Ministry of Finance

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human security collective

This background paper, written for the purpose of the International Stakeholder Dialogue in The Netherlands, discusses the derisking phenomenon as it pertains to Non-Profit Organizations and presents activities relating to identifying solutions to ensure their continuing access to financial services.[1]

International Stakeholder Dialogue: Ensuring Financial Services for Non-Profit Organizations[2]

Thursday, 15 February 2018 | 09:30 – 19:00

The Nutshuis, Riviervismarkt 5 in The Hague, the Netherlands

> *'The wholesale termination of individual customers or entire classes of customers, without taking into account their level of risk or risk mitigation measures, is not a proper implementation of a risk-based approach and is not consistent with the FATF Standards. Such practice has the potential to drive financial flows underground, thus reducing financial transparency and the ability to identify and take action against terrorist financing abuses. Termination and closing of NPO's bank accounts also inhibits the delivery of aid to developing countries and crisis zones where humanitarian needs are acute and where charitable work contributes positively to the fight against regional and global terrorism. Financial institutions should terminate or not establish customer relationships, on a case-by-case basis, where the money laundering and terrorist financing risks cannot be mitigated.'*
>
> \- FATF (2015)

Introduction

Financial tools, in particular Anti-Money Laundering (AML), Countering the Financing of Terrorism (CFT), and international sanctions policies have become essential instruments in protecting the integrity of the global financial system and promoting international security. In recent years, however, the consequences of these policies on some developing countries and certain sectors, such as money service businesses and humanitarian organizations have become apparent. Non-profit organizations (NPOs) have encountered increasing challenges in accessing financial services which are fundamental to delivery of their vital humanitarian and development services. Financial institutions have terminated or restricted business relationships to avoid rather than manage risk, a phenomenon known as "derisking."

As a result of delays/denials of wire transfers, or being turned away as customers or having their accounts closed by financial institutions, NPOs have experienced significant difficulties in delivering critical humanitarian assistance to countries such as Syria, Somalia and other conflict areas. Numerous studies[3] performed by, inter alia, the World Bank, Financial Stability Board, Charity & Security Network, and Chatham House over the past several years document the consequences of these problems, which range from administrative delays and costs, to the inability to deliver vital

[1] The findings, interpretations, and conclusions expressed in this paper do not necessarily reflect the views of the World Bank or The Ministry of Finance, The Netherlands.

[2] As defined by the FATF, a Non-Profit Organization (NPO) is "a legal person or arrangement or organization that primarily engages in raising or dispersing funds for purposes such as charitable, religious, cultural, educational, social or fraternal purposes, or for carrying out other types of 'good works.'" While there are a variety of terms commonly used (e.g. NGO, INGO, etc.) NPO is used hereafter to include the broad category of groups providing humanitarian and development assistance (including peace building, conflict transformation, and human rights).

[3] See the accompanying Resources document to this paper for a detailed list of recent reports on the subject of derisking or financial access related to NPOs.

humanitarian aid, including food and fuel to supply hospitals in warzones. The 2016 report, *Study of the Humanitarian Impact of Syria-Related Unilateral Restrictive Measures,* documented the "chilling effect" of the private sector's reluctance to support humanitarian activity, particularly by the financial sector fearful of penalties for inadvertent regulatory violations.

As NPOs' abilities to access the financial system have been hampered, the level of humanitarian need worldwide has reached unprecedented levels. Violent conflicts, climate disasters, and political repression have generated the largest number of displaced persons since World War II. OCHA reports more than 135 million people across the world will need humanitarian assistance and protection in 2018. International humanitarian assistance rose to an historic high of more than $27 billion in 2016, with many countries surpassing their own records for giving, but despite this increase in international aid, funding was not sufficient to meet growing needs. Emergencies in Syria, Yemen, South Sudan, Iraq and Sudan, as well as long-term crises in Somalia and Pakistan, are still not being adequately addressed; indeed, the very countries in most dire need of support are among those in to/which NPOs are having the greatest difficulties in receiving/transferring funds.

