



Cash & Markets Working Group (CM-WG)

Presentation of the Hawala system in the Whole of Syria

Meeting minutes – 5 May 2021

Northwest Syria CWG resource:

[CVA Risks and Mitigation Matrix | April 2021](#)

Participants

- CWG Whole of Syria: Marga Ledo (NRC); Armin WILHELM (WFP); Frederic Wiesenbach (Caritas Switzerland); Fe Kagahastian (CashCap), Elsy Ghanameh (Caritas Switzerland)
- gFSC Cash and Market WG: Corrie Sissons (CRS), Damien Joud (gFSC)
- gFSC: Pardie Karamanoukian
- FSS Myanmar: Laurent Gimenez
- WFP: Dina Morad

Agenda:

1. Hawala characteristics
2. Whole of Syria context: Overview
3. Government-controlled areas (GCA) cash delivery through FSPs: Why? How?
4. Non-GCA cash delivery through hawalas: Why? How?
5. Key challenges and risk management strategies
6. CWG-donor engagement on hawalas
7. Q&A

Introduction

Damien (gFSC focal point for the CM-WG) introduced the background of this presentation. In the last global FSC - Cash and Market Working Group in March, we discussed about the current situation in Myanmar. Many FSC members have put their CVA on hold due to the lack of cash and the disruption of the banking system (WVI, Plan, ACF). Some organisations have even issues to pay their staff.

It was then mentioned that in the Whole of Syria, they have used the Hawala system and it was a good system. In some countries, like India, it is forbidden so the legal aspect is very important.

The aim of this discussion is to know how Hawala works, how it was set up and can it be replicated in other countries.

Presentation

Representatives from CWGs operating in government-controlled areas and opposition-held areas shared their experiences with different financial service providers, including hawalas, in a complex context such as Syria.

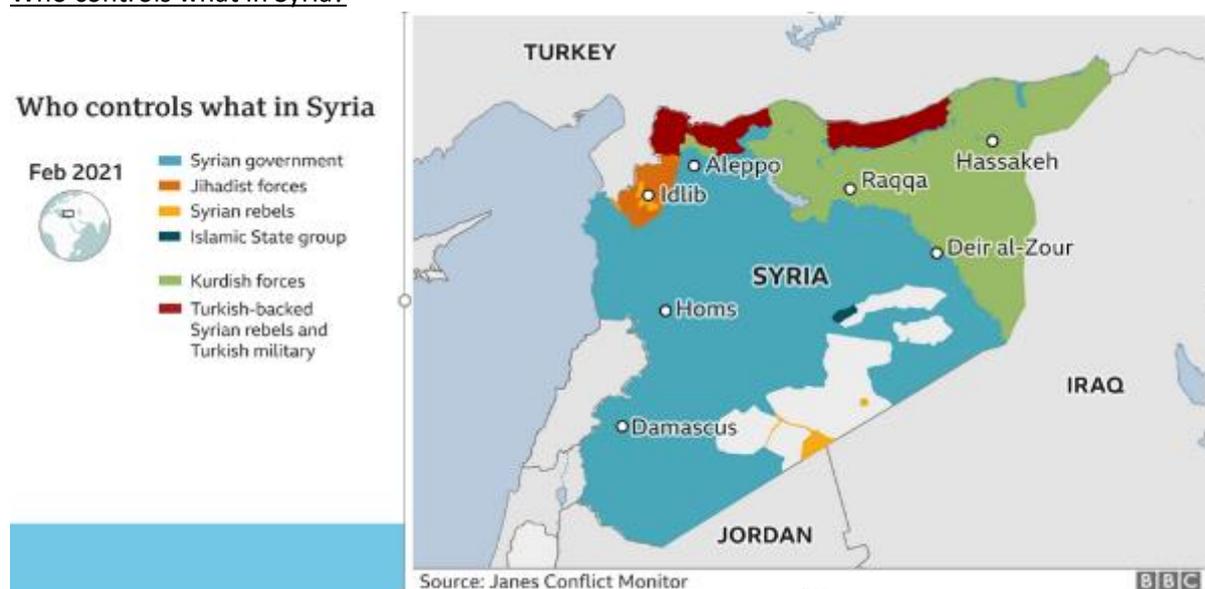
Hawala characteristics

- informal value transfer system; doesn't involve moving physical cash
- based on honour system across a network of money brokers.
- operates outside of, or parallel to, traditional banking, financial channels, and remittance systems
- often based on membership in the same family, village, clan, or ethnic group, and cheating is punished by effective excommunication and "loss of honour"—leading to severe economic hardship
- Often engaged in other business, e.g. trading, shipping

