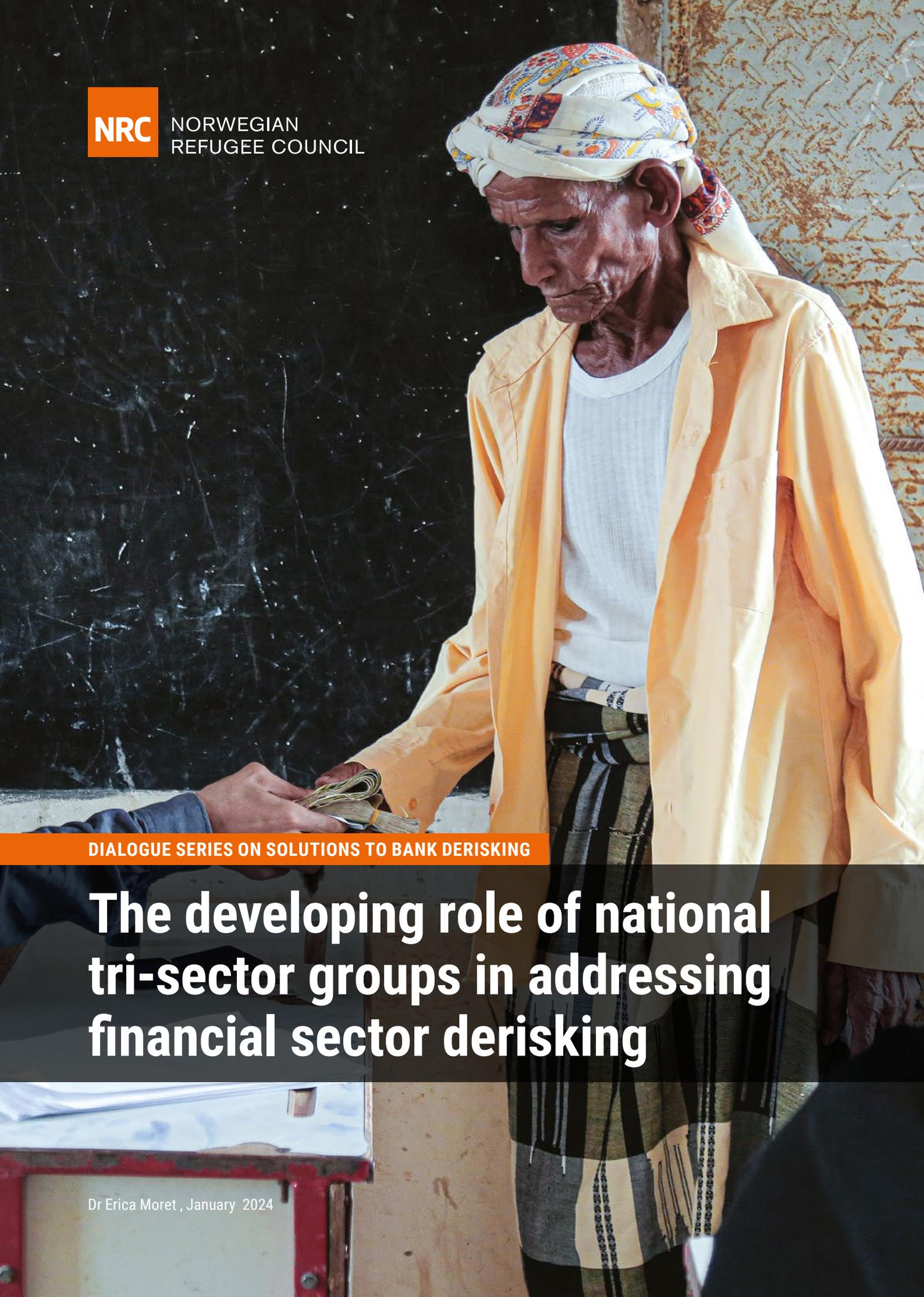


The logo for the Norwegian Refugee Council (NRC), consisting of the letters 'NRC' in white on an orange square background.

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A photograph of an elderly man with a weathered face, wearing a white t-shirt, a yellow jacket, and a patterned headscarf. He is looking down at a stack of banknotes being handed to him by another person whose hand is visible on the left. The background is dark and textured.

