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# More than a criminal tool: the Hawala system's role as a critical remittance channel for low-income Pakistani migrants in Dubai

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## Abstract

This paper examines how and why migrants remit through unauthorized remittance channels (namely the hawala or hundi) and investigates the hawala's developmental roles and effects on migrants' socioeconomic status. Applying a qualitative case study of 30 low-income Pakistani migrants in Dubai, we argue that the thriving yet unauthorized status of the hawala system is a unique product of global migration process. In contrast to the dominant literature on the nexus between the hawala and terrorist and criminal-related financing, we assert that the sustainability of the hawala is the result of an ongoing effort of low-income migrants to increase their remitting power, providing money that is crucial to their families' socioeconomic status within the context of rapidly globalizing forces. This study provides both important empirical and theoretical insights into the hawala's complex relevance for low-income migrants, governments, and international organizations in global migration context.

**Keywords:** Hawala; low-income migrants; unregulated remittances; Pakistan; Dubai.

**JEL Classification:** F22, F24

## Introduction

Following the aftermath of the 9/11 terrorist attacks in New York City, global scholars have framed contemporary literature on unregulated

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or informal remittance channels—most commonly known as the hawala (in Arabic) or hundi (in Hindi and Urdu)—from a security perspective.<sup>1</sup> The current dominant perspective is that unrecorded remittances have been used for money laundering, terrorist financing, smuggling, and other illicit activities (Jost and Sandhu, 2000; Naufal, 2011; Nawaz et.al, 2002; Ballard, 2005; Casey, 2007; Bunt, 2008; Financial Action Task Force on Money Laundering, 2010; Shabib-Ul-Hassan and Naz, 2012; Dedin et.al 2014). While some literature has highlighted the critical importance of hawala in the context of nation-building and humanitarian crises (see Thompson, 2008; Maimbo, 2003), the prevailing discourse on the hawala system has centered around its use for criminal purposes rather than its development potential. Passas (2006) acknowledges that the hawala system has "come under suspicion of being a tool in the hands of al Qaeda and other terrorists" operating in parallel to the global financial market." Furthermore, the international community has also placed strong emphasis on the hawala system's complex relationships with the informal economy, highlighting the predominant misuse of the hawala systems by criminals and smugglers (Bunt, 2008). These underground economies are often inevitable products of globalization due to complex factors like networks, personal trust, shared ethnicity, and common backgrounds that sustain the rapid yet unregulated evolution of the hawala systems (Bunt, 2008; Ballard, 2005; Glushchenko, 2005). The international community views the thriving<sup>2</sup> and unregulated presence of the hawala systems not only as a constant "external threat" to the national security of nation states, but also an urgent imperative agenda for governments and international organizations. Therefore, they further assert that the hawalas need to be fully eradicated to close the continuous global production of a black financial market linked to global terrorism that violates international laws and norms in a globalizing world (Khalid, 2014; Khaishigi, 2016).

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<sup>1</sup> Rahman and Yeoh (2008) paper has identified various informal remittance channels that also exist in other developing countries, including hundi (Pakistan and Bangladesh), fei-ch'ien (China and Southeast Asia), chit (China), chop (China), hui kuan (Hong Kong), padala and paobot (the Philippines), phei kwan (Thailand), chuyen tien tay ba (Vietnam), kyeyo money (Uganda), and mali a mbeleko). For historical origins and concept of the hawala system, see Thompson (2008).

<sup>2</sup> This paper uses "thriving" to reflect the ongoing campaigns by sending countries (Bangladesh, Pakistan, India), and receiving countries like the UAE to stop or regulate the presence of the hawalas in Dubai. While there are no recorded data on the total number of registered hawalas in Dubai, both fieldwork, government, academic, and media findings indicate a large presence of the hawalas operating in Dubai and other GCC city locations.



While there is a sufficient credible evidence to suggest that the hawala has been extensively utilized for certain terrorist and criminal-related financing schemes (see US State Department, 2016), the hawala has also been an alternative vital remittance channel utilized by international migrant populations to optimize their remittance value and power. Their remittances are crucial to their families' socioeconomic conditions in the context of rapidly globalizing forces. The study of the hawala system in Dubai, UAE is a critically relevant topic for various empirical, theoretical, and policy purposes. First, while global scholars have analyzed the hawala system from both macro structural (state-level) and institutional (institutions, policies, networks) lenses in the context of global migration, further investigation is needed to understand the micro level (migrant-level) impact of the hawala system. Second, few empirical studies have shed light on migrant perspectives; instead they often objectify and reduce migrants' complex experiences and logic to global policy debates, largely ignoring the unique contexts in which they live, cope, and operate vis a vis the destination country's labor market and financial regulations (see Bunt, 2008; MENA FATF, 2008, 2015). A developmental analysis is needed to analyze the migrants' experiences and provide an alternative conceptual analysis to study the globally complex roles and effects of the hawala systems on migrant populations. Third, given the limited studies on Gulf-based hawalas in the Middle East, no studies have investigated the complex presence and benefits of Gulf-based hawala systems on migrant populations, particularly in Dubai.<sup>3</sup> Despite the critical relevance of Dubai, UAE in global financial trading—it's often cited as a “key regional financial trading center” and a “settlement hub”—the predominant literature has often highlighted Dubai, UAE only in passing, and provided little empirical insights as to the development relevance, evolution, and linkages of the hawala systems to the large migrant-based populations in the Gulf labor markets (see Nawaz et.al, 2002; Ballard, 2005). Lastly, Dubai, UAE is not only a top migrant

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<sup>3</sup> The UAE government has issued the law of transfer brokers (hawaladars) in July 2012 based on the powers given to the Central Bank as per the Federal Law No. 10 of 1980 regulating the works of the Central Bank, the monetary system and the regulatory system of banking profession. While legally registered hawalas exist in Dubai, we particularly focus on legally unregistered hawalas given both the limited academic studies and development potential in global migration process. In fact, the UAE passed a law in 1980 with subsequent amendments, which aimed to regulate the licensing and operations of money changers in Dubai. It has also imposed a stricter documentation requirements (i.e. amount exceeding 2,000 dirhams or USD \$544, sender/receiver's address, record, and amount), to police financial transactions. See Glushchenko (2005) and recent updates from the UAE Central Bank (2017)'s website for further information.

