

TECHNICAL ASSESSMENT

Humanitarian use of *Hawala* in Syria

Prepared for aid agencies conducting
cross-border operations
31 July 2015

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Acronyms and Abbreviations

AML	Anti-Money Laundering
AOG	Armed Opposition Groups
BSA	Bank Secrecy Act
CBR-TWG	Cash-based Responses Technical Working Group
CBoS	Central Bank of Syria
CDD	Customer Due Diligence
CTF	Counter-Terrorism Finance
CTP	Cash Transfer Programming
DfID	Her Majesty's Government Department for International Development
ECHO	European Community Humanitarian Aid Office
EDD	Enhanced Due Diligence
ESCWA	UN Economic and Social Commission for Western Asia
EU	European Union
FATF	Financial Action Task Force
FCA	Financial Conduct Authority (formerly the Financial Services Authority)
FinCEN	Financial Crimes Enforcement Network
FIU	Financial Intelligence Unit
GCC	Gulf Co-Operation Council
GoS	Government of Syria
IQD	Iraqi Dinar
IHL	International Humanitarian Law
IS / Da'esh	Islamic State / ad-Dawlah al-Islāmiyah fil-'Irāq wash-Shām
IVTS	Informal Value Transfer Systems
JAF	Jaish al-Fateh
JOD	Jordanian Dinar
KYC	Know Your Customer
KYS	Know Your Supplier
MASAK	Mali Suçları Aratırma Kurulu (Turkish Financial Intelligence Unit)
MSB	Money Service Business
MTO	Money Transfer Operators
NGO	Non-Governmental Organisation
NRC	Norwegian Refugee Council
OFAC	US Office of Foreign Assets Control
PEP	Politically Exposed Person
SAR	Suspicious Activity Report
STR	Suspicious Transaction Report
SYP	Syrian Pound
TCMB	Türkiye Cumhuriyet Merkez Bankasının (Central Bank of the Republic of Turkey)
TL	Turkish Lira
UNHCR	United Nations High Commissioner for Refugees
UNOCHA	United Nations Office for the Coordination of Humanitarian Affairs
UNRWA	United Nations Relief and Works Agency
USD	US dollar
WFP	World Food Programme
<i>hawala</i>	'transfer' (Arabic), also denoting an informal system that facilitates domestic and international monetary transfers
<i>hawaladar</i>	a money transfer agent; this term is used interchangeably with 'dealer', 'agent' in the report

About the author

The research team was made up of eight people with combined expertise across the main areas covered in this report. The team leader and author was Dr Edwina Thompson, director of Beechwood International.

Edwina has worked with humanitarian organisations, governments, and the military in complex environments from South-Central Somalia, Sudan and Sri Lanka to Papua New Guinea, Pakistan, and Afghanistan. Through grassroots research, she became a leading expert on the *hawala* system and its particular historical and sociological dynamics in the Middle East and Horn of Africa. Her doctorate in Law on the subject was published by Oxford University Press in 2011, entitled *Trust is the Coin of the Realm: Lessons from the Money Men in Afghanistan*. Edwina has been an independent expert for various agencies of the United Nations, including as the lead evaluator of UNDP Somalia's Financial Sector Development Programme (2002-2007) which aimed to strengthen the Somali remittance sector by increasing its compliance with international financial regulations, and to lay the groundwork for the entry of a formal commercial banking sector within the country. In 2013, she was the first Cash Coordinator to operate on behalf of UNOCHA in the Philippines super-typhoon response.

EXECUTIVE SUMMARY

The United Nations recognises 13.5 million people as in need of humanitarian assistance inside Syria, including 6.5 million internally displaced persons (IDPs) and an estimated 4.5 million people in 'hard-to-reach' areas.¹ One frontline medical agency estimates that 640,200 people are literally living under 'long-term siege' – intentionally denied basic necessities such as food, water and medicine and freedom of movement by parties to the conflict.²

Refugee flows to neighbouring countries have continued unabated: 1 in 5 people in Lebanon are estimated to be a recently-arrived Syrian, taking the country close to having the population it was expected to have in 2050; the number of registered refugees in Turkey has reached over 2 million; and the Za'atari refugee camp is evolving into the sixth biggest city by population in Jordan, now equipped with street names, districts and power lines. With no end to the conflict in sight, this is classed as the biggest humanitarian crisis in the world today.

The conditions of those who are trapped or displaced inside Syria remain less well reported in the media than the extent of the refugee crisis. Humanitarian agencies face particularly acute difficulties in providing relief to the population in areas outside of government control, mainly due to access constraints. This rapid assessment was prompted by the need to explore the possibility of sending cash transfers to these areas instead of, or in conjunction with, material assistance.

Cash transfer programming (CTP) as an aid modality has proven to be a successful form of support to Syrian refugees in neighbouring countries, primarily because of the choice it provides people in deciding how to prioritise their needs. Cash also has the potential added benefit of extending the coverage of aid agencies into hard-to-reach and besieged areas.

The banking system in opposition-held Syria is in a state of complete collapse; therefore, the only way to transfer money into those areas is via the informal networks of 'money men' who have moved in to fill the void. Despite the ambiguity surrounding their legal status, they operate openly in many areas, making use of rented shop space, mobile phone technology, and a close-knit agent network – mirroring the practices of what is termed 'hawala', translated simply as 'transfer', in Arabic-speaking countries.

The three main objectives of this assessment are to:

- **obtain a better understanding of how money currently reaches people within Syria, with a particular focus on Informal Value Transfer Systems (IVTS) like *hawala*;**
- **assess the capacity of existing financial service providers to move a larger volume of money in support of aid programmes inside Syria; and**
- **develop a risk management framework and recommendations on how humanitarian stakeholders (INGOs, UN) could engage with IVTS (and specifically *hawaladars*) to reach individual beneficiaries, while avoiding inadvertent contributions to criminal and terrorist financing.**

One of the greatest obstacles to achieving the objectives within the urgent timeframe (April-July) was the universal reluctance of people to sharing information due to the extreme sensitivity of the subject matter and the operating environment, where people's lives are at risk. This is confirmed by some international aid organisations creating literal firewalls between its operations from different border points.

¹ UNOCHA (2015) 'Syrian Arab Republic: Key Figures' (Oct)

² Syrian American Medical Society (2015) 'Slow Death: Life and Death in Syrian Communities Under Siege' (Mar)

The research methodology thus combined unique expertise and experience in the field of how money flows in a crisis with further primary and secondary qualitative research as deemed necessary by the team. Evidence on how the cash transfer systems to Syria work was collected from business people, opposition fighters, Syrian citizens (inside the country, residing in neighbouring countries, and further afield), regional government officials, and willing frontline aid practitioners working for international non-government organisations (INGOs) or UN agencies, Syrian-initiated NGOs and Islamic charities, so that solutions can be developed that will allow the flow of humanitarian money to continue in a cost-effective and safe manner.

The primary audience for this assessment is the donors who subscribe to the '23 Principles and Good Practice of Humanitarian Donorship' and their partners on the ground.³ While much assistance is facilitated by other sources – such as the Syrian diaspora, countries sympathising with the opposition, and other political or religious solidarity networks – the focus here is on aid that is guided by the international humanitarian legal principles of neutrality, impartiality and independence.⁴

Key findings

- **The bulk of humanitarian money is transferred through *hawala*, and the existing system does have the capacity to manage more potential volume of cross-border transfers.** Larger-scale cash transfer programmes are therefore feasible, but will depend on the frequency of transactions, receiving location, available sources of liquidity, changes in the conflict and the policies of neighbouring countries. A key area within the control of the humanitarian agencies is how well they coordinate their efforts on scaling the aid response.
- **The new geography of Syria is critical to understanding how money flows.** While the intricate patchwork of religious, sectarian, tribal and military divisions at the local level is a sign that there is no one legitimate national representative of the Syrian people, the country is at the broadest level fragmented along four main lines: Bashar al-Assad and the government; Da'esh, which is aiming to build an Islamic State; the armed opposition groups (AOGs), which include Syrian rebel coalitions and al-Qaeda-affiliated groups; and finally the Kurdish forces. Each has developed its own systems of governance, and controls or contests its territory in different ways. Despite this, Syria as a whole continues its legacy of acting as an important hub in the Levant's cash and commodity trade and smuggling routes, and new economic interdependencies have formed between the various stakeholders. This reinforces the need for a 'Whole of Syria' approach to humanitarian action.
- **The long history of smuggling and sanctions in both Syria and Iraq contributes to significant money laundering and terrorist financing vulnerabilities in the region's banking and non-bank financial sectors.** This is made more challenging by the inconsistent approaches of the governments concerned to enforce international and domestic laws, and the fact that recent sanctions have contributed in their own way to the war economy by encouraging new supply networks to form and bypass them. Wider regional and international dynamics – including trade flows, impact of sanctions, the shifting nature of the supply chains of key commodities – must be taken into account when examining the mechanics behind cross-border financial flows. The difficulty of this undertaking raises the important question of whether it is reasonable for donors to *transfer* the responsibility of political economy and financial analysis to its partners, or *treat* the risk by being more

³ Accessed at: <http://www.ghdinitiative.org/ghd/gns/principles-good-practice-of-ghd/principles-good-practice-ghd.html>.

⁴ ICRC President concluded in 2014 that there is 'no space for impartial and independent humanitarian action' in Syria due to the 'highly manipulative' political context and 'extraordinary' level of violence, violations and 'unresponsiveness' of all parties to the conflict to respect International Humanitarian Law (IHL). Podcast: 'Humanitarian Diplomacy at the Crossroads: On the Role of Independent and Neutral Relief Action in Syria and the Middle East,' News, Harvard University, Belfer Center for Science and International Affairs, 25 April, 2014. This is a challenge that lies outside the scope of this report.

involved in the mitigation.⁵ The same question applies to the common practice of INGOs in delegating the decision-making on *hawaladar* selection to local partners.

- **Mapping cash or value transfers reveals deep interconnections between different stakeholders and systems in the crisis.** IVTS relies on the delegation or exchange of debt between agents located in different places, and so a transaction cannot be viewed in isolation from this wider ecosystem. In its simplest form in the Syrian context, the liquidity pools at both ends of a transaction link two seemingly disconnected groups: humanitarian actors and business people. The former want to get money into Syria; the latter need to move their profits outside of an environment dogged by insecurity. These business people in turn are either banked directly by international banks in neighbouring countries and the wider region, or indirectly via relationships with the money men. Therefore, the formal system is also directly linked to informal economic networks. This offers a whole new different angle to the de-risking strategy of international banks, whereby they close accounts and exit relationships upstream with clients and corresponding banks deemed to operate in high risk jurisdictions.
- **Current financial due diligence, which involves the use of automated screening software to check providers against sanctions lists, does not adequately detect links to terrorism.** Sanctioned parties are known to use false personal information to try and evade detection of their illicit activities, and/or use other non-sanctioned individuals to manage the businesses they own – thus creating distance between them and the user. Insufficient capacity exists within individual aid organisations to conduct the level of enhanced due diligence (EDD) required on the business context in which the provider operates.
- **Effective due diligence of financial service providers is complicated by the sheer complexity of an environment which is fast-moving, and influenced by very different country policies and regulatory regimes.** The policies of neighbouring countries are critical to creating an enabling environment for the safe passage of assistance and the financial flows that support it. The Turkish government has demonstrated a consistent commitment to ensuring the continued flow of humanitarian aid into Syria through cross-border humanitarian operations since the start of the uprisings in 2011. Neighbouring governments now need to pay more attention to enabling safe financial flows that support the movement of goods.
- **Commodities are just as vulnerable as cash to the negative inadvertent effects outlined by the Do No Harm project.** All aid programmes involve the transfer of some resources into a resource-scarce environment or to an area with people in need. Humanitarian relief to those affected inside Syria has an unquestionable political dimension due to the tendency of the warring parties to use its denial or provision as a sign of power – this is regardless of whether it arrives in the form of commodities or cash. Therefore, the question should refocus on how best to calibrate the different types of relief to meet the needs of people in different areas, and how to conduct effective due diligence on the financial service providers engaged in the facilitation of cross-border assistance.

⁵ According to the UK's Department for International Development (DfID), the second largest humanitarian donor to Syria: 'The *transfer* of risks remains a common response in situations of insecurity, in particular by channelling funding through UN humanitarian agencies, the ICRC and NGOs,' while to *treat* the risk is 'to seek either to reduce the likelihood of its occurrence or reduce its impact. Policy dialogue, performance assessment frameworks and targeted capacity development'. DfID (2010) 'Practice Paper: Working Effectively in Conflict-affected and Fragile Situations' (Mar), pp.6-7. In a comparably complex environment – Somalia – a comprehensive assessment of the CTP response there concluded that a 'risk transfer' approach places unreasonable expectations on partners: 'NGOs frankly have been left very much to fend for themselves ... assuming the responsibilities for success or failure on the ground'. Humanitarian Outcomes, 'Final Evaluation of the Unconditional Cash and Voucher Response to the 2011–12 Crisis in Somalia,' Report commissioned by UNICEF, p.76. In this instance, there were significant losses due to fraud, which could have been averted with a better understanding of the indigenous financial sector.

Recommendations in this report highlight the central role of donor government departments in managing the risks of transferring cash or value to the Syrian people at this time. It is not enough for the development agencies to ensure that humanitarian money continues to flow safely to the intended destination; donors must also draw deeply on their diplomatic, forensic and intelligence capabilities to stay abreast of a rapidly changing and complex environment.

Report outline

Chapter 1 provides an extended introduction to the purpose, mechanics and regulation of the systems involved in facilitating cross-border money flows into Syria. It includes a summary of controls and their enforcement in each of the neighbouring countries – namely Turkey, Jordan, Lebanon and Iraq – because of their importance to the movement of money or value. This is essential context for the subsequent analysis and recommendations.

Chapter 2 explores how humanitarian money is flowing to opposition areas, which will inform whether current IVTS have the capacity to accommodate more potential volume. Using the results from consultations with aid agencies and money transfer agents, it maps out the location of current providers and information on their liquidity, followed by details of a typical transaction involving aid funds donated by Western countries to operations inside Syria, as well as the scale and type of related expenditure.

Chapter 3 looks in more detail at the process and systems of IVTS inside Syria, which is intended to help aid agencies navigate how to engage with a specific provider. It includes information on the costs involved in a transaction due to a fluctuating currency and varied commissions, a breakdown of how people tend to collect money at the Last Mile, and an overview of options to increase accountability.

Chapter 4 assesses the risks involved in engaging with IVTS, which will vary in probability and impact depending on the area. In recognition of the dynamic and thus changing situation on the ground, it also offers humanitarian agencies several tools to use in their internal decision-making.

Chapter 5 concludes with specific recommendations and a suggested concept for the facilitation of productive dialogue surrounding cash programming in its early stages.

1. INTRODUCTION

1.1 BACKGROUND & AIM

Humanitarian assistance delivered from neighbouring countries into Syria plays a key role in alleviating the suffering of people who remain inside the country. UN Security Council Resolution 2191 decided that humanitarian organisations could conduct cross-border operations until 10 January 2016, with notification to the Syrian authorities, using crossings already in use as originally authorised by 2014 resolutions 2139 (Feb) and 2165 (Jul), and two with Turkey (Bab al-Salam, Bab al-Hawa), one with Iraq (Al-Yarubiyah), and one with Jordan (Al-Ramtha). There is widespread concern, however, that insufficient or inappropriately targeted aid is still being delivered. This is in part due to the regular closure of many key border points, bureaucratic procedures, safety and security concerns, and the presence or activities of terrorist groups.

In response, humanitarian agencies are exploring the feasibility of sending cash transfers because of their *flexibility* (people can decide for themselves what they need most and what to spend it on), *efficiency* (both cost and speed, and the multiplier effects on the local economy), and ability to restore a sense of *control and dignity* – vital when people have lost so much. Cash assistance programmes have been used widely to support Syrian refugees in neighbouring countries, and to support Palestinian refugees within Syria,⁶ but it has neither been used at scale cross-border, nor within opposition-controlled areas of Syria. Cash may have the added benefit of extending the coverage of aid agencies into hard-to-reach and besieged areas.

The banking system in opposition-held Syria is in a state of complete collapse; therefore, the only way to transfer money into those areas is via the informal networks of ‘money men’ who have moved in to fill the void. The humanitarian sector has experienced the positive potential of informal value transfer systems (IVTS) like *hawala* to disburse money to beneficiaries in Afghanistan and Somalia, and therefore must assess whether a similar mechanism could be used for Syria. Especially in remote and crisis-affected contexts, IVTS facilitate a large proportion of inbound and domestic money flows, including the provision of services to the diaspora wishing to send remittances home.

In light of the potential shift in aid modality, and changes in people’s access to the formal financial system, the aim of this rapid assessment is thus to achieve the following objectives:

- to obtain a better understanding of how money currently reaches people within Syria
- to assess the capacity of existing financial service providers to move a larger volume of money in support of aid programmes inside Syria
- to develop a risk management framework and recommendations on how humanitarian stakeholders (INGOs, UN) could engage with IVTS (and specifically *hawaladars*) to reach individual beneficiaries, while avoiding inadvertent contributions to criminal and terrorist financing

⁶ For example, UNRWA (2014) ‘Cash assistance in Syria: a vital lifeline for the most vulnerable’ (17 Oct), accessed at: <http://www.unrwa.org/newsroom/features/cash-assistance-syria-vital-lifeline-most-vulnerable>; International Rescue Committee (2012) ‘Assessment Report Cash Transfer Program to Syrian Refugees in Jordan’ (Sep-Oct); (2014) ‘An Impact Evaluation of the 2013-2014 Winter Cash Assistance Program for Syrian Refugees in Lebanon’; IFRC Cash program for Syrian refugees in Jordan, video accessed at: <http://www.cashlearning.org/resources/video-library/cash-program-for-syrian-refugees-in-jordan>

1.2 APPROACH

The research methodology combines unique expertise and experience in the field of how money flows in a crisis with further primary and secondary qualitative research as deemed necessary by the team.

While it is widely known that financiers across the world are reluctant to share with an outsider much of their business practices under the basic principle that knowledge is power, the methods of running a business and moving cash or value in a conflict zone are by their very nature defined by secrecy, indeterminate legal status, and competitive or even divisive practices. This has been proven extensively in the academic literature of anthropology, criminology and economic sociology.⁷ One of the money dealer's most important survival strategies within a 'trust network' is a prime example of the desire and ability to resist direct observation.⁸

This research benefited from the team leader's deep experience in mitigating the difficulties of such an environment, following in-depth interviews with representatives of hundreds of *hawala* operations and trading networks in the Middle East and Horn of Africa over the past decade, inspection of their records, and access to classified information viewed under appropriate security clearance. Another member of the research team also has an intimate understanding of how terrorists raise, move, store and use money, which is critical to informing the threat landscape presented in this report. The remaining members of the team are either natives of Lebanon, Syria, Jordan or fluent in Turkish and Arabic.

