agreements and regulated banking channels. Our main difficulty is not opening bank accounts, but accessing funds once they are received. Whenever foreign remittances come in, there are delays and repeated requests for documentation. We have been asked to submit Know Your Customer (KYC) information multiple times over the years, even where there have been no significant changes to our organisation. I asked then, how many times can an organisation's profile change in a short period of time? Even raising such questions becomes an issue. Because of the difficulties we experienced with one bank, we eventually shifted our foreign remittance receiving account to another institution. While other banks seem friendlier, we continue to face requests for grant agreements, explanations on how funds will be used, and project beneficiary details. After working with us for so long, banks should have a better understanding of our donors, and the nature of our activities.

The level of scrutiny seems to increase depending on the size of the grant. When we receive large grants, questions immediately arise about how a local organisation could obtain such funding from foreign sources. We feel that banks are acting on instructions regarding AML/CFT policies but they don't understand it themselves.

Following the Easter Sunday attacks in 2019, the level of scrutiny increased significantly. Security agencies began paying closer attention to our activities and beneficiaries. Information relating to beneficiaries has been checked and cross-referenced with government authorities, including Divisional Secretariats and the NGO Secretariat, to check if "they are truly deserving people".

During the difficult years following the attacks, when we had already slowed down much of our work and were dealing with significant challenges ourselves, we still felt subjected to heightened scrutiny. While I fully support accountability and transparency in financial transactions, I believe that FATF-related requirements are increasingly being used as a means of monitoring and controlling CSOs rather than addressing genuine financial crime risks.

In my view, there is also a broader issue that extends beyond AML/CFT measures. As a minority-led organisation, we often feel that we are viewed with a greater degree of suspicion than others. There are times when it appears that ethnic or religious identity becomes a factor in how scrutiny is applied. This is particularly disappointing given that our funding comes almost entirely from established grant-making organisations through formal banking channels and is used for legitimate development and humanitarian purposes.

Procedures should be practical and development oriented. At present, it feels like obstacles hold organisations like ours back rather than supporting accountability.

Case study 2

Location of CSO: **Northern Province, Sri Lanka**
Areas of Operation: **Northern Province, Eastern Province**
Areas of work: **Accountability, justice, human rights, constitutional reform and socio-economic justice**

Intense scrutiny began around 2018–2019, coinciding with the legal case we mounted against the state. Banking challenges often intensify whenever we engage in high-profile activities related to minority rights and state accountability. The scrutiny has not stopped since. At one point our bank blocked all transactions because we did not have the NGO Secretariat registration certificate, so we had to walk away from them. There is zero flexibility, all financial activity is ceased until the additional documents are submitted.

We have sent countless letters and emails explaining that we are registered as a company limited by guarantee, not an NGO, so we do not fall under the NGO Secretariat. Sometimes the branch staff say their hands are tied because the "higher-ups" are enforcing these rules. On several occasions, we had to halt our human rights operations because we couldn't process any transactions, even during the pandemic and the economic crisis. Once a donor sent us funds and we assumed it had cleared, but the bank had frozen the funds for nearly a year without informing us. The bank gave us an ultimatum: either provide confidential project data or they would send the money back. We told them to return the funds because we did not want to release confidential information and explicit project documents to third-parties. There is no banking law that states we must hand over confidential project details to clear a standard transaction, so we stood our ground.

If we have a strong relationship with donors, they understand the risks and are willing to take extra steps, such as issuing redacted contract documents that we can share with banks. But not all donors are like that. Some donors said they cannot fund us because of these issues. We are constantly forced to ask our international donors for no-cost extensions because our project funds are frozen in the banking system for months. This disrupts our project timelines, causes staff turnover and requires immense energy retraining new teams. Our auditors ask us to maintain different accounts for different projects; but with the current regulations, it is really difficult to open new bank accounts.

