# Overcoming derisking of humanitarian payment channels to regions impacted by sanctions and counterterrorism measures: FATF and the risk-based approach

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Humanitarian organisations often operate in regions impacted by sanctions and counterterrorism (CT) measures. The flow of funds to these areas is shaped significantly by the requirements and standards set for all parties involved in humanitarian transfers to identify and manage the associated risks. Regulatory complexity and ambiguity mean transfers made by humanitarian organisations continue to face frequent delays, often of several months, or they may even fail entirely.[ii] Effective emergency responses are jeopardised as a result.

There has been substantial progress in recent years in establishing requirements and standards to make managing the risks associated with processing humanitarian transfers less challenging. The United Nations (UN) has also recognised the potentially negative impact of anti-money laundering (AML) and countering the financing of terrorism (CFT) measures on humanitarian action. UN Security Council resolution 2462 of 2019 "demands that Member States ensure that all measures taken to counter terrorism, including measures taken to counter the financing of terrorism as provided for in this resolution, comply with their obligations under international law, including international humanitarian law (IHL), international human rights law and international refugee law".[iii]

UN Security Council Resolutions 2664 of 2022 and 2761 of 2024 establish and maintain broad humanitarian exemptions effective across all UN sanctions regimes, including those targeting terrorism. All member states must abide by these legally binding measures. In addition, the Financial Action Task Force (FATF), the global standard setter for combating money laundering and the financing of terrorism that also operates as watchdog for adherence to the resolutions, updated its best practices on implementing its Recommendation 8 for managing risks related to non-profit organisations (NPOs) in 2023 to include examples of bad practices that demonstrate how its standards should not be applied.

These welcome developments have led to notable improvements, but humanitarian transfers to field offices, suppliers and even for staff salaries continue to face difficulties which come at a cost to all those involved in the chain. For example, thirty-two per cent of payments to international NGOs in Syria were delayed for between three and ten months in 2023. This is significant given the nature of the emergencies they are intended to address and the fact that humanitarian projects last for an average of twelve months.[iv] The number of transactions NRC made from its head office in Oslo that were stopped or rejected rose by forty-eight per cent in 2024.

Among the reasons for the continuing difficulties is that the financial sector tends to take a very cautious approach to humanitarian transfers to higher-risk jurisdictions, when adhering to provisions in the FATF recommendations.[v] One of the main issues is FATF Recommendation 8, as a result of which NPOs are associated with a heightened risk of financing terrorism. Most financial sanctions, even those targeting terrorism, now include humanitarian exemptions, but the FATF Recommendations do not reference these. When national supervisors in charge of enforcing FATF standards take a restrictive position sensitive to the risks associated with affected regions but are oblivious of obligations under IHL and states' domestic commitments to humanitarian aid, this results in a climate hostile to the facilitation of transfers.

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This policy brief reviews the remaining challenges related to FATF standards and requirements and their implementation as part of a risk-based approach to facilitating humanitarian transfers. It discusses the topic from a financial sector perspective and provides recommendations for further enhancing FATF standards and requirements (see table 1 below).

| Challenges | Recommendations |
|---|---|
| Absence of humanitarian exemptions in FATF Recommendations. | Include humanitarian safeguards in Recommendations 5 and 6, ensuring measures taken are reconcilable with IHL, and clarify scope requirements by incorporating references to IHL and UN humanitarian exemptions. |
| Limited recognition of the status of humanitarian organisations in the NPO sector. | Revise the notion in Recommendation 8 of NPOs being "particularly vulnerable" to the financing of terrorism and recognise impartial humanitarian organisations more thoroughly in line with IHL. |
| Failure to systematically consider comprehensive risk management by humanitarian organisations. | Reinforce monitoring of national implementation of AML/CFT provisions and the risk-based approach, ensuring proportionality by considering comprehensive risk management measures taken by humanitarian organisations |
| Imperfect transposition of FATF Recommendations into national provisions, leading to the risk of losing important content. | Require national supervisors to include IHL considerations when assessing the risk-based approach, recognise financial institutions that support humanitarian transfers and address the prevalence of zero-risk stances as an impediment. |
| Insufficient supervisor knowledge and sensitisation of state obligations and policies on humanitarian assistance, accompanied by uncertainty on applying the risk-based approach | Ensure supervisors are trained to consider IHL and humanitarian exemptions and publish best practice documents to guide implementation of Recommendations 5 and 6 in view of IHL obligations. |

