



# Invisible Sanctions: How over-compliance limits humanitarian work on Syria

Challenges of Fund Transfer for Non-Profit Organizations Working on Syria



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IMPACT - Civil Society Research and Development e.V.

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**IMPACT**

**Civil Society Research  
and Development**

Published by:

IMPACT - Civil Society Research and Development e.V

Keithstraße 10 ,

10787 Berlin

Not for Sale.

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## Acknowledgements

I would like to thank for their help and assistance throughout the process of this research the team of IMPACT, and more especially Hozan Ibrahim and Jelnar Ahmad, and Jade Kakhaleh from the network WE EXIST.

I also thank Dr. Erica Moret for her significant contributions to the research and recommendations, as well as editing this paper. And Dr. Zaki Mehchy for the final review and providing valuable input to the research

I finally also want to show my appreciation for the organization "Syrian Development and Relief Collective" (CODSSY) to have made available its report "Jusqu'à quand sera t'il défendu d'aider les civils syriens".

This research was largely supported by We Exist Network, in outreach and coordination.

## Executive summary and Main Findings of the Research

NGOs working on Syria and/ or operating within the country have been confronted with rising obstacles since 2014 in their dealings with banks and financial institutions at different levels. This has been ongoing until the current time. Any mention of Syria is a red flag for banks and financial institutions.

The report follows the different phases of process involved in payment mechanisms and financial operations faced by NGOs and INGOs, from opening the bank account, passing through transfer operations, to the consequences of these problems. The research provides a global analysis of the financial operations and challenges faced by NGOs (Syrian and non-Syrian), INGOs and state and EU agencies starting from European countries to those neighboring Syria (Turkey, Lebanon and Kurdistan Iraq) as well as Syria itself.

Alongside these challenges in the financial circuit, the report analyses key problems encountered by humanitarian organizations posed by the various sanctions regimes in place and particularly those imposed by the US and their extraterritorial nature.

The research notes that NGOs and INGOs working on and / or operating in Syria have faced ever-increasing difficulties and some have had to cancel projects because they could not keep up with the paperwork required by donors. Unfortunately, despite various global initiatives and conferences that have taken place in recent years between various actors (NGOs and INGOs, states officials, and banking employees) to improve and facilitate the financial operations and transfers of NGOs working on or in Syria, there has been no significant progress made to date; frequently quite the opposite.

While larger NGOs and INGOs can sustain some of the difficulties encountered in the obstacles and challenges posed by delays and blocking of financial operations (often because of the larger flows of money involved and larger compliance teams), more modest and smaller entities have suffered more. This said, this situation has not lessened the transfer of risks to the Syrian NGOs operating in the field in Syria or in neighbouring countries; quite on the opposite. As such, smaller humanitarian organizations are disproportionately affected by bank de-risking processes.

In conclusion, better provision of guidance and support by sanctions-enforcing bodies is welcome, but clearly not enough to bypass the structural problems faced by humanitarian NGOs and INGOs operating in Syria or in neighbouring countries, or more generally in conflict zones. The challenges faced by Humanitarian NGOs and INGOs are not simply obstacles to try to overcome on a case by case basis, but are structural in nature and rooted in the financial system and the current international sanctions framework.

## Added value to the literature

This paper constitutes an added value to the existing literature on the field regarding financial limitations and banking challenges faced by NGOs (Syrian and non-Syrian alike) and sanctions, anti-terror financial and banking laws and restrictions, and hosting countries' regulations.

Firstly, contrary to most previous reports,<sup>1</sup> this research is rooted in recent political evolutions in Syria. Physical areas outside of the domination of the Government of Syria have been reduced considerably in size in these past few years, especially after the successive military conquests of Eastern Ghouta and Daraa Province by pro-governmental forces in April and July 2018 respectively. In addition to this, cross border humanitarian assistance became limited since January 2020 with only two remaining. Moreover, working conditions have become increasingly difficult in Idlib since the group Hayat Tahrir el-Sham took control of large segments of the region after eliminating all other opposition armed forces in the area in January 2019, while the north-east dominated by the Syrian Democratic Forces remains under the constant threat of a Turkish invasion. This situation created a new dynamic among humanitarian INGOs and NGOs, leading to a mounting number of them attempting to register in Damascus and work within the boundaries of Syria's governmental controlled areas. The Syrian government compels the vast majority of humanitarian aid to be delivered through the Syrian Arab Red Crescent (SARC) and to a lesser extent through networks of organizations that are deemed close to the authorities or not challenging it. Damascus has generally refused to authorize aid organizations and agencies planning to cross from Damascus into non-government-controlled territory, since the beginning of the uprising in 2011. At the same time, the UN agencies predominantly operate under stringent Syrian government control from its main centre in Damascus.

Similarly, political and economic changes occurred in the neighbouring countries of Syria, where a number of Syrian NGOs and INGOs are based and from which they often coordinate their operations within the country. The deepening authoritarian and repressive atmosphere in Turkey against Syrian NGOs; the official closure of the Yaroubiyah crossing for cross-border aid in Kurdistan Iraq in January 2020, and the latest financial crisis in Lebanon since October 2019 have continuous long lasting consequences for humanitarian NGOs and INGOs' activities and financial operations.

Secondly, the research is based on numerous and diverse interviews (NGOs, INGOs, bank employees and state and EU officials and agencies), alongside a review of previous reports. This allowed for a comprehensive and global analysis of the financial operations and challenges faced by NGOs (Syrian and non-Syrian), INGOs and state and EU agencies ranging from European countries to those in the Syrian neighborhood (Turkey, Lebanon, Kurdistan

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1 - One recent report on compliance dialogue was published in May 2020 : Justin Walker (2020), «Risk Management Principles Guide for Sending Humanitarian Funds into Syria and Similar High-Risk Jurisdictions ».



Iraq) and finally Syria. This differs from previous reports, which target particular aspects of the financial circuit<sup>2</sup> or a particular country.<sup>3</sup>

Finally, the reports shines light on the process of risk transfer from state agencies and large INGOs to smaller and more modest humanitarian NGOs operating in Syria or neighboring countries. This has been a growing concern of a large number of humanitarian NGOs, which do not often have the resources to meet the various compliance and due diligence requirements.

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2 - Stuart Gordon, Alice Robinson, Harry Goulding and Rawaad Mahyub (2018), « The impact of bank de-risking on the humanitarian response to the Syrian crisis », *Humanitarian Forum, HPG and the London School of Economics and Political Science (LSE)*, <https://bit.ly/2z3T3Jl>; Justine Walker (2016), « Study on Humanitarian Impact of Syria-Related Unilateral Restrictive Measures », *UN Economic and Social Commission for Western Asia and Office of the UN Resident Coordinator in the Syrian Arab Republic*, <https://bit.ly/2Z648oh>; Stuart Gordon and Sherine El Taraboulsi-McCarthy (2018), « Counter-terrorism, bank de-risking and humanitarian response: a path forward Key findings from four case studies », *Humanitarian Policy Group*, <https://bit.ly/2WZyQgf>; Care International (2019), « Using Hawala to Conduct Cash Programming in Syria », <https://bit.ly/3fQy5Pb>

3 - Tom Keatinge and Florence Keen (2017), « Humanitarian Action and Non-state Armed Groups: The Impact of Banking Restrictions on UK NGOs », *International Security Department and International Law Programme*, <https://bit.ly/2X5TcVk>; Syrian Development and Relief Collective (CODSSY) (2019), « Is Help Allowed? How French financial institutions hinder humanitarian action in Syria », <https://bit.ly/3dMgiXB>; Syrian Development and Relief Collective (CODSSY), (2019), « Jusqu'à quand sera-t-il défendu d'aider les civils Syriens? », pdf.

## Recommendations

### TO STATES AND THE EUROPEAN UNION

- To Continue involving civil society initiatives from Syria and the Syrian diaspora and local European NGOs working in the region in the discussions on compliance, de-risking and financial regulations alongside with INGOs and banks, as they deal with much of the burden of these regulations.
- To have clearer information (in terms of access and /or understanding) on what types of humanitarian assistance is permitted and facilitate exemption processes towards sanctions and provision of licences for Humanitarian and Relief INGOs and ONGs operating on and within Syria[1].
- To provide free or inexpensive legal advice and risk management guidance from governments, regional organisations and the UN.
- To help the hawala system to reach more transparency and regulations when they are the unique possible instrument to transfer funds into areas facing critical humanitarian and relief needs.
- To establish a bank / Financial institution with only duty to manage transactions for Humanitarian NGOs and INGOs operating or covering conflict zones, without fearing the consequences of financial dynamics and regime of sanctions. This bank could be created and funded by various international actors and donors.[3]
- To coordinate with European and US fiscal authorities for the dissemination of funds and regulation of tracking and due-diligence;
- To take measures in the framework of the various sanctions' regimes to truly alleviate the risk of sanctions harming the Syrian popular classes and the productive sectors of the economy (agriculture and manufacturing), also to lessen the burden on NGOs and banks;

### TO BANKS

- To protect urgently the remaining correspondent banking channels working with Syria to ensure that humanitarian assistance can continue.[2]
- To reach an agreement with the banks in coordination with INGOs and NGOs in order to provide them a unified and standard due diligence and compliance system on the types of information that are required to facilitate transfer of funds and other financial operations and procedures. A clear guidance on payment mechanisms, including correspondent banking channels, extent of due diligence required, how to deal with the common problems (such as having Syria in the name etc.);

- To invest in more R&D into fintech solutions and AI regarding improved software and tech-based innovations to improve and simplify compliance processes;
- To further research into how to allow for greater transparency in informal payment mechanisms, such as hawala systems and remittance networks;

### **TO NEIGHBOURING STATES**

- To ease registration of new NGOs and branches to diaspora and European NGOs;
- To introduce regulations helping NGOs to better comply with the local laws without fear of being prosecuted, such as registering their activities in the host countries but also in Syria, and registering NGO employees and contractors;

### **ENGAGING MULTI-STAKEHOLDERS DIALOGUE**

- To continue and step up dialogue across sectors to seek new ways of mitigating key challenges and better sharing of risk;
- To improve coordination and sharing of best-practice between the various ongoing initiatives already in place and to monitor and evaluate uptake of recommendations by governments and other actors;
- To have more advices on how to navigate multiple sanctions regimes and wider regulation when various are in place;

### **RESEARCH & TRAINING**

- To analyze the unintended humanitarian consequences of various sanctions regimes in order to better understand them through ongoing research as well as collective coordination and evaluation;
- To have more research is also warranted on international legal aspects of modern comprehensive sanctions, including IHL and Human Rights, which can be jeopardised through the need for humanitarian actors to avoid providing assistance to certain groups in breach of the Humanitarian Principle;

## Methodology

### Objective:

Advocacy and informing - The outcomes of the research will be useful for awareness-raising on the issues facing organisations working on the Syrian crisis and other conflict areas, and give concrete policy recommendations to better tackle the problem and share best practices. A special emphasis will be put on avoiding any harm to non-governmental organisations (NGOs) and banks by exposing any sensitive or misleading information.

### Target:

People working in NGOs affected by sanctions and wider financial regulations, including anti-money laundering (AML) and counter-terrorist financing (CFT).

### Problematic:

Financial limitations and banking challenges faced by NGOs (Syrian and non-Syrian alike) and INGOs regarding sanctions, anti-terror financial and banking laws and restrictions, and hosting countries' regulations.

### Geographical Scope of Research:

Turkey, Lebanon, Kurdistan Iraq, INGOS and NGOs (Syrian and non-Syrian) in some European countries working on Syria and within the country.

### Research Methodology:

In addition to the secondary data accessed through open-source and privately-shared resources available on the matter, primary data was also gathered through extensive interviews with around 50 individuals from NGOs, INGOs, EU and member states officials, and experts in banking and sanctions. A standardised survey was also distributed and answered to around twenty Syrian diaspora NGOs based in various countries (Lebanon, Turkey, Kurdistan Iraq, Germany, France, Great Britain, Belgium). The majority of interviews were conducted over skype and on the phone (more than 30), while the rest were carried out in emails, especially for the NGOs which answered the survey. NGOs and INGOs based in Syria have been interviewed as well.

Many interviews with organizations and EU and member states have been conducted on the condition of anonymity.

## Introduction:

# Syria - Humanitarian Assistance and Current Challenges

Since the beginning of the uprising in mid-March 2011, more than 500,000 Syrians have lost their lives. Over half of Syria's pre-war population has been displaced, either within the country or across borders. More than 11 million people need humanitarian assistance. Civilians are the primary victims of the conflict in the country and over 85% of all Syrians now live below the poverty line. Estimates of the cost of rebuilding the country have ranged from \$250 billion to more than 500 billion,<sup>4</sup> while GDP dwindled from \$60.2 billion in 2010 to around \$ USD 21.6 billion in 2019.<sup>5</sup>

The socio-economic situation in the country is also catastrophic. The Syrian Pound has continued to suffer massive depreciation against the value of the US dollar almost doubling between January and May 2020 and therefore fuelling even more inflation.<sup>6</sup> The erosion of purchasing power in Syria has been dramatic, with estimates reaching a diminution of 93% in May 2020 since 2010.<sup>7</sup> The prices of food and beverage increased by 32.5 times since 2010, while the prices of 'all items' such as general goods and services inflated by almost 27 times its level in that same period. Nearly half of that increase occurred during the first five months of 2020, especially in May.<sup>8</sup> The World Food Programme stated in May 2020 that in the past six months, 1.4 million more Syrians lost sure access to adequate food - bringing the total number of "food insecure" people in Syria to 9.3 million.<sup>9</sup>

Alongside this situation, years of war have weakened the healthcare system, due to the destruction of many health facilities (including deliberate targeting of hospitals, ambulances and health professionals), a shrinking budget, flight of doctors and nurses from the country, and sanctions, leaving the country with significant shortfalls in medicine, medical supplies and staff. Only 64% of hospitals and 52% of primary healthcare centres across Syria were reported to be fully functional at the end of 2019, while up to 70% of the healthcare workforce has left the country.<sup>10</sup>

4 - World Bank (2017), "The Toll of War. The economic and social consequences of the conflict in Syria", <https://bit.ly/2z3zxx9>; Ibrahim Hamidi (2020), "530 billion dollars and the destruction of 40% of the infrastructure... Syria's losses in 9 years" (in Arabic), *al-Sharq al-Awsat*, <https://bit.ly/3c7yoC4>

5 - Syrian Center for Policy Research (SCPR), (2020), "Justice to Transcend Conflict", <https://bit.ly/3dA3iE1>

6 - The value of one US dollar in Syrian Pound reached at the beginning of June 2020 SYP. Throughout the 2000s, the value of the Syrian pound remained relatively stable, with an average exchange rate of 52 SYP to the US dollar. In mid-March 2011, it was officially trading at 47 to the dollar. Since then, its value has nearly constantly decreased, while the difference between its official rate and black market rate has continually increased

7 - Shaam Times (2020), "Economist: We Suffer From a Shortage of Financial Resources and the Coming Days are more Difficult" (in Arabic), <https://bit.ly/2ZJezyG>

8 - Zachy Mehchi (2020), "On the edge of starvation: New alarming Consumer Price Index estimates for Syria", *London School of Economics*, <https://bit.ly/2Y2rjh7>

9 - Cornish, Chloe and al-Omar, Asmaa (2020), "Syria's children 'go to bed hungry' as prices soar", *Financial Times*, <https://on.ft.com/3eeNOGc>

10 - United Nations (2019), "Humanitarian Needs Overview, Syrian Arab Republic", <https://bit.ly/2vktxOJ>

### Effects of COVID 19 on Syria

The eruption of COVID-19 pandemic in mid-end March 2020 in the country has intensified the socio-economic problems in the country. Alongside whole sectors of the economy paralysed by the effects of the pandemic COVID-19 such as tourism, transport or construction, salaries in the private sector were reduced of at least by 25 percent at the end of March 2020.<sup>11</sup> In May 2020, the Ministry of Internal Trade and Consumer Protection, stated that the number of companies that were established and registered has reached 102 companies, between January and end of April, a decrease of 64 percent, compared to the same period in 2019.<sup>12</sup>

In addition to this, an important element to consider is how the global nature of the pandemic negatively affects the international economy as a whole, and hence external funds into Syria. Most notably, this includes remittances, which amounted to around 1.62 billion dollars in 2019.<sup>13</sup> Some estimates stated that daily remittances were expected to diminish by 50%, from USD 4,5 millions prior the first COVID-19 measures in March 2020 to around USD 2 million in April.<sup>14</sup> The amount of remittances sent by Syrians will most probably drop relatively as a result of the widespread reductions and stagnation in sectors of the economy and temporary border closures from Europe through Turkey to the Gulf countries. Given that remittances have become one of the most important sources of national income and helped boost internal consumption, a severe decline in income deriving from remittances will entail grave socio-economic consequences. Many families and communities depend on these funds for daily consumption and everyday expenses.