Drivers of derisking

Research shows that derisking is a complex phenomenon driven by the multiple considerations and calculations by financial institutions. Among these various drivers are concerns for reputational and liability risk, profitability, business strategy, the cost of implementing AML/CFT and sanctions and other regulatory requirements, and exposure to penalties by supervisory and law enforcement authorities.

Compliance-related concerns by banks and regulatory expectations are among the most frequently cited reasons for derisking. For many financial institutions, decisions to decline to provide financial services relate to perceptions of NPOs as high-risk, and certain countries (subject to sanctions or where Non-State Armed Groups (NSAGs) such as ISIS, al Shabaab are present or exercise territorial control) as high-risk jurisdictions. These locations are often the places where humanitarian and development NPOS operate, and facilitating transactions to these regions creates compliance challenges for banks. Routine second-guessing by government examiners of financial institutions' decisions requires banks to undertake extensive and expensive steps to mitigate those risks, frequently tipping the risk–reward scale toward exiting such relationships. Despite reassuring statements from government officials, financial institutions perceive a clear disconnect between what policy officials say and what happens at the individual bank examination level. This reluctance has been fueled by a fear of fines.

In recent years, several major banks have had substantial fines levied for AML/CFT/sanctions violations; many banks are still under deferred prosecution agreements or consent orders requiring substantial compliance reforms and costly monitoring, which has had a deterring effect on other banks. In the aftermath of the 2008 financial crises and investigation of HSBC money laundering activities, U.S. regulators (on both the federal and state levels) cracked down on regulatory violations, imposing unprecedented fines, in part in response to Congressional criticism of regulators for showing too much deference to the banks. Over the last 15 years, both the number and value of AML-related fines have increased in both the U.S. and the U.K.

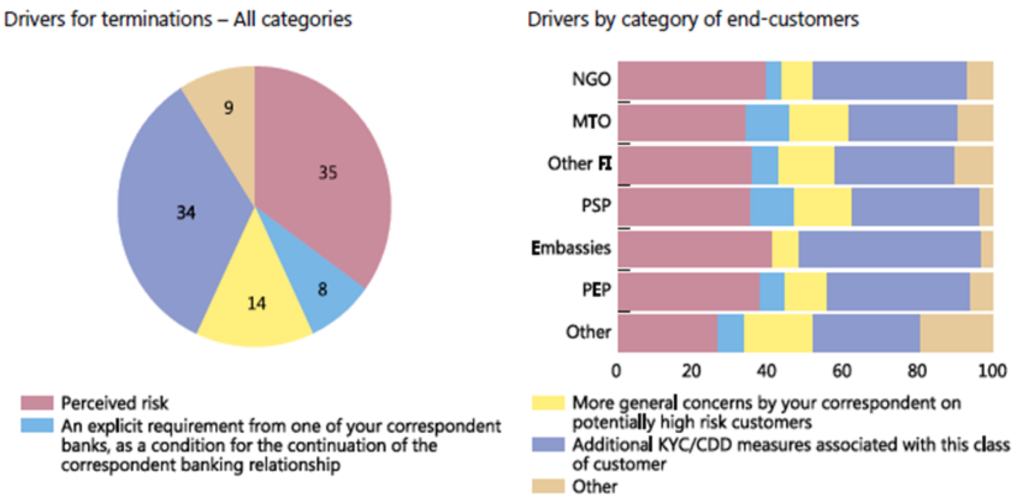
The upward trend in U.S. enforcement actions and fines against banks, along with the existing regulatory complexity in the AML/CFT/sanctions field, means that banks are facing significantly increased compliance costs. Some reports place the additional burden at upwards of $4 billion annually, and one bank reportedly employed 4,000 additional compliance staff in one year, at a cost of $1 billion. According to a 2016 survey by the Association of Certified Money-Laundering Specialists (ACAMS), 3/5 of respondents cited enhanced regulatory expectations as the greatest AML compliance challenge. The trend toward personal liability of compliance officers for regulatory violations further contributes to escalating costs and challenges. This trend is limited to the U.S.; a 2015 survey of Commonwealth members identified decreased profitability resulting from the increased monitoring and compliance costs of AML/CFT regulations as a key driver of derisking. Added to this is that fact that NPOs are not usually hugely profitable for banks, but incur significantly increased risks and greater compliance costs for banks. Financial institutions consistently note that decreased profitability resulting from the increased monitoring and compliance costs of AML/CFT regulations as a key driver of derisking.

