WORKING PAPER

Trust in Transition: Afghanistan's Hawala System in Crisis and Recovery

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CGAP

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Cover photo by Sayed Habib Bidell.

Contents

Glossary

AFN	The Afghan Afghani (AFN) is the official currency of Afghanistan.
DAB	Da Afghanistan Bank (DAB), the Central Bank of Afghanistan, which plays a significant role in regulating and overseeing the hawala market in Afghanistan.
foreign exchange dealer (FXD)	A category of licensed FSP within the DAB Money Service Provider Regulations who performs money exchanges, or foreign exchange. May also be known as a saraf.
hawala	The process or event of money transfer through the hawala system. A local hawala is a funds transfer within a country while an international hawala is a funds transfer between two countries.
hawala agent	An individual or entity authorized to act as or on behalf of a hawaladar/saraf, facilitating hawala transactions and providing financial services.
hawala system (or network)	The national and international arrangements between hawaladars for sending and receiving payments as well as performing settlement.
hawaladar	A hawala dealer, also known in Afghanistan as a money service provider (MSP). Often used interchangeably with the term saraf.
hawaladar association	An association comprised of sarafs/hawaladars that acts as a self-regulatory entity in the hawala/saraf sector.
kata	A manual register or logbook designated by DAB for recording hawala/saraf transactions.
money service provider (MSP)	A category of licensed financial services provider (FSP) within the DAB Money Service Provider Regulations who performs money transfers, or hawala. May also be known as a hawaladar.
money transfer operator	A licensed financial services provider (FSP) that facilitates funds transfer across national boundaries.
ograyee	A method of lending or trade financing where a saraf/hawaladar makes payments on behalf of a trader. The trader later repays the amount in installments as they collect receivables.
saraf	A money exchanger, also known as a foreign exchange dealer (FXD), who performs services in currency exchange. Often used interchangeably with the term hawaladar.
Tazkira	The Afghan Tazkira is the official national identity document issued to citizens of Afghanistan and its diaspora.

Executive Summary

AFGHANISTAN'S HAWALA SYSTEM IS A key part of the country's financial ecosystem. Since August 2021 and amid the ensuing political and economic crisis, these money transfer networks have become even more important. Based on field research conducted in late 2023, this Working Paper provides development funders, humanitarian organizations, and other stakeholders with insights into the evolving role of Afghanistan's hawala system.

Hawaladars have emerged as the primary type of financial services provider (FSP) for many Afghans, filling the gaps left in the country's struggling banking sector. Hawaladars offer a range of services, including domestic and international money transfers, foreign exchange, savings, and a form of informal lending. The surge in demand for their services since 2021 has been driven by economic crisis, migration, and a sustained lack of trust in local banks.

Trust is the cornerstone of the hawala system as it extends from customers to hawaladars, between hawaladars and their counterparties, and to regulators. The hawala business is built on personal relationships, community ties, and a long history of inexpensive, efficient, and reliable service to the most rural areas. Many Afghans view hawaladars as an integral part of their community. Yet globally, the international community continues to view hawala with skepticism due to its often limited transparency, potential for misuse, and money laundering/financing of terrorism (ML/FT) risk.[1]

Afghanistan's hawala sector also faces local challenges. Increased competition among hawaladars since 2021 has led to pressure on profits despite higher transaction volumes. New regulations aimed at formalizing the sector have introduced higher financial and operational requirements, which some smaller operators struggle to meet. Despite these challenges, hawaladars are generally open to further formalization. Many express interest in training on compliance activities and regulations that better reflect the reality of their business.

This paper concludes that hawala networks should not merely be viewed as a stopgap measure in Afghanistan's current financial crisis but as a fundamental and enduring part of the country's financial sector. The paper recommends that development funders, humanitarian organizations, and other stakeholders take steps to:

1. Deepen engagement with hawala networks, recognizing their role in Afghanistan's financial ecosystem.
2. Encourage regulation and supervision that balances formalization goals with operational realities.
3. Support capacity building to help hawaladars improve compliance, recordkeeping, and risk management.
4. Explore innovative partnerships, leveraging hawala networks to support financial inclusion initiatives.

1 Hawala poses ML/FT risks due to its informal, often unregulated nature, lack of documentation, anonymity, and potential for cross-border funds transfers. The anonymity hawala provides can facilitate undetected financing of terrorism and other criminal activities.

Working constructively with hawaladars can help build a more inclusive and resilient financial system for all Afghans. The challenge lies in finding the right balance between preserving the financial inclusion benefits of hawala's informal, trust-based nature and simplicity while introducing the necessary formalization and modernizations to ensure sustainability and reduce risk.

Failure to do so will risk perpetuating a dual reality that has dominated many of the past decades, where development plans ignore what is already working locally in favor of external models. As one hawaladar stated, "The future is known. Hawala is here for centuries, and it will continue . . ."

Introduction

HAWALA NETWORKS HAVE BEEN A cornerstone of Afghanistan's financial system for hundreds of years, long before a formal banking system was present in the country. Today, every Afghan province has one or more hawala markets, with Kabul hosting four of the country's largest: Sarai Shahzada, Haidary, Hamadi, and Hameedi. Established in 1954 and housing 450 hawala shops, Sarai Shahzada is Afghanistan's largest financial center. The market trades in over 30 currencies and processes thousands of transactions every day.

In Afghanistan, a foreign exchange dealer is often called a *saraf* while a money transfer operator (or money service provider [MSP]) is often called a *hawaladar*. However, the terms are sometimes used interchangeably as there is strong overlap between their services. In 2022, Afghanistan's central bank, Da Afghanistan Bank (DAB), formally merged the two licenses in further recognition of those blurring lines.

