Outline and Concept Note: NPOs and Financial Access
World Humanitarian Action Forum (WHAF)
15–16 October 2019
Istanbul, Turkey

Day 1, October 15

Roundtable 1: Setting the scene and mapping the challenges NGOs face in transferring money to areas considered at-risk for terrorism financing.

- What drives the de-risking decisions of banks/financial institutions?
- How does this impact civil society?
- What are some of the policy-related solutions being sought at the national, regional and international levels?

Speakers: Khaleel Desai, Islamic Relief UK
Sana Ali, Community World Service, Pakistan
Tayfun Özkan, Turkish Red Crescent
Sue Eckert, CNAS/World Bank
Turkish Ministry of Finance representative (TBC)

Moderator: Lia van Broekhoven, Human Security Collective

Roundtable 2: Presentation of technological solutions to help solve compliance requirements from banks and donors.

- Countering the financing of terrorism (CFT) and technology – opportunities and challenges

Speakers: Kevin Ryan/Martha Lackritz/Caroline Burrage, Tech Soup
Vincent Henson, START Network, UK
Stephen Chiu, World Vision
Ben Joakim, Disberse

Moderator: Lia van Broekhoven, Human Security Collective

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Day 2, October 16

Roundtable 1: Unlocking Islamic Social Finance for Humanitarian Action: Instruments, Potential and Challenges

Speakers: Tariq Cheema, World Congress of Muslim Philanthropists
Mohamed Alhadi, Islamic Development Bank

Moderator: Sherine El Taraboulsi–McCarthy, Humanitarian Policy Group, Overseas Development Institute

Roundtable 2: Innovations in Islamic Social Finance (ISF): Case studies &Testimonials from Turkey and the Gulf Countries

Speakers: Sultan Barakat, Doha Institute
Houssam Chahin, UNHCR
Tayfun Özkan, Turkish Red Crescent
Sherine El Taraboulsi–McCarthy, Humanitarian Policy Group, Overseas Development Institute

Moderator: Khaleel Desai, Islamic Relief Worldwide

Background and context:

Evidence of restrictions on financial transfers by nonprofits (often termed 'bank de-risking') to areas that are considered at-risk for terrorism financing is growing.[1] Attention to the specific challenges faced by nonprofit organizations (NPOs) to deal with the problem of de-risking has gained more recognition in recent times. The Financial Action Task Force (FATF) – the global standard-setter for anti-money laundering (AML) and countering the financing of terrorism (CFT), the World Bank and, indeed, governments have taken steps in the form of policy recommendations, guidance and the convening of roundtables to address de-risking. In the Netherlands, the UK and the US, stakeholder roundtables have been convened with governments, banks and NPOs to identify problems and find solutions. Civil society across the world, as part of the Global NPO Coalition on the FATF or the Expert Hub on the FATF, have presented the issue in fora like the G20, and engaged governments in a number of countries to address the issue as part of the wider topic of terrorism financing risk NPOs face, on the best ways to assess this and, based on this assessment, build the capacities of NPOs to prevent and mitigate terrorism financing abuse.

At WHAF 2017, de-risking occurring as a consequence of the interpretation of the FATF standards by governments and banks was discussed by a number of experts, and cases of de-risking shared by NPOs. As it turned out, many organizations attending were affected by bank compliance decisions related to customer checking and transaction monitoring.

At this WHAF event, we would like to build on the presentations at the 2017 event. This will be done by, first, providing an introduction to the issue and mapping out problems participants are facing with their banks and money transfer agencies concerning: the accessing of a bank account, money transfers (to specific countries or regions?) and the closing of accounts. We will connect these examples to the broader system and indicate where the blockages/obstacles are present, but also where solutions are being developed.