On the whole, there is a seemingly unprecedented level of reticence on behalf of international aid workers to share information in this context due to the extreme sensitivities in the operating environment, where people's lives are at risk. This is confirmed by some organisations creating literal firewalls between its operations from different border points. There was thus an inherent risk in conducting this research that agencies would not share information, especially given the short duration.

The team was able to build trust with several INGOs and the largest Syrian-initiated networks, while others wanted to share more once they had seen the quality of the work produced. This indicates that the data collected for this assignment should be shared urgently, and follow-up discussions should be used to build on the data. Overall, 75 interviews were conducted with aid workers (67 NGO and 8 UN), mostly on an individual basis with finance and livelihoods personnel, but on a number of occasions the NGOs offered group conference calls which included members of their finance, security, protection, livelihoods, and senior management teams. Those coordinating cash transfers inside Iraq and cross-border were particularly helpful sources of information.

Syrian citizens were generally more open and willing to share information once they understood that the purpose of the research was to help aid organisations reach a greater number of beneficiaries in a potentially more timely fashion by sending cash transfers. We used a snowball sampling technique where existing study subjects recruit future subjects from among their acquaintances, and began with the research team's own personal and professional networks. Several Syrians living under siege were interviewed using Viber (smartphone messaging application) regarding the changing living conditions and methods for moving money, while 17 in-depth interviews were conducted with

⁷ See for example Jeffrey Sluka (1990) 'Participant Observation in Violent Social Contexts,' *Human Organisation*, 49: 114; William Chambliss (1975) 'On the Paucity of Research on Organized Crime: A Reply to Galliher and Cain,' *American Sociologist* 10: 39; Dennis Rodgers (2001) 'Making Danger a Calling: Anthropology, Violence and the Dilemmas of Participant Observation,' Development Research Centre, London School of Economics (September 2001); Antonius Robben & Carolyn Nordstrom, 'The Anthropology and Ethnography of Violence and Sociopolitical Conflict,' in Nordstrom & Robben (eds.) (1995) *Fieldwork Under Fire: Contemporary Studies of Violence and Survival* (Berkeley: University of California Press), and Edwina Thompson (2010) *Trust is the Coin of the Realm: Lessons from the Money Men in Afghanistan* (Oxford University Press), Chapter 1 'Method and Theory', pp.1-26

⁸ Thompson, *Trust is the Coin of the Realm*, Chapter 4 'Hawala and the Politics of Survival', pp.116-140

displaced Syrians in neighbouring countries who still send money home, and another 20 in-depth interviews were conducted with Syrians living in the UK, United Arab Emirates and the US regarding their experience of transferring cash and providing charitable support during the conflict. They painted a picture of genuine risk to their lives and property when dealing with money.

Due to the above reasons, every effort has been made to respect the confidentiality of information that was provided, and use it only to inform a risk management process which all aid agencies can benefit from by customising to their specific area of operation within Syria. The points highlighted in Chapter 4 on risk will necessarily vary in significance to aid workers in terms of probability and impact depending on the area. The tools have been developed in recognition that the information is imperfect, and that they will provide the necessary enduring guidance for agencies as they make decisions in this space.

In order to meet the first objective of the research, we initially designed an online survey for the Syrian diaspora sending remittances back to family and friends. After a sample of 50 respondents was taken from people in Saudi Arabia, the UK, Turkey and Jordan, however, it became clear that they had a predominantly 'front office' view of the transactions, rather than the 'back office' detail we were looking for. At the same time, the Norwegian Refugee Council (NRC) released a similar set of surveys as part of wider research into remittance modalities in Syria. NRC kindly agreed to share the iterative results, so we were able to leverage this work and integrate relevant findings into the paper.⁹

Structured questionnaires were produced for the following stakeholder groups to establish how, if at all, the process and systems involved in transferring money informally into Syria differ from other IVTS: both registered and unregistered Money Service Businesses (MSBs), Money Transfer Operators (MTOs) or *hawaladars* and Middle Eastern and Turkish business people who were willing to share information about illicit finance. Three Islamic charities working in rural Idlib, urban and rural Aleppo and Saraqib were interviewed in a similar vein. These charities receive funding from Bahrain, Kuwait, Qatar and Saudi Arabia, and combined, their annual operating budgets are USD6.3 million.

In areas held by Jaish al-Fateh (JAF)¹⁰ in northern Syria, we interviewed all 17 money transfer agents whose networks cover Idlib (urban 100% and rural 80%), Aleppo (urban 40%, and rural 70%), Jisr al-Shughur, and Saraqib. A separate analysis of the areas controlled by Da'esh (known in Western media as ISIS or IS) was also conducted to get a sense of the conditions there. Five money transfer agents who operate mobile phone shops were interviewed in Al-Bab, Ar-Raqqa and Menbaj.

In Jordan, Lebanon and the UAE, we used structured interviews with 20% of the largest MSBs known to facilitate transfers to Syria, and those with ethnic ties to Syria via their owner/operators. The latter companies were predominantly smaller in turnover when compared to the wider market in each location, but had much more grounded insights into the current operating realities of Syria. In Jordan and UAE, we also relied on people close to the industry, but deemed independent, to review our results. Questions were asked on the following subjects:

- Pre-war (2011) and current relationships with Syrian correspondent MSB
- Locations and capacity of partner (volume) under different conditions to remit what currencies
- Fee structure negotiable at what threshold
- Settlement procedure with Syrian counterpart
- Reconciliation procedure once beneficiary receives money

⁹ Roger Dean (2015) 'Remittance Modalities in Syria: What Works, Where and How,' Norwegian Refugee Council (Jun)

¹⁰ JAF, or the Army of Conquest (جيش الفتح), is a military operations room that consists of numerous Syrian Islamist rebel factions mainly active in the Idlib governorate, with some factions active in the Hama and Latakia governorates. JAF captured Idlib city on 28 March 2015, and allegedly around 50 government soldiers defected to join.

Specific questions for the Syria-based MTOs and *hawaladars* noted above included:

- What happened to pre-war registered entities that are no longer in operation
- Percentage of liquidity derives from what sources
- Availability of currency under the different conditions
- Description of taxes by governing authority, and trends

One-on-one interviews were also conducted with 15 Syrian businessmen in steel, iron, automotives and food who relocated to Turkey after the destruction of their metal workshops and other related industrial bases in Aleppo.

In order to gain a better understanding of the capacity of *hawaladars* to remit money for CTP, the first step was to gauge a baseline view of existing humanitarian flows, and a snapshot of the projected use of IVTS for cross-border payments. Therefore, an anonymous online survey was designed to capture open-ended responses and some quantitative information from the humanitarian community. The survey elicited 11 responses from Turkey, and two from Jordan, representing a collection of INGOs and local implementing partners. Two of the respondents from Turkey recorded no transactions, however commented on the reliability of the systems in place. Therefore no quantitative data shows for them.

No identifying information was collected deliberately to give comfort to the respondents of their anonymity. This clearly limits the extent of the analysis, but some useful trends have been identified and conclusions drawn. While for Turkey the survey does not appear to be statistically robust, given that all humanitarian organisations with cross-border operations are using IVTS to transfer money, in Jordan, very few humanitarian agencies actually operate this way, having mainly concentrated on the Syrian refugee population living in Jordan. The sample therefore included one response from a government contractor that kindly shared its quarterly figures so that a comparison could be made between humanitarian and other aid flows. The data is represented in a separate chart to show the difference in scale.

We also made use of the feedback provided to the Turkey Cash-based Responses Technical Working Group (CBR-TWG) by three members in July 2014 during its efforts to collate information on the use of IVTS. This data is compared with what we learned from talking to the *hawaladars* in Chapter 2.

Wherever possible, an attempt has been made throughout the report to corroborate or challenge the anecdotal information gathered during the research. This was done by drawing on existing expertise and experience in the IVTS field and humanitarian cash coordination. The team leader also took the opportunity to spend significant time with specialists within the law enforcement community to review the draft terms of the contract with *hawaladars*, and to piece together the different legislation and regulations governing cash and value transfers in the region. An EU liaison within MASAK (or Mali Suçları Aratırma Kurulu), the Turkish Financial Intelligence Unit, was particularly helpful in providing real time updates on changes to guidance on cash controls.

For the remainder of this chapter, we will review how an IVTS works, including its purpose and mechanics, and the regulatory framework within which Syrian providers sit at the international, regional and domestic levels. This should be read in conjunction with Annex 1. A short overview of current sanctions on Syria is also included because of the dual compliance concern of anti-money laundering and counter-terrorism financing (AML/CTF) and sanctions.

1.3 PURPOSE AND MECHANICS OF IVTS

BOX 1: IDENTIFYING AN IVTS

An “informal value transfer system” refers to any system, mechanism, or network of people that receives money for the purpose of making the funds or an equivalent value payable to a third party in another geographic location, whether or not in the same form. The transfers generally take place outside of the conventional banking system through non-bank financial institutions or other business entities whose primary business activity may not be the transmission of money.

COMMON BUSINESSES OPERATED IN CONJUNCTION WITH AN IVTS

Import/export trade	Jewellery (gold, precious stones)	Telecommunications
Currency exchange	Used Cars	Rugs/carpets
Travel and related services	Car rentals	

US Department of Treasury Financial Crimes Enforcement Network (2003) *FinCEN Advisory Issue 33: Informal Value Transfer Systems* (March)

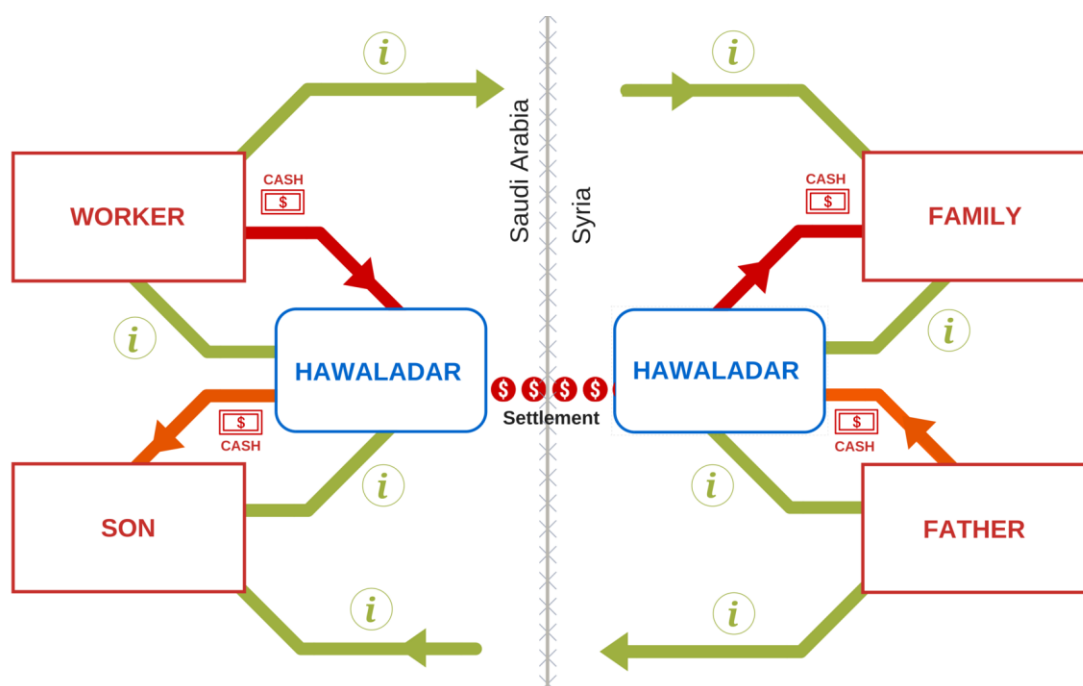
In extreme crises, when the banking system is collapsed or restricted, money is mostly delivered to people via an informal network or ‘value transfer’ system – known by regulators as ‘IVTS’. In many parts of the Arabic-speaking world, such as the Middle East, South Asia and Horn of Africa, this system tends colloquially to be called *al-hawāla*.

From the customer’s perspective, within minutes of a *hawala* representative – or *hawaladar* – receiving cash from a remitter (the ‘first mile’ of the transaction), the beneficiary and local agent in the destination country (or the ‘last mile’), are notified, and the pay-out can be made immediately in US dollars (USD) – often the preferred hard currency in a crisis – or the local currency. At a later stage ‘clearance’ occurs when the local agent in the destination country receives any payments required to balance his books.

In short, *hawala* is an informal method of debt settlement, built upon a mutual trust of each party to the transaction – in the classical definition, it refers to the payment of a debt through the transfer of a claim.¹¹ For centuries it has been widely used by traders to transfer value between distant locations, while avoiding the inconvenience and risk of transporting money. Hence, a merchant would settle the payment for an assignment by delegating his debt to another merchant against whom he has a prior claim, through the sale of a commodity on credit. In such a transaction, no physical transfer of money takes place; only a delegation or exchange of debt.

Today an IVTS continues to rely on personal connections between operators in different locations, usually across borders, and is typically used for diaspora remittances to areas where bank penetration is low, restricted or untrusted. Figure 1 depicts the two main flows that facilitate such a transaction: information (*i*) and money (*\$*). The purpose of the transaction in this case is two-fold: (1) a migrant worker in Saudi Arabia wants to remit money home to family in Syria; (2) a father in Syria wants to pay for the university fees of his child studying abroad in Saudi Arabia. *Hawaladars* take care to manage cash pools in the different locations to prevent the need for a physical cross-border movement of cash; therefore, if the child was being schooled in Germany, this would be settled in a more complex transaction involving wire transfers, controlled from a clearing house in a location such as the United Arab Emirates or Kuwait. In reality, there can be many more relationships involved in the debt settlement.

¹¹ Edwina Thompson (2008) ‘Introduction to the Concept and Origins of Hawala,’ *Journal of the History of International Law* 10: 83-118

Figure 1: Typical debt settlement from migrant remittance

In relation to modern-day Syria and its neighbouring countries, the term *hawala* is also applied to formally registered MSBs or Payment Institutions because the same outcome is achieved for the customer – an instant money ‘transfer’ without the delays or onerous paperwork of the banks.¹²

For users wishing to transfer money that has been obtained legitimately, benefits include: cost effectiveness, speed/efficiency, reliability, cultural familiarity, and simplicity. An additional benefit for users with money that has been obtained illegitimately includes the lack of transparent paper trail, or the layers that the system provides – wittingly or not – to conceal the origin of the funds.

As has been shown in expert reports and opinions, understanding the settlement process is vital to unpacking how an IVTS can offer such an attractive service – both for licit and illicit purposes.¹³ The following is a list of some of the main techniques used to settle the debt:

- **Transaction offset:** in an established network, transactions can be coordinated between different operators so that amounts sent and received can balance, requiring no additional actions to settle. This is the simplified picture presented in Figure 1.
- **Wire transfers:** a straight forward process, which may be disguised as part of normal business operations, or a transfer between personal accounts. The settlement could be to pay the debt of another party who is owed an equivalent amount.
- **Under/over-invoicing of goods:** goods can be shipped and under/over-valued in order to settle the balance owed between operators. This is common because IVTS usually run other

¹² A wire transfer of funds using banks involves fees charged to the sender and receiver, may take from two to seven days to complete, and may be delayed or lost. Funds moved through IVTS are available within 24 hours, with minimal or no fees charged to the participants.

¹³ Examples include: FATF (2013) ‘The Role of Hawala and Other Similar Service Providers in Money Laundering and Terrorist Financing’ (Oct), Richard Ballard (2003) ‘Hawala Transformed: Remittance-driven Transnational Networks in the post-Imperial Economic Order,’ Revised version of a paper presented at a World Bank/DFID International Conference on Migrant Remittances: Development Impact, Opportunities for the Financial Sector and Future Prospects, London (9–10 Oct); Arya Hariharan (2008) Hawala’s Charm: What Banks Can Learn From Informal Funds Transfer Systems,’ William & Mary Business Law Review 3(1); Ryan Hodge (2013) Informal Value Transfer Systems: A Financial Institution’s Perspective,’ ACAMS (Sep); Samuel Munzele Maimbo (2003) ‘The Money Exchange Dealers of Kabul,’ World Bank Working Paper 13 (World Bank: Washington D.C.); Thompson, Trust is the Coin of the Realm, and subsequent expert guidance to the UN.

businesses in conjunction with the money transfer (see Box 1 and Lebanon case study involving car dealerships and consumer goods).

- **Pre-paid cards:** these cards (pre-paid credit, mobile credit, gift cards) represent negotiable instruments that effectively store value.
- **Courier services:** hard currency or precious metals and gems may be physically transported in everything from cars and containers to suitcases and pockets, in bulk or through cross-border 'smurfing', where the amount is divided across several individuals transiting borders. Gold is a particularly reliable and familiar form of transportable payment in the Middle East – home to the world's largest gold souks (or 'markets'). During a conflict, or when fiat currencies are highly devalued, it is especially useful and nearly impossible to trace its origin – in the Syrian crisis, some people have converted their earnings into gold. There are reports that a 1 Kilo bar of 24 Carat Gold can fit undetected inside an iPhone 6 cover; thus this is some people's preferred method of transport.

Moving money physically only happens periodically in the settlement process (i.e. to settle the debt between agents where there is an uneven pool of cash at one end) at a later time, and using a combination of trade, cash courier and wire transfers – often between banks that are located in a different location such as the GCC countries. It is therefore critical to understand a financial network's trade linkages.

It is possible to identify three levels of operation in a *hawala* business on the basis of the roles carried out by different levels of agents, the management of funds within the network, and the purpose of the transactions:

- **Retail** – small operators moving relatively small amounts on behalf of individuals, often using his known circle of friends and family members or one of the wholesale operators;
- **Wholesale** – larger multi-ethnic operators moving millions of aggregated dollars globally, directly or via intermediaries, bulking transactions from smaller operators;
- **Corporate** – the settlement of large business transactions or of business debts, again using clearing houses such as Dubai.

Almost all of the NGOs based in the neighbouring countries of Syria appear to be using retail *hawala* agents, and it is unclear which wholesalers they are in turn connected to, if any. This is partly due to the very limited information that is collected on the agents – sometimes only a first name and phone number.¹⁴

Unlike other conflict contexts, many of the agents who are engaged seem to be operating a very basic model of straight-line cash couriers, which is limited to delivering money close to the borders inside Syria due to safety concerns. While there is the most personal risk attached to this method, it is the safest option for avoiding the risk of the liquidity being provided by an illicit source, because the aid organisation can withdraw the cash from a bank, and hand it over, rather than rely on funds in-country which have an unknown origin. This constitutes a 'closed corridor' from First Mile to Last Mile with hard currency transfers passing in a way that the collection and distribution of funds can be audited at both ends. The preference of most aid agencies interviewed during the research, however, is to deposit the money with an agent once it has already been paid out at the final destination, so these benefits would not accrue to those NGOs using the couriers in a reimburse-only arrangement.

