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Evolution and dynamics of informal money transfer systems in the Lake Chad Basin

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Summary

The informal financial network system (hawala) used in the Lake Chad Basin, which operates outside conventional banking regulations, is susceptible to illicit financial flows and is increasingly exploited by terrorists. By analysing its operational structure and intersections with criminal networks, and regulators' enforcement challenges, this study fills a critical knowledge gap in financial crime research. It proposes policy recommendations to strengthen financial regulation and prevent exploitation by organised criminals.

Key points

- Informal money transfer in the Lake Chad Basin is enabled and driven by cross-border trading and socio-cultural linkages; insecurity; poor technological penetration; limited bank presence; stringent economic and financial policies; and remittance flow.
- The absence of know-your-customer protocols in informal money transfer systems creates substantial inherent risks and facilitates illicit financial activities.
- Boko Haram terrorists use hawala to transfer funds to smugglers in Nigeria for logistical operations such as fuel trafficking.
- The gradual integration of hawala to digital communication, fintech platforms, and formal financial systems signals the possibility for reform, as the adoption of technology is making the system easier for operators and customers.
- The challenges in regulating and monitoring hawala include gaps in legal and institutional frameworks, financial intelligence constraints, and the balance between financial inclusion and security concerns.

Introduction

Informal money transfer systems are a significant yet under-researched financial lifeline in the Lake Chad Basin, where weak formal banking infrastructure, ongoing conflicts, displacement, and cross-border kinship ties have led to a reliance on unregulated financial networks.

These systems bolster local economies and social safety nets. But they also introduce regulatory issues regarding transparency, illicit finance, and counter-terrorism. In northeastern Nigeria, Niger, Chad, and Cameroon, these systems operate under the radar of state regulation, facilitating remittances, trade settlements, and even humanitarian aid flows in marginalised and insecure regions. Their descriptions vary across contexts – but are often described as cash couriers, mobile-based exchanges, baadal, and hawala.¹

The Financial Action Task Force (FATF) defines hawala and other similar alternative transfer methods as systems that arrange for the transfer and receipt of funds or equivalent value and settle through trade, cash and net settlement over an extended period.² The hawala (Arabic for “transfer”) system involves the aggregation and cancellation of debts by designated, trusted intermediaries – a much safer arrangement than carrying hard cash over long distances.³ What distinguishes these alternative transfer systems from other money transfer services is that their method of settlement usually occurs outside the traditional banking system.⁴

Historical accounts by observers note that hawala developed more than a century ago when immigrant South Asian communities in East Africa and Southeast Asia used it as a means of settling accounts. Others say the system dates back to Arabic traders who established hawala as a means of avoiding caravan robbery.⁵

The hawala system is primarily used in regions with restricted access to formal banking facilities. This observation has been empirically verified by several institutions including the International Monetary Fund (IMF).

Hawala operates on a trust-based model, negating the need for the physical transfer of funds

Celebrated for its efficiency and simplicity, hawala operates on a trust-based model, negating the need for the physical transfer of funds. It relies on a network of hawaladars (agents or brokers) who accept money in one location and instruct a corresponding hawaladar in another to release an equivalent amount to the intended beneficiary.⁶ This system is extensively employed for remittances, particularly by migrant workers wanting to send money to their home countries without using traditional banks or wire transfer services.⁷

The system operates within a framework characterised by the considerable expenses associated with conventional international money transfers, the complementary nature of subregional economies, and the enduring cross-border market dynamics that have developed over centuries.⁸ It reflects the processes of grassroots economic integration and the constraints imposed by global initiatives aimed at combatting terrorism.

The distinct features of hawala include its low costs, rapid transactions, removal of transport expenses, and dependence on personal trust rather than formal contracts, as it generally does away with written documentation.

Nonetheless, due to its operation outside of regulatory oversight, hawala has been associated with money laundering and illicit financing. Many governments and financial regulatory bodies have sought to monitor or regulate hawala transactions, although enforcement remains problematic due to its informal nature. Despite these issues, the hawala system remains an essential financial network for millions in regions with weak financial infrastructure, providing reliable access to financial services in a culturally familiar context.

In the Lake Chad Basin, a region grappling with political instability, weak institutions, and porous borders, the hawala system could potentially facilitate organised crime, including terrorism financing, money laundering, human trafficking, and illicit trade.⁹

In regions with inadequate banking infrastructure, hawala provides an efficient alternative, functioning outside of official financial systems and circumventing anti-money laundering regulations. The decentralised nature of this system poses challenges for authorities attempting to trace transactions or link financial activities to specific criminal operations, thus contributing to ongoing security and governance problems in the Lake Chad Basin.¹⁰

In September 2024, during the security session and forum of police chiefs and security ministers from Central Africa attended by the Institute for Security Studies (ISS), authorities voiced their concerns regarding the increasing use of hawala, particularly in Chad, Cameroon, Republic of the Congo, and Central African Republic, and its threats to security.

This research sheds light on the hawala system in the Lake Chad Basin. The informal financial network operates outside conventional banking regulations, and because it is susceptible to illicit financial flows, it is increasingly exploited by organised crime. As Nikos Passas points out: 'Hawala systems thrive precisely where the state fails to provide trust and financial access.'¹¹

The hawala system is increasingly exploited by organised crime

By analysing its operational structure, intersections with criminal networks, and enforcement challenges faced by regulators, the study fills a critical knowledge gap in financial crime research. It provides evidence-based policy recommendations to strengthen financial regulation, enhance law enforcement capacity, and curb the misuse of hawala for money laundering and terrorism financing.

Targeting policymakers, regulatory agencies, international organisations, academics, and civil society, this study is essential in efforts to disrupt criminal economies, close regulatory blind spots, and improve financial integrity both regionally and globally.

Research objectives

- Identify and examine the operational structure of informal money transfer (hawala) in the Lake Chad Basin.
- Identify and examine the drivers and enablers of hawala in the Lake Chad Basin countries.
- Appraise the integration of hawala to digital communication, fintech platforms and formal financial systems.
- Examine the criminal exploitation of the hawala system.
- Analyse the challenges in regulating and monitoring hawala.
- Propose policy recommendations to strengthen financial regulation and prevent its exploitation by organised crime.

Methodology

This study combines an extensive literature review and field survey with analytical and descriptive discourse. This mixed approach draws from multiple sources for data collection. The literature review undergirds the conceptual explanations and helps to contextualise the analysis within the prevailing policy and academic discourses. The study employs a qualitative research methodology to explore the operational structure of the hawala system in the Lake Chad Basin countries and its intersections with organised crime.

The questionnaire was administered through face-to-face interviews and focus group discussions, with a carefully selected sample population in Cameroon, Chad and Nigeria (see Chart 1). A case study approach was adopted, drawing on key informant interviews (KIIs) and focus group discussions with financial regulators, law enforcement officials, economic analysts and bankers, civil society organisations, academia, patrons of informal money transfer, and key informants familiar with informal financial networks. The research also uses document analysis of policy reports, financial crime assessments, and legal frameworks to contextualise regulatory challenges.

The fieldwork was conducted in Cameroon, Nigeria, and Chad from April to May 2025. The study adopted a purposive sampling strategy to identify respondents directly involved in, or closely connected to, informal money transfer systems. This included money exchangers (Bureau de Change operators), importers and exporters, local business leaders, and individual patrons of informal money transfer services.

Purposive sampling was complemented with snowball referrals, whereby initial respondents introduced authors to additional actors within these networks. This approach was necessary given the sensitivity of the subject matter and the hidden nature of informal financial practices.

