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**An Empirical Analysis of Remittance Practice by the Afghan Diaspora
in Denmark; A User Perspective**

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Study: Development, and International Relations

Thesis

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Abstract:

The literature on Hawala typically highlights its distinct features, such as speed, affordability, cultural suitability, anonymity, and trust. However, this study has revealed that not all aspects of Hawala are universally applicable, as the behavior of the Afghan Diaspora Community in Denmark has contradicted the widely accepted understanding of Hawala's dynamics.

Introduction:

Over the years, and for various reasons, including the process of globalization, the rate of migration has increased significantly: Civil wars, natural disasters, climate change, job opportunities, and labor shortages due to declining birth rates are among the reasons that have facilitated this increase in migration rates (Migration and Remittances Factbook 2016, vii).

Immigrants transfer part of their income from work in developed countries back to their families in the countries of origin. The figure, which crosses the \$ 647 billion mark in 2022, is practically three times the official international aid to these countries. The importance and share of these remittances in some developing countries' GDP can be seen more clearly so that in more than 25 developing countries, remittances account for more than 10% of GDP Allocates (GlobalFindex).

Global Remittances are significantly increased from US\$ 2bn in 1970, US\$ 17.7bn in 1980, US\$31bn in 1990, and US\$ 116bn in 2003. These estimates are only formal and registered

remittances, and these totals could be much higher if other forms of transferring cash and kind and remittances channeled informally are included. (De Haas, 2005)

The post COVID era has seen a rise in the importance of remittances as a means of financing. Despite the economic conditions, such as global economic slowdown, inflation and the ongoing conflict in Ukraine remittance flows to low and middle income countries saw an impressive 8% growth in 2022 reaching \$647 billion. This exceeded projections. This growth follows an increase of 10.6% in 2021. The top five countries receiving remittances in 2022 were India (\$111 billion) Mexico (\$61 billion) China (\$51 billion) the Philippines (\$38 billion) and Pakistan (\$30 billion). These remittances play a role in funding current accounts and addressing fiscal deficits for these countries since they represent a significant portion of their GDP. Notably Tajikistan (51% of GDP) Tonga (44%) Lebanon (35%) Samoa (34%) and the Kyrgyz Republic (31%) are among the ten economies heavily reliant, on remittances. (Ratha et.al, 2023)

While Afghanistan does not report remittances data to the International Monetary Fund, however, the World Bank estimates that remittances cover around 20 percent of households' daily expenditure and that 15 percent of rural households receive remittances from abroad. A report by the International Fund for Agricultural Development released in 2007 estimated remittances to Afghanistan in 2006 at USD 2.5 billion at that time (Marchand, K et al., 2014). According to the World Bank, while the global average cost of remittance in the first last quarter of 2023 declined to 6.% from 6.9% in the previous year, it remains far above the 3% target set by the Sustainable Development Goal SDG10c (Ratha, et.al, 2023).

Remittances and their transfer methods attract significant global attention. On the one hand, remittances seem quite crucial for the families and friends of migrants left behind in the countries

origin (Ratha, 2012, 164). On the other hand, migrants in host societies appear not to have the proper access to the formal financial facilities for transferring these remittances (World Bank, 2013: 33).

Consequently, alternative channels are deployed, which are illegal in many Western countries like Denmark (Razavy, 2004, 103). This thesis' point of departure is to concentrate on a particular Informal Fund Transfer (IFT), called 'Hawala.'

Hawāla is a century-old financial instrument of money transfer, which is still being commonly used in developing societies such as Afghanistan, where the modern financial facilities such as bank accounts are lacking or not properly functioning (Passas, 1999, 8; 2003, 3; Munshani, 2005, 86).

Attention to Hawala system has increased since 1990, but September 11 is considered an expedition point for authorities to concentrate on this age-old system and money transfer method. In this system, Person A (Hawala dealer) takes money from a customer and, for a nominal commission provide him/her a code, and lets person B (Hawala dealer's associate at another place) pay the exact amount to person C (recipient/beneficiary). Due to this system's simplicity, inclusiveness, and suitable accommodation & prominence within particular cultural and religious spheres, the system proved its resilience throughout the time. (Razavi, 2005, 277)

But is it that simple? Are there other considerations associated with using this method of fund/value transfer? Why it is relevant to use today?

The usage purposes of Hawala seems to have been a developing process throughout the centuries, subject to the concerns of time and the specific needs that existed for assigning funds between people and places. As a financial instrument, whereas Hawala was initially deployed for the

transfer of debts, it has gradually modified as a bill of exchange or payment assignment in the exchange of funds between distinct geographical locations and usually within the framework of long-distance trade and physical circumvention of dangerous routes. Yet while the current function of Hawala remains a payment assignment between two spatially separated individuals, it is rather unclear, who uses Hawala and why to prefer an age-old and illegal instrument, instead of the modern and legal funds transaction services?

In this research, I intend to translate these thoughts into concrete research questions and understand the context, and relationships between migration, remittances, and security in the current globalized era. For the study's visibility in the context of the given timeline and capacity, the focus will be narrowed to the remittances corridor between Denmark and Afghanistan. Accordingly, the main question leading this study reads as follows:

How to understand remittance practice of the Afghan Diaspora in Denmark?

Research Methodology

A. Research Design

This research combines qualitative methods to thoroughly investigate Hawalas role in remittance transfers, helping us understand the practice of remittance transfer by the Afghan Diaspora Community in Denmark. By employing a mixed methods design it was possible to gain an understanding of different aspects of hawala and its implications in the context of Denmark.

B. Data Collection Methods

The data collection methods for this study encompass semi structured interviews with individuals utilizing different remittance transfer methods including Hawala services. Additionally, existing literature on the subject matter analyzed. This approach ensures an understanding of Hawalas practice. In terms of the hawala business, it operates primarily in the South Asian corridor. However, due to the illegal nature of hawala in Denmark, it was challenging to find suitable respondents for the interviews. The researcher had no choice but to rely on the initial personal contact and further references provided by the interviewed respondents. A total of 12 interviews were conducted (four in Aalborg, four in Aarhus, two in Odense, two in Copenhagen). These in-depth interviews allowed for a deeper understanding of the hawala setting and its practice within the Afghan Diaspora in Denmark. (Patton, 1990; Yin, 1989). Gathering data from different locations and actors was in line with Yin's (1989) commentary on improving the construct validity. As most respondents were secretive, and sensitive, the researcher was not allowed to use the recording device. The only way to capture data was by mental note-taking. After each interview, the data were cross-referenced to minimize errors that could have resulted from inadequate memory of responses. Other potential inadequacies, such as interviewer bias, misunderstanding of context, and language-related problems, were minimized by complementing the interviews with pre-interview informal discussions. The average interview duration was 25 min.

All interviews were conducted in Dari/Persian and Pashtu, the languages commonly spoken among Afghans.

Translation of the collected data to English was performed professionally by the author, considering that the author had a 3 year employment experience with the US Government as a

Legal translator with various USAID Projects in Afghanistan, ensuring the accuracy of translation in terms of context and content.

C. Sampling Strategy

To capture perspectives on Hawala, the sampling strategy involves selecting a sample of users from different locations, cultural backgrounds. This will make sure that this study covers a range of experiences and viewpoints regarding Hawala and its role, in transferring remittances.

