CASH FLOW CONUNDRUM:
POLICY SHIFTS AND VOLATILE HAWALA FEES

JANUARY 2024

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Contents

Executive Summary

Informal financial mechanisms that facilitate transfers from the Syrian diaspora community, commercial actors, and humanitarian and development actors have been a critical lifeline for many inside Syria. Many hawala agents facilitating payments into northeast Syria base their operations in Erbil, benefiting from the Kurdistan Region in Iraq's (KRI) close geographic proximity to Autonomous Administration in Northeast Syria-held (AANES) held areas and, until late 2023, relatively lax banking regulations and compliance.

In the latter half of 2023, the US Treasury, Iraqi authorities, and AANES introduced policy changes that upended the hawala infrastructure, leading to higher transfer fees and delayed payments. The informality of these hawalas has often led to a disjointed understanding of how they operate and on what basis hawalas set their commission fees. In this report, CA–SYR will unpack the ambiguity surrounding these developments, aiming to discern the implications of decisions made in both Iraq and northeastern Syria. Concurrently, the document seeks to delineate the potential repercussions accompanying these, and potential future, alterations.

Key Takeaways

- Hawalas facilitating payments into northeast Syria from Erbil reportedly establish their operations and finalize settlements among each other in Turkey rather than northeast Syria or Erbil. Essentially, hawala agents in Erbil move cash into Turkey to consolidate capital and "settle," should transfers going in each direction fail to cancel out debts.
- Individual hawala operations (in Syria and beyond) hinge predominantly on two pivotal pillars: Liquidity and velocity. Put simply, higher liquidity translates to greater transactions that can be accommodated based on volume of cash within a market, whereas higher velocity, referring to both the number of entities essential for the payment's ultimate destination or the extent available cash is circulating throughout the market, augments the efficiency of both operations and transfers.
- Several considerations and determinants have the ability to impact liquidity or velocity and, thus, are likely to impact transfer fees and speed. These include: the degree of regulations; local market size of the destination; safety and security conditions; the size of individual transfers and consistency of the aggregate value of transfers for individual hawala clients; whether transfers are facilitated by advanced payments versus reimbursements; and waiting times and requests to disperse smaller notes.
- Three shifts affecting the operational environment for hawalas in Iraq brought forward by the US treasury, the Central Bank of Iraq, and the Autonomous Administration in North and East Syria (AANES) taking place throughout the latter half of 2023 possess the ability to impact hawala liquidity and velocity, and therefore transfer fees.
- The most prominent impact and visible impact was brought forward by the Central Bank of Iraq's ban on dealing with USD in Iraq that led NGOs to see their hawala transfer fees increase from between 2% to 5% upwards of 8% to 11% before stabilizing between 6% and 7%. This was primarily due to hawala agents facing increased issues when settling or consolidating capital in Turkey to settle. In other words, velocity for hawala operations decreased, while liquidity in Iraqi markets was also impacted.

- Attempting to circumvent these issues, hawala agents are attempting to open up shop in other destinations such as the United Arab Emirates (UAE) or Jordan. However, strict banking regulations in Jordan, coupled with attempts by the UAE to introduce more regulation means that whether or not such endeavors will be successful remain unknown.
- On the other hand, increased regulation by the AANES on hawala operations, though yet to take effect, could also impact liquidity and velocity in AANES-held areas. Through enforcing high registration and licensing costs, while simultaneously setting high minimum capital requirements on hawala agents, these new regulations risk running a number of offices out of business. As a result, transfer fees could potentially increase further.
- As a result of increased transfer fees, humanitarian and development organizations operating in northeast Syria based out of Erbil were faced with new unaccounted for overhead costs in the budgets dedicated to implement projects, procure materials/goods and pay salaries. Organizations were also faced with longer waiting time to get their transfers into Syria, risking program delays, misaligned budget burn rates, and disgruntled staff.
- Markets and households were equally likely to be affected by these decisions. Traders importing goods from Kurdistan Region in Iraq (KRI) are expected to face slower transfer times and higher transfer fees that could stem from the AANES's policy changes. These cost increases are expected to be passed onto consumers who are already experiencing difficult economic conditions brought about by continuous price increases, decreases in affordability associated with a depreciation of the Syrian pound, coupled with fuel and electricity shortages. Remittances are also expected to slow down, overall slowing down aggregate economic circulation.

Informal financial mechanisms that facilitate transfers from the Syrian diaspora community, commercial actors, and humanitarian and development actors have been a critical lifeline for many inside Syria. Many hawala agents facilitating payments into northeast Syria base their operations in Erbil, benefiting from the Kurdistan Region in Iraq's (KRI) close geographic proximity to Autonomous Administration in North and East Syria (AANES)-held areas and, until late 2023, relatively lax banking regulations and compliance.

