



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](#)*

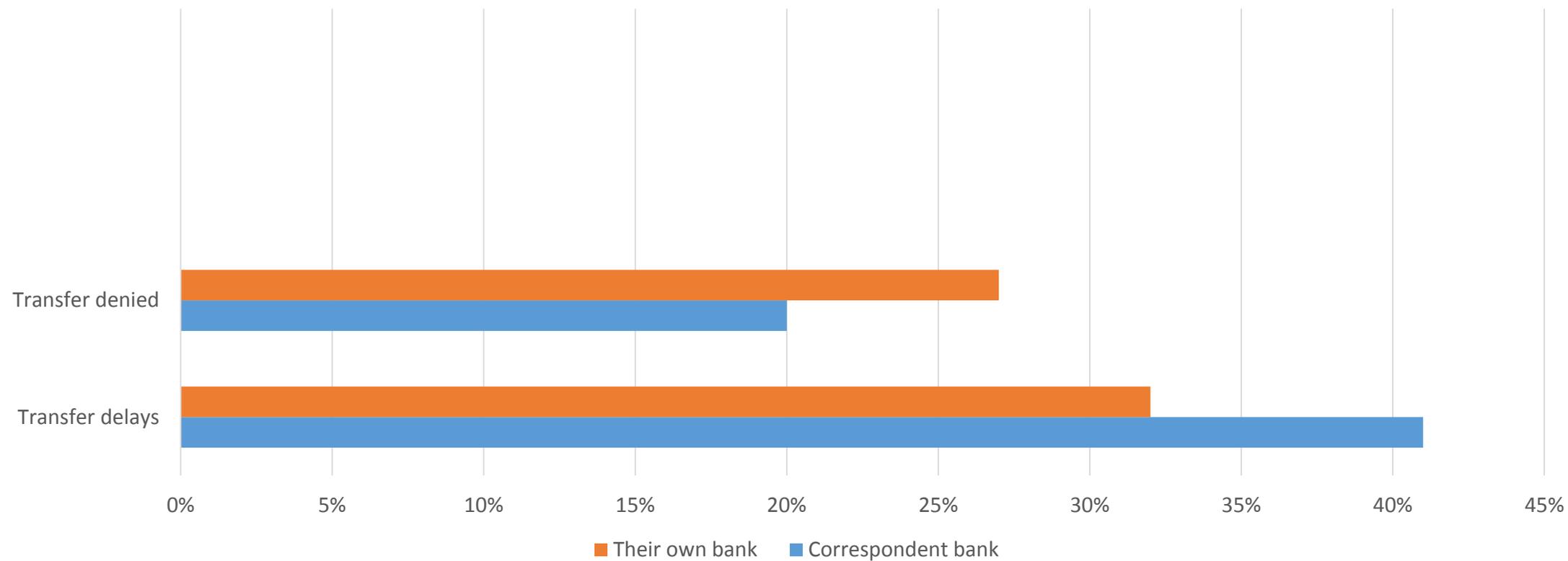


Research findings

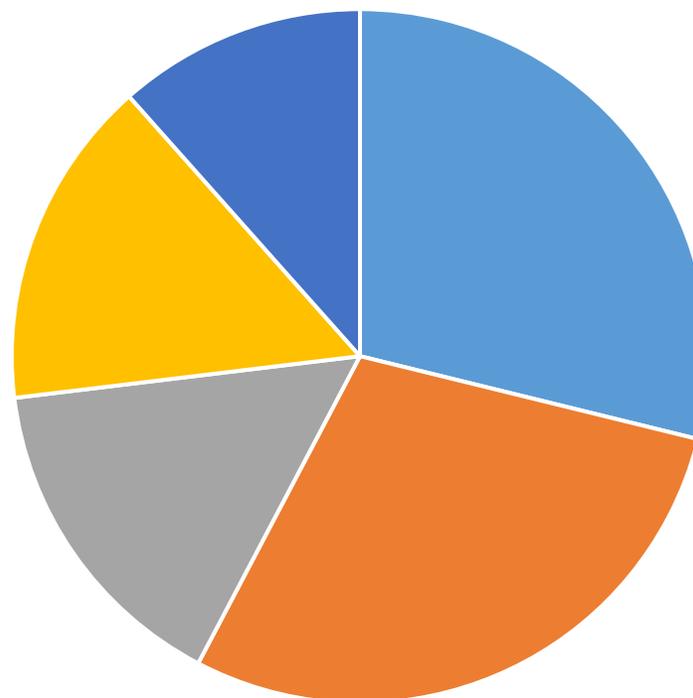
UK (Charity Finance Group Report, 2018): [Impact of money laundering and counter-terrorism regulations on charities:](#)