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[1] Stuart Gordon and Sherine El Taraboulsi-McCarthy (2018). 'Counter-terrorism, bank de-risking and humanitarian response: a path forward. Key findings from four case studies'. Policy Brief 72. HPG/ODI/THF. https://www.odi.org/sites/odi.org.uk/files/resource-documents/12368.pdf
Duke Law International Human Rights Clinic and Women Peacemakers Program (2017). *Tightening the Purse Strings: What Countering Terrorism Financing Costs Gender Equality and Security*. https://law.duke.edu/sites/default/files/humanrights/tighteningpursestrings.pdf
Sue Eckert, Kay Guinane, and Andrea Hall (Charity & Security Network) (2017). *Financial Access for US Nonprofits*. https://www.charityandsecurity.org/system/files/FinancialAccessFullReport_2.21%20(2).pdf
Tracey Durner and Liat Shetret (Global Center on Cooperative Security) (2015). *Understanding Bank De-risking and its Effects on Financial Inclusion.* https://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/rr-bank-de-risking-181115-en_0.pdf
Clay Lowery and Vijaya Ramachandran (Center for Global Development) (2015). *Unintended Consequences of Anti-Money Laundering Policies for Poor Countries*. https://www.cgdev.org/sites/default/files/CGD-WG-Report-Unintended-Consequences-AML-Policies-2015.pdf
Tom Keatinge (DEMOS) (2014). *Uncharitable Behaviour*. https://www.demos.co.uk/files/DEMOSuncharitablebehaviourREPORT.pdf

We will present a number of technological solutions that can help with the compliance demands/burden placed on NPOs, banks and governments and that relate to the prevention of financial crime.

We will zoom in on Islamic Social Financing (ISF) and other non-traditional/innovative financing models to obtain a better picture of how these may be an opportunity for humanitarian financing. We will also highlight obstacles these non-traditional models may face, ranging from risk aversion or the avoidance by financial institutions (FIs). There is a growing recognition of the potential of Muslim giving and particularly in Islamic Social Finance (ISF) in delivering much-needed financing in humanitarian crises. There is limited understanding, however, of the scaling up opportunities as well as the potential of forging successful partnerships between ISF and other global humanitarian finance instruments. While there is a considerable body of analysis on the fundamentals of ISF and Sharīʿah rulings (Islamic Commercial Law Report, 2018), little is known about the challenges faced by ISF; both systemic or structural and contextual and how to address them. The roundtable discussion will seek to address those gaps in our understanding of ISF and its humanitarian role.

OVERALL PERSPECTIVE

Drivers behind restrictions:

Given that money flows have become a source for terrorism financing and other forms of financial crime, countries need to have regulatory regimes in place to prevent this from happening. Financial regulators and supervisors the world over have become more forceful on the compliance of countering terrorism financing standards by financial institutions and other sectors such as NPOs.

Global AML/CFT standard-setters such as the FATF have set out 40 AML/CFT Recommendations (the standards), against which countries are peer-evaluated on an ongoing basis. Almost all countries across the world have endorsed the FATF recommendations. They have to 'translate' these standards into national laws, rules and regulations. Countries are peer-evaluated on an ongoing basis for compliance with the standards. Poor evaluations have an adverse impact on a country's trade, investment and aid prospects. Therefore countries want to get their regulatory regimes to conform to the standards.

One of those 40 Recommendations, Recommendation 8 on NPOs specifies a broad requirement to regulate the nonprofit sector as a whole for greater transparency and accountability:

Countries should review the adequacy of laws and regulations that relate to non-profit organisations which the country has identified as being vulnerable to terrorist financing abuse. Countries should apply focused and proportionate measures, in line with the risk-based approach, to such non-profit organisations to protect them from terrorist financing abuse, including:

(a) by terrorist organisations posing as legitimate entities;
(b) by exploiting legitimate entities as conduits for terrorist financing, including for the purpose of escaping asset-freezing measures; and

(c) by concealing or obscuring the clandestine diversion of funds intended for legitimate purposes to terrorist organisations.

Money flows in and through NPOs are therefore recognized in the FATF standards as a potential source for the financing of terrorism. Governments are required to protect the NPO sector from becoming abused or misused for financial crime purposes through the implementation of a regulatory regime that adequately and effectively addresses terrorism financing risks in the sector.

And it is not just the FATF standards and the country-level regulations implementing them. In the US, the counter-terrorist financing regulatory regime is further reinforced by economic and trade sanctions lists (both sanctioned countries and individuals/groups), administered by the Office of Foreign Assets Control (OFAC). Given that much of the international monetary transfer of funds takes place in US dollars, the US regulatory regime has a great impact on the flow of funds globally, not least on humanitarian aid. This is compounded by United Nations (UN) sanctions, and by UN Security Council Resolutions (SCR) on terrorism financing, particularly the latest, UNSCR 2462 on combating and criminalizing the financing of terrorists and their activities (building on the earlier UNSCR 1373), which is binding on all member states and can be enforced by UN sanctions. Safeguards for humanitarian activity, and international human rights law, international refugee law and international humanitarian law are mentioned, along with an urging to all member states to implement the FATF standards. The challenge for countries is to develop an integral approach with matching laws, rules, regulations and policies that prevent terrorism financing through the sector while adhering to international human rights law, international refugee law and international humanitarian law. The task for the FATF is to provide guidance to countries and evaluation teams on such an integral approach.

