United States Government Accountability Office

Report to Congressional Requesters

September 2018

HUMANITARIAN ASSISTANCE

USAID Should Improve Information Collection and Communication to Help Mitigate Implementers' Banking Challenges

GAO-18-669

GAO Highlights

Highlights of GAO-18-669, a report to congressional requesters

September 2018

HUMANITARIAN ASSISTANCE

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Why GAO Did This Study

Since 2012, the United States has provided approximately $36 billion in humanitarian assistance to save lives and alleviate human suffering. Much of this assistance is provided in areas plagued by conflict or other issues that increase the risk of financial crimes. The World Bank and others have reported that humanitarian assistance organizations face challenges in accessing banking services that could affect project implementation.

GAO was asked to review the possible effects of decreased banking access for nonprofit organizations on the delivery of U.S. humanitarian assistance. In this report, GAO examines (1) the extent to which State and USAID partners experienced banking access challenges, (2) USAID partners' reporting on such challenges, and (3) actions U.S. agencies have taken to help address such challenges. GAO selected four high-risk countries—Syria, Somalia, Haiti, and Kenya—based on factors such as their inclusion in multiple financial risk-related indices, and selected a non-generalizable sample of 18 projects in those countries. GAO reviewed documentation and interviewed U.S. officials and the 18 partners for the selected projects.

What GAO Recommends

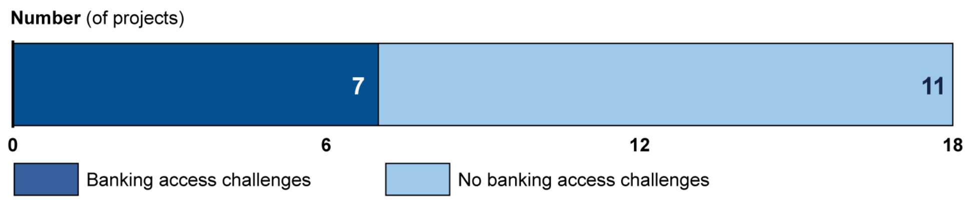
GAO recommends that USAID should take steps to (1) collect information on banking access challenges experienced by USAID's partners and (2) communicate that information both within USAID and with external entities, such as other U.S. agencies and partners. USAID concurred with our recommendations.

View GAO-18-669. For more information, contact Thomas Melito at (202) 512-9601 or melitot@gao.gov.

What GAO Found

Implementing partners (partners) for 7 of 18 Department of State (State) and U.S. Agency for International Development (USAID) humanitarian assistance projects that GAO selected noted encountering banking access challenges, such as delays or denials in transferring funds overseas. Of those 7 projects, 1 partner told us that banking access challenges adversely affected its project and 2 additional partners told us that the challenges had the potential for adverse effects. Moreover, the majority of partners (15 out of 18) for the 18 projects noted experiencing banking access challenges on their global portfolio of projects over the previous 5 years.

Number of Selected U.S. Government Humanitarian Assistance Projects That Experienced Banking Access Challenges



Source: GAO. | GAO-18-669

USAID's partners' written reports do not capture potential risks posed by banking access challenges because USAID generally does not require most partners to report in writing any challenges that do not affect implementation. Six of the 7 projects that encountered challenges were USAID-funded. Of those 6 USAID projects, 5 partners told us that these challenges did not rise to the threshold of affecting project implementation that would necessitate reporting, and 1 did not report challenges although its project was adversely affected. Additionally, GAO's review of about 1,300 USAID partner reports found that the few instances where challenges were mentioned lacked sufficient detail for GAO to determine their type, severity, or origin. Without information on banking access challenges that pose potential risks to project implementation, USAID is not aware of the full extent of risks to achieving its objectives.

The Department of the Treasury (Treasury) and State have taken various actions to help address banking access challenges encountered by nonprofit organizations (NPO), but USAID's efforts have been limited. Treasury's efforts have focused on engagement between NPOs and U.S. agencies, while State has issued guidance on the topic to its embassies and designated an office to focus on these issues. In contrast, USAID lacks a comparable office, and NPOs stated that it is difficult to find USAID staff to engage with on this topic. Further, GAO found that awareness of specific challenges was generally limited to USAID staff directly overseeing the project. Without communicating these challenges to relevant parties, USAID may not be aware of all risks to agency objectives and may not be able to effectively engage with external entities on efforts to address these challenges.

Contents

Abbreviations

ACAMS	Association of Certified Anti-Money Laundering Specialists
AML	anti-money laundering
BSA	Bank Secrecy Act
CSN	Charity and Security Network
FATF	Financial Action Task Force
FinCEN	Financial Crimes Enforcement Network
NPO	nonprofit organization
OFAC	Office of Foreign Assets Control
PRM	Bureau of Population, Refugees, and Migration
State	Department of State
TFFC	Office of Terrorist Financing and Financial Crimes
TFI	Office of Terrorism and Financial Intelligence
Treasury	Department of the Treasury
USAID	U.S. Agency for International Development

U.S. GOVERNMENT ACCOUNTABILITY OFFICE
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September 20, 2018

Congressional Requesters

The United States, primarily through the Department of State (State) and the U.S. Agency for International Development (USAID), has provided approximately $36 billion in humanitarian assistance[1] over the previous 6 years in order to save lives, alleviate human suffering, and reduce the social and economic impact of disasters worldwide. Partners including nonprofit organizations (NPO) implement much of this assistance in areas experiencing conflict, instability, or other issues that increase the risk of financial crimes.

The World Bank and others have expressed concerns that derisking[2] and decreased banking access make it more difficult for NPOs to transfer funds to areas that are perceived as high-risk, in part because of concerns about possible terrorist abuse or money laundering risks.[3] For example, a recent survey by the Charity and Security Network (CSN), a trade association for NPOs, found that two-thirds of U.S.-based NPOs with international operations experienced banking access challenges, including delays in transferring funds, increased fees, and account

[1]The $36 billion represents all U.S. government humanitarian assistance as reported by the United Nations Office for the Coordination of Humanitarian Affairs Financial Tracking Service (U.S. Humanitarian Aid Flows, 2012-2017).

[2]We define *derisking* as the practice of banks limiting certain services or ending their relationships with customers to, among other things, avoid perceived regulatory concerns about facilitating money laundering or other criminal activity, such as financing terrorist groups. GAO, *Bank Secrecy Act: Derisking Along the Southwest Border Highlights Need for Regulators to Enhance Retrospective Reviews*, GAO-18-263 (Washington, D.C.: Feb. 26, 2018).

[3]See The World Bank and the Association of Certified Anti-Money Laundering Specialists, *Stakeholder Dialogue on De-risking: Supporting Financial Access for Humanitarian Organizations and Charities*, 2017. The World Bank has published additional briefs and stakeholder dialogs on derisking as it affects humanitarian assistance. See The World Bank, *De-risking in the Financial Sector*, 2016 and The World Bank and the Association of Certified Anti-Money Laundering Specialists (ACAMS), *Stakeholder Dialogue on De-risking: Findings and Recommendations*, 2016. See also Sue Eckert, Kay Guinane, and Andrea Hall, *Financial Access for U.S. Nonprofits* (Washington, D.C.: Charity and Security Network, 2017).

closures.[4] As a result, there have been concerns that NPOs, including State and USAID implementing partners (partners), may face long delays in transferring funds or be unable to transfer funds at all to implement projects or respond to humanitarian disasters, such as those in Syria, Somalia, and elsewhere. In addition, NPOs may be forced to move money through less transparent, less traceable, and riskier channels. Further, a large group of NPOs, banks, and others gathered at a World Bank meeting on derisking stated that the inability to get humanitarian assistance to refugees from political conflicts or natural disasters could result in death from starvation, exposure, and disease.

This is one of four GAO reports addressing a congressional request to review the various effects of derisking, including on the delivery of humanitarian assistance.[5] In this report, we examine (1) the extent to which State and USAID partners experience banking access challenges that affect their implementation of humanitarian assistance projects, (2) USAID partners' reporting on banking access challenges,[6] and (3) actions relevant U.S. agencies have taken to help address banking access challenges encountered by NPOs. In addition, we provide information on the extent to which State and USAID experience banking access challenges in providing assistance in high-risk countries in appendix I.

To address these objectives, we selected 18 U.S.-funded humanitarian assistance projects in four high-risk countries – Syria, Somalia, Haiti, and Kenya – and interviewed the 18 unique partners for each of these

[4]For the purposes of this report, we are defining *banking access challenges* as any difficulties encountered by entities in obtaining banking services in the United States and transferring funds from the United States to the destination country. These can include difficulty opening accounts, overly burdensome requests for documentation to open or maintain an account, delays or denials of funds transfers, and increased costs to transfer funds.

[5]Our other reviews related to derisking are on account terminations and bank branch closures in the U.S. southwest border region, remittances to fragile countries, and access to banking services for money transmitters. See GAO-18-263 and *Remittances to Fragile Countries: Treasury Should Assess Risks From Shifts to Non-Banking Channels*, GAO-18-313 (Washington, D.C.: Mar. 8, 2018).

[6]We did not include State's partners' reporting given the small sample size of State projects (three) and the fact that one of the State partners in our sample was a public international institution that was not required to submit written reports to State based on their award agreement. Additionally, unlike USAID, State does not have a public website for all of its partners' reports that we could examine more broadly for reporting on banking access challenges.

projects.[7] We selected the four high-risk countries based on factors including the high level of humanitarian assistance they received from U.S. agencies, their inclusion on multiple financial-risk-related indices showing they are at higher risk for financial crimes, and to obtain geographical diversity. The conclusions drawn from the information we obtained from our interviews and the examination of projects in these four countries cannot be generalized beyond our selected partners and projects. See appendix II for a description of the countries we selected for this review.

To examine the extent to which State and USAID partners experienced banking access challenges that affected their implementation of humanitarian assistance projects, we conducted semi-structured interviews with 18 partners about (1) the specific project we had selected in one of our high-risk countries and (2) their experiences implementing their global portfolio of humanitarian assistance projects over the previous 5 years. We did not ask the partners to quantify the number of projects they had implemented over the previous 5 years, nor did we ask them to quantify the number of projects in their global portfolio for which they had experienced banking access challenges. To determine our sample, we selected 18 projects from our selected countries (7 projects in Syria, 5 in Somalia, 3 in Haiti, and 3 in Kenya). We selected more projects in Syria and Somalia because those countries had received a greater proportion of the U.S. humanitarian assistance. We selected our projects to ensure that we included 18 unique partners (15 NPOs and 3 United Nations organizations), as well as a mix of State and USAID projects (3 State and 15 USAID). Our sample included several partners that operate in over 100 countries, as well as a few that operate in less than 20 countries.[8]

[7]We are considering risk from a financial perspective; that is, factors that would make banks less willing to engage customers, such as increased compliance costs or the possibility of government sanctions. To that end, we are defining high-risk countries in terms of various risk-based indices, including Treasury's Office of Foreign Assets Control list of active sanctions programs, and the Basel Anti-money Laundering (AML) Index, which evaluates countries based on factors including anti-money laundering and counter-terrorist financing regulations, corruption, financial standards, political disclosure, and rule of law; and thereby aggregates the risk a domestic financial institution may consider when deciding the level of due diligence to perform on domestic customers who transfer funds to those countries.

[8]We obtained information on the scale of operation from the websites of each implementing partner.

The partners in our sample had fiscal year 2016 annual revenues ranging from $5.9 billion to just over $10 million.[9]

We also interviewed several NPOs not included in our sample and several NPO groups to obtain their views on banking access challenges faced by those providing humanitarian assistance. Lastly, we reviewed relevant studies on banking access challenges for NPOs conducted by the World Bank and CSN.[10] A survey conducted for the CSN study was designed to be generalizable to all U.S. NPOs working internationally and received more than 300 responses from these organizations, of which more than 70 reported that they had received U.S. government funding. We examined their aggregate responses in detail. We also reviewed documentation and interviewed the officials responsible for the survey and determined that they had used a reasonable methodology to conduct the survey.