Countries base their AML/CFT framework on international standards set by the Financial Action Task Force (FATF). Central to the international standards issued in 2012, is the risk-based approach. Financial institutions must establish their own framework for assessing client risk and adopt procedures and measures to control those risks. When considering the potential risks posed by customers, banks need to take appropriate steps to identify and assess their money laundering and terrorist financing risks (for customers, countries or geographic areas; and products, services, transactions or delivery channels). Banks are required to have policies, controls and procedures that enable them to effectively manage and mitigate the risks that have been identified. Since the introduction of the risk-based approach, reports of financial institutions terminating or restricting relationships with entire countries or customer categories in order to avoid risks, rather than manage them in line with the risk-based approach, have appeared. Studies have shown that derisking has impacted correspondent banking, money transfer operations, and NPOs' transactions, amongst others.

Recent analysis by the World Bank and other organizations confirm that the decline in correspondent banking is also pressuring NPOs. The Financial Stability Board (2017) collected information on the motives behind respondent banks' decisions to terminate services to customers, including NPOs, money transfer operators, payment service providers, Politically Exposed Persons, and other financial institutions. The main drivers reported were the perceived risk (35%) or the "additional KYC (Know Your Customer) or CDD (Customer Due Diligence) measures" associated with these customers (34%) and therefore presumably related to AML/CFT deficiencies, whether detected or apparent.

Drivers of termination of end-customers by respondents

In per cent Graph 26



Answers provided by 118 banks; Other drivers mentioned are business strategy, suspected involvement in money laundering activities, lack of profitability, high risk jurisdiction, fraud and failure to comply. Other institutions reported are FX companies, brokerage firms, casinos, gambling related businesses, virtual currency-related entities.

Source: FSB-CBCG Survey

Outdated perceptions of risk associated with NPOs

The problems many NPOs experience today stem from action taken in October 2001 by the FATF, whereby protection of the NPO sector from terrorist abuse became a component of the global fight against terrorism. In approving Special Recommendation VIII (R8), FATF identified NPOs as "particularly vulnerable" to terrorist financing abuse, calling on countries to ensure that NPOs cannot be misused by terrorist organizations. Over time, however, the FATF refined its standard, acknowledging the changing threat environment and the development by the NPO sector of standards and initiatives to ensure accountability and transparency in their operations. In 2014 and 2015, guidance explicitly stated that legitimate charitable activities should not be disrupted or discouraged, and clarified the subset of NPOs that required greater attention - NPOs engaged in service' activities and operating "in a close proximity to an active terrorist threat." FATF warned that:

> "Financial institutions should also not view all NPOs as high risk. Most NPOs may face little, if any, risk of terrorist financing abuse. For example, financial institutions should not view NPOs as high risk simply because they may operate in cash-intensive environments or in countries of great humanitarian need."

A "one size fits all" approach to NPOs, whether it comes to supervision and monitoring of NPOs, or how banks manage business relationships with NPO customers, is not appropriate according to the FATF.