Manifestations of restrictions and consequences of restrictions:

This regulatory regime is, in turn, internalized by the financial services sector.[2] Banks and money transfer agencies are required to carry out extensive due diligence on their customers to fulfil compliance requirements and face large fines if they are found to be in contravention of any of these regulations. Many NPOs, especially those that work in, on and around conflict zones, have been affected by these stringent requirements. Banks consider non-profits to be high risk for financial crime, expensive for compliance and low profit in general, resulting in the terminating of or a refusal to take on relationships with many NPOs. There have been inordinate delays in cash transfers for NPOs as due diligence is repeated by the intermediate or correspondent banks throughout the cash transfer chain, impacting programme delivery.

[2] HSC and ECNL (2018). *At the Intersection of Security and Regulation: Understanding the Drivers and Impact of 'Derisking' on Civil Society Organizations.* http://fatfplatform.org/wp-content/uploads/2018/05/Understanding-the-Drivers-of-De-Risking-and-the-Impact-on-Civil-Society-Organizations_1.pdf

Humanitarian activities have been hard hit,[3] especially the delivery of humanitarian assistance to those most in need and in areas controlled by proscribed groups. Muslim charities or charities with a Muslim name are, research has shown, among the hardest hit.

Studies have further shown that, given the critical nature of humanitarian aid, NPOs have found 'workarounds' in order to continue their work of providing support to the most vulnerable and marginalized, even though these solutions such as hand-carrying cash across borders into conflict areas, using personal bank accounts for transferring and receiving funds, or resorting to the services of unregulated money transfer businesses, have all led to greater risk exposure for the organizations, their employees and their partners.

Research has also shown that smaller NPOs that are vital for providing humanitarian assistance on time are more likely to be impacted than larger ones.[4] This trend increases the likelihood that donors will fund humanitarian assistance primarily through larger NPOs based in the Global North and their more established partners in the region concerned, thereby maintaining a culture of dependency. The relationship throughout the chain of contracts between organizations that provide humanitarian assistance has changed due to more stringent countering terrorism financing requirements. Larger NPOs receiving donor funding often include CFT clauses in their contracts with the smaller organizations that actually deliver the aid in crises areas. In addition, the banks of the larger NPOs often require them to conduct enhanced due diligence on their sub-grantees, leading to small organizations accepting grant conditions which primarily places the risk of terrorism financing abuse squarely on them.

The decrease in safe payment and banking channels has been further aggravated by a decline in correspondent banking relationships. Correspondent banks have been withdrawing from relationships with respondent banks in many parts of the world. The quantitative Correspondent Data Report from the Financial Stability Board looks at the decline in correspondent banking worldwide between 2011 and 2016 (using SWIFT data). For both the US dollar (USD) and euro (EUR), the number of active correspondents decreased by around 15%. Small economies are the most affected by the reduction in the number of foreign correspondent banks serving banks in these countries. This decline has been prompted by increased due diligence and Know Your Customer (KYC) requirements stemming from the above-mentioned regulations, with the correspondent bank lacking confidence in the respondent bank's ability to effectively manage anti-money laundering and countering terrorism financing risk. Profitability concerns also play an important role. For banks taking a steely-eyed look at the risk/return ratio of such relationships, risk averseness (financial and reputational) and a fear of fines wins out most times over servicing customers in parts of the world that are considered unprofitable.

