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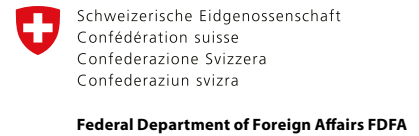
NORWEGIAN
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DIALOGUE SERIES ON SOLUTIONS TO BANK DERISKING

Use of Money or Value Transfer Services by Non-Governmental Organisations

A legitimate tool of last resort in response to bank derisking



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ACRONYMS

AML	Anti-money Laundering	FSP	Financial service provider
CFT	Countering the Financing of Terrorism	IHL	International humanitarian law
DAB	Da Afghanistan Bank (Central Bank of Afghanistan)	IVTS	Informal value transfer system
DD	Due Diligence	MSB	Money service business
DG ECHO	Directorate-General for European Civil Protection and Humanitarian Aid Operations	MSP	Money service provider
EU	European Union	MTO	Money transfer operator
FATF	Financial Action Task Force	MVTS	Money and value transfer services
FDFA	Swiss Federal Department of Foreign Affairs	NGO	Non-governmental organisation
FI	Financial Institutions	NRC	Norwegian Refugee Council
		UK	United Kingdom
		US	United States
		VTS	Value transfer systems

1 BACKGROUND

An expert online workshop took place on 1 December 2022 that explored the use of money or value transfer services (MVTs) by non-governmental organisations (NGOs) use in response to financial access challenges.¹ It was organised by the Norwegian Refugee Council (NRC) and as the second in a four-part ‘Dialogue Series on Solutions to Bank Derisking’, co-funded by the Directorate-General for European Civil Protection and Humanitarian Aid Operations (DG ECHO) and the Swiss Federal Department of Foreign Affairs (FDFA).²

The workshop was planned based on recommendations that stemmed from the first in the series in June 2022, which focused on safeguarding humanitarian banking channels and highlighted the need NGO to better understand NGO use of MVTs.

Many if not most NGOs have used MVTs in their humanitarian operations in recent years as a legitimate tool of last-resort.³ This is linked in large part to the widespread practice of financial sector derisking,⁴ which has accelerated over the past decade in response to the growing complexity of overlapping sanctions regimes and other regulations.⁵ This in turn has increasingly forced NGOs, international organisations and private sector stakeholders to use payment channels outside the international financial system.⁶

Certain actors in the financial and humanitarian sectors have developed a mounting body of expertise on the use of MVTs⁷ for the safe and compliant transfer of humanitarian funds. This includes the emergence of specialist platforms to serve this purpose, and the establishment of tried and tested best practice and due diligence (DD) procedures in some NGOs and banks.⁸

In some countries, MVTs have not only been the principal means of personal and business financing for centuries, but also have a long history of use by NGOs to distribute cash to people in vulnerable communities. In parallel, donor governments and regulators widely acknowledge that humanitarian actors frequently have no other payment channels available to them when remitting funds to or within certain countries where a variety of regulatory and legal frameworks may apply.⁹

TERMINOLOGY MATTERS

The term *hawala* is widely used within the humanitarian community to refer to MVTs, however, the research found that interpretations of this term vary. *Hawala* can carry negative connotations across sectors, particularly for those less familiar with the ways in which it can be used compliantly with appropriate checks and balances in place. In order to mitigate some of the prejudices that can be associated with the term *hawala*, some prefer to describe it as an informal value transfer system (IVTS). This is a useful alternative, but not always ideal given that it is not always an informal mechanism as it is regulated in some countries. As such it can be considered a money or value transfer service (MVTs) under certain jurisdictions alongside banks and other payment platforms such as Western Union and MoneyGram.

Other terms such as money service provider (MSF), value transfer system (VTS), financial service provider (FSP), money service business (MSB), money transfer operator (MTO) or merchant, which can be useful but could also refer to wider financial and business activities, including those of banks and other private sector actors.

For consistency, and to avoid potential negative connotations with the term *hawala*, this paper will use the term MVTs throughout.



MAIN WORKSHOP FINDINGS

Despite the positive developments outlined above, the workshop highlighted a number of outstanding challenges to NGOs' use of MVTs:

1. Donor stances on the use of MVTs in the humanitarian sector vary across countries and tend to lack clarity or tailored guidance, including on permissible activities. In some cases, all a donor country's funding may pass through MVTs to a recipient country despite its use being outlawed in the donor country.¹⁰
2. Gaps in understanding of the regulatory frameworks that apply to NGOs' use of MVTs across jurisdictions, including in transit countries, hinder NGOs' and banks' understanding of legal financial transactions.¹¹
3. Specialist expertise is needed for the appropriate vetting of MVTs service providers and to negotiate commission fees, but NGOs often lack the capacity and resourcing to navigate due diligence (DD) requirements, which they say can be cumbersome, time-consuming and confusing.
4. Financial institutions (FIs) vary widely in terms of their risk appetite for humanitarian transactions that involve MVTs. Many refuse to service payments or close accounts if NGOs use MVTs.
5. The term *hawala* tends to carry negative associations among some stakeholders, particularly in the global north. It might be better described in terms that evoke less strong adverse reactions, such as a MVTs.

2 WHAT ARE MONEY OR VALUE TRANSFER SERVICES?

MVTS are a trust and barter-based mechanism considered legitimate and legal in most donor countries, and in many of the countries in which it is used.¹² MVTS service providers may also be referred to as MSP, FSP, IVTS or a variety of other local names.¹³ The use of MVTS-type mechanisms is most prevalent in the Middle East, North Africa, the Horn of Africa, the Indian subcontinent and Central Asia.

Similar models have also been employed elsewhere at different times, including in West Africa and in Ukraine after Russia's war in the country in February 2022.¹⁴ NGOs have reported its use as a response to the mounting humanitarian needs associated with the war. MVTS are also a favoured means of transferring diaspora or household remittances to a number of countries, including Syria,¹⁵ and it is widely used in trade and other economic activities in Afghanistan and elsewhere.¹⁶

2.1 BACKGROUND ON NGO USE OF MONEY OR VALUE TRANSFER SERVICES

MVTS are a tool of last resort for NGOs to fund transfers in some jurisdictions, particularly when banking channels are unavailable. They may also use other non or less-regulated remittance options, including carrying cash across borders and currency swaps.¹⁷

Regulated payment channels, such as those that make use of banks, post offices, MSBs,¹⁸ mobile money and digital payment platforms and MTOs such as Western Union and MoneyGram¹⁹ may become inaccessible as a result of derisking, lack of liquidity or branch closures linked to security concerns or infrastructural damage, particularly in conflict settings.²⁰ This places further demand on MVTS in certain countries.

