

Financial Inclusion for NGOs: Why should you care?



Restrictions, delays or denials of banking services and financial transfers are having devastating unintended consequences for people who depend on humanitarian aid to survive. The delivery of aid is being delayed for months or even blocked entirely, putting hundreds of thousands of lives at risk. Islamic Relief is at the forefront of dialogue with government regulators and banks to try to ensure that some of the world's most vulnerable people are not denied life-saving aid.

We ask aid organisations large and small to join the discussion and to protect the ability to deliver aid safely in some of the world's hardest to reach places.

How did we get here?

The way that governments have interpreted internationally agreed standards for policing terrorism financing has failed to recognise, or overstated, the actual risk of abuse by humanitarian organisations. Worse still, countries have failed to see the vital role humanitarian and aid agencies play in fragile states.

These fundamental errors of practice were evident in the original position taken by the Financial Action Task Force (FATF) on the risk posed by the not-for-profit sector.

What is De-risking?

"The phenomenon of financial institutions terminating or restricting business relationships with clients or categories of clients to avoid, rather than manage, risk", [Financial Action Task Force \(FATF\), 2015](#)

FATF and the NPO Coalition

FATF was formed in 1989 in response to money laundering concerns and later on, prompted by the September 11 terrorist attacks in the United States in 2001, its focus was expanded to include combating the financing of terrorism. Its Recommendation 8 was belatedly revised in 2016 after significant engagement by the Non Profit Organisations (NPO) Coalition including Islamic Relief. The revision of Recommendation 8 removed the claim that the NPO sector is 'particularly vulnerable' to terrorist abuse. The new language was a big improvement; but there continue to be serious challenges.

Impact of FATF Recommendations: De-risking

Financial institutions are obliged to play their part to ensure their customers are not using their services for involvement in crimes such as money laundering and terrorist financing. Should they be found to have gone against legal requirements, they risk being fined or prosecuted. However, under the pretext of applying the law there are also a significant number of financial institutions who are lowering their appetite to work with humanitarian and aid actors. This is excluding significant parts of the sector - particularly smaller, localised organisations and Muslim faith-based organisations - from being able to access financial services. **Widespread 'de-risking' is having a direct impact on aid being provided to where it is needed the most.**

“The Global NPO coalition and FATF have worked closely and effectively over the last 8 years to move the dial from the automatic and wrong assumption that NPOs are at risk of terrorist financing abuse. But that legacy is still with us. Governments and financial institutions continue to act in a disproportionate way. We urgently need a fair risk-based approach.”

- Lia van Broekhoven,
co-chair of the NPO Coalition

Members of a Savings and Loans Group, part of Islamic Relief's project in Tazumuddin, Bhola, Bangladesh



Impact on Non-Government Organisations (NGOs):

- Denial of access to essential financial services e.g. closed, frozen or blocked transactions.
- Delay in transfer of funds for critical and life-saving programmes in high risk crisis-affected countries e.g. Somalia and Syria.
- Significant reputational risk (and its operational consequences) for NGOs and local organisations who fall victim to unexplained de-risking measures.
- Reduction in the funds available for high risk crisis-affected countries - donors, for reputational reasons, increasingly prefer to fund organisations and projects in regions that are less likely to be subject to lengthy and bureaucratic banking process rather than basing funding on need.
- Forcing localised and smaller organisations to opt out of their humanitarian mission. Due to de-risking practices NGOs are being forced to adapt and rely on informal financial systems which use less transparent and less safe methods (such as Hawala or cash carrying) to transfer funds.



Due to delays in transfers, 42 per cent of NGOs reported physically carrying cash.¹



68 per cent of U.S. NGOs surveyed* reported experiencing financial access problems, most commonly transfer delays and fee increases.³



53 per cent of humanitarianists reported that lack of clarity regarding counterterrorism laws persists even after the implementation of policies, procedures, and/or training regarding counterterrorism law.²



From Jan-July 2020, we have seen a significant increase in compliance queries on repeat transfers, which have resulted in delays and restricted our ability to provide urgent humanitarian assistance. Administrative processes within the banking chain is impacting people's lives.



Somalia: £385,000 provided for maintaining and sustaining the use of 15 boreholes in 15 villages in Somaliland were held by an intermediary bank for well over six months—despite our good standing and compliance to laws and regulations as well as with the bank's request for additional information. The delay resulted in 72,500 people being left without reliable water supply during the dry season and drought—a risk to their lives.