To examine USAID partners' reporting on banking access challenges, we reviewed fiscal year 2017 progress reports for our 18 sample projects to determine if banking access challenges the partners told us about had been reported in accordance with requirements in the award agreement. We also reviewed over 1300 USAID partner reports for fiscal years 2016 and 2017 from a wider selection of high-risk countries to determine the extent to which banking access challenges are being reported to USAID.[11]

To examine actions relevant U.S. agencies have taken to help address banking access challenges encountered by NPOs, we reviewed documentation from and conducted interviews with State, USAID, and the Department of the Treasury (Treasury)[12] on actions they have taken to help address these challenges. We also interviewed relevant staff at the

[9]We reviewed the most recent Internal Revenue Service Form 990, where available, or the most recent financial reports to determine this information.

[10]The Charity and Security Network is a consortium of nonprofit organizations (NPO) that seeks to help promote and protect NPOs' ability to carry out programs that advance peace and human rights, aid civilians in areas of disaster and armed conflict, and build democratic governance.

[11]We identified 19 high-risk countries that were listed on at least two of the five risk-based indices we reviewed and received over $100 million in U.S. humanitarian assistance since 2012.

[12]Treasury leads U.S. efforts to fight financial crimes and issues regulations that have a significant effect on charities' access to the banking system.

World Bank on efforts undertaken to address banking access challenges. See appendix III for additional details about our scope and methodology.

We conducted this performance audit from July 2017 to September 2018 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

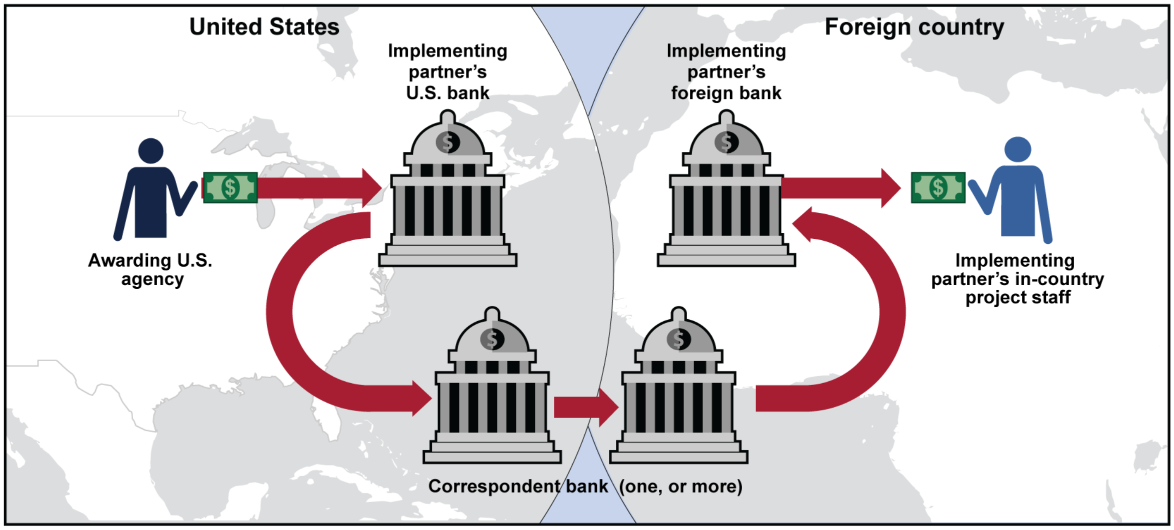
Background

U.S. Humanitarian Assistance Funds Sent Overseas Often Rely on Multiple Banks to Reach Their Final Destination

International financial transactions, including the transfer of U.S. humanitarian assistance funds, rely on a system of correspondent banking relationships.[13] State and USAID provide humanitarian assistance through funding awards to partners. Funds to U.S. partners are deposited into the partners' bank accounts located in the United States. The partners are then responsible for transferring the funds to recipient countries for project implementation. These transfers typically involve the use of a correspondent, or intermediary, bank to transfer the funds from a U.S.-based account to an account held at the recipient country, where the funds are then used by in-country staff to implement the project. See appendix IV for more information on the State and USAID offices providing humanitarian assistance.

[13]A *correspondent bank* is a financial institution that provides services on behalf of another financial institution. Correspondent banks are most likely to be used by domestic banks to service transactions that either originate or are completed in foreign countries, acting as a domestic bank's agent abroad.

Figure 1: Typical Flow of Humanitarian Assistance Funds from the United States to a Recipient Country



Source: GAO. | GAO-18-669

According to research by the Bank for International Settlements, the number of correspondent banking relationships has declined over the past several years, especially for banks that are located in higher-risk jurisdictions (such as those subject to sanctions), have customers perceived as higher-risk, and who generate revenues insufficient to recover compliance costs.[14] Further, the Financial Stability Board noted that a decline in the number of correspondent banking relationships could affect the ability to send and receive international payments and may drive some payment flows underground, with potential consequences on growth, financial inclusion, and the stability and integrity of the financial system.[15]

[14]Bank for International Settlements, Committee on Payments and Market Infrastructures, *Correspondent Banking* (July 2016). The Bank for International Settlements is an international financial institution owned by central banks that fosters international monetary and financial cooperation and serves as a bank for central banks.

[15]Financial Stability Board, *Progress report to G20 on FSB action plan to assess and address the decline in correspondent banking* (Basel, Switzerland: Aug. 25, 2016). The Financial Stability Board is an international body that monitors and makes recommendations about the global financial system.

U.S. Banks Must Comply with Anti-Money Laundering Regulations and U.S. Sanctions

When performing overseas money transfers, U.S. banks and financial institutions must comply with the Bank Secrecy Act's (BSA) anti-money laundering (AML) regulations and relevant regulations that implement U.S. sanctions.

The BSA has established reporting, recordkeeping, and other AML requirements for financial institutions. BSA/AML regulations require that each bank tailor a compliance program that is specific to its own risks based on factors such as products and services offered, and customers and locations served. By complying with BSA/AML requirements, U.S. financial institutions assist government agencies in the detection and prevention of money laundering and terrorist financing by, among other things, maintaining compliance policies, conducting ongoing monitoring of customers and transactions, and reporting suspicious financial activity.

In addition to BSA regulations established by Treasury, federal banking regulators have issued their own BSA regulations.[16] These regulations require banks to establish and maintain a BSA compliance program that, among other things, identifies and reports suspicious activity.[17] The banking regulators are also required to review banks' compliance with BSA/AML requirements and regulations, and they generally do so every 12 to 18 months as a part of their routine safety and soundness examinations.[18] Among other things, examiners review whether banks have an adequate system of internal controls to ensure ongoing compliance with BSA/AML regulations. The federal banking regulators may take enforcement actions using their prudential authorities for

[16]Treasury's Financial Crimes Enforcement Network (FinCEN), which is responsible for administering the Bank Secrecy Act (BSA), has delegated BSA/AML examination authority for banks to federal banking regulators. See 31 C.F.R. § 1010.810(b).

[17]The appropriate federal prudential regulators are required to prescribe regulations requiring the insured depository institutions under their supervision to establish and maintain procedures that are reasonably designed to ensure and monitor the compliance of such institutions with the BSA. 12 U.S.C. § 1818(s). Regulations requiring the establishment of BSA compliance programs are codified at 12 C.F.R. § 21.21 (OCC); 12 C.F.R. § 208.63 (Federal Reserve) and 12 C.F.R. §§ 326.8 (FDIC).

[18]The *BSA/AML Examination Manual* used in these examinations, last updated in 2014, describes the NPO sector as risky, stating that "the flow of funds both into and out of the NPO can be complex, making them susceptible to abuse by money launderers and terrorists." It also requires financial institutions to conduct extensive background investigations of NPO customers, including details on their governance, financial procedures, volunteer and donor base, program operations, and associations.

violations of BSA/AML requirements. They may also assess civil money penalties against financial institutions and individuals.

Banks must also comply with relevant regulations that implement U.S. sanctions in certain countries. When the United States imposes sanctions on an entity or individual, it freezes assets subject to U.S. jurisdiction. All U.S. transactions with the entity or individual are prohibited, including transactions by banks and NPOs. When appropriate, Treasury's Office of Foreign Assets Control (OFAC) may issue a general license authorizing the performance of certain categories of transactions, including funds transfers for the provision of humanitarian assistance. OFAC also issues specific licenses on a case-by-case basis under certain limited situations and conditions.

Treasury Helps Prevent Financial Crimes and Considers NPOs Providing Humanitarian Assistance in High-Risk Areas Potentially Vulnerable to Exploitation

Treasury, as a lead agency in fighting financial crimes and as an issuer of regulations that have a significant effect on charities' access to the banking system, takes actions to help prevent financial crimes, and considers NPOs operating in conflict areas and other high risk zones as potentially vulnerable to such crimes. Treasury leads U.S. efforts to fight various financial crimes primarily through its Office of Terrorism and Financial Intelligence (TFI). TFI develops and implements U.S. government strategies to combat terrorist financing domestically and internationally, and develops and implements the National Money Laundering Strategy as well as other policies and programs to fight financial crimes. Relevant offices under TFI include:

- **The Office of Terrorist Financing and Financial Crimes** (TFFC). TFFC, the policy development and outreach office for TFI, works across all elements of the national security community – including the law enforcement, regulatory, policy, diplomatic, and intelligence communities – and with the private sector and foreign governments to identify and address the threats presented by all forms of illicit finance to the international financial system.
- **The Office of Foreign Assets Control** (OFAC). OFAC administers and enforces economic and financial sanctions based on U.S. foreign policy and national security goals against targeted foreign countries and regimes, terrorists, international narcotics traffickers, transnational criminal organizations, human rights abusers and corrupt actors, those engaged in activities related to the proliferation of weapons of mass destruction, and other threats to the national security, foreign policy, or economy of the United States.

- **The Financial Crimes Enforcement Network** (FinCEN). FinCEN, among other duties, is responsible for administering the BSA, has authority for enforcing compliance with its requirements and implementing regulations, and also has the authority to enforce the BSA, including through civil money penalties. FinCEN issues regulations under the BSA and relies on the examination functions performed by other federal regulators, including federal banking regulators. FinCEN also collects, analyzes, and maintains the reports and information filed by financial institutions under BSA and makes those reports available to law enforcement and regulators.

According to Treasury, organizations, including NPOs, implementing humanitarian assistance in high-risk areas may be vulnerable to exploitation by terrorist groups and their support networks. These terrorist groups and support networks may establish or abuse charities to raise and move funds, or provide other forms of support, that benefit the terrorist groups. As of May 2017, Treasury, through OFAC, had designated 67 charities, branches, and foreign terrorist organizations' potential fundraising front organizations for violations of U.S. sanctions.[19]

[19]According to Treasury, there are approximately 1.8 million charities in the United States. The purpose of a terrorist designation is to deny the designated individual, entity, or group access to the U.S. financial system so that it is unable to acquire or move funds to pay for infrastructure, travel and other logistics, supplies and weaponry, and day-to-day sustenance in order to support a terrorist group or act of terrorism.

The Majority of Selected State and USAID Implementing Partners Experienced Banking Access Challenges

For 7 of our 18 selected projects, State and USAID partners told us that they had experienced banking access challenges. Additionally, 15 of the 18 partners we interviewed noted that they had experienced banking access challenges on their global portfolio of humanitarian assistance projects over the previous 5 years.[20] Most of the 18 partners we interviewed told us that they were able to mitigate these challenges through various actions or the challenges were not significant enough to affect project implementation. Nevertheless, a few partners noted that projects they were implementing were adversely affected by such challenges. For example, 1 of our 18 selected projects faced repeated delays as a result of banking access challenges. Additionally, 2 partners noted that they had to reduce the scope of implementation or suspend projects in their global humanitarian assistance portfolio because of banking access challenges. Furthermore, several partners and other NPOs told us that such challenges posed potential risks to project implementation. Lastly, a recent study found that more than two-thirds of all U.S.-based NPOs that work internationally experienced banking access challenges, but that few NPOs canceled programs as a result of those challenges.