Reflecting the declined risk associated with NPOs, FATF revised R8 in 2016, directing countries to undertake a risk-based approach when considering counterterrorism financing measures. The FATF recognized that not all NPOs should be subject to the same measures, especially "where humanitarian needs are acute and where charitable work contributes positively to the fight against regional and global terrorism." Subsequent national terrorist financing risk assessments also reflect the lower risk of abuse of NPOs. The U.K. National Terrorist Financing Risk Assessment noted:

> "In comparison to the overall size of the UK charity sector, the amount of known abuse for terrorist financing is very low. It is unlikely that charities have been set up for the purpose of funding terrorism. As such, we now assess the risk of abuse of NPOs altogether for terrorist financing as low, with certain parts of the sector facing significantly higher risks."

Similarly, the US risk assessment referenced sham or front organizations as the greatest threat to the nonprofit sector, rather than legitimate NPOs.

The obsolete view of the terrorist financing risks associated with the NPO sector persists, however, notwithstanding changes to FATF R8 to remove the "particularly vulnerable" language and call for a proportionate risk-based approach. In fact, most governments have not issued new regulatory guidance reflecting FATF's revision of R8 or even national assessments of lower risks related to NPOs. Moreover, there is a pervasive lack of understanding of the charitable sector in general, and unfamiliarity with the NPO business model. Many banks and regulatory officials are unaware of the risk assessment and due diligence measures NPOs undertake, not only to comply with sanctions and CFT regulations, but also to account to donors and manage risk to operations and employees. Many banks often still consider NPOs to be, by definition, high-risk customers and view international transfers with caution: numerous NPOs have reported that any reference to Syria (e.g. assistance destined to Syrian refugees in Turkey or Lebanon) has become a red flag, even for NPOs that have secured government approval or licensing for such activities.

In an effort to reassure banks, some governments have issued policy statements noting that the charitable sector as a whole does not present a uniform or unacceptably high risk of money laundering, terrorist financing or sanctions violations. In the U.S., policymakers urged banks to apply due diligence obligations reasonably, "not that they be infallible in doing so". However, the fact that there have been no changes to regulations or guidance in most countries to encourage financial institutions to update their risk assessments of NPOs ensures that derisking of NPOs will continue. Without changes by governments to reflect lower risk of NPOs, financial institutions will continue to be reluctant to bank them.

Impact on NPOs: Delays, Denials and Riskier Options

Until recently, there had been no empirical data available concerning NPOs and their problems accessing banking services, save for an indicative survey in 2014 of U.K. charities by the Charity Finance Group. In 2017, the Charity & Security Network released its report, *Financial Access for U.S. Nonprofits*, based on a random sample survey of US NPOs. Among the report's major findings:

- 2/3 of all U.S. nonprofits that work abroad are having financial access difficulties
- 15% of nonprofits report having these problems constantly or regularly
- Delays in wire transfers, which can last up to several months, are the most common problem, affecting 37% of nonprofits
- One-third of NPOs have experienced fee increases, and 26% have faced additional, unusual documentation requests
- Transfers to all parts of the globe are impacted; the problem is not limited to conflict zones or fragile and failing states

- When money cannot be transmitted in a timely manner, 42% of nonprofits report resorting to carrying cash and nearly 30% use money remitters
- Smaller NPOs are more likely to encounter delayed wire transfers, fee increases, and account closures; the smallest NPOs (those with 10 or fewer employees) are having the most trouble opening accounts
- The prevalence and types of problems vary by program area, with NPOs working in peace operations/peacebuilding, public health, development/poverty reduction, human rights/democracy building, and humanitarian relief reported greatest difficulties

The Charity & Security Network concluded that these international banking difficulties constitute a "serious and systemic challenge for the continued delivery of vital humanitarian and development assistance," undermining a core component of foreign and security policies. In jurisdictions where NPOs play a significant role in the economy and rely on financial services to receive funding and conduct their operations (e.g. Somalia, West Bank and Gaza), obstacles to international financial transactions could even hinder growth, poverty reduction, and security (Center for Global Development 2015).