Throughout this report, we mainly focus on the use of registered or unregistered *hawaladars*, and registered MSBs, rather than straight cash couriers. The latter category includes the practice of using

¹⁴ In cases where full names and dates of birth are recorded to be checked against compliance software, NGOs appeared to trust that the agent was providing accurate details. This is problematic because, if someone is designated, they are unlikely to share their true identity.

individuals travelling to the area to provide intermediation for cash transfers and payments inside Syria. While common, this method has obvious limitations, has proven less reliable for bulk NGO payments than for the transport of personal remittances, and is likely to be considered as exempt from the AML regulations of source countries like the UK, where activities that are engaged in only on an occasional or very limited basis do not qualify as a money transmission service¹⁵.

1.4 REGULATION OF IVTS

International

In recent years, the Financial Action Task Force (FATF), an inter-governmental policy-making body charged with setting standards and promoting effective implementation of legal, regulatory and operational measures for combating money laundering and terrorism finance, has issued guidelines on how to supervise *hawala*-like operations. Their recent evaluation found that 'the globe has been largely ineffective' at implementation of the guidance.¹⁶

BOX 2: INTERNATIONAL OBLIGATIONS

Alternative remittance systems [or IVTS] are financial services, traditionally operating outside the conventional financial sector, where value or funds are moved from one geographic location to another. Each country should take measures to ensure that persons or legal entities, including agents, that provide a service for the transmission of money or value, including transmission through an informal money or value transfer system or network, should be licensed or registered and subject to all the FATF Recommendations that apply to banks and non-bank financial institutions. Each country should ensure that persons or legal entities that carry out this service illegally are subject to administrative, civil or criminal sanctions.

Financial Action Task Force, *Special Recommendation VI* on Alternative Remittance Systems

Transactions still fail to set off red flags, in part because terrorism-related transfers are so small thus they appear unremarkable among the millions of transactions, and also because they are hidden amongst legitimate transfers.¹⁷

Concerns of financial regulators and law enforcement remain the:

- spatially dislocated profile and extensive local and transnational connections of IVTS, which make it hard to find the centre or control;
- delivery of funds in consolidated tranches, which often masks the point of origin;
- client relationships that are based on trust and repeated interaction, rather than on the approval of formal Know Your Customer (KYC) guidelines;
- accounting and book-keeping systems that are unique to each network, which makes the task of auditing a painstaking and difficult process;
- interconnectivity with international banks, which creates vulnerabilities in the system;
- level of political accommodation IVTS enjoy because they can facilitate public corruption by integrating criminal profits of officials into the banking system indirectly;
- tendency of dealers not to distinguish on moral grounds between different sources and types of funds;
- difficulties involved in distinguishing the overlapping and insidious connections of licit and illicit transfers;

¹⁵ See JMLSG Board (2014) 'Guidance in respect of Money Service Businesses' (28 May)

¹⁶ FATF (2013) 'The Role of Hawala and Other Similar Service Providers in Money Laundering and Terrorist Financing' (Oct), p.11

¹⁷ Aimen Dean, Edwina Thompson and Tom Keatinge (2013) 'Draining the Ocean to Catch one Type of Fish: Evaluating the Effectiveness of the Global Counter-Terrorism Financing Regime,' *Perspectives on Terrorism* 7(4) (August): 62-78

- mixing of money transfers with trade in valuable commodities in the settlement process;
- informal structures and systems, which can provide criminals with the cover of anonymity and an opportunity to launder money.

US

The USA PATRIOT Act gives US regulators oversight of all dollar transfers by making it compulsory that they go through US correspondents. In reality, this means that anyone using USD and found to be abusing America's AML/CTF regulations is liable for prosecution.

April 2013 marked the first time that the US Department of the Treasury used Section 311 of the PATRIOT Act against a non-bank financial institution. Two Lebanese exchange houses – Kassem Rmeiti & Co. For Exchange (Rmeiti Exchange) and Halawi Exchange Co. (Halawi Exchange) – were named as foreign financial institutions of primary money laundering concern. This followed the designation of two other exchange houses in Lebanon – Hassan Ayash Exchange and Ellissa Exchange – and the Lebanese Canadian Bank which held their accounts, in January and February 2011 respectively.

Within the US, any individual or group of people engaged in conducting, controlling, directing or owning an IVTS is operating as a 'financial institution'. Therefore, IVTS operators must comply with all Bank Secrecy Act (BSA) requirements, which include the establishment of an AML programme, registration with the Financial Crimes Enforcement Network (FinCEN) as an MSB, and compliance with the record keeping and reporting requirements, which include filing suspicious activity reports (SARs).

OFAC Licence No. 11 authorises US money transmitters, depository institutions, registered brokers or dealers in securities to transfer funds on behalf of NGOs (US or third country) to Syria, provided that the transfer does not interact with a sanctioned entity or Specially Designated Nationals (SDN).¹⁸ Despite this general licence, banks have evaluated the risk as too high from a regulatory and reputational standpoint.

One of the primary concerns is that funds are rarely transmitted directly to the ultimate beneficiary in a fragile or conflict-affected state such as Syria. As mentioned in 1.3 above, instead of making straight-line, direct bank-to-bank payments, charities tend to rely on a combination of local correspondent banks (see Box 3) and the third-party 'Clearance' system of remittance companies that facilitate the very last stage in the payment. These companies use settlement mechanisms based on trade flows to reimburse the in-country agents.

This is where the situation becomes problematic for humanitarian actors and their banks because effective due diligence would require an understanding of the trading companies that are often used to help settle the cash transfers. Some of these companies, or suppliers within their supply chain, will be under sanction, and have links to the government, which is now the longest-standing member of the US government's list of 'State Sponsors of Terrorism'.¹⁹

¹⁸ US Department of the Treasury (2013) 'OFAC: Executive Order 13582 of August 17, 2011 Blocking Property of the Government of Syria and Prohibiting Certain Transactions with Respect to Syria'. OFAC Licence No. 6 authorises the same institutions to process personal remittances to or from Syria on behalf of an individual ordinarily resident in Syria, under the same conditions. EU/UK licences are also available on request if an organisation's actions are subject to sanctions. See 'Table 1: key prohibitions, licences and licence granting authorities under the EU and US Syrian sanctions and exports control regime' for more detailed guidance, in British Bankers' Association, Disasters Emergency Committee and Freshfields Bruckhaus Deringer LLP (2013) 'Getting aid to Syria: Sanctions issues for banks and humanitarian agencies' (Dec), pp.8-9.

¹⁹ US Department of State (1979) 'State Sponsors of Terrorism' (29 Dec). This classification resulted in a ban on US arms exports, foreign assistance, and the export of any goods or technologies that may contribute to Syria's military capability. Executive orders extended US sanctions in 2003 and 2006, prohibiting all US exports to Syria (excluding food and medicine), US businesses from operating or investing in Syria, and certain Syrian citizens and entities from accessing the US financial

BOX 3: CORRESPONDENT BANKING

Governor of the Bank of England and Chief Financial Officer of the World Bank Group explain that 'even a global financial institution cannot have operations in every city, town and village. Hence the need for "correspondent banking", which allows a local bank to give its customers access to a faraway institution's services', such as currency exchange or international money transfer.²⁰ While this provides an indispensable link between developing economies and the international banking system, global banks have experienced large fines in recent years due to some local correspondents facilitating the activities of drug gangs and terrorists. This concern increases as the risk profile of the partner bank on behalf of which transactions are being executed on a correspondent basis increases; for example, its predominant geography of operation or the destination to which payments are instructed.

Since the uprisings in 2011, the US, Arab League, EU and individual countries have placed further severe sanctions on Syrian businesses, individuals, and entities. These entities include the Central Bank of Syria (CBoS), the largest state-owned banks, and the Syrian petroleum industry.²¹ The EU prohibits the provision of certain financial services, including currency services for the Syrian government, and the direct or indirect sale, purchase, or brokering of gold, precious metals, and diamonds.²²

Despite not being a member of the Arab League or the EU, Turkey has also imposed sanctions on Syria in line with those drawn up by these international institutions. This is particularly salient given that bilateral trade between the two countries totalled USD2.5 billion in 2010, with the majority of Syria's export revenue benefiting the government.²³ Turkish sanctions are therefore viewed as an important avenue for limiting Assad's ability to access the global banking system.

In spite of initial concern about its trade links with Syria, Jordan has taken a strong stance and committed to implementing the sanctions.²⁴ In contrast, both Iraq and Lebanon have declared they would not enforce the sanctions. Lebanese banks insist they are not legally restricted from doing business with Syrian financial institutions; and yet, in order to maintain correspondent relationships with European and American banks, many Lebanese banks have been electing to exit relationships with Syrian companies.²⁵

Fundamental fears of international banks remain: fines triggered by (particularly US) investigations; headlines about 'financing terrorists'; and potential loss of access to the US market/USD system.

Regional

The regulatory and legislative environment under which the Syrian financial networks operate in the region is key because of the importance of neighbouring countries to the movement of money or value. Below is a short summary of the regulations on cross-border cash flows and money transfers – and their enforcement – in Turkey, Jordan, Lebanon and Iraq. This is followed by a specific focus on regulation within Syria. Readers should refer to Annex 1: IVTS regulatory context (laws and cash controls) as an aid to this section.

system. Jeremy Sharp (2011) 'Unrest in Syria and US Sanctions Against the Assad Regime,' *Congressional Research Service* (Aug)

²⁰ Mark Carney and Bertrand Badré (2015) 'Keep finance safe but do not shut out the vulnerable,' *Financial Times* (2 Jun); and Beechwood International, *Safer Corridors*.

²¹ US Department of Treasury (2015) 'OFAC FAQs: Other Sanction Programs- Syria Sanctions,' accessed at: http://www.treasury.gov/resource-center/faqs/Sanctions/Pages/faq_other.aspx#syria_whole

²² US Department of State (2014) 'Countries/Jurisdictions of Primary Concern: Syria,' Bureau of International Narcotics and Law Enforcement Affairs, accessed at: <http://www.state.gov/j/inl/rls/nrcrpt/2014/supplemental/228020.htm>

²³ Randa Slim (2011) 'Where's Syria's Business Community?' *Foreign Policy* (5 Aug)

²⁴ BBC (2011) 'Syria Sanctions: Arab League Tightens Grip' (27 Nov)

²⁵ Dominic Evans (2012) 'Sanctions Weigh on Lebanon – Syria Banking Ties,' *Reuters* (8 Feb)

Turkey

Cross-border cash flows

In Turkey, there is no restriction on the importation of currency – a declaration is only required if requested by an official such as a customs officer. For cash exported to other countries, it is a legal requirement to declare all money in excess of EUR10,000, or the equivalent in other currencies. If there is no suspicion of criminality, the currency is permitted to proceed. This represents an amendment to Decree No. 32 on the Protection of the Value of Turkish Currency, which establishes certain limitations to the amount of cash to be taken to other countries through customs points.²⁶

The Ministry of Finance *inter alia* is working on the actual mechanics of how the system will operate – i.e. whether to include negotiable instruments, how declarations are to be made, the design of any declaration forms to be introduced, who will have responsibility for the acceptance and retention of the declarations, and how they are to be communicated to MASAK.²⁷ The Ministry has advised that it will issue a Communiqué (tertiary legislation) detailing these measures.

Cross-border money transfers

During the research, there were only two licenced money transfer businesses in Turkey permitted to remit money abroad – Western Union and MoneyGram. Twelve years ago, Western Union secured a deal with the Turkish Post and Telegraph Company, which effectively made all post offices also a Western Union outlet. Commercial banks in their own right can transfer money internationally but all transfers go via the Central Bank (TCMB).²⁸

In 2013, Turkey passed Law No. 6493 in order to regulate and monitor the procedures of payment service providers. The law came into effect in late June 2015, and states that any person or organisation carrying out payment services must obtain a license from the TCMB. This will therefore apply to any IVTS operating in Turkey. In order to become licensed, a number of stipulations must be met, including appropriate risk management procedures, at least Turkish Lira (TL) 5 million of paid-in-capital in cash, free of any collusions, and a transparent governance structure. Any persons and institutions engaging in payment services without a licence, or failing to cooperate with the TCMB's oversight requests, is subject to sanctions under the law.²⁹ Given the high working capital requirements, smaller money dealers are unlikely to be incentivised to register.

When we asked Turkish officials whether existing providers could now apply for a licence through the new legislation, the response was negative; they cited the pre-existing illegality of their operations. When presented with the same challenge in 2002 due to the popularity and prevalence of *hawala*, the Central Bank of the UAE introduced light regulations, which have been gradually increased over the years – this has brought many more dealers than anywhere else in the region into the regulated sphere, and indicates that the Turkish Government may wish to reconsider its position.

²⁶ The movement of cash into and out of Turkey is governed by two pieces of legislation: Law No. 1567 Regarding the Protection of the Value of Turkish Currency, published in Official Gazette No:1433 (1930); and Law No. 5549 on the Prevention of Laundering Proceeds of Crime (2006). If subsequent regulations contain provisions that conflict with any underlying legislation or statutes they will not be enforced. Customs officials informed us that anything released by the Government that seems to contradict these pieces of legislation should therefore be ignored. This includes Circular 2005/1 'Cash Controls at Customs' Issue: 87375112/010.06, issued by the Ministry of Customs and Trade in April 2015, which introduced some ambiguity and thus confusion around the controls, appearing to make it easier to bring cash legally into the country. For example, it contains the sentence "passenger cannot be compelled to make a declaration at customs", which implies that customs officials no longer possess the authority to demand cash disclosures.

²⁷ MASAK was established following the country's criminalisation of money laundering in the 1996 Law No. 4208 on the Prevention of Money Laundering.

²⁸ FATF (2007) 'Third Mutual Evaluation Report, Anti-Money Laundering and the Combating of Terrorism: Turkey,' (23 February), accessed at: <http://www.fatf-gafi.org/media/fatf/documents/reports/mer/MER%20Turkey%20full.pdf>

²⁹ TCMB (2013) 'Law on Payment and Securities Settlement Systems, Payment Services and Electronic Money Institutions', accessed at: <http://www.tcmb.gov.tr/wps/wcm/connect/3deb8069-ce8d-4ba7-a31d-e075259aa60a/6493.pdf?MOD=AJPERES&CACHEID=3deb8069-ce8d-4ba7-a31d-e075259aa60a>

Enforcement

In October 2014 FATF removed Turkey from its list of high-risk and non-cooperative jurisdictions.³⁰ Shortcomings are recognised to remain; therefore, at the same time, the European Union and the Government of Turkey launched a two-year twinning project titled 'Efficiency in Anti-Money Laundering and Counter Terrorist Financing' to increase the efficiency and effectiveness of Turkey's AML/CTF system to better detect, prevent and reduce financial crimes, in line with EU legislation and international best practices.

Money laundering remains a high concern in Turkey, and occurs in banks, non-bank financial institutions and the underground economy. Turkish government officials estimate that between a quarter and a third of Turkey's economic activity derives from unregistered businesses.³¹ Two of the major methods of money laundering in Turkey are cross-border currency smuggling and bank transfers in and out of Turkey.³²

Financial activity of registered entities is monitored through the MANTAS AML system and suspicious activities are reported to MASAK. This law was strengthened in 2006 by Laws 5237 and 5549, which introduced penalties for money laundering offences, and enhanced customer due diligence (CDD) and KYC obligations for financial institutions including money exchange bureaus. Terrorism finance was later criminalised in 2013 under Law No. 6415, empowering MASAK to freeze assets suspected of having links to terrorism.³³ MASAK is now responsible for receiving, analysing and subsequently disseminating suspicious transaction reports (STRs) to the relevant government agencies.³⁴

To date MASAK has only received notifications of false currency declarations, but it should receive notification of all declarations with the introduction of the amendments to Decree No. 32. This will improve their intelligence analytical capacity and the quality of their investigations.

In terms of the movement of people, there have been increasing travel restrictions for Syrian refugees coming into Turkey since early 2015. During the assessment, these limitations showed signs of affecting the ability of NGOs to operate cross-border operations from Turkey, and of retail *hawaladars* to maintain their regular physical cash courier movements.

Jordan

Cross-border cash flows

According to Jordanian legislation, individuals must declare cash they are bringing into the country if the amount exceeds the value set by the National Committee of Anti-Money Laundering (currently at JOD 15,000 (USD21,173)).³⁵ This regulation only applies to money transferred into the country, and not cash that is leaving Jordan. One development agency confirmed that bringing money back into Syria must be reported to the Jordanian Government and cleared at the border.

³⁰ FATF (2014) 'Fifteenth Follow-Up Report, Mutual Evaluation of Turkey' (Oct), accessed at: <http://www.fatf-gafi.org/media/fatf/documents/reports/mer/Turkey-FUR-2014.pdf>

³¹ US Department of State (2015) 'INCSR – Money Laundering and Financial Crimes,' Bureau of International Narcotics and Law Enforcement Affairs, accessed at: <http://www.state.gov/j/inl/rls/nrcrpt/2015/vol2/239109.htm>

³² *Ibid.*

³³ MASAK, 'Frequently Asked Questions on Law No. 6415,' accessed at: <http://www.masak.gov.tr/en/content/frequently-asked-questions-on-law-no-6415/2352>

³⁴ IFLR (2011) 'Anti Money-Laundering Laws' (4 May), accessed at: <http://www.iflr.com/Article/2818304/Anti-money-laundering-laws.html>. This law was updated by Law No. 5549 on Prevention of Laundering Proceeds of Crime, adopted in 2006.

³⁵ Jordan Anti-Money Laundering Law No. 46 (2007)

Cross-border money transfers

Jordan has a comparatively robust regulatory system for MSBs and exchange houses in the region,³⁶ with three major pieces of legislation to regulate their operations, and well-resourced monitoring institutions.

The Money Exchange Business Law of 1992 stipulates that no person can carry out money exchange business in the country without a licence issued by the Central Bank of Jordan. MSBs are required by the Anti-Money Laundering Law No. 46 (2007) to maintain a register for outgoing and incoming transfers, detailing the value and date of any transaction, as well as data on the client and their beneficiaries. The laws specify no maximum amounts of money that can be transferred through *hawala* operators, although they are subject to the AML/CTF regulations that relate to Money Exchange Companies No. (2/2010) issued pursuant to the provisions of article 14 of Law No. 46.

