The Hawala System
Its operations and misuse
BY OPIATE TRAFFICKERS AND MIGRANT SMUGGLERS
This research report was prepared as part of the Afghan Opiate Trade Project (AOTP), within the Programme Development and Management Unit (PDMU) of the Research and Trend Analysis Branch (RAB), Division for Policy Analysis and Public Affairs (DPA) and Global Programme on Criminal Network Disruption (GPCD) in the Border Management Branch (BMB) of the Division of Operations (DO). For this report, supervision was undertaken by Jean-Luc Lemahieu, Director DPA, Angela Me, Chief RAB, Alan Cole, Chief BMB, Anja Korenblik, Chief PDMU, and Kaitlin Meredith, Programme Coordinator GPCD.

This report benefited from the review and invaluable contribution of colleagues in the UNODC’S Research and Trend Analysis Branch (RAB) and Global Programme against Money Laundering (GPML). The research team wishes to thank all colleagues for their invaluable inputs and comments.

The UNODC acknowledges the financial contribution of the governments of Australia, Norway and the United States of America for this report.

The UNODC BMB and RAB reiterates its appreciation and gratitude to UNODC field offices and Member States for their support for the data collection and field work.

The AOTP values feedback on this publication. If you have comments or would like to contribute information that could be considered for future publications, please contact:

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Suggested citation: UNODC, The Hawala System: Its operations and misuse by opiate traffickers and migrant smugglers, 2023

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The Hawala System

About the Afghan Opiate Trade Project

The continued global demand for opiates, and the conditions that sustain opiate production in Afghanistan, pose a threat to public health, governance, and security at regional and global level. Afghan opiates are trafficked to almost every continent worldwide. In 2021, the income from opiates in Afghanistan amounted to some USD 1.8–2.7 billion; however, much larger sums are accrued by international Drug Trafficking Organizations (DTOs) along illicit drug supply chains outside Afghanistan. In 2008, to address the need for systematic monitoring, and comprehensive analytical information about the multidimensional threat of the global illicit trade in Afghan opiates, the UNODC AOTP was established. The project has produced several regional and global threat assessment reports and collaborates extensively with numerous national and regional policy making bodies and law enforcement agencies to provide the international community with a better understanding of the threat posed by opiates produced in Afghanistan.

About the Global Programme on Criminal Network Disruption (GPCD)

The Global Programme on Criminal Network Disruption (GPCD)- CRIMJUST is implemented as part of the Border Management Branch (BMB) of the UNODC Division of Operations (DO). The GPCD aims to support countries located along supply chains of illicitly trafficked commodities, through a comprehensive integrated approach, to go beyond the seizures of illicit commodities to undertake prosecution and/or proceeds of crime action designed to disrupt the activities of the criminal networks.

About the Global Programme against Money Laundering, Proceeds of Crime, and the Financing of Terrorism (GPML)

The GPML is a global programme providing in-depth assistance to countries to build and strengthen their anti-money laundering and countering financing of terrorism (AML/CFT) capacity. The GPML is mandated to assist Member States – via their legal, financial, law enforcement and judicial authorities – to develop effective and comprehensive domestic AML/CFT legal and regulatory frameworks, as well as the institutional infrastructures and practitioner skills needed to implement them, in accordance with UN instruments and international standards. The GPML is committed to promoting national coordination and regional and international cooperation on issues concerning money laundering and terrorism financing. The GPML is specifically tasked by the United Nations General Assembly, most recently in resolutions 74/177 (2019), 73/186 (2018), 72/196 (2017), and 71/209 (2016) to: “...continue providing technical assistance to Member States to combat money laundering and the financing of terrorism in accordance with United Nations related instruments and internationally accepted standards, including, where applicable, recommendations of relevant intergovernmental bodies, inter alia, the Financial Action Task Force on Money Laundering, and relevant initiatives of regional, interregional and multilateral organizations against money laundering.”

About the UNODC Observatory on Smuggling of Migrants

In 2019, the UNODC Research and Trend Analysis Branch (RAB) established the UNODC Observatory on Smuggling of Migrants. The Observatory is an interactive web-based platform that uses story maps to present data, research and analysis on the characteristics, drivers and impacts of migrant smuggling in rapidly changing contexts. The Observatory provides up-to-date evidence on the modus operandi of migrant smugglers, smuggling routes, financial aspects and abuses suffered in the context of migrant smuggling. The project is led by the UNODC Crime Research Section (CRS) at RAB.
Abbreviations

AGE(s) Anti-Government Elements
AML Anti-Money Laundering
AOTP UNODC Afghan Opiate Trade Project
BMB UNODC Border Management Branch
CTF Countering Terrorism Financing
DPA UNODC Division for Policy Analysis and Public Affairs
DTO(s) Drug Trafficking Organization(s)
FATF Financial Action Task Force
GPML UNODC Global Programme against Money Laundering, Proceeds of Crime and the Financing of Terrorism
Hawala A type of informal money or value transfer service
Hawala agent/dealer The hawala system is comprised of a network of agents who manage fund transfer, provide currency exchange, safeguard fund, and provide monetary guarantee, among other services
HOSSPs Hawala or other similar service providers.
IFF Illicit Financial Flow
IMF International Monetary Fund
IVTS Informal Value Transfer System
MVTS Money or Value Transfer Services
NGO(s) Non-governmental organization(s)
OCG(s) Organized Crime Group(s)
PDMU UNODC Programme Development and Management Unit
RAB UNODC Research and Trend Analysis Branch
SDGs Sustainable Development Goals
SMEs Small- and Medium-sized Enterprises
SOM Smuggling of Migrants
UNODC United Nations Office on Drugs and Crime

Note on terminology usage:
The literature uses several terminologies for hawala agents including, but not limited to hawaladar (plural: hawaladars), hawala agent, hawala dealer, money changers, and hawala or other similar service providers (HOSSPs). Throughout this study the terms ‘hawaladar(s)’ and ‘hawala system’ are used to refer to the hawala agents and the system itself.

Keywords
Hawala and other similar service providers (HOSSP), informal value transfer system, informal funds transfer system, hawala system, hawaladar, hawala agent, Money or Value Transfer Services (MVTS), money laundering, opiate trafficking, migrant smuggling, terrorism financing, Illicit Financial Flows (IFF), anti-money laundering (AML), countering the financing of terrorism (CFT), financial regulations, laws.
The Hawala System

Contribution to the Sustainable Development Goals (SDGs)

This report contributes to the implementation of the following SDGs:

Sustainable Development Goal 1: No Poverty

SDG goal 1.4 aims at ensuring that by 2030, all men and women, in particular the poor and the vulnerable, should have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, financial services, inheritance, natural resources, in accordance with national laws. Target 5.2 is focused on eliminating all forms of violence against all women and girls in the public and private spheres, including trafficking and sexual and other types of exploitation. The hawaladars interviewed for this study were almost all male and very limited information was obtained on the existence of female hawaladars: however, it was reported that the hawala system does provide an opportunity for women to access financial services, especially in conditions of conflict or during migration.

Sustainable Development Goal 5: Gender Equality

By 2030, this SDG seeks to undertake reforms to give women equal rights to economic resources, as well as access to ownership and control over land and other forms of property, financial services, inheritance, and natural resources, in accordance with national laws. Target 5.2 is focused on eliminating all forms of violence against all women and girls in the public and private spheres, including trafficking and sexual and other types of exploitation. The hawaladars interviewed for this study were almost all male and very limited information was obtained on the existence of female hawaladars: however, it was reported that the hawala system does provide an opportunity for women to access financial services, especially in conditions of conflict or during migration.

Sustainable Development Goal 8: Decent Work and Economic Growth

SDG target 8.3 aims to promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services. This report highlights that although the hawala system is sometimes considered to be a ‘hidden’ system when compared to formal financial institutions, it provides financial services to many individuals who do not have access to them. It is a vital component for economic development, especially under conditions where formal financial institutions do not operate or are ineffective. The hawala money service provider system consists of multiple small- and medium-sized enterprises (SMEs) that provide access to financial services, which in turn strengthens domestic capacity to access money transfer and banking services. The system also provides adults (15 years and older) with access to financial services outside of formal financial institutions, including savings and money changing services.

Sustainable Development Goal 10: Reduced Inequalities

SDG target 10.c aims, by 2030, at reducing to less than 3 per cent the transaction costs of migrant remittances and to eliminate remittance corridors with costs higher than 5 per cent. Modest gains have been made in the reduction of inequality in certain areas, for example, reducing income inequality in some countries and decreasing transaction costs for remittances. The most recent progress report indicates that, globally, in 2021, 62.3 per cent of 138 countries reported having a wide range of policies to facilitate orderly, safe, regular and responsible migration and mobility of people. The global average cost of sending USD 200 decreased from 9.3 per cent in 2011, to 7.4 per cent in 2016, and 6.3 per cent of the amount sent in 2021, getting closer to the international target of 5 per cent. The hawala system is an essential part of the global financial remittance process for refugees and migrants and plays an important role in facilitating orderly, safe, regular, and responsible migration and mobility of people. Hawala serves millions of immigrants from South Asia, Africa, the Middle East, and elsewhere, whose remittances are often desperately

1 Report of the Secretary-General, Progress towards Sustainable Development Goals-E/2022
needed as a means of survival.\textsuperscript{2,3} The costs of using the hawala system to send remittances is generally lower than many formal financial institutions. In 2020, on average, general remittance costs were at an all-time low at around 6.5 per cent, but this study highlights that the remittance costs of using the hawala system are closer to the 3 per cent target of SDG Goal 10.

Sustainable Development Goal 16: Peace, Justice, and Strong Institutions:

Target arget 16.4 aims, by 2030, to significantly reduce illicit financial and arms flows, strengthen the recovery and return of stolen assets, and combat all forms of organized crime. When used according to the rule of law and international standards, money value transfer services are often vital to financial inclusion, financial stability and thus sustainable development. When used for legitimate and licit purposes, they facilitate remittance payments, transferring funds for licit commerce and trade, and providing savings services to people. When used outside a legal and regulatory framework, customers, commercial entities and countries can be exposed to significant ML and TF risks. This study shows that the system does have some vulnerabilities that can facilitate the flow of illicit finances, especially when operating in an environment of no or of ineffective supervision and regulation. It also highlights those areas where best practice on regulating the hawala system could be used to improve regulation of the system elsewhere. Updated guidance on best practices and on effectively implementing global standards would enable countries to meet targets across the sustainable development agenda – including those related to the rule of law, peace and security, strong institutions, macro financial development and financial inclusion, integrity and stability.

Sustainable Development Goal 17: Partnership for the Goals

Supporting domestic resource mobilization by 2030, including through international support to developing countries to improve domestic capacity for tax and other revenue collection, is a key part of SDG 17. This study describes cases where the hawala system is unregulated, and the extent to which hawaladars make domestic tax payments to local authorities is unclear, as well as cases where regulated hawalas make tax payments, which could provide examples of best practice for improved revenue collection.

Support to the UNODC Strategy 2021–2025

This report supports the UNODC Strategy 2021–2025.\textsuperscript{4} The Strategy advances the central mission of UNODC – to contribute to global peace and security, human rights, and development by making the world safer from drugs, crime, corruption, and terrorism. Understanding how the hawala system operates and how it can be misused by criminal organizations helps to ensure that efforts to address crime, corruption, terrorism, and drugs are coordinated across national boundaries, facilitating a shared responsibility in addressing these challenges.

Support to the UNODC Strategic Vision for Africa 2030

This report also supports the UNODC Strategic Vision for Africa 2030,\textsuperscript{5} by providing analysis on how the hawala system works in Africa and to understanding the financial drivers of organized crime on the continent. Data indicates that drug trafficking in Africa continues to rise: heroin is trafficked in increasing quantities to the East African coast. Further, within Africa, illicit financial flows (IFFs) remain a key impediment to Africa’s attainment of the 2030 Agenda. Understanding the role of the hawala system in the transfer of legitimate remittances to and within Africa is important in itself but stemming the outflow of money linked to crime and corruption would make a significant contribution to economic growth. Understanding how the hawala system operates in the global South also contributes to South-South cooperation.


# Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key findings</td>
<td>10</td>
</tr>
<tr>
<td>Introduction and scope of the report</td>
<td>13</td>
</tr>
<tr>
<td>Hawala is built on trust and reputation</td>
<td>15</td>
</tr>
<tr>
<td>Previous research on Hawala</td>
<td>15</td>
</tr>
<tr>
<td>Scope</td>
<td>16</td>
</tr>
<tr>
<td>Demographics and other characteristics of the interviewed hawaladars</td>
<td>17</td>
</tr>
<tr>
<td>Age</td>
<td>17</td>
</tr>
<tr>
<td>Gender</td>
<td>17</td>
</tr>
<tr>
<td>Region of birth</td>
<td>17</td>
</tr>
<tr>
<td>Length of time in the hawala business</td>
<td>17</td>
</tr>
<tr>
<td>Number of staff working in hawala business</td>
<td>17</td>
</tr>
<tr>
<td>Motivation and reason for starting a hawala business</td>
<td>18</td>
</tr>
<tr>
<td>The Regulatory framework for hawala service providers</td>
<td>20</td>
</tr>
<tr>
<td>Reporting to authorities</td>
<td>22</td>
</tr>
<tr>
<td>Who uses hawala and why?</td>
<td>26</td>
</tr>
<tr>
<td>People migrating irregularly as customers of hawala</td>
<td>29</td>
</tr>
<tr>
<td>Customer procedures</td>
<td>31</td>
</tr>
<tr>
<td>Recording customers details</td>
<td>31</td>
</tr>
<tr>
<td>The hawala system in operation</td>
<td>33</td>
</tr>
<tr>
<td>Domestic and international offices</td>
<td>33</td>
</tr>
<tr>
<td>From where, to where?</td>
<td>36</td>
</tr>
<tr>
<td>Hawala service provision</td>
<td>43</td>
</tr>
<tr>
<td>Safekeeping of funds</td>
<td>43</td>
</tr>
<tr>
<td>Other businesses</td>
<td>44</td>
</tr>
<tr>
<td>Hawala transactions</td>
<td>47</td>
</tr>
<tr>
<td>International vs. domestic transactions</td>
<td>47</td>
</tr>
<tr>
<td>Proportion of incoming vs outgoing transactions</td>
<td>48</td>
</tr>
<tr>
<td>Value of transactions</td>
<td>48</td>
</tr>
<tr>
<td>Timing of transactions</td>
<td>49</td>
</tr>
<tr>
<td>Proof of payments</td>
<td>49</td>
</tr>
<tr>
<td>Suspicious hawala transactions</td>
<td>52</td>
</tr>
<tr>
<td>Account settlement process</td>
<td>56</td>
</tr>
<tr>
<td>Hawala and organized crime</td>
<td>61</td>
</tr>
<tr>
<td>Misuse of the hawala service</td>
<td>61</td>
</tr>
<tr>
<td>hawala and money laundering</td>
<td>62</td>
</tr>
<tr>
<td>Money laundering and terrorism financing</td>
<td>62</td>
</tr>
<tr>
<td>Hawala and opiate trafficking</td>
<td>65</td>
</tr>
<tr>
<td>Hawala and migrant smuggling</td>
<td>72</td>
</tr>
<tr>
<td>Hawala and contemporary issues</td>
<td>79</td>
</tr>
<tr>
<td>Impact of the change of regime in Afghanistan</td>
<td>79</td>
</tr>
<tr>
<td>Hawaladar use of cryptocurrency</td>
<td>81</td>
</tr>
<tr>
<td>Impact of Covid-19 on Hawala</td>
<td>83</td>
</tr>
<tr>
<td>Policy considerations and pathways for future research</td>
<td>85</td>
</tr>
<tr>
<td>Policy Implications</td>
<td>85</td>
</tr>
<tr>
<td>Areas for future research</td>
<td>85</td>
</tr>
<tr>
<td>Methodology</td>
<td>86</td>
</tr>
<tr>
<td>Data collection method</td>
<td>86</td>
</tr>
<tr>
<td>Data collection instrument</td>
<td>86</td>
</tr>
<tr>
<td>Study limitations</td>
<td>89</td>
</tr>
</tbody>
</table>
The Hawala System

Key findings

- Hawala is a Money or Value Transfer Service (MVTS) that has been used for centuries, originating in the Middle East and South Asia. It is overwhelmingly used for legitimate purposes, including personal and business financial transactions and for the sending of remittances by migrants and refugees to family members. Cultural preferences, convenience, low-threshold accessibility, low processing fees, reliability, and faster value transfer services are some of the reasons for using hawala, and customers using the service come from all walks of life.

- Despite being widely used for legitimate purposes, some attributes of the hawala system also make it vulnerable to use by organised crime for the purposes of transferring illicit funds and values. This includes financial transfers by drug traffickers, migrant smugglers and other criminal actors and organisations, as well as safekeeping of funds obtained from illegal activity. The 113 hawaladars interviewed for this study do not commonly ask about the source of money or the reason for sending and receiving money. Additionally, when they did have doubts about the source of the funds, over half of the interviewed hawaladars reported that they had never refused a hawala transaction.

- There is no single global regulatory framework for the hawala system. However, the Financial Action Task Force (FATF) has produced international standards and recommendations for countries to take measures to regulate the hawala system and ensure regular monitoring and compliance. Specific regulations and monitoring regimes vary by country, but FATF recommends countries take a risk-based approach to regulating the hawala system. Of the 18 countries covered by this study, the hawala system was regulated in most of them. However, in four countries it was not regulated, and in Afghanistan – following the events of August 2021 – the current regulatory status of the hawala system is unclear as of the time of writing.

- Of the 113 hawaladars interviewed for this report, 43 per cent of hawaladars declared they had a license to operate. In jurisdictions where it is a requirement, 25 per cent operated without a license and 31 per cent preferred not to respond. 36 per cent of the interviewed hawaladars stated that they provided reports to the Central Bank or other relevant financial authorities about their hawala activities, while 64 per cent either had never reported or preferred not to answer the question. Licensed hawaladars collected more personal information from their customers and require identification documents, while for unlicensed hawaladars a name and contact number is sufficient to process a transaction.

- Of the hawaladars interviewed in this study, over one-third reported that they ran multiple branches within the same country and more than half of them reported having offices in other countries. Regular hawala customers are likely to receive a discount on commission charges by hawaladars.

- People engaging in regular and irregular migration constitute one customer base of the hawaladars interviewed in this study. Over half of reported that they had migrants as customers. The findings of this study suggest that hawaladars – knowingly and unknowingly – facilitate irregular migration and migrant smuggling by providing multiple financial services including, but not limited to, money or value transfer, safekeeping of funds and introducing migrants and refugees to migrant smugglers.

- There are multiple reasons why migrants and refugees would use hawala before, during and after traveling, and these are broadly linked to the features of the system, and, for some, lack of access to any other financial system, such as banks or mobile money services. Migrants and refugees may be directed to a hawaladar by a friend or relative, smuggler, fellow traveller, shopkeeper or accommodation provider.

- The interviewed hawaladars identified the following services they provided to migrants and refugees during their journeys: guiding migrants on their journey; helping with finding work upon arrival; referring migrants to support organisations; providing temporary accommodation or referring migrants to an individual who provides temporary accommodation; and finding local medical aid, as undocumented migrants may not be able to or may be reluctant to access hospitals.

- Some hawaladars also assist migrants and refugees by finding, recommending or introducing them to a smuggler; and finding or directly renting out boats and trucks for transportation.

- The majority of customers using the services of the 113 hawaladars interviewed for this study sent funds to countries located in the Near and Middle East/South-West Asia sub region, followed by Western and Central Europe and South-Eastern Europe sub-regions. Customers in the Near and Middle Eastern sub-regions frequently sent funds to hawaladars in most of the eighteen countries where interviews
were conducted. Customers of the interviewed hawaladars in the countries of the North American sub-region only sent funds to hawaladars interviewed in Afghanistan, Denmark, Nigeria, Somalia, and the United Republic of Tanzania.

- Hawala is widely associated with transferring money or value - this was the most common type of service provided by the sample group in this study. However, sending and receiving money is just one among several financial services hawaladars provide. Cash savings, currency exchange, short-term lending, safekeeping of funds, and trade guarantees were other services the interviewed hawaladars provided to their customers to varying degrees. Some of them safekeep customers’ funds. The amount of funds kept for safekeeping with the interviewed hawaladars ranged from US$ 20,000 to US$ 500,000.

- Hawaladars often operate additional businesses alongside their hawala business. Some of the side businesses mentioned by interviewed hawaladars were grocery store, travel agency, selling mobile top-up cards, construction company and electronics shops.

- A hawala transaction does not always proceed directly from country A to country B. Depending on the source and destination, sometimes a transaction is carried out through one or more intermediary hawaladars located in at least one other country. Hawaladars interviewed for this study reported that there are multiple hawala hubs located in several regions of the world where such intermediary hawaladars operate.

- Hawaladars interviewed in this study reported processing both domestic and international transactions, however, nearly three out of four processed mostly international transactions. The amount of a single hawala transaction varies substantially. Transactions handled by the interviewed hawaladars ranged from as low as US$50 and as high as US$200,000. To keep a record of these transactions, most hawaladars interviewed in this research reported that they keep a paper (ledger book) as well as an electronic (digital) record of hawala transactions and other services provided.

- Hawaladars use a variety of methods to settle their accounts including through cash, reverse transaction, bank transfer or trading in goods and services. Reverse transaction was the most often used method of account settlement among the hawaladars interviewed in this study, followed by settlement through bank transfer.