Funds Transfer Delays and Denials Were among the Most Frequently Cited Banking Access Challenges

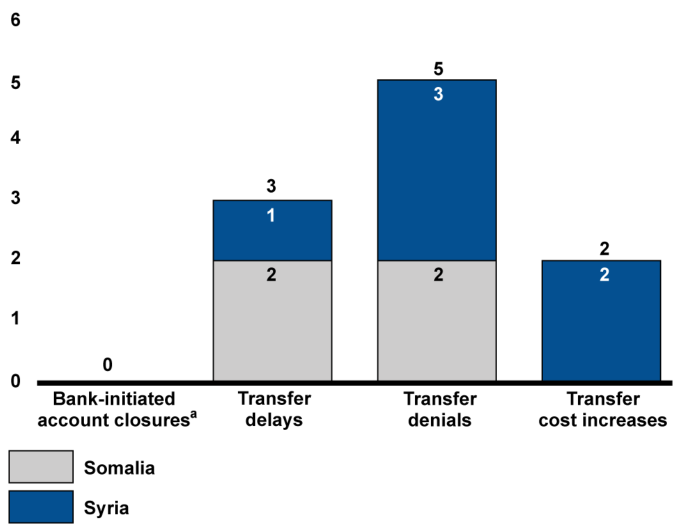
Banking Access Challenges Experienced on Selected U.S.-Funded Projects

For our 18 selected U.S.-funded projects, 7 of the partners told us that they had experienced banking access challenges in implementing their projects, with the majority citing delays or denials of funds transfers. Specifically, 3 (of 5) partners in Somalia and 4 (of 7) partners in Syria told us that they had experienced banking access challenges related to the selected project. None of the partners implementing selected sample projects in Haiti or Kenya noted that they had experienced any banking access challenges. Denials of funds transfers to the destination country was the most frequently cited banking access challenge (experienced by

[20]We selected 18 sample projects from four high-risk countries and conducted semi-structured interviews with 18 partners about (1) the specific projects we had selected and (2) their experiences implementing their global portfolio of humanitarian assistance projects over the previous 5 years.

5 of the 7 projects), followed by delays of funds transfers (experienced by 3 of the 7 projects) (see fig. 2).

Figure 2: GAO-Selected Humanitarian Assistance Projects: Implementing Partners That GAO Interviewed in Somalia and Syria Cited Delays and Denials of Funds Transfers as the Most Frequently Experienced Banking Access Challenges



Source: GAO. | GAO-18-669

Note: GAO interviewed a total of 18 U.S. Department of State and U.S. Agency for International Development implementing partners (partners) with a humanitarian assistance project in one of four selected high-risk countries (7 projects in Syria, 5 in Somalia, 3 in Haiti, and 3 in Kenya) on project-specific banking access challenges they may have experienced for those projects. Not all partners noted that they had experienced any banking access challenges, while some noted experiencing multiple banking access challenges. No partners of projects in Haiti or Kenya noted any challenges. GAO defines banking access challenges as any difficulties encountered by entities in obtaining banking services in the United States and transferring funds from the United States to the destination country.

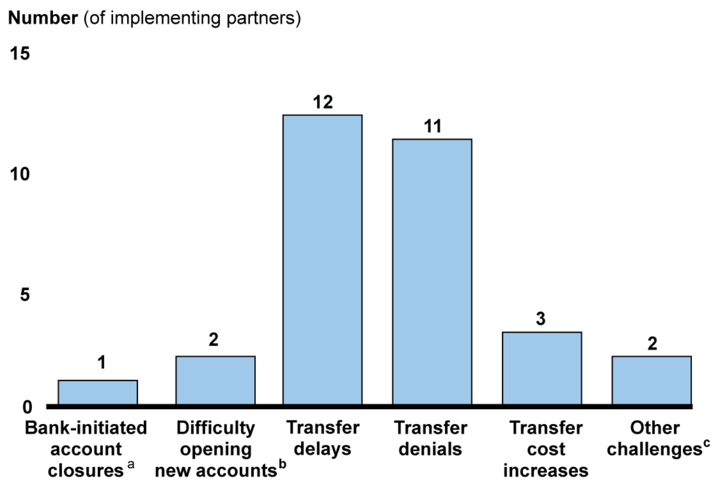
[a]One partner of a project in Syria told us that it had experienced a bank-initiated account closure. However, according to that partner, the account closure was for a reason not related to its humanitarian assistance project in Syria.

Banking Access Challenges Experienced on Implementing Partners' Global Portfolio of Humanitarian Assistance Projects

Fifteen of the 18 partners that we interviewed noted that they had experienced banking access challenges on their global portfolio of humanitarian assistance projects implemented over the previous 5 years (see fig. 3). The most frequently cited challenges were funds transfer delays and denials. Twelve partners noted that they had experienced transfer delays, with 8 noting that the delays occurred occasionally and 6 noting that the delays lasted weeks or months. Most partners that noted experiencing delays told us that the delays were caused exclusively by intermediary banks.[21] Eleven partners noted that they had experienced transfer denials, including 5 that told us the denials occurred occasionally. Five partners also noted that transfers were denied by intermediary banks.[22]

In addition, 2 partners noted that they had experienced challenges opening new bank accounts; 3, increased costs to transfer funds; 1, a bank-initiated account closure; and 2, other challenges. For more information on the types of banking access challenges that partners identified, including details on the duration of delays and the frequency of denials, see appendix V.

Figure 3: Implementing Partners' Global Portfolio of Humanitarian Assistance Projects: Partners That GAO Interviewed Cited Delays and Denials of Funds Transfers as the Most Frequently Experienced Banking Access Challenges



Source: GAO. | GAO-18-669

Note: GAO interviewed a total of 18 U.S. Department of State and U.S. Agency for International Development implementing partners (partners) of U.S. humanitarian assistance projects on whether they had experienced banking access challenges while implementing their global portfolio of humanitarian assistance projects over the previous 5 years. We did not ask the partners to quantify the number of projects they had implemented over the previous 5 years, nor did we ask them to quantify the number of projects for which they had experienced banking access challenges. Not all partners noted that they had experienced banking access challenges, while some noted experiencing multiple banking access challenges. GAO defines banking access challenges as any difficulties

[21]The other partners that noted experiencing delays cited the cause of the delay as their primary bank (where they held an account) in addition to the intermediary banks, or did not provide a response that identified the cause of their delays.

[22]The other partners that noted experiencing denials did not provide a response that identified the cause of their delays.

encountered by entities in obtaining banking services in the United States and transferring funds from the United States to the destination country.

[a]Two partners noted that they had experienced a bank-initiated account closure for an account used for humanitarian assistance projects. However, according to one of those partners, the account closure was for a reason not related to its provision of humanitarian assistance projects. The other partner told us that the bank did not provide an explanation for the closure.

[b]Difficulty opening new accounts includes refusals to open accounts, and both delays and unusual requests for documentation.

[c]Two partners noted that they had experienced a challenge with a money transmitter.

Some Banking Access Challenges Adversely Affected or Posed a Potential Risk to Project Implementation

Some partners that experienced banking access challenges told us that those challenges had adversely affected or posed a potential risk to implementation of projects. Of those partners experiencing challenges, 3 partners noted that banking access challenges had adversely affected a project's implementation. Specifically, 1 partner that experienced challenges on one of our selected projects and 2 partners that experienced challenges on projects outside of our sample noted that the challenges they had experienced resulted in a project being adversely affected in some form, such as:

- **Reduced scope of implementation.** One partner told us that its project in the Democratic People's Republic of Korea was scaled back significantly because of difficulty transferring funds to the country.
- **Delays implementing a project.** One partner told us that for one of our selected projects, in part because of banking access challenges, implementation of the project was delayed and required approval for two no-cost extensions from USAID. The partner noted that it had experienced recurring issues with funds transfers to Syria, including 3- to 6-week delays and frequent denials of transfers.
- **Suspension of an in-progress project.** One partner told us that an ongoing project it implemented in Syria (outside of our sample of projects) to deliver food assistance had been suspended for about a week because its funds transfers to the country were denied.[23]

[23]The implementing partner also told us that it did not internally document that the project experienced adverse effects as a result of banking access challenges.

While some projects were adversely affected, 6 of the 7 partners of our selected projects that noted experiencing banking access challenges told us that the challenges they had experienced did not adversely affect project implementation. Similarly, 12 of the 15 partners that noted experiencing banking access challenges on their global portfolio of humanitarian assistance told us that the challenges did not affect project implementation. Additionally, for both our selected projects and their global portfolio of humanitarian assistance projects, the challenges experienced were either not significant enough to affect project implementation, or were mitigated through various actions. For example, partners told us that they had mitigated challenges by:

- **Maintaining a funding buffer.** Partners may keep enough funding to operate a project for several weeks in order to mitigate delays and denials of funds transfers. For example, one partner noted that projects maintain approximately 4 weeks of operating funds on hand, which is enough to mitigate transfer delays that last up to 3 weeks.
- **Using alternate methods to move funds.** Partners may use alternate methods to move funds, such as using different intermediary banks or money transmitters, or by carrying cash. For example, one partner told us that when its U.S. bank stopped allowing funds transfers to Syria, the partner opened an account with a different bank. That partner also told us that because it was unable to reliably transfer funds to Syria, it regularly transfers funds to Lebanon—either to intermediaries or to the personal accounts of individuals involved in the projects—and manually moves the physical currency to Syria.
- **Maintaining multiple bank accounts**. Partners may maintain accounts with multiple banks in order to mitigate the risk of a bank-initiated account closure. For example, one partner told us that after a bank closed all of its accounts without warning or explanation, the partner opened accounts across three different banks in order to mitigate the effects of any individual bank closing its account.

While most partners' projects did not experience adverse effects as a result of banking access challenges, three USAID partners—as well as another NPO that we spoke with—told us that banking access challenges posed a potential risk to project implementation, such as:

- **Potential for physical violence.** One partner told us that, for one of our selected projects, there were concerns of violence if payments were halted because of funds transfer delays, while another partner told us that violence was a concern if it was unable to pay vendors on time. An NPO also told us that there was a potential for physical violence if local staff were not paid on time.
- **Potential for insolvency of vendors.** One partner told us that, for one of our selected projects, transfer delays prevented it from reimbursing a money transmitter it used to move funds to Somalia, which in turn caused that money transmitter to experience financial difficulties. The partner stated that the delays were almost significant enough to affect operations, though it was able to resolve the situation in time to prevent its vendor from becoming insolvent.
- **Potential for project suspension.** One partner told us that it provides advance funding for projects to account for delays, but at times transfer delays have come close to exhausting the advance funding. For example, the partner told us that it provided funding for projects 4 weeks in advance and experienced transfer delays averaging 3 weeks. In addition, an NPO told us that staff are sometimes not paid for several months because of such delays; thus, if transfer delays worsened or staff were unwilling to work without being paid, project implementation may be adversely affected.

Approximately Two-Thirds of U.S. NPOs That Operate Internationally Experienced Banking Access Challenges, According to a Trade Association Survey

A recent study by Charity and Security Network on banking access for U.S. NPOs, which included NPOs that received U.S. government funds, found widespread banking challenges for U.S.-based NPOs.[24] Data for a survey conducted as part of this study indicated that about two-thirds of the responding U.S.-based NPOs that work internationally experienced banking access challenges.[25] The challenges included delays of wire transfers, unusual requests for documentation, and increased fees. Some

[24]See Sue Eckert, Kay Guinane, and Andrea Hall, *Financial Access for U.S. Nonprofits* (Washington, D.C.: Charity and Security Network, 2017).

[25]See Delton T. Daigle, Stefan Toepler, and Sue M. Smock, *Financial Access for Charities Survey 2016: Data Report to the Charity and Security Network Version 1.1* (Arlington, VA: George Mason University, 2016).

NPOs also cited experiencing account closures and refusals to open accounts.

About 15 percent of the NPOs that responded to the survey noted that they experienced these banking access challenges constantly or regularly, and about 3 percent of NPOs reported cancelling a project because of banking access challenges.[26] Furthermore, transfers to all parts of the globe were affected, and the challenges were not limited to conflict zones. According to the report, NPOs with 500 or fewer staff were more likely to experience delayed wire transfers, fee increases, and account closures. Smaller organizations were more likely to receive unusual requests for documentation, according to the report. The smallest NPOs, those with 10 or fewer employees, reported experiencing more trouble opening accounts than larger organizations. According to the report, as a result of the challenges they experienced, NPOs were sometimes forced to move money through less transparent, less traceable, and less safe channels, such as carrying cash.

