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**THESIS**

**REGULATING HAWALA: THWARTING TERRORISM  
OR JEOPARDIZING STABILITY?**

by

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December 2019

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**REGULATING HAWALA: THWARTING TERRORISM OR JEOPARDIZING  
STABILITY?**

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## **ABSTRACT**

This thesis uses the case study method to investigate the unintended consequences that have resulted from the United States' efforts to deter criminal abuses of hawala. It explores the illegitimate and legitimate uses of hawala in Africa and the Middle East in the post-9/11 era. Despite extensive regulatory blocks, hawala has been a key financial node for the Taliban, Islamic State, and al-Shabaab. On the other hand, hawala serves as a lifeline for victims of terrorism in Africa and the Middle East. Any disruption in service jeopardizes their survival and protection. This study identifies how regulatory action has caused financial exclusion and is counterproductive to the United States' anti-money laundering efforts and campaigns against terrorism financing. Practices like de-risking encourage the growth of alternative money transfer systems. This assessment concludes with a recommendation to use mobile money platforms to reinvigorate the formal financial sector and promote financial inclusion. Mobile hawalas are already leveraging digital delivery channels and have gained rapid momentum. In lieu of further regulatory action, Western institutions can employ these emerging technologies to transform into more adaptive and advantageous competitors of hawala and avoid compromising the essential service it provides.

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## LIST OF ACRONYMS AND ABBREVIATIONS

AIDS	acquired immunodeficiency syndrome
AML	anti-money laundering
BSA	Bank Secrecy Act
CFT	counter the financing of terrorism
CTP	cash-transfer programming
FATF	Financial Action Task Force
FGM	female genital mutilation
GAO	Government Accountability Office
GDP	gross domestic product
HIV	human immunodeficiency virus
IVTS	informal value transfer systems
KSM	Khalid Sheikh Mohammed
LCC	Lebanon Cash Consortium
MLCA	Money Laundering Control Act of 1986
MSB	money service business
NGO	non-government organization
OFAC	Office of Foreign Assets Control
UNHCR	United Nations High Commissioner for Refugees
UNODC	United Nations Office on Drugs and Crime
USC	United States Code

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## EXECUTIVE SUMMARY

Hawala is a way to move money between individuals using a global network of intermediaries.<sup>1</sup> It pre-dates western banking, and despite the collapse of financial markets and regulatory blocks, it has endured for over a millennium.<sup>2</sup> Hawala continues to be employed around the globe because it is convenient, expedient, reliable, and inexpensive.<sup>3</sup> The United States has an interest in regulating hawalas and similar alternative money transfer systems, as they have been exploited by terrorist organizations to fundraise and launder illegal proceeds from criminal activity.<sup>4</sup> In Africa and the Middle East, hawala has enabled terrorist groups to adapt to and circumvent the United States' anti-money laundering (AML) and terror financing campaigns. On the other hand, these same networks serve as a lifeline for communities that are victims of terrorism.<sup>5</sup> Any disruption in service can jeopardize their survival. The question of how to thwart criminal abuses of hawala effectively without penalizing the legitimate users remains a key challenge facing policymakers today.

This thesis investigates the unintended consequences that have resulted from the United States' efforts to stop hawala abuses. The case study method is used to derive

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<sup>1</sup> Patrick M. Jost and Harjit Singh Sandhu, *The Hawala Alternative Remittance System and Its Role in Money Laundering* (Vienna, VA: International Criminal Police Organization, 2000), 5, <https://www.treasury.gov/resource-center/terrorist-illicit-finance/Documents/FinCEN-Hawala-rpt.pdf>.

<sup>2</sup> N. S. Jamwal, "Hawala—The Invisible Financing System of Terrorism," *Strategic Analysis* 26, no. 2 (April 3, 2008): 182, <https://doi.org/10.1080/09700160208450038>.

<sup>3</sup> Rachana Pathak, "The Obstacles to Regulating the Hawala: A Cultural Norm or a Terrorist Hotbed?," *Fordham International Law Journal* 27, no. 6 (2003): 2015–2017; Dulce M. Redin, Reyes Calderon, and Ignacio Ferrero, "Exploring the Ethical Dimension of Hawala," *Journal of Business Ethics* 124, no. 2 (October 2014): 328, <https://doi.org/10.1007/s10551-013-1874-0>.

<sup>4</sup> *Countering Terrorist Financing: Progress and Priorities, Hearing before the Subcommittee on Crime and Terrorism of the Committee on the Judiciary*, Senate, 112th Cong., 1st sess., September 21, 2011, 19, <https://www.gpo.gov/fdsys/pkg/CHRG-112shrg73840/pdf/CHRG-112shrg73840.pdf>.

<sup>5</sup> Thomas Viles, "Hawala, Hysteria and Hegemony," *Journal of Money Laundering Control* 11, no. 1 (2008): 27, <https://doi.org/10.1108/13685200810844479>; Samuel Munzele Maimbo, *The Money Exchange Dealers of Kabul: A Study of the Hawala System in Afghanistan* (Washington, DC: The World Bank, 2003), 19, <http://documents.worldbank.org/curated/en/335241467990983523/pdf/269720PAPER0Money0exchange0dealers.pdf>; Moustapha Aman, Nikolay Nenovsky, and Ismael Mahamoud, "The Informal System of Remittances and Currency Board: Complementarity or Antagonism? The Case of Hawala Transfers in Djibouti," *Savings and Development* 38, no. 1 (2014): 137.

evidence of hawala's use. This study makes a distinction between illegitimate and legitimate uses of hawala based on the activities that it facilitates and not based on a legal definition. While the legality of hawala or similar services is country-specific, legitimate refers to its use to support humanitarian development actions, such as to support family, while illegitimate refers to the use of these networks for criminal or terror activity.<sup>6</sup> This study concludes with a recommendation to invest in mobile money platforms to reverse the ensuing impacts on hawala-dependent communities and promote financial inclusion.

The U.S. government has an interest in regulating alternative money transfer systems for several reasons. Transactions cross multiple jurisdictions, involve businesses not traditionally regulated as financial institutions, include layering or the comingling of legitimate and illegitimate funds, and the masking of customer records.<sup>7</sup> Customer identity documents sourced from legitimate business transactions can be recycled to generate false records and mask the true identity or source of funds.<sup>8</sup> Fictitious invoices and counter-valuations can be strategies to evade taxes or capital controls.<sup>9</sup> Settlement practices between hawaladars can result in the loss of capital in local financial markets and the creation of volatile currencies.<sup>10</sup> Hawalas have the capacity to be fronts or shell companies for illegal money transactions, and are doorways for trade-based money laundering.<sup>11</sup> In recent years, the United States has become increasingly concerned about hawala facilitating trade-based money laundering.<sup>12</sup>

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<sup>6</sup> Karen Pamer, "A Global Study of Hawala Targeting Regulations" (capstone project, Utica College, 2016), 6.

<sup>7</sup> Financial Action Task Force, *The Role of Hawala and Other Similar Service Providers in Money Laundering and Terrorist Financing* (Paris: Financial Action Task Force, 2013), 27, <https://www.imolin.org/pdf/imolin/Role-of-hawala-and-similar-in-ml-tf-1.pdf>.

<sup>8</sup> Financial Action Task Force, 21.

<sup>9</sup> *Trading with the Enemy: Trade-Based Money Laundering Is the Growth Industry in Terror Finance*, Hearing before the Task Force to Investigate Terrorism Financing of the Committee on Financial Services, House of Representatives, 114th Cong., 2nd sess., February 3, 2016, 7.

<sup>10</sup> Galina Glushchenko, "Hawala—A Vestige of the Past in the Service of Globalization," *Russian Politics and Law* 34, no. 5 (October 2005): 40.

<sup>11</sup> Financial Action Task Force, *Financial Flows Linked to the Production and Trafficking of Afghan Opiates* (Paris: Financial Action Task Force, 2014), 32, <http://www.fatf-gafi.org/media/fatf/documents/reports/Financial-flows-linked-to-production-and-trafficking-of-afghan-opiates.pdf>.

<sup>12</sup> Department of the Treasury, *2018 National Terrorist Financing Risk Assessment* (Washington, DC: Department of the Treasury, 2018), 4, [https://home.treasury.gov/system/files/136/2018ntfra\\_12182018.pdf](https://home.treasury.gov/system/files/136/2018ntfra_12182018.pdf).

The United States has pursued legislative and regulatory action to combat criminal abuses of hawala. While case studies clearly identify the need for regulation, policymakers did not anticipate the response the formal banking sector would have to new compliance measures.<sup>13</sup> The ensuing phenomenon of de-risking, where formal institutions severed correspondent banking relationships and suspended operations to Africa and the Middle East, was unprecedented.<sup>14</sup> De-risking decisions have had a particularly profound impact on money service businesses that transfer remittances to poor households and sustain non-government organizations abroad. This trend adversely impacts AML and counterterrorism financing efforts, as it reduces the availability of formal services and encourages the growth of informal channels, like hawala, in its absence.<sup>15</sup>

Despite the United States' legislative and regulatory efforts, alternative money transfer systems are still key nodes in terror financing schemes in Africa and the Middle East.<sup>16</sup> In Afghanistan, the Taliban used hawala to generate upwards of \$150 million in

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<sup>13</sup> Matthew Collin et al., *Unintended Consequences of Anti-Money Laundering Policies for Poor Countries* (Washington, DC: Center for Global Development, 2015), 24.

<sup>14</sup> Sullivan and Cromwell LLP, *2015 Year-End Review of BSA/AML and Sanctions Developments and Their Importance to Financial Institutions* (New York: Sullivan and Cromwell LLP, 2016), 1, [https://www.sullcrom.com/siteFiles/Publications/SC\\_Publication\\_2015\\_Year\\_End\\_Review\\_of\\_BSA\\_AML\\_3\\_3\\_16.pdf](https://www.sullcrom.com/siteFiles/Publications/SC_Publication_2015_Year_End_Review_of_BSA_AML_3_3_16.pdf); *S. Hrg. 109-517: An Update on Money Services Businesses Under Bank Secrecy and USA Patriot Regulation, Hearing before the Committee on Banking, Housing, and Urban Affairs, United States Senate, One Hundred Ninth Congress, First Session, on Money Services Businesses under Bank Secrecy Act and USA Patriot Act Regulations, Focusing on Federal and State Efforts in the Anti-Money Laundering Area, April 26, 2005*, Senate, 109th Cong., 1st sess., April 26, 2005, 84, <https://www.govinfo.gov/content/pkg/CHRG-109shrg29429/pdf/CHRG-109shrg29429.pdf>.

<sup>15</sup> Susan Starnes et al., *De-Risking and Other Challenges in the Emerging Market Financial Sector: Findings from IFC's Survey on Correspondent Banking* (Washington, DC: International Finance Corporation, 2019), 1, <http://documents.worldbank.org/curated/en/895821510730571841/pdf/121275-WP-IFC-2017-Survey-on-Correspondent-Banking-in-EMs-PUBLIC.pdf>.

<sup>16</sup> *A Survey of Global Terrorism and Terrorist Financing: Hearing before the Task Force to Investigate Terrorism Financing of the Committee on Financial Services*, House of Representatives, 114th Cong., 1st sess., April 22, 2015, 16, <https://www.govinfo.gov/content/pkg/CHRG-114hhr95059/pdf/CHRG-114hhr95059.pdf>.

annual profit from opiate production and trafficking.<sup>17</sup> The Islamic State leveraged hawala to collect revenue of \$1.3 million a day from crude oil sales in Syria.<sup>18</sup> Meanwhile, al-Shabaab used hawala to collect donor funds from the Somali diaspora and implement extortion programs against Somali citizens.<sup>19</sup> The Taliban, Islamic State, and al-Shabaab remain among the most active terror groups today, and are responsible for more terrorism-related deaths and activities than any other organizations.<sup>20</sup> Under their reign, millions of people are suffering from displacement, abject poverty, and extreme violence. In these communities, hawala networks are a means toward their survival, security, and development.

In Africa and the Middle East, hawala is part of a risk management strategy for households and humanitarian aid organizations.<sup>21</sup> Hawala empowers households to endure

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<sup>17</sup> Lisa Curtis, “U.S. Counternarcotics Policy: Essential to Fighting Terrorism in Afghanistan,” *Backgrounder*, no. 2845, September 30, 2013, 3; Office of the Special Inspector General for Afghanistan Reconstruction, *Special Inspector General for Afghanistan Reconstruction: Counternarcotics: Lessons from the U.S. Experience in Afghanistan* (Arlington, VA: Office of the Special Inspector General for Afghanistan Reconstruction, 2018), 217, <https://www.sigar.mil/pdf/lessonslearned/SIGAR-18-52-LL.pdf>; Financial Action Task Force, *Financial Flows Linked to the Production and Trafficking of Afghan Opiates*, 42.

<sup>18</sup> Institute for Economics and Peace, *Global Terrorism Index 2017: Measuring the Impact of Terrorism* (Sydney, Australia: Institute for Economics and Peace, 2017), 83, <http://visionofhumanity.org/app/uploads/2017/11/Global-Terrorism-Index-2017.pdf>.

<sup>19</sup> Rob Wise, *Al Shabaab* (Washington, DC: Center for Strategic and International Studies, 2011), 9, [http://www.operationspaix.net/DATA/DOCUMENT/4039~v~Al\\_Shabaab.pdf](http://www.operationspaix.net/DATA/DOCUMENT/4039~v~Al_Shabaab.pdf); United Nations Security Council, *Report of the Monitoring Group on Somalia Pursuant to Security Council Resolution 1853* (New York: United Nations, 2010), 25, <https://www.securitycouncilreport.org/atf/cf/%7B65BF9B-6D27-4E9C-8CD3-CF6E4FF96FF9%7D/Somalia%20S%202010%2091.pdf>; Valter Vilkkko, *Al-Shabaab: From External Support to Internal Extraction A Minor Field Study on the Financial Support from the Somali Diaspora to al-Shabaab* (Uppsala, Sweden: Uppsala University, 2011), 10, [https://www.pcr.uu.se/digitalAssets/654/c\\_654492-1\\_1-k\\_mfs\\_paper\\_vilkkko.pdf](https://www.pcr.uu.se/digitalAssets/654/c_654492-1_1-k_mfs_paper_vilkkko.pdf); United Nations Security Council, *Report of the Monitoring Group on Somalia and Eritrea Pursuant to Security Council Resolution 1916* (New York: United Nations, 2011), 27.

<sup>20</sup> Institute for Economics and Peace, *Global Terrorism Index 2018: Measuring the Impact of Terrorism* (Sydney, Australia: Institute for Economics and Peace, 2018), 15, <http://visionofhumanity.org/app/uploads/2018/12/Global-Terrorism-Index-2018-1.pdf>; Laura Hammond et al., *Cash and Compassion: The Role of the Somali Diaspora in Relief, Development and Peacebuilding* (New York: United Nations Development Programme, 2011), 65, <https://www.refworld.org/docid/4f61b12d2.html>.

<sup>21</sup> Admos Chimhowu, Jennifer Piesse, and Jennifer Pinder, “The Socioeconomic Impact of Remittances on Poverty Reduction,” in *Remittances: Development Impact and Future Prospects* (Washington, DC: The International Bank for Reconstruction and Development, The World Bank, 2005), 89, <http://hdl.handle.net/10986/7339>; Hammond et al., *Cash and Compassion*, 89; Nisar Majid, Khalif Abdirahman, and Shamsa Hassan, *Remittances and Vulnerability in Somalia: Assessing Sources, Uses and Delivery Mechanisms* (Nairobi, Kenya: Rift Valley Institute, 2017), 25, <http://documents.worldbank.org/curated/en/633401530870281332/pdf/Remittances-and-Vulnerability-in-Somalia-Resubmission.pdf>.

economic shocks without having to resort to reckless or impulsive actions.<sup>22</sup> During emergencies, women and children are disproportionately victimized by desperate behaviors as households attempt to cope with extreme poverty and conflict.<sup>23</sup> By facilitating cash transfers, negative coping strategies that would otherwise result in their forced labor, early marriage, or sexual exploitation are mitigated.<sup>24</sup> Hawala also positively impacts the safety of the individuals who work within these same communities, the humanitarian aid workers. By incorporating hawala into their response strategy, aid organizations reduce the risk of violence that significantly hampers a group's ability to deploy and respond to crises. Thus, hawala provides an essential service for unbanked and financially excluded populations.<sup>25</sup>

Opportunities exist to reverse the trend of de-risking, promote financial inclusion, and meet the United States' security objectives. The rapid advancement of mobile money platforms offers one such solution. Mobile money solutions can overcome the current barriers that prevent the formal financial sector from being an adaptive competitor to hawala, one capable of withstanding the pressures of operating and performing within conflict zones. For this solution to be effective, the United States must invest in capacity building, not of brick and mortar institutions, but rather in the technologies that support the formal sector's digital services. In doing so, the United States will enable western institutions to adopt the features that have made hawala successful: its availability, accessibility, and affordability without jeopardizing the lifeline it provides.

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<sup>22</sup> Shannon Doocy and Hannah Tappis, *Cash-Based Approaches in Humanitarian Emergencies: A System Review*, *Campbell Systematic Reviews 2017:17* (Baltimore: Campbell Collaboration, 2017), 46, [https://campbellcollaboration.org/media/k2/attachments/0221\\_IDCG\\_Doocy\\_Cash\\_in\\_emergencies.pdf](https://campbellcollaboration.org/media/k2/attachments/0221_IDCG_Doocy_Cash_in_emergencies.pdf); Alexandra Blackwell and Julianne Stennes, *Cash Transfers in Raqqa Governorate, Syria: Changes over Time in Women's Experiences of Violence and Wellbeing* (Washington, DC: International Rescue Committee and London: UK Department for International Development, n.d.), 2, accessed October 7, 2019, <https://www.rescue-uk.org/sites/default/files/document/1943/p856ircsyriacashtransfersreportlr.pdf>.

<sup>23</sup> International Labour Organization, and Walk Free Foundation, *Global Estimates of Modern Slavery: Forced Labour and Forced Marriage* (Geneva, Switzerland: International Labour Organization, 2017), 10, [https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms\\_575479.pdf](https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_575479.pdf).

<sup>24</sup> Doocy and Tappis, *Cash-Based Approaches in Humanitarian Emergencies*, 46; Blackwell and Stennes, *Cash Transfers in Raqqa Governorate, Syria*, 2.

<sup>25</sup> Chimhowu, Piesse, and Pinder, "The Socioeconomic Impact of Remittances on Poverty Reduction," 84.

The research is clearly timely, as digital technologies and platforms have ushered in a new era of mobile hawalas and other money platforms.<sup>26</sup> In the past five years, the mobile money market has gained rapid momentum, most especially in the Middle East and Central Asia, where nearly 75% of all mobile money service startups are concentrated.<sup>27</sup> Humanitarian aid organizations are also exploring digital delivery channels to supply aid in the form of electronic cash transfers and e-vouchers.<sup>28</sup> In economically devastated countries like Somalia, 85% of the population does not have access to the formal banking sector, but 73% do have access to digital money services via their cellphones.<sup>29</sup> Emerging hawala technologies and mobile distribution platforms demonstrate hawala's longevity. This business model is here to stay.

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<sup>26</sup> Zaineb Majoka, "From Dahabshiil to World Remit: Why Fintech Is Transforming Somalia," *Africa at LSE* (blog), March 4, 2019, <https://blogs.lse.ac.uk/africaatlse/2019/03/04/from-dahabshiil-to-world-remit-why-fintech-is-transforming-somalia/>.

<sup>27</sup> International Monetary Fund, *FinTech: The Experience So Far* (Washington, DC: International Monetary Fund, 2019), 52.

<sup>28</sup> Lois Austin et al., *How Change Happens in the Humanitarian Sector: Humanitarian Accountability Report, Edition 2018* (Geneva, Switzerland: CHS Alliance, 2018), 104, <https://www.chsalliance.org/files/Humanitarian%20Accountability%20Report%202018.pdf>.

<sup>29</sup> Gabrielle Smith et al., *The State of the World's Cash Report: Cash Transfer Programming in Humanitarian Aid* (Oxford, United Kingdom: The Cash Learning Partnership, 2018), 134, <http://www.cashlearning.org/downloads/calp-sowc-report-web.pdf>.

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From as far back as I can remember, my mom impressed upon me that education was the key to breaking the cycle of poverty. When she emigrated to the United States in pursuit of the American Dream, she could not speak—let alone read or write—English, and her hard-earned degree was not recognized for employment purposes. She learned English by working the drive-thru window of fast food restaurants, and while we found ourselves in many challenging situations throughout my childhood, we always found a way out. Regardless of our poor conditions, my mom, a single parent of two, set the tone early on; it was not always going to be like this, and she was right. I am grateful to the Department of Homeland Security and the Naval Postgraduate School for affording me this master’s degree opportunity. I thank you, Mom, for teaching me that nothing of lasting value is achieved without sacrifice. Thank you, Mom, Amy, and Tony, for your sacrifice and patience while I completed this program. I am grateful for your unwavering love and for always encouraging me to follow my passions. To my friends, who are my extended family, I thank you for continually cheering me on. I could not have accomplished this endeavor without you.

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In conducting this research, I was deeply moved by the stories of the courageous individuals whose lives have been severely disrupted by conflict. Their enduring spirit is inspiring, as are the experiences of the migrants and refugees who leave their homes in search of hope, but never forget those left behind. I am awed by the depth of compassion displayed by humanitarian aid and relief workers who risk their own lives in service to a greater mission. I am hopeful that by bringing to light the complex issues confronting human beings today, more inclusive and comprehensive action will follow.

Finally, to my fellow 1803/1804 cohort members: mahalo nui (thank you very much). You each have made an impression on my career and life goals. May we always strive to live life and serve our communities in the true spirit of aloha: akahai (kindness), lōkahi (unity), ‘olu‘olu (agreeable), ha‘aha‘a (humility), and ahonui (patience).

## I. INTRODUCTION

Imagine that you are a migrant worker living abroad in the United States. Back home in southern Somalia, your family has suffered for over three decades under the constant threat of violence instigated by the Islamic extremist group al-Shabaab, an al-Qaeda affiliate.<sup>1</sup> Your family's living conditions are deplorable and deteriorating daily due to persistent droughts. They have lost their livelihood, and are living in extreme poverty with no sanitation services, no clean water, and facing unrelenting periods of famine and chronic malnutrition.<sup>2</sup> You have the opportunity to help by sending some of your wages back home, but you are faced with a quandary of how? If you use Western Union, you are charged a 10% fee to wire the money, so less money will end up in your family's hands.<sup>3</sup> Money transfer regulations require Western Union to report the transaction to the Department of the Treasury.<sup>4</sup> Under this increased scrutiny, you risk your immigration status and possible jail time if somehow your money unwittingly reaches the hands of al-Shabaab.<sup>5</sup> The federal government will levy criminal charges against you for providing material support to a known terrorist organization.<sup>6</sup> So instead, you turn to a safer and cheaper alternative, that of hawala. Even though the local hawaladar may operate illegally without a license, you are only charged a 0.5% fee. The money is then safely and discreetly

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<sup>1</sup> International Crisis Group, *Somalia: Al-Shabaab—It Will Be a Long War* (Nairobi, Kenya: International Crisis Group, 2014), 1, <https://www.refworld.org/docid/53ad17b44.html>; Human Rights Watch, *Harsh War, Harsh Peace: Abuses by al-Shabaab, the Transitional Federal Government, and AMISOM in Somalia* (New York: Human Rights Watch, 2010), 22, <https://www.hrw.org/report/2010/04/19/harsh-war-harsh-peace/abuses-al-shabaab-transitional-federal-government-and-amisom>.

<sup>2</sup> Federal Government of Somalia, *The Somalia National Development Plan (SNDP)—Towards Recovery, Democracy and Prosperity 2017–2019* (Somalia: Federal Government of Somalia, 2018), 19, <https://www.refworld.org/cgi-bin/texis/vtx/rwmain?page=search&docid=5b4315554&skip=0&query=hawala&coi=SOM&searchin=fulltext&sort=date>.

<sup>3</sup> Laura Hammond et al., *Cash and Compassion: The Role of the Somali Diaspora in Relief, Development and Peacebuilding* (New York: United Nations Development Programme, 2011), 28–296, <https://www.refworld.org/docid/4f61b12d2.html>.

<sup>4</sup> Daivi Rodima-Taylor and William W. Grimes, “International Remittance Rails as Infrastructures: Embeddedness, Innovation and Financial Access in Developing Economies,” *Review of International Political Economy*, 2, May 27, 2019, <https://doi.org/10.1080/09692290.2019.1607766>.

<sup>5</sup> Hammond et al., *Cash and Compassion*, 28–29.

<sup>6</sup> Hammond et al., 28–29.

delivered to your family within hours.<sup>7</sup> This decision could mean the difference between your family surviving for another day or not.

## A. PROBLEM STATEMENT

Hawala is a way to move money between individuals using a global network of intermediaries known as hawaladars.<sup>8</sup> In a typical hawala transaction, a hawaladar collects a sender's money and deposits it into his own cash pool.<sup>9</sup> The hawaladar then contacts partnering agents who use their own cash pool to pay the recipient.<sup>10</sup> Value, in the form of credit and debit is exchanged between the hawaladars, which causes hawala to be considered an informal value transfer system.<sup>11</sup> As money is not physically exchanged between the hawaladars, the debt between them is settled at a later date.<sup>12</sup> Hawala and similar money transmitting operators have been formalized and integrated into the western banking sector as money service businesses (MSBs).<sup>13</sup> MSBs generally operate separately from banks and credit unions, and provide services that include money orders, money

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<sup>7</sup> Patrick M. Jost and Harjit Singh Sandhu, *The Hawala Alternative Remittance System and Its Role in Money Laundering* (Vienna, VA: International Criminal Police Organization, 2000), 9, <https://www.treasury.gov/resource-center/terrorist-illicit-finance/Documents/FinCEN-Hawala-rpt.pdf>; Galina Glushchenko, "Hawala—A Vestige of the Past," *Russian Politics and Law* 34, no. 5 (October 2005): 29; The World Bank, *An Analysis of Trends in Cost of Remittance Services: Remittance Prices Worldwide, Issue 30* (Washington, DC: The World Bank, 2019), 1, [https://remittanceprices.worldbank.org/sites/default/files/rpw\\_report\\_june\\_2019.pdf](https://remittanceprices.worldbank.org/sites/default/files/rpw_report_june_2019.pdf); Joseph Del Mar Pernia, Simon C. Bell, and Samuel Munzele Maimbo, *The Financial Sector in Afghanistan: Managing the Postconflict Reform Process* (Washington, DC: The World Bank, 2004), 74, <http://documents.worldbank.org/curated/en/906721468765919977/pdf/40680.pdf>; Hammond et al., *Cash and Compassion*, 51; Karen Pamer, "A Global Study of Hawala Targeting Regulations" (capstone project, Utica College, 2016), 20.

<sup>8</sup> Jost and Sandhu, *The Hawala Alternative Remittance System and Its Role in Money Laundering*, 5.

<sup>9</sup> Financial Action Task Force, *Guidance for a Risk-Based Approach: Money or Value Transfer Services* (Washington, DC: Financial Action Task Force, 2016), 7, <http://www.fatf-gafi.org/media/fatf/documents/reports/Guidance-RBA-money-value-transfer-services.pdf>.

<sup>10</sup> Financial Action Task Force, 7.

<sup>11</sup> The World Bank, *Informal Funds Transfer Systems: An Analysis of the Hawala System* (Washington, DC: The World Bank, 2003), 23, <http://documents.worldbank.org/curated/en/410351468765856277/pdf/multi0page.pdf>.

<sup>12</sup> The World Bank, 23.

<sup>13</sup> Michael Freeman and Moyara Ruehsen, "Terrorism Financing Methods: An Overview," *Perspectives on Terrorism* 7, no. 4 (August 2013): 11.

transfers, and currency exchanges.<sup>14</sup> MSBs dominate the United States' foreign remittance market and include large companies like Western Union and MoneyGram to small mom-and-pop outlets inside of supermarkets and gas stations.<sup>15</sup>

The U.S. government has an interest in regulating hawala and other MSBs for several reasons. Hawala bypasses the formal financial sector and is shielded from examination by regulators and inspectors.<sup>16</sup> As such, the anonymity of these networks present money laundering opportunities. Criminal enterprises can use hawala to circumvent U.S. and international law to launder illegal proceeds or disguise the identity of customers.<sup>17</sup> The settlement practices between hawaladars can be a doorway to trade-based money laundering.<sup>18</sup> However, above all, hawalas remain of primary concern, as they have been key nodes in terror financing schemes.

Hawala networks have been exploited by terror organizations and criminal enterprises to fundraise and launder illegal proceeds.<sup>19</sup> In Afghanistan, the Taliban used hawala to generate upwards of \$150 million in annual profits from opiate production and trafficking.<sup>20</sup> The Islamic State leveraged hawala to collect revenue of \$1.3 million a day

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<sup>14</sup> Martin A. Weiss, *Remittances: Background and Issues for Congress*, CRS Report No. R43217 (Washington, DC: Congressional Research Service, 2016), 8, <https://fas.org/sgp/crs/misc/R43217.pdf>; Freeman and Ruehsen, "Terrorism Financing Methods," 11–12.

<sup>15</sup> Weiss, 8.

<sup>16</sup> Department of the Treasury, *2018 National Terrorist Financing Risk Assessment* (Washington, DC: Department of the Treasury, 2018), 4, [https://home.treasury.gov/system/files/136/2018ntfra\\_12182018.pdf](https://home.treasury.gov/system/files/136/2018ntfra_12182018.pdf).

<sup>17</sup> International Monetary Fund, *Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT)—Report on the Review of the Effectiveness of the Program* (Washington, DC: International Monetary Fund, 2011), 4, <https://www.imf.org/external/np/pp/eng/2011/051111.pdf>.

<sup>18</sup> Glushchenko, "Hawala—A Vestige of the Past," 40.

<sup>19</sup> *A Survey of Global Terrorism and Terrorist Financing: Hearing before the Task Force to Investigate Terrorism Financing of the Committee on Financial Services*, House of Representatives, 114th Cong., 1st sess., April 22, 2015, 16, <https://www.govinfo.gov/content/pkg/CHRG-114hhrg95059/pdf/CHRG-114hhrg95059.pdf>.

<sup>20</sup> Lisa Curtis, "U.S. Counternarcotics Policy: Essential to Fighting Terrorism in Afghanistan," *Backgrounder*, no. 2845 (September 30, 2013): 3; Office of the Special Inspector General for Afghanistan Reconstruction, *Special Inspector General for Afghanistan Reconstruction: Counternarcotics: Lessons from the U.S. Experience in Afghanistan* (Arlington, VA: Office of the Special Inspector General for Afghanistan Reconstruction, 2018), 217, <https://www.sigar.mil/pdf/lessonslearned/SIGAR-18-52-LL.pdf>; Financial Action Task Force, *Financial Flows Linked to the Production and Trafficking of Afghan Opiates* (Paris: Financial Action Task Force, 2014), 32, <http://www.fatf-gafi.org/media/fatf/documents/reports/Financial-flows-linked-to-production-and-trafficking-of-afghan-opiates.pdf>.

from crude oil sales in Syria.<sup>21</sup> Meanwhile, al-Shabaab used hawala to collect donor funds from the Somali diaspora and implement extortion programs against Somali citizens.<sup>22</sup>

On the other hand, hawala serves as a lifeline for vulnerable populations in Africa and the Middle East because it delivers much-needed remittances and humanitarian aid.<sup>23</sup> Migrant workers in the United States, such as those from Somalia, rely on hawala to deliver money to their families to pay for basic needs like food, water, and healthcare.<sup>24</sup> Remittances mitigate negative coping behaviors that would otherwise result in forced labor, child marriages, violence, and sexual exploitation.<sup>25</sup> Meanwhile, non-government organizations integrate these same hawala networks into their emergency relief and response strategy.<sup>26</sup> Hawala is used to distribute cash and vouchers for goods and services

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<sup>21</sup> Institute for Economics and Peace, *Global Terrorism Index 2017: Measuring the Impact of Terrorism* (Sydney, Australia: Institute for Economics and Peace, 2017), 83, <http://visionofhumanity.org/app/uploads/2017/11/Global-Terrorism-Index-2017.pdf>.

<sup>22</sup> Rob Wise, *Al Shabaab* (Washington, DC: Center for Strategic and International Studies, 2011), 9, [http://www.operationspaix.net/DATA/DOCUMENT/4039~v~Al\\_Shabaab.pdf](http://www.operationspaix.net/DATA/DOCUMENT/4039~v~Al_Shabaab.pdf); United Nations Security Council, *Report of the Monitoring Group on Somalia Pursuant to Security Council Resolution 1853* (New York: United Nations, 2010), 25, <https://www.securitycouncilreport.org/atf/cf/%7B65BFCF9B-6D27-4E9C-8CD3-CF6E4FF96FF9%7D/Somalia%20S%202010%2091.pdf>; Valter Vilkkko, *Al-Shabaab: From External Support to Internal Extraction A Minor Field Study on the Financial Support from the Somali Diaspora to al-Shabaab* (Uppsala, Sweden: Uppsala University, 2011), 27, [https://www.pcr.uu.se/digitalAssets/654/c\\_654492-1\\_1-k\\_mfs\\_paper\\_vilkkko.pdf](https://www.pcr.uu.se/digitalAssets/654/c_654492-1_1-k_mfs_paper_vilkkko.pdf).

<sup>23</sup> Thomas Viles, “Hawala, Hysteria and Hegemony,” *Journal of Money Laundering Control* 11, no. 1 (2008): 27, <https://doi.org/10.1108/13685200810844479>; Samuel Munzele Maimbo, *The Money Exchange Dealers of Kabul: A Study of the Hawala System in Afghanistan* (Washington, DC: The World Bank, 2003), 19, <http://documents.worldbank.org/curated/en/335241467990983523/pdf/269720PAPER0Money0exchange0dealers.pdf>; Moustapha Aman, Nikolay Nenovsky, and Ismael Mahamoud, “The Informal System of Remittances and Currency Board: Complementarity or Antagonism? The Case of Hawala Transfers in Djibouti,” *Savings and Development* 38, no. 1 (2014): 137.