When we threaten legal escalation, bank officials back down. They don’t put anything in writing because they know they don't have a legal leg to stand on. They communicate through phone conversations so there is no record of their arbitrary demands. The state intentionally uses complicated financial and legal jargon as an intimidation tactic. Once we started demanding written explanations from the bank manager with the exact legal provisions that authorised the freezing of transactions, their attitude shifted – this shows these are extralegal requirements imposed by the bank. We constantly wonder why these sudden banking hurdles are triggered when we engage in a high-profile event; as if the state is provoked by our advocacy. We never feel secure.

The time, energy and emotional toll this endless bureaucracy takes on our team is not talked about. At one point, we considered closing down entirely.

We operate under the assumption that every phone call, email and meeting is monitored by state intelligence. That constant vigilance is the only way we have managed to keep our team safe. It is exhausting to live and work like this. We have nothing to hide, they can walk into our office and audit our public documents anytime. But this coordinated deployment and intimidation by the CID with arbitrary banking hurdles feels like a strategy of the state to suppress independent civic space.

We registered as a Company Limited by Guarantee so we could run as a fully transparent operation that files audited accounts annually. The TID and the CID have pressured us verbally to register with the NGO Secretariat during interrogations.

This environment creates a dangerous hierarchy within civil society. Large, well-connected NGOs that hold NGO Secretariat registration can easily clear international funds while smaller, grassroots organisations are at a disadvantage. We are then forced to become financially subservient to these large organisations, relying on them for tiny, local sub-grants. This strips grassroots organisations of their financial agency, dilutes their advocacy and forces them to conform to larger NGOs just to survive.

Case study 3

Location of CSO: **Western Province, Sri Lanka**
Areas of Operation: **National**
Areas of work: **Promoting equal rights, legal protection, and inclusion for LGBTIQ+ persons in Sri Lanka**

Our organisation has faced significant challenges both in opening and maintaining bank accounts. We believe these difficulties are linked to our identity as an LGBTIQ organisation. While we currently maintain accounts with two banks, only one of them can receive foreign remittances. Several banks refused our initial applications without providing clear reasons, and even when accounts were opened, we encountered additional scrutiny regarding our legal status, registration, and work with LGBTIQ communities.

The most serious difficulties arose when one of our banks began asking for NGO Secretariat registration as a condition for receiving foreign funds. Despite operating legally as a Trust and providing extensive documentation, the bank eventually returned a donor remittance and stopped allowing foreign transactions through our accounts. As a result, we were forced to apply for NGO registration. But more than two years later, our application remains pending due to the absence of clearance from the MOD. During this process, our offices, programmes, and staff were subjected to visits and monitoring by officials from the NGO Secretariat, CID, intelligence agencies, and defense ministry officials.

Some staff members were afraid to share their details for the NGO registration. A staff member was visited by two police officers at their house, when their parents did not know their son was working for a LGBTIQ organisation. The police officers asked questions about the son's work and made negative comments about LGBTIQ people.

In one instance, a police officer attempted to visit our head office without any notice, insisting that it was part of the registration process. There were also inappropriate and unprofessional requests from that officer, including personal visits to our staff members. We learned that hotels and venues where we undertake training are required to report the details of our programmes – such as organisation name, timing, and participant information – to the local police.

As an organisation working with LGBTIQ communities, many of our staff depend entirely on this work for their livelihood. It is my responsibility to ensure salaries, rent, and basic operational costs of the staff are covered.

Some donors were very understanding and flexible. But other donors expressed concerns and suspicions due to repeated banking restrictions and delays. I told the bank if they cannot credit the funds to our account, they should send the money back to the donor and provide me with a reference, so we can inform the donor, but they delayed it for so long. The donor kept asking for an update and then eventually stopped working with us because of the banking issues. We also lost funding opportunities because agreements expired while we were still trying to resolve banking problems. We had to stop at least two projects midway due to lack of access to funds.

Based on our experience, there is a lack of consistency in how banks apply compliance requirements to CSOs. Different banks, and even different branches of the same bank, apply different standards regarding NGO registration and access to foreign funding.

