

Nongovernmental Organizations and Charities — Overview

Objective. *Assess the adequacy of the bank's systems to manage the risks associated with accounts of nongovernmental organizations (NGO) and charities, and management's ability to implement effective due diligence, monitoring, and reporting systems.*

NGOs are private nonprofit organizations that pursue activities intended to serve the public good. NGOs may provide basic social services, work to relieve suffering, promote the interests of the poor, bring citizen concerns to governments, encourage political participation, protect the environment, or undertake community development to serve the needs of citizens, organizations, or groups in one or more of the communities that the NGO operates. An NGO can be any nonprofit organization that is independent from government.

NGOs can range from large regional, national, or international charities to community-based self-help groups. NGOs also include research institutes, churches, professional associations, and lobby groups. NGOs typically depend, in whole or in part, on charitable donations and voluntary service for support.

Risk Factors

Because NGOs can be used to obtain funds for charitable organizations, the flow of funds both into and out of the NGO can be complex, making them susceptible to abuse by money launderers and terrorists. The U.S. Treasury issued guidelines to assist charities in adopting practices to reduce the risk of terrorist financing or abuse.²⁹²

Risk Mitigation

To assess the risk of NGO customers, a bank should conduct adequate due diligence on the organization. In addition to required CIP information, due diligence for NGOs should focus on other aspects of the organization, such as the following:

- Purpose and objectives of their stated activities.
- Geographic locations served (including headquarters and operational areas).
- Organizational structure.
- Donor and volunteer base.
- Funding and disbursement criteria (including basic beneficiary information).
- Recordkeeping requirements.
- Its affiliation with other NGOs, governments, or groups.
- Internal controls and audits.

²⁹² Refer to [Anti-Terrorist Financing Guidelines: Voluntary Best Practices for U.S.-Based Charities](#), September 2006.

For accounts that bank management considers to be higher risk, stringent documentation, verification, and transaction monitoring procedures should be established. NGO accounts that are at higher risk for BSA/AML concerns include those operating or providing services internationally, conducting unusual or suspicious activities, or lacking proper documentation. EDD for these accounts should include:

- Evaluating the principals.
- Obtaining and reviewing the financial statements and audits.
- Verifying the source and use of funds.
- Evaluating large contributors or grantors of the NGO.
- Conducting reference checks.