**Misuse of the hawala service**

- In addition to its widespread legitimate use, hawala is vulnerable to misuse by organized crime groups and other criminal actors. More than one-third of the interviewed hawaladars judged the hawala system to be more vulnerable to illegal transactions compared to the formal banking system, while some perceived an equal vulnerability in both systems. A lack of proper oversight by national authorities, a lack of reporting by hawaladars, a lack of regulation, policy, or guidelines for hawaladars to follow, the operation of unlicensed hawaladars, and the closed nature of the hawala system are all potential reasons for vulnerability.

- There are no exact estimates as to the extent to which hawaladars, knowingly or unknowingly, facilitate the misuse of their financial services for criminal purposes. Some hawaladars interviewed for this research reported the direct involvement of other hawaladars in transferring funds associated with illegal activities. Additionally, some criminal groups have hawaladars, who may be relatives, working specifically for them for the purposes of transferring funds linked to organised crime.

- Several of the interviewed hawaladars reported that they do not ask the purpose of transactions from their customers. As a result, it is possible that hawaladars involved in handling transactions of illicit proceeds are not aware of the nature and source of the money they are transferring or safekeeping. This is particularly the case with hawaladars who are dealing with smaller transactions which usually do not arouse suspicions. However, some hawaladars reported that they could not refuse a transaction from customers connected with Organized Crime Groups (OCGs) due to the risk of negative consequences for themselves and their businesses.

- It remains a challenge to precisely document the degree to which hawaladars are transferring illicit funds; it is also difficult to trace illicit financial flows, to separate them from licit flows, and to establish concrete financial links to criminal activities. Law enforcement agencies face challenges in investigating crimes linked to hawala systems, because of the closed nature of the business and, in some cases, the kinship ties of the actors.
Hawala and opiate trafficking

- According to the hawaladars interviewed in this study, the main motivations of opiate traffickers in using the hawala system is ease of use, accessibility, reliability and confidence in the system as well as the unbureaucratic nature of hawala and the limited ability to trace users.

- Hawala experts who completed an online questionnaire for this study perceived that the anonymity of the system and the reliability of the transactions were potential reasons for opiate traffickers to use the hawala system.

- Seventeen per cent of the hawaladars interviewed in this study were of the opinion that hawaladars might be involved in opiate trafficking while 22 per cent rejected this possibility and 30 per cent mentioned they do not know. Seventy per cent of the hawaladars in this study believed that hawaladars would not accept transactions from opiate traffickers.

Other key trends

- The takeover of the Taliban in Afghanistan in August 2021 had a severe impact on the financial system within Afghanistan. Hawaladars interviewed inside Afghanistan after the takeover reported that the de facto authorities had imposed restrictions on their businesses including increased surveillance, and higher costs for licenses. They further reported that problems with the formal banking sector within Afghanistan increased the number of hawala transactions inside the country, although even within the hawala system there were some challenges including lack of liquidity and a lack of new bank notes.

- However, the impact outside Afghanistan appeared to be limited. Interviewed hawaladars based in Europe reported that immediately after August 2021 there was a temporary shortage of money on the Afghan side which disrupted transactions in the short term.

- Use of cryptocurrency by the interviewed hawaladars appears limited. Four per cent of the interviewed hawaladars reported using cryptocurrency in their hawala business to transfer value or settle account with another hawaladar. Thirteen per cent of the hawaladars reported that they were aware of other hawaladars using cryptocurrency.

- Covid-19 had a severe short-term impact on the size of funds transferred through the hawala system, with hawaladars experiencing declining remittance volumes, closed hawala shops, limited working hours, staff isolation, and liquidity challenges. Over 90 per cent of the interviewed hawaladars reported that the pandemic had interrupted the hawala sector and the volume of transactions decreased by 40 to 50 per cent in the short term. However, the system appeared to recover relatively quickly in the medium term.
Introduction and scope of the report

Throughout history, many different means and mechanisms of payment have evolved, enabling people to trade and exchange value, especially where state institutions have been limited or nonexistent. Under such conditions, traders needed ways of conducting business under conditions of unpredictability or which were subject to arbitrary power. The most basic method of payment was bartering or purchasing through the exchange of goods. But bartering is slow and inflexible, hence using a currency to facilitate exchange became normal practice.

A range of Money or Value Transfer Services (MVTS) have historically operated in parallel to other financial institutions, such as banking systems. In some geographical areas, these are trust- and reputation-based and can provide methods of transferring money when formal banking structures are unavailable or not widely used. Some MVTS are historically rooted in certain cultures and civilizations and date back centuries, albeit under different names such as hui kuan in Hong Kong, hundi in India, hawala in the Middle East, padala in the Philippines, phei kwan in Thailand. The history of MVTS dates to at least the Tang Dynasty in China (618–907 CE), when sustained economic activity prompted the emergence of the feichien remittance system. Over time, this system spread to other countries via Chinese traders, including into Southeastern, West and Central Asia. The hawala system itself developed in South and South-East Asia in the 8th Century, presumably evolving from or based on the systems found in China.

The hawala system has traditionally operated in West, Central, South and South-East Asia, the Middle East, North Africa and Horn of Africa, but it has also spread to other parts of the world, including the Americas, Europe, and Oceania. Hawala is often perceived as an informal remittance transfer system, and though it may be associated with criminality, it is in many parts of the world an essential and legitimate financial system used for licit business activities. It is also vitally important for the transfer of remittances to some countries of origin and among family networks by migrants and refugees. In addition to providing money remittance services, hawaladars also provide a wide range of other services, including currency exchange and savings accounts.

There is no single commonly agreed terminology to describe the various MVTS, not least because of the diversity of the MVTS systems operating nationally and globally and of the services they provide. The formal regulation and licensing requirements that are in place also vary. Common terms used in the literature to describe MVTS actors and mechanisms have an informal connotation and include “underground banking”, “alternative remittance systems”, “ethnic banking”, “informal fund transfer system” or “unregulated banking”. More formal terms used to describe MVTS include money service providers (MSP), money exchangers, money dealers, alternative remittance system, informal fund transfer systems, and hawala and other similar service providers (HOSSP). The purpose of this research is to focus on hawala as a subcategory of MVTS.

Previous research indicates that while the term hawala is not universal and different terms for this type of service may be used, the mechanism and concept are used widely in various world regions by people of diverse cultural, ethnic, and linguistic backgrounds. In some cases, there are slight differences in working practices.

In Nigeria, when money is transferred from the source country (country A), it must be collected immediately in the destination country (country B) with the individual physically present. This is a variation not seen in other parts of the world covered by

7 Ibid.
13 FATF (2013) “The role of Hawala and other similar service in money laundering and terrorist financing”
this study. A hawaladar interviewed in Europe in January 2022 reported that:

“When a customer is sending money from anywhere in Europe to Nigeria, the person collecting the money [in Nigeria] must be physically present with the Nigerian-based hawala agent, and as soon as the customer [based in Europe] pays the money to the European-based agent, he [the customer in Europe] should call his contact in Nigeria, provide the code and collect the money from the Nigerian hawala agent.”

In contrast, in South and South-West Asia, an immediate physical presence of the person receiving money in the destination country is not required when the money is paid to the hawaladar in the source country. The money can be collected later from the destination country upon presenting the code16 and, if required, a personal identification document.

The process behind a basic hawala transaction is presented in figure 1. A person in country A (the sender) uses a hawaladar in country A (‘hawaladar A’) to arrange for a remittance to be sent to their contact – for example, a family member – in country B (the receiver). The sender in country A makes a payment in cash to hawaladar A. This cash payment includes the amount to be sent and a fee for the service that is provided by the hawaladar, commonly referred to as the commission. The amount of this commission is a percentage value of the amount being sent, and can range from 0.5–7 per cent, depending on the destination, amount, and type of currency17. Hawaladar A contacts a hawaladar counterpart in country B (‘hawaladar B’) who is physically located near to the receiving person – generally in the same city – and arranges for hawaladar B to disburse the funds to the receiving person in country B.

To complete the transaction, hawaladar A then provides the sender in country A with a code that the sender provides to the receiver in country B. Hawaladar B then releases the funds to the receiver upon receipt of the code. Depending on the country, the amount, and if the customer is a regular user or new, the customer may be asked to present a proof of identity. Hawaladar B trusts that hawaladar A will later repay them the amount and their part of the commission at some point in the future. This is termed ‘account settlement’, the methods which are discussed later in this report, along with a more detailed description of a hawala transaction.

The importance of trust and cultural ties in Hawala system

Using a technique called “Participant Observation” (See methodology for details), a hawaladar was observed by the research team undertaking two hawala transactions in 2021. In the first transaction, a customer from South-west Asia used the hawala system to send remittances to a family member in Afghanistan country. The customer had used this hawaladar multiple times to establish trust and as a result he was well known to the hawaladar, who had a reputation for reliability. The transaction was of EUR 200 and the amount was collected in the end destination both in Euros (original currency paid to the hawaladar) and the local currency. The commission charged was between 3–5 per cent. The transaction was made without any issues and the funds were received by the family member the next day.

In the second observed transaction a potential customer originating from Western Europe, and who had never made a hawala transaction before, attempted to send a similar EUR 200 amount to London using the same hawaladar. The second customer was not known to the hawaladar and came from a different ethnic and cultural background. They were politely advised that it would be better to use a service such as Western Union to make the transaction. When pressed as to whether the hawaladar could send money to London, the hawaladar replied that he did not know anyone there with whom he could make the transaction, even though the research team had identified hawaladars operating in London. Using this methodology, the research team identified some of the diverse attitudes of hawaladars in accepting the transfer of funds based on cultural and ethnicity ties and trust built over time.

15 In-depth interview with hawaladar (ID01)
16 Examples of Hawala transaction codes are shown below
17 As indicated by the hawaladars interviewed for this research (H1–H7, H22–H24), the higher the amount transferred, the lower the transfer fee would be.
Hawala is built on trust and reputation

According to participants of the study, trust is one of the meanings attached to the word ‘hawala’: for example, in Afghanistan, a hawaladar may be perceived by members of the local population as an honest person. FATF qualifies that the customer chooses a hawaladar or other similar service provider not because of trust alone but because of their reputation for performance and reliability. That reputation is quickly lost when performance slips. As such, rather than trust, “hawaladars and other similar service providers rely on reputation for effective delivery”. Hawala therefore functions on the basis of the reputation and trust of a network of individuals, with an internal code of conduct in place of formal laws, which can continue to operate without the need for a functioning state apparatus if their system of rules is not affected. To a certain extent this explains why hawaladars can operate effectively in conflict zones, while formal financial services may struggle.

Previous research on hawala

Existing global empirical research on the hawala system is limited. The research that has been carried out includes studies by the International Monetary Fund (IMF), the World Bank, and the Financial Action Task Force (FATF), some of which is now dated. There is also some recent academic research.

Source: UNODC based on interviews with hawaladars, 2021 and 2022

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18 Online presentation of a registered hawaladar at the UNODC “Introductory course on MVTS”, Bosnia and Herzegovina, January 2022.
19 FATF (2013) “The role of Hawala and other similar service in money laundering and terrorist financing”
20 Virtual discussion with a hawaladar, 3 November 2022
on the topic. Teichmann et al. (2022) produced a study based on interviews with a number of hawaladars in the context of Switzerland, while Rahimi has published articles relating to hawala in Afghanistan in 2021 and 2020, and on the use of hawala by the Pakistani diaspora in Dubai, UAE (2017). Another article by M. Soudjin on hawala and money laundering was published in 2015. No previous research has drawn on such a substantial number of primary interviews with hawaladars and practitioners in so many different countries as this current UNODC study.

Scope

This study covers several sub-topics, in order to take advantage of the data and information provided by over one hundred hawaladars around the world. The study presents the findings of qualitative, in-depth interviews with 113 registered and unregistered active hawaladars in 18 countries across five continents, as well as drawing on the knowledge of experts on the topic. The field research has been analysed and triangulated with secondary sources, to set out how hawaladars operate in different regions of the world.

To understand the vulnerabilities of the hawala sector to organised crime, it is vital to understand how the system works in multiple jurisdictions. As such, a substantial part of the report covers the general working practices of hawaladars at a global and regional level, to better understand the technicalities of the system. This report, therefore, examines how the hawala system operates, who uses hawala and why, and further explains the nature of hawala transactions, as well as the extent of hawaladars’ network coverage.

The report also looks at misuse of the hawala system by criminal actors, examining in detail the links between hawala and opiate trafficking and migrant smuggling. However, the report also touches on the links between hawala and other criminal activities that emerged in the research. The report covers the links between opiate trafficking and migrant smuggling and the hawala system in detail, exploring the perceptions of hawaladars on the possible misuse of the system by criminal actors, the extent of due diligence performed by hawala service providers and the motivations for why criminal actors use the system. Where possible, case studies have been used to expand on the comments made by interviewed hawaladars.

The study has a special focus on the hawala system in Afghanistan. Prior to the change of regime in August 2021, Afghanistan regulated and supervised one of the largest MVTS sectors in the world. The country has been the world’s largest producer of illicit opiates, with a significant terrorist and insurgent presence, all of which presented money laundering and terrorist financing risks not only within Afghanistan but also beyond. Following the takeover by the de facto authorities, it is unclear to what extent the legal framework is being upheld and the supervision undertaken by the previous government is continued. Understanding how the hawala sector operates since August 2021 is essential in assessing how vulnerable the country is to illicit financial flows.

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28 Afghanistan, Australia, Austria, Bosnia and Herzegovina, Denmark, France, Germany, Italy, Kazakhstan, Nigeria, Romania, Somalia, Spain, Tanzania, Netherlands, United Arab Emirates, United Kingdom, United States
Demographics and other characteristics of the interviewed hawaladars

Age

Most of the hawaladars interviewed for this study (75 per cent) were over 35 years old. Just under half (51 or 45 per cent) of the interviewed hawaladars fell into the 35–44 years old age group and nearly one-third (35 individuals, 30 per cent) falling into the 45–54 age group. The two youngest hawaladars, in the 18–24 age group, were from Afghanistan and Nigeria and were both employees of a hawala or other similar business, rather than owners. The four oldest interviewees (55–64 age range) were in Afghanistan, the Netherlands, the United Republic of Tanzania, and Spain.

Gender

Despite efforts to bring female hawaladars into the study, male hawaladars were overwhelmingly dominant in the interviewed sample (112 men compared to one woman). As a snowballing research methodology was used, the study team was largely provided access to male hawaladars, by other male hawaladars.

On the other hand, almost all the hawaladars reported a mix of male and female customers. Sixty-three hawaladars (56 per cent) mentioned that they had male customers, and 59 (52 per cent) mentioned they had female customers; 30 per cent of the interviewed hawaladars estimated that most of their clients were male rather than female, while ten hawaladars located in two Western European countries reported that their customers were exclusively young men who were not citizens of the country where they operated.

“[The] majority of my customers are male. Most [of them] transfer money to their family who live overseas, some transfer money to their overseas business[es], and some to help their families to come to Europe.”

H-55, Germany

“The clients’ age and gender are disproportionate, and their sector of work differs according to the services they come for. Those [who] come for transferring money are 60 per cent male and are business owners and drivers of freight trucks, and those [who] come for collecting money are in the majority women and housewives above the age of 30 years.”

H-94, United Republic of Tanzania

Despite this, the extent of women’s involvement in the hawala business, both as service providers and customers, would benefit from further research.

Region of birth

Interviewees were also asked to provide their region of birth; they are from diverse backgrounds and origins. While the majority had citizenship from states in Asia, the Middle East and Africa, some had also obtained the citizenship of countries where the interviews took place. Over one-third of the participants were born in Asia, followed by the Middle East (24 per cent) and Africa (19 per cent). One hawaladar identified his region of birth as Europe, while the remaining 19 per cent did not answer the question. Forty-two percent of the hawaladars interviewed in ten high-income countries had migrated to those countries from another region. Although country of birth was not asked as an interview question, some hawaladars volunteered this information. Interviewed hawaladars identified themselves as being originally from Afghanistan, Iran (Islamic Republic of), Pakistan, India, Saudi Arabia, Tanzania (United Republic of), Somalia and Nigeria, as well as dual nationality citizens of Australia, Europe, and the United States.

Length of time in the hawala business

The hawaladars were asked when they had started working in the hawala business (either as owner or employee). The majority (46 per cent) had four to six years of experience, with 41 per cent having ten to thirty years of experience; on average, the hawaladars had a decade of experience in the business.

Number of staff working in hawala business

Out of the 113 interviewees, 86 (76 per cent) were owners of the hawala business, while 27 (24 per cent) were employees. By its nature, the hawaladar sector does not require substantial human resources. Accordingly, most of the respondents (73 per cent) reported just one to three people working with them; only 9 per cent of the sample group had more than seven staff members, and these were the businesses with employees elsewhere in the same country or overseas. Around 29 per cent of respondents

29 Australia, Austria, Denmark, Germany, the Netherlands, Romania, Spain, the United Arab Emirates, the United Kingdom, and the United States.
reported having one person working for them: these were the grocery store and shop owners that were essentially a single proprietor, and who ran hawala services as a secondary business.

**Motivation and reason for starting a hawala business**

Over two-thirds of respondents said they had started to work in the hawala business for one of the five reasons depicted in the figure below. Achieving a "Good income/profit" was the primary motivation for most hawala entrepreneurs, followed by "market demand"; about one-fifth (22) of the hawaladars reported they started providing hawala services because of demand from customers. This was particularly the case among those hawaladars who operated another business, and who started providing hawala services due to the demand from their existing customers.

"I started working in [the] hawala business in 2017 and the main reason for selecting [the] hawala business was because of its profit."  
H-10, Afghanistan

"I started [the] hawala business in 2015 – actually [the] hawala business is profitable and easy business. Our money is always in our own hands. [The] hawala business increases a person’s connections and network. In this way, one can have a good social position in the community. I’m really happy with this.”  
H-72, Afghanistan

"I opened this typing center business in 2016. I saw the demand from our clients who used to come here and ask for hawala service. There is good money in it, and it is easy to run […] there are so many people like me providing this service. Recently the banks here introduced [a] quick remit system where you get your money in [your] bank within few minutes so that might have an impact on our hawala business.”  
H-103, [UAE]

Additionally, eight respondents said that the hawala services were part of a family business, accounting for why they became a hawaladar. Nine hawaladars said they were motivated to go into the business by their friends.

"It was 2014. Most people were migrating to Australia and their families were left behind in their home countries. When they were working here it was expensive for them to send money via Western Union or banks […] we had the facility to do hawala so […] I opened this travel agency and, based on my customer demand, I added the hawala service as well.”  
H-21, Australia
At a glance: Demographics of interviewed hawaladars

Demographics and other characteristics of the interviewed hawaladars

Source: Interviewed hawaladars H01-H113
The Hawala System

Regulatory framework for hawala service providers

“Here, hawala operators report to [the] Central bank of Somalia and [the] Financial Reporting Center for all large cash transactions ($10,000 and more), suspicious transactions and any counterfeit currency.”

Hawala Expert EX003, Somalia

Under the International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation, the Financial Action Task Force (FATF) Recommendations (2012) no. 14 and 26 in particular, pertain to MVTS. The FATF Recommendations Glossary also defines Money Value Transfer Service Providers (MVTS), and the FATF Guidance for a Risk Based Approach for Money or Value Transfer Services (2016) defines MVTS Providers, Hawala and other similar service providers (HOSSP), and Agent in this context.

A subsequent 2013 FATF survey of 33 low-, middle- and high-income countries stated that hawala was classed as illegal in 18 unspecified countries; for the other 15 countries, hawaladars were permitted to operate subject to obtaining a license and complying with anti-money laundering (AML) and countering terrorism financing (CTF) regulations. The 2012 FATF report was later reviewed and updated in 2016, with FATF providing a risk-based approach to regulating Money Service Businesses. There is no single global regulatory framework for the hawala system, with regulation and licensing requirements differing from one country to another. Such frameworks depend on factors including but not limited to the country’s financial legal framework and regulatory institutions but must be based on a risk-based approach in line with the FATF recommendations.

However, the international standard described in FATF’s Recommendation 14 states that:

“Countries should take measures to ensure that natural or legal persons that provide money or value transfer services (MVTS) are licensed or registered, and subject to effective systems for monitoring and ensuring compliance with the relevant measures called for in the FATF Recommendations. Countries should take action to identify natural or legal persons that carry out MVTS without a license or registration, and to apply appropriate sanctions. Any natural or legal person working as an agent should also be licensed or registered by a competent authority, or the MVTS provider should maintain a current list of its agents accessible by competent authorities in the countries in which the MVTS provider and its agents operate. Countries should take measures to ensure that MVTS providers that use agents include them in their AML/CFT programmes and monitor them for compliance with these programmes.”