11 - Economy 2 Day (2020), "During Corona's era, Private Companies Cut Employee Salaries by 25 Percent" (in Arabic), <https://bit.ly/2ZCj0ee>

12 - Suleiman, Ali Mahmoud, (2020), "64% Decrease in the Creation of Companies as a Result of Corona" (in Arabic), *Al-Watan*, <https://bit.ly/36nTXgo>

13 - World Bank (2019), "Personal remittances, received (current US\$)", <https://bit.ly/3dB04AN>

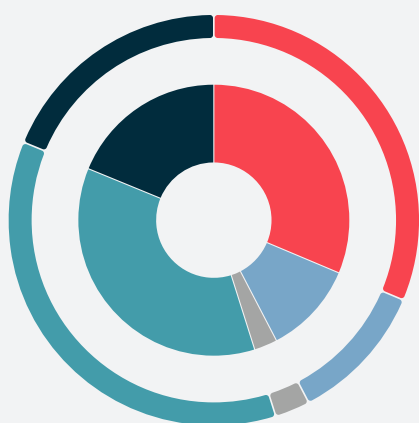
14 - With the beginning of Ramadan on 23 April, an increase in remittances was however expected towards Syria. A money transfer agency called Haram company in Syria for example announced in May 2020 a 20% increase in remittances in comparison to the year before. *Al-Watan* (2020), "Operations manager at "Al Haram" company: External remittances increased by 20 percent, and the largest percentage came from the UAE and Kuwait" (in Arabic), <https://bit.ly/2TQT0lr>

In this context, humanitarian assistance to Syria is crucial with billions of US dollars spent since the beginning of the uprising in mid-March 2011. The main contributors are:

- EU and its member states, which have provided over \$18,3 billion (€17 billion) since the beginning of the crisis (including nearly \$7,7 billion (€6.79 billion)<sup>15</sup> for 2019 and \$1,94 billion (€1.8 billion) for 2020 pledged by the EU and its Member States at the Brussels III Conference for Syria in March 2019 to support populations in Syria and Syrians in neighbouring countries.<sup>16</sup>
- The US has spent nearly \$8.1 billion in humanitarian assistance for those displaced inside Syria and the region since the start of the crisis.<sup>17</sup>
- UAE foreign assistance to Syria reached \$977 million between 2012 and the beginning of 2019 according to the UAE Ministry of Foreign Affairs and International Cooperation and UAE AID.<sup>18</sup>

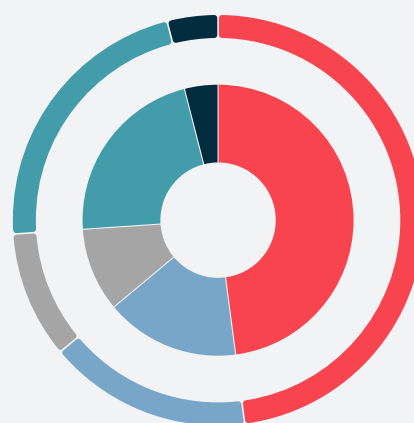
In March 2019, a call for funds and donations in Brussels III Conference on ‘Supporting the future of Syria and the region’ gathering more than 50 countries’ representatives raised \$6.97 billion – compared to \$4.4 billion in 2018<sup>19</sup> and \$6 billion in 2017.<sup>20</sup> International financial institutions (IFIs) and governments also announced \$21.2 billion in loans for 2018–2020. The UN High Commissioner for Refugees, Filippo Grandi, warned that “needs are becoming more, not less severe” for Syrian refugees and host communities in neighbouring countries.<sup>21</sup>

Channels of delivery of humanitarian aid July 2019



**31.34%** UN agencies  
**11.08%** NGOs  
**2.74%** ICRC  
**36.04%** Other channels  
**18.80%** No details available

Channels of delivery of humanitarian aid 2018



**48%** Other channels  
**16%** No details available  
**10%** UN agencies  
**22%** NGOs  
**4%** Partner country government

15 - €2.57 billion from the EU budget managed by the European Commission and €4.22 billion from EU Member States.

16 - European Civil Protection and Humanitarian Aid Operations (2019), “Syria crisis: EU mobilises renewed international support, record overall pledge of €8.3 billion for 2019 and beyond”, <https://bit.ly/2X0QPa>

17 - US Department of State (2020), “US relations with Syria”, <https://bit.ly/3cEeuQq>

18 - Emirates News Agency, “UAE Aid to Syria Reaches AED3.59 billion from 2012-2019”, 25 January 2019, <https://bit.ly/2m96lby>

19 - In that year, contributions exceeded pledges by reaching \$6 billion.

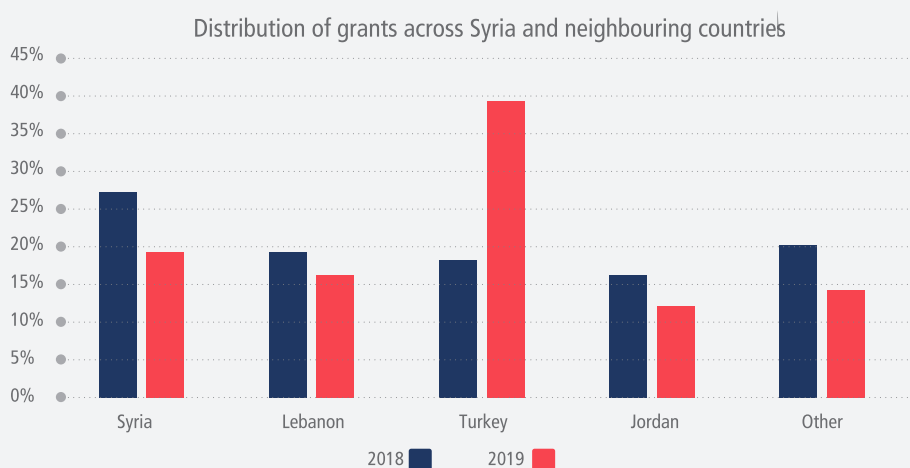
20 - Similarly, in 2017, contributions exceeded pledges by reaching \$7.5 billion.

21 - UN News (2019), “UN welcomes ‘record’ Brussels conference pledge of nearly \$7 billion to support Syrians”, <https://bit.ly/2T6tWgs>; Report Seven (2019), “Supporting Syria and the region: Post-Brussels conference financial tracking”, *Relief Web*, <https://bit.ly/3dPeAVi>

For the year 2018, nearly half of the total US\$6 billion in grants reported for 2018 were directed to Syria (27%, \$1.6 billion)<sup>22</sup> and Lebanon (19%, \$1.1 billion). Turkey and Jordan obtained 18% and 16% of total contributions (\$1.1 billion and \$946 million) respectively. For 2019, of the total \$6.4 billion in grant contributions reported, 39% were channelled to Turkey (\$2.5 billion). Almost a fifth of the funding was transmitted to Syria (19%, \$1.2 billion), closely followed by Lebanon, which obtained 16% of the total (\$1 billion). Jordan received \$770 million (12%).<sup>23</sup>

INGOs offices in neighbouring countries were initially used as a base for operations to corresponding parts of Syria: Turkey for the North and West; Iraq for the North East; Lebanon for central parts of the country; and Jordan for south and central areas.

Channels of humanitarian deliveries are also an important consideration in the Syrian context. In 2018, nearly half (48%, amounting to US\$2.6 billion) of the total grants contributions with information detailing the channel of delivery (\$5.4 billion) were channelled through UN agencies in the first instance; 16% (\$853 million) was conveyed through NGOs, while 10% (US\$560 million) were transmitted through partner country governments. Approximately \$1.2 billion (22%) of grant contributions were conducted through other channels of delivery, including country-based humanitarian pooled funds, International Financial Institutions (IFI) or donor government entities.<sup>24</sup> By July 2019, 31,34% (\$2.0 billion) of the total grants contributed were transmitted through UN agencies and 11,08% (\$707 million) through NGOs, while 2,74% (\$175 million) went through the International Red Cross and Red Crescent Movement. Grant contributions directed through other channels of delivery, including country-based humanitarian pooled funds, IFIs or donor government entities, represented around 36,04% (\$2.3 billion) of total grants. There are no details available on the channels of delivery for \$1.2 billion (18,8 %) of grant contributions in 2019.<sup>25</sup>



22 - Almost a quarter of the total grants to Syria were provided by Germany (23%, US\$368 million). The next five largest donors combined provided more than half of all grants: the UK (US\$311 million), the EU institutions (US\$227 million), Norway (US\$130 million), Canada (US\$101 million) and Japan (US\$91 million).

23 - Report Eight (2019), "Supporting Syria and the region: Post-Brussels conference financial tracking", *Relief Web*, <https://bit.ly/3dPeAVi>

24 - Report Seven (2019), "Supporting Syria and the region: Post-Brussels conference financial tracking", *Relief Web*, <https://bit.ly/3dPeAVi>

25 - Report Eight, "Supporting Syria and the region: Post-Brussels conference financial tracking", *Relief Web*, September 2019, <https://bit.ly/2Z53IOW>



INGOs and UN agencies also play an important role within the country in providing local jobs and offering subcontracting to Syrian companies. Segments of the economy that are not subjected to sanctions – such as transport (excluding the designated Syrian Arab Airlines), agribusiness, hotels, and pharmaceuticals – frequently survive through their reliance on the revenues generated from their involvement in supporting international humanitarian assistance.<sup>26</sup>

In this context of widescale humanitarian assistance and activities, NGOs and humanitarian organisations working in support of the Syrian population have increased considerably in these past few years, especially outside the country or in areas not under the control of the Government of Syria. Scope for working inside the country has diminished, however, particularly for smaller NGOs.

Syria's neighbouring countries, such as Turkey, Lebanon and Jordan, have challenging regulatory arrangements and financial systems, while state authorities have increasingly begun to limit the activities of NGOs, or simply close them.<sup>27</sup> At the same time, they have substantially extended bureaucratic processes to which humanitarian organisations are subject.<sup>28</sup> For example, Turkish regulations prohibits NGOs based in Turkey from operating in regions in the Autonomous Administration of North and East Syria, which Ankara's government considers as governed by the forbidden Kurdistan Workers' Party (PKK) through its sister party in Syria, the Democratic Union Party (known by its acronym PYD). Furthermore, several local and international NGOs have been closed down in Turkey by the authorities for a number of other cited reasons.

Direct bank-to-bank transfers to Syria or neighbouring countries via the global correspondent bank network have also been hampered. The payment of local staff and suppliers has reportedly become more difficult, as well as the management and running of programmes, while increasing significantly their costs because of the additional regulations.<sup>29</sup> In a study conducted by a London School of Economics' team in 2018, it was estimated that almost a third of all funds destined for Syria was held in a nearly continuous state of limbo because of obstructions in the correspondent banking system. Financial Action Task Force's promotion of stricter regulations on financial transactions did not lead to more transparency, but instead encouraged NGOs working in Syria to use cash transfers or the hawala system.<sup>30</sup>

Alongside this situation, the risk of being cut off from the international financial system as a result of the US' extra-territorial sanctions is a risk that very few banks want to take. This leads to a situation in which banks generally over comply with sanctions, by demanding nearly systematically much more conditions to be filled by clients (whether individuals or organisations) in order to be on the safe side and prevent any risks for the institution as argued by an employee of a compliance service in a European private bank. This latter added that "any mention of Syria directly raises the red flag".<sup>31</sup>

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26 - Thomas Abgrall (2019), "International NGOs rush to Damascus ", *Commerce du Levant*, <https://bit.ly/2WYb4Bj>

27 - According to an EU state official active on the Syrian file, NGOs and INGOs based in Jordan faced serious difficulties from the banks in 2014 and 2015. They for example did not authorise them to receive funds or blocked them in their local bank accounts. EU officials had to intervene directly to the banks to put an end to these restrictions.

28 - Stuart Gordon, Alice Robinson, Harry Goulding and Rawaad Mahyub (2018), "The impact of bank de-risking on the humanitarian response to the Syrian crisis", *Humanitarian Forum, HPG and the London School of Economics and Political Science (LSE)*, <https://bit.ly/2z3T3Jl>

29 - Stuart Gordon, Alice Robinson, Harry Goulding and Rawaad Mahyub (2018), "The impact of bank de-risking on the humanitarian response to the Syrian crisis", *Humanitarian Forum, HPG and the London School of Economics and Political Science (LSE)*, <https://bit.ly/2z3T3Jl>

30 - Stuart Gordon, Alice Robinson, Harry Goulding and Rawaad Mahyub (2018), "The impact of bank de-risking on the humanitarian response to the Syrian crisis", *Humanitarian Forum, HPG and the London School of Economics and Political Science (LSE)*, <https://bit.ly/2z3T3Jl>

31 - Interview of an employee of a compliance service in a European private bank, May 2020

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## The Issue of Financial restrictions and “de-risking”

Humanitarian organisations, NGOs and other Non-Profit Organisations (NPO) have increasingly suffered in the past two decades in light of financial restrictions and obstacles, resulting in negative consequences for their activities and programmes. Some of these processes have been called “de-risking”, referring to the practice of financial institutions putting an end to relationships with, and closing the accounts of, clients considered to be “high risk”, notably because of perceived risks of money laundering, terrorist financing or being a designated entity or individual on an international sanctions list, while offering limited returns in the form of profitability. In this context, individuals and organisations operating in high risk countries may find themselves affected by de-risking, even if their financial transactions are legitimate. Rather than retaining and continuing to manage these risky clients, financial institutions very often decide to end the relationship altogether, thereby reducing their own risk exposure while leaving clients “unbanked”.<sup>32</sup> The same also occurs with entire high risk jurisdictions, whereby financial institutions frequently opt to withdraw their operations in, or in relation to, the country, or cease them altogether; sometimes leaving them unbanked as well.

The main causes of these increasing regulations and restrictions were the terrorist attacks of 11 September 2001 against targets in the United States and, more generally, the subsequent global counterterrorism finance campaign instigated by the US administration of President George W. Bush as part of the so-called “war on terror”. This campaign, and entities such as the Financial Action Task Force (FATF),<sup>33</sup> classified NGOs as being “particularly vulnerable” to the wrongdoings of terrorist financiers, generating worldwide scrutiny and close inquiry by the sectors’ operations and finances.<sup>34</sup> These dynamics were accompanied by general regulatory pressures implemented by the banking industry after the global crisis in 2008. For its part, the European Union (EU) adopted the first anti-money laundering Directive (AMLD) in 1990 in order to avert the misuse of the financial system in the objective of money laundering. This legislation has been continuously strengthened in order to abate risks in relation to money laundering and terrorist financing. More recently, European legislation on AML and terrorist financing have been significantly strengthened, with two consecutive reforms being ratified since 2015. The latest revision of the AMLD, the fifth AMLD, was adopted in April 2018 and needed to be transposed at national level by January 2020.<sup>35</sup>

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32 - Tracey Durner and Liat Shetret (2015), “Bank De-risking and its Effects on Financial Inclusion, an explorative study”, *Global Center on Cooperative Security and Oxfam*, <https://bit.ly/3fQZ5Ow>

33 - The Financial Action Task Force (FATF) is an intergovernmental organisation, created in 1989 at the behest of the G7 and with its headquarters in Paris, which designs and promotes policies and standards to combat financial crime. Recommendations created by the FATF target money laundering, terrorist financing, and other threats to the global financial system. (FATF (2020), “Who We are?”, <https://www.fatf-gafi.org/about/>).