<sup>24</sup> Dulce M. Redin, Reyes Calderon, and Ignacio Ferrero, “Exploring the Ethical Dimension of Hawala,” *Journal of Business Ethics* 124, no. 2 (October 2014): 329, <https://doi.org/10.1007/s10551-013-1874-0>; Nisar Majid, Khalif Abdirahman, and Shamsa Hassan, *Remittances and Vulnerability in Somalia: Assessing Sources, Uses and Delivery Mechanisms* (Nairobi, Kenya: Rift Valley Institute, 2017), 18, <http://documents.worldbank.org/curated/en/633401530870281332/pdf/Remittances-and-Vulnerability-in-Somalia-Resubmission.pdf>.

<sup>25</sup> Shannon Doocy and Hannah Tappis, *Cash-Based Approaches in Humanitarian Emergencies: A System Review, Campbell Systematic Reviews 2017:17* (Baltimore: Campbell Collaboration, 2017), 46, [https://campbellcollaboration.org/media/k2/attachments/0221\\_IDCG\\_Doocy\\_Cash\\_in\\_emergencies.pdf](https://campbellcollaboration.org/media/k2/attachments/0221_IDCG_Doocy_Cash_in_emergencies.pdf); Alexandra Blackwell and Julianne Stennes, *Cash Transfers in Raqqa Governorate, Syria: Changes over Time in Women’s Experiences of Violence and Wellbeing* (Washington, DC: International Rescue Committee and London: UK Department for International Development, n.d.), 2, accessed October 7, 2019, <https://www.rescue-uk.org/sites/default/files/document/1943/p856ircsyriacashtransfersreportlr.pdf>.

<sup>26</sup> Doocy and Tappis, *Cash-Based Approaches in Humanitarian Emergencies*, 48.

to households in severe crisis.<sup>27</sup> Ultimately, the money received from family abroad and aid organizations support socioeconomic advancement, empowerment, and safety. They strengthen human security and development in low-to-middle income countries.<sup>28</sup> Thus, MSBs like hawala are complex and multi-dimensional. How can these diametrically opposed interests be balanced?

The question of how to regulate hawala effectively remains a key challenge facing policymakers today. The United States has pursued legislative and regulatory action to combat criminal abuses of hawala. While case studies clearly identify the need for regulation, policymakers did not anticipate the response the formal banking sector would have to new compliance measures.<sup>29</sup> The ensuing phenomenon of de-risking, where formal institutions severed correspondent banking relationships and suspended operations to Africa and the Middle East, was unprecedented.<sup>30</sup> This trend adversely impacts anti-money laundering (AML) and counterterrorism financing efforts because it reduces the availability of formal services and encourages the growth of informal channels, like hawala, in its absence.<sup>31</sup> In the face of a collapsed formal financial sector, hawala provides

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<sup>27</sup> Doocy and Tappis, 48.

<sup>28</sup> Blackwell and Stennes, *Cash Transfers in Raqqa Governorate, Syria*, 19; Claire A. Simon, “Setting the Stage: What We Know (and Don’t Know) about the Effects of Cash-Based Interventions on Gender Outcomes in Humanitarian Settings,” in *Collected Papers on Gender and Cash Transfer Programmes in Humanitarian Contexts*, vol. 3 (Oxford, United Kingdom: The Cash Learning Partnership, 2018), 12, <http://www.cashlearning.org/downloads/resources/Other/calpcollectedpapersongenderandctp-vol.3.pdf>.

<sup>29</sup> Matthew Collin et al., *Unintended Consequences of Anti-Money Laundering Policies for Poor Countries* (Washington, DC: Center for Global Development, 2015), 24.

<sup>30</sup> Sullivan and Cromwell LLP, *2015 Year-End Review of BSA/AML and Sanctions Developments and Their Importance to Financial Institutions* (New York: Sullivan and Cromwell LLP, 2016), 1, [https://www.sullcrom.com/siteFiles/Publications/SC\\_Publication\\_2015\\_Year\\_End\\_Review\\_of\\_BSA\\_AML\\_3\\_3\\_16.pdf](https://www.sullcrom.com/siteFiles/Publications/SC_Publication_2015_Year_End_Review_of_BSA_AML_3_3_16.pdf); *S. Hrg. 109-517: An Update on Money Services Businesses Under Bank Secrecy and USA Patriot Regulation, Hearing before the Committee on Banking, Housing, and Urban Affairs, United States Senate, One Hundred Ninth Congress, First Session, on Money Services Businesses under Bank Secrecy Act and USA Patriot Act Regulations, Focusing on Federal and State Efforts in the Anti-Money Laundering Area, April 26, 2005*, Senate, 109th Cong., 1st sess., April 26, 2005, 84, <https://www.govinfo.gov/content/pkg/CHRG-109shrg29429/pdf/CHRG-109shrg29429.pdf>.

<sup>31</sup> Susan Starnes et al., *De-Risking and Other Challenges in the Emerging Market Financial Sector: Findings from IFC’s Survey on Correspondent Banking* (Washington, DC: International Finance Corporation, 2019), 1, <http://documents.worldbank.org/curated/en/895821510730571841/pdf/121275-WP-IFC-2017-Survey-on-Correspondent-Banking-in-EMS-PUBLIC.pdf>.

an essential service for unbanked and financially excluded populations.<sup>32</sup> Any disruption in service can have catastrophic results.

## **B. RESEARCH QUESTION**

To what extent could U.S. policies against the illegitimate use of hawala impact the legitimate use of these money service businesses? What are the unintended consequences of regulation on hawala-dependent communities? What considerations could be made to lessen these impacts?

## **C. SIGNIFICANCE OF RESEARCH**

This thesis researches the unintended consequences that have resulted from the United States' efforts to stop the illegitimate use of hawala. It provides data for policymakers to evaluate current policies. The evidence derives primarily from data gathered in Africa and the Middle East. The research is clearly timely as digital technologies and platforms have ushered in a new era of mobile hawala and other money platforms.<sup>33</sup> In the past five years, the mobile money market has gained rapid momentum, most especially in the Middle East and Central Asia, where nearly 75% of all mobile money service startups are concentrated.<sup>34</sup> Humanitarian aid organizations are also exploring digital delivery channels to supply aid in the form of electronic cash transfers and e-vouchers.<sup>35</sup> In economically devastated countries like Somalia, 85% of the population does not have access to the formal banking sector, but 73% do have access to digital money

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<sup>32</sup> Admos Chimhowu, Jennifer Piesse, and Jennifer Pinder, "The Socioeconomic Impact of Remittances on Poverty Reduction," in *Remittances: Development Impact and Future Prospects* (Washington, DC: The International Bank for Reconstruction and Development, The World Bank, 2005), 84, <http://hdl.handle.net/10986/7339>.

<sup>33</sup> Zaineb Majoka, "From Dahabshiil to World Remit: Why Fintech Is Transforming Somalia," *Africa at LSE* (blog), March 4, 2019, <https://blogs.lse.ac.uk/africaatlse/2019/03/04/from-dahabshiil-to-world-remit-why-fintech-is-transforming-somalia/>.

<sup>34</sup> International Monetary Fund, *FinTech: The Experience So Far* (Washington, DC: International Monetary Fund, 2019), 52.

<sup>35</sup> Lois Austin et al., *How Change Happens in the Humanitarian Sector: Humanitarian Accountability Report, Edition 2018* (Geneva, Switzerland: CHS Alliance, 2018), 104, <https://www.chsalliance.org/files/files/Humanitarian%20Accountability%20Report%202018.pdf>.

services via their cellphones.<sup>36</sup> Emerging hawala technologies and mobile distribution platforms demonstrate hawala's longevity. This business model is here to stay.

Hawala has endured for over a millennium; it is versatile, practical, and diverse in its uses.<sup>37</sup> The humanitarian aid sector is increasingly leveraging local hawala networks to manage security risks better in the distribution of cash and vouchers for goods and services.<sup>38</sup> Although these programs are in their infancy, the innovative use is a promising new frontier.<sup>39</sup> Therefore, a closer, more informed understanding of the impacts of U.S. policies is even more imperative; most especially, to effect less collaterally punitive counterterrorism strategies. Strategies that meet the United States' security objectives, but do not inadvertently penalize those who rely on hawala for survival, are critical. In the future, as more data is collected on mobile hawala use, it can assist decision makers to impact the regulation of mobile hawala markets proactively and positively. In the meantime, an understanding of these markets can afford lessons learned on how the formal banking sector can also leverage these emerging technologies to become more adaptive to changing market conditions. As more data becomes available, decisions by policymakers on the regulation and use of mobile hawala networks will be an important factor of hawala's future use.

#### **D. SCOPE AND RESEARCH DESIGN**

This study makes a distinction between the legitimate and illegitimate use of hawala based on the activities that it facilitates and not based on a legal definition. While the legality of hawala or a similar money transmitting service is country-specific, legitimate refers to its use to support humanitarian development activities, such as to support family abroad, while illegitimate refers to the use of these networks for criminal or terror

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<sup>36</sup> Gabrielle Smith et al., *The State of the World's Cash Report: Cash Transfer Programming in Humanitarian Aid* (Oxford, United Kingdom: The Cash Learning Partnership, 2018), 134, <http://www.cashlearning.org/downloads/calp-sowc-report-web.pdf>.

<sup>37</sup> Redin, Calderon, and Ferrero, "Exploring the Ethical Dimension of Hawala," 328.

<sup>38</sup> The World Bank, *Cash Transfers in Humanitarian Contexts* (Washington, DC: The World Bank, 2016), 11, [https://interagencystandingcommittee.org/system/files/strategic\\_note\\_cash\\_transfers\\_in\\_humanitarian\\_contexts\\_june\\_2016.pdf](https://interagencystandingcommittee.org/system/files/strategic_note_cash_transfers_in_humanitarian_contexts_june_2016.pdf).

<sup>39</sup> Austin et al., *How Change Happens in the Humanitarian Sector*, 101.

activity.<sup>40</sup> In the United States, hawalas must carry out a range of activities to operate legally. Hawalas must register as a money service business, obtain a license to operate, implement AML and compliance programs, train employees, establish mechanisms to identify fraud or suspect activity, and report such transactions to government officials.<sup>41</sup> Money transmitters must also identify subagents and international partners to the Department of the Treasury.<sup>42</sup> International cooperation is employed to settle cross-border transactions through clearing houses and correspondent banking relationships.<sup>43</sup> Therefore, even if a hawala itself is legal, consideration as to the nature of the transaction or the sender and receiver's location must also be made since laws or economic sanctions can prohibit certain activities.

This study's scope is limited to the illegitimate and legitimate uses of hawala in Africa and the Middle East. Africa and the Middle East were selected for study because of hawala's prominence in the region. It is used by terrorist groups operating in this region, the diaspora who emigrated from these countries, and aid organizations working on the ground.<sup>44</sup> This thesis assesses the unintended impact of the United States' efforts to combat hawala abuses in communities that rely on hawala for everyday survival, and terrorist organizations that exploit these networks to fundraise. With the exception of hawala's history and the overview of hawala-targeting regulations, this thesis limits data to the last 30 years, with particular emphasis on activity in the post-9/11 era. As concrete and

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<sup>40</sup> Pamer, "A Global Study of Hawala Targeting Regulations," 6.

<sup>41</sup> Financial Crimes Enforcement Network, *Money Services Business Registration Fact Sheet* (Washington, DC: Department of the Treasury, 2004), 1–2, <https://www.fincen.gov/sites/default/files/shared/FinCENfactsheet.pdf>.

<sup>42</sup> Department of the Treasury, Financial Crimes Enforcement Network, "Bank Secrecy Act Regulations; Definitions and Other Regulations Relating to Money Services Businesses," *Federal Register* 76, no. 140 (July 21, 2011): 43594.

<sup>43</sup> International Monetary Fund, *International Transactions in Remittances: Guide for Compilers and Users* (Washington, DC: International Monetary Fund, 2009), 10, <https://www.imf.org/external/np/sta/bop/2008/rcg/pdf/guide.pdf>.

<sup>44</sup> The World Bank, *Cash Transfers in Humanitarian Contexts*, 11; N. S. Jamwal, "Hawala—The Invisible Financing System of Terrorism," *Strategic Analysis* 26, no. 2 (April 3, 2008): 188, <https://doi.org/10.1080/09700160208450038>; Jonathan M. Dougherty, "Hawala: How Terrorists Move Funds Globally," *Corporate Finance Review* 10, no. 6 (2006): 28; Action against Hunger International, *Hawala Cash Transfers for Food Assistance and Livelihood Protection—Afghanistan* (Paris: Action against Hunger International, 2012), 5, <http://www.cashlearning.org/downloads/resources/casestudies/ACF%20Afghanistan%20Cash%20Case%20Study%20Jan%202012.pdf>.

verifiable data on the monetary value transferred through hawala is unavailable, using transactional volume to deduce impacts is not feasible. Instead, this thesis explores the impacts through empirical evidence of hawala's use.

## **E. THESIS OVERVIEW**

This thesis begins with a literature review that explores two dimensions of hawala, how it has been used (1) as part of a terror financing strategy, and (2) to facilitate remittances and cash-transfers. The study then moves to Chapter III, which briefly outlines a historical perspective of alternative money transfer systems and explains how hawala operates in the modern day. Outlining hawala's roots affords an understanding as to how ancient this practice is while highlighting its resiliency and capacity to withstand extreme external pressures. Currently, hawala has major advantages over modern banking institutions. It has deep-rooted cultural and social ties that strengthen its continued use. Hawala has a global reach that provides a more reliable, expedient, and inexpensive service than the formal sector's equivalent services.

Chapter IV examines the discourse on hawala in the United States and how that has shaped regulatory efforts. It assesses the negative stereotyping of hawala post-9/11 and explains the public and political discourse. A brief overview of the ensuing AML laws provides a background of the regulatory landscape within which hawala operates. Chapter V then explores the impacts of the United States' regulatory pursuit and the resulting phenomenon of de-risking. De-risking practices have fundamentally changed the formal banking landscape in Africa and the Middle East. Global correspondent banking relationships and active corridors for money transfers have declined considerably. The loss of these services has forced financially excluded populations to seek out alternatives, like hawala.

Chapter VI outlines how the Taliban, Islamic State, and al-Shabaab have leveraged hawala to circumvent the United States' efforts to combat terror financing. Each organization has employed hawala in support of different criminal activities. Hawala has been used for opium trafficking, black market sales, and extortion programs. The wide range of scenarios illustrates how regulatory efforts can do little to thwart hawala as a terror

financing strategy. The Taliban, Islamic State, and al-Shabaab remain among the most active terror organizations today.

Chapter VII evaluates the ways in which hawala aids human security and development. Households facing food insecurity and poverty resort to child labor, forced early marriages, or sex work to mitigate economic shock. Remittances and other cash-transfers alleviate the reliance on these negative coping strategies. By facilitating cash interventions, hawala is a means to protect vulnerable populations from violence, coercion, and sexual exploitation. In the long term, these transfers build resiliency that shield households from future shocks.

Chapter VIII identifies the onset of a tipping point in which heightened regulatory and enforcement pressures have critically imbalanced the availability and function of financial services in Africa and the Middle East. However, an opportunity exists to rebalance the formal sector by investing in the development of mobile money platforms. Mobile money solutions promote financial inclusion and meet AML and terror financing objectives without disrupting critical lifelines.

## II. LITERATURE REVIEW

This thesis explores hawala in Africa and the Middle East through two dimensions. The first is the illegitimate use by criminal enterprises and terrorist organizations to fundraise and launder illicit funds.<sup>45</sup> The second is hawala's legitimate use, primarily to facilitate remittances and distribute humanitarian aid.<sup>46</sup> In countries like Afghanistan, Nigeria, Somalia, and Syria, remittances and humanitarian aid enable households to meet their basic needs of food, water, sanitation, and health, which lessen human security vulnerabilities and facilitate greater economic development.<sup>47</sup> To explore these dimensions, this literature review assesses a wide variety of sources and materials, including government reports, congressional testimonies, professional journals, academic studies, and publications produced by experts in the field of economics, finance, sociology, philanthropy, and terrorism. The very nature of hawala as an informal financial mode makes it extremely difficult to track, which results in a lack of verifiable, concrete data.<sup>48</sup> Evidence as to the amount of value actually transferred through the system is lacking. Nonetheless, research identifies that communities and groups around the globe depend on hawala for a variety of purposes.

### A. THE FINANCING OF TERRORISM

Whether or not informal channels, such as hawala, support illegitimate activities, is not debatable as evidence clearly identifies that hawala has been used to fund terror operations and facilitate criminal activities. In 2017, the United States House of Representatives, Subcommittee on Terrorism and Illicit Finance, conducted a hearing titled

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<sup>45</sup> H.R., *A Survey of Global Terrorism and Terrorist Financing*, 16.

<sup>46</sup> Doocy and Tappis, *Cash-Based Approaches in Humanitarian Emergencies*, 48.

<sup>47</sup> Global Partnership for Financial Inclusion, *2017 Update to Leaders on Progress towards the G20 Remittance Target* (Basel, Switzerland: Global Partnership for Financial Inclusion, 2017), 1, <http://www.gpfi.org/sites/gpfi/files/documents/CORRECT%20VERSION%20Final%202017%20Progress%20Reporting%20-%20National%20Remittance%20Plans%20endorsed%281%29.pdf>.

<sup>48</sup> The World Bank, *Informal Funds Transfer Systems*, 4.

“Managing Terrorism Financing and Risk in Remittances and Money Transfers.”<sup>49</sup> John Cassara, a former intelligence officer and Special Agent for the Department of the Treasury, presented evidence of hawala’s use by Iran, a U.S.-designated state sponsor of terrorism, to bypass sanctions and the Asian Clearing Union, by individuals in the United States to support al-Shabaab, a U.S.-designated terrorist organization, and the use of hawala to finance bombings against the United States in Afghanistan and Iraq and at home in New York City.<sup>50</sup> Research has identified numerous other cases. In 2008, a Pakistani national living in Baltimore, Maryland was found guilty of conspiring to launder criminal funds through hawala to finance al-Qaeda.<sup>51</sup> In 2010, Faisal Shahzad was found guilty of planting a vehicle-borne improvised explosive device in New York City after receiving funds for supplies and training via hawala.<sup>52</sup> In 2014, four individuals in Southern California were found guilty of fundraising for al-Shabaab.<sup>53</sup> The individuals conspired to transfer the funds using hawala knowing that they could be used to finance al-Shabaab’s

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<sup>49</sup> *Managing Terrorism Financing Risk in Remittances and Money Transfers, Hearing before the Subcommittee on Terrorism and Illicit Finance, House of Representatives, 115th Cong., 1st sess., July 18, 2017, 7*, <https://www.gpo.gov/fdsys/pkg/CHRG-115hhrg29451/pdf/CHRG-115hhrg29451.pdf>.

<sup>50</sup> H.R., *Managing Terrorism Financing Risk in Remittances and Money Transfers*, 48.

<sup>51</sup> “Money Remitter Pleads Guilty to Money Laundering Conspiracy and Concealing Terrorist Financing,” United States Attorney’s Office, Maryland, August 22, 2008, <https://www.justice.gov/archive/usao/md/news/archive/MoneyRemitterPleadsGuiltytoMoneyLaunderingConspiracyandConcealingTerroristFinancing.html>; Financial Action Task Force, *The Role of Hawala and Other Similar Service Providers in Money Laundering and Terrorist Financing* (Paris: Financial Action Task Force, 2013), 41–42, <https://www.imolin.org/pdf/imolin/Role-of-hawala-and-similar-in-ml-tf-1.pdf>.

<sup>52</sup> Financial Action Task Force, *The Role of Hawala and Other Similar Service Providers in Money Laundering and Terrorist Financing*, 42; United States Attorney’s Office, District of Massachusetts, “Pakistani Man Sentenced on Unlicensed Money Transmitting and Immigration Fraud Charges,” Federal Bureau of Investigation, April 11, 2011, <https://www.fbi.gov/boston/press-releases/2011/pakistani-man-sentenced-on-unlicensed-money-transmitting-charges-and-immigration-fraud>; “Times Square Car Bomber Faisal Shahzad Pleads Guilty ‘100 Times,’” *The Telegraph*, June 22, 2010, <https://www.telegraph.co.uk/news/worldnews/northamerica/usa/7845570/Times-Square-car-bomber-Faisal-Shahzad-pleads-guilty-100-times.html>.

<sup>53</sup> United States Attorney’s Office, Southern District of California, “Somali Immigrant Sentenced for Providing Support to Foreign Terrorists,” Federal Bureau of Investigation, January 31, 2014, <https://www.fbi.gov/sandiego/press-releases/2014/somali-immigrant-sentenced-for-providing-support-to-foreign-terrorists>; Abha Shankar, “Cabdriver Gets Six Years in Conspiracy to Aid Al-Shabaab,” Investigative Project on Terrorism, February 3, 2014, <http://www.investigativeproject.org/4282/cabdriver-gets-six-years-in-conspiracy-to-aid-al>.

violent campaigns.<sup>54</sup> Cassara’s assertion that “As Osama bin Laden once said, jihadists are aware of the ‘cracks’ in the Western financial system” is supported by the number of examples in which hawala has been used for illegitimate purposes.<sup>55</sup>

Field experts warned that overregulation of the formal financial sector would result in undue burdens and impact other sectors of the finance industry. In an article published in 2002 for “*Finance and Development*” magazine, Mohammed El-Qorchi of the International Monetary Fund warned that measures to regulate hawala, like registration and licensing programs, would not be enough to deter unlawful use.<sup>56</sup> Instead, El-Qorchi urged policymakers to consider the health of the financial markets within which hawala operates and to assess how the formal sector could transform to become more efficient and competitive against the informal sector.<sup>57</sup> In that same year, the Department of the Treasury Secretary reported to Congress “it would be premature at this time to call for new legislation,” and remarked, “although we already know much about some types of IVTS [informal value transfer systems] and how they operate, there is still much that remains a mystery. Treasury, therefore, believes that there is a need for continued research.”<sup>58</sup> Research produced since then demystifies hawala and describes how the gradual implementation of new regulatory requirements on financial institutions may have been counterproductive to AML and terror financing efforts.

Heightened enforcement has inadvertently and most prominently impacted the MSB sector of the finance industry. In 2005, the World Bank conducted its first

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<sup>54</sup> United States Attorney’s Office, Southern District of California, “Somali Immigrant Sentenced for Providing Support to Foreign Terrorists.”

<sup>55</sup> H.R., *Managing Terrorism Financing Risk in Remittances and Money Transfers*, 9.

<sup>56</sup> Mohammed El-Qorchi, “Hawala: How Does This Informal Funds Transfer System Work, and Should It Be Regulated?,” *Finance and Development* 39, no. 4 (December 2002): 33.

<sup>57</sup> El-Qorchi, 33.

<sup>58</sup> Financial Crimes Enforcement Network and U.S. Internal Revenue Service, *A Report to the Congress in Accordance with Section 359 of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA Patriot Act)* (Washington, DC: Department of Treasury, 2002), 16–17, <https://www.fincen.gov/sites/default/files/shared/hawalarptfinal11222002.pdf>.

comprehensive study on the effects of hawala regulation on the formal remittance sector.<sup>59</sup> Samuel Munzele Maimbo, the World Bank’s specialist on informal remittance systems, and Dilip Ratha, a senior economist and international finance specialist, identified that regulation was deterring start-up agencies and money transmitters from establishing new remittance corridors that then caused congestion within existing networks, delays in processing, and high fees due to a lack of competition.<sup>60</sup> Together with Nikos Passas, a lead researcher on hawala and terrorism funding for the Financial Crimes Enforcement Network, the researchers warned that regulation would significantly deter the flow of critical remittances to developing countries and that strain on the formal sector could cause users to seek alternative channels, like hawala, to remit funds.<sup>61</sup> Ten years later, in 2015, the World Bank reported on the now fragile state of the formal remittance sector and identified that little had been done to affect positive change, and recommended international intervention to redress the misconception that money transmitters were “inherently high risk.”<sup>62</sup> The report highlighted the practice of de-risking, in which financial institutions terminated relationships with other institutions, specific types of clients, or within certain geographical markets to reduce their risk exposure and the possibility of non-compliance with regulatory standards.<sup>63</sup> De-risking practices overwhelmingly impacted money transmitters as institutions terminated business contracts citing a “fear of regulatory scrutiny” as a chief driver for their decision.<sup>64</sup>

In 2018, the Government Accountability Office (GAO) conducted an in-depth analysis on how hawala regulation and de-risking was impacting financial development in

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<sup>59</sup> Samuel Munzele Maimbo and Dilip Ratha, *Remittances: Development Impact and Future Prospects* (Washington, DC: The International Bank for Reconstruction and Development/The World Bank, 2005), ix, 8, <http://hdl.handle.net/10986/7339>.

<sup>60</sup> Maimbo and Ratha, xvii, xx, 8.

<sup>61</sup> Maimbo and Ratha, xix, 212, 224.

<sup>62</sup> The World Bank, *Report on the G20 Survey on De-Risking Activities in the Remittance Market* (Washington, DC: The World Bank, 2015), 2.

<sup>63</sup> The World Bank, 7.

<sup>64</sup> The World Bank, 5.

Haiti, Liberia, Nepal, and Somalia.<sup>65</sup> These four countries have experienced prolonged periods of political and civil unrest and their citizens face a range of human security challenges, including intense violence, sexual exploitation and trafficking, and extreme poverty.<sup>66</sup> Similar to the World Bank’s findings, the GAO reported that a high volume of money transmitters lost their bank accounts or were charged high fees to maintain their depository accounts at formal financial institutions.<sup>67</sup> Banks justified these actions by stating that account closures were necessary to ensure compliance, or that fees increased to cover costs associated with enhanced Bank Secrecy Act (BSA) compliance programs.<sup>68</sup> As a result, an increasing number of money transmitters had to shift their operations to informal channels, like hawala, to stay in business.<sup>69</sup> Thus, some experts believe that the majority of hawala transactions support legitimate uses more so than terrorism.<sup>70</sup>

## **B. A LIFELINE FOR VULNERABLE POPULATIONS?**

Multiple bodies of research emphasize that hawala is a primary artery through which cash from family abroad or humanitarian aid is delivered.<sup>71</sup> Thus, among the legitimate uses emphasized by field researchers is the use of hawala as a lifeline for vulnerable populations that have been impacted by terrorism. According to this view, hawala is as much a part of their household’s risk management strategy as actual

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<sup>65</sup> Government Accountability Office, *Remittances to Fragile Countries: Treasure Should Assess Risks from Shifting to Non-Banking Channels*, GAO-18-313 (Washington, DC: Government Accountability Office, 2018), 2.

<sup>66</sup> Purna Bahadur Karki, *Post-War Instability and Human Security in Nepal* (Tokyo, Japan: Tokyo University of Foreign Studies, 2017), 11, 217; Elizabeth Gibbons and Richard Garfield, “The Impact of Economic Sanctions on Health and Human Rights in Haiti, 1991–1994,” *American Journal of Public Health* 89, no. 10 (October 1999): 1499–1500; Nicolas Cook, *Liberia: Political Transition and U.S. Relations*, CRS Report No. R45195 (Washington, DC: Congressional Research Service, 2018), 2, 14–15; Khalid Mustafa Medani, “Informal Networks, Economic Livelihoods and the Politics of Social Welfare: Understanding the Political and Humanitarian Consequences of the War on Terrorist Finance,” *UCLA Journal of Islamic and Near Eastern Law* 8, no. 1 (May 31, 2011): 11.

<sup>67</sup> Government Accountability Office, *Remittances to Fragile Countries*, 18.

<sup>68</sup> Government Accountability Office, 17–18.

<sup>69</sup> Government Accountability Office, 44.

<sup>70</sup> H.R., *A Survey of Global Terrorism and Terrorist Financing*, 17, 27.

<sup>71</sup> Doocy and Tappis, *Cash-Based Approaches in Humanitarian Emergencies*, 68; Weiss, *Remittances: Background and Issues for Congress*, 2; Hammond et al., *Cash and Compassion*, 65.

remittances from family abroad and cash transfers from aid organizations, which are used to purchase food, access medical care, pay rent, or fund an education.<sup>72</sup> However, some researchers have noted that a heavy reliance on such funds may be counterproductive to an individual's economic development and serve more as a crutch that keeps them in poverty, rather than reducing it.<sup>73</sup> The efficacy of whether or not this lifeline is a long-term solution is called into question. The divergence in the literature highlights that while remittances and aid are crucial to sustain communities on a day-to-day basis or to prevail through a crisis, they may not be a one-stop, foolproof solution to reduce poverty systemically over time.<sup>74</sup> Instead, the continued dependency on such funds should serve as a signal to the international community that the local government is unable to provide basic services to its citizens, insomuch as a dire need exists to compensate for this failure.

## 1. Remittances

The United States is home to the largest number of international migrant workers and is the chief source of remittances worldwide.<sup>75</sup> Remittances are transfers of funds from private individuals in one country to another.<sup>76</sup> In nearly 20% of the world's poorest countries, officially recorded remittances represent 10% or more of the country's gross domestic product (GDP), which surpasses international development assistance.<sup>77</sup> The

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<sup>72</sup> Chimhowu, Piesse, and Pinder, "The Socioeconomic Impact of Remittances on Poverty Reduction," 89; Hammond et al., *Cash and Compassion*, 89; Majid, Abdirahman, and Hassan, *Remittances and Vulnerability in Somalia*, 25.

<sup>73</sup> Ralph Chami and Connel Fullenkamp, "Remittances in Development: A Wobbly Crutch," *Finance and Development* 46, no. 1 (2009): 31; Karine Manyonga Kamuleta Lubambu, *The Impacts of Remittances on Developing Countries* (Belgium: European Parliament's Committee on Development, 2014), 19.

<sup>74</sup> Lubambu, *The Impacts of Remittances on Developing Countries*, 23; United Nations, *The Least Developed Countries Report 2012: Harnessing Remittances and Diaspora Knowledge to Build Productive Capacities* (New York: United Nations, 2012), 25, [https://unctad.org/en/PublicationsLibrary/ldc2012\\_en.pdf](https://unctad.org/en/PublicationsLibrary/ldc2012_en.pdf).

<sup>75</sup> The World Bank, *Migration and Remittances: Recent Developments and Outlook*, Brief 31 (Washington, DC: The World Bank, 2019), 4; Weiss, *Remittances: Background and Issues for Congress*, 2, 7.

<sup>76</sup> Government Accountability Office, *International Remittances: Money Laundering Risks and Views on Enhanced Customer Verification and Recordkeeping Requirements*, GAO-16-65 (Washington, DC: Government Accountability Office, 2016), 2, <https://www.gao.gov/assets/680/674676.pdf>.

<sup>77</sup> Starnes et al., *De-Risking and Other Challenges in the Emerging Market Financial Sector*, 47; The World Bank, *Migration and Remittances*, 1.

World Bank and the International Monetary Fund estimate that the amount transferred through hawala may be up to 50% more than recorded flows of remittances.<sup>78</sup> Based on this estimate, if the officially recorded flow in 2018 was \$529 billion, then nearly \$800 billion more was distributed unofficially.<sup>79</sup> By the end of 2019, documented global remittances are estimated to reach \$550 billion, which will total three times the amount of foreign aid.<sup>80</sup> In 1990, remittances totaled \$49 billion, which had doubled to \$102 billion by 2000, and by 2010, had tripled to \$321 billion.<sup>81</sup> While these numbers depict an extraordinary growth rate, it is important to note that a large part of this growth is a result of recent changes to the ways in which data is collected and measured.<sup>82</sup> In a collaborative study by the Center for Global Development and the World Bank, researchers estimated that 79% of what is reported as growth in the remittance sector is actually due to better measurements, and only 21% is attributable to actual growth.<sup>83</sup> Regardless, the data on remittances is more accurate today than ever before, and as outlined in Figure 1, signifies a general upward trend in volume.<sup>84</sup>

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<sup>78</sup> Dilip Ratha, “Remittances: Funds for the Folks Back Home,” Finance and Development, December 18, 2018, <https://www.imf.org/external/pubs/ft/fandd/basics/remitt.htm>; Paola Giuliano and Marta Ruiz-Arranz, “Remittances, Financial Development, and Growth,” *Journal of Development Economics* 90, no. 1 (September 2009): 146, <https://doi.org/10.1016/j.jdeveco.2008.10.005>.

<sup>79</sup> “Remittance Flows by Country 2017,” Pew Research Center, April 3, 2019, <https://www.pewresearch.org/global/interactives/remittance-flows-by-country/>.

<sup>80</sup> Starnes et al., *De-Risking and Other Challenges in the Emerging Market Financial Sector*, 47; The World Bank, *Migration and Remittances*, vii.

<sup>81</sup> Figures were adjusted for inflation and represent 2011 U.S. dollars. Michael A. Clemens and David McKenzie, *Why Don't Remittances Appear to Affect Growth?* (Washington, DC: Center for Global Development, 2014), 1, [https://www.cgdev.org/sites/default/files/why-dont-remittances-affect-growth\\_0.pdf](https://www.cgdev.org/sites/default/files/why-dont-remittances-affect-growth_0.pdf).

<sup>82</sup> Clemens and McKenzie, 1.

<sup>83</sup> Clemens and McKenzie, 1.

<sup>84</sup> The World Bank, *Migration and Remittances*, 3.

**TABLE 1.1** Estimates and Projections of Remittance Flows to Low- and Middle-Income Regions

	2010	2015	2016	2017	2018e	2019f	2020f
	(\$ billions)						
<b>Low and Middle Income</b>	<b>342</b>	<b>451</b>	<b>444</b>	<b>483</b>	<b>529</b>	<b>550</b>	<b>574</b>
East Asia and Pacific	96	128	128	134	143	149	156
Europe and Central Asia	38	43	43	53	59	61	64
Latin America and the Caribbean	55	67	73	80	88	91	95
Middle-East and North Africa	39	51	51	57	62	64	66
South Asia	82	118	110	117	131	137	142
Sub-Saharan Africa	32	43	38	42	46	48	51
<b>World</b>	<b>470</b>	<b>596</b>	<b>589</b>	<b>633</b>	<b>689</b>	<b>714</b>	<b>746</b>
<i>Memo item: FY 2016 income Classification*</i>	337	444	437	475	521	541	565
	(Growth Rate in Percent)						
<b>Low and Middle Income</b>	<b>11.6</b>	<b>0.5</b>	<b>-1.6</b>	<b>8.8</b>	<b>9.6</b>	<b>4.0</b>	<b>4.3</b>
East Asia and Pacific	19.9	3.7	-0.5	5.1	6.7	4.2	4.7
Europe and Central Asia	5.1	-16.3	0.0	22.2	11.2	3.9	4.6
Latin America and the Caribbean	2.5	6.6	7.6	10.8	9.5	3.9	3.9
Middle-East and North Africa	18.2	-6.2	0.2	10.6	9.1	2.7	3.5
South Asia	9.5	1.5	-6.1	5.7	12.3	4.3	4.1
Sub-Saharan Africa	11.1	8.8	-10.4	9.2	9.6	4.2	5.6
<b>World</b>	<b>8.6</b>	<b>-1.2</b>	<b>-1.1</b>	<b>7.4</b>	<b>9.0</b>	<b>3.6</b>	<b>4.5</b>

Source: World Bank. See appendix A in World Bank (2017) for data and forecast methods.