The hawala system plays a critical role in retail payments and savings as well as in trade finance. The system's speed, efficiency, and broad accessibility contrast with a banking system often viewed by customers as slow, expensive, and subject to crisis. The hawala system is also built on deep-rooted trust established through longstanding relationships between hawaladars, their counterparties, and their customers, where community bonds reach levels not perceived as possible in formal banking—a sentiment that has only intensified since 2021 (see Box 1).

In August 2021, the Western-backed government led by President Ashraf Ghani collapsed as the Taliban rapidly advanced across the country. Ultimately, the Taliban, which had previously ruled Afghanistan from 1996 to 2001, regained power after nearly 20 years of war. The dissolution of the Ghani government led to a chaotic evacuation by Western interests as thousands of people attempted to flee Afghanistan.

As the Taliban took power, the U.S. government froze nearly $9.5 billion in DAB assets. Many Afghans struggled to access their savings as banks imposed strict withdrawal limits. The situation was exacerbated by the exodus of foreign aid and the reluctance of international banks to engage with Afghan banks due to concerns over sanctions.

This banking crisis, coupled with a broader economic collapse, led to a humanitarian crisis, with millions of Afghans facing poverty, hunger, and unemployment. Efforts to stabilize the banking sector, such as the provision of liquidity through international organizations, have been limited and controversial, leaving the future of Afghanistan's banking sector uncertain.

As a result, the country's hawala system has grown to play an even more important role. Hawala use was already prevalent before 2021, as banks and mobile wallets struggled to make significant gains in a country where less than 10 percent of adults had access to formal financial accounts. Since 2021, hawala networks have become the first and best option for many Afghans to access financial services.

Yet globally, the international community continues to view hawala with scepticism due to its often-limited transparency and regulatory oversight. Operating

BOX 1. **The process for money transfer via hawala**

The term *hawala* has its roots in Arabic, where it literally means "transfer." The process for conducting a hawala, or money transfer, is similar to other forms of over-the-counter (OTC) cash transfer services, such as Western Union and MoneyGram, or the OTC services provided by mobile money operators like Easypaisa in Pakistan and Wave Money in Myanmar.

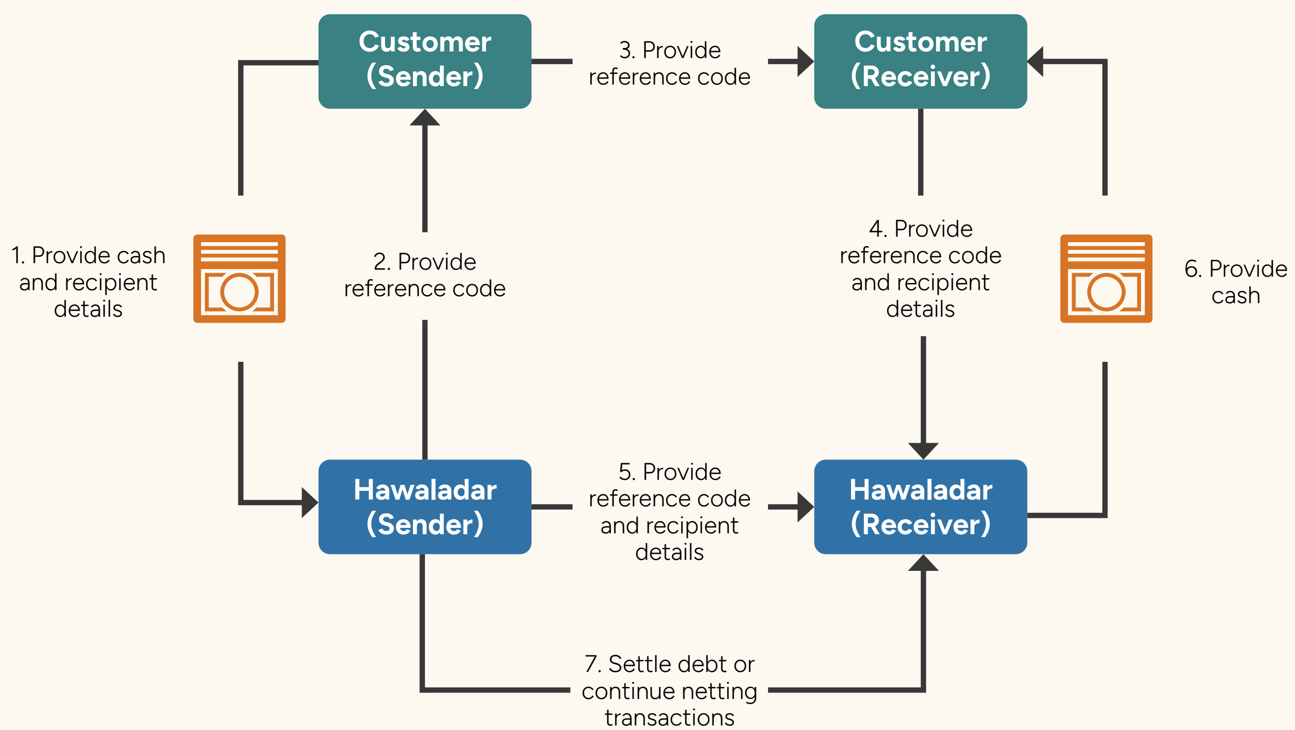
To initiate a hawala transaction, the sending customer provides the sending hawaladar with cash and the recipient's name. Depending on the country of origin and its compliance requirements, the customer may need to provide other identifying details, such as a physical ID, home address, or source of funds. The hawaladar records the transaction and provides the sender with a reference code to share with the receiving customer.

The receiving customer then visits their local hawaladar—who has a trusted relationship with the sending hawaladar, either directly or indirectly via a third party they both trust—and provides the reference code. The receiving hawaladar verifies the reference code and recipient details with the sending hawaladar, often using the recipient's ID. (However, verification also depends on compliance requirements.) If everything checks out, the recipient is given their cash. From the customer perspective, the transaction is now complete.