The consequences of de-risking are undermining other policy goals and concerns such as those of economic development, the rollout of the UN Sustainable Development Goals, financial inclusion, human rights protection and the creation of an 'enabling environment for civil society'. Other effects

[3] Stuart Gordon and Sherine El Taraboulsi-McCarthy (2018). 'Counter-terrorism, bank de-risking and humanitarian response: a path forward. Key findings from four case studies'. Policy Brief 72. HPG/ODI/THF. https://www.odi.org/sites/odi.org.uk/files/resource-documents/12368.pdf

[4] HSC and ECNL (2018). Ibid.

of the overbroad regulation of the sector due to CFT imperatives include[5] onerous registration, licensing and reporting requirements, restrictions on receiving foreign funding and restrictions on freedom of expression and association (for example, curtailment of the right to protest). (See Annexe 1 on Bank De-risking and Nonprofits.)

Ongoing initiatives to address restrictions – Policy Dialogue:

The security agenda and the regulatory imperative that derives from this have in the past years been privileged over most other policy goals, including those of humanitarian assistance, development, peacebuilding and human rights. Rules and regulations imposed on the NPO sector have affected its day-to-day functioning across the globe. Financial inclusion, financial stability and financial integrity are not goals that are or should be at odds with each other. And, increasingly, donors are aware that they need to take on some of the risk responsibility. They no longer perceive de-risking as an issue that can be solved by banks and NPOs.

Some examples of ongoing initiatives include the year-long dedicated dialogue,[6] convened by the Graduate Institute, Geneva, and supported and funded by the Swiss Government, with additional support from the European Commission, Directorate General for European Civil Protection and Humanitarian Aid Operations, tasked with facilitating a multi-stakeholder technical compliance dialogue in order to promote safe and transparent banking and payment channels in support of permissible international humanitarian activity to, and within, Syria.

In another ongoing initiative, there have been talks between the Dutch government and one of the large international banks on the sharing of risk assessments of grantees and customers. This is an outcome of the multi-stakeholder dialogue processes co-convened by the Ministry of Finance and HSC in The Netherlands over the past few years on bank de-risking and its impact involving government (Finance, Foreign Affairs), banks and NPOs.

The World Bank–ACAMS multi-stakeholder roundtables[7] has similarly led to incipient dialogue between US regulators, NPOs and banks and to the production of guidance papers[8] for these stakeholders on KYC and DD approaches to address terrorism financing risks of NPOs.

The UK tripartite working group on financial access is another example of a national roundtable where relevant stakeholders identify joint solutions to navigate the complex AML/CFT and sanctions landscape with the aim of facilitating payments, in support of humanitarian aid in particular.

However, the concern about terrorism financing being facilitated through NPOs remains, as evidenced in the recently adopted UNSCR 2462 ('*Noting* with grave concern that terrorists and terrorist groups

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[5] http://fatfplatform.org/wp-content/uploads/2015/10/Catalogue-of-government-overregulation-July-2015_final-.pdf

[6] http://fatfplatform.org/wp-content/uploads/2019/07/FINAL-PublicDescriptionComplianceDialogueFinal.pdf

[7] http://fatfplatform.org/uncategorized/world-bank-acams-report-derisking/

[8] https://www.charityandsecurity.org/system/files/ACAMS%20Financial%20Access%20Paper%20-%20Updated.pdf

raise funds through a variety of means, which include but are not limited to … abuse of non-profit organizations…[9]). The challenge now is to clarify to the FATF, the FATF-Style Regional Bodies (FSRBs) and relevant stakeholders at the country level that international humanitarian and human rights law must be respected when designing and executing terrorism financing rules and regulations to conform with FATF's Recommendation 8 as well as other Recommendations.

Standard setters such as FATF now emphasize the risk-based approach (RBA)[10] when it comes to regulatory regimes that governments put in place. Governments now need to conduct a National Risk Assessment of Money Laundering and Terrorism Financing risk, including a risk assessment of the NPO sector, to determine those NPOs that are most at risk of being abused for terrorism financing. A properly conducted risk assessment enables more effective risk compliance, given that resources can then be directed towards those NPOs likely to be at risk, and should ultimately help financial institutions better manage risk and avoid inadvertent de-risking. (Annexe 2 on the Risk-Based Approach and NPOs.)

The FATF emphasizes, in its recently-published Guidance for TF Risk Assessment[11], that countries need to understand the residual or net risk for Terrorism Finance abuse of NPOs. The guidance encourages governments not to view NPOs as inherently at risk for TF abuse but to value and validate financial and administrative measures already taken by NPOs to prevent risk. The FATF underscores what NPOs have been stressing all along: that zero risk related to work in and on conflicts, human rights issues and humanitarian crises does not exist.[12] In this regard, the issue of de-risking becomes of importance to both government and private donors, whose support to NPOs is predicated on the support of vulnerable populations affected by humanitarian crises, and groups and individuals whose rights are being violated by those in power.