In the latter half of 2023, the US Treasury, Iraqi authorities, and AANES introduced policy changes that upended the hawala infrastructure, leading to higher transfer fees and delayed payments. The informality of these hawalas has often led to a disjointed understanding of how they operate and on what basis hawalas set their commission fees. In this report, CA–SYR will unpack the ambiguity surrounding these developments, aiming to discern the implications of decisions made in both Iraq and northeastern Syria. Concurrently, the document seeks to delineate the potential repercussions accompanying these, and potential future, alterations.

Hawalas in Syria: An overview

Hawalas are informal financial mechanisms built on a network of agents bound by trust to facilitate cash transfers quickly with relatively little bureaucracy, and physical or virtual exchange of capital, compared to formal bank transfers. Functioning for hundreds of years, hawalas are a popular method to transfer funds in the Middle East and South Asia; in other jurisdictions, the financial practice is outlawed, owed to the relationship between illicit financial practices via hawalas. Despite its existence before 2011, hawalas in Syria have grown in prominence since the onset of the Syrian conflict. This is largely due to the country's fragmentation into multiple zones of control, coupled with sanctions and the breakdown of financial services that rendered access to the country's traditional finance system nearly impossible. Syrians, therefore, increasingly resorted to hawalas to send through remittances to help support their families.

Syrians living abroad were not the only beneficiaries of the hawala infrastructure, as NGOs also sought to pivot to this system when the conflict left no functioning financial system. For humanitarian and development operations in northeast Syria (NES) and northwest Syria (NWS), these networks are leveraged to send payments for expenses related to operations, programs, and staff salaries.

How Hawala Operations Function

At their core, hawalas serve as quasi-banking institutions that involve senders delivering cash to a hawala agent, who subsequently activates their network to authorize the disbursement of the specified amount to the intended beneficiary. In this transactional process, sending and receiving agents levy a transfer fee. This expeditious system ensures that beneficiaries can promptly collect the transferred funds without the need for the physical movement of cash or compliance and due diligence processes required in formal wire and bank transfers, thereby streamlining the transfer process.

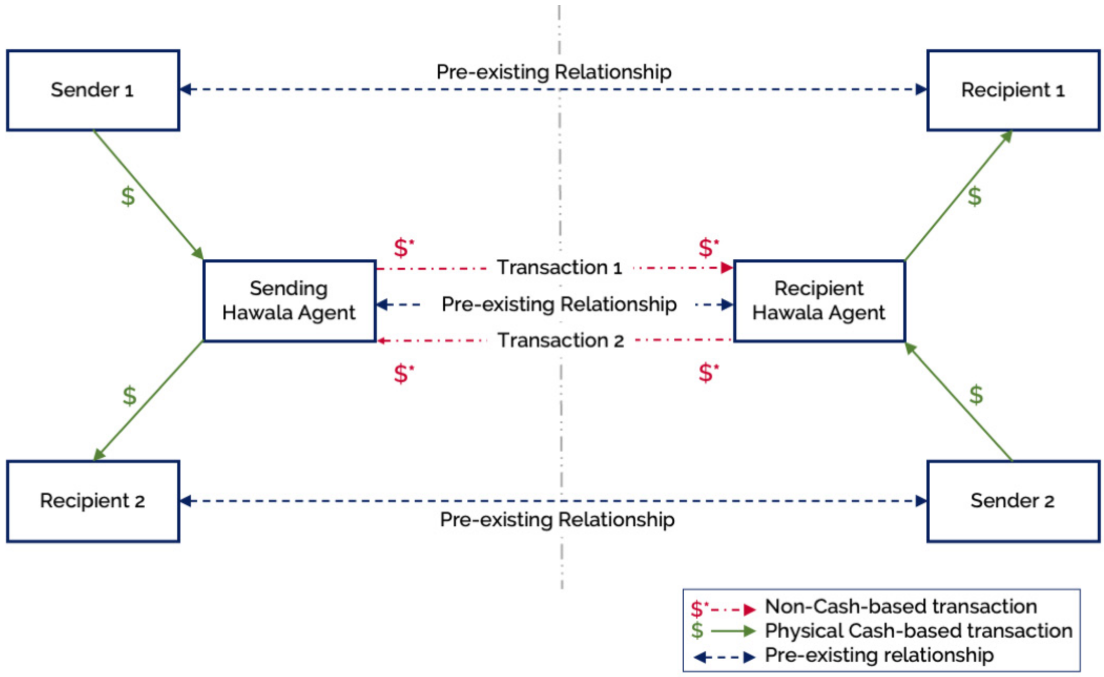

Diagram 1. How hawala networks operate with equally valued transactions. When there is an imbalance in one direction, settlements – in the form of either physical asset exchanges or bank transfers – are typically necessary. (Source: CA–SYR)