destination for migrant populations that commonly use the hawala services, but also has a large construction industry, which employs at least 3 million unskilled migrants—mostly originating from Pakistan and India—to develop its modern public infrastructure (Ministry of Human Resources and Emiratization, 2017).<sup>4</sup> In 2017, Dubai was ranked the second most expensive city in the Arab world, which points to the high cost of living and requirements for migrants living in the country.<sup>5</sup> This cost of living is also expected to increase given the country's knowledge-based long-term economic vision. Thus, in the future, the question of how migrants will be able to afford to live and work in Dubai will become more critical, and they will need to adopt new strategies to adjust in a globalizing Dubai. In essence, for Pakistani migrants from remote villages where there is limited access to technology and formal education, the hawala system in Dubai is an attractive, viable financial tool to avoid prohibitive transactional fees. The system allows migrants to remit higher shares of their incomes to their families in their origin countries. Drawing from extensive analysis on the hawala system in Pakistan, Khalid (2014) emphasizes that in the 1990s,

*The parallel foreign exchange (FX) market (or hundi/hawala network) based in the Gulf countries began to divert remittances away from official channels by offering cheaper and more convenience services to the largely blue-collar Pakistani workforce. Overseas Pakistanis began using informal channels to send money to their families, as a result of which official remittances declined gradually throughout the 1990s. By end of FY 2001, the share of remittances (official) fell to only 10 percent of Pakistan's total FX earnings.*

Therefore, the hawala is an important development-based coping strategy for low-income Pakistani migrants in Dubai and it also acts as a “lifeline for the poor, increasing income[s] for individuals and families” (Ratha, 2013).

The paper analyzes how and why migrants remit through the hawala and investigates the hawala's developmental roles and effects on migrants' socioeconomic status. This paper is divided into five main sections. The first section explores the Pakistan-UAE and GCC migration corridor context, highlighting the link between the global migration process and the evolution of the hawala systems in destination countries. The second section analyzes the unofficial or

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<sup>4</sup> See MOHRE (2017)'s open data systems.

<sup>5</sup> See [Khaleej Times \(2017\)](#)



unregistered hawala systems—often posing as “small shops” in Dubai— and explores their unique, complex structure, relevance, processes, and determinants. This section also situates the field perspectives gained from the in-depth interviews with low-income Pakistani migrant workers, particularly those in the construction industry, and the hawala agents in Dubai. The third section explains why it is difficult to regulate the hawala system in Dubai and other international migrant-based destinations, and explores the implications for both sending and receiving countries. The fourth section highlights the future evolutionary scenarios of the hawala systems in the context of Dubai, UAE and GCC countries, given the tumultuous economic, demographic, and political transformations in the GCC region. The concluding section discusses the long-term development implications of the hawala system on migrants' socioeconomic conditions, as well as sending and receiving countries in a global context.

### **Pakistan Migration to the UAE and the Rise of the Hawala Systems in the GCC**

**Table 1.** Pakistan Migration Flows to the GCC

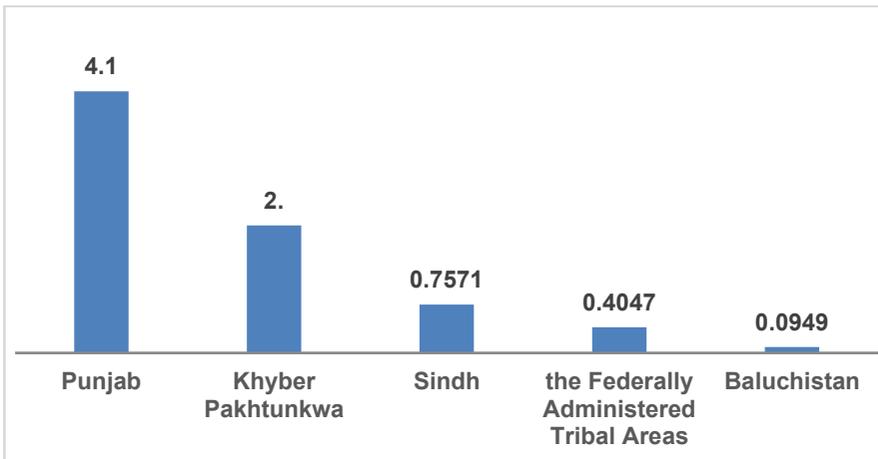
	<b>KSA</b>	<b>UAE</b>	<b>Oman</b>	<b>Kuwait</b>	<b>Bahrain</b>	<b>Qatar</b>
1971-2002	1 850 324	679 239	216 028	109 951	68 182	52 594
2003	126 397	61 329	6 911	12 087	809	367
2004	70 896	65 786	8 982	18 498	855	2 383
2005	35 177	73 642	8 019	7 185	1 612	2 175
2006	45 594	100 207	12 614	10 545	1 630	2 247
2007	84 587	139 405	32 474	14 544	2 615	5 006
2008	138 283	221 765	37 441	6 250	5 932	10 171
2009	201 816	140 889	34 089	1 542	7 087	4 061
2010	189 888	113 312	37 878	153	5 877	3 039
2011	222 247	156 353	53 525	173	10 641	5 121
2012	358 560	182 630	69 407	5	10 530	7 320
2013	270 502	273 324	47 794	229	9 600	8 119
2014	312 489	350 522	39 793	132	9 226	10 042
2015	418 423	274 628	39 092	147	7 824	10 994
Share (%)	50.3	32.9	7.5	2.1	1.7	1.4

Source: MOPHRD data(2015)

Pakistan's labor migration to the UAE and other GCC countries has played a transformative role in the emergence of the hawala system in Dubai, UAE and other GCC countries due to increasingly globalizing forces that have led to the demand for migrant labor in the region. In fact, since the expansion of oil production in the 1970s, Pakistan's labor migration has increasingly become an important labor supply

for the GCC economic development, helping to address critical manpower shortages in the UAE and other GCC labor markets. GCC is and has been a top migrant destination and employer for Pakistani migrant workers in the broader Middle East region. Table 1, with data gathered from Pakistan's MOPHRD, indicates that between 1971 and 2015, 50.3% of Pakistani migrants who migrated via official channels migrated to Saudi Arabia, while the UAE received 32.9% migrants. Other top GCC destination countries, including Oman (7.5%), Kuwait (2.1%), Bahrain (1.7%), and Qatar (1.4%) also received major migrant populations from Pakistan.<sup>6</sup>