Given the conflicting institutional/political imperatives at play, what has been established is that de-risking is a wicked problem to solve. Solutions, which this working group's sessions in WHAF 2019 will focus on, need to be both technical/practical and systemic/policy-driven in order to address the current incoherencies and gaps. Along with this, there needs to be an acknowledgement of the need, as mentioned above, for a shared responsibility on risk.

Stakeholders that take part in roundtable dialogue processes need to reach out to supervisors, including Central Banks and Financial Intelligence Units, as well as to authorities responsible for compliance with the EU General Data Protection Regulation (GDPR), e.g., as these stakeholders too need to own up to preventing the de-risking of NPOs that are not at risk of terrorism financing or in any way implicated in economic and financial crime.

Other policy-driven solutions are being sought to be worked out, e.g., at the EU level by RELEX, Working Party of Foreign Relations Counsellors, which has a sanctions working group looking at derogations, or through exemptions for humanitarian relief clauses in UN Security Council sanctions regimes, or even through OFAC exemptions.

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[9] https://undocs.org/S/RES/2462(2019)
[10] http://www.fatf-gafi.org/publications/fatfrecommendations/documents/fatfguidanceontherisk-basedapproachtocombatingmoneylaunderingandterroristfinancing-highlevelprinciplesandprocedures.html
[11] FATF (2019). *Terrorist Financing Risk Assessment Guidance*. https://www.fatf-gafi.org/publications/methodsandtrends/documents/terrorist-financing-risk-assessment-guidance.html
[12] http://www.fatf-gafi.org/media/fatf/documents/reports/Terrorist-Financing-Risk-Assessment-Guidance.pdf

Ongoing initiatives to address restrictions – Technological Solutions:

Financial institutions (FIs) have to detect/report suspected transactions relating to money laundering or terrorism financing if they are to avoid large fines from their regulators. In order to achieve this compliance, FIs have been increasingly focused on technology to minimize risk of misconduct. Supervisory technology involves assessing large data sets to identify patterns or cases of breach. Regulatory technology involves the use of KYC Utilities (Legal Entity Identifiers) and Blockchain (Identity) to ensure compliance. And financial technology is trying to solve for the problem of money disbursal, including due to de-risking and the decline of correspondent banking, by using cryptocurrencies, distributed ledger technologies, blockchain, mobile money and biometrics or a combination of these.

Technological advances such as these have the potential to radically reduce the costs and risks associated with cross-border payments, as well as help lower the cost of Customer Due Diligence while aiding financial transfers. Using blockchain, for example, can help reduce transaction costs and allows for the tracing of payments as they go through to the organization/s and start being shared, making the process more direct, as well as more transparent and accountable.

Some technologies now work on enabling direct, point-to-point settlement of cross-border payments. This directly addresses the risk, a danger inherent in the current banking system, that a payment will fail on its way through the correspondent banking network. Addressing this risk in turn obviates the need for many operational processes embedded in the current cross-border payment system, all of which raise the cost and slow the pace of international payments.

For some NGOs these methods have proven to be useful in lowering the cost of transfers, and ensuring a speedy transfer. However, the last-mile problem still exists: the disbursed funds still need to be redeemed by being exchanged into the local currency at a bank or via mobile money. Another challenge which needs to be overcome is the transfer of funds to sanctioned countries.

Will technological developments to facilitate due diligence of and for NPOs that are currently being developed by e.g. Tech Soup, World Vision and Save the Children help to solve financial challenge restrictions?

Islamic Social Finance (ISF)

So far the focus on financial restrictions and de-risking has been on humanitarian assistance that is primarily supported from Nordic countries and/or by Nordic and western donors. A non-traditional finance perspective provides valuable insights and the exploration of opportunities for humanitarian support in present day crises. To this end, the realization of the humanitarian potential for Islamic Social Finance (ISF), its instruments, opportunities and blockages will be discussed in two roundtables, whereby connections will be drawn with the two previous roundtables on the challenges of financial restrictions and the solutions under development. The ISF roundtables are co-convened by the Overseas Development Institute (ODI), which is developing country cases studies on the humanitarian potential of ISF.

