

## G-20 - ACCESS TO FINANCIAL SERVICES FOR NON-PROFIT ORGANIZATIONS

Authored by a Global NPO Coalition on the FATF product<sup>79</sup>

There is an increased tendency on the part of financial institutions to restrict or terminate relationships with categories of customers such as corresponding banks, money remittance agencies and small and medium enterprises (SMEs) – a practice known as de-risking. The G-20 has recognized the impact of de-risking on financial inclusion and is working with different bodies such as the Financial Action Task Force (FATF) and the World Bank to address it and find solutions. However, the G-20 effort does not consider the negative effect of de-risking on the financial inclusion of non-profit organizations (NPOs)<sup>80</sup> and the people who benefit from or depend on the work of NPOs. To our understanding, there is also a lack of G-20 action and measures to help avoid the negative impact on NPO financial inclusion and operations caused by de-risking.

There is now a growing body of evidence showing that NPOs (including both large, international organizations and smaller poverty alleviating and advocacy organizations) have been heavily impacted by de-risking. Manifestations include: inability to open bank accounts, arbitrary closure of accounts, inordinate delays or termination of transactions, onerous due diligence and reporting obligations that can inhibit engagement with communities.<sup>81</sup> De-risking has had devastating consequences for many organizations as interrupted access to resources is forcing charitable and humanitarian programs to close. Furthermore, it affects people directly, including refugees and victims of conflict who cannot receive resources and may therefore be subject to starvation, exposure, and disease.<sup>82</sup> The FATF President concluded that de-risking significantly impacts NPOs, preventing the provision of “vital services to society, often in dangerous regions and for vulnerable communities”.<sup>83</sup>

**We ask the G-20 and its members** to take global leadership on reducing bank de-risking, ensuring that all entities, including NPOs, have equal access to financial services. Through a communique at the November summit, the G-20 can recognize the problem for NPOs and commit its bodies, Member States and the FATF to take specific actions to address the impact of bank de-risking on NPOs. We further ask the G-20, its platforms, its Member States and its partners to align their policies and monitoring tools in order to enforce effective implementation at the national level to help improve the financial access of NPOs. Specific actions could include:

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<sup>80</sup> See <https://blogs.worldbank.org/psd/miga/de-risking-impedes-access-finance-non-profit-organizations>

<sup>81</sup> <http://www.cfg.org.uk/resources/Publications/~media/Files/Resources/Briefings/Impact%20of%20money%20laundering%20and%20counter-terrorism%20regulations%20on%20charities.pdf>;

<https://www.charityandsecurity.org/FinAccessReport>; <http://www.hscollective.org/uncategorized/new-research-report-understanding-drivers-de-risking-impact-civil-society-organizations/>;

<https://www.demos.co.uk/files/DEMOSuncharitablebehaviourREPORT.pdf>;

<https://law.duke.edu/humanrights/tighteningthepursestrings/>;

<https://nonprofitquarterly.org/2017/04/24/banks-derisking-hinders-humanitarian-aid-work-needed/>

<sup>82</sup> See <http://www.worldbank.org/en/topic/financialsector/brief/de-risking-in-the-financial-sector>

<sup>83</sup> See <https://aplusmag.goodbarber.com/home-order/c/0/i/20307420/keeping-it-clean>

- i) Preparatory discussions in groups within the G-20 structure (e.g., at the meetings of finance ministers, within the Global Partnership for Financial Inclusion[GPMI]) on how to address the issue;
- ii) Tasking the GPMI to set up a sub-group on financial access for NPOs (or amend the mandate of an existing group) and monitor the impact on NPOs;
- iii) Tasking FATF to address the issues specific to FATF-related processes, in terms of the risk assessment and evaluation of compliance, in line with the risk-based approach.

We present below a more detailed analysis and elaboration of proposed next steps for the G-20. We remain available to enter into dialogue and provide support to the G-20 to address this problem.

## Background

“There are an estimated 10 million NPOs worldwide.  
If NPOs were a country, it would be the 5th largest economy in the world.”<sup>84</sup>

Banks' approach to de-risking emanates from the FATF standards, which require financial institutions to identify, assess and understand their money laundering and terrorist financing risks, and implement measures that are commensurate with the risks identified. However, in practice, banks are reassessing their risk appetite in light of anti-money laundering and countering the financing of terrorism (AML/CFT) enforcement actions (which often result in high penalties for banks). Therefore, banks weigh the possible breach of legal or regulatory regimes against the profit margin from those customers or transactions perceived to be risky. In the case of non-profit customers, the profit margins are typically so small relative to others that the cost-benefit calculation results in decisions to turn away or sever ties with non-profit clients.