**Figure 1.** Migration from Pakistan to other countries between 1981 and 2015 (in millions)



Source: MOPHRD (2015)

More specifically, in the UAE, the skills and sectorial composition of Pakistani migrants in the UAE is largely diverse, yet the Pakistan migration migrants are often unskilled, single, males (Shah, 2014; Ministry of Overseas Pakistanis and Human Resources Development (MOPHRD, 2015)). While the UAE MOHRE's official data does not publish nationality breakdowns in the UAE labor market, available studies indicate that the Pakistani migrant laborers in the UAE occupy low-skilled occupations in the labor market, including positions in construction, transportation, and other service-based related sectors. In particular, the high concentration of low-skilled South Asian

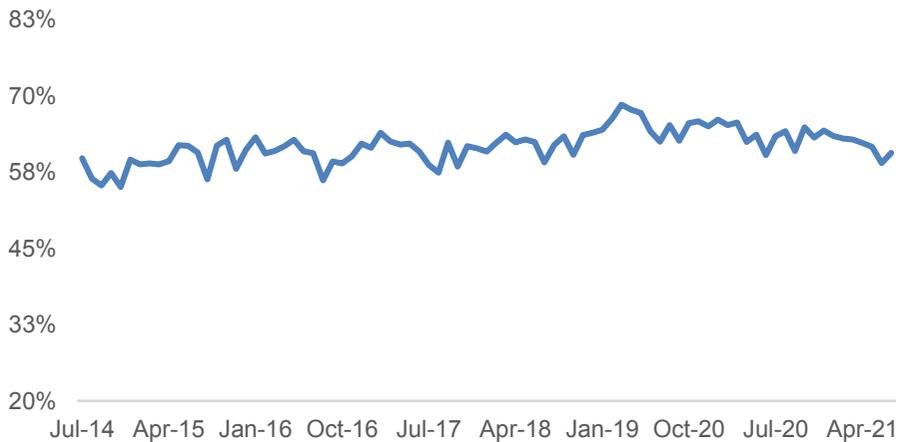
<sup>6</sup> GCC-based data on Pakistani migrant stocks suggest that the large presence of South Asian migrants, specifically from Pakistan (3.24 million) and India (7.4 million), has certainly dominated the GCC foreign migrant populations (Martin and Malit, 2017), and has helped reproduce and reconstitute the complex yet invisible practices of hawala systems in the GCC region.



migrants has generated the hawala services and enabled migrants to use the hawala for strategic opportunities to access cost-efficient money transfer services.

In addition, according to the MOPHRD (2015), between 1981 and 2015 the Punjab Province served as the largest source of Pakistani migrants, providing more than 4.1 million migrants, followed by the Khyber Pakhtunkwa Province, the Sindh Province, the Federally Administered Tribal Areas, and Balochistan (see Figure 1). The majority of those migrant workers moved to the UAE and other GCC countries.<sup>7</sup>

**Figure 2.** Share of Official Remittance Inflows from the GCC to Pakistan (2010-2017)



Source: State Bank of Pakistan

The influx of migrants from Pakistan to the UAE and other GCC countries has resulted in an inflow of remittances into the Pakistani economy. In July of 2016, for example, Pakistan officially received USD \$19.92 billion of global remittances, of which 63.58% came from the GCC countries, representing a vital component of Pakistan's gross domestic product (State Bank of Pakistan, 2017).<sup>8</sup> Recent government remittance data show that between January and July 2017, 62% of the total remittances sent to Pakistan came from the GCC countries; both the UAE and Saudi Arabia ranked as top remitters to Pakistan (ibid). Both official and unofficial remittance flows from the GCC to Pakistan have played an essential role in the

<sup>7</sup> See Ministry of Overseas Pakistanis and Human Resources Development (2015) report.

<sup>8</sup> See PEW Global's Remittance Flows Worldwide (2015) report.

ongoing economic development process of contemporary Pakistan. While existing studies have highlighted the positive effects of official remittances on migrants and economies<sup>9</sup>, no empirical studies have explored the roles and impact of the hawala systems on migrant workers' remittance behavior, particularly the low-income Pakistani migrant populations in Dubai. Therefore, it is vital to examine how and why migrants utilize the hawala services and their prevailing logic, behavior, and development implications at both the household and the community levels.

### **Methodology**

To investigate the complex dynamics inside these unregistered hawala shops in Dubai, we use unstructured and informal interviews conducted between June and August 2017 and analyze and situate financial choices and behavior in the broader context of the Dubai labor market and economy. A non-randomized, snowball sampling technique was utilized in various Pakistani-migrant dominated communities in Dubai in order to identify 30 low-skilled Pakistani migrant workers as potential participants in the study. All the research participants were male, low-skilled workers, mostly working in the fields of construction, transportation, and service based sectors (particularly in hospitality/restaurant as servers) in Dubai. They originated from Punjab, KPK, and other remote Pakistani regions. At least 90% of the study participants had a high school education or less, earning between AED 1,200 (USD \$326) and AED 2,000 (USD \$545) on a monthly basis (including overtime wages). In addition, the field study identified 60% of the sample as unmarried with large extended families. The other 40% of participants reported having at least one (1) child living with large extended families in Pakistan. It is challenging to conduct field interviews with low-income Pakistani migrant workers because they often associate researchers with either government policing or commercial enterprises attempting to establish competitions with the hawala businesses. While the sample size is limited and the research findings cannot be generalized, this case study offers compelling empirical insights about the logic and

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<sup>9</sup> See literature on the impacts of remittances on poverty reduction in the regions that have higher levels of migration (Acharya and Leon-Gonzalez, 2012; Fajnzlber and Lopez, 2007; Gupta et.al, 2007; Ratha, 2012). Gubert et.al (2009), for example, estimated that remittances have the capacity to reduce poverty rates between 5 and 11 percent in Mali, and in some cases, generate a "3.5 decline in the share of people in living in poverty across 71 developing countries, if a 10 percent increase in per capita official international remittances occurs" (see Ratha, 2012). Others acknowledged the linkage between remittances with positive human development outcomes, lower school dropout rates and increased averaged birth weights, which strongly signal its transformative capacity to act as an anti-poverty mechanism for developing countries in the long run.



behavior of low skilled, low-income Pakistani migrants living in Dubai, UAE.