As shown in table 1, survey data from the Charity and Security Network study indicated that there were only minor differences between NPOs receiving and not receiving U.S. government funding in terms of experiencing banking access challenges. For example, about 15 percent of responding NPOs, regardless of whether or not they received U.S. funds, noted experiencing banking access challenges regularly or constantly, with transfer delays the challenge most frequently cited by both groups. Additionally, about the same proportion of NPOs that received or did not receive U.S. funds reported that they rarely or never experienced banking access challenges. Both groups of NPOs also noted taking similar measures to deal with banking access challenges.[27]

[26]According to the survey, regularly was defined as every few months, and constant was defined as ongoing, with few breaks between incidents.

[27]According to the survey, nonprofit organizations that received U.S. government funds mitigated financial access challenges by finding other financial institutions (18 out of 48 respondents, or 38 percent), using money transfer companies (14 out of 48, or 29 percent), carrying cash (22 out of 48, or 46 percent), performing the transaction later (27 out of 48, or 56 percent), or finding another solution (17 out of 43, or 40 percent). However, 2 out of 48 (or 4 percent) of respondents canceled a program as a result of financial access challenges. See Daigle, Toepler, and Smock, *Financial Access for Charities Survey 2016: Data Report to the Charity and Security Network Version 1.1*. Additionally, the researchers that conducted the study provided us with further analysis of the survey data, which are included in the information above. Percentages presented above are rounded.

Table 1: Survey Results on the Prevalence of Banking Access Challenges for U.S. Nonprofit Organizations, and for U.S. Nonprofit Organizations That Received U.S. Government Funds

Challenge	Number of all NPOs that noted the challenge (of the number of NPOs that responded to the question)	Percentage of all NPOs that noted the challenge	Number of NPOs that received U.S. government funds and noted the challenge (of the number of NPOs that responded to the question)	Percentage of NPOs that received U.S. government funds and noted the challenge
Account closures	19 (of 300)	6	8 (of 71)	11
Refusals to open accounts	29 (of 300)	10	9 (of 71)	13
Transfer delays	111 (of 301)[a]	37	24 (of 71)	34
Unusual requests for documentation	80 (of 301)	27	22 (of 71)	31
Fee increases	97 (of 297)[a]	33	22 (of 70)	31
Other	61 (of 283)[a]	22	19 (of 67)	28

Source: GAO analysis of survey data used in a Charity and Security Network study. | GAO-18-669

Notes: A survey of U.S.-based nonprofit organizations (NPO) was conducted for a Charity and Security Network study on financial access for U.S. NPOs. See Delton T. Daigle, Stefan Toepler, and Sue M. Smock, *Financial Access for Charities Survey 2016: Data Report to the Charity and Security Network Version 1.1* (Arlington, VA: George Mason University, 2016) and Sue Eckert, Kay Guinane, and Andrea Hall, *Financial Access for U.S. Nonprofits* (Washington, D.C.: Charity and Security Network, 2017). Additionally, the researchers who conducted the study provided GAO with further analysis of the survey data, which is included in the table. Percentages presented in this table are rounded.

Banking or financial access challenges are challenges faced in accessing banking services.

Not all NPOs responded to all questions. The number of NPOs that responded to each question—and the denominator with which each percentage is calculated—is detailed in the table above.

[a]The number of NPOs that responded affirmatively to this question differed by one between the Data Report and the data provided to GAO. The data provided to GAO are presented here.

USAID Implementing Partners' Reports Do Not Capture Potential Risks Posed by Banking Access Challenges

USAID's partners' written reports do not capture potential risks posed by banking access challenges because USAID generally does not require most partners to report in writing any challenges that do not affect implementation. Six of the 7 projects that noted experiencing banking access challenges were USAID projects. None of those 6 USAID partners reported on the banking access challenges they had experienced to USAID in their regular project reporting. USAID requires partners to report adverse effects to their projects, but 1 partner that faced delays on its project as a result of banking access challenges did not identify these challenges as the reason for delays in its reporting to USAID. We also reviewed over 1,300 USAID partner reports for fiscal years 2016 and

2017 from high-risk countries and found no explicit discussion of banking access challenges.[28]

USAID Generally Requires Implementing Partners Only to Report Banking Access Challenges That Affect Project Implementation

USAID generally requires partners implementing humanitarian assistance projects to report challenges that affect project implementation.[29] USAID, through the Office of U.S. Foreign Disaster Assistance (OFDA) and the Office of Food For Peace (FFP), provides humanitarian assistance and monitors the implementation of projects through various methods, including periodic performance reports. USAID's reporting requirements, as well as the number of partners of selected projects that told us they had experienced banking access challenges, are as follows:

- **USAID/OFDA.** USAID/OFDA agreements for the selected projects we reviewed require the awardee to report via email (1) developments that have a significant effect on the activities supported by the agreement, and (2) problems, delays, or adverse conditions that materially impair the ability to meet the objectives of this agreement. The agreements also require Program Performance Reports that must address reasons why established goals were not met, the impact on the program objectives, and how the impact has been or will be addressed. Four of the 6 USAID partners that told us they had experienced banking access challenges were implementing USAID/OFDA projects.

[28]We searched USAID's Development Experience Clearinghouse—an online resource for USAID-funded technical and program documentation—for all reports from 19 selected high-risk countries for fiscal years 2016 and 2017. We identified 1,369 reports. We then used a textual analysis program to scan each report based on a lexicon of words and phrases related to banking access challenges. For those reports that the program identified as containing words and phrases related to banking access challenges, we conducted a manual review to verify the results.

[29]While we did not include State partner reporting because of the small sample size of available reports, we found that State's Bureau of Population, Refugees, and Migration (State / PRM) agreements for our selected projects implemented by NPOs required the awardee to promptly inform State, in writing, should any special circumstance be experienced that was likely to delay or prevent the partner from meeting the project objectives. However, the State / PRM agreement we reviewed for a public international organization—one of the partners that told us it had experienced banking access challenges that did not adversely affect its project—did not require this organization to provide direct program reporting to State. The public international organization noted that it had experienced banking access challenges, and that while those challenges were minor, it had mentioned them to State officials in meetings and via email, but not in any formal reporting.

- **USAID/FFP**. USAID/FFP's Fiscal Year 2017 Annual Program Statement for International Emergency Food Assistance requires partners to report, as part of their quarterly reporting, any challenges that the project has faced during the quarter and how they were resolved and discuss any potential challenges or delays that may affect the program's ability to achieve its objectives.[30] Each of the agreements—both for NPOs and for public international organizations—that we reviewed require the partner to notify USAID of any developments, problems, or delays that may have an adverse effect on the project. Two of the 6 USAID partners that told us they had experienced banking access challenges were implementing USAID/FFP projects.

USAID Implementing Partners That Noted Experiencing Banking Access Challenges Did Not Include These Challenges in Their Program Performance Reports

Five of the 6 USAID partners of selected sample projects that noted experiencing banking access challenges told us those challenges did not adversely affect project implementation and therefore did not need to be reported. The sixth—a partner that noted its project was adversely affected by banking access challenges—did not include these challenges in its reporting to USAID, although the challenges met the reporting threshold of adversely affecting project implementation. While both USAID and the partner told us that the delays were communicated to USAID through emails and conversations with a designated USAID contact and in the justification for the no-cost extensions submitted to USAID, our review of the partner's program performance reports to USAID and the no-cost extensions found no explicit discussion of banking access challenges.

[30]The fiscal year 2017 Annual Program Statement for International Emergency Food Assistance was issued on December 21, 2016. The prior version of this statement, issued on March 23, 2015, did not contain this requirement for quarterly reporting; instead, the statement noted that USAID should specify additional components of quarterly reporting in the award based on the type of assistance provided, such as cash or commodities.

USAID Partner Reports Did Not Include Any Explicit Mention of Banking Access Challenges for Fiscal Years 2016 and 2017

Our review of the over 1,300 publicly available USAID partner reports for fiscal years 2016 and 2017 from high-risk countries found no explicit discussion of banking access challenges.[31] Overall, we identified 5 reports out of the over 1,300 that included some mention of challenges related to banking access. However, those reports lacked sufficient detail for us to determine the type, severity, or origin of the challenges.[32] For example, one report stated that there are sometimes delays in the payment of salaries through foreign accounts, with no further details about the delays, while another report stated that subgrantees experienced delays in payments without identifying the reasons for these delays, which could include late reports, late verification, late processing, or banking issues.

While most of the partners we interviewed noted that they did not report banking access challenges because the challenges did not adversely affect their projects, an NPO advocacy group and a large international NPO told us that NPOs may be reluctant to discuss or report banking access challenges publicly because of concern about being perceived as high-risk or unable to carry out their mission, and that any public mention of banking access challenges could adversely affect their ability to raise funds. Standards for Internal Control in the Federal Government require agencies to identify and respond to risks related to achieving their goals,[33] and USAID currently has no other process for collecting information on banking access challenges affecting its partners. Without this information, USAID does not have a record of the frequency and prevalence of the challenges and may not be aware of the full extent of risks to achieving its humanitarian assistance objectives. Further, as mentioned previously, two USAID partners stated that their projects faced potential adverse effects from banking access challenges. Documenting the prevalence and

[31]We reviewed all fiscal year 2016-2017 periodic progress reports contained in USAID's Development Experience Clearinghouse for projects in 19 countries we defined as high-risk from a financial perspective.

[32]An additional 8 reports (out of the over 1300) discussed banking access challenges experienced by the implementing partner in the recipient country. For example, one report noted that several milestones had not been met because of prevailing economic challenges in-country that resulted in cash shortages. The implementing partner changed to a bank in-country that had more flexible cash withdrawal limits. These types of challenges are outside the scope of this review.

[33]GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G (Washington, D.C.: Sept. 2014).

frequency of banking access challenges experienced by USAID partners is important given the potential adverse effects that these challenges can have on project implementation.

Treasury and State Have Taken Various Actions to Help Address Banking Access Challenges Encountered by NPOs, While USAID Efforts Have Been Limited by a Lack of Communication Both within the Agency and Externally

Both Treasury and State have taken actions to help address banking access challenges encountered by NPOs; however, USAID's efforts to address these challenges have been limited by a lack of communication about them—both within the agency and with external entities. Treasury, as a lead agency in fighting financial crimes and as an issuer of regulations that have a significant effect on charities' access to the banking system, has conducted meetings between charities, banks, and government officials to discuss banking access challenges and released guidance on sanctions and other related issues. State, as a provider of funding for humanitarian assistance, has issued guidance to its overseas posts on banking access challenges. In addition, both State and Treasury are involved in international efforts led by the World Bank and the Financial Action Task Force (FATF) to help address banking access challenges. Although USAID's partners have experienced banking access challenges, USAID has had more limited engagement than State and Treasury with other agencies, international organizations, and NPOs on addressing such challenges—in part because of a lack of communication about them, both within the agency and with external entities.

Treasury Is Involved in Several Efforts to Help Address Banking Access Challenges Experienced by NPOs

Treasury's efforts to help address banking access challenges encountered by NPOs include holding roundtable meetings and issuing guidance and resources for charitable organizations. Treasury, in its role as a regulator of the banking system, serves as a nexus between the banks and the U.S. agencies providing humanitarian assistance. Treasury has organized several roundtable meetings with the charitable sector to facilitate a dialogue on banks' expectations. These sessions brought together representatives from charities, banks, financial supervisors, and the U.S. government to discuss the factors that banks consider related to charity accounts and that examiners use in their review of banks' procedures. Since 2013, Treasury's Office of Terrorist Financing and Financial Crimes (TFFC) has dedicated three of these roundtable meetings specifically to banking access challenges affecting charities, as follows:

- **December 17, 2013:** This initial Treasury / TFFC working group meeting with charities included a discussion of terrorist financing risk mitigation guidance. There was also a discussion of banking access challenges, during which TFFC provided an overview of the NPO section of the manual used by bank examiners to conduct bank examinations and explained the bank examination process to the charities.

- **March 21, 2014:** This meeting focused on a discussion of access to financial services for charities. A Muslim-American charity delivered a presentation on how it has managed its banking relationships over the past several years. Several banks also delivered presentations to help charities better understand the factors that banks consider and the complex processes related to banking transactions and opening or maintaining bank accounts.
- **November 12, 2015:** This meeting included a stakeholder discussion of banking access challenges for charities, with charities, bankers, and regulators presenting each of their perspectives and discussing the challenges faced on all sides.

