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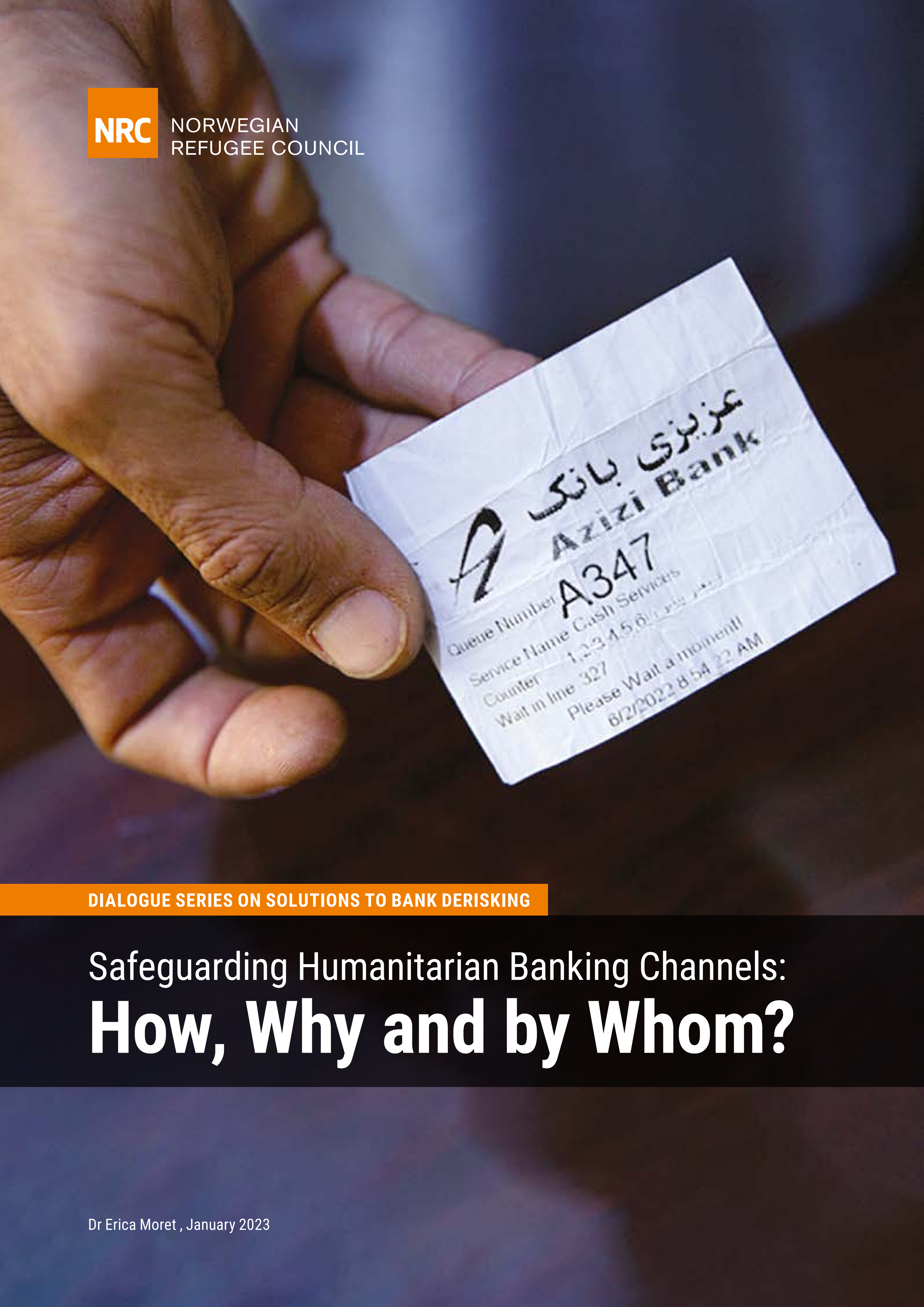

DIALOGUE SERIES ON SOLUTIONS TO BANK DERISKING

Safeguarding Humanitarian Banking Channels: **How, Why and by Whom?**

Dr Erica Moret , January 2023

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Cover photo: A waiting ticket guaranteeing a spot in the Azizi bank's cash withdrawal queues. Khost, Afghanistan, 2 June 2022. © Ingebjørg Kårstad/NRC

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ACRONYMS

AFN Afghani

AML Anti-money Laundering

AI Artificial Intelligence

CBDC Central Bank Digital Currencies

CFT Countering the Financing of Terrorism

CT Counterterrorism

CAB Crown Agents Bank

DG ECHO European Union Directorate-General for European Civil Protection and Humanitarian Aid Operations

DLT Distributed Ledger Technology

DD Due Diligence

EDD Enhanced Due Diligence

EBRD European Bank of Reconstruction and Development

ECFR European Council on Foreign Relations

EEB European Export Bank

EU European Union

FDFA Swiss Federal Department of Foreign Affairs

FATF Financial Action Task Force

FI Financial Institutions

FX Foreign Exchange

FTB Foreign Trade Bank

GAO United States Government Accountability Office

IMF International Monetary Fund

KYC Know-Your-Customer

LEI Legal Entity Identifiers

NGO Non-governmental Organisations

SWIFT Society for Worldwide Interbank Financial Telecommunication

SPV Special Purpose Vehicles

OFAC Treasury's Office for Foreign Asset Control

UNDP United Nations Development Programme

UNOPS United Nations Office for Project Services

UNOCHA United Nations Office for the Coordination of Humanitarian Affairs

UN United Nations

USD United States Dollar

WFP World Food Programme

WHO World Health Organization

1 BACKGROUND

Policy and technical solutions that safeguard humanitarian banking channels to sanctioned jurisdictions are urgently needed. The rapid decline in global correspondent banking relationships (CBRs), driven by the worsening phenomenon of financial sector derisking, can leave some countries partially or fully 'unbanked'. This can impact the activities of humanitarian organisations, limit access to global trade and finance, prevent the sending of remittances to families in need, and is ultimately detrimental to vulnerable populations.

This report seeks to fill a knowledge gap on this understudied area, focusing on potential remedies and solutions that governments, international organisations, the financial sector and other stakeholders could adopt. It is based on outcomes from a closed expert practitioner workshop held in June 2022.

Case studies presented by expert practitioners from across sectors on a range of past, present and future derisking mitigation strategies are assessed for their advantages and disadvantages. Those deemed most feasible, sustainable and scalable centre around three key areas:

1. Reforming the design and monitoring of sanctions regimes to allow policymakers to anticipate, evaluate and safeguard humanitarian banking channels, introducing adaptations and exemptions where required.
2. Supporting, encouraging and reassuring the financial sector, and correspondent banks in particular, on more innovative ways to stem the derisking process.
3. Exploring the positive role that could be played by the more mainstreamed use of financial technologies, including Know-Your-Customer (KYC) utilities, crypto assets, digital ledger technologies (DLTs) such as blockchain and Central Bank Digital Currencies (CBDCs).

Strategies that could be used in 'emergency' situations when a country is on track to full financial exclusion, or has already become fully 'unbanked', such as the use of public financial institutions (FIs), safe fund transfer corridors and Special Purpose Vehicles (SPVs) with global reach, were also explored.

1.1 INTRODUCTION

At a time when sanctions and related regulations[1] are playing an increasingly central role in addressing foreign and security policy challenges, the associated phenomenon of financial sector derisking[2] is worsening in many parts of the world.[3] In parallel, the process of 'over-compliance' has become more widespread in the broader private, not-for-profit and public sectors[4] in response to the rising complexity of the global compliance landscape.[5] Drivers include ever more stringent regulatory requirements, major fines for those found in breach of measures and heavy resourcing requirements.