Humanitarian payments may often involve transfer mechanisms, which could include MVTS alongside banking and MTOs. Aside from urgency and necessity, NGOs have cited a number of advantages of using MVTS in various situations despite the challenges involved. One 2017 report states that while "there is significant room and need for improvement to optimize the humanitarian reliance upon hawala, experts agree that enhanced engagement with the system may lead the way to an effective and sustainable transition from aid to long-term development and economic recovery".²¹

A representative of a network of NGOs described how widespread MVTS use across humanitarian organisations for both cross-border and in-country transfer of funds was seen as an efficient way to deliver cash for aid in some countries and had proven particularly resilient when supporting displaced populations: "*Hawaladars* have agents and networks that can move around quickly. We've seen cases where there was a flood or a fire, and *hawaladars* were the first to set up".²²

NGO USE OF MONEY OR VALUE TRANSFER SERVICES HUMANITARIAN PAYMENTS

In **Syria**, MVTs have long played an important role in the transfer of NGO funds as part of humanitarian assistance for people living in hard-to-reach areas.²³ It is also used to cover NGOs' operational costs and supplier payments when banking facilities are unavailable.²⁴ Its use has increased in recent years as banks and other regulated payment channels have become unavailable as a result of sanctions, derisking and other pressures.

A 2015 study found that the vast majority of humanitarian funds sent to Syria went through MVTs as a result of the "almost complete exclusion of the formal banking system".²⁵ A 2017 report suggested that MVTs were the only partially scalable facility available to NGOs delivering humanitarian assistance in non-government controlled areas of the country.²⁶ A 2020 report further corroborated that MVTs were the principle mode of transferring humanitarian funds into Syria, particularly in areas outside government control, and that NGOs often had to restrict their operations to locations where MVTs networks were active.²⁷

In **Afghanistan**, NGOs of all sizes have used MVTs for decades, and particularly after the end of Taliban rule in 2001, when MVTs reportedly became "the only functioning financial network" available to them.²⁸ One 2017 study quoted an NGO specialised in food insecurity as crediting MVTs, a partially regulated sector in Afghanistan, as an "efficient, effective and transparent" system that reduced the security risks associated with the direct handling of cash and fostered community trust.²⁹

When the Taliban returned to power in August 2021, MVTs became one of the only transfer mechanisms for humanitarian organisations and the private sector. A 2022 NRC report that mapped humanitarian financing channels available to NGOs found that MVTs were "widely seen as the most viable – and sometimes only – legal and legitimate option for most NGOs to send money into, and around, Afghanistan and to access physical bank notes".³⁰

2.2 SURVEY RESULTS ON NGO USE OF MONEY OR VALUE TRANSFER SERVICES IN HUMANITARIAN OPERATIONS

The following outlines the results of a short, non-representative online survey put to NGO, donor and banking participants in the workshop.

NGOs

NGOs confirmed they had used MVTs for domestic transfers in Afghanistan, Iraq, Libya, Somalia and Syria, for cross-border transfers from Iraq and Lebanon to Syria and for cross-border transfers to Afghanistan on both a regular and one-off basis. One said the use of MVTs had been particularly well-organised in Somalia. Others said that working through an established framework such as Amanacard helped to ensure best practice given its ability to negotiate preferential fees, support DD obligations and establish common risk management mechanisms. NGOs cited a combination of reasons for having used MVTs:

- ➔ Few alternatives in the absence of payment options through regulated banking routes.
- ➔ They allowed NGOs to access hard-to-reach communities.
- ➔ They were quicker than other options.
- ➔ They overcome challenges in accessing liquidity and physical bank notes.
- ➔ They overcame security concerns by allowing organisations to handle less cash.
- ➔ They enabled operations in situations where banks were not present.

MVTs transfer volumes varied across organisations. One NGO said its largest single transaction in recent years had been USD 1.5 million, while others cited \$50,000 and \$20,000. Another NGO believed it was only allowed to transfer up to \$5,000 via MVTs.

Responses were similarly mixed in terms of having organisational policies or standard operating procedures on MVTs use and engagement of agents at the global, regional or country level. NGOs also highlighted the need for greater clarity on regulatory frameworks, saying they believed MVTs use was restricted in donor

countries such as the United States (US) and Germany, and illegal in Libya.³¹ When asked about their concerns about MVTs use, they mentioned the following:

- ➔ Compliance with donor agreements.
- ➔ Risk of diversion of funds, particularly to designated terrorist organisations, human rights violators or corrupt entities.
- ➔ Staff safety and security.
- ➔ Compliance with national or regional laws.

NGOs also said exchanges with one another on MVTs use happened on an ad-hoc basis in informal forums and depended on the proactivity of staff and personal relationships. One respondent said a single, consolidated forum to address these issues across jurisdictions or with different donors and banks would be useful.

Donors

Government participants raised a number of concerns about NGOs' use of MVTs, including that networks could be affiliated with proscribed groups and that MVTs service providers could access unacceptable levels of information on the people who NGOs provide aid to as well as NGOs operations including the quantities and patterns of regular payments, which could pose security risks. They also cited compliance with national or regional laws, the potential for funds to be diverted and high fees, and highlighted the need to use correct DD procedures and document payments to ensure transparency. Cross-border transactions were seen as riskier than domestic ones.

Donors said they were most aware of NGOs' need to use MVTs in Afghanistan, Iraq, Syria and Türkiye. When asked which countries outlawed MVTs, they cited controls in Türkiye, Germany and government-controlled areas of Syria.

Afghanistan was a cause for particular concern, given that constraints on the country's central bank, Da Afghanistan Bank (DAB), mean that it is currently less able than ever to enforce the regulation of MVTs, including conducting anti-money laundering (AML)/ and countering the financing of terrorism (CFT) checks against sanctioned Taliban or Haqqani members. The Taliban also seem set to restrict NGOs' access to

finance by attempting to control and influence assistance - this was observed recently in Herat, where a leading Afghan bank was asked to suspend NGO accounts - meaning a growing number of NGOs are likely to be forced to rely on less regulated mechanisms.

