



Organization for Security and
Co-operation in Europe



United Nations Security Council
Counter-Terrorism Committee



UNITED NATIONS
Office on Drugs and Crime

Terrorism-Criminal Nexus

Non-banking Conduits

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Presentation

by

Harjit Sandhu

Successfully Targeting Terrorism



1. To deny terrorists the means to commit terrorist acts, e.g. **prevent financing/procurement of weapons etc.**

2. To deny terrorists a safe haven, and ensure they are prosecuted/extradited etc.

3. To overcome vulnerability to terrorism

*To deny terrorists the means to
finance their activities.*




We must know...

**How Terrorists FINANCE
their ACTIVITIES?**

FATF, IN THE YEAR 2001 IDENTIFIED THE FOLLOWING
MAJOR SOURCES OF TERRORIST FUNDING:

- Drug Trafficking
- Extortion and Kidnapping
- Fraud
- Gambling
- Smuggling and trafficking in counterfeit goods
- Direct sponsorship by states
- Contributions and donations
- Sale of publications (legal and illegal)
- Legitimate business activities

Increasing shift towards raising funds through criminality



Once terrorists have generated funds they require to move it to operational levels

How do they move the money to operational levels?

- **Formal banking channels**

- **Non- banking channels:**

 - **Physical smuggling of cash (self / courier)**

 - **NGOs, NPOs and Charity Organizations**

 - **Alternative Remittance Systems**

UBS/ ARS/ IVTS - Different areas different names

CHINESE know it as :

“ hui kuan ” means “to remit sums of money”

“ chiao hui ” means “over-seas remittances “

“ phoe kuan ” refers to “message houses”

“ nging sing kek ” means “money letter shop”

“ fei chien ” means “flying money”

others call it “chop shop”

VIETNAM ----- “hui”

THAILAND ----- “poey kuan”

PHILIPPINES ----- “door- to- door services”

LATIN AMERICA --- “stash house” “casa de cambio”

AFRICA----- “gift services”

South Asia /Indian Sub-continent-- “hawala” or “hundi”

Hawala v/s Hundi

Certain countries use the words inter-changeably, but there are differences between the two.