34 - Tom Keatinge and Florence Keen (2017), “Humanitarian Action and Non-state Armed Groups : The Impact of Banking Restrictions on UK NGOs”, *International Security Department and International Law Programme*, <https://bit.ly/2X5TcVk>

35 - European Commission (2020), “Anti-money laundering and counter terrorist financing”, <https://bit.ly/2Axoe0B>

In 2016, Maina Kiai, United Nations Special Rapporteur on the Rights to Freedom of Peaceful Assembly and of Association, stated that counter-terrorism measures contributed to the trends of shrinking space for civil society or the non-profit sector. He added more specifically about FATF's Recommendation 8 that it "was being used by States inadvertently, and sometimes maliciously, to restrict funding flows to Non Profit Organizations".<sup>36</sup> Prior to this, another report of Maina Kiai criticised FATF's recommendations for creating a "wave of new restrictions worldwide on funding for civil society" and as a "serious, disproportionate and unfair threat to those who have no connection with terrorism, including civil society organizations."<sup>37</sup> Other UN Special Rapporteurs have also raised questions over unintended consequences of sanctions in different contexts.<sup>38</sup>

In addition to this, financial institutions such as the World Bank and others have expressed concerns that de-risking and decreased banking access make it more difficult for humanitarian organisations and NGOs to transfer funds to areas that are perceived as high-risk.<sup>39</sup> In 2016, the UK's House of Commons International Development Committee, in its report entitled "The World Humanitarian Summit: priorities for reform", similarly criticised the unintended consequences of counterterrorism legislation on NGOs and their operations. In the report, a letter of two former US Secretaries of State for International Development was included that expressed concerns about the ability of NGOs to operate within, and close to, Syria because of these negative effects.<sup>40</sup> In January 2020, a group leaders of ten INGOs denounced the obstacles exerted by counterterrorism regulations on humanitarian action, while the needs of the populations affected by the violence have not decreased.<sup>41</sup>

Another key problem encountered by humanitarian organisations is posed by international sanctions, particularly in contexts when the measures apply to entire sectors (such as finance and energy); when multiple sanctions regime overlap in complex ways and particularly in the case of US sanctions and their extraterritorial nature. As such, Syria, which ticks all these boxes, represents one of the strictest and most complex collective sanctions regimes in recent history.

The overlapping nature of the various sanction regimes in place against Syria, and especially those of the US, have created considerable doubt and uncertainty about how to comply with the panoply of measures in place. A humanitarian actor failing to comply with the various types of sanctions could lead to criminal or regulatory violations of financial. Humanitarian activities may need to abide by sanctions, whether accomplished by INGOs and NGOs, including members of staff, regardless of whether they are funded by states or not.<sup>42</sup>

Only the US employs secondary or extraterritorial sanctions, which are conceived to target individuals and entities from third countries. The US has fined many financial institutions in this past decade on the basis of their being

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36 - OHCHR (2016), « Statement by Maina Kiai, United Nations Special Rapporteur on the rights to freedom of peaceful assembly and of association, at the Financial Action Task Force Consultation and Dialogue Meeting with Non-Profit Organisations held on 18 April 2016 », <https://bit.ly/3640GfB>

37 - UN Nations General Assembly (2014), "Rights to freedom of peaceful assembly and of association", <https://bit.ly/2X0POux>

38 - United Nations Human Rights (2014), "Special Rapporteur on the negative impact of the unilateral coercive measures on the enjoyment of human rights", <https://bit.ly/36Nnxwg>; See UN Digital Library (2020), <https://bit.ly/2A53jIE>

39 - The World Bank and the Association of Certified Anti-Money Laundering Specialists (2017), "Stakeholder Dialogue on De-risking: Supporting Financial Access for Humanitarian Organizations and Charities", <https://bit.ly/3bETasp>

40 - House of Commons International Development Committee (2016), "The World Humanitarian Summit: priorities for reform Fifth Report of Session 2015–16", <https://bit.ly/2Zb1PjR>

41 - Vincent Basquin, president of Première urgence internationale; Philippe de Botton, president of Médecins du monde; Philippe Jahshan, président de Coordination Sud ; Rachid Lahlou, president of Secours islamique France ; Philippe Lévêque, General Director of Care France ; Christian Lombard, directeur et cofondateur of Triangle génération humanitaire; Pierre Micheletti, president of Action contre la faim; Manuel Patrouillard, general director of Handicap international ; Antoine Peigney, president of Solidarités international; Patrick Verbruggen, directeur et cofondateur of Triangle génération humanitaire. (Première Urgence Internationale (2020), "Les Lois antiterroristes exposent les ONG humanitaires à la paralysie", <https://bit.ly/2X0vutl>).

42 - Justin Walker (2020), "Risk Management Principles Guide for Sending Humanitarian Funds into Syria and Similar High-Risk Jurisdictions"

in breach of secondary sanctions, including around a dozen mostly European international.<sup>43</sup> The sole fact that transactions between foreign parties were made using the US Dollar also suffices to categorise the US claim of jurisdiction.

Many humanitarian NGOs operating in conflict zones such as Syria, Somalia, the Palestinian Occupied Territories and Yemen have found themselves in this higher-risk category, and were consequently disproportionately affected by de-risking processes.<sup>44</sup> These processes have had particular repercussions on correspondent banking services,<sup>45</sup> which have an important role in the mechanisms and flows of funding for NGOs, especially across borders. Many humanitarian NGOs rely heavily on correspondent banking services to transfer aid-related funds for programme implementation and payment of staff abroad. Given the differences in regulatory norms existing between states, correspondent banks need to be certain that they are not facilitating the transfer of illicit funds from, or to, senders and recipients whose identities are unknown. They may, therefore, decide to put an end to relations with banks acting in a higher-risk environment to protect themselves against this likelihood, thus fracturing the chain.<sup>46</sup> As corresponding banking channels are more vulnerable to fines and costs, they have instituted even more rigorous measures.

Any severing of mechanisms and flows of funding risk altering the ability of humanitarian organisations and NGOs to furnish essential services and pay suppliers and staff salaries, with clear negative consequences. Financial restrictions on humanitarian organisations and NGOs have also had other negative effects, such as delays in wire transfers, requests for unusual additional documentation, increased fees and account closures.<sup>47</sup>

Dynamics of de-risking have notably led to the closure of orphanages in Lebanon and Sudan; the end of relief for persecuted minorities in Burma and the termination of school programmes for students in Afghanistan as a result of direct severing of funds or in indirect ways, according to the Charity & Security Network report.<sup>48</sup> Syria has not been an exception regarding processes of “de-risking” and financial restrictions.

Banks, exporters, transport companies and insurance companies have, for example, nearly completely refused to conduct business in Syria. Moreover, the lack of clarity of the various regimes of sanctions imposed on Syria has led risk-adverse banks, insurance and shipping companies, and sellers of humanitarian goods, to preferably not engage with anyone or anything related to Syria (known more widely as the “chilling effect”).

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43 - The largest settlement was for example in 2014 with BNP Paribas, which had to disburse nearly \$9 billions to U.S. federal and state authorities for violating the International Emergency Economic Powers Act and the Trading with the Enemy Act. OFAC said that BNP Paribas allegedly processed thousands of transactions to or through U.S. financial institutions that involved countries, entities or individuals that are blacklisted by the U.S. up to 2012. The sanctions programmes involved Sudan, Iran and Cuba, according to the settlement agreement published by OFAC in 2014. It was also banned from conducting certain U.S. dollar transactions for a year.

44 - Skype interview with Andrea Hall, Policy Counsel at Charity & Security Network, March 2020; Stuart Gordon and Sherine El Taraboulsi-McCarthy (2018), “Counter-terrorism, bank de-risking and humanitarian response: a path forward Key findings from four case studies”, *Humanitarian Policy Group*, <https://bit.ly/2WZyQgf>

45 - Correspondent banks are used when two banks, located in different countries, do not have an established financial relationship. The intermediary/correspondent bank is a third party used by the sending bank to facilitate international transfers and settlements of funds in the absence of such a relationship.

46 - Tom Keatinge and Florence Keen (2017), “Humanitarian Action and Non-state Armed Groups : The Impact of Banking Restrictions on UK NGOs”, *International Security Department and International Law Programme*, <https://bit.ly/2X5TcVk>

47 - Rob Kuznia (2017), “Scrutiny over terrorism funding hampers charitable work in ravaged countries”, *Washington Post*, <https://wapo.st/2X32X6z>

48 - Cited in Rob Kuznia (2017), “Scrutiny over terrorism funding hampers charitable work in ravaged countries”, *Washington Post*, <https://wapo.st/2X32X6z>

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## Brief History of Sanctions Against Syria

Syria has been under US sanctions since 1979, after it was placed on a US list of state sponsors of terrorism “because of its continuing policies in supporting terrorism, its former occupation of Lebanon, pursuing weapons of mass destruction and missile programs, and undermining U.S. and international efforts to stabilize Iraq,” according to the US Department of State.<sup>49</sup>

Washington imposed additional administrative sanctions against Syria in 1986, mentioning evidence of direct Syrian involvement in an attempt to blow up an Israeli airplane. In December 2003, former US President George W. Bush signed the Syria Accountability and Lebanese Sovereignty Restoration Act into law, which introduced additional sanctions against Syria. The new restrictions, which started in May 2004, included freezing specific Syrian assets targeted by the sanctions in US banks,<sup>50</sup> banning commercial flights between Syria and the US, and restricting the movement of Syrian diplomats in the US. US exports to Syria, except food and medicine for humanitarian purposes, were also forbidden.

Following the beginning of the Syrian uprising in mid-March 2011, the US<sup>51</sup> and EU<sup>52</sup> levied new sanctions against Syrian targets from May 2011, which included measures levied against individuals and entities as well as sectoral bans. These measures were supplemented by targeted sanctions imposed by United Nations (UN), other countries and regional organisations, including Japan, Canada, Australia, Switzerland, Norway and Turkey and the League of Arab States. Key members of the political, military and security bodies have been targeted as well as business people and investors who emerged during the war and with affiliations to Damascus (by acting as frontmen for those connected to the ruling strata and/or participating in various of their businesses).

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49 - Being on a US list of state sponsors of terrorism does not necessarily mean that the country stops trading with other states.

50 - The exact wording is: “Block transactions in any property in which the Government of Syria has any interest, by any person, or with respect to any property, subject to the jurisdiction of the United States.” (Congress (2003), “Syria Accountability and Lebanese Sovereignty Restoration Act of 2003”, <https://bit.ly/2yQTd7u>)

51 - US Department of State, (2020), “Syria Sanctions”, <https://bit.ly/3ddbv1n>

52 - Council of European Union (2020), “Syria: Sanctions against the regime extended by one year”, <https://bit.ly/2XadSMS>

The sectoral sanctions target various economic sectors such as oil, electricity, information technology, and banking, among others.<sup>53</sup> The most significant Syrian banks (all the public banks) are sanctioned by many actors, among them the US (which also sanctioned two important Syrian private banks Cham Bank SA and Syria International Islamic Bank) and the EU. Various prohibitions exist in 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.<sup>54</sup> In addition, the export of power turbines and their spare parts to Syria are forbidden from the US and EU, as well as the provision of telecommunications equipment or the import of Syrian oil products.

All sanctions regimes in place against Syria have exemptions and exceptions in place that allow for the continued trade in agricultural, pharmaceutical and other non-sensitive goods. Damascus still trades with dozens of states and, as such, can theoretically import nearly any product it requires from other countries.<sup>55</sup> Nevertheless, the general set of sanctions complicates this reality, especially regarding products characterised as “dual use goods”.<sup>56</sup>

On December 20 2019, US President Donald Trump signed into law the Caesar Syria Civilian Protection Act, so named after the Syrian military photographer-codenamed “Caesar”-who defected in 2013, leaking tens of thousands of graphic images of detainees tortured to death in Syrian Government prisons.<sup>57</sup> There are serious probabilities that the Caesar Bill’s sanctions measures might increase difficulties or the fear to deal with Syria.<sup>58</sup> The Caesar Bill allows the US president to punish any government or private entity seen to help the Syrian Government and groups and entities linked to it, or to contribute to the reconstruction of Syria.<sup>59</sup> The US president can also sanction any international company or individual that invests in Syria’s energy, aviation, construction or engineering sectors, as well as anyone who lends funds to the Government of Syria.

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53 - Russia’s Tempbank company was, for instance, blacklisted in 2014 for providing millions of dollars to the Central Bank of Syria and to Sytrol, both of which are under US sanctions. (The Syria Report (2020), “The Caesar Act: Meaningful Long-Term Consequences, Less Important Short-Term Impact”, <https://bit.ly/2LsJRkO>)

54 - Justine Walker (2016), “Study on Humanitarian Impact of Syria-Related Unilateral Restrictive Measures”, *UN Economic and Social Commission for Western Asia and Office of the UN Resident Coordinator in the Syrian Arab Republic*, <https://bit.ly/2Z648oh>, p.13

55 - The Syria Report (2019), “Where We Stand on the Syria Sanctions”, <https://bit.ly/2Ly6BA0>

56 - The very broad definition of dual-use goods, meaning goods that can be used for both peaceful and military purposes, is particularly problematic on a humanitarian front, as it includes pipes, water pumps, spare parts for electrical generators, and industrial machinery and many kinds of essential construction equipment. Specific licenses are needed for every transaction involving such goods, resulting in added costs, financing difficulties and long processing delays.

57 - The bill is the result of nearly four years of advocacy by the Coalition for a Democratic Syria, a US-based organisation comprising Americans for a Free Syria, the Syrian American Council, Syrian Christians for Peace and the Syrian Emergency Task Force. The Caesar Bill is however the most significant set of measures taken by Washington against the Syrian Government and its allies in Syria.

58 - Congress.Gov (2019), “H.R.31 - Caesar Syria Civilian Protection Act of 2019”, <https://bit.ly/2WY63QX>

59 - Section 102 - Sanctions with respect to foreign persons that engage in certain transactions, including persons and entities involve in article (E) “knowingly, directly or indirectly, provides significant construction or engineering services to the Government of Syria”.

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## Licencing Frameworks in Syria sanctions

In theory, all sanctions regimes (including those of a multi-lateral or autonomous nature) permit the continued trade in essential goods and allow for humanitarian activities in Syria. In practice, however, the permissible licencing frameworks can be complicated, unclear and confusing, and costs associated with ensuring compliance can be prohibitively high for many organisations (for profit and not-for-profit, alike). This is particularly the case in light of the fact that global sanctions practice is increasingly characterised by multiple, overlapping sanctions regimes which are not planned, enacted or enforced collectively.<sup>60</sup>

By way of background, OFAC implements and enforces US sanctions and the US Commerce Department is responsible for questions on the exports of goods. OFAC issues three types of licences in relation to Syria (a general licence and specific licences relating to the North-West and North-East of the country). A general licence is in place for the UN and specialised agencies, including for grantees (in part because much of the UN's activity traverses US financial system). US-AID's activities are covered by the general licence, including for the payment of employees, contractors and grantees. In relation to the specific regional licences, significant reporting and record-keeping is required by OFAC.<sup>61</sup>

In the case of the EU, restrictive measures are established in through a Common Foreign and Security Policy (CFSP) Decision (enforced at the member state level and including arms embargos and travel bans) and Council Regulations (which directly bind EU citizens and business and cover trade and financial restrictions, including asset freezes). Licencing exemptions are in place to allow for humanitarian activities to be carried out. These are based on self-assessment by NGOs and others, and do not require an authorisation. The exemption depends on the wording in the EU Council Regulation establishing the applicable sanctions regimes. Examples of what can be considered as "humanitarian aid" are often included in such EU Council Regulations. In contrast, derogations are subject to authorisation by the EU member state's competent authority. The most common derogations refer to the possibility to release funds of, or make economic resources available to, designated persons. Derogations may also be included in relation to humanitarian assistance. These derogations are often accompanied by strict conditions which the national authorities in charge of assessing the requests need to verify.<sup>62</sup>

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60 - Dr Erica Moret, personal communication, 25 May 2020.

61 - Dr Erica Moret, personal communication, 25 May 2020.

62 - Dr Erica Moret, personal communication, 25 May 2020.