Note: e = estimate; f = forecast. \*This group includes countries classified as "developing countries" during FY 2016 and reported as such in Brief 26. It excludes Equatorial Guinea, the Russian Federation, and Venezuela, RB, which moved from high-income to upper-middle-income in FY 2017. Projections for 2019 and 2020 are based on a low case scenario that assumes unit elasticity of remittances to GDP growth in remittance source countries.

Figure 1. Remittance Flows to Low and Middle Income Regions Are on the Rise.<sup>85</sup>

Diaspora communities in the United States send home an estimated \$68 billion in remittances, which is nearly 13% of the entire global distribution.<sup>86</sup> According to the International Labor Organization, immigrants number 232 million worldwide and migrant workers account for more than half, or 150 million globally.<sup>87</sup> Of the 44.5 million immigrants living in the United States, 29 million are migrant workers who make up nearly

<sup>85</sup> Source: The World Bank, 3.

<sup>86</sup> The World Bank, 4.

<sup>87</sup> Starnes et al., *De-Risking and Other Challenges in the Emerging Market Financial Sector*, 47.

20% of the entire labor force.<sup>88</sup> For immigrants from remote, rural areas, remittances may be the only link between themselves and their families.<sup>89</sup> In a study focusing on the global resettling of Sudanese refugees, scientists identified that not only is the money sent back home from migrant workers critical to the survival of recipient households but also toward sustaining familial ties and a sense of cultural identity for the migrant worker.<sup>90</sup> Immigrants in the labor force are the primary source of remittances and are a critical support mechanism for their families back home.<sup>91</sup>

Remittances can immediately reduce poverty conditions.<sup>92</sup> If funds remain after basic needs are met, studies identify that they are used to invest in education and better health and nutrition.<sup>93</sup> Very little evidence shows that money is spent frivolously, for example on alcohol and tobacco.<sup>94</sup> Scott T. Paul, Humanitarian Policy Lead for Oxfam America, explains that at a local level, “remittances support education, medical care, and the acquisition of clean water.”<sup>95</sup> Reflecting on the famine crisis in Somalia in 2011–2012, Paul explains that remittances sent from abroad were a “stabilizing force. They have been more consistent than aid, investment, or social welfare programs. In Somalia, famine would

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<sup>88</sup> Jynnah Radford, “Key Findings about U.S. Immigrants,” Pew Research Center, June 17, 2019, <https://www.pewresearch.org/fact-tank/2019/06/17/key-findings-about-u-s-immigrants/>; “State Demographics Data—US,” Migration Policy Institute, accessed October 17, 2019, <https://www.migrationpolicy.org/data/state-profiles/state/demographics/US>.

<sup>89</sup> Aysen Ustubici and Darja Irdam, “The Impact of Remittances on Human Development: A Quantitative Analysis and Policy Implications,” *Economics and Sociology* 5, no. 1 (2012): 76.

<sup>90</sup> Soh-Leong Lim, “‘Loss of Connections Is Death:’ Transnational Family Ties among Sudanese Refugee Families Resettling in the United States,” *Journal of Cross-Cultural Psychology* 40, no. 6 (November 2009): 1035, <https://doi.org/10.1177/0022022109346955>.

<sup>91</sup> Clemens and McKenzie, *Why Don’t Remittances Appear to Affect Growth?*, 19.

<sup>92</sup> Chimhowu, Piesse, and Pinder, “The Socioeconomic Impact of Remittances on Poverty Reduction,” 84.

<sup>93</sup> Sanjeev Gupta, Catherine Pattillo, and Smita Wagh, *Impact of Remittances on Poverty and Financial Development in Sub-Saharan Africa* (Washington, DC: International Monetary Fund, 2007), 11, <https://www.imf.org/external/pubs/ft/wp/2007/wp0738.pdf>.

<sup>94</sup> Sarah Bailey and Paul Harvey, *State of Evidence on Humanitarian Cash Transfers: Background Note for the High Level Panel on Humanitarian Cash Transfers* (London: Overseas Development Institute, 2015), 3, <https://www.odi.org/sites/odi.org.uk/files/odi-assets/projects-documents/283.pdf>; Dilip Ratha, “The Impact on Remittances on Economic Growth and Poverty Reduction,” *Migration Policy Institute, Policy Brief*, no. 8 (September 2013): 4, <https://www.migrationpolicy.org/research/impact-remittances-economic-growth-and-poverty-reduction>.

<sup>95</sup> H.R., *Managing Terrorism Financing Risk in Remittances and Money Transfers*, 68–69.

have been declared long ago if not for money from the diaspora. At every phase of an emergency—the pre-crisis phase, the crisis phase, and the recovery phase—remittances help families and communities survive.”<sup>96</sup> A study conducted by the World Bank supports Paul’s conclusions as researchers found that an increase of even 10% in remittances per capita could effect a 3.5% decrease in the number of individuals living in poverty.<sup>97</sup>

Remittances support individual economic development by increasing migration; however, they also adversely impact the local job market. In 2011, Aysen Ustubici and Darja Irdam, scholars from Koç University and the University of Cambridge, respectively, conducted a quantitative analysis to identify the effects of remittances on human and economic development over the course of five years on 32 remittance-receiving countries.<sup>98</sup> Overall, the study indicated that remittances positively impacted human development in countries categorized with medium-level incomes. They also identified however an unexpected correlation between low-income countries and emigration.<sup>99</sup> The study identified that in low-income countries, remittances supported comparatively high levels of emigration that had both negative and positive outcomes.<sup>100</sup> On one hand, it negatively impacted the skilled labor market as specialized laborers left; on the other, departing workers could earn higher incomes abroad while new opportunities to enter the local job market opened up for laborers who remained at home.<sup>101</sup> In separate but similar studies conducted by the World Bank in 2004, and a decade later by the Center for Global Development in 2014, researchers deduced nearly identical findings.<sup>102</sup> Remittances support greater workforce mobility because it increases the capacity to fund migration, but

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<sup>96</sup> H.R., *Managing Terrorism Financing Risk in Remittances and Money Transfers*, 64.

<sup>97</sup> Richard H. Adams and John Page, “Do International Migration and Remittances Reduce Poverty in Developing Countries?,” *World Development* 33, no. 10 (October 2005): 1660, <https://doi.org/10.1016/j.worlddev.2005.05.004>.

<sup>98</sup> Ustubici and Irdam, “The Impact of Remittances on Human Development,” 78, 84.

<sup>99</sup> Ustubici and Irdam, 83.

<sup>100</sup> Ustubici and Irdam, 83.

<sup>101</sup> Ustubici and Irdam, 85.

<sup>102</sup> Clemens and McKenzie, *Why Don't Remittances Appear to Affect Growth?*, 6; Chimhowu, Piesse, and Pinder, “The Socioeconomic Impact of Remittances on Poverty Reduction,” 95.

it also causes a loss in the specialized labor stock.<sup>103</sup> As such, experts in the field of economics, including Ralph Chami, Division Chief of the International Monetary Fund's Middle East and Central Asia Department, and Connel Fullenkamp, Associate Professor of Economics at Duke University, conclude that remittances can stunt economic growth because they can discourage individuals from joining the labor market since remittances can be perceived to be a steady source of income.<sup>104</sup>

In the case of in-country migration, as labor moves from rural to urban centers, local job markets can experience a loss in agricultural workers that can have harmful effects on food production; however, these impacts can be offset if remittances are used for investment.<sup>105</sup> In a study conducted of five sub-Saharan African countries, researchers identified that the short-term impact of emigration resulted in an immediate reduction in the labor supply; however, in the long-term, it facilitated increased production.<sup>106</sup> As workers receive higher wages outside of their rural community, they can send extra income home that affords recipients the opportunity to invest the extra funds.<sup>107</sup> In this way, remittances support individual progress at the micro-level, but at the macro-level, the effects of remittances on a country's long-term economic development are not as clear and present opportunities for future research.<sup>108</sup> In many instances, humanitarian aid organizations have to step in to supplement services to citizens.

## 2. Humanitarian Aid

In recent years, increasing evidence demonstrates that humanitarian aid organizations are leveraging hawala as part of their crisis response strategies. Not all cases

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<sup>103</sup> Maimbo and Ratha, *Remittances: Development Impact and Future Prospects*, 95; Clemens and McKenzie, *Why Don't Remittances Appear to Affect Growth?*, 6.

<sup>104</sup> Chami and Fullenkamp, "Remittances in Development," 1.

<sup>105</sup> Chimhowu, Piesse, and Pinder, "The Socioeconomic Impact of Remittances on Poverty Reduction," 87.

<sup>106</sup> Dilip Ratha, *Workers Remittances: An Important and Stable Source of External Development Finance* (Washington, DC: The World Bank, 2003), 164, <http://siteresources.worldbank.org/INTRGDF/Resources/GDF2003-Chapter7.pdf>.

<sup>107</sup> Ratha, "The Impact on Remittances on Economic Growth and Poverty Reduction," 7.

<sup>108</sup> Clemens and McKenzie, *Why Don't Remittances Appear to Affect Growth?*, 24; Chimhowu, Piesse, and Pinder, "The Socioeconomic Impact of Remittances on Poverty Reduction," 89.

are officially reported or identified because the use of hawalas is controversial among donors as they are perceived as illegitimate or unconventional.<sup>109</sup> Cash-based intervention, also known as cash transfer programming (CTP), is the delivery of cash and vouchers for goods and services.<sup>110</sup> Traditionally, charitable organizations respond to emergencies by distributing in-kind donations, like food and clothing, or by providing services, like medical care or shelters.<sup>111</sup> More recently, CTP has been used to give recipients access to these same services but in a manner that is faster and more efficient than traditional distribution models.<sup>112</sup> Studies identify that CTP reduces the risk of violence or injury to relief workers, reaches remote regions that otherwise experience a delay in-kind response more quickly, and can positively impact the local financial market.<sup>113</sup> An impact assessment of CTP has identified that for every \$1 distributed via a voucher, the local financial market generates a \$1.50 benefit, while a cash transfer generates a \$2.00 return.<sup>114</sup> In 2018, an estimated \$4.7 billion in cash was disbursed as humanitarian assistance internationally, an increase of nearly \$2 billion from 2016.<sup>115</sup> Although CTP currently represents only 10% of all aid delivered, it has had measurable impacts on multiple aspects of relief work that make it a viable and promising new field.<sup>116</sup>

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<sup>109</sup> Austin et al., *How Change Happens in the Humanitarian Sector*, 99; Care International, *Using Hawala to Conduct Cash Programming in Syria* (London: Care International, 2019), 2, [https://insights.careinternational.org.uk/media/k2/attachments/Using-Hawala-to-Conduct-Cash-Programming-in-Syria\\_CARE-learning-paper\\_2019.pdf](https://insights.careinternational.org.uk/media/k2/attachments/Using-Hawala-to-Conduct-Cash-Programming-in-Syria_CARE-learning-paper_2019.pdf).

<sup>110</sup> The Cash Learning Partnership, *Glossary of Terminology for Cash and Voucher Assistance* (Oxford, United Kingdom: The Cash Learning Partnership, 2018), 7, <http://www.cashlearning.org/downloads/calp-glossary-dec18.pdf>.

<sup>111</sup> Doocy and Tappis, *Cash-Based Approaches in Humanitarian Emergencies*, 7.

<sup>112</sup> Doocy and Tappis, 7.

<sup>113</sup> Austin et al., *How Change Happens in the Humanitarian Sector*, 99; Smith et al., *The State of the World's Cash Report*, 80–81; Sahara Dahir, *Building on Experience: Reflections and Recommendations from Evaluations of the 2017 CVA Somalia Drought Response* (Oxford, United Kingdom: The Cash Learning Partnership, 2019), 11, <http://www.cashlearning.org/downloads/East%20and%20Central%20Africa%20CVTWG/1559825091.reflections---recomms--from-evals-of-the-2017-cva-somalia-drought-response.pdf>; H.R., *A Survey of Global Terrorism and Terrorist Financing*, 7.

<sup>114</sup> Smith et al., *The State of the World's Cash Report*, 81.

<sup>115</sup> Development Initiatives, *Global Humanitarian Assistance Report 2019* (Bristol, United Kingdom: Development Institute, 2019), 71, <http://devinit.org/wp-content/uploads/2019/09/GHA-report-2019.pdf>; Smith et al., *The State of the World's Cash Report*, 3.

<sup>116</sup> Smith et al., *The State of the World's Cash Report*, 28.

In food insecure places like Somalia, aid agencies have successfully deployed CTP using hawala.<sup>117</sup> In early 2017, the Food Security and Nutrition Analysis Unit identified pre-famine conditions impacting 2.9 million people, which would soon grow to 6.2 million people, or almost half the population.<sup>118</sup> From May to August 2017, \$44 million in cash and vouchers for food, sheltering, water, sanitation, and hygiene were distributed each month.<sup>119</sup> Large hawala companies like Somaliland's Dahabshiil and Mogadishu's Hormud, as well smaller businesses, were able to reach more than three million people a month.<sup>120</sup> As a result, recipients had immediate access to food and medical care to minimize the nutrition and health impacts from the famine. A secondary effect was that of resiliency. Instead of employing traditional coping mechanisms, like selling off livestock or migrating, recipients utilized a portion of the funds to purchase additional assets or re-open credit lines with local traders for future use.<sup>121</sup> Commonly, households use the initial cash transfer to pay medical expenses and procure basic needs, like food, shelter, and clothing.<sup>122</sup> Secondary transfers are saved for future expenses.<sup>123</sup> Thus, CTP not only works for immediate intervention during an emergency, but also supports preparedness actions to reduce the shock of future disasters.

In the Middle East, hawala has supported the deployment of CTP, which has resulted in a reduction of negative coping strategies. In Syria, over half a million people have died and 13.5 million people remain in need of immediate assistance; 4.5 million of

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<sup>117</sup> Sophia Dunn, Mike Brewin, and Aues Sceek, *Cash and Voucher Monitoring Group: Final Monitoring Report of the Somalia Cash and Voucher Transfer Programme, Phase 2: April 2012–March 2013* (London: Overseas Development Institute, 2013), 9, <https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/8521.pdf>.

<sup>118</sup> Majid, Abdirahman, and Hassan, *Remittances and Vulnerability in Somalia*, 8.

<sup>119</sup> Smith et al., *The State of the World's Cash Report*, 131–32.

<sup>120</sup> Sherine El Taraboulsi-McCarthy, *The Challenge of Informality Counter-Terrorism, Bank De-Risking and Financial Access for Humanitarian Organisations in Somalia* (London: Overseas Development Institute, 2018), 4, <https://www.odi.org/sites/odi.org.uk/files/resource-documents/12258.pdf>.

<sup>121</sup> Majid, Abdirahman, and Hassan, *Remittances and Vulnerability in Somalia*, 14, 32.

<sup>122</sup> Blackwell and Stennes, *Cash Transfers in Raqqa Governorate, Syria*, 41.

<sup>123</sup> Blackwell and Stennes, 41.

whom reside in remote, hard to reach locations.<sup>124</sup> For females, the conflict has been especially daunting as it increases their socioeconomic vulnerability, or requires them to take on the untraditional role as the head of the household and sole wage earner.<sup>125</sup> In the past, women and girls would cope with these shocks by being forced into child marriages, prostitution, forced labor, or to incur new debts with family members or vendors to procure goods and services.<sup>126</sup> Children are especially vulnerable during emergencies due to the risks of becoming separated from their families during times of war, or as a result of a caregiver's inability to provide sufficient care.<sup>127</sup> Cash-based intervention has mitigated these behaviors because it provides a means to supplement their household income and thereby increase their purchasing power, decrease food insecurity, and reduce the psychological traumas of stress.<sup>128</sup>

Cash-transfer programming through hawala gives recipients the flexibility to prioritize their households' needs and to choose how those needs should be met.<sup>129</sup> The capacity to choose preserves an individual's dignity, a key attribute of successful development efforts.<sup>130</sup> Without this choice, households are forced to rely on other means of coping, many of which have adverse effects on the health and wellbeing of an individual.

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<sup>124</sup> Edwina A. Thompson, *Humanitarian Use of Hawala in Syria* (London: Beechwood International, 2015), 5, <http://www.cashlearning.org/downloads/beechnwood-technical-assessment-syria-31-july-15.pdf>; Blackwell and Stennes, *Cash Transfers in Raqqa Governorate, Syria*, 12.

<sup>125</sup> Katie Peach, "Women and the Syrian Conflict: How Women Can Shape Syria's Future?," Centre for Feminist Foreign Policy, April 28, 2018, <https://centreforfeministforeignpolicy.org/journal/2018/4/17/women-and-the-syrian-conflict-how-women-can-shape-syrias-future>.

<sup>126</sup> Blackwell and Stennes, *Cash Transfers in Raqqa Governorate, Syria*, 7, 12.

<sup>127</sup> Save the Children and Women's Refugee Commission, *What Cash Transfer Programming Can Do to Protect Children from Violence, Abuse and Exploitation: Review and Recommendations* (Oxford, United Kingdom: The Cash Learning Partnership, 2012), 9.

<sup>128</sup> Shannon Doocy et al., "Emergency Food Assistance in Northern Syria: An Evaluation of Transfer Programs in Idleb Governorate," *Food and Nutrition Bulletin* 38, no. 2 (March 30, 2017): 252, <https://doi.org/10.1177/0379572117700755>; Blackwell and Stennes, *Cash Transfers in Raqqa Governorate, Syria*, 63.

<sup>129</sup> Austin et al., *How Change Happens in the Humanitarian Sector*, 99.

<sup>130</sup> Smith et al., *The State of the World's Cash Report*, 21; Pilar Cuesta, "Dignity Is in the Centre of Humanitarian Aid," *Caritas Europa* (blog), December 7, 2017, <https://www.caritas.eu/dignity-is-in-the-centre-of-humanitarian-aid/>; United Nations, *Transforming Our World: The 2030 Agenda for Sustainable Development* (New York: United Nations, 2015), 6, <https://sustainabledevelopment.un.org/content/documents/21252030%20Agenda%20for%20Sustainable%20Development%20web.pdf>.

In the long-term, cash can provide individuals with a means of security and advancement. On the opposite end of the user spectrum, nefarious actors exploit these same hawala networks to accumulate vast amounts of wealth used for terror operations, while causing social instability and financial insecurity within their communities.

In summary, an extensive amount of literature is available on hawala's legitimate and illegitimate uses. Hawala clearly supports the flow of remittances and other cash transfers throughout Africa and the Middle East. However, terrorist organizations operating in these same regions also rely on hawala to amass wealth, recruit new members, and fund their operations. Opportunities for additional analysis exist to study how the United States' policies to minimize hawala's role in terror financing has impacted the legitimate users, and what considerations need to be made to lessen those effects.

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### III. HAWALA

Hawala pre-dates western banking institutions and has survived for over a millennium despite an ever-changing landscape.<sup>131</sup> Hawala has persisted through economic failures of states, political regime changes, wars, and heavy regulatory blocks.<sup>132</sup> Dating back to 618 A.D., ancient civilizations established IVTS like hawala—known as *fei qian* in China, *hundi* in India and Pakistan, *padala* in the Philippines, and *xawilaad* in Somalia—to minimize the risk of carrying bulk cash along trade routes and establish equitable exchange rates for goods.<sup>133</sup> In Africa and the Middle East, the colonial period ushered in a new era of western institutions, and although hawala’s popularity gradually declined, it never completely vanished.<sup>134</sup> In recent years, as extreme conditions have significantly hampered the availability and accessibility of formal financial markets, hawala has had a resurgence as a more convenient, reliable, expedient, and inexpensive alternative to western methods.<sup>135</sup>

#### A. WHAT IS IT?

Hawala is a transaction in which value is moved from one party to another. In its most simple and basic form, a hawala transaction might involve an individual in Country A sending money to an individual in Country B. As shown in Figure 2, the sender in Country A contacts a local hawaladar and gives him cash to be delivered to the recipient in Country B. The hawaladar contacts a partnering agent in Country B who then delivers

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<sup>131</sup> Viles, “Hawala, Hysteria and Hegemony,” 27; Glushchenko, “Hawala—A Vestige of the Past,” 29–30.

<sup>132</sup> Redin, Calderon, and Ferrero, “Exploring the Ethical Dimension of Hawala,” 328.

<sup>133</sup> Glushchenko, “Hawala—A Vestige of the Past,” 29–30; Rachana Pathak, “The Obstacles to Regulating the Hawala: A Cultural Norm or a Terrorist Hotbed?,” *Fordham International Law Journal* 27, no. 6 (2003): 2010; Maryam Razavy, “Hawala: An Underground Haven for Terrorists or Social Phenomenon?,” *Crime, Law, and Social Change* 44, no. 3 (October 2005): 280, <https://doi.org/10.1007/s10611-006-9019-3>.

<sup>134</sup> Redin, Calderon, and Ferrero, “Exploring the Ethical Dimension of Hawala,” 328.

<sup>135</sup> Pathak, “The Obstacles to Regulating the Hawala,” 2015–2017; Redin, Calderon, and Ferrero, “Exploring the Ethical Dimension of Hawala,” 328.

an equivalent amount of funds in the local currency; the Country B individual might provide a secret code word to collect the money from the hawaladar.<sup>136</sup>

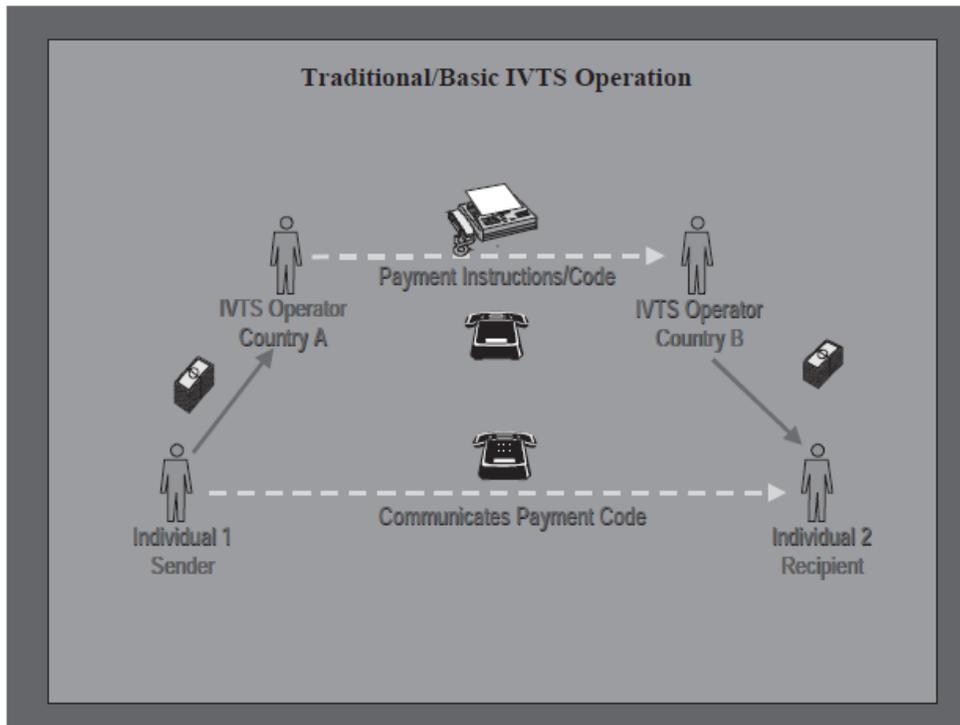


Figure 2. An Overview of a Traditional and Basic Hawala Transaction between Two Parties.<sup>137</sup>

A more complex hawala exchange may involve multiple individuals in different countries, several hawaladars, exchange houses to settle larger denominations of debts, and overlap into the formal banking sector.<sup>138</sup> Transactions can cross a diverse range of country borders with different exchange rates, and multilevel hierarchies of intermediaries are

<sup>136</sup> Glushchenko, "Hawala—A Vestige of the Past," 279; Pathak, "The Obstacles to Regulating the Hawala," 2013; El-Qorchi, "Hawala: How Does This Informal Funds Transfer System Work," 32.

<sup>137</sup> Source: Department of the Treasury, *FinCEN Advisory: Informal Value Transfer Systems* (Washington, DC: Department of the Treasury, 2003), 5, <https://www.fincen.gov/sites/default/files/shared/advis33.pdf>.

<sup>138</sup> Pathak, "The Obstacles to Regulating the Hawala," 2012.

sometimes employed to consolidate and settle high volumes of debt.<sup>139</sup> Regardless of the complexity of the hawala exchange, cash is rarely, if ever, physically couriered between hawaladars.<sup>140</sup> Instead, a method of net settlements is employed to satisfy debts between them. As hawaladars typically provide money-remitting services as an offshoot of a larger business, like a retail store, they can settle debts by invoicing other hawaladar-owned businesses.<sup>141</sup> This invoicing is done by counter-valuation, or the act of over-or-undervaluing export or import commodities.<sup>142</sup> As depicted in Figure 3, generally, hawaladars will pay or collect from one another using legitimate business accounts held at formal financial institutions.<sup>143</sup> It is at this point that cross over into the formal banking sector occurs and provides law enforcement an opportunity to discover illicit funds.

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<sup>139</sup> Glushchenko, “Hawala—A Vestige of the Past,” 32; Robert E. Looney, “Hawala: The Terrorist’s Informal Financial Mechanism,” *Middle East Policy* 10, no. 1 (2003): 165, <https://doi.org/10.1111/1475-4967.00099>.

<sup>140</sup> Pathak, “The Obstacles to Regulating the Hawala,” 2012.

<sup>141</sup> Alexander Lascaux, “Crowding out Trust in the Informal Monetary Relationships: The Curious Case of the Hawala System,” *Forum for Social Economics* 44, no. 1 (2015): 93, <https://doi.org/10.1080/07360932.2014.954250>.

<sup>142</sup> Bureau of International Narcotics and Law and Enforcement Affairs, *International Narcotics Control Strategy Report*, vol. 2 (Washington, DC: Department of the State, 2018), 9.

<sup>143</sup> Department of the Treasury, *FinCEN Advisory: Informal Value Transfer Systems*, 6.

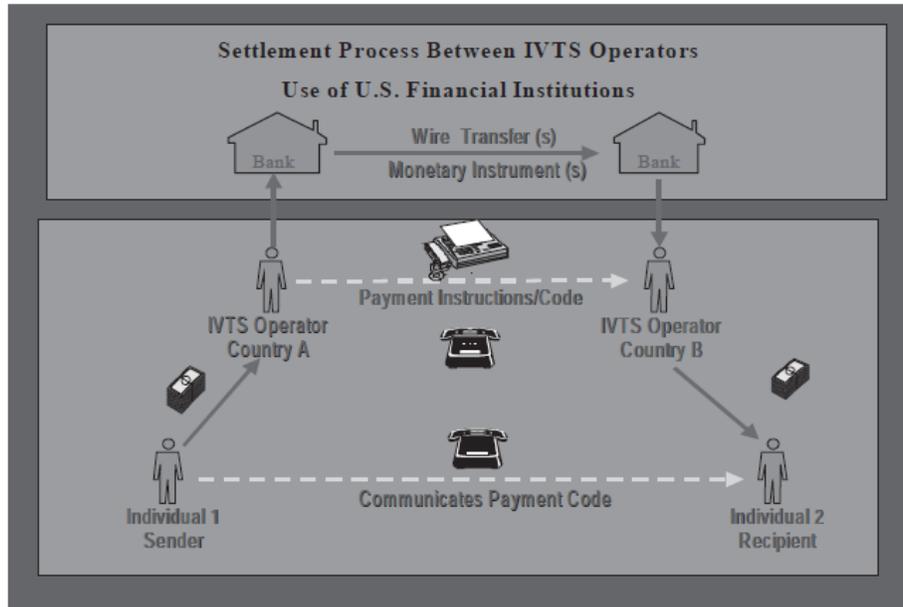


Figure 3. The Settlement Process between Hawaladars Can Overlap with the Formal Financial Sector.<sup>144</sup>

The settlement process between hawaladars is of concern to law enforcement because it can have a range of economic impacts. The model of net settlement can result in the loss of capital within a local financial market, or the creation of volatile currencies.<sup>145</sup> Settlements are challenging for investigators to detect. In many instances, value or cash transactions can cross multiple jurisdictions, involve businesses not regulated as financial institutions, incorporate layering or the comingling of legitimate and illegitimate funds, and the masking of customer records.<sup>146</sup> Customer identity documents sourced from legitimate business transactions can be recycled by criminal operatives to generate false records and mask the true identity or source of funds.<sup>147</sup> Fictitious invoices and counter-valuations can be used as strategies to evade taxes or capital controls.<sup>148</sup> As such,

<sup>144</sup> Source: Department of the Treasury, 6.

<sup>145</sup> Glushchenko, “Hawala—A Vestige of the Past,” 40.

<sup>146</sup> Financial Action Task Force, *The Role of Hawala and Other Similar Service Providers in Money Laundering and Terrorist Financing*, 27.

<sup>147</sup> Financial Action Task Force, 21.

<sup>148</sup> H.R., *Trading with the Enemy*, 7.

hawaladars have the capacity to be fronts or shell companies for illegal money transactions or trade-based money laundering.<sup>149</sup> Trade-based money laundering in the terror-financing context is an organization’s “process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimise their illegal origins or finance their activities.”<sup>150</sup> In recent years, the United States has become increasingly concerned about hawala facilitating trade-based money laundering.<sup>151</sup>

## **B. WHY IS IT STILL IN USE TODAY?**

Hawala continues to exist in the modern day for a wide range of reasons. For some users, cultural familiarity coupled with a distrust of western institutions perpetuates hawala’s use.<sup>152</sup> For others, hawala is a more reliable, expedient, and inexpensive alternative to formal money remitting services.<sup>153</sup> Hawala also offers a degree of anonymity that western institutions do not.<sup>154</sup> Regardless of the motive for using hawala, the overarching, prominent attribute of this network is its global accessibility. Time and time again, while the formal banking sector has failed to adapt to extreme circumstances, like war and repressive regulation, hawala has continued to endure.

Within the Islamic community, hawala has been codified as a means of legitimate banking in the *ahadith* and through the application of Islamic law, *shari’a*.<sup>155</sup> In the Islamic banking vernacular, hawala describes transactions in which value is transferred from one party to another. In governing economic activity and as the basis for financial systems under Islam, *shari’a* prohibits ambiguity in exchanges or contractual dealings (known as *gharar*), which mitigate opportunism, fraud, and corruption within the hawala network.<sup>156</sup>

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<sup>149</sup> Financial Action Task Force, *Financial Flows Linked to the Production and Trafficking of Afghan Opiates*, 32.

<sup>150</sup> Financial Action Task Force, 32.

<sup>151</sup> Department of the Treasury, *2018 National Terrorist Financing Risk Assessment*, 4.

<sup>152</sup> Pathak, “The Obstacles to Regulating the Hawala,” 2017.

<sup>153</sup> Financial Action Task Force, *The Role of Hawala and Other Similar Service Providers in Money Laundering and Terrorist Financing*, 10.

<sup>154</sup> Lascaux, “Crowding out Trust in the Informal Monetary Relationships,” 89.

<sup>155</sup> Razavy, “Hawala: An Underground Haven,” 7, 8.

<sup>156</sup> Redin, Calderon, and Ferrero, “Exploring the Ethical Dimension of Hawala,” 331–32.

Social norms reinforce integrity in business dealings as the hawaladar's personal reputation as a trustworthy, reliable, and competent broker depends on it.<sup>157</sup> Thus, the hawaladar becomes a trusted member of the local community or clan, and that familiarity builds alliances and social bonds that are rarely broken, and upheld by generations of family members.<sup>158</sup> As individuals migrate out of the country, cultural familiarity, kinship, or ethnic ties fortify hawala's use by the diaspora.<sup>159</sup>

For individuals in-country, the collapse of western banking institutions within their region serves to erode trust in the formal financial sector. In 1992, when al-Shabaab deposed the Siad Barre government in Somalia, the formal banking sector collapsed completely.<sup>160</sup> It was not until two decades later that a weak and fragmented banking system was reestablished with divided and competing central banks in Mogadishu, Somaliland, and Puntland.<sup>161</sup> Similarly, with the rise of the Taliban insurgency, the formal financial sector in Afghanistan collapsed.<sup>162</sup> After the formal banking system was restored nearly two decades later, banks still struggled to remain operational. In 2010, one million Afghans lost \$1.3 billion of their life savings when the banks collapsed.<sup>163</sup> This time, the collapse was not due to conflict, but rather embezzlement, fraud and money laundering operations at the highest levels of the bank's leadership.<sup>164</sup> In contrast to the western financial model, in the Islamic tradition, a consensus exists across major schools of *fiqh*, or the interpretation of Islamic legal text, that safeguards against bankruptcy, as debtors

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<sup>157</sup> Lascaux, "Crowding out Trust in the Informal Monetary Relationships," 100.

<sup>158</sup> El-Qorchi, "Hawala: How Does This Informal Funds Transfer System Work," 32; Razavy, "Hawala: An Underground Haven," 285.

<sup>159</sup> Lascaux, "Crowding out Trust in the Informal Monetary Relationships," 89; Jost and Sandhu, *The Hawala Alternative Remittance System and Its Role in Money Laundering*, 9, <https://www.treasury.gov/resource-center/terrorist-illicit-finance/Documents/FinCEN-Hawala-rpt.pdf>.

<sup>160</sup> Redin, Calderon, and Ferrero, "Exploring the Ethical Dimension of Hawala," 329.