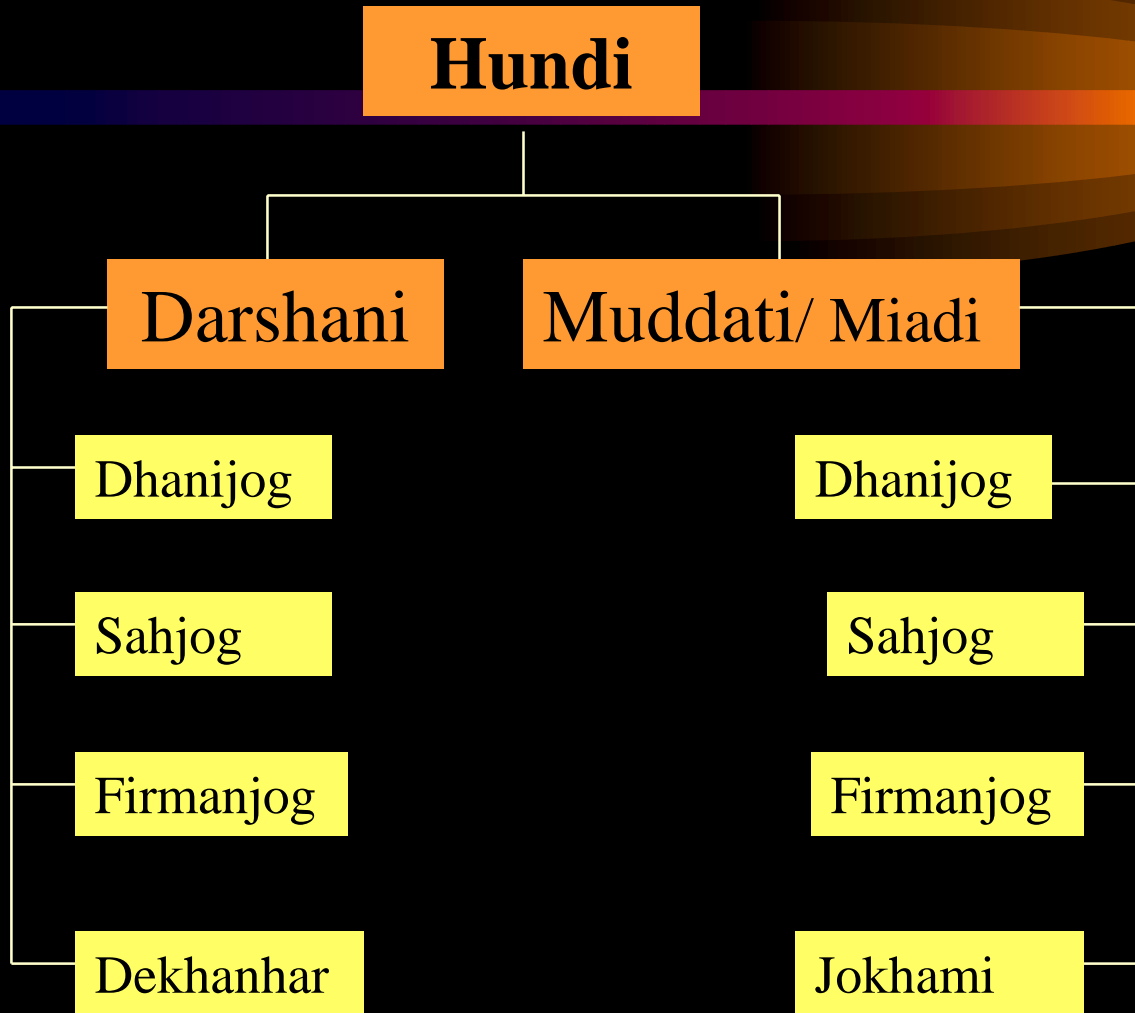
Hawala

- Meaning- trust or reference.
- Historically more recent as compared to Hundi.

Hundi

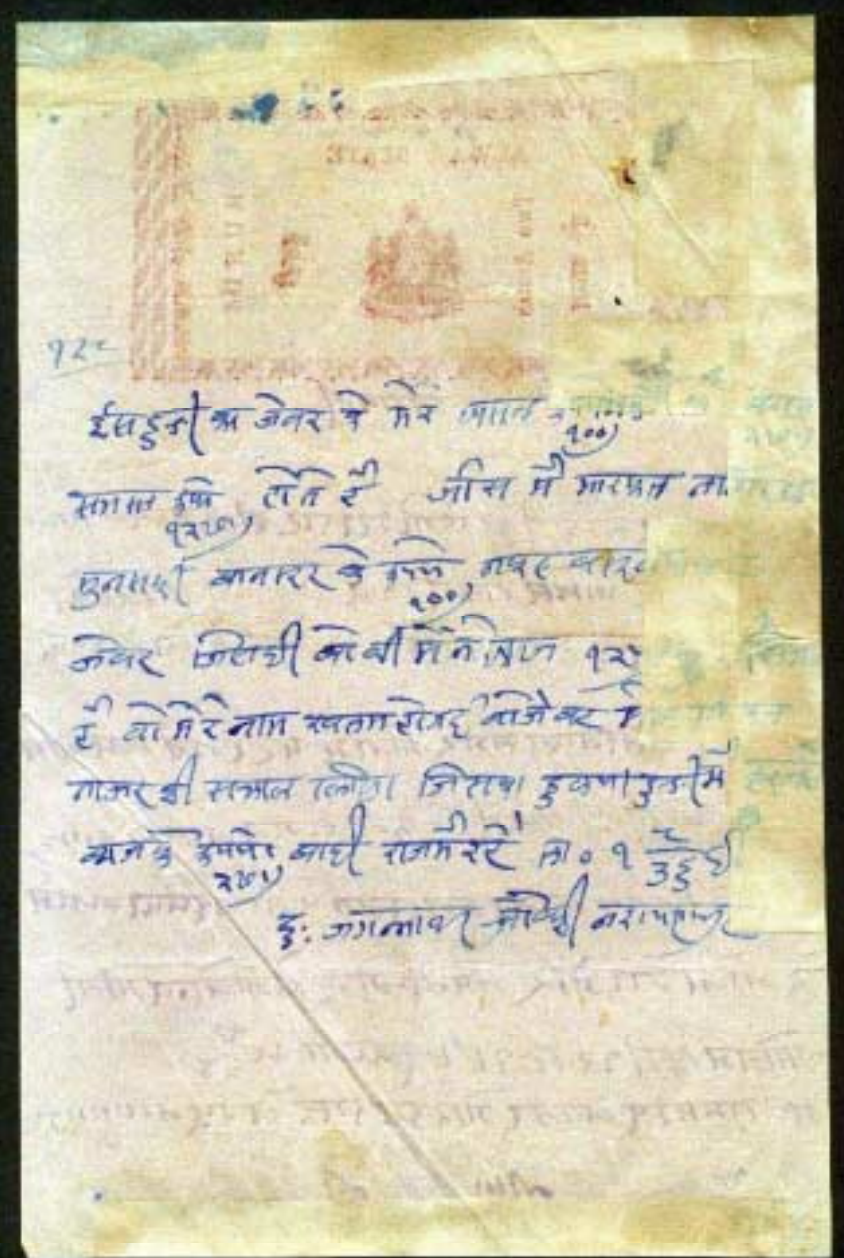
- Meaning- bill of exchange, promissory note
- Existed as early as 5000 B.C.- several legends associated with its usage
- Safety appeared to be the main concern

