NRC NORWEGIAN REFUGEE COUNCIL

Overcoming derisking of humanitarian payment channels to regions impacted by sanctions and counterterrorism measures: Strengthening national tri-sector groups

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Some humanitarian transfers to regions impacted by sanctions and counterterrorism (CT) measures encounter significant risks related to sanctioned parties, the activities of designated terrorist groups and other financial crime. Managing these risks is a complex challenge. Transfers continue to face frequent delays, often of several months, or they may fail entirely.[ii] This jeopardises effective responses to humanitarian emergencies.

There has been substantial progress in recent years in the establishment of broad humanitarian exemptions, most importantly UN Security Council resolutions 2664 and 2761, and the issuing of more guidance from regulators, including the European Union (EU), the United Kingdom (UK) and the United States (US). Transfers, however, still face difficulties, whether they are to field offices or suppliers or for staff salaries. Thirty-two per cent of payments to Syria in 2023, for example, were delayed for between three and ten months.[iii]

Among the reasons for the continuing difficulties are limited knowledge about restrictions and exemptions, confusion about their implications and uncertainty about how to deal with them.[iv] Ensuring the execution of timely humanitarian transfers requires collaboration and coordination across sectors to navigate applicable exemptions and remaining restrictions. Regulators need to provide clear guidance and procedures for sanctions and anti-money laundering/counter the financing of terrorism (AML/CFT) measures, humanitarian organisations need to apply them when preparing transfers, and financial institutions and industry associations need to develop and set payment standards that control risks without delaying them unduly.

This policy brief reviews some of the remaining challenges associated with facilitating transfers in the implementation of sanctions exemptions and related procedures. National tri-sector groups of regulators, humanitarian organisations and financial institutions have been very effective in tackling these challenges in recent years. The brief approaches the topic and provides recommendations for such groups specifically from a financial sector perspective (see table 1).

This policy brief is one of three that make recommendations from the financial sector on enhancing humanitarian payment channels to regions targeted by sanctions and CT measures. The other two policy briefs focus on national regulators and the Financial Action Task Force (FATF). The series is based on the insights of a high-level advisory group that included representatives from 15 international financial institutions based in the EU, the UK, the US and Switzerland, with members including global heads of sanctions compliance and financial crime prevention functions. Other participants included payment and charity sector experts and senior representatives of industry associations such as the Wolfsberg Group.[v] The group was convened by the Norwegian Refugee Council and chaired by the author. The project was supported by the European Commission (ECHO) and the Swiss Federal Department of Foreign Affairs (FDFA).

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Challenges	Recommendations
Limited knowledge across sectors, including among humanitarian organisations, local banks and regulatory bodies, impedes timely transfers.	Provide stakeholders with a thorough understanding and common view of the legal coverage, scope and implications of exemptions/licenses.
Lack of common understanding and clear procedures for humanitarian transfers covered by exemptions and licenses across sectors.	Develop commonly agreed standards and procedures for transactions, including single entry points for regulatory requests, and improve cross-sectoral knowledge.
Limited cross-sectoral understanding and coordination of due diligence and risk management required for humanitarian transfers.	Distribute knowledge and training on standards to smaller humanitarian organisations and local banks, promote consistency and uses individual due diligence efforts to develop a holistic perspective.

Table 1: Overview of challenges and recommendations

Implementation challenges with humanitarian transfers

The facilitation of humanitarian transfers to affected regions requires close collaboration across sectors to successfully navigate applicable exemptions and remaining restrictions. This section covers challenges that collaboration via national tri-sector groups can address.

1. **Awareness of humanitarian exemptions and licenses, and of related guidance, is still too limited across sectors**. Knowledge of their very existence, let alone their scope and implications, is sometimes lacking, not only among humanitarian non-profit organisations (NPOs) and local banks, but also regulatory bodies. Given the heightened risks in affected regions, timely humanitarian transfers require first that NPOs know the regulatory environment and can specify applicable exemptions to the financial institutions they ask to facilitate transfers.

   Second, financial institutions need to process such requests and analyse the requirements of applicable provisions and exemptions. Adequately placing them in the regulatory environment is important not just for the risk management of one financial institution, but also for effective coordination with others involved in the transfer, such as correspondent banks.