Donors also revealed that government guidance on the matter was inconsistent. Some said no guidance at all was in place, and others that most legal regulations were broad, centring more on risk mitigation measures such as sanctions checks. Similar variation also arose in terms of DD policies and the procedures that donors ask of NGOs across countries. Some cited the need to check the names of MVTs with domestic and United Nations sanctions lists, while others said no such mechanisms or processes were in place.

Donors generally considered MVTs fees and transaction costs as eligible for them to cover. They said they had regular conversations with NGOs about the use of MVTs, but little or no communication with each other on the issue. One participant cited the need to arrange discussions across their government's departments and agencies - such as foreign affairs, humanitarian affairs, defence, policing and finance - to ensure a common understanding of the topic in relation to risk mitigation measures.

Donors acknowledged that there were various "myths" and incorrect perceptions around MVTs such as that they are unregulated systems, when in reality many MVTs service providers "are actually registered in the donor country or third country and some are affiliated with banks". They also cited inconsistent and confusing situations in which some governments may ban the use of certain MVTs networks while others permit them. According to one government representative, this is often because there is no "robust understanding of what *hawala* and other non-traditional money transfer services offer, the need to allow their use, risks that exist and appropriate risk mitigation measures".

Financial institutions

Some of the banks consulted disapproved of NGOs using MVTs. One respondent wrote: "Due to the lack of transparency within MVTs networks, banks will typically not allow B2B [bank to bank] transactions that terminate, cross or fund these flows, regardless of country".

Concerns were cited about the following:

- Diversion of funds, including risks linked to terrorist financing and money laundering.
- Staff safety and security.
- Compliance with national or regional laws.
- Governments' inability to collect taxes from MVTs transactions.

2.3 NGO BEST PRACTICE ON USING MONEY OR VALUE TRANSFER SERVICES

A number of NGOs have specific, well-established and rigorous risk management and compliance procedures for MVTs use. These tend to be designed for a specific situation and based on the needs of a given country. NGOs described a number of risk mitigation strategies, including using euros rather than US dollars for transfers.³² This has helped to reduce blockages, although they could incur significant currency conversion fees. Others said it was important to forge and maintain regular, trusting and transparent exchanges with their banking partners about these activities.

CASE STUDY: RISK MITIGATION STRATEGIES FOR MONEY OR VALUE TRANSFER SERVICES USE

One international NGO representative said their organisation's only experiences of using MVTs had been for cross-border operational funding, and that it employed a strict control framework and risk assessment procedure to do so. This requires high-level sign off if the payments exceed a certain size and after a given MVTs agent and any sub-agents have been selected and vetted in close conjunction with the NGO's country offices. The assessment includes consideration of contractual, security and geographical risks that encompass the physical location of the MVTs and the area to which the funds are to be delivered.

The NGO only uses MVTs in extreme circumstances and only after a series of checks and operational safeguards have been

carried out. MVTs service providers are also given copies of the policies, procedures and best practices that guide the contractual arrangements and outline what is expected of them. The agents are paid in arrears once confirmation is given that the payment has been executed.

The NGO has recently needed to use MVTs in places including Afghanistan, Lebanon, Syria, Ukraine and Yemen. In doing so, it encountered payment delays and found that each transaction required significant resourcing, sometimes involving a joint phone call with the banks involved in the payment chain. In the case of Syria, for example, the home bank was in Europe and the intermediary banks in Jordan and Iraq. The NGO also found that support varies from one home and correspondent bank to another and can change over time.

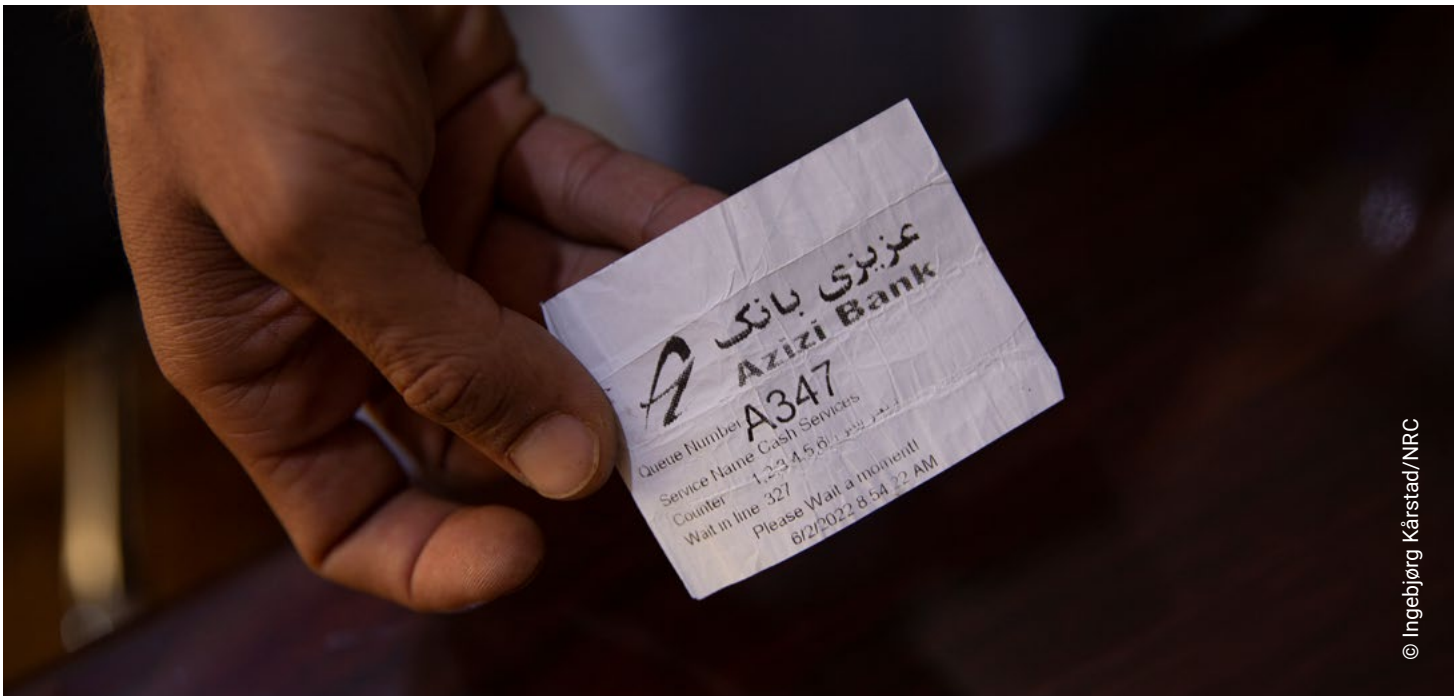
CASE STUDY: USING MONEY OR VALUE TRANSFER SERVICES TO TRANSFER HUMANITARIAN FUNDS FROM EUROPE TO SYRIA VIA IRAQ