- **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



Financial access



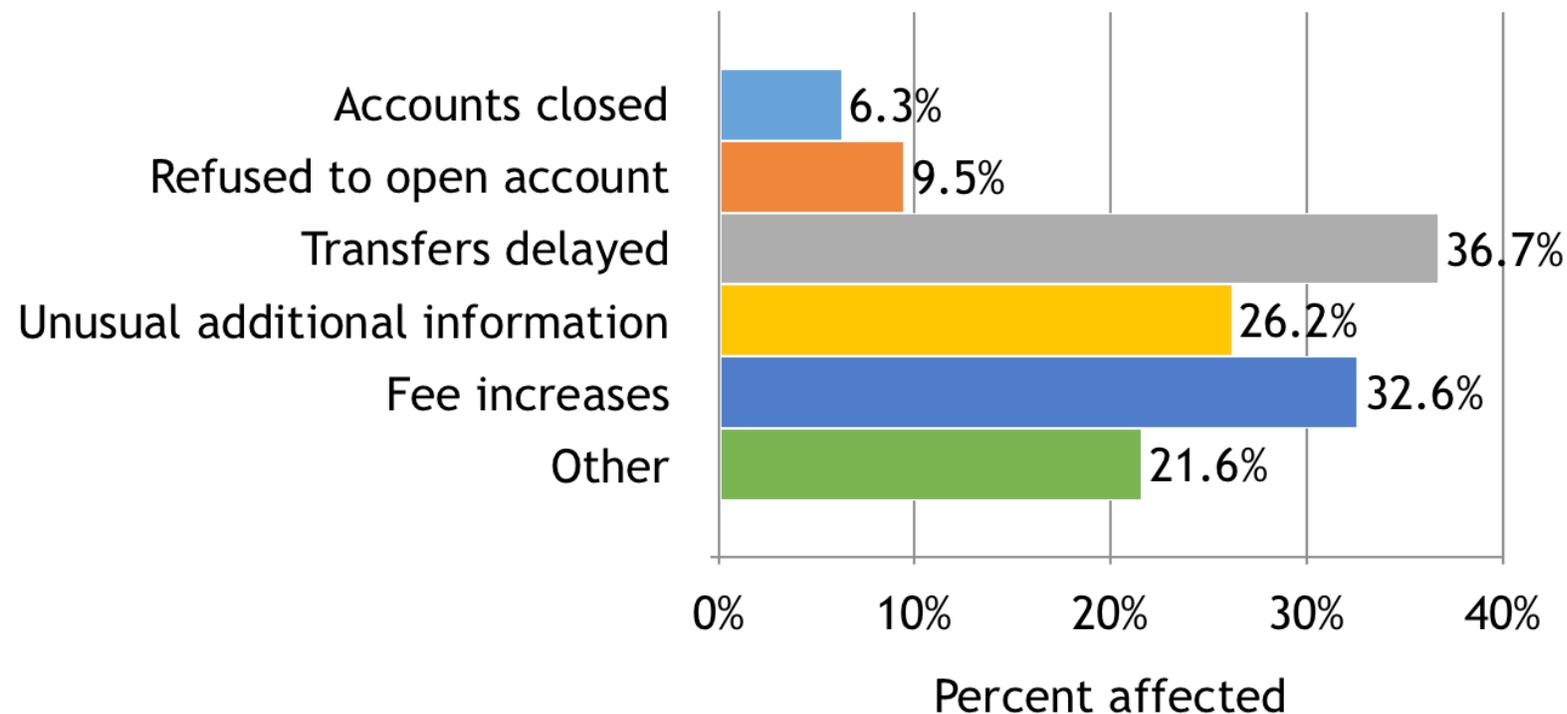
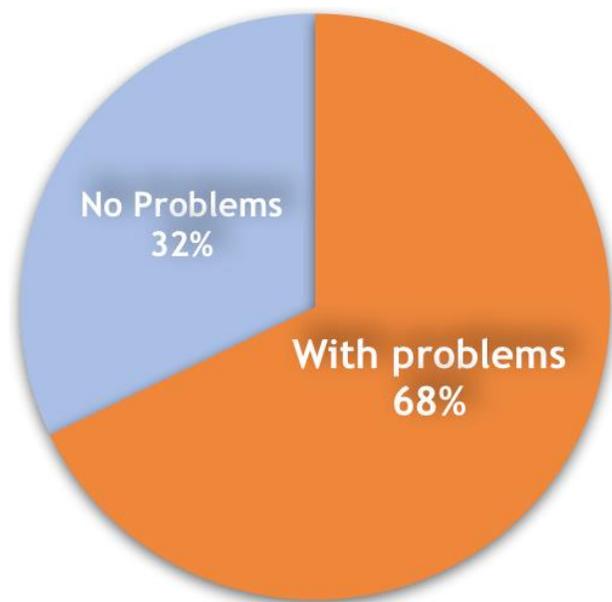
■ Accounts closed ■ Delays in opening accounts ■ Donations blocked ■ Funds frozen ■ Accounts denied