Derisking has also led to a rapid decline in the remaining number of active correspondent banking relationships around the world. This worsening trend has been described as a global crisis by the likes of the G20, the World Bank,[6] the International Monetary Fund (IMF),[7] the Financial Stability Board (FSB),[8] and the Financial Action Task Force (FATF).[9] Despite a range of valuable policy recommendations from these and other organisations, the situation continues to deteriorate.

Some countries can now be considered 'unbanked' or partially-banked[10] suffering from total (or near-total) financial exclusion as a result of the withdrawal of financial institutions. In the case of Somalia[11] and Zimbabwe, CBRs have been rendered almost non-existent in recent years, and some countries, such as North Korea and Sudan,[12] have been completely cut off from international banking services.

In Syria's case,[13] the number of active CBRs fell from around 12 in 2019 to four in 2021.[14] After the Taliban's return to power in Afghanistan in August 2021, widespread derisking left only around four CBRs into the country and difficulties accessing financial services such as the

Brussels-based Society for Worldwide Interbank Financial Telecommunication (SWIFT) messaging system.[15] Other serious cases include Cuba, Gaza, Iran, Lebanon, Venezuela and Yemen,[16] and concerns extend to many other parts of the world.

Derisking can affect all areas of economic activity including trade, supply chains for essential goods,[17] other financial services such as investment and insurance, and household remittances.[18] It can also reduce resilience among vulnerable populations. Studies have shown that the rapid decline in available banking channels impedes financial inclusion and integration, poverty reduction and economic growth.[19] Vulnerable groups such as women, children,[20] elderly people, refugees, those on fixed incomes,[21] and those with chronic health problems tend to be most affected.[22] Financial exclusion is also a driver of new conflict, extremist ideologies, gender inequality and human rights abuses such as modern slavery and human trafficking.[23]

The rapid decline in CBRs has been widely documented as reducing humanitarian stakeholders' ability to carry out their work. At best it has caused delays, inflated costs and increased bureaucracy, and at worst created difficulties in accessing any functioning financing channels and bank accounts.[24] Non-governmental organisations (NGOs) and private sector stakeholders are increasingly forced to use less regulated, albeit still legal payment channels of last-resort such as *hawala,* or to carry cash across borders. Together these pressures mean less humanitarian financing and fewer essential goods, services and financial lifelines in areas where needs are most acute.

In response to the problem, more than 40 multi-stakeholder dialogues and research projects have taken place over the past decade, alongside a number of national trisector working groups that bring together banks, NGOs and governments.[25] These initiatives have generated a wealth of actionable policy recommendations[26] to reduce and mitigate derisking trends.[27]

Other initiatives are under way to address significant systemic and legislative challenges, such as the introduction of broad standing exemptions across autonomous and multilateral sanctions regimes,[28] improved stakeholder guidance and capacity building, and more considered design of sanctions and other regulations that take humanitarian, public health and financial inclusion into account from the outset.[29]

A range of parallel technical solutions are urgently required in the short to medium term to allow funds to continue to flow into countries suffering from derisking. Such moves should ensure that humanitarian assistance and trade in essential goods can continue unhindered.

One initiative that policymakers and experts frequently call for is the protection of humanitarian banking channels,[30] but studies on how this might happen in practice are scarce. This report seeks to address this major knowledge gap by exploring what solutions are needed to safeguard existing payment pathways and how to create new ones when required including what they should look like and how they might be executed.[31]

The literature suggests solutions may take a number of forms.

1.2 PUBLIC SECTOR-DRIVEN SOLUTIONS

These may involve actions at the government, bilateral or regional level[32] to create or protect one or more banking channels to a country that has become, or is in danger of becoming financially excluded. They may include:

1. **The use of licensing exemptions for certain banking pathways.** In the case of North Korea, for example, the boutique Russian bank JSCB Sputnik was the main credit institution with which Pyongyang's Bank for Foreign Trade shared a correspondent relationship.[33] This formed part of the implementation of United Nations (UN) Resolution 2270 to service UN agency operations in the country.[34]

2. **The use of safe harbour documents**[35] or the more contentious issuing of white lists to reassure correspondent banks that they will not be penalised for servicing NGO payments or humanitarian trade.

3. **The use of strategies to encourage banks and their clients not to over-comply.** These might include improved guidance, capacity building[36] and financial or technical support that helps banks to fulfil their due diligence (DD) obligations.[37]

4. **The identification of banks approved to receive humanitarian funds** in a way that ensures they are not diverted to designated individuals or entities.[38]

5. **Support for the creation of context-specific regulations** that allow for more flexibility in creating financial services for excluded communities such as internally displaced people and refugees.[39]

6. **Embedding financial inclusion objectives into humanitarian programme design.**[40]

7. **A greater role for central banks.** Banco de México, for example, has created a domestic electronic system that can operate as a clearing house to allow the transfer of US dollar (USD) payments and facilitate enhanced anti-money laundering (AML) obligations.[41]

1.3 FINANCIAL SECTOR-DRIVEN SOLUTIONS

These may involve strategies employed by banks and other FIs to ensure payments can continue despite any constraints imposed. For example:

- The legally compliant avoidance of USD and other major western currencies in transactions.
- The use of lengthier payment routings via correspondents with legacy relationships with local banks.[42]
- The use of financial technology (fintech), including artificial intelligence (AI), KYC utilities, big data, machine learning, distributed ledger technology (DLT), legal entity identifiers (LEIs) and biometrics.[43]
- Investment in, and regulatory reforms to support, resilient digital infrastructure and ecosystems in financially excluded countries.[44]
- The establishment of a network of banks through closed user groups, typically using SWIFT, as has happened in the Dominican Republic.[45]
- The use of a 'gold standard' dataset maintained by banks in a move towards increased transparency and reassuring partners such as SWIFT.[46]

1.4 MULTILATERAL MECHANISMS AND SOLUTIONS

These could include the use of:

- SPVs such as INSTEX,[47] developed for Iran,[48] or similar mechanisms that could be used more globally.[49]
- UN banking facilities such as the United Nations Federal Credit Union.
- Regional financial institutions such as the European Bank of Reconstruction and Development (EBRD).
- International development banks.
- A new international humanitarian financial clearing system to supplement the work of correspondent banks,[50] particularly in areas where the use of SWIFT is prohibited under sanctions, as in Iran or Russia, or where it has become harder to access because of derisking, as in Afghanistan.
- Digital coins approved by relevant bodies, such as the US Treasury's Office for Foreign Asset Control (OFAC), for use in the international trade of essential goods or humanitarian payments.
- A new European Union (EU) regulatory authority modelled on OFAC but geared to facilitating rather than restricting trade, and able to approve and support the use of select correspondents.[51]
- A government or inter-government backed platform to provide clearing services to banks unable to find CBRs facilitating payments into high-risk jurisdictions.
- Temporary mechanisms that allow central banks to engage in low-risk transactions with one another when other options are not available.
- New public banks specifically geared to managing NGO portfolios.