Another international NGO described payment bottlenecks among intermediary banks when making MVTs payments to Syria via Iraq. Iraqi banks have rejected transfers with growing frequency over the past 18 months if the transactions were in US dollars and tagged for Syria. Reasons given included changes to Iraqi regulations, including new currency controls. The Iraqi government has also made it clear in recent years that it does not support NGOs based in Iraq funding operations in Syria, even though such activities are not illegal or prohibited.

These developments nearly led to the suspension of some operations in Syria and frustrated relations between the NGO in question and its trusted MVTs service providers. It also led to increased security concerns for field staff. A solution was found by making transfers in euros. The NGO calculated that this raised the estimated cost of using MVTs by five to six per cent, meaning that doing so did not represent a sustainable long-term solution.

3 PLATFORMS FOR THE SAFE TRANSFER OF HUMANITARIAN FUNDS USING MONEY OR VALUE TRANSFER SERVICES

Funds transfer platforms that have been developed, trialled, and successfully rolled out in poorly banked jurisdictions are described below. They enable the transparent tracking of humanitarian funds to “last-mile” project participants, which may use MVTs at some point in the transfer chain.



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Amanacard³³ is a social impact enterprise founded to support organisations in high-risk jurisdictions in minimising the footprint created by their cash-based programming, while ensuring the delivery of cash payments via vetted networks of merchants or MVTs that operate a verifiable end-to-end money transfer service.³⁴

The model, which provides confidence to banks and donors through its independent third-party financial monitoring of MVTs service providers, was originally tested in Syria. It has since been replicated in other countries, including most recently in Afghanistan, where Amanacard has facilitated the delivery of more than \$10 million in aid to end project participants in all provinces.

NGOs pay a monthly subscription fee for specialist advice, logistics support in the field, DD procedures and use of the platform for tracking transactions. The tracking has proven essential in passing external audits and banks’ spot checks, according to Amanacard.

Moore Afghanistan’s HesabPay works across all mobile phone networks in the country and offers a digital wallet using either a smartphone app or a QR code card for the payment of utility bills and the transfer of domestic and international funds between individuals, companies and official bodies. It also offers users the ability to “cash out” through HesabPay agents in 34 provincial offices, which sometimes use MVTs.³⁵

4

CHALLENGES AND SOLUTIONS

4.1 COMPLEX COMPLIANCE REQUIREMENTS

International legislation that requires NGOs to carry out thorough DD checks on MVTS service providers has proliferated over the past two decades. Responding to these growing compliance requirements, NGOs have highlighted the need for appropriate levels of resourcing and compliance training on MVTS use. Some have also described the DD processes as time-consuming, arduous and expensive, with no guarantees that they will be enough to reassure donors and banks.³⁶

Nor do NGOs always have full oversight of the intermediaries and supply chains involved in MVTS payments, which could include sanctioned entities or individuals engaged in unethical behaviour they would not want to be associated with.

A Beechwood International report indicated that it was vital to step up support for NGOs so they were able to engage in more informed and streamlined DD processes.³⁷ The report stressed that humanitarian actors had been making decisions based on limited DD, and that some were paying inflated commission rates to MVTS service providers, meaning that money that could be used to help people in need was being lost to the intermediaries.³⁸ A 2015 NRC study similarly suggested that expertise in carrying out enhanced DD (EDD) was sometimes lacking.³⁹

The Beechwood report also recommended the development of a common mechanism through which NGOs could better navigate the MVTS compliance environment. It suggested donors might consider pooling funds to create a central know-your-supplier and know-your-customer processor for their partners, which could check remitter and recipient data against sanction lists and deeper sources available from the law enforcement communities in their countries.⁴⁰ It was this recommendation that led to the creation of Amanacard.

4.2 NEED FOR REGULATORY AND PROCEDURAL CLARITY ON MONEY OR VALUE TRANSFER SERVICES FOR THE NGO COMMUNITY

Other reports, including a 2019 Overseas Development Institute (ODI) study, suggested that MVTS were not widely understood by NGOs, but others have identified a growing grasp of MVTS use for humanitarian payments among national staff and local partner NGOs.⁴¹ Some NGOs have worked together to issue guidelines on MVTS use in countries such as Somalia, Yemen and Syria,⁴² and in more general terms.⁴³ The creation of the likes of Amanacard also allows donors and banks to track the transfer of humanitarian funds from source to people in need transparently and verifiably, and can provide additional tools and capacity to the NGO community in certain countries.

Fees for MVTS use have also increased steeply in certain countries, which is a potential problem for NGOs that have no alternative but to use such channels, and particularly if donors deem the costs too high. Some observers recommend closer coordination between NGOs, and greater support and clarity on MVTS to assess the suitability of dealers and negotiate better commission rates. Amanacard already offers such a service, and the Afghanistan Cash and Voucher Working Group has proposed something similar since 2021.⁴⁴ Others advocate clearer guidelines on regulatory matters and procedural mechanisms that NGOs should follow when using MVTS in humanitarian operations.

4.3 VARIATION IN DONOR STANCES ON NGO USE OF MONEY OR VALUE TRANSFER SERVICES

A large percentage of donor spending on humanitarian assistance passes through MVTS networks as part of the aid response to humanitarian crises, which use established and verifiable DD mechanisms.⁴⁵ One major donor described MVTS as “the only option available to us in some countries, now and in the foreseeable future”. Another said MVTS “should not be perceived as an ‘informal’ payment system. Instead, it’s simply a money transfer mechanism that is not integrated into the international banking system yet is a central part of peoples’ lives”.

