

Using Hawala to Conduct Cash Programming in Syria



Background

The Syrian crisis has seen an expansion of cash programming, with this form of assistance being used for both emergency response as well as the establishment of medium-term resilience initiatives. Opposition-controlled areas often have no formal banking structure or transfer alternative, so the international community is using money transfer companies commonly known as hawala.

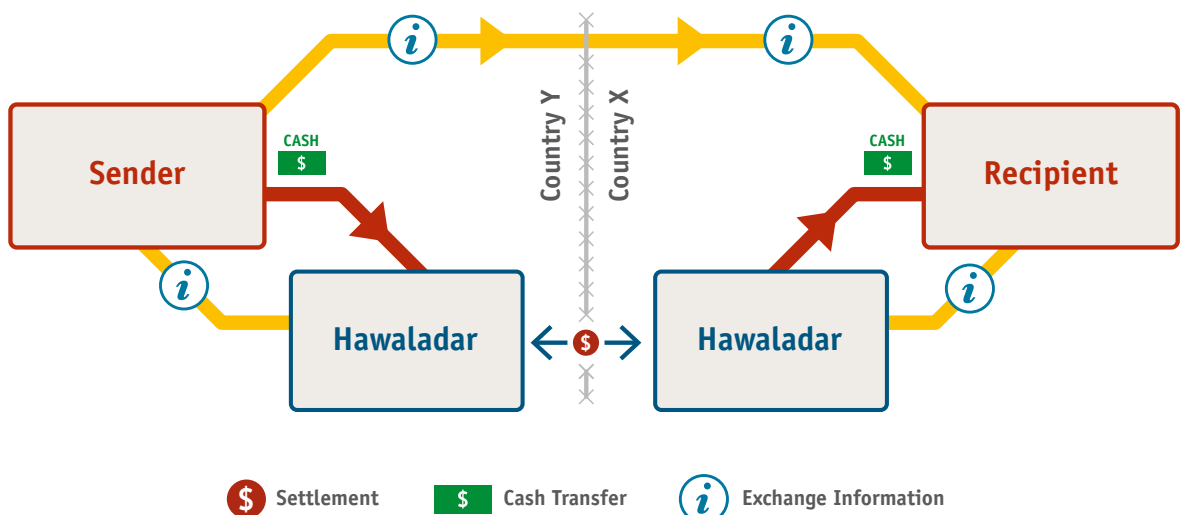
In Arabic, *hawala* simply means to transfer. Mohammed EL-Qorchi (2002) seeks to offer a common definition: “The hawala system refers to an informal channel for transferring funds from one location to another through service providers — known as hawaladars — regardless of the nature of the transaction and the countries involved.”¹

¹ David C. Faith, The Hawala System p24

While many countries employ hawala, including Somalia and Afghanistan, the Syrian context is solely dependent on it in order to transfer humanitarian response funds. Humanitarian agencies operating directly in-country, or through partners, use hawala to transfer operational funds as well as cash for programme activities. Hawala networks have become essential for an effective humanitarian response.

CARE has been using hawala to support its cash-based programming across South and North Syria. The purpose of this paper is to share its experience working with hawala in order to support the wider humanitarian community.

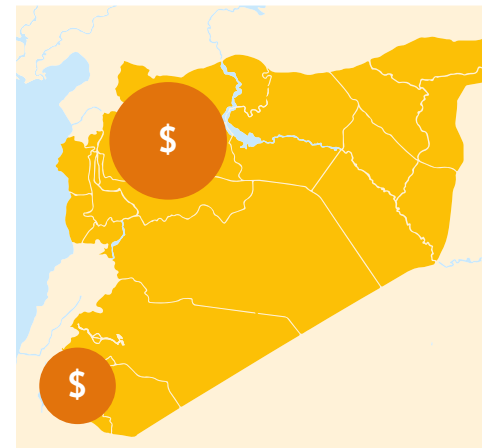
Hawala money transferring system – Hawala transaction example.



Opportunities and Successes

It is worth mentioning that the existence of hawala networks in the most insecure and hard-to-access locations are a prerequisite for humanitarian operations. Hawala agents have the ability to cover large areas, including remote and conflict-affected regions. This allows humanitarian actors to extend cash assistance even in the face of hostilities and increasingly shrinking operational areas, such as South Syria.

Given the overall lack of banking infrastructure in non-government controlled areas, hawala constitute the only feasible financial method to transfer cash. This is true for both programme and operational costs. The fact that registered hawala can operate in these challenging environments has allowed humanitarian actors to meet their mandates.



Geographical coverage of CARE's Cash Programming interventions through Hawala (2018).

Challenges

Although the presence of hawala networks is very positive, there are still a number of challenges when working with them to deliver humanitarian cash transfers, especially within the Syrian context. The list below attempts to shed light on some of these challenges:

1. Liquidity and the Reach of Hawala Networks

Transferring funds into Syria ultimately depended on the liquidity of hawala and their ability to disburse funds on the ground. During the 2018 South Syria emergency response, it quickly became clear that agencies were relying on two of the same hawala networks, one registered in the Middle East and another registered outside the region. The two hawala had numerous contracts with several NGOs, each managing high caseloads and extensive needs. During the South Syria emergency response, NGOs observed that hawala managed the pressure on their liquidity by prioritising the distributions of certain aid agencies rather than increasing available finance to the region. As a result, the hawala were effectively exercising control over the cash based emergency response by choosing when, where and with whom to deliver available funds.

“Hawala networks maintained a presence even in besieged areas, although this came with a hefty price. They charged a 20% service fee for operating under such extreme conditions.”