DIALOGUE SERIES ON SOLUTIONS TO BANK DERISKING

# The developing role of national tri-sector groups in addressing financial sector derisking

Dr Erica Moret , January 2024



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**Author:** Dr Erica Moret is coordinator of the Sanctions and Sustainable Peace Hub at the Geneva Graduate Institute, senior fellow at the Geneva Centre for Humanitarian Studies and policy director at the Swiss Centre for International Policy Engagement (Polisync).

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# ACRONYMS

<b>ACF</b>	Action Against Hunger	<b>ISIS</b>	Islamic State in Iraq and Syria
<b>AHSR</b>	Advancing Humanitarianism through Sanctions Refinement	<b>MdM</b>	Medicins du Monde
<b>AML</b>	Anti-money Laundering	<b>MVTS</b>	Money or Value Transfer Services
<b>CBR</b>	Correspondent Banking Relationships	<b>NGO</b>	Non-governmental Organisation
<b>CFT</b>	Countering the Financing of Terrorism	<b>NRC</b>	Norwegian Refugee Council
<b>CT</b>	Counterterrorism	<b>UK</b>	United Kingdom
<b>ECHO</b>	Directorate-General for European Civil Protection and Humanitarian Aid Operation	<b>UN</b>	United Nations
<b>FDFA</b>	Swiss Federal Department of Foreign Affairs	<b>UNSC</b>	United Nations Security Council
<b>HI</b>	Humanity and Inclusion	<b>US</b>	United States
		<b>USAID</b>	United States Agency for International Development

## 1

# INTRODUCTION

Several national tri-sector groups have been established over the past decade to enhance dialogue and problem solving between international non-governmental organisations (NGOs), financial institutions and governments. They focus on ways to reduce barriers to humanitarian assistance while ensuring economic resources are not made available to third parties in violation of counterterrorism (CT) legislation and domestic or international sanctions. They include groups established in the France,<sup>1</sup> Netherlands,<sup>2</sup> Norway, the United Kingdom (UK),<sup>3</sup> the United States (US)<sup>4</sup> and new ones being set up in Germany and Switzerland.



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The groups also engage in thematic and more international tri-sector groupings, such as the Advancing Humanitarianism through Sanctions Refinement (AHSR) engagement at Wilton Park in the UK, supported by the governments of Canada, Ireland, Mexico and the Netherlands.<sup>5</sup> The groups have pushed for the adoption and fine-tuning of humanitarian exemptions and identified potential solutions to financial access challenges in humanitarian settings.

The Norwegian Refugee Council (NRC) held a multi-stakeholder dialogue on the role of national

tri-sector groups in addressing financial sector derisking on 8 September 2023. It was the final session in the four-part Dialogue Series on Solutions to Bank Derisking, intended to identify concrete solutions to bank derisking and targeted recommendations for financial institutions, NGOs and governments to operationalise. The dialogue series was part of a consortium project, Presence, Proximity, Protection: Building Capacity to Safeguard Humanitarian Space, led by NRC, together with Geneva Call, Action Against Hunger (ACF), Médecins du Monde (Mdm) and Humanity & Inclusion (HI).

The dialogue meetings were organised and led by Dr Erica Moret, senior researcher at the Centre of Humanitarian Studies, part of the Geneva Graduate Institute, and policy director at the Geneva Centre for International Policy Engagement (Polisync). The initiative is co-funded by the Directorate-General for European Civil Protection and Humanitarian Aid Operations (ECHO) and the Swiss Federal Department of Foreign Affairs (FDFA).

The September meeting brought together representatives from all current national tri-sector groups, as well as those in the process of being established, for the following purposes:

- ❶ To capture best practice among tri-sector groups in mitigating negative consequences associated with bank derisking and wider sanctions and CT regulations
- ❷ To generate recommendations to support the creation of new tri-sector groups
- ❸ To explore the scope for bridging work and bolstering capacity across national tri-sector groups<sup>6</sup>
- ❹ To identify opportunities to put into practice the recommendations stemming from the first three workshops, on:
  - a) Safeguarding humanitarian banking channels<sup>7</sup>
  - b) NGOs' use of money or value transfer services (MVTs)<sup>8</sup>
  - c) The role of digital technologies in cross-border humanitarian fund transfers in poorly banked jurisdictions<sup>9</sup>

**Method:** In each of the four sessions, an extensive literature review was conducted with a focus on the recommendations made in earlier studies and those that governments and other stakeholders have actioned. Background papers informed each workshop and served as an accountability tool with stakeholders to gauge progress made to date. This was complemented by anonymised consultations through semi-structured interviews and an in-depth discussion with break-out groups, online polls, case studies and plenary brainstorming sessions with workshop participants.