Both domestic and international hawala transfers include a transfer fee paid by the sender. International transactions typically include currency exchange, with the sending hawaladar quoting rates to the sending customer. However, the remainder of the process is the same for domestic and international money transfers, both inbound and outbound.

Both hawaladars record the debt (i.e., the amount the sending hawaladar owes and the amount the receiving hawaladar is owed). The hawaladars then use further transactions to settle the amount owed and, upon occasion, conduct settlement by cash or bank transfer.

FIGURE 1. **Illustrated inbound international money transfer via hawala**



Source: Authors.

outside the formal banking system, hawala networks rely on trust and personal networks, frequently making it difficult to track and verify transactions. This opacity raises concerns about the potential for misuse and ML/FT risk. However, several markets have moved to regulate this space over recent years, including Afghanistan, and the lines between licensed money transfer operators/foreign exchange dealers (FXDs) and the historic role of the hawala continue to blur in many countries.

This paper is the result of a fact-finding assignment CGAP performed to understand how the role of the hawala sector has changed in Afghanistan since August 2021. The work aims to help humanitarian organizations, development funders, and other stakeholders to better understand the sector's value and limitations as well as its opportunities and challenges. The paper is not a quantitative study of hawala networks in Afghanistan. Rather, it provides a qualitative snapshot of today's hawala system based on field interviews, allowing Afghanistan's hawaladars to describe their business in their own words.

A note on methodology

Field research was performed over several months in late 2023. Interviews were conducted with 20 hawaladars operating in different markets and regions across Afghanistan. The sample is not intended to be statistically representative of all hawaladars in Afghanistan nor of all regions of the country. As a qualitative study, the paper also does not present market sizing or other statistical data on hawala use in Afghanistan. Such work is beyond the scope of this assessment and has proven difficult to measure with any degree of accuracy for hawala networks globally.

However, CGAP aimed to gather a diversity of opinions to offer a snapshot of the market's views. The sample included large hawala operations with sizable nongovernmental organization (NGO)/U.N. contracts or commercial services, smaller hawala operations mostly focused on domestic money transfers for individual Afghans, and sarafs exclusively focused on money exchange in local markets.

CGAP also interviewed several individuals, NGOs, and small/medium businesses that regularly use these services. However, interviews were conducted to provide context for the statements of hawaladars and, similarly, are not intended to be representative of the thoughts or opinions of all users of hawala services in Afghanistan.

How to read this paper

The non-bulleted text in each section of the paper includes a summary or analysis based on interviews. Indented and bulleted text indicates selected direct quotes from hawaladars and/or customers in support of the summary or analysis. Quotes are unedited, direct accounts from the hawaladars and customers interviewed by CGAP. They are not verified facts and have not been edited for grammar.

The evolution of Afghanistan's hawala networks after August 2021

Demand for hawala services since August 2021

By all accounts, hawala networks have witnessed a remarkable surge in demand in Afghanistan since August 2021. Most hawaladars point to growth being driven by the combined challenges of a deteriorating economy, migration, and sustained lack of trust in the formal banking sector.

- "Customers [have] increased more than 20 times compared [to] that number during the previous government."
- "Our customers increased because of the banking sector issues and migration of people outside the country."
- "Hawala work improved because of the collapse of banking sector. All the money is going through the hawala system now, including remittances and imports and NGOs."

Hawala network growth has included expansion to new types of customers.

- "People who never used hawala are using it. And there is [an] increase in women [using hawala] because most Afghans who live abroad send money to female-headed families."
- "After the change of government, all the salaries of NGOs are processed through hawala, including UNICEF, CTG, and other big NGOs, and several hawaladars has contracts with them. Previously, they were using banks for transfers."

Yet while transactions have increased, profitability is not necessarily assured. Transfer values have declined due to deteriorating economic conditions. Competition among hawaladars has also increased, driving increases in shop rents within the largest markets.

- "After the change in government, lots of people started this work because there were no other options for employment. I am one of the examples. If the collapse did not happen I would have been working with the same company. So from one side the banking sector collapsed and customers increased, but on the other hand hawaladars also increased and this caused the shop's rents to double."

The increase in demand is not evenly felt across the sector. Success in the hawala business depends on factors including the financial health of the hawaladar, their network size, their ability to attract business clients, and their ability to secure NGO contracts.

- "If you see the other markets like Sarai Shahzada [Kabul's largest hawala market], customers increased and hawala work is more profitable now. But here in this market, more than half of the sarafs are new and they started this business after the change in government. So it impacted our work greatly and no improvement can be seen."

Many hawaladars remain circumspect about their success. They are acutely aware that recent growth in money transfers has not been fueled by economic development but rather by greater customer dependence on international remittances and the challenges the banks face.

- "Financially we benefited but it has psychological impacts on us. You see different types of people and poor people that cannot live or eat without money from abroad. Even financially sometimes we are very sad when taking commission, but we also have families and this is our business."
- "Every day we receive money for families and even in small amounts like 50 Euros for some families on monthly basis."

In some cases, hawala networks even act as facilitators for small donors, helping to identify those most in need and delivering funds from Afghans abroad who are willing to help.

- "I personally manage monthly allocation to several families that are sponsored by some Afghans. There are some Afghans who do not have families here, but they send us money and give us authority to give that money to the needy people so we also manage those transactions."

The evolving role of the banks in the hawala business

Hawala networks have historically relied on the domestic banking sector. Over time, hawaladars have used Afghanistan's banks both for the safekeeping of funds and for rebalancing liquidity between different regions of the country.

- "Banks were very important for us. We had accounts so we were able to transfer money and withdraw. It played important roles in our work."

However, since August 2021 it has become much more difficult to work with the banking sector. Initially, many hawaladars faced challenges in accessing their money following the Taliban's takeover of the country and the U.S. government's freezing of some DAB assets.