The Central Bank of Jordan publishes a register of MSBs, which, as of 2013, included 140 individual companies.³⁷ At least six of these have strong connections to Syria via their owners. These include Sahloul Exchange, al-Fuad Exchange, Musharbash Exchange, Saudi Exchange, Deiraneah, and Shanawani. In interviews with ten operators in Jordan, they all revealed that their correspondent in Syria is al-Haram Exchange. Musharbash Exchange, however, is the only registered Jordanian company with a direct relationship to this correspondent. Therefore the funds deposited for transfer in Jordan to Syria with all other MSBs route through Musharbash.

Enforcement

There are a number of informal MSBs and small-scale *hawaladars* that operate unregistered in Jordan, and are able to transfer cash into Syria, and particularly to opposition-controlled areas. While not registered, the Jordanian intelligence directorate is aware of the operation of these offices; international organisations reported that there is a level of tolerance for these cross-border services, so long as they are used in support of the aid effort, and engagement is made visible to the authorities.

Lebanon*Cross-border cash flows*

Lebanon has no legislation that details a declaration or disclosure style of cash courier control system. Individuals are free to transport as much cash as they wish across Lebanon's borders, and there are currently no records being made of cross-border cash controls in Lebanon, other than those by licensed financial institutions. A recent FATF report on Cash Couriers found that Lebanon's absence of laws controlling the cross-border transportation of cash made it unable to prosecute known criminals who had placed USD1.6 million into the Lebanese banking system via multiple accounts in 8 separate banks.³⁸ The lack of framework for monitoring cross-border transportation of currency thus poses a major challenge for law enforcement in detecting ML or TF.

Intermediate Decision 10726 does require banks and exchange institutions to submit monthly forms to the Central Bank detailing the total value and number of cross-border cash transfers they have performed, as well as any individual transaction exceeding USD10,000.³⁹ The reporting is, however, low, indicating poor enforcement.

³⁶ MENA-FATF (2009) 'Jordan: Mutual Evaluation Report, Anti-Money Laundering and Combating the Financing of Terrorism,' accessed at: http://www.menafatf.org/images/UploadFiles/MER_Hashemite_Kingdom_of_Jordan.pdf

³⁷ Central Bank of Jordan (2013) 'Directory of Money Changers,' accessed at: http://www.cbj.gov.jo/uploads/exch_corp_Eng19-2-2013.pdf.pdf

³⁸ FATF (2015) 'Money laundering through the physical transportation of cash,' Risk, Trends and Methods Group FATF/RTMG(2015)9 (23 Jun)

³⁹ Banque du Liban (2011) 'Immediate Circular No. 263,' accessed at: <http://www.bdl.gov.lb/circulars/download/397/en>

Cross-border money transfers

Law 318 (Apr 2001) is Lebanon's most salient piece of AML/CFT legislation. It states that exchange institutions must ascertain the true identity of their clients and maintain documentation for a minimum of five years after completion of an operation.⁴⁰ This was supplemented by Law 347 (Aug 2001) which established an official registration system for exchange institutions, prohibiting any institution without a license from the Central Bank from undertaking exchange operations.⁴¹ This has been strengthened by a number of laws, most notably Circular No. 126 (Apr 2012), which details strict due diligence procedures for cross border operations.⁴²

Basic Decision No. 9708 (Sep 2007), stipulates that exchange institutions are the only financial organisations permitted to carry out *hawala* transactions. *Hawala* transfers are prohibited from exceeding the equivalent of USD20,000 and Exchange Companies are required to maintain records of all *hawala* transactions, dating back five years. These records must detail name, passport or identification number, and nationality of the beneficiary and the transfer ordering party, as well as the sum being transferred and the source and destination country.⁴³ Intermediate Decision No. 11544 (2013) placed further regulations on exchange institutions conducting *hawala* transactions by requiring them to establish autonomous compliance departments and implement stringent risk management procedures.⁴⁴

Enforcement

On the whole, in spite of the strong regulation in place for exchange houses, enforcement in Lebanon remains difficult due to the risk profile of the country. Exchange houses reportedly continue to be used to facilitate ML and TF, including by Hezbollah, and global linkages with the formal banking system are facilitated by the widespread Lebanese diaspora community, which stretches across Europe, North America, Asia and West Africa. The most difficult aspect to control is the trade-based money laundering.

By way of example, the aforementioned exchange houses designated by the US Treasury Department managed to launder hundreds of millions of dollars of drug proceeds from the trafficking network of Ayman Joumaa, who has loose connections with Hezbollah. They used schemes involving used car dealerships in the US and consumer goods from Asia, which obfuscated the source of illicit funds by comingling or splitting transactions across a variety of these businesses, financial institutions, and continents. One critical component of the operation involved the placement of bulk cash into MSBs located in Beirut, which had accounts with the Lebanese Canadian Bank.⁴⁵ It is exceedingly difficult for regulators and law enforcement to distinguish between legitimate and illicit finance in such complex international trade.

Lebanon has clearly been an important location for the placement of funds for Syrian businesses pre-war, and capital flight since the onset of the conflict. A senior economist at the UN Economic and Social Commission for Western Asia (ESCWA) claims that the bulk of the money transferred out of

⁴⁰ MENA-FATF (2008), 'Mutual Evaluation Report: Anti-Money Laundering and Combating the Financing of Terrorism-Lebanese Republic' (10 Nov), accessed at: <http://www.menafatf.org/MER/MutualEvaluationReportoftheLebaneseRepublic-English.pdf>

⁴¹ Banque du Liban (2001) 'Regulating the Money Changer Profession in Lebanon,' accessed at: <http://www.bdl.gov.lb/laws/download/49/en>

⁴² Banque du Liban (2012) 'Basic Circular 126- Addressed to Banks and Financial Institutions', accessed at: <http://www.bdl.gov.lb/circulars/download/429/en>

⁴³ Banque du Liban (2007) 'Basic Decision No 9708- Cash Transfers According to the Hawala System', accessed at: <http://www.bdl.gov.lb/circulars/download/117/en>

⁴⁴ Banque du Liban (2013) 'Intermediate Decision No 11544- Amending Basic Decision No 9708 of September 24,2007 on Cash Transfers According to the Hawala System', accessed at: <http://www.bdl.gov.lb/circulars/download/485/en>

⁴⁵ US Department of the Treasury (2013) 'Treasury Identifies Kassem Rmeiti & Co. for Exchange and Halawi Exchange Co. as Financial Institutions of Primary Money Laundering Concern' (23 Apr), accessed at: <http://www.treasury.gov/press-center/press-releases/Pages/jl1908.aspx>

Syria – mainly to Lebanon – was moved in the early stages, and even before: “Some financiers in Aleppo even transferred money with the start of the uprising in Tunisia.”⁴⁶ Central Bank data shows that between March and December 2011 non-resident private sector deposits at commercial banks in Lebanon climbed from USD18.3 billion to USD21.3 billion; the USD3 billion increase was almost twice as fast as the rise of USD1.6 billion over the previous nine months.⁴⁷ A recent estimate put the total deposits that have moved to Lebanese banks from Syria at USD11 billion, and showed indications that another billion dollars was injected in the Lebanese economy through Syrian consumer spending.⁴⁸

At a personal level, interviews indicated that it has become increasingly difficult for Syrians in Lebanon to open a bank account in Lebanese Lira or USD, and transferring and depositing money in existing accounts is also under increased scrutiny. While there are fewer cash controls in Lebanon, the interviews also revealed that there are sensitivities for some companies around cash transfer to Syria. They reported feeling at risk of being targeted and potentially shut down by Lebanese groups allied with the Syrian government (particularly Hezbollah). Given Hezbollah’s strong control of the government and intelligence services, cash transfers to Syria from Lebanon could be under increased pressure and put Syrians at risk, particularly if they are Sunni. Interviews with Syrians who send and receive money from Lebanon revealed that they prefer to travel to Chtaura (along the Beirut-Damascus road) than use exchange offices in Beirut due to fears of harassment and Hezbollah intimidation.

Additionally, MSBs in the predominantly Sunni Lebanese border town of Aarsal have experienced difficulties in operating due to the controlling influence of Islamist groups in the area. A reverse trend is experienced by senders in Dubai transferring money into Syria with names more commonly associated with Shiites; we were told of several cases where legitimate business people had been arrested due to suspicions about funds diverting to Hezbollah.

Iraq⁴⁹

Cross-border cash flows

Iraq possesses declaration style cash courier controls, with a threshold of IQD 15,000,000 (USD12,600). Any person carrying this amount of cash into or out of Iraq is obliged to detail the origin, destination, and route of the currency and/or monetary instruments, and the amount and type of monetary instruments to customs authorities.⁵⁰ Like elsewhere in the region, USD are widely accepted and used for payments inside Iraq.

Cross-border money transfers

Iraq’s AML/CTF regulatory framework is reasonably well-established. The AML law was introduced in 2004 (CPA Order No. 93) and an anti-terrorism law in 2005 (Law No. 13). The former classifies banks, insurance institutions, securities traders, money transmitters (formal and informal), persons who undertake *hawala* transactions, and foreign currency exchange houses as ‘financial institutions’⁵¹ – thus, they are all subject to the country’s AML and CTF legislation.

⁴⁶ Hassan Chakrani (2013) ‘The Economic Menace of the Syrian Conflict,’ *Al-Akhbar Management* (8 July)

⁴⁷ Dominic Evans (2012) ‘Sanctions Weigh on Lebanon-Syria Banking Ties,’ *Reuters* (8 February)

⁴⁸ An ESCWA study cited in Hassan Chakrani (2013) ‘The Economic Menace of the Syrian Conflict,’ *Al-Akhbar Management* (8 July), accessed at: <http://english.al-akhbar.com/node/16361>

⁴⁹ For a short analysis of the four governorates that make up the Kurdish areas of Iraq, refer to Beechwood International (2015) ‘Kurdistan Region of Iraq Case Study,’ available on request.

⁵⁰ MENA-FATF (2012) ‘Mutual Evaluation Report: Anti-Money Laundering and Combating the Financing of Terrorism in Iraq’ (28 Nov), accessed at: http://www.menafatf.org/images/UploadFiles/Final_Iraq_MER_En_31_12.pdf

⁵¹ MENA-FATF, ‘Mutual Evaluation Report: Iraq,’ pp.71-2

The AML law states that all money transmitters must retain records of transactions above IQD 500,000, including dates, amounts, and information on the beneficiary and client. Money laundering is, however, only a misdemeanour under CPA Law 93; hence the Government does not prosecute cases under this law. New AML/CTF legislation is under review by Iraq's Shura Council, Council of Ministers and some members of the Iraqi Parliament.

Enforcement

According to the World Bank, the above laws are extensive in scope compared to other countries in the region, but implementation is limited.⁵² A MENA-FATF evaluation in 2012, highlighting the complete absence of convictions and only a handful of prosecutions, also recognised that implementation needs to be strengthened.⁵³ Despite relatively strong regulations, ambiguity in the KYC requirements and lack of supervision have hindered compliance in practice.

For example, MSBs are not required by law to detail the beneficial owner of any account, or designate clients as having a higher ML risk, such as PEPs.⁵⁴ The exposure of the charities sector to money laundering and terrorist finance has also not received much attention, despite the over 670 NGOs registered in Iraq (as of 2012) – while they are regulated by Law No. 12 of 2010, and supervised by the NGO Department within the Council of Ministers, NGOs are not subject to AML/CTF regulation, and Iraq has not conducted a risk assessment, or raised awareness, of the potential abuse of the sector by those wishing to hide financial crimes.⁵⁵ Instead, there are reports of the Central Bank limiting the supply of currency in branches on which charities are reliant for liquidity, thereby forcing them to revert to the informal currency markets.

In 2012, USD271 million in personal remittances flowed into Iraq; the third largest amount recorded in the Middle East after Turkey and Lebanon.⁵⁶ This money is also extremely difficult to distinguish from the trade-based money laundering occurring through the country. The general flooding of USD into the region via NATO countries, primarily to pay contractors who were supporting the war and reconstruction effort, made it easier for insurgency flows to blend into the movement of legitimately-sourced funds.

In October 2013, Iraq made a high-level political commitment to work with the FATF on an action plan to address its strategic AML deficiencies, including the political independence of its FIU. Greater clarity of legislative provisions and a delineation of roles of the relevant ministries and agencies is required if enforcement is to be made more effective. In response to the specific ML/TF concerns, an IMF report found that the Iraqi authorities have been limiting foreign exchange supply⁵⁷ – there are signs, however, that the new controls have actually contributed to the increase in the spread between the official auction and parallel market rate, also encouraging more black market trade.

The US State Department categorised Iraq as a 'Jurisdiction of Primary Concern' in the 2014 International Narcotics Control Strategy (INCSR) report. Licensed and unlicensed *hawala* networks continue to be used extensively for both illicit and legitimate money transfer.

⁵² World Bank (n.d) 'Republic of Iraq: Financial Sector Review', p.11, accessed at: http://siteresources.worldbank.org/INTMENA/Resources/Financial_Sector_Review_English.pdf

⁵³ MENA-FATF, 'Mutual Evaluation Report: Iraq'.

⁵⁴ Politically Exposed Persons – a class of accountholder that is deemed by the authorities to be of higher risk for banks.

⁵⁵ MENA-FATF, 'Mutual Evaluation Report: Iraq'.

⁵⁶ IFAD (2015) 'Sending Money Home: Worldwide remittance flows to developing and transition countries,' p.16

⁵⁷ International Monetary Fund (2013) 'Iraq: 2013 Article IV Consultation,' IMF Country Report No. 13/217 (Jul), p.17

Domestic

In Syria, prior to the introduction in 2006 of Law No. 24 regulating private companies, institutions and offices for money exchange and transfers, most of the money transfer activities were practiced via unlicensed service providers (individuals and institutions), and therefore were not subject to any regulations.

One MENA-FATF evaluation team observed that money dealers had become very well practiced in using methods to hide their activity in situations when banking and financial services were not readily available. They did this by conducting different activities such as the transport of goods, and layering money transfers through *hawala* techniques.⁵⁸

Certain allowances were also made for businesses that were known to facilitate ‘off the books’ transactions, which included some small dealers, whose trade was not significant enough to warrant a threat to their control, but provided a source of bribes to corrupt officials.

There is no reliable information on the size of the informal sector in Syria – either prior to the uprisings or during the crisis, which includes the money dealers’ activity. Nevertheless, anecdotal reports indicate that it is significant. For example, in 2006, one money broker’s yearly turnover reportedly amounted to EUR1.8 billion,⁵⁹ while in 2008, a *hawala* industry ‘insider’ is recorded in a confidential US diplomatic cable as boasting that his network could “move USD10 million anywhere in the world in 24 hours”.⁶⁰ Five years later, the US Government indicated that the daily volume of black market business of money changers ranged from USD15-70 million.⁶¹

Despite what appears to be a freely operating black market economy, interviews with traders and money dealers revealed that the money transfer system was much more controlled than the equivalent in neighbouring countries prior to the uprisings. Businesses were monitored with a particular focus on restricting cash leaving Syria.

Through one-on-one interviews and a review of Central Bank data in Syria and Qatar, we compiled Tables 1 and 2 to capture the companies who retain registration, are under investigation, or have had their licences revoked. It appears that there were less than 20 registered money transfer businesses operating in Syria before the crisis, and now only 4-5 registered companies formally operating in Syria. This does not include the hundreds of unregistered agents of various sizes who either continue to operate or have established operations in response to the opportunities presented by the war.

Over the course of the conflict, the government has closed down several of the largest registered companies. The Syrian Central Bank and Anti-Money Laundering and Anti-Terrorism Financing Commission claims that the companies were closed down on charges of money laundering, currency speculation, or financing terrorist activities, while several of the companies claim they were closed for actively opposing the government by not capitulating to their demands. The formal closures ensure that the Central Bank has a monopoly of influence over registered MSBs.

⁵⁸ MENA-FATF (2006) ‘Syrian Arab Republic: Mutual Evaluation Report, Anti-Money Laundering and Combating the Financing of Terrorism,’ accessed at: <http://www.menafatf.org/images/UploadFiles/MutualEvaluationReportofSyria.pdf>

⁵⁹ European Investment Bank (2006) ‘Feasibility Study to develop new options for private sector investment financing in the Syrian Arab Republic, Phase 1: TA 2005/S 44-041720 (SY/2005/01),’ Final report, Oct 2005-Mar 2006, p. 38

⁶⁰ US Secret Cable (2008) 08DAMASCUS54, released through WikiLeaks.

⁶¹ US Department of State (2013) ‘INCSR 2013 Money Laundering and Financial Crimes Country Database: Volume II,’ Bureau of International Narcotics and Law Enforcement Affairs (July), p.380

Table 1: Licensed money transfer businesses operating in Syria⁶²

No.	Name	License		Permission to Start Business		Branches (numbers where available)	Comments
		No.	Date	No.	Date		
1	Al Adham Exchange Company شركة الأدهم للصرافة	415/4 م/ن/ب	11/08/08	220/أ.ل	22/02/09	Damascus	Founder is from Hama. The company's website lists branches in Homs and Aleppo, but it is unclear whether those branches continue to be active.
2	Express Tours اكسبرس تورز	48551	1991 (company registered)			Aleppo	Operates a money transfer and exchange service alongside tours and courier services (http://www.expresstours-sy.com). Facebook page was last active in August 2014 (https://www.facebook.com/expresstours.sy). Several people referred to the ability of Express Tours to transfer money into Syria, but no further information was available.
3	Al Fuad Exchange شركة الفؤاد للصرافة	277/4 م/ن/ب	25/04/07	881/أ.ل	13/08/07	Operated 15 branches pre-war.	Founder is from Busra Al Harir, Dara'a. Uses al-Haram to access areas of Syria outside its branch network. Temporarily closed down by authorities in October 2013, accused of manipulating foreign currencies and trading using fake names and identification. They continue to be under investigation. Their website only lists branches in the U.A.E.: http://alfuadexchange.com/ , but they have an active Facebook page available at: https://www.facebook.com/pages/Al-Fuad-Exchange-فؤاد-ل-لصرافة-ل-حويل-الاموال-1843718989185726?fref=ts .
4	Dyar Electronic Services for Exchange Co. (operates the Western Union offices in Syria) شركة الديار للصرافة	276/4 م/ن/ب	25/04/07	728/أ.ل	10/07/07	Damascus, As-Sweida, Latakia	Co-owned by Mazen Al Tabbaa and Rami Makhlof in the inner circle of the government. Makhlof also runs the Western Union affiliates that operate in GoS-controlled areas in Syria. Western Union currently has the largest volume of transfer of small cash amounts into regime-controlled areas, with long queues often seen at the offices.
5	Al Haram Exchange Company (The Pyramid Exchange Company) شركة الهرم للصرافة	283/4 م/ن/ب	16/05/07	1277/أ.ل	15/11/07	Operated 70 branches pre-war.	Publicly supportive of the GoS in their online advertising; allegedly provide the central bank with dollar reserve. In Jordan, Musharbash Exchange is the only Jordanian company with a direct relationship with al-Haram, with all exchanges from Jordan going through Musharbash and transferred via al-Haram into Syria.
6	Sham Exchange شركة شام للصرافة					Damascus	Looks active on Facebook (https://www.facebook.com/chamdham123); last activity logged 10 June 2015. Appears to be based in Damascus, however we were told they also work in Idlib with Zain.