31 FATF (2013) “The role of Hawala and other similar service in money laundering and terrorist financing”
32 FATF (2016) “Guidance for a Risk-Based Approach for Money or Value Transfer Services”
34 FATF (2012) p 17
Further guidance was given in the Interpretive Note for FATF’s Recommendation 14:

“A country need not impose a separate licensing or registration system with respect to natural or legal persons already licensed or registered as financial institutions (as defined by the FATF Recommendations) within that country, which, under such license or registration, are permitted to perform money or value transfer services, and which are already subject to the full range of applicable obligations under the FATF Recommendations.”

and in interpretive note to Recommendation 16:

“Money or value transfer service (MVTS) providers should be required to comply with all of the relevant requirements of Recommendation 16 in the countries in which they operate, directly or through their agents. In the case of a MVTS provider that controls both the ordering and the beneficiary side of a wire transfer, the MVTS provider: (a) should take into account all the information from both the ordering and beneficiary sides in order to determine whether an STR has to be filed; and (b) should file an STR in any country affected by the suspicious wire transfer, and make relevant transaction information available to the Financial Intelligence Unit.

A risk-based approach and the effective implementation of the recommendations of the FATF related to MVTS are referred to in the FATF Recommendations, Methodology, and Guidance. Countries should adopt a risk-based approach and are evaluated against the Recommendations. In general, the FATF recommendations state that:

“The FATF calls upon all countries to implement effective measures to bring their national systems for combating money laundering, terrorist financing and the financing of proliferation into compliance with the revised FATF Recommendations.”

Of the countries that participated in this current study, some have regulations in place under which which hawaladars are required to obtain a license to operate and are obliged to provide regular reports to the respective authorities: for example, all hawaladars in countries in the European Union are obliged under EU Directive 2015/2366 to obtain a license to operate. However, some of the countries where interviews took place had no or limited regulatory frameworks, or provision of hawala services was considered illegal.

Despite FATF’s Recommendations the countries that do not have specific laws or regulations are listed above. In some cases, even where countries require hawaladars to be licenced, regulated and supervised, some hawaladars operate without the required licence. For example, in 2018, the Government of

35 FATF (2012) p 76

36 FATF (2012) p 7 – 8 Countries have diverse legal, administrative and operational frameworks and different financial systems, and so cannot all take identical measures to counter these threats. The FATF Recommendations, therefore, set an international standard, which countries should implement through measures adapted to their particular circumstances. The FATF Recommendations set out the essential measures that countries should have in place to: (1) identify the risks, and develop policies and domestic coordination; (2) pursue money laundering, terrorist financing and the financing of proliferation; (3) apply preventive measures for the financial sector and other designated sectors; (4) establish powers and responsibilities for the competent authorities (e.g., investigative, law enforcement and supervisory authorities) and other institutional measures; (5) enhance the transparency and availability of beneficial ownership information of legal persons and arrangements; and (5) facilitate international cooperation.
The Hawala System

The Hawala System

(1) enhance the transparency and availability of beneficial ownership information of legal persons and arrangements; and (2) facilitate international cooperation.

Source: European Union, UNODC Global Program on Money Laundering, Financial Intelligence Units of Australia, Bosnia and Herzegovina, Somalia, Kazakhstan & United Republic of Tanzania, Central Bank of United Arab Emirates, FATF.

<table>
<thead>
<tr>
<th>Country</th>
<th>Regulation status</th>
<th>Country</th>
<th>Regulation Status</th>
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<td>Afghanistan</td>
<td>Unknown</td>
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<td>Australia</td>
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<td>Somalia</td>
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<td>Denmark</td>
<td>Regulated</td>
<td>Spain</td>
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<td>France</td>
<td>Regulated</td>
<td>United Arab Emirates</td>
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<td>Italy</td>
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<td>United Republic of Tanzania</td>
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<tr>
<td>Kazakhstan</td>
<td>Unregulated</td>
<td>United States</td>
<td>Regulated</td>
</tr>
</tbody>
</table>

Afghanistan reported that around 1,400 hawaladars were registered with the Central Bank but estimated that many more were operating without a license, despite the MVTS sector being reasonably well regulated.37

This study interviewed both licensed and unlicensed hawaladars. Forty-nine hawaladars declared they had a license to operate, compared to twenty-eight who stated that they operated without a license, while 35 preferred not to respond; one interviewee was in the process of obtaining a license. Of the 49 licensed hawaladars, 22 operated another business alongside hawala, compared to 27 of the 28 unlicensed hawaladars.

Reporting to authorities

In line with the 2012 FATF Recommendation 14 discussed above, licensed and regulated hawaladars are obliged to provide regular reporting on their activities and immediately report suspicious transactions to the relevant AML/CFT competent authorities. However, according to FATF, supervising hawala business activities remained a challenge at a global level due to limited resources for supervision, lack of guidance, failures to report by hawaladars, varying record keeping practices in the hawala business, and the hidden nature of the system, among other issues.38 Hawaladars interviewed for this study were asked if they reported their transactions to the relevant authorities.


38 FATF (2013) “The role of Hawala and other similar service in money laundering and terrorist financing”
Regulating the hawala system in Afghanistan

Afghanistan started taking steps to fight money laundering in 2004 through the Anti-Money Laundering and Proceeds of Crime Law. The decree’s purpose was “to prevent and prohibit the use of financial institutions and any economic activities for money laundering and the financing of terrorism.”

In 2016, the Money Service Providers (MSPs) and Foreign Exchange Dealers Regulation was amended and passed by the Supreme Council of Da Afghanistan Bank (DAB). As per the regulation, the Financial Supervision Department of Central Bank acted as the licensing and supervisory body for MSPs, including hawala dealers. In addition to the supervisory approach, suspicious transaction reports and large cash transaction reports were to be reported to the Financial Intelligence Unit of Afghanistan (FINTRACA). The regulation applied to all individuals and legal entities providing money services in Afghanistan, whether the individuals and legal entities were domiciled in Afghanistan or outside the country. The anti-money laundering law, the countering the financing of terrorism law, the laws of banking and central banking and relevant circulars and regulations were also promulgated between 2012 and 2021. These and other laws and regulations also contain provisions for MSPs, foreign exchange dealers, cash transactions and foreign exchange markets amongst their main legal focus.

The DAB MSP regulation permitted licensed operators to engage in money transfers and the safekeeping of funds to the extent necessary to facilitate a specific transaction for up to six months. Additionally, the regulation stipulated that the approved MSP should be deserving of public trust, have a fixed operating address, agree to remain AML/CFT compliant, continue relevant training, and agree to abide by the terms of the MSP licensing agreement (as most hawaladars in Afghanistan were also licensed as money changers), maintain records, and undergo on-site and off-site supervision.

All hawaladars and money dealers in Afghanistan were required to employ an administrative officer to manage daily operations and activities, including AML/CFT compliance issues. The regulation required the officer to meet basic qualifications including be a competent person, hold at least 12th-grade school education with three years of relevant experience, and have sufficient knowledge regarding the appropriate laws and regulations.

On 15 August 2021, the Taliban took over control in Afghanistan. According to local Afghan media, soon after, the de facto authorities met with the head of hawala unions in Kabul and several other key provinces, including Herat, and asked the hawaladars to resume their regular operation under protection by the de facto authorities and regardless of status of licence (e.g., revoked, expired etc.)

However, at the time of writing this report and in the absence of reliable information from Afghanistan, it is unclear if enforcement of existing AML/CFT regulations continues. Should these regulations not be enforced, then this could present a significant vulnerability both to Afghanistan and the international community. Information provided by hawaladars interviewed since the takeover, both in Afghanistan and outside, indicates that the hawala system in the country continues to operate relatively normally, in the sense that transactions can still be made. The situation of the hawala system inside Afghanistan post August 2021 is analyzed in more detail later in this report.

Sources:
3. In-depth interview with hawaladars (ID01, ID04)
Of the participants interviewed in this study, 35 per cent confirmed that they provided reports to the central bank or other relevant financial authorities about their hawala business activities; while 64 per cent either had never reported or preferred not to answer the question. All the unlicensed hawaladars stated they had never provided reporting about their hawala business activities, while thirty four of the forty-nine licensed hawaladar mentioned they were complying with reporting requirements. This would indicate that even in cases where hawaladars are licensed to operate they may not always report any or all their transactions.

During an in-depth interview with one major hawaladar in Afghanistan prior to August 2021\(^39\), he reported that some hawaladars in Afghanistan maintain two recording systems: a formal recording system that is used for reports to the authorities; and an informal record where all the actual details are recorded on a case-by-case basis, but which, according to this hawaladar, is not accessible to the relevant authorities.
**TAB. 1  Number of licensed and unlicensed hawaladars interviewed, percentage of response.**

<table>
<thead>
<tr>
<th>Do you have a license?</th>
<th>No of responses</th>
<th>Percentage of responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>49</td>
<td>43%</td>
</tr>
<tr>
<td>Prefer not to say</td>
<td>35</td>
<td>31%</td>
</tr>
<tr>
<td>No</td>
<td>28</td>
<td>25%</td>
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<tr>
<td>In the process of obtaining</td>
<td>1</td>
<td>1%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>113</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: Interviewed hawaladars H01-H113

**FIG. 3  Share of interviewed hawaladars who had ever provided information to the Central Bank or other national financial institutions on their financial services.**

Have you ever provided information to the Central Bank/other relevant national financial institutions about your financial services?

- YES: 43%
- NO: 35%
- Prefer not to say: 21%
- No response: 1%

Source: Interviewed hawaladars H01-H113
Who uses hawala and why?

According to the interviews with hawaladars undertaken for this report and supported by previous FATF research, hawala appears to be used for its quick, cheap, convenient, low-threshold-accessible, simplified dealings, and reliable money transfer services. Compared with formal banking channels, the hawala system can be less expensive in terms of commission rates than formal financial institutions, especially when sending funds to conflict-affected or otherwise unstable states. It can also be a more accessible and convenient option for remittances: for example, in Afghanistan, the hawala network has a wide coverage, serving far-flung locations, including remote villages, whereas banks may not handle such small transactions or have a presence in those remote areas. In Afghanistan, prior to the Taliban’s return to power, hawala was also widely used due to the local population’s low trust in the country’s formal banking system, not least following the 2010 collapse of the Kabul Bank. Legitimate users of hawala for international payments generally fall into two broad categories: those who use it for transferring personal remittances and those using it for business purposes. Notably, hawala is an important legitimate means of transferring remittances by migrants and expatriate workers, as well as for refugees. At a domestic level the

40 Interview with hawaladars (H09–H25, H56–H59).
41 In a survey carried out across 22 countries, the possible reasons for the existence of hawala and other similar services were examined. The top four reasons were given as: cheaper money transmission, faster money transmission, cultural preferences, and a lack of access to the banking system in the remittance-receiving and sending countries. See FATF (2013) “The role of Hawala and other similar service in money laundering and terrorist financing”.
42 FATF (2013) “The role of Hawala and other similar service in money laundering and terrorist financing”.
43 IOM “Remittances in Afghanistan are lifelines.” https://weblog.iom.int/remittances-afghanistan-are-lifelines-they-are-needed-more-ever-time-crisis

FIG. 4 Common reasons for using hawala

TAB. 2 Expert perceptions on why people use the hawala system, frequency of response

Source: Expert questionnaires EX001-EX018

<table>
<thead>
<tr>
<th>Reason</th>
<th>Frequency</th>
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<td>Fast</td>
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<td>Low Cost</td>
<td>2</td>
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<tr>
<td>Convenient</td>
<td>4</td>
</tr>
<tr>
<td>Not covered by the legal system</td>
<td>1</td>
</tr>
</tbody>
</table>
Hawala system may be used for transferring funds within countries for legal, personal, and business purposes, including for personal investments and expenditures such as for payment of the import of goods and services\(^7\).

In a 2013 study by the FATF, 44 per cent of the twenty-five surveyed countries reported that HOSSPs provide legitimate financial services to the unbanked or under-banked in the respective countries.\(^8\) The term 'unbanked' came into general use around the same time, after the World Bank launched the Global Financial Inclusion Database (‘Global Findex’). The term refers to adults who do not have access to the services of a bank or formal financial institution in any capacity, and hence do not have savings accounts, credit cards, or personal cheques. As such, they usually pay for goods and services in cash and typically do not have life or property insurance, pensions, or other money-related services that would be provided by banks. In its latest iteration (2017), the Global Findex reported that globally, 1.7 billion adults are unbanked\(^9\). An estimate of the distribution of the unbanked around the world is shown in Map 2 above.

Hawaladars interviewed in this study were asked to describe their customer base: the description of the customers of hawala businesses reported in this research provides an insight into the typical customers using the system, which ranges from locals to migrants and foreigners, and from shopkeepers and other business owners to university students. In terms of age groups, the hawaladars reported that their customers were between 20 to 65 years of age, with the majority having both male and female customers. All the interviewed hawaladars based in Afghanistan and in African countries stated that their customers were locals, while the majority of

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\(^9\) Global Findex. The Database is published every three years, and the last publication was in 2017. It appears that a 2020 edition has not been published. The database is created through national representative surveys, collected in partnership with Gallup, Inc., of more than 150,000 adults in 140 economies. See https://globalfindex.worldbank.org/
Europe-based hawaladars reported that in addition to locals, foreigners - including tourists - and migrants were part of their customer base.

“Customers are coming from different backgrounds, local people and business owners. In the past, we had foreign customers but now our customers are locals such as shopkeepers and business owners. Customers are mostly male between 20-50 years of age and sometimes we have female customers, too.”

H-02, Afghanistan

“Customers are coming from different parts of [the province]. Customers are mostly from the city center and districts. After the withdrawal of German [military] forces, there are no foreign customers. Customers are between 20-65 years of age.”

H-05, Afghanistan

“[My]customers are mainly locals. Sex and age are irrelevant.”

H-24, Nigeria

“Generally, the majority of the customers are locals, and are of mixed gender and age but mostly above the age of 15yrs.”

H-91, Somalia

A hawaladar in France explained that many of his mostly young male customers were migrants who had been in the country for a few months and were planning to move on to other countries. Additionally, a hawaladar in Italy said all his customers were migrants; while those interviewed in Austria and the United States described their customers as settled migrants, including shopkeepers, owners of restaurants and other businesses, as well as grocery or supermarket customers:

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**Afghanistan and the hawala system**

The hawala system gained prominence, in Afghanistan during the 1980’s, 1990’s and early 2000s, in large part because formal banking systems were unable to operate in the country. During the 1990’s civil war and immediately after the fall of the Taliban regime in the early 2000s, NGOs in the country annually transferred hundreds of millions of dollars through hawala, and it was used for emergency assistance: reportedly, there were single hawala transactions that exceeded half a million dollars in value. Since August 2021, the formal banking system in Afghanistan has been severely disrupted. However, despite short-term disruption in the weeks following the Taliban’s takeover, the hawala system continues to be the dominant means through which private funds are transferred to and from Afghanistan, although, commission charges for using the service have reportedly risen.

ReliefWeb (2021)
Norwegian Refugee Council (2022) Life and death: NGO access to financial services in Afghanistan
Almost all of them are shopkeepers and owner of restaurants, and business owners.

Majority of my clients are migrants. Most are the migrants who have crossed the border, or they have already been here for a few months but are planning to go to the UK or other European countries. Others are foreigners, locals, and tourists. Majority are male but I have female clients as well.

Almost all of my clients are migrants.

Our clients are normally locals, majority are male and working class.

University students” were mentioned by hawaladars based in the United Kingdom. A hawaladar in Australia explained that many of his customers are temporary visa holders, such as business visitors as well as university students. One hawaladar reported that a construction company has been one of his most trusted customers for years.

“We trust the former customers and provide special discount. A construction company has been one of my oldest customers. As for the new customers, they are new and takes time to establish mutual trust.”

[Our customers are] locals and temporarily visa holders such as business owners and University students.”

“Most of our clients are migrants or people who just arrived in the UK as well as tourists, locals, students and foreigners”

People migrating irregularly as customers of hawala

The two main legitimate reasons why people use hawala is for business purposes and for migrants to send remittances back to families in countries of origin. However, people on the move may also use the system to facilitate their journeys. There are multiple reasons why migrants and refugees are customers of hawala services before, during and after traveling, which are broadly linked to the features of the system, the comparative advantages of hawala compared to the banking system, and the lack of access to another financial system predominantly due to the lack of legal documents or a bank account.

For each stage, hawaladars identified the appeal of the hawala system for people on the move. The main strength was its ease of use (78 mentions in
The Hawala System

The Hawala System

During the journey the main reason for using hawala was to avoid carrying cash and therefore preventing the risk of theft or loss (28 mentions). This was also the second most often mentioned reason before traveling (21 mentions). Hawala was also valued as it allowed migrants and refugees to pay the smuggler and other service providers in instalments along the journey (31 mentions). Due to this, migrants and refugees do not have to pay the smuggler in advance and are sure not to lose their money if the smuggler does not provide the services agreed.

In addition, hawala was considered to be safe and secure, fast and efficient, and cheap or cost effective, including in relation to the commission and exchange rate compared to a bank. Other advantages included trustworthiness of the system, accessibility both in terms of time and location, convenience of use, the ability to use a system that is known by the migrant or refugee and the ability to communicate with the hawaladar in the language spoken by the migrant or refugee.

“These migrants travel through many countries, so they have to find smugglers in each country to help them move to another country. They even have to hire boats, cars, and rent houses. For each of these services, they have to pay money, so they use hawala service to exchange money or to pay to the smuggler.”

H-65, Italy

Another important feature of the hawala system is that it allows migrants who do not possess legal documents or bank accounts in a given country to execute financial transactions (79 mentions in total for all stages combined). The lack of a bank account was particularly important after and during travel (24 and 15 mentions, respectively), while the lack of legal documents was most mentioned after traveling (15 mentions). Moreover, respondents indicated that migrants used hawala when they occupied informal jobs or jobs remunerated in cash (12 mentions) or preferred to avoid declaring money upon arrival and paying taxes (8 mentions).

“Because we ask no questions, whereas if you go to a bank and say I want to send $10,000 to Iran or Greece or Afghanistan, the bank will ask you thousands of questions and report you to [the] police. [...] So hawala, is an easy hassle-free service for poor migrants to use to come to Europe.”

H-54, Germany

Hawala and Irregular Migration: The moral dimension

Although some hawaladars reported financial motives as the main factor for involvement in migrant smuggling, the moral dimension was also a factor mentioned by some. While some hawaladars claim to only provide financial services, others interviewed in this study felt there was a moral duty to assist migrants in vulnerable situations:

“So, if they are using their own money and putting their life at risk in order to build a good future for their children, then why shall we not help them? They are human beings as you, me, and others. The only way we can help them is to transfer their money from point A to B so they can pay to the smugglers to... move between European countries. I wish they were treated more like a human being by the authorities and if the governments had a proper system, instead of all this money going to the smugglers, they could have used it to make a good living for themselves. But what can I say, brother? It is heart wrenching to see all these people fighting for life just for the sake of living in peace.”

H-52, France

“My clients are migrants who come here from countries like Tunisia, Bangladesh, Afghanistan, Iran, and Pakistan. Most of them first arrive in Lampedusa Island, then they come here to Rome or go to other cities. The majority of them don’t stay in Italy to settle so they move on to... other European countries. So, as a hawaladar, the only help we can provide to these poor people who have left everything behind in search of a better life [is] providing hawala service – it is the least we can do for them.”

H-65, Italy

“Some hawaladars can help by referring migrants to organizations where they can get help with food, clothing, legal advice about settlement, and be a guide to the newly arrived migrants – of course they will get money from migrants to do all this. They also help with processing their transactions, exchange their money. Yes, I have had migrant clients as this city is popular for temporary stay of migrants before they try to cross the border to other European countries. They live in very rough conditions here such as limited access to proper accommodation, clothing, food, proper heating system etc.”

H-37, Bosnia and Herzegovina

Interview with hawaladars (H1, H2, H5, H6, H9, H35, ID04)
“Yes, for my new clients, our procedure is different. They must have an ID card.”

H-61, Afghanistan

“If someone is a new client, [I] will ask for his national ID but if someone is an old client, [I] will not insist on having an identification document. The remaining procedure is the same for both old and new clients.”

H-71, Afghanistan

**TAB. 3  Do interviewed hawaladars have different procedures for repeat or new customers?**

<table>
<thead>
<tr>
<th>Answers</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>79 (70%)</td>
</tr>
<tr>
<td>Yes</td>
<td>30 (27%)</td>
</tr>
<tr>
<td>Prefer not to say</td>
<td>3 (2%)</td>
</tr>
<tr>
<td>(Blank)</td>
<td>1 (1%)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>113</strong></td>
</tr>
</tbody>
</table>

Source: Interviewed hawaladars H01-H113

**Customer procedures**

As a trust and reputation-based system, it can make a difference to be a repeat or regular hawala customer as opposed to a new user. The majority of hawaladars (79 or 70 per cent) mentioned that they treat new and regular customers similarly. However, just over a quarter (30 or 27 per cent) of hawaladars, reported that they have different procedures in place for regular versus new customers. Several licensed hawaladars said that due to the pressure from financial authorities to minimize the possibility of money laundering and terrorist financing, new customers need to present identification documents and have their identities confirmed by a regular customer before their transaction can be processed. Other hawaladars stated that regular or repeat customers are given a discount on commission charges, and one hawaladar added that, in urgent cases, regular customers can simply call and a remittance to the destination country will be processed, with payment to be made to the hawaladar at a later date.

“[Regular] customers are trustworthy and receive discount, but this is not the case with the new customers”.

H-02, Afghanistan

“According to the Australian laws we have to record every customer’s details, including their driving license details.”