*Table 1: Overview of challenges and recommendations*

This policy brief is one of three that make financial sector recommendations on enhancing humanitarian payment channels to regions targeted by sanctions and CT measures. Further policy briefs focus on national regulators and tri-sector groups. The series is based on the insights of a high-level advisory group that included representatives of 15 global financial institutions based in the EU, the UK, the US and Switzerland.[vi] Advisory group members included global heads of sanctions compliance functions, financial crime prevention functions, payment and charity sector experts and senior representatives of industry associations such as the Wolfsberg Group. The advisory 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).

**Challenges with humanitarian transfers and the risk-based approach**

A key aspect of the risk-based approach required by FATF is the notion that money laundering and terrorism financing are better tackled by prescribing principles and delegating responsibility to the agents best placed to implement them, rather than imposing detailed but static rules that struggle with the variability of the phenomena.[vii] In FATF's words: "A risk-based approach means that countries, competent authorities, and banks identify, assess, and understand the money laundering and terrorist financing risk to which they are exposed, and take the appropriate mitigation measures in accordance with the level of risk."[viii]

As such, associating the NPO sector per se with a heightened inherent risk of financing terrorism, as Recommendation 8 essentially does, is a surprisingly categorical approach. Instead of leaving it to implementers to decide whether certain NPOs are associated with increased risks, Recommendation 8 prescribes that the whole sector is.

Since its inception in October 2001, FATF has repeatedly revised and worked on Recommendation 8 through related guidance to qualify and attenuate its sweeping statement. This did not, however, resolve the issues related to the risk-based approach when facilitating humanitarian transfers. This section discusses the main challenges and limitations that remain in terms of principles, i.e. FATF's recommendations and guidance, and at the implementation level.

***Principles: FATF Recommendations and guidance***

1. **Absence of humanitarian exemptions in the FATF Recommendations**: FATF makes reference to IHL in its interpretive note to Recommendation 8, but it does not do so in any of its recommendations directly. Recommendation 1 prescribes a risk-based approach to money laundering and the financing of terrorism and says countries should ensure that any measures are "commensurate" or "proportionate" with the risks identified.[ix] Recommendations 5 and 6 say countries should criminalise the financing of terrorism, even "in absence of a link to a specific terrorist act", and implement relevant UN targeted financial sanctions. Nothing is said about states' obligation to adhere to IHL when implementing these requirements, let alone a clear humanitarian exemption. By design, the interpretive note to Recommendation 8 remains ancillary and specific to protecting "NPOs from potential terrorist financing abuse".
2. **Limited recognition of the status of humanitarian organisations in the NPO sector**: Much has been achieved in recent years in addressing critical concerns about applying a risk-based approach to the NPO sector when adhering to FATF Recommendation 8. Among them are the introduction of a "functional definition of an NPO" in its interpretive note, the publication of FATF's Best Practices on Combating the Abuse of Non-Profit Organisations in 2015, and the addition of "bad practices" as part of its 2023 revision. These say that states should assess the NPO sector carefully and reminds them that a risk-based approach requires a proportionate response: "Identifying all NPOs as high risk … is not consistent with R.8 requirements."[x] FATF makes much effort to foster practices that are true to that overarching principle. It goes as far as specifying that identifying the beneficiaries of humanitarian assistance amounts to a bad practice because it would "jeopardize principles of impartiality and neutrality" under IHL, but there is inexplicably no commensurate statement on humanitarian organisations more broadly in recommendation 8 and its interpretive note or the best practices paper. [xi]
3. **Failure to systematically consider the comprehensive risk management that humanitarian organisations engage in**: Humanitarian organisations apply enhanced due diligence and have put robust frameworks and internal procedures in place to ensure that aid reaches their intended beneficiaries and to mitigate the risk of financing terrorism. Many across numerous countries also engage in close collaboration with the public and financial sector through tri-sector groups that share expertise on understanding and managing the risks of financing terrorism. FATF-mandated (supra)national risk assessments occasionally take these facts into account, but its provisions do not insist strongly enough on considering these manifold

risk management activities. In practice that means the perception of humanitarian organisations as “high risk” is often what sticks.

