



EUROPEAN COMMISSION

DIRECTORATE-GENERAL FOR EUROPEAN CIVIL PROTECTION AND HUMANITARIAN AID
OPERATIONS (ECHO)
General Affairs

Brussels
7 November 2023
ARES(2023)7551866

NOTE TO ECHO PARTNERS IMPLEMENTING HUMANITARIAN AID ACTIONS IN COUNTRIES WHERE THE USE OF MONEY TRANSFER AGENTS IS NEEDED

Subject: Costs of Money Transfer Agents in Humanitarian Actions (DG ECHO)

- **Background: justifying the costs of Money Transfer Agents in Humanitarian Actions**

Where the existing banking services and structures do not work adequately, or do not provide sufficient geographic coverage, humanitarian aid organisations often have no choice but to rely on complementary financial services providers, such as money transfer agents (Hawala/Hundi etc.) to move money into and across the country in the implementation of humanitarian aid actions. DG ECHO Partners with projects in remote areas, or in areas that have become inaccessible (e.g. due to natural disaster), and having no bank branches or ATMs, may likewise need to rely on money transfer agents. The money transfer system is also used by many displaced people to transfer remittances and has the advantage of a capacity to reach efficiently the final recipients, including in remote areas.

Several countries, in which DG ECHO operates, have long-standing traditions (sometimes spanning centuries) of money transfer agent systems, which often operate in parallel to the existing banking system e.g., to service remote and hard-to-reach places. It consists of a wide-spread network used for transferring money between brokers, without any money necessarily moving physically from one place to another. Some money transfer agents are registered with the central banks and hold licences authorising them to perform various financial transactions, others are long-established and operate under nationally accepted conventions and norms. In both cases, they are widely recognised and often operate in parallel and as a complement to the national banking sector.

From a humanitarian point of view, the use of money transfer agents constitutes a key risk-management strategy for households in enduring economic shocks and, in certain operational contexts, is essential in delivering humanitarian aid and basic human needs support. The money transfer system may, therefore, provide an essential service for displaced, unbanked and financially excluded populations and may contribute to mitigate the deepening of a crisis in a country.

- **Conditions for the eligibility of money transfer agents' costs**

Costs incurred for the services of money transfer agents may be eligible in humanitarian aid actions under the General Conditions (Article 6.1 MGA/ Article 18 HACA), provided that certain operational and risk mitigation conditions exist. Based on this, transfer costs

charged by money transfer agents, may be considered eligible costs in terms of the general cost eligibility principles, provided that:

Cost Eligibility Principles

a) use of the services of money transfer agent/s is **operationally necessary and justified** to implement the humanitarian aid Action:

- Operational necessity entails that it is not possible or appropriate to use the banking sector to implement the aid (such as in inaccessible areas or where the regular financial or banking system has collapsed or is unreliable) and that the use of money transfer agents is directly necessary to implement the Action;
- Operational justification entails that after risk mitigation measures are applied, the operational needs/humanitarian imperative of using money transfer agents on balance outweighs the risk;
- The Action Proposal (eSF) must describe the use of money transfer agents and provide an operational justification outlining all risk mitigation efforts (eSF, Chapter 4 – Needs Assessment and Risk Analysis) and the proposed Budget must show the related costs (% rate as well as total proposed amount);
- Where the need for the use of money transfer agents arises during the Action’s implementation, the Partner must submit a Modification Request to provide an operational justification for the use of money transfer agents, outlining all risk mitigation efforts (eSF, Chapter 4 – Needs Assessment and Risk Analysis) and to update the Budget to show the related costs (% rate as well as total proposed amount).

b) the charges of the money transfer agents must **be reasonable, justified and must comply with the principle of sound financial management.**

The transfer costs charged must be reasonable (not excessive or reckless). The fees for using the money transfer agents varies in different areas. DG ECHO considers fees representing up to 5% of a given transaction to be reasonable and hence complying with this principle.

Risk Mitigation and Reporting Requirements

c) the money transfer agent used is a natural or legal person **operating as a financial operator (including money services providers), in accordance with any applicable national law.** For example, the money transfer agent must comply with any applicable national law on incorporation, taxes, labour and social security etc.

d) the ECHO Partner must demonstrate they have in place **clear and adequate systems to mitigate the risks** of diversion of aid, fraud, and, where appropriate, due diligence measures to ensure that the concerned money transfer agents are not subject to EU restrictive measures ⁽¹⁾ or involved in illicit business or trafficking.

e) the ECHO Partner commits to **report on the use of money transfer agents** in every progress and final report, providing:

- (i) a detailed operational justification on the use of money transfer agents (in eSF, Chapter 4 - Needs Assessment and Risk Analysis), and a financial overview of the costs incurred (in Action Budget). This overview should include both the actual fees and the amount transferred to allow monitoring of costs;
- (ii) information about the internal control measures in place to mitigate the risks associated with the use of money transfer agents, such as risk of breach or circumvention of the EU restrictive measures or diversion of funds to entities engaged in illicit activities (such as involvement in a criminal organisation, money laundering or terrorist financing).

⁽¹⁾ An exception may exist where it would be absolutely necessary to use money transfer agents subject to sanctions, for instance under the benefit of the ‘humanitarian carve-out’ introduced by UNSCR 2664 (2022), and where transposed into EU legislation, or where EU legislation provides for such an exception.