H-26, Australia

**Recording customers details**

In jurisdictions where hawala is regulated, hawaladars are required to record a certain amount of personal information from their customers and obtain a copy of their identification documents. However, in practice, only those hawaladars operating with a license follow these guidelines. For example, in Australia, where the hawala system is well regulated, hawaladars record detailed information such as the customer’s name, address, contact number, source of funds, and purpose of transactions, and obtain a copy of the customer’s identification document. In Europe, a number of hawaladars claimed that presenting an identification document is not necessary for their customers and they only require the name and contact number of the sender and the receiver to process a transaction. Limited collection and recording of personal information has been identified as an issue in earlier research on the subject.51

The interviewed hawaladars were asked what customer information they record for both outgoing and incoming hawala transactions: around 80 of the 113 hawaladars reported that it included the name of sender and receiver, the amount, and the currency; and purpose of transactions, and obtain a copy of the customer’s identification document. In Europe, a number of hawaladars claimed that presenting an identification document is not necessary for their customers and they only require the name and contact number of the sender and the receiver to process a transaction. Limited collection and recording of personal information has been identified as an issue in earlier research on the subject.51

For outgoing transactions, the most often recorded information was the name of the receiver, the currency, the amount to be transferred, and the name of the sender. By comparison, neither the purpose of the transaction, nor the gender of the sender, were frequently recorded. The occupation of either the sender or receiver was also not commonly recorded. This pattern was largely the same for information relating to incoming transactions, with the names of the sender and receiver, the amount, and the currency being the most frequently recorded information: gender, occupation, and, importantly, the purpose of the transaction was least commonly recorded.

FIG. 7  Data recorded for incoming and outgoing transactions by interviewed hawaladars, frequency of response.

Data recorded for **outgoing** transactions by interviewed hawaladars, frequency of response:
- Currency: 81
- Name of receiver: 61
- Amount: 80
- Name of sender: 79
- Date: 74
- Name of the corresponding MSVP: 84
- Exchange rate: 48
- Address of sender: 43
- Address of receiver: 39
- Phone number: 34
- Purpose of transaction: 11
- Sex of the sender: 11
- Occupation of sender: 4
- Occupation of receiver: 4

Data recorded for **incoming** transactions by interviewed hawaladars, frequency of response:
- Currency: 81
- Name of receiver: 80
- Amount: 80
- Name of sender: 77
- Date: 72
- Name of the corresponding MSVP: 63
- Exchange rate: 47
- Address of sender: 43
- Address of receiver: 38
- Phone number: 34
- Purpose of transaction: 11
- Sex of the sender: 11
- Occupation of sender: 4
- Occupation of receiver: 4

Source: Interviewed hawaladars H01-H113
The hawala system in operation

This section describes how the hawala system operates, what type of services the system normally provides, the extent of network coverage is, and details the process of hawala transactions.

Domestic and international offices

While it is not necessary for a hawala to have an office in a certain location to be able process transactions there – only an associate hawaladar is required – some hawala businesses have multiple domestic and international offices. The participants interviewed in this research were asked if they have multiple offices within the same country in which they operate, as well as internationally.

Over one-third (40) of the hawaladars mentioned they had multiple branches within the same country in which they operated: half of these were based in Afghanistan, with others in Australia, Austria, Kazakhstan, Nigeria, the United Republic of Tanzania, Somalia, the United Arab Emirates, and the United States. Those based in Afghanistan reported having offices in multiple provinces within the country.

PIC. 2 Street based hawaladar and money exchanger in Herat, Afghanistan

Source: UNODC, June 2022

MAP. 3 Location and number of hawala branch offices reported by interviewed hawaladars, frequency of response.

Source: Interviewed hawaladars H01-H113
FIG. 8  At a glance: Business processes of interviewed hawaladars

Reported to the Central Bank/ National Institutions

Hawaladars Use of Crypto Currency

Do you record transactions?

Records’ Format

Proportion of Transactions > 500 USD

Proportion of International Transfers

Branch Offices

Having Bank Account

Most Common Services

Maximum Amount of Funds Held for Safe Keeping

Number of Hawaladars Providing Financial Services by Country

<table>
<thead>
<tr>
<th>Country</th>
<th>Money Transfer</th>
<th>Currency Exchange</th>
<th>Short Term Lending</th>
<th>Safe Keeping of Funds</th>
<th>Trade Guarantees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Afghanistan (n=30)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australia (n=5)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Austria (n=5)</td>
<td></td>
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<td></td>
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<tr>
<td>Bosnia and Herzegovina (n=5)</td>
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<td></td>
</tr>
<tr>
<td>Denmark (n=5)</td>
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<td></td>
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<tr>
<td>Germany (n=5)</td>
<td></td>
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<tr>
<td>Italy (n=5)</td>
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<tr>
<td>Kazakhstan (n=5)</td>
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<tr>
<td>Nigeria (n=5)</td>
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<tr>
<td>Norway (n=5)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Romania (n=3)</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Somalia (n=5)</td>
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<tr>
<td>Spain (n=5)</td>
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<tr>
<td>Tanzania (n=5)</td>
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<tr>
<td>The Netherlands (n=5)</td>
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<tr>
<td>United Arab Emirates (n=5)</td>
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<tr>
<td>United Kingdom (n=5)</td>
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<td></td>
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<tr>
<td>United States (n=5)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Legends

- Yes
- No
- No response
- Prefer not to say & Not used but aware
Over half (60) of the hawaladars reported having offices in other countries. Of those based in Afghanistan, fourteen stated that they had offices abroad, with these collectively covering North America, Asia (South, Southwestern and Eastern Asia), Western and Southeastern Europe, The Russian Federation and Central Asia and the Middle East. Twenty-one respondents based in eight European countries reported having offices abroad that collectively covered Afghanistan, North Africa, West Africa, Southwest Asia, South Asia, the Middle East and Southeast Europe, as well as offices within multiple European Union countries. Australia and United States-based hawaladars reported having offices in Afghanistan, Southwest Asia and Southeastern Europe in addition to multiple domestic offices.

In addition to maintaining domestic offices, those hawaladars interviewed in Nigeria and the United Republic of Tanzania reported to have branches in multiple countries in Western Europe. They also reported having offices in Eastern Africa, North America, Southeast Europe, Central Asia, the Middle East and South Asia. A Kazakhstan-based hawaladar reported having offices in Afghanistan, Southwest Asia, Southeast Europe, and the Middle East in addition to other domestic offices within Kazakhstan, while respondents based in the United Arab Emirates reported having have offices in Afghanistan, South and Southwest Asia.

Source: Interviewed hawaladars H01-113

52 Specific countries mentioned included: Canada, China, Germany, Iran (Islamic Republic of), India, Pakistan, the Netherlands, the Russian Federation, Tajikistan, Türkiye, and the United Arab Emirates.
53 Austria, Denmark, Germany, France, the Netherlands, Romania, Spain, and the United Kingdom.
54 Specific countries mentioned included Afghanistan, Algeria, Bangladesh, Egypt, Iran, India, Morocco, Nigeria, Pakistan, Türkiye, Tunisia and the United Arab Emirates.
55 Specific countries mentioned included Afghanistan, Iran (Islamic Republic of) and Pakistan.
56 This included Austria, France, Germany, Hungary, Italy, the Netherlands, Norway, Spain, Sweden and the United Kingdom.
57 Specific countries mentioned included Ethiopia, Canada, India, Türkiye, Somalia, United Arab Emirates, United States and Uzbekistan.
58 Specific countries mentioned included Iran (Islamic Republic of), Türkiye and United Arab Emirates.
59 Specific countries mentioned included Afghanistan, Bangladesh, Iran (Islamic Republic of), India and Pakistan.
From where, to where?

Hawaladars send and receive funds to and from customers in multiple countries. The interviewed hawaladars were asked to provide insight into their incoming and outgoing transactions. An incoming transaction is one in which a customer hands over money to the hawaladar (hence, it is ‘incoming’ cash from the hawaladar’s point of view) so that it can then be sent to an international or domestic destination, by comparison, an outgoing transaction is one in which a customer receives cash from hawaladar (hence, it is ‘outgoing’ from the hawaladar’s point of view).

The interviewed hawaladars were asked to list the top five countries which they most frequently made transactions to and from on behalf of their customers. Those countries have been aggregated into sub-regions and displayed below. However, it should be noted that the sample of hawaladars highly likely has affected these results, since hawaladars interviewed from the Southwestern and Southern Asian regions are over-represented.

The majority of the transactions frequently received by the 113 interviewed hawaladars came from customers residing in countries of the Near and Middle East and Southwest Asian sub-regions (37 per cent). This was followed by transactions from customers in states in the Western and Central European and Southeast European sub-regions (24 per cent and 14 per cent respectively). The interviewed hawala-
dars reported receiving fewer transactions from customers in the North American (10 per cent), South Asian and North African sub-regions (4 per cent each) and hardly any from sub-regions including Australia and New Zealand (3 per cent), West and Central and East Africa, Central Asia and Transcaucasia (2 per cent), West/Central and East Africa (1 per cent each). Customers in the Eastern Europe, Eastern and Southeast Asian sub-regions accounted for less than one per cent of mentions by the interviewed hawaladars and none reported frequently receiving transactions from any customers in the South and Central American sub-region.

Equally, the 113 interviewed hawaladars sent transactions most frequently on behalf of their customers to hawaladars in states in the Near and Middle East and Southwest Asian sub-regions (41 per cent). This was followed by the West and Central, and Southeast European sub-regions (18 per cent and 13 per cent respectively). Comparatively fewer transactions were sent to hawaladars in states in the South Asian (9 per cent), East African (5 per cent), North American, Central Asian and Transcaucasian and East and Southeast Asian subregions (3 per cent).

The Near and Middle East and Southwest Asian sub-regions, along with the West and Central European sub-region were most often mentioned as source or destination by the interviewed hawaladars. Europe (48 respondents) and Afghanistan (30 respondents) are over-represented in this study, which could partly explain the high level of interaction between hawaladars based in Europe with those in South-West Asia.

One hundred thirteen interviewed hawaladars residing in eighteen states (right) reported the top five states from which hawala transactions were received. These states are grouped by the sub-regions on the left. The flow of hawala transactions are represented as lines sized according to the frequency number of the Member States mentioned by hawaladars based in eighteen states.
The Hawala System

The Hawala System transactions were frequently made by Afghan hawaladars to the North American, North African and Eastern European sub-regions.

Sankey flow charts for hawaladars in the other seventeen countries covered by this study are available at the AOTP webpage here: https://www.unodc.org/unodc/en/data-and-analysis/aotp.html

Taking Afghanistan as an individual country example the thirty hawaladars interviewed in the country also reported frequently receiving transactions from customers located in countries in the Near and Middle East/Southwest Asian and Southeast European sub-regions, followed by the West and Central European and North American sub regions. Far fewer transactions were received by Afghan hawaladars from customers in the South Asian, Australian and New Zealand and East and Southeast Asian sub-regions.

Similarly, the thirty hawaladars interviewed in Afghanistan sent funds more frequently to hawaladars in the Near and Middle East and Southwest Asia sub-regions, followed by the Southeastern and West and Central Europe sub-regions. However, comparatively more transactions were sent by the Afghan hawaladars to customers in the South Asia, Central Asia and Transcaucasia and South and Southeastern European sub-regions. Far fewer transactions were frequently made by Afghan hawaladars to the North American, North African and Eastern European sub-regions.

FIG. 11 Sankey flow chart of hawala transactions from hawaladars to customers in sub-regions, by country of the interviewed hawaladar

Source: Interviewed hawaladars H01-H113. Note: only the start and end destination of the transactions was reported. Additional countries the transaction passed through were not reported.
**FIG. 12** Comparison of the top five countries mentioned for sent and received transactions by interviewed hawaladars, percentage, by sub-region.

Source: Interviewed Hawaladars H01-H113

**FIG. 13** Sankey flow chart of hawala transactions from hawaladars in sub-regions to Afghanistan

Thirty interviewed hawaladars residing in Afghanistan (right) reported the top five states from which hawala transactions were received. These states are grouped by the sub-regions on the left. The flow of hawala transactions are represented as lines sized according to the frequency number of the Member States mentioned by hawaladars based in Afghanistan.

Source: Interviewed Hawaladars H01-H113 Note: only the start and end destination of the transaction was reported. Additional countries the transaction passed through were not reported.
FIG. 14  Destination sub-regions of hawala transfers by interviewed hawaladars, number of mentions.

Sub-regions interviewed hawaladars frequently reported receiving transactions from, number of responses:

- Near and Middle East/South-West Asia: 177
- Western and Central Europe: 115
- South-Eastern Europe: 69
- North America: 49
- South Asia: 22
- North Africa: 17
- Australia and New Zealand: 13
- Central Asia and Transcaucasia: 10
- East Africa: 4
- West and Central Africa: 3
- Eastern Europe: 2
- East and South-East Asia: 2

Sub-regions interviewed hawaladars frequently reported sending transactions from, number of responses:

- Near and Middle East/South-West Asia: 216
- Western and Central Europe: 91
- South-Eastern Europe: 65
- South Asia: 50
- East Africa: 28
- North Africa: 24
- Central Asia and Transcaucasia: 20
- East and South-East Asia: 17
- West and Central Africa: 4
- Eastern Europe: 3
- Southern Africa: 1
- Australia and New Zealand: 1

Source: Interviewed hawaladars H01-H113
FIG. 15  Sankey flow chart of hawala transactions from Afghan hawaladars to sub-regions

Thirty interviewed hawaladars residing in Afghanistan (left) reported top five states to which hawala transactions were sent. These states are grouped by sub-regions on the right. The flow of hawala transactions are represented as lines sized according to the frequency number of the Member States mentioned by hawaladars based in eighteen states.

Source: Interviewed hawaladars H01-H113 Note: only the start and end destination of the transaction was reported. Additional countries the transaction passed through were not reported.
The Hawala System

FIG. 16  Financial services offered by interviewed hawaladars

Money Transfer
- 99.1%

Currency Exchange
- 65.5%
- 34.5%

Safe Keeping Funds
- 58.4%
- 41.6%

Short-term Lending
- 29.2%
- 70.8%

Trade Guarantees
- 84.1%
- 15.9%

Other Services
- Handling Cash
- Maintaining savings account
- Mobile Money Transfer
- Cashing Cheques

Business Sectors Operated by Hawaladars

<table>
<thead>
<tr>
<th>Sector</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grocery store</td>
<td>32</td>
</tr>
<tr>
<td>Electronics shop</td>
<td>10</td>
</tr>
<tr>
<td>Construction company</td>
<td>8</td>
</tr>
<tr>
<td>Money exchange</td>
<td>5</td>
</tr>
<tr>
<td>Travel agency</td>
<td>5</td>
</tr>
<tr>
<td>Restaurant or fast-food</td>
<td>9</td>
</tr>
<tr>
<td>Textile, clothing, carpet business</td>
<td>8</td>
</tr>
<tr>
<td>Jewellery shop</td>
<td></td>
</tr>
<tr>
<td>Sell</td>
<td></td>
</tr>
<tr>
<td>Visa</td>
<td></td>
</tr>
</tbody>
</table>
Hawala service provision

The most common type of service provided by the sample group in this study was transferring money, mentioned by all hawaladars except one who acted as an agent of other hawala businesses and assisting them to balance their accounts with each other. This hawaladar claimed his account settlement services to be well-known but limited only to those in his contact list; he operated and maintained a construction company alongside the hawala business.

However, the sending and receiving of funds is just one among several services hawaladars provide. The interviewed hawaladars reported that they provide other monetary services, including, but not limited to cash saving, currency exchange, short-term lending, safekeeping of funds, and trade guarantees. The nature and types of services hawaladars provide can depend on the jurisdiction and legal framework, and it varies widely. For example, most of the hawaladars interviewed in Afghanistan reported that they provide several other services in the local money markets – including trade guarantees, safekeeping of funds, and currency exchanges – whereas those interviewed in Europe, who in most cases were operating from small businesses, reported that their services were limited to sending and receiving funds.

Nearly two out of three respondents (65 per cent) provided currency exchange services. It is worth noting that the twenty Afghan hawaladars interviewed before the Taliban return to power provided currency exchanges, while the ten interviewed afterwards did not provide such services. This may have been a temporary issue due to the foreign currency liquidity crisis reported in Afghanistan after the events of August 2021. All the interviewees from Somalia, Kazakhstan, and the United Republic of Tanzania provided currency exchange services, while those from Denmark, Austria, the United Kingdom, and Spain did not. It is also possible that in addition to providing the service, currency exchange allows hawaladars to make profits from fluctuations in exchange rates. In one case documented by Dutch police, hawaladars in the Netherlands made profits of close to 60,000 Euros, through taking advantage of foreign currency trading of illicit funds. Only research participants from five countries – Afghanistan (nine respondents), Kazakhstan (three), Nigeria (one), Somalia (four), and the Netherlands (one) – provided trade guarantees.

Safekeeping of funds

In countries where the formal banking system is not well developed or trusted by the population, the hawala system can function as a substitute. In Afghanistan, where less than 15 per cent of the adult population has a bank account, the hawala system seems to play a significant role in providing the safekeeping of funds: Of the thirty hawaladars interviewed in Afghanistan, twenty-three provided a fund safekeeping service. However, despite the advanced banking system in Europe, twelve hawaladars in Austria, Denmark, Romania, Spain, and the Netherlands also provided safekeeping of funds, which one hawaladar believed might be a way to evade tax or keep income associated with unreported employment. Safe keeping of funds may also allow individual hawaladars to maintain a reserve of cash allowing them to make transactions.

The quantity of funds kept with interviewed hawaladars differed from one interviewee to another, and in part appears to be the personal choice of individual hawaladars. Of those respondents who provided safe keeping of funds, the highest amount held for a single customer was reported as being USD 500,000 by a hawaladar in the Netherlands and one in Kazakhstan, followed by USD 450,000 in Somalia, and USD 100,000 in Denmark. One hawaladar each in Tanzania and Nigeria reported that they held up to USD 50,000 for customers. The lowest amount, of USD 20,000, was reported by hawaladars in Afghanistan as well as a single hawaladar in Austria. Hawaladars based in Romania and Spain mentioned that there is no limit on the amount of funds that could be kept.

“Actually, it is not limited, we have customers who are transferring the funds in our bank accounts... then [a] few months later they are coming to collect it. For sure the exchange rate at the time of each transaction is always recorded.” H-86, Romania.

63 FATF (2013) “The role of Hawala and other similar service in money laundering and terrorist financing”
65 In depth interview with Hawaladar ID04
Other businesses

According to a 2013 study, it is not unusual for hawaladars to operate one or more businesses besides their hawala business. These include grocery stores, travel agencies, and selling mobile top-up cards. Nearly three out of every four interviewees (82) in this study were engaged in another business besides the hawala business. Of the 82 respondents who had a second business, 16 were employees, and the remaining were business owners.

Around one-third of all the interviewed hawaladars (32) reported operating a grocery store, the majority (23) of whom were in Europe, followed by three in Australia and the United States, which is in line with previous FATF research findings that highlighted grocery stores as a typical side business for hawaladars. Out of the thirty-two hawaladars that operated a grocery store, fourteen said less than half of their income was from hawala, and another eight mentioned that more than half of their income was derived from the hawala business. This indicates that hawaladars operating out of such stores rely partly on hawala income compared to those operating hawala as a primary business. Out of the ten hawaladars that operated an electronic shop, eight were based in Europe and the remaining two were each based in Afghanistan and Somalia. Five of the eight hawaladars that maintained construction companies were based in Afghanistan, and one each in Kazakhstan, Nigeria, and Somalia. Of the five hawaladars who operated a travel agency, two were based in Nigeria, and one in Australia, Bosnia and Herzegovina, and Germany.

67 FATF (2013) “The role of Hawala and other similar service in money laundering and terrorist financing”.
68 Austria, Bosnia and Herzegovina, Denmark, Italy, the Netherlands, Spain, and the United Kingdom
Detailed example hawala transaction from Europe to Afghanistan and the account settlement arrangement between the hawaladars

An example of a basic hawala transaction has been given above. However, transactions can be more complex in practice, with the transaction passing through multiple hawaladars in different jurisdictions each taking a cut of the commission. A more detailed study of a hawala transaction is as follows: Ahmad (a pseudonym) – an Afghan newly arrived in Vienna – is looking for a hawaladar to send money back to his brother Kabir (also a pseudonym), in a province in Afghanistan. After seeking advice from the Afghan community in Vienna, he obtains the address of a hawaladar (‘hawaladar A’). Hawaladar A is also of Afghan origin but has local citizenship and has lived in the country for nearly two decades. He also owns a grocery store in Vienna.

Hawaladar A asks Ahmad to provide him with several items of information, notably the amount of money to be transferred and whether the money is to be collected in EUR or the local currency (Afghani, AFN) in his province of origin in Afghanistan. Ahmad wants to send EUR 400 and asks the difference in terms of cost between collecting the money in EUR or AFN in his province of origin. Hawaladar A says that if the money is collected in EUR in Afghanistan, the commission fee would be 5 per cent, but if the money is collected in Afghani, the commission fee would be 3 per cent, with an exchange rate of EUR 1: AFN 8.2.

Ahmad checks the EUR/AFN exchange rate online and sees that the online rate EUR 1: AFN 8.7 and tells hawaladar A. The hawaladar says that the online exchange rate applies to a large transaction amount, not a small transaction of just EUR 400. Nevertheless, Ahmad prefers that his brother in Afghanistan collect the amount in EUR, and, after negotiating, hawaladar A agrees to charge Ahmad a 4.5 per cent commission.