While there has been a rise in the number of people suffering from natural disasters and conflicts globally, Muslim-majority countries have been affected more than any other part of the world by humanitarian crises and disasters.[13] In 2015, for example, 30 out of 50 armed conflicts recorded worldwide occurred in OIC (Organization of Islamic Cooperation) countries leading to humanitarian crises of a large scale.[14] In such a fraught and challenging context, Muslim giving has been described as 'the lifeline of humanitarian organizations that contribute toward a robust relief network on the ground'.[15] The volume of Muslim giving is, indeed, substantial; the Islamic Development Bank estimates the global value of Zakat to be between $232 billion and $560 billion annually.[16]

Because of staggering gaps in humanitarian funding (Global Humanitarian Overview, 2018) and a recognition of the potential role to be played by Muslim giving, there has been a growth in interest in Islamic Social Finance (ISF) which incorporates principle of economic justice, shared prosperity and inclusive participation.[17] The Islamic finance industry had an estimated size of assets under management at the end of 2011 of $1trn.[18] Little is known about its limitations and opportunities for expansion and replication.

[13] SESRIC (2017). 'Muslim countries struggle with high burden of humanitarian crises'. Available through: http://www.sesric.org/imgs/news/412-News-article-on-humanitarian-crises-report.pdf [accessed 20 June 2019].
[14] Ibid.
[15] Cheema, T. H. (2017). "Muslim Philanthropy's Response to Rising Humanitarian Crises." *Journal of Muslim Philanthropy and Civil Society.* Vol. 1, No.1, P.74.
[16] Ahmed, Maram (2019) 'How traditional Islamic giving can play a role in the future of aid'. World Economic Forum. Available through: https://www.weforum.org/agenda/2019/05/islamic-social-finance-humanitarian-aid-charity-climate-change/ [accessed 20 June 2019].
[17] Lalani, Sofeena (2019). 'Islamic social finance: the future of humanitarian partnership?'. Bond. Available through: https://www.bond.org.uk/news/2019/02/islamic-social-finance-the-future-of-humanitarian-partnership [accessed 20 June 2019].
[18] Schoon, Natalie (2015). 'Islamic finance as social finance'. P. 4. In *Social Finance* (Eds. Alex Nicholls, Rob Paton, and Jed Emerson). Oxford Press Online. Available through: https://www.oxfordscholarship.com/view/10.1093/acprof:oso/9780198703761.001.0001/acprof-9780198703761-chapter-19 [accessed 24 June 2019].

A preliminary review of existing literature on ISF points out that a number of challenges to its expansion. The first set of challenges are *systemic challenges* some of which have also riddled Islamic philanthropy as a whole. As argued by Tariq Cheema, Chief Executive Officer of the World Congress of Muslim Philanthropists (WCMP) "the overwhelming proportion of Muslim giving is directed towards disaster relief" which leaves limited scope for the diversification of funding, and "less money is available to invest in addressing other societal needs, such as health, education, food security, and economic empowerment" (Cheema, 2017: 75). Another challenge is related to coordination and capacity; "the high burden of humanitarian crises combined with limited availability of human and financial resources and lack of coordination among relief actors compromises the effectiveness of service delivery" (Cheema, 2017: 75). More innovative approaches to ISF have also been faced with problems related to their feasibility; *Salām*-based crowdfunding[19] which is based on the experience of the Sudan-based Bank of Khartoum combines the contemporary investment facilities of crowdfunding and the classical *Sharīʿah* contract of *Salām*. A study seeking to propose *Salām*-based crowdfunding for agricultural development in Afghanistan, however, points out concerns about the treatment of investors and investors' protection against fluctuations of commodity market prices, credit and liquidity risk management. While it did work in the Sudan, there are doubts around its feasibility in another context (El Saiti et al, 2018).[20] Aligning ISF instruments and systems with context is, thus, critical to its success.

