

**Issue Brief**

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**Financial Access and De-Risking: Impact on NGOs**

In recent years, access to financial services has become increasingly difficult for civil society organizations that must conduct international financial transactions in order to operate, particularly for groups engaged in global hot spots where their work is needed most. Financial institutions may delay, or refuse to make, transfers between organizations. Sometimes, nongovernmental organizations (NGOs) are turned away as customers or have their accounts closed. Remittance services that facilitate fund transfers between diaspora populations and their families are threatened by the international banking system’s growing unwillingness to provide these services.

The U.S. government has said that banks should not “de-risk” but that policy has not been translated into concrete action or regulatory standards that remove current disincentives for banks to provide services to international NGOs (INGOs). As a result, money will be taken out of transparent, regulated channels, making life more difficult for legitimate NPOs and easier for terrorist financiers.

**Why Is Financial Access So Difficult?**

Very large sums of money flow to and from illicit sources, and the connection between organized crime and terrorist financiers is growing. U.S. counterterrorism laws and policies treat U.S. financial institutions as the first line of defense against anti-terrorist financing. They are expected to act as monitoring and enforcement arms of government to identify, track and stop these illicit money flows.

A federal bank regulator manual sets out the framework for intense review of bank practices, prodding bank examiners to look into whether financial institutions have appropriate controls and mechanisms in place to identify illegal fund transfers. As a result, banks implement compliance methods that include close monitoring of transactions, due diligence on their customers, terrorist list-checking and other methods of scrutiny.

Collecting and reviewing this type of information requires substantial resources and places banks in a quasi-regulatory role. In addition, statements from regulatory authorities have consistently classified nonprofit organizations as being particularly vulnerable to terrorist abuse, although such abuse is extremely rare. Add to this the fact that most NGOs requiring these services are small and do not represent a significant source of income for banks. The risk-benefit calculation is heavily weighted in favor of dropping these clients, a practice known as “de-risking.” And these threats aren’t just theoretical—several major banks have received substantial fines for their role in terrorist financing and money laundering.

**Why So Many Regulations?**

Bank regulations affecting their international NGO customers stem from two sources: the Financial Action Task Force (FATF) and U.S. banking regulations.

FATF is an intergovernmental body that sets recommendations for national anti-money laundering and counter-terrorist financing (AML/CTF) laws and regulations. Although FATF recommendations aren’t legally binding, the group conducts evaluations of countries’ compliance and provides ratings based on whether a country’s policies are in line with FATF. This can impact a country’s credit ratings. FATF’s Recommendation 8 and its accompanying *Interpretive Note* and *Best Practices Paper* establish policies for government monitoring of the NGO sector to identify potential terrorist abuse.

The U.S. Department of Treasury is responsible for implementing FATF recommendations in the U.S. Its primary tool is economic sanctions, placing groups or individuals on watchlists that then trigger asset freezing and travel bans for listed entities. It also bars any U.S. person from engaging in a transaction with a listed person or group.

**Impacts on Nonprofits: Delays, De-Risking and Lack of Remittance Options**

Without financial access, these groups cannot make the international transactions that are necessary for their organizations to function.

In addition, sending remittances, which are relied upon heavily by people in conflict zones, is increasingly difficult. Money Service Businesses (MSBs) are responsible for facilitating the transfer of more than $200 million each year from the U.S. to Somalia alone. However, concerns that MSBs could be used to fund terror have led to the closures of a majority of accounts both in the U.S. and UK, and the last bank serving MSBs in the U.S. has said that it will shut down these accounts in July 2015. Despite significant MSB investment into compliance and strong pressure from several members of the U.S. Congress, banks have refused to re-open accounts. Cutting off the flow of funds through legitimate MSBs could encourage diaspora communities to send money through unregulated and illegal channels.

Even without loss of financial access, many NGOs are impacted by significant delays and administrative burdens. Funds may be delayed for months at a time for seemingly arbitrary reasons. This impacts programming and makes it difficult for charities to operate effectively, particularly in times of crisis that require immediate aid to save lives.

**Are There Any Remedies?**

While the current regulatory framework for anti-terrorist financing is unlikely to change in the foreseeable future, clarity is needed. In dialogue with banks, NPOs should not suggest that there are no problems, but rather that the scale is small and can be dealt with in a more sensible way. Possible solutions to benefit all NGOs include on online repository of due diligence information, a database of approved financial institutions and pooled accounts.

There is a collective need to educate all parties, reach out to government and the financial sector, and create an umbrella to facilitate dialogue between all stakeholders. The Charity & Security Network is working with NGOs and regulators to develop a consensus on the scope of the problem and possible solutions.

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