Ahmad pays the money and the commission fee. Hawaladar A asks for Ahmed’s name and the name of the receiving person in Afghanistan. He does not ask for an ID or any other personal details from Ahmad. Hawaladar A then writes a three-digit code, a mobile number, and the name of a hawaladar in Afghanistan (‘hawaladar B’) and asks Ahmad to give the details to his brother in Afghanistan. Hawaladar A adds that the money can be collected the following day from hawaladar B at the money dealer market in the province of origin.

Ahmad takes a photo of the slip and sends it via WhatsApp to his brother, Kabir. The next day Kabir calls hawaladar B, based in his province of origin, and says he has a hawala transaction he wishes to collect. Hawaladar B says the money is ready for collection. When Kabir arrives at the store of hawaladar B in Afghanistan and presents the code, hawaladar B asks how much the amount is and immediately pays out the EUR 400 to Kabir. Hawaladar B does not ask Kabir for ID or personal identification documents to receive the funds.

How does hawaladar A (Europe) settle his account with hawaladar B (Afghanistan)?

In the above transaction, hawaladars A and B have a pre-existing verbal agreement to work on the Vienna–Herat city ‘sector’ of hawala transfers. A sector comprises the connection between two countries or cities where a hawala transaction occurs. In the transaction described above, because of the limited number of reverse transactions from the Herat city to the Vienna, hawaladars A and B agree to settle their account through a major hawaladar who is also based in Vienna (‘hawaladar C’). Hawaladar C covers several sectors and countries and has an agreement with several other hawaladars in Europe. He also works with other major hawaladars based in Dubai and Istanbul. All three hawaladars further work with a sizeable legal trade company headquartered in Dubai with branches in Europe and Asia, which is involved in legal import and export in Europe and Asia. The trading company maintains formal bank accounts in all the countries in which it operates. Of the 4.5 per cent commission that hawaladar A charged Ahmad, 1.5 per cent is the share of hawaladar A, one per cent goes to hawaladar B in Herat, and the remaining two per cent is the share of hawaladar C, who facilitated the account settlement, between hawaladars A and B.

Source: UNODC, based on an actual hawala transaction in 2021 from Europe to Afghanistan. The hawaladar in Vienna was interviewed a week after processing the transaction.
The Hawala System

**FIG. 17** Hawala transaction from Afghanistan to Austria and the account settlement arrangement between hawaladars

1. **START**
   - Ahmad sends money from Vienna to Kabir in Herat

2. **Ahmad pays EUR 400 in cash plus 4.5 per cent fee**
   - Hawaladar A provides a code, name & mobile no. (hawala slip) to Ahmad

3. **Hawaladar A** provides a code, name & mobile no. (hawala slip) to Ahmad
   - Profit from transaction: **1.5%**

4. **Ahmad sends a copy of the hawala slip to Kabir via WhatsApp and asks him to collect the money next day**

5. **Legal trade company** HQ in Dubai with several branches in other countries
   - Profit from transaction: **2%**

6. **Hawaladar D** based in Dubai

7. **Hawaladar E** based in Istanbul

8. **Hawaladar D and E** have verbal agreement to work together on Vienna-Herat transactions.

9. **Due to very limited number of reverse hawala between Herat and Vienna, Hawaladars A and B agree to settle their accounts through Hawaladar C, based in Vienna.**

10. **The next day, Kabir calls the number on the hawala slip**
    - and after confirmation, goes to the hawala store and collects the money

11. **Ahmad’s brother** Kabir based in Afghanistan

12. **Afghanistan-based Hawaladar B**

   - Profit from transaction: **1%**

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**Export/import to/from EU**

**Export/import to/from Asia**

**FIG. 17** Hawala transaction from Afghanistan to Austria and the account settlement arrangement between hawaladars
The Hawala system in operation

Hawala transactions

One often used definition of hawala is that it is “money transfer without money movement”69, a phase that is used to emphasize that, unlike a regular money transfer or wiring of funds, a hawala transaction can occur without the movement of funds. However, the International Monetary Fund (IMF) has criticized this depiction as “misleading” because it implies that “money simply submerges on one side of a border and pops up on the other side, with no further complication”70.

Therefore, it is best not to think of the hawala system as a direct money transfer but as a mechanism in which two hawaladars agree to cooperate to exchange value on behalf of customers. One hawaladar accepts money from a sender, and another agrees separately to pay the equivalent to a receiver, with the two hawaladars subsequently settling the balance between themselves in various ways that do not involve the sending and receiving customers exchanging money directly, even if a transfer of funds or goods between the two hawaladars does occur at some point71.

A hawala transaction does not always proceed directly from country A to country B. Depending on the source and destination of hawala transactions, sometimes a transaction is carried out through one or more intermediary hawaladars located in at least one other country. Hawaladars interviewed for this study reported that there are multiple hawala hubs located in several regions of the world where such intermediary hawaladars operate and that transactions can go through several countries72.

International vs. domestic transactions

The interviewed hawaladars reported both domestic and international transactions. Nearly three out of every four of the interviewed hawaladars (74 per cent) processed mostly international transactions, with nearly half (47 per cent) reporting that almost all their transactions were international. In contrast, only one hawaladar, who operated from a border town in Afghanistan that is a major transit point for seasonal migration, reported that almost all his transactions were domestic. He stated that most of his customers were seasonal workers from the province who were sending their salaries to their families in different parts of Afghanistan.

“Our customers are generally locals and Afghan migrants in neighbouring countries. They are from different age groups and the majority are male.”

H-63, Afghanistan.

Proportion of incoming vs outgoing transactions

The interviewed hawaladars were asked to describe the proportion of their incoming and outgoing transactions. Fifty-three of the hawaladars reported that “almost all” (22 percent) or “the majority” (25 percent) of their transactions were outgoing and 29

FIG. 18 Proportion of transactions transferred internationally by interviewed hawaladars, frequency of response.

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency of Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Almost all international</td>
<td>53</td>
</tr>
<tr>
<td>Majority international</td>
<td>31</td>
</tr>
<tr>
<td>About equal</td>
<td>16</td>
</tr>
<tr>
<td>Majority domestic</td>
<td>12</td>
</tr>
<tr>
<td>Almost all domestic</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: Interviewed hawaladars H01-H113

71 In-depth interview with hawaladar (ID01)
72 In-depth interview with hawaladars (ID01-ID04)
percent mentioned having an equal number of incoming and outgoing transactions. The remaining 24 per cent were reported to be incoming transactions. In Europe where forty-eight hawaladars were interviewed, two reported to have incoming transactions and twenty-seven mentioned that their transactions were outgoing, while nineteen reported to have an equal number of incoming and outgoing transactions. The five hawaladars interviewed in the United States reported that all their transactions were outgoing.

**FIG. 19** Proportion of incoming and outgoing transactions reported by interviewed hawaladars, percentage.

Source: Interviewed hawaladars H01-H113

**FIG. 20** Percentage of daily transactions above USD 500 or its local currency equivalent, number of responses.

Source: Interviewed hawaladars H01-H113

**Value of transactions**

Those interviewed for this study reported that the value of a single transaction could vary substantially, ranging from as low as USD 50 and as high as USD 200,000. A total of 22 interviewees reported that over 60 percent of their daily transactions were greater than USD 500; sixty-seven interviewees stated under 40 per cent of their daily transactions were above USD 500 and that over half of the daily transactions they handled were less than USD 500.
The hawaladars were also asked to describe the minimum and maximum incoming amount they had transferred in a single transaction. Minimum values were reported as USD 15, AFN 3,000, and EUR 30 by hawaladars in Somalia, Afghanistan, and Romania, respectively; the maximum incoming amount received in local currency in a single transaction was AFN 12 million (equivalent to around USD 132,000) reported by a hawaladar based in Afghanistan. The highest maximum amount of all of EUR 400,000 was reported by a hawaladar from a European country. By comparison the maximum outgoing amount that the interviewees handed or paid out in a single transaction were AFN 3 million and USD 400,000, reported by hawaladars based in Afghanistan and Kazakhstan, respectively, while the minimum was USD 50 by a hawaladar in the United States.

**Timing of transactions**

It appears that the number of hawala transactions fluctuates at different times of month and year as the majority of the hawaladars mentioned that the volume of transactions increases at the end or the beginning of the month. Almost all the respondents said that the number of transactions decrease in winter but increase again in spring, summer, and the period close to Islamic Eid celebrations.

**Proof of payments**

Records showing proof of payment are seen to be important because they are evidence that the hawaladar is trustworthy and reliable in a business where a simple accusation can tarnish their reputation and may damage their business. With the increase in digitalization across public and private sectors, hawaladars have also started keeping a digital record of the services they provide. The hawaladars were asked if they record their transactions and if so in what format. Nearly 70 per cent mentioned they recorded the transactions; less than 10 per cent responded that they did not. Over 30 per cent reported that they recorded transactions in both paper and electronic formats, while 24 and 18 per cent, respectively, said they recorded only on paper or electronic formats.

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73  In-depth interviews (ID01-03)
74  Hawala ledgers are often insubstantial and are written in idiosyncratic shorthand. Initials or numbers that are meaningful to the hawaladar are useless if they reveal nothing about transactions, amounts, time, and names of people or organizations. See E.A. Thompson (2006) “The Nexus of Drug
The Hawala System

**PIC. 3 Hawala ledgers from a hawala Market in Kabul, Afghanistan**

**Hawala slips:** As shown in Picture 5 and 6, each customer is provided with a hawala slip that indicates, at a minimum, the transaction number or code, a telephone number, and the name of the hawaladar at the destination. The dealers use the code to identify customers and for payment and settlement purposes. Some dealers require the holder to produce a secondary identification document when presenting the note for cash, particularly in the case of new customers.

**Customer identification documents and records:** Some hawaladars implement rudimentary due diligence, ‘know your customer’ procedures. According to a 2003 study, some of the data collected for records include: (1) date of the transaction; (2) name and address of sender and recipient; (3) passport number or other identification numbers; (4) hawala number; and (5) the name of counterpart dealer. The record keeping practice is influenced by the individual hawaladar, whether they are registered or unregistered, as well as the jurisdiction they operate. For example, the hawaladars transferring money from Europe to Afghanistan, only reported requesting information about the customer and the recipient’s name, the amount, and the destination. However, in Australia, where the hawala system is strongly regulated, additional data was recorded, including the purpose of the hawala transaction: additionally, a copy of the customer’s identification document was kept, with the customer having to sign on the hawala slip, a copy of which was kept by the hawaladar.

**Ledgers:** The accounts between the dealers are reconciled periodically. For their correspondents, hawaladars maintain debit and credit columns in an accounting ledger book, on computer, or both. Generally, transactions are recorded, with columns for the date, hawala number, currency, amount, destination, fee, and the date of settlement.

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77 Ibid.
The interviewed hawaladars did not commonly ask about the source of money or the reason for sending and receiving money, something that has been identified in earlier research on hawaladars’ business practices. Hawala services are businesses that seek to generate profit; this appears to be one of the reasons hawaladars do not ask about funding sources as it could be detrimental to profits. 

Hawaladars interviewed in this research reported that from time to time they do get suspicious transactions. More than half (63%) of the respondents reported that they do not take preventative measures to avoid handling illegal transactions, while twenty-one hawaladars said they actively took preventative measures; twenty-seven did not respond to the question.

“Hawaladars do not usually ask a lot of questions since their ultimate aim is to make profit and there are no specific criteria to identify if the fund is opiate related.”

H-58, Afghanistan

Some hawaladars based in Afghanistan stated that hawaladars do not know the source of the money and, thus, there is a possibility that the transactions they process are associated with organized crime, making the hawala system vulnerable to misuse by, for example, migrant smugglers and drug traffickers. 

“Because much money is traded in the hawala system and most of the time it is not known exactly where this money came from and whether this money is from the mafia groups.”

H-58, Afghanistan

“I think no one [hawaladar] likes to ask the customer about the source of the money.”

H-84, Spain

“The hawala system is more vulnerable because it is difficult to control the hawala system. Sometimes a lot of money is transferred between people without knowing the income source of the money. Some drug smugglers do hawala work too.”

H-59, Afghanistan

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79 In-depth interview with hawaladar (ID01) and interviews with hawaladars, H-08, H-15, H-21, H-25, H-84, H-89.

80 Interview with hawaladars H58, H59, H63, Afghanistan

81 Interview with hawaladar H73-Kazakhstan
FIG. 24  Do Hawaladars employ extra due diligence practices because of reasonable doubt on source of funds?

<table>
<thead>
<tr>
<th>Response</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>15</td>
</tr>
<tr>
<td>No</td>
<td>84</td>
</tr>
<tr>
<td>Prefer not to say</td>
<td>12</td>
</tr>
<tr>
<td>No response</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: Interviewed hawaladars H01-H113

FIG. 25  Have interviewed hawaladars refused a transaction because of reasonable doubt on the source of funds, frequency of responses.

<table>
<thead>
<tr>
<th>Response</th>
<th>No of mentions</th>
</tr>
</thead>
<tbody>
<tr>
<td>No response</td>
<td>3</td>
</tr>
<tr>
<td>Prefer not to say</td>
<td>9</td>
</tr>
<tr>
<td>Do not remember</td>
<td>18</td>
</tr>
<tr>
<td>No</td>
<td>67</td>
</tr>
<tr>
<td>Yes</td>
<td>16</td>
</tr>
</tbody>
</table>

Source: Interviewed hawaladars H01-H113
“... the hawala system is not carefully checked and monitored, many transactions are made, and huge sums of money are transferred from one location to another.”

H-73, Kazakhstan

The preventative measures reported by hawaladars included computerizing their recording systems, consulting central banks or other authorities concerning regulations on hawala and AML guidelines, requesting their customers to provide personal information, installing security cameras in their hawala businesses, asking questions about the purpose of the transactions, or refusing to process the transactions.

“To get to know the customers, they are asked to provide their contact details, and we have webcams in our office.”

H-19, Afghanistan

“If someone wants to send large amounts of money without a good reason then I refuse to process the transaction, especially if I don’t know the person.”

H-109, United States

Those interviewed were asked if they had ever refused a hawala transaction due to reasonable doubt about the source of funds: sixty-seven said they had never refused, and sixteen mentioned they had. The reasons for so doing include cases where a transaction was for a large sum, where the customers looked suspicious and that they avoid handling transactions with persons in Iraq, Pakistan, Afghanistan, Germany, Syria, Iran (Islamic Republic of), Türkiye, Uzbekistan, Greece, Myanmar, North Korea, Sudan, United States, Vietnam and Yemen. While in some of these countries mentioned by hawaladars, international sanctions may be the reason to avoid transactions, it is unclear why hawaladars avoided handling transactions to North America and Western Europe.

“Iraq and other high-profile countries in terms of terrorists - I prefer not to process any transactions to those countries.”

H-56, Germany

“Yes, I don’t send money to Iraq, Syria and any other troublesome [countries] that is on the bad list of US government....”

H-109, United States

The interviewed hawaladars were also asked if there were countries to which or from which they avoid processing transactions. While 74 per cent said that there were no such countries, 13 per cent reported

82 Normally when large sums of money are transferred through...
Those hawaladars who had refused transactions did so on the reported reasons outlined in Figure 26.

“We last week a customer wanted to send a large amount of money through hawala to Pakistan. The customer was not originally from Afghanistan, and I became suspicious and asked for identification documents, he refused to give me his ID documents and transfer the money and left the shop.”

H-05, Afghanistan

“The amount of money was a lot, and it was suspicious. We guessed it was probably opiate trafficking money.”

H-84, Nigeria

“Last week a customer wanted to send a large amount of money through hawala to Pakistan. The customer was not originally from Afghanistan, and I became suspicious and asked for identification documents, he refused to give me his ID documents and transfer the money and left the shop.”

H-05, Afghanistan

Those hawaladars who had refused transactions did so on the reported reasons outlined in Figure 26.

“Last week a customer wanted to send a large amount of money through hawala to Pakistan. The customer was not originally from Afghanistan, and I became suspicious and asked for identification documents, he refused to give me his ID documents and transfer the money and left the shop.”

H-05, Afghanistan

Those hawaladars who had refused transactions did so on the reported reasons outlined in Figure 26.

“Last week a customer wanted to send a large amount of money through hawala to Pakistan. The customer was not originally from Afghanistan, and I became suspicious and asked for identification documents, he refused to give me his ID documents and transfer the money and left the shop.”

H-05, Afghanistan

Those hawaladars who had refused transactions did so on the reported reasons outlined in Figure 26.
Account settlement process

Each time a hawaladar executes a hawala transaction and sends payment instructions to a counterpart, a debt or loan is created. At some point, the two hawaladars will have to balance their accounts. There are many ways that hawaladar settle accounts with each other. Some of these may be complex and involve a combination of different methods, especially when more than two hawaladars are involved in a transaction.

The simplest form of account settlement is through reverse transactions, where there is no transfer of funds between the two service providers as they reconcile their accounts through incoming and outgoing transactions\(^\text{83}\). This type of account settlement may occur where there is a relatively equal volume of transfers between the two hawaladars.

A complex reverse transaction method is another way of settling accounts. Hawaladars may operate within a network that is spread across many jurisdictions. They use cross-provider balances with each other to help settle their respective accounts\(^\text{84}\). This involves funds going through one or more intermediary hawaladars in another country.

Accounts between hawaladars can also be settled via simple cash payments and the physical movement of currency, for instance via cash couriers\(^\text{85}\). This method is possibly more prevalent among hawaladars operating within the same jurisdictions or between countries with no or only limited border controls\(^\text{86}\). But it can also be used for countries outside of such although this may be harder to facilitate due to international controls on the transfer of physical money. In recent years, seizures of cash that may in part have been used to settle balances between hawaladars were reported at Kabul International Airport, as well as at the Islam Qala border crossing between Afghanistan and the Islamic Republic of Iran\(^\text{87}\).

Financial settlement is yet another method of account settlement. If both hawaladars have access to the formal banking sector, the hawaladar in country A can make a direct payment to the bank account of the hawaladar in country B. Account settlement then takes place, often through wire transfers via the formal banking system\(^\text{88}\). Such transactions can be jurisdictionally under one authority; for example, financial settlement from one hawaladar’s bank account to another hawaladar’s bank account in the same country; bilateral, from an account in one country to one in another country; or multilateral, for example with a deposit into an account in a third location separate from both hawaladars.

Many hawaladars also provide import/export businesses, making it easy to settle accounts through trading goods, in a similar way to cash settlement through a bank, but involving payment in goods instead of money\(^\text{89}\). After receiving the client’s funds, hawaladar A could simply send goods of an

\(^{83}\) FATF (2013) “The role of Hawala and other similar service in money laundering and terrorist financing”


\(^{85}\) For example, one hawaladar provided settlement services for other hawaladars and, as a result, handled large amounts of cash every month. He transported by air USD 4–5 million per day for 20 days or more per month to Dubai. See Council of the European Union (2017) “The role of criminal “Hawala” and other similar service providers in illegal immigration, money laundering, and terrorism financing”, p.4

\(^{86}\) Based on information provided by hawaladars interviewed for this research.


\(^{89}\) FATF (2013) “The role of Hawala and other similar service in money laundering and terrorist financing”
The Hawala system in operation

In addition to the above, hawaladars may use other methods to clear accounts, which may include smuggling, where smuggled merchandise is handed over to ‘clear the books’ – clearly an illegal practice – or the provision of services, which can also be legitimate or illegal. For example, a hawaladar in one country, who may have a travel agency business as a side operation, may purchase flight tickets on behalf of a counterpart hawaladar in lieu of a cash payment. Less commonly, hawaladars who operate on an irregular basis may use other account settlement procedures: for example, one based in Somalia reported using mobile money transfers and currency exchange adjustments to balance accounts with other hawaladars.

The method of account settlement depends on several factors, including the source and destination countries, the relationship between the hawaladars, and the amount of the transaction. In terms of the frequency of account settlement, hawaladars may settle accounts with each other on a daily, weekly, or monthly basis depending on the amounts and number of transactions, and other factors mentioned earlier.91

Among the hawaladars interviewed, simple reverse transaction was the most often used method of account settlement, reported by one hundred and six participants: thirty hawaladars reported that they only used this method, while another sixty-one reported that most of their account settlement was through reverse transactions. Of the hawaladars who reported this method of account settlement, 44 per cent held a license, 23 per cent operated without one, while 33 per cent did not specify.

Account settlement through bank transfer was reported by fifty-one hawaladars, of whom nineteen said it was their primary method, and thirty-two that only some of their transactions were settled through this method; thirteen hawaladars said they never settled an account through bank transfer. Some 43 per cent of hawaladar who reported using bank transfer as an account settlement method were based in Afghanistan, with the other 57 per cent were in Europe (Austria, Bosnia and Herzegovina, Germany, Italy, Spain, Romania), Africa (Nigeria, Somalia, the United Republic of Tanzania), and the Middle East and Central Asia (Kazakhstan and the United Arab Emirates).