⁶² This table was drawn from a combination of interviews and the record from Qatar Central Bank (2013), 'List of Exchange Houses Operating in Syria, Including Branches', (September) <http://www.qcb.gov.qa/English/Legislation/Instructions/Documents/BankInstructions/2013/13-139.pdf>

Table 2: Money transfer businesses in Syria with cancelled or unclear licensing status due to outstanding investigations since 2011

No.	Name	License		Cancelled/ investigation ⁶³		Branches	Comments
		No.	Date	Date			
1	Al Amana Exchange شركة الامانة للصرافة	م/ن/ب/4/282	16/05/07			Damascus, Aleppo, Homs	The company's main branch is in Aleppo, however its Facebook page: https://www.facebook.com/AMANAEX indicates no online activity since 2013, and its website is down.
2	Biko Exchange شركة بيكو للصرافة					Aleppo	The Anti-money Laundering and Anti-terrorism Financing Commission of Syria filed an investigation against them in July 2014 on charges of "money laundering and financing terrorism". The company's website (www.bekoco.com) is down, and its Facebook page (https://www.facebook.com/Beko.Exchange) has not been updated since November 2013.
3	Hanifa/Hanifeh Exchange شركة حنيفة للصرافة	م/ن/ب/4/275	25/04/07	10/03/13		Damascus, Aleppo, Homs, Latakia	Closed down by authorities in October 2013 for "illegal international transfers outside of central bank regulations", and breaking Law No. 24 regulating private companies, institutions and offices for money exchange and transfers. Owner of company currently based in Turkey and is able to deliver in non-government controlled areas.
4	Khalaf Exchange شركة خلف للصرافة			27/09/14		Damascus	Registered as a shipping, customs clearance and remittances company. Closed down by authorities in September 2014 due to illegal transfers and exchanging currencies on the black market, as well as smuggling foreign currencies into neighbouring countries.
5	National Exchange Company الشركة الوطنية للصرافة	م/ن/ب/4/311	21/08/07	ن/ب/4/403	23/07/08	Damascus	
6	Sultan Exchange Company شركة سلطنة للصرافة	م/ن/ب/4/367	21/02/08			Damascus, Aleppo, Homs, Hama	
7	Sahloul and Kamar Trading Services Ltd/ Global Sahloul Group for Exchange مجموعة سحلول الدولية	م/ن/ب/4/278	25/04/07		02/10/13	Operated 35 branches pre-war.	One of the founders, Zhouheir Yassar Sahloul, is renowned as being the most influential money trader in Syria. In 2005, Sahloul was assigned a formal role in the Central Bank and helped to stabilise the Syrian pound during a crash; within weeks the Syrian Pound appreciated by 20 percent. He fled the country in 2012.

⁶³ From mid-2013, the Syrian Ministry of Interior has publicly withdrawn the licences or closed money transfer and exchange companies it accuses of unlawful black market activities. This table includes the information we could verify; however, we also received reports that the following companies have either experienced a 1-6 month suspension or closure: al-Jaza'iri and Partners Exchange; Sa'ii Exchange (ساعي) in Latakia; al-Haja Exchange; al-Wazan Exchange, in Latakia; Jarmakani Exchange; and al-Ra'ed Exchange.

For those who have been shut down by the government, they are still able to operate using their agent networks, but do so discretely. Several wholesale money transfer companies continue to dominate the commercial money flows, but those who were not in support of the Syrian government have had their licences revoked and are thus not technically allowed to work in government-controlled areas. These companies claim to have good reach in most of the opposition areas, and were realistic when asked about precise locations, showing daily updates from agents in the country regarding liquidity and security conditions.

For companies who profit from their operations in government-controlled areas, there was widespread agreement among those interviewed that there is less incentive to jeopardise this business by working in opposition areas, even if they do so without a paper trail.

Within government-held areas of Syria, humanitarian agencies are using al-Haram Exchange or al-Haram Transfer, with whom they hold a corporate account. On one of its official websites, the company claims that it was founded eighty years ago as a cargo company for the shipping and land transportation of goods to all of cities across Syria, and that in 2000, the decision was made to enter the Syrian money transfer market.⁶⁴ On another of its websites, it claims that the money transfer business began 25 years ago.

Before the crisis, al-Haram had grown to have the largest number of branches in Syria – 75, which is double the amount of the next largest widest network, run by Sahloul and Kamar Trading Services Ltd. Several people inside Syria suggested that al-Haram served the domestic needs of ordinary people, while Sahloul and Kamar also catered for the international business market. Members of the UK diaspora claimed, however, that the latter also serves their basic needs for sending money to relatives at home.

There are many new players in the market, but predominantly small-scale dealers servicing local trade and remittances from Syrians outside the country. They often lack structure, systems, bookkeeping and money exchange backgrounds, therefore would present high risk with larger transaction sizes. This assessment focuses on examining the capacity and processes of the IVTS that are classified as either wholesale or corporate.

Now that we have a clearer sense of the purpose, mechanics and regulation of IVTS affecting cross-border money flows into Syria, the next chapter explores how humanitarian money is currently flowing to opposition areas. This will help the next step in evaluating the capacity of current IVTS to accommodate more potential volume.

⁶⁴ Two websites: <http://www.haramexchange.com/> and <http://haram-transfer.com/>. A representative of Al-Haram explained to NRC that al-Haram Transfer connects the Syrian entity with the branch network – Exchange – with overseas entities, so they are distinct legal entities. Dean, 'Remittance Modalities in Syria,' NRC.

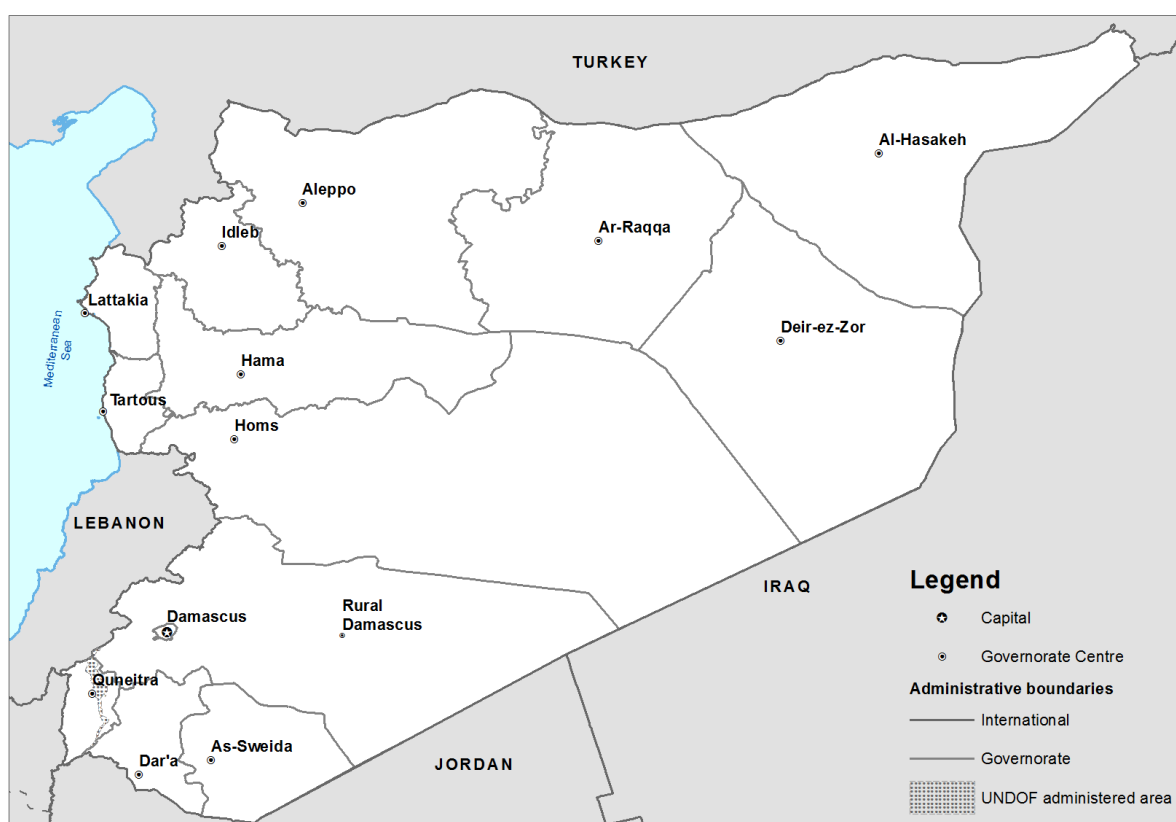
2. HUMANITARIAN FLOWS TO SYRIA: CAPACITY OF IVTS

In order to gauge the capacity of existing IVTS to accommodate more potential volume, it is important to understand better where they operate, how they source their liquidity, what a typical humanitarian transaction looks like, and the present scale and type of expenditure.

2.1 LOCATION

Interviews with several of the wholesale *hawala* companies revealed a very dynamic picture of what destinations were possible at any one time – these variations depend entirely on the local updates sent to them by their agents on a daily basis, advising on where it is possible to transfer money and the upper limits to specified areas. They admitted that delays can occur, primarily due to security reasons or if communication networks are down, but these are reported instantly to the client.

One-on-one interviews with INGOs revealed that they use the following bases outside Syria for inward transfers to corresponding parts of the country: Turkey for north and west; Iraq for north east; Lebanon for central; and Jordan for south and central. Humanitarians appeared most confident about their ability to transfer funds from Iraq into Al-Hasakah, while the systems for facilitating bulk payments from Jordan to Dara'a and Lebanon to besieged areas were perceived to be most problematic.



CBR-TWG members indicated that NGOs from Turkey are using transfer agents in Kilis, Reyhanli, Gaziantep, and Antakya to transfer cash to Aleppo (urban and rural), Idlib (rural – Sarmada), Hazano, Marea, Azaz, Aktarin, Suran and Haritan. Agents also reported to them that they were able to transfer money to Al-Mayadin, Ras Al-Ain, Al-Bab, Menbej, and Ar-Raqqa. Other locations were noted as inaccessible at the time.

All 17 money transfer agents present in the receiving areas of northern Syria held by JAF appeared to be small, retail *hawaladars*, and operated through mobile phone shops with links to Turkish counterparts. No larger dealers seemed to exist in Idleb city, which JAF captured in late March 2015. The reach of the networks reportedly covers Idleb urban 100% and rural 80%; Aleppo urban 40%, and rural 70%; Jisr al-Shughur; and Saraqib. A survey respondent who has been conducting CTP in this area identified transfers between Idleb and Sarmada as posing a problem, but no further information was provided.

No reporting was received from Iraq through the online survey; however, local NGOs who have been consistently working in the Al-Qa'im refugee camp on the Syrian border reported that they use a trade-based hawala system to settle accounts. They deposit with banks in Baghdad and have arrangements with local traders who help with the cash flow.

In regards to reaching besieged areas such as Ghouta and north Homs, two respondents in our online survey reported serious obstacles to access.⁶⁵ This reflects all of the anecdotal reporting we also received through interviews with aid workers. One respondent, however, made this comment in the survey: "We have been working in Damascus Governorate and Rural Damascus for more than 3 years. We have not faced any problems in the delivery of cash to beneficiaries inside Syria previously", which provides a different picture.

Only one organisation reported to be sending money actively from Jordan (USD53,000 without any losses since December 2014).

In terms of capacity, one NGO worker notes that most individual *hawaladars* where aid agencies operate inside Syria and neighbouring countries process between 200-400 customers per day. His view is that it is unrealistic to expect agents of this size to process the numbers that would be required in a CTP, which is reaching more like 5,000 people daily.⁶⁶ This may well be the case, which is why if cash support were to be disbursed to people, a local committee should be approached to help coordinate the pay-out. This appears to be possible, especially in a governorate like Idleb which has 21% of Syria's local councils (numbered at 185 during the research).

The question is more about liquidity, however, because whether the dealers are transferring cash for staff salaries, supplies, vendors, or beneficiaries, one of the main challenges is how to ensure adequate cash pools for on time delivery, while limiting the amount of cash held on site at any one time.

2.2 LIQUIDITY

CBR-TWG members reported that transfer capacities of their agents varied from USD90,000-800,000 over a 48-hour period. All respondents felt that their agent would be able to work with other organisations and increase their transfer capacity if necessary. The higher end of this threshold appears concerning when we compare with what the *hawala* companies and local NGO staff informed us from inside Syria.

In our interviews with *hawaladars* in JAF-held areas, nine stated that they would "prefer it" if a single customer does not receive more than the equivalent of USD20,000 per day as they do not hold on site more than USD50,000-60,000 at any given time. The remainder – eight – stated that there is theoretically no limit, but if the amounts exceeded USD40,000 or 50,000 per day, then they will have

⁶⁵ A 'besieged' population has been intentionally denied basic necessities such as food, water and medicine and freedom of movement by parties to the conflict.

⁶⁶ Alan Grundy (2014) 'While we look for cash response options in Syria, let's not forget what is working – vouchers!' International Rescue Committee (19 Nov)

problems procuring that much cash. For those amounts, they would need 5-10 days of advance warning so they can secure the necessary cash – and the pay-out is only possible in local currency.

In an interview with one of the three largest money transfer and exchange companies by volume before the war, we were told that they would keep USD1 million on site in each of the two largest cities – Aleppo and Damascus. But in their other branches, they would only ever keep USD100,000 on site. This correlated with the money flows generated by inbound remittance from Syrians outside the country, and domestic traders.

The CBR-TWG member estimates of the threshold indicate that the higher amounts would require a significant amount of physical cash courier, and possibly the use of cash derived from illegitimate sources, but this will of course depend on the destination. A lack of understanding regarding the source of this liquidity on behalf of NGOs could implicate them in suspicious economic activity.

Some aid organisations have chosen to establish and maintain a revolving cash fund denominated in Syrian Pounds (SYP) for field staff to use for local expenditure. Under such a fund, a fixed cash balance is established, and so as money is spent, the cash is replenished up to the level of the fixed balance. In one organisation, advances of up to USD20,000 are held by the local finance officers who are employed to deliver a particular programme and are located in the community. This has given them the flexibility to make small payments on an as-needs basis. Most communities only require advances of USD5,000, but larger pools are maintained in Aleppo due to the size of the programme in the north, and in the besieged areas due to the delays and risks attached to delivering money there. *Hawaladars* are used regularly to replenish the supplies.

When engaging suppliers, this same organisation transfers funds into the custody of the *hawaladar* in their office outside Syria as a guarantee of on-time payment, and requests that the money is kept 'on-hold' until the service or goods are delivered. Once the checks are completed, the organisation advises the *hawaladar* to release the funds to the supplier. The preference is for the *hawaladar* to use the supplier's bank account, rather than cash, which appears easier in the north (via Turkey), than the South (via Jordan or Lebanon). The organisation must appreciate that his agent will make use of that money during the time it is 'on-hold'. Ideally, it would be safeguarded in a bank instead.

Another organisation keeps a USD200,000 deposit with its *hawaladar*. It is unclear whether this is the dealer's requirement or a need identified by the agency based on its expense forecasting. This is a substantial deposit that again would be used actively by the *hawaladar* to settle other debts.

2.3 A TYPICAL TRANSACTION

The majority of funds from Western donors are remitted to Turkey before entering Syria. When the funds are received by an INGO, they reach Turkey, Jordan, Lebanon and Iraq by bank transfer, either to their office in those countries, or directly into the account of their implementing partner. Alternatively, the partner nominates the account of another registered organisation, or requests that the money is withdrawn and handed to them in cash for onward distribution. The partner is a Syrian entity, registered as a Turkish association under Law No. 5253, and sometimes also abroad, for example in the UK. This entity then engages an IVTS – usually a retail *hawaladar*. It is at this point that the formal banking relationship ends, and the informal chain is activated.

Very few humanitarian staff we interviewed were aware of how the cross-border transaction actually takes place. Several staff in operations and finance did have prior knowledge due to working in the money exchange business before the war. They provided exceptionally useful insights, which we triangulated with existing knowledge of how the system works, and what the business community was able to share about how it has evolved.

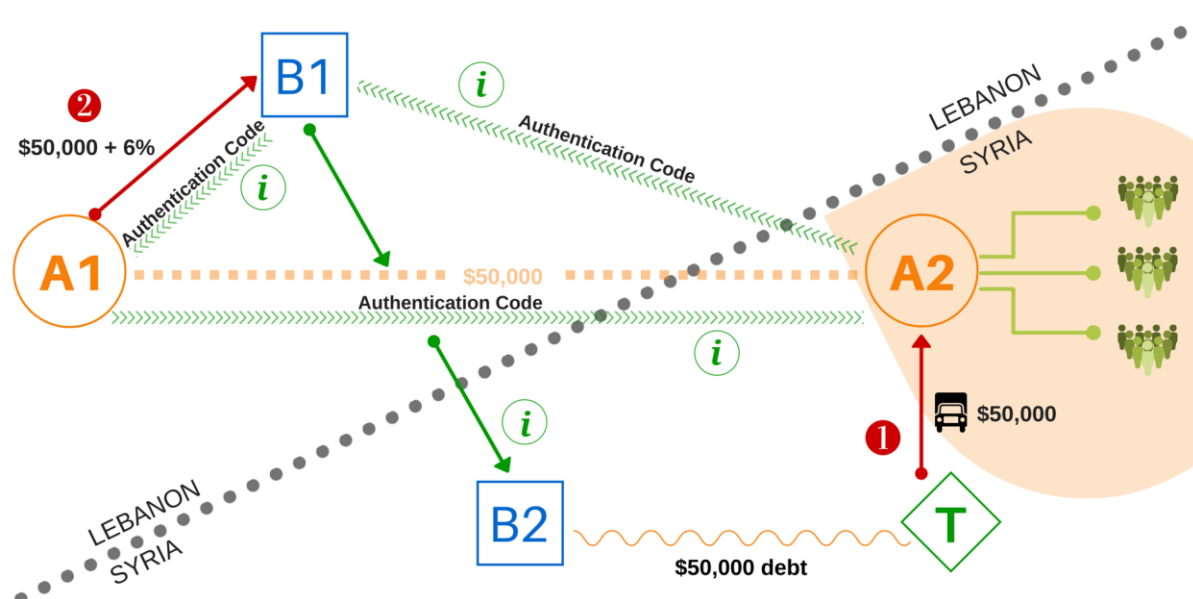
Box 4 is an attempt to summarise the type of steps involved in the two main flows that facilitate the transaction: information and money. The Lebanon example is accompanied by an infographic overleaf to help readers follow the steps. Both are necessarily a simplification of the actual relationships that can underpin one transaction.