RANKING OF MOST IMPORTANT SOLUTIONS TO HUMANITARIAN BANKING CHALLENGES

Strategy	Improved sanctions design and monitoring that anticipates and mitigates impacts on humanitarian banking channels.	Better support of correspondent banks.	Explore creation (or expansion) of fintech options that can help safeguard humanitarian banking channels.	Emergency steps to open new banking channels where none are left.
Sector(s) involved	US, EU, UK, Canada (and other countries adopting autonomous sanctions) as well as the UN plus the financial sector.	Governments and home banks.	Governments, IOs, financial and technology sectors.	Governments, IOs and financial sector.
How	Building a stronger understanding of shifting CBRs to sanctioned countries to respond quickly and flexibly to a decline in available channels; creation of appropriate exemptions as soon as sanctions regimes are created; coordination across sanctions authorities.	Closer dialogue; reassurance; networks; harnessing tech; support of DD costs, and piloting of incentives. Could also involve stronger support of banks using legacy banking relationships & non-mainstream currencies.	Investigate and trial use of existing fintech platforms or creation of new innovations able to reduce decline in humanitarian banking channels.	Use of public bodies to transfer funds; creation of exemptions for new banking pathways.
Pros	Could help safeguard existing humanitarian channels and provide grounds for creation of new CBRs, where required.	Helps avoid closure of more humanitarian banking channels.	Adapts to the fast-changing financial technology (fintech) landscape; can allow for more cost-effective and transparent DD checks.	Can help to support flow of some humanitarian funds in cases where they are lacking.
Cons	Requires adaption to the way sanctions are designed and collaboration across sanctions regimes; needs more detailed information than currently available on existing banking channels; necessitates a more flexible and rapid use of exemptions.	Could entail significant technical, political and resourcing needs.	Likely to take many years to materialise; reluctance among some stakeholders, often linked to compliance risks or lack of capacity/ knowledge on tech matters; could entail privacy or security concerns; not a "cure all" solution.	Not a desirable solution given the dire situation faced by an 'unbanked' country; not sustainable in long term; does not typically allow for wider trade and economic activities; can be subject to security risks; highly resource intensive; few examples of successful cases.
Transferable across jurisdictions?	High	High	Medium	Low
Action required	Development of a reliable and transparent 'CBR tracker'; agreement among sanctioning bodies regarding necessary reforms in sanctions design and evaluation; formalisation of mechanisms to allow for bilateral/ multilateral collaboration.	Governments and IOs to actively support initiatives through resourcing, pilots and financing; FIs to engage closely with policy world on related topics.	Research and development of appropriate tools; tech sprints; pilots and regulatory sandboxes of new innovations; regulatory change to support such tech, where required.	Resourcing; clear political support; concerted international action (e.g. between UN, US and EU); guarantees to bodies involved they will not be subject to regulatory action or penalties.
Ease of adoption	Medium	Medium	Medium	Low

2 RESEARCH METHODS AND TERMINOLOGY

A technical dialogue exploring the protection of humanitarian banking channels as part of the wider bank derisking challenges the humanitarian community faces, was held online on 20 June 2022. The session was the first of a four-part 'Dialogue Series on Solutions to Bank Derisking', hosted by NRC with funding from the European Union Directorate-General for European Civil Protection and Humanitarian Aid Operations (DG ECHO) and the Swiss Federal Department of Foreign Affairs (FDFA).

It was co-organised and led by Dr Erica Moret from the Geneva Graduate Institute, with research assistance from Miguel Carricas. This report reflects the workshop's discussions and recommendations. The dialogue brought together 38 experts from governments, international organisations, the financial sector, the humanitarian community, academia and thinktanks to discuss existing best practices.

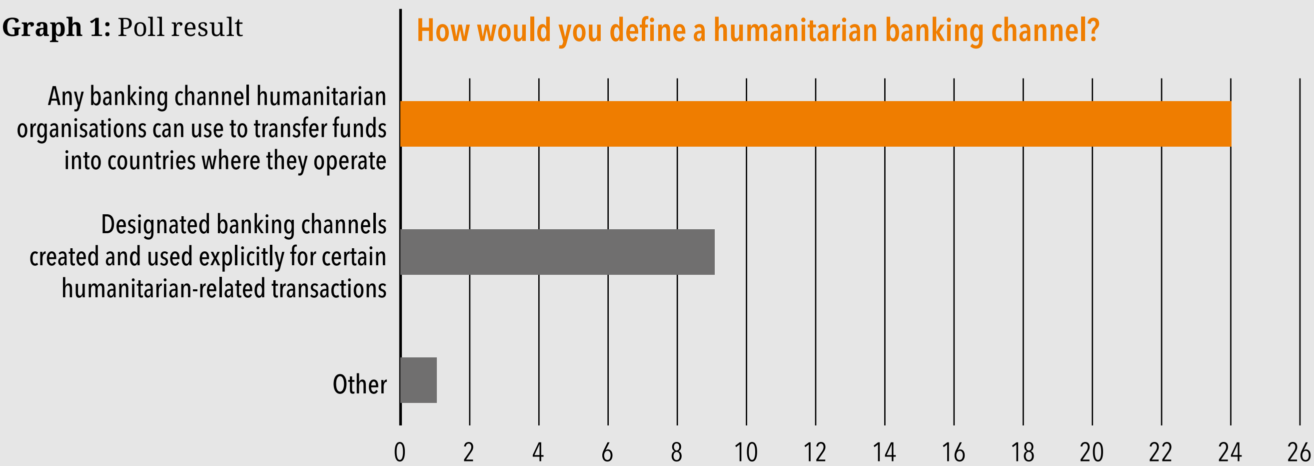
Participants were selected according to their detailed knowledge of, or involvement in initiatives intended to protect humanitarian banking channels. The identities of individuals and organisations have been anonymised unless agreed otherwise, and discussions were held under the Chatham House rule. The countries discussed included Afghanistan, Iran, North Korea, Somalia, Sudan, Syria and Venezuela.

Discussions covered lessons learned from earlier attempts to safeguard humanitarian banking channels, and policy changes and innovations currently active or under development to address the problem. Those with first-hand experience in seeking to protect or create humanitarian banking channels presented case studies. This was followed by discussions, including in break-out groups, on the merits and challenges associated with each approach. The workshop was supported by a detailed literature review and wider consultations with derisking experts.

2.1 WHAT IS A HUMANITARIAN BANKING CHANNEL?

To address the lack of a clear definition of what a humanitarian banking channel constitutes in existing policy and academic literature, participants were asked to choose one via an online poll during the dialogue meeting. Seventy per cent of the 34 who responded opted for a broad definition, 'any banking channel humanitarian organisations can use to transfer funds into countries where they operate' (see figure below) which this report adopted.

Graph 1: Poll result



3 CAPTURING BEST PRACTICE AND INNOVATION FROM ACROSS SECTORS

Dialogue participants highlighted a range of innovations and risk mitigation strategies that could be adopted or improved to safeguard humanitarian banking channels. These centred around four key areas:

1. Reforming the design and adoption of sanctions to anticipate and mitigate damage to humanitarian banking channels.
2. Developing strategies to encourage correspondent banks to avoid derisking, and to increase the role of FIs able to support humanitarian banking channels without the need for correspondent banks.
3. Exploring the role of fintech.
4. Public bodies adopting emergency measures to create new humanitarian banking channels when a country has become partially or fully financially excluded.

3.1 SANCTIONS REFORM

The most important and urgently needed solutions relate to systemic changes to address the root causes of the problem.[52] An agreement was forged on the following required action:

- **Sanctions regimes should be improved so they foresee and mitigate impacts on humanitarian banking channels** via the inclusion of financial access specialists in all stages of adoption and implementation, a keener understanding of the evolving nature and health of existing CBRs and frequent reviews to monitor any changes, and the use of standing exemptions or humanitarian carve-outs.

  Challenges: This will require significant political will, resourcing and in some cases legislative changes.

- **Regulators and donors should publish policy statements and harmonised guidance**[53] at the onset of a crisis which clearly articulate the efforts to be made to protect humanitarian banking channels, including correspondents, and their stance on the provision of humanitarian assistance. There should be joint coordination, monitoring and assessments across sanctioning bodies operating in any given jurisdictions, such as the UN, US, EU, UK and Canada.[54]

  Challenges: According to one consultation, a key risk of closer coordination is that some governments 'might feel under pressure to impose stricter requirements to match other governments, which could result in even more stringent donor award clauses or compliance requirements.' This reportedly occurred in relation to counterterrorism (CT) clauses.