   Third, on the regulatory side, on the one hand input from competent authorities on export-related questions may be needed ahead of transfers. On the other hand, regulatory involvement may also occur *ex-post*, through supervisor inquiry. Limited knowledge on the part of supervisors impedes their ability to examine decisions taken in a risk-based approach.

2. **There is a lack of clarity on execution procedures for humanitarian transfers covered by exemptions and licenses across sectors**. A common understanding of who needs to do what cannot be taken as given. Sometimes it is not even clear how procedures work in terms of the responsibilities of individual sectors. Preparing a transfer to a sanctioned region properly is a vital task for humanitarian NPOs. It requires knowledge of where to obtain any regulatory affirmations required, and if various agencies need to be approached then in what sequence.

   Responsibilities on the regulatory side are often distributed across numerous agencies, such as those focused on financial sanctions, trade sanctions and export control. Specialisation has its advantages for governing these areas, but it also increases the need for coordination, and alignment is sometimes lacking. Varying standards of information, documentation and evidence among financial institutions, especially correspondent banks, lead to time-consuming queries and may even undermine confidence in procedures within individual institutions.

3. **Understanding of due diligence and risk management practices in the facilitation of humanitarian transfers is limited across sectors**. Humanitarian organisations generally take a three lines-of-defence approach to risk management as part of their operations in affected regions, covering security of income and assets, aid diversion, financing of terrorism and other issues. Measures include due diligence on local partners and robust beneficiary selection processes.[vi]

   Financial institutions perform risk management of humanitarian transfers, and the parties involved, based on sophisticated screening tools applied as per industry standards. Regulators, and especially those also acting as donors, may engage in risk analyses of the local environment through means at their own disposal. In short, a lot of robust risk management activities often take place across sectors.

   This is still not a given, however, and the capacity of smaller NPOs and financial institutions needs to be strengthened. Individual stakeholders across sectors often struggle to muster enough understanding of the due diligence and risk management they are expected to carry out. There is also too little cross-sectoral awareness, let alone proper coordination that would increase the effectiveness and efficiency of the clarifications required to execute swift humanitarian transfers.

Recommendations from representatives of financial institutions

For the timely execution of humanitarian transfers to affected regions it is vital that regulators, humanitarian NPOs and financial institutions engage in dialogue and coordinate. Regulators should promote tri-sector groups and secure the participation of financial institutions. Each stakeholder needs to contribute essential elements to this common endeavour to make it successful. One-way announcements from individual sides do not work.

Efforts to address the remaining operational challenges in executing transfers should make use of tri-sector groups, institutionalise them at the national level and ensure their international, including transatlantic, collaboration. Numerous examples have shown tri-sector groups to be effective. Various initiatives that included stakeholders from the financial sector, humanitarian NPOs, thinktanks and regulators have produced insights and documentation for managing risks.

1. **Regulators should take the initiative in enabling tri-sector groups for success.** The relevant branches of national governments collaborate in setting up, support and institutionalise tri-sector groups. Documented good practice has noted that nurturing trust is one of the essential building blocks for the success of these groups. The groups should then foster dialogue among experts from each sector. Collaboration at working level is key to developing effective solutions. Specifically, it is a vital means of identifying and applying the regulatory enhancements needed to facilitate humanitarian transfers.[vii] It is also imperative that tri-sector groups' efforts are endorsed by the top ranks of each sector. The political message that humanitarian assistance for people in need in affected regions is broadly supported is paramount to promote confidence.[viii]

2. **National tri-sector groups should launch a domestic mapping exercise to establish a comprehensive overview of stakeholders** involved directly or indirectly in enabling humanitarian transfers to affected regions. By identifying individual mandates, procedures,

guidance, tools and training materials, such an exercise would provide the basis for effective collaboration and implementing the enhancements recommended below, including ensuring broad awareness of humanitarian exemptions and obligations under IHL.