The Hawala is quite similar to the Hundi system used in Myanmar.

Whole of Syria context: Overview

Who controls what in Syria?



Regulations over financial service providers/hawalas and their implications on CVA programming vary between regions, depending on which governing entity is in control. There are 3 CWG hubs:

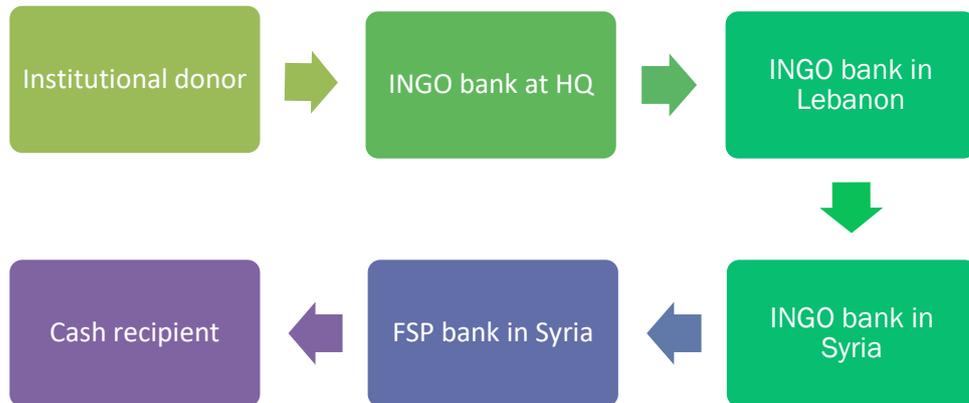
- CWG in Damascus covering government-controlled areas (Damascus hub)
- CWG covering North West Syria remotely (cross-border response from Turkey); financial service providers in Turkish-administered parts of NWS include PTT (Turkish postal system)
- CWG in North East Syria (direct CVA implementation)

GCA cash delivery through FSPs: Why? How?

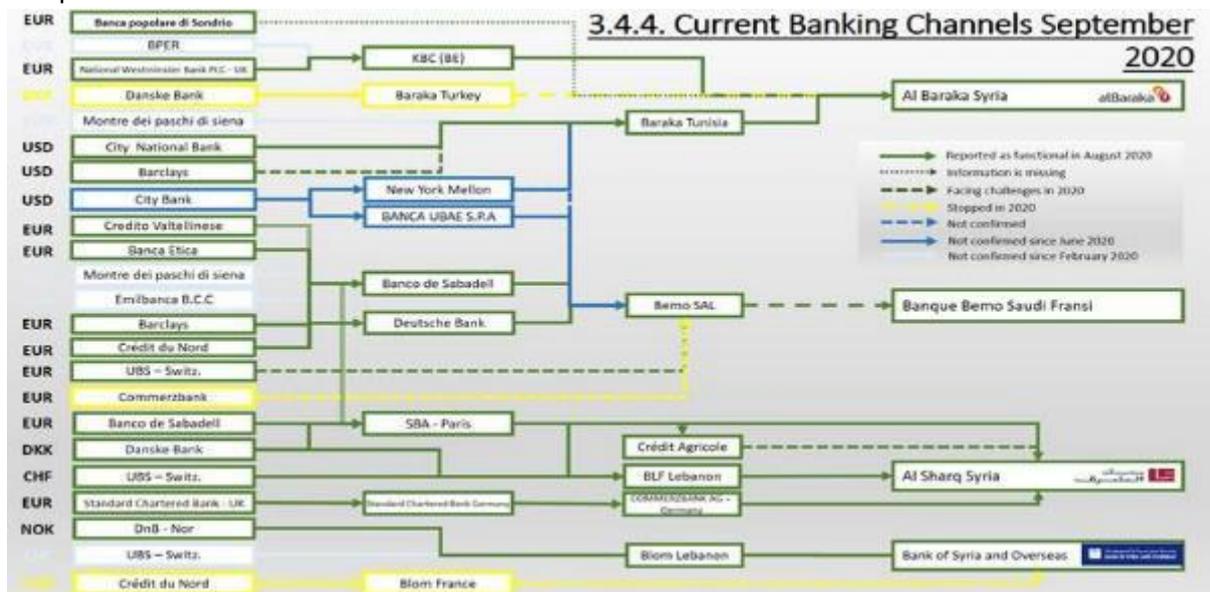
- Only official and legal financial service provider for transfer of cash (similar to Western Union or MoneyGram)
- Wide geographic coverage in GCA
- Professional payment systems and auditable paper trail
- Starting point for financial inclusion and many people know it