- "It was a very difficult situation . . . it took one and half year to get our money back [from the banks]."
- "I was going to bank regularly to get my own money back and several times I paid 500 AFN [Afghan Afghani] to the crowd controllers to secure me an early number/entry to the bank. Sometimes I was going early in the morning and waiting for three hours in line, but when the crowd controller arrived they were cancelling the lines."

During the early months following the change in government, a severe shortage of physical currency, particularly U.S. dollars and Afghan currency, combined with volatile exchange rates significantly impacted the hawala sector.

- "USD [U.S. dollar] notes were taken out of the country by those who were leaving the country and some of the USD were blocked by banks."
- "People were worried about the value of AFN. As they were buying more USD, the rate of AFN was further going down, and this depreciation of AFN was further increasing the uncertainty and worries of people about the value of AFN, and this was like a cycle."

Currency shortages have largely been addressed yet the quality of AFN notes remains a concern for some.

- "Now everything is normal, and DAB published new AFN notes and they distribute to banks. You can find AFN now and USD notes are also available in the market."
- "Now the situation is normal, and you can find all the currencies as much as you want. But one thing which is the quality of AFN notes, this is like a headache and everyone is having problems with it."

While the situation is somewhat normalized today, most hawaladars report continued struggles in accessing their bank-held funds. Further, where they are able to access these funds they often experience challenges related to commissions and currency quality, further damaging trust in local banks.

- "Banks will charge commission if we withdraw money the same day, but our withdrawal is random and needs-based."
- "When you withdraw from bank, they will give you lots of change money (notes of 20 and 50) with bad quality."
- "Banks do not give that [new, high-quality notes]."

The loss of trust in the banking sector means hawaladars have largely shifted to holding their funds in physical currency, a change in behavior compared to before 2021.

- "Before we were keeping money in banks, but after the change in government no one trust banks because you should beg for your own money when you need it. So now we store that here in our shops."
- "The whole market's money is kept in their shops."

Despite this challenge, the need to hold physical currency is not often viewed as a concern. Overall security in the country has improved, and this extends to physical premises in the markets.

- "We feel safe because the market is well guarded 24/7 by the government and [the] market also has its own guards."
- "I think there is no issue because the security [in the market] is very good."
- "In the previous government sarafs were frequently kidnapped and they were safe nowhere, even at their homes."

Even if funds safeguarding is not of concern, most hawaladars would still prefer a recovery of the formal banking sector due to the crucial role banks played in rebalancing liquidity within the country.

- "Despite a good security situation, physical transfer of money is still an issue, and I think banks were playing a very important role. I think unless the banking system is normal, we will not be able to solve this issue because hawaladars needs to transfer money physically to different regions and locations, especially to locations where there is big demand for AFN."

Trust and relationships: The hawala business model in Afghanistan

Customer perspectives on the hawala business

Customer trust is a key reason hawala services have expanded since 2021. Trust has always been key to the hawala business model but with customers facing challenges in accessing funds with formal banks, trust in formal banking services has diminished, further driving hawala growth.

- "I brought all my money to hawala, and my bank account is still there but used only for some domestic trade-related purposes."
- "We withdraw all our money from banks, and we deposited all that money with hawaladars."

Service quality, speed of transfers, and last mile access are also important reasons many customers prefer hawala networks over banks.

- "We do not have banks in the district and there is only one branch in the provincial center. I am using bank, I withdraw my five months' salary today from bank, but now I am using hawala to transfer my salary to provincial center because it is safe."
- "If we want to buy in bulk in Iran, those companies want money on the spot. So if I use bank it will take at least one week, so that company will not wait for me so I will lose that opportunity. But hawala, it can take few hours or maximum one day because their connections are very strong."

Yet arguably the greatest advantage hawaladars have over the banks is the strong sense among users that hawaladars are an integral part of society (see Box 2). Trust comes from this sense of community, and for many customers it is connected to factors such as the flexibility to meet their specific needs, the perceived size of investment made by the hawala networks, and their brand reputation.

- "[Hawaladars] are very good people. Sometimes they give me money as loan and when my brother sends me money, they cut the loan amount. With banks these things are not possible."
- "Hawaladars are like friends, they charge no fees because I am also keeping my money with them."
- "Hawaladars are 100 percent trustable, and they are very good people."

In some cases, customers even point to the regulatory oversight of Afghanistan's hawala networks as further adding to their sense of trust.

- "I trust them based on their license."
- "They are trustable because they have guarantees with the government."

While satisfaction is generally high, issues can still arise, such as liquidity shortages preventing cash out in rural areas or delays in transfers.

- "[It happened that] the local hawaladar was not paying our own money in full but he was paying in installments. There were several teachers to whom the payment was to be made. That was very hard for us."

In the case of disputes with a hawala network, many customers understand they may pursue mediation with the hawala association governing the market (see Box 3). Many associations mediate disputes through the structured process of a dedicated committee.

- "If there is a conflict between sarafs or customers and sarafs, then our Dispute Resolution Committee is responsible to solve that dispute according to the article of association where the rights of both parties should be respected and protected."

Trust between hawaladars and their counterparties

Trust is also fundamental to the hawala's operational model. Hawaladars rely on trust in their transfer networks through partnerships drawing on long-term personal relationships or strong references.

- "The partners can be anyone whom you can trust. We have relatives, we have family members, we have friends, and we have hawaladars."
- "When one hawaladar introduces or recommends someone to another hawaladar, the trust is there because next day he will be asking me for help."
- "You know banks were stolen but in this market, every hawaladar is having more than 20 years of work experience and if the father dies the son will take the responsibility."

However, trust can also be engineered through written contracts or by using more secure financial guarantees such as collateral deposits.

- "Lots of people asking me for hawala partnership. But for this I asked them to provide me with cash guarantee, and I will be dealing transactions with them with transactions that are equivalent to that amount. This is my rule for non-relatives."