## Hawala system

An alternative for many NGOs and INGOs has been engagement, despite risks, with the informal financial sector (mainly the hawala system) in Syria. Hawala brokers may be registered by the authorities but are more usually not. A study conducted in 2015 by the Norwegian Refugee Council “established that various Informal Value Transfer Systems (IVTS) are used, to the exclusion of the formal banking sector” and added that in non-government controlled areas of Syria, where “major humanitarian needs persist, unregistered hawalas are being used to cover NGOs’ operational costs and pay their suppliers, and represent the only potentially (and partially) scalable cash-out facility”.<sup>63</sup> Another report conducted in 2016 by Justine Walker for UN ESCWA reached similar conclusions stating that “INGOs interviewed for this study reported that the only viable way to transfer money to an increasingly large number of their projects operating across Syria is via informal non-bank networks”.<sup>64</sup>

### Hawala System

“The hawala system is one of the International Financial Transfer systems that functions under different names in various regions of the world. The hawala system is an informal channel for transferring funds from one location to another through service providers, known as hawaladars. The vast majority of the Hawala transactions are remittances sent by emigrant workers living in a “developed” country to their home country, generally a “developing” country.”<sup>65</sup>

Previous research has demonstrated problems and difficulties encountered by humanitarian INGOs and NGOs working on Syria, notably funds held between correspondent and recipient banks for specific periods and banks, or leading to situations where entities had to re-organise their programming priorities to concentrate activities on regions considered as less contentious or simply ending potential projects as banks blocked or closed their account.<sup>66</sup> For example, a survey conducted from January to March 2018 by the Syrian Development and Relief

63 - Norwegian Refugee Council (2015), “Remittances to Syria, What Works, Where and How”, <https://bit.ly/2T6Tel6>, p.2

64 - Justine Walker (2016), “Study on Humanitarian Impact of Syria-Related Unilateral Restrictive Measures”, *UN Economic and Social Commission for Western Asia and Office of the UN Resident Coordinator in the Syrian Arab Republic*, <https://bit.ly/2Z648oh>, pp.15-16

65 - Mohammed El-Qorchi (2002), “The Hawala System”, *IMF*, Volume 39, Number 4, <https://bit.ly/2WYcmfD>

66 - See Sue Eckert with Kay Guinane and Andrea Hall (2017), “Financial Access for Nonprofit Organizations: An Evidence Base for Policy Action”, *Charity & Security Network*, <https://bit.ly/2T6iKA7>; Tess Johnson (2016), “Does De-Risking Hinder NGOs and Humanitarian Relief?”, *Center for Financial Inclusion*, <https://bit.ly/2yZZ8XJ>; Stuart Gordon, Alice Robinson, Harry Goulding and Rawaad Mahyub (2018), “The impact of bank de-risking on the humanitarian response to the Syrian crisis”, *Humanitarian Forum, HPG and the London School of Economics and Political Science (LSE)*, <https://bit.ly/2z3T3JI>



Collective (CODSSY) and three of its member associations (ASML/Syria,<sup>67</sup> Initiative for a New Syria and Women Now for Development<sup>68</sup>), reported that 96% of the 25 Franco-Syrian associations interviewed encountered banking difficulties, including 72% of the organisations interviewed which reported facing challenges collecting funds and transferring funds abroad, while 80% of the organisations interviewed for the report had been denied financial services and 44% were victims of bank closures.<sup>69</sup> CODSSY carried out complementary analysis to the previous one to determine the evolution of the relationships that Franco-Syrian associations have with their banks one year after.<sup>70</sup>

Alongside this situation, difficulties surrounding transparency over the source and destination of transfers through the Hawala networks results in problems for authorities and banks in identifying their role in the economies of receiving and sending states, as well as their role in funding illegal activities, criminal networks and terrorist organisations. It can also contribute in the facilitation of smuggling of funds for illicit transactions and objectives, such as arms purchases and smuggling of antiquities and oil. These transfers have often been used in funding warring parties, including terrorist entities.<sup>71</sup>

Since 2019, some INGOs have started using the Amanacard<sup>72</sup> in some regions of the North West of Syria to transfer funds to local NGOs as an alternative to Hawalas. The card permits governments and charities to distribute money to paid workers, local businesses or health and education facilities.<sup>73</sup> Amanacard is a digital platform that “helps points of fixed value move between accounts to mirror actual purchases of goods and services”, explains Dr Edwina Thompson. An article published in February 2020 explains the process of transferring the money through the Amanacard:

“Account holders still have a physical bank card, but it can only be used once a secure digital account (via a mobile phone app) is created and verified by the company’s on-the-ground team. Digital transactions are confirmed by electronic signatures between two parties - eliminating the fraud that can occur from traditional hand-written, paper-based alternatives.”<sup>74</sup>

This means of transferring money in Syria is however still limited to certain areas of the North West, outside of the Syrian Government control.

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67 - An NGO working on Medias, See their website : <https://asmlsyria.com>

68 - An NGO working on Women’s rights. See their website <https://women-now.org/our-history/>

69 - Syrian Development and Relief Collective (CODSSY) (2019), “Is Help Allowed? How French financial institutions hinder humanitarian action in Syria”, <https://bit.ly/3dMgiXB>

70 - Syrian Development and Relief Collective (CODSSY), (2019), “Jusqu’à quand sera-t-il défendu d’aider les civils Syriens?”, pdf.

71 - Mohammad al-jsem and Omar al-Obaid (2019), “The Hawala Market in Syria Mechanisms and Impacts on the Economy”, in Salam Said editor, *Local Economies in Syria Divisions and Dependencies*, (Friedrich-Ebert-Stiftung, Germany, Berlin), <https://bit.ly/2X77qGJ>

72 - See here for details <https://www.amanacard.com/what-we-do>

73 - Mark Ludlow (2020), “How to get money into a war zone”, <https://bit.ly/2LAaR1G>

74 - Mark Ludlow (2020), “How to get money into a war zone”, <https://bit.ly/2LAaR1G>

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## What future for NGOs in Syria?

Depending on the three geographical areas Lebanon, Kurdistan Iraq and Lebanon, payment channels into/within Syria work differently (Hawala, banks, money transfer companies or the Turkish Post (known as the Posta ve Telgraf Teşkilatı or its acronym PTT)).<sup>75</sup>

Three modalities have typically been used for the humanitarian response in Syria since the onset of the conflict (regular programming; crossline; cross-border). Since 2012, most NGOs have been operating on a “cross-border” basis in opposition-controlled areas, and have been delivering humanitarian assistance through Turkey, Iraq, Jordan, and Lebanon. Over the course of the past year, cross-border assistance remains key to meeting needs in Syria’s non-government controlled North-West and a mixture of cross-border and crossline modalities dominate in the North-East. Government-controlled areas are currently served through cross-border and crossline aid and programming from Damascus.<sup>76</sup>

The UN Security Council has sought to adopt measures over recent years to try to guarantee the supply of humanitarian assistance in areas not controlled by the Government of Syria. Several Security Council Resolutions authorise cross-border and cross-line operations with or without the permission of the Syrian Government (UNSCR 2191 (December 2014); UNSCR 2139 (February 2014) and UNSCR 2165 (July 2014).

This latter resolution is renewed each year for a period of one year. However in January 2020, the UN Security Council decided that cross-border aid will continue to be delivered through Bab al-Salam and Bab al-Hawa crossings in Turkey only (excluding Al Yarubiyah and Al-Ramtha on Syria’s borders with Iraq and Jordan, through which deliveries have moved since 2014) and only for a period of six months, instead of one year.<sup>77</sup> The Syrian Government’s ally, Moscow, insisted on coordinating all humanitarian operations with Damascus, especially as some of these border areas officially saw the partial or full return of the authority of the Syrian Government.

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75 - Dr Erica Moret, personal communication, 29 May 2020.

76 - Dr Erica Moret, personal communication, 29 May 2020.

77 - United Nations (2020), “Avoiding Midnight Deadline, Security Council Extends Authorization of Cross-Border Aid Delivery to Syria, Adopting Resolution 2504 (2020) by Recorded Vote”, <https://bit.ly/361o5z0>

## History of the Syria Cross-border Aid

The UN Security Council -with the consensus of its 15 members- adopted Resolution 2165 in 2014, allowing humanitarian assistance to be delivered to civilians outside government- controlled areas through four border crossings in southern, eastern and northern Syria after notifying the Syrian Government. This enabled humanitarian partners, particularly Syrian organisations, to expand and support humanitarian assistance across border and conflict lines. The Syria Cross-border Humanitarian Fund (SCHF) is a multi-donor Country Based Pooled Fund (CBPF) established in 2014 following UN Security Resolutions 2139 and 2165.<sup>78</sup> Eligible Syria Cross-border Humanitarian Fund (SCHF) recipients include Syrian and international NGOs, the Red Cross and Red Crescent Movements and UN agencies. The architecture of the humanitarian assistance system was initially the “Whole of Syria” approach, involving complementary “hubs” in Amman, Gaziantep, Erbil, Beirut and Damascus. Coordination among the hubs have been a challenge, however.<sup>79</sup> The cross-border resolution 2449 is an essential legal framework for this regional approach. Regional coordination is located in the Jordanian capital Amman, so far, but Amman’s role as a cross-border hub has continuously been diminishing since the Syrian Government recaptured its southern territory bordering Jordan in the summer of 2018. The response out of Damascus has increased as the government has re-captured new territories, although access from Damascus to other parts of the country remains restricted. Beirut is an informal hub for UN logistics and coordination due to significant donor presence. Donor coordination is a challenge, however, as it covers four countries and risks being too scattered.<sup>80</sup>

At the same time, areas outside of the domination of the Government of Syria have been reduced considerably in recent years, especially after the successive military conquests of Eastern Ghouta and Daraa Province by pro-governmental forces in April and July 2018 respectively. On a total population estimated at around 21 million in February 2020, a bit more than 15 million were living in regime-controlled areas.<sup>81</sup>

Moreover, working conditions have become increasingly difficult in Idlib since the Salafist jihadist coalition Hayat Tahrir el-Sham took control of large segments of the region after eliminating all other opposition armed forces in the area in January 2019, while the North-East dominated by the Syrian Democratic Forces remains under the constant threat of a Turkish invasion and encroachment measures of the Syrian Government.

This situation created a new dynamic among humanitarian organisations and NGOs, leading to a mounting number of them attempting to register in Damascus and work within the boundaries of Syria’s governmental controlled areas. In addition to this, the Syrian Government compels the vast majority of humanitarian aid to be delivered through the Syrian Arab Red Crescent (SARC) and to a lesser extent the Syria Trust for Development; both under the government’s control, as well as other networks of NGOs, mainly faith based or managed by businessmen

78 - OCHA (2020), “Syria Cross-border Humanitarian Fund”, <https://bit.ly/3dN76SF>

79 - SIDA (2019), “Syria regional crisis Humanitarian Crisis Analysis 2019”, <https://bit.ly/36eiff>

80 - OCHA (2020), “Syria Cross-border Humanitarian Fund”, <https://bit.ly/3dN76SF>

81 - World Bank, “The Mobility of Displaced Syrians: An Economic and Social Analysis”, February 2020, 24, <https://bit.ly/2TO2BjP>

close to the Syrian government, that are deemed close to the authorities or not challenging it. Damascus generally refused to authorise aid organisations and agencies planning to cross from Damascus into non-government-controlled territories.<sup>82</sup>

For their part, the UN agencies predominantly operate under stringent Syrian Government control from its main centre in Damascus (including the World Food Programme (WFP), the UN High Commissioner for Refugees (UNHCR) and the UN Relief and Works Agency (UNRWA), alongside around a dozen INGOs).<sup>83</sup> Approximately 60 per cent of all UN aid operations in Syria are conveyed through SARC, while the UNHCR office in Syria has collaborated with the Syria Trust for Development during the war. UNHCR disbursed \$7.7 million through the Syria Trust for Development, between 2012 and 2016, and OCHA allocated over \$751,000 to it in 2016.<sup>84</sup> At the same time, Syrian authorities have reportedly confiscated medical supplies from the UN trucks traveling to opposition-held territory from Damascus, alleging they could be used to treat fighters.<sup>85</sup>

Damascus has also not hesitated during the Pandemic COVID-19 to prevent and/ or restrict international and local aid agencies from transferring supplies to nongovernment-held parts of the country (Human Rights Watch 2020). This situation has also been increased by international humanitarian organizations such as the WHO coordinating with the Syrian Ministry of Health and affiliated institutions as their main partners in addressing the COVID-19 challenge, while attempting not to deal with other actors in regions outside the control of the government.

These various challenges raise questions over how these restrictions affect humanitarian organisations and NGOs in their daily work and operations in Syria and whether they constitute a serious and systemic challenge for the continued delivery of vital humanitarian and development assistance to the Syrian population inside and outside the country. Still in 2018, US\$853 million of grants, totalling around 16% of total contributions, was channelled through NGOs, as mentioned above.

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82 - Human Rights Watch (2020), "Syria: Aid Restrictions Hinder Covid-19 Response", <https://bit.ly/2WAq4Xd>

83 - Stuart Gordon, Alice Robinson, Harry Goulding and Rawaad Mahyub (2018), "The impact of bank de-risking on the humanitarian response to the Syrian crisis", *Humanitarian Forum, HPG and the London School of Economics and Political Science (LSE)*, <https://bit.ly/2z3T3Jl>

84 - Haid Haid (2019), "Principled Aid in Syria: A Framework for International Agencies", *Chatham House*, <https://bit.ly/2V6Dnwh>, p.6

85 - Colum Lynch (2020), "Bowling to Russia, U.N. Halts Funding for Pandemic Relief in Northeastern Syria\*", *Foreign Policy*, <https://bit.ly/2WYDuLw>

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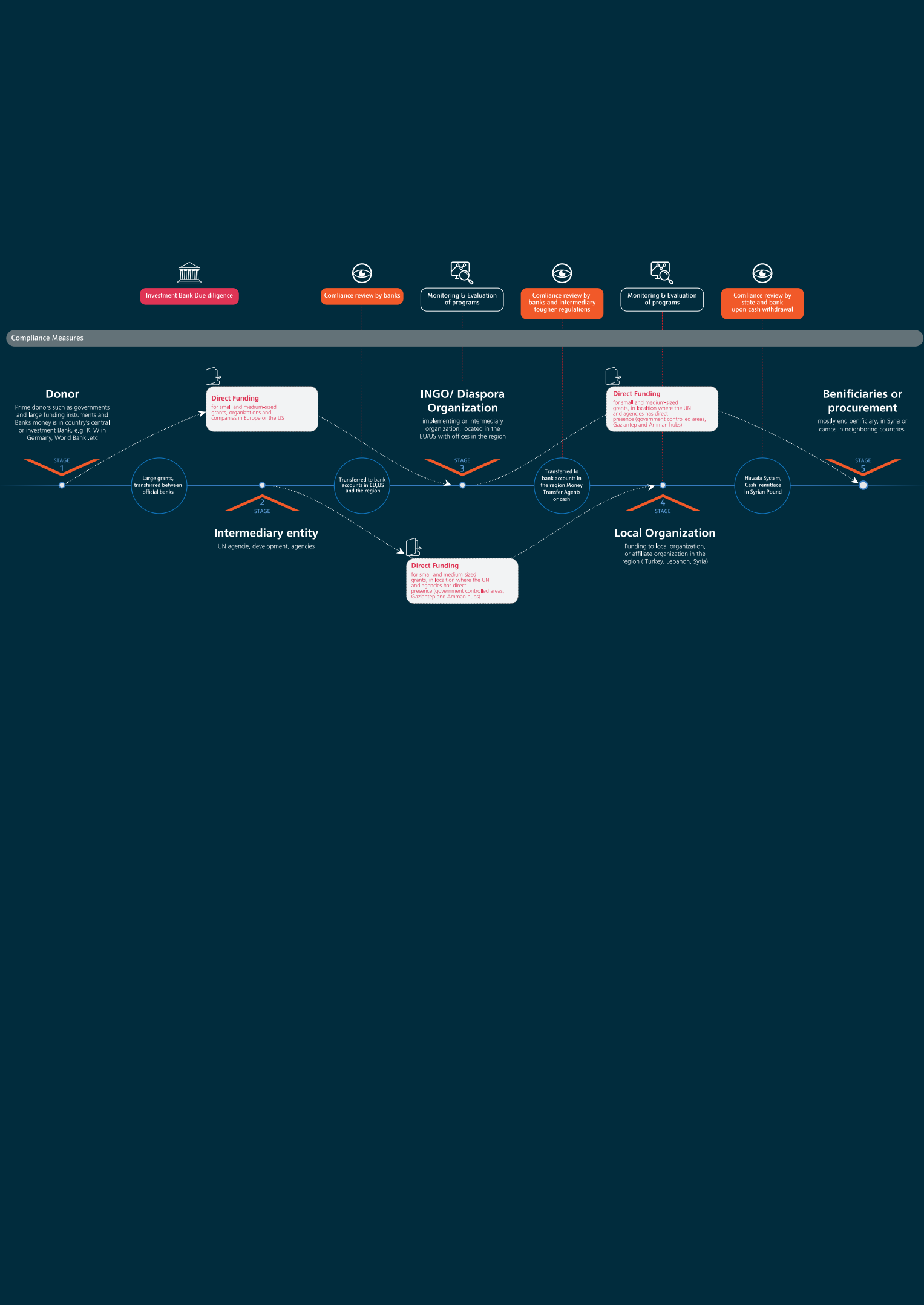
## The Financial Circuit and Challenges of Humanitarian Assistance to Syria

NGOs working on Syria and/ or operating within the country have been confronted with rising obstacles since 2014 in their dealings with banks and financial institutions at different levels. This trend has been reported previously in different studies.<sup>86</sup>

Differences existed in financial operations and regulations according to countries and the nature of the organisations. The report will follow the different phases of the circuit, from opening the bank account, passing through transfer operations, to what are the consequences of these problems. The study also divides up the organisations based outside of Syria from those based within the country. The following sections present our own research findings along with those from other studies.