- Integral part of local market system/private sector

The flow of funds



However, bank de-risking poses serious challenges for the transfer funds as channels are increasingly complex and uncertain:



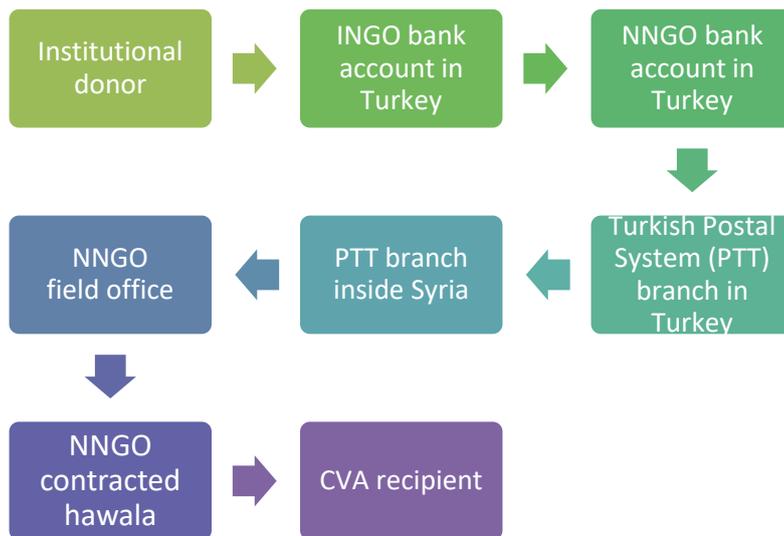
Non-GCA cash delivery through hawalas: Why? How?

Why?

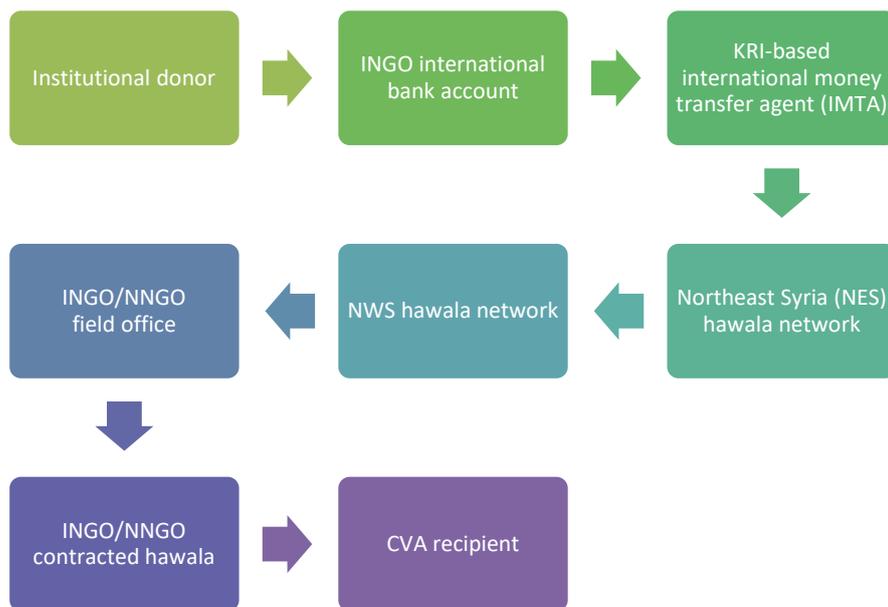
- because it is the only functional FSP with wide coverage
- flexibility > paid after distribution > speed
- flexibility > extra service, e.g. door-to-door > more anonymity, safety during pandemic
- lower transaction costs than formal systems
- ubiquitous cultural practice; wide acceptance
- integral part of local market system/private sector