In short, the FATF Recommendations are missing a humanitarian exemption with clear and unequivocal basis for applying a risk-based approach in practice. The Recommendations’ principles with respect to humanitarian assistance are also lacking in substance.

***Implementation and enforcement***

4. **Imperfect transposition of FATF Recommendations into national provisions**: The issues identified in terms of principles have repercussions for implementation. National legislative environments inevitably differ from one state to another, and FATF’s updated best practices paper give testament to the fact that transposing comes with an inherent risk of losing important content in the process. This is often evident in national CT legislation that rarely take a state’s obligations under IHL into account, including through clear humanitarian exemptions, or may not embrace a risk-based approach towards humanitarian assistance. These omissions in turn may be accompanied by supervisory provisions that similarly lack a clear requirement to take an approach proportionate to the risks encountered in relation to humanitarian transfers. In other words, supervisory provisions too tolerant of zero-risk stances promote an environment resembling exactly that. As humanitarian transfers to regions targeted by sanctions and CT measures are hardly ever risk free, the result is hostility towards the facilitation of such transfers.

5. **Insufficient supervisor knowledge and appreciation of IHL and humanitarian exemptions**. However, the experience with supervisory interactions often shows This is accompanied by uncertainty about how to apply a risk-based approach for humanitarian transfers to affected regions. Supervisory provisions of FATF Recommendations at the national level can only support a risk-based approach towards humanitarian fund transfers insofar the supervisors in turn have sufficient knowledge and sensitisation with respect to state obligations and policies regarding the facilitation of humanitarian assistance. Doing so requires sophisticated understanding not just of potential risks, but also of any carve-outs in place – not least with respect to ultimate beneficiaries – and the measures humanitarian organisations take to control remaining risks.

Finally, a basic issue that straddles principles and implementation at the national level lies in their focus on customer-related risk. Know-your-client (KYC) measures and due diligence regarding customers, including their risk management, are of only limited use when contemplating effective means of handling transaction-related risk. The challenges inherent in the latter are largely unaddressed under existing guidance and best practices for applying a risk-based approach.

**Recommendations from representatives of the financial sector**

The timely delivery of humanitarian assistance requires AML/CFT standards and practices better tuned to the intricacies of facilitating humanitarian transfers to organisations operating in affected regions and the management of related risks. Current FATF provisions remind states to adhere to IHL when implementing CFT measures, but more consistent positioning is needed across its recommendations and guidance, as well as more decisive action on implementation practices.

1. **Consistent positioning on IHL and humanitarian assistance across the FATF Recommendations should include humanitarian safeguards in Recommendations 5 and 6**. When Recommendation 5 asks countries to criminalise the financing of terrorism, this should

include reference to ensuring measures taken are reconcilable with IHL, as emphasised in UN Security Council resolution 2462. Relegating this to its Interpretive Notes or guidance documents may give the impression that adherence to IHL is a matter of interpretation. It should not be. Its Interpretive Note should also be revised to reiterate the principles that guide implementation of Recommendation 5 such as "knowledge" and "intent", by amending them with clear statements on how to proceed regarding IHL. Such a statement against the need to screen final beneficiaries of humanitarian assistance, as appears elsewhere, would be a valuable starting point.[xii]

As for Recommendation 6 and its interpretive note, current language is comprehensive on the obligation to freeze the assets of parties designated under chapter VII of the UN Charter without delay and the prohibition of making funds available to the benefit of designated parties. This language should also cover state obligations under IHL, and the comprehensive humanitarian exemption established by resolution 2664 and reinforced by resolution 2761 to also cover terrorism-related sanctions. Reference to IHL and humanitarian exemptions as provided by the UN should be incorporated to add clarity to the scope of requirements. A document on best and bad practices when implementing recommendations 5 and 6 in view of obligations under IHL should also be published.