<sup>161</sup> El Taraboulsi-McCarthy, *The Challenge of Informality Counter-Terrorism*, 5.

<sup>162</sup> Financial Action Task Force, *The Role of Hawala and Other Similar Service Providers in Money Laundering and Terrorist Financing*, 18; Redin, Calderon, and Ferrero, "Exploring the Ethical Dimension of Hawala," 329.

<sup>163</sup> Grant McLeod, *Responding to Corruption and the Kabul Bank Collapse* (Washington, DC: United States Institute of Peace, 2016), 2, <https://www.usip.org/publications/2016/12/responding-corruption-and-kabul-bank-collapse>.

<sup>164</sup> McLeod, 2.

and creditors in a hawala transaction cannot participate if they are bankrupt or on the verge of bankruptcy.<sup>165</sup> This situation creates the framework for the legality and legitimacy of hawala transactions, while preserving and protecting the parties involved. The Islamic banking tradition also specifies the terms of repayment based on the type of transaction conducted, which creates transparency and standardization and afford all parties involved clear expectations and guarantees of repayment.<sup>166</sup>

However, referring to hawala as a strictly Islamic practice is erroneous. Hawala is employed across the globe because it is more expedient and reliable than formal methods. Social and cultural norms mitigate the diversion of hawala funds as such actions can result in the hawaladar's ostracism and cause reputation suicide.<sup>167</sup> Hawala funds are distributed within a few hours or 72 hours at the most.<sup>168</sup> In contrast, western institutions can experience significant delays of up to 3–4 weeks to deliver or fail to deliver completely because of processing timelines and technical glitches.<sup>169</sup> Delivery is further constrained by holiday schedules, weekends, or operational hours.<sup>170</sup> Unlike the brick and mortar institutions, hawaladars are available 24 hours a day, 365 days a year, while also reaching remote villages and communities where formal institutions do not exist.<sup>171</sup>

Hawala's use is strengthened by the absence or inaccessibility of the formal financial sector. Formal banks and money remitting services predominantly operate in

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<sup>165</sup> Razavy, "Hawala: An Underground Haven," 284.

<sup>166</sup> Emily Rebecca Milstein, "The Growth and Formalization of Somalia's Hawala Economy" (master's thesis, University of California, Los Angeles, 2015), 5.

<sup>167</sup> Looney, "Hawala: The Terrorist's Informal Financial Mechanism," 165.

<sup>168</sup> Jost and Sandhu, *The Hawala Alternative Remittance System and Its Role in Money Laundering*, 9; Lascaux, "Crowding out Trust in the Informal Monetary Relationships," 93; Divya Sharm, "Historical Traces of Hundi, Sociocultural Understanding, and Criminal Abuses of Hawala," *International Criminal Justice Review* 16, no. 2 (September 2006): 99, <https://doi.org/10.1177/1057567706291737>.

<sup>169</sup> Jost and Sandhu, *The Hawala Alternative Remittance System and Its Role in Money Laundering*, 9; Lascaux, "Crowding out Trust in the Informal Monetary Relationships," 93; Sharm, "Historical Traces of Hundi," 99.

<sup>170</sup> Jost and Sandhu, *The Hawala Alternative Remittance System and Its Role in Money Laundering*, 9.

<sup>171</sup> Glushchenko, "Hawala—A Vestige of the Past," 35, 42.

metropolitan centers and are nonexistent in remote villages and provinces.<sup>172</sup> Globally, 1.7 billion adults are unbanked; they do not have an account at a financial institution nor a mobile money provider.<sup>173</sup> In many cases, individuals lack the transportation, documentation, or literacy skills to access formal institutions.<sup>174</sup> In areas like Pakistan, nearly 80% of the public is illiterate and cannot complete the necessary steps required to do business at a formal institution.<sup>175</sup> Citizens may be uncomfortable or intimidated by banking procedures that require them to fill out forms and produce documents, and may prefer to do business with a trusted hawaladar within their own community.<sup>176</sup> As a result, modern banking systems are primarily reserved for middle to upper class citizens, especially in light of the higher costs associated with conducting business in the formal sector.<sup>177</sup>

Hawaladars offer more competitive currency exchange rates and charge lower fees than formal institutions. Typically, hawaladars can offer lower rates because they integrate their money remitting services into an existing business, like a grocery store, and the savings are passed on to customers.<sup>178</sup> On average, transaction fees range from 0.25% to 5% of the amount transferred compared to formal MTOs that charge upwards of 7.32% or banks that collect an average of 10.49% per transaction.<sup>179</sup> The cost to remit funds from the United States generally tends to be lower than the global average, that of 5.7%.

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<sup>172</sup> Committee on Payments and Market Infrastructure, *Correspondent Banking* (Basel, Switzerland: Bank for International Settlements, 2016), 15, <https://www.bis.org/cpmi/publ/d147.pdf>.

<sup>173</sup> Asli Demirguc-Kunt et al., *The Global Findex Database 2017: Measuring Financial Inclusion and the Fintech Revolution* (Washington, DC: The World Bank, 2018), 35.

<sup>174</sup> Sharm, “Historical Traces of Hundi,” 113; Razavy, “Hawala: An Underground Haven,” 287.

<sup>175</sup> H.R., *Managing Terrorism Financing Risk in Remittances and Money Transfers*, 31.

<sup>176</sup> *Countering Terrorist Financing: Progress and Priorities, Hearing before the Subcommittee on Crime and Terrorism of the Committee on the Judiciary*, Senate, 112th Cong., 1st sess., September 21, 2011, 23, <https://www.gpo.gov/fdsys/pkg/CHRG-112shrg73840/pdf/CHRG-112shrg73840.pdf>.

<sup>177</sup> Razavy, “Hawala: An Underground Haven,” 287.

<sup>178</sup> Lascaux, “Crowding out Trust in the Informal Monetary Relationships,” 93.

<sup>179</sup> Jost and Sandhu, *The Hawala Alternative Remittance System and Its Role in Money Laundering*, 9; Glushchenko, “Hawala—A Vestige of the Past,” 29; The World Bank, *An Analysis of Trends in Cost of Remittance Services*, 1; Del Mar Pernia, Bell, and Maimbo, *The Financial Sector in Afghanistan: Managing the Postconflict Reform Process*, 74; Razavy, “Hawala: An Underground Haven,” 279; Pathak, “The Obstacles to Regulating the Hawala,” 2013; Dougherty, “Hawala: How Terrorists Move Funds Globally,” 30; The World Bank, *Informal Funds Transfer Systems*, 14.

Nonetheless, the United States and the global community have recognized the need for reform. In 2015, the G20 countries, which include the United States, committed to “Sustainable Development Goal 10c,” which aims to decrease the global cost of remittances to 3% while eliminating remittance corridors that cost over 5% by 2030.<sup>180</sup> At the time of the G20’s commitment, the average cost to send funds was 9.3%, and has steadily hovered at about 8% ever since.<sup>181</sup> Ultimately, high fees mean that less money reaches the hands of recipients, and thus, hawala is a more appealing and cheaper alternative than formal methods.<sup>182</sup>

Finally, hawala offers anonymity in a manner that formal institutions simply do not. As social and culture ties and a heavy reliance on trust bind hawala transactions, bureaucratic formalities are lacking, like registration, identity verification, and formal contracts that contribute to what is perceived by regulators as lax recordkeeping.<sup>183</sup> Often, records are only kept for as long as the debt is outstanding, which then results in a diminished paper trail.<sup>184</sup> Most commonly, records are maintained using codes and do not document a customer’s identity; instead, ledgers reflect transactions between hawaladars.<sup>185</sup> In this way, hawala business practices differ drastically from modern western institutions.

Hawala continues to be used around the world due to its availability, accessibility, and affordability. Unlike western banking institutions, which are a modern-day creation, hawala has a more extensive history that has strengthened social and cultural bonds.<sup>186</sup>

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<sup>180</sup> United Nations, *Transforming Our World*, 26.

<sup>181</sup> Global Partnership for Financial Inclusion, *2017 Update to Leaders on Progress towards the G20 Remittance Target*, 1; The World Bank, *An Analysis of Trends in Cost of Remittance Services*, 1.

<sup>182</sup> “Remittance Prices Worldwide (Sending Countries),” The World Bank, accessed July 26, 2019, [https://databank.worldbank.org/source/remittance-prices-worldwide-\(sending-countries\)/Type/TABLE/preview/on](https://databank.worldbank.org/source/remittance-prices-worldwide-(sending-countries)/Type/TABLE/preview/on).

<sup>183</sup> Nikos Passas, *Informal Value Transfer Systems, Terrorism and Money Laundering: A Report to the National Institute of Justice*, IVTS Report (Boston: Northeastern University, 2003), 65.

<sup>184</sup> Razavy, “Hawala: An Underground Haven,” 279.

<sup>185</sup> Passas, *Informal Value Transfer Systems, Terrorism and Money Laundering*, 80–81.

<sup>186</sup> Charles A. Conant, *A History of Modern Banks of Issue*, 5th ed. (New York: G. P. Putnam’s Sons, 1915), 536, [https://fraser.stlouisfed.org/files/docs/publications/books/conant\\_1915.pdf](https://fraser.stlouisfed.org/files/docs/publications/books/conant_1915.pdf).

Trust in hawala as an institution has become foundational to its longevity. As a market competitor, hawala has outperformed formal remitting services by being more reliable, expedient, and cheaper. Thus, it continues to be relied upon to transport money globally. However, for these very reasons, Islamic extremist groups operating in Africa and the Middle East have exploited hawala.

#### IV. THE AMERICAN POLITICAL DISCOURSE ON HAWALA AND ITS SHAPING OF REGULATORY EFFORTS

Although hawala has existed in the United States since the 1980s, intelligence and law enforcement communities prioritized efforts to combat terror financing and other illegitimate activities through hawala in the wake of 9/11.<sup>187</sup> Prior to 9/11, hawala was a relatively unknown practice in the West.<sup>188</sup> When hawala was introduced to the American public by the news media and through government reports, it was shrouded with negative stereotyping.<sup>189</sup> Since then, attempts have been made to redress hawala's reputation, but much of what was portrayed early on has created biases and adversely affects discussions about hawala.<sup>190</sup> Since 9/11, numerous congressional testimonies have been given with the same underlying theme: terrorist organizations use hawala to fund recruitment, training, purchase supplies, and execute terror plots.<sup>191</sup> At the same time, regulatory decisions are being made based on limited intelligence of hawala's use and without ample regard of its nexus to human development and economic progress.<sup>192</sup> However, it is not debatable that hawala's opaqueness and anonymity present opportunities for nefarious use, and therefore, efforts should be made to reduce its vulnerability.<sup>193</sup> The question of how, without impacting legitimate users, is central to this effort.

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<sup>187</sup> Viles, "Hawala, Hysteria and Hegemony," 1; Dougherty, "Hawala: How Terrorists Move Funds Globally," 30; Razavy, "Hawala: An Underground Haven," 1; El-Qorchi, "Hawala: How Does This Informal Funds Transfer System Work," 1; Jean-Charles Brisard, *Terrorism Financing: Roots and Trends of Saudi Terrorism Financing* (Paris: JCB Consulting, 2002), 9.

<sup>188</sup> *Hawalas and Underground Terrorist Financing Mechanisms: Informal International Financing Networks That Can Serve as a Pipeline of Funds for Terrorist*, Senate, 117th Cong., 1st sess., November 14, 2001, 2, <https://www.govinfo.gov/content/pkg/CHRG-107shrg81714/pdf/CHRG-107shrg81714.pdf>.

<sup>189</sup> Edwina A. Thompson, "Misplaced Blame: Islam, Terrorism, and the Origins of Hawala," *Max Planck Yearbook of the United Nations Law Online* 11, no. 1 (January 1, 2007): <https://doi.org/10.1163/18757413-90000009>.

<sup>190</sup> Razavy, "Hawala: An Underground Haven," 278; S., *Hawalas and Underground Terrorist Financing Mechanisms*, 36.

<sup>191</sup> S., *Countering Terrorist Financing*, 5.

<sup>192</sup> H.R., *A Survey of Global Terrorism and Terrorist Financing*, 23.

<sup>193</sup> Department of the Treasury, *2018 National Terrorist Financing Risk Assessment*, 4.

In 2004, the National Commission on Terrorist Attacks upon the United States published a “Monograph on Terrorist Financing,” which presented the Commission’s findings on al Qaeda’s financing strategies.<sup>194</sup> The report noted al Qaeda’s extensive use of hawala within the Middle East, but outside of the region, the bulk of transnational funds moved undetected through the formal financial sector.<sup>195</sup> The Commission concluded, “The extensive investigation into the financing of the 9/11 plot has revealed no evidence to suggest that the hijackers used hawala or any other informal value transfer mechanism to send money to the United States. Moreover, KSM [Khalid Sheikh Mohammed] and the other surviving plot participants have either not mentioned hawalas or explicitly denied they were used.”<sup>196</sup> Yet, the public and political discourse on hawala immediately following 9/11 was much more demonizing.

Following the attacks of 9/11, the negative stereotyping of hawala as a “safe haven,” “shadow,” or “black channel” for terrorist funds was shaped through the United States mainstream news media.<sup>197</sup> In the week following the attacks, the *Washington Post* published “Bin Laden’s Money Takes Hidden Paths to Agents of Terror,” which presented Osama bin Laden as “the world’s richest terrorist, a business-savvy nomad” who had been using hawala to elude law enforcement since the 1990s.<sup>198</sup> On October 5, 2001, *Time* magazine ran an article titled “A Banking System Built for Terrorism,” that depicted hawala as an “underground banking system” that lined the pockets of criminals and terrorists, including hijacker Mohammed Atta.<sup>199</sup> A week later, in the article titled “Paper

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<sup>194</sup> John Roth, Douglas Greenburg, and Serena Wille, *National Commission on Terrorist Attacks upon the United States: Monograph on Terrorist Financing* (Washington, DC: National Commission on Terrorist Attacks upon the United States, 2004), 2.

<sup>195</sup> Roth, Greenburg, and Wille, 25–26.

<sup>196</sup> Roth, Greenburg, and Wille, 142.

<sup>197</sup> Viles, “Hawala, Hysteria and Hegemony,” 26; Thompson, “Misplaced Blame,” 279.

<sup>198</sup> Robert O’Harrow Jr., David S. Hilzenrath, and Karen DeYoung, “Bin Laden’s Money Takes Hidden Paths to Agents of Terror,” *Washington Post*, September 21, 2001, <https://www.washingtonpost.com/archive/politics/2001/09/21/bin-ladens-money-takes-hidden-paths-to-agents-of-terror/d731f54e-fba4-4b8f-b5d0-8331050c1506/>.

<sup>199</sup> Meenakshi Ganguly, “A Banking System Built for Terrorism,” *Time*, October 5, 2001, <http://content.time.com/time/world/article/0,8599,178227,00.html>; Marieke De Goede, “Hawala Discourses and the War on Terrorist Finance,” *Environment and Planning D: Society and Space* 21, no. 5 (October 1, 2003): 514, <https://doi.org/10.1068/d310t>.

Trail Stops Dead at Hawala,” CNN provided an update to the American people on the 9/11 investigations stating that hawala was “giving law enforcers a headache,” and denounced the U.S. Congress for failing to regulate hawala when they were first tasked to in 1993.<sup>200</sup> In this article, Senator Evan Bayh, who was also the Chairman for the Subcommittee on International Trade and Finance, was quoted as saying, “It is unacceptable that a terrorist today can open the phone book in a number of American cities, find a hawala located in a legitimate business establishment, and walk out with thousands of dollars sent from Afghanistan, with no one to stop him and no record of the transaction.”<sup>201</sup> This quote was reproduced in numerous articles and publications throughout the United States, and is representative of the political rhetoric on hawala.<sup>202</sup>

The U.S. government’s criticism of hawala was widely publicized, which contributed to the portrayal of hawala as illegitimate and inferior to Western banking.<sup>203</sup> In November 2001 at a press conference, President George W. Bush announced the closure of Al Barakaat and Al Taqwa, two hawala networks with offices in the United States that had ties to al Qaeda, “Today, we are taking another step in our fight against evil.”<sup>204</sup> Secretary of State Colin Powell followed with a remark by stating, “We are now going after the hawala organizations, the shadowy financial networks that underpin the terrorists’

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<sup>200</sup> Nick Easen, “Paper Trail Stops Dead at Hawala,” CCN, October 11, 2001, <http://edition.cnn.com/2001/WORLD/asiapcf/south/10/10/hawala.banks/>.

<sup>201</sup> Easen.

<sup>202</sup> Matt Andrejczak, “Senate Panel Moves Laundering Bill,” CBS MarketWatch, October 5, 2011, <https://www.marketwatch.com/story/senate-panel-moves-anti-money-laundering-bill>; Marcy Gordon, “Senate Targets Terrorists’ Money System,” Seattle PI, October 4, 2001, <https://www.seattlepi.com/news/article/Senate-targets-terrorists-money-system-1067739.php>; Gail Russell Chaddock, “How Authorities Will Be Monitoring Your Money,” *Christian Science Monitor*, October 26, 2001, <https://www.csmonitor.com/2001/1026/p3s1-uspo.html>; S., *Hawalas and Underground Terrorist Financing Mechanisms*, ii.

<sup>203</sup> De Goede, “Hawala Discourses and the War on Terrorist Finance,” 518.

<sup>204</sup> Office of the Press Secretary, “President Announces Crackdown on Terrorist Financial Network, Remarks by the President in Announcement on Financial Aspects of Terrorism Financial Crime Enforcement Network,” The White House, November 7, 2001, <https://georgewbush-whitehouse.archives.gov/news/releases/2001/11/20011107-4.html>; Office of the Press Secretary, “Terrorist Financial Network Fact Sheet: Shutting down the Terrorist Financial Network,” The White House, November 7, 2001, <https://georgewbush-whitehouse.archives.gov/news/releases/2001/11/20011107-6.html>; De Goede, “Hawala Discourses and the War on Terrorist Finance,” 514; Thompson, “Misplaced Blame,” 285.

underworld.”<sup>205</sup> As Professor Tarik M. Yousef from Georgetown University’s Department of Economics explained during his Congressional testimony in 2001, much of the regulatory concerns surrounding hawala were due to its customer anonymity and lack of recordkeeping.<sup>206</sup> The enactment of the USA PATRIOT Act in October 2001 strived to resolve these concerns.<sup>207</sup> The very wording of the USA PATRIOT Act was telling of the government’s presumptions about hawala, as the law referred to hawalas as “underground banking systems” operating “outside of the conventional financial system.”<sup>208</sup> These descriptors inherently suggest that hawala is unconventional, when in actuality, it pre-dates Western banking and is the traditional method to move funds between individuals.<sup>209</sup> The description of hawala as underground is also inaccurate because hawala functions openly around the globe and is advertised by businesses.<sup>210</sup> Finally, hawala can overlap with the formal financial sector as hawaladars use depository accounts at banks to pay or collect on debts.<sup>211</sup> Nonetheless, policymakers and regulators primarily lean on legislation to mitigate hawala abuses.

Present-day strategies to combat criminal activity and terror financing through hawala are grounded in AML efforts that first emerged in the Currency and Foreign

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<sup>205</sup> “#11-07-01: Department of Justice Shuts Down Several Financial Networks Exploited by Terrorist Groups,” Attorney General Transcript, Department of Justice, November 7, 2001, [https://www.justice.gov/archive/ag/speeches/2001/agcrisisremarks11\\_07.htm](https://www.justice.gov/archive/ag/speeches/2001/agcrisisremarks11_07.htm).

<sup>206</sup> S., *Hawalas and Underground Terrorist Financing Mechanisms*, 44.

<sup>207</sup> Pathak, “The Obstacles to Regulating the Hawala,” 2029; H.R., *A Survey of Global Terrorism and Terrorist Financing*, 14.

<sup>208</sup> Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA Patriot Act) Act of 2001, Public Law 107-56, *U.S. Statutes at Large 272* (2001): 328, <https://www.govinfo.gov/content/pkg/PLAW-107publ56/pdf/PLAW-107publ56.pdf>.

<sup>209</sup> Jamwal, “Hawala—The Invisible Financing System of Terrorism,” 182.

<sup>210</sup> Shima Keene, “Hawala and Related Informal Value Transfer Systems—An Assessment in the Context of Organised Crime and Terrorist Finance. Is There Cause for Concern?,” *The Defence Academy Journal*, 7, December 2007, <https://doi.org/10.1057/palgrave.sj.8350060>.

<sup>211</sup> Passas, *Informal Value Transfer Systems, Terrorism and Money Laundering*, 14.

Transactions Reporting Act of 1970, generally referred to as the BSA.<sup>212</sup> Built on the principle that criminal activity generates large amounts of cash that will eventually enter the formal financial sector, the BSA institutionalized a risk-based approach to banking.<sup>213</sup> Money laundering is defined as “activities intended to conceal or disguise the origins of the proceeds of crime.”<sup>214</sup> Money laundering can take many forms, including the misrepresentation of funds, the concealment of customer identities, the structuring of transactions to remain below minimum reporting thresholds, the comingling of legal and illegal funds, and the evasion of taxes.<sup>215</sup> United States’ Code Title 12 “Banks and Banking” and Title 18 “Money and Finance” require financial institutions to implement programs that will deter and detect money-laundering schemes.<sup>216</sup> Titles 31 and 18 “Crimes and Criminal Procedures” outline civil penalties for noncompliance and forfeiture provisions.<sup>217</sup> Through the Money Laundering Control Act (MLCA) of 1986 (18 United States Code (U.S.C.) §§ 1956 and 1957), the United States became the first country to criminalize money laundering.<sup>218</sup> The MLCA was enacted to counter a growing criminal enterprise using the formal financial sector to launder illicit funds from narco-trafficking.<sup>219</sup> In the 1990s, new legislation was added to counter similar abuses of the formal financial sector, except this time, it was directed at deterring terror financing.

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<sup>212</sup> Government Publishing Office, *18 U.S.C. § 1956 Laundering of Monetary Instruments* (Washington, DC: Government Publishing Office, 2011), 434, <https://www.govinfo.gov/content/pkg/USCODE-2011-title18/pdf/USCODE-2011-title18-part1-chap95-sec1956.pdf>; Rena S. Miller and Liana W. Rosen, *Introduction to Financial Services: Anti-Money Laundering Regulation*, CRS In Focus IF11064 (Washington, DC: Congressional Research Service, 2019), 1, <https://crsreports.congress.gov/product/pdf/IF/IF11064>.

<sup>213</sup> Government Accountability Office, *Remittances to Fragile Countries*, 12–13; Collin et al., *Unintended Consequences of Anti-Money Laundering Policies for Poor Countries*, 5.

<sup>214</sup> International Monetary Fund, *Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT)*, 4.

<sup>215</sup> Government Publishing Office, *18 U.S.C. § 1956 Laundering of Monetary Instruments*, 434.

<sup>216</sup> Miller and Rosen, *Introduction to Financial Services*, 1.

<sup>217</sup> Miller and Rosen, 1.

<sup>218</sup> United States Senate Permanent Subcommittee on Investigations Committee on Governmental Affairs, *Money Laundering and Foreign Corruption: Enforcement and Effectiveness of the Patriot Act Case Study Involving Riggs Bank Report Prepared by the Minority Staff of the Permanent Subcommittee on Investigations* (Washington, DC: United States Senate, 2004), 10, <https://www.hsgac.senate.gov/imo/media/doc/ACF5F8.pdf>.

<sup>219</sup> Government Publishing Office, *18 U.S.C. § 1956 Laundering of Monetary Instruments*, 434.

In the 1990s, counter-terror financing legislation culminated with the passage of the material support clauses (18 U.S.C. §§ 2339A and 2339B), which made monetary or resource support of terrorism a federal crime.<sup>220</sup> Section 2339A is part of the Violent Crime and Law Enforcement Act of 1994 and prohibits individuals from providing material support or resources to facilitate terrorism-related activities.<sup>221</sup> Initially, lawmakers argued that section 2339A created a loophole that allowed individuals to facilitate terror activity indirectly by permitting donations to a terrorist organization’s legitimate religious, political, or social projects.<sup>222</sup> This loophole resulted in the enactment of section 2339B, which prohibits any support to terrorist organizations, even if it is unwittingly.<sup>223</sup> In 1998, and again in 2003, suits were filed in federal court arguing that the statutory terms were unconstitutionally vague and in violation of the First and Fifth amendments of the United States Constitution.<sup>224</sup> In 2010, after 12 years of litigation, the Supreme Court decidedly upheld the legislation as constitutional, and issued a clarification that any support rendered to a known terrorist organization violated U.S. law, regardless of the donor’s intent.<sup>225</sup>

Section 359 of the USA PATRIOT Act extended compliance and monitoring program requirements to MSBs, like hawalas.<sup>226</sup> Hawalas were now required to register their business, keep detailed customer and transaction records, report suspicious activity, and implement AML programs.<sup>227</sup> AML programs include written compliance policies, procedures to examine transactions, training employees on how to identify and monitor

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<sup>220</sup> Charles Doyle, *Terrorist Material Support: A Sketch of 18 U.S.C. §2339A and §2339B*, CRS Report No. R41333 (Washington, DC: Congressional Research Service, 2016), 2, <https://fas.org/sgp/crs/natsec/R41333.pdf>.

<sup>221</sup> Department of Justice, *Terrorist Financing*, vol. 62, no. 5 (Washington, DC: Department of Justice, 2014), 11, 39, <https://www.justice.gov/sites/default/files/usao/legacy/2014/09/23/usab6205.pdf>; Doyle, *Terrorist Material Support*, 1.

<sup>222</sup> Department of Justice, *Terrorist Financing*, 62:9.

<sup>223</sup> Department of Justice, 62:10.

<sup>224</sup> “Holder v. Humanitarian Law Project,” Center for Constitutional Rights, January 9, 2009, <https://ccrjustice.org/holder-v-humanitarian-law-project>.

<sup>225</sup> United States Supreme Court of Appeals for the Ninth Circuit, *Holder, Attorney General, et al. v. Humanitarian Law Project et al.* (Washington, DC: Supreme Court of the United States, 2010), 11, <https://www.supremecourt.gov/opinions/09pdf/08-1498.pdf>.

<sup>226</sup> Department of the Treasury, *FinCEN Advisory: Informal Value Transfer Systems*, 2.

<sup>227</sup> Department of the Treasury, 2.

high-risk customers, and designating an individual to execute day-to-day compliance activities.<sup>228</sup> The Act strengthened customer relationships and due diligence requirements, increased information and record sharing between institutions and the government, and increased penalties for non-compliance.<sup>229</sup> Daniel L. Glaser, Assistant Secretary for the Department of Treasury, explained, “We have . . . sought to mitigate the risks posed by hawalas, charities, cash couriers, and new payment methods. And we have systematically undermined terrorist financial networks by imposing targeted financial measures.”<sup>230</sup> Members of Congress remarked on the new law as “the most comprehensive anti-money laundering legislation,” “important new tools with which to wage a global financial war on terrorism,” and stated, “with the passage of this legislation, terrorist organizations will not be able to move funds as easily and they will not be able to have their people move within our country with bank accounts that we cannot penetrate, with major sources of funding transferred to them from the Middle East or elsewhere to empower them to be able to do the kind of things they did on September 11.”<sup>231</sup> At the onset of comprehensive regulatory efforts, concern over a blanket approach to hawala regulation existed, but policy makers did not anticipate the response regulated parties, namely the formal financial sector, would have to new compliance measures.

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<sup>228</sup> Government Accountability Office, *International Remittances*, 16–17.

<sup>229</sup> Financial Crimes Enforcement Network, “History of Anti-Money Laundering Laws,” accessed August 1, 2019, <https://www.fincen.gov/history-anti-money-laundering-laws>.

<sup>230</sup> S., *Countering Terrorist Financing*, 12.

<sup>231</sup> “Congress Explains the USA PATRIOT Act,” Department of Justice, accessed October 26, 2019, [https://www.justice.gov/archive/ll/subs/q\\_support.htm](https://www.justice.gov/archive/ll/subs/q_support.htm).

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## V. DE-RISKING: THE BANKING INDUSTRY'S RESPONSE TO HEIGHTENED ENFORCEMENT

Following the 2008 global financial crisis, regulators have leveraged enforcement to strengthen the formal financial sector's ability to detect money laundering and terror-financing schemes. Prior to 2009, most cases of non-compliance were closed with "cease and desist" orders and rarely carried monetary penalties.<sup>232</sup> In stark contrast, in 2010 through today, 90% of all cases result in fines and the forfeiture of assets.<sup>233</sup> An assessment of recent cases identifies that the penalties for non-compliance have gradually become more frequent and more expensive.<sup>234</sup> Although these cases may not be hawala-specific, they are illustrative of the heightened enforcement landscape within which formal institutions are working.

### A. INCREASE IN PENALTY SIZE

The following cases depict the stark contrast in monetary fines and penalties for BSA violations prior to and after 2009.

#### 1. United States v. Riggs Bank

In 2004, former Washington, D.C.-based bank, Riggs Bank, now a part of PNC Financial Services, faced a \$41 million fine for failing to comply with AML requirements. Riggs Bank processed \$8 million from former Chilean President Augusto Pinochet while his assets were under active investigation by the U.S. government.<sup>235</sup> To evade discovery,

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<sup>232</sup> Jay B. Sykes, *Trends in Bank Secrecy Act/Anti-Money Laundering Enforcement*, CRS Report No. R45076 (Washington, DC: Congressional Research Service, 2018), 2; Sharon Brown-Hruska, *Developments in Bank Secrecy Act and Anti-Money Laundering Enforcement and Litigation* (Washington, DC: National Economic Research Associates, 2016), 6, [https://www.nera.com/content/dam/nera/publications/2016/PUB\\_Developments\\_BSA\\_AML\\_Lit-06.16.pdf](https://www.nera.com/content/dam/nera/publications/2016/PUB_Developments_BSA_AML_Lit-06.16.pdf).

<sup>233</sup> Sykes, *Trends in Bank Secrecy Act/Anti-Money Laundering Enforcement*, 2; Brown-Hruska, *Developments in Bank Secrecy Act and Anti-Money Laundering Enforcement and Litigation*, 7.

<sup>234</sup> Sykes, *Trends in Bank Secrecy Act/Anti-Money Laundering Enforcement*, 2.

<sup>235</sup> United States Senate Permanent Subcommittee on Investigations Committee on Governmental Affairs, *Money Laundering and Foreign Corruption*, 3.

Riggs Bank concealed Pinochet's identity.<sup>236</sup> At the same time, Riggs Bank serviced accounts held by the President of Equatorial Guinea that involved wire transfers and cash deposits from foreign corruption proceeds.<sup>237</sup>

## 2. United States v. HSBC Bank USA, N.A.

In 2012, HSBC Holdings Plc headquartered in London and HSBC Bank USA N.A. out of McLean, Virginia (together, HSBC), one of the largest financial conglomerates in the world, was found guilty of substandard AML controls and was fined \$665 million and was required to forfeit \$1.3 billion in assets.<sup>238</sup> HSBC failed to detect the \$881 million in drug trafficking proceeds being laundered through their bank for the Sinaloa Cartel in Mexico and the Norte del Valle Cartel in Columbia.<sup>239</sup> An additional \$200 trillion in suspicious wire transfers were laundered through their network as part of the Black Market Peso Exchange.<sup>240</sup> In addition, HSBC deliberately masked the source of \$660 million from Office of Foreign Assets Control (OFAC)-prohibited sources, including Iran, Cuba, Sudan, and Libya, to evade regulatory detection.<sup>241</sup> The U.S. government since 1984 has designated Iran as a state sponsor of international terrorism; Sudan was designated in 1993.<sup>242</sup> As such, any trade or financial transactions originating or with any persons of that

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<sup>236</sup> United States Senate Permanent Subcommittee on Investigations Committee on Governmental Affairs, 3.

<sup>237</sup> United States Senate Permanent Subcommittee on Investigations Committee on Governmental Affairs, 38.

<sup>238</sup> Department of Justice, "HSBC Holdings Plc. and HSBC Bank USA N.A. Admit to Anti-Money Laundering and Sanctions Violations, Forfeit \$1.256 Billion in Deferred Prosecution Agreement," Justice News, December 11, 2012, <https://www.justice.gov/opa/pr/hsbc-holdings-plc-and-hsbc-bank-usa-na-admit-anti-money-laundering-and-sanctions-violations>.

<sup>239</sup> Department of Justice, *HSBC Deferred Prosecution Agreement Attachment—Statement of Facts* (Washington, DC: Department of Justice, 2012), 3, <https://www.justice.gov/sites/default/files/opa/legacy/2012/12/11/dpa-attachment-a.pdf>.

<sup>240</sup> Department of Justice, "HSBC Holdings Plc. and HSBC Bank USA N.A.," Department of Justice, *HSBC Statement of Facts*, 6–7.

<sup>241</sup> Department of Justice, "HSBC Holdings Plc. and HSBC Bank USA N.A."

<sup>242</sup> "State Sponsors of Terrorism," Department of State, accessed July 24, 2019, <https://www.state.gov/state-sponsors-of-terrorism/>; Dianne E. Rennack, *State Sponsors of Acts of International Terrorism—Legislative Parameters: In Brief*, CRS Report No. R43835 (Washington, DC: Congressional Research Service, 2018), 4, <https://fas.org/sgp/crs/terror/R43835.pdf>.

country is prohibited.<sup>243</sup> Libya and Cuba were previously sanctioned, but were removed on May 12, 2006 and May 29, 2015, respectively.<sup>244</sup>

### **3. United States v. JPMorgan Chase Bank, N.A.**

In 2014, JPMorgan Chase Bank, N.A. (JPMorgan) pled guilty for failing to maintain adequate system-wide AML programs that included internal auditing procedures, employee training, and means to report suspect activity.<sup>245</sup> As a result, Bernard L. Madoff was able to execute an elaborate Ponzi scheme through JPMorgan that defrauded 4,800 clients of \$64.8 billion over the course of three decades.<sup>246</sup> JPMorgan agreed to a \$1.7 billion forfeiture as restitution for Madoff's victims; at the time, it was the largest bank forfeiture in history.<sup>247</sup>

### **4. United States v. BNP Paribas S.A.**

In 2015, BNP Paribas S.A., the world's fourth largest bank at the time, pled guilty to knowingly and willfully moving \$8.8 billion through the U.S. financial system on behalf of countries subject to U.S. economic sanctions.<sup>248</sup> Transactions were processed on behalf of Sudan, Cuba, and Iran. These countries are all subject to embargo sanctions based on their support of global terrorism campaigns.<sup>249</sup> This instance was the first time an institution pled guilty to violating the International Emergency Economic Powers Act and

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<sup>243</sup> Department of State, "State Sponsors of Terrorism."