Types of Hundis



Hundi of Alwar State

Reverse side



Hawala/ Hundi

On one side of the spectrum, it provides useful means for the poor immigrant labour to send money back home;

On the other hand, it is one of the most convenient tools for:

Terrorists


Gun- runners

Drug traffickers

Black-mailers & Fraudsters

Corrupt officials and politicians

for moving and laundering their illicit proceeds



If we are to regulate Hawala type systems, we must understand and address the issues that make ordinary people (non-criminals) use them?

Why ordinary people use ARS/ IVTS?



Socio-economic & political reasons



Higher returns



Anonymity



No available Banking Channels



Illiterate / semi-literate people



Avoidance of local taxes

What is Hawala?

An alternative or parallel remittance system that relies heavily on trust - a “non-bank” means of “money transfer without money movement”

Hawa mein lena-dena (transactions in air)

HAWALA Terminology

“hawala” means “trust”, “reference”, “exchange” etc.

“hundi” means “bill of exchange” or “promissory note”.

The word “hundi” comes from a Sanskrit root meaning
“collect”

“hawaladar” and “hundiwala” are words for “hawala or
hundi broker/banker”

Peti, khokha and tola

Where Did Hawala Come From?

The system probably grew in “South Asia” and with their establishment as traders around the world, the Hawala network has achieved international organisation and status.

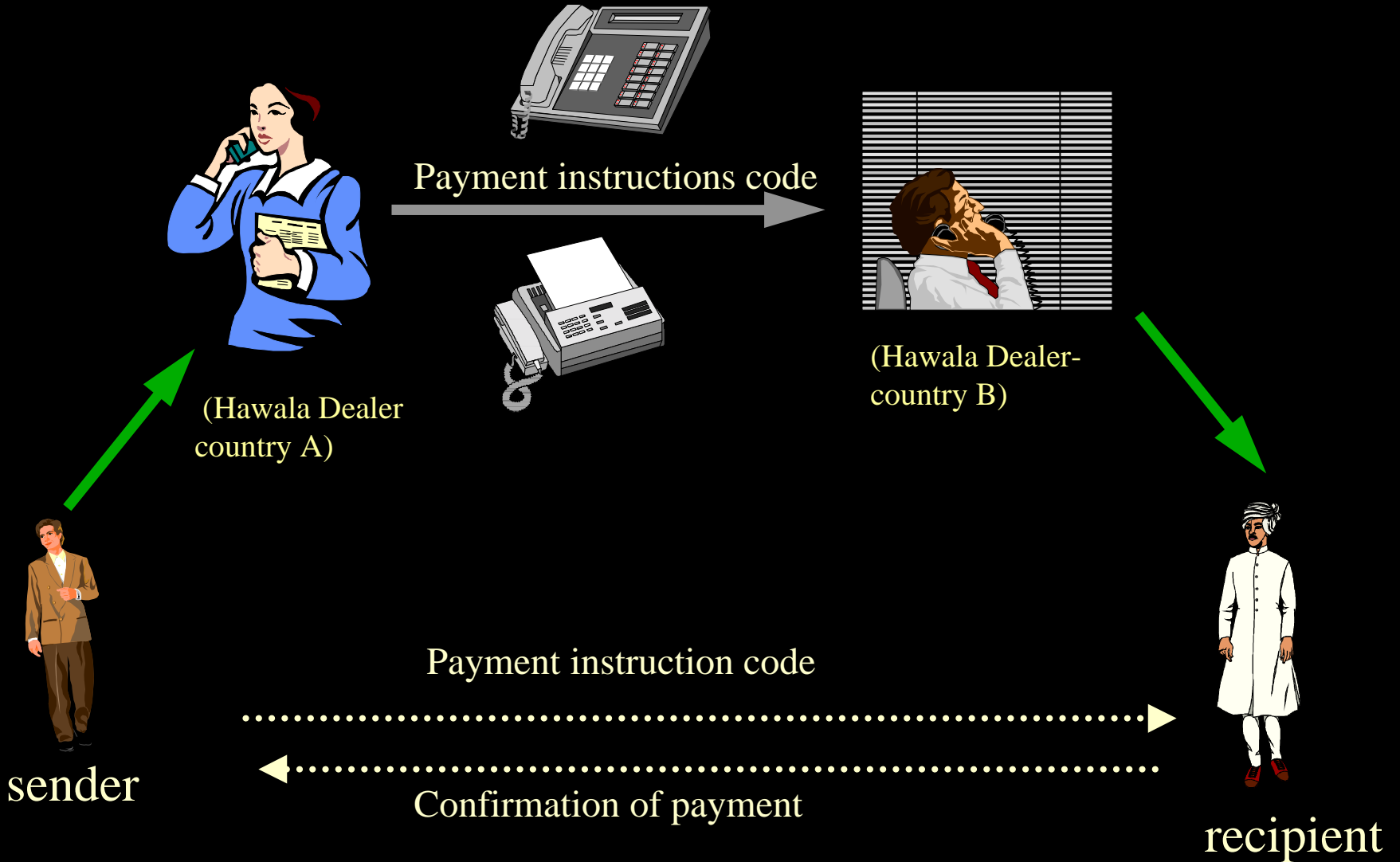
It predates and was never completely replaced by “western” banking