The use of chain referral sampling was implemented with the aim of maximizing the number of respondents. (Browne, 2005)

This approach was deemed appropriate due to the semi-scattered nature of the Hawala members, who are temporally and spatially dispersed. While chain referral sampling is a valuable strategy for research within networked organizations, it can lead to a narrowly defined sample that may not accurately represent the target population (Holstein & Gubrium, 2004). To mitigate this issue, the sample was diversified across various locations, including different regions such as Jutland, Fyn, and Zealand.

D. Ethical Considerations

The following ethical considerations were taken into account during interviews:

Participants' safety:

The participants were not exposed to any potentially harmful situations and were interviewed in the setting of their own choosing. To ensure confidentiality, the participants were not identified by name in the study, and all information shared by them was treated as confidential. The interviews were unlikely to cause distress or harm to the individuals involved, and there was no

risk of retaliation from anyone who might be offended by the information/opinions shared by participants as they will not be identified in the research. During the interviews, the researcher reconciled the interviewees' answers with their personal notes and ensured that their names and designations were not mentioned. Similarly, names, locations, and other demographic details will either not be mentioned or, if necessary, will be changed with similar details. The questions asked during the interviews were related to their experience and expertise.

Participants' Rights

Participants were informed of their right to refuse or terminate participation at any time without providing any reason for such an action. They were also informed that they were welcome to receive copies of any notes from the interviews in which they had participated, and that they could request that certain information not be included in this thesis, even after the interviews.

The beliefs, perceptions, customs, and heritage of the participants did not hinder their involvement in this study. The researcher acknowledged that some individuals might be hesitant to express their perspectives due to the ethical concerns related to alternative money transfer methods. Therefore, before initiating the study, the researcher clearly communicated the objectives to the participants. Throughout the interview process, the researcher demonstrated consideration for the participants' opinions and made reasonable accommodations for individuals, their families, and cultural and religious practices.

C. Study Limitations

This study has limitations that should be acknowledged, such as reliance on self reported data from participants, selection bias within the sample and difficulties associated with examining a practice operating outside the traditional financial system.

Undeniably, the conversion of mental interview notes into written interview scripts was carried out with meticulous attention to detail. Nonetheless, the possibility of misinformation and misinterpretation introducing distortion into the collected data cannot be entirely dismissed. The highly sensitive and confidential nature of the research area may have deterred respondents from disclosing honest data. Despite the researchers' concerted efforts to create a relaxed atmosphere for the respondents, some fabricated data may have inadvertently been included in the gathered data. Furthermore, achieving a balanced representativeness of the sample proved to be an arduous task, and the moderate sample skewness may be attributed to the strict data sources restricted by Danish law enforcement agencies.

Conceptual Framework

The Notion of hawala as a Conceptual framework as described by Mohammad EL Qorchi has been followed by integrating the characteristics, and features of this informal system of fund/value transfer.

Characteristics of the Hawala System:

The hawala system is known for its speed, convenience, flexibility, and anonymity as it operates outside institutions. Hawaladars often have accounts, with banks. Use their channels for transactions. This system can be used for both illegitimate purposes. (El Qorchi et al., 2003)

Speed of Transactions

Transfers through hawala usually take 6-12 hours between international cities. However, transfers between countries with time zones or where communication is less reliable may require up to 24 hours. In areas or villages without hawaladar offices additional time might be needed for payments. Despite delays advancements in telecommunications and information

technology have made this informal system more efficient. Payment orders can now be sent through fax, telephone, or email. Nevertheless, trust remains the foundation of the system and modern communication methods are not a requirement. In the past transactions were often conducted through word of mouth and credit was established based on notes than documents representing specific goods. (Ibid) . (Discua Cruz et al., 2012)

Cost of Transactions

The cost of transferring funds through hawala, between centers typically ranges from 2% to 5%. The overall cost depends on factors, including the volume of transactions the relationship, between the person sending money and the hawaladars the currency being exchanged, the destination of the funds and the negotiation skills of both parties involved. Hawaladars can receive compensation through fees or differences in exchange rates. Generally conducting transactions through hawaladars is cheaper compared to banking sector payments due to their operational costs and lack of regulation or taxation. Hawaladars can function with infrastructure like tables, phones, fax machines or internet connections without having to worry about tax related accounting obligations. (Ibid), (Mughal et al., 2020)

Cultural convenience

This factor also plays a role in networks. Various factors such as language barriers, trust among community members, solidarity among migrants facing circumstances, cultural considerations, limited education levels and illiteracy can hinder expatriate workers ability to engage with banks or complete money transfer forms. Additionally cultural norms influence behaviors within countries families by emphasizing aspects like confidentiality and privacy. In communities where

traditional family customs prevail women have limited interactions with the outside world and rarely establish relationships with institutions such, as banks or post offices.

In scenarios a trusted individual who is well versed in norms and respected within the community could serve as a suitable intermediary. (Ibid) (Ichwan and Kasri, 2019). (Schmidts, 2013)

Flexibility of the system

Transactions carried out through the Hawala system are particularly beneficial, in situations marked by war, social unrest, conflicts, economic crises, weak or nonexistent banking systems, as economic sanctions and blockades. The informal hawala system has been prevalent in countries like Afghanistan, Iraq, Kosovo, and Somalia for quite some time. It has also recently emerged in regions affected by conflict. For example, in Afghanistan the formal banking system is not operational; even the six licensed banks fail to offer any banking services. The remaining banks do not accept deposits. Provide loans due to lack of confidence in the banking system.

Additionally, they lack the capability to offer international or domestic remittance services.

Many organizations operating in Afghanistan rely on the sector for their banking needs. Given prevailing security concerns the Hawala system seems to be the cost-effective method for transferring funds. (Ibid) (Redín et al., 2014)

Confidentiality/Anonymity

Hawala dealers typically employ documentation methods that're not easily accessible to outside parties. The study reveals that there are no documentary requirements or accounting practices observed across countries surveyed by the research team.

Sometimes when hawaladars execute transactions they don't always ask for customer identification documents. Instead, they provide a slip, with a code that the recipient needs to present as proof of being the intended beneficiary. However, it's important to note that customer identification is optional and all documents, codes and references can be disposed of the transaction's finished unless they are necessary, for settlement purposes. This informal nature of fund transactions often results in a lack of audit trails that law enforcement agencies can use for investigations. (Ibid) , (Puffer et al., 2010)

Trust

Trust is a main factor, in the operation and stability of Hawala networks. The literature highlights how trust is vital not only between clients and bankers but among hawala bankers themselves. (van de Bunt, 2008) Trust within these networks has been linked to processes adaptability in relationships and cost effectiveness.(Sharif et al., 2023) It's worth noting that the term "Hawala" itself means "trust" in Hindi emphasizing the role of trust in this system of value transfer. (Looney, 2003) The significance of trust becomes even clearer when considering that individuals have had experiences with Hawala in the past which has fostered levels of trust compared to traditional banking systems. (Hamakhan, 2020) Moreover, the cultural importance placed on reputation and family honor helps mitigate risks and further emphasizes the critical nature of trust within Hawala networks. (Razavy & Haggerty, 2009)

Hawala adheres to the principles of Islamic law and its practices align, with Shariah principles (Grabner et al., 2017). This is why it is considered as halal banking as it operates without charging interest. (Redín et al., 2014) Compared to banking Hawalas compliance with Shariah standards is seen as more legitimate. The morally and religiously acceptable nature of hawala practices makes

them widely embraced by the community. The majority of hawala operators uphold core principles such as justice, community welfare, honesty in transactions and fairness in profit making. (Schaeffer, 2008) By adopting principles and following Shariah guidelines hawala fosters trust which enables financial and social transactions. (Ali et al., 2013) For example in countries like Somalia and Afghanistan where national economies are weak hawala banking is generally trusted more than banks. (Ismail, 2007) This trust in hawala often stems from dissatisfaction with banking systems, low credit ratings among customers and limited access to traditional banking services for individuals, with low incomes residing in rural areas. (Rahimi, 2020)

The integration of hawala banking, within communities supported by connections gives it an advantage in offering services based on trust. The bond of connectedness is an aspect that unites hawala as it relies on personal relationships, social associations and community status to establish trustworthiness and facilitate the hawala business.