3.2 INCENTIVES FOR CORRESPONDENT BANKS TO AVOID DERISKING

- **There should be closer engagement between donors, home banks and correspondent banks.**[55] Steps should be taken to better understand the opaque and fast-changing environment in which correspondent banking channels may change or close from one day to the next without warning or explanation.[56] Regulators should also take steps to engage directly with correspondent banks to provide guidance and comfort and to establish trust in exemption processes.[57]

  Challenges: Increased resourcing and incentives from governments would be required to encourage home banks to engage more closely with correspondent banks, given there are often no incentives for the latter to conduct transactions that are not usually profitable.[58] Correspondent banks also often continue to derisk from certain jurisdictions even when regulators have clarified that financial entities are exempt from sanctions.[59]

- **Support should be provided for the creation of a CBR tracker** that would provide governments, international organisations, home banks and NGOs with better information and allow closer dialogue between parties. This would enable data on remaining CBRs to financially excluded countries to be monitored and updated, which could help to highlight risks of continued decline or total collapse. That in turn could inform public support for remaining channels or incentives for other banks to resume services. It could also serve as an advocacy tool for humanitarian stakeholders and private sector firms to highlight the difficulties they face in transferring funds to certain countries.

  Challenges: There is currently very little knowledge of CBR dynamics across sectors and making a change in this area would require transparency, buy-in and regular updates on the part of FIs and support from public bodies.

- **A network of banks, including correspondents, that are willing and able to support humanitarian transactions should be established** to share compliance calls, agree on standards and devise strategies to protect humanitarian banking channels.[60]

  Challenges: Support for capacity building and investment is required for banks able and willing to manage NGO portfolios.[61] Their staff also need training to 'face' international markets in an expert manner, including in relation to local regulations, international payment codes and the functioning of sanctions.[62]

- **Governments should provide FIs and NGOs with financial support in carrying out DD obligations and covering associated legal costs** to help reduce some of the drivers of collapse in humanitarian banking channels.[63] This is important because servicing humanitarian transactions in high-risk jurisdictions can be extremely time-consuming, costly, unprofitable and manual in nature, often based on a series of trials and errors.[64]

  Challenges: More information is required to guide policy in this area, which might entail considerable government resources. A study of the range of costs involved has not been carried out in any detail,[65] nor has a mapping exercise to identify those that provide support and those that do not.[66]

- **Tailored support from governments and regulators should be provided to FIs able to support humanitarian banking channels in high-risk jurisdictions.** A small number of niche organisations such as Crown Agents Bank and StoneX are able to support humanitarian payments into some sanctioned countries where others tend to derisk. They deploy a combination of strategies that avoids the need for correspondent banks or allows the organisations themselves to serve as correspondents in certain situations. They are often some of the only FIs still able to transfer humanitarian funds into poorly banked countries such as Afghanistan, and they could be better supported to continue and expand their activities. Strategies include:

1. Making use of trusted legacy relationships with non-sanctioned local banks in high-risk jurisdictions.

2. Making use of local and non-mainstream currencies and finding legally compliant ways of avoiding USD.[67] Some banks have found doing so removes delays and reduces the risk of humanitarian banking channels collapsing.[68]

CASE STUDY:
CROWN AGENTS BANK

The Crown Agents Bank (CAB) has had a role in overseas development since its inception as a UK government office in 1749. Responsible for issuing grants, allocating supplies, recruiting staff and managing sovereign wealth funds, it has been intrinsic to many countries' development funding and projects. As such, it has maintained a legacy relationship with international central and commercial banks alongside other commercial banks, primarily in Africa, the Middle East and the Americas.

Becoming a correspondent bank and managing foreign exchange (FX) exposures in these regions has allowed CAB to work more efficiently in delivering programmes, it says. It is one of the few remaining corridors through which to remit humanitarian and other funds to Afghanistan via a trusted local bank. The situation is still volatile and liquidity low, but CAB has been able to offer humanitarian organisations USD on a sustainable footing and is starting to make the Afghani (AFN) available to various NGO clients.

Challenges: Not many international banks operate this way. Most make use of correspondent banks for international transactions and few are able to deal with non-mainstream currencies. Establishing trusting relations with local banks, which is vital to direct banking relationships, also takes significant time and resources. In addition, such approaches may involve increased FX conversion fees, and if the origin of the transaction is in USD then the FX deal will still have to adhere to US financial regulations. The fact that some countries still prefer to receive payments such as salaries in USD constitutes a further problem, making it harder to trade in other currencies.

3.3 MORE INNOVATIVE USE OF FINTECH

Discussions covered the pros and cons of financial technologies, including improvements to existing platforms. This topic will be the focus of a future workshop in the series, where the following areas will be covered in more depth.

- **Fintech or 'tech for good' should be used to streamline compliance processes.** Research has shown that areas such as AI, KYC utilities,[69] big data, machine learning, DLT, LEIs[70] and biometrics can help to streamline compliance, reduce costs and slow down the derisking process.[71] Taken together, some of these solutions could be investigated specifically in terms of their ability to protect humanitarian banking channels.
  Challenges: These mechanisms should not be seen as cure-all solutions. Depending on the tool in question, they can raise privacy or security concerns for humanitarian organisations. They will only be as good as the regulations that govern their use and it may take a number of years before humanitarians can start using them at scale.[72] They can be more useful in certain situations than others and should be employed on a case-by-case basis.

- **SWIFT KYC approaches should be expanded.**[73] FIs use SWIFT when sending transactions between banks. Upcoming changes to its operating practices will allow more information to be shared with each transaction in a more structured and transparent way through the integration of ISO 20022.[74] This should help to resolve a degree of derisking among banks, including correspondents, and ideally help mitigate the loss of humanitarian banking channels in cases where data may have been perceived as lacking. The process should not add any additional bureaucratic burdens on NGOs, according to SWIFT, because the objective is to standardise the capture of information rather than requiring more of it.

  Challenges: These steps are not likely to prevent FIs from derisking in countries where SWIFT may be rendered unavailable or difficult to access, such as Afghanistan.

- **DD checks that governments conduct on their funding partners should be used to reduce those required by banks, including correspondent banks.** This might involve a tagging system made visible to banks to reassure them of the extensive DD and vetting checks that NGOs have already undergone.

  Challenges: Direct engagement between regulators, treasury departments and banks would be needed, which could also require significant investment and regular exchanges between stakeholders. The approach may only be suitable for larger NGOs that receive government funding directly. Some NGOs were uncertain about whether US General Licences, or similar exemptions those from other competent authorities, should be mentioned to banks in NGO payments. They said: 'From experience we tend to reduce the information on the payment as the bank may get suspicious if we add details of the license or exemption, and they may reject the payment.'

4 EMERGENCY MEASURES TAKEN BY PUBLIC BODIES

There are times when countries become completely cut off from the international financial system as a result of sanctions and derisking, as in the case of North Korea and Sudan. Others, such as Afghanistan and Syria, are at risk of becoming so. In these instances, intervention from public bodies may be vital to protect remaining humanitarian banking channels, or to establish new ones when none are available. Such approaches do not represent a solution in and of themselves. Rather they involve risk mitigation strategies that may be needed on a case-by-case basis in severe circumstances. This could take several forms, as described below.

4.1 USE OF NEW OR EXISTING PUBLIC BODIES TO TRANSFER HUMANITARIAN FUNDS

Such proposals require further research and trials, but public bodies such as regional or international financial institutions and other global platforms could be used to transfer humanitarian funds on a temporary or permanent basis.