Hawala



- “White Hawala”--hawala where the money comes from a licit source, not generally considered a problem.
- “Black Hawala”--hawala where the money comes from an illicit source, this is almost always a problem!

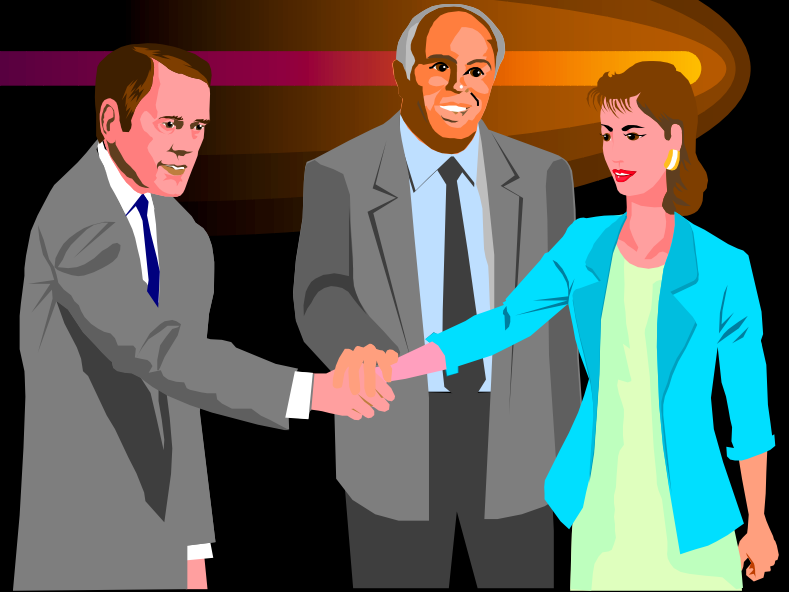
Traditional Hawala Scenario



How Does Hawala Work?