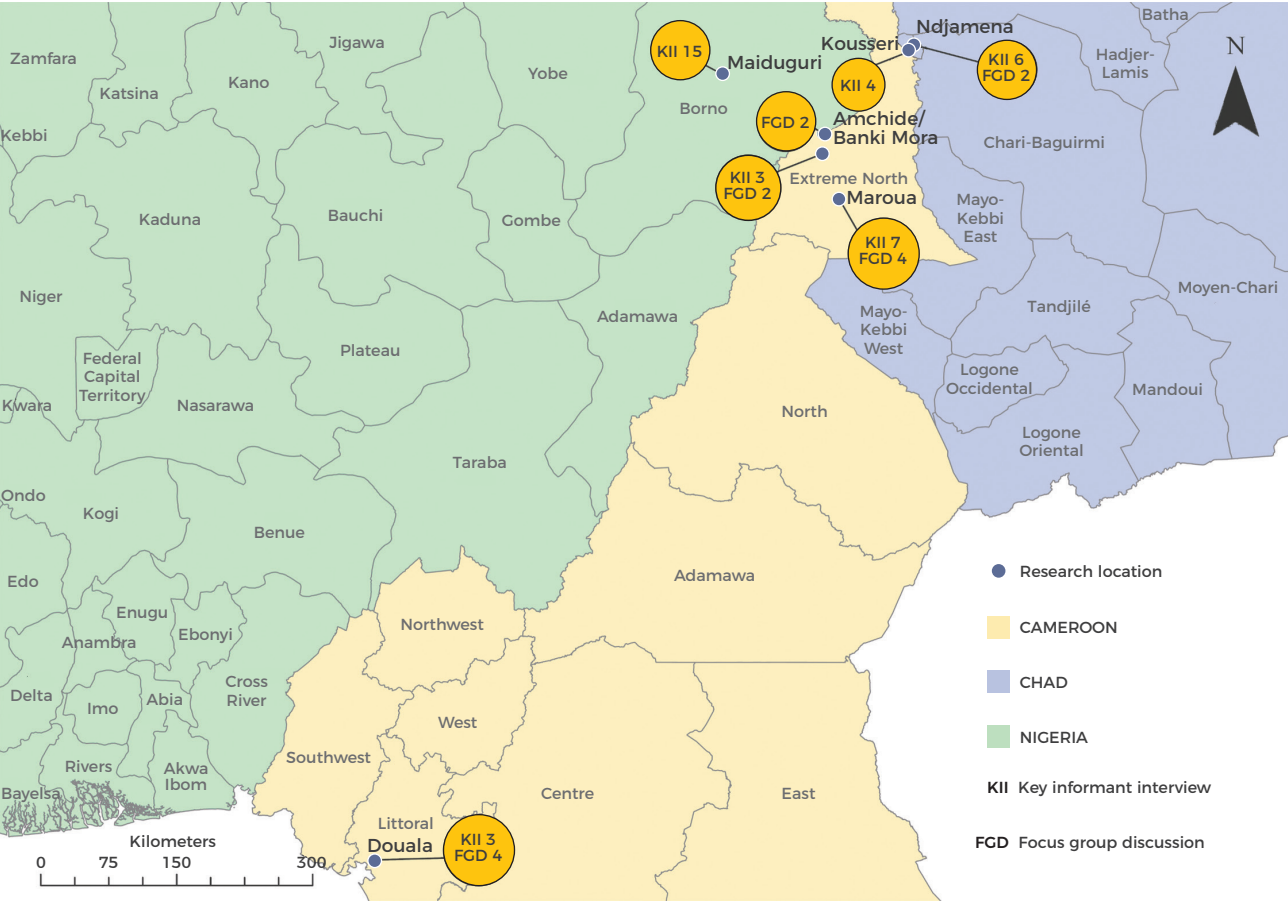
In addition to interviews, the study relied on documentary sources, which provide essential context

In addition to interviews, the study relied on documentary sources such as policy papers, regulatory reports, central bank publications, and international organisation reports (e.g. the FATF, World Bank, IMF, and Intergovernmental Action Group against Money Laundering in West Africa) that address informal financial flows and money laundering in West and Central Africa. These documents provided essential context and triangulation for field data.

For analytical procedures, the study employed qualitative thematic analysis, coding interviews and documents around key themes such as regulatory avoidance, trust-based exchange

mechanisms, cross-border trade linkages, and perceptions of legitimacy. The triangulation of field interviews with documentary evidence ensured both validity and reliability in interpreting the dynamics of informal money transfer systems.

Chart 1: Fieldwork depicted on the contiguous map of Chad, Cameroon and Nigeria



Source: Authors' design through Google Earth software

A thematic analysis was conducted to identify patterns in how hawala facilitates illicit transactions and the enforcement gaps that enable its exploitation. By triangulating multiple data sources, this study ensures a comprehensive and context-sensitive understanding of hawala's role in illicit finance and policy responses. More importantly, triangulation of sources reduces the elements associated with sensitive interviews in crime-prone environments.¹² The subsequent sections focus on the findings of the research.

Operational structure of Lake Chad Basin hawala system

The key actors driving the hawala system in the Lake Chad Basin countries are hawaladars, patrons, non-profit organisations who deliver humanitarian services in conflict zones, transport agencies, and local and international merchants. The process works on a trust-based relationship and crucial communication among a network of operators across various geographical locations. The hawala system is an informal value transfer mechanism that operates independently of traditional banking and financial institutions.

It is essentially structured around two main groups of actors: customers and operators. Customers serve as the senders and receivers of funds. Notably, customers do not need formal bank accounts. The system relies on a network of operators, known as hawaladars, to facilitate local and international money transfers.

It is important to note that the customer is interchangeable, while the operator is a key economic player who is often involved in other activities (currency exchange, trade, etc.). The latter's multifunctionality makes it more difficult to detect suspicious flows. A client initiates a transaction by providing funds to a local hawaladar, who then instructs a counterpart hawaladar in the recipient's location or country (in cross-border transactions) to disburse an equivalent amount to the designated beneficiary. This process is fundamentally based on trust between the hawaladars, rather than on legal contracts or regulated financial frameworks.

The World Bank estimates the average cost of a formal transfer in Sub-Saharan Africa at 8%, compared to 2%–3% via hawala

While there are charges for the service, the hawala system is frequently preferred for its perceived efficiency, simplicity, speed (hours rather than days), and lower transaction costs compared to the more bureaucratic and strongly regulated banking sector. The system's flexibility may or may not include currency exchange, depending on the specific transaction. The World Bank estimates the average cost of a formal transfer in Sub-Saharan Africa at 8%, compared to 2%–3% via hawala.¹³ One operator in Maiduguri in northeast Nigeria noted:

It [hawala] is a way of sending money outside banks. A customer will ask a hawala operator to send money to another country. ... [T]his hawala operator will ask another hawala operator in that country to give money to a receiver. It is basically based on trust. The hawala operators will charge customers for the services rendered. There may or may not be currency exchange. But hawala is very efficient, faster and has lower [charges] compared to the bureaucratic and excessively regulated banks.¹⁴

The process is based on trust and crucial communication between a network of operators across various geographical locations. After receiving funds from a customer, a sending hawaladar communicates with a counterpart in the recipient's country, instructing them to pay the equivalent amount to the receiver in the local currency. The relationship between the hawaladars is essential, as they authorise one another to provide funds when needed.

Occasionally, these operators conduct a reconciliation to settle their accounts, ensuring a continuous flow of transactions. However, settlement between and among agents may also be undertaken through cash courier, net settlement or other mechanisms, without any direct wire transfer between the originator and beneficiary.¹⁵ Therefore, this system operates through a simple yet effective network of communication and trust, connecting the three primary actors: the sending customer, the hawala operators, and the receiving customer.¹⁶ Students, business people and migrants from neighbouring countries are part of hawaladars' growing clientele.¹⁷

When you want to send money to Douala [Cameroon], you contact a hawala operator in N'Djamena [Chad] to whom you give the money. The following minute, your beneficiary in Cameroon will collect the money from the Cameroonian partner of the Chadian operator. Hawala operators consider themselves brokers.¹⁸ If a person wants to send money through hawala, he must go to hawala operators. He must come to us and request that we send money for him to another place within or outside this country. We will collect [a] charge from him for that. After that we will then ask our agent in that country to give that amount. We have many agents. If one is not reachable, we can reach another and make that request.¹⁹

Such examples illustrate the speed of transactions, but also the dependence on trust and community networks. The hawala system is similar to bank clearing models. Operators often apply preferential exchange rates, making their offer competitive.

Informal money transfer mechanisms show the interconnectedness of the Lake Chad Basin region's economies, with manufactured goods being produced in Nigeria, and agricultural products in Cameroon and Chad. Sources say large herds of cattle cross the N'Gueli Bridge between Chad and Cameroon, heading for Nigeria, twice weekly. The proceeds from their sale do not return to Cameroon in cash, but through the hawala system, which is difficult to control.