<sup>244</sup> Rennack, *State Sponsors of Acts of International Terrorism*, 1, 9.

<sup>245</sup> Department of Justice, *JPMorgan Chase Bank, N.A.—Deferred Prosecution Agreement* (New York: Department of Justice, 2014), 18.

<sup>246</sup> Martha Graybow, "Madoff Mysteries Remain as He Nears Guilty Plea," *Reuters*, March 11, 2009, <https://www.reuters.com/article/us-madoff-idUSTRE52A5JK20090311>.

<sup>247</sup> "Manhattan U.S. Attorney and FBI Assistant Director-In-Charge Announce Filing Of Criminal Charges against and Deferred Prosecution Agreement with JPMorgan Chase Bank, N.A., In Connection with Bernard L. Madoff's Multi-Billion Dollar Ponzi Scheme," Department of Justice, May 18, 2015, <https://www.justice.gov/usao-sdny/pr/manhattan-us-attorney-and-fbi-assistant-director-charge-announce-filing-criminal>.

<sup>248</sup> "BNP Paribas Sentenced for Conspiring to Violate the International Emergency Economic Powers Act and the Trading with the Enemy Act," Department of Justice, May 1, 2015, <https://www.justice.gov/opa/pr/bnp-paribas-sentenced-conspiring-violate-international-emergency-economic-powers-act-and>.

<sup>249</sup> United States District Court, Southern District of New York, *United States of America v. BNP Paribas S.A., Count One: Conspiracy to Violate the International Emergency Economic Powers Act and the Trading with the Enemy Act* (New York: Department of Justice, 2014), 3.

the Trading with the Enemy Act that resulted in BNP Paribas S.A. forfeiting \$8.83 billion to the U.S. government and paying a \$140 million fine.<sup>250</sup> The forfeiture was nearly eight times that of JPMorgan's a year prior.

## **B. INCREASE EMPHASIS ON INDIVIDUAL VERSUS CORPORATE RESPONSIBILITY**

In addition to increased penalty sizes, after 2009, a shift occurred concerning the personal liability of employees in corporate wrongdoings. The Department of Justice issued agency-wide guidance reflecting this policy shift, by stating, "one of the most effective ways to combat corporate misconduct is by seeking accountability from individuals who perpetrated the wrongdoing."<sup>251</sup> Included in the policy memo was a six-step process to identify and prosecute individual employees.<sup>252</sup> The following case of *United States v. Thomas E. Haider* demonstrates the level of accountability and penalty prosecutors can seek.

In 2014, FinCEN brought forth a monumental case assessing a \$1 million penalty against the former Chief Compliance Officer for MoneyGram International, Inc., Thomas E. Haider, for his personal failures to implement effective AML controls.<sup>253</sup> As a result of lax oversight, MoneyGram failed to detect schemes that defrauded the public, including one in which MoneyGram agents assisted telemarketers and internet scammers who misled U.S. victims into relinquishing tens of millions of dollars.<sup>254</sup> In 2016, Haider filed a motion with the District Court to dismiss the suit, arguing that he could not be held personally

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<sup>250</sup> United States District Court, Southern District of New York, 3.

<sup>251</sup> Sally Quillian Yates, *Individual Accountability for Corporate Wrongdoing* (Washington, DC: Department of Justice, 2015), 1, <https://www.justice.gov/archives/dag/file/769036/download>; Sykes, *Trends in Bank Secrecy Act/Anti-Money Laundering Enforcement*, 8.

<sup>252</sup> Yates, *Individual Accountability for Corporate Wrongdoing*, 2.

<sup>253</sup> Financial Crimes Enforcement Network, *FinCEN and Manhattan U.S. Attorney Announce Settlement with Former MoneyGram Executive Thomas E. Haider* (Vienna, VA: Department of the Treasury, 2017), 2, [https://www.fincen.gov/sites/default/files/2017-05/HaiderSettlement\\_050417.pdf](https://www.fincen.gov/sites/default/files/2017-05/HaiderSettlement_050417.pdf).

<sup>254</sup> Jennifer Shasky Calvery, *United States of America Department of the Treasury Financial Crimes Enforcement Network, in the Matter of Thomas E. Haider, Number 2014-08: Assessment of Civil Money Penalty* (Washington, DC: Department of the Treasury, 2014), 15–16, [https://www.fincen.gov/sites/default/files/enforcement\\_action/Haider\\_Assessment.pdf](https://www.fincen.gov/sites/default/files/enforcement_action/Haider_Assessment.pdf).

liable for failing to implement effective AML controls.<sup>255</sup> The court denied his motion, and in 2017, the case was settled with a \$250,000 penalty and a three-year injunction that prevents Haider from professionally performing any financial compliance function.<sup>256</sup>

### C. THE EFFECTS OF DE-RISKING

To alleviate the possibility of incurring high fines for non-compliance with regulatory standards, financial institutions have elected to discontinue operations in high-risk financial markets around the world; the hardest hit have been in Africa and the Middle East.<sup>257</sup> Seventy percent of all institutions cite increases in “regulatory expectations” followed by “enforcement of current regulations” as their primary barriers toward reinstating services.<sup>258</sup> As a result, 60% of institutions have reduced their geographic coverage of operations, which primarily impact money transmitting services.<sup>259</sup> This reduction is extremely problematic since money-transmitting services are the primary mode through which international remittances are processed, with some money transmitters handling nearly 90% of transaction volume in their region.<sup>260</sup> In the absence of a formal service, alternative platforms become necessary as a substitute.<sup>261</sup>

Global correspondent banking relationships and corridors for money transfers have been actively declining since 2009.<sup>262</sup> Correspondent banking services encompass different

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<sup>255</sup> “U.S. District Court Denies Motion to Dismiss FinCEN Complaint against Former Chief Compliance Officer of MoneyGram,” Sidley Banking and Financial Services Practice, January 29, 2016, <https://www.sidley.com/en/insights/newsupdates/2016/01/district-court-denies-motion-to-dismiss-fincen>.

<sup>256</sup> Sidley Banking and Financial Services Practice; Financial Crimes Enforcement Network, *FinCEN and Manhattan U.S. Attorney Announce Settlement with Former MoneyGram Executive Thomas E. Haider*, 1.

<sup>257</sup> Collin et al., *Unintended Consequences of Anti-Money Laundering Policies for Poor Countries*, 24; Kristin Pullar, *Blanket De-Risking of Money Service Businesses* (Miami: Association of Certified Anti-Money Laundering Specialists, 2016), 4, [http://files.acams.org/pdfs/2016/Blanket-De-Risking-of-Money-Service.pdf?\\_ga=2.170768035.2016383406.1562939206-2096467314.1562939206](http://files.acams.org/pdfs/2016/Blanket-De-Risking-of-Money-Service.pdf?_ga=2.170768035.2016383406.1562939206-2096467314.1562939206).

<sup>258</sup> Dow Jones and Swift, *Global Anti-Money Laundering Survey Results 2017* (New York: Dow Jones and Swift, 2017), 5.

<sup>259</sup> Starnes et al., *De-Risking and Other Challenges in the Emerging Market Financial Sector*, 1.

<sup>260</sup> Starnes et al., 47.

<sup>261</sup> Starnes et al., 49.

<sup>262</sup> Committee on Payments and Market Infrastructure, *Correspondent Banking*, 15.

activities that range from transferring money internationally, managing cash deposits, and clearing checks.<sup>263</sup> They are agreements between two or more financial service providers to execute payments on behalf of each other, one entity, or several entities.<sup>264</sup> The number of active banking relationships has declined by 15.5% globally, while the number of active corridors has shrunk by 10%.<sup>265</sup> As shown in Figure 4, this trend continues to decline.<sup>266</sup> In a study conducted of de-risking impacts within the Arab region, which included countries in Africa and the Middle East, banks with international correspondent banking relationships indicated a 55% decrease in international wire transfer services, a 49% decline in check clearing services, and a 36% decrease in the availability of cash management products, like deposit accounts.<sup>267</sup> Yet, the demand for services continues to grow. The volume of transactions through correspondent banking relationships has increased by 38%.<sup>268</sup> As transaction volume rises and active corridors and correspondent banking relationships decline, the money transmitting market becomes dangerously concentrated.

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<sup>263</sup> Committee on Payments and Market Infrastructure, 10.

<sup>264</sup> Committee on Payments and Market Infrastructure, 10.

<sup>265</sup> Henry Holden, “New Correspondent Banking Data—The Decline Continues,” BIS, accessed July 25, 2019, [https://www.bis.org/cpmi/paysysinfo/corr\\_bank\\_data/corr\\_bank\\_data\\_commentary\\_1905.htm](https://www.bis.org/cpmi/paysysinfo/corr_bank_data/corr_bank_data_commentary_1905.htm); Financial Stability Board, *FSB Correspondent Banking Data Report—Update* (Basel, Switzerland: Financial Stability Board, 2018), 14, <https://www.fsb.org/wp-content/uploads/P161118-2.pdf>.

<sup>266</sup> Holden, “New Correspondent Banking Data.”

<sup>267</sup> Arab Monetary Fund, International Monetary Fund, and World Bank Group, *Withdrawal of Correspondent Banking Relationships (CBRs) in the Arab Region Recent Trends and Thoughts for Policy Debate* (Rabat, Morocco: Arab Monetary Fund, 2016), 7, 13, [https://www.amf.org.ae/sites/default/files/Files/content/CBRs%20in%20the%20Arab%20Region%20Survey\\_FINAL%20Report\\_Final.pdf](https://www.amf.org.ae/sites/default/files/Files/content/CBRs%20in%20the%20Arab%20Region%20Survey_FINAL%20Report_Final.pdf).

<sup>268</sup> Financial Stability Board, *FSB Correspondent Banking Data Report—Update*, 32.

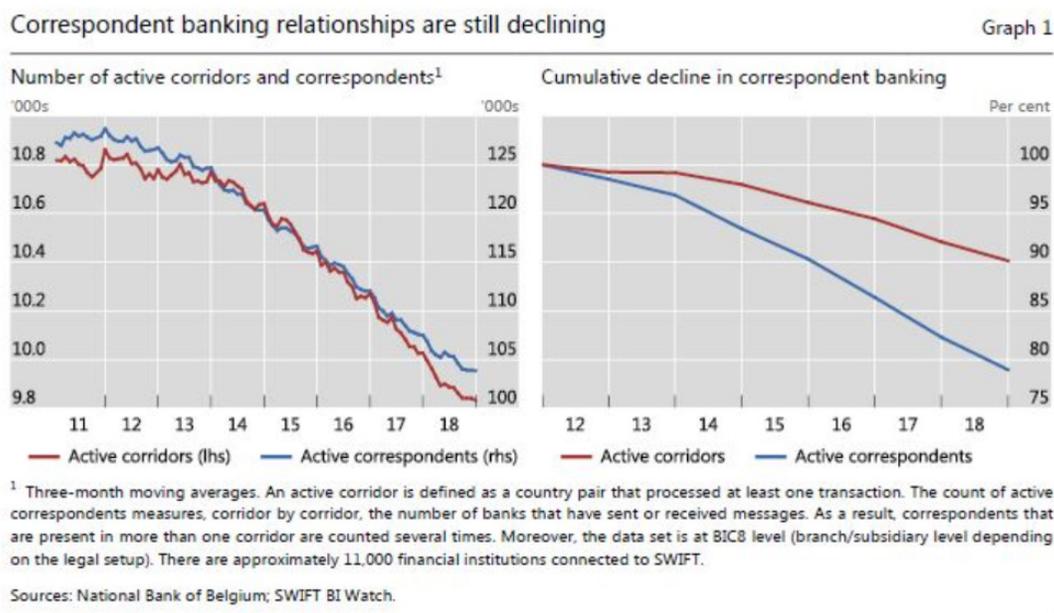


Figure 4. Correspondent Banking Relationships and Active Corridors Continue to Decline.<sup>269</sup>

Increased concentration creates a fragile market more susceptible to collapse, as any disruption creates a rippling effect across a large segment of an intimately interconnected network. Service providers in Africa depend on two or less correspondent banks to process 75% of all their transactions.<sup>270</sup> The network becomes overly reliant on a limited number of participants, which affects competition and cost. For money service businesses, the cost to maintain regulatory and compliance programs has significantly increased. To offset higher costs, companies impose higher fees for services.<sup>271</sup> In one instance, the operational cost to transmit money increased from \$9 to \$60 per transaction,

<sup>269</sup> Source: Holden, “New Correspondent Banking Data.”

<sup>270</sup> Eastern and Southern Africa Anti-Money Laundering Group, *Survey Report on De-Risking in the ESAAMLG Region (ESAAMLG 2017)* (Dar es Salaam-United Republic of Tanzania: Eastern and Southern Africa Anti-Money Laundering Group, 2017), 67, [https://www.esaamlg.org/reports/ESAAMLG\\_survey\\_reports\\_on\\_de%20\\_risking.pdf](https://www.esaamlg.org/reports/ESAAMLG_survey_reports_on_de%20_risking.pdf).

<sup>271</sup> Pierre-Laurent Chatain et al., *The Decline in Access to Correspondent Banking Services in Emerging Markets: Trends, Impacts, and Solutions Lessons Learned from Eight Country Case Studies* (Washington, DC: The World Bank, 2018), 9, <http://documents.worldbank.org/curated/en/552411525105603327/pdf/125422-replacement.pdf>.

as heightened scrutiny requires additional processes and people.<sup>272</sup> It is more cost effective for money service businesses to terminate services in certain corridors versus continuing to incur the high fees imposed by their correspondent bank.<sup>273</sup>

The termination of services has impacted remittance flows through the United States' financial network. In 2011, Sunrise Community Banks, which was the largest remittance corridor between the United States and Somalia, ceased all services to Somalia for fear of criminal prosecution under the material support legislation.<sup>274</sup> It took partnering money transmitters up to a month before they could find new institutions to process their transfers.<sup>275</sup> Sunrise Banks' decision came in the midst of a famine crisis in Somalia that would kill a quarter of a million people, half of which were children.<sup>276</sup> In 2014, the Financial Action Task Force (FATF) raised the issue of de-risking.<sup>277</sup> The FATF denounced the practice by financial institutions by stating:

De-risking' should never be an excuse for a bank to avoid implementing a risk-based approach, in line with the FATF standards. The *FATF Recommendations* only require financial institutions to terminate customer relationships, on a case-by-case basis, where the money laundering and terrorist financing risks cannot be mitigated. This is fully in line with AML/CFT objectives. What is not in line with the FATF standards is the wholesale cutting loose of entire classes of customer, without taking into account, seriously and comprehensively, their level of risk or risk mitigation measures for individual customers within a particular sector.

The risk-based approach should be the cornerstone of an effective AML/CFT system, and is essential to properly managing risks. The FATF expects financial institutions to identify, assess and understand their money

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<sup>272</sup> Chatain et al., 10.

<sup>273</sup> Arab Monetary Fund, International Monetary Fund, and World Bank Group, *Withdrawal of Correspondent Banking Relationships (CBRs) in the Arab Region Recent Trends and Thoughts for Policy Debate*, 10.

<sup>274</sup> Collin et al., *Unintended Consequences of Anti-Money Laundering Policies for Poor Countries*, 16.

<sup>275</sup> Manuel Orozco and Julia Yansura, *Keeping the Lifeline Open: Remittances and Markets in Somalia* (Washington, DC: Oxfam America, 2013), 24, <https://www.oxfamamerica.org/static/media/files/somalia-remittance-report-web.pdf>.

<sup>276</sup> "Somalia: Drought—2015–2018," ReliefWeb, accessed August 30, 2018, <https://reliefweb.int/disaster/dr-2015-000134-som>.

<sup>277</sup> "FATF Clarifies Risk-Based Approach: Case-by-Case, Not Wholesale De-Risking," Financial Action Task Force, October 23, 2014, <http://www.fatf-gafi.org/documents/news/rba-and-de-risking.html>.

laundering and terrorist financing risks and take commensurate measures in order to mitigate them. This does not imply a ‘zero failure’ approach.<sup>278</sup>

Yet, shortly thereafter, Merchants Bank of California, which had taken over the volume previously handled by Sunrise Community Banks, announced that it too would cease services to Somalia.<sup>279</sup> At the time, it was handling nearly 80% of all remittance volume to Somalia.<sup>280</sup> Somalia was not the only country in Africa impacted by de-risking decisions. The flow of payments to nine banks in Kenya, seven in Angola, four in South Africa, and numerous others throughout Madagascar, Malawi, Mozambique, Seychelles, Swaziland, Tanzania, Zambia, and Zimbabwe were severely disrupted.<sup>281</sup>

In the Middle East, de-risking has adversely affected non-government organizations (NGOs). NGOs working in different sectors, including education, public health, and medical services throughout conflict zones in Egypt, Yemen, Syria, and Iraq have experienced abrupt account closures, denied services, delays in wire transfers, and fee increases.<sup>282</sup> Forced account closures not only impact the ability to fund the organization’s mission, but have a rippling effect on the ability to establish new accounts at other institutions.<sup>283</sup> Once accounts have been closed or services have been refused, NGOs have reported that other institutions are more reluctant to accept the organization as a new customer or require an exceptional amount of documentation to establish their accounts,

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<sup>278</sup> Financial Action Task Force.

<sup>279</sup> Pamela Constable, “U.S. Banks Cut off Cash Transfers to Somalia amid Terrorism Concerns,” *Washington Post*, February 14, 2015, [https://www.washingtonpost.com/local/us-banks-cut-off-cash-transfers-to-somalia-amid-terrorism-concerns/2015/02/13/f95c696c-b155-11e4-854b-a38d13486ba1\\_story.html](https://www.washingtonpost.com/local/us-banks-cut-off-cash-transfers-to-somalia-amid-terrorism-concerns/2015/02/13/f95c696c-b155-11e4-854b-a38d13486ba1_story.html); Jamila Trindle, “Bank Crackdown Threatens Remittances to Somalia,” *Foreign Policy*, January 30, 2015, <https://foreignpolicy.com/2015/01/30/bank-crackdown-threatens-remittances-to-somalia/>.

<sup>280</sup> Oxfam America, *Joint Agency Briefing Note: Hanging by a Thread—The Ongoing Threat to Somalia’s Remittance Lifeline* (Washington, DC: Oxfam America, 2015), 7–8, <https://www.oxfamamerica.org/static/media/files/Hanging-by-thread-somalia-remittances-.pdf>.

<sup>281</sup> Eastern and Southern Africa Anti–Money Laundering Group, *Survey Report on De-Risking in the ESAAMLG Region (ESAAMLG 2017)*, 38.

<sup>282</sup> Sue E. Eckert, Kay Guinane, and Andrea Hall, *Financial Access for U.S. Nonprofits* (Washington, DC: Charity & Security Network, 2017), 38, 40, [https://www.charityandsecurity.org/system/files/FinancialAccessFullReport\\_2.21%20\(2\).pdf](https://www.charityandsecurity.org/system/files/FinancialAccessFullReport_2.21%20(2).pdf).

<sup>283</sup> Eckert, Guinane, and Hall, 41.

which creates further delays.<sup>284</sup> Organizations with religious affiliations to Islam, like the Zakat Foundation and Islamic Relief USA, have been particularly impacted and found themselves vulnerable to adverse banking decisions.<sup>285</sup> The humanitarian crisis in Syria ensued on the heels of de-risking decisions in the Middle East.<sup>286</sup> Aid organizations found themselves crippled and unable to mobilize, as no correspondent banking relationships were available to fund the Syrian operations.<sup>287</sup> During a crisis, the procedures to apply for licenses or waivers, or to establish new funding corridors to respond or sustain operations, prevent the timely delivery of aid.<sup>288</sup>

Heightened enforcement aimed at strengthening AML programs and countering the financing of terrorism has caused a decline in the availability of formal financial services in Africa and the Middle East. In recent years, a significant uptick in the frequency and size of penalties for non-compliance has caused a strain on the banking sector. As a result, the banking sector is forced to take action to reduce its risk exposure. De-risking decisions have had a particularly profound impact on money service businesses that transfer remittances to poor households and sustain NGO operations abroad. The loss of access to the formal sector drives activity to less transparent channels, like hawala.<sup>289</sup>

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<sup>284</sup> Eckert, Guinane, and Hall, 41.

<sup>285</sup> Jacob D. Kurtzer, *Denial, Delay, Diversion: Tackling Access Challenges in an Evolving Humanitarian Landscape* (Washington, DC: Center for Strategic and International Studies, 2019), 21, [https://csis-prod.s3.amazonaws.com/s3fs-public/publication/Kurtzer\\_DenialDelayDiversion\\_WEB\\_FINAL.pdf](https://csis-prod.s3.amazonaws.com/s3fs-public/publication/Kurtzer_DenialDelayDiversion_WEB_FINAL.pdf).

<sup>286</sup> Stuart Gordon et al., *The Impact of Bank De-Risking on the Humanitarian Response to the Syrian Crisis* (London: Humanitarian Policy Group, Overseas Development Institute, 2018), 4.

<sup>287</sup> Gordon et al., 7.

<sup>288</sup> Collin et al., *Unintended Consequences of Anti-Money Laundering Policies for Poor Countries*, 38.

<sup>289</sup> Gordon et al., *The Impact of Bank De-Risking on the Humanitarian Response to the Syrian Crisis*, 1.

## VI. ILLEGITIMATE USES OF HAWALA

Although the United States has enacted stringent AML and terror financing legislation, each year nearly \$2 trillion is laundered across the globe; \$300 billion of which is laundered in the United States alone and \$64 billion of which is generated through drug trafficking.<sup>290</sup> Terrorist organizations have abused hawala networks in Africa and the Middle East to fundraise and launder illegal earnings.<sup>291</sup> Case studies illustrate how terror organizations have utilized alternative money transfer systems to adapt and circumvent the United States' campaign against terror financing. Despite legislative efforts, the Taliban employed hawala to profit extensively from the international drug trade. The Islamic State grew to be one of the world's wealthiest terror organizations by using hawala to collect revenue from taxation and black market sales, while al-Shabaab employed hawala to funnel donor funds from the Somali diaspora and later to tax Somali citizens. The Taliban, Islamic State, and al-Shabaab remain among the most active terror groups today, and are responsible for more terrorism-related deaths and activities than any other organizations.<sup>292</sup>

### A. THE TALIBAN

From 2009–2016, the Taliban profited considerably by using hawala (also known as *saraf* in this region) to distribute opium and collect drug-trafficking revenue.<sup>293</sup> The FATF estimates that 50–90% of all drug money moved through value transfer systems like

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<sup>290</sup> *Combating Money Laundering and Other Forms of Illicit Finance: Administration Perspectives on Reforming and Strengthening Bank Secrecy Act Enforcement, Hearing Before the Committee on Banking, Housing, and Urban Affairs United States Senate One Hundred Fifteenth Congress Second Session on Examining Ways to Modernize the United States' Anti-Money Laundering and Counterterrorist Financing Regime and Exploring Ways to Strengthen the Enforcement and Integrity of the U.S. Financial System in a New Technological Era*, Senate, 115th Cong., 2nd sess., November 29, 2018, 93.

<sup>291</sup> S., *Countering Terrorist Financing*, 19.

<sup>292</sup> Institute for Economics and Peace, *Global Terrorism Index 2018: Measuring the Impact of Terrorism* (Sydney, Australia: Institute for Economics and Peace, 2018), 15, <http://visionofhumanity.org/app/uploads/2018/12/Global-Terrorism-Index-2018-1.pdf>.

<sup>293</sup> United Nations Office on Drugs and Crime, *The Global Afghan Opium Trade: A Threat Assessment* (Vienna, Austria: United Nations Office on Drugs and Crime, 2011), 79, 81, [http://www.unodc.org/documents/data-and-analysis/Studies/Global\\_Afghan\\_Opium\\_Trade\\_2011-web.pdf](http://www.unodc.org/documents/data-and-analysis/Studies/Global_Afghan_Opium_Trade_2011-web.pdf); Edwina A. Thompson, "The Nexus of Drug Trafficking and Hawala in Afghanistan," in *Afghanistan's Drug Industry: Structure, Functioning, Dynamics, and Implications for Counter-Narcotics Policy*, ed. Doris Buddenberg and William A. Byrd (Washington, DC: World Bank, 2006), 164.

hawala.<sup>294</sup> During this time, Afghanistan was the global leader of opiate production and generated \$61 billion worth of drugs.<sup>295</sup> The United Nations Office on Drugs and Crime (UNODC) estimates that the Taliban collected roughly \$150 million annually in drug profit through taxation schemes, transit tariffs, and earnings on opium cultivation, all of which moved through hawalas.<sup>296</sup> Hundreds of thousands of dollars in opium-related transactions moved through a variety of hawala networks, including Haji Khairullah Haji Sattar Money Exchange, Rahat Limited, and Roshan Money Exchange.<sup>297</sup> For example, in 2005, the UNODC estimated that hawala facilitated the laundering of approximately \$800 million in drug-related proceeds from the Helmand Province alone, and \$300–\$500 million from the Herat Province.<sup>298</sup> In some provinces, like Badakhshan, nearly 100% of all hawala activity was related to the opium trade, while in others, like Helmand and Kandahar, 80–90% of all hawala transactions were either directly or indirectly related to the drug trade.<sup>299</sup> As such, hawala not only supported the Taliban, but it supported a global supply chain of opium producers and traffickers.

Drug traffickers leveraged alternative money transfer systems to finance rural opium farmers. Hawala funds from donors abroad were used to support a wide range of production-related activities, like loans to farmers to improve their operations, purchase

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<sup>294</sup> Financial Action Task Force, *Financial Flows Linked to the Production and Trafficking of Afghan Opiates*, 3.

<sup>295</sup> Financial Action Task Force, 5.

<sup>296</sup> Curtis, “U.S. Counternarcotics Policy: Essential to Fighting Terrorism in Afghanistan,” 3; Office of the Special Inspector General for Afghanistan Reconstruction, *Special Inspector General for Afghanistan Reconstruction: Counternarcotics*, 217; Financial Action Task Force, *Financial Flows Linked to the Production and Trafficking of Afghan Opiates*, 42.

<sup>297</sup> Financial Crimes Enforcement Network, *FinCEN and Manhattan U.S. Attorney Announce Settlement with Former MoneyGram Executive Thomas E. Haider*, 44–45; “Treasury Targets Money Exchange Houses for Supporting the Taliban,” Department of the Treasury, June 29, 2012, <https://www.treasury.gov/press-center/press-releases/Pages/tg1627.aspx>.

<sup>298</sup> Financial Action Task Force, *Financial Flows Linked to the Production and Trafficking of Afghan Opiates*, 5.

<sup>299</sup> Thompson, “The Nexus of Drug Trafficking and Hawala in Afghanistan,” 156; Daniel A. Hancock, “The Olive Branch and the Hammer: A Strategic Analysis of Hawala in the Financial War on Terrorism” (master’s thesis, Naval Postgraduate School, 2008), 43.

more agricultural land, or develop infrastructure, like irrigation.<sup>300</sup> Funds were also used for seeds and fertilizer.<sup>301</sup> For poor rural farmers, opium cultivation yielded significantly higher incomes than traditional crops like wheat or rice. One hectare of opium could yield \$5,385 worth of product, in comparison to one hectare of irrigated wheat or rice, which would only yield \$282 or \$947, respectively.<sup>302</sup> Rural farmers found opium farming appealing as alternative money transfer systems enabled donors to invest in their operations.

## **B. ISLAMIC STATE**

Starting in 2014, the Islamic State leveraged local hawala networks and exchange houses to fund operations and become one of the wealthiest terrorist groups to date.<sup>303</sup> After seizing the town of Mosul, the Islamic State looted the central bank system to earn \$425 million overnight and increased the organization's fortune to an estimated half a billion dollars.<sup>304</sup> The Islamic State continued to profit from the governance of territory and the sale of natural resources and cultural materials on the black market.<sup>305</sup> Barred from entering the formal financial sector by international sanctions, the Islamic State utilized local hawala networks and exchange houses to fundraise and finance operations.<sup>306</sup>

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<sup>300</sup> Financial Action Task Force, *Financial Flows Linked to the Production and Trafficking of Afghan Opiates*, 14.

<sup>301</sup> Thompson, "The Nexus of Drug Trafficking and Hawala in Afghanistan," 35.

<sup>302</sup> Thompson, 27.

<sup>303</sup> Colin P. Clarke, "ISIS's New Plans to Get Rich and Wreak Havoc," *RAND* (blog), October 10, 2018, <https://www.rand.org/blog/2018/10/isiss-new-plans-to-get-rich-and-wreak-havoc.html>.

<sup>304</sup> Beau L. Pillot, "The Insurgency Business: The Islamic State in Iraq and Syria, 2010–2016" (master's thesis, Naval Postgraduate School, 2017), 18; Financial Action Task Force, *Financial Flows Linked to the Production and Trafficking of Afghan Opiates*, 12.

<sup>305</sup> Financial Action Task Force, *Financing of the Terrorist Organization Islamic State in Iraq and Levant* (Paris: Financial Action Task Force, 2015), 14; Patrick B. Johnston et al., *Foundations of the Islamic State: Management, Money, and Terror in Iraq, 2005–2010* (Santa Barbara, CA: RAND, 2016), 54.

<sup>306</sup> Financial Action Task Force, *Financial Flows Linked to the Production and Trafficking of Afghan Opiates*, 28; Pillot, "The Insurgency Business," 19.

Taxation programs accounted for approximately 30% of all the Islamic State's revenue.<sup>307</sup> Passage and transport fees were levied on individuals crossing in and out of Islamic State-controlled territories, to include customs charges for vehicles that earned an estimated \$140 million.<sup>308</sup> Local businesses were taxed up to 35% a month for electricity, water, and security services.<sup>309</sup> Revenue generated from the control of territory was not limited to exploiting the populace; the Islamic State also profited from the area's natural resources and cultural artifacts.

The black market sale of oil, petroleum-based products, and antiquities was profitable for the Islamic State.<sup>310</sup> Control of the oil and natural gas industry resulted in the production of nearly 75,000 barrels of crude oil, which generated \$1.3 million per day.<sup>311</sup> Prior to the Islamic State's takeover in Syria, the oil sector generated more than \$6.5 billion or 12% of the country's gross domestic product.<sup>312</sup> By occupying over a third of all archaeological sites in Iraq, the Islamic State generated nearly \$100 million a year from the excavation and selling of cultural artifacts.<sup>313</sup> At the height of its operations, the Islamic State's self-generation of funds earned it over \$1 million a day.<sup>314</sup>

The Islamic State leveraged hawala to collect taxes, profits, and fund operations, while also facilitating the movement of illicit funds into exchange houses. In 2016, the Department of the Treasury identified multiple hawala providers as having assisted the Islamic State, including the Selselat al-Thahab Money Exchange in Iraq and the Hanifa

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<sup>307</sup> Yaya J. Fanusie and Alex Entz, *Islamic State: Financial Assessment* (Washington, DC: Center on Sanctions and Illicit Finance, 2017), 8.

<sup>308</sup> Fanusie and Entz, 8.

<sup>309</sup> Carla E. Humud, Robert Pirog, and Liana Rosen, *Islamic State Financing and U.S. Policy Approaches*, CRS Report No. R43980 (Washington, DC: Congressional Research Service, 2015), 12–13.

<sup>310</sup> Patrick Blannin, "Islamic State's Financing: Sources, Methods and Utilisation," *Counter Terrorist Trends and Analyses* 9, no. 5 (May 2017): 14.

<sup>311</sup> Institute for Economics and Peace, *Global Terrorism Index 2017*, 83.

<sup>312</sup> Pillot, "The Insurgency Business," 20.

<sup>313</sup> Humud, Pirog, and Rosen, *Islamic State Financing and U.S. Policy Approaches*, 9–10.

<sup>314</sup> Task Force to Investigate Terrorism Financing, Committee on Financial Services, *Stopping Terror Finance: Securing the U.S. Financial Sector* (Washington, DC: House of Representatives, 2016), 54; H.R., *A Survey of Global Terrorism and Terrorist Financing*, 3.

Currency Exchange in Syria.<sup>315</sup> From 2015–2016, Selselat al-Thahab facilitated the movement of millions of U.S. dollars to fund the Islamic State.<sup>316</sup> Similarly, Hanifa Currency Exchange owner Fawaz Muhammad Jubayr al-Rawi rose through the ranks of the Islamic State to become a senior financier, and utilized his company to facilitate currency exchanges and to pay Islamic State fighters.<sup>317</sup> Hawala exchange houses became important components of the Islamic States’ financing scheme. Exchanges houses enabled access to bank auctions to purchase discounted U.S. dollars, which the Islamic State would then exchange for a profit on the black market.<sup>318</sup> In 2018, the Department of the Treasury also identified hawala dealer Afaq Dubai, and in 2019, an additional seven seasoned money launderers who moved funds for the Islamic State across Europe and Africa were identified.<sup>319</sup>

### C. AL-SHABAAB

Hawala played a critical role in ensuring al-Shabaab’s growth and operational capability during the group’s formative years. In 2006, after the collapse of the Islamic Courts Union, al-Shabaab emerged as a fundamentalist group against the Ethiopian occupation of Somalia.<sup>320</sup> Sympathizers from the Somali diaspora used hawala to send

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<sup>315</sup> “Selselat Al-Thahab,” United Nations Security Council, accessed October 8, 2019, [https://www.un.org/securitycouncil/sanctions/1267/faq\\_sanctions\\_list/summaries/entity/selselat-al-thahab](https://www.un.org/securitycouncil/sanctions/1267/faq_sanctions_list/summaries/entity/selselat-al-thahab); “Treasury Sanctions Senior ISIL Financier and Two Money Services Businesses,” Department of the Treasury, December 13, 2016, <https://www.treasury.gov/press-center/press-releases/Pages/jl0684.aspx>.

<sup>316</sup> United Nations Security Council, “Selselat Al-Thahab.”

<sup>317</sup> Department of the Treasury, “Treasury Sanctions Senior ISIL Financier and Two Money Services Businesses.”