Another set of challenges to ISF expansion are *contextual*. Longstanding religious and geopolitical conflicts remain a challenge which has made Islamic philanthropy as a whole mostly responsive – adopting what can be described as the "firefighter approach" - rather than strategic with long term goals. For the most part, "humanitarian work in Muslim societies has taken the form of ad-hoc charity relief efforts. It involves providing immediate aid for day-to-day needs and action to challenges that demand a quick response" and as a result, "the innumerable organizations that are lending humanitarian support across the Muslim world are unable to address and focus on the root causes of the challenges faced." Despite the existence of effective networks in affected communities, Muslim giving has, in a way, mimicked the act of fire fighters by providing immediate responses and relief to control the damage instead of searching for solutions that can contribute to permanent change" (Cheema, 2017: 95). ISF has also been responsive and less strategic than it has the capacity to become.

There are also new opportunities emerging for ISF with new technologies and the formation of new networks that warrant analysis. There are examples where Islamic social finance tools such as *waqf* and *zakat* have successfully created social safety nets. In Indonesia, a zakat fund of $350,000 was used to finance the construction of a Micro Hydro Power Plant in Jambi, thus providing electricity for households, schools and clinics, benefiting at least 4,448 people directly and many more businesses

[19] Salam is a sale contract, whereby the selling price is fully paid in advance as a consideration for delivery of the underlying commodity at a specified future date (Hasanuzzaman, 2003; Al-Buhūtī, 1982; Al-Sharbīnī, 1994; Al-Dardīr, 1884).

[20] El Saiti et al. (2018) "Financing agricultural activities in Afghanistan: a proposed salam-based crowdfunding structure." *SRA International Journal of Islamic Finance*. Vol. 10, Issue 1, PP. 52 – 61.

and services indirectly (Abdul Aziz & Zhang, 2019).[21] Moreover, building affordable houses on *waqf* land for the bottom 40% is getting examined by the Malaysian federal government. Saudi Arabia, Singapore and the state of Selangor in Malaysia had allowed the development of *waqf* land by way of leasehold basis for commercial properties. This method uses the *waqf*'s principle of perpetuity which means that there is no transfer of ownership involved. This same method may result in affordable housing development in Malaysia (Abdul Aziz & Zhang, 2019).

Developing *Takāful* products represent a key risk financing opportunity for disaster and climate resilience – in line with the G7 commitment to reach 400 million additional people globally with affordable insurance by 2020 through the InsuResilience Global Partnership, and the global commitment to invest more in long-term resilience-building rather than short-term humanitarian action. Yet in many cases, access to and use of insurance products has been low. One reason, among others, is that Muslims often avoid such services over concerns about interest and uncertainty or ambiguity in contracts. Takaful products are slowly but steadily emerging as a central part of the Sharia-compliant family of financial services, helping to meet insurance needs in ways that are consistent with local norms. Takaful has high potential and can possibly cover various climate-related risks at the micro and meso level. While the market has experienced a period of very rapid growth (30% annually in 2007–2010), it is regarded as still largely untapped (Gönülal et al., 2013).

The scope of FinTech projects has expanded greatly over the past few years globally and across the Muslim world. Early impact evidence on digital financial services and other branchless banking solutions indicates significant positive benefit (Calderone et al., 2019).[22] For instance, digital interventions could meet the needs of the most credit constrained SMEs while addressing long-standing cost inefficiencies in Islamic finance as they could easily promote product innovation and aid service provision. Mobile banking, in particular, could be transformational in unlocking banking and financing options for individual producers, credit-constrained entrepreneurs, and small businesses operating in ASALs. ODI research has, however, pointed out the challenge of lack of oversight and regulations in the case of Somalia (El Taraboulsi – McCarthy, 2018).[23] Similarly, the use of blockchain offers an enormous potential in changing the conventional configurations of Islamic trade finance as, for example, HalalChain Foundation is doing in the MENA region.

