A primer on FSPs and *hawalas*

Whole of Syria
5 May 2021
Discussion points

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

- informal value transfer system; doesn’t involve moving 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
2. Whole of Syria context: Overview

Who controls what in Syria:

- Syrian government
- Jihadist forces
- Syrian rebels
- Islamic State group
- Kurdish forces
- Turkish-backed Syrian rebels and Turkish military

Map of Syria showing control of different forces in February 2021.

Source: Janes Conflict Monitor
3. GCA cash delivery through FSP: Why?

- only official and legal financial system
- Wide scope coverage
- professional payment systems and auditable controls
- starting point for financial inclusion
- integral part of local market system/private sector
3. GCA cash delivery through FSP: How?

Government Controlled Area (GCA) direct CVA implementation

FLOW OF FUNDS From HQ to GCA

- Institutional donor
- INGO bank at HQ
- INGO bank in Lebanon
- Cash recipient
- FSP bank in Syria
- INGO bank in Syria
3. GCA cash delivery through FSP: How?

GCV banking channels
4. Non-GCA cash delivery through hawalas: Why?

- 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
4. Non-GCA cash delivery through hawalas: How?

Northwest Syria (NWS) remote management context

FLOW OF FUNDS

Model 1: From Turkey to NWS

- Institutional donor
- INGO bank account in Turkey
- NNGO bank account in Turkey
- Turkish Postal System (PTT) branch in Turkey
- PTT branch inside Syria
- NNGO field office
- NNGO contracted hawala
- CVA recipient

Non-GCA cash delivery through hawalas: How?
4. Non-GCA cash delivery through hawalas: How?

NWS remote management context

FLOW OF FUNDS

Model 2:
From Iraq to NWS
4. Non-GCA cash delivery through hawalas: How?

Northeast Syria (NES) direct CVA implementation

**FLOW OF FUNDS**
From Iraq to NES

- Institutional donor
- INGO international bank account
- KRI-based international money transfer agent (IMTA)
- INGO field office
- INGO and/or contracted hawala
- CVA recipient
5. 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 CVA Risk and Mitigation Matrix | April 2021
6. CWG-donor engagement on hawalas

- Hawala 101: CWG workshop with donors
- Standardized/coordinated vetting of hawalas
- FSP mapping (multi-country challenge)
- 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
Questions?
Thank you!