Of the interviewed hawaladars, 58 per cent (66) maintained a business bank account, while 26 per cent did not: 16 per cent preferred not to disclose this information. All those with a business bank account reported using reverse transactions to settle their accounts with other hawaladars, although over half said they used cash (40) and or bank transfers (36) to settle the account. Therefore, the data in this study does not suggest a link between owning a bank account and a particular account settlement method. Of the sixty-six hawaladar with a bank account, twenty-four reported having a foreign bank account in addition to a local bank account. The

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Account settlement as explained by a hawaladar

in his November 2001 testimony to the United States Senate following the 9/11 attacks, an Afghan who migrated to the United States and ran a hawala service in Northern Virginia, explained his account settlement method. He explained that he had between 200 and 300 regular customers who gave him USD 40–200 each month to send to their relatives in Pakistan as remittances. Once he received an amount, he called his partner, in Peshawar, Pakistan, to hand over the corresponding amount in Pakistani rupees to the relative who came to collect it. The hawaladar emphasized that none of the dollars he received ever reached Pakistan or his business partner’s company directly. Instead, he used the money given to him by his customers to pay off the debts and invoices of his partner’s company outside Pakistan. In this sense, there was no direct ‘wiring’ or ‘transfer’ of money; instead, there was a balanced settlement of value between the two hawaladars.


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91 FATF (2013) The role of Hawala and other similar service in money laundering and terrorist financing.
FIG. 29  Frequency of account settlement methods reported by interviewed hawaladars

Account settlement methods reported by interviewed hawaladars

Bank Transfer
- 20% few & some
- 22% majority & vast majority
- 8% never use this method
- 50% only use this method

Cash
- 11% few & some
- 49% majority & vast majority
- 15% never use this method
- 26% only use this method

Reverse Transaction
- 28% few & some
- 26% majority & vast majority
- 14% never use this method
- 30% only use this method

Trading in Goods and Services
- 15% few & some
- 41% majority & vast majority
- 2% never use this method
- 28% only use this method

Source: Interviewed hawaladars H01-H113

FIG. 30  Do interviewed hawaladars have a bank account for their hawala business?

- 58% YES
- 26% NO
- 16% Prefer not to say

Source: Interviewed hawaladars H01-H113
The use of trading in goods and services as an account settlement method was reported by forty-three of the interviewed hawaladars – a further eighteen reported they never used this method. Of the forty-three respondents, eighteen used this method to settle accounts for most of their transactions, while twenty-five used it for only some of their transactions. One-third of those who used this method were based in Afghanistan, and another third in Europe. The remainder were based in Kazakhstan, Nigeria, Somalia, the United Arab Emirates, and the United States.

Settling their accounts through cash was reported by sixty-six of the one hundred and thirteen interviewed hawaladars. Only eight claimed to never use this method, while eleven said they only used this method: for thirty-six hawaladars, cash was used to settle most of their transactions. Almost all the hawaladars interviewed in Afghanistan, Australia, Austria, Kazakhstan, the Netherlands, Romania, Spain, and Somalia used the cash account settlement method combined with other methods, largely reverse transactions.

The Hawala system in operation

TAB. 4 Location of foreign bank accounts held by interviewed hawaladars, frequency of response, by country

<table>
<thead>
<tr>
<th>Country</th>
<th>Frequency of responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Islamic Republic of Iran</td>
<td>10</td>
</tr>
<tr>
<td>Türkiye</td>
<td>5</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>4</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>3</td>
</tr>
<tr>
<td>Kenya</td>
<td>2</td>
</tr>
<tr>
<td>Pakistan</td>
<td>2</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>2</td>
</tr>
<tr>
<td>United States</td>
<td>2</td>
</tr>
<tr>
<td>Djibouti</td>
<td>1</td>
</tr>
<tr>
<td>India</td>
<td>1</td>
</tr>
<tr>
<td>Ivory Coast</td>
<td>1</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>1</td>
</tr>
<tr>
<td>Uganda</td>
<td>1</td>
</tr>
<tr>
<td>Unspecified European countries</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: Interviewed Hawaladars H01-H113

locations of foreign bank accounts, held by our sample of interviewed hawaladars are outlined in table 4.

“We do not have bank in other countries. We wanted to open a bank account in [the Islamic Republic] Iran but because we do not have a resident permit, it was not possible.”

H-01, Afghanistan

“We have a bank account in Türkiye where my brother and son live.”

H-03, Afghanistan

“Yes, we have bank accounts in Türkiye and the Russian Federation.”

H-12, Afghanistan
A solid understanding of the working mechanisms used by hawaladars, their vulnerabilities, and the possibility of misuse by OCGs is required for countries to take a risk-based approach when understanding the money laundering and terrorism finance (ML and TF) risks for the sector. It is also vital for policymakers and criminal justice practitioners to design realistic, evidence-based, and effective policies which can lead to more effective implementation, reducing ML and TF risk and improving financial inclusion.

**Misuse of the Hawala service**

It has been argued that the hawala system is vulnerable to misuse due to the nature and working mechanisms of the system\(^{92}\). While hawala serves many legitimate purposes, its specific characteristics can make it vulnerable to misuse by those wanting to carry out transactions related to criminal activities or to hide or transfer the proceeds of crime\(^{93}\). This is especially true where hawala enables anonymous transactions, has minimal documentation or other due diligence, and where supervisory or regulatory oversight is limited. More than one-third (44) of the interviewed hawaladars judged the hawala system to be more vulnerable to illegal transactions compared to the formal banking system, while thirty-two hawaladars perceived an equal vulnerability in both systems. Few perceived the system to be less vulnerable than the banking system to misuse.

A lack of proper oversight by national authorities, a lack of reporting by hawaladars, a lack of regulation, policy, or guidelines for hawaladars to follow, the operation of unlicensed hawaladars, and the closed nature of the hawala system are all potential reasons for vulnerability. The vulnerability of hawala is also believed by one hawaladar interviewee to be associated with the level of ML and TF risk in the location of the hawala business as well as the source and destination of hawala transactions\(^{94}\).

There are varying perceptions from the interviewed hawaladars, on the vulnerability of the hawala system, and the level of vulnerability compared to that of formal banking services.

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\(^{92}\) FATF (2013) “The role of Hawala and other similar service in money laundering and terrorist financing”

\(^{93}\) Ibid.

\(^{94}\) Interview with a hawaladar based in Spain, H48

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**FIG. 31** How do interviewed hawaladars perceive the potential vulnerability of misuse of the hawala system, compared to formal banking, frequency of responses

<table>
<thead>
<tr>
<th>Vulnerability</th>
<th>No of mentions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Much more vulnerable</td>
<td>12</td>
</tr>
<tr>
<td>More vulnerable</td>
<td>44</td>
</tr>
<tr>
<td>About equal</td>
<td>32</td>
</tr>
<tr>
<td>Less vulnerable</td>
<td>14</td>
</tr>
<tr>
<td>Much less vulnerable</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: Hawala interviews H01-H113
“There is no computerized recording of the transactions under one globally accepted system so it can easily be adjusted according to the needs of the business owner.”

H-22, Bosnia and Herzegovina

“I say equally [vulnerable]. Where there is money involved there is possibility of illegal transactions even in the banks or in the Hawala system.”

H-23, Germany

“Hawala is very simple way of sending [and] receiving money without any official way of tracking it, so I guess that in itself makes it more vulnerable.”

H-38, Bosnia and Herzegovina

“Because [in] hawala system, we don’t ask questions. We only offer [the] service.”

H-90, Somalia

Hawala and money laundering

The major relevance of hawala for money laundering lies in its use in moving the proceeds of crime away from the place where the crime was committed, to destinations where the transaction can either appear legitimate or from where it can later be brought back to the country using legitimate routes\(^95\). The hawala system may be used to transfer value to locations where it may enter the formal economy and thereby gain a veil of legitimacy\(^96\). As a practical example, profits made in heroin trafficking could be moved from the point of the sale inside the borders of Afghanistan to a different country, before being invested, for example in the real estate sector.

Money laundering and terrorism financing

There is an important difference between money laundering and terrorism financing. The United Nations Convention Against Transnational Organized Crime defined money laundering as “the conversion or transfer of property, knowing that such property is the proceeds of crime, for the purpose of concealing or disguising the illicit origin of such property or of helping any person who is involved in the commission of the predicate offence to evade the legal consequences of his or her actions, as well as the concealment or disguise of the true nature, source, location, disposition, movement or ownership of rights with respect to the property\(^97\).

Money being laundered comes from an illegal or illicit source and is laundered through insertion into the legal financial system. Hawaladars who knowingly handle criminal proceeds are complicit in money laundering\(^98\).

Money laundering as a process typically follows three stages by which laundered funds are released into the legal financial system\(^99\):\(^100\).

1. Placement (moving the funds from direct association with the crime)
2. Layering (disguising the trail to foil pursuit)
3. Integration (making money available to the criminal from what seem to be legitimate sources)

The United Nations International Convention for the Suppression of the Financing of Terrorism (1999) calls upon all the States to:

“take steps to prevent and counteract, through appropriate domestic measures, the financing of terrorists and terrorist organizations, whether such financing is direct or indirect through organizations which also have or claim to have charitable, social or cultural goals or which are also engaged in unlawful activities such as illicit arms trafficking, drug dealing and racketeering, including the exploitation of persons for purposes of funding terrorist activities, and in particular to consider, where appropriate, adopting regulatory measures to prevent and counteract movements of funds suspected to be intended for terrorist purposes without impeding in any way the freedom of legitimate capital movements and to intensify the exchange of information concerning international movements of such funds.”

The potential anonymity of hawala can render it susceptible to processing criminal proceeds to disguise their origin. Laundering money through the formal financial systems in the early stages of the laundering process can be disadvantageous to

95 FATF (2013) “The role of Hawala and other similar service in money laundering and terrorist financing”

96 The recipient of funds can reintegrate the funds into the legitimate financial system by making a ‘legitimate’ business investment on behalf of the funds’ owner. Or the funds can be reintegrated into the formal financial system through imports and exports by transferor and transferee, or even by third parties.


criminal organizations because it may leave an evidence trail that can be traced by law enforcement agencies. Using hawala, on the other hand, may minimize the risk of detection, little, no or misleading documentation is provided. This may be particularly true in jurisdictions where the system is unregulated.

There are no exact estimates as to the extent to which hawaladars, knowingly or unknowingly, facilitate the misuse of their financial services for criminal purposes. Some of the hawaladars interviewed for this research reported the direct involvement of other hawaladars in transferring funds associated with illegal activities, in some cases unknowingly, in others knowingly. In the latter case, the interviewed hawaladars did not want to involve law enforcement actors due to the potential risk and loss of profit and reputation.

In its current form, the hawala system has many vulnerabilities for being misused for criminal purposes. Any regulations, however, need to keep in mind that the system provides essential money and value transfer services to some that do not have access to formal financial services.

It is possible that hawaladars involved in handling illegal transactions are not aware of the nature and source of the money. This could particularly be the case with low-level hawaladars who are dealing with smaller transactions which usually do not arouse

References:


The Hawala System

suspicions. But even when processing large amounts which may seem suspicious, hawaladars might have no interest in knowing their origins, as illustrated by the following interview response:

"Hawaladars are [more] interested in making profit than knowing the source of money they transfer; this is how the system works. It is a business, and it is not good for the business to ask about the source of the money."103

As mentioned above, several of the interviewed hawaladars104 reported that they do not ask the "purpose of transaction" from their customers. Additionally, some hawaladars also reported feeling that they could not refuse a transaction from customers connected with Organized Crime Groups "OCGs" due to the risk of a range of negative consequences. However, some did state that they would not process hawala transactions to specific countries where there is a suspicion that the transaction might be illegal.

"Normal people ask for transactions with low amounts of money. When someone comes often with a big amount of money, it would be suspicious."

H-41 Denmark

"Drug dealing or trafficking funds will [involve] big amounts of money to deal with so you will clearly know that it is not [a] day-to-day transaction"

H-111 United States

Law enforcement agencies face challenges in investigating crimes linked to informal hawala systems because of the closed nature of the business and the kinship ties of the actors. Several law enforcement experts consulted for the purposes of this study reported difficulties in being able to identify the number, location, and operating practices of hawaladars active in their territories105. This problem is not unique to low-income countries like Afghanistan: indeed, it may be harder to identify hawaladars operating in high-income countries, particularly in countries where hawala is unregulated, as the hawaladars provide services through a front business106.

103 In-depth interview with hawaladar (ID01)
104 Interview with hawaladars (H1–H17)
105 Consultation with experts, EX01-EX03, EX09-EX18.
There is no conclusive evidence that hawala is used for drug trafficking, but I believe that this method is used to pay for drugs.

Hawala Expert EX006, Uzbekistan

The international trafficking of opiates is a business primarily motivated by profit\(^{107}\). It can be thought of as a multi-stage system, from the cultivation of opium poppy and the manufacture of heroin to the trafficking of finished drugs to external markets. Previous studies have found that the hawala system is a value transfer instrument for opiate trafficking from Afghanistan at the opium cultivation and heroin manufacturing stages of the opiate trade\(^{108}\). Aside from buying the commodity itself – raw opium or processed heroin and illicit morphine – production, manufacturing and trafficking incurs further costs. These include the purchase of fertilizers, herbicides, seeds, and raw materials such as precursor chemicals, as well as production costs for irrigation and fuel or electricity for water pumps\(^{109}\). There are also wider costs such as financial payments to insurgent groups\(^{110}\), transportation costs, bribes, expenditures for security, food and medical expenses, debt payments, and the acquisition of land or property\(^{111}\). In the predominantly cash-based environment found in Afghanistan and with limited formal banking systems the hawala system can be used to facilitate payments for these goods and services.

Previous UNODC field research\(^{112}\) within Afghanistan found that hawaladars may be involved in two financial aspects concerning the opium economy. First are those hawaladars directly involved in drug production and trafficking, including transferring payments relating to the cultivation and production of opium gum by opium poppy farmers or processing payments for processed and trafficking to end-users; second, hawaladars may be involved in transferring the proceeds of drug trafficking between countries\(^{113}\).

In one case identified in Dutch police records, hawaladars originating from South and Southwest Asia and active in the Netherlands oversaw the payments relating to heroin trafficking between the Netherlands and the United Kingdom. The Amsterdam based heroin traffickers sold the drugs in the UK with the profits in GBP, being deposited with a London-based hawaladar who later transferred the funds to the hawaladars in Amsterdam. The heroin traffickers then collected the profits in Euros.


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107 UNODC (2020) “Voices of the Quachaqbar – Understanding opiate trafficking in Afghanistan from the perspective of drug traffickers”.
108 FATF (2013) “The role of Hawala and other similar service in money laundering and terrorist financing”.
110 These include Ushr a tax on agriculture and other natural resources, and Zakat, a mandatory religious tax on wealth. See UNODC (2019) “Afghanistan opium survey: socio-economic survey report: drivers, causes and consequences of opium poppy cultivation”.
112 UNODC (2020) “Voices of the Quachaqbar – Understanding opiate trafficking in Afghanistan from the perspective of drug traffickers”.
In 2018, a hawaladar with extensive connections to heroin trade in Afghanistan as well as the Taliban and the Haqqani network, was arrested in Estonia and extradited to the United States for trial. The defendant owned an Afghanistan based hawala business which had been put on a blacklist by the US Treasury in 2012 because of the business storing and transferring money on behalf of the Taliban. This blacklisting had allegedly cost the hawaladar around 20 million USD in lost business. Instead, he used associate hawaladars in Australia to move money to Afghanistan and the United States to pay for protection and for drug transactions, boasting that he could transfer money from Australia to New York “...within one hour.” In 2018 the hawaladar had arranged to send a test delivery of 10kg of heroin to New York in the expectation that this would be followed by future shipments of 500-1000kg of heroin. Between June and August 2018, he arranged for his Australian hawala contacts to transfer 50,000 USD in protection money to the Haqqani Network, 25,000 USD for the 10 kg heroin shipment and a further 30,000 to the Haqqani Network for a previous trafficking deal. The transfers were collected in Afghanistan by associates of the hawaladar.


A 2020 UNODC study on active drug traffickers in Afghanistan enquired into how they arranged their monetary relationship with their business partners, which financial instruments they used, and where they kept their financial assets or resources. Of the forty-one trafficker interviewees, fifteen reported that they exclusively used the hawala system for processing payments from opiate trafficking, while twenty-five said they used a combination of hawala and other financial institutions. Eleven of the interviewed drug traffickers stated that they kept their financial assets with hawaladars, who acted as brokers or trustees, and that in addition to investing in licit businesses, they kept a portion of their money generated through drug trafficking with hawaladars in Afghanistan instead of a bank 117. Several court cases relating to major Afghan drug traffickers have also identified the role of hawaladars in drug trafficking and funding of insurgents in Afghanistan 118.

117 Ibid.
A historical case study illustrates some of the themes highlighted by hawaladars interviewed in 2021 and 2022 in relation to the opiate trade. In 2012, one of Afghanistan’s largest drug traffickers was convicted in the United States on heroin related charges after being extradited from Afghanistan. Evidence presented at the trial showed that the defendant, had presided over a major drug trafficking organization (DTO) based in Eastern Afghanistan for more than a decade. His DTO was estimated to consist of over 250 people, who were responsible for converting opium into heroin that was then trafficked to end user markets around the world. He also encouraged local farmers to cultivate opium poppy.

At the trial, witnesses testified that the defendant was involved in multiple drug trafficking activities including trafficking 250 kg of heroin to New York, arranging the trafficking of 3 kg of heroin from Afghanistan to other destinations in the United States by female couriers, and the sale of 1,000 kg of heroin to traffickers located in Southern Afghanistan. After Coalition Forces put pressure on his organization, the trafficker used some of his heroin proceeds to fund and equip Taliban commanders.

Witnesses testified that the trafficker kept track of his drug transactions using relatives who were hawaladars and who recorded the drug transactions and profits in ledgers. The ledgers were seized and presented as evidence at trial. One ledger, covering the year 2006-2007, contained a series of money transfers linked to opiate and precursor chemical transactions. Another, contained financial records of heroin transactions, arranged by trafficker, covering the period March 2006 to March 2007. Analysis of the ledger determined that the defendant produced and sold over 123,000 kg of heroin, worth more than USD261,000,000: this represented over 19 per cent of the total amount of heroin produced worldwide in 2006, based on UNODC figures. Three other ledgers revealed that over an 18-month period ending in October 2001, he had made approximately 101 transactions involving 2,568 kg of opium, valued at more than the USD300,000.

This case study supports the views of the interviewed hawaladars that some DTOs use their own hawaladars, who are connected by family or cultural ties, and use the hawala system to avoid scrutiny by law enforcement.


A recent UNODC study documented that, in Afghanistan, payments for drug trafficking were mostly made through the hawala system, less frequently through direct cash payments, and even less commonly through bartering (for example, the purchase of opiates in return for vehicles, property or small arms).119

119 UNODC (2022) “Regional Study: Illicit Financial Flows from trafficking of opiates along the Northern route”, p.25

“With Iranian traders, based on trust and a financial guarantee from a hawaladar, I deliver the heroin and they pay me immediate wherever I want.”121

Opiate trafficker, Afghanistan

120 UNODC (2020) “Voices of the Quachaqbar – Understanding opiate trafficking in Afghanistan from the perspective of drug traffickers”.

121 Ibid.
**The Hawala System**

**TAB. 5** Expert perceptions on why opiate traffickers would use the hawala system, frequency of response.

<table>
<thead>
<tr>
<th>Motivation</th>
<th>Frequency of response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anonymity</td>
<td>8</td>
</tr>
<tr>
<td>Reliability of transactions</td>
<td>8</td>
</tr>
<tr>
<td>Easier access to opium supply chain</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: Expert questionnaire Response EX001-EX018

**FIG. 33** Interviewed hawaladars’ knowledge of involvement in opiate trafficking, frequency of responses

The interviewed hawaladars were of the opinion that the main motivations of opiate traffickers in using the hawala system is ease of use, accessibility, reliability and confidence in the system, unbureaucratic nature of the system and the limited ability to trace users.

“The hawala system is not supervised and controlled and as a result, drug traffickers prefer to use it since it is more reliable.”  

H-02, Afghanistan

“The hawala system is a reliable and easy to use system for drug traffickers. Using the hawala system, drug traffickers cannot be identified and traced by police.”

H-04, Afghanistan

“[Traffickers] might use it because officially it can’t be tracked as we require very limited detail about the sender or receiver”

H-38, Bosnia and Herzegovina

Eighteen Hawala experts who completed an online questionnaire for this study also perceived that the anonymity of the system and the reliability of the transactions were reasons that opiate traffickers might use the hawala system.

122 Note: at the time of this interview, the hawala system was regulated in Afghanistan. The hawaladar’s perception that the system was not controlled may indicate a difference between the regulatory framework and its implementation in practice.
Hawala and heroin trafficking in Europe

The connection between hawaladars and opiate trafficking is not just associated with Afghanistan. A 2016 investigation by French, Spanish, German, and Dutch law enforcement authorities disrupted an OCG laundering the proceeds generated by heroin trade. Cash couriers picked up the proceeds from drug trafficking in Spain and Portugal and delivered it to a hawaladar in Germany who in turn used part of the money to purchase machinery, which was subsequently exported to Iraq. The profits obtained from the sale of this machinery was then provided to the heroin suppliers. Another part of the criminal profits was used for the purchase of high value goods - including watches, jewelry and diamonds, which were then sold in the Middle East, the proceeds of which were again used to reimburse the OCG.

This demonstrates that through a series of operations the hawala network aimed to disguise the origin of the money, while at the same time providing a value transfer service by accepting criminal cash in one jurisdiction then making it available in another. In addition to using trade-based schemes, the hawaladars were also involved in the commission of smuggling offenses, tax and duty fraud and the trade in counterfeit goods. During this law enforcement operation, EUR 4.5 million and 125 kg of heroin were seized and five major hawaladars were arrested.