BOX 4: CROSS-BORDER TRANSACTIONS	
TURKEY INTO OPPOSITION-HELD SYRIA	LEBANON INTO BESIEGED AREA OF SYRIA
<p>Purpose of transaction INGO in Gaziantep (A1) wants to send \$50,000 to a local partner (A2) in northern Syria to pay contractors and salaries for local staff.</p> <p>Agreed terms of payment A1 commits to paying a local agent/broker (B1) the full amount plus 0.2% commission on receipt of the money in Syria.</p>	<p>Purpose of transaction INGO in Beirut (A1) wants to send \$50,000 to a local partner (A2) in eastern Ghouta to provide cash income support to beneficiaries.</p> <p>Agreed terms of payment A1 commits to paying a local agent/broker (B1) the full amount plus 6% commission on receipt of the money in Syria.</p>
<p>Money flow 1: B1's correspondent in Aleppo (B2) transfers funds in cash to A2 upon receipt of the code. B1 now owes B2 \$50,000. 2: A1 deposits cash or conducts a bank wire transfer (e.g. to a UAE account) to B1 upon confirmation that funds have been received. 3: An import/export trader (T) in Aleppo pays B2 \$50,000 plus commission to make a transfer to his supplier (S) in Dubai. 4: B1 pays S, settling his liability to B2.</p> <p>Information flow 1: B1 gives A1 authentication code to pass onto A2. 2: B1 asks B2 to pay person A2 \$50,000. Transaction is instant. 3: B2 asks B1 in Gaziantep to pay person S in Dubai \$50,000.</p>	<p>Money flow 1: Import/export trader (T) delivers \$50,000 to A2 upon receipt of an authentication code, settling his previous liability to B2. A2 organises the onward cash distribution to beneficiaries. 2: NGO in Beirut deposits the cash with B1 upon confirmation that the funds have been received.</p> <p>Information flow 1: B1 gives A1 authentication code to pass onto A2. 2: B1 asks correspondent in Rif Damascus (B2) to pay A2 \$50,000. 3: B2 contacts T in Damascus city who owes him \$50,000 plus commission for a previous transaction. T confirms he can arrange physical transportation of cash into the besieged area, timed to coincide with another known shipment coming into the area. 4: B2 warns A1 that the transaction may take up to 10 days. 5: A2 confirms to B1 receipt of the funds by sending the code via phone.</p>

Information flows are enabled by a plethora of mobile phones per operator, using voice and mobile-messaging platforms such as WhatsApp and Kik. WhatsApp incorporates a GPS mapping tool that enables people to communicate their exact locations, while Kik allows people to register a username without providing a phone number that could identify them, and has confirmed publicly that it does not 'see, store or monitor the content of conversations between users'.⁶⁷ There is no doubt that mobile phone technology is critical to the timely movement of funds in Syria and other crisis-affected contexts.

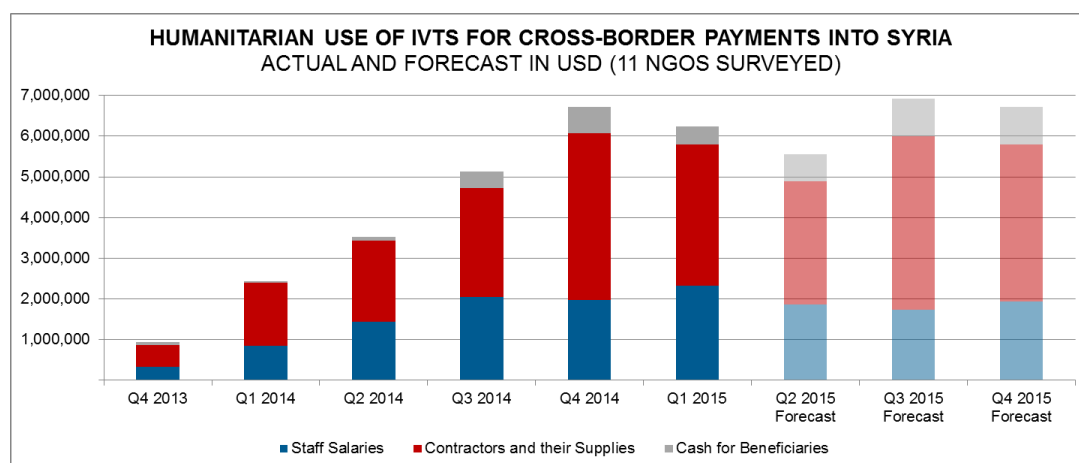
An immediate glance at the money flows for the single transaction from Lebanon shows a curious link between the aid agency and trader. This is used to illustrate the complex relationships that underpin such a transaction.

⁶⁷ *Newsweek* Feature (2015) 'How does ISIS fund its reign of terror?' (14 Nov)



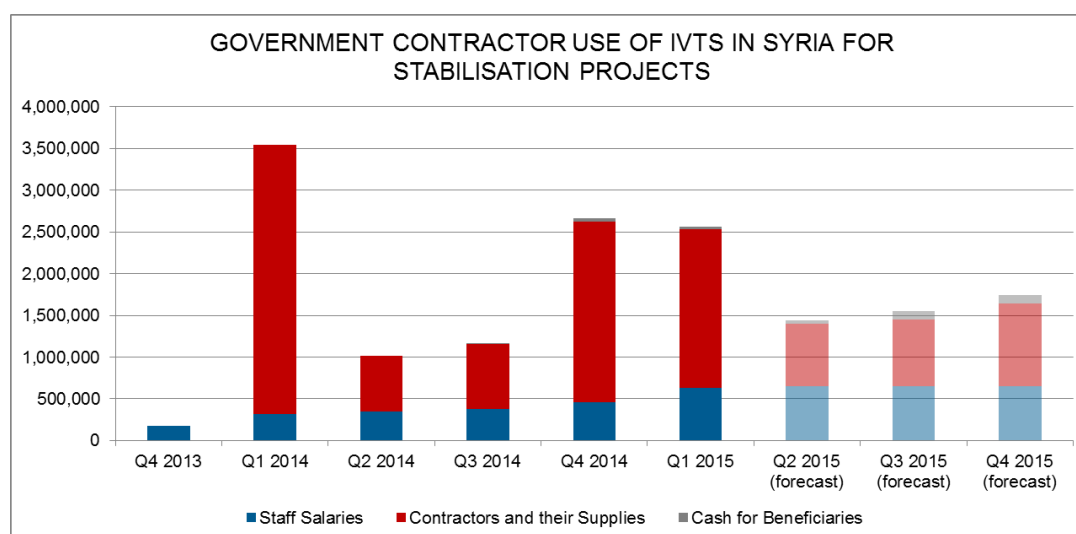
2.4 SCALE AND TYPE OF EXPENDITURE

The actual and forecast data that was collected in our online survey was intended to help establish the capacity of the systems to take on further demand – especially as more organisations explore the possibility of conducting programmes in Syria that involve direct cash for beneficiaries. Thirteen humanitarian agencies showed that for 2014 around USD16 million was transferred in cash cross-border, and the forecast for 2015 is around USD24 million. To put this in perspective, ten of USAID's implementing partners in Afghanistan used *hawaladars* to transfer USD13.5 million in cash payments in 2010, representing 7% of the USD181.1 million in total costs they incurred in the country that year. The USAID Inspector General found that with the right internal controls and due diligence on providers, this was a perfectly sound volume for the system to manage.⁶⁸



⁶⁸ US Agency for International Development (USAID) Office of Inspector General, Afghanistan, 'Review of Cash Disbursement Practices of Selected USAID/Afghanistan Implementing Partners' (Report No. F-306-11-00X-S), 7 March 2011

Somewhat surprisingly, only a minimal proportion of forecast funds transfers relate to ‘cash for beneficiaries’; but there is some growth in absolute terms. Contractors and their supplies make up the majority of transactions, and there appears to be a plateauing of this expenditure and staff salaries, at a ratio of around 2:1, in the latter part of 2015.



To cross-check the amount of Western donor money entering Syria, one government contractor, which is registered as a company rather than charity in one of the neighbouring countries, kindly agreed to submit a survey response. This provides a useful indicator of scale coming from other aid flows. Similar practices were used by the contractors in terms of *hawaladar* selection, but they differed in view of the question of liquidity.

Overall, the scale reported here remains small in comparison to what the market can manage. The recommendations in the report will reflect this – they would be very different with more volume.

2.5 CONCLUSION

The actual and forecast volume of cross-border cash flows into Syria on behalf of humanitarian agencies appears to be at a level that will not have an inadvertently negative impact on the existing system. Experience from other contexts also shows that *hawala* has been used successfully at comparative levels without a problem, so long as the right controls are in place. The challenge remains as to how best to protect humanitarian money from being derived too closely from illicit sources, or diverted to them in the form of direct payments. Da'esh generates a huge amount of income from the sale of various commodities it controls or taxes, and services that are recycling through the system. Aid agencies must understand the financial network and its affiliation to any of this trade so that they can evaluate their appropriate risk threshold.

3. IVTS INSIDE SYRIA: PROCESS AND SYSTEMS

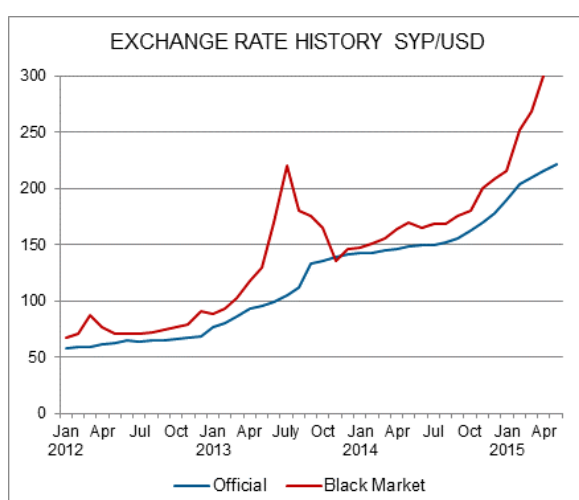
This section aims to help aid workers better engage the available financial service providers on fundamental areas of a money transfer: cost; disbursement method; and accountability. Cost can be divided into the impact of currency fluctuations and varied commissions, while disbursement methods will vary depending on the security situation on the ground and the ease of access to areas in the country. The terms of a draft contract are proposed in the accompanying Annex 2 to address key questions surrounding accountability.

3.1 CURRENCY

Despite obvious variation across the country, a common finding across many NGO needs assessments is that markets have the capacity to respond to a cash injection.⁶⁹ One assessment covering northern Syria noted that: 'Overwhelmingly, the most significant challenge reported by vendors was inconsistent demand creating an inability to forecast restocking and supply'.⁷⁰ Therefore, there are fewer concerns about distorting the market, and more caution around how to manage the risk of vendors taking advantage of the currency situation.

There is no doubt that in recent years Syria's war economy has become increasingly dollarised, as residents in pro-government areas desire the US currency, while the use of the SYP has decreased in rebel-held zones in the north. Reports from Sarmada, which serves the Idleb and Aleppo markets as a transit point from Turkey, suggest that the USD is the primary currency in operation among the bureaux there.

Strict restrictions have long been imposed by the foreign exchange office on the purchase and selling of foreign currencies with respect to the public, which has encouraged people to resort to informal money exchange dealers. Through the use of bullying and intimidation tactics, the now sanctioned CBoS ensures it still has control over USD reserves in Syria, thus the supply and prices. In 2013, for example, the government threatened Syrian traders who price goods in foreign currency with up to ten years in jail, and the CBoS also bought hundreds of millions of dollars from the domestic currency market it now tightly controls, helping to build up depleted reserves for an economy crippled by civil war.



The SYP remains volatile, despite government attempts to stabilise it. In April 2015, the SYP abruptly weakened after rebels captured strategic northern cities in Idleb province. Moreover, the number of currency exchange dealers has predictably increased with the gains to be made in speculations over the devaluation of the national currency.

During the conflict, the CBoS has continued to quote daily rates for the SYP against other currencies. These rates comprise the official central bank rate, a rate applicable for the Commercial Bank of Syria (the largest state-owned bank), a rate at which other banks can

obtain foreign exchange for the purpose of financing imports, and a rate for licenced money exchange

⁶⁹ Most of the assessments shared during the course of the research were confidential.

⁷⁰ International Rescue Committee (2015) 'Assessment Report Idleb and Aleppo, Northern Syria,' (1-13 April), p.5

companies. Outside of these official channels, there is extensive trading on the black market, through networks within Syria and in neighbouring counties, primarily Lebanon, that have developed over many decades as a means to circumnavigate the restrictions of the state system.⁷¹

The gap between the official rate and the black market rate has tended to be 5-10%, although for a short period in late 2013 the cost of USD on the black market was actually lower than the official rate.⁷² The CBoS brought in the special rates for banks and money-changers in July 2013 after the black market rate briefly soared over SYP300 to the USD. By March 2015, the official rate for the SYP was about 75% below its level four years earlier, and the black market rate had depreciated by more than 80%.

أسعار العملات في سورية				نشرة أسعار العملات والذهب في مدينة حلب وريفها ليوم الثلاثاء 28-4-2015	
أسعار العملات في سورية السوق السوداء دمشق وريفها				بتاريخ 28 أبريل 2015 المشاهدات: 900	
بتاريخ 27/04/2015 يوم الاثنين الساعة 12:00 مساءً				أسعار العملات والذهب ليوم الثلاثاء في السوق السوداء بعملة حلب وريفها وفي البنك المركزي	
الدولار الأمريكي مختلف				السوق السوداء	
الأسعار محسوبة حسب سعر الدولار في السوق السوداء بـ 305				العملة : مبيع - شراء	
دولار كندي				الدولار الأمريكي : 328 ل.س - 323 ل.س	
يورو				الليرة التركية : 120 ل.س - 117 ل.س	
جنيه إسترليني				اليورو الأوربي : 352 ل.س - 344 ل.س	
دولار استرالي				الريال السعودي : 84 ل.س - 82 ل.س	
فرنك سويسري					
كرونة سويدية					
اليوان الصيني					
الليرة التركية					

Daily updates on black market currency rates for Damascus and rural surroundings were, until 28 April 2015, published on Facebook.⁷³ Above left is an extract showing rates calculated according to the black market rate of the USD for 27 April. Another website compares black market rates for Aleppo to CBoS rates and the price of gold.⁷⁴ Hama appears to be a new foreign currency hub as it receives money from all over the country, and is reportedly flush with dollars.⁷⁵ This indicates that rates there may be more competitive when negotiated on the black market.

It is important for aid agencies to be aware of these advertised rates in their negotiations because of how integral currency exchange is to cash transfers. For example, all 17 MSBs we interviewed in areas held by JAF stated that they only disburse local currency: USD are not dispensed except through exchange, meaning you first receive the transfer in SYP and then it is possible to exchange into USD – this way the exchange house makes money twice; once on transfer, and once on exchange. All MSBs stated that they have no bank accounts in Turkey and that they receive cash through their Turkish/Syrian ‘super-agents’. It would be advisable to consult with those wholesalers regarding whether they would be flexible on the pay-out of dollars.

3.2 COMMISSION

Clearly another important factor when considering the cost of cross-border cash transfers is the commission. This is paid by the majority of NGOs after the transfer has been completed, and in the cases recorded by the CBR-TWG, the payments are always made in cash. One respondent paid a

⁷¹ David Butter (2015) ‘Syria’s Economy: Picking up the Pieces,’ Chatham House (23 June)

⁷² *Ibid.*

⁷³ https://www.facebook.com/AlaqtasadAlswry/photos_stream?tab=photos_stream.

⁷⁴ Available here: <http://halabnews.net/news/category/اقتصاد>

⁷⁵ Information provided by Dr Rim Turkmani, London School of Economics.

rate of 0.4%, while another paid between 0.05 and 0.07%. These rates show that those three members have a good sense of the market.

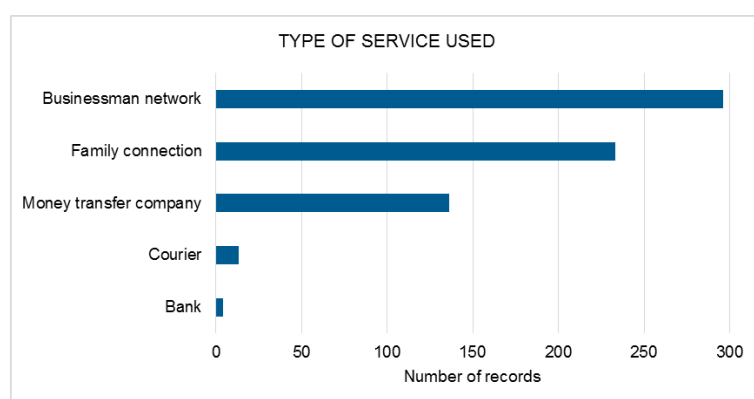
Interviews with individual NGOs, however, revealed that some are not getting good value for money. In a number of instances, commission rates fluctuated wildly between NGOs in Turkey and Lebanon, signifying a lack of coordination. At the most extreme, one NGO's rate was as low as 0.03%, while another was paying 7% for a similar amount to a comparable area. The commissions cited in Iraq ranged more consistently from 1-2.5%, depending upon geographical location in north eastern Syria. This is partly due to more open coordination, and also because a number rely on the same agent.

From the UK, commission rates tend to be higher, in the range of 3-4%. For example, Trust MT, formerly Sahloul and Kamar Trading Services Ltd, are based in London (with bank accounts in Dubai) and take a commission of 3.7% for transfers to all areas in Syria. The benefit of using a registered MSB in a country like the UK is that they are regulated by the Financial Conduct Authority and are obliged to conduct suspicious activity reporting and to safeguard funds. This particular company charges an extra 1% 'premium charge' for bank guarantee with re-imbursement, a service that seems difficult to arrange in Turkey. Generally, cheaper rates can be found in areas like Gaziantep, although there is no official paper trail and it is therefore more difficult to track.