Each workshop was attended by a different set of expert practitioners, who were selected according to their detailed knowledge of the topics in question. Around 30 participants and focal points from established tri-sector groups and those being set up took part in the latest meeting. They were invited to share inputs on a confidential basis with the understanding that their anonymised contributions could be included in this report.

The dialogue series was guided by a steering committee, composed of serving or former officials from all major sanctioning bodies as well as international NGOs and banks. Meetings were held under the Chatham House rule of non-attribution.

# 2

## IMPACTS OF FINANCIAL SECTOR DERISKING ON HUMANITARIAN ASSISTANCE

Financial sector derisking, a significant and growing global challenge, presents significant barriers to humanitarian assistance. One major international NGO recently described payment challenges as one of the leading contemporary threats to the humanitarian space. Derisking refers to the increasing reluctance among banks and other firms to provide services or goods to private and non-for-profit organisations seeking to operate in or trade with heavily sanctioned jurisdictions or those with CT regulations in place. This is the result of a combination of compliance and reputational risks, lack of financial incentives and untenable resourcing burdens.



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Derisking creates widely documented challenges for humanitarians, including delays in fund transfers and supplier deliveries, inflated costs, increased bureaucracy,<sup>10</sup> security risks and difficulties paying staff. NGOs may struggle to access any functioning financing channels or banking services at all in some countries.<sup>11</sup> The situation constrains NGOs' ability to carry out

principled humanitarian work at the appropriate scale or speed, and exposes them to insurmountable levels of risk.<sup>12</sup> It pushes them to rely on less regulated but typically legal payment channels of last resort, such as money value transfer systems (MVTs), including hawala, or unsustainable and potentially insecure bulk cross-border cash transfers.

Derisking also fuels inflation, reducing purchasing power and pushing up the cost of basic goods.<sup>13</sup> The end result is a diminished humanitarian response and difficulties in accessing essential goods, services and financial lifelines<sup>14</sup> in areas where needs are most acute.

## 2.1 NOTABLE RECENT DEVELOPMENTS

Considerable progress has been made since December 2022 in relation to humanitarian exemptions, intended to minimise the impact of sanctions regimes on principled humanitarian action. These developments marked a critical moment in sanctions practice in response to a decade of advocacy by NGOs and international organisations, collective action at the United Nations (UN) and evidence-based academic studies. The national tri-sector groups have also played an important role in these developments.

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### UN Security Council resolution 2664:<sup>15</sup>

Ireland and the US co-wrote a landmark UN resolution in December 2022 that introduced a humanitarian exemption across asset freezes of all UN sanctions regimes.<sup>16</sup> Through resolution 2664, the UN Security Council (UNSC) decided that “the provision, processing or payment of funds, other financial assets or economic resources or the provision of goods and services necessary to ensure the timely delivery of humanitarian assistance or to support other activities that support basic human needs are permitted and are not a violation of the asset freezes imposed by that organ or its sanctions committees”.<sup>17</sup>

It also decided that the provision would apply to the sanctions regime established by UNSC resolutions 1267, 1989 and 2253 against Islamic State in Iraq and Syria (ISIS) and al-Qaida for two years and “expressed its intention to decide on the extension of its application prior to the date on which that regime would otherwise expire”.<sup>18</sup>

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### Humanitarian exemptions and outreach under autonomous sanctions regimes:

There has been a major global policy shift on humanitarian exemptions in recent years. There is now widespread acceptance that sanctions can have unintended consequences for principled humanitarian action and that exemptions are one of the best ways to protect humanitarians from such impacts. After domesticating UNSC resolution 2664, the US quickly announced similar humanitarian exemptions, also known as general licences, across all of its autonomous sanctions regimes. Other sanctioning powers have since followed suit, although some, including the EU, only partially.<sup>19</sup> The US Treasury also published a 2023 derisking strategy and stepped up outreach efforts to curtail derisking and overcompliance.<sup>20</sup>

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### Financial Action Task Force (FATF):<sup>21</sup>

FATF, the organisation leading global action to tackle money laundering and the financing of terrorism, recently amended Recommendation 8, intended to protect not-for-profit organisations (NPOs) from being abused to finance terrorism. The amendments, agreed in October 2023, followed a consultative process on mitigating unintended consequences of the FATF regulations on NPOs, including the engagement of national tri-sector groups.