2. **The sweeping notion of NPOs being "particularly vulnerable" to terrorist financing should be revamped**. The fact that this remains one of the biggest challenges to implementing a risk-based approach to NPOs shows that the current approach and its "functional definition" of such organisations has its limits. Impartial humanitarian organisations should be recognised more thoroughly in line with the political intent enshrined in IHL. Many operating in affected regions have put sophisticated risk management procedures in place, and even though some weaknesses may have existed historically in some areas of the NPO sector more broadly, this should not be a continuing liability to those of good standing.

3. **Monitoring of national implementation of AML/CFT provisions and the risk-based approach should be reinforced** to ensure the FATF Recommendations are correctly applied. Such monitoring should cover supervisory provisions and track whether proportionality principles are properly reflected. Proportionality should be applied by properly considering the comprehensive risk management measures taken by professional humanitarian organisations when operating in regions targeted by sanctions and CT measures. To prevent supervisory practices from reinforcing derisking, adherence to IHL and states' own policy commitments to global humanitarian assistance efforts should be included in monitoring.

4. **FATF should require national supervisors to include IHL considerations** when assessing implementation of the risk-based approach. Financial institutions that take up the challenge, and the risk-management cost, of facilitating humanitarian transfers to affected regions should get more recognition. This would also require supervisors to be trained to consider this complex topic. FATF should take the prevalence of zero-risk stances more seriously as an impediment to the risk-based approach. When such stances impede the provision of emergency assistance to affected regions, which is mostly sponsored by state donors, the result is a paradoxical situation that promotes uncertainty and drives up costs.

Pervasive uncertainty prevents the fostering of a risk-based approach (as opposed to a zero-risk or de-risking approach) towards facilitating humanitarian transfers to regions targeted by sanctions and CT measures. Reputational risk also contributes to an overly reluctant attitude. As observed elsewhere, reputational risks associated with business activities involving regions targeted by sanctions and affected by terrorist activities remain a substantial concern across the financial sector[xiii]. FATF should include this concern more systematically in discussions on the de-risking of humanitarian transfers.

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[ii] NRC, Principles under Pressure: the impact of counterterrorism measures and preventing/countering violent extremism on principled humanitarian action, 2018

[iii] International humanitarian law (IHL) is contained in the four Geneva Conventions of 1949 and the Additional Protocols of 1977, which have been signed by almost all UN member states. They set out rules and obligations related to the conduct of armed conflict and are designed to protect those who do not take part in the fighting. IHL includes provisions for the unimpeded delivery of humanitarian aid based on the principles of neutrality, impartiality, independence and humanity. For more information see: International Committee of the Red Cross and Red Cresent (ICRC), What is International Humanitarian Law, 2004 www.icrc.org/en/download/file/4541/what-is-ihl-factsheet.pdf

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

[v] Other key issues are addressed this initiative's policy briefs on Regulatory Interventions and Strengthening National Tri-Sector Groups. Available here:

[vi] 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

[vii] Power M, Organized Uncertainty: Designing a World of Risk Man*agement*. Oxford: Oxford University Press.

[viii] FATF, Guidance for a Risk-Based Approach: The Banking Sector, 2014. *https://www.fatf-gafi.org/content/dam/fatf-gafi/guidance/Risk-Based-Approach-Banking-Sector.pdf.coredownload.pdf*

[ix] The wording of recommendation 1 was changed in February 2025

[x] FATF, Best Practices on Combating the Terrorist Financing Abuse of Non-Profit Organisations, 2023. Available at https://www.fatf-gafi.org/content/fatf-gafi/en/publications/Financialinclusionandnpoissues/Bpp-combating-abuse-npo.html

[xi] *Ibid*

[xii] FATF, Best Practices on Combating the Terrorist Financing Abuse of Non-Profit Organisations, 2023, p. 20. Available here: https://www.fatf-gafi.org/content/fatf-gafi/en/publications/Financialinclusionandnpoissues/Bpp-combating-abuse-npo.html

[xiii] For details, see this initiative's policy brief on Strengthening National Tri-Sector Groups.