While hawalas are largely based on cash transfers without the physical movement of cash, eventually, cash is moved from one place to another to balance out debt between agents or consolidate capital. In other words, the debt needs to be "settled," particularly if there is a directional imbalance of transfers. According to various sources, there are several ways through which debts can be settled, namely:

- Through bi-directional transfers that facilitate sending and receiving, hawala agents cancel each other's debts. Hawala agents reportedly maintain a large network with other agents serving customers such as individuals, traders, and NGOs. Through diversifying their customer base, hawala agents are capable of facilitating more payments and have a greater ability to cancel debts. For instance, a hawala agent in country A can cancel off his debt to another agent in country B that was generated from requesting a remittance payment in country B by facilitating payments in country A made for trade purposes.
- Through the movement of cash from one agent to another in the form of physical cross-border cash movements or through bank transfers that move capital from one agent to another. In Syria, however, given the nature of the protracted conflict and the existence of multiple

zones of control, checkpoints, and other impediments for the physical movement of cash, the latter method – i.e. bank transfers taking place outside of Syria on behalf of their partners in Syria– is reportedly the preferred method.

The inherent informality characterizing hawalas introduces a potential complexity in the latter method, potentially involving numerous intermediaries before reaching their ultimate destinations. Formidable challenges may arise, particularly when the final settlement destinations are situated in jurisdictions governed by stringent banking laws.

Hawalas facilitating payments into northeast Syria from Erbil reportedly establish their operations and finalize settlements in Turkey rather than northeast Syria or Erbil. Essentially, hawala agents in Erbil move cash into Turkey to consolidate capital and "settle," should transfers going in each direction fail to cancel out debts. The opaqueness of the hawala industry renders identifying the reason behind choosing to settle in Turkey over northeast Syria or Erbil rather difficult. However, this tendency could be attributable to the absence of, or weak financial infrastructure, such as banks, in northeast Syria and Erbil, compounded by the significant presence of millions of Syrians in Turkey, potentially serving as a facilitating factor given the expansive networks and high demand (and thus profitability) for hawala services. Consequently, local hawala agents assert that, for hawala agents to successfully transfer cash from Erbil to northeast Syria, agents must possess the capacity to eventually physically transfer USD from Erbil into Turkey, either through their established networks or independently to settle debts.

Image 1: The Zet International border crossing between the KRI and Turkey. (Source: Kurdistan Regional Government)

Liquidity and Velocity

Beyond this core functionality, individual hawala operations (in Syria and beyond) hinge predominantly on two pivotal pillars. First, the success of transfers is intricately tied to liquidity – the capacity of an individual hawala agent to access and circulate physical cash within their local markets to facilitate their operational endeavors, based on the availability of cash. This access is often augmented through currency exchanges, particularly from the USD to the Syrian Pound. Notably, hawala agents frequently engage in concurrent currency exchange activities, providing them access to hard currency. The level of liquidity significantly impacts the efficacy of hawala operations by imposing constraints on the volume of transactions that can be facilitated. In essence, lower liquidity translates to fewer transactions that can be accommodated.

The second pillar influencing transfers is velocity – the frequency and amount with which financial instruments (such as cash) are utilized throughout an economy. Velocity is affected by the degree entities withhold capital from the market, as well as the number of intermediary entities required to transfer physical capital before reaching its ultimate recipient. As hawalas function as intricate networks for cash movement, the greater the number of entities involved in a single payment, the more intricate and time-intensive the transfer becomes. In essence, a higher velocity, or a reduced number of entities essential for the payment's ultimate destination, augments the efficiency of both operations and transfers. Critically, velocity decreases – and thus, hawala network functionality deteriorates – at times of uncertainty and low confidence in operational continuity as entities safeguard their assets by removing them from the market.

Velocity not only impacts operations from the sender to the end beneficiary but also impacts a hawala agent's ability to settle in what is dubbed by some to be an operation's 'settlement rate.' The higher the settlement rate – i.e. the number of entities cash has to go through to eventually reach an indebted agent – the more restricted hawalas are in terms of ability to facilitate transfers. In other words, the more direct connections an agent has to another agent in the area where the receiving agent bases their operations, the easier it is to sign off transfers.

Transfer Fee Determinants

In addition to overhead costs such as rent and setup costs, several considerations and determinants have the **ability to impact liquidity or velocity** and, thus, are likely to impact transfer fees and speed. The complexities of these networks and operations lead to highly volatile transfer conditions. For instance, hawala transfer destinations, and the inherent conditions, are a central consideration in the calculation of transfer fees and the ability to remit capital quickly. The informality and opacity of this sector renders it challenging to understand the reason behind this phenomenon, and what are the determinants for transfer fees. In this section, we seek to unpack the determinants of transfer fees.

