

Hawala Payments and its presence within the INGO sector from both a historical and current perspective.

In this piece the Charitytransfers.org research desk delves into a fascinating topic - the ancient and informal banking system known as Hawala. We have investigated the uses of this system within the INGO sector from both a historical and current perspective.. Key findings include the prevalent use of blockchain-powered payment systems for urgent and/or sensitive humanitarian and emergency relief work.

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Did you know that a sum amounting to over £258.9 billion a year changes hands across borders without any trace of the payments making up this amount ever being recorded by any regulated financial authorities? This will feel like old news to some, worrying news to others, and a generalization of a reality to those who rely on the remittance infrastructure known as Hawala.

The predecessor to the modern-day international payments' infrastructure has remained globally relevant. The attributes that defined the ancient system now make up what are referred to as Hawala payment networks.

While these systems are crucial to the guaranteed settlement of a significant portion of global remittances, they configure a sub-section of underground banking within the informal economy. Hence, they are considered a security concern and have been outlawed in various parts of the world.

Instances that are likely to encourage non-profits to utilize Hawala couriers are those in which the nature of the mission require anonymity and discretion. These cases are prevalent in conflict-prone territories where the timing and execution of payments are characterized by a sense of urgency.

SYSTEM OVERVIEW

Hawala networks are operated as follows, a hawaladar - or hawala broker - receives a physical, cash payment in person from a customer along with instructions specifying the beneficiary's location. The hawaladar will inform someone from their network – a counterpart hawaladar based in the intended transfer destination – as to the amount pertaining to this transaction. Networks are often regional, however, there are overlaps and therefore these have a global reach. High transaction volumes are observable in the U.A.E, Pakistan, India, Iraq, Kuwait, Bahrain and Oman.

In order to preserve anonymity, hawaladars do not keep a written record of the transaction or agreement. They will, however, provide the sender with a code that must be communicated to the beneficiary independently, as well as the contact information for the counterpart hawaladar charged with completing the transaction. The code is subsequently used as a mode of identification by the beneficiary as they retrieve the payment.

The crucial technicality that defines the system is that each hawala broker holds a cache of funds reserved for Hawala transactions. When a customer requests a transfer, money is not sent, an equivalent amount from the counterpart's cache is simply provided to the beneficiary. Anonymity, reciprocal transactions and proportionality within networks balance out debts within networks. Outstanding amounts between brokers are handled independently and privately.

Formal identification documents, names and questions are omitted from the arrangement. Due to Hawala's network and trust-based system, at no point during the transaction does money cross borders. The system makes flows impossible to track and impedes guidelines in areas such as Know Your Customer and Anti Money Laundering regulation.

The [Charity Commission Compliance Toolkit](#) for moving funds internationally discourages the use of alternative methods of fund transferring including Hawala.

USES OF HAWALA IN THE INGO SPACE

While the term Hawala is predominantly associated with the Middle East, the scope of much of the literature addressing this subject includes its regional variants such as Fei Quian (Flying Money) in China (J. Moore).

The system is heavily used by expatriate populations from emerging markets in order to send remittances to their country of origin. Remittances to poverty-stricken and conflict-prone regions of the world are crucial to the groups that they are destined for. Recently, the benefits of the system have also enticed individuals from the INGO sector. The operations carried out by a significant portion of INGOs are often characterized by a sense of urgency as well as the need for information to remain confidential. Traditional currency transfer mechanisms are subject to regulation which means that a lack of anonymity may lead to organisations facing sanctions, delays, cost, fraud as well as a host of other geo-specific risks.

Additionally, INGOs engaging with populations that are excluded from access to formal financial mechanisms are likely to find that utilizing cash couriers and hawala networks offers efficiency. No accurate statistics are currently available as to the prevalence of Hawala network use with the INGO sector for humanitarian and disaster relief initiatives however estimates indicate that a majority of INGOs do. This trend indicates that INGOs rely on other systems than banks and brokers to send funds to the groups they serve. A variety of negative connotations are associated to the Hawala network, primarily, its recurring involvement in money laundering and terrorism financing scandals. Despite its attributes, INGO CFOs would be susceptible to disassociating their organizations from Hawala should they find an equally efficient alternative.

The following 2016 case highlights the complexities associated to Hawala. After U.S authorities-imposed sanctions on banks having interacted with pariah nations, a number of them including HSBC, Standard Chartered and PNB Paribas cut ties with Christian and Muslim charities due to their operations in said pariah countries.

There is an increasingly important necessity for all customers wishing to use mainstream banking systems to provide full transparency regarding international payments. This is a

restriction certain INGOs are unwilling to succumb due the potentially disastrous impact of disclosing beneficiary details to large financial institutions. The reality of this situation is that these organisations are not exempt from international financial regulations. Furthermore, utilizing cash couriers, hawala payments and other informal money transfer mechanisms involve a variety of drawbacks such as carrying cash, incurring penalties and funds not reaching their intended beneficiaries.

THE RELEVANCE OF HAWALA IN THE DIGITAL AGE

When Bitcoin burst onto the alternative digital securities sector, the cryptocurrency was often referred to as the new Hawala. The reason being that both are remittance systems that allow the sender and recipient to remain completely anonymous. Both mechanisms rely on a specific functionality that underpins said mechanisms' efficiency and reliability. As previously explained, Hawala depends on the trust-based networks between hawaladars. These longstanding relationships are developed over many years. Hawaladars are responsible for the remittance of over £250 billion annually. As with most crypto-currencies, Bitcoin is backed by the blockchain. This is also where these assets draw much of their value from. Blockchain uses private key cryptography in order to connect different parties through a transaction. A private key and a public key are held by respective parties and once matched; this digital signature validates ownership of a designated asset.

Cases in which INGOs have utilized cryptocurrencies such as Bitcoin in the 2019 HPG Commissioned Report, Blockchain and Ledger Technologies in the humanitarian sector. The report explains that NGOs have extensively tested the use of Ethereum blockchain (a security and compliance conscious technology). Practical cases and applications of the technology include cash transfers, refugee tracking and crowdfunding for humanitarian programs.

While this opportunity does not yet offer a solution to demographics that are unable to access computers and an internet connection, the technology does offer an extremely secure and efficient way of sending funds to anyone with an internet connection anonymously and instantly. In theory, these are the reasons INGOs resort to using Hawala networks however an array of added complexities including liquidity, transferability and validity of crypto assets. Furthermore, cryptocurrencies are currently subject to the same levels of scrutiny as Hawala payments. The digital currencies sector is completely unregulated, and the cryptocurrencies that make up the sector have been used to fund terrorist attacks all over the world including the 2015 attacks in Paris. The World Food Program uses blockchain-based cash transfers in order to fund its building Blocks Project. Over 1.1 million transactions were generated between 2017 and 2018. These were primarily directed towards providing Syrian refugees in Jordan with assistance. The program notes that the progress made in terms of record-keeping thanks to the technology greatly facilitated reconciliation processes. This indicates that while the technology may not be as efficient as Hawala for quick and discreet money transfers to remote locations, the potential benefits that a regulated blockchain and crypto space could bring to the INGO sector are enormous.