### **Contextualizing Unregistered Hawala Services in Dubai, UAE**

Originally developed in the Indian Subcontinent, the hawala is often conceptualized in the context of Islam; however, historically it has been utilized in non-Islamic commercial market contexts (Thompson, 2008). The Arabic term "hawala" means "to transfer" or "exchange of debt" while "in the commercial terms the practice of transferring money and value from one place to another through service providers, known as hawaladars" (see Thompson, 2008). In particular, the Republic of India acknowledges that the hawalas are strictly traditional financial instruments used in trade and credit transactions, and act as "unconditional order in writing made by a person directing another to pay a certain sum of money to a person named in the order. Hundis, being a part of the informal system have no legal status."<sup>10</sup> These hawala services serve as common strategic financial choices for migrants and businessmen in Dubai and other GCC locations. In Dubai, a low-income Pakistani migrant construction worker, Ali, acknowledges:

I always use the hawala because the exchange rates<sup>11</sup> are better than Western union or others. We don't have Western Union in our village, and it is very far from my home. It is easy too. I just go to a shop and then we send the money there on the same day too.

As evidenced by Ali's statement, the hawala system serves as a crucial component for Pakistani migrants in the GCC region, providing a strategic remittance channel option for low-skilled migrants who seek to maximize their remittance power.<sup>12</sup>

### **The Hawala Services in Dubai as a "Settlement Hub"**

In Dubai, the hawala services operate locally and transnationally in parallel with official remittance channels, including UAE-based money exchange dealers like Al Fardan Exchange – Abu Dhabi

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<sup>10</sup> The Reserve Bank of India has acknowledged that hundis primarily function (1) as remittance instruments (to transfer funds from one place to another); (2) as credit instruments (to borrow money [IOUs]); (3) for trade transactions (as bills of exchange). For historical recorded collections of hundis in India, see the official site of the Reserve Bank of India.

<sup>11</sup> See Table 3 for better comparative illustration between hawala and Western Union exchange rates.

<sup>12</sup> While diverse groups of migrants, including high-skilled/income Pakistanis and investors, utilize the hawala, we specifically focus on low-income Pakistani migrants to reflect both the relevance and implications on migrants utilizing the hawala services.

(1981), Al Ansari Exchange LLC – Abu Dhabi (1981) and global-based money exchange dealers like Western Union. In 2014, the UAE Central Bank reported 140 licensed moneychangers with 835 total branches in the UAE.<sup>13</sup> Of the 835-licensed money exchange branches, 57% are located in Dubai, 26% are in Abu Dhabi, and 17% are in Sharjah and the remaining emirate locations. While the UAE Central Bank officially records and publishes licensed money exchange dealers, there is no publicly published data reflecting registered or unregistered hawala companies in the UAE. Furthermore, the UAE Central Bank has requested that the hawala agents voluntarily register in order to become comparable with the official financial market. Unlike official money exchange dealers, many hawala services have no official public offices or locations. In fact, the hawala services often informally operate in the UAE without any established legal licenses from the UAE Central Bank; they largely facilitate financial transactions for all migrants below either the official money changers (i.e. Western Union's) processing fees or at no cost at all. In fact, most hawala offices are not independently established with legal offices in Dubai; rather, they are tied to official business shops (i.e. clothing stores, food or fruit vendors, and other small shops), operating as a secondary yet highly profitable businesses for hawalandar agents in the commercial market. As Jost and Sandhur (2000) acknowledge, "These systems are often referred to as 'underground banking'; this term is not always correct, as they often operate in the open with complete legitimacy, and these services are often heavily and effectively advertised." At the same time, they further explicate the historical role and uniqueness of the hawala systems, noting that:

The hawala is an alternative or parallel remittance system. It exists and operates outside of, or parallel to 'traditional' banking or financial channels. It was developed in India, before the introduction of western banking practices, and is currently a major remittance system used around the world. It is but one of several such systems; another well-known example is the 'chop', 'chit' or 'flying money' system indigenous to China, and also, used around the world.

Jost and Sandhur (2000) highlight the strategic importance of the hawala for Pakistani and Indian investors and migrants living and working in Dubai or in the GCC region at large:

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<sup>13</sup> See UAE Central Bank (2017)'s website.



The first is the large population of expatriate workers from India and Pakistan; they use the hawala to send money home. The second is Dubai's large gold market, which is the source of much of the gold sent (licitly and illicitly) to India and Pakistan. Dubai, unlike many other South Asian nations, allows essentially unregulated financial dealings. Because of this, many South Asian businessmen maintain offices in Dubai, and money is often wired there to circumvent regulations elsewhere. In addition, Dubai offers a neutral meeting place for Indian and Pakistani businessmen, as tension between these countries makes travel between them difficult if not impossible.

While there is no recorded data showing the total number of remittance accounts used in the hawala systems in Dubai, other empirical studies suggest that the hawala services facilitate high remittance volumes in the developing world.<sup>14</sup> The high number of Pakistani migrants living in the UAE and other GCC countries, in conjunction with the large South Asian migrant populations in the GCC/Middle East, suggest that the usage rate of the hawala services for remittance transfer purposes for their families, friends or other institutional services in Pakistan is both large and generally unrecorded during the past several decades. Thus, the development potential of unrecorded remittances through the hawala systems has been understudied and omitted in migration literature and discourse at large.