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86 - Stuart Gordon, Alice Robinson, Harry Goulding and Rawaad Mahyub (2018), "The impact of bank de-risking on the humanitarian response to the Syrian crisis", *Humanitarian Forum*, HPG and the London School of Economics and Political Science (LSE), <https://bit.ly/2z3T3JI>; Justine Walker (2016), "Study on Humanitarian Impact of Syria-Related Unilateral Restrictive Measures", *UN Economic and Social Commission for Western Asia and Office of the UN Resident Coordinator in the Syrian Arab Republic*, <https://bit.ly/2Z648oh>; Tom Keatinge and Florence Keen (2017), "Humanitarian Action and Non-state Armed Groups: The Impact of Banking Restrictions on UK NGOs", *International Security Department and International Law Programme*, <https://bit.ly/2X5TcVk>



# 1

## Challenging Legal and Financial Regulations

For a number of NGOs involved in activities involving Syria, problems and challenges start with attempts to open a bank account in their country and/ or the need to submit to particular compliance requirements. According to an interview for this study, the opening of a bank account in Sweden for an NGO working on Syrian refugees in Turkey was rejected in March 2020

merely because it mentioned Syria;<sup>87</sup> something that has widely been reporting elsewhere in relation to other countries, such as the UK, the Netherlands and the US, as well as in connection with other “high risk” jurisdictions facing complex sanctions and wider regulations, including Iran, Venezuela and North Korea (DPRK).<sup>88</sup> Some NGOs saw their demands to open a bank account rejected on these grounds.

### France

A number of Syrian NGOs have faced various types of difficulties in France in order to open a bank account or operate financial transfers. In the case of the Syrian Network for Human Rights (SNHR), the bank for example refused to open an account because the members of the board of directors were Syrians.<sup>89</sup> Women Now for Development, faced multiple difficulties in trying to open a new bank account after it suffered the closure of two former accounts. Its first account with La Banque Postale was closed because the institution claimed that the NGO could not “provide solid justifications for the transfers and payments that were done from the account”, while the second one, Societ e G en eral, shut down the NGO’s account on the basis of its own “banking policies and that they did not provide services for NGOs”.<sup>90</sup>

In our survey, and the one carried out by CODSSY, at least twelve NGOs (six in our research) saw their bank accounts closed without justifications. As explained by the CODSSY report, “In France, since 2014, it has become unbearably difficult for NGOs of all sizes to manage funds aimed at supporting the civilian Syrian population”.<sup>91</sup> This was attributed by the report’s authors to the political context surrounding CT efforts, whose ramifications spilled into the financial realm. The French authorities called from 2015 for harsher enforcement of the “precautionary principle” by financial institutions.<sup>92</sup> The French Authority for Banks and Insurances has, henceforth, been implementing additional audits and sanctioning financial institutions if these latter entities did not submit to monitoring requirements. Between 2015 and 2016, the French Prudential Supervisor and Resolution Authority inspected 52 banks and insurances companies, a process that resulted in the sanctioning of eleven banks amounting to a total of 6,47 million euros.<sup>93</sup>

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87 - Interview with a Syrian NGO based in Germany, April 2020

88 - Dr Erica Moret, personal communication, 14 May 2020.

89 - Interview member of Syrian Network for Human Rights (SNHR) by email, February 2020

90 - Interview member of the organization Women Now for Development, February 2020

91 - Syrian Development and Relief Collective (CODSSY) (2019), “Is Help Allowed? How French financial institutions hinder humanitarian action in Syria”, <https://bit.ly/3dMgiXB> p.4

92 - Syrian Development and Relief Collective (CODSSY) (2019), “Is Help Allowed? How French financial institutions hinder humanitarian action in Syria”, <https://bit.ly/3dMgiXB> p.4

93 - Ibid, p.5

## United Kingdom

A certain number of Syrian NGOs in the UK have been confronted to various challenges since 2011 in establishing and running bank accounts, and some of them failed even to open one.<sup>94</sup> Rethink Rebuild Society (RR), a community organisation that works towards improving the lives of Syrians in the city of Manchester, stated in 2015 that it uncovered a “systemic policy” of banks using sanctions compliance regulations or the uncertainty in Syria as a justification for rejecting services to Syria charities.<sup>95</sup>

The humanitarian NGO Hand in Hand for Syria, for example, saw its bank account closed by HSBC, three months after it was first opened in May 2011.<sup>96</sup> The bank’s staff justified the closure by saying they did not want to be involved with anything relating to Syria. The NGO was then able transfer its account to the UK bank Natwest, a branch of the Royal Bank of Scotland (RBS) Group, but with limited services. The NGO only had an online account, for example, and was only allowed to use British Sterling and no other currencies. All transfers had to be confirmed in person at the bank’s headquarters hosting the account.<sup>97</sup> Other NGOs saw their accounts shut down by HSBC, reportedly because of their activities in Syria and concerns about anti-terror laws.<sup>98</sup>

In another case, an NGO based in the UK was informed by a bank that as Syria is a conflict zone in which numerous Non State Armed Groups are active, “it was impossible to guarantee that funds required for planned projects would not be diverted and thus transfers to Syria were above the bank’s risk threshold and would not be processed”.<sup>99</sup> Similarly, one high-profile NGO spent nearly a year responding to questions linked to an application to open a basic deposit account (i.e. an account not used to transfer funds), but remained unsuccessful in its attempts.<sup>100</sup>

## Germany

In Germany, several accounts of Syrian organisations or entities working on matters pertaining to Syria were closed by private commercial banks. This included organisations with no transfer history to Syria or neighbouring countries, but only within Germany and with other European states.<sup>101</sup> While in some cases no justifications were provided by the banking actors, others clearly stated that it was too risky to deal with those linked to Syria. Germany’s private international banks, such as Deutsche Bank and Commerzbank, were have been careful to comply with both domestic and foreign AML laws and remain far more reluctant

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94 - Interview of a member of a NGO based in the UK, January 2020

95 - Jessica Purkiss (2015), “The British charities struggling against a tide of suspicion”, *Middle East Monitor*, <https://bit.ly/2ZFpvgD>

96 - Interview Fadi al-Dairi, co-founder and director of the NGO Hand in Hand for Syria, April 2020

97 - Interview Fadi al-Dairi, co-founder and director of the NGO Hand in Hand for Syria, April 2020

98 - Tom Esslemont (2016), “Exclusive-Syrians suffer as anti-terror laws squeeze charities – survey”, *Reuters*, <https://reut.rs/2WxQp8e>

99 - Tom Keatinge and Florence Keen (2017), “Humanitarian Action and Non-state Armed Groups: The Impact of Banking Restrictions on UK NGOs”, *International Security Department and International Law Programme*, <https://bit.ly/2X5TcVk>, p.3

100 - Tom Keatinge and Florence Keen (2017), “Humanitarian Action and Non-state Armed Groups: The Impact of Banking Restrictions on UK NGOs”, *International Security Department and International Law Programme*, <https://bit.ly/2X5TcVk>, p.13

101 - Interview with a member of Verband Deutsch-Syrischer Hilfsvereine (Union of German Syrian Associations (VDSH), April 2020; Interview with a Syrian NGO based in Germany, April 2020



to open accounts with connections to a country sanctioned by the US.<sup>102</sup> This led most of the NGOs in the country to establish an account in local cooperative banks, which, where they were eventually able to establish accounts, albeit with significant paperwork still required.<sup>103</sup>

## Lebanon

In Lebanon, Syrians NGOs have faced many legal challenges, adding to their difficulties navigating the compliance environment. Firstly, any local or international Civil Society Organization on Lebanese territory must be staffed by at least 90% Lebanese employees and 10% or less by foreigners, including Syrians. In addition to this, employment of Syrians is restricted as they are not issued work permits except for when they have a Lebanese sponsor. This situation has prevented these organisations from registering legally as NGOs in the country and has maintained them in an informal status.<sup>104</sup> Some have chosen instead to register as economic entities or under other legal categories, which has had consequences on their fiscal status or ability to receive foreign donations. One EU official interviewee, for example, described how a Syrian humanitarian organisation based in Lebanon was not able to receive an EU donation of 600,000 Euros because it was not registered as an NGO (but, instead, as an economic entity). The Lebanese authorities intervened to stop the agreement from being completed between the entity in question and the EU. More widely, the Lebanese authorities were increasingly obstructing and sometimes shutting down Syrian related humanitarian activities based out of the country, often because of cited security concerns (see below). After more than eight months trying to find alternative solutions with this NGO, the contract was finally abandoned by the EU, to the benefit of another organisation.<sup>105</sup>

If NGOs were able to withstand these legal issues, further restrictions were nevertheless encountered. Most of the charity organisations providing assistance for Syrian refugees within the country were allowed to establish a bank account, on the condition their transactions and payments were in the national currency, the Lebanese Pound, and not in US dollars or any other foreign currency. In 2016, the situation became increasingly more difficult for Syrian NGOs as the Lebanese authorities pursued a severe clampdown on them and their activities, including closing bank accounts. More generally, everything in connection to Syria and Syrians have become increasingly perceived as a security threat by Lebanese authorities, especially from 2014-2015. The Lebanese Government has implemented extremely harsh visa constraints on Syrians refugees and instructed in 2015, the UNHCR to suspend additional registration of Syrian refugees. In 2018, Lebanon began organising the return of Syrian refugees despite the many risks they face returning to Syria. Also, based on a decision to expel any Syrian who entered Lebanon informally after April 24, 2019, the country's General Security Organization (GSO) deported hundreds of Syrians without referring them to a judge. Overall, both official and informal pressures to force Syrians out the country have increased.<sup>106</sup>

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102 - Interview with a member of Verband Deutsch-Syrischer Hilfsvereine (Union of German Syrian Associations (VDSH), April 2020; Interview with a Syrian NGO based in Germany, April 2020

103 - Bundesverband der Deutschen Volksbanken und Raiffeisenbanken, Home, 1 May 2020, <https://bit.ly/3fTbrpf>

104 - Linda Mattes (2018), "Syrian Civil Society Organisations in Lebanon: Assessment and Analysis of Existing Organisations and the Conditions under which they Operate", (Opuscula, 115). Berlin: Maecenata Institut für Philanthropie und Zivilgesellschaft. <https://bit.ly/2WY9aAx>

105 - Interview with members of EU Delegation to Syria – Development Cooperation Section based in Beirut, April 2020.

106 - Sahar Atrache, (2020), "Lebanon at a Crossroads: Growing Uncertainty for Syrian Refugees", *Refugees International*, <https://bit.ly/2X04rja>

## Turkey

While allowing a great number of NGOs and INGOs following the beginning of the Syrian Uprising in mid-March 2011 to establish offices in Turkey, the Turkish Government, whose authoritarian policies have increased since the attempted coup d'état of a section of the army in July 2016, has increasingly been obstructive and repressive against Syrian INGOs and NGOs in the country according to interviews. This has particularly been the case against entities active in the North East of Syria controlled by the Autonomous Administration of North and East Syria. From 2017, they prohibited the operations of those working in this non-government controlled region by targeting INGOs and their foreign and Syrian staff with closures and arrests based in Turkey. Two Turkey-based offices of US-based NGOs, Mercy Corps and International Medical Corps (IMC) were shut down in March and in April 2017 (respectively), with four foreign staffers expelled from Turkey and eleven Syrians detained.<sup>107</sup>

Turkish banks allowing the establishment of Syrian NGO accounts were reduced considerably to a limited number to the public financial institutions Turkish Post (known as the Posta ve Telgraf Teşkilatı or its acronym PTT), as well as IS bank and Ziraat Bank, following government requirements, including for fiscal reasons. Alongside this situation, all Turkish banks have generally increased their compliance requirements towards Syrian NGOs since 2011. This was also linked to Turkey's adoption in 2013 of a law in line with the provisions of the UN Convention on the Suppression of Financing of Terrorism, which led to tighter controls by Turkey's Financial Crimes Investigation Board (known as MASAK). Public banks, which have been active in the trade with Syria, began to notify MASAK of all their transactions as well. Scrutiny over bank transactions in border regions has thus increased since 2014 amid European and US pressures on Turkey to expand control and cease activities of armed and extremist groups fighting in Syria.<sup>108</sup> Various types of conditions gradually became essential prerequisites for all organisations and those requesting to open a bank account, especially regarding their organisations' structures; the names and nationalities of board members; the contracts and IDs of staff members, and justifications of all spending. If some of these requirements were not fulfilled, the organisation in question could suffer a closure or a rejection in opening a bank account. As explained by an interviewee "more restraints and conditions were imposed on NGOs to open new bank account for the organisations", and "with high possibility that the request itself would be rejected"<sup>109</sup>.

Scrutiny from the Turkish Government on Syrian NGOs has continued to play a significant role, especially from 2018. Such NGOs were fined if they were not able to provide certain types of information, including financial details of all transactions made through the PTT, and previously the Hawala offices, and the reasons for these transfers. Details on all the salary expenses of workers without permits were also required.<sup>110</sup>

Additional complications also included delays in the reception of donations, rising banking fees and increasing complications for transfers or payments in foreign currencies (USD or Euro), on which growing restrictions have been imposed by the Turkish authorities.<sup>111</sup>

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107 - Scott Peterson (2017), "What Turkey's crackdown on NGOs means for Syrian war relief", *Christian Science Monitor*, <https://bit.ly/3fRZK26>

108 - Fehim Tastekin (2019), "Islamic State's money transfer network busted in Turkey", *The Monitor*, <https://bit.ly/2AAAtGQt>

109 - Interview member of the organization Women Now for Development, February 2020

110 - Interview of a Syrian NGO employee who was based in Iraq Kurdistan, April 2020

111 - Interview with a Syrian NGO based in Germany, April 2020; Interview member of the organization the Syrian Association for Relief and Development (SARD), March 2020.

## 2

### Collecting Funds on Online Crowdfunding Platform

While not all organisations used internet platforms to collect funds, several organisations encountered a number of problems with these instruments because of the need to provide detailed information and were sometimes prevented from collecting funds.

The NGO Women Now For Development reported several problems with the platform PayPal restricting and delaying some operations, despite them claiming to have provided the site with all the information and documents required. Similarly, an organisation based in Lebanon which used to collect funds through the “launch good website” was forced to halt its operations when the platform stopped transferring any further funds to Lebanon.

A number of French NGOs<sup>112</sup> also encountered systematic blocking of donations on these different platforms, including on Paypal, HelloAsso (Lemonway), Gocardless and sumup. While some donations were generally validated after they provided significant amounts of information, a large number were rejected, reportedly leading to the loss of thousands of euros by these organisations, which represents a considerable amount for small organisations. The stated reason mentioned by HelloAsso for closing the account of all NGOs working on Syria was the “fight against money laundering and terrorism” and the refusal to take on the risk of being responsible for fraudulent transactions, therefore declining to work with any structure linked to Syria.<sup>113</sup> Approximately 20 Franco-Syrian NGOs were prevented from using HelloAsso services in the space of a few months in 2017.<sup>114</sup>

Similarly, a UK-based charity, Muslims in Need, a volunteer-run charity, was barred from accessing thousands of dollars raised via the American fundraising platform Stripe after it was accused by the company of sending money directly to Syria and of breaching US treasury rules. Despite the charity responding to Stripe’s requests and telling the US company it sent assistance to Syria via a Turkish-based partner charity, like in the case of many other NGOs, Stripe froze the charity’s donations, refunding half of the contributions back to donors, and freezing the remaining \$64,641.<sup>115</sup>

Other cases occurred in the USA and Canada with fundraising platforms, such as Venmo and PayPal, where blocking or cancelling a donation occurred because Syria<sup>116</sup> was mentioned in the transactions. Donors explanations in response to the companies’ demands of clarifications were often not enough to reassure them and complete the transfer.<sup>117</sup>

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112 - COMSYD; Nazra and UOSSM ; CODSSY, Syrie MDL, Tous pour la Syrie ; Coeur et Action pour la Syrie

113 - Syrian Development and Relief Collective (CODSSY) (2019), “ Is Help Allowed? How French financial institutions hinder humanitarian action in Syria”, <https://bit.ly/3dMgiXB>

114 - These actions occurred after HelloAsso and Lemon Way started to cooperate in mid-2017, and after 10,000 clients were transferred from HelloAsso to Lemon Way’s platform. This latter had to authenticate all its new clients and many organisations operating in “high-risk” countries such as Syria were blacklisted (Syrian Development and Relief Collective (CODSSY) (2019), “Is Help Allowed? How French financial institutions hinder humanitarian action in Syria”, <https://bit.ly/3dMgiXB> p.11)

115 - Areeb Ullah (2018), “Muslim charity denied funds following claims it sent money to Syria”, *Middle East Eye*, <https://bit.ly/2ApDE6S>

116 - Donations with “Syrian refugee donation” or “Syrian medical supplies” had their payments suspended and eventually cancelled by PayPal.REF?