BOX 2. **Who are the hawaladars of Afghanistan?**

Hawaladars in Afghanistan are not just financial services providers (FSPs)—they are often community figures with deep-rooted connections and a keen understanding of both local and international trade dynamics. Many come from families that have been in the hawala business for generations, inheriting the necessary skills and relationships. They determine which services they can undertake based on the size of their networks and available capital.

A typical hawaladar might exclusively deal in hawala services, with offices and dedicated staff in a hawala market such as Sarai Shahzada (i.e., similar to a Western Union or MoneyGram office in a developing country). However, a hawaladar may also be a shop owner who offers transfer services as a supplemental business (i.e., similar to a bank agent or an airtime reseller).

Most hawaladars are men and while the sector is not entirely closed to women, their presence is rare. CGAP did not observe any female hawaladars during its research. Some hawala networks—those serving larger NGOs or U.N. agencies in particular—may need to temporarily employ women to assist in the distribution of funds to female recipients. Most hawaladars express an openness to this practice, yet the size of the gender gap in current operations should not be understated. In practice, female hawaladars and customers are largely absent from the day-to-day operations of a typical hawala market.

The risks are higher across international borders, however. As a result, the standards for establishing counterparties are higher as well.

- "Outside the country we cannot trust other people, so the composition is more than 90 percent relatives and family and extended family members who are trustable."

Larger transfers increase risk, too, meaning the circle of trust may become smaller for these transfers. Even geographic location can factor into the risk equation.

Hawala counterparties can be found all over the world but are more prevalent in areas with a greater diaspora (e.g., the United Arab Emirates). In countries with smaller networks, it may be harder for a hawaladar in Afghanistan to take action to collect on debts or to spread counterparty risk. Ultimately, a web of interconnected relationships diversifies risk among a highly interdependent network.

- "When you send more money you should be more careful. It is good to use three or more different hawaladars (counterparties) for big transactions."
- "In case of big transactions I will ask for guarantee and will not pay unless they pay to my brother in Mazar."[2]

Domestically within Afghanistan, a hawala network consists of counterparties but also branches and agencies. A branch is an outlet of a main hawala shop where headquarters bears all risks and operating costs, including the cash guarantee and capital requirements. An agency is an independently licensed shop responsible for its own operating costs and profits.

- "Districts hawalas are mostly managed by our agents in provinces and there is no way to not deal with agents in the villages. The provincial agents are on a best position to manage district-related hawalas because of the trust, but some agents in the districts or villages who know hawaladars in Kabul might work directly with them."

Money transfer and foreign exchange

Hawaladars in Afghanistan continue to provide core services such as foreign exchange transactions and money transfers, both domestic and international. Some hawaladars provide other payment services (e.g., over-the-counter bill payment), but this practice is not widespread.

- "We also do subservices that include bill payments, mobile top-ups, paying salaries, buying ticketing, and other. These all are the sources of revenue for hawaladars."
- "That [bill payments, top-ups, etc.] is not our focus. Very limited sarafs do that."

Customer fees for domestic money transfers have not changed much since August 2021, with fees typically ranging from 200–300 AFN for transactions of up to 100,000 AFN or set as a percentage fee ranging from 0.01 percent to 0.03 percent of transaction value.

- "We are charging very small fees on hawala so an increase and decrease will also be very small. Previously, we were charging 200/100,000 [AFN] and now we are charging 300/100,000 [AFN]."
- "After the change of the government, fees jumped because of the demand for hawala services and the crowd in the market. But after sometimes the fees went back to normal."
- "There is not a considerable change in the fees after the change in government. On local transactions we charge 200–300/100,000 AFN, but it varies a little across provinces because of the USD exchange rate fluctuations. Like if you want to transfer money to Herat,[3] we will also calculate the difference of USD exchange rate and charge that also on the customer."

Yet in acknowledgment of the difficult economic circumstances in which the country is operating, some hawaladars also reduce fees for money sent to impoverished families.

- "Before the changes in government we were charging 300-400/100,000 [AFN]. But now I charge very less on those money that are sent to families because the amount of that money is low and that go to poor families. I personally charge 50–100/100,000 [AFN] so it is around 0.1 percent."

Fees on international transactions to Afghanistan — inbound transactions — are dependent on country of origin and currency. These fees have also increased

2 Mazar, or Mazar-i-Sharif, is a city in Afghanistan and the capital of Balkh Province.

3 Herat is a province in western Afghanistan.

since August 2021. Rates were high for some months after the change in government due to uncertainty in the market but have now reached a "new normal," reflecting liquidity demands for inbound remittances.

- "U.S., Canada, and some countries in Europe with the least outbound transactions have the highest fees. During the first days of the government change we charged 10 percent. But this is too much. The lowest is UAE, Iran, Pakistan, and some other countries."
- "On incoming international transfers we charge 4–6 percent and previously we were charging 3–5 percent, depending on each country."

Fees on international transactions from Afghanistan — outbound transactions — are a different story. As the economy has become more constrained, a power shift has occurred between hawaladars and senders (often businesses/importers). Previously, hawaladars charged importers commissions that aligned with other transaction fees. Now the situation is often reversed. Many importers are said to charge hawaladars commissions, knowing their balances are otherwise stuck in foreign countries without sufficient outbound transactions to net off the balances.

- "Previously, we were taking commission from traders who do imports because we were paying for their imports abroad. But now the traders know that our money is stuck in that destination."
- "If you want to transfer money to USA or Canada, we will get 100 USD from you here and pay you 102 in the U.S. We do this because our money is stuck in USA."
- "In some countries where our money is not stuck, we also send free because we can still receive our money which are in a third country because we connect our partners to transfer money among themselves."

The most common practice is to split the profit (the transfer fee) 50/50 between sending and receiving hawaladars. This is true for both domestic and cross-border transfers. However, there is room for negotiation.