Banking services are essential for NPOs to be able to operate safely, effectively and transparently. If NPOs are unable to access banking services, charitable funds may go underground, through increased cash transactions and off-shore cash couriers, or alternative remittance systems. The use of cash, particularly in high-risk jurisdictions, creates safety concerns for NPOs and their staff. Driving financial transactions into less/non-regulated channels reduces transparency and makes it more difficult to ensure that funds reach the intended recipients and do not benefit terrorists.

There are concerns also that derisking will result in increasing informal money flows. The U.K. reported circumstantial evidence that greater use of cash and other unconventional channels have resurged in some places as a possible consequence of derisking of NPOs. Ultimately AML/CFT objectives will be undermined if financial transactions are pushed outside regulated channels. It is important to recognize that the loss of financial access can actually subvert anti-money laundering efforts by driving certain financial activities into untraceable banking alternatives.

Responses to date

Governments have attempted to address concerns of NPOs regarding financial access in a variety of ways over the past several years. In cases of sanctions, the US has amended general licenses for NPOs engaging in humanitarian activities (e.g. Syria, Somalia, and Sudan). Within the European Union, the Syria regulation and Syria FAQs have been issued to clarify the applicable legal framework and encourage the reliance on the humanitarian derogations in the Syria autonomous sanctions.

Most notably, in the past year and half, initiatives have been organized to bring together all stakeholders to address the serious effects NPOs have experienced.

World Bank and ACAMS

In 2016, the World Bank and ACAMS (Association of Certified Anti-Money Laundering Specialists) convened the *Stakeholder Dialogue on De-Risking* with more than 100 participants from government (policy, regulatory, and law enforcement authorities), international organizations, financial institutions, and NPOs to discuss the phenomena of derisking and how to address it. Until then, most derisking discussions had focused primarily on challenges of correspondent banks and money service businesses, but the dialogue noted the significant difficulties humanitarian organizations and charities were experiencing with financial access. In recognition of the importance of supporting critical humanitarian and development work abroad, the World Bank/ACAMS organized a second Dialogue (*Supporting Financial Access for Humanitarian Organization and Charities*) in January 2017 to promote access of NPOs to financial services through practical steps to foster the relationship between NPOs, financial institutions, and government; improve the regulatory and policy environment; and develop tools to facilitate understanding and information-sharing. As a result, four work streams were organized and have underway initiatives to:

• provide standardized guidance regarding information banks require to conduct due diligence on NPO customers, and develop options for specialized financial channels for humanitarian crises when the traditional banking is unable to move funds;
• clarify regulatory requirements and risk guidance through revision of the Bank Examination Manual to implement FATF R8, training resources for banks and regulators regarding NPOs, and for NPOs on risk management and due diligence;
• explore technological solutions to facilitate NPO transfers to areas of higher risk and help lower financial institutions' compliance costs in banking NPOs (e.g. NPO KYC utility, e-credits, blockchain, etc.), and
• promote greater understanding of NPOs and broader financial access challenges though online resources and outreach

Netherlands

In October 2017, the Human Security Collective (HSC) hosted a multi-stakeholder dialogue in The Hague to discuss the financial access experiences of Dutch NGOs, the requirements on and concerns of financial institutions, and perspectives of the Ministries of Finance and Foreign Affairs. The meeting was the first in a series to explore possible solutions for Dutch stakeholders, both in the short-term and the (strategic) longer term. This follows on from previous discussions held in 2013 organized by HSC, with the Dutch Banking Association, for INGOs, Dutch banks and Ministries of Finance, Foreign Affairs and the Central Bank.

Furthermore, HSC and the European Centre for Not-for-Profit Law (ECNL) are currently engaged in research looking at the consequences on NPOs of differing interpretations and the implementation of AML/CFT requirements in Latin America and Europe, which will help inform the ongoing dialogue among stakeholders. Preliminary outcomes have so far concluded that large NPOs are more able to navigate the increasingly complex AML/CFT regulatory framework while smaller NPOs are pushed out of formal banking channels.