117 - Katie Notoupoulos (2016), “Why Venmo And PayPal Are Blocking Donations To Syrian Refugees”, *Buzzfeed News*, <https://bit.ly/2WzNxaP>

# 3

## Transactions, Between Delays and Blockings

The quasi totality of NGOs encountered problems in their regional and international transfers, from delays to rejections, from the issuing bank and /or the corresponding bank, while others had to provide a wide range of justifications to be able to successfully achieve the transfer.

CODSSY and the Union of Medical Care and Relief Organizations (UOSSM) estimated that around third of all their financial operations faced delayed and rejections. A member of UOSSM explained that the rejections were the result of the lack or non-acceptance of the justifications sent by the NGO, while the delays were justified by banks through the need to analyse and study the justifications in details.<sup>118</sup>

In all transactions, the word “Syria”, in the name of the NGO or in describing the reasons for the transfer, appeared to represent the main reason for the severe delays in the transfer of funds or simply its eventual cancellation. This pushed some NGOs to change their names by withdrawing the term “Syria”, in order to facilitate their transactions, or similarly, attempting to not mention the term Syria in the transactions. The withdrawal of any mention of Syria in the name of NGOs did not however mean the end of complications and restrictions.

# 4

## Regional (Europe) and International Transfers

Problems such as suspending and cancelling transfers were faced by many NGOs, whether for transactions within Europe or internationally.

In some cases, this also involved a simple transaction on a national level. French banks, for example, blocked donations to NGOs, without any kind of justifications. This occurred with Syria Charity as two banks were systematically obstructing their donors’ transactions to its account.<sup>119</sup>

Transfers between banks in different European countries also suffer from delays and obstruction. An NGO in Germany had, for example, transfers to Sweden and the UK, including for amounts as low as 10 euros, blocked for more than a month, for the reimbursement of expenses relating to participation in a workshop participation in Germany because Syria was mentioned in the transaction.<sup>120</sup>

For international transactions, if no major problems were encountered, an average of two weeks to a month was

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118 - Interview questionnaire member of UOSSM, March 2020 ; Interview with a member of CODSSY, March 2020

119 - Syrian Development and Relief Collective (CODSSY) (2019), “Is Help Allowed? How French financial institutions hinder humanitarian action in Syria”, <https://bit.ly/3dMgiXB> p.13

120 - Interview with a member of Verband Deutsch-Syrischer Hilfsvereine (Union of German Syrian Associations (VDSH), April 2020; Interview with a Syrian NGO based in Germany, April 2020

needed to conclude a US dollar transaction from a European country, while an average of three days was needed for Euro transactions.<sup>121</sup> However, in the case of even a small problem or unclear/incomplete information, severe delays tended to ensue, ranging from a month to several months.<sup>122</sup> The missing of a single piece of information (or something considered as such) regularly lead to the immediate blocking of the transaction by the corresponding bank. Moreover, no justifications were generally given by the correspondent banks to cancel the transfers, meaning that the NGO was forced to keep trying to transfer the funds, without adequate guidance. A Syrian NGO based in France had, for instance, all its transfers from its bank rejected to Lebanon between June 2019 and March 2020, while several were rejected to Turkey, without any explanation.<sup>123</sup>

The issuing and corresponding banks generally followed a strict compliance process for any transactions, with a mention of Syria on it, requiring:

- The NGO's legal status and registration paperwork
- Names of Board Members
- Reason for the transfer
- The signed agreement with the donors, if a donation
- The passport of the beneficiary
- The type of contract with the beneficiary and how he/she would use the transfer amount.<sup>124</sup>

NGOs working on matters connected to Syria are not the only actors to face these difficulties and complications, however. European States' agencies and INGOs transferring funds to their partners in neighbouring countries of Syria suffer similar problems.<sup>125</sup> The main difference between NGO, on one side, and state agencies and INGOs on the other, is that these latter entities have often been able to overcome these difficulties because of their official and well-known status and guarantees given to banks, which served as a reassurance to banks. Indeed, organisations that have a track-record with the US Government and international community (e.g. recipient of prior funding from the US or UN, or experience in conflict-zones) will likely be dealt with more quickly by the US Treasury's OFAC; groups of NGOs also tend to be given more weight.<sup>126</sup>

This is, however, not always enough. In a case reported by a UNESCWA report, a major European Aid Agency, with an annual turnover over US\$100 million, was prevented by its bank from transferring funds for humanitarian programmes in Syria to bank accounts in a neighbouring country, from where the funds would have been transmitted into Syria using hawala agents.

Similarly, an EU official working on the Syria crisis, explained that an INGO with headquarters in Europe, saw its transactions to Lebanon blocked by a bank. EU delegates on the Syria project team intervened and gave guarantees to the bank as this transfer was for an EU funded project in Lebanon. Despite delays, the transfer was eventually completed. In another instance, a transfer from a European agency to a Syrian NGO based in Lebanon was suspended by the bank because the name of the NGO was similar to a Syrian company in Syria listed on US sanctions list imposed following the Caesar Bill. EU officials on the Syria project had to provide the necessary information on the project and make clear that these were two different entities, in order for the bank to finally agree to carry out the transactions. The EU delegate said that numerous similar cases throughout the years had been experienced by other EU partners, be it Syrian NGOs and INGOs in Lebanon. The interviewee added that there was

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124 - Interview with a member of SCM, March 2020 ; Interview with a Syrian NGO based in Germany, April 2020

sometimes no way found to fulfil all the demands of the banking compliance services, which lead to blocking and delays of some projects as and when funds are blocked.<sup>127</sup>

The situation in Lebanon became even more complicated since the beginning of the financial crisis in the country in October 2019. In particular, the country's hard currency shortage has led banks to impose tight controls on withdrawals and transfers. EU transfers can technically continue to Lebanon, but no large amount of cash can be withdrawn. To overcome this financial blockage, some Syrian NGOs based in Lebanon brought in significant amount of cash via individuals traveling from Europe to Lebanon in order to pay their employees. This, of course, involved many risks, including those of a legal nature.<sup>128</sup> This option ceased to be feasible with the advent of restrictions associated with the COVID-19 pandemic, whereby the vast majority of flights to and from Lebanon were cancelled as of mid-March 2020. As such, Syrian NGOs in Lebanon increasingly risk running out of cash to pay their staff.

## 5 Transfers from Neighbouring Countries to Syria

This is generally the last and most challenging phase of the circuit to transfer funds from neighbouring countries to the final recipient in Syria. This is also the phase involving a transfer of risks from state agencies or INGOs to the local NGOs, which are the responsible actors for bringing the funds into Syria. Indeed, most of the INGOs operating from neighbouring countries do not have any staff within Syria and therefore rely on local NGOs to fulfil programmes on the ground, while the majority of state agencies' funds generally go to UN agencies in Syria for humanitarian assistance operations.<sup>129</sup>

State agencies and INGOs therefore subcontract the risk to the NGOs in the neighbouring countries by transferring them the funds to their front office or main HQ in the organisation's home country. In order to conclude the contracts, these NGOs need to guarantee that they will respect the various EU and US regulations when implementing their projects on the ground in neighbouring countries, or more particularly in Syria.

As mentioned before in the text, the most important and common instrument to complete the transfer of funds within Syria has been the hawala system. Hawala networks typically constitute the only possible financial method to transfer cash in non-governmental controlled areas as banking infrastructure (including bank branches and ATMs) are absent or scarce. The same is also the case for money transfer companies.<sup>130</sup> ATMs that are still present in these areas can also be unreliable due to interruptions to electrical supplies or connection problems.<sup>131</sup> The presence of Hawala networks in these areas thus permits humanitarian actors to fulfil their missions. Indeed, many organisations interviewed for this report argued that the use of Hawala was the only means available to them to

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127 - Interview with members of EU Delegation to Syria – Development Cooperation Section based in Beirut, April 2020.

128 - Interview with four members of EU Delegation to Syria – Development Cooperation Section based in Beirut, April 2020.

129 - Anonymous interview with a member of INGO operating in Syria, April 2020; Interview with four members of EU Delegation to Syria – Development Cooperation Section based in Beirut, April 2020.

130 - Dr Erica Moret, personal communication, 25 May 2020.

131 - Justin Walker (2020), "Risk Management Principles Guide for Sending Humanitarian Funds into Syria and Similar High-Risk Jurisdictions",

transfer funds into Syria.

The humanitarian agency Care have used Hawala within Syria for cash transfer programming, salaries payment and partners operating costs.<sup>132</sup> Hawala is also sometimes used between NGOs to fund projects at times when some of them could not be publicly associated with a given project or be seen as having direct connections for security reasons.<sup>133</sup>

Another tool to transfer funds cited in interviews, albeit much riskier, is the use of cash-carrying individuals, often at significant personal risk, in response to the barriers caused by de-risking.<sup>134</sup> A previous study reported similar cases, with one of their interviewees describing that they were forced to carry “€500,000 (\$591,000) hidden in their clothes” in Syria.<sup>135</sup>

We analyse the circuit and dynamics regarding the transfers of funds from neighbouring countries to Syria.

## A. Kurdistan Iraq

Most of the NGOs operating in the North East of Syria opened their offices in Erbil and, to a lesser extent, in Dohuk in Kurdistan Iraq, in the past three years and since the Turkish Government started to shut down their activities in Turkey. They registered with the authorities of the Kurdistan Regional Government and were required to comply with its laws.<sup>136</sup> The banking system in this region was submitted to the regulations of the Central Bank of Iraq.

In general, organisations reported that they did not tend to encounter severe problems in receiving funds from Europe in this region. To withdraw funds, the NGOs had to provide a certain number of justifications from the purposes to the destinations of these funds.

The absence of a working banking system in the areas of the Autonomous Administration of North and East Syria, and the fact the INGOs and NGOs operating there were not registered officially at the Syrian Ministry of Social Affairs and Labour, meant that most of these organisations started to make use of the Hawala system (legally registered or otherwise). The costs were generally not expensive, not exceeding 1% of the amount transferred.<sup>137</sup>

A member of a Syrian-Kurdish NGO explained that as there were no legal ways to transfer funds from Germany, where their bank account was held, to the North East of Syria, the only solution was to transmit funds through

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132 - Care International (2019), “Using Hawala to Conduct Cash Programming in Syria”, <https://bit.ly/3fQy5Pb>, P.2

133 - Interview with members of EU Delegation to Syria – Development Cooperation Section based in Beirut, April 2020.

134 - Interview member of INGO operating in Syria, April 2020;

135 - Norwegian Refugee Council (2018), “Principles Under the Pressure, the Impact of Counterterrorism Measures and Preventing Countering Violent Extremism on Principled Humanitarian Action”, <https://bit.ly/363piox> p.30

136 - Organisations had to submit their fiscal audit account all three months to the Kurdistan authorities and provide information on their spending, programs, and the names of their employees.

137 - Interview of a Syrian NGO employee who was based in Iraq Kurdistan, April 2020

NGO employees by hand, crossing from Iraqi Kurdistan to these areas, which was “risky and tiring” in his words.<sup>138</sup>

While transfers of funds through these informal systems have been described as relatively easy in these past few years,<sup>139</sup> more recently complications have started to appear. The consequences of the COVID-19 pandemic has impacted on hawala liquidity and it is now proving increasingly difficult for NGOs to continue cash transfer programming, as well as pay vendors and staff, without functional hawalas in place.<sup>140</sup>

Following Russia’s threat, with China’s support, to veto the UN mandate, the Yaroubiyah crossing was officially closed in January 2020, which ended all UN cross-border aid into North East Syria.<sup>141</sup> This had negative consequences on the activities of the INGOs and NGOs operating from Kurdistan Iraq to North East of Syria. Russian officials argued that that it was no longer necessary to allow this crossing to remain open for cross border aid as those areas were now under the Syrian Government’s control and could be reached from Damascus.<sup>142</sup> This has resulted in a US\$40 million shortfall for 2020 for NGOs that depend on UN support for their operations in North East Syria, including \$30 million for health care, which was mostly earmarked to prevent and respond to COVID-19.<sup>143</sup> Some 40% of the North East’s medical provisions had formerly come in via Yaroubiyah.<sup>144</sup> More recently, the WHO raised concerns that the remaining aid pipeline from Damascus would not be able to meet the needs of civilians in North East Syria.<sup>145</sup>

## B. Turkey to Syria

Syrian NGOs and INGOs remaining in Turkey and operating in Syria are mainly active in the North West of the country. Initially, most of the NGOs and INGOs’ transfers to Syria were made mostly through Hawala system, and to a lesser extent through employees of these entities carrying cash through the borders. Hawala transfers to Syria were increasingly forbidden by the Turkish Government towards the middle or end of 2018, however.

Nevertheless, since PTT opened branches<sup>146</sup> within Syria in 2019 and started to offer money transfer services (only in Turkish currency) in areas that came under Turkish controlled areas of the Euphrates Shield and Olive Branch operations in northern Syria,<sup>147</sup> all transactions of INGOs and NGOs started to go through this intermediary to pay their employees and fund their projects. Passing through PTT has allowed different NGOs to improve their

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138 - Interview with a member of a Syrian Kurdish NGO, March 2020

139 - Interview of a Syrian NGO employee who was based in Iraq Kurdistan, April 2020

140 - Interview with European officials working on the Syrian file, April 2020; Morten Mechlenborg Nørulf (2020), “Fighting COVID-19 in the Middle East, North Africa and the Philippines”, *Prevention Web*, <https://bit.ly/3cBMSv>

141 - The UN can no longer transport any aid via Iraq to North East Syria and has to operate through the central government in Damascus, leaving the burden on nongovernmental organizations operating outside the UN system to deliver assistance via Iraqi Kurdistan.

142 - Human Rights Watch (2020), “Syria: Aid Restrictions Hinder Covid-19 Response”, <https://bit.ly/2WAq4Xd>

143 - Ibid

144 - Amberin Zaman (2020), “Iraqi Kurdistan rejects NGO accusations of blocking aid to Syrian Kurds”, *Al-Monitor*, <https://bit.ly/3fR7Kk0>

145 - Colum Lynch (2020), “Bowling to Russia, U.N. Halts Funding for Pandemic Relief in Northeastern Syria”, *Foreign Policy*, <https://bit.ly/2WYDuLw>

146 - PTT branches in Syria handle money, mail, and cargo transfers using the same rates as inside Turkey.

147 - Since 2016, Turkey launched three military operations across its border into northern Syria leading to the occupation of Syrian territories by Turkish armed forces - Operations Euphrates Shield (2016), Olive Branch (2018), and Peace Spring (October 2019).



compliance with Turkish laws, and therefore their stability in the country, while helping to financially stabilise their programmes inside Syria. However, costs of transactions and an unfavourable exchange rate of the bank, increased considerably the expenses from 0.7% to an average of between 2 and 5%.<sup>148</sup>

From this point on, Syrian NGOs based in the North West of the country in areas outside the domination of the Syrian Government withdraw their money from these PTT branches in Syria and pay their employees directly by cash or use hawala agencies, particularly for individuals residing in Idlib for security/ safety reasons. Local NGOs generally only use vetted hawala offices and have to deliver invoices proving the transfer to their donors (states agencies and INGOs).<sup>149</sup>

The main reported difficulties or concerns for donors has been to monitor that the funds disbursed to their local partners reach the right recipients in these areas as they are not present on the ground. Moreover, they must ensure that the funds are not used to support individuals or organisations designated by the UN, particularly the Salafist jihadist coalition Hayat Tahrir Sham or actors connected to it. State agencies often hired international consultancy firms with a presence on the ground to monitor and analyse the delivery of programmes of their partners and situation on the field,<sup>150</sup> something that is likely to have increased their costs.

In summary, Funds by EU member states for projects in the areas of Idlib have generally declined with the growing domination of HTS.