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)

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.

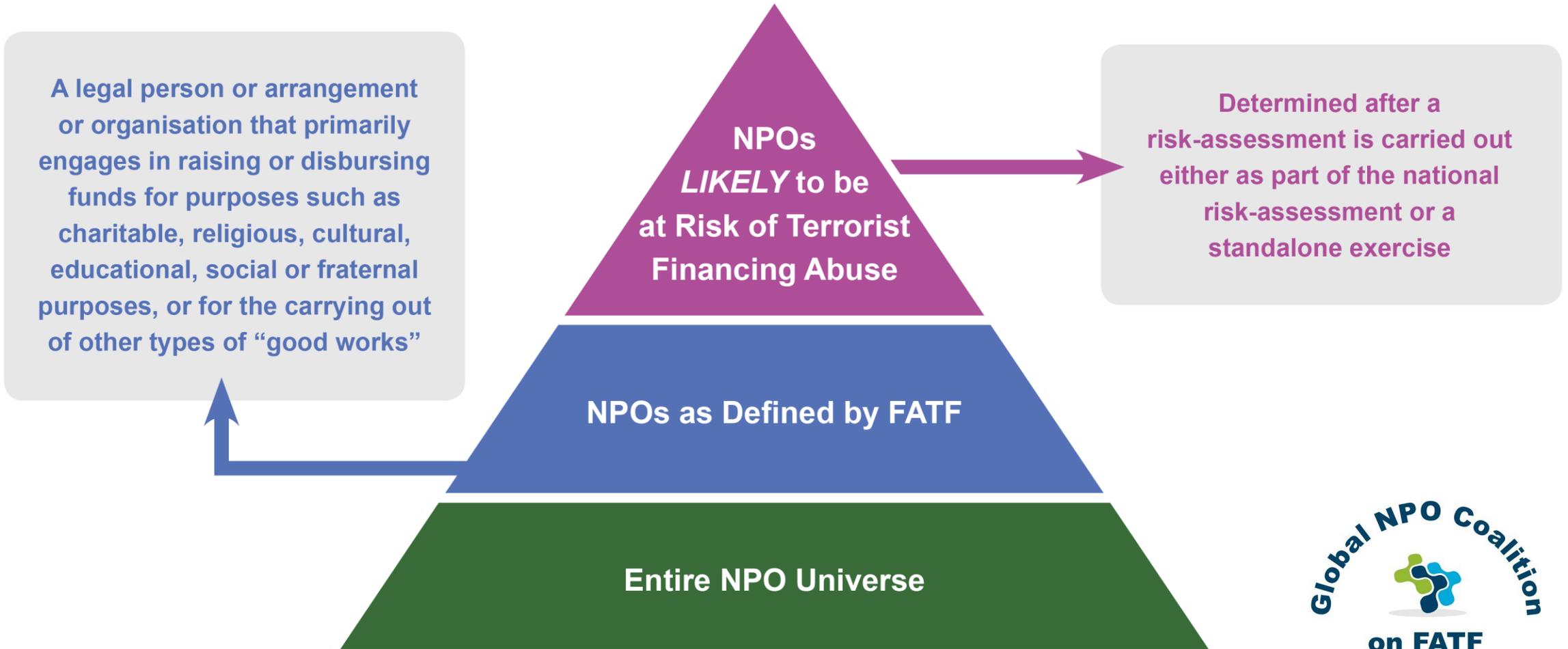
Examples: UK, the Netherlands, Uganda, Ethiopia, GIABA, GAFILAT
World Bank–ACAMS workstreams
Forums such as the PSCF



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

THE RISK-BASED APPROACH & NON-PROFIT ORGANISATIONS (NPOS)



STEPS

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

Conduct outreach to NPOs throughout the process



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