For instance in Afghanistan hawaladars are often seen as figures within their community. However the Financial Action Task Force (FATF 2013) highlights that customers typically select a hawaladar or similar service provider based on their track record of performance and dependability than solely relying on trust. If a hawaladar's performance declines they risk damaging their reputation. Must rely on their network of individuals and internal codes of conduct to continue providing services. This explains why hawaladars can operate in conflict zones where formal financial services may face challenges. (*The Hawala System: Its operations and misuse by opiate traffickers and migrant smugglers.* 2023) The effectiveness of the hawala system depends on the trust and

reputation established among its network of individuals than relying on a functional state apparatus.

To conclude trust serves as the lifeblood for the Hawala system enabling it to function securely. Understanding the factors influencing trust within these networks is vital, for ensuring usage while addressing misuse.

Despite the difficulties it faces the Hawala systems heavy reliance, on trust highlights its importance as a part of interaction and a crucial facilitator of informal methods, for transferring value.

Litratue Review

Hawala

Hawala is a method of transferring funds that involves the use of hawaladars – service providers who facilitate the movement of money between locations regardless of the nature of the transaction or the countries involved. (El-Qorchi, 2002)

Sometimes these informal remittance systems are referred to as “ alternative remittance systems,” or “ethnic banking.” However, according to Passas, formal banks are rarely involved in these transactions, as they have been openly occurring in countries for a long period of time. (Passas, b)

Many experts believe that using the term “alternative” may not be appropriate since hawala and similar informal networks serve as the sole means of transferring funds in many nations. (Maimbo, 2003) For example, in Afghanistan and Somalia, these systems are utilized not only by locals, but by aid organizations and international agencies operating in these regions. (Ibid) Moreover, describing hawala-type systems as “ remittance systems” or “underground banking” may not

accurately depict their true nature because they often involve transferring value rather than money (Ibid 2).

To provide an understanding of transfer systems Passas introduced the term “Informal Value Transfer Systems” (IVTS) to describe hawala and other informal transfer systems. These systems are networks or mechanisms used to move funds or values from one place to another, without leaving a paper trail or involving regulated institutions (Passas, b). Passas and others have identified two types of IVTS; “Informal Fund Transfer Systems” (IFTS) where funds are transferred as assets and “Informal Value Transfer Systems” (IVTS) where value is transferred. (Passas, 2003) There are also transfers that combine both funds and value using methods, known as “Informal Value Transfer Methods” (IVTM). Passas have distinguished between IVTS/IFTS and IVTM based on their characteristics(Ibid).

Understanding the meanings and origins of terms is crucial for comprehending how they are applied. For example hawala comes from the root (حواله), which conveys the idea of ‘change’ or ‘transformation’. (Jost & Sandhu, 2000) This root serves as the foundation, for the term ‘Hawala,’ which refers to a document or written promise that facilitates the transfer of money and value from one place to another through hawaladars, who’re service providers (Ibid 15, (Thompson, 2008)). In discussions in Arabic hawala is also mentioned as a form of ‘debt exchange’ particularly in relation to long distance trade (Ibid). In Hindi and Urdu which are the languages of India and Pakistan respectively, hawala has acquired additional meanings such as ‘trust’ and ‘reference,’ which reflect its functions within the system. Those involved in this trade in Afghanistan often refer to themselves as Saraf o, meaning ‘money changers’(Ibid).

The term 'hundi' also originates from Sanskrit. Means 'to collect' which is synonymous with notes, bills of exchange or hawala transactions. A hundi can be likened to a check used by Americans to access funds from their accounts. (Sharma, 2006) To initiate a hundi transaction, the customer must open an account, and maintain a relationship with the Hundi operator (Ibid). It is important to note that the terms hundi and hawala are interchangeable. Although "hawala' has become commonly used, it is actually an Arabic term. In India and Pakistan its variant is known as "hundi" (Ibid 105) On the other hand "hundi" is used in India, Pakistan and Bangladesh while "hawala" finds usage in Pakistan, Afghanistan, parts of Africa and the Middle East. Similarly different geographical regions have their names, for forms of "IVTS," such as "fei ch'ien" in China "hui kwan" in Hong Kong "phei kwan" in Thailand "chits" and "padala" in the Philippines. (Passas, b)

Origins, and resurgence of Hawala

The concept of hawala is believed to have originated in the Indian subcontinent, and China. This served as a method for money transfers and valuables before formal banking systems came into existence. (Jost & Sandhu, 2000)

These networks have been integral to trade and commerce for thousands of years. Historical records dating back to 1120 BCE mention these networks in the sketches of financiers documented by Sima Qian Records of the Grand Historian, covering over 2000 years of Chinese history. (Thompson, 2008)

The idea of hawala, known as the "transfer of debt, " is mentioned in Islamic texts including the sayings of Prophet Muhammad (Hadith). These texts indicate that the Prophet had knowledge of these transfer methods (Ibid 95). Islamic scholars later prescribed the practice of delegating debt to al-hawala (Ibid).

During the T'ang Dynasty, in China (617- 907 CE) hawala networks originated as a solution to the challenge of transferring funds from the Imperial Capital to Southern China. This innovative approach aimed to avoid the risks and inconveniences associated with transporting sums of money between these two locations. To overcome this hurdle provincial governors established courts in the capital city, where merchants were issued certificates that they could then present to governors in exchange for their funds. This system, known as fei'chen or "flying money" in Chinese was based on the use of "chits" or "tokens". (Wheatley, 2005) Additionally Arab traders on the Silk Road also adopted a system to safeguard their finances while traveling and protect themselves from robberies (Ibid 352).

The true origins of hawala systems remain uncertain. These can be traced back to ancient times. These systems were used to facilitate trade and commerce across borders when there were no institutions or when existing ones were weak or conflicting. People turned to these systems because of turmoil as a way to bypass inefficient banking services or restrictions on currencies and regulations (O' Hara 1997, 1)(Passas 1999, 12).