<sup>318</sup> Blannin, “Islamic State’s Financing: Sources, Methods and Utilisation,” 8.

<sup>319</sup> “Treasury Designates Key Nodes of ISIS’s Financial Network Stretching across the Middle East, Europe, and East Africa,” Department of the Treasury, April 15, 2019, <https://home.treasury.gov/news/featured-stories/treasury-designates-key-nodes-of-isiss-financial-network-stretching-across>; Gregory Sullivan, *Operation Inherent Resolve - Summary of Work Performed by the Department of the Treasury and Office of Inspector General Related to Terrorist Financing, ISIS, and Anti-Money Laundering for First Quarter Fiscal Year 2019* (Washington, DC: Department of the Treasury, 2019), 2, <https://www.treasury.gov/about/organizational-structure/ig/Audit%20Reports%20and%20Testimonies/OIG-CA-19-010.pdf>; “Treasury Targets Iraq-Based Money Services Business Supporting ISIS,” Department of the Treasury, October 17, 2018, <https://home.treasury.gov/news/press-releases/sm526>.

<sup>320</sup> Wise, *Al Shabaab*, 2.

funds to support al-Shabaab's various campaigns.<sup>321</sup> Diaspora ties were so strong that Al-Shabaab leaders would use word of mouth to share information on which alternative money transfer system to remit funds through.<sup>322</sup> Eventually, financial support from the diaspora tapered, but al-Shabaab continued its use of hawala in conjunction with taxation programs.<sup>323</sup>

Racketeering schemes have been a significant source of income for al-Shabaab. As heavy conflict forced many Somali businesses to move abroad, hawala ensured ties to the homeland remained. In one scheme, al-Shabaab used hawala to purchase cheap vehicles from Somali car dealers in Dubai, and then re-sold them at a higher price to generate a profit of \$2,000 to \$6,000 per car.<sup>324</sup> Control of Kismaayo Port also proved profitable. Trading sugar with Kenyan and Dubai-based businessmen produced an estimated annual income of \$400,000 to \$800,000.<sup>325</sup> Similarly, al-Shabaab's illicit charcoal trade is estimated to have generated \$15 million, conservatively, up to \$50 million a year from international buyers.<sup>326</sup> On the domestic front, hawala facilitated al-Shabaab's extortion programs.

Al-Shabaab used hawala to implement extortion programs in the areas it occupied. In 2011, the United Nations Security Council estimated that al-Shabaab generated between \$70–\$100 million a year in taxation programs, including fees levied for using airports or

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<sup>321</sup> Wise, 9; *United Nations Security Council, Report of the Monitoring Group on Somalia Pursuant to Security Council Resolution 1853*, 25; Vilkkko, *Al-Shabaab*, 10.

<sup>322</sup> United Nations Security Council, *Report of the Monitoring Group on Somalia Pursuant to Security Council Resolution 1853*, 30.

<sup>323</sup> Vilkkko, *Al-Shabaab*, 8.

<sup>324</sup> Ido Levy and Adbi Yusuf, "How Do Terrorist Organizations Make Money? Terrorist Funding and Innovation in the Case of al-Shabaab," *Studies in Conflict Terrorism*, 11, June 17, 2019, <https://doi.org/10.1080/1057610X.2019.1628622>.

<sup>325</sup> Levy and Yusuf, 8; Wise, *Al-Shabaab*, 6; United Nations Security Council, *Report of the Monitoring Group on Somalia and Eritrea Pursuant to Security Council Resolution 1916* (New York: United Nations, 2011), 30.

<sup>326</sup> Counter Extremist Project, *Al-Shabab* (New York: Counter Extremism Project, 2018), 4, [https://www.counterextremism.com/sites/default/files/threat\\_pdf/Al-Shabab-09182018.pdf](https://www.counterextremism.com/sites/default/files/threat_pdf/Al-Shabab-09182018.pdf); United Nations Security Council, *Report of the Monitoring Group on Somalia and Eritrea Pursuant to Security Council Resolution 1916*, 27.

seaports and to traverse checkpoints.<sup>327</sup> Farmers were taxed \$10 for every farmable acre, while taxes were also levied on their produce and livestock.<sup>328</sup> Protection taxes were imposed on other businesses, earning al-Shabaab \$2.5–\$5 million a month.<sup>329</sup> When financial backing from the Somali diaspora began to dwindle, al-Shabaab turned to taxation programs that used alternative money transfer systems to ensure its continued funding.

While financial support structures for terrorist organizations and their criminal activities vary, one common feature of groups operating in Africa and the Middle East is their use of hawala. Alternative money transfer systems enable terrorist organizations to ensure funding for operations by circumventing the United States' legislative efforts. The ability to amass capital is especially problematic in relation to the relatively low cost to execute a terror plot. Thus, the United States has actively pursued a strict regulatory agenda to counter terror financing. However, these same networks also support a broader humanitarian mission, and are used by diaspora communities and aid organizations to support communities that have been affected by terror activity.<sup>330</sup>

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<sup>327</sup> United Nations Security Council, *Report of the Monitoring Group on Somalia and Eritrea Pursuant to Security Council Resolution 1916*, 27.

<sup>328</sup> United Nations Security Council, 28.

<sup>329</sup> United Nations Security Council, 28; Vilkkko, *Al-Shabaab*, 18.

<sup>330</sup> Thompson, *Humanitarian Use of Hawala in Syria*, 5; Blackwell and Stennes, *Cash Transfers in Raqqa Governorate, Syria*, 12; Dunn, Brewin, and Sceck, *Cash and Voucher Monitoring Group*, 9; Starnes et al., *De-Risking and Other Challenges in the Emerging Market Financial Sector*, 47; The World Bank, *Migration and Remittances*, 1.

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## VII. LEGITIMATE USES OF HAWALA

Beyond facilitating the procurement of basic survival needs, hawala supports security and development initiatives that protect women and children in crisis. During emergencies, women and children are disproportionately victimized by desperate and violent behaviors as households attempt to cope with extreme poverty, conflict, and natural disasters.<sup>331</sup> These behaviors can cause disenrollment from school, early marriages, forced labor, and sexual exploitation.<sup>332</sup> Presently, women and girls account for over 70% of all human trafficking victims; three out of four of them are specifically trafficked for sexual purposes.<sup>333</sup> Around the globe, over 400 million children are living in extreme poverty and nine million child refugees have been forced to flee their homes.<sup>334</sup> The complexities of these humanitarian crises have changed. The average crisis now lasts over nine years, and demands consistent and long-term proposed solutions.<sup>335</sup> Yet, with heightened budgetary and resource constraints, relief organizations are unable to service over 40% of those in

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<sup>331</sup> International Labour Organization, and Walk Free Foundation, *Global Estimates of Modern Slavery: Forced Labour and Forced Marriage* (Geneva, Switzerland: International Labour Organization, 2017), 10, [https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms\\_575479.pdf](https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_575479.pdf).

<sup>332</sup> United Nations, *Human Development Indices and Indicators: 2018 Statistical Update* (New York: United Nations, 2018), 2, [http://www.hdr.undp.org/sites/default/files/2018\\_human\\_development\\_statistical\\_update.pdf](http://www.hdr.undp.org/sites/default/files/2018_human_development_statistical_update.pdf); United Nations Office for the Coordination of Humanitarian Affairs, *Central African Republic: Humanitarian Response Plan, January–December 2019* (New York: United Nations, 2018), 9, [https://reliefweb.int/sites/reliefweb.int/files/resources/2018\\_hrp\\_CAR\\_english\\_final\\_0.pdf](https://reliefweb.int/sites/reliefweb.int/files/resources/2018_hrp_CAR_english_final_0.pdf).

<sup>333</sup> United Nations, “Facts and Figures: Ending Violence against Women,” UN Women, accessed October 31, 2019, <https://www.unwomen.org/what-we-do/ending-violence-against-women/facts-and-figures>.

<sup>334</sup> “Children Uprooted,” United Nations Children’s Fund, accessed October 31, 2019, <https://www.unicef.org/children-uprooted>.

<sup>335</sup> UN Economic and Social Council, *Strengthening of the Coordination of Emergency Humanitarian Assistance of the United Nations, Report of the Secretary-General* (New York: United Nations General Assembly, 2019), 2, [https://reliefweb.int/sites/reliefweb.int/files/resources/E\\_2019\\_60\\_E.pdf](https://reliefweb.int/sites/reliefweb.int/files/resources/E_2019_60_E.pdf).

need.<sup>336</sup> That gap widens as each year progresses.<sup>337</sup> Hostile environments impair the ability for humanitarian workers to reach people in need, which results in unnecessary and avoidable deaths caused by significant declines in operational coverage.<sup>338</sup> In the most insecure and remote locations however alternative money transfer systems are what do remain in constant operation.<sup>339</sup> Hawalas offer an opportunity to lessen the strain on the existing aid system by being a force multiplier and facilitating critical cash transfers. The remittances and cash programming empower women and children and protect them from falling victim to tragedy.<sup>340</sup>

## A. ENHANCED SECURITY FOR WOMEN AND CHILDREN

Human security and development objectives are mutually inclusive and can be measured through achievements in education, health, poverty reduction, and gender

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<sup>336</sup> Swedish International Development Cooperation Agency, *Humanitarian Outlook and Sida's Humanitarian Response: 2019* (Stockholm, Sweden: Swedish International Development Cooperation Agency, 2019), 2–3, [https://www.sida.se/contentassets/96b50ed5305d40f8a977fb3d4cc4764a/humanitarian\\_outlook\\_and\\_sidas\\_humanitarian\\_response\\_2019\\_-\\_allocation\\_methodology\\_criteria\\_and\\_outcome\\_feb\\_2019\\_final.pdf](https://www.sida.se/contentassets/96b50ed5305d40f8a977fb3d4cc4764a/humanitarian_outlook_and_sidas_humanitarian_response_2019_-_allocation_methodology_criteria_and_outcome_feb_2019_final.pdf).

<sup>337</sup> Swedish International Development Cooperation Agency, 2–3.

<sup>338</sup> Abby Stoddard et al., “Out of Reach: How Insecurity Prevents Humanitarian Aid from Accessing the Neediest,” *Stability: International Journal of Security and Development* 6, no. 1 (March 3, 2017): 6, <https://doi.org/10.5334/sta.506>.

<sup>339</sup> Care International, *Using Hawala to Conduct Cash Programming in Syria*, 2.

<sup>340</sup> The World Bank, *Informal Funds Transfer Systems*, 15; Action against Hunger International, *Hawala Cash Transfers for Food Assistance and Livelihood Protection—Afghanistan*, 2; Graham Hall Turbville, Josh Meservey, and James J. F. Forest, *Countering the Al-Shabaab Insurgency in Somalia: Lessons for U.S. Special Operations Forces* (MacDill Air Force Base, Florida: Joint Special Operations University, 2014), 19, [https://www.researchgate.net/publication/302471478\\_Countering\\_the\\_al-Shabaab\\_Insurgency\\_in\\_Somalia\\_Lessons\\_for\\_US\\_Special\\_Operations\\_Forces](https://www.researchgate.net/publication/302471478_Countering_the_al-Shabaab_Insurgency_in_Somalia_Lessons_for_US_Special_Operations_Forces); Pathak, “The Obstacles to Regulating the Hawala,” 2048; Financial Action Task Force, *Terrorist Financing in West and Central Africa* (Paris: Financial Action Task Force, 2016), 27, <https://www.fatf-gafi.org/media/fatf/documents/reports/Terrorist-Financing-West-Central-Africa.pdf>; United Nations Office for the Coordination of Humanitarian Affairs, *Central African Republic: Humanitarian Response Plan*, 9; Shannon Doocy, Hannah Tappis, and Emily Lyles, *Cash-Based Response Feasibility Assessment in Northern Syria* (Baltimore: Johns Hopkins School of Public Health, 2016), 17, [https://www.humanitarianresponse.info/sites/www.humanitarianresponse.info/files/documents/files/cfa\\_report\\_final\\_with\\_annexes\\_i-iii.pdf](https://www.humanitarianresponse.info/sites/www.humanitarianresponse.info/files/documents/files/cfa_report_final_with_annexes_i-iii.pdf); Blackwell and Stennes, *Cash Transfers in Raqqa Governorate, Syria*, 2; United Nations, *Human Development Indices and Indicators: 2018 Statistical Update*, 2; Mercy Corps, *The Cash Transfer Implementation Guide: Part of the Cash Transfer Programming Toolkit* (Portland, OR: Mercy Corps, 2017), 27, <https://www.mercycorps.org/sites/default/files/CashTransferImplementationGuide.pdf>.

equality.<sup>341</sup> Since the 1990s, Africa and the Middle East have consistently trailed behind the rest of the world in advancing security and development.<sup>342</sup> As depicted in Figure 5, wide gaps can be seen between development activities within the Arab states in the Middle East and North Africa, but they are most prominent when comparing the developed world against Sub-Saharan Africa.<sup>343</sup> In 2018, the African nations of Burundi, Chad, South Sudan, the Central African Republic, and Niger were identified as the most insecure and underdeveloped locations in the world, while countries in Northern Africa and the Middle East experienced the greatest declines in human progress.<sup>344</sup> In these locations, regressions in progress increase the susceptibility to socioeconomic vulnerabilities for women and children.<sup>345</sup> Hawala is part of a protection strategy to alleviate poverty because it facilitates cash transfers in unbanked regions not serviced by the formal financial sector.<sup>346</sup> Hawala empowers households to endure economic shocks without having to resort to reckless or impulsive actions.<sup>347</sup>

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<sup>341</sup> United Nations, *Human Development Indices and Indicators: 2018 Statistical Update*, 1; United Nations, *Human Security Handbook: An Integrated Approach for the Realization of the Sustainable Development Goals and the Priority Areas of the International Community and the United Nations System* (New York: United Nations, 2016), 5, <https://www.un.org/humansecurity/wp-content/uploads/2017/10/h2.pdf>.

<sup>342</sup> United Nations, *Human Development Indices and Indicators: 2018 Statistical Update*, 3.

<sup>343</sup> United Nations, 3, 108. In this report, the Arab states were made up of the following: Algeria, Bahrain, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, State of Palestine, Qatar, Saudi Arabia, Somalia, Sudan, Syrian Arab Republic, Tunisia, United Arab Emirates, and Yemen. Sub-Saharan Africa consisted of: Angola, Benin, Botswana, Burkina Faso, Burundi, Cabo Verde, Cameroon, Central African Republic, Chad, Comoros, Congo, Democratic Republic of the Congo, Côte d'Ivoire, Equatorial Guinea, Eritrea, Kingdom of Eswatini, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, São Tomé and Príncipe, Senegal, Seychelles, Sierra Leone, South Africa, South Sudan, United Republic of Tanzania, Togo, Uganda, Zambia, and Zimbabwe.

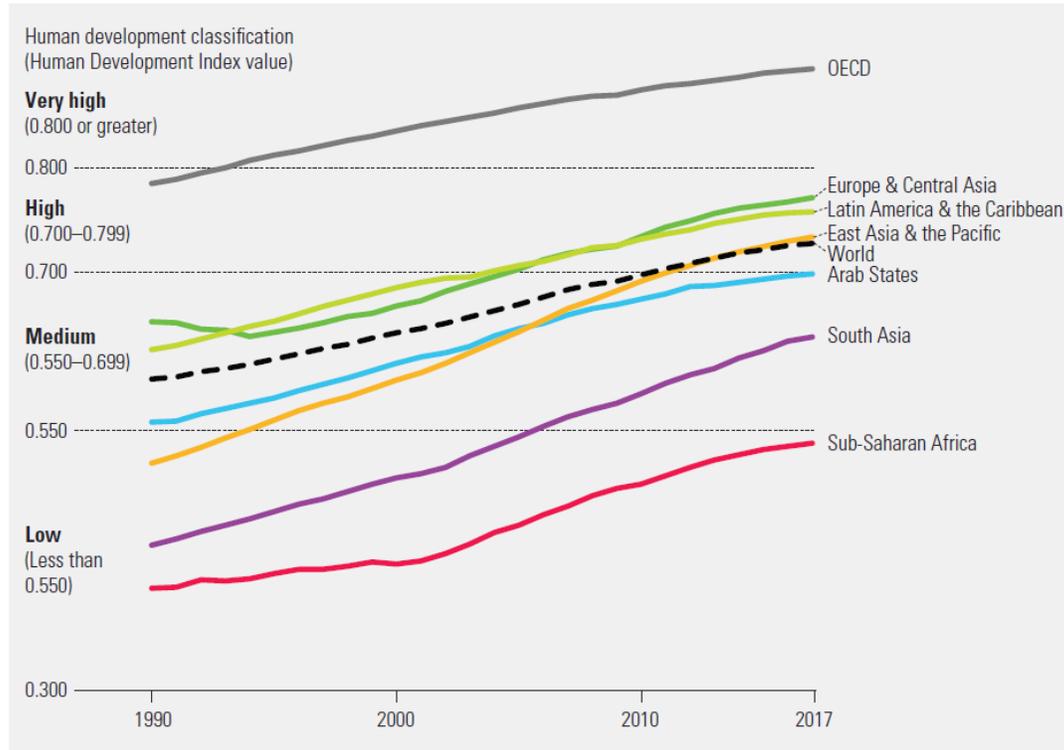
<sup>344</sup> United Nations, 2.

<sup>345</sup> United Nations, 2; United Nations Office for the Coordination of Humanitarian Affairs, *Central African Republic*, 9.

<sup>346</sup> Doocy and Tappis, *Cash-Based Approaches in Humanitarian Emergencies*, 46; Blackwell and Stennes, *Cash Transfers in Raqqa Governorate, Syria*, 2; Bailey and Harvey, *State of Evidence on Humanitarian Cash Transfers*, 2.

<sup>347</sup> Doocy and Tappis, *Cash-Based Approaches in Humanitarian Emergencies*, 46; Blackwell and Stennes, *Cash Transfers in Raqqa Governorate, Syria*, 2.

**Human Development Index values, by country grouping, 1990–2017**



Source: Human Development Report Office.

**Figure 5. The Arab States of the Middle East and North Africa, and Sub-Saharan Africa Consistently Trail behind the Rest of the World in Human Development.<sup>348</sup>**

<sup>348</sup> Source: United Nations, *Human Development Indices and Indicators: 2018 Statistical Update*, 3, 108. In this report, the Arab states were made up of the following: Algeria, Bahrain, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, State of Palestine, Qatar, Saudi Arabia, Somalia, Sudan, Syrian Arab Republic, Tunisia, United Arab Emirates, and Yemen. Sub-Saharan Africa consisted of Angola, Benin, Botswana, Burkina Faso, Burundi, Cabo Verde, Cameroon, Central African Republic, Chad, Comoros, Congo, Democratic Republic of the Congo, Côte d’Ivoire, Equatorial Guinea, Eritrea, Kingdom of Eswatini, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, São Tomé and Príncipe, Senegal, Seychelles, Sierra Leone, South Africa, South Sudan, United Republic of Tanzania, Togo, Uganda, Zambia, and Zimbabwe.

Coercion tactics are a negative coping strategy for economically unstable households searching for ways to reduce their household expenditures. In Africa and the Middle East, child trafficking for forced labor is a prevalent practice.<sup>349</sup> Vulnerability to exploitation and trafficking is exacerbated by conflict and natural disasters because they significantly strain household finances and deteriorate living conditions.<sup>350</sup> According to the International Labor Organisation, 20% of children in Africa and 3% in the Middle East are engaged in child labor.<sup>351</sup> In these regions, half of all child laborers are involved in hazardous work that threatens their safety, physical or mental health, and moral development.<sup>352</sup> In Africa, forced labor is most prevalent in the western and central regions with an average of 200,000–300,000 children trafficked each year for labor and sex work.<sup>353</sup> In the Middle East, child labor is on the rise with over 1.4 million children in the workforce in Yemen, nearly 650,000 in Egypt, and approximately 400,000 in Iraq.<sup>354</sup> The exploitation of children also occurs through social practices, such as forced marriages.

In the Middle East and Africa, negative coping can manifest through forced marriages, which overwhelmingly result in unintended pregnancies.<sup>355</sup> Nearly 84% of all

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<sup>349</sup> International Labour Office, *Global Estimates of Child Labour: Results and Trends, 2012–2016* (Geneva, Switzerland: International Labour Office, 2017), 28; International Labour Organization, and Walk Free Foundation, *Global Estimates of Modern Slavery*, 10.

<sup>350</sup> Kathleen Fitzgibbon, “Modern-Day Slavery?,” *African Security Studies* 12, no. 1 (July 21, 2010): 83, <https://doi.org/10.1080/10246029.2003.9627573>.

<sup>351</sup> International Labour Organization, *Child Labour in the Arab Region: A Quantitative and Qualitative Analysis* (Geneva, Switzerland: International Labour Organization, 2019), 20, [https://www.ilo.org/wcmsp5/groups/public/---arabstates/---ro-beirut/documents/publication/wcms\\_675262.pdf](https://www.ilo.org/wcmsp5/groups/public/---arabstates/---ro-beirut/documents/publication/wcms_675262.pdf).

<sup>352</sup> International Labour Organization, 20; International Labour Office, *Global Estimates of Child Labour*, 11.

<sup>353</sup> Fitzgibbon, “Modern-Day Slavery?,” 82–83.

<sup>354</sup> International Labour Organization, *Child Labour in the Arab Region: A Quantitative and Qualitative Analysis*, 30.

<sup>355</sup> Naomi Clugston, ““Breaking Barriers to Girls’ Education by Breaking Cycles of Poverty, Cash Transfers in South Sudan: A Case Study,” in *Collected Papers on Gender and Cash Transfer Programmes in Humanitarian Contexts*, vol. 3 (Oxford, United Kingdom: The Cash Learning Partnership, 2018), 80, <http://www.cashlearning.org/downloads/resources/Other/calpcollectedpapersongenderandctp-vol.3.pdf>; Tenzin Manell, “Tackling the Integration of Gender-Based Violence Prevention and Response and Cash-Based Interventions,” in *Collected Papers on Gender and Cash Transfer Programmes in Humanitarian Contexts*, vol. 3 (Oxford, United Kingdom: The Cash Learning Partnership, 2018), 89, <http://www.cashlearning.org/downloads/resources/Other/calpcollectedpapersongenderandctp-vol.3.pdf>.

forced marriage victims are females, 37% of whom were married as children.<sup>356</sup> In the poorest countries of the world, the prevalence of child marriage is high; almost half of all women who are currently 20–24 years of age were married before the age of 18, while 15% of them were married before the age of 15.<sup>357</sup> Africa as a whole has the highest birth rate in the world for adolescent girls between the ages of 15–19, which averages 99 births per every 1,000.<sup>358</sup> The global average is less than half that, or 44 births for every 1,000.<sup>359</sup> Adolescent pregnancies present higher risks for serious neonatal conditions, low birthweights, preterm deliveries, and stillborns, as well as the risk of death to the mother.<sup>360</sup> Each year in Africa, 7.3 million children are born to girls under the age of 18, and two million are born to girls age 15 and younger.<sup>361</sup> While maternal mortality rates vary, in the Central African Republic, a mother has a 1 in 27 chance of dying while giving birth, while in Afghanistan, the chances are 1 in 11.<sup>362</sup> Meanwhile, for women attempting to avoid childbirth, unsafe abortion practices remain the leading contributor to mortality in pregnant women.<sup>363</sup>

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<sup>356</sup> International Labour Organization, and Walk Free Foundation, *Global Estimates of Modern Slavery*, 45.

<sup>357</sup> Natacha Stevanovic Fenn et al., *Child Marriage, Adolescent Pregnancy and Family Formation in West and Central Africa: Patterns, Trends and Drivers of Change* (New York: UNICEF, 2015), 11, <https://www.unicef.org/wca/reports/child-marriage-adolescent-pregnancy-and-family-formation-west-and-central-africa>.

<sup>358</sup> World Health Organization, *Life Expectancy and Causes of Death* (Geneva, Switzerland: World Health Organization, 2019), 58, [https://www.who.int/gho/publications/world\\_health\\_statistics/2019/EN\\_WHS\\_2019\\_Main.pdf?ua=1](https://www.who.int/gho/publications/world_health_statistics/2019/EN_WHS_2019_Main.pdf?ua=1).

<sup>359</sup> World Health Organization, 58.

<sup>360</sup> T Ganchimeg et al., “Pregnancy and Childbirth Outcomes among Adolescent Mothers: A World Health Organization Multicountry Study,” *British Journal of Obstetrics and Gynaecology* 121, no. Suppl. 1 (November 3, 2014): 45, <https://doi.org/10.1111/1471-0528.12630>.

<sup>361</sup> Fenn et al., *Child Marriage, Adolescent Pregnancy and Family Formation in West and Central Africa*, 11.

<sup>362</sup> United Nations Children’s Fund, *Crisis in the Central African Republic: In a Neglected Emergency, Children Need Aid, Protection—and a Future* (New York: United Nations, 2018), 6, [https://www.unicef.org/publications/files/UNICEF\\_Child\\_Alert\\_CAR\\_2018\\_EN.pdf](https://www.unicef.org/publications/files/UNICEF_Child_Alert_CAR_2018_EN.pdf); World Health Organization et al., *Trends in Maternal Mortality: 1990 to 2008* (Geneva, Switzerland: World Health Organization, 2010), 17, [https://apps.who.int/iris/bitstream/handle/10665/44423/9789241500265\\_eng.pdf?sequence=1](https://apps.who.int/iris/bitstream/handle/10665/44423/9789241500265_eng.pdf?sequence=1).

<sup>363</sup> United Nations, *Report of the Secretary-General on Conflict-Related Sexual Violence* (New York: United Nations, 2017), 13, <https://www.un.org/en/events/elimination-of-sexual-violence-in-conflict/pdf/1494280398.pdf>.

In the case of forced unions, sex work, and during periods of war, rape is common and may cause victims to seek unsafe abortions.<sup>364</sup> In some locations, women and girls are treated as commodities who are exchanged for dowries, social protection from local gangs or crime syndicates, or for revenue, as with the case of forced sexual trafficking or prostitution.<sup>365</sup> Unsafe abortions can be extremely traumatic. They can be self-induced by ingesting hazardous or poisonous substances, provoked through the insertion of objects into the uterus, or encompass unhygienic conditions or an unskilled health practitioner.<sup>366</sup> Each year, 1.6 million women in Africa require secondary treatment because of these unsafe practices.<sup>367</sup> In Africa and the Middle East, the intense shame and stigma associated with reporting sexual violence perpetuates silence among victims.<sup>368</sup>

In Africa and the Middle East, families do not ordinarily seek formal justice or report rape to authorities because it could become a source of social outcasting, shame, or public embarrassment.<sup>369</sup> Instead, family members may force a woman or girl to marry their perpetrators as part of an “amicable settlement” scheme, which often include a financial payment or dowry to the family.<sup>370</sup> Resolution can elevate to the level of

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<sup>364</sup> Guttmacher Institute, *Fact Sheet: Abortion in Africa* (New York: Guttmacher Institute, 2018), 2, [https://www.guttmacher.org/sites/default/files/factsheet/ib\\_aww-africa.pdf](https://www.guttmacher.org/sites/default/files/factsheet/ib_aww-africa.pdf); Michelle Berg and Louisa Seferis, *Protection Outcomes in Cash Based Interventions* (Geneva, Switzerland and Copenhagen, Denmark: UNHCR and the Danish Refugee Council, 2015), 34, <http://www.cashlearning.org/downloads/erc-cash-and-protection-literature-review-web.pdf>.

<sup>365</sup> United Nations, *Report of the Secretary-General on Conflict-Related Sexual Violence*, 5.

<sup>366</sup> Department of Reproductive Health and Research, World Health Organization, *Unsafe Abortion: Global and Regional Estimates of the Incidence of Unsafe Abortion and Associated Mortality in 2008*, 6th ed. (Geneva, Switzerland: World Health Organization, 2011), 2, [https://apps.who.int/iris/bitstream/handle/10665/44529/9789241501118\\_eng.pdf;jsessionid=10EB494E2219A30D3543F08535A3CBDE?sequence=1](https://apps.who.int/iris/bitstream/handle/10665/44529/9789241501118_eng.pdf;jsessionid=10EB494E2219A30D3543F08535A3CBDE?sequence=1).

<sup>367</sup> Guttmacher Institute, *Fact Sheet: Abortion in Africa*, 1.

<sup>368</sup> Mazedra Hossain and Alys McAlpine, *Gender Based Violence Research Methodologies in Humanitarian Settings: An Evidence Review and Recommendations* (Cardiff, Wales: Elrha, 2017), 31, [https://researchonline.lshtm.ac.uk/id/eprint/4461786/1/Gender%20Based%20Violence%20Research\\_GOLD%20VoR.pdf](https://researchonline.lshtm.ac.uk/id/eprint/4461786/1/Gender%20Based%20Violence%20Research_GOLD%20VoR.pdf); United Nations, *Report of the Secretary-General on Conflict-Related Sexual Violence*, 6.

<sup>369</sup> Allyson Cross, Tenzin Manell, and Melanie Megevand, “Humanitarian Cash Transfer Programming and Gender-Based Violence Outcomes: Evidence and Future Research Priorities,” in *Collected Papers on Gender and Cash Transfer Programmes in Humanitarian Contexts*, vol. 3 (Oxford, United Kingdom: The Cash Learning Partnership, 2018), 103, <http://www.cashlearning.org/downloads/resources/Other/calpcollectedpapersongenderandctp-vol.3.pdf>.

<sup>370</sup> United Nations, *Report of the Secretary-General on Conflict-Related Sexual Violence*, 13.

murdering sexually abused victims to restore family honor.<sup>371</sup> Data related to this practice, known as honor killings, is limited as crimes generally go unrecorded or are misreported as accidents or suicides.<sup>372</sup> However, the World Health Organization estimates that male partners or family members commit 40–70% of all female murders worldwide, while the United Nations reports that an intimate partner or family member killed 58% of the 87,000 women murdered in 2017.<sup>373</sup> Female sex workers in particular have the highest rates of homicide due to their exposure to violence.<sup>374</sup>

Negative coping strategies exercised by households to overcome poverty, conflict, or natural disasters cause the socioeconomic vulnerabilities that exploit and abuse women and girls. In Africa and the Middle East, communities are limited on methods to address shocks to their economic stability. In rural and urban societies alike, households rely on harmful strategies, like violence, forced labor, or sexual exploitation that intensify family tensions and perpetuate desperate and violent behavior toward women and children.<sup>375</sup> In areas of armed conflict, one out of three women will experience violence from an intimate partner or family member.<sup>376</sup> Africa and the Middle East rank among the highest regions

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<sup>371</sup> Andrzej Kulczycki and Sarah Windle, “Honor Killings in the Middle East and North Africa: A Systematic Review of the Literature,” *Violence against Women* 17, no. 11 (November 1, 2011): 1448, <https://doi.org/10.1177/1077801211434127>; United Nations Office on Drugs and Crime, *Global Study on Homicide: Gender-Related Killing of Women and Girls* (Vienna, Austria: United Nations, 2018), 31, [https://www.unodc.org/documents/data-and-analysis/GSH2018/GSH18\\_Gender-related\\_killing\\_of\\_women\\_and\\_girls.pdf](https://www.unodc.org/documents/data-and-analysis/GSH2018/GSH18_Gender-related_killing_of_women_and_girls.pdf); Deanna Chitayat et al., “Does Educating Girls Matter? A United Nations Perspective on Barriers and Promises,” *International Psychology Bulletin* 16, no. 1 (2012): 14.

<sup>372</sup> United Nations Office on Drugs and Crime, *Global Study on Homicide*, 31; Kulczycki and Windle, “Honor Killings in the Middle East and North Africa,” 1448.

<sup>373</sup> World Health Organization, *Understanding and Addressing Violence against Women* (Geneva, Switzerland: World Health Organization, 2012), 7, [https://apps.who.int/iris/bitstream/handle/10665/77432/WHO\\_RHR\\_12.36\\_eng.pdf;jsessionid=6F32F0D3115F99D2918424435BF1A54E?sequence=1](https://apps.who.int/iris/bitstream/handle/10665/77432/WHO_RHR_12.36_eng.pdf;jsessionid=6F32F0D3115F99D2918424435BF1A54E?sequence=1); United Nations Office on Drugs and Crime, *Global Study on Homicide*, 10.

<sup>374</sup> United Nations Office on Drugs and Crime, *Global Study on Homicide*, 36.

<sup>375</sup> Blackwell and Stennes, *Cash Transfers in Raqqa Governorate, Syria*, 19; Zlatko Nikoloski, Luc Chistiaensen, and Ruth Hill, *Household Shocks and Coping Mechanism: Evidence from Sub-Saharan Africa* (Washington, DC: The World Bank, 2018), 124, <http://dx.doi.org/10.1596/978-1-4648-1134-0>; Djesika D. Amendah, Steven Buigut, and Shukri Mohamed, “Coping Strategies among Urban Poor: Evidence from Nairobi, Kenya,” *PLoS ONE* 9, no. 1 (January 14, 2014): 5, <https://doi.org/10.1371/journal.pone.0083428>; Simon, “Setting the Stage,” 12.