CASE STUDY: A LEADING DONOR’S PERSPECTIVE ON NGO USE OF MONEY OR VALUE TRANSFER SERVICES

The representative of one major donor said the use of MVTS was a normal part of business across much of the world. The donor divides the risks its NGO partners face in their programming in Afghanistan, Iraq, Somalia, Syria and Yemen into a number of categories:

- Programmatic risk from funds not being transferred on time or FSPs not being able to reach payees.
- Security risks, in that the alternative of NGO staff carrying and delivering cash would be immensely dangerous.
- Legal risk of contact with sanctioned people or entities, money laundering or terrorist financing.
- Risk of regulatory action if funds are lost, wasted, or mismanaged.

The donor said the appropriate use of MVTS helped to mitigate some of the risks. It noted that MVTS attached great value to their reputations and that contracts were structured so that payments were made in arrears. As such, the risk of the loss of government funds is deemed to be “incredibly small”. It said: MVTS service providers “are typically registered money transfer agents, regulated by the central bank or an equivalent thereof ... akin to MoneyGram or Western Union, which are legal and regulated.”

Despite the positive views of one donor government on NGOs use of MVTS, those of others vary significantly. Some have issued clear regulations and guidance, while others’ stances are more opaque.⁴⁶ The UK government, for example, provides the following guidance to NGOs working in Afghanistan:⁴⁷

The money remittance services that IVTS and MSBs [or *hawaladars*] provide are often vital to those that receive them and in some cases, it may be the only access to funds they have. However, as with any non-formal routes, you should be aware of the potential for increased risk and therefore conduct enhanced due diligence in line with your charities’ or NGOs’ exposure. Banks and other financial services providers will make commercial decisions on who and where their services are provided to, independently of government. If the only option is to facilitate a payment through *Hawala* banking: obtain as much information as possible about the *Hawala* provider and the parties involved prior to making the transaction and discuss the payment route with your bank in advance.⁴⁸

Some donors emphasised their expectation that organisations simply follow and/or monitor their own DD and control procedures when using MVTS, and wherever possible communicate this engagement. As described in the case study above, some also noted that MVTS valued their reputations highly - a finding confirmed via cash working groups – and that when combined with payment in arrears, the risk of losing funds was limited.

4.4 LACK OF LACK OF NGO CAPACITY ON UNDERSTANDING MONEY OR VALUE TRANSFER SERVICES REGULATION IN TRANSIT COUNTRIES REGULATION IN TRANSIT COUNTRIES

NGOs have highlighted gaps in knowledge as an added challenge in terms of legislative frameworks that govern the use of MVTS in different transit or intermediary countries, such as those where counterparties are required to settle payments.⁴⁹ This makes matters more complicated for NGOs seeking to navigate the broader regulatory landscape and could result in unforeseen risks, including that certain countries become bottlenecks in the MVTS-based transit of humanitarian funds.⁵⁰

One 2021 report argues that MVTs transfer channels should be put on a “clearer regulatory foundation in circumstances where they are the only viable options of moving money into areas of significant humanitarian need”.⁵¹ One major NGO highlights the resourcing burden in their central legal compliance team having to engage with local external counsels across a range of countries and keeping abreast of changes.

4.5 VARIATION IN FINANCIAL INSTITUTIONS APPROACH TO MONEY OR VALUE TRANSFER SERVICES

The willingness of FIs to support NGO payment chains that involve MVTs varies significantly. Some have begun to do so providing compliance requirements are met, as in Afghanistan. NGO representatives have commended certain home banks for their constructive and forward-looking stance, which is said to have been facilitated through close NGO-FI relationships based on well-established and rigorous DD checks. Others, however, have refused to service such transfers.⁵²

One outstanding challenge lies in the difference in approaches taken by banks at the receiving end of the chain. Sending banks may have become more comfortable in facilitating transactions involving MVTs in countries such as the UK, but there has been greater caution from banks receiving such payments in the affected regions. In the words of one banking executive: “Western banking is still a long way from crossing the cultural void to meet *hawala* networks at least halfway”.

FIs said most do not see MVTs as a legitimate payment mechanism and perceived it as high-risk. They noted that there were only a small number of bespoke cases in which FIs have facilitated payments involving MVTs and these had needed extensive resources and investment. The array of compliance and licensing requirements, typically involving various jurisdictions, makes payments extremely complex and costly to process.

Representatives from FIs with experience in connecting with banks in high-risk jurisdictions to access local liquidity markets and facilitate payments said they did not currently have the risk appetite to deal with transactions that involve MVTs. They also said MVTs (specifically references to *hawala*) are often used as an AML case study in training courses, which perpetuates the negative perception of MVTs transactions. In the words of one banking representative: “The idea of *hawala* as a negative or dangerous aspect of any money movement is consistently and constantly being drilled into banking employees.”

Nor are NGOs always able to identify where in the payment chain a blockage has occurred. They also note that the approach from any given bank is subject to fluctuations and change over time, often without clearly communicating the basis for their decisions. Another sticking point is that banks often request access to lists of the people receiving aid, something NGOs tend to be reluctant to grant for reasons of security and international humanitarian law (IHL), particularly in countries subject to different jurisdictions. In some cases, NGOs have been able to share details of their programming, rather than lists of the people they are providing assistance to.

5

RECOMMENDATIONS

The workshop participants compiled the following recommendations, highlighting a number of areas that could benefit from further action or consideration by government and NGOs.

Governments

Change regulations on NGO use of MVTs: The use of MVTs are outlawed in some donor countries, but NGOs may need to use of it as a tool of last resort to disperse donor funds with their knowledge. This places insurmountable risk on NGOs and banks.

Improve guidance on donor stances that guide MVTs use: Fostering a greater understanding among NGOs of permissible activities from the perspective of their donors would reduce the risk and resourcing burden on them. It would also help to reduce the chilling effect on banks and NGOs, which may otherwise be reluctant to use such payment systems as a tool of last resort.

Undertake and regularly update a detailed mapping exercise that provides accurate data on MVTs regulations across states, including donor, intermediary/transit, and final receiving countries, to help banks and NGOs better understand regulations and guidance across jurisdictions.

Provide greater support for existing platforms that use MVTs as part of humanitarian payment chains, including pilots in new jurisdictions, which may be necessary in cases where banking facilities are unavailable or liquidity is hard to access.

Engage with the Financial Action Task Force (FATF): Following on from FATF's 2013 report on the role of MVTs and similar service providers in money laundering and terrorist financing, a more accurate and up-to-date picture should be presented to the task force on NGOs' need to use MVTs as a legitimate and necessary tool of last resort in certain humanitarian situations.