Above all, as private sector financial actors, hawalas are naturally inclined to **maintain a profit margin** regardless of clientele or operational volatility. Transfer fees are also set **depending on customer type**. For instance, more often than not, NGOs are charged different, commonly cheaper, rates compared to individuals (such as family members sending remittances).

The degree of regulations set by governing actors on hawala operations has a direct impact on fee variation, as has been experienced in hawala-related issues in late 2023. This is not only specific to the recipient jurisdiction, but also any intermediary jurisdictions. Lower restrictions, naturally, ease transfers allowing for greater liquidity and higher velocity, therefore leading to lower fees. For instance, transfer rates into Syrian Salvation Government (SSG)-held areas are cheaper in comparison to Syrian Government-held areas largely due to a more permissible regulatory environment within SGG-held areas, allowing for greater liquidity and velocity.

The **local market size of the destination** is central to determining transfer fees; less populated areas have a lower velocity of hawala transfers, which increases the likelihood that resettlement occurs at a slower pace. In other words, the supply and demand of service providers, in addition to the area where a transfer is being both sent to and from, are critical. According to various sources, the amount of hawala providers in an area that transfers are meant to be sent to, by way of competition, leads to lower fees. Equally, the amount of hawala providers present in an area a transfer needs to be sent from follows a similar dynamic.

Safety and security conditions in the intermediary and destination areas also play a role, as was evident in the aftermath of the February 2023 earthquakes in Turkey and northern Syria. More stable conditions lead to lower fees, given that safety and security risks and considerations are lower. According to local sources, more insecure areas require the hawala agent to exert greater effort and mitigate higher risks in planning the end delivery to the user, potentially seeking to protect physical capital and employ more people for the delivery, ultimately leading to lower velocity. In some instances, high levels of insecurity can halt transfer operations altogether. For example, in October 2023, hawala agents in Idleb were unable to deliver transfers amid escalated bombardment by Syrian government forces.

Various sources also noted that the **size of individual transfers, as well as consistency of the aggregate value of transfers for individual hawala clients, also play a role**: the higher the transferred sum, the lower the fees. Local sources also reported other variables that play a role in determining the transfer fees, particularly related to **whether transfers are facilitated by providing advanced payments versus reimbursements**. If customers can provide hawala agents with a lump sum in advance, noting that they require transfers in the future, hawala agents are reportedly more willing to charge lower fees than customers who request on demand, and then reimburse.

Waiting times and requests to disperse smaller notes are also other variables that affect transfer fees. According to local sources, the standard waiting time for transfers to Syria is between 24 and 48 hours. Should customers request an emergency transfer, transfers are charged at a premium. Requesting to transfer smaller note bills also pushes the transfer fee up. For instance, NGOs conducting cash assistance, requesting small bills to be transferred oftentimes are charged higher fees. This is primarily due to the lack of available small bills, necessitating more time in local markets to secure smaller notes.[1]

Image 2: Central Bank in Iraq (Source: Asharq Al-Awsat)

Transfer rates increases: Policy changes in NES and Iraq

In the latter half of 2023, three primary shifts in the regulatory and operational environment for northeast Syria hawalas can be attributed to broader disruptions: increased scrutiny on Iraqi banks brought forward by the US Treasury; a ban in dealing with USD brought by the Central Bank of Iraq; and new instructions forcing hawala agents to register amid more restrictions on

1 NGO employees noted that in some cases, smaller bills could not be secured, forcing programs to dispense them in their equivalent in Syrian Pounds (SYP) or a combination of USD and SYP.

the inflow and outflow of USD brought forward by the AANES. These shifts ultimately decreased the liquidity between Erbil and Turkey, as well as decreased velocity amongst hawala offices in northeast Syria, prompted by various policy changes introduced in both Iraq and AANES-held areas.

Driven partly by increased scrutiny on Iraqi banks brought forward by the US Treasury Department, and attempts to de-dollarize the economy to strengthen the Iraqi Dinar (IQD) amind constant black market exchange rate fluctuations, media outlets circulated news on 5 October that Iraq intended to ban all cash withdrawals and transactions in US dollars as of 1 January 2024.[2] This decision was not announced out of a vacuum but is instead an extension of a decision announced by the Central Bank earlier in September limiting all internal transactions to the Iraqi Dinar by the same date.