There is interest in the continuation of dialogue among stakeholders in order to identify tailor-made solutions for different types of NPOs. Banks need more specific guidance on NPOs from regulators. Central Banks are interested in learning which NPOs are affected by derisking based on evidence submitted by NPOs. The use by banks of commercial data providers such as World Check and Lexis Nexis to fulfil Know-Your-Customer and Due Diligence requirements is considered by NPOs, in particular by Islamic NPOs, to be highly problematic. A number of banks concede that there are deficiencies in these commercially available risk-profile databases. There is interest among Dutch banks to develop AML/CFT risk indicators with input from NPOs. Dutch participants to the stakeholder dialogue are also interested in becoming involved in the ongoing World Bank–ACAMS workstreams.

United Kingdom

In the UK, initiatives by the BBA (UK Finance) and Disasters Emergency Committee (DEC) over the past several years have attempted to address aspects of financial access problems of NPOs, especially concerning humanitarian aid to Syria with limited success.

A multi-stakeholder working group on INGO operations in high risk jurisdictions, comprising representatives from government, the banking sector, regulators and INGOs, has been established and met in late 2017. The aim of the working group is to enhance dialogue between the UK government, INGOs and financial institutions on the challenges and operating risks facing INGOs in high-risk contexts, such as Syria and Somalia. Problems include difficulties in financial access for the delivery of essential humanitarian assistance, and development and peacebuilding activities.

The working group will explore possible solutions. For example, participants will discuss how to balance and manage risk in such contexts, how to ensure compliance requirements placed on INGOs are proportionate and meet the needs of the government, banks and INGOs, as well as the steps that INGOs can take to provide reassurance about the risk and due diligence measures they put in place when working in high risk contexts. A core group comprising representatives from Government, INGOs and the financial sector is supported by three sub-groups working on the following topics: Guidance and Legislation, Training and Best Practice and Innovation and Information Sharing, looking at technological solutions in particular.

Potential solutions

While these multi-stakeholder initiatives are in the early phases of developing possible solutions, financial access problems of NPOs in providing assistance to populations in crisis continue, and for some, appear to be worsening. These multifaceted problems arise as a result of multiple but equally compelling policy objectives – to protect security and the integrity of the global financial system from illicit finance and counter terrorism, and to advance foreign policy goals of development, democracy and humanitarianism by providing aid to people in need.

To effectively address the challenges of financial access, all stakeholders must work together in a concerted manner; viable solutions will be found only when the problems are viewed as a shared responsibility of all. There is no single clear-cut solution that will resolve such a complex issue but rather a series of issues that need to be investigated in multi-stakeholder settings. Following are general categories of actions that have been suggested by various stakeholders that could usefully be explored. The list is by no means complete, and one of the objectives of the Hague International Stakeholder Dialogue is to develop additional ideas that might be pursued to ensure financial services for NPOs.

Raise awareness and promote greater understanding

To enhance understanding by banks and governments of NPOs and their modes of operation and by NPOs of regulatory requirements and expectations by governments of banks, enhanced engagement and interaction among all stakeholders is necessary. Investing in greater awareness of both AML-

CFT/sanctions, regulatory policies and NPOs' objectives would be useful. All stakeholders must recognize humanitarian assistance as a priority and take steps to work together for a shared view that ensures balance between mitigating sanctions and terrorist financing risks and the ability to support movement of funds necessary to deliver humanitarian assistance.

Banks can set out clearly what information they need from NPOs in order to meet their due diligence obligations. Some banks have made banking NPOs in sanctioned countries a priority, developing specific guidance on measures to allow charitable activities to operate in higher risk jurisdictions. Likewise, many NPOs have adopted measures to promote transparency and effective control, including adherence to self-regulatory guidelines, standards, and initiatives to ensure accountability and transparency in their operations. Sharing information about risk mitigation procedures can help to build mutual confidence and understanding that may reduce questions and problems with financial transactions. NPOs and banks could deepen their engagement with one another, and governments could play a leadership role at the national and international levels, as solutions require the concerted efforts of all stakeholders.