In addition, in May 2015, Treasury, with the Department of Homeland Security, conducted a roundtable on banking access challenges with Syrian-American charities, U.S. regulators, and bankers. This event was focused on challenges affecting the Syrian-American charitable community and delivering humanitarian assistance to Syria during the worsening conflict. Treasury provided guidance related to OFAC's general license 11a for U.S. charities to provide humanitarian assistance for Syria. Further, officials reported that Treasury also maintains contact with the charitable sector through various domestic and international events, and holds frequent meetings with members of the charitable sector in Washington, D.C. and around the United States. Treasury has also issued guidance and resources on its website for charities, including frequently asked questions and best practices. Treasury's website provides information and resources for all stakeholders in four strategic areas—private sector outreach, coordinated oversight, targeted investigations, and international engagement. The guidance includes:

- voluntary best practices regarding anti-terrorist financing for charities,
- lists of frequently asked questions regarding sanctions and charities,
- list of charities that have been designated by OFAC for assisting or having ties to terrorist organizations,
- several international multilateral organization reports on banking access challenges and terrorist exploitation of charities, and

- OFAC guidance specifically related to the provision of humanitarian assistance.[34]

Lastly, Treasury has taken actions on derisking challenges more generally. According to Treasury officials, these more general actions focused on encouraging dialogue and making clear to financial institutions that they are expected to make individual risk-based decisions rather than wholesale, indiscriminate policies for entire sectors or classes of customers.[35]

Treasury officials noted that banks retain the flexibility to make business decisions such as which clients to accept, since banks are in the best position to know whether they are able to implement controls to manage the risk associated with any given client. These officials indicated that Treasury pursues market-driven solutions and cannot order banks to open or maintain accounts. The officials have stated that Treasury does not view the charitable sector as presenting a uniform or unacceptably high risk of money laundering, terrorist financing, or sanctions violations. However, charities delivering critical assistance in high-risk conflict zones have, in some cases, had terrorist organizations and their support networks exploit donations and operations to support terrorist activities.

State Has Issued Guidance to All of Its Overseas Posts to Help Address Banking Access Challenges

State has issued guidance to its staff overseas to help address banking access challenges encountered by NPOs and others and identified a focal point for banking access challenges within the agency. In July 2017, State issued internal guidance, through a document issued to all of its overseas embassies, regarding derisking. State, based on guidance from Treasury, developed guidance for all personnel that provides background on "de-risking" and related talking points, additional web-based resources, and an assessment framework tool to evaluate the current state of banking relationships in a given market. The guidance includes

[34]OFAC also maintains a phone and email hotline that charities and others can use if they have additional questions regarding transactions that may implicate a sanctioned person or country.

[35]According to Treasury officials, this includes work—both through international organizations, including the Financial Action Task Force (FATF) and Financial Stability Board, and independently—on issuing clarifying guidance to financial institutions, collecting data related to derisking, as well as clarifying expectations regarding anti-money laundering and combating the financing of terrorism compliance to clarify any misunderstandings banks have about compliance responsibilities.

links to resources from Treasury, U.S. banking regulators, and various international organizations, such as the World Bank, International Monetary Fund, and FATF.[36] The guidance is designed to give embassy staff some tools to work with host governments on these issues and to help identify countries and markets where further U.S. government engagement is necessary.

In addition, State's Office of Threat Finance Countermeasures serves as the main focal point for all banking access challenges brought to the attention of State. This office provides assistance to State's embassies when banking-access-related issues are raised through the embassy to State headquarters. All embassy staff, as part of the guidance issued on derisking, have been instructed to direct all questions received on banking access issues to the Office of Threat Finance Countermeasures. In addition, this office is responsible for interfacing with Treasury on banking access issues and staff from this office have attended all of the relevant Treasury-hosted roundtable meetings focused on banking access challenges encountered by charities.

Treasury and State Are Also Involved in Efforts Undertaken by the World Bank and the Financial Action Task Force Aimed at Addressing Banking Access Challenges

The World Bank and FATF have several efforts underway—with participation from Treasury and State—to address banking access challenges for NPOs. The World Bank, in collaboration with the Association of Certified Anti-Money Laundering Specialists (ACAMS),[37] is working with humanitarian organizations, banks, and U.S. regulators on the question of how humanitarian organizations can maintain access to the financial system. More specifically, the World Bank and ACAMS have launched three primary work streams focused on different aspects of banking access to improve NPOs' understanding of what the financial institutions require and to improve the banks' understanding of how NPOs operate. According to a World Bank official, the three workstreams are as follows:

[36]The FATF is an intergovernmental body that sets standards and promotes effective implementation by its members of regulations to counter money laundering and the financing of terrorism.

[37]The Association of Certified Anti-Money Laundering Specialists is an international membership organization dedicated to advancing the professional knowledge, skills, and experience of those dedicated to the detection and prevention of money laundering around the world, and to promote the development and implementation of sound anti-money laundering policies and procedures

- **Work Stream 1:** This work stream aims to ensure a better understanding of bank examiners of the NPO sector and to enable more risk differentiation on the part of those examiners when they conduct on-site supervision and examine bank client accounts.
- **Work Stream 2:** This work stream aims to help banks conduct due diligence on charities more easily through the use of technological tools, such as databases that contain key information on charities.
- **Work Stream 3:** This work stream aims to work with the regulatory bodies to help bank examiners change their perceptions of the risk potential of charities.

In addition, the World Bank and ACAMS have organized roundtable meetings as part of the ongoing Stakeholder Dialogue on De-Risking. The objectives of a January 2017 meeting were to promote access of humanitarian organizations to financial services and to discuss practical measures to foster the relationship between NPOs and financial institutions, improve the regulatory and policy climate for financial access for NPOs, and build coalitions and create opportunities for sharing information and good due diligence practices.[38] Officials from Treasury and State have been involved with the dialogues and various work streams.

FATF, with participation from both Treasury and State, also has several efforts underway to help address banking access challenges, including revising its recommendations and issuing guidance. Derisking has been a stated FATF priority since October 2014. In June 2016, FATF revised its recommendation that pertains to how countries should review NPOs and its interpretive note to better reflect how to implement measures to protect NPOs from terrorist abuse, in line with the proper implementation of the risk-based approach.[39] According to Treasury, this approach emphasizes

[38]The January 2017 roundtable was attended by 45 representatives from nongovernmental organizations (e.g., humanitarian organizations, umbrella organizations, donors, and think tanks), governments (including policy, regulatory and law enforcement authorities), international organizations, financial institutions, and academic specialists.

[39]The FATF recommendations set out a comprehensive and consistent framework of measures that countries should implement in order to combat money laundering and terrorist financing, as well as the financing of proliferation of weapons of mass destruction. Countries have diverse legal, administrative, and operational frameworks and different financial systems, and therefore cannot all take identical measures to counter these threats. The FATF recommendations set an international standard that countries should implement through measures adapted to their particular circumstances.

that not all charities are considered high-risk. Specific changes included defining NPOs, removal of the words “particularly vulnerable” from previous language, and emphasis on a risk-based approach for evaluating NPOs. The FATF has also issued guidance and best practices to guide both financial institutions and regulators on how to properly implement the risk-based approach, in line with the revised FATF recommendations. Additionally, according to Treasury, the FATF updated a report analyzing the global terrorist threat to the charitable sector, gathering over 100 examples of terrorist abuse of charities to pinpoint which types of charities are considered higher-risk. This report and its findings were published in June 2014.

USAID’s Efforts to Address Banking Access Challenges Are Limited by Lack of Communication, Both within the Agency and with External Entities, on Challenges Faced by Partners

USAID efforts to address banking access challenges have been limited, in part because of a lack of communication within the agency and with external entities about challenges faced by USAID’s partners.

Within USAID, we found that information on banking access challenges faced by partners was not always communicated beyond staff directly overseeing the project. We found that the USAID staff who had direct responsibility for managing the project were generally aware of banking access challenges that affected project implementation, and had taken steps to help mitigate these challenges on a project-level basis. However, other relevant staff, such as USAID management and country-level headquarters staff, were not aware of these challenges. For example, partners in Syria and Somalia that we interviewed noted experiencing banking access challenges, but the USAID officials representing these countries in headquarters told us they were not aware of such challenges occurring recently. This situation may be, in part, because USAID has no designated office or process that focuses on communicating these issues throughout the agency to other relevant officials, including USAID management. Federal standards for internal control note that management should use quality information to achieve the entity’s objectives, and that entity management needs access to relevant and reliable communication related to internal as well as external events.[40] If information on banking access challenges experienced by USAID partners is only reported to program-level staff and not communicated to a wider audience within the agency, then the agency as a whole may not fully recognize the overall risks posed by banking access challenges to

[40]GAO-14-704G.

USAID’s ability to achieve its objectives. Further, the agency may miss opportunities to assist other partners that might be experiencing similar issues based on lessons learned from previous experiences, if staff are not aware of the banking access challenges that have been experienced by its partners implementing other projects or working in other countries.

USAID participation in interagency and partner efforts to address banking access challenges has been limited, in part because of a lack of communication with these external entities. According to Treasury officials, because there is no main focal point at USAID for banking access challenges, there is no consistency on who attends, or whether anyone attends, the Treasury-hosted roundtable meetings on banking access challenges from USAID. Further, an NPO trade association and other NPOs told us that it is difficult to find a person at USAID to engage with on banking access challenges. Lastly, a USAID/OFDA official stated that USAID has had limited engagement on issues related to banking access challenges. The OFDA official stated that once OFDA fully staffs its new Award, Audit, and Risk Management Team, it will be able to more fully engage on these issues.[41] Federal standards for internal control state that management should communicate the necessary quality information both internally and externally to achieve the organization’s objectives. Without effective communication with partners and other government agencies about banking access challenges its partners face, USAID’s ability to effectively and consistently engage with these entities or contribute to efforts to help address these challenges is limited.

Conclusions

The United States provides humanitarian assistance in countries that are often plagued by conflict, instability, or other issues that increase the risk of financial crimes. Some of these countries also face U.S. sanctions that are aimed at their governments or other actors that engage in terrorism or illicit activities. Additionally, to ensure that the U.S. financial system is not used for money laundering or financing terrorism, financial institutions such as banks are subject to various U.S. laws and regulations that require banks to conduct proper due diligence on entities, such as those

[41]According to a USAID statement of work, this new team will, among other things, lead OFDA’s efforts to assess and manage programmatic and financial risks in humanitarian assistance programming. The team will also assess and strengthen OFDA’s enterprise-wide risk management tools and internal controls, in collaboration with teams throughout the office and in line with USAID and federal requirements. It will also serve as subject matter expert for OFDA staff on implementing partners’ programmatic risk issues and liaise externally with other U.S. agencies and partner organizations on risk issues.

transferring funds to high-risk countries. However, there is concern among some organizations that banks' higher level of due diligence, especially for clients such as charitable organizations that provide humanitarian assistance in high-risk countries, may create undue difficulties, including delays, for these organizations.

Charitable organizations and others believe that because the United States and a key multilateral organization previously labeled charitable organizations as high-risk, banks remain reluctant to serve these organizations even though a case-by-case assessment of risk is now recommended. As such, we found that the majority of implementing partners—many of which are charitable organizations—of U.S. government assistance that we interviewed had experienced some banking access challenges.

Despite our findings and others' findings on the prevalence of banking access challenges facing humanitarian assistance organizations, USAID's current partner reporting does not capture information related to the potential risks of banking access challenges faced by its partners. Without collecting this information, USAID cannot help the partners mitigate banking access challenges. Additionally, if these challenges are not documented and shared throughout the agency, the prevalence of the challenges and potential risks cannot be fully assessed. Further, without communicating about banking access challenges faced by its partners throughout the agency and to others, the potential risk to agency objectives will not be known and USAID's ability to engage with other agencies and organizations in helping to address these challenges is limited.