Though the news came as a shock to many, hawala fees to transfer funds into northeast Syria immediately increased from between roughly 2% to 5% to upwards of 8% to 11% following the decision before stabilizing between 6% and 7% in late December 2023. The issue driving such a decision goes back for a number of years, and increases in complexity when coupled with geopolitics and the structure of how Iraq's Central Bank receives its dollars.[3]

This increase in transfer fee rates is largely due to the added financial burdens and logistical obstacles brought forward by the CBI facing hawala agents who have largely pushed their newly incurred costs on their customers. Put simply, the CBI's latest decision impacted transfer fees by affecting hawala velocity and settlement rates. Before the CBI decision, bank transfers from Erbil to Turkey were easily facilitated. For those who physically carried cash across the border, the costs of this transfer were merely $5 per $10,000 carried into Turkey, according to knowledgeable sources. Following the decision, bank transfers theoretically could no longer be facilitated while the costs of physically moving cash increased from $5 per $10,000 to between $400 and $600 for the same amount. Though local sources noted that the cost later went down to between $20 and $50 per $10,000, the reality is that the regulations meant that more layers were added to the settlement process, effectively decreasing velocity.

The CBI's decision impacted liquidity within local Iraqi markets. Soon after the decision began taking effect, Iraqi hawala agents' access to USD in local markets tightened. As a result, agents then had to start carrying the Iraqi Dinar (IQD), transferring it into USD in Turkey, and then settling.[4] According to hawala agents, strains in liquidity within Iraq meant that another layer of costs on hawala agents was pushed onto consumers, albeit at different rates.

Alternative Banking Jurisdictions

NGOs that previously sent funds into Syria via bank transfer to Erbil-based bank accounts belonging to hawalas were also faced with longer waiting times for transfers to complete. According to various local sources, this is largely because many hawala agents attempted to set up new operations in countries such as the United Arab Emirates (UAE) and Jordan to circumvent

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2 As of 23 January, local sources stated that the decision is yet to be implemented. That said, the repercussions of the decision have already surfaced.

3 According to media outlets, dollars generated by the Iraqi state through its sale of crude oil on the international markets are not automatically funneled to the state, but to the Federal Reserve Bank of New York (Federal Reserve). Based on requests made by the Iraqi Government, the Federal Reserve then supplies the Iraqi Central Bank with hard currency either in cash or foreign transactions.

4 While no indications of exchange rates between these currencies were evident, the inherent arbitrage opportunities likely influence hawala agents' decisions – as well as transfer fees – when dealing in multiple currencies.

the liquidity issue put forth by the CBI's decision preventing them from settling. However, this new endeavor led to new operational costs, uncertainty regarding the application of banking regulations and compliance, and a likely expansion of the operational framework through which hawalas had to navigate to settle their debts, which ultimately meant the velocity and hawalas agents' ability to settle was impacted.

Moving operations to the UAE could prove to be successful for hawala operations. However, whether or not transfer fees will revert to previous percentages solely based on banking jurisdiction remains unknown. This is largely because of the increased regulations imposed by the UAE on the financial sector since it was placed on the "Grey List" in 2022, introducing more oversight and stricter compliance measures. Hawala operations in the UAE were also subjected to regulation in 2021, with authorities requiring agents to register as a legal entity and tie their operations to a registered UAE bank account in an effort to strengthen oversight over transfers. As such, given that such measures are in place, moving operations to the UAE might solve the liquidity issue for hawala agents, but not necessarily issues related to velocity and the ability to consolidate capital in Turkey to facilitate settlements.

Moving operations to Jordan could successfully navigate issues preventing the consolidation of capital in Turkey, but similar to the UAE, whether or not transfer fees will decline remains unknown. This is also largely due to Jordan introducing strict regulations on the baking system in its successful endeavor to remove itself from the "Grey List" in 2021. Hawalas are also under the strict eye of the Jordanian government, which requires hawala agents to retain considerable information on both the sender and receiver in addition to the purpose of the transfer. The spirit guiding such strictness could also be seen recently when the Jordanian Central Bank waived the exemptions it once introduced for hawala transfers inside Syria following the earthquake, resorting back to limiting hawala agents in Jordan to only send transfers to a registered agent with the Syrian government.

Potential Hawala Issues in 2024

Image 3: Emblem of the Autonomous Administration in Northeast Syria (AANES)

Instructions issued by the Autonomous Administration in North and East Syria (AANES) throughout 2023 also risk exacerbating challenges to hawala transfers into northeast Syria. Hawala agents who do not comply with these measures, such as non-registration, would face the threat of their operations being shut down, assets seized, and transfers delayed. Other measures, such as capital requirements (detailed below), may help support the solvency of hawala companies; however, this may be at the expense of the velocity of cash and could be met with resistance from companies unwilling to provide the degree of transparency to prove these requirements.