During the 1960s and the 1970s, this informal financial network reemerged. (Vlcek, 2010) Its purpose was to help workers from low-income economies in the global south send their wages back home while working in high-income economies in the North and West. (Ballard, 2005) These migrant workers form the customer base for hawala services and provide liquidity to hawaladars in developed countries.(Cheap and trusted: homing in on networks of informal money transfers.2001) To balance this flow of funds, there is another pool of funds in developing economies commonly used by labor migrants, refugees, humanitarian organizations, and transnational businesses involved in import/export activities, foreign exchange transactions,

travel arrangements, and jewelry trade (Schramm & Taube, 2003) these entities utilize these funds to bypass currency restrictions and bans on gold imports, in parts of South and Southeast Asia. (Cheap and trusted: homing in on networks of informal money transfers.2001) However, some argue that hawala are not closely connected to terrorism or money laundering despite the increasing involvement of individuals engaged in these activities utilizing this network(Ibid). The resurgence of Hawala can be attributed to the role that informal networks have played in regions impacted by war, conflict, social unrest, economic crises, and fragile or nonexistent political systems. A study conducted by the International Monetary Fund (IMF) discovered that the Informal Value Transfer System (IVTS) is highly adaptable to circumstances, and offers a means of transferring funds in areas affected by war and conflict. (El Qorchi et al., 2003)

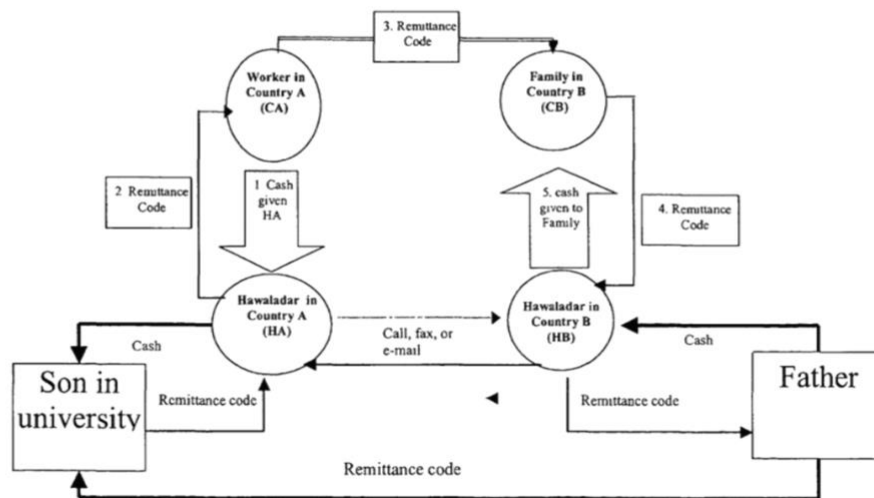
For example, in Afghanistan, hawaladars played a role in facilitating the movement of millions of dollars to ensure the smooth conduct of the country's first national democratic elections after almost 30 years of war and conflict (Thompson, 2008). Serving as a fund transfer system to international aid organizations, Hawala contributed to constructing hundreds of kilometers of roads implementing agricultural assistance programs and establishing educational facilities (Ibid). In refugee camps or settlements for displaced persons (IDPs) across Iraq, Africa and South Asia hawala type IVTS has become widely utilized due to institutions collapsing or weakening (Ibid). Following the 2005 tsunami, there were reports of money dealers establishing an emergency communication system using a mobile phone network. This system aimed to assist migrants in finding their families and arranging funds to be delivered either to functioning bank accounts or directly to IDP camps (Ibid).

This study provides an example of the operation of this system. In theory, the Hawala model involves transactions between two customers and two Hawaladars. However, in practice, it functions as a network with nodes where each participant has fluctuating debits and credit relationships with other members of the network (Ballard, 2005) This complexity arises from the fact that any change in contract components leads to an increase in transfers and accounts (Ibid). El Qorchi explains the fundamentals of Hawala transactions. He presents a model that illustrates both the initial transaction and the potential reverse Hawala transaction. This model has been widely quoted, and circulated helping those who are not familiar with the concept, and how its operation look like:

Figure 1

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Figure 1. Prototype Hawala Transaction



Source: El-Qorchi, 2002 A simple Hawala transaction

The Payment Process

According to the El Qorchi Hawala model (Figure 1), worker CA from Country A sends money through hawaladar HA to his family CB residing in Country B. The hawaladar then pays CBs family using the currency of country B. The hawaladar reaches out to his counterpart, HB, in country B. HB then makes a payment to the designated family using the currency of that country. To ensure the authenticity of transactions, the remitters might receive a code that they need to pass on to their family members to collect the payment. The hawaladar HA may charge a fee or profit based

on differences in exchange rates. Once the transaction is completed, the HA becomes liable to the HB. Settles this liability over time through methods such as financial transactions or providing goods and services via reverse hawala. Reverse hawala transactions are commonly used to cover expenses in developing countries, such as educational and travel-related costs. These countries typically have restrictions on exchange and capital movements. Thus, when a customer (XB) in country B wants to transfer funds to a developed country (for instance, paying university tuition fees for their child in country A), they provide currency to the HB. Then, HB requests that an equivalent amount be made available for the XBs child (XA) in country A. If funds are required in Country A, HB may use HA; otherwise, they may involve another correspondent located in a country where funds are anticipated to be delivered. The process of a hawala transaction can involve hawaladars rather than the same ones, and may be connected to separate, simple, or complex transactions. In another situation Settlements can also occur through import transactions. For instance, HA might settle its debt by financing exports to Country B, where HB could be an importer or middleman. It is clear that an increase in any one factor, such as the number of hawaladars in the market, would significantly complicate the transaction. For example, because each hawaladar would have accounts, with all hawaladars, the task of settling debts becomes more intricate.

To tackle the intricacies of debt settlement, hawaladars maintain records of every transaction, contrary to the prevailing belief that Hawala transactions lack documentation. (Passas, 2003) This practice is crucial because of the complexity of the network, which makes it challenging to retain transaction details in memory. Although these records are often encoded for security purposes,

they are promptly discarded after use, posing challenges for interested parties attempting to trace hawala transactions to their resolution. (Ballard, 2003)

Experts argue that reverse Hawala transactions, despite appearing as a solution for balancing accounts, are likely to occur. This can be attributed to the imbalance in remittance flows, which tends to be higher in developing countries than in industrialized ones. (Wilson, 2002)

As a result, hawaladars must resort to different methods to consolidate debts.

Wilson identified six approaches employed by Hawaladars for clearing and settling accounts, namely Reverse Hawala, Bilateral Financial Settlement through Banks, Bilateral Settlement or Financing of Exports, Clearing by Means of International Services, Clearing by Means of Asset Purchase, and Financial Clearing after Policy Change in some countries.

The bilateral financial settlement via banks involves one hawaladar transferring funds into another hawaladars bank account from an industrialized nation to a developing one. However, Wilson argues that this method is frequently utilized because of restrictions imposed by developing countries that prevent them from receiving payments in US dollars. Which happens to be the preferred form of payment. In addition, when a significant amount of currency is deposited, local authorities often exchange it for currency, which is not advantageous for the hawaladar operating in that particular country.

Furthermore, Bilateral settlements or financing of exports involve a hawaladar from one country financing the import of goods into another country on behalf of the hawaladar there. These goods can originate from either country or any other nation. However, this alternative presents a challenge for the community, as it encourages the smuggling of goods across borders. For instance, gold smuggling between Dubai and India and Pakistan is an issue (Ibid 8)

Another option for reversing Hawala remittances is Clearing by Means of International Services (CMIS), which permits the use of funds not remitted to purchase consumer goods and services. Typically, these include expenses related to care, education, and travel (Ibid 9).

Another option for clearing transactions involves asset purchase, which has ties with CMIS, However, in this scenario, the hawaladar in Country B buys assets on behalf of its counterpart in Country A. Transfers them to acquire goods and services. These assets can be in the form of property or financial assets, such as stock market investments and other portfolio investments (Ibid)

In countries where there is a policy in place, questions about exchange are not asked. This policy allows hawaladars to transfer funds in any currency to another hawaladar bank account without worrying about currency conversion by the authorities (Ibid).

These options give hawaladars the ability to settle their accounts together. Consequently, it seems unnecessary for hawaladars to buy exchanges to consolidate debt. This enables the transfer of funds (in US dollars) between the two countries, without detection (Ibid).