Case study 4

Location of CSO: **Western Province, Sri Lanka**
Areas of Operation: **Northern Province, Eastern Province, North Central Province, Central Province**
Areas of work: **Good governance, women's empowerment, reconciliation and justice, and youth civic engagement**

We have had a relationship with this bank for the last twenty-two years, and at present we maintain five or six accounts. In the past, whenever a tranche of funds came in, all we had to do was send a simple letter to the bank stating that we had received funds from a particular donor for a particular project and that the funds would be used for project purposes. However, things started to change around 2019. The bank began asking whether we were registered with the NGO Secretariat. We are a non-profit company limited by guarantee, and during that period our board was discussing whether NGO Secretariat registration was something we should pursue. We had a meeting with the NGO Secretariat, where they told us not to work with LGBTQI groups or highly political human rights work. Following that experience, we decided we would not register.

Since 2019, the bank has continued to ask about NGO registration every year. The issue has become so persistent that it now appears as a recurring comment in our auditors' management letter. We have repeatedly responded that, under the law, we are registered as a non-profit company and are not required to obtain NGO Secretariat registration. However, the auditor's position has been that banks expect it, and therefore without it, there is a compliance concern. This has also created difficulties with donors because some of them review the management letter and ask questions about whether we are able to function properly in Sri Lanka.

In 2023, we experienced the first instance of funds being withheld. A bank officer informed us that because we were not registered with the NGO Secretariat, the funds would not be credited unless we could either register or provide evidence that we had taken steps towards registration. We challenged the bank, asking them to identify the legal basis for that requirement and informed them that we would consider legal action if necessary. Once we did that, the funds were released. Since then, we have continued using the same standard process of providing a letter whenever a tranche is received, but there is always uncertainty about whether the bank's position might change again.

Some time ago, when we tried to open another account, the bank informed us that NGO Secretariat registration was required. When we pointed out that we already had company registration, they insisted that it had to be NGO registration specifically. When we asked them to provide that requirement in writing, they refused. More recently, we tried to open another bank account and the bank accepted the application form, which surprised me. But to date, they have still not opened the account. It has been three months and they still say “it is taking time.” So there is no consistency.

We have deliberately limited our funding sources because of concerns about scrutiny – we had the CID questioning our district teams. So for many years we accepted funding only from UN agencies and established international NGOs because those organisations are widely recognised. When I was questioned by TID, I was specifically asked about our donors, whether we accepted private funding, and whether we used crowdfunding. In fact, when another organisation explored crowdfunding, the bank refused to authorise the process unless an individual officer personally guaranteed that none of the anonymous contributors was involved in money laundering – which obviously no one would be willing to do.

Case study 5

Location of CSO: **Batticaloa, Eastern Province, Sri Lanka**
Areas of Operation: **Eastern Province**
Areas of work: **Emergency services for survivors of SGBV, women's local governance and research, and advocacy for policy reforms, with a special focus on muslim women**

After 2019, when we received funding from one international fund, the bank informed us that only organisations registered with the NGO Secretariat would be permitted to receive and withdraw such funds in the future. The bank referred to a letter issued by the NGO Secretariat and, based on that, halted access to the funds. At the same time, another organisation that had received the same funding was able to access it through a different bank. This made me realise that treatment varied significantly between banks. After discussions with our bank manager, he agreed to allow us to withdraw the money, but on the condition that we register with the NGO Secretariat before receiving any future foreign funding.

By 2024, funding opportunities were becoming increasingly limited, there was discussion about new NGO laws, and some donors were requiring NGO Secretariat registration. We therefore made the difficult decision to begin the registration process. However, this decision has become extremely difficult for us. It has now been nearly two years since we started the registration process, and we are still waiting while also paying a heavy price for it.

We submitted all the required documents, including our organisation’s registration details, board information, beneficiary areas, divisional secretariat approvals, and police clearances. After submission, we received a letter confirming that the documents had been accepted and that registration would be issued later. However, from that point onwards we faced repeated visits and questioning from the military, army, police, and other authorities. The information they requested went far beyond what we expected and beyond the boundaries of our donor agreements. When we conducted youth programmes and training, they asked for the names of participants, their NIC numbers/copies, details of schools attended, etc. We refused to provide this information. The questioning did not stop there. Later, officials requested details about our directors' family members, and NIC numbers.