Case study: EUROPEAN EXPORT BANK

The European Council on Foreign Relations (ECFR)'s Task Force for Protecting Europe from Economic Coercion explored the idea in 2022 of a public European Export Bank (EEB) able to keep payment channels with third countries under US sanctions open.[75] The concept was developed as a potential way to facilitate trade between Europe and Iran despite the US extraterritorial sanctions.[76] The proposal was that the bank would establish new CBRs and facilitate payments in a way that avoids the USD and provide a range of other financial services.[77] It went on to focus on the more general resilience of payment channels affected by sanctions.[78] It has not, however, yet been tested.

Challenges: Some of these mechanisms have already been trialled through INSTEX, but substantial challenges remain, particularly in terms of political support. Such an approach would require political will and resourcing based on long-term strategic interests, including in the support of wider trade and financial services, not just humanitarian transactions.

4.2 CREATION OF EXEMPTIONS TO ESTABLISH NEW BANKING PATHWAYS INTO JURISDICTIONS FINANCIALLY EXCLUDED BY SANCTIONS

When a country has become completely unbanked, explicit exemptions may be necessary to help create or recreate a humanitarian banking channel that could be made available to one or more banks that service transactions for the UN, NGOs and other vital stakeholders (see North Korea case study).

Case study: THE UN IN NORTH KOREA

In August 2016, the UN's 1718 Committee tasked with monitoring the Security Council's sanctions regime on North Korea approved a banking channel mechanism pursuant to Resolution 2270 (2016). It consisted of a correspondent relationship between JSCB Sputnik and the Foreign Trade Bank (FTB) to service UN agency operations, including those of the UN Development Programme (UNDP), the World Health Organization (WHO) and the World Food Programme (WFP).[79] The channel, however, collapsed in September 2017 when Germany's Commerzbank decided not to participate further in transfers after the Security Council's designation of FTB the previous month. The UN Secretariat, the 1718 Committee and concerned member states have made sustained efforts to revive the channel and make it sustainable at the same time as exploring a number of emergency measures and one-off options, but with only limited success. Emergency measures included the UN making a series of cross-border bulk cash transfers.[80] Other options explored included reviving the original channel with a new home bank to replace Commerzbank, and setting up a mechanism that would not require a CBR with a North Korean bank.

According to the most recent report of the Panel of Experts that supports the 1718 Committee, a one-off solution included an arrangement by which the North Korean government would credit accounts held by UN agencies with FTB in exchange for the UN transferring an equivalent amount to the account of its Permanent Mission in the country. The money credited to the UN accounts in North Korea would be used solely for humanitarian spending in line with the exception to the assets freeze on FTB set forth in paragraph 26 of resolution 2371 (2017).[81]

Challenges: In countries where various sanctions regimes have been imposed, in some case by the US, EU and UN, it is important that any emergency measure of this nature takes all of these overlapping measures in place into account. This can be difficult when different authorities have divergent political, legislative and diplomatic approaches. Given such challenges, these measures should only be considered in extreme cases and do not represent solutions in and of themselves.

4.3 EMBASSY BANK ACCOUNT TRANSFERS

Another model that has been trialled, albeit without great success to date, is the direct transfer of donor funds from a country's foreign ministry bank account to the account of the government's embassy in a financially excluded country, from where they are disbursed to selected NGOs. A 2021 report on derisking by the US Government Accountability Office (GAO) suggests that 'a US agency with a physical presence in a particularly high-risk country could serve as the intermediate recipient of funds, with responsibility for distributing the funds to the intended beneficiaries.'[82]

The model is similar to the cross-border bulk cash transfers the UN has organised in countries such as Afghanistan, where its humanitarian financial corridor is run by the UN Office for Project Services (UNOPS) and involves the WFP, UNDP and the UN Office for the Coordination of Humanitarian Affairs (OCHA).[83]

Case study:
USE OF EMBASSY TRANSFERS

A European government recently piloted a mechanism to be used when the sending of humanitarian funds by NGOs between their own bank accounts is blocked by derisking. The NGO transferred funds to the bank account of its country's foreign ministry, which in turn transfers them to one of its embassies in or near the financially excluded country. The NGO transferring the funds is then able to request a transfer into a local bank account or withdraw the cash from the embassy.

Steps are still required to prove the origin of funds and meet AML and countering the financing of terrorism (CFT) regulations. The NGO is then responsible for transporting the cash itself to the end recipients. If deemed viable after internal reviews, the scheme may be expanded to the wider EU level.

Challenges: The mechanism can currently only be used by one government and the country's domestic banks and NGOs. It also only addresses national-level blockages and does not deal with derisking among correspondents from other countries, meaning it is of only very limited use. It nevertheless required changes to domestic laws and heavy resourcing and staffing to implement.

Some have also suggested that by establishing such a mechanism, certain countries may be less motivated to improve the transparency of their banking systems.[84] Other challenges include the safe storage and transport of the funds once they reach the embassy in question, and difficulties demonstrating which transactions are related to non-embassy business as part of enhanced due diligence (EDD) checks.

5 RECOMMENDATIONS

Having explored a range of risk mitigation strategies and new policy developments that could help to protect humanitarian banking channels, the following list highlights the most promising solutions to mitigate their loss and safeguard those already in place.

1

Improve sanctions design across all multilateral and autonomous regimes to anticipate and mitigate their impacts on humanitarian banking channels. This should include:

- Forging a sound understanding of existing banking channels to sanctioned jurisdictions and anticipating how they are likely to affected by direct sanctioning action and indirect impacts of derisking. 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 advocacy to encourage greater support for existing CBRs.
- The introduction of standing exemptions, as per recent successes at the UN Security Council,[85] that should be adopted when sanctions are deployed rather than when the situation deteriorates.
- The involvement of financial access experts in the design, monitoring and evaluation of sanctions.
- Regular reviews, based on the aforementioned tracking tool and other triangulated data, to assess the state and health of remaining banking channels.

2

Provide clear guidance and incentives to FIs, particularly correspondent banks, to help them retain banking relations in high-risk jurisdictions,[86] including in terms of DD costs.[87] Doing so should support banking strategies such as:

- Fostering legacy relationships with non-sanctioned central banks or trusted local banks in financially excluded countries.
- The use of non-mainstream currencies.
- Establishing a network of banks willing and able to support humanitarian funds transfers, including correspondents.[88]

3

Explore the creation or expansion of fintech options,[89] including digital assets, blockchain and central bank digital currencies (CBDCs) to address longer-term challenges and react to rapidly changing financial sector architecture and compliance requirements.

- In emergencies, where access to the formal banking sector is no longer available and until sustainable humanitarian banking channels can be established:
  - Make use of international or regional public FIs, with increased support for safe fund transfer corridors.
  - Provide political and financial support to strengthen and mainstream SPVs.

6 CONCLUSION

This report, based on a series of expert practitioner consultations, finds that a combination of approaches will be required to safeguard humanitarian banking channels as CBRs decline and global financial sector derisking gets worse.

The only way of tackling the problem at source will require systemic change. It would have to involve improving the design, monitoring and evaluation of autonomous and multilateral sanctions regimes, alongside other measures that drive derisking such as AML and CFT regulations and FATF recommendations. Such a move would anticipate and mitigate likely declines in CBRs when new sanctions are imposed, and would ideally happen from the outset, rather than reactively when problems arise.

Such a process would benefit from the involvement of financial access and humanitarian banking experts at all stages of sanctions adoption and implementation; and the use of new tools, including a CBR tracker and other fintech instruments, that facilitate regular and responsive shifts in policy approaches if an increase in derisking behaviour is noted.

The financial sector, and correspondent banks in particular, would benefit from closer government support, incentives and clearer reassurance to avert the decline in humanitarian banking channels. This should include tailored support for banks that already have strategies to continue operating in high-risk environments, and the creation of a network of banks willing and able to service humanitarian transactions despite the low financial rewards involved and heightened compliance risks and costs.