Hawaladars explained that the rate would naturally improve with the guarantee of a longer-term relationship, which involves frequent and sizeable payments. Overall, the commissions paid tended to be substantially lower than commissions cited by people sending and receiving remittances, which makes sense when they are sending much smaller amounts.⁷⁶

3.3 COLLECTION METHODS

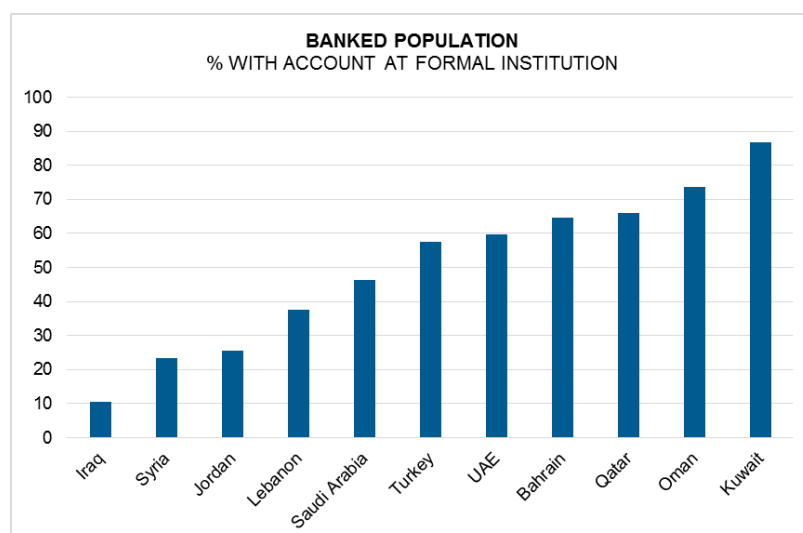
A survey of 300 people on remittance practices conducted by the NRC in southern and central Syria revealed that only a small proportion of remittances are received by bank transfer. The majority of money transfers into Syria are facilitated by a money transfer company, a family connection or through well-connected businessmen.



Before 2011, only 20% of the general population in Syria used formal banking.⁷⁷ Limited access and low trust in the system contributed to the still largely cash-based economy.

⁷⁶ Refer to the analysis from NRC's comprehensive survey, reported in 'Remittance Modalities in Syria' (June, 2015).

⁷⁷ Percentage of population (age 15+) with an account at a formal institution, using data from World Bank (2014) 'Global Financial Development Report 2014 – Financial Inclusion'.



In situations not involving cross-line payments, the NRC survey revealed that funds are most often collected by the recipient at a money agent's office. In rare cases, the pick-up area is in a third location agreed by both the agent and recipient. Most recipients reported that they feel comfortable travelling up to six kilometres to receive funds, and that this option is accessible to women, the elderly, and minors under sixteen.⁷⁸ Especially in cross-line collections or pay-outs where people travel longer distances, some agencies reported to us that the nominated third party collector is most often female, due to protection concerns for men around forced recruitment, harassment and kidnapping at checkpoints or in transit.

Suggestions for how to reduce the risk of the intended beneficiary not receiving the transfer are included in the next chapter.

3.4 ACCOUNTABILITY

The only formal documentation between implementing NGOs and transfer agents to date appears to be a cash receipt (Annex 4), and this is not a requirement in all cases. Several NGOs were in the process of drafting contracts during the research, and it was unclear whether the *hawaladar* will agree to sign. It is our view that wholesale and corporate *hawala* operators will be prepared to provide more documentation than what has so far been provided.

Following several weeks of consultation, which included the review of parallel contracts from Afghanistan, Somalia and Syria, and a dedicated 1-day meeting with specialists within law enforcement, we have mapped out the terms of a sample contract in Annex 2. We encourage aid agencies to talk this through with the providers to get clear agreement on the roles and responsibilities in the partnership.

NGOs and UN agencies consider that the ultimate test of accountability lies with how reliable the agent is in delivering the funds, as agreed. All three of the CBR-TWG members would recommend their agent to other organisations and say their agent has acted honestly and there have never been any issues with IVTS transfers. In our online survey, respondents also gave positive feedback on their agents, indicating the reliability of the current system. One person's comment, "All transferred amounts reach final destination", was an almost universal response across the individual interviews.

⁷⁸ Dean, 'Remittance Modalities in Syria,' NRC

However, the system is only reliable and 'safe' in the wider sense if aid agencies conduct appropriate Know Your Supplier (KYS) due diligence. Simple steps are recommended in Annex 3, and these should be discussed openly in conjunction with the dealers. To date, it does not appear that any such conversations occur between humanitarian staff and the *hawaladars*. Aid agencies appeared to have limited knowledge of the agent's background, or the particular security risks taken on by them and their network in facilitating the money transfer. Our experience is that this information is possible to acquire, so long as there is sufficient trust and a real business proposition presented to them. Again, the specific risks will be considered in more detail in the next chapter.

3.5 CONCLUSION

The interviews revealed a universal view that the *hawala* system operating in Syria today is reliable, judged on the fact the money is delivered in full and within a reasonable timeframe; this was especially the case in contrast to personal cash couriers. While we can attest to the fact that the system does work, and is historically shown as a dependable way to move value in a crisis, the Syrian context is constantly changing, and so any data collected must be updated on a regular basis by people with the appropriate understanding.

What must be emphasised is that most INGOs and UN agencies are making decisions based on limited due diligence, and some are paying inflated commission rates to *hawaladars*. This inevitably means money that could be used to aid beneficiaries is being lost to the intermediaries. It is recommended, therefore, that humanitarian agencies coordinate their efforts better in judging the suitability of a particular *hawala* operation, and the appropriate commission. Third party due diligence is explored in more detail in Chapter 4.

4. RISK ASSESSMENT

There are three main types of risk that are relevant to this assessment: doing more harm than good, fiduciary, and legal. Given the changing nature of international sanctions and fluid regulatory context of the countries immediately surrounding Syria, the legal context is deeply complex, and so requires professional legal advice. Our focus will therefore be on conflict sensitivity and fiduciary risk.

What is Do No Harm?

Do No Harm is an attempt by humanitarian aid and development cooperation to monitor the intended and unintended impact of their activities in order to avoid contributing to instability and violence. Especially in conflict situations, assistance can be used and misused by people who pursue political and military advantage. Understanding how this occurs enables aid agencies to prevent their assistance from being distorted for the promotion of conflict.

The Do No Harm project points to two main areas requiring analysis, summarised in the following statements and questions:

Resource transfers have an impact.

- What resources? How are they distributed?
- Who benefits? Who gains power or control?

Implicit ethical messages are conveyed by how the agency works.

- Who has authority or legitimacy?
- Who is using interactions with you to create legitimacy by appearing to serve the people?
- Whose life or property is more important?

These questions require a thorough understanding of the context in which assistance is provided, which in turn helps to clarify whether aid is inadvertently being diverted to parties to the conflict, and any legally sanctioned entities or individuals.⁷⁹ By confronting these risks, the organisation will be better equipped to comply with the relevant financial sanctions regimes, and avoid doing more harm than good.

What is fiduciary risk?

DFID defines fiduciary risk as the risk that funds:

- are not used for the intended purposes;
- do not achieve value for money; and/or
- are not properly accounted for.

The realisation of fiduciary risk can be due to a variety of factors, including lack of capacity, competency or knowledge; bureaucratic inefficiency; and/or active corruption.⁸⁰ These are similar to the five constraints that were identified by Afghans as limiting the positive impact of UK aid in their country at the 10-year anniversary of NATO's intervention: Conflict and criminality; Corruption; Capacity; Complexity; Competing interests; and Common sense.⁸¹

⁷⁹ These political economy assessments can be found elsewhere. Please contact Beechwood International for more detail.

⁸⁰ DfID (2006) 'How to Note: Managing the Fiduciary Risk associated with Social Cash Transfer Programmes' (Jun)

⁸¹ Edwina Thompson (2012) 'Losing the Ability to Dream: Afghan Perceptions of UK aid,' British & Irish Agencies Afghanistan Group (BAAG)

Donors recognise that fiduciary risk is inherent in both crisis-affected countries, and in programmes involving direct cash transfers to beneficiaries because of the high volume of low-value payments being distributed. But while there will always be some rate of error and fraud, and there is no fail safe solution to operating in fragile contexts, they advise their implementing partners that appropriate due diligence and effective controls will help to mitigate such risk.⁸²

The management of risk related to both conflict sensitivity and fiduciary concerns involves three key stages, which will be addressed in this section: (1) defining; (2) evaluating; and (3) mitigating the risks.

4.1 DEFINING RISK

The first point the Do No Harm project encourages aid agencies to recognise is that all aid programmes involve the transfer of some resources into a resource-scarce environment which, for the local people, represent power and wealth. Hence they can inadvertently contribute to the conflict, frequently changing the balance of power in the community.

The five mechanisms include:

1. Diversion: Theft, allocation effects
2. Distortion: Market effects
3. Distribution: Control of resources
4. Dependency: Undermining local production
5. De-legitimation/Legitimation: Manipulation of persons and groups

The two areas of most relevance to the purpose of this assignment (examining the use of IVTS – and specifically *hawala* – to transfer money into Syria) are: diversion and de-legitimation/legitimation. These are incorporated in the accompanying Risk Matrix.

Donors advise that the best way of mitigating fiduciary risks is to ensure that effective but appropriate controls are built into the programme into the design stage. It is helpful to keep the operation of the programme as simple as possible, particularly by making the criteria used to assess the eligibility of beneficiaries straightforward, while still ensuring that the basic objectives of the programme are being met (taking simplicity to its extreme would allow for no targeting of groups within the population at all).

Once in operation, programmes also need to be monitored and evaluated to provide an early indication of any failure in the controls. And the level of fiduciary risk needs to be reassessed periodically to ensure that it remains within acceptable limits.

A due diligence assessment is the basis on which the design phase should be built. Official bodies that regulate charities⁸³ advise that any due diligence should be proportionate to the:

- General risk of the context
- Nature of the work, including the type of existing and planned activities
- Amount of expenditure involved

⁸² USAID, often the largest official aid donor, also requires that its contractors and grantees have 'effective internal controls' and follow best practices for managing cash disbursements. See Title 22 of the Code of Federal Regulations, s.226.21(b)(6); Office of the Inspector General Country Office in Afghanistan (2011) 'Review of Cash Disbursement Practices of selected USAID/Afghanistan Implementing Partners,' Report No. F-306-11-002-S.

⁸³ For example, the UK's Charity Commission has provided this web resource: 'Charities: how to manage risks when working internationally,' accessed at: <https://www.gov.uk/charities-how-to-manage-risks-when-working-internationally>

A more rigorous exercise, or ‘enhanced due diligence’, is recommended where charities have one or more of the following, as is the case in Syria:

- Complex service delivery arrangements
- High profile or sensitive work
- Operations in a number of geographical locations
- Operations using one or more legal entities or trading subsidiaries
- Restricted funds

4.2 EVALUATING RISK

Almost all INGOs appear to delegate the decision-making on *hawaladar* selection to local partners. The only formal background checks involve screening the name and date of birth of the agent against the global sanctions lists. Selection criteria appears to be predominantly based on the most competitive transaction fees, or trust/pre-existing familiarity with the dealer concerned. This is reflected in the service contracts, which tend to be signed for the transfer fees only.

One INGO explained that the decision-making is handed over altogether because of specific sensitivities around personal security and data protection: “From our side, we have not mapped out these ‘*hawalas*’ that our partners use because we have been concerned about collecting this information; our data security is not strong enough and if it was released, or in the hands of the wrong agent, the *hawalas* could be shut down, and our mechanisms of getting funds to partners inside could be compromised.”

Another interviewee explained that: “all of our agents are working in the grey sector. While they have provided names and personal details for vetting, neither agent is willing to provide further information that would allow more detailed background checks, for example how the funds from the commission are used. Like all banks, they do not operate a 100% transparent system. The security measures in *hawala* systems actually protect our programme and the field officers too. Not using *hawala* would significantly change the nature of our programme and will set in train the need to accept of a whole raft of other risks.”

Fears around security have created literal firewalls between the operations of humanitarian agencies operating in both government- and opposition-controlled areas. This existed even in an INGO operating from all sides cross-border into Syria. Most recognised that this is very problematic, but is necessary for data protection purposes. Syrians were much more open in sharing information. They painted a picture, however, of genuine risk to their lives when dealing with money. One NGO worker who had fled Damascus explained that in the government-controlled areas: “Even if you have dollars in your pocket you can be beaten and put in prison. When you get caught, you don’t pay with your money, you pay with lives – yours and your family”.

The security constraints were reported very differently by Islamic charities operating in opposition areas – we interviewed three in rural Idleb, urban and rural Aleppo and Saraqib who receive funding from Bahrain, Kuwait, Qatar and Saudi Arabia. Combined, their annual operating budgets are USD6.3 million. They claimed that they operate freely, bringing USDs into their areas, but only with the good will of the Islamic-leaning opposition groups: “we have operated for 19 months, and have not lost a single dollar to theft by criminals or extortion by military groups”. Once this is secured, they reportedly do not hinder or interfere with their operations.

Despite this, each of them has decided that with cross-border cash flows, they would organise the transport themselves by taking it physically or arranging a courier. They claimed to avoid *hawaladars* deliberately for confidentiality reasons. One charity explained: “we don’t want them to know our cash

flows and budgets because people talk too much. Once people in Syria know your budget, the more local politics you will be dragged into, with villages asking for bigger grants and projects. So we bring the money in, and exchange it into SYP with the small dealers”.

Another interesting point about diversion was made by several interviewees when discussing the practices of Jabhet Thowar Souria. Allegedly the group was unsuccessful in winning local legitimacy because of its demand for informal taxes, and subsequent militant groups have learned that they must provide services if they are to charge the people fees. This appears to be different only at border points, both cross-line and international, where consistent fees are charged for transiting goods. The rates are usually evaluated based on the value of the load. One recent study indicates that USD600,000 is generated daily in informal taxes on trucks entering Syria from the two main border crossings with Turkey: Bab al-Hawa and Bab al-Salam.⁸⁴

These observations are intended to inform the attached spreadsheet for evaluating risk (refer to the Risk Matrix tool). The assessment is divided into two main parts: optimising value for money, and minimising negative impact. On the basis of all the data collected during this field investigation, it considers the likelihood of specific risks occurring, and the impact if those risks eventuate. The assessment should be read in conjunction with the tables below, which outline possible mitigating steps. The risk before mitigation steps are taken (‘inherent’ risk) is rated, followed by the risk after mitigation steps are taken (‘residual’ risk). Residual Risk means the portion of an original risk or set of risks that remain after mitigating measures have been applied.

4.3 MITIGATING RISK

ACCESS: OPTIMISING VALUE FOR MONEY	
Risk	Suggested mitigation process
1. Most vulnerable under-served	<ul style="list-style-type: none"> Regularly share information with OCHA so that the inter-agency mapping is as timely and accurate as possible to inform individual programming decisions. Designate an international aid worker and Syrian aid worker (relevant to the geographical area) to consult regularly with trusted representatives in the cross-border money transfer business, and share the updates in coordination meetings. In the gap analysis, gauge and monitor the extent of other external support reaching the people (diaspora, local businesses, faith-based channels), and methods. Ensure these are not inadvertently affected by putting too much pressure on them.
2. Disruption due to conflict	<ul style="list-style-type: none"> Develop simple and clear SOPs*, including risk management procedures, with provider on signing the contract. Consider mitigation activities around: <ul style="list-style-type: none"> lost/stolen/destroyed <i>records</i> (e.g. where the provider does not have an electronic platform that can generate daily reports, photograph all manual records of the amounts disbursed to intended beneficiaries and email at the end of each distribution cycle as confirmation) lost/stolen/destroyed <i>money</i> (e.g. safeguarding practices in transit and in situ; emphasis on speed of transfer and distribution; agreement on volume limits – ‘little and often’ vs ‘more and seldom’) severe injury or death of provider (e.g. ensure an alternative point of contact).

⁸⁴ See Rim Turkmani *et al.* (2015) ‘Countering the Logic of the War Economy in Syria: Evidence from three local areas,’ London School of Economics (30 July)

3. Obstruction by government authorities	<ul style="list-style-type: none"> • Understand provider's transfer methods (see section 1: How IVTS works) • Check the domestic regulations of the sending country that relate to those methods (see section 2: Country profiles) • Consider the currency in which payments will be made as this has an impact on applicable sanctions legislation (see section on USD). • Coordinate with other agencies in engaging with regulators to determine the legality of the payment, and find details of any specific or general licence which permits the transaction. • Consider geographic variations in the application of laws (e.g. at certain border points). Refer to field staff to understand the specificities of the border control. • Assign an inter-agency focal point to maintain relationship with local authorities to keep pace with changes to the regulations (maintain an updated contact list for all agencies). • Use most trusted third party to advocate with the relevant information, stating the legal case for providing the assistance (IHL, UNSCRs).
4. Excessive fees and charges	<ul style="list-style-type: none"> • Use best negotiators on your team with a good understanding of how the market operates • Explore collaboration options with other humanitarian agencies to negotiate optimal rates • Stipulate in the contract the strategy for use of currency and inflation • In seeking cost-efficiency, do not always select the lowest bidder; increased internal controls cost money, and 'dirty' cash is cheaper for dealers to move

DO NO HARM: MINIMISING NEGATIVE IMPACT

Risk	Suggested mitigation process
1. Diversion of funds	<ul style="list-style-type: none"> • Conduct and share local-level political economy analysis, and update whenever there are certain triggers (e.g. flash displacement; change in control or management of checkpoints), to inform targeting and risk mitigation strategy. • Conduct due diligence (ref KYS guidance) to check the provider's: <ul style="list-style-type: none"> - beneficial ownership and affiliations - obligation or pressure to pay informal taxes - witting acceptance of goods from a source controlled by a warring party • If using cash courier method, record serial numbers and conduct spot check with beneficiaries on the notes received to avoid laundering someone else's cash. The recording can easily be done using a cash counting machine from the sending country (Turkey, Lebanon, Jordan, Iraq). • Reduce visibility of the distributions/pick-up by staggering the payments, changing location and timing. • Conduct in-depth debrief with field staff and partners post-distribution, and conduct spot monitoring to check beneficiary's: <ul style="list-style-type: none"> - obligation to pay informal taxes to armed groups - voluntary donation of a portion of the transfer to support an armed group • Set up anonymous hotline (voice and text) for reporting suspicious activity without fear of retaliation.