It now instructs countries to identify organisations that fall within a given NPO definition and “assess their risks of abuse for terrorist financing and have in place focused, proportionate and risk-based measures to mitigate these risks”.<sup>22</sup> FATF also updated its best practices to reflect the amendments “to help stakeholders understand how best to protect relevant NPOs from abuse for terror financing, without unduly disrupting or discouraging legitimate NPO activities”.<sup>23</sup> The updated best practices reflect input from stakeholders including tri-sector group members.

# 3

## NATIONAL TRI-SECTOR GROUPS: CAPTURING BEST PRACTICE

During the workshop, tri-sector group representatives provided updates on recent successes, prevalent challenges and proposed solutions. These inputs, alongside a literature review covering published studies and private minutes from various tri-sector group meetings,<sup>24</sup> suggests the following areas play an important role in their work:

### 3.1 STAKEHOLDER PARTICIPATION

A variety of stakeholders should be represented and consulted within the group:

#### NGOs

- This should include those with diverse mandates, not just those with a humanitarian remit. Smaller and local NGOs should also be given the chance to participate.

#### Governments

- Government departments must play a central role because they are responsible for designing sanctions and financial regulations and enforcing compliance, which can invertedly lead to derisking challenges.
- Ministries responsible for humanitarian and development affairs can help to bridge the perspectives of the NGO community and other government ministries.
- Ministries of finance, international development cooperation and foreign affairs typically need to be present because they are responsible for policies that regulate the financial sector, determine donor support and decide on the implementation of terrorism-related sanctions.
- Regulators are not yet widely represented in tri-sector groups, but their inclusion would

help them to understand the key challenges and streamline their role in seeking solutions. Involvement should be sought, on an ad-hoc basis if necessary, of those working on regulations that could constrain humanitarian assistance or have other unintended impacts. These might include export controls, criminal law, CT listings, anti-money laundering and countering the financing of terrorism (AML/CFT) measures and FATF recommendations.<sup>25</sup>

#### Ad-hoc sectoral involvement

Depending on the topic under discussion, participants could usefully include:

- Development banks, considering the increasing role of development initiatives in fragile and conflict settings.
- The private sector beyond financial institutions, to include medical and medical device companies and others engaged in essential trade, and those involved in shipping, transport and insurance.
- The financial technology (fintech) community, including those able to support the sending of personal remittances and humanitarian fund transfers, and those working with software and hardware that may be subject to overcompliance.
- Other states, particularly from the global south, especially in relation to the growing prevalence of domestic CT measures.



### 3.2 CORE PRINCIPLES

- ➔ **Building trust and equal representation:** It can take time to build trust between stakeholders, and for all involved to understand their different mandates, approaches and concerns. This is particularly important when the group's membership is diverse, and among government ministries that may not have regular contact with each other. Each stakeholder should also be treated as a partner with an equal say. They should all be represented on the on the group's secretariat to ensure this happens.
- ➔ **Accountability:** All stakeholders should be engaged in the process and committed to developing collective solutions. To address this, some tri-sector groups have created smaller working groups on specific issues to encourage accountability and exchange between sectors. Others raised the benefits of codes of conduct and guides on working practices. There is also value in public-facing work such as publishing reports and recommendations.
- ➔ **Resourcing:** Tri-sector groups require adequate resources to make efficient progress on identified solutions. Stakeholders' roles and responsibilities must be clearly defined and divided between the sectors represented. As the efficiency and productivity of a group grows, so does the amount of time focal points have to dedicate to engagement and outputs. Group members should ensure their institutions and line management understand their agreed inputs so they can dedicate an appropriate percentage of their time to engagement in the group.
- ➔ **Independence:** Governments should play a central role, but they should not decide who else should participate. The convening role could be entrusted instead to an NGO, thinktank or academic partner. It can be helpful for funding to be secured from an independent organisation rather than a government, and for the dialogue to be facilitated by a thinktank or academic institution. It is important that the funding does not dictate the agenda.