Moreover, there seems to be a need for greater discussion of such issues on an international basis. While the Financial Stability Board has discussed derisking generally, there is no forum for regulators to compare experiences and ensure that views of other stakeholders and developing countries' are considered in the development of international regulatory standards and guidance, other than the FATF. Consideration might be given to raising the issue systematically within other multilateral fora such as the G20.

Provide regulatory guidance

Governments could develop regulatory guidance that provides greater certainty to banks and clear expectations of NPOs on the implementation of the risk-based and proportional framework. Policy statements that NPOs are not by definition high-risk customers, is helpful but not sufficient for banks to change their risk perception of NPOs. Regulatory revisions to implement FATF R 8 and reflect the lower risk represented by NPOs are necessary to counter the outdated but persistent perception of NPOs as high risk and "particularly vulnerable" to terrorist abuse. The FATF could monitor national implementation of R8, and as part of the fourth round of FATF evaluations, highlight the adverse impact of banking-sector restrictions on humanitarian action.

Development of better guidance and risk tolerance standards so banks have a clear understanding of expectations concerning due diligence for higher risk clients on international basis will help provide greater certainty banks seek. Guidance and standards must be consistent, practical, relevant to today's financial services market and proportionate to any actual risk identified. They should help to clearly outline what information is required to ensure legal compliance by both banks and NPOs while remaining flexible enough to adapt to various types of financial institution and NPO customers. This can lower compliance costs, differentiate between different levels of risk and focus scarce resources on reducing real risks.

Explore incentives for financial institutions to bank NPOs

Stakeholders should consider a menu of measures, including the creation of a safe harbor, to incentivize banks to keep NPOs accounts and encourage efforts to engage with NPOs. Monetary incentives, such as tax credits, or reputational incentives, or recognizing financial institutions who engage in—rather than avoid—effective risk management of NPOs and other customers perceived as high risk, could be explored. A structure for NPOs to pool accounts may provide incentives for banks by streamlining administration and lowering costs.

Measures to alleviate the fear of a zero-tolerance enforcement approach, whereby financial institutions that bank NPOs in good faith and meet certain criteria would be held harmless if funds inadvertently ended up in the wrong hands should be considered. Adopting safe harbor measures would provide banks confidence that they can do business with higher-risk customers and regions, if they maintain rigorous risk-mitigation controls recognized by regulators. Investment in consistent and effective due-diligence procedures would lessen the threat of prosecution or regulatory enforcement or limit penalties to nominal amounts. Various formulations could be developed on a trial basis, such as temporary waivers of sanctions enforcement or limited safe harbor from regulatory actions for all but egregious violations. Banks utilizing the safe harbor protection might also agree to additional, regular information sharing with law enforcement and regulators.

Moreover, if governments fund an NPO's activities, banks may consider this to be proof of adequate customer due diligence, since the extensive governance and reporting requirements that most government grantees must meet make additional customer due diligence by banks duplicative and unnecessary.

Create safe payment channels

When the international financial system is not able to meet the needs of NPO customers doing humanitarian work, new and special procedures to facilitate the transfer of funds into conflict areas may be needed. Thoughtful options to create safe banking and payment channels into high risk jurisdictions have been advanced in Europe, with most attention focused on ways to move international humanitarian funds into Syria. In the absence of a political resolution to the conflict, potential solutions are likely to include identification of private banks approved to receive humanitarian-related funds. While a range of options to develop a safe payment corridor are still under discussion, all are complicated in terms ensuring compliance with sanctions and preventing diversion. Such efforts require concerted efforts by like-minded governments and regulators, banks and NPOs, and international organizations and are likely the only option to provide humanitarian assistance to conflict areas where need is greatest but where banks will not go without such assurances.

For NPOs that have lost their accounts entirely, a public entity, such as a government body or a regional development bank could establish a means of facilitating the movement of funds into high risk areas even on an emergency basis, and put risk management procedures in place. Others proposals include the creation of special banks devoted to charities (such as the CAF Bank in the U.K. owned and operated by a charity for not-for-profit organisations).