TRUST

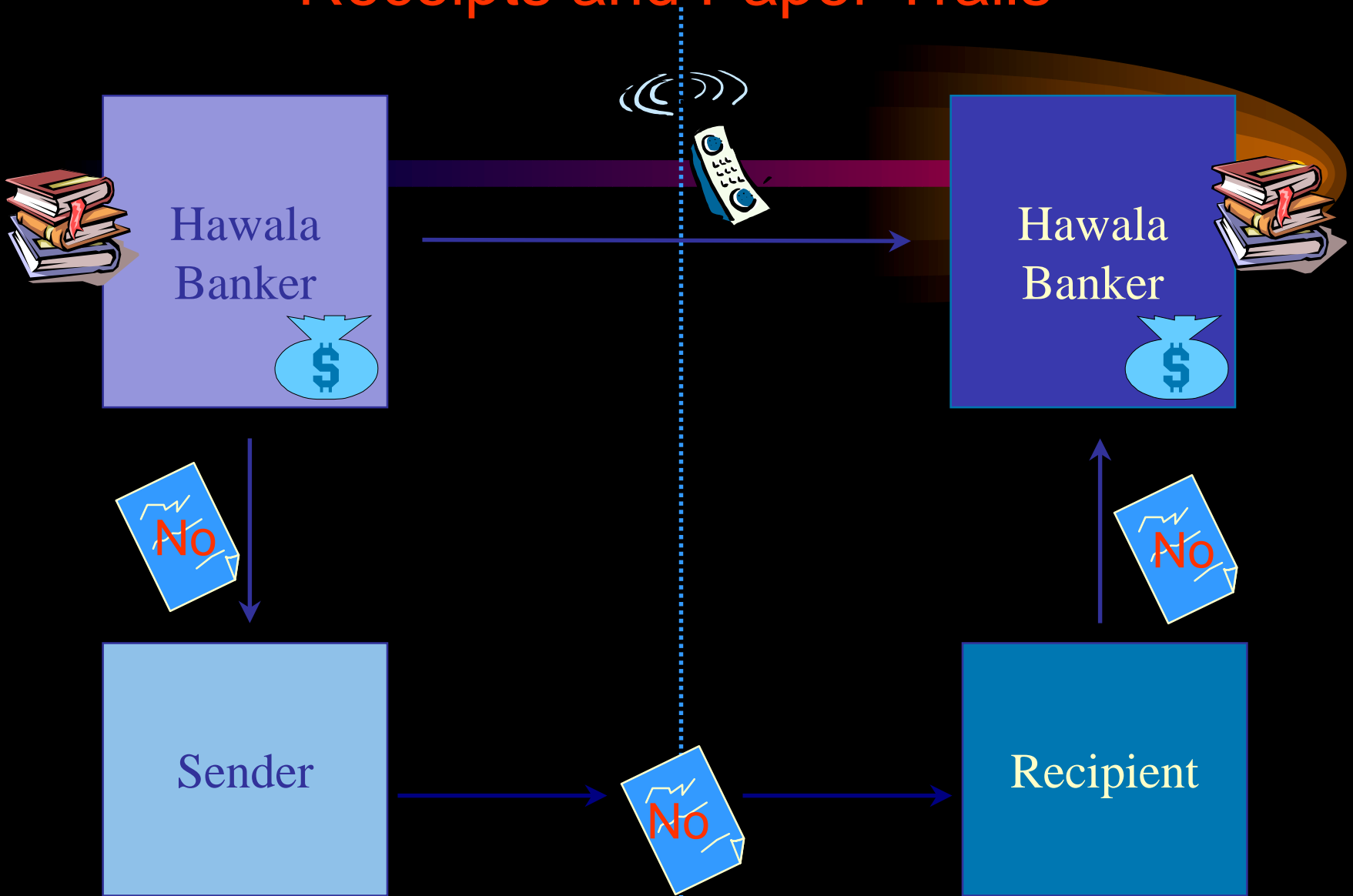


CONTACTS

“Two dishonest persons have to be honest with each other”