Establish a forum for global trisector dialogue on financial sector derisking in humanitarian situations equipped to cover MVTs-related challenges: This forum to address specific topics or geographies related to derisking challenges could also serve as a platform for sharing best practice, challenges and solutions. It could also engage with developments in the personal remittance field and the use of MVTs in trade and other economic activities. States that have a more open and forward-leaning stance on NGOs' use of MVTs could also disseminate lessons learned and best practice via trusted existing forums, such as national trisector groups, to encourage a more harmonised approach to MVTs regulation across key donor countries.

Raise awareness: Extensive engagement and advocacy efforts are needed to increase banks' understanding of what MVTs are, and how they are regulated and used, and to clarify real versus perceived risks.

NGOs

Revise terminology: Guidance on how NGOs should frame their engagement with and messaging to banks to increase acceptance of MVTs is key. The term hawala is associated with money laundering and terrorist financing for some stakeholders, but in reality it is conducted via established and regulated FSPs in several countries. Using terms such as "value transfer system" or "financial service provider" would make for less charged discussions.

Foster trust with banks: Changing banks' perception of MVTs use will require efforts to develop trust and understanding between stakeholders. Banks have, for example, warned NGOs against "wire stripping", in which key information such as "Syria" as the end destination is removed from transfers to avoid excess scrutiny. As such, NGOs should tag payments and ensure that transfers are transparent.

6 CONCLUSION

NGOs consider MVTS a legitimate and essential tool of last resort in countries and regions where regulated banking systems are not functioning as a result of derisking or other constraints. It is also a regular part of the socioeconomic infrastructure and has been the preferred and trusted means of transferring funds between communities in many parts of the world for centuries. It may not be part of formal banking systems, but it is still regulated in some countries.

NGOs favour existing platforms and established DD procedures that enable the dispersal and tracking of humanitarian funds in ways which donors and banks deem to be legally compliant. Views on the legitimacy of MVTS and the risks associated with it vary greatly across donor governments, however, leaving NGOs with few clear regulations and guidance. That said, the fact that MVTS are an essential mechanism for them in certain countries where formal banking channels are inaccessible is broadly recognised by humanitarian donors.

Most international banks and traditional FIs tend to consider any payments associated with MVTS an unacceptable risk, but the declining number of regulated humanitarian payment channels available means that NGOs' use of MVTS as a legitimate instrument of last resort is likely to remain a prominent feature of the humanitarian landscape in the years to come. Indeed, given the worsening problem of financial sector derisking and its implications for unbanked regions of the world, the use of MVTS seems likely to grow.⁵³

As such, timely consideration of the key challenges and opportunities associated with NGOs' use of MVTS are vital. So too is the establishment of trust and constructive dialogue between key stakeholders across sectors on viable innovations and policy changes that can better support humanitarian payments and challenge sometimes incorrect assumptions about the compliant use of MVTS. Engagement with FATF and other key players in the field, such as leading donor governments and other public bodies, will also be important, as will bolstering capacity, awareness raising and the sharing of best practice.

ENDNOTES

- ¹ *Hawala* is defined here as “[a]n informal remittance system that does not require transferors’ identity verification, or detecting and reporting [of] suspicious transactions. The transfer of money is carried out through unregulated networks with no physical or electronic movement of money. The settlement takes place between two hawaladars [where], one is the sender and the other is the receiver of the money” (MENA FAFT, 2005, *Best Practices Issued by the Middle East and North Africa Financial Action Task Force Concerning the Hawala*, December, <https://bit.ly/3MC0zrk>).
- ² Co-organised and chaired by the report’s author.
- ³ Adriano, Andreas (2017) *When Money Can No Longer Travel*, International Monetary Fund (IMF), June, Vol. 54, No. 2, <https://bit.ly/3OHUGLn>; Financial Stability Board (FSB), *Report to the G20 on Actions taken to Assess and Address the Decline in Correspondent Banking*, November 2015, <https://bit.ly/3WPj9GR>; see also Financial Services Board, *Correspondent Banking Data Report*, 2017, <https://bit.ly/3X5aek5>.
- ⁴ For an overview of proposed solutions to the problem, see US Department of the Treasury (2023) *The Department of the Treasury’s De-Risking Strategy*, April, <https://bit.ly/3MKIKwc>; European Banking Authority (EBA), (2023) *Guidelines on Policies and Controls for the Effective Management of Money Laundering And Terrorist Financing (ML/TF) Risks when Providing Access to Financial Services*, 31 March, EBA/EL/2023/04, <https://bit.ly/3N3ncfr>; Eckert, Sue, Kurtzer, Jacob & Ballard, Sierra (2022) *Mitigating Financial Access Challenges Proposals from the CSIS Multi-Stakeholder Working Group on Financial Access*, Center for Strategic and International Studies (CSIS, Washington DC); Moret, Erica (2021), *Time to Act: Harmonizing Global Initiatives and Technology-Based Innovations Addressing De-Risking at the Interfacing Sanctions-Counterterrorism-Humanitarian Nexus*, SWP (Berlin).
- ⁵ Moret, Erica (2022) *More Civilian Pain than Political Gain (Again?): The Demise of Targeted Sanctions and Associated Humanitarian Impacts*, in Andrea Charron and Clara Portela (eds) *Multilateral Sanctions Revisited: Lessons Learned from Margaret Doxey*, McGill Queen’s University Press, Kingston, pp 117–192. Such as those addressing terrorism, money-laundering and corruption, as well as export controls and Financial Action Task Force (FATF) listings.
- ⁶ Work on this area dates back a decade, where the UK Government commissioned a technical assessment on the topic as a result of cross-government dialogue on finding solutions to the negative impacts of de-risking, led largely by the law enforcement community. While initial attention was concentrated on Somalia, the authors of the assessment created a typology for analysing other affected countries (Thompson, Edwina, Sentis, Keith, Plummer, Robin, Catalano, Michael & Keatinge, Tom, 2013, *Safer Corridors Rapid Assessment: Case Study Somalia & UK Banking*, Beechwood International, Commissioned by the UK Government, September, <https://bit.ly/3MHVio7>). The UK’s trisector working group was established as one of the key recommendations from the research. A detailed follow-up assessment was funded by the UN in relation to Syria (Thompson, Edwina (2015) *Humanitarian use of Hawala in Syria: Technical Assessment, Prepared for Aid Agencies Conducting Cross-Border Operations*, Beechwood International, 31 July, <https://bit.ly/3N3ZTIT>). The William M. (Mac) Thornberry National Defense Authorization Act (NDDA) for Fiscal Year 2021 provides the following definition on derisking “actions taken by a financial institution to terminate, fail to initiate, or restrict a business relationship with a customer, or a category of customers, rather than manage the risk associated with that relationship consistent with risk-based supervisory or regulatory requirements, due to drivers such as profitability, reputational risk, lower risk appetites of banks, regulatory burdens or unclear expectations, and sanctions regimes”, Pub. L. No. 116-283, § 6215(c)(1), 134 Stat. 3388, 4580-81 (2020).