- **Formalisation:** Longer-standing groups have found benefit in institutionalising their format to make them as sustainable, productive and effective as possible. This can be important if the turnover of participants is high to ensure that collective knowledge is retained and individuals' roles are clearly defined.
- **Implementing recommendations:** Moving from dialogue to implementing solutions for tangible change is key. Ensuring that stakeholders give recommendations careful consideration is important. The process would benefit from bolstering capacity to monitor not only successes but also bottlenecks to avoid overburdening the tri-sector focal points. A framework for measuring and recording results might also be useful.
- **Active participation:** Some groups have found certain sectors to be less vocal than others, or less comfortable speaking of challenges they face. Some groups found that active participation improved when meetings were not recorded and were held under the Chatham House rule.
- **Support applied research:** In areas where gaps are identified, it could be beneficial for tri-sector groups to conduct, commission or encourage additional applied research and mapping exercises, to build the case for policy action and inform both preventative and reactive measures to new challenges as they arise. At least one group has launched an information exchange portal, which was initiated and paid for by one of the banking partners.

### 3.3 SCOPE AND DISSEMINATION

- **Looking beyond humanitarian exemptions:** There is a long way to go to make the adoption of UNSC resolution 2664 and similar exemptions under autonomous sanctions regimes more harmonised and coherent. This should not, however, be tri-sector groups' exclusive focus. They should instead identify ongoing challenges and devise common strategies to reduce and mitigate derisking, overcompliance and humanitarian access challenges that may be caused by other regulations, including CT measures, export controls and criminal law.
- **Awareness raising:** Given the technical nature of the topic, efforts should be made to raise awareness of challenges and solutions with affected communities and the wider public. This would also help to raise the profile of tri-sector groups, which have tended not to make many details of their work public. Raising awareness among government departments that work on sanctions but may not be sensitised to the obstacles that derisking can cause would also be useful, be it through events, publications or training.

# 4

## AREAS IDENTIFIED FOR POTENTIAL IMPLEMENTATION IN 2024 AND BEYOND

The workshop participants reviewed the recommendations that emerged from the previous three dialogues and discussed areas that national tri-sector groups could take forward and implement.



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### 4.1 SAFEGUARDING BANKING CHANNELS

- Consider ways in which sanctions design could be adjusted to anticipate and mitigate their potential impacts on humanitarian banking channels. This should include the participation of financial access and cross-border fund transfer experts in the design, monitoring and evaluation of sanctions where possible.
- Identify ways to map shifting correspondent banking relationships (CBRs) to sanctioned jurisdictions, to allow policymakers to assess how they are likely to be affected by direct sanctions and the indirect impacts of derisking.<sup>26</sup>
- Ensure fit-for-purpose humanitarian provisions when sanctions are deployed rather than when the situation deteriorates, to include safeguards and clear wording in relation to banking channels.
- Provide clear guidance and explore a more proactive use of incentives for financial institutions, particularly correspondent banks, to encourage them retain banking relations in high-risk jurisdictions, including in terms of due diligence costs.

- Consider the use of mentoring schemes involving more experienced and forward-leaning banks to guide others with less exposure to poorly banked jurisdictions.
- Develop a mechanism to track/monitor humanitarian banking channels and alert practitioners when countries are at risk of severe financial exclusions, thereby triggering emergency measures.
- In emergency situations, where access to the formal banking sector is no longer available and until sustainable humanitarian banking channels can be established:
  - Explore the use of international or regional public financial institutions and provide increased support for safe fund transfer corridors.
  - Provide political and financial support to strengthen and mainstream special-purpose vehicles or similar mechanisms to support humanitarian fund transfers, trade in essential goods, remittances and broader economic activities.