Financial institutions have not developed effective methodologies to identify AML/CFT risk; they have used broad categories (such as geographical location or legal status) in order to manage risk. As NPOs often work in the most challenging environments, this has compounded the impact of the rules. Furthermore, in such cases, non-profits are denied a chance to seek redress or challenge the risk assessments conducted by banks that led to the denial of services in the first instance. This, in turn, has the opposite effect of the aim of global AML/CFT standards: risk is actually increased by de-risking, as money continues to flow outside of official, regulated channels and under the radar of state bodies.<sup>85</sup> Mission-driven NPOs that are shut off from formal financial institutions are forced to use other methods, including cash couriers and *hawala*, all of which are riskier than formal banking channels. While much of this empirical research relates to moneys being sent from foreign sources, there is evidence emerging of domestic money flows also being impacted.

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<sup>84</sup> Johns Hopkins University, Center for Civil Society Studies

<sup>85</sup> Also detected by the UK National Risk Assessment, <https://www.gov.uk/government/publications/national-risk-assessment-of-money-laundering-and-terrorist-financing-2017>

Research has shown that the impact of bank de-risking is disproportionately borne by smaller organizations, often working in difficult contexts – these community-based grassroots organizations are crucial when it comes to implementing the Sustainable Development Goals (SDGs), in preventing radicalization that might lead to violent extremism, or supporting the enforcement of rights for women or the marginalized worldwide.

Analysts have put forward various explanations for de-risking but almost all agree that international rules designed to combat money laundering and terrorist financing are the most significant.<sup>86</sup> Several UN Human Rights Council Special Rapporteurs have called for civil-society-friendly reform of the stringent AML/CFT regime, contending that arbitrary decision-making by banks breaches non-discrimination laws.<sup>87</sup>

In several countries, there are ongoing attempts to resolve the de-risking issue at the national level (e.g. UK, US, The Netherlands). However, the issue is systemic and cannot be solved just by addressing it at the national level. **There is a need for a global approach, especially considering the global goal of advancing financial inclusion. The global response mechanisms on de-risking and financial inclusion towards NPOs are not aligned.**

### **Proposed Actions for the G-20**

Given the global and interconnected nature of world financial systems, it is important that the G-20 engage at this stage in the different cross-country efforts to tackle the problem of de-risking facing non-profits. Such engagement between FATF, G-20, the GPFI, Member States, and NPOs would contribute to enhanced policy coordination, with clearer evidence of the problem and more refined potential solutions.

A key consideration should be policy coherence as part of Sustainable Development Goal (SDG) 17,<sup>88</sup> which calls for governments, the private sector and NPOs to work together in pursuit of shared objectives at all levels. The GPFI<sup>89</sup> has already been tasked by the G-20 to increase its efforts to reach the hard-to-bank and to accelerate the advancement of financial inclusion for underserved and vulnerable groups with the aim to “leave no one behind.” The GPFI Action Plan on Financial Inclusion proposes measures to analyse and address the problem of de-risking and explore options to address the drivers of de-risking. The GPFI calls for sharing that understanding with the public and private sectors through publications and activities, and in line with the SDG goals which call for increased public participation in financial institution decision-making.<sup>90</sup> Such efforts should also include NPOs, as they are a vital and essential partner in SDG implementation; without the successful engagement of non-profits, which requires an enabling legal and financial environment for their operations, the SDGs cannot be achieved.

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<sup>86</sup> <https://www.opendemocracy.net/ben-hayes-lia-van-broekhoven-vanja-skoric/de-risking-and-non-profits-how-do-you-solve-problem-that-n>

<sup>87</sup> For example, <http://www.ohchr.org/EN/NewsEvents/Pages/DisplayNews.aspx?NewsID=19854&LangID=E>

<sup>88</sup> Revitalising partnership for global development, <http://www.un.org/sustainabledevelopment/globalpartnerships/>

<sup>89</sup> See <https://www.gpfi.org>

<sup>90</sup> The G20 2017 Financial Inclusion Action Plan (p 10, 21), <https://www.gpfi.org/publications/g20-financial-inclusion-action-plan-fiap-2017>

**The following steps outline how the financial access of NPOs could be improved.** We welcome further discussion on what would constitute the best mechanism to promote financial access for NPOs and guidance as to what is feasible at this G-20.