- ⁷ IVTS is defined by the United States Department of the Treasury Financial Crimes Enforcement Network (US FinCen) as “[a]ny system, mechanism, or network of people that receives money for the purpose of making the funds or an equivalent value payable to a third party in another geographic location, whether or not in the same form. The transfers generally take place outside of the conventional banking system through non-bank financial institutions or other business entities whose primary business activity may not be the transmission of money” (US FinCen, 2003, “FinCen Advisory: Informal Value Transfer Systems”, March, Issue 33, <https://bit.ly/43C6Uj1>).
- ⁸ Such as Amanacard: www.amanacard.com.
- ⁹ According to consultations with relevant governments between 2015-2022 by the author.
- ¹⁰ According to one government representative present at the December 2022 workshop.
- ¹¹ While a number of studies have documented regulatory and legal matters in certain countries in relation to this area, few have looked holistically at the challenge across a range of relevant countries.
- ¹² For detailed research on the mechanics of *hawala*, see Thompson, Edwina (2007) *Misplaced Blame: Islam, Terrorism and the Origins of Hawala*, Max Planck Yearbook of United Nations Law and Thompson, Edwina (2008) *Introduction to the Concept and Origins of Hawala*, Journal of the History of International Law, 1 January, <https://bit.ly/43hGNhU>.
- ¹³ Also known by a number of other names including *havaleh* in Iran, *hundi* in the Indian sub-continent and *zawala* in Somalia.
- ¹⁴ Aperio Intelligence (2022) *War creates tough questions over critical Ukraine payments as de-risking threats loom*, 12 May, <https://bit.ly/42euMs0>.
- ¹⁵ According to a report by the author, which maps challenges facing Syrian personal remittance flows in light of sanctions, derisking, the COVID-19 pandemic and regional regulatory change: UN-ESCWA (2022) *A lifeline under threat? Syrian household remittances in light of sanctions, de-risking, the COVID-19 pandemic & regional developments*, United Nations. Economic and Social Commission for Western Asia (ESCWA), National Agenda for the Future of Syria (NAFS), E/ESCWA/CL3.SEP/2022/TP.19.
- ¹⁶ Moret, Erica (2023) *Barriers to Afghanistan’s Critical Private Sector Recovery*, Norwegian Refugee Council, March, <https://bit.ly/43Dl1F3>; Choudhury, Nafay (2021) *Order in the Bazaar: The Transformation of Non-state Law in Afghanistan’s Premier Money Exchange Market*, Law & Social Inquiry, 1-39, 02 September, <https://bit.ly/43iv5U2>; Thompson, Edwina (2011) *Trust is the Coin of the Realm: Lessons from the Money Men in Afghanistan*, Oxford University Press, Oxford.
- ¹⁷ Moret, Erica (2022) *Life and Death: NGO Access to Financial Services in Afghanistan*, Norwegian Refugee Council, January, <https://bit.ly/3XtY4RH>.
- ¹⁸ An MSB is defined here as “[a]n undertaking which by way of business operates a currency exchange office, transmits money (or any representation of monetary value) by any means” (JMLSG, 2021, *Current Guidance*, <https://bit.ly/3MH6eCm>).
- ¹⁹ An MTO is defined here as “[a] non-deposit-taking PSP [payment service provider] where the service involves payment per transfer (or possibly payment for a set or series of transfers) by the sender to the PSP (for example, by cash or bank transfer)” (BIS, 2016, *Payment aspects of financial inclusion*, April, <https://bit.ly/3oC34rp>).
- ²⁰ *Hawala* is also the preferred mechanism for sending diaspora remittances, in many instances, as well as for conducting trade in certain countries, where its use dates back hundreds of years.
- ²¹ Barzegar, Abbas and El Karhili, Nagham (2017) *The Muslim Humanitarian Sector: A Review for Policy Makers and NGO Practitioners*, November, pp 28-29, <https://bit.ly/3MH6eCm>.