Receipts and Paper Trails



Some Known Hawala Cases



Drug Trafficking

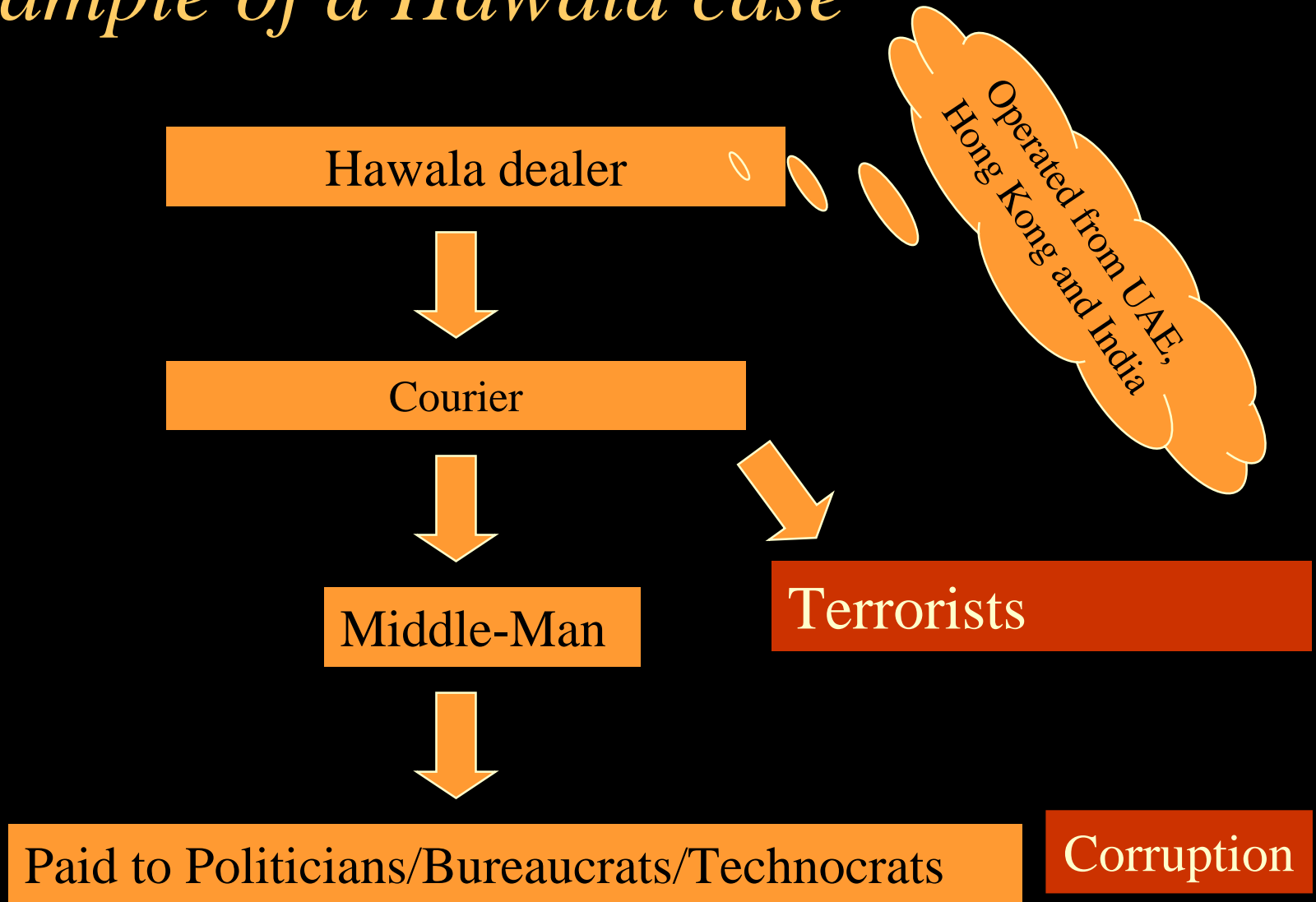
Alien Smuggling/ illegal immigrants


Corruption

Customs and Tax Violations


Terrorism

Example of a Hawala case





Hawala- The Invisible Financing System of Terrorism



*Funding Terrorism through
Hawala comprises only a
miniscule part of the overall
hawala networks*

How much money is moved through Hawala?

- “\$2 billion to \$5 billion moved through Hawala system annually in Pakistan”- Pakistan Finance Minister Shaukat Aziz
- No such estimate for India has been made, but based on discussions and my personal experiences, it could be:
 - Importers- 65%
 - Expatriates-15%
 - Funding terrorism- 5%
 - Exporters- 10 %
 - Travelers- 5%

Why use of hawala for financing of terrorism should be viewed more seriously



- It is not the amount of money involved
- It is the damage it causes to life and dignity of human beings
- Blood diamonds, child soldiers etc.

Terrorism will remain a major transnational problem, driven by:

- Ethnic
- Religious
- Nationalistic
- Separatist
- Political, and
- Economic motivations



*Attacking the Finances of
Terrorism*

Myths about Terrorism Financing- 1

First myth is that terrorism does not need money to terrorize;

- Previously we had to deal with disorganized local entities or State sponsored entities,
- Now a complex confederation of militant bases and financial support networks
- They have been able to build a complex web of political, religious, business and financial instruments or supports

Contd.