3. **Enhance regulations and provide guidance and support on exemptions, licenses and remaining caveats**. Timely transfers to affected regions depend on close familiarity with these issues across stakeholders. Effective humanitarian exemptions/licenses necessitate a thorough understanding of the legal coverage required in the first place by key stakeholders, and a shared view of their scope helps to avoid time-consuming misunderstandings in processing transfers. It is also important to have consistency and common ground on what exemptions/licenses can and cannot cover, because this influences risk management requirements. Tri-sector groups should also establish common language across sectors to increase efficiency, consider the potential *ex-post* supervisory examination of transfers and seek dialogue with supervisors to develop their awareness and knowledge and to advocate a risk-based approach to sanctions and AML/CFT compliance.

4. **Work towards agreed standards and procedures recognised across sectors for timely humanitarian transfers**.[ix] Common standards and procedures are essential for the timely execution of humanitarian transfers. Raising a regulatory request for a license or obtaining related regulatory clarifications and affirmations should be straightforward, ideally through a single point of entry. Distributing responsibilities across numerous authorities complicates the process and requires clear and user-friendly instructions.

   Tri-sector groups should also help to identify any remaining coordination challenges that may exist between authorities. General procedures in the financial sector related to cross-border payments, such as the role of correspondent and respondent banks, are not necessarily well understood beyond its confines. Increasing cross-sectoral knowledge would help regulators and NPOs understand the implications of multiple jurisdictions being involved in a transaction and the reasons for banks' requirements.

   Financial institutions should seek to promote common standards, procedures and requirements among themselves for facilitating humanitarian transfers, particularly across borders. As successfully practiced in other areas, a common minimum standard/best practice approach to due diligence could greatly reduce uncertainty and speed up the processing of payments.

5. **Support awareness raising and training on risk management and know-your-client (KYC)/due diligence standards** for humanitarian transfers, to distribute know-how to smaller humanitarian NPOs and local banks, and to increase consistency. The more expectations and standards are aligned across sectors and the more KYC information and transparency are available, the less the potential for confusion and misunderstandings, and the more efficiently are humanitarian payments can be processed.

   Beyond these general measures, individual due diligence and risk management efforts undertaken by stakeholders involved in particular humanitarian transactions should be recognised and leveraged more systematically across sectors, working towards a holistic perspective, including on the regulator/donor side. Shared due diligence gives a nod to shared risks, promotes confidence and supports the cross-sectoral goal of supporting humanitarian transfers.

Tri-sector groups are an important interface between the key stakeholders involved in enabling humanitarian transfers to regions targeted by sanctions and counterterrorism measures. They empower collaboration between national regulators, humanitarian organisations and financial institutions, but their relevance extends beyond this core group in terms of output and dialogue spaces. This includes efforts to enhance FATF standards and guidance with respect to humanitarian organisations and to align the language of humanitarian exemptions across jurisdictions.[x] It is also important to nurture tri-sector group communication channels in this respect and use them to ensure a coordinated approach.

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[ii] NRC, Principles under Pressure: the impact of counterterrorism measures and preventing/countering violent extremism on principled humanitarian action, 2018. Available here: https://www.nrc.no/resources/reports/principles-under-pressure/

[iii] Global NPO Coalition on FATF, Submission for Phase II of the Unintended Consequences Workstream, 2023. Available here: https://fatfplatform.org/assets/Global-NPO-Coalition-submission-on-mitigating-measures-for-de-risking-and-financial-exclusion-of-NPOs_final.pdf

[iv] Other key issues are addressed this initiative's two other policy briefs on Regulatory Interventions and FATF and the Risk-Based Approach

[v] Disclaimer: The statements in this paper reflect the aggregate views of the high-level advisory group. They do not necessarily represent the positions of individuals or institutions involved.

[vi] NRC, Toolkit for principled humanitarian action: managing counterterrorism and sanctions risks, December 2024. Available here: https://www.nrc.no/resources/reports/toolkit-for-principled-humanitarian-action-2024

[vii] For details, see this initiative's policy brief on Regulatory Interventions.

[viii] *Ibid*

[ix] See for example: Dutch Banking Association, Sector Baselines for NPOs and Risk-Based Industry Baselines, June 2023. Available here: https://www.hscollective.org/news/timeline/important-step-towards-applicat/

[x] For details, see this initiative's policy brief on FATF and the Risk-Based Approach.