## 4.2 MONEY OR VALUE TRANSFER SERVICES

Give greater consideration to NGOs' use of MVTSS across tri-sector groups:

- Consider supporting the establishment of, and involvement in, a global dialogue on the use of MVTSS in humanitarian fund transfers.
- Launch and drive forward discussions on how NGOs' use of MVTSS as a legitimate tool of last resort in humanitarian fund transfers could benefit from regulatory change and/or clearer guidance.<sup>27</sup>
- Involve the FATF teams that cover MVTSS-related topics, given encouragement not to use *hawala* in the recent mutual evaluation report. Engagement with FATF on recommendation number 8 is also important because it was the taskforce that helped to establish MVTSS as a problem.

## 4.3 FINANCIAL TECHNOLOGIES

Give more consideration to the role of digital technologies for remitting domestic and cross-border humanitarian fund transfers through dialogue, awareness raising and bolstered capacity.

- Explore the expansion of fintech options, including through the use of blockchain technologies and digital assets and central bank digital currencies, to address longer-term challenges and react to rapidly changing financial sector architecture and compliance requirements.
- Tri-sector groups could assist tech companies in assessing and fostering the readiness of ecosystems and infrastructure for payments via digital innovations in poorly banked jurisdictions with marked humanitarian needs, and in addressing data privacy and protection concerns.

## 4.4 BRIDGING THE WORK OF NATIONAL TRI-SECTOR GROUPS

The value of an overarching forum or mechanism was recognised to facilitate interactions between national tri-sector groups as a means to:

- Share best practice and lessons learned, raise awareness of efforts to mitigate derisking, avoid replication, pool expertise and facilitate knowledge sharing, for example on new research and country-specific discussions.
- Provide capacity and resourcing, and where required facilitate coordination across tri-sector groups.<sup>28</sup>
- Create a common platform where information can be shared on upcoming research, case studies and events. Such a platform was deemed important by some to avoid overworking the focal points of each group.

Challenges were also discussed, including the risk of increasing the resource burden on participants, given that current groups are already stretched; ensuring representative participation without a group becoming too large or cumbersome; and ensuring that concrete policy actions are taken in national capitals.

Models can also be drawn from other groups that have convened engagements of a similar nature.<sup>29</sup>

Two developments in this area were mentioned:

- ➔ Representatives of current and emerging tri-sector groups participated in the AHSR multi-stakeholder engagement held at Wilton Park in the UK in May 2022 and 2023 and through various online consultations.<sup>30</sup> With financial and logistical support from the governments of Canada, Ireland, Mexico and the Netherlands, resources have since been mobilised to create a repository of publications and launch various workstreams to complement the work of tri-sector groups. The engagement, which is a global tri-sector group of sorts, will continue to convene meetings involving national groups and encourage and support the establishment of new groups where there is interest.
- ➔ US Agency for International Development (USAID) has provided funding to the UK Overseas Development Institute's humanitarian policy group<sup>31</sup> to convene a number of global in-person and online meetings with tri-sector groups.