Recommendations for Executive Action

We are making the following two recommendations to USAID:

The Administrator of USAID should take steps to collect information on banking access challenges experienced by USAID's implementing partners. (Recommendation 1)

The Administrator of USAID should take steps to communicate information on banking access challenges faced by partners both within USAID and with external entities, such as other U.S. agencies and U.S. implementing partners. (Recommendation 2)

Agency Comments

We provided a draft of this report to State, USAID, and Treasury for comment. We received written comments from USAID that are reprinted in appendix VI. USAID concurred with our recommendations. Treasury provided technical comments, which we incorporated as appropriate. State told us that it had no comments on the draft report.

We are sending copies of this report to the appropriate congressional committees, the Secretary of State, the Administrator of the U.S. Agency for International Development, the Secretary of the Treasury, and other interested parties. In addition, the report is available at no charge on the GAO website at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-9601 or melitot@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix VII.

Thomas Melito
Managing Director, International Affairs and Trade

List of Requesters

The Honorable William Lacy Clay
Ranking Member
Subcommittee on Financial Institutions and Consumer Credit
Committee on Financial Services
House of Representatives

The Honorable Gwen Moore
Ranking Member
Subcommittee on Monetary Policy and Trade
Committee on Financial Services
House of Representatives

The Honorable Jeff Flake
United States Senate

The Honorable Catherine Cortez Masto
United States Senate

The Honorable Keith Ellison
House of Representatives

The Honorable Tom Emmer
House of Representatives

The Honorable Adam Smith
House of Representatives

The Honorable Juan Vargas
House of Representatives

Appendix I: Banking Access Challenges Experienced by State and USAID Did Not Affect Operations in High Risk Countries

State and USAID Experience Some Banking Access Challenges, Such as Delays in Overseas Transfers of Funds

While the Department of State (State) and the U.S. Agency for International Development (USAID) have encountered some banking access challenges, such as closed accounts and delays in transferring funds, these challenges did not affect their operations for providing assistance to high-risk countries. To send funds overseas, State, through two U.S. disbursement offices managed by State's Bureau of the Comptroller and Global Financial Services (CGFS), maintains foreign currency bank accounts in 172 countries. Funds are transferred from a Federal Reserve Bank to a U.S. dollar bank account maintained by State, after which the funds are directed through a correspondent bank or a foreign exchange broker to a foreign bank account maintained by State.[1] A correspondent bank serves as the intermediary between the bank sending a transfer, in this case a U.S. dollar denominated bank account, and the bank issuing payment to the recipient, in this case the State-held account in the recipient country. Both the bank sending the transfer and the bank receiving the transfer hold an account at the correspondent bank, which is used for fund transfers, cash management, and other purposes.

According to State, all State transfers overseas, as well as the majority of USAID payments overseas, are managed by CGFS, and in fiscal year 2017 CGFS's two disbursement offices processed approximately 3 million payments through accounts managed by State in 172 countries.[2] State officials told us that State encounters occasional banking access challenges, including short delays in funds transfers, denials of funds transfers to certain countries, and one bank-initiated account closure.

[1]State holds foreign currencies in its foreign bank accounts. Foreign currency payments are disbursed out of these accounts via payment files generated by the disbursement offices and processed through the Federal Reserve Bank of Kansas City. To fund these foreign bank accounts, State either purchases currency from a foreign exchange broker for delivery to the account, or the funds transferred by State in U.S. dollars are converted to the foreign currency by the foreign bank.

[2]According to State, CGFS also manages financial transfers overseas for other agencies, including Peace Corps, and Voice of America, the Drug Enforcement Agency, and the Department of Defense.

Banking Access Challenges Do Not Affect State and USAID Operations

State officials told us that they are able to mitigate the occasional banking access challenges that they encounter to ensure operations are not affected. For example:

- State's transfers to countries sanctioned by the Office of Foreign Asset Control (OFAC) are occasionally flagged by intermediary banks. According to State, in fiscal year 2017 approximately one-tenth of one percent (0.1%) of payments were delayed because of OFAC sanctions. When this occurs, State receives questions on the details of those transfers. According to officials, this is an ongoing challenge, but State resolves such delays within 2 weeks—and typically within days—and there are no operational effects as a result of the delays.
- In some instances—including once in 2012, and once in 2018—an intermediary bank used by CGFS's U.S. bank stopped processing transfers to a recipient bank in a specific country. According to State officials, in both cases State identified an alternative intermediary bank to transfer funds to the destination country. In both cases, there were no operational effects.
- In 2014, an intermediary bank used by CGFS's U.S. bank ended its banking relationship with an OFAC-sanctioned country (Syria), and State was unable to move funds from its U.S.-dollar denominated accounts to that country. State, with the advice of the recipient bank in the OFAC-sanctioned country, identified an alternative intermediary bank that was able to move funds to that country using euro-denominated accounts.
- In 2014, a U.S. bank—at which State maintained an account and that State used to fund its operations in Brunei—notified State that it would be closing State's account with 29 days' notice. State worked with Treasury to identify an alternative bank that would be willing to maintain a State bank account. The operation was not affected.

Appendix II: GAO-Selected Countries Have an Increased Risk of Financial Crimes

For this review, we selected four countries—Syria, Somalia, Haiti, and Kenya—that may have a higher risk of financial crimes because of conflict, instability, or other issues. We selected them based on factors including the level of humanitarian assistance they received from U.S. agencies, their inclusion on multiple financial-risk-related indices, and geographical diversity.

- **Syria.** Since 2011, Syria has been plagued by an ongoing multisided armed conflict fought primarily between the government of President Bashar al-Assad, along with its allies, and various forces opposing both the government and each other. Syria's economy has deeply deteriorated amid the ongoing conflict, declining by more than 70 percent from 2010 to 2017. During 2017, the ongoing conflict and continued unrest and economic decline worsened the humanitarian crisis, necessitating high levels of international assistance, as more than 13 million people remained in need inside Syria and the number of registered Syrian refugees increased from 4.8 million to more than 5.4 million. Multiple terrorist groups operate inside Syria, raising the potential risk of terrorist financing. Additionally, according to a Central Intelligence Agency report, Syria is a transit point for opiates, hashish, and cocaine bound for regional and Western markets, and weak anti-money-laundering controls and bank privatization may leave it vulnerable to money laundering. The U.S. maintains a comprehensive Syria sanctions program. A general license in the Syria regulations authorizes nonprofit organizations to provide services, including financial services, to Syria in support of certain not-for-profit activities, such as activities to support humanitarian projects to meet basic human needs and support education in Syria. Organizations providing humanitarian assistance that is not authorized by the general license may apply for a specific license to engage in those transactions. The United States has provided approximately $3.3 billion in humanitarian assistance for Syria since 2012.
- **Somalia.** Since 1969, Somalia has endured political instability and civil conflict, and is the third-largest source of refugees, after Syria and Afghanistan. Somalia lacks effective national governance and maintains an informal economy largely based on livestock, money transfer companies, and telecommunications. In the absence of a formal banking sector, money transfer companies have sprung up throughout the country, handling up to $1.6 billion in remittances annually. According to a 2016 State report, Somalia remained a safe haven for terrorists who used their relative freedom of

movement to obtain resources and funds, recruit fighters, and plan and mount operations within Somalia and neighboring countries. The United States maintains a targeted list-based Somalia sanctions program[1]. Organizations providing humanitarian assistance may apply for a specific license to engage in transactions that otherwise would be prohibited by the Somalia sanctions regulations. The United States has provided approximately $1.2 billion in humanitarian assistance for Somalia since 2012.

- **Haiti.** Currently the poorest country in the western hemisphere, Haiti has experienced political instability for most of its history. Remittances are the primary source of foreign exchange, equivalent to more than a quarter of GDP, and nearly double the combined value of Haitian exports and foreign direct investment. In January 2010, a catastrophic earthquake killed an estimated 300,000 people and left close to 1.5 million people homeless. Hurricane Matthew, the fiercest Caribbean storm in nearly a decade, made landfall in Haiti on October 4, 2016, creating a new humanitarian emergency. An estimated 2.1 million people were affected by the category 4 storm, which caused extensive damage to crops, houses, livestock, and infrastructure across Haiti's southern peninsula. Haiti is identified as a fragile state by the Organisation for Economic Co-operation and Development,[2] and as a jurisdiction of primary concern for money laundering in State's International Narcotics Control Strategy Report. According to USAID, the agency has provided $187.8 million in humanitarian assistance for Haiti since 2012.
- **Kenya.** Kenya is the economic, financial, and transport hub of East Africa. Since 2014, Kenya has been ranked as a lower middle income country because its per capita GDP crossed a World Bank threshold. Al-Shabaab aims to establish Islamic rule in Kenya's northeastern border region and coast and carried out a spate of terrorist attacks in Kenya. Kenya is identified as a fragile state by the Organisation for Economic Co-operation and

[1]Treasury maintains a list of specially designated entities that operate in Somalia that are subject to U.S. sanctions.

[2]According to the Organisation for Economic Co-operation and Development, fragility is the combination of exposure to risk and insufficient coping capacity of the state, system, and/or communities to manage, absorb, or mitigate those risks. Fragility can lead to negative outcomes including violence, the breakdown of institutions, displacement, humanitarian crises, or other emergencies.

Development, and as a jurisdiction of primary concern for money laundering in State’s International Narcotics Control Strategy Report. The United States has provided approximately $807 million in humanitarian assistance for Kenya since 2012.

Appendix III: Objectives, Scope and Methodology

This report examines (1) the extent to which implementing partners of the Department of State (State) and the U.S. Agency for International Development (USAID) experience banking access challenges that affect their implementation of humanitarian assistance projects, (2) USAID implementing partners' reporting on banking access challenges, and (3) actions relevant U.S. agencies have taken to help address banking access challenges encountered by nonprofit organizations (NPO). In addition, we provide information on the extent to which State and USAID experience banking access challenges in providing assistance in high-risk countries in appendix I.

To address these objectives, we examined U.S.-funded projects and their implementers in four high-risk countries—Syria, Somalia, Haiti, and Kenya.[1] We selected these countries based on factors including the high level of humanitarian assistance they received from U.S. agencies, their higher propensity for the occurrence of financial crimes based on their inclusion on multiple financial-risk-related indices, and to obtain geographical diversity. More specifically, to identify our list of high-risk countries in terms of banking or financial risk, we used several indices including ones based on financial risk, money laundering risk, and counterterrorism-related risk. The indices we chose to use were

- State's International Narcotics Control Strategy Report (2014-2016) (*Money Laundering Risks*),
- the Department of the Treasury's (Treasury) Office of Foreign Assets Control (OFAC) sanctions,[2]
- the Organisation for Economic Co-operation and Development's (OECD) Fragile State Index (2014-2016),

[1]We are considering risk from a financial perspective; that is, factors that would make banks less willing to engage customers, such as increased compliance costs or the possibility of government sanctions. To that end, we are defining high-risk countries in terms of various risk-based indices, including Treasury's Office of Foreign Assets Control list of active sanctions programs, and the Basel Anti-money Laundering (AML) Index, which evaluates countries based on factors including anti-money laundering and counter-terrorist financing regulations, corruption, financial standards, political disclosure, and rule of law; and thereby aggregates the risk a domestic financial institution may consider when deciding the level of due diligence to perform on its domestic customers that transfer funds to those countries.

[2]We identified a list of all countries with current (2017) sanctions programs against a significant group of entities within that country.

- the 2017 Financial Action Task Force (FATF) High Risk and Non-Cooperative Jurisdictions list, and
- the BASEL AML Index, 2017.[3]

We then identified 19 countries that appeared on at least two of the five lists and received at least $100 million in U.S. based humanitarian assistance from 2012 through 2017, based on data from the United Nations Office for the Coordination of Humanitarian Affair's financial tracking system. We then applied the following primary selection criteria to select our four countries: whether they (1) appeared on at least three of the five identified lists and (2) have received at least $100 million in U.S. humanitarian assistance since 2012. Secondary considerations that informed our selection included whether a country had been identified as having banking access challenges by USAID, geographical diversity, and ensuring we had at least one country from each of the five indices we chose. The data we obtained for these four countries cannot be generalized beyond our selected projects and partners.