Further thinking should be given to the positive role that financial technologies such as cryptocurrencies, blockchain, CBDCs and further improvements to SWIFT could play, and consideration should be given to emergency strategies for use when few if any, humanitarian banking channels are left.

Such initiatives are not solutions in and of themselves, but they could include greater consideration and piloting of the role international, regional or national FIs, other public bodies and SPVs play in supporting the transfer of humanitarian funds to poorly banked jurisdictions.

ENDNOTES

1 Such as CT listings, anti-money laundering (AML) and CFT regulations, export controls and Financial Action Task Force (FATF) recommendations.

2 The William M. (Mac) Thornberry National Defense Authorization Act (NDDA) for fiscal year 2021 provides the following definition of derisking *Actions taken by a financial institution to terminate, fail to initiate, or restrict a business relationship with a customer, or a category of customers, rather than manage the risk associated with that relationship consistent with risk-based supervisory or regulatory requirements, due to drivers such as profitability, reputational risk, lower risk appetites of banks, regulatory burdens or unclear expectations, and sanctions regimes,* Pub. L. No. 116-283, § 6215(c)(1), 134 Stat. 3388, 4580-81 (2020).

3 O'Leary, Emma (2022), *Politics and Principles: The Impact of Counterterrorism Measures and Sanctions on Principled Humanitarian Action,* February, Norwegian Refugee Council, https://bit.ly/3cwWc2r; Debarre, Alice (2019) *Safeguarding Humanitarian Action in Sanctions Regimes,* International Peace Institute, June, https://bit.ly/3QCTePQ; Gillard, Emanuela-Chiara (2017) *Recommendations for Reducing Tensions in the Interplay Between Sanctions, Counterterrorism Measures and Humanitarian Action,* Chatham House, August, https://bit.ly/3VZ1DxW.

4 Jaegar, Mark Daniel (2021), *Circumventing Sovereignty: Extraterritorial Sanctions Leveraging the Technologies of the Financial System,* Swiss Political Science Review, February, https://bit.ly/3Wp4EYp.

5 Alongside waning use of UN sanctions, the most prolific users of autonomous sanctions (that supplement UN sanctions or are employed in their absence) are the US, EU, UK, Canada and a number of other allied countries, depending on the case at hand. The use of sanctions and CT is also growing among a number of other countries around the world, including China and Russia (see Moret, Erica (2021), Part I, Chapter II: *Unilateral and extraterritorial sanctions in crisis: implications of their rising use and misuse in contemporary world politics*, Research Handbook on Unilateral and Extraterritorial Sanctions, Edward Elgar Publishing, for more details: https://bit.ly/3iFBFCd).

6 World Bank (2015), *Report on the G-20 Survey on De-risking Activities in the Remittance Market,* October, https://bit.ly/3ZoE0St.

7 International Monetary Fund (2016), *The Withdrawal of Correspondent Banking Relationships: A Case for Policy Action,*June, https://bit.ly/3HdPyks.

8 Financial Stability Board (2015), *Report to the G20 on Actions taken to Assess and Address the Decline in Correspondent Banking,* November, https://bit.ly/3IZVhLC; see also Financial Services Board (2017), *Correspondent Banking Data Report,* https://bit.ly/3X5aek5.

9 Financial Action Task Force (2015), *FATF Takes Action to Tackle De-risking,* October: http://bit.ly/3ZseWZT.

10 International Monetary Fund (2016), *The Withdrawal of Correspondent Banking Relationships: A Case for Policy Action,*June https://bit.ly/3HdPyks.

11 El Taraboulsi-McCarth, Sherine; Majid, Nisarl; Willitts-King, Barnaby (2017), *Private sector engagement in complex emergencies: case studies from Yemen and southern Somalia,* Humanitarian Policy Group,February, http://bit.ly/3EKr8x7; Ministry of Finance of the Netherlands, Human Security Collective, World Bank, and Association of Certified Anti-Money Laundering Specialists (ACAMS) (2018), *International Stakeholder Dialogue: Ensuring Financial Services for Non-Profit Organizations*, February

12 Eckert, Sue; Guinan, Kay; and Hall, Andrea (2017),*Financial Access for US Nonprofits,* Charity & Security Network, August, https://bit.ly/30e0aue.

13 Gordon, Stuart; Robinson, Alice; Goulding, Harry; and Mahyub, Rawaad (2018), *The impact of bank de-risking on the humanitarian response to the Syrian crisis,* HPG Working Group, August, https://bit.ly/3KEBToA.

14 Moret, Erica, (2022), *A lifeline under threat? Syrian household remittances in light of sanctions and de-risking, the COVID-19 pandemic and regional economic and legislative developments,* forthcoming, UN-ESCWA.

15 Moret, Erica (2022), *Life and Death: NGO access to financial services in Afghanistan,* Norwegian Refugee Council, January, https://bit.ly/3XtY4RH.

16 El Taraboulsi-McCarthy, Sherine and Cimatti, Camilla (2018), *Counterterrorism, de-risking and the humanitarian response in Yemen: a call for action,* Overseas Development Institute, February, https://bit.ly/3Hndthv.

17 This is the focus of a 2020-2023 study at the Graduate Institute, coordinated by the author and funded by the Swiss Network of International Studies (SNIS) entitled *When Money Can't Buy Food and Medicine: Banking Challenges in the International Trade of Vital Goods and their Humanitarian Impact in Sanctioned Jurisdictions,* http://bit.ly/3IBryXY.

18 UN-ESCWA (2022) *A lifeline under threat? Syrian household remittances in light of sanctions, de-risking, the COVID-19 pandemic & regional developments,* United Nations Economic and Social Commission for Western Asia (ESCWA), National Agenda for the Future of Syria (NAFS), E/ESCWA/CL3.SEP/2022/TP.19.

19 Woodsome, Jim and Ramachandran, Vijaya (2018), *Fixing AML: Can New Technology Help Address the De-Risking Dilemma?,* Center for Global Development, https://bit.ly/3GAt6QP.

20 Pelter,Zoë; Teixeira, Camila; Moret, Erica (2022), *Sanctions and their Impact on Children,* UNICEF, https://bit.ly/3ZaCfb4.

21 Moret, Erica (2015), *Humanitarian Impacts of Economic Sanctions on Iran and Syria,* European Security. Vol 24. Issue 1, https://bit.ly/3IWQU3I.

22 Blanchet, Karl; Mallard, Grégoire; Moret, Erica ; Sun, Jin (2021), *Sanctioned countries in the global COVID-19 vaccination campaign: the forgotten 70%,* Conflict and Health 15, 69, http://bit.ly/3YmGkrv.

23 Erica Moret, (2022), *What Role for Financial Sanctions in Tackling Modern Slavery and Human Trafficking?,* UNU-CPR FAST Initiative; Kuntay Celik (2021), *Impact of the FATF Recommendations and their Implementation on Financial Inclusion,* World Bank, https://bit.ly/3XqQK9S.

24 Daher, Joseph and Moret, Erica (2020), *Invisible Sanctions: How over-compliance limits humanitarian work on Syria,* Impact Civil Society Research and Development, https://bit.ly/3WeLAfr.

25 Such as in the Netherlands and United Kingdom, and more recently in France, Norway and the US. The groups bring together representatives of government, the NGO sector and banking, which meet on a regular basis.

26 Summarised in: Moret, Erica (2021) *Time to Act: Harmonizing Global Initiatives and Technology-Based Innovations Addressing De–Risking at the Interfacing Sanctions-Counterterrorism-Humanitarian Nexus,* Stiftung Wissenschaft und Politik, Working Paper, international sanctions: improving implementation through better interface management, pp 74–82: https://bit.ly/40kajBN.