Only one police branch seemed focused on completing their clearance report for the purpose of our registration. Even now, military and intelligence officers continue to contact us for information about our activities. Just recently, when representatives from foreign diplomatic missions visited our area, we received calls asking whether we were meeting them, what would be discussed, and what information we intended to share. At times, it feels as though they expect us to act as informants by reporting on those meetings.

7. Conclusion and recommendations

The following extract from the FATF Best Practices guidance for Recommendation 8 provides valuable insight and clarity:

> "The FATF recognises the importance of ensuring that implementation of its Recommendations does not adversely and disproportionately affect NPOs, and further, does not unduly hinder civil society and the delivery of humanitarian assistance. In recent years, there have been increasing reports of financial institutions terminating or restricting the access of legitimate NPOs to financial services, or taking longer to process transactions of NPOs. Occasions of delays for wire transfers, unclear and escalating due diligence requirements have been reported as well, including those that have impeded NPOs' ability to provide services and support to their beneficiaries, inability to open bank accounts and arbitrary closure of bank accounts as well as wholesale termination of individual customers or entire classes of customer and transaction, without taking into account their actual level of risk or risk mitigation measures. This is not a proper implementation of a risk-based approach and is not consistent with the FATF Standards."

FATF guidance clearly stipulates CFT measures should not disrupt legitimate NGO activities and where such disruption has been identified, mitigating measures should take place. By subjecting banks to excessive reporting and due diligence requirements when it comes to NPOs, a climate of overcompliance and systemic financial exclusion has been created whereby NPOs are being prevented from engaging in financial activities and accessing financial services as banks are going beyond the ambit of the instructions issued by the CBSL/FIU and certainly FATF requirements.

These are not unintended consequences; the legislative policy of the state, coupled with their public statements and verbal comments during consultations with NPOs demonstrate a deliberate attempt to create a constrained, highly-surveilled and securitized operating environment for NGOs, where anything, from a minor transaction, a foreign donor or a certain human rights-related project, can trigger inspection or reporting. This is consistent with the modus operandi of the state of using every available tool, from intelligence agencies to local authorities, to surveil and attempt to control NGO activity and make their functioning contingent upon state approval of its activities. FATF requirements are being utilized as another tool by the state to place constraints on NGO activity and therefore its standards are being weaponised.

As highlighted above, restriction of access to financial services and funding as a direct result of overbroad reporting requirements implemented by the CBSL/FIU on banks, has led to NGOs being unable to operate freely to the detriment of the vulnerable groups and communities they serve.

a. Recommendations

i. To the Government of Sri Lanka

The government should:

- Ensure that CSOs are able to function freely and enjoy the right to association.
- Repeal the July 2026 amendments to the Convention on the Suppression of Terrorist Financing, the Financial Transactions Act and the Prevention of Money Laundering Act as they bestow broad and unrestrained powers on the executive (police, FIU) and contain administratively unnecessary and cumbersome provisions which can be weaponised to curtail activities of civil society.
- Rescind Circular No. 01/2019 and raise awareness among financial institutions that they are not authorised to prevent NGOs from accessing their funds or opening bank accounts.
- Rescind Circular. 01/2025 as it creates confusion with regards to registration requirements and will prevent NGOs from being able to open bank accounts.
- Ensure due process and transparency is followed in FIU's engagement with CSOs.
- Withdraw the draft NGO law that was circulated in July 2026.
- Include civil society in a meaningful and inclusive manner when drafting new laws and policies that would affect their operation and activities and ensure the laws adhere to Sri Lanka's international human rights obligations and Constitutional safeguards.
- Remove the involvement of the Ministry of Defence in the oversight of NGOs.

ii. To FATF

- Ensure the government adheres to FATF standards and does not weaponise them to undermine, curtail and control the activities of NPOs.

Sri Lanka CSO FATF Network

August 2026