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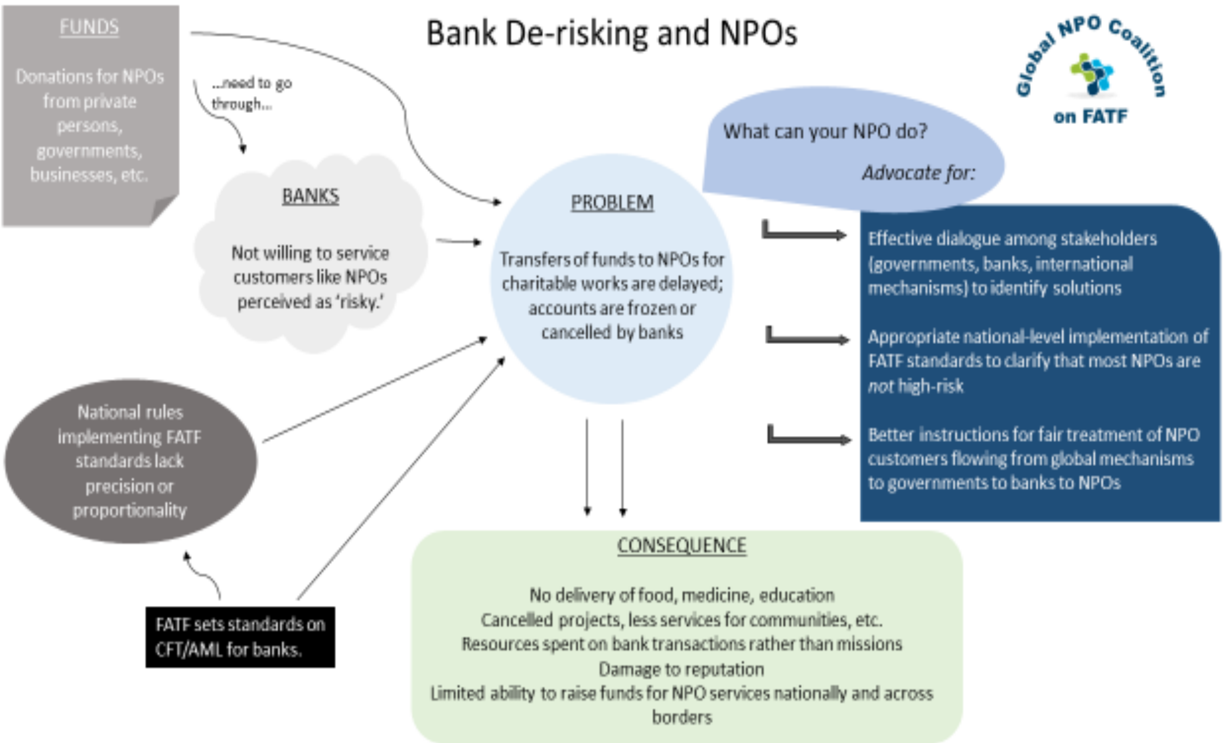
[21] Abdul Aziz, Ahmad Hafiz and Wei Zhang (2019) "Can Islamic social finance be the key to end poverty and hunger?" World Bank Blogs. Available through: https://blogs.worldbank.org/eastasiapacific/can-islamic-social-finance-be-key-end-poverty-and-hunger [Accessed 19 September 2019]

[22] Calderone, Margherita et al. (2019) "Investing in financial inclusion for climate resilience and adaptation: The role of Islamic financial services" ODI & Islamic Relief Worldwide Briefing Note. Available through: https://www.odi.org/sites/odi.org.uk/files/resource-documents/12685.pdf [Accessed 19 September 2019]

[23] El Taraboulsi – McCarthy, Sherine (2018) "The challenge of informality: counter-terrorism, bank de-risking and financial access for humanitarian organisations in Somalia" ODI Working Paper. Available through: https://www.odi.org/publications/11142-challenge-informality-counter-terrorism-bank-de-risking-and-financial-access-humanitarian [Accessed 19 September 2019]

Annexe 1



Bank De-risking and NPOs
FUNDS
Donations for NPOs from private persons, governments, businesses, etc.
...need to go through...
BANKS
Not willing to service customers like NPOs perceived as 'risky.'
PROBLEM
Transfers of funds to NPOs for charitable works are delayed; accounts are frozen or cancelled by banks
National rules implementing FATF standards lack precision or proportionality
FATF sets standards on CFT/AML for banks.
CONSEQUENCE
No delivery of food, medicine, education
Cancelled projects, less services for communities, etc.
Resources spent on bank transactions rather than missions
Damage to reputation
Limited ability to raise funds for NPO services nationally and across borders
What can your NPO do?
Advocate for:
Effective dialogue among stakeholders (governments, banks, international mechanisms) to identify solutions
Appropriate national-level implementation of FATF standards to clarify that most NPOs are not high-risk
Better instructions for fair treatment of NPO customers flowing from global mechanisms to governments to banks to NPOs
Global NPO Coalition on FATF

Annexe 2

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