- ²² Present at the 1 December 2022 workshop.
- ²³ Bryant, John (2019) *Remittances in Humanitarian Crises*, Humanitarian Policy Group (HPG) Working Paper, Overseas Development Institute (ODI), March, <https://bit.ly/3NdGIG9>.
- ²⁴ Thompson, Edwina (2015) *Humanitarian use of Hawala in Syria: Technical Assessment, Prepared for Aid Agencies Conducting Cross-Border Operations*, Beechwood International, 31 July, <https://bit.ly/3N3ZTIT>.
- ²⁵ Dean, Roger (2015) *Remittances to Syria: What Works, Where and How*, July, <https://bit.ly/3MZuQXg>.
- ²⁶ Barzegar, Abbas and El Karhili, Nagham (2017) *The Muslim Humanitarian Sector: A Review for Policy Makers and NGO Practitioners*, November, pp 28-29, <https://bit.ly/3MGJC3x>.
- ²⁷ Daher, Joseph & Moret, Erica (2020) *Invisible Sanctions: How over-compliance limits humanitarian work on Syria*, IMPACT, July, <https://bit.ly/3WeLAfr>.
- ²⁸ Choudhury, Nafay (2021) *Afghanistan's Money Exchangers Are the Economy's Last Best Hope*, Foreign Policy, 5 September, <https://bit.ly/3qaAWvU>.
- ²⁹ Barzegar, Abbas and El Karhili, Nagham (2017) *The Muslim Humanitarian Sector: A Review for Policy Makers and NGO Practitioners*, November, pp 28-29, <https://bit.ly/3MGJC3x>.
- ³⁰ Moret, Erica (2022) *Life and Death: NGO Access to Financial Services in Afghanistan*, Norwegian Refugee Council, <https://bit.ly/3XtY4RH>.
- ³¹ According to one NGO, transactions outside the commercial banks approved by the Central Bank of Libya are considered a criminal offense according to Article 49 of Libya's AML Law. The offender is liable to ten years in prison and a fine. According to Paragraph 3 of the same article, the institution would also be prohibited from carrying out its activities in Libya in the event that it violates the provisions of this law.
- ³² The USA Patriot Act provides oversight to US regulators regarding all dollar transfers in obliging them to pass through US correspondent banks, which can be a source of delays and blockages.
- ³³ The founder, Dr Edwina Thompson, based the system on her research in Afghanistan since early 2000s, with her PhD on the money systems of the country was published by Oxford University Press, *Trust is the Coin of the Realm: Lessons from the Money Men in Afghanistan*. She also led the research on the UK Government *Safer Corridors* initiative in 2013.
- ³⁴ Identities of merchants (or MVTs) and recipients are protected at every point in the engagement due to strict access controls and data privacy built into the system's architecture, according to the organisation.
- ³⁵ According to HesabPay's brochure: "any person with a smart phone can provide their identification on the app and register to use HesabPay. Any person with a simple phone and any SIM card can register through an agent who has a smartphone to photograph their ID... Through HesabPay, donors can immediately send digital Afghani to any registered phone number instantly, securely and in full compliance with Afghan and international legal compliance requirements, including US- Office of Foreign Assets Control (OFAC)".
- ³⁶ Care International (2019) *Using Hawala to Conduct Cash Programming in Syria*, January, <https://bit.ly/3N49Nng>, pp.2-3.
- ³⁷ Thompson, Edwina (2015) *Humanitarian use of Hawala in Syria: Technical Assessment, Prepared for Aid Agencies Conducting Cross-Border Operations*, Beechwood International, 31 July, <https://bit.ly/3N3ZTIT>.
- ³⁸ Thompson, Edwina (2015) *Humanitarian use of Hawala in Syria: Technical Assessment, Prepared for Aid Agencies Conducting Cross-Border Operations*, Beechwood International, 31 July, <https://bit.ly/3N3ZTIT>.
- ³⁹ Dean, Roger (2015) *Remittances to Syria: What Works, Where and How*, July, <https://bit.ly/3MZuQXg>.
- ⁴⁰ Thompson, Edwina (2015) *Humanitarian use of Hawala in Syria: Technical Assessment, Prepared for Aid Agencies Conducting Cross-Border Operations*, Beechwood International, 31 July, <https://bit.ly/3N3ZTIT>.

- ⁴¹ Bryant, John (2019) *Remittances in Humanitarian Crises*, Humanitarian Policy Group (HPG) Working Paper, Overseas Development Institute (ODI), March, <https://bit.ly/3NdGIG9>; Dean, Roger (2015) *Remittances to Syria: What Works, Where and How*, July, <https://bit.ly/3MZuQXg>.
- ⁴² CALP (2012) *Guidelines: How to use Hawala in Somalia, Cash Based Response Working Group*, <https://bit.ly/42eviWY>; El Taraboulsi-McCarthy, S., & Cimatti, C. (2018). *Counter-Terrorism, De-Risking and the Humanitarian Response in Yemen: A Call for Action*, HPG Working Paper, Humanitarian Policy Group, <https://bit.ly/45CVKfS>; Gordon, S., Robinson, A., Goulding, H., & Mahyub, R. (2021) *The Impact of Bank De-Risking on the Humanitarian Response to the Syrian Crisis*, Overseas Development Institute (ODI) <https://bit.ly/3KEBToA>.
- ⁴³ IDS (2021) *Alternative Systems for Managing Financial Transactions in Humanitarian Crises, K4D Report*, April, <https://bit.ly/3Cmubdz>.
- ⁴⁴ Thompson, Edwina (2015) *Humanitarian use of Hawala in Syria: Technical Assessment, Prepared for Aid Agencies Conducting Cross-Border Operations*, Beechwood International, 31 July, <https://bit.ly/3N3ZTtT>.
- ⁴⁵ According to anonymous interviews with donor governments working on the humanitarian situation in the Syrian Arab Republic in early 2021.
- ⁴⁶ FATF has also issued some forms of guidance on the use of *hawala* by NGOs, dating back to at least 2013. See, for example: <https://bit.ly/45AYryC>.
- ⁴⁷ Charity Commission for England & Wales (2021) *Compliance Toolkit: Protecting Charities from Harm*, <https://bit.ly/43dE0WZ>.
- ⁴⁸ UK Government (2022) *Guidance Charity sector guidance: financial Sanctions guidance for charities and other non-governmental organisations (NGOs)*, 31 January, <https://bit.ly/3owzqnD>.
- ⁴⁹ UK Charity Commission guidance, for example, includes a detailed chapter on moving funds internationally, including via *hawala*, with pages 21-25 dedicated to using “intermediaries”, noting that “Trustees should consider appropriate financial controls, risk management and assurance procedures...to demonstrate effective management and conduct when using intermediaries, including proper decision making and the identification and management of any problems” (Charity Commission for England & Wales, 2021: 8).
- ⁵⁰ In the Afghan context, for example, transit countries mentioned by NGOs and banks included Singapore, Malaysia, China, Türkiye, Pakistan, Iraq and the Gulf Emirates (Dubai, in particular), described in Moret, Erica (2022) *Life and Death: NGO Access to Financial Services in Afghanistan*, Norwegian Refugee Council, <https://bit.ly/3owzqnD>.
- ⁵¹ IDS (2021) *Alternative Systems for Managing Financial Transactions in Humanitarian Crises, K4D Report*, April, <https://bit.ly/3Cmubdz>.
- ⁵² Moret, Erica (2022) *Life and Death: NGO Access to Financial Services in Afghanistan*, Norwegian Refugee Council, <https://bit.ly/3XtY4RH>.
- ⁵³ See also, US Department of the Treasury (2023) *The Department of the Treasury’s De-Risking Strategy*, April, <https://bit.ly/3MKIKwc>; Jaegar, Mark Daniel (2021) *Sanctions and the Financial System: Steering Away from De-Risking?*, *Stiftung Wissenschaft und Politik: Working Paper: international sanctions: improving implementation through better interface management*, pp 83-92.