For our first objective, to examine the extent to which implementing partners of State and USAID experienced banking access challenges that affected their implementation of humanitarian assistance projects, we conducted semi-structured interviews with 18 partners about (1) one of 18 specific projects we had selected in one of our high-risk countries and (2) their experiences implementing their global portfolio of humanitarian assistance projects over the previous 5 years. In order to determine our sample of partners, we selected a weighted, non-generalizable sample of 18 projects located in our four selected high-risk countries. We selected our projects from a list, provided by State and USAID, of 195 projects that were active as of the end of fiscal year 2017 in these countries. In making our selection of projects we made sure that our sample included a mix of projects from each country (7 projects for Syria, 5 for Somalia, 3 for Haiti, and 3 for Kenya), and a mix of State and USAID projects (3 State and 15 USAID). We selected those numbers for each country and each agency based on the number of projects in each country and the proportion of

[3]The Basel AML Index is an annual ranking assessing country risk regarding money laundering or terrorism financing. It focuses on anti-money laundering and counter-terrorist financing (AML/CTF) frameworks and other related factors, such as financial or public transparency and judicial strength. Countries without enough data points to assess are not included in the ranking and therefore many of the countries identified on the other lists are not ranked in this index.

assistance provided. We selected one State project in each of the three countries where they were active.

Once we had determined these parameters for our non-generalizable sample, we made the final selections of the projects at random, making sure that we did not select more than one project for any one partner.[4] Several of the implementing partners in our sample operate in over 100 countries in every part of the world, while a few operate in 20 or fewer countries. Three of the partners are United Nations organizations. The implementing partners in our sample had fiscal year 2016 annual revenues ranging from $5.9 billion to just over $10 million. We conducted semi-structured interviews with each of the 18 implementing partners on potential banking access challenges, such as the ability to open and maintain new accounts and make transfers in a timely fashion, and the effect of those challenges on project implementation. Our interviews were separated into two distinct sets of questions—one on banking access challenges the implementing partner encountered on the selected project, and the other on any banking access challenges the implementing partner encountered in its global portfolio of humanitarian assistance projects over the previous 5 years (2013-2017).

When discussing their global humanitarian assistance portfolios, the partners did not limit their responses to projects funded by U.S. government agencies, but instead considered projects funded by all of their donors. We did not ask the partners to quantify the number of projects they had implemented over the previous 5 years, nor did we ask them to quantify the number of projects in their global portfolio of humanitarian assistance for which they had experienced banking access challenges. Our interview followed a protocol that asked both closed and open-ended questions. For most banking access challenges, when interview respondents indicated that their project or organization had experienced a banking access challenge, we probed for details of the challenge, including whether the challenge had caused an adverse effect on the project, such as project delays or cancellations. After the interviews had been conducted, we content-coded some of the open-ended answers we received. Specifically, we developed codes on whether any challenges reported had adversely affected the projects, the extent and duration of delays in transferring funds, and the extent and

[4]Several partners in the lists provided by USAID and State had more than one project in one or more countries.

frequency of denials of international fund transfers. Two analysts independently coded each interview. The analysts then compared their coding and reconciled any initial disagreements.

We also reviewed relevant studies on banking access challenges for NPOs conducted by the World Bank and the Charity and Security Network (CSN). The study conducted by CSN included a survey that was designed to be generalizable to the population of all U.S. NPOs with activities outside the U.S., including providing humanitarian assistance.[5] This survey received more than 300 responses, which constituted a reported response rate of about 38 percent. The researchers conducting the survey indicated that this response rate could be considered high for a public opinion telephone survey but low for a survey like the Census. The study determined the survey findings to be representative of the population with some qualifications, such as the fact that smaller organizations were more likely to complete the survey than larger organizations. The maximum margin of error was estimated to be 5.4 percent. More than 70 of the NPOs reported that they had received U.S. government funding. We requested and received some additional data analysis from the researchers who had conducted this survey. We examined the aggregate survey responses in detail and compared them to the responses we received to our semi-structured interview questions, which probed into similar aspects of financial access. We reviewed documentation and interviewed the officials responsible for the survey and determined that they had used a reasonable methodology to conduct the survey. We also interviewed several NPOs and NPO groups that were not part of our sample to obtain their views on banking access challenges affecting those delivering humanitarian assistance.

For our second objective, to examine USAID implementing partners' reporting on banking access challenges, we reviewed the fiscal year 2017 progress reports, including quarterly, semi-annual, and annual reports, that USAID provided for our selected projects to determine if banking access challenges the implementing partners told us about in the interviews had been reported in accordance with requirements in the individual award agreements. In total, we reviewed 26 reports from these

[5]See Delton T. Daigle, Stefan Toepler, and Sue M. Smock, *Financial Access for Charities Survey 2016: Data Report to the Charity and Security Network Version 1.1* (Arlington, VA: George Mason University, 2016) and Sue Eckert, Kay Guinane, and Andrea Hall, *Financial Access for U.S. Nonprofits* (Washington, D.C.: Charity and Security Network, 2017).

partners.[6] We also interviewed USAID agreement officers for the projects that stated they had experienced banking access challenges about implementing partners' reporting of those banking access challenges. To obtain a broader context, we also reviewed over 1300 USAID implementing partner reports for fiscal years 2016 and 2017 from a wider selection of high-risk countries to determine the extent to which banking access challenges are being reported to USAID.[7]

To identify the relevant USAID progress reports, we searched USAID's Development Experience Clearinghouse (DEC) for all periodic progress reports filed for fiscal years 2016 and 2017 by implementing partners working in selected 19 high-risk countries for instances of reporting on financial access challenges.[8] Using these criteria, we identified 1,369 reports from fiscal years 2016-2017 from our selected 19 high-risk countries. The reports included annual reports, final contractor / grantee reports, final evaluation reports, and periodical and periodic reports (such as quarterly or semi-annual reports). The 1,369 reports constituted our universe of reports for which we used a textual analysis program to automatically scan and search for words and phrases that we identified in a lexicon of financial access terms. We developed this lexicon of financial access terms based on a review of relevant research, interviews with industry organizations, and a manual review of USAID progress reports. Using the lexicon, our textual analysis program identified all mentions of identified terms in the universe of reports. Next, two analysts independently reviewed the mentions identified through our textual analysis software program to determine whether the mentions actually constituted a reporting of a financial access challenge. The analysts then reconciled any differences in their reviews. For the purposes of this review, we considered a relevant financial access challenge to be any challenge encountered by the implementing partner in obtaining U.S. banking services, or in transferring funds from the United States to the destination country. We did not conduct a similar review of State partner reporting because we only had a sample of three State projects and one

[6]Some of our selected projects had not yet been required to submit their first progress report at the time of our selection.

[7]We used the list of 19 high-risk countries that appeared on at least two of our selected indices and received at least $100 million in U.S. humanitarian assistance.

[8]USAID's Development Experience Clearinghouse is the largest online resource for USAID-funded technical and program documentation from more than 50 years of USAID's existence, with more than 155,000 documents available for viewing and electronic download.

of the projects did not require direct written reporting to State. In addition, State does not have a central depository for partner reports that we could search, such as USAID’s DEC.

For our third objective, to examine actions relevant U.S. agencies have taken to help address banking access challenges encountered by NPOs, we conducted interviews with and reviewed documentation from State, USAID, and Treasury on actions they have taken to help address these challenges. We also discussed U.S. agency involvement in efforts to help address these challenges with relevant organizations that represent NPOs. In addition, we reviewed relevant documentation published by the World Bank and the Financial Action Task Force on actions they have taken to help address banking access challenges encountered by NPOs, and interviewed relevant staff at the World Bank on efforts undertaken to address banking access challenges.

To examine the extent to which State and USAID encountered banking access challenges in providing assistance in high-risk countries, we interviewed State officials responsible for conducting overseas transfers of funds for both State and USAID to determine if any banking access challenges exist that are specific to our case study countries as well as for U.S. assistance worldwide. We also interviewed State and USAID officials with responsibility for overseeing programs in our four selected countries to determine if they had seen any effects of banking access challenges. We focused primarily on these agencies’ ability to access banking services in the United States and on the transfer of funds to the ultimate destination.

We conducted this performance audit from July 2017 to September 2018 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

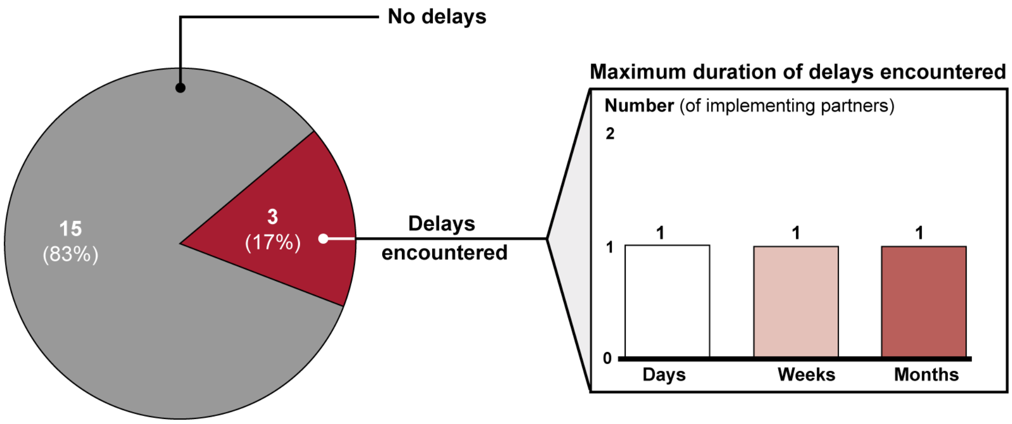
Appendix IV: State and USAID Are the Primary Providers of U.S. Humanitarian Assistance

The United States provides humanitarian assistance primarily through offices and bureaus within the Department of State (State) and the U.S. Agency for International Development (USAID). The primary humanitarian offices and bureau are:

- **State's Bureau of Population, Refugees, and Migration** (PRM). PRM's stated mission is to provide protection, ease suffering, and resolve the plight of persecuted and uprooted people around the world by providing life-sustaining assistance, working through multilateral systems to build global partnerships, promoting best practices in humanitarian response, and ensuring that humanitarian principles are integrated into U.S. foreign and national security policy. PRM does not operate refugee camps or give aid directly to refugees, but rather works with entities that operate these programs, including the United Nations, other international organizations, and nonprofit organizations.
- **USAID's Office of U.S. Foreign Disaster Assistance** (OFDA). OFDA states that it helps countries prepare for, respond to, and recover from humanitarian crises. According to USAID, OFDA works with the international humanitarian community to give vulnerable populations resources to build resilience and strengthen their ability to respond to emergencies. Assistance includes provision of emergency relief supplies, establishing early warning systems, and training on search and rescue efforts, as well as programs to help victims of disasters recover.
- **USAID's Office of Food For Peace** (FFP). FFP's stated mission is to partner with others to reduce hunger and malnutrition, and help ensure that all individuals have adequate, safe, and nutritious food to support a healthy and productive life. According to FFP, it works to mobilize resources to predict, prevent, and respond to hunger overseas. FFP's emergency activities include food assistance to help reduce suffering and support the early recovery of people affected by conflict and natural disaster emergencies.

Appendix V: Prevalence of Delays and Denials of Funds Transfers Experienced by Selected Implementing Partners

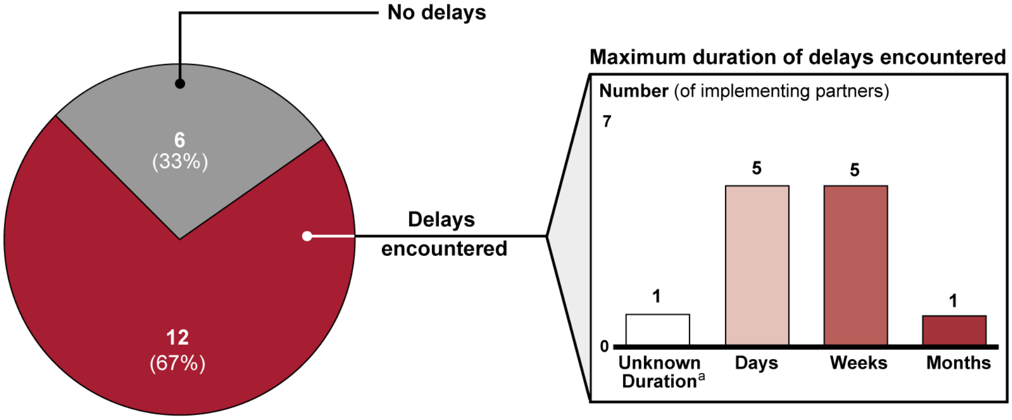
Figure 4: GAO-Selected Humanitarian Assistance Projects: Most of the 18 Implementing Partners That GAO Interviewed Did Not Cite Experiencing Delays of Funds Transfers



Source: GAO. | GAO-18-669

Notes: GAO interviewed a total of 18 U.S. Department of State and U.S. Agency for International Development implementing partners (partners) with a humanitarian assistance project in one of four selected high-risk countries (Haiti, Kenya, Somalia, and Syria) on whether they had experienced delays in transferring funds while implementing that project. When interview respondents indicated that their project had experienced delays in transferring funds, we probed for details, such as the maximum duration of the delays. We sorted responses into three categories: days (delays of 1 to 13 days), weeks (delays of 2 weeks to approximately 8 weeks), and months (delays of 2 months or more).