27 Despite best efforts of dedicated staff in governments, international organisations and FIs, change has been difficult to execute and slow to materialise, often lacking appropriate resourcing or political support.

28 Most recently through United Nations Security Council Resolution 2664 (2022) and the US' 20 December 2022 decision to make humanitarian-related regulatory amendments to add or revise certain general licences across a number of OFAC sanctions programmes to ease the delivery of humanitarian aid.

29 These are some of the areas under discussion in a new multi-stakeholder engagement entitled *Advancing Humanitarian through Sanctions Reform,* which is intended to generate a set of non-binding guiding principles and a code of conduct on autonomous and multilateral sanctions use: http://bit.ly/3IFrqXg.

30 For example, a protected humanitarian banking channel could refer to one used exclusively by the humanitarian community, or a payment routing that is also used by wider trade, such as in relation to essential goods. It could refer to the protection of existing CBRs to a given country, or it might also refer to a particular stand-alone mechanism, such as an entity controlled by the UN or another public body.

31 A number of concrete suggestions and solutions have been proposed and trialled by the various trisector groups and wider multi-stakeholder initiatives.

32 One Open Democracy report argues that the G20 should play a leading role in protecting banking channels in light of derisking (Hayes, Ben; van Broekhoven, Lia; and Skoric, Vanja (2017), *De-risking and non-profits: how do you solve a problem that no one wants to take responsibility for?,* Open Democracy, https://bit.ly/3XGLIWu). The G7 might be a more appropriate setting, however, in light of recent stepped up coordination of sanctions regimes and greater use of sanctions as compared with the wider group.

33 Kommersant (2021), "«Спутник» остался в орбите ЦБ", http://bit.ly/3Y1R4eF.

34 United Nations Security Council (2016), *Correspondent Account Approvals: Exemptions to the Measures,* https://bit.ly/3QBg8qB.

35 Safe Habour is a provision of a regulation which states that particular activities will not be considered in violation of particular rules.

36 For an example of such an initiative to provide detailed guidance to the banking sector on Syria, see the Swiss-EU initiative *Compliance Dialogue on Syria-Related Humanitarian Payments,* https://bit.ly/3XECppH.

37 As explored in Moret, Erica (2022), *Life and Death: NGO access to financial services in Afghanistan,* Norwegian Refugee Council, January https://bit.ly/3XtY4RH. See also: Financial Stability Board, (2015), *Report to the G20 on actions taken to assess and address the decline in correspondent banking,* https://bit.ly/3IZVhLC, which advocates for strengthened tools for due diligence by correspondence banks.

38 On this idea, one report argues: *Such efforts require concerted efforts by like-minded governments and regulators, banks and NPOs, and international organizations and are likely the only option to provide humanitarian assistance to conflict areas where need is greatest but where banks will not go without such assurances,* FATF (2018), *International Stakeholder Dialogue: Ensuring Financial Services for Non-Profit Organizations*: https://bit.ly/3KIxZeb.

39 As advocated in Mayada El-Zoghbi, Nadine Chehade, Peter McConaghy, Matthew Soursourian (2017), *The Role of Financial Services in Humanitarian Crises,* CGAP, April: http://bit.ly/41I4YWm.

40 *Ibid.*

41 *Ibid.*

42 As charted in Moret, Erica (2022), *Life and Death: NGO access to financial services in Afghanistan,* Norwegian Refugee Council, January: https://bit.ly/3XtY4RH.

43 Woodsome, Jim; Ramachandran, Vijaya (2018), *Fixing AML: Can New Technology Help Address the De-Risking Dilemma?,* Center for Global Development, https://bit.ly/3GAt6QP.

44 As advocated in Moret, Erica (2022), *Life and Death: NGO access to financial services in Afghanistan,* Norwegian Refugee Council, January: https://bit.ly/3XtY4RH; CGAP (2017), *The Role of Financial Services in Humanitarian Crises,* April, https://bit.ly/3CYx8I5.

45 In the case of the Dominican Republic, for example, all banks are a part of a closed user group (CUG) using SWIFT, with the central bank as the hub. According to CGAP (2017) *All of the banks in the Dominican Republic are part of this. Local payments are executed using this private network, which is in real time, very safe and with low cost.*

46 As advocated in SWIFT (2016), *Addressing the Unintended Consequences of De-risking,* https://bit.ly/3wcAi0H.

47 Development of SPVs such INSTEX in the case of Iran is unlikely to gain much traction, however, in light of the seeming limited success of existing models and fears that it could lead to further fragmentation of the financial system and a decline in transparency. That said, little consideration appears to have been given as to their role outside Iran.

48 Joint statement on the creation of INSTEX, the SPV aimed at facilitating legitimate trade with Iran in the framework of the efforts to preserve the Joint Comprehensive Plan of Action (JCPOA), Maas, Heiko; Le Drian, Jean-Yves; Hunt, Jeremy (2019), *Joint statement by the E3 Foreign Ministers,* https://bit.ly/3XqAIlb.

49 Batmanghelidj, Esfandyar; Shah, Sahil (2020), *Europe still needs INSTEX to help solve the Iran crisis,* European Leadership Network, February, https://bit.ly/3XLq5UZ.

50 As advocated by Gordon, Stuart; Robinson, Alice; Goulding, Harry; Mahyub, Rawaad (2018) *The impact of bank de-risking on the humanitarian response to the Syrian crisis,* HPG Working Group, https://bit.ly/3KEBToA.

51 As described by Batmanghelidj, Esfandyar; Hellman, Axel (2018), *Europe, Iran and Economic Sovereignty: A New Banking Architecture in Response to US Sanctions,* European Leadership Network, June, http://bit.ly/3Zpf0tw.

52 Also explored in Jaeger, Mark Daniel (2021), *Sanctions and the Financial System: Steering Away from De-Risking?,* in Lohmann, Sascha and Vorrath, Judith (eds), *International Sanctions: Improving Implementation through Better Interface Management,* SWP, pp 83-91: https://bit.ly/3GA6PCS.

53 As advocated in, Gordon, Stuart; Robinson, Alice; Goulding, Harry; Mahyub, Rawaad (2018), *The Impact of Bank De-risking on the Humanitarian Response to the Syrian Crisis,* HPG Working Group: https://bit.ly/3KEBToA.

54 This should be based on the understanding there is no one-size fits all solution. Various approaches are needed to ensure all humanitarian organisations can access financial services, regardless of their size, areas of operation, and religious affiliations.

55 Some highlighted that direct relationships between NGOs and correspondent banks could also help build trust, share information for DD checks and build capacity. Correspondent banks do not currently tend to be aware of which NGOs have strong management approaches or good internal DD systems due to a lack of exposure to the sector. Nor can, NGOs typically find out which correspondents are involved in any given banking transaction. One international NGO representative argued 'some NGOs find it "insulting" to hear govts and FIs tell them to develop a relationship with their FIs. Usually, a decision to derisk comes from much higher up the chain than the individual with whom they have a relationship'. Another raised similar concerns 'how can humanitarian organisations share more information with correspondent banks when they do not have a direct relationship with them (other than through using ISO 20022)?'.

56 One international NGO argued 'It is hard for correspondent banks to conduct risk assessments due to lack of available information or established relationships with regulators or NGOs. As such, the long-term solution is to reduce regulatory penalties for intermediate banks so they can take more risks'.

57 As argued by the representative of one correspondent bank in the Middle East and North Africa: 'We need some form of protection and comfort to encourage us to work with banks in high-risk countries. This will only be possible through [action taken by] regulators. Right now, correspondent banks are taking a lot of risk with little return on the actual payments.'

58 One European bank argued: 'Sanctions compliance should be discussed by NGOs with the home bank, from the earliest planning stages. Then the home bank has the possibility to discuss any necessary due diligence and get in contact with correspondent banks, before payments are due for processing.'