After selling their livestock in Nigeria, sellers make the proceeds of their sale available to merchants who want to buy manufactured products in Nigeria. Hawala operators serve as intermediaries between these cattle sellers and Cameroonian or Chadian merchants.²⁰ This shows the link between trade and hawala. Hawala also acts as a mechanism for repatriating currency in unbalanced exchanges. Thomas Bierschenk and Jean-Pierre Olivier de Sardan point out that pastoral and merchant circuits in the Sahel use parallel mechanisms 'to balance the invisible monetary flows behind visible trade.'²¹

There are frequent informal money transfers to China. Many Chinese nationals living in Cameroon engage in economic activities there, and use informal money transfer mechanisms to repatriate the profits earned in Cameroon to China. Indians are also involved in informal money transfers, mainly informal currency exchange, and international transfers.

The informal money transfer business is driven largely by youth unemployment, informality and the shadow economy

Indians involved mainly in timber, medicines, air transport (travel agencies), and general trade also work with Chinese nationals. They use informal money transfer mechanisms for their purchases and to repatriate their profits. Many Cameroonian merchants make their purchases in China. They do not travel with cash. They entrust their money to the Chinese in Cameroon, and the latter pay the supplier directly.

Some Cameroonian operators based in China pay in Chinese Yuan, and the merchants deposit the equivalent sum in Cameroon. Merchants receive the money in China in cash, via Alipay, or in a bank account. In return, they pay in cash in Cameroon or deposit the equivalent sum into a bank account. Informal transfers follow the dynamics of international trade.

Payments are settled through traders embedded in these transnational supply chains, particularly connections to or from Asia, mainly China, Dubai, and Turkey.²² Thus the exchange of value is tied to and facilitated by ongoing import-export relationships, rather than through formal financial institutions. The informal money transfer business is unregulated from start to finish. It is driven largely by youth unemployment, informality and the shadow economy. In Maroua, in Cameroon's Far North Region, ISS respondents were predominantly youths, who said informal money transfer was carried out by mainly young people.

It is deeply rooted in the border economy. Faced with hardship, young people seek economic resilience to break the hold of poverty. In Cameroon's border region, those who engage in informal money transfers are sometimes employed by wealthy Nigerian bosses. They make credits in naira available to their Cameroonian partners. The latter 'sell' the naira and make daily deposits into the Cameroonian accounts of their Nigerian

bosses. Every morning the Nigerian bosses indicate to their Cameroonian partners the daily exchange rate.

The operator can then add a small margin (between ₦5 and ₦10) which allows them to make a significant profit with large transfers. At the close of business, the money is deposited into the Nigerian boss's account in Maroua. The Nigerian bosses have Cameroonian identity documents that allow them to open accounts in Cameroon. In the same vein, many Cameroonians who engage in cross-border trade operate Nigerian accounts with commercial banks in the country to aid their business transactions.²³

The illicit procurement of national identity cards for cross-border trading by Nigerians and Cameroonians, while seemingly practical for individuals, is a risk to national security in both countries. Legally, it constitutes identity fraud and is a criminal offence in both states, undermining national sovereignty and the integrity of official documentation. Economically, this practice encourages informal and unregulated trade, allowing smugglers to bypass official customs, taxes, and tariffs.

This not only results in revenue loss for governments, but also complicates the tracking of goods, contributing to the rise of illicit activities and undermining efforts to formalise and regulate cross-border trade. Furthermore, it complicates the implementation of bilateral agreements and security measures, as the movement of individuals is obscured, making it increasingly difficult to address issues such as smuggling, human trafficking, and security threats in border regions.

There are also informal money transfer mechanisms through inland travel agencies in Chad. These agencies replicate the hawala model on a domestic scale. Such practices are reminiscent of India's 'hundi' systems, where road transporters serve as financial intermediaries.²⁴ Bus transport agencies such as Express Sud Voyage carry out informal transfers of funds to the country's interior, notably cities such as Doba, Moundou, and Abéché. These services have been booming since the late 2000s.

Due to the cost of transfer operations via mobile money, people are turning to bus transport agencies to send and receive money. To send a million CFA francs, for example, the fee is 7 000 franc. The mechanism is simple. The person who wants to send money goes to the bus station and chooses a travel agency through which to send it. The sender sometimes does not need to give the name of the beneficiary, especially if the amount is less than 50 000 francs. In this case, the sender gives the beneficiary's phone number and the city.²⁵

The agent assigned to this task at the travel agency keeps a register in which the numbers and/or names, amounts, and intended destinations are recorded. The agent sends his list via WhatsApp to the destination agency. If the internet network

The illicit procurement of national identity cards for cross-border trading is a risk to national security

is problematic, the list of beneficiaries is sent by SMS. The transfer takes at most 10 minutes to complete, from deposit to withdrawal.

At the agencies, there is generally a counter for sending, and another for withdrawal. Users who spoke to ISS researchers during fieldwork and observation at the bus station in N'Djamena said they chose this method for internal fund transfers because of the speed, security, and cost of the operation. No time lost, no hassle, no delay, many noted as they left the station.²⁶

There is also flexibility, because in exceptional circumstances, the agency can send money for free. They can also modulate the 'sending fees' and make downward review. Beneficiaries have up to a year to claim money – this after clients complained about previously shorter time limits, after which the cash was considered 'lost'.²⁷ Tracing delayed transactions is difficult, though, because financial entries are usually manual ink-and-paper records.

Travel agency officials were reluctant to tell researchers about daily transaction volumes. However, in 10 minutes of observation at the counter of one of the transport agencies at the bus station, seven users sent 800 000 francs. Nevertheless, one of the counter clerks interviewed said agencies could send up to 100 million CFA daily. The money does not travel between the cities. Each agency possesses the liquid capital to settle transfers.

There are inter-agency compensation mechanisms. For example, if the amount for transfers from N'Djamena to Moundou is five million CFA, and conversely the agency in Moundou in southern Chad receives only three million CFA at the close of business, the balance is deposited into the bank account of the bus transport agency owner. For huge transfers, money operators in the transport agencies work only with known clients, they noted. For large transfers, the recipient is identified beforehand.²⁸ It is difficult to know the profile of those who send money, but operators in N'Djamena indicated that they were people sending money to relatives in Chad's interior.²⁹

Without verification of the identity of those sending money, systems become vulnerable to exploitation for money laundering and terrorist financing

Generally, from Chad to Cameroon and Nigeria, the absence of know-your-customer protocols in informal money transfer systems creates substantial inherent risks, primarily by facilitating illicit financial activities. These shortcomings lead to a loss of financial sovereignty and expose countries to international sanctions if they do not regulate these channels, particularly through mutual evaluations of Anti-Money Laundering and Countering the Financing of Terrorism systems conducted by regional bodies such as the FATF.

Without verification of the identity or profile of those sending money, these systems become extremely vulnerable to exploitation for money laundering and

terrorist financing. The anonymity and lack of a paper trail in most outlets (with the exception of the transport agents in Chad) provides opportunities for criminals to transfer illicit funds across borders without scrutiny, obscuring the source and destination of the money. This situation not only undermines the countries' financial architecture and security, but also complicates the ability of law enforcement and regulatory agencies to trace and seize criminal proceeds, ultimately posing a threat to both national and international security in the Lake Chad Basin countries. N'Djamena police officials consider this mechanism a threat to state security due to the untraceability of such large volumes of money.³⁰