<sup>376</sup> Hossain and McAlpine, *Gender Based Violence Research Methodologies in Humanitarian Settings*, 13.

of reported abuse against women and girls.<sup>377</sup> Most prominently, violence manifests through coercion and assault.<sup>378</sup> As shown in Figure 6, these abuses are gateways to long-term impacts on a female’s physical, mental, and reproductive health.<sup>379</sup> Economic insecurity, poverty, and a lack of education are key drivers sustaining practices of violence and abuse of women and children.<sup>380</sup>

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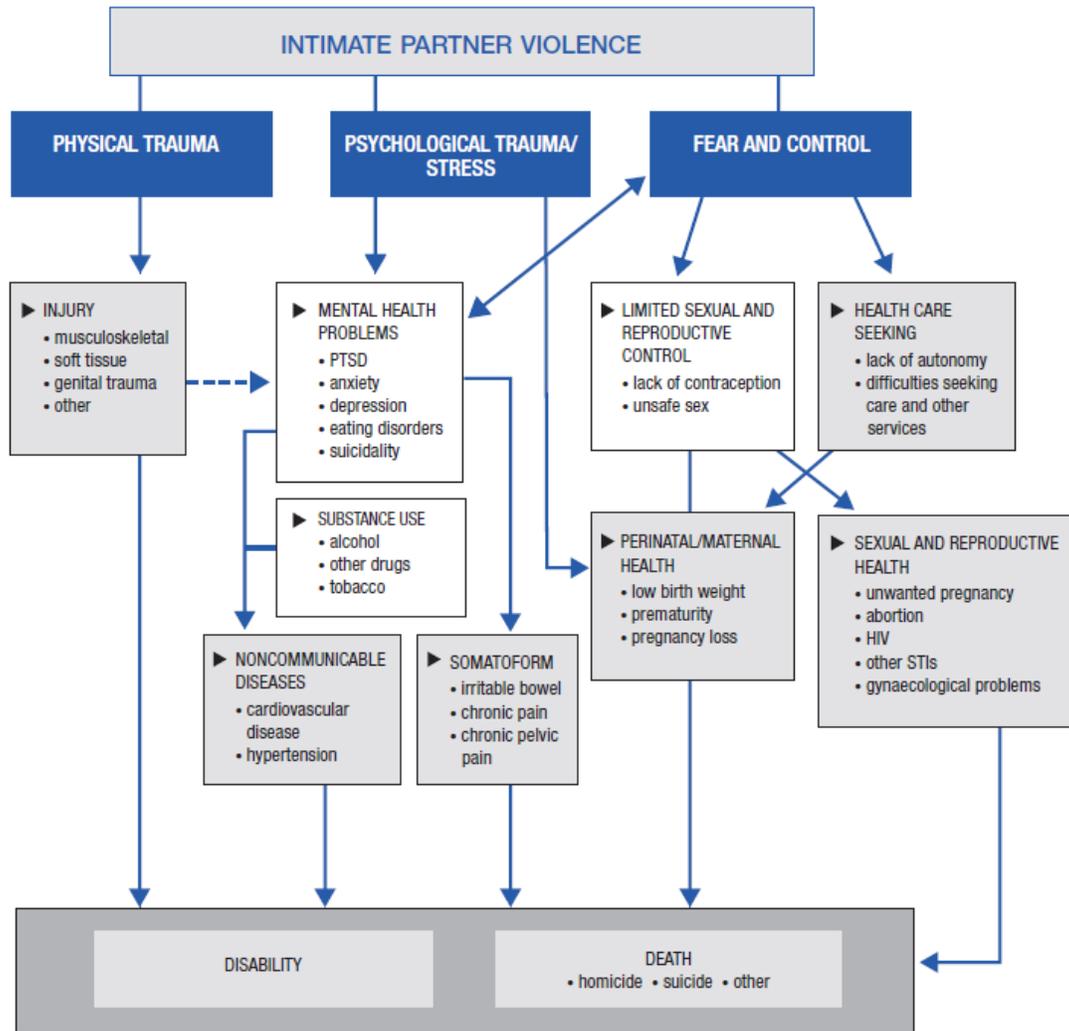
<sup>377</sup> Claudia Garcia-Moreno et al., *Global and Regional Estimates of Violence against Women: Prevalence and Health Effects of Intimate Partner Violence and Nonpartner Sexual Violence* (Geneva, Switzerland: World Health Organization, 2013), 2, 18, [https://apps.who.int/iris/bitstream/handle/10665/85239/9789241564625\\_eng.pdf;jsessionid=27B551FF4702CA6EF967989B66341F9B?sequence=1](https://apps.who.int/iris/bitstream/handle/10665/85239/9789241564625_eng.pdf;jsessionid=27B551FF4702CA6EF967989B66341F9B?sequence=1).

<sup>378</sup> Michele R. Decker et al., “Gender-Based Violence against Adolescent and Young Adult Women in Low- and Middle-Income Countries,” *Journal of Adolescent Health* 56 (January 22, 2015): 189, <https://doi.org/DOI:https://doi.org/10.1016/j.jadohealth.2014.09.003>.

<sup>379</sup> Garcia-Moreno et al., *Global and Regional Estimates of Violence against Women*, 8.

<sup>380</sup> Fenn et al., *Child Marriage, Adolescent Pregnancy and Family Formation in West and Central Africa*, 8, 78; Save the Children and Women’s Refugee Commission, *What Cash Transfer Programming Can Do to Protect Children*, 35.

Figure 1. Pathways and health effects on intimate partner violence



There are multiple pathways through which intimate partner violence can lead to adverse health outcomes. This figure highlights three key mechanisms and pathways that can explain many of these outcomes. Mental health problems and substance use might result directly from any of the three mechanisms, which might, in turn, increase health risks. However, mental health problems and substance use are not necessarily a precondition for subsequent health effects, and will not always lie in the pathway to adverse health.

Figure 6. Violence Impacts a Woman’s Physical, Mental, and Reproductive Health in an Array of Ways.<sup>381</sup>

<sup>381</sup> Source: Garcia-Moreno et al., *Global and Regional Estimates of Violence against Women*, 8.

## 1. Cash Transfers in Education and Child Protection Outcomes

Cash transfers in the education sector aim to increase incomes so households can overcome economic barriers to education and afford school-related expenses that then result in increased enrollment and attendance.<sup>382</sup> Going to school can mitigate violence that manifests as forced labor, child marriage, or sexual exploitation.<sup>383</sup> Two hundred sixty-four million children should be in primary or secondary school, but lack the means to attend.<sup>384</sup> Globally, only seven refugee girls for every 10 refugee boys will go to secondary school, while children with disabilities are almost completely excluded from accessing the education system.<sup>385</sup> All these children will eventually add to the population of illiterate adults who already make up 50% of the adult population in low development countries.<sup>386</sup> For low-income households, education is simply unaffordable. The cost to send a child to school can range from 10% up to 33% of a household's entire income, money that could otherwise be spent on food, shelter, or medical care.<sup>387</sup> Thus, economic barriers, like poverty, are the primary reasons preventing children from attending school.<sup>388</sup> In places like Syria and the neighboring countries where Syrian refugees have settled, aid

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<sup>382</sup> Allyson Cross, Ana Sanchez Canales, and Ekaterina Shaleva, *Cash Transfer Programming in the Education and Child Protection Sectors: Literature Review and Evidence Maps* (Oxford, United Kingdom: The Cash Learning Partnership, 2018), 20, <http://www.cashlearning.org/downloads/calp-education-and-child-protection.pdf>.

<sup>383</sup> Manell, "Tackling the Integration of Gender-Based Violence Prevention and Response and Cash-Based Interventions," 89; Cross, Sanchez Canales, and Shaleva, *Cash Transfer Programming in the Education and Child Protection Sectors*, 33.

<sup>384</sup> Global Education Monitoring Report Team, *Accountability in Education: Meeting Our Commitments; Global Education Monitoring Report, 2017/8* (Paris: United Nations Educational, Scientific and Cultural Organization, 2017), xvi, <https://unesdoc.unesco.org/ark:/48223/pf0000259338>.

<sup>385</sup> Bill Van Esveld and Elin Martinez, "Lost Years: Secondary Education for Children in Emergencies," Human Rights Watch, December 16, 2016, <https://www.hrw.org/news/2016/12/16/lost-years-secondary-education-children-emergencies>.

<sup>386</sup> United Nations, *Human Development Indices and Indicators: 2018 Statistical Update*, 7.

<sup>387</sup> Global Education Monitoring Report Team, *Accountability in Education: Meeting Our Commitments; Global Education Monitoring Report, 2017/8*, xvii; Clugston, "Breaking Barriers to Girls' Education by Breaking Cycles of Poverty," 75; Amendah, Buigut, and Mohamed, "Coping Strategies among Urban Poor: Evidence from Nairobi, Kenya," 4.

<sup>388</sup> Clugston, "Breaking Barriers to Girls' Education by Breaking Cycles of Poverty," 74.

organizations have turned to hawala to facilitate cash transfers to households so they may overcome the financial burdens of education.<sup>389</sup>

**a. Syria**

The Islamic State’s ongoing terror operations in Syria have created one of the world’s longest ongoing humanitarian and refugee crises to date.<sup>390</sup> Inside Syria, 12 million people are in need of humanitarian assistance, five million of whom are children and adolescents under the age of 18.<sup>391</sup> Over one million of these individuals are in remote, hard-to-reach locations.<sup>392</sup> Seven million Syrians have fled their homes and are now refugees in host countries like Egypt, Jordan, Turkey, and Lebanon.<sup>393</sup> Nearly two million of the refugees are children, 75% of whom are not enrolled in school.<sup>394</sup> Ten thousand refugee children are unaccompanied or have been separated from their families, which makes them increasingly vulnerable to exploitation.<sup>395</sup> As discussed earlier, within Syria and neighboring countries, the ongoing conflict has seriously inhibited the availability of the formal financial sector.<sup>396</sup> The presence of hostile actors has also significantly limited

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<sup>389</sup> Justine Walker, *Study on Humanitarian Impact of Syria-Related Unilateral Restrictive Measures* (New York: Office of the United Nations Resident Coordinator in the Syrian Arab Republic, 2016), 7, <https://assets.documentcloud.org/documents/3114567/Study-on-Humanitarian-Impact-of-Syria-Related.pdf>.

<sup>390</sup> “The World’s 5 Biggest Refugee Crises,” Mercy Corps, June 5, 2017, <https://www.mercycorps.org/articles/worlds-5-biggest-refugee-crises>; United Nations Children’s Fund, “Humanitarian Action for Children—Syrian Arab Republic,” June 12, 2019, <https://www.unicef.org/appeals/syria.html>.

<sup>391</sup> United Nations Children’s Fund, “Humanitarian Action for Children—Syrian Arab Republic.”

<sup>392</sup> United Nations Children’s Fund, *Fast Facts: Syria Crisis* (New York: United Nations, 2019), 1.

<sup>393</sup> Jillian Foster, *Impact of Multipurpose Cash Assistance on Outcomes for Children in Lebanon* (London: Save the Children, 2015), 8, 9, <http://www.cashlearning.org/downloads/erc-save-the-children-action-research-web.pdf>; Christian Lehmann and Daniel Masterson, *Emergency Economies: The Impact of Cash Assistance in Lebanon* (New York: International Rescue Committee, 2014), 8, <https://www.rescue.org/sites/default/files/document/631/emergencyeconomiesevaluationreport-lebanon2014.pdf>.

<sup>394</sup> Foster, *Impact of Multipurpose Cash Assistance on Outcomes for Children in Lebanon*, 8, 9.

<sup>395</sup> United Nations Children’s Fund, *Fast Facts*, 2.

<sup>396</sup> Gordon et al., *The Impact of Bank De-Risking on the Humanitarian Response to the Syrian Crisis*, vii; Care International, *Using Hawala to Conduct Cash Programming in Syria*, 1.

the coverage of humanitarian aid operations in and outside of Syria.<sup>397</sup> As a result, aid organizations leverage hawala to deploy cash-transfer programs to meet the developmental needs of Syrian children.<sup>398</sup>

Although typically not identified as a basic humanitarian provision, Syrian adults ranked their children's education as a high priority and essential need during a comprehensive assessment conducted by Humanitarian Outcomes.<sup>399</sup> Sixty percent of Syrians reported that the loss of education was one of the most significant impacts on their children's daily life.<sup>400</sup> Households indicated that attendance costs, including transportation, uniforms, and pocket money, precluded their children from attending school.<sup>401</sup> Unlike food and rent, less than 1% of Syrian households were willing to incur an informal debt to cover their child's schooling; instead, they elected not to enroll their children in school.<sup>402</sup> In many cases, children are critical wage earners who contribute to the family's income and cannot afford to miss work to attend school.<sup>403</sup> Within Syria's borders, four out of five people live below the poverty line and are unable to meet their basic food and water consumption needs.<sup>404</sup> In host communities, 90% of refugees live in

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<sup>397</sup> Stoddard et al., "Out of Reach," 21; Abby Stoddard et al., *Speakable: Addressing Sexual Violence and Gender-Based Risk in Humanitarian Aid, Aid Worker Security Report 2019—Updated* (Washington, DC: United States Agency for International Development, 2019), 31, [https://www.humanitarianoutcomes.org/sites/default/files/publications/awsr\\_2019\\_0.pdf](https://www.humanitarianoutcomes.org/sites/default/files/publications/awsr_2019_0.pdf).

<sup>398</sup> Gordon et al., *The Impact of Bank De-Risking on the Humanitarian Response to the Syrian Crisis*, viii; Thompson, *Humanitarian Use of Hawala in Syria*, 1.

<sup>399</sup> Stoddard et al., "Out of Reach," 10.

<sup>400</sup> Alun McDonald, *Invisible Wounds: The Impact of Six Years of War on the Mental Health of Syria's Children* (London: Save the Children, 2017), 8, <https://www.savethechildren.org/content/dam/usa/reports/emergency-response/invisible-wounds-report.PDF>.

<sup>401</sup> Foster, *Impact of Multipurpose Cash Assistance on Outcomes for Children in Lebanon*, 25.

<sup>402</sup> Foster, 10, 11.

<sup>403</sup> Jessica Hagen-Zanker et al., *Cash Transfers for Refugees: The Economic and Social Impacts of a Programme in Jordan* (London: Overseas Development Institute, 2017), 17, <https://www.odi.org/sites/odi.org.uk/files/resource-documents/11522.pdf>.

<sup>404</sup> United Nations Children's Fund, *Fast Facts*, 2.

extreme poverty.<sup>405</sup> Cash transfers to Syrians inside and outside of their home country have increased school attendance and supported broader child protection outcomes.<sup>406</sup>

Cash assistance from the Lebanon Cash Consortium (LCC), made up of six NGOs, and the United Nations Children’s Fund and World Food Programme’s Min Ila initiative provide Syrian refugees in Lebanon access to education. These programs have had a myriad of positive child protection results, including reducing child labor and increasing overall mental and emotional wellbeing.<sup>407</sup> LCC and Min Ila each reported an increase in school enrollment by 10% for cash-transfer recipient households.<sup>408</sup> The Min Ila program was particularly impactful on school enrollment for children ages 5–9, which saw a 30% increase.<sup>409</sup> Attendance patterns also improved. Recipient households attended school 15% more than non-recipient households through the winter months.<sup>410</sup> Female students reported that their participation in school lessened their workload of chores and caretaking responsibilities at home.<sup>411</sup> Decreased work in the home can free up time for children to focus and complete schoolwork. Generally, children who did not participate in the workforce while also attending school, performed better in school.<sup>412</sup>

The United Nations High Commissioner for Refugees’ (UNHCR) and Oxfam’s cash transfer program for Syrian refugees in Jordan had similar education outcomes. Syrian refugees in Jordan live in extreme poverty; 85% are unable to meet their basic needs for

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<sup>405</sup> United Nations Children’s Fund, 2.

<sup>406</sup> Cross, Sanchez Canales, and Shaleva, *Cash Transfer Programming in the Education and Child Protection Sectors*, 29.

<sup>407</sup> Jacobus De Hoop et al., “*Min Ila*” *Cash Transfer Programme for Displaced Syrian Children in Lebanon* (Washington, DC: American Institute for Research, 2018), 60, 62, <https://www.unicef.org/lebanon/media/821/file/Lebanon-report-5-report.pdf>.

<sup>408</sup> Foster, *Impact of Multipurpose Cash Assistance on Outcomes for Children in Lebanon*, 22; De Hoop et al., “*Min Ila*” *Cash Transfer Programme for Displaced Syrian Children in Lebanon*, 64.

<sup>409</sup> De Hoop et al., “*Min Ila*” *Cash Transfer Programme for Displaced Syrian Children in Lebanon*, 64.

<sup>410</sup> Foster, *Impact of Multipurpose Cash Assistance on Outcomes for Children in Lebanon*, 23.

<sup>411</sup> De Hoop et al., “*Min Ila*” *Cash Transfer Programme for Displaced Syrian Children in Lebanon*, 60.

<sup>412</sup> International Labour Office, *Global Estimates of Child Labour*, 47, 48.

food and shelter.<sup>413</sup> The Jordanian government expanded free, universal education to the 220,000 Syrian refugee children in the country, while also increasing school capacity by adding an evening shift for classes.<sup>414</sup> Yet, nearly a third of children are still not in school due to the unaffordability of non-tuition expenses.<sup>415</sup> Households typically rely on income from the older children to assist in covering school-related expenses.<sup>416</sup> In Jordan, 60% of all Syrian boys under the age of 16 must work.<sup>417</sup> Beneficiaries of the UNHCR's program reported that cash transfers allowed their children to leave the workforce temporarily and return to school.<sup>418</sup> Other households reported a reduction in the number of hours worked by children.<sup>419</sup>

Hawala companies operating in Syria are supporting a number of other development and protection initiatives specifically aimed at children with disabilities. Al Haram, for example, has nearly 50 offices within Syria that have remained operational throughout the conflict, and have stayed connected to other hawalas, like Jordan's Abu Sheikha Exchange, Alawneh Exchange, Al Karak Exchange, and Musharbash Exchange.<sup>420</sup> UNICEF uses Al Haram to enact bi-monthly cash transfers to support families who have children with complex disabilities, like autism and cerebral palsy.<sup>421</sup> In

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<sup>413</sup> Hagen-Zanker et al., *Cash Transfers for Refugees*, 15.

<sup>414</sup> Cross, Sanchez Canales, and Shaleva, *Cash Transfer Programming in the Education and Child Protection Sectors*, 16.

<sup>415</sup> Cross, Sanchez Canales, and Shaleva, 16.

<sup>416</sup> Hagen-Zanker et al., *Cash Transfers for Refugees*, 17.

<sup>417</sup> Hagen-Zanker et al., 21.

<sup>418</sup> Emily Sloane, *The Impact of Oxfam's Cash Distributions on Syrian Refugee Households in Host Communities and Informal Settlements in Jordan* (Oxford, England: Oxfam, 2014), 28, <https://reliefweb.int/sites/reliefweb.int/files/resources/ImpactAssessmentofOxfamsCashDistributionProgrammeinJordanJanuary2014.pdf>.

<sup>419</sup> Hagen-Zanker et al., *Cash Transfers for Refugees*, 21.

<sup>420</sup> Roger Dean, *Remittances to Syria: What Works, Where and How* (Oslo, Norway: Norwegian Refugee Council, 2015), 11, [http://www.cashlearning.org/downloads/2015-07-nrc-remittances-to-syria-report-final-\(1\).pdf](http://www.cashlearning.org/downloads/2015-07-nrc-remittances-to-syria-report-final-(1).pdf); "Our Branches," Abu Sheikha Exchange, accessed November 4, 2019, <https://abusheikhaex.com/branches/>; "Branches," Alawneh Exchange, accessed November 4, 2019, <https://www.alawnehexchange.com/en/node/15>.

<sup>421</sup> Monica Awad and Basma Ourfali, "Innovative Cash Transfer Programme Supports Syrian Children with Disabilities," UNICEF, April 3, 2017, <https://www.unicef.org/stories/innovative-cash-transfer-programme-supports-syrian-children-disabilities>.

the war-torn country, children account for 17% of all victims injured by explosives, which has resulted in amputations or physical impairment.<sup>422</sup> Although programs exist to give these children the reading, math, and social skills to become successful adults, four out of five children with a disability, or 84%, do not attend these programs or go to school.<sup>423</sup> The lack of education and socialization can increase isolation and cause mental and behavioral problems.<sup>424</sup>

The lack of access to education is impacting the psychosocial wellbeing of an entire generation of Syrian children and will have critical implications on the success and security of a post-war society.<sup>425</sup> Disruptions to the hawala networks that support these children's education can severely damage Syria's future. The United Nations estimates that basic and secondary education dropouts will devastate Syria's post-war economy, which equates to an economic loss of \$11 billion or what was equivalent to 18% of Syria's GDP before the war.<sup>426</sup> Children in Syria have spent their formative years in abject poverty, under toxic levels of stress, and exposed to extreme violence.<sup>427</sup> Since 2011, the rate of child marriages has increased fourfold for Syrian refugee girls.<sup>428</sup> Children have witnessed their families being torn apart by horrendous acts of brutality, arbitrary detention, torture, abuse, rape, and sexual enslavement.<sup>429</sup> They live in fear and uncertainty as food and water have quickly

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<sup>422</sup> United Nations Children's Fund, *Disabled Children: Enabled Futures, Seven Years of War in Syria Facts and Figures* (New York: United Nations, 2018), 5, <https://www.unicef.org/mena/media/1566/file/SYR-7-Infographics-En.pdf.pdf>.

<sup>423</sup> Sanj Srikanthan, "This Shocking Statistic Shows How Children with Disabilities in Syria Are Being Left Behind," International Rescue Committee, July 26, 2018, <https://www.rescue-uk.org/article/shocking-statistic-shows-how-children-disabilities-syria-are-being-left-behind>.

<sup>424</sup> R. Srinivasa Murthy and Rashmi Lakshminarayana, "Mental Health Consequences of War: A Brief Review of Research Findings," *World Psychiatry* 5, no. 1 (February 2006): 25.

<sup>425</sup> McDonald, *Invisible Wounds*, 9.

<sup>426</sup> United Nations Office for the Coordination of Humanitarian Affairs, *Humanitarian Needs Overview—Syrian Arab Republic* (New York, Geneva, Switzerland: United Nations Office for the Coordination of Humanitarian Affairs, 2016), 8, [https://reliefweb.int/sites/reliefweb.int/files/resources/2017\\_Syria\\_hno\\_161205.pdf](https://reliefweb.int/sites/reliefweb.int/files/resources/2017_Syria_hno_161205.pdf).

<sup>427</sup> McDonald, *Invisible Wounds*, 22.

<sup>428</sup> Van Esveld and Martinez, "Lost Years."

<sup>429</sup> United Nations Office for the Coordination of Humanitarian Affairs, *Humanitarian Needs Overview—Syrian Arab Republic*, 8.

depleted, and malnutrition is rampant.<sup>430</sup> Thousands of children have been recruited as child soldiers under the false pretense of a better life, while others have been intentionally maimed and forced to beg on the streets.<sup>431</sup> These children risk developmental delays in their social and cognitive abilities, as well as reduced brain and organ function due to persistent stress, and are at a greater risk of developing mental and physical health problems.<sup>432</sup> Children who go to school are generally happier, healthier, and more likely to escape poverty and avert becoming victims of negative coping mechanisms.<sup>433</sup> Education and poverty are intergenerational. Children who are educated are more likely to invest in their children's schooling, which then breaks the cycle of poverty, improves their chances of survival to adulthood, and increases their prospects of earning higher incomes as adults.<sup>434</sup>

## 2. Remittances and Women's Reproductive Health Outcomes

Hawala plays a critical role in transmitting remittances used to access healthcare and medical services by women in Africa.<sup>435</sup> As a whole, less than 50% of Africa's entire population accesses modern medical facilities.<sup>436</sup> Out-of-pocket expenses discourage the use of existing health systems and deter access for women in particular as they depend on men for financial support.<sup>437</sup> However, remittances transferred through hawala are

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<sup>430</sup> United Nations Office for the Coordination of Humanitarian Affairs, 13.

<sup>431</sup> United Nations Office for the Coordination of Humanitarian Affairs, 13.

<sup>432</sup> McDonald, *Invisible Wounds*, 22.

<sup>433</sup> Van Esveld and Martinez, "Lost Years."

<sup>434</sup> International Labour Office, *Global Estimates of Child Labour*, 52.

<sup>435</sup> Sonia Plaza, Mario Navarrete, and Dilip Ratha, *Migration and Remittances Household Surveys in Sub-Saharan Africa: Methodological Aspects and Main Findings* (Abidjan, Côte d'Ivoire, Washington, DC: African Development Bank and The World Bank, 2011), 21, <https://www.knomad.org/sites/default/files/2017-09/PlazaNavarreteRathaMethodologicalPaper.pdf>; Dilip Ratha et al., *Leveraging Migration for Africa: Remittances, Skills, and Investments* (Washington, DC: The World Bank, 2011), 68.

<sup>436</sup> Lily B. Clausen, "Taking on the Challenges of Health Care in Africa," Stanford Graduate School of Business, June 16, 2015, <https://www.gsb.stanford.edu/insights/taking-challenges-health-care-africa>.

<sup>437</sup> World Health Organization, *Addressing the Challenge of Women's Health in Africa: Report of the Commission on Women's Health in the African Region* (Geneva, Switzerland: World Health Organization, 2012), xvii, [https://www.afro.who.int/sites/default/files/2017-06/report-of-the-commission-on-womens-health-in-the-african-region---full-who\\_acreport-comp%20\(1\).pdf](https://www.afro.who.int/sites/default/files/2017-06/report-of-the-commission-on-womens-health-in-the-african-region---full-who_acreport-comp%20(1).pdf).

empowering women to increasingly control decisions over their own health, particularly their reproductive health.<sup>438</sup>

*a. Nigeria*

Despite receiving the greatest volume of remittances in Sub-Saharan Africa, Nigeria is home to the world's largest population of individuals living in extreme poverty.<sup>439</sup> Long-term communal and tribal clashes and a nearly decade-long conflict with Boko Haram have caused widespread violence and the displacement of nearly 200,000 people.<sup>440</sup> Violence has become a regular feature of daily life for girls and women in Nigeria.<sup>441</sup> Time-honored societal and cultural practices have institutionalized gender discrimination and widened the gap of inequity between men and women.<sup>442</sup> However, remittances from the Nigerian diaspora are helping to alleviate these conditions.<sup>443</sup> While the recorded volume of remittances totaled \$25 billion in 2018, it is estimated that Nigerians receive at least 50%–75% more money through informal channels, like

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<sup>438</sup> Funmilola M. OlaOlorun and Michelle J. Hindin, "Having a Say Matters: Influence of Decision-Making Power on Contraceptive Use among Nigerian Women Ages 35–49 Years," *PLoS ONE* 9, no. 6 (June 2014): 1, <https://doi.org/10.1371/journal.pone.0098702>; Max Roser, "Fertility Rate," *Our World in Data*, December 2, 2017, <https://ourworldindata.org/fertility-rate>.

<sup>439</sup> Agnes Odhiambo, "You Pray for Death:" *Trafficking of Women and Girls in Nigeria*, ed. Janet Walsh (New York: Human Rights Watch, 2019), 24, [https://www.hrw.org/sites/default/files/report\\_pdf/nigeria0819.pdf](https://www.hrw.org/sites/default/files/report_pdf/nigeria0819.pdf); Helen Oji, "Nigeria's U.S.\$25 Billion Remittances Rated Highest in Africa in 2018," *AllAfrica*, March 8, 2019, <https://allafrica.com/stories/201903080097.html>.

<sup>440</sup> Human Rights Watch, "Nigeria: Heightened Insecurity Threatens Rights," Human Rights Watch, January 17, 2019, <https://www.hrw.org/news/2019/01/17/nigeria-heightened-insecurity-threatens-rights>; "Foreign Terrorist Organizations," Department of State, accessed November 8, 2019, <https://www.state.gov/foreign-terrorist-organizations/>.

<sup>441</sup> Hadiza Iza Bazza, "Domestic Violence and Women's Rights in Nigeria," *Societies without Borders* 4, no. 2 (2009): 178, <https://doi.org/10.1163/187219109X447467>.

<sup>442</sup> TC Okeke, USB Anyaehie, and CCK Ezenyeaku, "An Overview of Female Genital Mutilation in Nigeria," *Annals of Medical and Health Sciences Research* 2, no. 1 (January 2012): 71, <https://doi.org/10.4103/2141-9248.96942>.

<sup>443</sup> William M. Fonta et al., "Dynamics of Remittance Utilization by Nigerian Households," *Progress in Development Studies* 15, no. 4 (September 15, 2015): 350, <https://doi.org/10.1177/1464993415592742>.

hawala.<sup>444</sup> Interestingly, nearly 37% of remitters are females who make up almost half of all Nigerians in the diaspora.<sup>445</sup> Alternative money transfer systems transmit critical remittances that close the inequality gap by enabling women to become educated and increase their healthcare, which then results in positive reproductive health outcomes.

In Nigeria, remittances increase a woman's decision-making power within her household, a key driver in empowering her to make decisions about her own reproductive health.<sup>446</sup> Currently, Nigeria's fertility rate of 5.4 is more than double the global average of 2.49.<sup>447</sup> However, the fertility rate has been steadily declining by over 1% each year for the past five years.<sup>448</sup> In the year 2000, a woman in Nigeria could have expected to have six live births over the course of her lifetime; by the year 2050, the United Nations estimates that this number will be cut in half to three births.<sup>449</sup> This trend is indicative of the rise in women's empowerment.<sup>450</sup> Remittances enable women in Nigeria to make their own choices about having children, delaying childbirth, using contraceptives to prevent unwanted pregnancies, and increasing the time between births.<sup>451</sup> In turn, the decision-making power increases a woman's status within the household, which positively affects her sense of self-worth and dignity, and preserves her mental and physical health.<sup>452</sup> In

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<sup>444</sup> Onwuchekwa Raphael Iheke, "Remittance and the Economy: The Nigerian Experience (A Review)," *Scientific Papers Series Management, Economic Engineering in Agriculture and Rural Development* 16, no. 1 (October 2016): 147; Andrew S. Nevin and Omomia Omosomi, *Strength from Abroad The Economic Power of Nigeria's Diaspora* (London: PricewaterhouseCoopers Limited, 2019), 3, <https://www.pwc.com/ng/en/pdf/the-economic-power-of-nigerias-diaspora.pdf>; Oji, "Nigeria's U.S.\$25 Billion Remittances Rated Highest in Africa in 2018"; The World Bank, *Migration and Remittances*, 23.

<sup>445</sup> Oji, "Nigeria's U.S.\$25 Billion Remittances Rated Highest in Africa in 2018."

<sup>446</sup> Innocent Ifelunini et al., "Determinants of Fertility Rate among Women in Ghana and Nigeria: Implications for Population Growth and Sustainable Development," *Etude de la Population Africaine* 32, no. 2S (September 2018): 26, <https://doi.org/10.11564/32-2-1188>; OlaOlorun and Hindin, "Having a Say Matters," 1.

<sup>447</sup> "World Population Prospects—Population Division," United Nations, accessed November 9, 2019, <https://population.un.org/wpp/DataQuery/>; "Nigeria Fertility Rate 1950–2019," MacroTrends LLC., accessed November 9, 2019, <https://www.macrotrends.net/countries/NGA/nigeria/fertility-rate>.

<sup>448</sup> MacroTrends LLC., "Nigeria Fertility Rate 1950–2019."

<sup>449</sup> United Nations, "World Population Prospects - Population Division."

<sup>450</sup> Roser, "Fertility Rate."

<sup>451</sup> OlaOlorun and Hindin, "Having a Say Matters," 7.

<sup>452</sup> Roser, "Fertility Rate."

Nigeria, one in four pregnancies is accidental, which will cause 500,000 women to seek immediate secondary medical treatment after having an unsafe abortion.<sup>453</sup> As such, Nigeria has one of the highest maternal mortality rates in the world.<sup>454</sup>

Inadequate health and social services, food insecurity, malnutrition, and a lack of hygiene contribute to Nigeria's high rates of maternal mortality.<sup>455</sup> Nigeria accounts for 20% of all maternal deaths worldwide.<sup>456</sup> The lifetime risk of death during pregnancy, childbirth, or post-partum for a woman in Nigeria remains significantly higher than the developed world. One in 22 Nigerian women is at risk of dying, compared to the developed world where that risk is one in 4,900.<sup>457</sup> Education offers a way to beat these odds. Studies indicate that as a mother's schooling increases, so does the amount of antenatal care that she will seek, a key component to ensure survival for both mother and child.<sup>458</sup>

Hawala facilitates cash transfers that women spend on their education.<sup>459</sup> Education level and family size are interconnected. In Nigeria, educated women are more likely to have smaller families.<sup>460</sup> In 2012, the average family size for an uneducated woman was seven children, while a woman with a primary or secondary school education had six children, and a woman with a post-secondary school education had five children.<sup>461</sup> These

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<sup>453</sup> "Why Invest in Reproductive Health Services in Nigeria?," Guttmacher Institute, February 22, 2016, <https://www.guttmacher.org/infographic/2015/why-invest-reproductive-health-services-nigeria>.

<sup>454</sup> World Health Organization, "Maternal Health in Nigeria: Generating Information for Action," Sexual and Reproductive Health, June 25, 2019, <http://www.who.int/reproductivehealth/maternal-health-nigeria/en/>.

<sup>455</sup> Ogunjimi Lucas Olusegun, Rosemary Thomas Ibe, and Ikorok Maria Michael, "Curbing Maternal and Child Mortality: The Nigerian Experience," *International Journal of Nursing and Midwifery* 4, no. 3 (April 2012): 35, <https://doi.org/10.5897/IJNM11.030>.

<sup>456</sup> World Health Organization, "Maternal Health in Nigeria: Generating Information for Action."

<sup>457</sup> World Health Organization.

<sup>458</sup> "Antenatal Care," World Health Organization, October 2019, <https://data.unicef.org/topic/maternal-health/antenatal-care/>; Emmanuel O. Nwosu, Nathaniel E. Urama, and Uruakpa Chigozie, "Determinants of Antenatal Care Services Utilisation in Nigeria," *Developing Country Studies* 2, no. 6 (2012): 45.

<sup>459</sup> Hamed Sambo, *Do Remittances Impact Gender Equality? Evidence from Africa* (Paris: Centre d'Economie de l'Université de Paris Nord, 2016), 2, <https://ideas.repec.org/p/upn/wpaper/2016-08.html>.

<sup>460</sup> Bamikale J. Feyisetan and Akinrinola Bankole, *Fertility Transition in Nigeria: Trends and Prospect* (New York: United Nations, 2002), 508, <https://www.un.org/en/development/desa/population/publications/pdf/fertility/completing-fertility/RevisedBANKOLEpaper.PDF>.

<sup>461</sup> Uzoma Aja-Okorie, "Women Education in Nigeria: Problems and Implications for Family Role and Stability," *European Scientific Journal* 9, no. 28 (October 2013): 272–82.

averages are consistent with surveys conducted of men and women who identified that constraints on providing quality education to their children influenced their decisions about the number of children they would have.<sup>462</sup> As noted in the previous discussion about education outcomes in Syria, education is intergenerational; children are more likely to attend school if their parents have.<sup>463</sup> Since 2003, changes to the African Protocol on People's Rights and the Rights of Women and the enactment of the Rights Act of 2003 have increased the accessibility of education for girls and women.<sup>464</sup> Since then, adult literacy classes, distance learning programs, polytechnic schools, and colleges within Nigeria have boosted a 40%–60% female student body.<sup>465</sup> Educated women are more likely to survive childbirth and raise healthier families.<sup>466</sup> However, there are other variables, non-education related, that are contributing to the risk of death during childbirth. The cultural practices of early marriage and female genital mutilation (FGM) are cultural variables that contribute to Nigeria's high maternal mortality rate.<sup>467</sup> It is hoped that the same decision-making power remittances bestow on women over their reproductive health can enable them to affect decisions about the cultural traditions that are harming and killing their daughters.