- **The G-20, its bodies and Member States should recognize NPOs as a sector that is negatively affected by bank de-risking and that deserves protection as other private sector groups receive.** This can be done in several ways:
  - The G-20 could adopt a communique at the November G-20 summit that recognizes the problem and commits its members, the FATF, and the GPFII to take specific actions to address bank de-risking.
  - In advance of this meeting, and to support discussions on the communique and actions, the G-20 could encourage groups within its structure (e.g., the meetings of finance ministers, the GPFII) to address the issue at their upcoming meetings and convene an event at the November G-20 summit to discuss the effects and possible concrete actions together with the civil society affinity group, the C-20, and NPOs working on the issue.
  
- When dealing with the impact of de-risking on different legal entities, the G-20, the FATF and Member States should also include **a review of the impact on NPOs and consider possible response strategies.** This effort, which should be done together with the NPOs, should explicitly call on countries to gather and assess data on the impact of bank de-risking on the entire sector (including NPOs that fall outside of the FATF definition – e.g., human rights and campaign groups, and both NPOs that are evaluated as high risk and those that are not). Such **impact assessment** should focus not only on financial transfers and inclusion but also on the overall effect on the operating environment of the sector.
  
- **The GPFII should set up a sub-group on financial access for NPOs** (similar to the group on SMEs) which should also include various NPOs. The sub-group could develop specific action items regarding NPOs under the Action Plan on Financial Inclusion to address the matter. Possible actions could include: a review of existing evidence of the negative impact of de-risking on NPOs, financial transfers and the broader operating environment for NPOs, proposed global guidance or principles to ensure NPO access to financial services, and inclusion of an indicator on monitoring NPO access in the [G20 Financial inclusion Indicators](#).
  
- **G-20 and its bodies should identify and promote institutional-level good practices, including specific policy and reporting reforms to ensure financial access, transfers and operations for NPOs.** This can be facilitated through collaboration and dialogue between institutions. For example, the G-20 could facilitate exchanges around the impact of de-risking, mitigating efforts, policies and national-level measures in coordination with the GPFII or other bodies it cooperates with on the de-risking issues such as the Financial Stability Board or the FATF. Such exchanges could help stakeholders (financial institutions, governments, NPOs) identify experiences and existing good practices and consider their applicability for the participants' respective national contexts. Evidence-based dialogue which considers successful responses will be more likely to increase global awareness on the negative consequences of the de-risking and engender confidence and consensus on preventive actions to address the problem.

- **Regulatory expectations for financial institutions on the risk-based approach should be clarified:** G-20 members should further clarify regulatory expectations for financial institutions on the risk-based approach through outreach and guidance at the national level, and adjust supervisory approaches and regulations to stimulate an appropriate, risk-based review of customers by banks, where needed.<sup>91</sup>
- **The FATF should produce more comprehensive guidance on the risk-based approach for NPOs** as a specific-type of banking customer based on the revised Recommendation 8. The FATF should also train its evaluators to look into the potential de-risking attitudes of banks as part of the FATF’s effectiveness methodology during peer evaluations, enabling evaluators to raise concerns about NPO-wide de-risking in their country assessment reports. The FATF leadership should reinforce the need for national governments to continue working on these issues.



**The Global NPO Coalition on FATF** is a loose network of diverse non-profit organizations (NPOs) that engage with the FATF process with the aim of eliminating the unintended consequences of FATF standards on civil society. A core group of NPOs representing a wide range of interests across countries and regions helps develop strategies, and facilitates and coordinates the coalition.

Coalition achievements so far include:

- Revision of Recommendation 8 and its Interpretive Note: the June 2016 revision retracted the claim that the NPO sector is ‘particularly vulnerable’ to terrorist abuse.
- In-depth revision of the Best Practices Paper (June 2015), a policy guidance document that countries use to help them implement the standards.
- Formalization of a risk-based approach, which means more proportionate and context-specific implementation of FATF standards.
- Establishment of regular engagement between the FATF Secretariat and NPOs, including seats at the FATF Private Sector Consultative Forum, which allows for more effective NPO participation.
- Awareness-raising and coalition-building among multiple stakeholders (NPOs, governments, regulators, financial institutions) at the global, regional and national levels.

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<sup>91</sup> See also FATF report to G-20 finance ministers and central bank: <http://www.fatf-gafi.org/media/fatf/documents/FATF-G20-FM-CBG-March-2018.pdf>