### ***The Hawala's Structure, Process, and Costs***

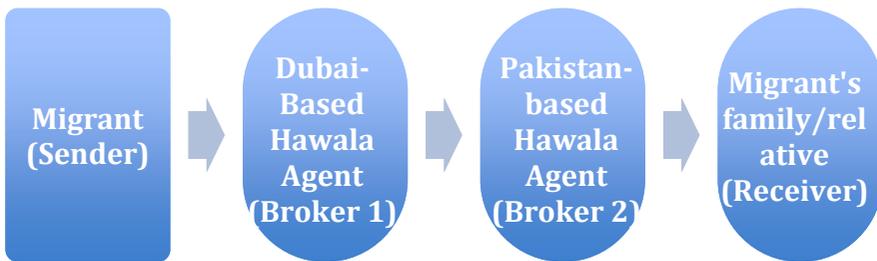
Unlike the official money exchange services, the hawala system operates in a basic transactional model. To understand the basic structure of the hawala, Figure 3 maps the transactional process of the actors, processes, and procedures for remitting money from Dubai to any village or city in Pakistan. In the context of an unregistered hawala service provider in Dubai, a migrant (sender) first visits a hawalander (money transfer agent 1) to send money and provides two basic pieces of information: the names of the remittance receiver and corresponding contact information (often mobile number) in the recipient country. Despite their lack of public presence (i.e. billboards, signs in public), most low-income Pakistani migrants in Dubai often find

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<sup>14</sup> In Bangladesh, government reports suggest that at least 20% of remittance channels sent to Bangladesh were transferred via illegal hawala agents.

the hawala service providers within their local communities, operating in small shops - clothing, tea, and electronics - within the local market. The Pakistani owner and his associates, who also regularly work as employees within the company, govern all these particular hawala shops. Pakistani migrants normally find out about the locations of these unregistered hawala services through their friends/family members, word of mouth, or advertisements in their local language in ethnic press (Passas, 2006). Despite the known risks (i.e. bogus/fake transactions, sabotaging) associated with unregistered hawalas, many Pakistani migrants still continue to utilize the hawala services due to their shared ethnic and village/state background, language, and family networks (i.e. Ballard, 2005; Passas, 2006). The field study suggests that the financial risks are increasing if the amount is high because the hawala users often hold no power to complain at local police or bank stations due to the hawalas' unauthorized status or presence in the commercial markets. Thus, the sustainability of these unregistered hawala services is not only reinforced by the continuing segmentation and migration inflows of Pakistani migrants within destination countries, but also largely influenced by a set of complex sociocultural factors that shape their transactional trust with local hawala operators in Dubai.

**Figure 3.** Mapping the Hawala Transfer from Dubai to Pakistan



In addition, once the hawala money transfer agent 1 verifies the collected information provided by the migrant (sender) and contacts his Pakistani-based partner-money transfer agent (money transfer agent 2) through his mobile phones and other social media applications, including but not limited to Wassap, Duo, Skype, Facebook depending on the internet availability, in the village or city, he then meticulously provides all the recipient's transaction information for recording and confirmation purposes in his large notebook.<sup>15</sup> It is vital to note that both the money transfer agents 1

<sup>15</sup> During the fieldwork, we noticed that the hawala agents do not use complex computerized database systems (i.e. MS excel) in recording the hawala transactions.



and 2 are commercial partners, holding substantial cash flows at different Pakistani banks that enable them to strategically “wire” capital funds without physically moving them. Specifically, both the hawala agency owners effectively utilize multiple agents in different regions of Pakistan – either city or village level—to facilitate “easy” or “convenient” transactions for Dubai or GCC-based migrant workers. The “transactional trust” embedded in their complex local, national, and global operations – although some risks are available—is influenced by extensive commercial partnerships or relations, which makes the hawala equally competitive and parallel to the official banking sectors in Pakistan. As Passas (2006:50) acknowledges,

In the case of Pakistan, for example, the payment instructions may be sent to counterparts in various locations (i.e. Islamabad, Peshawar, Lahore, Mirpur etc.) or in Karachi, from where arrangements are made for deliver throughout the country. Karachi is the center for Pakistan hawala for settlement purposes, but current exchange companies there may also undertake to arrange for delivery of funds—the big Karachi companies have their own networks of agents and sub-agents through whom the deliveries can be arranged.

The village, city, and national level controls of Dubai-based hawalas are deeply complex and powerful for Pakistan’s economy. In fact, some Dubai or Gulf-based hawalas not only monopolize – either on a regional or village level—the remittance industry but also play a powerful role in impacting the country’s financial sector.

Finally, once the Dubai-based money transfer agents 1 and 2 verify and confirm the financial transaction, the migrant’s (extended) family (receiver) can easily obtain the remittances in village or city locations, even without providing any documentation processes (i.e. location information, reasons for remitting etc.). The ability to locate unregistered hawala services is crucial because it not only enables Gulf and Pakistan-based hawala providers to capitalize on the migration trends in these villages or regions, but also recreates a “parallel foreign exchange market” that is conducive to the market needs of Pakistan migrant workers. Therefore, while the process of sending remittances through unregistered hawalas appears to be

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Instead, the hawala agent uses a simple blue notebook, where he records all the daily hawala transactions from Pakistani migrant workers.

fundamentally simple, the complex structure and politics governing its local and global operations reflect the globalizing feature of migration in the context of the financial sector in Pakistan and beyond.

### ***Reasons for Widespread Use of the Hawala Services in Dubai***

In the context of low-income, low-skilled Pakistani migrants in Dubai, the hawala system is the preferred remittance channel because of its publicly-known cost-effectiveness, efficiency, reliability, lack of bureaucracy, and lack of paper trail or documentation processes (Jost and Sandhu, 2000). These particular reasons not only determine low-income Pakistani migrant choices, but also reflect broader socioeconomic background, educational attainment, and access to technological and modern banking system within villages. These political economy ecosystems often directly shape the Pakistani blue-collar workforce's decisions and logic in the Dubai labor market.

### ***Cost Effectiveness***

The Hawala's cost-effectiveness compels Pakistani migrants, particularly blue-collar workforce, to seek a hawala service agent in Dubai. Unlike official remittance channels like Western Union, the hawala service providers do not charge Pakistani migrant workers for the transaction or processing, while, in contrast, Western Union imposes AED 25 or USD \$6.81 transaction or processing fee.<sup>16</sup> At least 90% of the study participants did not pay any transaction fees to the hawala service provider, while the other remaining participants paid between USD \$2.72 and USD \$3.5 per transaction to another hawala service in Dubai. In fact, the hawala service provider does not capitalize from the transaction / processing fees, and instead earns profits by playing the Dubai-based foreign exchange markets. To put this into broader national and regional contexts, Table 2 below highlights the World Bank's study on calculating the remittance prices worldwide, indicating the remittance prices of transferring money from GCC countries to Pakistan.<sup>17</sup> At a \$200 remittance level, the GCC-based money exchange dealers charge on average \$6.56, imposing an average surcharge of about 3% per remittance transaction. In particular, UAE charges the lowest rate at 1.83% in the GCC relative to Oman at 3.79% per transaction, which constitutes an average of 3.08% of the total remittance cost.<sup>18</sup> In contrast, at a \$500

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<sup>16</sup> Pakistani migrants often do not view the hawala as an illegal remittance channel; instead, they view it as a cost-saving institutional strategy to increase their remitting power for their families in Pakistan.