59 As was reportedly the case with Syrian payments and the US OFAC according to banks and NGOs operating in the region.

60 Earlier reports called for the creation of a banking network through closed user group, typically using SWIFT, to help address derisking, as has been created in some countries. In the case of the Dominican Republic, for example, all banks formed a part of a closed user group using SWIFT, with the central bank serving as the hub. According to CGAP (2017) 'Local payments are executed using this private network, which is in real time, very safe and with low cost'.

61 Banks willing to support humanitarian payments could make it part of their mission statement to do so, something that some banks have embraced.

62 As argued by one European bank with an active charity portfolio: 'Building the necessary relationships with NGOs, governments and other banks involved in the payment chain takes time and money. If you don't invest in your architecture and you don't do proper risk management, you're not preventing potential closures down the line'. Another European bank suggested: 'Risk appetite is not solely based on "commercials"; resourcing is also a huge factor. If a bank or provider is not knowingly geared towards the sector, it can have a damaging impact on delivery across the entire banks client base'.

63 Some donors already factor in compliance costs into their grant agreements with NGOs, such as the UK Government and the US Agency for International Development (USAID). According to one UK bank 'when an NGO applies for any kind of government funding, there's a facility to "cost in" a compliance officer to those grants'.

64 SWIFT (2016) argues 'For a large bank, the due diligence costs for a high-risk counterparty can be as much as $50,000 per year. If this is higher than the fees earned from that counterparty, large banks may conclude the relationship does not make sense financially. Smaller banks should take any steps possible – such as joining The KYC Registry – to help reduce due diligence costs for their counterparties'.

65 One donor highlighted the fact that their attempts to capture this type of information from NGOs had been met with opposition or reluctance by some in the humanitarian sector.

66 Understanding is also scarce about how to encourage banks, especially correspondents, to retain contact with high-risk jurisdictions. This is important given the low levels of commercial benefits and high levels of risk and bureaucratic burdens involved.

67 One European bank argued that it was 'sufficient (from an EU perspective) to use euros (EUR; or other EU Member states currencies) and avoid USD in order not to additionally check compliance with US sanctions'.

68 This also means that funds are not 'auto-converted' in the receiving country, whereby up to 5% could be lost in any one transaction.

69 A recent United States Government Accountability Office (GAO) report (2021) highlighted prevalent banking industry views that use of KYC utilities, consisting of centralised banks of customer information, could be useful in lowering banks' compliance costs, especially if these included analysis of NGO risks that could be used to satisfy DD requirements. The report also notes that the use of KYC utilities would not necessarily solve challenges linked to poor transparency in some countries US GOA (December 2021), *Bank Secrecy Act: Views on Proposals to Improve Banking Access for Entities Transferring Funds to High-Risk Countries,* Report to Congressional Committees, https://bit.ly/3xXQSCt.

70 Some have advocated for the accelerated use of the LEA for all financial institutions involved in CBRs as a way of improving identification, for example: Giancarlo Gasha, Jose; Erbenova, Michae; Liu, Yan; Norat, Mohamed; Mathias, Emmanuel; Lopez Mejia, Alejandro; Almeida, Yasmin; Kyriakos-Saad, Nadim; Fernando, Francisca (2016), *The Withdrawal of Correspondent Banking Relationships: A Case for Policy Action,* IMF Staff Discussion Notes 2016/006, International Monetary Fund: https://bit.ly/3XrSH59.

71 See, for example: Woodsome, Jim; Ramachandran, Vijaya (2018) *Fixing AML: Can New Technology Help Address the De-risking Dilemma?,* Center for Global Development, https://bit.ly/3GAt6QP.

72 Banking representatives raised concerns that the uptake of crypto-based solutions for humanitarian transactions looked unlikely in the short-term due to preparatory work that would be required by the sector, including in relation to authorisation from relevant banking authorisations and general lack of mainstream use at present: 'Where could you make payments; who would accept the coins, and how would a recipient accept this form of payment?'. A European bank cautioned that NGOs 'can touch on crypto [for humanitarian payments] but this might take 5–10 years before it is understood or regulated in the mainstream'. A correspondent bank would also still be required, which could be subject to the same derisking trends.

73 SWIFT has also advocated the use of a 'gold standard' data set to be maintained by banks in a move towards increased transparency and reassure partners.

74 For more information, see SWIFT (2022), *What is ISO 20022?*, https://www.swift.com/standards/iso-20022

75 Hackenbroich, Jonathan; Oertel, Janka; Sandner, Philipp; Zerka, Pawel (October 2020), *Defending Europe's Economic Sovereignty: New Ways to Resist Economic Coercion,* European Council of Foreign Relations, https://bit.ly/3GYjsJa.

76 Others have advocated the use of a new EU regulatory authority modelled on OFAC but geared to facilitating, rather than restricting, trade, able to approve and support use of select correspondents. See, for example, Batmanghelidj, Esfandyar; Hellman, Axel (2018) *Europe, Iran and Economic Sovereignty: A New Banking Architecture in Response to US Sanctions,* European Leadership Network, https://bit.ly/3WanoL7.

77 Regarding legal aspects: 'The EEB would be governed by public law. To avoid having to go through the process of changing EU treaties, the EEB could be an intergovernmental agency similar in status to the European Stability Mechanism and staffed with high-level EU and national officials'; according to report authors: Hackenbroich, Jonathan; Oertel, Jank; Sandner,Philipp; Zerka,Pawel (2020), *Defending Europe's Economic Sovereignty: New Ways to Resist Economic Coercion,* European Council of Foreign Relations, Octoberhttps://bit.ly/3GYjsJa.

78 The EU and its member states have various governmental and quasi-governmental export credit agencies (ECA) but none other than INSTEX hat lack exposure to the US dollar and the US financial system.

79 United Nations Security Council (2016), *Correspondent Account Approvals: Exemptions to the Measures,* https://bit.ly/3QBg8qB.

80 These have been stymied since 2020 in light of strict border controls imposed by North Korean authorities that prevented staff from travelling into the country in response to the Covid-19 pandemic.

81 See footnote 154 of the 3 August 2022 report of the Panel of Experts on the DPRK (S/2022/668).

82 US GAO (2021), *Bank Secrecy Act: Views on Proposals to Improve Banking Access for Entities Transferring Funds to High-Risk Countries,* Report to Congressional Committees, https://bit.ly/3xXQSCt.

83 Described in: Moret, Erica (2022), *Life and Death: NGO Access to Financial Services in Afghanistan,* Norwegian Refugee Council January , https://bit.ly/3XtY4RH. Also explored in: Zerden, Alex (2021), *Establishing a Humanitarian Financial Corridor for Afghanistan,* Lawfare, November, http://bit.ly/3Y3Ry3L.

84 US GOA (2021), *Bank Secrecy Act: Views on Proposals to Improve Banking Access for Entities Transferring Funds to High-Risk Countries,* Report to Congressional Committees, December, https://bit.ly/3xXQSCt.

85 For further details, see Reliefweb (2022), *Sanctions: Vote on Resolution Establishing a Standing Humanitarian Carve-out to UN Sanctions Regimes,* https://bit.ly/3QyFzJm.

86 This would benefit from a FI sectoral survey to understand what specific regulatory and technological solutions are required to protect transfers required for humanitarian action and related activities, such as the trade in essential goods.

87 This requires a clearer understanding of the DD costs incurred by banks and NGOs, and a mapping exercise which identifies those donors that already provide support.

88 This should also include a detailed review on ways that banks, especially correspondents, could be encouraged not to derisk from high-risk jurisdictions based on sectoral consultations and a series of pilots with select participants.

89 This will be the focus of another workshop in this series, to be held in early 2023.