As part of this process, it is important to recognize that in some humanitarian crises, reliable documentation and ordinary due diligence required of NPOs are likely to be unrealistic, given unique local conditions. To acknowledge this reality, alternative ways to avoid inadvertent support to designated groups could be explored but ultimately there is no "fail safe" solution to transferring money into such environments. Developing shared views of which destinations and characteristics are acceptable is necessary in dealing with crises such as North Korea and Syria.

Improve humanitarian licensing and exemptions

Sanctions have increased in number and scope, and include multilateral UN measures, regional EU sanctions, and unilateral measures by the US and others countries. These sanctions have had a significant impact on many NPOs' abilities to operate in countries subject to sanctions. Licenses often require months to process and even when issued, banks have refused to transfer funds to sanctioned countries, viewing them as too high risk; from banks' perspectives, even when NPOs obtain licenses, there is an implied risk that serves as a red flag for humanitarian transactions into sanctioned and conflict areas. Suggestions have been advanced for improvements in licensing of humanitarian relief efforts.

Some European countries issue licenses to NPOs to operate in sanctioned countries subject to certain requirements. The US licensing agency, the Office of Foreign Assets Control (OFAC) in particular utilizes general licenses (whereby no prior approval is necessary if certain conditions are met) to implement humanitarian exemptions from sanctions for countries such as Syria. Owing to the nature of the EU system, however, there are difficulties with more flexible approaches to facilitate humanitarian assistance. Targeted licenses for NPO activities (which necessarily entail adequate due diligence and control measures which smaller NPOs may not have), blanket or general licenses, and even licenses agreed to by multiple or other countries (the possibility for mutual recognition of licenses granted by other countries) are possible options that could be explored.

Furthermore, United Nations sanctions do not routinely include humanitarian exemptions (UNSCR 2317 concerning Somalia is the only sanctions regime that has adopted a humanitarian exemption, which is generally applied to designated individuals). The High Level Review of UN Sanctions (2015) recommended the extension of the humanitarian exemption in the Somalian sanctions regime to all sanctions regimes. If such a standing exemption were adopted by the Security Council, it could pave the way for changes in national legislation and greater use of humanitarian exemptions in EU sanctions. Consideration could be given to systematic exemptions for humanitarian action by the Security Council, and EU sanctions could also consider inclusion of exemptions for humanitarian action.

Explore Technological Solutions to Facilitate NPO Transfers

With new payments platforms, new technologies have emerged that might address derisking by increasing efficiency and effectiveness of AML/CFT compliance by financial institutions. Technological options to enhance transparency and information sharing capabilities such as KYC utilities, blockchain, e-credits, legal entity identifiers and biometrics could help promote NPOs transfers to areas of higher risk, and help lower the cost of banks' compliance with CDD requirements in banking NPOs. The World Bank/ACAMS process is exploring the parameters for a repository/utility containing comprehensive information on NPOs.

Conduct new research

New research should be considered to examine derisking of NPOs in other jurisdictions (which the Human Security Collective has begun) and the adverse impact on humanitarian organizations. New quantitative and qualitative data on ways AML/CFT/sanctions policies may disrupt humanitarian aid and services in conflict zones and negatively impact beneficiaries would be helpful in better understanding the scope of the problem and developing potential solutions. To the extent possible, NPOs could systematically collect data on the information requests from banks, as well as data on the impact of delays and denials in disbursing funds and on operations.

Provide capacity assistance

The complexity of AML/CFT and sanctions policies has increased substantially, and many countries and their stakeholders lack resources to effectively implement regulatory requirements. Some countries claim that their inability to train regulators, banks and affected communities such as NPOs, in implementation may exacerbate derisking. Capacity building assistance is needed in numerous countries to understand and explain regulatory requirements and compliance obligations to stakeholders.