## C. Lebanon to Syria

INGOs and NGOs in Lebanon funding programmes and staff not registered by the state in Syria generally transfer their money through hawala offices and/ or carry cash across the border. By way of example, the EU funded some small civil society projects inside Syria, and most payments were carried by cash through individuals crossing through the borders.<sup>151</sup> For their part, the INGOs with official and registered offices in Syria transferred their funds through Lebanese banks, which had branches in Syria.

However, the aforementioned financial crisis in Lebanon has put on hold, and diminished considerably, all transfers to Syria, while the significant depreciation of the Lebanese national currency is also creating complications and difficulties in transfers and payments. In addition to this, in mid-April 2020, Lebanon's central bank ordered money transfer services operating outside commercial banks to issue cash in local currency at a "market rate". Much of Lebanon's diaspora relies on money transfer services such as OMT and Western Union to send remittances from abroad, bypassing cash-strapped commercial banks.<sup>152</sup>

Transfers from Lebanon towards Syria have therefore diminished considerably in the past few months.

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148 - Interview with several Syrian NGOs, March 2020; Interview with members of EU Delegation to Syria – Development Cooperation Section based in Beirut, April 2020.

149 - Interview with a member of German "Organization" operating in Syria based in Turkey, April 2020; - Interview with a member of a German INGO operating in Syria, April 2020

150 - Interview with a Diplomat from an EU Member State, April 2020

151 - Interview with a EU member state official based in Beirut and in charge of Syria file, April 2020

152 - Al-Jazeera English (2020), "Lebanon orders money transfer services paid out in local currency", <https://bit.ly/2Arz0oY>

# 6

## Limitations of the Hawala System

As the report demonstrates, Hawala systems have been an important means for transferring money within Syria, although not without risks and difficulties. There are indeed a series of problems with the use of hawalas, including availability of liquidity, transparency and increased costs.

Firstly, the transfer of funds into Syria relied upon liquidity in general, but more especially in foreign currency, of hawala and the system's capacity to distribute funds on the ground. The Hawala centers could also decide to prioritise particular INGO and business actors over others in times of crisis and resourcing constraints.

Alongside this situation, humanitarian agencies often had to further restrict their operations to locations where hawala networks operated. Hawala also increased their cost in volatile periods and particular areas, especially in besieged areas where service fees could exceed 20-30% for each operation.

Finally, due diligence processes on hawala networks is a long and time-consuming process, with no real guarantees that it is enough to convince particular donors and/ or financial institutions of its efficiency and/ or legality.<sup>153</sup> NGO actors had to be especially sure to know the names of designated Hawala agents listed in different sanctions listings so as not to be in violation of such measures.<sup>154</sup>

# 7

## Money Transfer Agencies

Many NGOs had tried to develop their own techniques through which to bypass these problems. Official Money Transfer Agencies and Exchange companies, such as Western Union, have, for example, been used to transfer money to Syria. These kinds of official agencies were relatively new in Syria when they first started to appear in 2006, which allowed for transfer money into and out of Syria legally, for the first time in the country's history.

Western Union was for example established in Syria in 2007 and has been operating since then through several agents, mainly Diar Electronic Services Private JSC (DES) and Al-Fuad Exchange Private JSC. Another local agent is United Exchange Public JSC. The company seems to be the only western money transfer company that still has agents in Syria.<sup>155</sup> The Western Union service however remains an unpopular option because of its high transfer fees.<sup>156</sup>

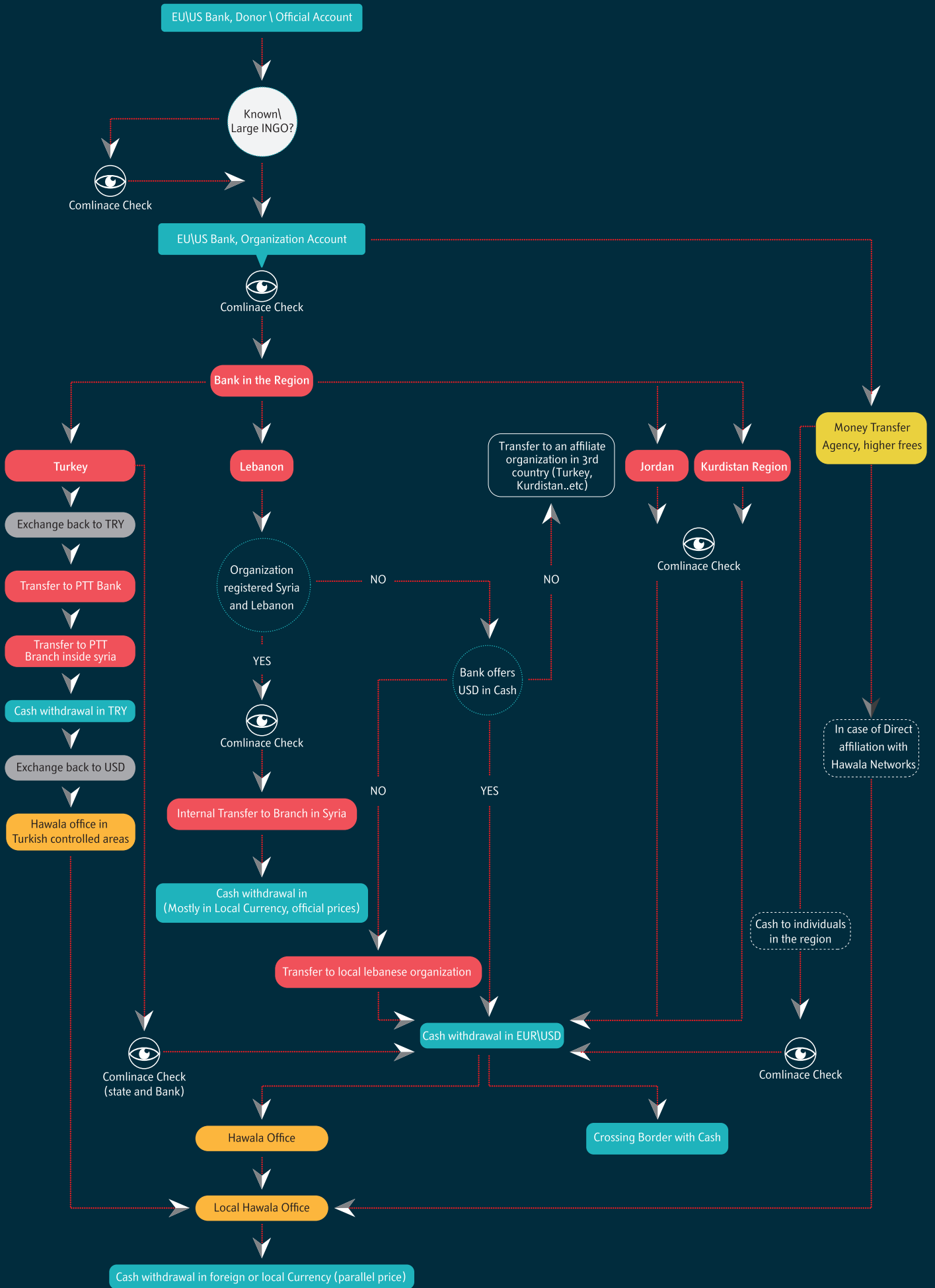
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153 - Care International (2019), "Using Hawala to Conduct Cash Programming in Syria", <https://bit.ly/3fQy5Pb>, pp.2-3

154 - However, some NGOs do not always have the full ability to inspect and research all the level of agents in a hawala network, as a result of the fluctuating nature of these networks. NGOs generally only check individuals at the top of the chain, where the funds enter, and monitor project activities on the ground, where the money is spent. The intervals in between, where the funds are transmitted from the point of input to the point of output, are nearly impossible to completely check and identify (Interview with INGO employee, April 2020; Care International (2019), "Using Hawala to Conduct Cash Programming in Syria", <https://bit.ly/3fQy5Pb>, p.3)

155 - The Syria Report (2020), "Central Bank Devalues Exchange Rate for Remittances", <https://bit.ly/2T8FjUR>

156 - Mulham al-Jazmaty and Rami Sharrack (2017), "The Black Hole, Private Money Transfer Networks in Syria", *Syrian Economic Forum*, <https://bit.ly/2WWTrli>, p. 26



With the eruption of the uprising, the number of official Money Transfer Agencies have diminished considerably and are limited to governmental held areas. Alongside this situation, there have been a series of problems associated with these organisations as the Syrian authorities reinforced their control over them since the beginning of the uprising in mid-March 2011. In May 2013, the Central Bank of Syria issued a law that constrained exchange companies operating in Syria to deliver all cash orders coming from outside Syria in Syrian Pounds (SYP) even if they were transferred from abroad in a foreign currency. Private networks handling money transfers on the black market expanded following this decision, allowing individuals seeking to transfer funds to and from Syria to do so in foreign currency, or at least exchange their foreign currency (for example, dollars or euros) into SYP at the black market rate, which is generally much higher than the official one.<sup>157</sup>

In addition to the reasons mentioned above, unofficial money transfer agencies have also often been preferred to official ones because they often shared connections with security services and provided them with information on the schedules of remittances.<sup>158</sup> Unofficial agencies have also been the targets of the Syrian Government on various occasions, whether for so-called security reasons or in attempts to control the fluctuations of the national currency. In October 2013, the Syrian authorities closed the country's foreign exchange companies, including al-Alamiah Exchange, whose main shareholder was Syrian businessman Zouheir Sahloul who was suspected of being a money launderer for the Syrian Government by US officials prior 2011,<sup>159</sup> as part of a clampdown on black market dealers. Other similar agencies were targeted such Hanifa Exchange, Haram Exchange, Al-Fuad Exchange and Jazairi & Partners.<sup>160</sup> The reported aim was to curtail trade on the black market and prompt people to change their currency at the state-owned Commercial Bank of Syria at the official currency rates.<sup>161</sup> Several Money Transfer Agencies' transactions were temporarily suspended again at the end of December 2019 and in June 2020 in governmental held areas following measures taken by the Central Bank of Syria for similar reasons.

In February 2020, the Central Bank of Syria authorised money changers to pay incoming remittances at a rate of 700 SYP per dollar, rather than the official rate of 434 SYP. This measure had the objective of diminishing the pressure on the value of the Syrian national currency by encouraging people to transfer their dollars at this new rate and also at increasing the flow of remittances through official channels, rather than through informal hawala companies.<sup>162</sup> Individuals and NGOs sought other alternatives, such as online money transfer platforms. Platform é-bury, which transfer funds abroad from Syria, had fees not exceeding 30 euros has increasingly been used as a medium by various NGOs.<sup>163</sup>

However, some of these transfer platforms imposed similar compliance conditions to the banks. The NGO, Impact,

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157 - Enab Baladi (2019), "Unauthorized money transfer agencies continue to operate in Homs countryside despite risks", <https://bit.ly/2AuOKHP>

158 - Rozana FM (2016), "Syria: Western Union Works Under the Table!", <https://bit.ly/3fOMLyT>; Enab Baladi (2019), "Unauthorized money transfer agencies continue to operate in Homs countryside despite risks", <https://bit.ly/2AuOKHP>

159 - Zouheir Sahloul was considered the major actor in the foreign currency market and he played a key role in supporting the SYP at various moments in the past, including following the withdrawal of Syrian troops from Lebanon in 2005. Wikileaks (2005), "SARG Stabilizes its Currency", <https://bit.ly/3fSzfA3>

160 - The Syria Report (2013), "Central Bank Clamps Down on Money Changers, Targets Sahloul", <https://bit.ly/2YnvWSN>

161 - The Syria Report (2013), "Central Bank Clamps Down on Money Changers, Targets Sahloul", <https://bit.ly/2YnvWSN>

162 - The Syria Report (2020), "Central Bank Devalues Exchange Rate for Remittances", <https://bit.ly/2T8FjUR>

163 - Interview member of French NGO working on Syria, March 2020

based in Germany, which in the process of commissioning this report saw the accounts of some of its staff close with the company TransferWise, a British online money transfer service, deactivated in April 2020, with the explanation that this was because it had activities relating to Syria.

According to staff at IMPACT, the company justified this closure because it needed:

“to comply with the regulations of our banking partners, governments and licence providers. These regulations include the banning of all financial activities with individuals and companies who are directly or indirectly can be associated with regions that are considered high risk for our partners from a financial perspective.”



## Transfer to INGOS and NGOs operating within Syria, in government-controlled areas

The quasi totality of INGOS transferred funds into Syria in European currencies (Euros, Swiss Francs, Sterling Pounds, Norwegian Kroner, etc.) and more rarely in \$US. For NGOs and INGOS operating in Syria, financial operations, regardless of the currency, have become increasingly difficult since 2014. As argued by Walker in her 2020 report: “the compound effect of sanctions and lack of alternative banks makes it extraordinarily difficult to carry out Euro or US dollar-denominated transactions within Syria, through what remains of the current banking system”.<sup>164</sup>

The opening of bank accounts in Syria have generally not been an problem for INGOS registered officially in the country, and operating in the regions under the control of the Syrian Government, especially if they were present before 2011.<sup>165</sup> They benefit from the normal services provided by banking systems throughout the world regarding transactions in the country.

### Syrian Banking System

In the context of Syria, at the time of writing, the formal banking system comprises 20 commercial banks: six local state-owned banks (all subject to EU and US sanctions), and 14 private banks, including two of which are submitted to US sanctions (Cham Bank SA and Syria International Islamic Bank).

The Commercial Bank of Syria (CBS) is a state-owned entity directly affiliated to the Central Bank. It is by far the largest bank in the country and acts as the public sector’s bank. All the accounts of the major state-owned entities are held with the bank, which is also the only state-owned bank allowed to deal in foreign currencies.

Syria’s total banking sector reached SYP 7.7 trillion at the end of 2018, divided the following way: 40% for CBS, 31% for other state-owned banks, and 29% for private sector banks.<sup>166</sup>

164 - Justin Walker (2020), “Risk Management Principles Guide for Sending Humanitarian Funds into Syria and Similar High-Risk Jurisdictions”,

165 - Interview former employee of an INGO operating in Syria, April 2020

Transactions carried out by banks in Syria on behalf of INGOs can be more problematic, however, and are similar in many aspects to NGOs in neighbouring countries and in Europe. They face the tight scrutiny of bank compliance services and those of corresponding banks, often delaying transactions for weeks and months or simply cancelling the transactions if information provided is not deemed detailed enough. The processes also appear to be somewhat haphazard, according to interviewees.<sup>167</sup> Some pieces of information and data were often sensitive and could not be delivered because of the need to protect the identities of the final beneficiaries of humanitarian assistance and not put them at risk.<sup>168</sup>

It was reported that Oxfam America has experienced the fallout from de-risking, both through its own operations and through its partners in countries, including Syria.<sup>169</sup> Scott Paul, a senior humanitarian policy advisor at Oxfam America, explained that local banks in Syria sometimes preferred to “stop serving NGOs, or bombard them with paperwork, rather than risk their relationships with correspondent banks in the U.S.”<sup>170</sup> Just as with NGOs, donors generally delegate risk management of transferring funds to INGOs’ offices in Europe, which then have to make the transfers into Syria. An interviewee explained that donors do not always send a letter of support with the donations to facilitate the transfer of funds directly to Syria.<sup>171</sup>

However, more established and well known INGOs appeared to face less complications. An INGO operating in Syria since before 2011 and with branches throughout the world had not suffered same delays, for example. The transfer of funds from their offices in Europe to their bank in Lebanon, and then on to the sister branch within Syria, did not generally surpass three to four weeks. The issuing bank in Europe demanded all the usual in-depth compliance processes, as mentioned above. The only time a delay occurred was because the project’s proposal transmitted to the issuing bank lacked clear and sufficient details, according to the interviewee. However, the financial crisis in Lebanon from October 2019 had major consequences on the finance of this same INGO, putting an end to some humanitarian projects as the bank in Beirut was forbidden to transfer funds outside of the country.<sup>172</sup>

The practice of transferring large sums of cash through individuals going through the borders to bring it in to Syria became more dangerous, legally speaking, in mid-January 2020 after Syrian President al-Assad issued decrees No. “3” and “4,” to tighten penalties on people holding and trading in non SYP currency in the country, while security patrols were active in closing hawala centres and arresting a large number of dealers with charges of dealing in foreign currencies.<sup>173</sup>

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166 - The Syria Report (2020), “Annual Report of Syria’s Largest Bank Highlights Data on the Sector and Economy”, <https://bit.ly/3d7gyRc>

167 - An EU official explained, for example, that their partner in Syria, a humanitarian INGO, faced significant obstructions from the Syrian banking partners by suspending transactions and creating significant delays and sometimes cancelling them. More information was always required by the banking compliance services, especially regarding the final beneficiaries of the humanitarian assistance

168 - Interview with European officials working on the Syrian file, April 2020

169 - Sophie Edwards (2017), “De-risking is causing significant banking problems for two-thirds of US nonprofits”, *Devex*, <https://bit.ly/2LxQfas>

170 - Sophie Edwards (2017), “De-risking is causing significant banking problems for two-thirds of US nonprofits”, *Devex*, <https://bit.ly/2LxQfas>

171 - Interview with a member of INGO operating in Syria, April 2020

172 - Interview with a member of an INGO operating in Syria, April 2020

173 - In August 2013, the Government of Syria forbade the use of foreign currency in commercial transactions within Syria. According to Syrian legislation, trade has to be in the national currency, and the CBS’s decision specified penalties and slowed down the dollarisation process.