- "There is no standard rate. We negotiate but 50/50 is the most common term."
- "I take 60 percent because I pay the money and the foreign partners most of the times collect the money and they [then have the liquidity available] for other purposes as well."
- "For international transfers, most of the hawalas are inward. So our foreign partners are calling hawalas on us and most of the times they have higher percentage in the profit, like 60 percent of the commission is taken by them."

Once a transaction is complete, each hawaladar must net their position to determine what they owe and what is owed to them. In Afghanistan, debts between hawaladars relating to domestic transactions are normally netted daily within local markets and weekly between districts and provinces. Determining net settlement positions involves calculating commissions and claims.

- "In the market we [calculate settlement positions] on a daily basis before we leave offices; with districts and provinces, on weekly basis; and with our partners in other countries, after each transaction."
- "We have records with ourselves and each hawaladars close the book on daily basis and the system also shows the balance. But when we do [settlement positions], we calculate all the commission and deduct all the expenses. After then we distribute fees based on our agreements."

Cash settlement to clear these positions rarely happens. Instead, transactions are netted over time. However, where sending/receiving imbalances exist between regions, balances can accrue and cash settlement may be requested. The trigger for a settlement request is also a function of the risk a hawaladar is willing to take on a counterparty (i.e., their trust in the counterparty).

- "The net amount is noted and then we use that as new balance for the next week and then again transactions start. It is a process with no end."
- "Settlement is done when we reach the level of trust. With every person, I have a limit."

The lack of periodic cash settlements creates a barrier to exit for hawaladars, who may struggle to settle all of their net positions were they to stop trading. This barrier contributes to a trend in which longstanding family businesses hold intergenerational relationships with their customers and networks.

- "I am doing this for the last 22 years and previously my father was doing this business. And this is not a business that you can stop because you deal with people, and it takes long time to stop to make all your accounts zero."

This additional layer of interdependency reinforces the cooperative nature of hawala networks and aligns incentives to ensure trust is maintained. It extends to helping others with temporary liquidity provisions when needed.

BOX 3. **Regulation of hawala networks in Afghanistan**

The regulation of hawala networks in Afghanistan has evolved over the past two decades, particularly with changes in government and through the increased importance of hawala due to the banking crisis. Under the previous government, DAB initiated several reforms to bring the hawala system into a formal regulatory framework. In 2004, Money Service Provider Regulations were introduced, requiring hawaladars to obtain licenses. These regulations aimed to curb money laundering and the financing of terrorism (ML/FT) by imposing customer due diligence (CDD) requirements, recordkeeping mandates, and regular reporting to the Financial Transactions and Reports Analysis Center of Afghanistan (FinTRACA), the country's Financial Intelligence Unit (FIU).

In 2014, additional laws mandated that FSPs apply enhanced due diligence measures, including thorough customer identification, transaction screening, and enhanced monitoring where ML/FT is a higher risk. Hawaladars were required to report any large or suspicious transactions to FinTRACA. However, compliance has been challenging, particularly in the rural and remote areas where many hawaladars operate. Many hawaladars lack the necessary training to effectively implement these requirements and the informal nature of their business often leads to gaps in recordkeeping and transaction monitoring.

The regulatory landscape shifted dramatically after the August 2021 Taliban takeover. While the basic framework for hawala regulation remains, the Taliban has tightened requirements for Afghanistan's hawala networks. In 2022, the Taliban consolidated the existing licensing process, merging separate licenses for MSPs and FXDs into a unified license under a revised regulation. This consolidation simplified some aspects of oversight but also introduced much more stringent requirements, including higher licensing fees and cash guarantees. Hawaladars are also now required to register as legal entities rather than sole proprietorships.

Requirements around recordkeeping, transaction screening, and reporting to DAB remain similar to those that existed under the previous government. Enforcement also remains a challenge, with many hawaladars still reluctant to fully engage with formal compliance, citing the complexities and costs involved. However, supervisory practices have reportedly become stricter. Current practices can include activities such as random site inspections, interrogations that include reviewing and matching WhatsApp messages to transaction reporting, and law enforcement accompanying supervisory visits.

Hawala associations continue to provide a critical layer of governance, setting internal guidelines and acting as a channel for discussion and advocacy between hawaladars and authorities. These associations play a role in promoting compliance among their members although they operate more through moral persuasion than formal authority.

The evolution of hawala regulation in Afghanistan reflects a complex interplay between the need for formal oversight to safeguard customers and meet global requirements for AML/CFT policy and the practical realities of a predominantly informal financial system.

- "We run out of money when we are waiting for [settlement] with Iran or Dubai so sometimes, like today, we are not able to pay to the customer. So we will borrow money from another [hawaladar] for a short period and will pay back to them."

International hawala transactions are more complex to settle as transactions between partners are less frequent. It is more likely that trade finance with importers will be used to settle balances.

- "This can take several forms: we wait for reverse hawala transactions (flowing in the opposite direction) or for importers."
- "For international transactions we do the settlement by registering reverse transaction or by looking for traders. Because we have groups and in those groups traders or hawaladars ask for these services."

When it comes to foreign exchange, hawaladars trade in multiple currencies but the U.S. dollar is the primary currency for safekeeping of funds. It is also the reference currency used to determine exchange rates and fees. Afghan currency is used for daily operations and for domestic transfers.

- "If customers want any currency, we can provide them with that because all the main currencies are available in the market."
- "For safe keeping I use USD and every hawaladar use USD. It is the standard currency of hawaladars and sarafs. Previously, I was also using Euro and [the British] Pound, but now we do not use that as well because those are less stable compared to USD."
- "I usually use USD for my saving because it is stable. I buy AFN in the market for DAB auction or when I need it for exchange or hawala payment."
- "It is not like Western Union, which is only paid in local currencies. We hawaladars are flexible, and customer is the king."