However, once the accounts are settled, funds usually enter the banking system in some manner. While the IVTS serves as an alternative to banking channels, the processes involved are quite similar. Formal value transfers can take the form of cash couriers, banks, exchange houses, and money remitters (Ibid 5).

In this value transfer systems, an agent sends the sum of money on behalf of one person to another person through an agent. Hawaladars maintain transaction records; however, these are not used to monitor their activities. Instead, they serve as reminders of individuals' account details, transactions, and balances. This record-keeping practice differs from the procedures

followed by the sector. The way hawala handles settlements is somewhat similar to the banking system, as it involves keeping accounts and occasionally reconciling balances between hawaladars. However, they may not always use banking channels for such transactions (Ibid).

The key difference between the two systems lies in their monitoring capabilities. In the formal system, an unbiased third party oversees all transactions to ensure compliance with rules and regulations. Any party involved in practice can face penalties under the governing legislation. (Farooqi, 2010)

For instance, when funds are transferred through the Western Union, the detailed records are maintained, and settlements are made via banking channels with impartial third parties to monitor and enforce rules. Conversely, the informal system relies on self-regulation, because hawaladars form a knit community (Ibid). It is uncommon for them to deceive one another or their clients because of the consequences of ostracization.

As discussed earlier, it is evident that Hawala and other types of Informal Value Transfer Systems (IVTS) offer efficiency, cultural convenience, and lower transaction costs compared to banking methods because of their emphasis on trust-based relationships and relational contracts. (Schramm & Taube, 2003)

Despite these advantages, there are disadvantages associated with utilizing these systems. These risks include a decrease in profits for banking and money transfer services, loss of tax revenue, efficient monetary and fiscal policies, limited documentation trails, and an increase in financial crimes. (Passas, b) (El-Qorchi, 2002)

Economic Influence of Hawala in International Scene

The stability of the global economic system relies heavily on accurate and comprehensive information on financial markets and transactions. However, informal value transfer systems (IVTS), which involve transactions, often go unnoticed by markets. This creates anomalies, information gaps, and distortions that hinder the understanding of the health of the global economy. (Nakhasi, 2007)

A simulation model examining 15 developing countries estimated that over USD 300 billion had been informally transferred into these nations within the past two decades (El-Qorchi et.al 2003,52,53). Additionally, Ballard estimated that unrecorded remittance flows through IVTS, such as hawala, are 100% higher than the recorded flows through formal channels (Ballard 2005, 322). Remittances are frequently linked to migration trends, which have steadily increased over the past decades. With migration patterns and continued growth of diasporic communities, it is expected that migration will continue to rise in the future.

In 2020, the United Nations released a report stating that 281 million people were living outside their home country. These individuals, known as migrants, sent an estimated USD 647 billion to their home countries in the form of remittances.(IOM) (*Data and Research.*) As the number of migrants continues to grow, the value of remittances is expected to increase. This is promising news for developing countries, as it provides financial resources. However, a significant portion of these remittances are unnoticed by economic monitoring systems. This lack of detection has consequences for countries impacting areas, such as state sovereignty, financial markets, monetary policy, and financial regulation.(Reszat, 1999) Another concern is the use of Hawala-type transfers, which indirectly deplete a country's foreign exchange reserves by working alongside government regulations that restrict foreign currency entry.

The practice of under invoicing exports and over invoicing imports is also prevalent in countries where hawala is common. (Passas, a) (Ballard, 2005) (Qorchi et al., 2003)

As more businesses rely on hawala for trade financing purposes, local hawala brokers tend to raise exchange rates and weaken currency value (Ibid). The anonymity associated with hawala-type International Value Transfer Systems (IVTS) has long been a concern for law enforcement agencies globally; however, in developing nations, such as India, Pakistan as well as in a number of developed nations such as Denmark governments have completely banned them to prevent evasion of currency controls (Razavi, 2005). Hawala came under scrutiny following the events of 9/11 and concerns regarding terrorist financing.

Terrorism Financing

The use of channels, like hawala to finance terrorism has been extensive, and is widely acknowledged. There is evidence that hawala has been utilized to support activities and facilitate operations. For instance, it has been linked to the backing of al Shabab, a designated terrorist organization by the United States. It has also been implicated in financing bombings in Afghanistan, Iraq and within New York City. In 2017 the United States House of Representatives Subcommittee on Terrorism and Illicit Finance held a hearing titled "Managing Terrorism Financing and Risk in Remittances and Money Transfers " where they presented evidence of Iran using hawala to bypass sanctions along with the Asian Clearing Union. (MANAGING TERRORISM

FINANCING

RISK

IN

REMITTANCES

AND

MONEY TRANSFERS: 2018) Additionally, individuals residing in the United States have also made use of hawala to provide support for al Shabab. Various cases have surfaced over time including

one involving a Pakistani national residing in Baltimore who was found guilty in 2008 for conspiring to launder funds through hawala with intent to finance al Qaeda. (*MONEY REMITTER PLEADS GUILTY TO MONEY LAUNDERING CONSPIRACY AND CONCEALING TERRORIST FINANCING*.2008) Similarly, four individuals, from Southern California were convicted in 2014 for fundraising on behalf of al Shabab and utilizing hawala to transfer those funds (Anon 2014). (*Somali Immigrant Sentenced for Providing Support to Foreign Terrorists*.2014)

John Cassara, an intelligence officer, and Special Agent, for the Department of the Treasury argued that jihadists are aware of the vulnerabilities in the financial system. This viewpoint is backed by instances where hawala has been exploited for ill purposes.

According to experts in the field excessive regulation of the sector could impose unnecessary burdens and have negative repercussions on other areas within finance. In a 2002 article published in "Finance and Development" magazine, Mohammed El Qorchi from the International Monetary Fund cautioned that measures like registration and licensing programs alone would not effectively curb illicit activities associated with hawala. Instead, (El-Qorchi,2002) suggested that policymakers should consider improving the health and competitiveness of financial markets operating alongside informal sectors. During that year the Secretary of the Department of Treasury reported to Congress that there was no need for new legislation while emphasizing further research into informal value transfer systems (IVTS). Subsequent research has shed light on hawala indicating that imposing regulations, on institutions may have inadvertently hampered efforts to combat money laundering and terrorist financing. (*A Report to the Congress*

in Accordance with Section 359 of the

Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001.2002)

The enforcement measures implemented have had unintended and significant consequences, on the MSB sector of the industry. In 2005 the World Bank conducted a study on the impact of hawala regulations on remittance services. Samuel Munzele Maimbo and Dilip Ratha discovered that these regulations were hindering the establishment of new remittance channels by startup agencies and money transmitters. As a result, existing networks faced congestion issues, processing delays and high fees due to lack of competition. (Maimbo & Ratha, 2005) along with Nikos Passas, a researcher on hawala and terrorism financing for the Financial Crimes Enforcement Network they warned about how regulations could impede crucial remittances to developing countries. (Ibid) Additionally, they cautioned that excessive strain on sectors might push users towards channels like hawala for fund transfers. Ten years later in 2015 the World Bank reported on the state of remittance services and highlighted insufficient efforts to bring positive changes (World, 2015). They recommended intervention to rectify misconceptions, about money transmitters being high risk.

The report brought attention to a practice called de risking, where financial institutions end relationships, with institutions, types of clients or in specific geographic markets to lower their risk exposure and comply with regulatory standards. (Ibid) De risking has had an impact on money transmitters as they have faced contract terminations from institutions citing concerns about scrutiny.(Ibid)

A lifeline for populations in need?

