



7 July 2014 - When members of the Somali diaspora send money to their families back home, they rarely go to the bank. Nor do they go to Forex, Western Union, Ria or any other of the official wire transfer companies. Instead, they turn to a trusted member in their community, who then contacts a partner in, for instance, the United Arab Emirate, who then contacts a third party in Somalia. Seconds later, the money can be found in the wallet of a family member.

Hawala means trust in Arabic, and is an alternative transfer system. Official transfers require a functioning financial infrastructure in both sender – and receiver countries, which many developing countries or countries in conflict lack. Hawala enables sums to be transferred unofficially in, or to, countries without formal financial systems in place. In these cases, Hawala is often the only possibility for transferring money.

“The civil war in the 90s was followed by a total collapse of the country’s social fabric, including the banking system”, explains Mr Bashe Musse, spokesperson for the Somali community in Norway. “The Hawala system was then created and it became an important lifeline for the Somalian diaspora and their families and friends back home.”



The lack of a functioning financial infrastructure can be a fundamental reason for the use of alternative transfer systems, but is not the only one. The official system for remittances is a billion dollar industry that makes substantial profits through its high remittance fees and high

currency exchange systems. It is often the remittances to developing countries that carry the highest fees, a fact highly criticised by the [World Bank](#), amongst others. In order to avoid money disappearing into the pockets of the wire transfer companies, many migrants turn to the unofficial channels.

Another motivation for the alternative systems are the high barriers the Western countries have established for opening bank accounts. Because of tightened security rules, many banks demand official identification, a fixed address, and a job in order to open a savings account. Many migrants, documented as well as undocumented, do not fulfill these requirements, that many others take for granted.

According to the United Nations Development Program ([UNDP](#)), the unofficial remittances are [extremely important](#) for the receiver and often cover basic needs, such as food, health care, education and housing. The international effect is also vast, not only in a microeconomic perspective, but globally.



Globally, official records suggest migrants have sent more than \$500bn (£320bn) in remittances. In 2011, recorded remittances from the UK were worth just over \$3.2bn. However, according to the estimates, if unrecorded transfers through formal and informal channels are included, [remittances from the UK](#) could be worth up to \$23bn. This would make the UK the third-largest source of remittances, after the US and Canada.

But informal systems like Hawala also come with a downside. “There is a risk that the unofficial systems are misused for money laundering and support for organized crime”, says Morten Nilsen at the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime. “Since most of the receiving countries are fragile states or conflict zones, it cannot be excluded that some of the means are used for financing terrorist activities.”

The UN Security Council’s [anti-terrorism committee](#) has expressed its concern over the informal channels and the [possible threat](#) they pose to people’s security. Tighter security rules have led to many of those who offered Hawala-services having to close down business.

According to Musse, restrictions and bans are not the right way to solve the challenges. Instead, education and guidance should be offered for Hawala-services so that the money flows can be tracked and monitored better by the fiscal authorities.

“But it’s true, it’s not an ideal system. As Somalia stabilises and when a functioning infrastructure is back in place, I think Hawala will disappear.”

Read more stories of migrants from our newsletter [here](#) .