Providing cash disbursement services to local and international NGOs (e.g., salary payments, humanitarian cash transfers) is viewed as an attractive opportunity. However, it is also understood to come with high operational (reputation, liquidity, coverage) and compliance (licensing, screening, tracking, reporting) requirements.

- "I am very interested now because NGOs are paying 1 percent to 2 percent commission and I will apply for this, but you need to meet the conditions they list."

Many hawaladars also lament that obtaining NGO contracts can require personal connections.

- ". . . also, you need to find someone to recommend."
- "I tried a lot and submitted proposals to get a contract, but it is very difficult to get one if you do not know someone there to recommend you."

Hawaladars who have NGO contracts are quick to highlight that they are not necessarily the windfall they might seem. Hawaladars typically disburse in advance using their own funds, then settle in U.S. dollars upon reconciliation with the NGO. The financial risk, effort, and compliance for the hawaladar are all higher for NGO services and factor into the rate negotiated.

- "The reason why we charge more on NGOs is because first they need guarantee. Second, they need our services in advance of payment. Third, they need work to be done using their own forms which also need efforts and one or two people. Fourth reason is that they want services in the field. So we consider all these factors while pricing NGOs."
- "Fees also depends on the geography of the province. It ranges from 1–5 percent, and these fees are so high in remote areas because we will travel and access is hard."

Savings and forms of informal, interest-free credit

Especially since August 2021 and the collapse of consumer trust in the formal banking sector, many individuals and businesses in Afghanistan have moved their money to hawalas for safekeeping. Hawaladars rely on these funds to provide the liquidity they use for transfers.

- "Traders even deposit their daily earning for safe keeping with us. They can get their money when they need and we can give them their money everywhere they want without any fee or commission. If we have good relationships, we also lend them money without interest."
- "No hawaladar can work only with their own money because the inflow and outflow of hawala is different from the saraf. In hawala you need to pay, lend, and borrow to do work."

Fees typically only apply when hawaladars initiate transfers or exchanges. Hawaladars therefore have a strong, mutually beneficial relationship with traders and businesses.

- "Keeping their money is free for both sides. We only charge fees on transfers, and when they want to exchange they use our rates in which we have exchange gains."
- "They frequently deposit money with us and we record them as inflow. We do not charge commission because we can use their money for our own business. But when we transfer their money to the places they want, then we charge the normal transfer fees."

Hawaladars continue to act as intermediaries between Afghan importers and international suppliers using the *ograyee* system, a trade finance system based on installment sales. Importers gradually repay hawaladars in installments as they sell goods within Afghanistan, with hawaladars earning fees through exchange rate margins. The ograyee system is a crucial part of import financing and customs duty clearance, especially since the formal banking sector faltered in 2021.

- "When we closed the market for few days, customers were coming to our houses and the inventories of businesses also depleted because they were not able to import without our help."
- "We lend them as well when they need it, but this is only to trusted traders who has long or trustable working relationships with us."
- "Businesses pay for imports through hawala, they bring their daily and weekly earning here for safekeeping. They use the exchange services just by calling us when they want to convert their savings to another currency."

Regulatory challenges and opportunities for hawala in Afghanistan

DESPITE A ROCKY START WITH THE current government, most hawaladars report generally good relationships with their financial regulators, generally intermediated by the hawala association providing governance in each market.

- "Our relationship is good now. At the beginning of the change they were very angry at hawaladars but now with the passage of time, relationships improved and they try to bring the hawala to a standard framework."
- "I think relationships improved because the association frequently have meetings and they provided us with good security. Before [under the previous government], the government was not serious about our security. Now we feel more confident and comfortable in our work."

In October 2022, DAB introduced revised regulations for MSPs and FXDs. The regulations unified MSP and FXD licenses and introduced several measures aimed at further formalizing the hawala sector. Many hawaladars welcomed the change.

- "One thing that I see good is the unification of license. Previously we were having only MSP but we were doing FXD as well, and those with FXD were doing hawala, too. It is like one human body so now it looks good, and everyone do [formally] what they were [previously] doing illegally."

The new regulations also brought several other changes that have been met with mixed reactions. For example, license holders are now required to be legally incorporated institutions whereas previously, natural persons (individuals) could operate under these licenses. A supervisory board must also be created and minimum staffing requirements met. Some hawaladars struggle to meet the new requirements and thus need to find other ways to maintain their licenses, such as becoming agents for other hawaladars.

- "First, we cannot accommodate five or more people in Sarai Shahzada shops, and even in the Haidary market, unless we rent two or three shops together, which is impossible because of the rent."
- "They understand that they cannot prove that these people are not our employees. Secondly, they see that we cannot accommodate five people [in one shop]. As you can see, I have only two chairs for work."
- "Limited people registered their business as companies. If you see the Sarai Shahzada markets, all shops are full but only around 200 people have license."
- "Previously I was working as an individual hawaladar. But after the change in regulations I was not able to get license so I brought an agency from Baghlan province to Kabul. Now my business is an agency."

Licensing has increased from an annual fee of 15,000 AFN to 200,000 AFN for a three-year period. The required guarantee also increased tenfold, from 300,000 AFN to 3,000,000 AFN. Licensing fees are in addition to the new initial capital requirements of 30 million AFN. These increases are consistent with a push by regulators to further formalize the sector. Not surprisingly, these increased financial commitments spark debate among hawaladars.

- "Currently only the license is a problem for most of the hawaladars, the fee is too much and the guaranteed amount is also very big."
- "I could not get a license because it is very expensive, first the fee is very high."
- "The guarantee is 3 million and kept in AFN currency. This is also another concern for us that if the currency depreciates, the money is gone."

Governance and supervision

Hawala markets are governed in part by their associations, which take an active role in resolving disputes and interacting with government and financial regulators on behalf of the industry. Members must have a shop within their association's respective market, a valid operating license, and the endorsement of at least two existing members. A monthly membership fee covers shared operational costs, like salaries for market guards and cleaners, but also supports shared operational functions such as exchange rate updates.