Many studies highlight that hawala plays a vital role in delivering cash to families in need. (Doocy & Tappis, 2017) According to researchers in the field hawala serves as a means for populations affected by terrorism to obtain essentials like food, medical care rent payments or education funding. (Chimhowu et al., 2005) However, some researchers argue that excessive reliance on these funds might hinder an individual's development and perpetuate poverty than helping them break free from it. (Chami & Fullenkamp, 2009) Therefore, the long-term effectiveness of hawala as a solution is under scrutiny.

The existing literature suggests that while remittances and aid play a role in survival and crisis management, they may not be a comprehensive solution for systematically reducing poverty over time.(Lubambu,2014) Instead, the continuous dependence on funds should serve as an indication to the community that the local government is unable to provide basic services to its citizens. This highlights the need for intervention to address this issue.

Remittances.

The International Monetary Fund (IMF) defines the concept of remittances in the sixth edition of Balance of Payments and International Investment Position Manual (BPM6, 2009) as follows:

Remittances represent household income from foreign economies arising mainly from the temporary or permanent movement of people to those economies. Remittances include cash and noncash items that flow through formal channels, such as money or goods carried across borders. They largely consist of funds and noncash items sent or given by individuals who have migrated to a new economy and become residents there, and the net compensation of border, seasonal, or other short-term workers who are employed in an economy in which they are not resident. (IMF, 2009: 272).

Remittances refer to funds transferred between individuals, across countries.

Global Remittances are significantly increased from US\$ 2bn in 1970, US\$ 17.7bn in 1980, US\$31bn in 1990, and US\$ 116bn in 2003. These estimates are only formal and registered remittances, and these totals could be much higher if other forms of transferring cash and kind and remittances channeled informally are included. (De Haas, 2005)

The post COVID era has seen a rise in the importance of remittances as a means of financing. Despite the economic conditions, such as global economic slowdown, inflation and the ongoing conflict in Ukraine remittance flows to low and middle income countries saw an impressive 8% growth in 2022 reaching \$647 billion. This exceeded projections. This growth follows an increase of 10.6% in 2021. The top five countries receiving remittances in 2022 were India (\$111 billion) Mexico (\$61 billion) China (\$51 billion) the Philippines (\$38 billion) and Pakistan (\$30 billion). These remittances play a role in funding current accounts and addressing fiscal deficits for these countries since they represent a significant portion of their GDP. Notably Tajikistan (51% of GDP) Tonga (44%) Lebanon (35%) Samoa (34%) and the Kyrgyz Republic (31%) are among the ten economies heavily reliant, on remittances. (Ratha et.al, 2023)

The immediate impact of remittances is to alleviate poverty. Research has shown that once basic needs have been met additional funds are typically invested in education, healthcare and nutrition than being spent on items like alcohol and tobacco. Scott T. Paul, who leads policy at Oxfam America underscores that at a level remittance provide support for education, medical care, and access, to clean water. (Chimhowu et al., 2005)

It is important to acknowledge that remittances can have both negative effects on economic development as well as the local job market. On one hand they contribute to growth by encouraging migration; however, on the other hand they can also have adverse consequences for

local employment opportunities. A study carried out by Aysen Ustubici and Darja Irdam in 2011 shed light on this matter. It revealed that medium income countries experienced human development outcomes due to remittance inflows. Surprisingly though low-income countries showed a correlation, with emigration rates – suggesting that remittances supported levels of outward migration which had mixed results both positively and negatively.

On one side it had an impact, on the job market for workers as specialized laborers left; However, on the other side those departing workers had the opportunity to earn incomes abroad while creating new job opportunities for those who stayed behind. Similar research conducted by the World Bank in 2004 and the Center for Global Development in 2014 also found outcomes. These studies discovered that remittances enhance workforce mobility but also result in a decrease in labor availability. Consequently, experts like Ralph Chami, Division Chief of the International Monetary Fund's Middle East and Central Asia Department and Connel Fullenkamp Associate Professor of Economics at Duke University suggest that remittances can discourage individuals from entering the job market since they may view them as an income source that hinders growth. (Chami & Fullenkamp, 2009)

Empirical Findings

This research through conducting 12(11 Male, 1 Female) qualitative interviews with diverse members of the Afghan Diaspora community who came from different ethnic background such as Pashtuns, Tajiks, and Hazara and various age categories ranging from 23 to 60, delves into users personal experiences with Hawala focusing on their motivations for utilizing this practice along with their perceptions of its benefits and drawbacks. Understanding these user experiences is vital, for contextualizing findings while identifying areas that could potentially be improved upon.

The key themes that emerged from the empirical data throughout this study revolve around following:

Financial Support for Families in Afghanistan; Afghan migrants in Denmark face challenges when it comes to sending money home to support their families. They feel a sense of responsibility. Often send a significant portion of their earnings to provide for their loved ones. These difficulties align with the discussions surrounding the struggles faced by migrants.

Use of the Hawala System; In Afghanistan the Hawala system, is extensively utilized due to its characteristics such as minimal bureaucracy, flexibility in relationships and lower operational costs. It proves effective in facilitating transactions within challenging environments like Afghanistan.

Despite the use of the Hawala system members of the Afghan diaspora community living in Denmark have expressed a preference for formal channels of money transfer such as Western Union, MoneyGram and bank transfers. They cite reasons such as cost effectiveness, reliability and simplicity as factors influencing this choice.

Anonymity and Documentation; One notable advantage offered by using the Hawala system is that it allows individuals to keep their transactions undocumented providing them with a sense of protection from scrutiny, by authorities.

This aligns, with what previous studies have shown suggesting that people over the world are attracted to Hawala because it allows them to avoid leaving a paper trail.

Cost and convenience along with exchange rates were discussed in the interviews. It was found that in Denmark migrants express dissatisfaction with the costs and inconveniences associated with Hawala compared to established channels like Western Union or MoneyGram.

The interviews also revealed that assistance provided by organizations focuses on supporting families in Afghanistan than contributing to initiatives led by organizations. This aligns with research emphasizing the connections migrants maintain with their relatives back home especially when they are physically separated.

These findings provide an understanding of the experiences and perspectives of the Afghan diaspora community in Denmark regarding remittances and their use of the Hawala system. They shed light on the complexities and challenges related to remittance behavior in this context emphasizing the need for research and policies that address vulnerabilities and empower migrants.

These findings will be discussed in detail in the following chapter.