# 9

## Transfer to UN agencies within Syria

Research for this report suggest that UN agencies active in Syria do not appear to face serious financial problems as their funds are transferred from their headquarters accounts in New York and/ or Geneva to their Syrian bank accounts and they are not subject to EU, US or any other autonomous sanctions regimes.<sup>174</sup>

North American and European assistance is mainly done through UN agencies in Syria and their subcontractors. This situation provides leverage to these states to impose conditions on the UN in its programmes and projects. The EU has had to make sure that all its partnerships with UN agencies has not been in breach of EU sanctions and wider regulations. Similar processes are at play with INGOs operating in Syria.<sup>175</sup>

Some states acted in a similar way by making sure that no breaches occurred in EU sanctions and wider regulations. Germany, which is the main European donor to the UN in Syria and which has spent some 2/3 of its funds (nearly 400 million Euro per year) in Syrian Government-controlled areas, was probably the most demanding in German state officials and KfW ensure in the contracts the compliance with EU and US sanctions of all UN and its subcontractors.<sup>176</sup> An EU member in charge of humanitarian assistance in Syria stated in an interview that it was important for Germany to see their financial support distributed to all in Syria and not only in the Syrian Government's interests".<sup>177</sup>

At the same time, the implementation of some UN agencies programmes were often the result of indirect negotiations between, on one side, donors and UN Agencies, and, on the other side, between UN Agencies and Syrian Government ministries. The German ministry in charge of funding operations in Syria imposed their conditions on the implementation of projects by their partners, whether UN agencies or INGOs, including regarding the final beneficiaries and assistance provided to all areas in Syria with no distinctions according to regions, or which type of control an area was under. In other words, they were careful that their funds did not only go to government held areas or served solely its interests.<sup>178</sup> An interview with a Senior Country Manager for Syria of KfW explained that for a project rehabilitating schools, UNICEF, the implementing partner, had to make sure the list of facilities to rehabilitate is independent from influence from the Government of Syria's demands and its geographically spread, otherwise KfW on behalf of the German Government would not fund it.<sup>179</sup>

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174 - Interview with members of the EU Delegation to Syria – Development Cooperation Section based in Beirut, April 2020; Interview with a member of an INGO operating in Syria, April 2020;

175 - Interview with members of the EU Delegation to Syria – Development Cooperation Section based in Beirut, April 2020; Interview with a member of an INGO operating in Syria, April 2020;

176 - Interview of a Senior Country Manager for Syria, Middle East Department, KfW Development Bank, 2020, April 2020; Interview of a German official part of the Syria team

177 - Interview with an EU member state official, May 2020

178 - Interview of a Senior Country Manager for Syria, Middle East Department, KfW Development Bank, 2020, April 2020; Interview with a EU member state official, May 2020

179 - Interview Senior Country Manager for Syria, Middle East Department, KfW Development Bank, 2020, April 2020

An added complication is posed by differences in views (including between the US, the EU and its member states) on whether a given activity should be classified as 'humanitarian' (which is permitted under sanctions) or 'reconstruction' or 'development' (which may go against sanctions in place).<sup>180</sup>

Numerous reports have revealed that NGOs find it fastidious to navigate through the permissible licencing framework, from which information to provide and which authorities to address questions are often difficult to identify. In addition to this, standards to respect in order to obtain a licence in the EU varied considerably from one country to another, leading to a considerable lack of clarity.<sup>181</sup> The need to acquire a licence often has negative implications for banks by implying that the business operated by the NGO is 'close to the edge' and therefore risky.<sup>182</sup>

In order to avoid these long and uncertain processes, INGOs often concluded agreements and partnerships with UN agencies, which benefited from exemptions, to import particular products that could otherwise potentially be in violations of sanctions. More generally, because of the various financial obstructions faced by INGOs in Syria, partnerships with UN agencies are often the best instruments to guarantee the entities can secure continuous cash flows and be compensated for delays in transfers from abroad. This allows the programmes to endure and to pay the various and multiple bills the INGO has without waiting for a particular transfer to fund them. This system partially prevents the accumulation of debts and invoices. An interviewee explained that for its programmes to be sustained without too many complications posed by the continuous inflow of cash, an organisation needs to have at least 60% of its activities in partnership with UN Agencies.<sup>183</sup>

## 10 Effects of Sanctions

According to this research, NGOs and INGOs identified three main problems in Syria as a result of the sanctions in place in relation to: 1.) financial transactions; 2.) imports of particular products and machineries, and 3.) purchase of some services such as fuel and telecommunications.

The most frequently cited challenge was the ability to transmit and receive funds in Syria. The number of corresponding banking services working with Syrian banks have considerably diminished throughout the years, while no new correspondent banks can legally operate with Syrian financial institutions because of restrictions imposed by the US and EU. This situation has led to increasing financial, administrative and operation challenges for INGOs.<sup>184</sup> INGOs

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180 - Dr Erica Moret, personal communication, 25 May 2020.

181 - Justine Walker (2016), "Study on Humanitarian Impact of Syria-Related Unilateral Restrictive Measures", *UN Economic and Social Commission for Western Asia and Office of the UN Resident Coordinator in the Syrian Arab Republic*, <https://bit.ly/2Z648oh>, p. 14

182 - Tom Keatinge and Florence Keen (2017), "Humanitarian Action and Non-state Armed Groups: The Impact of Banking Restrictions on UK NGOs", *International Security Department and International Law Programme*, <https://bit.ly/2X5TcVk>, p.8

183 - Interview member of INGO operating in Syria, April 2020

184 - Interview member of INGO operating in Syria, April 2020;



headquartered in Europe have had to regularly change their relationships to corresponding banks as many of these intermediary institutions have increasingly had to close their operations in connection with Syria. This has sometimes led to the cessation of transfers from these entities to fund humanitarian programmes and created severe delays in their implementation,<sup>185</sup> or simply led to their cancellation.<sup>186</sup>

Complying with banking procedures and requirements has increasingly become a priority for NGOs delivering assistance on the ground, which has often hindered their ability to respond effectively to emergency situations. This has led a number of humanitarian NGOs to devise their assistance programmes to prioritise financial access, rather than need. Similarly, it has led to a concentration of humanitarian activities and programmes in regions characterised by less restrictions and/or a less complicated compliance environment. In contrast, more marginalised and so-called high risk and “dangerous” regions might therefore be excluded from support.

Most humanitarian INGOs and NGOS complained of the consequences of these administrative and financial problems in their daily activities in operations. As documented elsewhere,<sup>187</sup> this situation has also hampered the willingness of some organisations to expand their activities or engage with larger sums of funding. Alongside this situation, compliance staff in NGOs and INGOs reported the frequent need to regulate or limit some operations fearing they could be in breach of sanctions or other regulations. For example, the export of any item containing more than 10% US origin requires a licence under US sanctions,<sup>188</sup> such as computers with Microsoft programmes, so the compliance staff would block any such purchase until a specific licence had been obtained (if the item was not already covered under a general licence). Such a process could last months, with no guarantee that it would actually be granted.<sup>189</sup> In addition, and as described in one report, “In the case of Syria, the response normally leans towards a voluntary boycott. Even where goods and finance can be licensed, the licensing costs are often higher than the value of the goods and services”.<sup>190</sup>

Moreover, the very broad definition of dual-use goods (meaning goods that can be used for both peaceful and military purposes) in the EU and US sanctions<sup>191</sup> regimes is particularly problematic. Specific licenses are needed for every transaction involving such goods, resulting in added costs, financing difficulties and long processing delays. For INGOs involved in humanitarian and stabilization initiatives, this complicates their work considerably.<sup>192</sup>

Several Humanitarian NGOs and INGOs have also stated the sanctions, including the Caesar Bill, and its consequences will involve greater restrictions on financial transfers, especially when it involves transfers in USD and will

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185 - Norwegian Refugee Council (2018), “Principles Under the Pressure, the Impact of Counterterrorism Measures and Preventing Countering Violent Extremism on Principled Humanitarian Action”, <https://bit.ly/363piox> p. 26

186 - Alice Debarre (2019), “Making Sanctions Smarter: Safeguarding Humanitarian Action”, *International Peace Institute*, <https://bit.ly/2ArzT0M>, p.10

187 - Stuart Gordon, Alice Robinson, Harry Goulding and Rawaad Mahyub (2018), “The impact of bank de-risking on the humanitarian response to the Syrian crisis”, *Humanitarian Forum, HPG and the London School of Economics and Political Science (LSE)*, <https://bit.ly/2z3T3Jl>, p. 9

188 - Interview member of INGO operating in Syria, April 2020;

189 - The Swiss Government and the EU issued a special waiver for its staff working in their humanitarian satellite office in Damascus allowing them to use Syriatel cell phone carrier services. (Interview with an employee of a Syrian NGO, April 2020)

190 - Justine Walker (2016), “Study on Humanitarian Impact of Syria-Related Unilateral Restrictive Measures”, *UN Economic and Social Commission for Western Asia and Office of the UN Resident Coordinator in the Syrian Arab Republic*, <https://bit.ly/2Z648oh>, pp.14-15

191 - In the U.S. case, exports prohibitions are much broader and cover both export and re-export, sale or supply, whether directly or indirectly from the U.S. or by a US person located anywhere in the world

192 - Anonymous interview with four members of EU Delegation to Syria – Development Cooperation Section based in Beirut, April 2020.

alarm even more financial institutions leading many of them to not take any risk in any relations with Syria.<sup>193</sup> Interviewees from humanitarian organisations expressed their concern that it will also result in delays that it will increase delays in transfer or simply led to more blocking and accounts being closed. Fears that the Caesar Bill could also potentially sanction some operations of INGOs and of UN agencies in Syria considered as pertaining to small “reconstruction” or “recovery efforts”, which remained rather tolerated until now, were also raised in interviews.<sup>194</sup>

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193 - Anonymous interview member of a Syrian NGO, April 2020

194 - For more information on the Caesar Bill see Joseph Daher (2020), “The ‘Caesar Bill’: A step towards accountability in Syria, or a worsening economic crisis?” *Syria Untold*, <https://bit.ly/2zbJVmE>

## Conclusion

Since 2016, NGOs working on Syria have faced ever-increasing difficulties and some have had to cancel projects because they could not keep up with the paperwork required by donors. Despite initiatives and conference between various actors (NGO and INGO, states officials, and banking employees) to improve and facilitate the financial operations and transfers of NGOs working on Syria, there does not appear to have been any significant progress; frequently quite the opposite. As argued by Andrea Hall, Policy Counsel at Charity & Security Network, “any mention of Syria is a red flag for banks and final institutions”.<sup>195</sup> In most cases, changing the name of a given organisation might facilitate some basic financial operations, but it does not change significantly alter the obstacles and challenges faced by organizations connected to, or working on, Syria. In addition, the lack of similar rules of compliance between banks and even sometimes within the same bank complicates transaction processes and increases the uncertainty in financial operations and practices.

This is despite the fact that the US Treasury has reported that “U.S.-based tax-exempt charitable organizations play an important role in delivering aid to communities worldwide and in countering terrorist propaganda and recruitment” and adding “The Treasury and interagency partners will continue to engage with charitable organizations and financial institutions to evaluate and communicate the actual risk that these organizations may be misused to support terrorism and that financial institutions apply the risk-based approach to the opening and maintenance of charity accounts, as the vast majority of U.S.-based tax exempt charitable organizations are not high risk for terrorist financing”.<sup>196</sup> This statement represents a significant step forward in the eyes of several experts towards an improved process for financial operations of humanitarian organisations working on Syria, but real improvements need to be seen yet.<sup>197</sup>

Larger NGOs and INGOs can sustain some of the difficulties faced in the obstacles and challenges mentioned above in the text because of their more sizeable budgets and larger compliance staff in comparison to more modest and smaller entities. This said, this situation did not slow down the process of the transfer of risks to the Syrian NGOs operating on the field in neighbouring countries or in Syria. Frequently, the opposite is the case. This is why they are disproportionately affected by bank de-risking processes and measures as they face the main risks. The complexity and overlapping nature of the sanctions regimes in place against Syrian targets also exacerbates challenges faced by these humanitarian actors.

In conclusion, initiatives such as the presence of a “better provision guidance” on sanctions regimes is welcome, but clearly not enough to bypass the structural problems faced by humanitarian NGOs and INGOs operating in Syria or in neighbouring countries, or more generally in conflict zones. Humanitarian NGOs and INGOs are confronted by challenges that are not solely punctual obstacles to try to overcome case by case but are, instead, structural in nature and embedded in the financial system and the various sanctions regimes.

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195 - Interview skype Andrea Hall, Policy Counsel at Charity & Security Network, March 2020,

196 - US Treasury, “National Strategy for Combating Terrorist and Other Illicit Financing2020”, 2020 <https://home.treasury.gov/system/files/136/National-Strategy-to-Counter-Illicit-Financev2.pdf>, P.44-45

197 - Interview skype Andrea Hall, Policy Counsel at Charity & Security Network, March 2020,

# About the Research Team

## Dr. Joseph Daher

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Completed a Doctorate in Development Studies at SOAS, University of London (2015), and a Doctorate in Political Science at Lausanne University (2018), Switzerland. He currently teaches at Lausanne University and is a part time affiliate professor at the European University Institute, Florence (Italy) and participates in the „Wartime and Post-Conflict in Syria project“ (WPCS). He is the author of Hezbollah: Political Economy of the Party of God (Pluto Press, 2016) and Syria After the Uprisings: The Political Economy of State Resilience (Pluto Press 2019). He created the blog Syria Freedom Forever.

## Dr. Erica Moret

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Is Senior Researcher at the Centre for Global Governance and Visiting Lecturer at the Graduate Institute, Geneva, as well as Chair of the Geneva International Sanctions Network (GISN) and Associate Editor of the Journal of Global Security Studies. She holds a DPhil (PhD) from the University of Oxford, where her research focused on the health and socioeconomic impacts of US sanctions on Cuba. She wrote one of the first peer-review articles that sought to examine the likely humanitarian ramifications of broadened EU sanctions on Syria and Iran and has served as an independent expert to the UN, including for OHCHR, UNICEF and the Human Rights Council. For the past four years she has organised consultations on the humanitarian situation in Syria on behalf of the Swiss government and in 2019/2020 she convened the “Compliance Dialogue on Syria-Related Humanitarian Payments”, a project run through the Graduate Institute; funded by the Swiss Agency for Development and Cooperation, and supported by the European Commission, Directorate General for European Civil Protection and Humanitarian Aid Operations (DG ECHO). More widely, she has provided evidence to Inquiries on sanctions for both UK Houses of Parliament and sits on a number of high-level EU task forces.

## IMPACT – Civil Society Research and Development e.V.

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founded in Berlin in 2013, is a non-profit civil society organization. With a team based across Europe, Syria, Lebanon, Turkey and Iraq, IMPACT aims for a globally active and well-connected civil society as the cornerstone for social and political change. To this end IMPACT focuses on long-term and balanced support to individuals and organizations in both conflict and developed countries through its fields of work of development, dialogue and social engagement. With a significant emphasis on research

## We Exist

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is an Alliance of Syrian Civil Society organizations, supported by international partners, working together to ensure the role of Syrian Civil Society is present and central to any thinking and planning on Syria. To achieve this we organize and coordinate public campaigns, participate in advocacy opportunities, work closely with the media, and coordinate lobbying that targets decision makers and policy makers in Europe. The We Exist alliance challenges the marginalization of Syrian voices in all spheres and ensures that Syrian Civil Society voices from inside Syria and outside are heard.



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**Civil Society Research  
and Development**

Published by:

IMPACT - Civil Society Research and Development e.V.

Keithstraße 10 , 10787 Berlin

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