<sup>17</sup> See World Bank's Remittance Prices Worldwide (2015)'s website.

<sup>18</sup> Oman charges the highest remittance cost in the amount of \$7.4, followed by Qatar \$7.34, Saudi Arabia \$7.13, and Kuwait \$6.2. United Arab Emirates and Bahrain,



remittance level, the GCC money exchange dealers impose an average transaction fee of \$9.80 per transaction, representing 1.63% of the total remittance cost. The UAE's money exchange dealers charge the lowest remittance fee: \$4.32 per transaction. While the UAE in particular has already surpassed the Sustainable Development Goals (SDGs) target to reduce fees "to less than three percent the transaction costs of migrant remittances by 2030" the hawala rates are still significantly more competitive than official money exchange dealers in Dubai. Given such discrepancies in remittance costs, government policymakers and bankers struggle to eliminate the presence of the hawala financial markets in the host country market.<sup>19</sup>

**Table 2.** Remittance Prices from GCC Countries to Pakistan (Q1- 2017)

GCC Country	Total Number of Money Transfers	\$200		\$500	
		Average Remittance Cost (\$)	Average %	Average Remittance Cost (\$)	Average %
S Arabia	9	7.13	3.56	11.80	2.37
UAE	17	5.89	2.94	4.32	0.86
Kuwait	8	6.20	1.83	5.25	1.07
Qatar	9	7.34	3.66	10.72	2.14
Oman	6	7.4	3.79	9.80	2.0
Bahrain	7	5.41	2.72	6.63	1.32
Total Average		6.56	3.08	8.09	1.63

Source: World Bank (2017)

Unlike official remittance channels, the hawala system charges no transactional fees to Pakistani migrant workers.<sup>20</sup> The hawala agent capitalizes on current foreign exchange rates by offering more competitive rates relative to official remittance channels like Western Union. Table 3 highlights the costs of comparative services offered by a selected hawala agent and a Western Union company in Dubai. Applying Ali's experience, Ali chose to utilize the hawala on August 2017 because it offered a much more favorable exchange rate; the

however, charge the lowest remittance fees, \$5.69, \$5.41 in the UAE and Bahrain, respectively.

<sup>19</sup> Saudi Arabia imposes the highest remittance fee in the amount of \$11.80, representing 0.86% and 2.37% respectively. Qatar also imposes a remittance fee of \$10.72, followed by Oman \$9.80, Bahrain \$6.63, and Kuwait \$5.25.

<sup>20</sup> In some cases, some of the hawala agents charge a minimal amount to migrant Pakistani workers in Dubai as part of the processing fee. For example, Akbar Khan, 45, a Pakistani driver in Dubai said he uses the hawala because it only costs Dh10 to send money, compared to Dh25 in other money exchanges.

hawala charged AED 1 = 28.6 Pakistani Rupees rather than the Western Union's exchange rate of AED 1 = 28.22. The added processing fee of AED 25 per transaction imposed by the Western Union service also prompted Ali to resort to using a hawala agent, who charges no processing fee. Ali acknowledges,

Most Pakistanis like me choose the hawala because we get better rates than the Western Union or other local money exchange or transfer dealers. The difference looks small but in reality, it has a huge effect on us, especially low-income migrant laborers.

**Table 3.** Exchange Rate Services for the Hawala and Western Union

	Hawala	Western Union	Global Exchange Rate
Exchange Amount			
1 AED Dirham	28.6	28.22	28.88
Processing Fee	0	AED 25	-
Documentations	No documentations required. Only the recipient's name and mobile number.	Valid identification card (Emirates or National ID); sender's name and mobile number; recipient's name, mobile number; address	-
Time	Same day	Same day	-

*Source: Western Union and Field notes (2017)*

In fact, the hawala system not only increases low-income Pakistani migrants' capacity to remit higher remittance rate, but also enables him to financially support his family more effectively. Another Pakistani migrant, Saif, sends AED 2,000 monthly to his family in Kyber Paktunkwa, a top migrant-source state in Pakistan, through the hawala system. Given the prevailing exchange rates in Dubai (see Table 3), Saif can send Pakistani Rupees 55,695 (via Western Union, including processing charges of AED 25) compared to PR 57,200 (via the Hawala). However, because Saif can remit PR 1,505 more through the hawala, he has thus decided to send his remittances to a hawala money agent in Dubai. He further highlights, "this looks small but you know, we can use this to buy food stock for one week, or help pay tuition fees for our children in public school." This particular remittance



decision-making logic is not only pervasive among low-income Pakistani migrant workers in the construction and other service-based industries, but also an important economic contribution to improve their families' household consumption needs (i.e. food, clothing).

### **Efficiency**

Similar to the official remittance channels, the hawala system also provides more efficient mechanisms for transferring money to destination locations often within the same minute or within 24 hours. For example, Western Union offers a same-day transaction method, which enables migrants to easily transfer remittances to their families or friends in Pakistan or elsewhere. The hawala system, however, also offers a similar same-day transaction processing time, an advantage, which makes it clearly attractive to use in addition to the free of charge processing fee in place and slightly higher foreign exchange rate value. As Ali acknowledges, "It's all about economics and what is cheaper on your pocket. Also, it only takes few hours to Hawala guy to drop money at my doorstep in Pakistan and bank will take at least three working days to transfer the money."<sup>21</sup>

Apart from the effective transaction processing timeline, the services of the hawalas often make them more competitive than any other global money transfer companies. In fact, modern financial institutions in Pakistan are often not distributed well and are absent in most rural areas, which make the hawala the only available option. In some cases, however, even in areas where modern financial institutions exist, transaction costs are larger than those for the hawala.<sup>22</sup> As Mohammed emphasizes, "In my village, we don't have access to Western Union. They are popular here but not there in our village. We have to go to the city, one hour or more, before we go there and get the money. With the hawala, we just go to our neighboring village, which are a few minutes away from us." The hawala services also enables informal money exchange agents, to an extent, to compete with global money transfer companies, due not only to their accessibility in certain villages, but also its historical traditions within villages. In fact, most Western Union and other international exchange companies are often situated in most cities, which largely place additional transportation costs and time constraints on low-income Pakistani migrants' families. Therefore, the efficiency of the hawala system—stemmed in its fast transfer method

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<sup>21</sup> See Khaishigi (2016).