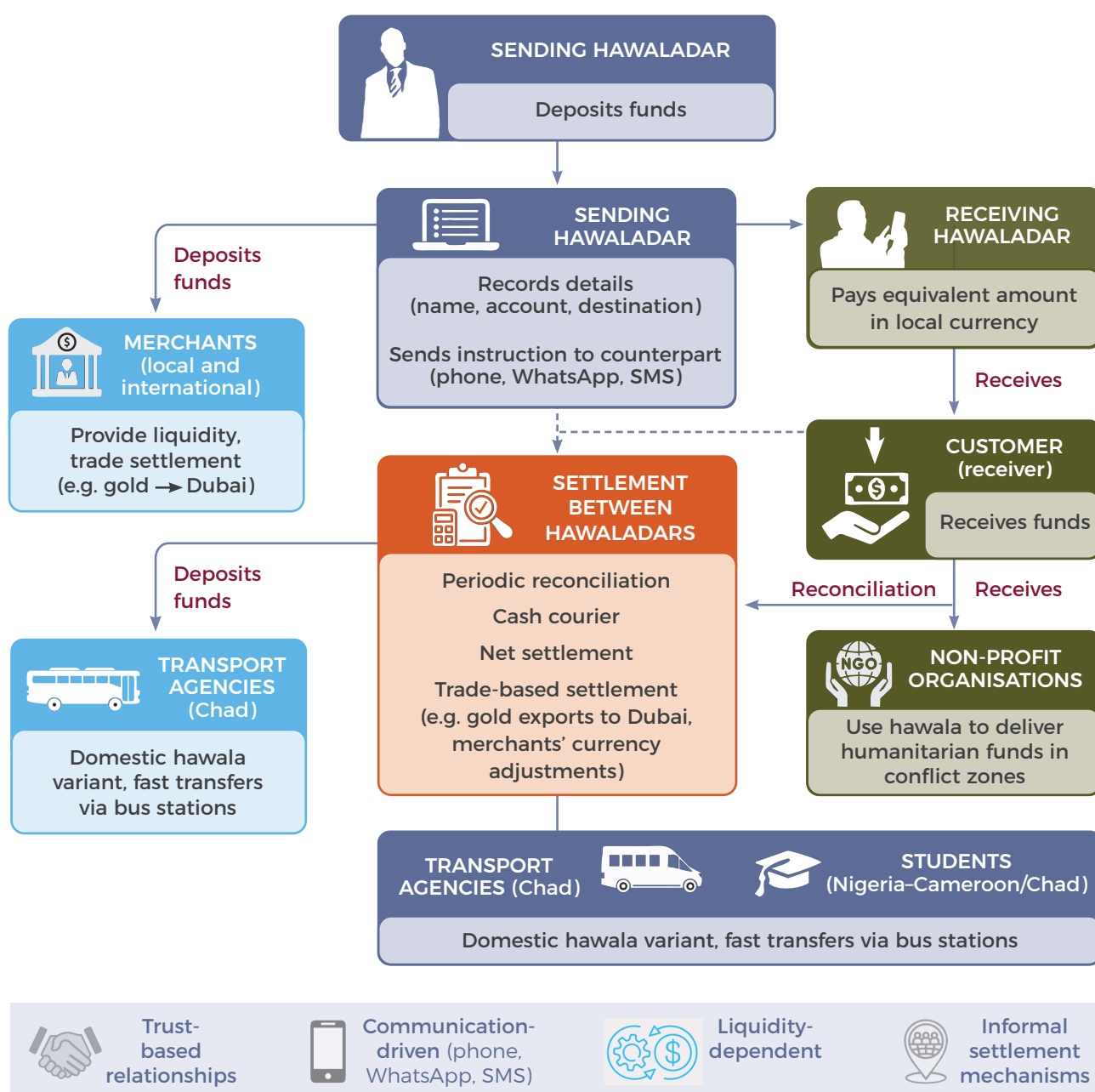
Dubai has recently emerged as the main hub for informal money transfers from and to Cameroon and Chad. Merchants transport Chadian or Cameroonian gold to Dubai, and the currency obtained is not repatriated but is used by merchants in Chad looking for foreign currency. The process is simple: the merchants deposit the equivalent sum into the local account of the gold exporter in Chad, who gives them the sum in gold that allows them to pay their suppliers in Dubai.

In Nigeria, students of Cameroonian or Chadian origin are also facilitators of these informal money transfer mechanisms. Some connect with small-scale exporters and importers and offer Nigerian naira to prospective importers who deposit the CFA equivalent into their bank accounts in Cameroon at a mutually agreed exchange rate as merchants seek to repatriate the proceeds of their sales.³¹

In Chad, informal money transfer mechanisms also concern the Chadian diaspora working in Libya. These migrants use these mechanisms to send money to their relatives. The money is sometimes the proceeds of criminal activities they practise in their host country. This mechanism is also used to send money to Nigeria, China, India, and the United Arab Emirates, or by illegal gold traders to send money to their families in Chad.

There are many Chadians engaged in artisanal mining in Mali, Libya, Algeria, and the Central African Republic. Most of these gold miners are illiterate and resort to informal money transfer mechanisms to send money hassle-free to their home country.³²

Chart 2: Operational structure of the hawala system in the Lake Chad Basin



Source: Authors' elaboration

Hawala drivers, enablers in Lake Chad Basin countries

A mix of reinforcing interconnected factors enable and drive informal money transfer in the Lake Chad Basin region. Their classification is based on their distinct roles in either facilitating or motivating both users and operators of the system. The five factors are: cross-border trading and socio-cultural linkages; insecurity; poor technological and formal banking penetration; bureaucracy, stringent economic and financial policies; and remittance flow.

Cross-border trading, socio-cultural and religious linkages

Dozens of once-unified traditional communities in the Lake Chad Basin were split through colonial partitioning. Virtually all the region's tribal and ethnic formations along the border areas share socio-cultural affinities with counterparts in a neighbouring country. The Kanuri, Shuwa, Fulani and other minority tribes in Nigeria's northeast and their counterparts in Cameroon, Niger and Chad, and the Hausa, Fulani, Djarma, and Tuaregs in northwest Nigeria and their counterparts in Niger, are typical examples of this colonial division.³³

Although colonialism created artificial borders to divide them, their socio-cultural relations remain unyielding, and reinforce cross-border trade flows among these tribes. It is in this context that the hawala system sustains cross-border trading. Hawala's deep roots in Islam also play a role in promoting the system across borders.

Hawala is a very old system. It originated in Arab countries. Even now it is more popular in Arab and Muslim countries. That is why many people think it is part of Islamic culture and civilisation.³⁴ It is deeply connected with our culture. Hawala is a religious system of sending money. It has its roots in Islamic culture. Arab merchants who had commercial relationships with Kanem-Bornu introduced the hawala system here. Since then, people have been using hawala.³⁵

Insecurity, limited bank and telecom penetration

The cross-border Boko Haram insurgency has disrupted the banking systems in Lake Chad Basin countries. It has thus facilitated the growth of hawala as an alternative channel for money transfer, especially between countries. Even people who were previously unaware, or sceptical, of the system, now use it. An informant told ISS: 'Hawala is critical to so many communities [and individuals].'³⁶

It is only in Maiduguri that you can find banks. There is no way for people outside of Maiduguri to use [the] banking system conveniently unless ... they do mobile banking or internet banking. And [most] locations outside of Maiduguri experience poor telecom and internet services due to destruction of infrastructure by Boko Haram terrorists.³⁷ About 80% of local government areas have no operational banks. Banks have closed operations in those locations due to Boko Haram activities. ... So there is [a] problem of banking services in the state. Hawala is not the cause of the problem. It's the insurgency that is causing the problem.³⁸

According to a recent study, banking penetration in Borno is 13%, reflecting weak financial ecosystems in Nigeria's North East.³⁹ Borno State (including the city of Maiduguri) has not had banking services since 2015 due to Boko Haram attacks. Hawala therefore may not be the cause of the banking crisis, but rather the consequence.

Tight financial rules

Bureaucracy and stringent regional economic and financial integration policies have also contributed to informal money transfer in the Lake Chad Basin. For instance, a transfer from Kousséri in Cameroon's Far North Region to Nigeria, just a few kilometres away, must be enabled via the Swift system. This is because Nigeria is not in the Central African Economic and Monetary Community (CEMAC)⁴⁰ region, and cannot benefit from regional banking clearing mechanisms.

The fact that Nigeria does not belong to CEMAC is indeed a constraint, as intra-community clearing mechanisms (via the Bank of Central African States (BEAC)) do not apply. This reinforces the use of parallel systems, and is an adverse consequence of incomplete regional financial integration.⁴¹

So Nigerians who manage significant business interests in Cameroon go there to open bank accounts as non-residents. Many have Cameroonian identity documents that allow them to open bank accounts. The transaction process is cumbersome because the credit transfer initiated in Cameroon must be validated by the commercial bank, and then by BEAC, which validates transfers based on its foreign exchange liquidity.