In May 2023, the AANES continued its years-long attempts at regulating the informal financial sector in areas under its control, giving hawala agents three months to register their companies.

AANES's new instructions should not be viewed as a siloed action but as part of broader attempts to regulate financial markets within its areas of control. AANES later announced an extension in August, allowing hawala agents until October to register while simultaneously, and perhaps more significantly, announcing new licensing fees and capital requirements (how much in liquid assets they must have) for hawala companies and their affiliate branches to register. Though no criteria have been provided, these requirements are based on the size of hawala agents and their affiliates, splitting between 'large' and 'small' offices.

Based on the regulations announced in October, hawala licenses will cost 'large' companies $3,000 USD for main offices and $1,000 USD yearly thereafter to renew their registration for their main office; additional fees of $300 USD per branch are also required. Licenses for 'small' hawala offices cost $500 USD for their main office, and $100 for each branch; renewals would then cost $300 USD yearly for main offices and $100 USD per branch. Regarding minimum capital requirements, hawala companies (considered 'large') must have capital equal to $500,000 to operate, and freeze $75,000 with the AANES as a guarantee. Hawala offices ('small') must prove that they have a capital of $50,000, and freeze $7,500 as a guarantee.

Financial transaction regulations continued in December 2023 as well as the AANES issued instructions imposing strict conditions on travelers across the border and in areas under its control. The October regulations outline requirements for travelers with over $5,000 in assets to declare it before entering northeast Syria.[5] The regulations also restrict foreign capital movement to other zones of control, and specify that the AANES reserves the right to seize assets should they suspect non-disclosure. **These regulations can be found in Annex I**.

The new set of policies by the AANES inadvertently risks increasing rates further by impacting liquidity and velocity within northeast Syria. Though the enforcement and subsequent impact remains to be seen, local hawala agents noted that the several protests and strikes held in Menbij, Amuda, Ar-Raqqa, Quamishli, and other areas did not repeal AANES's new policy forcing hawala agents and companies to register. In fact, local sources noted that many hawala agents and companies are moving forward with applying to register. However, these agents are skeptical that many agents and companies will receive approval, or will actually be able to afford to keep up with AANES's requirements. As a result, these new policies are likely to increase transfer fees given that access to physical cash will be more restrained and that there will be fewer networks to facilitate payments.

It must be noted that this is not the first attempt by the AANES to regulate the financial market, rather it has been attempting to do so through different means for several years. The impacts of AANES's new policies are yet to be fully clear, and dependent on whether or not the AANES is indeed willing to push to implement these policies, in addition to the extent it is capable of enforcement.

5 Knowledgeable sources have pointed out that at the crossing between KRI and northeast Syria, signage states that the amount is $10,000, contradicting the December 2023 announcement.

Impact

The latest regulations introduced by authorities in Iraq and northeast Syria should be viewed as attempts to protect – or perhaps strengthen – control over their respective financial systems. While Iraq is likely attempting to protect its currency and access to international banking systems, the AANES is likely attempting to build a new framework through which it could impose taxes to diversify its revenue schemes. Though progress has been made to diversify their revenues, oil sales still compose 76% of AANES's budget, an issue described by the Co-Chair of AANES' Finance Commission to reflect "economic imbalance." That said, local sources, traders, humanitarian organizations, and hawala agents have all warned of the potential implications these new policy changes could bring.

Though cash transfers for many organizations have resumed with a degree of normalcy in the new year, more hurdles in navigating hawalas are evident for 2024. Policy changes introduced by the CBI and AANES have the potential to upend cash flow inside and outside of northeast Syria presenting challenges to humanitarian organizations, markets, and households, who will face a changing operational environment. Whereas organizations are likely to feel bottlenecks and delays in implementation due to changes in overhead costs, markets, and households are expected to feel the brunt of these changes. Inflation and unemployment are likely to be the consequences of these changes, while markets are likely to see an overall dip in economic activity that could potentially spur more inflation and unemployment and also dampen investment opportunities.

Impact on Humanitarian and Development Actors

Humanitarian and development organizations operating in northeast Syria based out of Erbil were faced with new and unaccounted-for overhead costs in their budgets to implement projects, procure goods, and pay staff salaries in full. Organizations not only faced added costs but a decrease in the velocity through which they could transfer funds. The added procedural processes hawala agents faced in getting cash into Turkey, and then transferring that into USD, meant that they could not transfer funds as quickly as they once did, effectively leading to project payments being delayed, and slowing project implementation for many organizations.