“Islamic Relief Worldwide acknowledges that it is of course legitimate and necessary for states to ensure the security of their population. We carry out neutral, impartial and independent humanitarian action and condemn those acts of terrorism which are fundamentally against our principles and values. Effective money-laundering risk management need not result in wholesale de-risking, which has significantly affected the aid sector in general and Muslim Charities in particular, and we call on banks to use judgement and common sense— what we regard as an effective risk-based approach. ”

- Naser Haghamed, CEO

Why should you care? Impact of de-risking on NGOs

The banking system is a key component of NGOs like Islamic Relief being able to deliver on its humanitarian and development commitments. If we are not able to transfer money securely, reliably and through trusted financial institutions, we simply cannot fulfil our purpose and will leave vulnerable people at risk and ill equipped to counter threats posed by conflict, climate change, extreme poverty and in current times, COVID-19.

Despite robust independently verified internal processes and being a key actor in the wider global aid sector - working with many donor governments and UN institutions that trust us to deliver aid on their behalf - Islamic Relief and many other organisations continue to be negatively impacted by the effects of de-risking.

We fear that if urgent action is not taken, NGOs like ours and the millions of people we help every year will be left paying the price of legislation that was intended to reduce harm.

We will continue working alongside civil society groups across the world to set out our concerns and urge governments to ensure that funds for humanitarian work reach affected communities unhindered. We work hard to push for a better understanding on this issue. We also continue to engage with Governments in the UK, USA, Europe and FATF on this issue. IRW is part of the UK Government Tri-Sector Working Group* and in February 2020 met with the US Assistant Secretary responsible for de-risking, and their team within the USA Treasury Department. As a result of this engagement IRW is working to gather data to present to the US Treasury on the impact of de-risking on financial transfers to conflict zones with acute humanitarian needs, and the knock-on effect of this on aid operations.

*UK Tri-Sector Working Group: Convened by the Home Office, this brings together key players in the humanitarian aid sector, financial institutions and representatives from all relevant Government Departments to identify and address the humanitarian consequences of counter-terror legislation.



Khaleel Desai, Islamic Relief Worldwide's Head of Governance, attending a dialogue between the FATF, the World Bank, the banking sector, and Japanese and international NGOs that took place on the sidelines of the G20 in Osaka, Japan in June 2019

Impact on the Grand Bargain

The de-risking trend threatens commitments made by donors to promote localisation and put 25 per cent of emergency funding directly into the hands of local and national operators. This target was agreed at the World Humanitarian Summit in Turkey, 2016 as part of the "Grand Bargain," a package of reforms to humanitarian funding.

How de-risking is undermining government policy: UK example

Syria has been the biggest humanitarian crisis in the world in recent years. The UK government has given £2.71 billion in aid between 2012 and 2019, with £400 million provided in 2019 alone. Three-quarters is humanitarian aid and nearly half is provided through NGOs.

- Donor funds to Syria held at any one time between correspondent and recipient banks for a period between 4-6 months.
- Bank de-risking has reduced the cash available to the NGO community in Syria by at least 35 per cent, and funds remain unavailable between 3-5 months longer than in the past.⁴

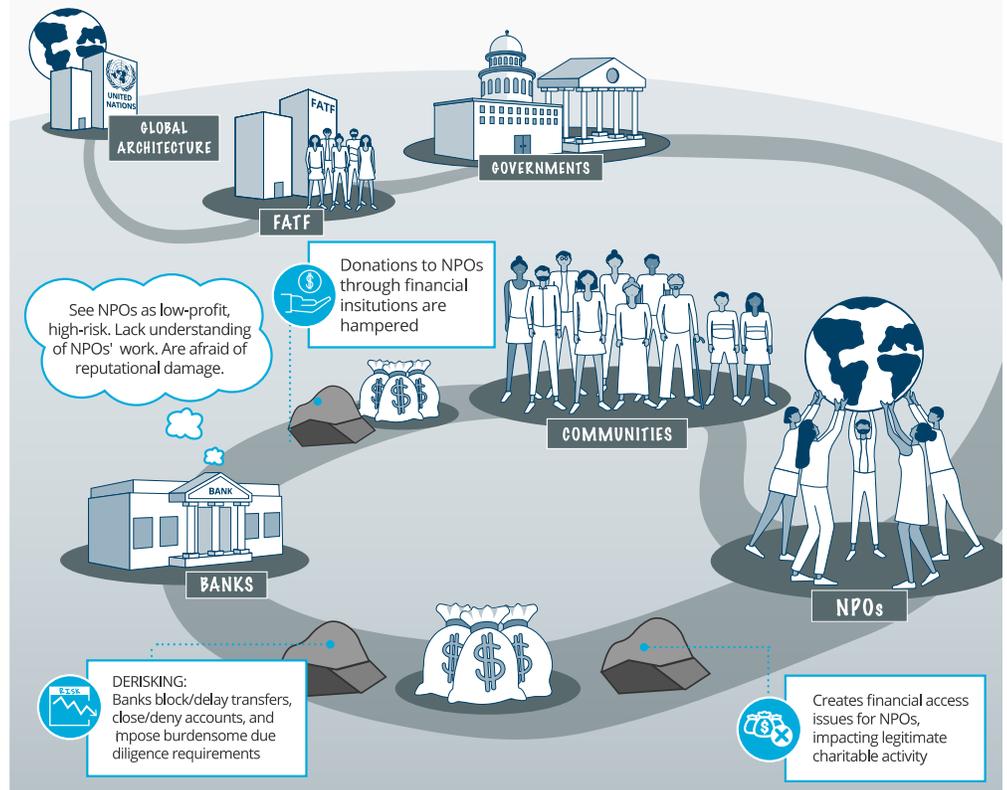
“ IRW is a respectable UK-based INGO receiving funding from donor governments employing the strictest possible measures on terrorism financing, and undergoing high levels of scrutiny as a result, yet it has been unable to transfer money inside of the European continent and between European banks due to alleged compliance reasons. We can only imagine what this means for lower profile humanitarian organisations trying to transfer funds for crucial programmes, particularly in conflict-ridden countries. ”