Banks lose clients because of the complexity of these mechanisms. For an international transfer, the prospective merchant must possess an import declaration. This can be obtained from the Ministry of Commerce in Yaoundé, nearly 1 400 km away from Kousséri. The merchant must have a unique contract, a proforma invoice, and provide their and the foreign supplier's latest tax records. They must provide the relevant government approval if asked for. They must also comply with a know-your-customer requirement, which involves significant paperwork.

Banks lose clients because of the complexity of banking mechanisms

After this first step at the bank, the file is sent to the central bank for review and validation. Once the file is validated, the currency quota must be available to facilitate the international credit transaction.⁴²

These bureaucratic issues extend beyond business operations. The rules are so strict that even university tuition fees are difficult to transfer, creating problems for students. Both merchants and parents therefore resort to informal money transfer mechanisms for international trade and tuition fees.⁴³

In contrast, some local commercial banks in Cameroon embrace flexibility, allowing the proceeds of hawala transactions to be deposited into the accounts of business owners. However, the compliance departments of these banks request the depositors to justify the origin and purpose of the funds. Because of these requirements, a commercial bank manager in Kousséri noted that 'some large clients no longer come to the bank.'⁴⁴ In recent years, money transfer procedures at commercial banks have become more burdensome. An international transfer can take between three and five weeks.⁴⁵

Remittance flow, high transfer costs, rigid regulation, and reduced mobility

There are limited options for people in the diaspora to send remittances to family back home. Some use formal transfer operators like Western Union or MoneyGram. But higher transfer charges and the preference to avoid regulatory scrutiny both in their countries of residence and their home countries lead many to transfer money informally.

The World Bank estimates that 40% to 50% of remittance flows to Central Africa pass through informal systems due to formal services' high costs.⁴⁶ International merchants facing stringent requirements by the central bank in processing international credit transfers also resort to the informal money transfer system. They use their international connections and reach out to diasporans who want to send money home.

For example, someone who wants to send money to their country of origin gives the amount in euros to the merchant in Europe, and the merchant deposits the equivalent amount into a bank account in Cameroon. Sometimes the CFA sum is given directly to a relative of the person providing the euros. This mechanism allows people who live on social welfare in Europe, for example, to send money to their home country while avoiding tax traceability.⁴⁷

This process is similar to the under-invoicing/over-invoicing used in trade (mis-invoicing). 'Informal transfer systems often combine remittances with trade settlement, creating opacity in cross-border financial flows.'⁴⁸

COVID-19 contributed to the rise of the informal money transfer system. During this period when mobility was greatly reduced, only merchants with liquidity in supplier countries could do business. Now these countries are seeing an increase in informal money transfer practices.

When someone wants to transfer foreign currency in either direction, they simply say: 'I have money. What do we do?' The dynamics of supply and demand for foreign currency allow the two parties (supply and demand) to agree on the exchange rate and on the terms of depositing the sums on both sides.

These informal mechanisms are lucrative for operators, who can earn both on the exchange rate and on transfer fees. It has become a main source of income for some former merchants and people with liquidity in Europe. Many participants in this informal economy are incentivised to participate in the informal financial exchange process – as couriers, intermediaries, or facilitators within the transfer chain. When the two parties do not know each other, the money is handed over at the same time, in Cameroon and in the foreign country.⁴⁹

The system allows money laundering because it enables the transfer and conversion of funds across borders without passing through regulated financial institutions. Since the parties involved in each location may not know each other personally, and transactions are often undocumented or based on trust, illicit proceeds can be obscured and integrated into the legitimate economy with minimal traceability or oversight from authorities.

Integration of hawala to digital communication, fintech platforms, formal financial systems

While hawala is rooted in the primitive bartering system,⁵⁰ it has evolved through technology, with the integration of mobile money and other digital platforms. Operators say technology has made the system easier and more convenient for customers. 'Digital technologies improve the system greatly. Hawala agents can now transfer money between themselves using mobile money. Reconciliation is now easier. Confirmation of payment is also faster using WhatsApp.'⁵¹

Respondents listed various technological platforms being integrated into the informal money transfer system, but mobile money has emerged as the most ubiquitous, and could displace hawala over time.

Mobile money has improved financial inclusion, making the hawala system more effective and efficient

Before the advent of mobile money and other fintech platforms, reconciliation of financial statements among hawaladars was usually done over a certain period of time – weekly or monthly. Money would sometimes be transferred physically across the borders. With a more digital system, agents can make a call at the end of the day to reconcile receipt and payments (inflow and outflow), and balance payment through mobile money or bank transfers.⁵²

Mobile money has improved financial inclusion, making the hawala system more effective and efficient. With digital wallets and other mobile money platforms, hawala agents can easily transfer money to other operators during

reconciliation.⁵³ A broker in Maiduguri said: 'Mobile money has eased the transaction. Hawala operators now send money between themselves using [point of sale] or using mobile apps. We use both tools for our financial transactions.'⁵⁴

Another agent noted that 'settlements are now done without long delays. Sometimes it can be done in less than 24 hours after the receiver [has] collected the money. But it can also take longer ... especially if there is intermittent network connection.'⁵⁵

This is the intersection of hawala and banking systems ... Mobile money and platforms like OPay, Moniepoint, PalmPay and the rest have integrated [the] hawala system with [the] banking system in some measure. Operators use those platforms so much and it has increased the effectiveness and efficiency of [the] hawala system to a great extent.⁵⁶

Technology and fintech platforms are revolutionising the hawala system. For instance, in recent years, the hawala system has faced obstacles in places like Amchidé (Cameroon) and Banki (Nigeria), and northeastern Nigeria, largely due to the rise of mobile money and other digital banking solutions. This change is propelled

by the accessibility of cellphones and the internet, leading many to transition from informal hawala transactions to formal banking.

Some operators said: 'New technologies have slowed down our activities here in Amchidé-Banki. Before, everything was done by fixed transfer, but today, mobile banking applications from Nigeria are used to make deposits and withdrawals. We no longer profit enough.'⁵⁷

While issues such as insecurity and the disruption of telecommunications infrastructure by terrorist groups have delayed this transition,⁵⁸ they have also ironically driven individuals towards more formalised financial channels. This shift away from traditional, unregulated hawala systems offers an opportunity to enhance the monitoring and regulation of financial transactions, potentially reducing illicit activities and fostering a more secure financial environment.

Criminal exploitation of hawala

Researchers' question of criminal exploitation of the hawala system elicited mixed responses from hawaladars in particular. An exporter in Douala told ISS: 'The main vulnerability of this system is that operators are not aware of the indirect risks associated with their activities. They are only concerned with their immediate interests. The link between these informal money transfer mechanisms and criminal activities is obvious.'⁵⁹ While some respondents claimed ignorance of such incidents during transactions, most had experienced criminal infiltration by scammers and terrorists.

Informants told researchers that the hawala system was being exploited by terrorist organisations, including Boko Haram, to facilitate their illegal activities. In particular, Boko Haram operatives in Niger and Chad used hawala to transfer funds to smugglers in Nigeria, who then supplied them with fuel. The system's reliance on trust-based networks and its lack of formal oversight makes it particularly vulnerable to misuse. Additionally, the fact that operators often integrate hawala with other businesses, such as Bureau de Change, and are identified through personal referrals, further complicates the tracking of these transactions.

Boko Harm operatives in Niger and Chad used hawala to transfer funds to smugglers in Nigeria who then supplied them with fuel

This anonymity allows for the transfer of funds not only for fuel trafficking, but also other goods, like weapons, highlighting a weakness in the system that poses a serious threat to local, national, and regional security. Moreover, different sources among hawala operators suggest that foreign sponsors may be using similar hawala networks to finance these terrorist groups.

Boko Haram terrorists in Niger and Chad use [the] hawala system to send money to Nigeria in order to buy fuel from fuel smugglers. This is true. Since it's confirmed that they use the system for fuel smuggling, they might have also used the system for arms trafficking and other illicit activities connected to their operations.⁶⁰ I have heard that some people from outside of the country, those sponsoring Boko Haram, are sending money to them through this hawala. They have their own hawala operators, not us here. We are basically Bureau de Change operators, we only integrate currency exchange with [the] hawala system.⁶¹

On the hawala system's vulnerability to criminal exploitation, research participants across the region noted: 'We cannot eradicate that completely. Criminals have been misusing even banks with all the technologies in the banking system and with all the laws enforcement agencies monitoring it.'