In Nigeria, early marriages and FGM practices are widespread. They are cruel and degrading traditions that adversely impact a woman's dignity and self-esteem.<sup>468</sup> Nigeria is home to the largest population of child brides, as well as the highest volume of women

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<sup>462</sup> Latifat D. G. Ibisomi, "Fertility Transition in Nigeria: Exploring the Role of Desired Number of Children," *African Population Studies* 23, no. 2 (2008): 11.

<sup>463</sup> International Labour Office, *Global Estimates of Child Labour*, 52.

<sup>464</sup> Francis Akubuilu and Monica Omeje, "Women Education in Nigeria: Predicaments and Hopes," *International Journal of Advancements in Research and Technology* 1, no. 5 (October 2012): 2, [https://www.researchgate.net/publication/258650305\\_Women\\_Education\\_in\\_Nigeria\\_Predicaments\\_and\\_Hopes](https://www.researchgate.net/publication/258650305_Women_Education_in_Nigeria_Predicaments_and_Hopes).

<sup>465</sup> Akubuilu and Omeje, 3.

<sup>466</sup> Aja-Okorie, "Women Education in Nigeria," 277.

<sup>467</sup> Olusegun, Ibe, and Michael, "Curbing Maternal and Child Mortality," 35.

<sup>468</sup> Okeke, Anyaehie, and Ezenyeaku, "An Overview of Female Genital Mutilation in Nigeria," 71.

whose genitals have been cut, disfigured, or maimed.<sup>469</sup> Almost half of all girls will be married by the time they reach age 18.<sup>470</sup> In nearly 30% of all marriages, the age difference between the husband and wife is at least 15 years, with some brides being as young as seven years old.<sup>471</sup> The age difference disempowers girls from affecting decisions about contraceptives or birth control.<sup>472</sup> Early marriages are directly responsible for 23% of all maternal deaths since children are unable to withstand childbirth.<sup>473</sup> Adult women impacted by FGM face similar risk factors as girls when giving birth, including intense hemorrhaging and injury to reproductive structures.<sup>474</sup>

FGM practices result in mental and physical scarring. The prevalence of FGM puts three million girls at risk of being mutilated.<sup>475</sup> FGM supporters believe that this practice preserves chastity, honor, and prepares young girls for marriage, while promoting better hygiene.<sup>476</sup> However, women who have undergone FGM disapprove of the practice but are powerless to enact any action against it.<sup>477</sup> FGM practices are excruciatingly painful and humiliating and result in low self-esteem, post-traumatic stress disorder, and other mental health problems.<sup>478</sup> Mutilation also causes long-term physical problems with urinary,

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<sup>469</sup> United Nations Children’s Fund, *UNICEF Nigeria: Country Programme Document 2018–2022* (Nigeria: United Nations, 2017), 4, <https://www.unicef.org/nigeria/media/1541/file/UNICEF-Nigeria-country-programme-document-2018-22.pdf.pdf>.

<sup>470</sup> United Nations Children’s Fund, 4.

<sup>471</sup> Bazza, “Domestic Violence and Women’s Rights in Nigeria,” 179.

<sup>472</sup> Bazza, 180.

<sup>473</sup> Olusegun, Ibe, and Michael, “Curbing Maternal and Child Mortality,” 35.

<sup>474</sup> Okeke, Anyaehie, and Ezenyeaku, “An Overview of Female Genital Mutilation in Nigeria,” 71.

<sup>475</sup> United Nations Children’s Fund, *UNICEF Nigeria*, 4; Okeke, Anyaehie, and Ezenyeaku, “An Overview of Female Genital Mutilation in Nigeria,” 70, 71.

<sup>476</sup> United Nations Children’s Fund, 4; Okeke, Anyaehie, and Ezenyeaku, 70, 71.

<sup>477</sup> Okeke, Anyaehie, and Ezenyeaku, 72.

<sup>478</sup> “Female Genital Mutilation,” World Health Organization, accessed November 8, 2019, <https://www.who.int/news-room/fact-sheets/detail/female-genital-mutilation>.

vaginal, and reproductive health.<sup>479</sup> FGM also increases the risk of human immunodeficiency virus (HIV) transmission during intercourse.<sup>480</sup>

HIV disproportionately impacts women more than men in Nigeria.<sup>481</sup> Women ages 15–49 are two times more likely to have HIV than their male counterparts in the same age group.<sup>482</sup> Meanwhile, women between the ages of 20–24 are three times more likely to be infected than men of the same age.<sup>483</sup> Girls age 10–19 years account for 70% of all new HIV infections and are the most likely group to die from acquired immunodeficiency syndrome (AIDS).<sup>484</sup> Nearly 90% of all new infection cases in children stem from transmission from mother to child during birth.<sup>485</sup> Remittances support households in obtaining the proper medication and healthcare to prevent transmission and increase the odds of survival.<sup>486</sup>

Hawala facilitates the transfer of cash that empower women to make key decisions about their own education and reproductive health.<sup>487</sup> A steady decline in Nigeria’s fertility rate is indicative of the positive movement toward closing the existing inequality gap. Interruption of this flow of remittances can impede this progress. It is hoped that the power of remittances in affecting reproductive health decisions will also spillover to decisions about early marriages and FGM practices, which contribute to Nigeria’s high maternal

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<sup>479</sup> World Health Organization.

<sup>480</sup> National Agency for the Control of AIDS, *National HIV and AIDS Strategic Framework: 2017–2021* (Nigeria: National Agency for the Control of AIDS, 2017), 2, <https://www.childrenandaids.org/sites/default/files/2017-11/NATIONAL-HIV-AND-AIDS-STRATEGIC-FRAMEWORK.pdf>.

<sup>481</sup> National Agency for the Control of AIDS, 8.

<sup>482</sup> The Joint United Nations Programme on HIV/AIDS and Federal Ministry of Health, *New Survey Results Indicate That Nigeria Has an HIV Prevalence of 1.4%* (Abuja, Nigeria: National Agency for the Control of AIDS, 2019), 1, [https://www.unaids.org/sites/default/files/20190314\\_PR\\_Nigeria\\_en.pdf](https://www.unaids.org/sites/default/files/20190314_PR_Nigeria_en.pdf).

<sup>483</sup> The Joint United Nations Programme on HIV/AIDS and Federal Ministry of Health, 1.

<sup>484</sup> United Nations Children’s Fund, *UNICEF Nigeria*, 2.

<sup>485</sup> United Nations Children’s Fund, 3; Jon Cohen, “Nigeria Has More HIV-Infected Babies than Anywhere in the World. It’s a Distinction No Country Wants,” *American Association for the Advancement of Science*, June 12, 2018, <https://www.sciencemag.org/news/2018/06/nigeria-has-more-hiv-infected-babies-anywhere-world-it-s-distinction-no-country-wants>.

<sup>486</sup> Ratha et al., *Leveraging Migration for Africa*, 68.

<sup>487</sup> Ratha et al., 68.

mortality rate. These longstanding practices are detrimental to a woman's physical and mental health.

## **B. ENHANCED SECURITY OF HUMANITARIAN AID WORKERS**

The use of hawala as part of an aid organization's cash transfer programming strategy can reduce the risk of injury and violence toward relief workers operating in extreme conditions.<sup>488</sup> Aid workers operate in dangerous locations saturated by armed combatants and terrorist organizations that commit gross violations of humanitarian law. Workers risk their own lives to support the most vulnerable populations in remote, hard-to-reach, or besieged locations. Hard-to-reach areas are locations not regularly accessible by humanitarian workers and may require traversing through checkpoints or negotiations to access.<sup>489</sup> Besieged areas are a subset of hard-to-reach locations encompassed by armed or hostile parties that not only prevent entry by humanitarians, but also prohibit sick or wounded civilians from leaving.<sup>490</sup> Humanitarian diplomacy is key toward negotiating access with parties to the conflict; however, it does not guarantee safety.<sup>491</sup> Around the globe, aid workers are robbed, shot, beaten, kidnapped, and sexually assaulted.<sup>492</sup> Since 2009, over 1,700 attacks have been launched against aid workers, resulting in over 3,000 victims that have been injured or killed.<sup>493</sup> The African countries of South Sudan, Democratic Republic of Congo, and the Central African Republic, together with Syria and Afghanistan in the Middle East, are the most dangerous locations with the highest volume

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<sup>488</sup> Austin et al., *How Change Happens in the Humanitarian Sector*, 99; Smith et al., *The State of the World's Cash Report*, 80–81; Dahir, *Building on Experience: Reflections and Recommendations from Evaluations of the 2017 CVA Somalia Drought Response*, 11; H.R., *A Survey of Global Terrorism and Terrorist Financing*, 7.

<sup>489</sup> United Nations Office for the Coordination of Humanitarian Affairs, *Humanitarian Needs Overview—Syrian Arab Republic*, 6.

<sup>490</sup> United Nations Office for the Coordination of Humanitarian Affairs, 6.

<sup>491</sup> Kurtzer, *Denial, Delay, Diversion*, 44.

<sup>492</sup> Stoddard et al., *Speakable: Addressing Sexual Violence and Gender-Based Risk in Humanitarian Aid, Aid Worker Security Report 2019 Updated*, 5; United Nations Office for the Coordination of Humanitarian Affairs, *Central African Republic*, 18.

<sup>493</sup> Stoddard et al., *Speakable: Addressing Sexual Violence and Gender-Based Risk in Humanitarian Aid, Aid Worker Security Report 2019—Updated*, 3.

of attacks on humanitarian workers worldwide.<sup>494</sup> Hawala can serve as a force multiplier by decreasing the volume of personnel needed on-site at these locations, while decreasing travel to remote sites and lessening their exposure to violence.<sup>495</sup>

Aid workers are particularly vulnerable to attacks and ambushes while traveling between offices and aid sites.<sup>496</sup> In September 2016, the Syrian Air Force attacked a 31-truck United Nations aid convoy filled with food, medicine, and supplies in route to Aleppo, Syria.<sup>497</sup> The attack destroyed 17 trucks and killed 14 aid workers.<sup>498</sup> Roads and bridges are critical components for the delivery of goods and services, but have become targeted by armed groups as political or strategic control points.<sup>499</sup> Armed combatants levy taxes that burden aid organizations with increased costs and time to traverse through roadway checkpoints.<sup>500</sup> Some organizations have turned to delivering aid via air, but that delivery mode is costly and relies on specially skilled personnel to deploy successfully.<sup>501</sup> However, air delivery may assist in mitigating the hazards presented by explosive devices. In Syria, 10.2 million people currently live in areas scattered with active ordnances.<sup>502</sup>

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<sup>494</sup> Stoddard et al., 5.

<sup>495</sup> Lindsay Hamsik, *NGOs and Risk: Managing Uncertainty in Local-International Partnerships Case Studies: Northeast Nigeria and South Sudan* (Washington, DC: United States Agency for International Development, 2019), 7, <https://www.humanitarianoutcomes.org/publications/ngos-and-risk-managing-uncertainty-local-international-partnerships-case-studies>.

<sup>496</sup> Abby Stoddard, Adele Harmer, and Kathleen Ryou, *Aid Worker Security Report 2014 Unsafe Passage: Road Attacks and Their Impact on Humanitarian Operations Humanitarian* (Washington, DC: United States Agency for International Development, 2014), 5, <https://aidworkersecurity.org/sites/default/files/Aid%20Worker%20Security%20Report%202014.pdf>.

<sup>497</sup> Nick Cumming-Bruce and Anne Barnard, “U.N. Investigators Say Syria Bombed Convoy and Did So Deliberately,” *New York Times*, March 1, 2017, <https://www.nytimes.com/2017/03/01/world/middleeast/united-nations-war-crimes-syria.html>; Anne Barnard and Somini Sengupta, “‘From Paradise to Hell’: How an Aid Convoy in Syria Was Blown Apart,” *New York Times*, September 2016, <https://www.nytimes.com/2016/09/25/world/middleeast/from-paradise-to-hell-how-an-aid-convoy-in-syria-was-blown-apart.html>.

<sup>498</sup> “Aleppo Aerial Campaign Deliberately Targeted Hospitals and Humanitarian Convoy Amounting to War Crimes, While Armed Groups’ Indiscriminate Shelling Terrorised Civilians,” UN High Commissioner for Human Rights, March 1, 2017, <https://www.ohchr.org/EN/NewsEvents/Pages/DisplayNews.aspx?NewsID=21256&LangID=E>.

<sup>499</sup> Kurtzer, *Denial, Delay, Diversion*, 33.

<sup>500</sup> Kurtzer, 25.

<sup>501</sup> Kurtzer, 25.

<sup>502</sup> United Nations Mine Action Service, *UNMAS Annual Report 2018* (New York: United Nations, 2019), 13, [https://reliefweb.int/sites/reliefweb.int/files/resources/unmas\\_annual\\_report\\_2018\\_web.pdf](https://reliefweb.int/sites/reliefweb.int/files/resources/unmas_annual_report_2018_web.pdf).

Landmines, improvised explosive devices, and other hazards along roadways and within areas where aid workers operate maim or kill thousands of people each year.<sup>503</sup> Since January 2018, landmines in Yemen have killed over 170 people and injured over 130 more.<sup>504</sup> Terrorist groups also use explosive devices to attack aid organizations' offices and facilities.

Direct attacks on buildings where aid workers are present erode operational capability and can cause physical and psychological trauma.<sup>505</sup> Seventy-nine percent of aid workers have self-reported combatting mental health issues due to constant high stress.<sup>506</sup> Continuous occupational trauma can cause physical and emotional distress, which can then lead to depression, post-traumatic stress disorder, and anxiety.<sup>507</sup> In interviews conducted of members of al-Shabaab, researchers identified that a primary motive for attacking aid workers was based on their belief that workers were spies conducting intelligence and reconnaissance missions on behalf of the enemy.<sup>508</sup> As such, the administrative offices where documents and records are maintained become targets. In May 2019, the Taliban bombed the Kabul, Afghanistan offices of CARE and Counterpart International killing nine people and wounding 20 others; both organizations are funded in part by the United States.<sup>509</sup> However, not all acts of violence intentionally target aid workers. Aid workers may unintentionally fall victim to violence simply based on the chaotic environment within which they work. In October 2015, a U.S. airstrike in Afghanistan accidentally killed 10

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<sup>503</sup> United Nations Mine Action Service, 15; Kurtzer, *Denial, Delay, Diversion*, 33.

<sup>504</sup> "Yemen: Houthi Landmines Kill Civilians, Block Aid," Human Rights Watch, April 22, 2019, <https://www.hrw.org/news/2019/04/22/yemen-houthi-landmines-kill-civilians-block-aid>.

<sup>505</sup> Kurtzer, *Denial, Delay, Diversion*, 23.

<sup>506</sup> Mandala Staff Support, *Aid Worker Wellbeing* (South East Region, Australia: Mandala Staff Support, 2017), 1, <http://www.mandalastaffsupport.org/wp-content/uploads/2017/10/Aid-Worker-Wellbeing-Infographic-Final.pdf>.

<sup>507</sup> Ellen Connorton et al., "Humanitarian Relief Workers and Trauma-Related Mental Illness," *Epidemiologic Reviews* 31, no. 1 (January 2012): 145, <https://doi.org/10.1093/epirev/mxr026>.

<sup>508</sup> Monica Czwarno, Adele Harmer, and Abby Stoddard, *Behind the Attacks: A Look at the Perpetrators of Violence against Aid Workers* (Washington, DC: United States Agency for International Development, 2017), 13, <https://aidworkersecurity.org/sites/default/files/AWSR2017.pdf>.

<sup>509</sup> Thomas Gibbons-Neff and Rod Nordland, "Taliban Open New Front against Aid Workers While Talking Peace," *New York Times*, May 9, 2019, <https://www.nytimes.com/2019/05/09/world/asia/taliban-afghanistan-attack.html>.

patients, three of whom were children, and 12 staff members at a Médecins Sans Frontières (Doctors without Borders) trauma center in Kunduz.<sup>510</sup> In their day-to-day operations, aid workers face a range of hazards and dangers. The integration of hawala as part of their operations can mitigate the risk of attack, abuse, or violence by reducing the need to travel and be physically present in remote and hard-to-reach locations.

Hawala networks operate throughout conflict zones and can be leveraged by aid groups to distribute cash to beneficiaries.<sup>511</sup> By reducing their physical presence, aid workers reduce their exposure to violence. The use of local actors as part of the response effort is added value as they bring first-hand knowledge of crisis-affected communities.<sup>512</sup> Hawaladars are trusted members of the community and have kinship, clan, or tribal connections that bring an in-depth understanding of the delicate environment and social structures that will impact aid operations.<sup>513</sup> A longstanding relationship with the community can overcome barriers that aid organizations cannot.<sup>514</sup>

The use of hawala to facilitate cash transfers mitigates negative coping strategies. These strategies impact the communities suffering in Africa and the Middle East as a result of terrorism activity, and protect the humanitarian aid workers who operate in these same locations. Cash intervention within the education and health sector aimed at girls and women yield high returns, while building individual and community resiliency. The risk of death is directly correlated to their economic status and education. A percentage gap of 40 plus exists between the risk of death for children born in the poorest countries versus those born into the wealthiest.<sup>515</sup> Children born to women with no education are twice as likely

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<sup>510</sup> Médecins Sans Frontières, “Afghanistan: Kunduz Trauma Center Bombing,” Doctors without Borders—USA, October 7, 2015, <https://www.doctorswithoutborders.org/what-we-do/news-stories/story/afghanistan-kunduz-trauma-center-bombing>.

<sup>511</sup> Glushchenko, “Hawala—A Vestige of the Past,” 35, 42.

<sup>512</sup> Austin et al., *How Change Happens in the Humanitarian Sector*, 33.

<sup>513</sup> El-Qorchi, “Hawala: How Does This Informal Funds Transfer System Work,” 32; Razavy, “Hawala: An Underground Haven,” 285.

<sup>514</sup> Kurtzer, *Denial, Delay, Diversion*, 37.

<sup>515</sup> United Nations, *Global Strategy for Women’s, Children’s and Adolescents Health 2016–2030* (Italy: Every Woman Every Child, 2015), 30, <https://www.who.int/life-course/partners/global-strategy/ewec-globalstrategyreport-200915.pdf?ua=1>.

to die before the age of five as those born to mothers with a secondary school education.<sup>516</sup> Investments into children’s education yield an average return of nearly 10%, while improving their mental and physical wellbeing, delaying pregnancies and early marriages, and increasing their future earning potential.<sup>517</sup> For every year of secondary schooling, girls can boost their future salary by 10%–20%.<sup>518</sup> Similarly, investments in healthcare improve the quality of life and increase the chances of survival for both women and children. By increasing access to healthcare, cash transfers can reduce unintended pregnancies from 74 million to 22 million (70%), maternal deaths from 290,000 to 96,000 (67%), and newborn deaths from 2.9 million to 660,000 (77%).<sup>519</sup> For every \$1 spent on healthcare programs, a \$120 return results.<sup>520</sup> The returns on utilizing hawala to deploy cash transfer programs and facilitate remittances are not limited to the direct beneficiaries. Hawala can positively impact the safety of the individuals who work within these communities, the humanitarian aid workers. By incorporating hawala into their response strategy, aid organizations can reduce the risk of violence that significantly hampers a group’s ability to deploy and respond to crises. Thus, NGOs can overcome the barriers that prevent them from reaching 40% of the people in dire need of aid.

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<sup>516</sup> United Nations, 30.

<sup>517</sup> United Nations, 21.

<sup>518</sup> United Nations Children’s Fund, *Accelerating Secondary Education for Girls: Focusing on Access and Retention* (New York: United Nations, 2014), 3.

<sup>519</sup> United Nations, *Global Strategy for Women’s, Children’s and Adolescents Health 2016–2030*, 19; Susheela Singh, Jacqueline E. Darroch, and Lori S. Ashford, *Adding It Up: The Costs and Benefits of Investing in Sexual and Reproductive Health 2014* (New York: Guttmacher Institute, 2014), 4, [https://www.guttmacher.org/sites/default/files/report\\_pdf/addingitup2014.pdf](https://www.guttmacher.org/sites/default/files/report_pdf/addingitup2014.pdf).

<sup>520</sup> United Nations, *Global Strategy for Women’s, Children’s and Adolescents Health 2016–2030*, 19.

## VIII. THE TIPPING POINT

The hawala abuses identified in Chapter VI demonstrate that comprehensive efforts to counter terror financing are necessary to preserve the integrity of the global financial network and sever funding streams that keep terrorist organizations operational. Yet, the need for regulation must be balanced with the service that alternative money transfer systems provide. These services are necessary to mitigate the suffering from violence, suppression, and exploitation, as described in Chapter VII. The financial markets in Africa and the Middle East today are strained, or in some cases, completely unavailable.<sup>521</sup> The financial industry's attempt to reduce their risk exposure by cutting off services to these regions signifies a tipping point. Increased regulatory efforts have adversely impacted the very systems they attempt to protect. In the absence of a formal market, informal channels, like hawala, become increasingly popular and necessary as a substitute.<sup>522</sup> A potential solution to reinstate the formal financial sector in these regions, but in a manner competitive to hawala's availability, accessibility, and affordability, is by deploying mobile money platforms. This solution promotes financial inclusion by reversing the trend of de-risking, while meeting the United States' AML objectives to counter the financing of terrorism (CFT). The following paragraphs discuss a path forward for financial inclusion through mobile money platforms.

Currently, the formal financial sector in Africa and the Middle East is a disadvantaged and poor competitor of hawala. Hawala has greater availability, accessibility, and affordability.<sup>523</sup> It provides a legitimate service in the absence of expensive formal services. It drives human development and enables households to invest in education and health.<sup>524</sup> For NGOs, it enables cash transfers necessary for the survival

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<sup>521</sup> Starnes et al., *De-Risking and Other Challenges in the Emerging Market Financial Sector*, 26.

<sup>522</sup> Government Accountability Office, *Remittances to Fragile Countries*, 8.

<sup>523</sup> Financial Action Task Force, *The Role of Hawala and Other Similar Service Providers in Money Laundering and Terrorist Financing*, 10.

<sup>524</sup> Demirguc-Kunt et al., *The Global Findex Database 2017*, 1.

and livelihood of poverty-stricken communities.<sup>525</sup> By leveraging mobile money solutions, the formal sector can gain an advantage. Transformation within the formal sector will increase the capacity to detect money laundering and terror financing schemes without disrupting financial flows that are lifelines to communities in Africa and the Middle East.<sup>526</sup> The continued prevalence and use of hawala signals a market failure that needs to be addressed, as it is excluding millions of people from accessing formal services and impairing their ability to overcome poverty and endure economic shocks.<sup>527</sup>

Around the globe, 30% of the world's population does not have an account at a financial institution.<sup>528</sup> In contrast, worldwide, 5.15 billion people have some type of mobile device, like a cell phone or tablet, while 3.3 billion users have a smartphone.<sup>529</sup> Of the 1.7 billion people without access to a formal financial institution, one billion own a mobile phone and nearly half have access to the internet.<sup>530</sup> Transitioning from brick and mortar banking to digitalized platforms can expand account ownership and usage, while also improving the speed of transfers and reducing costs.<sup>531</sup> In a comparison study of the price of traditional banking services versus mobile services, the World Bank identified that on average, the cost to send money was 12% cheaper, the cost to receive money was 24%

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<sup>525</sup> The Cash Learning Partnership, *Glossary of Terminology for Cash and Voucher Assistance*, 7.

<sup>526</sup> Ggombe Kasim Munyegera and Tomoya Matsumoto, "ICT for Financial Access: Mobile Money and the Financial Behavior of Rural Households in Uganda," *Review of Development Economics*, 22, no. 1 (February 2018): 46, <https://doi.org/10.1111/rode.12327>.

<sup>527</sup> Tracey Durner and Liat Shetret, *Understanding Bank De-Risking and Its Effects on Financial Inclusion: An Exploratory Study* (Oxford: Oxfam GB, 2015), 3, <https://oxfamlibrary.openrepository.com/bitstream/handle/10546/582310/rr-bank-de-risking-181115-en.pdf?sequence=4&isAllowed=y>.

<sup>528</sup> Demircuc-Kunt et al., *The Global Findex Database 2017 2*; Shalini Unnikrishnan et al., *How Mobile Money Agents Can Expand Financial Inclusion* (Boston: Boston Consulting Group, 2019), 3, [http://image-src.bcg.com/Images/BCG-How-Mobile-Money-Agents-Can-Make-Financial-Inclusion-a-Reality-Feb-2019-R\\_tcm9-213853.pdf](http://image-src.bcg.com/Images/BCG-How-Mobile-Money-Agents-Can-Make-Financial-Inclusion-a-Reality-Feb-2019-R_tcm9-213853.pdf).

<sup>529</sup> Ash Turner, "How Many Phones Are in the World? 1 Billion More Mobile Connections than People Worldwide," *BankMyCell* (blog), July 10, 2018, <https://www.bankmycell.com/blog/how-many-phones-are-in-the-world>.

<sup>530</sup> The World Bank, *The Little Data Book on Financial Inclusion 2018* (Washington, DC: The World Bank, 2018), vi, <https://openknowledge.worldbank.org/handle/10986/29654>.

<sup>531</sup> Demircuc-Kunt et al., *The Global Findex Database 2017*, 90.

cheaper, while bill payment services were 50% cheaper when using mobile services.<sup>532</sup> On average, a mobile customer could save \$6.00 for using a branchless service provider.<sup>533</sup> In Sub-Saharan Africa, only 33% of the population has an account at a financial institution.<sup>534</sup> The share of individuals with mobile money accounts has grown twice as fast as those opening accounts at financial institutions.<sup>535</sup> In places like Côte d'Ivoire, 64% of the population only has a mobile money account, while 83% of those who do have a bank account also have a mobile money account.<sup>536</sup> Africa is leading the way in mobile money adoption, but opportunities exist for increased adoption in the Middle East.<sup>537</sup>

Mobile money platforms can be transformational in the Middle East. Despite increases in internet and broadband services, the Middle East and North Africa regions have the lowest number of mobile banking subscribers.<sup>538</sup> In Yemen, for example, less than one million deposit accounts have been opened at financial institutions, yet eight million people have subscribed to mobile phone service.<sup>539</sup> Overall, only 43% of the entire population in the Middle East and North Africa has a bank account at a financial institution.<sup>540</sup> Countries in the Middle East are slowly starting to adopt mobile banking technology, with an adoption rate of 53% of the population in Saudi Arabia using mobile money platforms, 58% in Kuwait, 44% in Qatar, and 35% in Jordan.<sup>541</sup> However, smartphone adoption now surpasses that of mobile banking subscriptions and is on the rise.

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<sup>532</sup> Douglas Pearce, *Financial Inclusion in the Middle East and North Africa: Analysis and Roadmap Recommendations* (Washington, DC: The World Bank, 2010), 40, [http://siteresources.worldbank.org/INTMNAREGTPOPOVRED/Resources/MENAFflagshipInclusion12\\_20\\_10.pdf](http://siteresources.worldbank.org/INTMNAREGTPOPOVRED/Resources/MENAFflagshipInclusion12_20_10.pdf).

<sup>533</sup> Pearce, 40.

<sup>534</sup> The World Bank, *The Little Data Book on Financial Inclusion 2018*, 6, 8.

<sup>535</sup> Demirguc-Kunt et al., *The Global Findex Database 2017*, 21.

<sup>536</sup> Demirguc-Kunt et al., 22.

<sup>537</sup> Alexandra Zins and Laurent Weill, "The Determinants of Financial Inclusion in Africa," *Review of Development Finance* 6 (August 3, 2016): 47, <http://dx.doi.org/10.1016/j.rdf.2016.05.001>.

<sup>538</sup> GSMA, *The Mobile Economy: Middle East and North Africa 2018* (London: GSMA, 2018), 9, 11, <https://www.gsmaintelligence.com/research/?file=4341c31bb1650dd595909a6761ffd9f0&download>.

<sup>539</sup> Pearce, *Financial Inclusion in the Middle East and North Africa*, 17.

<sup>540</sup> The World Bank, *The Little Data Book on Financial Inclusion 2018*, 6, 8.

<sup>541</sup> Ahmed M. Mutahar et al., "Examining the Intention to Use Mobile Banking Services in Yemen: An Integrated Perspective of Technology Acceptance Model (TAM) with Perceived Risk and Self-Efficacy," *Asian Journal of Information Technology* 16, no. 2 (2017): 299, <https://doi.org/10.36478/ajit.2017.298.311>.

Smartphones account for over 50% of all connections, and is estimated to reach 72% by 2025.<sup>542</sup> For the mobile money market to develop further, continued investments into infrastructure will be necessary. Regardless of the pace of mobile banking adoption, the spread of mobile technology has created new opportunities to serve excluded populations better, while making strides to close the existing gender gap to financial access.<sup>543</sup>

Mobile money platforms are enabling women to participate in the financial sector. In Côte d’Ivoire, women and men are equally likely to have a mobile money account, while in Kenya, women are 11 percentage points more likely than their male counterparts to have a mobile account.<sup>544</sup> Although it is too early to make definitive conclusions on the long-term impacts on gender equality, the current trends in mobile account ownership in Africa are encouraging and support increasing services to promote economic equity and the social advancement of females.<sup>545</sup> In places where cultural and social norms curtail interactions between men and women, like in Muslim societies, money mobile providers have hired female staff to increase the adoption of services by women.<sup>546</sup> As discussed in Chapter VII, including women in the household’s decision-making process is empowering.<sup>547</sup> It positively impacts their physical and mental health, and increases their literacy skills, which in turn grows the skills needed to successfully use mobile technologies and access digital payment platforms.<sup>548</sup> This empowerment can create a ripple effect affecting other household decisions about the health and wellbeing of children.<sup>549</sup>

NGOs have started piloting programs to use mobile money platforms as part of their cash transferring strategy. The UNHCR has partnered with Airtel, a mobile money

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<sup>542</sup> GSMA, *The Mobile Economy*, 16.

<sup>543</sup> Claire Penicaud Schwarwatt and Elisa Minischetti, *Reaching Half of the Market: Women and Mobile Money* (London: GSMA, 2014), 3, [https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2014/09/2014\\_DI\\_Reach-half-of-the-market-Women-and-mobile-money.pdf](https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2014/09/2014_DI_Reach-half-of-the-market-Women-and-mobile-money.pdf).

<sup>544</sup> Demirguc-Kunt et al., *The Global Findex Database 2017*, 25.

<sup>545</sup> Demirguc-Kunt et al., 26.

<sup>546</sup> Schwarwatt and Minischetti, *Reaching Half of the Market: Women and Mobile Money*, 8.

<sup>547</sup> OlaOlorun and Hindin, “Having a Say Matters,” 1; Roser, “Fertility Rate.”

<sup>548</sup> Roser, “Fertility Rate.”

<sup>549</sup> Okeke, Anyaehie, and Ezenyeaku, “An Overview of Female Genital Mutilation in Nigeria,” 72.

service provider, to provide refugee households returning to Rwanda with mobile cash transfers.<sup>550</sup> Airtel dispatches agents to provide families with a mobile phone. It trains them on using the phone and the digital money platform that assist them to reintegrate into society, and provide them with the flexibility of choosing how to meet their family's basic needs.<sup>551</sup> A variety of factors must be considered when deploying cash transfers through mobile money platforms, and they might not be advantageous in all situations.<sup>552</sup> Considerations must be made as to network coverage, the availability of mobile devices, and the reliability of electricity to charge devices.<sup>553</sup> Nonetheless, with almost 93% of all global refugees living in areas covered by 2G networks, a mobile money-based intervention system may be the next frontier of cash transfer programming.<sup>554</sup>

The practice of de-risking undermines AML and CFT objectives. It creates an environment in which the formal financial sector is absent and therefore handicapped in detecting or deterring money laundering or terror-financing schemes. Furthermore, de-risking causes financial exclusion. Unbanked populations are forced to seek out alternative platforms to meet their financing needs. As a result, hawala provides an essential service. Cash transfers through hawala reduce poverty, progress the rights of women and children, and promote survival for vulnerable populations. Balancing the needs of these communities against the need for comprehensive AML and CFT strategies are a clear challenge. Financial inclusion offers a way to harmonize human security and development goals with AML and CFT objectives. The recent growth of mobile money platforms offers one opportunity to reverse the trend of de-risking and foster financial inclusion. Financial inclusion through mobile money solutions can overcome the current barriers that prevent

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<sup>550</sup> GSMA, *Landscape Report: Mobile Money, Humanitarian Cash Transfers, and Displaced Populations* (London: GSMA, 2017), 35, [https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2017/05/Mobile\\_Money\\_Humanitarian\\_Cash\\_Transfers.pdf](https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2017/05/Mobile_Money_Humanitarian_Cash_Transfers.pdf).

<sup>551</sup> "UNHCR, Airtel Rwanda and I&M Bank (Rwanda) Partner together to Strengthen the Return of Rwandan Refugees through Cash Grants," United Nations High Commissioner for Refugees, February 16, 2017, <https://www.unhcr.org/rw/952-unhcr-airtel-and-im-bank-rwanda-partner-together-to-strengthen-the-return-of-rwandan-refugees-through-cash-grants.html>.

<sup>552</sup> GSMA, *Landscape Report*, 5.

<sup>553</sup> Demirguc-Kunt et al., *The Global Findex Database 2017*, 89.

<sup>554</sup> GSMA, *Landscape Report*, 11.

the formal financial sector from being an adaptive competitor to hawala, to one capable of withstanding the pressures of operating and performing within conflict zones. For this solution to be effective, the United States must invest in capacity building, not of brick and mortar institutions, but rather in the technologies that support the formal sector's digital services. In doing so, the United States will enable western institutions to adopt the features that have made hawala successful: its availability, accessibility, and affordability without jeopardizing the lifeline it provides.

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