CHARITY & SECURITY NETWORK

ISSUE BRIEF

Financial Access and De-Risking: Moving Toward Solutions for Nonprofit Organizations

Over the last several years, access to financial services has become increasingly difficult for nonprofit organizations (NPOs) that must conduct international financial transactions in order to operate overseas, often in places where their work is needed most. Financial institutions may delay, or refuse to make, transfers between organizations. Sometimes, NPOs 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. A Charity & Security Network (C&SN) report, published in Feb. 2017, established that these financial access problems are systemic, global and require urgent action by government, financial institutions and NPOs.

Why Is Financial Access So Difficult for NPOs?

Very large sums of money flow to and from illegal sources in the global financial system, and the connection between organized crime and terrorist financiers is growing. U.S. counterterrorism laws use U.S. financial institutions as the first line of defense for anti-money laundering and countering the financing of terrorism (AML/CFT) measures. Banks are expected to act as monitoring and enforcement arms of government to identify, track and stop illicit money flows. This has increased banks' compliance costs and risk aversion substantially.

In addition, aggressive enforcement of the Bank Secrecy Act (BSA) and anti-terrorist and AML laws compound the "derisking" problem. Several major banks have received substantial fines for their role in terrorist financing and money laundering, which has had a chilling effect on other banks. Financial sectors and AML/CFT experts have identified compliance risks, constant regulatory reviews and scrutiny, and strict liability standards as some of the most fundamental causes of derisking. Add to this the fact that most NPOs requiring international banking services are small and do not represent a significant source of income for banks. Therefore, the risk-benefit calculation is heavily weighted in favor of dropping these clients.

Prior to a Nov. 2021 update to the Bank Examination Manual regulators use to oversee banks, bank examiners pushed banks to conduct extensive due diligence on NPOs, which cost substantial time and resources. Although the updated manual states that "Examiners are reminded that the U.S. government does not view the charitable sector as a whole as presenting a uniform or unacceptably high risk of being used or exploited for ML/TF or sanctions violations," this change has not yet trickled down at the implementation level.

Impacts on Nonprofits: Delays, Derisking and Lack of Remittance Options

Without financial access, NPOs cannot make the international transactions that are necessary for their organizations to function. C&SN's report, *Financial Access for U.S. Nonprofits*, is based on the first-ever empirical study of this problem as it relates to U.S.-based NPOs. Among the report's major findings:

- Two-thirds of all U.S. NPOs that work abroad are having financial access difficulties
- 15% of NPOs 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 NPOs
- 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, even in areas not deemed "high-risk"; the problem is not limited to conflict zones or fragile and failing states
- When money cannot be transmitted in a timely manner, 42% of NPOs report carrying cash.

Are There Solutions?

C&SN's report made concrete recommendations to address these problems, including a multi-stakeholder dialogue to forge solutions. To date, the World Bank (WB) and the Association of Certified Anti-Money Laundering Specialists (ACAMS) held such a dialogue, with banks, NPOs and government officials, from 2017 - 2018. Building on this, a multistakeholder Working Group (MSWG) on Financial Access for NPOs, convened by the Center for Strategic and International Studies (CSIS), is currently underway. This MSWG dialogue brings together "policymakers, NPOs, and financial institutions to discuss banking access and humanitarian-assistance -related issues", and will develop actionable policy recommendations in the coming months. Under the previous dialogue, C&SN coordinated NPO participation around specific solutions drawn from the report, and is continuing to coordinate NPO participation on implementing these solutions and developing policy recommendations in the current MSWG dialogue.

Congress has increasingly recognized and taken steps to address the financial access and derisking challenges NPOs face, such as developing Congressional requirements under the National Defense Authorization Act (NDAA) for Fiscal Year 2021, including:

1. Treasury must conduct a formal review of financial institutions' reporting requirements and propose changes to reduce unnecessary burdens
2. Treasury must review banking regulations to identify those that do not promote a risk-based approach (RBA) and must make necessary changes
3. GAO must issue a report on the drivers of derisking and improving banking access for entities transferring funds to high-risk countries (see under 'Studies')
4. Bank examiners must receive a training on derisking
5. Treasury must conduct a review on promoting financial inclusion, accounting for findings and learnings from the above requirements. This must culminate in creating a derisking strategy.

C&SN played a leading role in getting these key provisions included in the NDAA.

Studies

Financial Access for U.S. Nonprofits C&SN Feb. 2017

Banking NPOs: The Way Forward Consortium for Financial Access June 2019

BSA: Views on Proposals to Improve Banking Access for Entities Transferring Funds to High-Risk Countries Government Accountability Office (GAO) Dec. 2021

Can stakeholder dialogues help solve financial access restrictions faced by non-profit organizations that stem from countering terrorism financing standards and international sanctions? International Review of the Red Cross Feb. 2022

Navigating access to financial services for CSOs: a practical guidance ECNL April 2022

How Can Nonprofits Get Involved?

C&SN's Financial Access Working Group provides a forum for nonprofits to work together, share information, provide feedback to the CSIS Working Group dialogue and more. To join contact Ashleigh Subramanian-Montgomery at ashleighsm@charityandsecurity.org.

For more information about financial access or the work of the Charity & Security Network, contact us:

Charity & Security Network
700 12th Street NW Suite 700 Washington, DC 20005
(202) 770-1751 | info@charityandsecurity.org | www.charityandsecurity.org