Figure 5: Implementing Partners' Global Portfolio of Humanitarian Assistance: Most of the 18 Implementing Partners That GAO Interviewed Cited Experiencing Delays of Funds Transfers

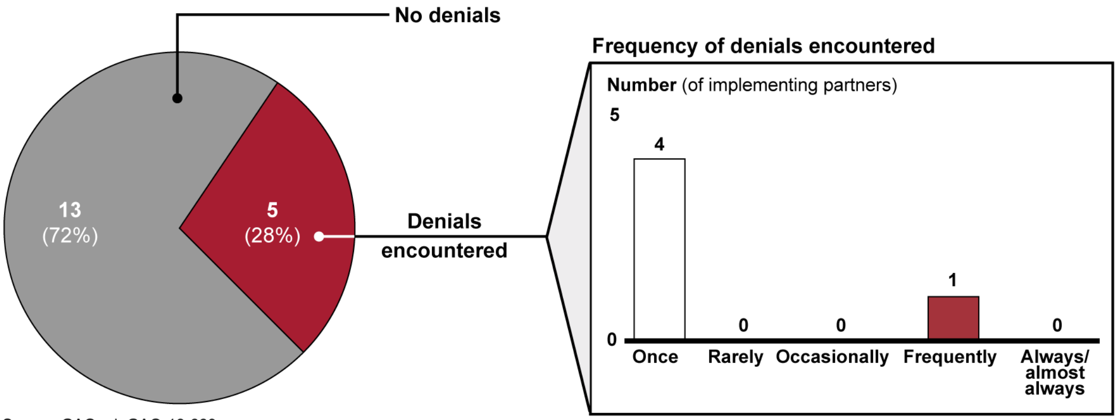


Source: GAO. | GAO-18-669

Notes: GAO interviewed a total of 18 U.S. Department of State and U.S. Agency for International Development implementing partners (partners) of U.S. humanitarian assistance on whether they had experienced delays in transferring funds while implementing any humanitarian assistance projects located anywhere in the world over the previous 5 years. We did not ask the partners to quantify the number of projects they had implemented over the previous 5 years, nor did we ask them to quantify the number of projects for which they had experienced banking access challenges. When interview respondents indicated that their project had experienced delays in transferring funds, we probed for details, such as the maximum duration of the delays. We sorted responses into three categories: days (delays of 1 to 13 days), weeks (delays of 2 weeks to approximately 8 weeks), and months (delays of 2 months or more).

[a] In one instance, a respondent did not provide details of the duration of delays it had experienced.

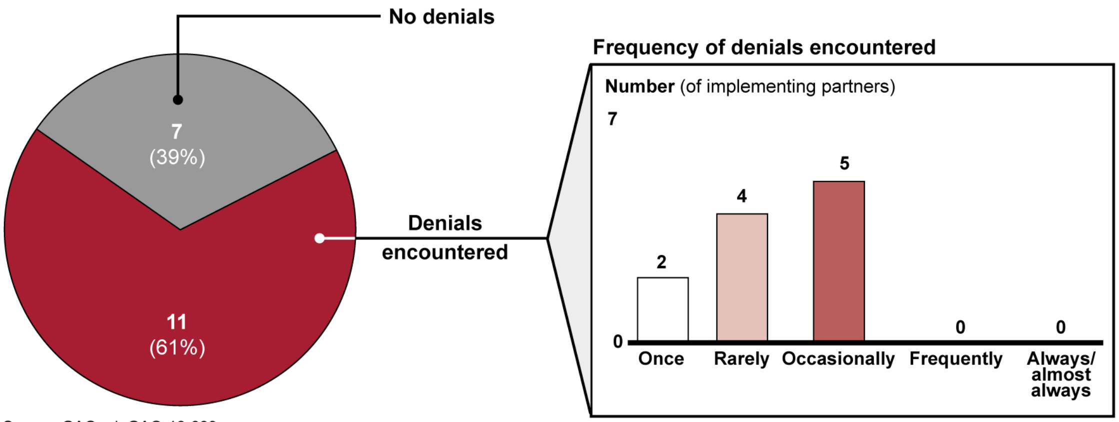
Figure 6: GAO-Selected Humanitarian Assistance Projects: Most of the 18 Implementing Partners That GAO Interviewed Cited Experiencing No Denials of Funds Transfers



Source: GAO. | GAO-18-669

Notes: GAO interviewed a total of 18 U.S. Department of State and U.S. Agency for International Development implementing partners (partners) with a humanitarian assistance project in one of four selected high-risk countries (Haiti, Kenya, Somalia, and Syria) on whether they had experienced denials of transferring funds while implementing that project. When interview respondents indicated that their project had experienced denials of funds transfers, we probed for details, such as the frequency of the denials. We sorted responses into five categories: once (if only one denial was experienced), rarely (if denials were experienced a small number of times), occasionally (if denials were experienced sometimes, but irregularly, or if the respondent could not precisely quantify the frequency of denials), frequently (if denials were experienced with some degree of regularity, or were a recurring problem), and always or almost always (if denials were experienced for every or almost every project).

Figure 7: Implementing Partners' Global Portfolio of Humanitarian Assistance: Most of the 18 Implementing Partners That GAO Interviewed Cited Experiencing Denials of Funds Transfers



Source: GAO. | GAO-18-669

Notes: GAO interviewed a total of 18 U.S. Department of State and U.S. Agency for International Development implementing partners (partners) of U.S. humanitarian assistance on whether they had experienced denials of funds transfers while implementing any humanitarian assistance projects located anywhere in the world over the previous 5 years. We did not ask the partners to quantify the number of projects they had implemented over the previous 5 years, nor did we ask them to quantify the number of projects for which they had experienced banking access challenges. When interview respondents indicated that their project had experienced denials of funds transfers, we probed for details, such as the frequency of the denials. We sorted responses into five categories: once (if only one denial was experienced), rarely (if denials were experienced a few times), occasionally (if denials were experienced sometimes, but irregularly, or if the respondent could not precisely quantify the frequency of denials), frequently (if denials were experienced with some degree of regularity, or were a recurring problem), and always or almost always (if denials were experienced for every or almost every project).

Appendix VI: Comments from the U.S. Agency for International Development

USAID
FROM THE AMERICAN PEOPLE

SEP 07 2018

Thomas Melito
Managing Director, International Affairs and Trade
U.S. Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548

Re: HUMANITARIAN ASSISTANCE: USAID Should Improve Information Collection and Communication to Help Mitigate Implementers' Bank Challenges (GAO-18-669)

Dear Mr. Melito:

I am pleased to provide the formal response of the Agency for International Development (USAID) to the draft report of the U. S. Government Accountability Office (GAO) entitled, *"HUMANITARIAN ASSISTANCE: USAID Should Improve Information Collection and Communication to Help Mitigate Implementers' Banking Challenges"* (GAO-18-669). USAID concurs with the GAO's recommendations.

USAID notes that the scope of this audit focuses on access challenges faced by our implementing partners within the formal banking sector. While these difficulties are real, and we appreciate, and concur with the GAO's recommendations, we would also note that some of our implementing partners, especially those who provide humanitarian assistance, face even greater challenges in countries where formal banking services are scarce or virtually non-existent. In such difficult working environments, many times informal banking services, such as money transfer vendors or "hawalas", are the primary means available to move funds to local partners, contractors, and beneficiaries. USAID is concerned about the safety and security of these arrangements, and is dedicated to finding channels that provide greater assurance, even if they are slower than optimal.

I am transmitting this letter and the enclosed USAID comments for incorporation as an appendix to the GAO's final report. Thank you for the opportunity to respond to your draft report, and for the courtesies extended by your staff while conducting this engagement. We appreciate the opportunity to participate in the complete and thorough review of our programs. As an Agency, we believe the GAO's engagements provide a valuable opportunity to assess and improve upon our policies, procedures, and programs.

Sincerely,

Angelique M. Crumbly
Acting Assistant Administrator
Bureau for Management

Enclosure: a/s

COMMENTS BY THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID) ON THE U.S. GOVERNMENT ACCOUNTABILITY OFFICE (GAO) DRAFT REPORT – HUMANITARIAN ASSISTANCE: USAID Should Improve Information Collection and Communication to Help Mitigate Implementers' Banking Challenges (GAO-18-669)

USAID is committed to taking steps to assess the impact of challenges in gaining access to banking services that our partners face as they implement our awards. As this is a broader issue that affects both humanitarian assistance and development assistance, USAID will work across the Agency, in Washington and at our field Missions, to ensure our staff identify banking-access challenges, and communicate them to USAID's management. During meetings and discussions with our partners, USAID will include this topic, including the risks of informal banking and highlight USAID's collaboration with external entities such as the Departments of the Treasury and State.

USAID concurs with both of the recommendations made in the report. Please find below our responses and mitigation plan:

Recommendation 1: The Administrator of USAID should take steps to collect information on banking-access challenges experienced by USAID's implementing partners.

USAID agrees with the recommendation, and will take the following steps to collect information on banking-access challenges experienced by our implementing partners:

- USAID will develop a central depository for the Agency's staff to document implementing partners' difficulties in gaining access to banking services;
- A USAID official will be responsible for analyzing the depository data and elevating trends in banking challenges to the inter-agency, as appropriate;
- USAID will include banking challenges in a roundtable discussion with the senior staff of major U.S. implementing partners during regularly scheduled meetings in Fiscal Year (FY) 2019. These discussions will include de-risking in the formal banking sector and field-based banking services, as well as the risks of informal banking. These discussions will include Agency senior staff, to ensure we appropriately elevate and communicate these issues across USAID; and
- USAID will sensitize the Agency's Agreement/Contracting Officer Representatives (AORs/CORs), to the effort and process, to include instructions for alerting appropriate, local State Department counterparts of all banking-access challenges and the Agency's Point of Contact on unresolved banking challenges. Furthermore, the Agency will encourage implementing partners to communicate their banking challenges to their AORs/CORs.

Recommendation 2: The Administrator of USAID should take steps to communicate information on banking-access challenges faced by partners both within USAID and with external entities, such as other U.S. agencies and U.S. Implementing partners.

USAID agrees with the recommendation, and will take the following steps to communicate information on banking-access challenges faced by our partners:

- USAID Operating Units will use the Agency's existing Enterprise Risk-Management (ERM) process and structure to raise significant banking-access challenges within their Bureau, for possible presentation to the Risk Management Council or the Agency's Executive Management Council for Risk and Internal Control (EMCRIC), as appropriate;
- USAID will continue to incorporate applicable monitoring and reporting requirements in awards, and encourage implementing partners to report banking-access challenges to their AORs/CORs; and
- USAID will actively engage with the Department of State's Office of Threat Finance Countermeasures and the Department of Treasury, and hold a roundtable discussion with major U.S. implementing partners during FY 2019 to identify current banking-access problems, discuss potential solutions, and hear the partners' perspectives.

Appendix VII: GAO Contact and Staff Acknowledgments

GAO Contact

Thomas Melito, (202) 512-9601 or melitot@gao.gov

Staff Acknowledgments

In addition to the individual named above, Mona Sehgal (Assistant Director), Michael Maslowski (Analyst in Charge), Ming Chen, Debbie Chung, Martin de Alteriis, Leia Dickerson, Mark Dowling, Erin Guinn-Villareal, Chris Keblitis, and Benjamin L. Sponholtz made key contributions to this report.

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