- "We are operating as per the article of association which is approved by the government. All work of the association is defined and based on that we do our work. The articles of association is developed in line with DAB regulation for MSP/FXD."
- "If there is a conflict between sarafs or customers and sarafs, then dispute resolution committees are responsible to solve that dispute according to the article of association where the rights of both parties should be respected and protected."

Supervision of the sector by financial regulators has also become more stringent since 2021. Some hawaladars express concern that the more aggressive measures, which can include bringing law enforcement to hawaladar offices, can have a negative impact on customer trust and disrupt the operation of their business.

- "They frequently enter our shops without any prior notice and keeping the market association in picture. Then they . . . start inspecting everything including our mobiles and WhatsApp."
- "It is not that we do anything wrong or they will find something illegal. The problem is the fear in the market and if they fine us. Because if they catch a small issue they will fine us or they will seal and lock our shop. This impacts on our trust in the market."
- "Irregular inspection of shops is a challenge and because of this we are downsizing our hawala and other businesses that we own."

Hawaladars are required to use the *kata*—a dedicated recordkeeping book issued by DAB. The level of detail recorded depends on transaction size. Several recordkeeping software systems are also available in the market, such as Ariana, Exact, and Fast Box.

- "For record keeping, kata is there since long time, I can say decades. But maybe previously it was simple but now it has amount of money, names of senders and recipients, contacts, addresses, dates, etc."
- "There are various computer-based programs for record keeping, and they charge around 400–500 USD one-off fee plus 50–100 [USD] annual subscription and maintenance fee. These systems are used for recording all the transaction and has the capability to extract transactions that are equal or above 500,000 AFN for DAB reporting purposes. Before these systems are used they should be approved by DAB."

Hawaladars must also scrutinize transactions against various sanctions lists. The absence of National ID

(NID) numbers on these lists adds complexity, as multiple individuals could have the same name.

- "For small transaction we only need a copy of *Tazkira* [the national identity document], and on the back of that we record the hawala details and fingerprint. So we can keep that easily and for long time."
- "What we record depends on the size of transaction. There are some thresholds for which different documents are needed."

Most hawaladars CGAP spoke with still found it challenging to enforce know-your-customer (KYC) procedures and to screen customers against sanctions lists, as this type of due diligence is time consuming and prone to error. The use of technology has brought efficiency, but challenges remain.

- "It needs lots of energy because if the customer is an individual we should type the name as per the Tazkira and passport. If the customer is corporate, then we check the shareholders and the business name."

Several interviewees would like to see the regulations become more representative of the reality of the wide range of services they provide, particularly those like safekeeping and informal trade/credit transactions with businesses.

- "The government should see and understand the realities and then regulate the system. Otherwise, a culture of noncompliance and violation of regulation will grow."
- "Yesterday the DAB again announced that hawaladars should not accept deposits and lend money. Now it is like someone who tell you that 'go in the ocean without getting wet'."
- "So, in order to improve compliance, government should take very friendly and the same time professional approach. They should decrease taxes, provide public awareness programs to the people, incentivize businesses and sarafs who follow the rules and regulations. It cannot be done with force."

Such recommendations help provide additional insight as to how the sector might effectively continue to modernize and formalize. Yet absent these reforms, it seems clear that hawaladars are here to stay. Therefore, the absence of reforms that also meet the operational needs of hawaladars is likely to result in the model continuing as is, without serious steps toward reform.

- "Hawala is a traditional thing and it will remain dominant in Afghanistan. Because it does not need high level of education to use and it is easier and more convenient."
- "The future is known. Hawala is here for centuries and it will continue to support all aspects, especially hawala is more important for remittances from Iran and Gulf countries."

Conclusion

AFGHANISTAN'S HAWALA SYSTEM plays a critical and evolving role in the country's financial ecosystem. Since August 2021 its role has only expanded. As trust in the banking system faltered, hawaladars were often the ones to help ensure financial resilience by facilitating money transfers and foreign exchange, as well as informal savings and forms of informal, interest-free credit. Deeply rooted in community relationships, the trust-based hawala system has proven remarkably resilient.

Hawala networks have demonstrated significant adaptability in the face of economic crisis, regulatory changes, and shifting customer needs. They expanded services, adjusted business models, and worked to meet new compliance requirements. While the sector faces challenges, including increased competition and new regulatory pressures, hawaladars are generally open to further formalization and overwhelmingly prefer to operate under a transparent framework.

Given these findings, development funders, humanitarian organizations, and other stakeholders should take steps to help:

- **Deepen engagement with hawala networks.** Recognize the role of hawala in Afghanistan's financial ecosystem and develop strategies to work with, rather than around, these networks to improve financial access and economic stability.
- **Encourage proportionate regulation and supervision.** Support a regulatory and supervisory framework that balances formalization goals with the practical realities of hawala operations.
- **Support capacity building.** Invest in training and technology to help hawaladars improve compliance, recordkeeping, and risk management.
- **Explore innovative partnerships.** Consider how hawala networks might be leveraged as effective parts of broader financial inclusion initiatives.

Hawala networks are not merely a stopgap measure in Afghanistan's current financial crisis. They are a fundamental and enduring part of the country's economy. Acknowledging the role these networks play can help to move the country toward a more inclusive, safe, and resilient financial system for all Afghans.

The peril of not taking these steps seems clear: the continuation of a "split screen" financial sector that dominated many of the past decades where donor plans for retail services often ignored the reality of what already worked for Afghans and instead tried to impose external models.

As one hawaladar stated, "The future is known. Hawala is here for centuries, and it will continue . . ."

CGAP Members

CGAP members and strategic partners as of June 2024

CGAP Members (continued)

CGAP Strategic Partners

CGAP members and strategic partners as of June 2024

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