It is therefore not surprising that the hawala system is sometimes misused for criminal activities. This, they noted, could be attributed to the fact that the system was not regulated in any strict sense, and could be vulnerable to [criminal] exploitation. 'Hawala customers enjoy too much anonymity. Their identities are not established. Money transferred via the hawala system is not tracked and followed. Operators too are mostly unknown except for those [who] patronise the system.'

Money from the proceeds of Boko Haram's looting was recycled through the hawala system

Therefore, Boko Haram terrorists, drug dealers, smugglers, and other criminals have been using the system to move funds across the region, a Bureau de Change operator told ISS.⁶² Terrorism financing is the greatest risk, and many believe insurgents use it for that purpose.⁶³

Terrorist acts need funding, and Chadian authorities confirmed that terrorist groups operating in the Lake Chad Basin used the hawala system to transfer funds. When terrorist leaders were arrested in Chad, the operator said, the hawala mechanism was apparently used to buy vehicles in Douala from commercial car dealers. Money from the proceeds of Boko Haram's looting was recycled through this system.

Looting usually involves livestock from herdsmen in the rural areas controlled by Boko Haram.⁶⁴ Following the June 2015 attacks in Chad, the authorities sensitised travel agencies about the possibility of diverting informal fund transfer mechanisms to finance terrorism.⁶⁵ This shows how the Chadian authorities' counter-terrorism approach extended beyond traditional military responses to include measures targeting the financing networks that supported Boko Haram. Following the June 2015 attacks in N'Djamena, the government identified that informal money transfer systems commonly used in cross-border mobility and trade could be exploited by terrorist cells to move funds undetected. Hence the need for the sensitisation.

Chad's police authorities recommended using transfer registers in bus transport agencies that also dealt with informal money transfers. When the amount was high, the national identity card of the sender and, on withdrawal, the beneficiary, had to be requested. These measures are similar to minimum Anti-Money Laundering and Countering the Financing of Terrorism requirements (know-your-customer) – demonstrating the attempt to adapt locally to FATF standards. 'States have attempted to impose partial [know-your-customer] in informal remittance sectors, with limited compliance.'⁶⁶

The police services noted that many Boko Haram members had opened shops selling the Quran and were receiving significant sums through informal money transfer mechanisms. These informal transfers deprive the state of hundreds of billions in tax revenue. Moreover, it is hard for the state to know the origin of the money, what are proceeds from drug sales, or what is terrorism funding.⁶⁷

There is also the risk of fraud. One operator told of a cross-border incident between Chad and Nigeria,⁶⁸ in which transfer was initiated in Nigeria, and the recipient was based in Chad. The woman in Chad was swindled by her cousin, who looks similar to her, and with whom she shares a house. The customer told her cousin that she had received confirmation that the money she was expecting had been credited.

The cousin impersonated the genuine recipient, presented herself to the agent in Chad, and collected the money. When the genuine beneficiary approached the hawaladar in Chad,

she was told that she had already collected the money. An investigation revealed that the money had been given to an impostor. The broker noted that 'it was a huge amount of money for some payments [related] to a property bought in Chad.'⁶⁹

The informal money transfer system is also used by the Chadian diaspora who have gone to work in Libya. Migrants use these mechanisms to send money to their relatives. This money is sometimes the result of criminal activities practised in their host countries, and is thus laundered. This mechanism is also used to send money to Nigeria, China, India, and the United Arab Emirates. It's used by illegal gold miners to send money to their families in Chad. There are many Chadians engaged in artisanal mining in Mali, Libya, Algeria, and the Central African Republic. Most are illiterate and use these hassle-free informal money transfer mechanisms to send money to their countries.⁷⁰

Weak governance, corruption and informal money transfer

The informality of the hawala system makes it prone to corruption (criminal capture) in many ways. One hawala user in Maiduguri noted that corruption played a strategic role in enabling the criminal misuse of the system.

[The] hawala system has not been formalised. It needs to be formalised and regulated in accordance with established laws and guidelines before you talk about corruption. I think corruption means violation of laws for some material gains. Where are such laws concerning [the] hawala system?⁷¹

This observation illustrates the regulatory vacuum. In the CEMAC region, there is no specific community legislation on hawala; only general regulations on currency exchange and transfers apply. A merchant who frequently uses hawaladar to import dates from Niger noted:

I am not ruling out [the] possibility [of corruption]. But it will be very rare among hawala operators. Hawala operators have high moral and ethical standards. And they do peer monitoring in order to identify bad elements among them. When they identify bad elements among them they will prohibit them from doing hawala [operations] in future. They are doing that because they don't want to destroy their reputation of trustworthiness and integrity because that will send customers away from them.'⁷²

This implies that while corruption is a possibility, it is rare among hawala operators due to a strong system of self-regulation and peer monitoring. The operators enforce high moral and ethical standards within their community to protect their reputation of trustworthiness and integrity. This self-policing mechanism is driven by a core business incentive: maintaining customer confidence is essential for their continued operation, and they actively expel members who could tarnish this reputation.

Self-regulation is based on reputation, but offers no external guarantees. Trust and peer monitoring are strong in informal value transfer systems, but they are not foolproof. Criminal infiltration occurs despite these mechanisms.⁷³ One hawaladar said:

There might be corruption among our people. Some of us might have been compromised [or bribed] by criminals in order to misuse the system. ... That's why security personnel are now monitoring what is going on here, usually in covert ways. Law enforcement agencies have collaborated with our association ... to monitor the system and fish out bad elements among us.⁷⁴ Criminals sometimes connive with operators and move funds through [the] hawala system. Hawala is sometimes a machinery with which criminals of different sorts move money around since they cannot do that through [the] formal banking system.⁷⁵

In Cameroon, merchants using hawala revealed a different dimension on how corruption was entrenched in the system. Before merchants used informal money transfer so widely, as mentioned previously in this report, they used fund transfer operators like Western Union or MoneyGram. They could transfer up to €10 000 daily by using several senders. This became difficult – by 11am, these money transfer agencies had already reached the daily quota allocated to them by the central bank. With Western Union, merchants could use multiple people to send money and bypass the limits set by these companies. Now the daily

quotas imposed by the central bank do not allow for the same transfer volumes, hence the use of informal money transfer mechanisms.⁷⁶

Merchants actively leverage their networks within the diaspora community to encourage the use of informal money transfer systems, and the diaspora uses these systems to avoid questions from tax authorities in their host countries when sending money home.⁷⁷ Furthermore, merchants want to move money to their countries of origin while avoiding stringent regulatory scrutiny or having to justify where the funds come from.

The two parties set an exchange rate based on the urgency of the person making the request. The rate can be low or equal to the official rate if the holder of the foreign currency expresses the need, or, conversely, high if the merchant is in need. This flexibility makes hawala competitive compared to the banking system.

The practice of negotiated rates reflects the commercial and adaptive nature of the system, but it complicates the monitoring of flows for regulators.⁷⁸ When parties agree on the exchange rate, the person with the foreign currency gives the contact information of their relative or partner in Cameroon who will receive the money in XAF. They simply indicate the name, phone number, and attire of the person who will collect the money to their correspondent. The two parties synchronise their operations. Some people provide their account number in Cameroon, and the money is deposited. The merchant can then retrieve the foreign currency in cash abroad.

Authorities find it difficult to distinguish the origin of the money – and whether it's from drug sales or other illicit activities. Also, as mentioned, this deprives the state of tax revenue.⁷⁹

Regulating and monitoring hawala

The challenges in regulating and monitoring the hawala system include gaps in legal and institutional frameworks, law enforcement and financial intelligence unit constraints, and the balance between financial inclusion and security concerns.