Analysis and Discussions

Money transfers and support, for families in Afghanistan

The difficulties faced by migrants when sending money home to support their families in Afghanistan can be better understood by considering the overall context of migration, remittances and populations affected by conflict. (Harpviken, 2014) (Le De et al., 2015) Specifically the experiences of migrants living in Denmark shed light on the strategies families employ across borders and the factors that influence how they send money amidst conflict and insecurity.(Ibid) Moreover the strong sense of duty and obligation that Afghan migrants feel towards their families, in Afghanistan aligns with conversations, about how war and displacement impact family dynamics and cross border support systems. (Ibid)

Furthermore Afghan migrant workers encounter a range of difficulties, such, as the requirement to put in many hours. send a substantial portion of their earnings to their home country. These

challenges they face are in line with the conversation surrounding the hardships and susceptibilities experienced by migrants. (Hakimi, 2023) The choice they make to engage in work even though it may involve exploitation highlights the nature of labor migration, masculinity and the economic factors that propel migration, from conflict affected regions.(Ibid) This issue is reflected in the conducted interview as one interviewee put it:

“I live with my brother and we both are students, but have to work after school up until midnight, and seven days a week”. Interviewee E

The concerns regarding the safety and well being of family members, in Afghanistan as expressed by the people interviewed, also align with what's discussed in existing literature about the vulnerabilities and risks faced by families affected by conflict and disasters in this region. (Le De et al., 2015) The impact of remittances on reducing poverty and perpetuating vulnerability within the context of conflicts and disasters is consistent with conversations about the challenges and opportunities for implementing interventions among populations affected by conflicts. (Greene et al., 2018)

Moreover it is important to consider the nature of workers contributions to their families in Afghanistan. This raises questions about their agency, exploitation and the structural limitations that influence their decisions. These discussions correspond with conversations surrounding workers agency power dynamics within remittance economies and the necessity for policies and interventions that safeguard the rights and well being of both migrant workers themselves and their families. (Hakimi, 2023)

To conclude the experiences of migrants living in Denmark offer insights that align with existing literature, on migration, remittances and populations affected by conflicts. The literature strongly

supports the challenges, motivations and complexities associated with remittance behavior in this context. It emphasizes the importance of the findings, from the interviews. Underscores the need for research and policy focus on addressing the vulnerabilities and empowerment of migrant workers, in conflict affected areas.

Using Hawala was not a Preference rather a Necessity

The suitability of hawala for operation in places like Afghanistan is emphasized by its unique characteristics, as highlighted in the literature. These characteristics include minimal bureaucracy, relationship versatility, and low operational costs within trust networks, making them well-suited for operating in diverse and challenging environments (Sharif et al., 2022). This adaptability is particularly relevant in Afghanistan, where the business climate is uncertain and the majority of hawala transactions serve Afghan merchants, enabling them to navigate the challenges of the local economy (Rahimi, 2020).

Hawala's large-scale operations and its role in maintaining financial stability have led authorities to overlook it, which highlights its adaptability and significance in various contexts, including Afghanistan (Rezavi, 2005). The speed, low transaction costs, and cultural convenience of hawala, as noted by (Zagaris, 2007), contribute to its versatility, making it a preferred choice despite its potential for abuse.

The versatility of hawala, in Afghanistan holds significance as highlighted by studies that although primarily focused on Switzerland have global implications. The extensive operations of hawala in Afghanistan demonstrate its effectiveness in facilitating transactions including those associated

with activities and money laundering (Teichmann, 2018). Additionally a study conducted by El Qorchi provides insights into the remittance systems and sheds light on the widespread usage and adaptability of hawala, in Afghanistan (Qorchi et al., 2003).

The versatility of hawala is demonstrated by its capacity to operate within informal economies, as discussed by Byrd, who examined the opium economy in Afghanistan and its reliance on informal money exchange and credit systems, emphasizing the reliability and predictability offered by the informal sector (Byrd, 2008). Additionally, the cultural and ethical dimensions of hawala, as explored in another study, contribute to its adaptability and potential for economic development, aligning with the socio-cultural context of Afghanistan. (Redin et al., 2012)

The Hawala systems usage, by aid organizations in Afghanistan showcases how it serves as an financial network. Based on Rezavis research NGOs transfer a minimum of \$200 million in emergency aid, humanitarian relief and development financing to Afghanistan through the hawala system (Rezavi, 2005). This demonstrates the Hawala systems ability to facilitate transactions particularly concerning aid and development funding. Furthermore various NGOs donors and aid agencies utilize the hawala system for both international transactions. (Trautsolt & Johnsn, 2012) The fact that hawala can support transactions for a range of entities like aid organizations emphasizes its versatility and importance, within Afghanistans financial landscape. The use of hawala, by aid organizations in Afghanistan not only showcases its effectiveness in facilitating financial transactions in difficult situations but also emphasizes its role in addressing urgent humanitarian needs. This highlights the adaptability and resilience of the hawala system making it a crucial part of the infrastructure that supports aid and development initiatives in Afghanistan. Now, taking in to consideration of the above discussion, it makes sense when some

of the interviewees chooses to remit through Hawala systems because their recipients live in remote areas in Afghanistan leaving the Hawala system the only method to transfer remittance.

“I am originally from eastern province of Kunar, all my extended family still live there, so whenever I should send money to my cousins in Kunar, I must use Hawala,”

Interviewee D

To summarize; Extensive literature provides evidence of hawalas versatility, which makes it well suited for operation in places like Afghanistan. Its minimal bureaucracy, ability to function within economies, relationships and capacity to thrive amidst uncertain business conditions all point to its significance and relevance, in diverse and challenging environments.

Formal Methods of Money Transfer was Preferred

Based on interviews conducted with the Afghan diaspora community in Denmark it is clear that they prefer using formal methods of money transfer rather, than hawala services. This preference is due to factors such as cost effectiveness, dependability and simplicity. One interviewee expressed frustration with the inconvenience of hawala services saying

“both MoneyGram and Western Union have their Phone Applications and it is really easy for me to transfer money while drinking my tea at home”. But on the contrary, Hawala is problematic, “I need to go to Hawalakar myself, while I am a very busy person, and it feels inconvenient every single time I have to do it” Interviewee C

while another interviewee, G mentioned the fluctuating exchange rates when transferring money to Iran using hawala. These findings highlight the importance of remittance channels like Western Union, MoneyGram and bank transfers for the diaspora community in Denmark.

“We don’t have problem when transferring money to India, because it is cheap and easy to use their Apps, but to transfer money to Iran, it is really expensive, my father has to contact Hawalakar, and the Fee he pays always changes, because Hawalakar reasons that he has to pay something to his partner in Kabul to receive a payment code for the amount to be paid in Iran. We always send DKK 2000, but my brother receives different amount in Toman, ranging from DKK 1200 to 1500, so we don’t like it". Interviewee G

These findings align with research by (Catrinescu et al., 2009) which also emphasizes the preference for remittance channels that are cost effective and reliable. (Cross, 2015) also supports this view. Furthermore Interviewee G’s concerns about fluctuating exchange rates in hawala transfers to Iran are consistent with discussions by Zagaris (2007) who has examined the challenges of applying money laundering procedures to non financial transactions and parallel banking systems.

Given that individuals resort to hawalas out of necessity than choice there is a pressing need for a more refined regulatory approach towards these services due, to the complex challenges they present.

The viewpoint expressed by Farooqi (2010) could be relevant for this context. Farooqi conducted an analysis of how the global regulatory response and various obstacles hinder the control of hawala, for money laundering and terrorist financing. It is vital to create tailored regulations that take into account the socio circumstances and the reliance of communities on hawala services.

(Farooqi, 2010)

The inclination towards formal channels for remittance transfers among the Afghan diaspora community in Denmark can be partly attributed to international efforts aimed at reducing the costs associated with international remittances. These initiatives are aligned with the Sustainable Development Goals (SDGs) goal 10c which emphasize the need to decrease transaction costs for remittances to 3% and eliminate corridors with costs exceeding 5% by 2030. This global initiative has implications for diaspora communities, including the community in Denmark.

The impact of initiatives aimed at lowering remittance costs on the remittance behavior of Afghans residing in Denmark is substantial. The preference has shifted towards using channels like Western Union, MoneyGram and bank transfers that adhere to standards and cost reduction measures. This aligns with a trend of formalizing remittance flows, in order to achieve the Sustainable Development Goals (SDGs).