	<ul style="list-style-type: none"> Establish clear and quick reporting mechanism for non-compliance.
2. Facilitation of harmful illicit trade**	<ul style="list-style-type: none"> Conduct due diligence (ref KYS guidance) on the provider's: <ul style="list-style-type: none"> liquidity supply or connections to particular traders that act on behalf of warring and designated parties. Analyse supply chains that interact with your markets, and watch not only for obvious harmful illicit trade – e.g. trafficking in arms, people and antiquities – but also tobacco, staple foods (flour), and transit goods such as ivory.
3. Facilitation of corruption, fraud	<ul style="list-style-type: none"> For staff, follow organisation's internal policy and procedures on preventing financial loss and maintaining high accounting standards. For <i>hawala</i> provider, use reimbursement-only mechanisms that involve payment on confirmation of delivery of cash to the intended recipients. For cash courier, decide with the provider the procedures for liability during transport.
4. Distortions in the local economy	<ul style="list-style-type: none"> Set up shared market monitoring framework per local area, covering: <ul style="list-style-type: none"> supply prices integration with neighbouring country adaptability to changes in the security situation Consider a cash voucher scheme where vendors are selected and advance notice provided to them about expected sales as per the beneficiaries' needs and amounts distributed to allow the supply of sufficient stock; pre-agreed prices are advertised to beneficiaries.
5. Physical security compromised	<ul style="list-style-type: none"> Outline in the contract the responsibilities for transport, handling of funds, provision of security, and data protection. Map the flow of money and identify the key points of insecurity that involve the agent, NGO worker, and intended beneficiary. Evaluate whether it is safer to separate delivery of transfer to beneficiary and monitoring that they received it – i.e. safer to collect from <i>hawala</i>, then be spot checked later, which might reduce risk to everyone and prove more flexible. Ensure currency does not attract more issues for the people. Ensure clear and effective communication of project objectives and selection criteria to the community; blanket distributions where the situation is unclear, but the needs are high. Limit the number of people according to the capacity that the outlet can handle daily, and decide on a set collection period, to avoid overcrowding and any unnecessary travel if the cash is not there.

***Create Standard Operating Procedures (SOPs) in conjunction with your provider on the following areas and division of roles and responsibilities:**

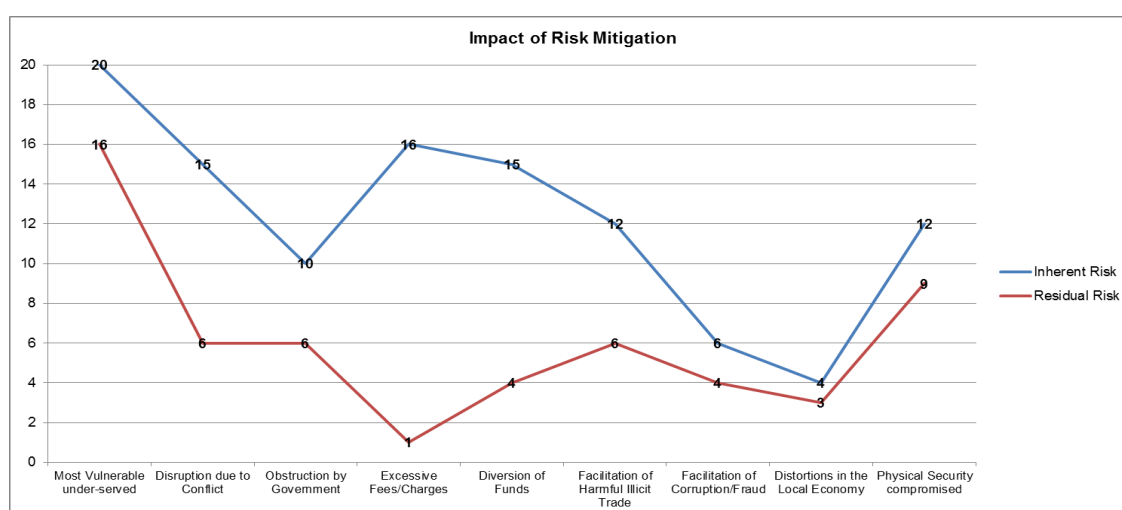
- Currency and exchange rate (i.e. whether it is SYP or foreign currency; SYP pegged to USD, or renegotiated immediately prior to each distribution)
- Commission rates per area and agreement on the conditions where they should be revised
- Monetary limits for individual transactions which reflect: (1) capacity of the money exchange dealer; (2) security situation at the origin and the intended destination of the funds, and; (3) capacity of the recipient to maintain cash holdings on their premises.
- Reimbursement-only policy where the remitter will only pay the service provider after (1) the correspondent service provider has made payment of the agreed amount to the intended recipient, and; (2) the recipient has acknowledged receipt of the funds verbally and in writing.

- Collection period, opening hours, and location
- Issuance and verification of distribution lists
- Reconciliation of lists post-distribution
- Management of an absentee list (this could indicate over time that vulnerable groups, such as elderly, disabled, children find the collection too difficult)
- How to manage delegation of collection either in bulk or per individual/household
- Complaints mechanism to ensure service quality
- Triggers to consider when terminating the relationship, or incurring penalties/suspension period where the terms of agreement are broken (e.g. agreed fees/prices)
- Communication protocol both internally (to ensure any issues are dealt with in a timely way) and externally (to ensure that beneficiaries are aware of the support's origin – i.e. Charity versus authority)

** A relationship with a formal financial institution also provides some measure of comfort about the AML/CTF checks done on the money exchange dealer because banks are mandated to report any suspicious transactions involving client accounts. This measure provides additional oversight over this risk, and also the probity of the dealer.

4.4 CONCLUSION

This chapter has shown that appropriate due diligence and effective controls when engaging IVTS will help to mitigate the risk related to both fiduciary matters and doing more inadvertent harm than good. An example of the impact of risk mitigation can be seen below. As the tool demonstrates, the factors will vary depending on the area.



As with other similar contexts, *hawala* dealers seldom fail to effect payment; we were only informed of instances where payments were delayed or were rendered impossible due to insecurity. Besides the expected high standard of adherence to codes, default risk of loss is eliminated through the 'confirmation-before-payment' or 'reimbursement-only' process. The risk of diversion and inadvertent legitimisation of certain groups is also decreased with a better understanding of the context.

Overall, the interviews with *hawaladars* and MSBs revealed the importance of building a relationship – they are likely to be more honest about what is feasible if there is a strong base of trust. The benefit of using a larger dealer is that they are able to share a much bigger picture of the situation on the ground; the advantage of using a much smaller agent who just operates in one corridor is that they are intricately involved in the local dynamics of that context. Either way, they will know the risks well.

A good indication of whether they are trustworthy in the first place is to conduct a 'Fit and Proper' test. In a country like the UK, regulators use such a test to gauge three key factors about the person: honesty, integrity, and reputation; competence and capability; and financial soundness. In Syria, this would amount to testing their local standing in the community, which would take into account all these factors.

Once this is established, the draft terms of a service contract could be drawn up to talk through with the dealer (see Annex 2). While this may not be signed or backed up by laws that will safeguard an NGO's practices when using an IVTS, it will help to clarify the expectations of each party. The aim should be to keep it as simple as possible, and explain clearly what the requirements are in order to help prevent inadvertent contributions to money laundering and terrorism finance.

5. CONCLUSION AND RECOMMENDATIONS

In light of the crisis context, it is clear that there is no ‘fail safe’ solution to transferring money into Syria. However, improvements in a number of areas related to conflict sensitivity and due diligence should lead to a meaningful increase in financial compliance and optimising value for money, and in turn better access to the most vulnerable people. There are lower risk routes for transferring money safely and securely into Syria, and ultimately the call must reside between the donor and those with the best understanding of the context, where the trade-offs are most easily identified.

Coordination is critical whichever route is taken. Due to the constraints identified in the report, we feel that there is a need for a simple, consistent tool for aid practitioners to apply without delay, and that can be aggregated so that it is used by all stakeholders – this will bring a level of transparency, rigour and flexibility that is missing from current practice.

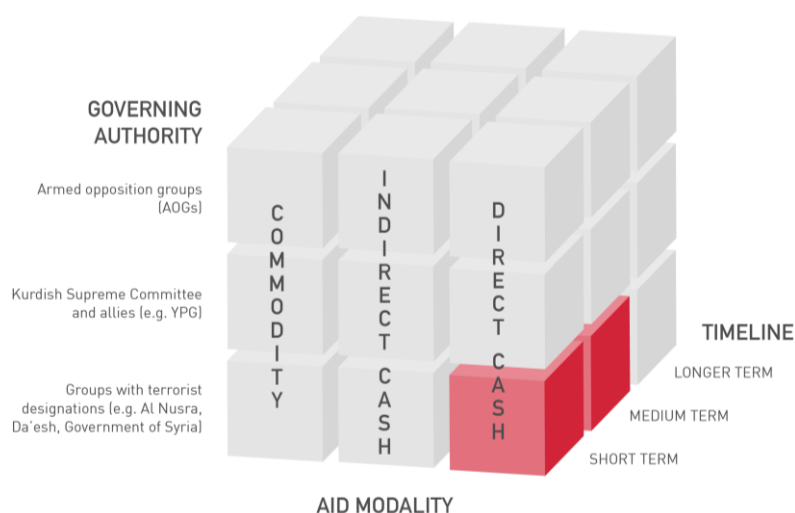
In Chapter 4 we proposed that practitioners should make use of what is intended to be a dynamic tool for evaluating inherent and residual risks related to engaging IVTS (the Risk Matrix and accompanying mitigating factors). This can be shared between all agencies without concerns about data protection. Clearly, the factors will vary in significance in terms of probability and impact depending on the area, and it is the operational staff with access to Syria who will add the required granularity to the assessment.

To ensure a coherent humanitarian response, the strategic perspective should not be overlooked in the process of managing risk at the local level. An initial discussion is required among the right technical and operational people, supported by appropriate management staff, to help frame a strategic start point. We offer the following concept to guide that conversation in the early stages of programme design.

5.1 ENSURING A COHERENT APPROACH

There are three dimensions to be considered in such a discussion about the delivery of tangible humanitarian aid (rather than services):

- 1) the type of **governing authority** in the region being addressed – recognition that a particular group or groups will be governing the space in which an aid agency is operating, and that it is necessary to negotiate or know the agency’s limits depending on their respect for IHL, and whether financial sanctions prevent direct engagement;
- 2) the most appropriate type of **aid modality** – in this instance, the three main modalities are: *commodity*; *indirect cash* (commodity voucher or community infrastructure project); or *direct cash* (unconditional transfer; cash-for-work); and
- 3) the **timeframe** – whether the intended action or decision is primarily impacting the short-, medium- or long term needs of a population.



The starting point is necessarily unique to the particular team of aid workers, and adapted to each local context. The following includes two **hypothetical examples**:

- Da'esh is demanding 40% of all Western aid in its areas of operation. An INGO decides that it will not operate there because the level of diversion of funds and legitimacy afforded to the group is too great. Instead, the team congregates to discuss how it could operate in other areas which they suspect are vulnerable to Da'esh's expansion (i.e. contested areas, where they are accustomed to filling a vacuum). If they consider the poverty levels of two such areas – Talbeeseh and Houleh in the northern countryside of Homs – they may look at starting up an urgent Cash-for-Work programme to engage the demographic that is most vulnerable to recruitment by Da'esh.

For example, employ military-age youth in longer-term agricultural or other livelihoods projects, and thus eliminate the economic needs that drive them to sign up. Da'esh pays competitive salaries for Syrian fighters – around USD400/month, and civil servants – around USD200/month, plus their family members – USD50-100 per wife or child. Therefore any Cash-for-Work programme needs to take into account these factors. Alternatively, the group might consider engaging local traders, and creating a six-month cash voucher programme, supporting people's basic needs, and injecting stimulus into markets trading goods sourced from legitimate suppliers, such as local farms. Or they might find that the most appropriate mode of support is the delivery of food assistance.

- It seems that local staff can only gain inconsistent access to several districts in rural Aleppo, but strong local councils exist. To date, the agency's aid has been distributed close to the border and around the city of Aleppo. In the discussion, the group considers conducting training sessions with council members in the rural areas for the dissemination of unconditional cash support to the community. This requires several weeks of planning, but due to the capacity of the *hawaladars* in the area, it is possible to reach a significant number of households in need of assistance, who have otherwise been left out of distributions.

AOGs without a terrorist designation demand small fees at checkpoints between the areas of operation, but guarantee safe transit for the goods or cash. It is decided that these fees are to be included in the commission charged by the agency's *hawaladar*, and so he takes on the responsibility of any changes due to the allocated contingency costs. Another option the group might explore in the discussion is to fund small-scale infrastructure projects advertised by local councils in the area through Facebook pages. This would involve less risk exposure

due to bulk transfers, some of which could be made into the bank accounts of suppliers in Turkey. On further assessment, it appears that the councils in the rural areas have more legitimacy or 'right to lead' than those in the cities, where it is more difficult to represent the interests of everyone, and they are not accustomed to this type of informal governance. Therefore coordinating with them on a cash voucher or transfer programme appears feasible.

These examples are simply meant to illustrate the type of conversation that can be had when both grounded in the specific local context and framed by a more strategic discussion, and are offered in the same spirit as the funding guidelines of ECHO on the *Use of Cash and Vouchers in Humanitarian Crises*: 'The final decision on the best modality requires a case-by-case approach, calculating the trade-offs at the local level.'⁸⁵

The reason why it is so important to focus on the timeframe is because there appears to have been delays in the response so far, and due to risk aversion, plans continue to be for very small scale support. While pilot programmes are certainly always recommended, it is inefficient for all agencies to be conducting them concurrently, when this could otherwise be coordinated, at least per donor and area, and scale reached more quickly. During the research, only one agency mentioned that they had developed a cash contingency plan to cater for emergency situations, such as flash displacements and besieged areas; this approach had not been tested or discussed in detail with the financial service providers. This is something that should be explored in tandem with longer-term programming.

5.2 RECOMMENDATIONS

The following recommendations are necessarily general, but reinforce the conclusion that a more deliberately due diligent and conflict-sensitive approach to decisions on the use of IVTS is called for. They also highlight the central role of donor government departments in managing the risks of transferring cash or value to the Syrian people at this time. It is not enough for the development agencies to ensure that humanitarian money continues to flow safely to the intended destination; donors must also draw deeply on their diplomatic, forensic and intelligence capabilities to stay abreast of a rapidly changing and complex environment.

- **Aid agencies should review who their providers are, and identify whether they are retail, wholesale, or corporate *hawaladars*.** It is not sufficient to take on trust the personal details provided by the agent concerned and check these against sanctions compliance screening software. If they are a retail dealer based in Gaziantep or Erbil, for example, agencies should also investigate whether there are others up the chain controlling the network, based in commercial centres nearby. Financial controllers should engage with the wholesaler and discuss their plans; these should include options for contingency cash programmes that meet the needs of people who are frequently displaced and therefore difficult to reach with sustained support.
- **Financial service providers taking on so much responsibility must be treated more like a partner than a supplier.** Building relationships will help to create a better mutual understanding of the needs and constraints in the environment. More creative monitoring systems can also be developed this way, along with ways to achieve more geographic coverage than what is assumed as feasible by INGOs today. A clear Memorandum of Understanding or SOPs should be developed with the partners, outlining the details of the

⁸⁵ DG ECHO Funding Guidelines on the Use of Cash and Vouchers in Humanitarian Crises (Ref. Ares(2013)317021 - 11/03/2013), p.15

agreement between the parties. It should include success indicators, mitigating and managing risk procedures, monitoring mechanisms, and agreed terms for terminating the arrangement.

- **The costs of commissioning or conducting enhanced due diligence (EDD) in such a complex context are a proper use of charitable funds, so should be an accepted line item in the budgets of Syrian response programmes, and reviewed regularly so that they remain proportionate to the risks involved.** Donors might consider pooling funds to create a central KYS/KYC processor for its partners, which can check remitter and recipient data against the various sanction lists, and deeper sources available from the law enforcement communities in the donor countries. If through EDD the less competitively priced dealers are revealed as more expensive due to better internal controls, donors should notify partners that this is an acceptable trade-off. However, it is likely that with better coordination and diligence, more competitive overall pricing structures can be negotiated.
- **Once EDD has been achieved, humanitarian agencies should prepare a clear outline of their internal due diligence processes, which will help in their discussions with the banks.** This will go towards helping the banks understand how charities operate in high-risk jurisdictions, and provide 'compliance assurance'. Agencies should also consult advice prepared for them on behalf of legal experts. There are examples of public advice,⁸⁶ but we were also shown some individual agencies' advice provided by external lawyers. This should be shared with other agencies through coordination platforms to avoid duplication and maximise the benefit.
- **Donors and heads of UN agencies should appoint a specialist team or high-level interlocutor with the relevant authorities to ensure that humanitarian agencies are informed of any changes to the regulations, and well-supported in any necessary advocacy for such changes. This requires a sensitive and honest dialogue.** Compliance with the regulations of neighbouring countries is complex and difficult due to the dynamic environment, involving four different regulatory regimes (Turkey, Jordan, Lebanon, Iraq).
- **Coordination platforms like the CBR-TWG are essential, and must be attended by sufficient numbers of Syrian staff to ensure the discussion is grounded in the various local contexts.** Members should agree to a shared risk management approach, which has benefited from consultation with key stakeholders (*hawaladars*, relevant government officials, donors, UN agencies, local councils). To improve coverage, agencies should use platforms like this and the cluster system to engage collectively in a transparent and rigorous risk analysis of specific regions for all humanitarian interventions (cash and in-kind), and jointly determine where responsibilities lie for the resource transfer, which in this case is cash via IVTS. To improve responsiveness, the group could develop contingency plans for certain types of scenarios affecting short-, medium- and longer-term programming. Again, it is important to prepare for flash displacements of the population caused by heightened insecurity.
- **We recommend an urgent regional meeting with technical experts to share lessons and ideas in as open and interactive a way as possible.** There are insights to be shared from programmes which are ongoing, such as UNRWA's extensive cash support to Palestinian refugees, and regional interventions in support of Syrian refugees (where they are using the latest technologies for beneficiary identification, i.e. UNHCR Jordan⁸⁷), and historical

⁸⁶ British Bankers' Association, Disasters Emergency Committee and Freshfields Bruckhaus Deringer LLP (2013) 'Getting aid to Syria: Sanctions issues for banks and humanitarian agencies' (Dec)

⁸⁷ UNHCR (2015) 'Biometric Cash Assistance,' accessed at: http://innovation.unhcr.org/labs_post/cash-assistance.

examples, such as in Syria before the war with programmes like WFP's use of electronic cash vouchers to support to Iraqi refugees as an alternative to food distributions. Donors must be present because, while working through partners may provide distance between them and the fiduciary risks, ultimately, the risks – including reputational – are still borne by the benefactor of the funds.⁸⁸

⁸⁸ DFID, 'Managing Fiduciary Risk when Providing Financial Aid,' p.8