<sup>22</sup> Some modern financial institutions act as monopolies in some sending-receiving pairs with very high transaction costs.

and strategic locations—often influences migrants' decision to informally remit to Pakistan.

### **Reliability**

The perceived 'reliability' feature of the hawala also plays an important factor for migrants when they choose which method to use when remitting cash to Pakistan. Similar to Western Union's services, Pakistani migrants in Dubai positively view the reliable nature of the hawalas in transferring funds to their families in Pakistan. This positive view has been particularly rooted in the historical relevance of the hawala within commercial contexts in Pakistan and the broader South Asian context. In fact, the hawala is largely based on trust between the hawala service provider and migrant and within the Pakistani communities both in Dubai and in Pakistan. The money transfer agent, who operates the hawala services in Pakistan, has either direct or indirect knowledge of, or connections with, the migrant's family in Dubai. As Saeed highlights, "My father and grandfather used to send us money through that the hawala in Dubai. We built good relationships with them, and they know us and our family. We also know them." Such complex and, in some cases, generational networks have become an important commercial currency in facilitating long distance remittance transactions between Dubai and Pakistan.

In addition to the perceived reliability of the hawala, the hawala system can also function as a short-term loan provider to migrants seeking temporary support. In fact, when some Pakistani migrants in Dubai face salary delays, some hawala agents support migrants by remitting cash transfers to their families in advance in order to address their household financial concerns (i.e. food, electricity bills, etc.). This particular 'humanitarian transaction' is often only possible if the migrant has built long-standing trust and relationships with the hawala agent. As Saeed further adds, "I need to send money every month to my family. When I have salary problems, or I lose my job, I sometimes borrow or ask the agent to send money for me until I get my salary and repay them soon." The reliability of the hawala system, along with its financial loan characteristics, compel migrants to seek informal remittance channels.

### **Lack of Bureaucracy and Documentation Processes**

The lack of bureaucracy associated with the hawala service plays an essential role in migrants' decision to utilize informal remittance channels. In fact, formal systems require some minimum level of education to fill in the required information: they require an exact address and phone numbers, or they may require a bank account in the receiving country and other information. Many migrants lack the



required level of education needed to fill in required information, which makes the hawala system not only an easier alternative but also the only one accessible to them to send money home. As Table 3 above highlights, a hawala agent only requires both the receivers' and senders' name and mobile information in order to fully facilitate the money transfers. In contrast, however, Western Union mandates official and valid identification cards, including Emirates, passport, or driver's license, in order to legitimize the transactions. Because of the limited documentation and bureaucratic processes, Pakistani migrants—particularly low-educated low-income ones—often resort to the hawala system because it enables them to transfer money easily without facing additional administrative barriers. As Mohammed highlights,

When I go to the hawala agent, I just give my mother's or father's name and that's it. If we have problems in spelling or using the correct names (remember, we have long names in Islam), we don't have problems and we don't need to go through the process again unlike in Western Union. You have to sign all papers and wait, in some cases, the next day before you can even get the money. It's tiring. We don't like the long processing.

In addition, and because of the lack of official documentation requirements imposed under the hawala system, undocumented Pakistani migrants can also utilize the hawala as an important remittance channel. Unlike in the Western Union and other Dubai-based money transfer companies, a migrant is not legally permitted to transfer remittances unless he or she has a UAE valid ID. In fact, undocumented Pakistani migrants appear to benefit administratively from the hawala remittance channel and use it as a "viable channel strategy" by transferring remittances to their families without facing direct (through state or police) or indirect (UAE-based money transfer companies) institutional policing in the host country.

### **Regulating the Hawala Systems in Dubai and Pakistan**

#### ***Dubai, UAE as Remitting Site***

As the declining price of oil persists in the UAE and globally, the government has actively attempted to curb the hawala operations (i.e. workshop conferences, educational awareness campaigns) and introduced various economic measures to offset the declining government revenues and uphold strict financial regulations to eliminate any illegal financial transactions or channels in the

commercial market (Wilson, 2002). The UAE is an active member of the Middle East North Africa (MENA) Financial Action Task Force (MENA FATF), a multilateral 19-country membership, which aimed to eliminate money laundering, financial terrorism, and proliferations.<sup>23</sup> The UAE government, for example, has published several public reports, including the 7<sup>th</sup> Follow-Up Report of the UAE (2014) and the UAE's Mutual Evaluation Report: Anti-Money Laundering and Combating Financial Terrorism (2008), which both highlighted the prevailing government achievements and challenges in meeting MENA FATF recommendations. The UAE government has also launched awareness campaigns against the hawala systems in the UAE,<sup>24</sup> yet the UAE Central Bank and its Banking Supervision Department have no legal authority to conduct inspections or enforce the non-compliance of hawaladars with its requirements to submit a voluntary registration process or file Suspicious Transaction Reports.<sup>25</sup> According to the UAE's 7<sup>th</sup> Follow-Up Report (2008), the critical challenge is that "money transferors only make voluntary registration, and lack of an efficient monitoring system," therefore making it difficult to regulate the hawala systems in the UAE.<sup>26</sup>

In addition, the UAE's Federal National Council has also actively facilitated dialogues to implement remittance taxation in order to offset declining government revenues (Malit, Jr. and Naufal, 2016).<sup>27</sup> In fact, low-income Pakistani migrants' economic logic does not contradict the state regulatory framework within the financial sector, but inevitably produces imminent clashes and policing due to their competing economic interests and methods. They, however, have continued to utilize the hawala services to ameliorate their weak socioeconomic conditions. In particular, low income Pakistani migrants utilize the hawala as a method to offset the growing costs of living in the host country, and maximize their remittances to improve their families' welfare. Given the low and stagnating wages in the construction, transport, and other service sectors, combined with the persistent declining price of oil and other taxation measures (i.e. VAT on goods)<sup>28</sup>, the standards and cost of living in Dubai are projected

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<sup>23</sup> See FATF (2017)'s website.