Local perceptions of state attempts to regulate or monitor hawala draw mixed reactions. The usual strategy by government is to clamp down on any system perceived to be harmful to the state irrespective of associated advantages. For instance, hawala provides opportunities for financial inclusion, yet it is vulnerable to criminal exploitation. 'If regulations are not properly conceptualised, formulated and implemented, it will kill the system and that will hinder certain businesses and will cause inconvenience to the vulnerable section of the society who live in underserved communities without access to the formal financial institutions.'⁸⁰

There is notable consensus among most users and operators of the informal money transfer system. Considering the immense economic advantages propelled by the hawala system, one informant noted:

There is a need for financial inclusion, but it should not be at the expense of our safety and security. Security should be our number one priority. We have been in this conflict [Boko Haram terrorism] for more than a decade. Any person or system believed to be helping terrorism either by commission or omission should be dealt with. I think hawala operators need to be closely monitored. The system should be regulated in the interest of peace and security of life and property.⁸¹

Another respondent expressed a similar view:

I think it is good to monitor the situation. We know how terrorism and insurgency have affected us socially, economically, physically and psychologically. It is ... terrible. So it is good to prevent and block all ways that terrorists could exploit in order to continue with their terror activities.⁸²

One user of the system emphasised the importance of educating the public:

I don't think people will reject it if they are sufficiently enlightened. But if they are not enlightened, people will oppose it because hawala is very important to them as an alternative to the formal banking system. It is good especially for places where there is no bank or where banking infrastructure is insufficient. I think [the] hawala system should not be scrapped. But it should be

sanitised. It should be regulated like other financial systems. But stopping hawala will destroy [the] economy of those places and will put many people in [positions of hardship], people like students, merchants and many other categories of people.⁸³

While key informants expressed mixed views, the statement below points to years of negligence of the informal money transfer system:

[Hawala] is not regulated. Nobody [has] come here [to] talk about this system. I think you [the researchers] are the first [people who have] come here to collect data specifically on this type of informal money transfer.⁸⁴

The lack of regulatory framework or formal review means the hawala system operates completely outside of the recognised financial sector. It also reveals a lack of both official and scholarly engagement with the system, indicating that it has not been a focus of policy discussions or research until now.

This absence of regulation introduces significant risks, including the potential for abuse in illegal activities such as money laundering and terrorist financing, and hinders authorities' ability to monitor financial transactions and maintain compliance with international standards.

Most informants were concerned that regulations could lead to a total ban of the system. They said this could bode ill for the public – particularly those living in places where banks are not available. It could lead to the obliteration of the operators and loss of livelihoods as they rely on this system as their major source of income, an operator noted.

[Regulation] could send many people out of business if care is not taken. But the benefits are immense too. If you look at what is happening in Borno State, if hawala ... is not well monitored, terrorists could take advantage of the system and move funds ... to finance terrorism. Terrorists are within our midst. Not all of them are in the bush. Some of them live in the city doing one kind of work or the other. We need to be very careful. And those terrorists hide their identities. They could walk up to this office, [and] transact with me without me knowing who they really are.⁸⁵

Many hawala operators and users believe regulating the system is an attempt to ban it and force people to use the formal banking system. Operators feel they could lose their profitable businesses. Customers are concerned as they think regulations would hinder their socioeconomic activities.⁸⁶

Many people prefer [the] hawala system to banks. Hawala is more effective and efficient. That is why it should not be regulated like the banking system. It [would] lose its effectiveness and efficiency. It [would]

Most informants were concerned that regulations could lead to a total ban of the system.

lose those qualities that people choose it for over [the] banking system. Qualities like convenience, speed, efficiency, lower cost, privacy and reliability.⁸⁷

It is therefore important that regulators distinguish between formalisation (registration, reporting) and prohibition. 'Misconceptions among [money or value transfer services] operators about regulation often lead to resistance, unless regulatory goals are clearly communicated.'⁸⁸

Some hawaladars in Nigeria reported that the system was being monitored, and had been put under surveillance because of the inherent risks of criminal exploitation. A hawala agent informant said: 'There are criminal elements within the hawala system, among the operators and among customers.'⁸⁹

This becomes complicated as most operators are not supportive and cooperative regarding the call for regulations, according to the hawala agent. 'Many of us think that government's intention is to halt [the] hawala system entirely and push people to [use the formal] banking system. Government is trying to kill hawala business. That is why many hawala operators don't support any attempt at regulating [the] hawala system.'⁹⁰

Hawaladars and their increasing number of customers worry that 'increased regulations of hawala could decimate operators and send many of them out of business. Increasing [hawala] regulations ... could make the system less profitable for operators and inconvenient for both operators and customers, which can affect [the] socioeconomic activities of the people in the area.'⁹¹

Nevertheless, most hawaladars interviewed claimed ignorance of any known attempt to regulate the system:

I am not aware of any codified law regulating [the] hawala system in particular. Even if there are such laws, most of us are not aware of them. We work by ethics. And ethics are not laws and are not enforceable. We have [an] association that monitors our activities and [makes] redress when things go wrong. But there [are] no government regulations as far as [the] hawala system is concerned to the best of my knowledge. [There is an] absence of laws and policies. I don't think law enforcement agencies can regulate a system that doesn't have clear and known policies on ground.⁹²

There is a dominant perception among operators that the lack of effective regulation, in terms of policy enforcement, licensing, or monitoring, creates opportunities for illicit practices to flourish. One noted:

I don't think there is a hawala operator that is registered and licensed. We all do it without any licence. Some of us integrate hawala with a licensed business like Bureau de Change ... and point of sale (POS) ... as [a] side business. There is no comprehensive register for hawala agents and their addresses and contact numbers. Formalising hawala means registering and licensing hawala operators in accordance with carefully formulated policies and laws. Those policies should prioritise both security and financial inclusion. Not one above another. Increased regulations could be a double-edged sword, therefore government needs to be careful.⁹³

Conclusion

The above analysis shows that informal money transfer has become integral to the local, national and regional economies in the Lake Chad Basin region. While the system offers advantages like speed, lower charges and financial inclusion, the lack of regulation in the sector poses significant threats to national and regional security. At the same time, reforms and regulation to reposition the hawala system for transparency must consider the concerns of users and operators.

Hawala operators worry that increased regulations could result in the system losing its advantages over the modern banking system. Despite this, most hawala operators and users told ISS researchers that the benefits of regulation were indisputable. Formalising hawala would prevent criminal exploitation, and help government collect taxes from operators.⁹⁴ The recommendations below focus on strategies to strengthen financial regulation while preserving legitimate informal finance as posited by hawaladars and customers.

The bottom-up recommendations are pivotal for establishing effective strategies to transform informal money transfer systems, as they provide practical, on-the-ground insights that are often overlooked by

top-down policies. By mainstreaming the perspectives of operators and users in the evidence-gathering and policy-making process, governments can achieve a nuanced understanding of the complexities of the system, identifying, addressing and mitigating vulnerabilities associated with hawala that are being exploited for illicit activities.

Recommendations

As noted by multiple sources, the evolution and utility of the hawala system have both advantages and disadvantages. Most sources however believe that reform is needed. 'Hawala should be sustained,' one said. 'The only [precondition is] that it should be monitored closely by the concerned authority. It should be regulated in order to prevent possible exploitation by criminal elements.'⁹⁵

A starting point would be to address the socioeconomic conditions that enable the system to thrive through the processes of modernisation. More importantly, communities where hawala has been adopted over the years are caught in the protracted Boko Haram insurgency – hence the need to broaden the search for solutions to the insecurity. These must include governments, communities and critical stakeholders such as hawaladars, in order to drive the reforms discussed below through four critical pillars – reform, regulation, awareness and security.

Reform

Efforts must be geared towards financial inclusion, and not an outright ban, of the informal financial system. To start with, states in the region must reform stringent policies that make credit transfer through the formal banking system difficult for local and international merchants.

For example, in Cameroon, the procedure for sending money outside the XAF zone is cumbersome and lengthy. For a credit transfer to be successful, it must be validated by the Bank of Central African States. Documents must be provided before the commercial bank can process the transfer order.

There is also the challenge of a daily transfer limit, which is rarely fitting economically in the case of large-scale business. These factors compel merchants to explore informal money transfer systems, and scupper revenue generation for governments. National and regional governments should be responsible for these reforms.

In the Lake Chad Basin region, Nigeria occupies a strategic position in terms of geography, geopolitics, trade volume and sociological ties with Chad, Cameroon, and Niger. However, the existing formal trading system is ridden with difficulties. For instance, a transfer from Kousséri to Nigeria, just a few kilometres away, must be made via the Swift system. Nigeria is not in the CEMAC zone, and so cannot benefit from the clearing mechanisms between banks in the sub-region.