FIG. 34 Interviewed hawaladars’ engagement with opiate traffickers

To what degree hawaladars in your country are involved in transferring funds from opiate trafficking?

<table>
<thead>
<tr>
<th>I do not know</th>
<th>58%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Some (10-40%)</td>
<td>15%</td>
</tr>
<tr>
<td>I prefer not to say</td>
<td>13%</td>
</tr>
<tr>
<td>Few (10%)</td>
<td>12%</td>
</tr>
<tr>
<td>No answer</td>
<td>2%</td>
</tr>
<tr>
<td>Majority (60 – 90%)</td>
<td>0%</td>
</tr>
<tr>
<td>Almost all (90% &gt;)</td>
<td>0%</td>
</tr>
<tr>
<td>About half (50%)</td>
<td>0%</td>
</tr>
</tbody>
</table>

Would you say hawaladars are involved in opiate trafficking?

<table>
<thead>
<tr>
<th>Prefer not to say</th>
<th>30%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do not know</td>
<td>30%</td>
</tr>
<tr>
<td>No</td>
<td>22%</td>
</tr>
<tr>
<td>Yes</td>
<td>17%</td>
</tr>
<tr>
<td>No answer</td>
<td>1%</td>
</tr>
</tbody>
</table>

Do you think a hawaladar might have to accept a transaction from an opiate trafficker, despite wanting to refuse?

<table>
<thead>
<tr>
<th>No</th>
<th>61%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>25%</td>
</tr>
<tr>
<td>Do not know</td>
<td>12%</td>
</tr>
<tr>
<td>No answer</td>
<td>2%</td>
</tr>
</tbody>
</table>

Why a hawaladar might have to accept a transaction from an opiate trafficker?

| Fear of organisation/network of trafficker | 26% |
| Economic need | 26% |
| Fear of trafficker | 23% |
| Personal relationship with trafficker | 20% |
| Pressure from others in the community | 5% |
Hawala transfer of cocaine and synthetic drug profits in the Americas.

In an example from 2012, a hawala broker based in California, was convicted following his involvement in a hawala operation that was used to move the proceeds of cocaine and synthetic drug trafficking from Canada to the United States and eventually to Mexico on behalf of the Sinaloa cartel. The defendant was charged with several counts including conspiracy to launder money, conspiracy to operate an unlicensed money transmitting business (a hawala money service), and a substantive count of operating an unlicensed money transmitting business.

Based on evidence presented at the trial, drug traffickers in Canada generated drug proceeds from multi-kilogram sale and distribution of drugs (including cocaine and methamphetamine) provided by the cartel. The Canadian-based traffickers made money transfers to their counterparts in Mexico using hawaladars in Canada to deliver money to couriers operating in Los Angeles who were working on behalf of the cartel, and who authorized the release of the equivalent amounts of U.S. currency. Several co-defendants named in the indictment served as U.S.-based couriers, picking up and subsequently delivering bulk U.S. currency in the Los Angeles area in exchange for narcotics that were to be transported back to Canada for sales and distribution.

The hawala network transferred more than USD 4.5 million in narcotics, initially related to the trafficking of 29 kilograms of cocaine and approximately 90 pounds of methamphetamine by Mexican traffickers. However, over a four-year investigation into the hawala network, authorities seized over USD 15 million, 321 kilograms of cocaine, 98 pounds of methamphetamine, 11 kilograms of MDMA and nine kilograms of heroin linked to the case. Proof presented at the trial revealed that the hawaladar was aware that the funds were linked to drug trafficking, and that in 2012 alone he made 10-15 deliveries of cash to associate hawalas of between USD 100,000 and USD 800,000. He received USD 250 per USD 100,000 transferred, a commission rate of around 0.25 per cent.

The illicit hawala transactions were separated from routine legitimate hawala transactions and disguised the nature of the transfers by involving code words such as “Shaman” and “Merchandise”. The hawala merchants used the serial numbers on dollar bills to verify that the person who received the money was the intended recipient and higher commission rates than usual were charged. The hawaladar was arrested with bags found in his car containing USD 274,980 that he was on his way to deliver, and a further search of his home lead to a seizure of an additional USD 388,000 as well as the ledgers detailing the drug transactions. This ledger was presented at trial and documented the hawaladar’s activities including cash amounts transferred, receipts and serial numbers used in illicit transactions.


The hawaladars interviewed for this study were asked about their knowledge of the involvement of hawaladars in opiate trafficking. Some 17 per cent of the interviewed hawaladars responded that associate hawaladars might have been involved in opiate trafficking; 22 per cent rejected the assumption categorically. 30 per cent claimed that they did not know about the potential involvement of opiate traffickers, while another 31 per cent preferred not to answer. However, one hawaladar based in Afghanistan believed “hawaladars and traffickers know each other, and they are introduced to each other through “former customers, friends, and local business owners”

“Some Hawaladars become rich overnight and have specific regular customers, which could be an indication they work with opiate traffickers.”

H-08, Afghanistan

Hawaladars operating in the Netherlands, Denmark, the United States, and Nigeria believed that “by safekeeping and/or moving (traffickers’) money” hawaladars would be considered to have engaged in or to be complicit in opiate trafficking.

“Hawaladars usually know who are [the] opiate traffickers and who are farmers since they are from the same area [community].”

H-02, Afghanistan

123 Interview H5, Afghanistan
“Drug traffickers know hawaladars, even some drug traffickers do the hawala business as a front business to cover up their illegal business.”  H-03, Afghanistan

“For transferring drug money, prior agreement is made between the hawaladar and drug trafficker. In the absence of [a] prior agreement, transactions related to drug money is not handled.”  H-04, Afghanistan

“Funds from opiate trafficking are easy to identify given the amount is large and the person making the transactions is known. Traffickers coordinate with hawaladars in advance on how much they would send, to where, and who will bring the cash.”  H-06, Afghanistan

“Normal people ask for transactions with low amounts of money. When someone comes often with big amount of money, it would be suspicious.”  H-41, Denmark

“Drug dealing or trafficking funds will [involve] big amounts of money to deal with so you will clearly know that it is not [a] day-to-day common transaction.”  H-111, United States

Interviewed hawaladars were asked if they would accept a transaction linked to opiate trafficking despite wanting to refuse it, 70 per cent of the interviewed hawaladars thought that a hawaladar would not accept a request for a transfer from an opiate trafficker. A quarter thought that they might have to accept the transaction request from an opiate trafficker unwillingly or half-heartedly, notably due to fear of violence or extortion by Drug Trafficking Organisations (DTOs) and drug traffickers: almost half of the interviewed hawaladars (49 per cent) pointed fear out as a motive. Personal relationships between hawaladars and traffickers were another factor highlighted as a reason to knowingly do business with a drug trafficker or DTO (20 per cent), with community pressure as a lower factor (5 per cent).

Although this study was designed to highlight the misuse of the hawala system by opiate traffickers, a case like the one described on page 70 suggest that the hawala system could potentially be used for financial transfers related to other drugs in other regions, but more focused research is needed in other regions to explore if and eventually to what extent the system is mis-used for these purposes.
The Hawala System

Hawala and migrant smuggling

As discussed above, some refugees and migrants use the hawala system to send remittances to their families and others in their country of origin and elsewhere, due to its convenience, availability, and accessibility. However, a hawaladar is more than just a provider of the financial services for people on the move: They may also be a source of information and advice on what routes to take, when to take them, or what to do while in transit or upon reaching the destination.

The interviewed hawaladars identified the following services provided to migrants and refugees during their journeys: finding, recommending or introducing a migrant smuggler; guiding migrants and refugees, helping with finding work upon arrival; referring migrants and refugees to support organizations; finding or directly renting out boats or trucks; providing temporary accommodation or referring migrants and refugees to an individual who provides temporary accommodation; and finding local medical aid, as undocumented migrants may not be able to or may be reluctant to access hospitals. Some of the respondents clarified that hawaladars receive payments for these services – either in the form of a commission from the smuggler or a payment from the migrant or refugee to whom the service is provided.

Irregular migrants may be directed to hawaladars by multiple sources. The most important category was a friend or relative, followed by the smuggler, or a fellow traveller or shopkeeper or accommodation provider. To a much lesser extent, migrants and refugees found hawaladars through the internet or a community leader.

“We just help by transferring their cash from one country to another. We have nothing to do with getting them out of the countries or human trafficking. Our job is to process cash transactions.”  

H-55, Germany

Hawala is also used by refugees and migrants entering and or residing in countries irregularly, and who pay migrant smugglers to facilitate irregular entry and stay.

“Smuggler, migrant, and hawaladar are like a triangle, and all need each other. Migrants need a trustworthy hawaladar and hawaladars have trustworthy smugglers, and this is how hawaladars help migrants and smugglers.”  

H-04, Afghanistan

In some cases, as with the opiate trade, a hawaladar fills the role of a designated trustee between the migrant smuggler (the service provider) and migrants and refugees (the clients), before they even begin their journeys. In these cases, the hawaladar holds a client’s payment in trust and will hand that payment over to the smuggler only after the client has confirmed arrival at the agreed destination. For the client, the hawaladar provides protection against failure to deliver, theft or fraud by the smuggler. For the smuggler, the hawala system is a mechanism for pre-payment – an arrangement that may be compared to a post-dated cheque issued by the refugee or migrant as future payment for the services provided.

Hawaladars play a key role in some cases of migrant smuggling because they are known locally to be well-connected businesspeople who have contacts at the intended destination and transit countries that can be relied upon.

“All these people have no other ways of sending or receiving money or paying the smuggler other than using the hawala service. They come here [to hawaladars] to send money to their loved ones who still live in their home countries. They come here to receive money if they have run out of funds. They come here to send money to another country where they want to settle so that the smuggler guy will help him cross the border. They come here to exchange currency that they brought with them from their home country. So that is the only way hawaladars are helping them, by sending [for] receiving and exchanging their money.”  

H-15, Afghanistan

H-50, France

“Most of these migrants have been here... for more than three years trying to get to the UK, but it is hard and near impossible. They have no documentation, no bank account, no paperwork. They have to use the hawala service to support their families that they have left behind in their home countries, they have to pay to the smuggler every time they try to cross the Channel or border.”  

H-52, France

124 In-depth interview with Hawaladars (ID01–ID04)  
125 FATF (2013) “The role of Hawala and other similar service in money laundering and terrorist financing”; in-depth interview with hawaladars (ID01–ID04)  
126 Ibid.; in-depth interview with Hawaladars (ID01–ID04)  
127 Ibid.
Some hawaladars have close and good relations with the smugglers. With the knowledge and the connections that they have in the community, hawaladars find those who go abroad and introduce them to the smugglers. They take money from smugglers to introduce people, and also, they take commissions from the money of those who go abroad.

“[Migrants] would still be undocumented for months or even years. They have families back home to financially support; they might still not be in the country of their choice so have to pay a migrant smuggler to move to the next country.”

Almost half the interviewed hawaladars (51 respondents) did not know or did not indicate why a smuggler would direct a migrant to a hawaladar. Of those who provided a response, trust was the most often indicated reason (51 mentions), that the hawaladar and smuggler are from the same town or community (5 mentions), or that the smuggler and hawaladars work together and share profits (20 mentions). Some hawaladars also indicated that hawaladars get a commission (10 mentions) or use the money kept as safekeeping for investment (6 mentions).

Every smuggler works with a particular hawaladar, they know each other and have worked together for several years.

“Smugglers always have connections with hawaladars. Hawaladars will be the ones they trust, like they are either relatives, friends, or business partners. Hawaladars will benefit because they will transfer lots of money so they get good commission also sometimes hawaladars will keep the money for a few weeks or even months till the person reach to the destination and during this time they can make money by using that money in the stock market.”

Although some hawaladars feel they have a moral duty to support migrants, the incentive for hawaladars is also financial (14 mentions) and moreover the amounts of money or the commission fee can be higher for processing payments relating to migrant smuggling than for other transactions.

“Because [a smuggler’s] work is illegal, it must be done secretly, and he does not trust all hawaladars, he is afraid that something wrong will happen to his business, so he trusts certain hawaladars who are acquainted with him. The incentives for hawaladars

Source: Interviewed hawaladars H01-H113

FIG. 35 Persons who may direct irregular migrants to interviewed hawaladars, number of mentions
Using the hawala system to facilitate migrant smuggling to and in Europe

A criminal organization offered people in Iraq and Syria smuggling services to Europe. The organization charged between EUR 7,000–11,000 per person to facilitate the journey from Iraq/Syria to an EU country. The Iraqi and Syrian clients (refugees and migrants) sold their properties and belongings in order to afford such an amount. They had to deposit the amount with a hawaladar either in Middle Eastern countries (as a transit countries), or Austria (as a transit or destination country).

As part of the organization, a hawaladar was involved in migrant smuggling as a truck driver. When the Iraqi and Syrian refugees and migrants arrived at their destination, the driver was required to make a video or provide other “proof of life” that the client had reached the destination country and provide that proof to the organizers. The driver was then given a code to collect the money from a hawaladar. The hawaladar charged between 2–5 per cent commission for the service and documented the transaction in a notebook.

While smuggling migrants, the truck driver was arrested by German police. After checking his mobile phone, it was discovered that he conducted several hawala transactions via messenger services. A house search discovered five notebooks and additional papers with handwritten notes concerning several transactions that amounted to around EUR 6 million and the codes provided to/from hawala counterparts.

During the investigation, law enforcement officials involved with the case realized the importance of proper training to identify hawaladars and supporting evidence such as the mobile phone and notebook where transactions were recorded manually. Law enforcement also highlighted the importance of language competencies in understanding hawala record keeping.

Source: Austrian Financial Intelligence Unit (A-FIU).
are that they will use the money of the smugglers during the safekeeping period and also that they will get commission when transferring.”  

H-61, Afghanistan

More than half the respondents (61 mentions) indicated that, in their opinion, a hawaladar would not have to accept a transaction from a smuggler if he did not want to, although a quarter (31 mentions) indicated that a hawaladar would have to accept despite wanting to refuse. The reasons for accepting a transaction despite wanting to refuse are perceived to be economic and social, including fear and intimidation. The most often mentioned reason was economic necessity, followed by personal relations with the smuggler, fear of the smuggler, pressure from others in the community, and fear of the smuggler’s organization (Figure 36).

According to more than two-thirds of the hawaladars interviewed (68 respondents), hawaladar can to some extent identify migrant smugglers among their customers thirty-one respondents said hawaladar could do this, twenty five respondents said they could do it sometimes, and twelve indicated it was only possible in rare cases. However, twenty-six respondents stated that hawaladar cannot identify if the customer was a smuggler, while nineteen respondents either did not know, did not answer, or stated they did not have any experience with migrant smugglers.

“Normally hawaladars cannot understand if someone is a smuggler, but when smugglers ask to block [guarantee] the money, then it is easy to understand that they are [a] smuggler.”  

H-12, Afghanistan

“Hawaladars who work in partnership with smugglers, they know. There are no particular ways to identify if a smuggler is affiliated with criminal organizations and hawaladars do not ask a lot of questions.”  

H-17, Afghanistan

In two countries – Afghanistan and the United Republic of Tanzania – respondents indicated that official guidelines from the Central Bank, as well as checks and controls put in place, do allow them to identify migrant smugglers. Other factors for identifying smugglers included the way of communicating, physical appearance, being related, or coming from the same community.

“Smugglers have certain characteristics that hawaladars know. [The] Central Bank of Afghanistan provided some guideline on how to recognize smugglers.”  

H-13, Afghanistan

Source: Interviewed hawaladars 01-113

FIG. 36 Reasons hawaladars might accept transactions from migrant smugglers as perceived by interviewed hawaladars, number of mentions

“Normally hawaladars cannot understand if someone is a smuggler, but when smugglers ask to block [guarantee] the money, then it is easy to understand that they are [a] smuggler.”  

H-12, Afghanistan

“Hawaladars who work in partnership with smugglers, they know. There are no particular ways to identify if a smuggler is affiliated with criminal organizations and hawaladars do not ask a lot of questions.”  

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“Smugglers have certain characteristics that hawaladars know. [The] Central Bank of Afghanistan provided some guideline on how to recognize smugglers.”  

H-13, Afghanistan

128 This only applied to Afghanistan prior to the Taliban takeover in August 2021. It is unclear if these procedures are still being followed by the de facto authorities at present.
FIG. 37 Can a hawaladar know if a client is a migrant smuggler (total number of respondents)

<table>
<thead>
<tr>
<th>Identification Level</th>
<th>They know each other</th>
<th>They are openly told about the type of transaction</th>
<th>Based on the nature of the transaction</th>
<th>Other reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>A hawaladar CAN identify a migrant smuggler</td>
<td>12</td>
<td>5</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>A hawaladar can SOMETIMES identify a migrant smuggler</td>
<td>11</td>
<td>2</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>A hawaladar can RARELY identify a migrant smuggler</td>
<td>7</td>
<td>3</td>
<td>2</td>
<td></td>
</tr>
</tbody>
</table>

Source: Interviewed hawaladars 001-113

“We can identify our customers, but we are ignoring [it] and acting like we know nothing.” H-47, Spain

Among those who stated that migrant smugglers cannot be identified by hawaladars, some of the respondents clarified that it would be impossible to tell (12 mentions), that smugglers hide their identity (6 mentions), or that hawaladars do not ask questions (6 mentions). One hawaladar also stated that they do not want to know who their clients are, while another indicated that smugglers work with hawaladars through intermediaries and not directly.

“I do not think we will ever know, as smugglers are illegal workers and, if caught, they can be in prison for life. I do not think they will be walking around easily exposing themselves to use the hawala service.” H-51, France.

In terms of migrant smugglers belonging to a larger criminal organization, the hawaladars who addressed the question replied that it is not possible for them to know this information (nine mentions), although some pointed to certain characteristics that help identify a smuggler as belonging to a larger criminal organization, such as being well connected and being able to do anything they want, coming armed with bodyguards, or being wealthy and influential.

In addition, one respondent clarified that even if the hawaladar were able to make such a connection, they would not dare do anything about it.

“[w]ould say yes. Most [criminal] hawala transactions would be amounts [of] more than thousands so a hawaladar would definitely know that it is for migration purpose but identifying criminals is not easy, and honestly not our job. Our job is to process transactions.” H-57 Germany

A description of the way in which migrant smugglers use the hawala system was provided by twenty respondents, while the remaining ones either did not know or avoided answering the question. Based on the replies, hawala is mostly used by migrant smugglers for financial transactions and services (50 mentions), with the main functions being to process and guarantee the payments from migrants and refugees (20 mentions), safekeeping money (11 mentions), and transferring money (9 mentions), with some hawaladars specifying that this is due to the money being from illegal sources, because smugglers would not want to leave records, or would prefer to avoid banks. To a lesser extent, the relationship between smugglers and hawala extends beyond financial services linked to payments by clients for migrant smuggling. Smugglers...
also use hawala for their businesses, to exchange currency, for trading in legal and illegal goods and to pay their networks in different countries.

Twenty-three respondents from Asia and Europe stated that smugglers use hawala by having business relations with hawaladars – nine respondents mentioned a connection between the two, and six others indicated smugglers and hawaladars work together and share profits. In addition, eleven respondents stated that smugglers refer migrants to hawaladars, and five respondents mentioned that some smugglers ‘do hawala work’.

“Smugglers have strong connections with hawaladars. Some of the smugglers themselves do hawala business and cooperate with other smugglers for their own benefit.”

H-74, Kazakhstan

“In each country, smugglers will have connection to one or two hawaladars that they would forward the details to the migrants to get paid through.”

H-107, United States
Globalization and the emergence of an expanded range of information and communication technologies has impacted the working mechanisms of hawaladars\textsuperscript{129}. Although traditional hawala working methods are still in use, modern messaging systems and mobile phone-based applications facilitate business activity, and a small number of hawaladars reported that they use crypto currencies\textsuperscript{130} as a means of exchanging value\textsuperscript{131}. The hawala system was also affected by the recent Covid-19 pandemic, and by the Taliban takeover in Afghanistan with hawaladars reporting their business being impacted by both events in the short term.

Impact of the change of regime in Afghanistan

The impact of the Taliban takeover in Afghanistan on the country’s MVTS and Hawala sectors has been substantial and the result of several factors. These include the imposition of sanctions, a significant reduction in bank-to-bank business processes within the formal banking sector, cash withdrawal and liquidity challenges, the inability of the population to access bank accounts and the internal and external displacement of large numbers of Afghan citizens. MVTS and the hawala sector have become even more essential for financial inclusion for the population, including for the large amount of the population that fell into poverty and displacement\textsuperscript{132}.

There is currently no functioning supervisory process for the sector or for hawaladars to report to at an international level, and there is a lack of understanding of which MVTS and hawaladars are in the market, or whether they are licenced, unlicenced or have revoked or expired licenses. As the needs of the population to use hawala rose, so too did the vulnerability of hawaladars in Afghanistan to misuse for criminal or terrorist purposes.