<sup>24</sup> See footnote 17, *ibid*.

<sup>25</sup> See MENA FATF (2008).

<sup>26</sup> See MENA FATF (2015)'s website.

<sup>27</sup> Other GCC countries like Kuwait and Oman have already proposed 5% and 2% remittance taxation on migrant workers' total remittances, a move which could potentially occur in a post-oil GCC era (Malit and Naufal, 2016).

<sup>28</sup> The UAE government is expected to implement the value added tax (VAT) on various goods in country, which are projected to have more serious implications on low-income migrant workers living in the country (see the National, 2017).



to increase, given the predominant state vision to achieve a knowledge-based economy in the long run. Some scholars have framed these government policies, which specifically aim to increase the cost of living (i.e. rental, government fees on medical, visa etc.) as state tools to significantly reduce unskilled labor migrant populations, and capitalize on the outward flow of remittances from migrant populations in the host country (Shah, 2009).

### **Pakistan as a Recipient Site**

In the Pakistani financial market, the hawala is reported to be very common and popular in remote villages and cities, yet it has increasingly faced competitions with locally based money transfer companies (US State Department, 2015).<sup>29</sup> While the government of Dubai has actively attempted to curb the hawala systems, some senior Pakistani government officials, like The Chairman of Pakistan Tehrik-i-Inasaf (PTI), Imran Khan, have publicly encouraged Pakistani migrants to “use hawala/hundi system for transfer of money to Pakistan.”<sup>30</sup> In support of the Dubai government, the Pakistan Business Council, a Pakistani diaspora community, immediately criticized the Pakistani government's attempt to encourage the use of the hawala systems in Dubai, noting that:

We condemn the statement of Imran Khan to encourage overseas Pakistanis to send money in an illegal way. We overseas Pakistanis, especially who have been living in the Gulf region for decades, have always been encouraging our compatriots to send money in a legal way “Pakistan is a poor country and depends on foreign exchange through remittance. This kind of step cannot be encouraged.

Other Pakistani diasporas have criticized the government of Pakistan, noting that publicly supporting the use of the hawala can only heighten and legitimize illicit activities including “money laundering”, generating potential international implications for their economic development. For example, Pakistan-based media reports suggest that the usage of the hawala in Pakistan is also rampant, indicating that Pakistanis send money through illegal means when investing in

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<sup>29</sup> As official alternative channels to the hawala, local money transfer companies in Pakistan, including U Paisa, Easy Paisa, Omni, MobiCash and Time Pay, have increasingly gained popularity in the local financial market. Also see US State Department analysis on the hawala system in Pakistan.

<sup>30</sup> See Dispatch News Desk report.

massive properties or investments in Dubai and other international locations.<sup>31</sup> One media report calculated that USD \$9 billion has been remitted from Pakistan to other countries despite the presence of the Protection of Economic Reforms Act (PERA) of 1992, highlighting the serious effects of the hawala in the Pakistani financial market.<sup>32</sup>

Given the difficulty in eradicating the hawala system, two potential scenarios could be deduced from the current economic development in the GCC region. If oil prices continue to be low in the GCC countries, governments like Saudi Arabia will begin implementing remittance taxation on migrant workers to increase government revenue and spending, which are critical for the government welfare state in the region. This change, however, will force migrant workers -specifically, low-income migrants- to increase their usage of the hawala system due to the potential high costs of other remittance transaction methods. Such conditions will both incentivize more hawala transactions and evolve into a more informal and personalized hawala in order to avoid financial policing and monitoring from the state.

On the other hand, if the price of oil and the cost of remittance fees become stable, then migrants will very likely maintain their usage of the hawala system because it offers better exchange ranges, thus enabling them to increase the total remittance amount they send to their families in their countries of origin.

## Conclusion

The Gulf-based hawala services are a vital remittance channel utilized largely by migrant populations—particularly from Pakistan and other South Asian countries—to increase their remittance power and reduce severe poverty in their countries of origin. While the recent literature about the hawalas has largely scrutinized them because they have been associated with terrorism and other criminal activities, the hawalas also have the transformative potential capacity to act as a poverty reduction tool to increase the economic impact of migrant workers' remittance earnings, as well as their long-term household consumption (i.e. food) and investment power in the origin countries. Although national, bilateral, and multilateral state collaborations (including the Financial Action Task Force or FATF)<sup>33</sup> have been developed to combat the complex presence and core functions of the hawala, it is logical to assume that Dubai or Gulf-based low-income migrants will continue to optimize the potential

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<sup>31</sup> See Rana (2017).

<sup>32</sup> Ibid.

<sup>33</sup> See the Financial Action Task Force on Money Laundering (2017).



remittance contributions of the hawalas into their families' socioeconomic conditions in the long term, given its competitive services vis a vis official international money transfer companies.

The ongoing social, economic, and political transformations in Dubai and other Gulf countries could also play a role in influencing government's restrictive policies towards the hawalas in the long run. With the current economic decline in oil prices, the UAE and other GCC governments may impose remittance taxation to eliminate their financial burdens and shift to a co-partnership model with migrant workers addressing their governments' budget deficits. It is logical to assume that if the UAE and other GCC governments officially impose remittance taxation on all migrant populations, low-income migrants will likely resort to the hawala services or other informal remittance channels to avoid taxation or other related costs. If they, however, tax migrant populations, who are earning, for example, AED 10,000 (\$2,725) or above, then low-income migrant workers may face no negative effects from the government policy, while those targeted migrant populations may be encouraged to utilize hawala-type services or channels to avoid government taxation policies. If the government passes taxation regulation on remittances, the hawala systems will likely grow and expand into the informal, underground economy and increase economic costs on migrant labor populations' remittance transactions in the host country.

The hawala system is an important international agenda for governments, financial institutions, and other international organizations due to the propensity of the unregulated financial world to legitimize money laundering, terrorist financing, or other illegal financial transactions. Therefore, more empirical investigations and analysis are needed to examine the hawala systems across the GCC and other international migrant destinations and to examine migrants' remittance rationale and behavior, along with the social, economic, and legal factors that influence migrants to consider the hawala services rather than official financial institutions in the global economy. This particular recommendation requires both a national, bilateral, or multilateral coordination and a genuine political commitment to understand migrants' logical reasoning for accessing the hawala services in the global financial economy.

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