How?

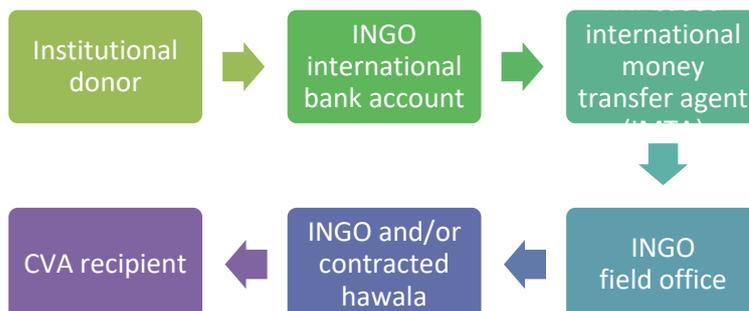
Northwest Syria (NWS) remote management context - FLOW OF FUNDS - Model 1: From Turkey to NWS



NWS remote management context - FLOW OF FUNDS - Model 2: From Iraq to NWS



Northeast Syria (NES) direct CVA implementation FLOW OF FUNDS - From Iraq to NES



Key challenges and risk management strategies

Key challenges

- Lack of paper trail and “auditability” may not meet donor compliance requirements
- Misperceptions/ generalization of hawalas as “shady” characters

Risk management strategies

- Risk transfer
- Local and international vetting
- Community/social participation
- Contract provisions
- Donor zero tolerance policy for aid diversion
- [NWS CWG Resource: CVA Risks and Mitigation Matrix | April 2021](#)

CWG-donor engagement on hawalas

- Hawala 101: CWG workshop with donors in May 2021 (survey about their understanding of hawalas to clarify misperception)
- Standardized/coordinated vetting of hawalas
- FSP mapping (multi-country challenge) but very difficult to do it
- Regular update and sharing of blacklisted FSPs
- Support to newly vetted hawalas – build capacity or introduce accreditation system aligned with international due diligence and fiduciary standards to prevent the creation of monopoly

Questions and Answers – discussion

- In Myanmar, there is a lack of liquidities; limit for cash withdrawal is around 200 USD/day.
- In WoS, especially at the beginning, hawala was the only way to bring cash in the country.
- There are agencies who have experience about using hawala and currently working in Myanmar. Hundi is quite well implemented.
- Suggestion to organise a meeting with donors in Myanmar to gauge their appetite
- Laurent indicated that the recommended system is the mobile money transfer. It is likely that the mobile companies are controlled by the Army. Internet is not working properly
- Some townships are very difficult to access; security situation remains very tense
- In Zimbabwe, there was a similar issue with liquidity issue and vouchers were provided. But in Myanmar, traders are refusing voucher or transfer to their bank account as they want physical cash
- Use of Hundi network from Thailand or China or transfer of cash from neighbouring countries are not really recommended.
- Hundi system is well accepted in Myanmar; however, there are some legal issues as there has been changed in the banking policy so it has become more difficult to use hundi now compare to before
- Laurent is asking if there is any experience with a military coup and the lack of liquidity and use of mobile money

Next steps

1. To organise a call with John to explore the possible solutions
2. To look at other experience/countries who faced similar situations

AOB

No AOB