The data collection in Afghanistan for this study started in July 2021 and an initial twenty interviews were conducted before the regime change on 15 August 2021. An additional ten interviews took place in Afghanistan after August 2021. To examine the impact of the Taliban takeover on the hawala system within and outside Afghanistan, the ninety-three hawaladars who were interviewed after 15 August 2021 (ten in Afghanistan) were asked if the regime change in Afghanistan had any impact on incoming and outgoing transactions relating to Afghanistan. External to Afghanistan, the impact seemed limited, though some hawaladars indicated a positive impact on their businesses and an increase in the number of hawala transactions. None of the fifteen interviewed hawaladars based in Africa had transactions to or from Afghanistan since the Taliban takeover, while twenty-nine hawaladars in other countries Mentioned that the change of regime did not significantly impact their hawala transactions to or from Afghanistan: of these, eighteen were based in Europe.

\textit{“Yes, [I have had] had transactions since the Taliban took over. In fact, it has increased our business because more families have moved to Pakistan, so their families send money to them from here.”} \textit{H-27, Australia}

\textit{“I occasionally get clients who send or receive money to Afghanistan and so far, I had no issues [after the Taliban takeover] as I do not directly deal with the hawaladars in Afghanistan. We process the transactions through Islamic Republic of Iran or Pakistan”} \textit{H-53, France}

\textit{“When the Taliban just took over it was difficult, but then it was okay. Later on, it was really good, with everyone trying to get out of the country, we had a busier time in [our] hawala service as people were supporting their families in such difficult times.”} \textit{H-57, Germany}

\textit{“It is sad that the Taliban took over but for our business it has [gone] really well with all these migrants coming to the UK. They use our service to send and receive money to their families.”} \textit{H-104, United Kingdom}

\textit{“At the beginning it was difficult but now it is not difficult. The problem is, there is not enough money there. Due to the shortage of money in the country some transactions take days to be cleared.”} \textit{H-109, United States}
Although most of the interviewed hawaladars based in Europe reported no major issues in processing transactions to and from Afghanistan, the closure of hawala businesses in Afghanistan in the first few weeks of regime change and a shortage of cash on the Afghan side created temporary challenges. Immediately after the Taliban takeover, Afghanistan’s banks found it difficult to conduct transactions and the limited transactions they could conduct, including for trade finance, took a significant amount of time to complete. Banks which had correspondent relationships lost most, if not all, of them during the initial period. Local banks closed branches through the country; hawaladars closed their businesses for a few weeks, and a liquidity crisis was reported all over Afghanistan133.

“Hawala work has increased since the Taliban took over Afghanistan, as most banks are closed and inactive, and now even [most] foreign organizations pay their employees through the hawala system. Hawala work has increased, [but] it is difficult now, the Taliban have created strict rules. They say that each person has to put a guarantee of AFN 5 million to the Central Bank for a money exchange trade license, which is a large amount, and the money exchange traders did not accept it and are in negotiation with central bank.”

H-59, Afghanistan

“When the government changed, and the Taliban took over Afghanistan, our transactions and activities became more difficult. The banking system in Afghanistan was completely disrupted. Our customers have become very numerous. The Taliban have increased their surveillance. They are looking for embezzled money. The Afghan money is old and worn out.”

H-61, Afghanistan

“Our work has become difficult. One of our main problems is that the [Afghani] money has worn out. Our customers do not accept the old money and the Central Bank does not give us new money. Every time we have this problem, and we have a dispute with our customers.”

H-63, Afghanistan

“The hawala system [has] become difficult since the Taliban took over Afghanistan. With the closure of the banking system, our customers have increased, our workload has increased. Restrictions have also been imposed on us. For example, the Taliban now want us to put five million AFN as guarantee with the Central Bank, which is impossible and many hawaladars are


Of the ten hawaladars interviewed inside Afghanistan after August 2021, seven reported that hawala transactions had become more difficult to execute and that the de facto authorities had imposed several restrictions, including requiring a deposit guarantee of AFN 5 million (approximately USD60,000) to obtain a license. They also mentioned that surveillance of the hawala system by the de facto authorities had increased inside Afghanistan and that there were issues with obtaining suitable currency. Hawaladars also said that due to the closure or interruption of local banking services, the demand for hawala had increased. Although it was not specifically mentioned by the interviewed hawaladars, the de facto authorities also imposed withdrawal limits on banks which are still in effect at time of writing, which may further encourage the population to use hawala services134.
Hawala and contemporary issues

Cryptocurrency emerged in 2008 introducing the concept of decentralised finance to the world and the use of virtual currency has grown substantially to become a part of the global financial system and a significant factor in the global investment landscape. As with the hawala system, Member States have an obligation to supervise cryptocurrencies and virtual assets and FATF has provided recommendations on how to do so through its Recommendation 15 on New Technologies. Under that recommendation:

“Countries and financial institutions should identify and assess the money laundering or terrorist financing risks that may arise in relation to (a) the development of new products and new business practices, including new delivery mechanisms, and (b) the use of new or developing technologies for both new and pre-existing products. In the case of financial institutions, such a risk assessment should take place prior to the launch of the new products, business practices or the use of new or developing technologies. They should take appropriate measures to manage and mitigate those risks. To manage and mitigate the risks emerging from virtual assets, countries should ensure that virtual asset service providers are regulated for AML/CFT purposes, and licensed or registered and subject to effective systems for monitoring and ensuring compliance with the relevant measures called for in the FATF Recommendations. In June 2014, the FATF issued Virtual Currencies: Key Definitions and Potential AML/CFT Risks in response to the emergence of virtual currencies and their associated payment mechanisms for providing new methods of transmitting value over the Internet. In June 2015, the FATF issued the Guidance for a Risk-Based Approach to Virtual Currencies (the 2015 VC Guidance) as part of a staged approach to addressing the money laundering and terrorist financing (ML/TF) risks associated with virtual currency payment.”

Cryptocurrencies are part of a broader trend towards more diverse financial market infrastructures that both enhance consumer choice and offer new ways to meet current and future payment needs135. The United States Library of Congress’s update, in November 2021 on the regulation of cryptocurrency around the world reported that one hundred and three states had applied tax laws, AML/CFT laws or both types of laws to cryptocurrencies, with a majority applying both. Several countries have issued cryptocurrency bans, which have increased to nine jurisdictions with an absolute ban and forty-two with

The Hawala System

an implicit ban\textsuperscript{136}. In Afghanistan, where one-fourth of the interviewed hawaladars are based, the Da Afghanistan Bank (Central Bank) imposed a nationwide ban on cryptocurrencies in August 2022\textsuperscript{137}.

Hawala and cryptocurrencies share some principles, for example, privacy, lack of oversight, reliability, and decentralization\textsuperscript{138}. Nevertheless, the use of cryptocurrencies in the sample group of hawaladars seems to be limited: Seventy-two participants said they did not use digital currencies. Only five of the study participants (based in Bosnia and Herzegovina, Austria, Nigeria, and Romania) reported using cryptocurrencies including Bitcoin, Ethereum, and Tether (USDT). However, fifteen hawaladars – based in the United Republic of Tanzania (4), Romania (1), Kazakhstan (4), Afghanistan (3), Spain (2), and Austria (1) – mentioned they were aware of other hawaladars who used crypto currency.

Reports by some Member States underline that cryptocurrencies are increasingly being used in illegal activities because the transactions are somewhat anonymous, making detection more difficult\textsuperscript{139}. In 2021, Europol reported that recent years have seen cryptocurrency increasingly used as part of criminal activities and to launder criminal proceeds. Criminals have also become more sophisticated in their use of cryptocurrencies. In addition to using cryptocurrencies to obfuscate money flows as part of increasingly complex money laundering schemes, cryptocurrencies are increasingly used by criminals as a means of payment or as an investment fraud currency\textsuperscript{140}. Investigating authorities are concerned that traders of digital money may violate the regulatory framework\textsuperscript{141}, and aid hawala operators\textsuperscript{142}. Cryptocurrency is particularly vulnerable to abuse by criminals who take advantage of the reduced Anti-Money Laundering/
Know Your Customer (AML/KYC) checks. On a global scale, the use of cyberspace and cryptocurrencies on the illicit darknet market poses significant challenges to law enforcement and counter-narcotic capacities for governance and regulation, drug supply reduction, and crime prevention.

Impact of Covid-19 on hawala

The various MVTS sectors experienced mixed fortunes during the pandemic. A joint report by the International Fund for Agricultural Development and the World Bank documented that the first few months of the pandemic (April–July 2020) proved to be particularly challenging for remittance transfers, and similar findings were identified from an industry survey administered by the International Association of Money Transfer Networks (IAMTN), which reported a sharp drop in volumes as lockdowns took effect. This was followed by an abrupt increase, as remittance service providers were deemed essential services.

The pandemic also spawned a range of Covid-19-related crimes, which provided new sources of income for criminal networks, to the extent that FATF provided guidance on how to mitigate money laundering and terrorist financing risks without disrupting essential and legitimate financial services. Concerns expressed by FATF in 2020 included changes in financial behaviours including significant increases in online purchases, widespread moves towards online financial services rather than physical banking and increased financial volatility cause by millions of job losses, closure of thousands of companies and a possible global economic crisis. FATF encouraged authorities and the private sector to take a risk-based approach in relation to this issue in line with existing standards.

In some states, the disruption of cash-based hawallas due to the pandemic provided business opportunities for cashless digital money transfer operators, as those needing to send money who could not visit a hawala operator have turned instead to digital money transfer services. Large service providers with strong digital components witnessed signifi-

143 “UK Government Policy Paper: Factsheet, crypto assets”, April 2023
144 UNODC, (2020) “Darknet Cybercrime Threats to Southeast Asia”
The Hawala System

Covid-19 impacted many hawaladars around the world, notably as demand for the service declined in most places in the short term. Many migrants and refugees lost their jobs due to lockdown policies and the wider global economic slowdown or were struggling with Covid-19 related health issues. Cross-border trade reduced significantly, and customers’ preferences shifted flows from unregulated channels to regulated and digital remittance options. Many hawaladars experienced declining remittance volumes, and faced problems such as closed locations, limited working hours, staff isolation, and cash liquidity challenges.

“Borders closed, and business visas were not being issued, so less people are using our service.”
H-21, Australia

“Many people lost their jobs, and they could not transfer money as before Covid-19.”
H-34, Austria

“We had less or even no transactions being processed during the pandemic.”
H-107, United Kingdom

Some hawaladars in Somalia, for example, reduced the amount of remitted money to USD500 per transaction, which resulted in an estimated 40 to 70 per cent reduction in cash inflow. Across the sample group for this study, over 90 per cent of the interviewed hawaladars reported that the pandemic had interrupted the hawala sector and the volume of transactions decreased by 40 to 50 per cent.

Several hawaladars had difficulties in paying rents and the salaries of staff members.

“[For] most of the period [from] 2020 to early 2021, we had to keep the shop closed.”
H-22, Bosnia and Herzegovina

“Covid 19 had a very bad effect on our work. Our shops were closed for three months, and our income was zero.”
H-59, Afghanistan

“Covid 19 had a very bad effect on our lives and our society. At first, our shops were closed for a long time and our work and business were closed. The conditions were really difficult. We lost a lot [of business].”
H-63, Afghanistan

“The number of transactions fell by 50 per cent due to Covid-19.”
H-91, Somalia

“The number of transactions were reduced by half and due to the lock down the money exchange service couldn’t be provided as a result of the closures.”
H-94, United Republic of Tanzania

Only one hawaladar based in Central and Western Europe gave a contrary view and reported receiving more customers than usual, associating the increase with reduced capacity for people with irregular migration status to be deported to their countries of origin.

“It was a bit busier than usual as more migrants were coming, based on the fact that they won’t be returned to their country due to flight suspensions.”
H-65, Italy


Policy considerations and pathways for future research

Policy Implications

MVTSs and HOSSPs, particularly when they are effectively supervised and regulated under appropriate legal and institutional frameworks, are critical to sustainable development and financial inclusion – in many cases serving some of the most vulnerable populations – including those in countries with limited financial intermediation, the “unbanked”, those in geographically remote areas or who are internally displaced, migrants or refugees, and those who do not meet documentation requirements to open bank accounts or access mobile services. However, MVTS and HOSSPs which are not effectively supervised according to international standards can be abused for criminal and terrorist financing purposes, thus exposing these same vulnerable populations, as well as the wider international financial system, to criminal activity. This first ever in-depth field research with hawaladars by UNODC demonstrates how the inherent risks in the sector are understood and change. Because financial intermediation and cross-border value transfers are essential to human livelihoods, the risks inherent in the sector must be understood.

While HOSSPs may be specific to certain world regions, not understanding the risks of the sector and not preventing and mitigating them poses a wider Money Laundering and Terrorist Finance (ML and TF) threat to the global community. As stated in the introduction, this risk is inherent and persistent, and it has not diminished since 2002, when it first became the focus of global attention. Given this, there is merit in an ongoing analysis of risk and typologies, and a continual development of best practices to effectively prevent, mitigate, and disrupt the risks, in order to integrate the hawala sector into a regulatory framework. Policy makers at the national level must safeguard this vital form of financial intermediation by fully understanding its risks and by integrating it into an appropriate supervisory framework.

It is recommended that the current analytical work be expanded geographically and made more systematic. Moreover, future analytical endeavors could encompass a broader scope, extending beyond the current regional coverage to include other forms of crime prevalent in these regions, offering a more holistic understanding of the interconnected criminal dynamics and their implications. By broadening the geographical, substance-related, and crime-focused dimensions of the analysis, a more nuanced and comprehensive assessment can be achieved, leading to valuable insights for policymakers and stakeholders working to combat illicit activities on a global scale. The methodology used here should also be expanded to better analyze human rights and gender aspects associated with hawala. It would also be interesting to extend the field research to countries with large immigrant and refugee populations. The analytical work should also focus on how HOSSPs interface with large humanitarian delivery operations including with multilateral organizations and non-profit organizations. At the level of the international community – the work of FATF and UNODC and other organizations can be updated, especially in light of the work of the Financial Action Task Force on digitization and mitigating unintended consequences and the work of UNODC in understanding crime markets and ML and TF risks.

Areas for future research

This study provides an initial understanding of how hawala operates, as well as its links and vulnerability to organized crime, and specifically opiate trafficking and migrant smuggling. The study shows that the utilised methodology provides useful insight about the hawala and can be replicated locally and internationally. The study also identified several knowledge gaps which would benefit from further in-depth research and include but are not limited to the following:

1. Assessment of hawala regulatory frameworks locally, regionally and internationally.
2. The role of women in the hawala system as hawaladars and customers and how it differs based on their geographical as well as socio-economic backgrounds.
3. The hawala, money laundering and terrorism financing nexus.
4. The nexus between hawala and virtual currency (cryptocurrency).
5. In-depth understanding of the account settlement methods utilised by hawaladars.
Methodology

This qualitative study is based on information and data gathered through interviews with over one hundred active hawaladars in several countries. One hundred and thirteen active hawaladars were interviewed in forty-nine cities across eighteen countries, and a further four in-depth interviews with hawaladars were conducted using open-ended questions. Participation in the study was voluntary. The respondents had the freedom not to answer questions deemed too sensitive or risky or that they were not comfortable answering. Ethical guidelines for research with vulnerable groups, as well as crime reporting obligations at national level, were duly taken into account in the context of the field research. Research participants have been fully anonymized in order to protect their safety and confidentiality.

In addition to the hawaladars, twenty experts from thirteen Member States completed an online survey relating to their understanding of the hawala system. The experts' responses complement and help triangulate the data collected from hawaladars.

The study was launched in December 2020. In 2020 and 2021, Note Verbales were sent to forty-three UN Member States across five continents requesting permission to interview hawaladars in their territories. Of those forty-three Member States, eighteen granted permission for the research team to conduct the interviews, two did not grant permission and twenty-three did not communicate a response to UNODC despite several follow-ups by the research team. In part this may have been due to the closure of a number of diplomatic missions and government institutions during the Covid-19 pandemic. In the course of the field research, the relevant national laws and ethical practices in relation to the reporting of a crime were taken into account.

Data collection instrument

The hawaladar questionnaire included open-ended and multiple-choice questions on the basic demographic information of the hawaladars, their hawala business model and services, the nature of hawala transactions, the geographical coverage of their businesses, as well as questions on account settlement methods, reporting and oversight methods. Additionally, hawaladars were asked specific questions on the links between hawala, opiate trafficking and other types of organized crime, migrant smuggling, the impact of Covid-19 on hawala, and the use of cryptocurrency by hawaladars. Copies of the questionnaire are available on request.

Some of the hawaladars were interviewed in jurisdictions where the system is not legal or operated without a license. As a result, the questions were constructed in such a way as to avoid asking too sensitive questions on a topic that is already highly sensitive. Therefore, open-ended questions were preferred where feasible. Usages of foreign words, technical terms, abbreviations, acronyms, and rare terms were avoided to the extent possible in the data collection instrument.
FIG. 40  Number of hawaladars interviewed by Member State and city.

<table>
<thead>
<tr>
<th>Country</th>
<th>Hawaladars interviewed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Afghanistan</td>
<td>7</td>
</tr>
<tr>
<td>Australia</td>
<td>6</td>
</tr>
<tr>
<td>Austria</td>
<td>5</td>
</tr>
<tr>
<td>France</td>
<td>4</td>
</tr>
<tr>
<td>Germany</td>
<td>3</td>
</tr>
<tr>
<td>Italy</td>
<td>3</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>2</td>
</tr>
<tr>
<td>Romania</td>
<td>2</td>
</tr>
<tr>
<td>Tanzania</td>
<td>2</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>1</td>
</tr>
<tr>
<td>Denmark</td>
<td>1</td>
</tr>
<tr>
<td>Nigeria</td>
<td>1</td>
</tr>
<tr>
<td>Spain</td>
<td>1</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>1</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1</td>
</tr>
<tr>
<td>United States</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: Interviewed hawaladars H01-H113
The data collection instrument was reviewed by various experts and sections, with diverse expertise and background, within the UNODC Division for Policy Analysis and Public Affairs (DPA), Research and Trend Analysis Branch (RAB), including the Crime Research Section (CRS), Data Development and Dissemination Section (DDDS), and Programme Development and Management Unit (PDMU) as well as the UNODC Division for Treaty Affairs, Cybercrime and Anti-Money Laundering Section, Global Programme Against Money Laundering (GPML).

A technique called “Participant Observation” was used to observe two hawala transactions in real-time. Participant Observation is a qualitative and interactive approach and is relatively unstructured. It is generally associated with exploratory and explanatory research objectives, uncovering the cognitive elements, rules, and norms that underlie the observable behaviors. The data generated are often free flowing and the analysis much more interpretive than in direct observation. This approach was used in the case study on understanding how hawaladar transactions are made in practice155.


### TAB. 6 Number and location of experts who completed the online questionnaire

<table>
<thead>
<tr>
<th>No</th>
<th>Country</th>
<th>Number of experts who completed the online questionnaire</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Austria</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>Brazil</td>
<td>6</td>
</tr>
<tr>
<td>3</td>
<td>Germany</td>
<td>1</td>
</tr>
<tr>
<td>4</td>
<td>Mexico</td>
<td>1</td>
</tr>
<tr>
<td>5</td>
<td>Montenegro</td>
<td>1</td>
</tr>
<tr>
<td>6</td>
<td>Republic of Belarus</td>
<td>1</td>
</tr>
<tr>
<td>7</td>
<td>Republic of North Macedonia</td>
<td>1</td>
</tr>
<tr>
<td>8</td>
<td>Kingdom of Qatar</td>
<td>1</td>
</tr>
<tr>
<td>9</td>
<td>Slovakia</td>
<td>1</td>
</tr>
<tr>
<td>10</td>
<td>Somalia</td>
<td>1</td>
</tr>
<tr>
<td>11</td>
<td>Ukraine</td>
<td>1</td>
</tr>
<tr>
<td>12</td>
<td>Uzbekistan</td>
<td>3</td>
</tr>
</tbody>
</table>
Study limitations

The study has several limitations as follows:

It is unknown how many hawaladars operate in a particular city, country, or worldwide, so it is unclear how representative this study’s sample is. Even in the countries where the hawala system is legalized and regulated, there is the possibility of an unknown number of unlicensed hawaladars operating outside of the regulated system. As a result, any conclusions made in this report should not be nationally or internationally generalized. The research findings and conclusions are limited to only the sample interviewed for this research, though the data and information from interviewees has been triangulated with relevant secondary sources. In some cases, the hawaladars’ responses to the open-ended questions were minimal. This is partly attributed to the nature of the research and the risk associated with it that could impact the business or safety of the hawaladars.

Despite attempts, the research team interviewed only a handful of major hawaladars who play a central role in the global hawala network. Most of the interviewed hawaladars operated at the smaller scale of the hawala business. Although these small-scale hawaladars have provided useful insights into the actions of major hawaladars, a fuller understanding of this part of the hawala business was not achieved in this study.

Only one female hawaladar was interviewed, despite the research team’s efforts to interview more female hawaladars. This may reflect the nature of the sampling method, rather than the extent of women’s employment as hawaladars. As a result, the role of women in the hawala system, both as hawaladars as well as customers, would benefit from further research.

The data set does not include some key countries that are not only important hubs for the hawala system (according to the hawaladars interviewed in this research) but are also key transit countries for drug trafficking and migrant smuggling. Despite the research team’s follow-up, UNODC was unable to interview hawaladars in those countries.

When asked about their knowledge of illegal activities, hawaladars were less willing to discuss these topics in detail. However, hawaladars were more willing to talk about migrant smuggling than drug trafficking, and as a result the findings on migrant smuggling are more detailed than on opiate trafficking.