Fidaa Haddad, Food Security and Livelihood Manager

Secondary to that, in addition to broader humanitarian access issues stemming from the volatile context, humanitarian agencies had to further limit their operations to locations where hawala networks operate. If an area did not have a hawala network, or the region was deemed too dangerous for hawala agents to travel to, humanitarian actors could not deliver a cash-based response. It also became apparent that many hawala often rely on the same downstream network of agents. The concentration on the same downstream agents further compounds the issues of liquidity limitations within the networks and the geographical reach of the hawala.



A group of CARE's beneficiaries is queuing to receive their cash assistance inside Syria.

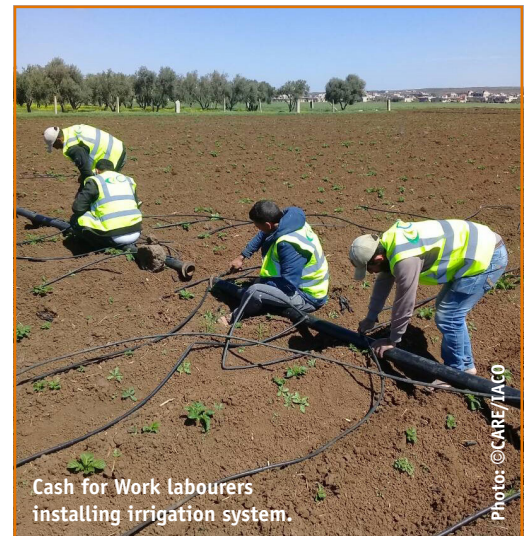
Photo: ©CARE

Hawala utilisation for CARE inside Syria:

- Cash Transfer Programming
- Salaries payment
- Partners operating costs

2. Due Diligence

Hawala networks can be complicated. International organisations only tend to deal with two points of contact, the front office or HQ in the organisation's home country, and the cash out agent on the ground. In line with due diligence, Bridger and other anti-terrorist checks are conducted on individuals at the company HQ level. NGOs do not have the reach or capacity to even identify, let alone check, all downstream agents in a hawala network, due to the fluidity of these networks. NGOs can only vet individuals at the top of the chain, where the money is going in, and monitor project activities on the ground, where the money is received. The spaces in between, where the funds are channelled from the point of input to the point of output, are impossible to verify. CARE relies on Bridger checks to comply with the Office of Foreign Assets Control (OFAC) regulations, which typically are among the most stringent.



Cash for Work labourers installing irrigation system.

Photo: © CARE/IACO

“On two occasions a non-US donor banned the use of certain hawala companies despite the Bridger and other due diligence checks of these providers coming back clear at that time. Thus, Bridger checks are only one avenue for vetting individuals and should not be relied upon in their entirety.”

Ciara O' Malley, Regional Cash and Markets Advisor – MENA

Even more broadly, conducting due diligence on Financial Service Provider's (FSP's) is a lengthy and time-consuming process. CARE has learnt that some standard due diligence information is just not feasible when applied to hawala. For example, CARE no longer requires hawala to prove registration as a financial service provider. Instead, the organisation will accept company registration and a general trading license. Even with adapted due diligence requirements, it tends to be only the large hawala companies that have the capacity to provide the needed information for due diligence checks. This means that the vast majority of humanitarian funds entering non-government controlled areas of Syria are concentrated in the hands of a few hawala companies. In an environment where the humanitarian situation continues to worsen, and there is a need to get large amounts of money in, this creates substantial risks. Individual hawala companies are handling enormous amounts of funds and there is great operational risk to NGOs if it is no longer possible to work with those FSP's.

3. Communication and Coordination

Although most humanitarian agencies were working through the same hawala, very little coordination or information sharing about hawala existed between the agencies themselves, despite the existence of cash working groups. The one exception to this was in North-Syria, where a lot of information about hawala is shared through the logistics and operations working group. However, even where it existed, coordination stopped at information sharing and did not extend to coordinated engagement with hawala networks.

In an environment with limited liquidity and access, as well as fears over external information sharing due to safety/security and data protection concerns, NGOs were inwards focused to ensure their own caseloads were delivered and deadlines met, without attempting to address common bottlenecks. Hawala contracts and relationships were negotiated on an individual basis. In South Syria, even sharing the names of agencies and hawala was not a common practice until the height of the emergency response in the summer of 2018.

Given that the humanitarian actors were not employing a coordinated approach to communicating or negotiating with the limited number of hawala networks and agents, hawala, as expected, prioritised activities based on the size of the caseload and the strength of pre-existing contractual relationships. This effectively put agencies like CARE at the bottom of the priority list, as only those with more established relationships were able to operate at scale.

Recommendations:

Given the broad set of challenges described above, the following set of recommendations should be considered for the future:

- **Stronger coordination on the part of NGOs**, to ensure a united approach to funding caseloads. A single plan could be developed and presented to hawala on behalf of all agencies who hold contracts with those companies. This would effectively put NGOs back in the driver's seat. Such coordination could potentially be spearheaded by Cash Working Groups, who could assist in mapping available FSPs during a particular crisis.
- **Develop a minimum universal guidance** on conducting due diligence on hawala, outlining agreed minimum standards for all humanitarian response organisations, to maintain a united risk-reduction approach.
- **Increase information sharing on the use of hawala**, their networks and capacity. Given that NGOs rely on the same limited pool of FSPs, establishing transparent information sharing mechanisms could allow NGOs to identify the drawbacks and limitations of each FSP, while benefitting from mutual experience.
- **Continue the search for alternative or additional solutions**, to help introduce greater accountability and transparency to the hawala system. This could include the integration of an e-service provider or the use of blockchain solutions for areas with limited financial infrastructure.



CARE's partner (Shafak) going through the registration process of a family affected by the conflict in Aleppo (North-West Syria).

Photo: ©CARE/Shafak