De-risking of NPOs
Progress and Remaining Challenges
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Relevance

Why is the focus on access to financial services for NPOs justified?

• An estimated 10 million NPOs worldwide

• If NPOs were a country, it would be the 5th largest economy in the world.  
  Source: John Hopkins University, Center for Civil Society Studies
Research findings

UK (Charity Finance Group Report, 2018): Impact of money laundering and counter-terrorism regulations on charities:

• 79% of charities face some kind of difficulty in accessing or using mainstream banking channels.

• For most respondents, banks did not provide any explanation for why the charities were being de-risked.

• And because programme delivery needs to go ahead, charities are forced to use other methods, including money service bureaus, cash couriers, hawala, using staff bank accounts to transfer money: all of which are riskier than formal banking channels...
Bank transfers

- Transfer denied
- Transfer delays

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Financial access

- Accounts closed
- Delays in opening accounts
- Donations blocked
- Funds frozen
- Accounts denied
Overseas Development Institute (ODI), UK study, *Counterterrorism, de-risking and the humanitarian response in Yemen: a call for action* (Feb 2018):

- Bank de-risking has prevented Yemeni NPOs from receiving much-needed funds for humanitarian assistance, especially following the onset of war in March 2015.

- De-risking is contributing to the war economy and corruption in the country.
A report *Financial Access for U.S. Nonprofits* (Feb 2017) by the Charity & Security Network looking at the de-risking challenges facing US non-profits found that:
HSC and ECNL research (April, 2018) in Brazil, Mexico and Ireland (At the Intersection of Security and Regulation: Understanding the Drivers of De-risking and the Impact on Civil Society Organizations) found that NPOs were:

- Spending more time getting transactions processed or having difficulty on-boarding as a client
- Unaware of systemic drivers behind decisions by banks (including on closing down accounts)
- Impacted more based on size, so smaller organizations more affected than larger ones. Also, small organizations are not able to cope with banks’ extended due diligence requirements. There is little or no recourse to remedy for them.
- Seeing an increase in workload for their financial staff, varying from 35 per cent to 100 per cent compared to five years ago
- All being tainted with the same brush as a consequence of the bad behavior of a few
- Seeking/finding their own solutions for problems and issues with their bank (one-off, and not systemic)
Much of the research is from the senders’ perspective and more needs to be done from the recipients’ perspective (local/domestic money flows, outside the EU/US)
Impact

- The rollout of the UN Sustainable Development Goals
- The financial inclusion agenda
- Civic space in general, which is shrinking worldwide
- The Countering/Preventing Violent Extremism (C/PVE) agenda (Research has shown that the impact is disproportionately borne by smaller organizations, often working in difficult contexts – these community-based organizations are crucial in the preventing radicalization that might lead to violent extremism)
Plugging the gaps

1. **Raising awareness** among NPOs on the drivers behind AML/CFT regulations, on compliance requirements and on advocacy strategies

   Global NPO Coalition on FATF ([www.fatfplatform.org](http://www.fatfplatform.org))

   Offers guidance, best practice examples, engagement strategies

2. **Capacity building on CFT for both NPOs and government**
   
   • NPO Expert Hub on AML/CFT (set up in 2017)
   
   • Governments lagging behind in terms of an understanding of the risk-based approach to effective AML/CFT implementation
3. **Engagement and multi-stakeholder dialogue**

At national level, and also at multilateral levels.

Examples: UK, the Netherlands, Uganda, Ethiopia, GIABA, GAFILAT World Bank–ACAMS workstreams

Forums such as the PSCF
4. Conducting a **sectoral risk assessment** with sustained outreach to and involvement and input of the non-profit sector, taking into account already-existing self-regulation measures within the sector.

Regional risk assessments
A legal person or arrangement or organisation that primarily engages in raising or disbursing funds for purposes such as charitable, religious, cultural, educational, social or fraternal purposes, or for the carrying out of other types of “good works”

NPOs LIKELY to be at Risk of Terrorist Financing Abuse

NPOs as Defined by FATF

Entire NPO Universe

Determined after a risk-assessment is carried out either as part of the national risk-assessment or a standalone exercise
1. Conduct a risk assessment of the NPO sector that identifies risk of terrorist abuse

2. Review existing laws, regulations and self-regulatory programmes to see if they address identified risks

3. Where gaps are found, develop risk mitigation measures that are proportionate to risk and do not restrict the operation of legitimate NPOs

4. Create a result that is consistent with obligations under international human rights and humanitarian law
Recommendations for FATF

- Produce guidance for NPOs on compliance requirements
- Task regulators with providing NPO-specific guidance to banks
- Ensure that bank supervisors as well as bank guidance and practices implement the changed FATF R8 and the risk-based approach
- Explore technological solutions, which could help lower the costs of compliance
- Explore safe payment alternatives to correspondent banking, including through central/development banks or dedicated charity banks
• Ensure closer coordination between all government stakeholders on international aid, counter terrorism and terrorist financing to guard against unintentional conflicting policy outcomes

• Push for greater discussion of the interrelated issues of sanctions, AML/CFT and de-risking in international fora (e.g., G-20, G-7, UN, EU)

• Finally, bank de-risking creates new terrorism financing risks and this needs to be acknowledged by the FATF