Authorities such as trade and investment ministries in the four countries could develop a mechanism that promotes ease of doing cross-border business among these countries. An earlier ISS study⁹⁶ notes trade as a crucial factor for recovery and stability in the Lake Chad Basin. The Lake Chad Basin Commission – the only multilateral agency that brings together four countries in West and Central Africa – is well positioned to drive regional integration initiatives to remove these trade barriers, which compel international trade merchants to boycott commercial banks and use informal money transfers.⁹⁷

Lastly, one of the solutions advocated by operators and merchants to limit the unintended effects of informal transfers is to relax banking formalities for international money transfers in Cameroon. The stringent procedures and exorbitant transfer fees that compel prospective customers to use informal money transfer systems can be reformed.⁹⁸

States in the region must reform stringent policies that make credit transfer through the formal banking system difficult

Regulation

The next critical step focuses on regulation. Hawala should be regulated without disrupting the system. While hawaladars expressed concern about the disruption that regulation would bring to the system, there remains an overwhelming consensus that the system can be regulated. On this note the national governments of Nigeria, Chad, and Cameroon can work independently and collectively to regulate the sector. Care must be taken to not jeopardise the system and inconvenience innocent operators and customers.

The starting point is data. Governments can develop a data base for all hawaladars through local authorities. They should be registered with the Prefecture⁹⁹ (Cameroon and Chad) and Local Government (Nigeria). Authorities can validate the records and provide guidelines on entry level requirements, and the processes undergirding the issuance of licences. Local authorities can also work with hawaladars to develop and popularise guidelines for customers who use the system. An interviewee said:

Hawala should be regulated. It should be integrated with effective reporting mechanisms. Hawala operators should be required to be producing regular reports on the conduct and activities of actors involved in hawala system. They should be required to produce regular reports on all transactions carried out by the hawala system.¹⁰⁰ I think what is required of hawala operators is proper documentation and reporting. Keeping records and sharing [those] records with law enforcement agencies will not disrupt [the] hawala system, but will surely help prevent criminals from misusing the system because they know that records are kept and shared with [the] relevant agencies. They know that they are being monitored and watched [and] they know they can be tracked if they do anything wrong.¹⁰¹

Governments can engage the validated hawaladars to identify unscrupulous operators

Basically, the modus operandi guiding operations must include records of customer identities, transactions, and purpose for transactions. While there are many hawala operators who engage in the business of informal money transfer covertly, governments can engage the validated hawaladars to identify unscrupulous operators for proper vetting or punitive measures.¹⁰²

Hawala operators should be formally recognised as obligated entities under national Anti-Money Laundering and

Countering the Financing of Terrorism regulations. This means they would be required to register with regulatory authorities, implement customer due diligence (know-your-customer) measures, maintain proper transaction records, and report suspicious activities similar to banks and licensed money transfer operators.

Criminal elements are within both operators and customers. There is [a] need for us [the hawaladars] to work closely with law enforcement agencies in order to fish out the bad ones among us. Only with our contribution can that be possible. Law enforcement agencies cannot do it alone. It's we the operators that will do the groundwork of watching any suspicious activity within hawala system and then report it to law enforcement agencies promptly. Regulation is ... essential especially if you look at the problem we are in for 16 years or thereabout. If Boko Haram ... increased access to [the] hawala system, insecurity would be worse in the state and region in general.¹⁰³

As noted earlier, the quick reconciliation of hawala transactions via the integration of digital tools like WhatsApp Messenger, bank transfers, and mobile money signifies a transformative change in the operational dynamics of informal money transfer systems. This digital convergence could enhance transparency, traceability, and real-time coordination among agents across borders. These features have historically been missing in the hawala system. As a result, this development presents a unique policy opportunity for reform by connecting the realms of informality and regulatory oversight.

Governments and financial regulators can use this digital footprint to craft smart, low-friction frameworks that formalise elements of hawala without disrupting its accessibility and cultural context, thereby advancing financial inclusion and addressing illicit financial flows.

To balance security and financial inclusion, regulation must be progressive, proportionate, and contextualised, with co-regulation mechanisms involving hawaladar associations. Such mechanisms would mean two-factor oversight by the umbrella body of hawaladar associations and governments' designated authorities overseeing hawaladars in their countries.

Awareness

Alongside regulation, states and their organs could create awareness on the rules and regulations governing the conduct of hawala operations. State authorities must emphasise how the new rules and regulations prioritise public safety, security, and convenience for users and operators of hawala. Relevant regulatory agencies could use existing models utilised by telecommunication industries and mobile money platforms¹⁰⁴ that have disseminated poster and radio jingles even in remote villages and underserved communities.

Community leaders who maintain close relationships with hawala agents should share information on suspicious people and activities in their local communities regarding criminal exploitation of the informal money transfer system.

Informal money transfer operators should be made aware of the problems in the system.

[Hawaladars] should be enlightened. Many of them are not enlightened on the issue. They should also be encouraged to integrate technologies and mobile money platforms in their operations. This will help make the system more effective and can easily be monitored by the regulators.¹⁰⁵ They need ... adequate enlightenment and sensitisation. Hawala operators can sanitise the system themselves if they are adequately enlightened and oriented on all pertinent issues regarding the use of [the] hawala system in this area.¹⁰⁶

Lastly, since users consider hawala to be a vital alternative, especially in areas without banks, awareness campaigns (risks, legal obligations) should be integrated and alternative formal financial services (mobile money, microfinance) should be developed. According to Ceyla Pazarbasioglu et al.: 'Financial inclusion reduces reliance on informal value transfer systems.'¹⁰⁷

Security

The security solution must start with law enforcement. The lack of customer identification is the main loophole exploited by criminals. Introducing simplified know-your-customer practices (ID copies, phone number registration, a handwritten register) is important. Informal money transfer agents must apply a minimum level of customer due diligence, proportionate to the risk. The association can create proportionate know-your-customer protocols (e.g. mandatory identification for transfers above a threshold, such as a million CFA francs).

Again, policymakers must avoid a purely security-based approach. The dual objective is to protect the system from abuse (money laundering, terrorism) while preserving its role in promoting financial inclusion for excluded populations. 'Regulation of money or value transfer services should strike a balance between mitigating risks and enabling financial access.'¹⁰⁸ Furthermore, given the cross-border nature of the insurgency in the Lake Chad Basin region, addressing the drivers and enablers of informal money transfer in the region cannot be treated independently of a broader and sustained security response.

Therefore, governments must collaborate to address the immediate challenge of border porosity. Concerted efforts to recruit, train, and post adequately equipped security personnel at borders could boost surveillance and stem the free flow of arms from country to country. Terrorists rely on such arms to carry out attacks, abduct civilians and heighten insecurity.

Furthermore, national and regional governments must prioritise targeted socioeconomic interventions to ameliorate poverty and lack of opportunities, which affect the youths who are being recruited into terrorist groups. Mass investment in agriculture, infrastructure, education and other avenues to bolster youth employment is vital to solving these problems.

Notes

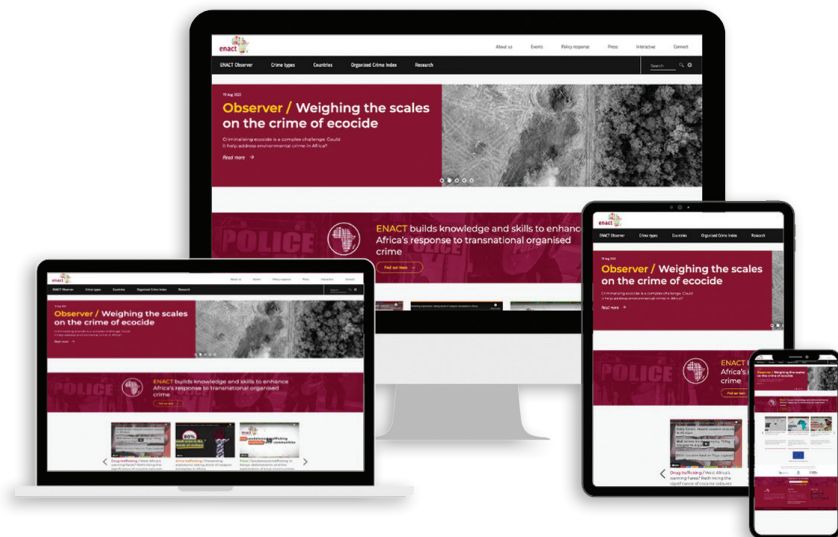
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