Similar implications could also largely be the case stemming from the policy changes introduced by the AANES. However, predictions as to what extent hawala agents will charge humanitarian and development organizations, at best, remain highly speculative. This is largely due to three main factors, namely: the inability to predict whether the AANES will go forward with forcefully shutting down operations for hawala offices and companies that do not register, the inability to forecast how many offices and companies will be run out of business, and, lastly, how the black market will operate following these possible closures.

Abrupt obstacles to hawala transfers have obvious effects on response actors, whether related to operational or programmatic delays, negative impacts on cost transfer ratios and increased operational costs, misaligned budget burn rates, or disgruntled staff, vendors, and participants. Response actors would therefore benefit from scenario mapping and advanced planning in anticipation of further disruptions based on these potential issues while maintaining a high degree of attention and diligence to the imposition of regulations – and reactions by hawala traders.

Impact on Markets and Households

The impacts brought about by policy changes made by both the CBI and the AANES are not limited to humanitarian and development organizations, but potentially extend broadly to markets and households. Traders importing goods from the Kurdistan Region in Iraq and northwest Syria are expected to face the same difficulties that humanitarian and development organizations will. Essentially, traders importing goods will face slower transfer times and will be charged higher rates as a result of the implications brought forward by AANES' recent policy changes. Meanwhile, those exporting goods – though AANES exports to the KRI are not particularly significant – will also face difficulties as a result of the CBI decision to ban dollar payments to outside of Iraq. Equally, those importing and exporting goods from and to northwestern Syria will face difficulties given AANES' recent attempts at regulating and restricting inflows and outflows of USD from AANES-held areas.

Image 4: A marketplace in Ar-Raqqa City. Source: The Syrian Observer

Despite these difficulties, trade will likely continue with minimal operational disruption stemming from hawala dynamics. However, local sources anticipate that cost increases on traders will be passed on to consumers. As a result, the broader market implications brought forward by recent decisions made by both the CBI and the AANES will be price increases in an area that is already witnessing continuous price increases, decreases in affordability associated with a depreciation of the Syrian pound, coupled with fuel and electricity shortages. The price increases are expected to further constrain household purchasing power, exacerbate economic vulnerabilities, and contribute to growing levels of inequality between those who can afford basic commodities versus those who do not. Poorer households are expected to foster new, or strengthen existing, negative coping mechanisms such as skipping meals, child labor, and debt, to name a few.

Perhaps the greatest economic impact of these policy changes is on investment prospects for real estate, infrastructure, and small and medium-sized enterprises (SMEs) in northeast Syria. Between remittances, trade, and humanitarian and development operations, hawala agents in northeast Syria claim that millions of dollars flow in and out of northeast Syria daily. Multiple sources believe that the CBI's decision will impact the inflow of remittances and therefore slow down economic circulation, while local sources concluded that the decisions by AANES are likely to disincentivize investment in northeast Syria. As a result, both decisions could lead to fur-

Annex I: AANES Asset Declaration Regulations in NES

On 11 December, the Autonomous Administration in North East Syria (AANES) and its General Council issued instructions in what appears to attempt to change several realities moving forward. Specifically, the Autonomous Administration announced new instructions regarding the physical transfer of assets across international and internal borders, imposing strict conditions on travelers across the border and in areas under its control. The instructions have 11 chapters; the most relevant components are as follows:

1. **Chapter 5 (Clause 1)**: Travelers coming into AANES-held areas must declare the amount of money or precious stones/minerals used for commercial purposes should their value equal or exceed $5000 on a special form located at the customs department, announce their use, their source and who the beneficiary is.

2. **Chapter 5 (Clause 2)**: Travelers leaving AANES-held areas must declare the amount of money or precious stones/minerals used for commercial purposes should their value equal or exceed $5000 on a special form located at the customs department.

3. **Chapter 5 (Clause 3)**: Should the total value of money leaving AANES-held areas exceed $25,000, or its equivalent in other currencies, travelers must prior approval from the Central Monetary and Payments Office after providing all relevant documents that prove their source, purpose, and beneficiaries and showing this approval to the customs department.

4. **Chapter 5 (Clause 4)**: Should the traveler fail to show the approval, the money will be held for a period not exceeding 45 days until the approval is submitted. If the deadline passes, the money is then transferred to the Central Monetary and Payments Office to take the proper actions.

5. **Chapter 5 (Clause 5)**: To get the approval, travelers must provide the Central Monetary and Payments Office with legal, financial, and commercial documents, and documents identifying their source and beneficiaries.Annex I: AANES Asset Declaration Regulations in NES

6. Chapter 5 (Clause 6): For travelers entering from/or heading towards GoS-held areas, the following conditions apply:

    a. Travelers going into GoS-held areas are prevented from taking USD or other foreign currency.