# ENDNOTES

- <sup>1</sup> Generally known as the "Groupe Etat-Banque-ONG" (the State-Bank-NGO Group).
- <sup>2</sup> Generally known as the "Dutch Roundtable".
- <sup>3</sup> The "Tripartite Humanitarian Working Group on International Non-Governmental Organisation Operations in High-Risk Jurisdictions".
- <sup>4</sup> Currently, the Center for Strategic International Studies (CSIS) Working Group on Financial Access: <https://bit.ly/3HclCQb>.
- <sup>5</sup> For details, see <https://ahsrproject.org/about>.
- <sup>6</sup> As proposed via the multistakeholder engagement Advancing Humanitarianism through Sanctions Refinement or AHSR during a meeting at Wilton Park in the United Kingdom in May 2023, which involved representatives of the current tri-sector groups in the UK, Netherlands, US, France and Norway.
- <sup>7</sup> Access the outcome paper here: <https://bit.ly/3HcM3dh>.
- <sup>8</sup> Access the outcome paper here: <https://bit.ly/4aP3Kgr>.
- <sup>9</sup> Moret, Erica (2023) *Mitigating financial sector derisking through innovation: The role of digital technologies in humanitarian fund transfers*, Norwegian Refugee Council, December, <https://bit.ly/3TWMHmE>.
- <sup>10</sup> See, for example, the work of the *Compliance Dialogue on Syria-Related Humanitarian Payments* (2018-2020), funded by the Swiss government and the European Commission, with the support of the World Bank and the UK's Department for International Development.
- <sup>11</sup> Daher, Joseph and Moret, Erica (2020) *Invisible Sanctions: How over-compliance limits humanitarian work on Syria*, July, <https://www.impact-csr.org/invisible-sanctions/>.
- <sup>12</sup> O'Leary, Emma (2022) *Politics and Principles: The Impact of Counterterrorism Measures and Sanctions on Principled Humanitarian Action*, Norwegian Refugee Council, February. <https://bit.ly/47qqtwo>; Debarre, Alice (2019) *Safeguarding Humanitarian Action in Sanctions Regimes*, International Peace Institute, June. <https://bit.ly/3Sd9kBT>; Gillard, Emanuela-Chiara (2017) *Recommendations for Reducing Tensions in the Interplay Between Sanctions, Counterterrorism Measures and Humanitarian Action*, Chatham House, August. <https://bit.ly/3RSQkaG>.
- <sup>13</sup> Batmanghelidj, Esfandyar (2022) *The Inflation Weapon: How American Sanctions Harm Iranian Households*, Fourth Freedom Forum, <https://bit.ly/47vyYQ0>.
- <sup>14</sup> Moret, Erica (2022) *A lifeline under threat? Syrian household remittances in light of sanctions, de-risking, the COVID-19 pandemic & regional developments*, UN-ESCWA, National Agenda for the Future of Syria (NAFS) Phase II, <https://bit.ly/3TUrr0G>.
- <sup>15</sup> UNSCR 2664 (<http://unscr.com/en/resolutions/2664>) and introductions of General Licenses across US autonomous sanctions (<https://bit.ly/3RWVBOG>), with further details in FAQs 1105 to 1108 (<https://bit.ly/3tQkcfM>).
- <sup>16</sup> It was passed by a vote of 14 in favour to none against, with one abstention (India).
- <sup>17</sup> See: <https://press.un.org/en/2022/sc15134.doc.htm>.
- <sup>18</sup> Furthermore, it "called upon all States to cooperate fully with the 1267/1989/2253 Sanctions Committee and its Analytical Support and Sanctions Monitoring Team established by its resolution 1526 (2004)". For further details, see: <https://press.un.org/en/2022/sc15134.doc.htm>.
- <sup>19</sup> For details, see: <https://bit.ly/4aQXnJz>.
- <sup>20</sup> For details, see: <https://bit.ly/4aUuM5X>.
- <sup>21</sup> The 39-member body sets international standards to ensure national authorities can effectively tackle funds linked to drugs trafficking, the illicit arms trade, cyber fraud and other serious crimes.
- <sup>22</sup> FATF (2023) *Best Practices on Combating the Abuse of Non-Profit Organisations*, <https://bit.ly/47vXKpV>.
- <sup>23</sup> *Ibid.*
- <sup>24</sup> See, for example, Van Broekhoven, Lia & Goswami, Sangeeta (2022) *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, February, IRR No. 916-917, <https://bit.ly/3Hfwt0d>.
- <sup>25</sup> Workshop participants highlighted the need for the FATF to recognise the utility of the tri-sector groups and this should be reflected in the Best Practices paper that will accompany the revision of Recommendation 8.
- <sup>26</sup> This might involve a tracking tool to monitor CBRs to high-risk jurisdictions, which could serve as a traffic-light system in highlighting declines in active channels and risks of a country becoming entirely financially excluded. It would also facilitate NGO advocacy to encourage greater support for existing CBRs.
- <sup>27</sup> NGOs also highlighted useful recent steps taken by donors to allow payments costs using MVTs under their grants (e.g. as per recent DG ECHO development), which could be replicated elsewhere.
- <sup>28</sup> As proposed via the global tri-sector AHSR grouping, during meetings at Wilton Park in the United Kingdom in May 2022 and 2023 (<https://ahsrproject.org/about/>), which involved representatives of the current and emerging tri-sector groups.
- <sup>29</sup> See an example created by RUSI here on the Future of Financial Intelligence Information Sharing, <https://bit.ly/47E4Clp>.
- <sup>30</sup> For further details, see: <https://ahsrproject.org/about/>.
- <sup>31</sup> For further details, see: <https://bit.ly/3U4LmKm>



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