- Ignacio Packer, Executive Director, International Council of Voluntary Agencies (ICVA)



Children in school: Picture taken from Islamic Relief's 2016 Education and Food project in Northern Syria.

Syria: In 2012, we gained humanitarian access deep inside war-torn Syria, where our work continues to date, as well as in neighbouring countries supporting refugees. In 2019 alone, over 2.3 million people were reached with lifesaving aid. A 2018 study by the Overseas Development Institute (ODI) and the London School of Economics (LSE) found that bank de-risking has resulted in humanitarian actors adjusting their programmes in Syria to focus on less contentious areas and projects that are less vulnerable to bank obstruction.



An overview of how bank de-risking is affecting the humanitarian space. Source: The Global NPO Coalition on FATF

Financial Inclusion for NGOs: Why should you care?

Financial Inclusion for NGOs: Why should you care?



Our Call for Action

We are calling on governments and law makers to:

Recognise the critical role played by the NGO community in providing humanitarian response and assistance to those in need, often in remote regions, and at considerable risk to themselves.

Ensure that adopting measures to protect the NGO sector from terrorist abuse does not disrupt or discourage legitimate humanitarian activities.

Recognise that NGOs and humanitarian actors are not automatically high risk, and some may represent little or no risk at all. A "one size fits all" approach to all NGOs is not appropriate, either in terms of how countries supervise and monitor the sector, or how financial institutions engage with customers who are NGOs. This also applies to donors who are providing funding to NGOs.

Develop clear guidance to underpin these principles and improve risk management through learning and experience.

We are calling on banks to:

Work together with NGOs, taking a targeted approach to implementing legal measures, including oversight and regulatory mechanisms, based on an understanding of the diversity of the NGO sector and the terrorism risks faced by those acting locally.

Commit to (and be held to) the proper implementation of a risk-based approach when providing financial services to NGOs.



During the emergency floods in Ethiopia's Afdar zone, we distributed cash to households so they could buy food and essential items. Cash programming is an increasingly integral part of life-saving humanitarian responses. However, some donors consider cash distributions such as this too risky and prone to aid diversion, and encourage aid in kind instead - which goes against commitments made under the Grand Bargain.

¹Gordon, Stuart, et al. "The impact of bank de-risking on the humanitarian response to the Syrian crisis." (2018).

²Burniske, Jessica S., and Naz Modirzadeh. "Pilot empirical survey study on the impact of counterterrorism measures on humanitarian action." (2017).

³Eckert, Sue E, Guinane K and Hall, A. "Financial Access for US Non Profits." (2017).

⁴Gordon, Stuart, et al. "The impact of bank de-risking on the humanitarian response to the Syrian crisis." (2018)



Islamic Relief Worldwide is the world's largest independent Muslim humanitarian aid organisation, established in the UK in 1984. Dedicated to alleviating poverty and suffering globally, despite financial access difficulties we deliver emergency relief and sustainable development programmes to the value of up to \$160 million (£130 million) every year. We respond to global emergencies, from earthquakes and tsunamis to most recently, the COVID-19 pandemic.

Contact:

Khaleel Desai

Head of Governance

Email: khaleel.desai@irworldwide.org

Osmawani Binti Osman

International External Relations Coordinator

Email: osmawani.osman@irworldwide.org