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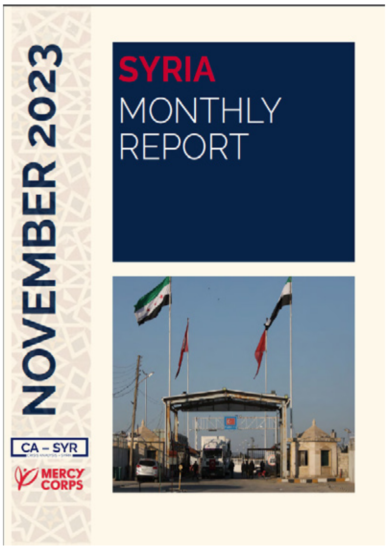
b. Travelers coming into AANES-held areas from GoS-held areas are subjected to the same conditions outlined above (Clause 1).

c. Travelers going/coming from GoS-held areas are allowed to carry SYP currency up to 25 million SYP. Should the amount exceed that figure, travelers must fill out a special form. If the amounts exceed 100 million SYP, travelers must get prior approval from the Central Monetary and Payments Office.

7. **Chapter 5 (Clause 7)**: Families are treated as one traveler. As such, they are not allowed to carry over $5000.

8. **Chapter 11**: Should travelers fail to declare, or provide a false declaration, travelers are given a sentence of a maximum of a year in prison and fined with a fee that is not less than the amount carried but does not exceed it. Violators could also receive one of the two penalties, rather than both.



CA–Syria Monthly Report, November 2023

The Syrian government grapples with persistent electricity shortages. Efforts to address the issue yield limited success. In Dar'a, a meeting of former opposition leaders in Tafas raises speculation due to its opacity. In northeast Syria, the Arab Tribal Forces establish a command unit amid an intensifying insurgency against the SDF. The SDF works to block Euphrates access into Deir-ez-Zor. Ongoing fuel shortages impact services, increasing myriad issues. Northern Aleppo sees strategic shifts as the Mu'tasim Division, Al-Jabha Al-Shamiyah, and the Shahba Gathering form the 'Unified Force,' indicating changed alliances. Local councils announce a month-long visit opportunity for Syrians in Turkey with specific permits, sparking concerns about potential return obstacles after visiting relatives in opposition-held areas.

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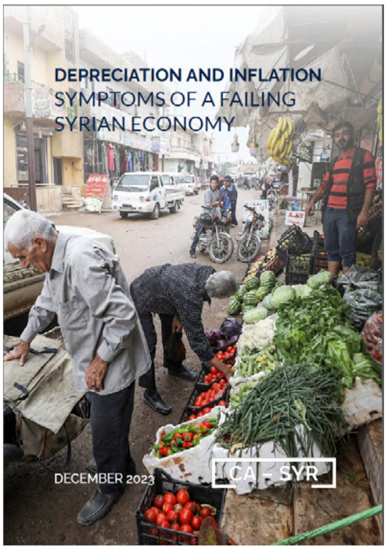

Inflation and Depreciation

Symptoms of a failing Syrian Economy

The regular depreciation of the Syrian pound is a symptom of the failing Syrian economy, causing unchecked price increases and reducing households' already limited purchasing power.

This report discusses the impact of rising prices and black-market inflation on households in government-held areas in Syria. Focusing on the continued depreciation of the Syrian pound as a symptom of a failing economy, it will explore the impact on market prices, affordability, and how Syrian families are coping and responding and will provide a forward-looking analysis of what humanitarian organizations should consider. .

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CA–Syria Monthly Report, October 2023

The conflict between Israel and Palestinian militant factions threatens to spill over into Syria, but as it stands, all sides have expressed their intent to avoid regional escalation. The Syrian government proposed a draft budget for 2024 of SYP 35.5 trn, 115% higher than for 2023, but 25% lower in dollar value. In the northeast, delays in the distribution of subsidized diesel and fuel for heating could prove disastrous with the onset of winter. In Deir-ez-Zor, the Autonomous Administration pledged reforms to appease unhappy tribes and locals following clashes with the SDF, but provided no plans for action. Government forces continued to bomb vital infrastructure, markets, hospitals and schools in northwest Syria, killing at least 70 people. Humanitarian actors are working hard to help residents amid funding and resource shortages.

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Crisis Analysis – Syria (CA–SYR) was established in Beirut in March 2015 in response to the collective challenges facing the remote humanitarian response in Syria. CA–SYR's most important function is to collect and analyze data and information. Since 2015, our analysis has provided a forward-looking template for international interventions in Syria, and facilitated an increasingly adaptive, integrated, and ultimately impactful international response to the conflict. CA–SYR is a team within Mercy Corps, and is part of the Mercy Corps response to the Syrian crisis.

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