To summarize the Afghandiaspora community living in Denmark chooses formal channels, for sending money home, which can be attributed to the international efforts aimed at reducing remittance costs in line with the Sustainable Development Goals (SDGs). This global initiative has an impact, on how diaspora communities handle remittances and underscores the significance of using these channels to achieve SDG targets related to remittance expenses.

Anonymity/Documentation

The interviews with the Afghan Diaspora in Denmark have shed light on the use of hawala services as a means to avoid oversight from authorities regarding employment status or income earned within Denmark. The participants discussed how hawala allows particular individuals to keep their transactions undocumented, providing a sense of protection from potential harm by authorities.

This aligns with existing literature, which indicates that individuals globally are drawn to hawala due to its ability to evade leaving a paper trail, making it attractive for individuals who want to dodge taxes or keep their activities hidden from authorities (Alm et al., 2018). The interviews also demonstrate how migrants take advantage of the anonymity and lack of records offered by hawalas to avoid declaring funds earned from cash benefits or other sources, consistent with research findings (Ibid).

The use of hawala for money transfer also raises concerns about tax evasion and the concealment of income. Experts argue that excessive regulation may drive these systems further underground, making the oversight of funds nearly impossible (Rezavi, 2005). This is in line with the literature, which discusses the challenges for law enforcement arising from the lack of records in hawala, as well as the mix of various businesses that tend to coexist with hawala transactions (Passas, 2004, Bunt, 2008). Furthermore, the interviews strongly convey the idea that people can use hawala as a way to evade taxes and bypass scrutiny regarding their incomes, as one interviewee mentioned:

“those who make too much cash and cannot spend it here in Denmark utilize hawala to send this money to Afghanistan buying property and doing business without their identification and details being registered with SKAT”, Interviewee B

The literature also highlights the role of hawala in facilitating financial activities such as money laundering and terrorism financing. It is noted that hawala has been used by individuals involved in drug trafficking and that it can be a channel for financing terrorism (Teichmann, 2018; (Kramer et al., 2023),(Roberge, 2007) Additionally, the lack of data and documentation in hawala

transactions presents challenges for law enforcement in investigating related illegal activities.

(Ibid)

In conclusion, the interviews with the Afghan Diaspora in Denmark provide valuable insights into the use of hawala as a means to avoid oversight and keep financial transactions undocumented. These findings are consistent with existing literature on the challenges and implications associated with hawala, including tax evasion, money laundering, and terrorism financing.

Cost/Convenience, and Exchange Rates

Cost effectiveness has been widely regarded as a distinguishing feature of Hawala, an informal value transfer system. However, this study have revealed that this notion does not hold true for Denmark, as migrants express dissatisfaction with the costs and inconvenience associated with Hawala compared to established channels like Western Union or MoneyGram. One of the Interviewees acknowledged that Hawala tends to be more expensive than traditional money transfer methods

“however, I should admit that Hawala is more expensive than other forms of money transfer,”

Interviewee A

, while Interviewee G complained about the fees and their constant changes when sending money through Hawala to her brother in Iran. The interviews further revealed that while it is somewhat accepted that Hawala fees range from 0.2% to 5%, they can often be even higher due to fluctuating exchange rates and additional charges imposed by Hawaladars. In fact, Interviewee G

mentioned that when her family sends 2000 DKK to Iran, her brother receives between 1200 to 1500 DKK, illustrating significant variations in the amount received. (Shanmugam, 2005)

This finding challenges the widely accepted belief in the cost effectiveness of Hawala and highlights the importance of considering the specific context and experiences of users in different regions. It also raises questions about the efficiency and reliability of Hawala as a remittance channel, particularly in comparison to formal and regulated money transfer systems. The dissatisfaction expressed by migrants in Denmark regarding the costs and inconvenience associated with Hawala suggests that there may be limitations to its effectiveness in certain contexts, contrary to the general perception of its unique features such as cost effectiveness.

The issue of cost and convenience in Hawala also intersects with broader discussions on financial development and the role of informal value transfer systems in economic growth. While some studies have highlighted the complementarity between remittances and bank efficiency in promoting economic growth (Bettin & Zazzaro, 2012), the specific challenges faced by migrants using Hawala in Denmark underscore the need for a more nuanced understanding of the factors that influence the effectiveness of informal remittance channels in different settings. This includes considerations of trust, social control, and the nature of social exchanges within Hawala networks, as these factors can impact the stability and efficiency of the system (Gräbner et al., 2021); (Sharif et al., 2023)

In conclusion, the interviews with migrants in Denmark have shed light on the limitations of Hawala in terms of cost effectiveness and convenience, challenging the widely accepted notion of its unique cost effectiveness. This calls for a reevaluation of the perceived advantages of

Hawala and emphasizes the importance of considering the specific experiences and challenges faced by users in different contexts.

Assistance, through Nonprofit Organizations

The interviews revealed that the theme of assistance provided directly to families in Afghanistan rather than contributing to initiatives led by humanitarian organizations is personally important for them, as one interviewee puts it together:

“ My family in Afghansitan is in need of this money, so I have to send it directly to them”

Interviewee F

This aligns with research that emphasizes the strong connections migrants maintain with their relatives in their home countries especially when they are physically separated. The funds sent back home by the interviewees are primarily used for expenses like household bills, medical fees and education costs. These findings correspond to existing research on how migrants utilize remittances to support their families in their home countries.

Both Interviewees A and B emphasize the significance of supporting their families in Afghanistan. In particular Interviewee B mentions sending money for his mothers healthcare expenses highlighting the crucial role remittances play in sustaining families during times of need. This matches studies that emphasize the impact of remittances on the well being and livelihood of family members in the home country.

“Primarily I send money to my mother who has a chronic illness and use the money for medical purposes, but she also shares remained money with my siblings” Interviewee B

The preference for support to family members in Afghanistan than contributing to initiatives led by humanitarian organizations can be attributed to migrants strong sense of responsibility and obligation towards their families. This aligns with existing literature that explores motivations, behind remittance behavior emphasizing how ties and obligations shape migrants financial decisions.

To sum up it becomes evident that these findings of this study are consistent with research on how migrants utilize remittances and maintain relationships with their loved ones in their home countries. This theme brings attention to the reasons and priorities that influence migrants allocation of resources emphasizing the importance of family bonds and responsibilities, in shaping their support systems.

Conclusion

This study has found that the practice of remittances by the Afghan Diaspora in Denmark does not align fully with the broader literature on Hawala. Instead, it is more influenced by the dominant culture of the host country in everyday shopping. Like ordinary Danes who visit multiple supermarkets to do their daily shopping, considering factors such as cost, quality, availability, and convenience, Afghan Diaspora also consider similar factors when remitting money to big cities in Afghanistan. They consider the availability of formal remittance channels as it provides them with convenience and cost efficiency, resulting in their recipients receiving more local currency due to more favorable currency exchange rates provided by MoneyGram and Western Union.

This study revealed that the Afghan Diaspora in Denmark favored informal remittance methods, such as Hawala, over formal channels such as MoneyGram and Western Union. This behavior challenges the assumption that Hawala is the primary transfer method among diaspora communities. However, some participants reported using Hawala because of a lack of anonymity or because it was the only available option for recipients living in remote areas of Afghanistan.

The findings of this study also challenge the notion that hawala is a cost-effective method of remittance. It was discovered that some of the distinct characteristics of Hawala are not unique, leaving the service to primarily cater to those seeking anonymity.

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