Terrorist Attack	Date	Operational Cost
African Embassy Bombings	1998	>\$30,000
USS Cole Bombing	2000	\$5000- \$10,000
September 11, 2001	2001	>\$500,000
Djerba Mosque Bombing	2002	\$20,000
Limburg Bombing	2002	\$127,000
Bali Bombing	2002	\$74,000

Source: Terrorism Financing- Roots and trends of Saudi Terrorism financing-Jean Charles Brisard

Myths about Terrorism Financing- 2

Second myth about Al Qaeda and other terrorist organizations is that they **use offshore facilities** to cover their operations, thus substantially reducing the reach of law enforcement tools and procedures.

- With the exception of al Taqwa Bank and Dar Al Maal Al Islami (DMI) operating from the Bahamas and Switzerland, no such examples have been found

Myths about Terrorism Financing- 3

- **Third myth** is to focus on the Hawala ARS as the main tool for moving terror money
 - Hawala system is basically an “end-user” tool for terrorists on the ground used to transfer money for operational purposes.
 - It has rarely been a primary tool or instrument for moving terror money
 - Some militants have been making extensive use of Hawala to finance their operations. It is also used in isolated localities, such as tribal areas of Afghanistan.

Terrorism Money Trail-Charities and Hawala

Zakat donations (individuals, companies, banks)



Bank transfers



Charities and relief organizations



Local charity & relief offices



Hawala transfers



Terrorist Organization



Local Fraudulent schemes & criminal activities

Zakat and Terrorism

- Zakat continues to be misused by terrorists and al Qaeda in particular.
 - Feesabeelillah (in the way of Allah),
 - Lil-Fuqara (for the poor)
 - Lil-Masakeen (for the needy)

First form of Zakat has raised questions and interpretations among Muslim scholars

What encourages Hawala type systems?

Rigid Foreign Exchange Regulations /
Restrictions,

Blanket policies without diagnosing genuine reasons of shortage of foreign exchange,

Indirectly encouraged by government policies,

Reluctance of governments to recognize legitimate requirements (e.g. education, medical etc.),

Lengthy and uncertain approval procedures.

FATF – 8 Special Recommendations on Terrorist Financing

Recommendation VI concerns Alternative remittance systems

“Each country should take measures to ensure that persons or legal entities, including agents, that provide a service for the transmission of money or value, including transmission through an informal money or value transfer system or network should be licensed or registered and subject to all the FATF recommendations that apply to banks and non-bank financial institutions. Each country should ensure that persons or legal entities that carry out this service illegally are subject to administrative, civil or criminal sanctions.

Some serious misconceptions



Hawala is unique or new,

It is typically associated with violence and corruption,

Mainly used by criminals and terrorists,

No records are kept,

It can or should be shut down,

It can be regulated in the same way as Western institutions

Impediments for Law Enforcement Agencies

Transactions through code words- difficult to decipher

No physical movement of major amounts,

makes recoveries difficult

linking of money or couriers to illegal transactions virtually impossible

Law Enforcement Shortcomings- exploited by operators

Lack of resources

Inadmissibility of evidence etc.

Telephonic Surveillance- not possible /allowed in most cases

Challenges of Regulating Hawala



One example:

- “[Hawala College](#)” Scenario
- What could regulation accomplish?

Summing Up

Hawala is an effective way to move money,
Hawala is an effective way to launder money,
Gold often plays a significant role in hawala transactions,
Hawala transactions are difficult to trace...

Lack of records

Coded records

“Ethnic” connections/networks based on trust

Resistant to CTR and SAR reporting mechanisms

Difficult to get Mutual Legal Assistance due to duality of criminality concept

Need for an Integral Approach



There is a need to take a fresh look at the:

tax laws,


export/import policies,

banking, legal and enforcement systems.

Need to identify and plug the existing loopholes to choke this smooth, efficient and untraceable conduit.

Risk of being accused of
unfair treatment.

Take not a musket to kill
a butterfly.



**We need to anticipate their methods,
not simply respond to what they did in
the past (of course lessons do need to
be learnt from history)**

*Access to financial information is
of key importance*



Enhanced and timely sharing of
relevant and reliable data among
FIUs and law enforcement
authorities



*Intelligence, unlike French Wine,
does not get better with age.*

*Whenever, I have spoken about
this topic, I always get the same
reaction:*

*“My agency fully cooperates with
all agencies- well at least we try-
“it’s the other guy who screws it
up!”*

Criminals know no geographical boundaries nor does their dirty money recognizes any such boundaries;

Why should the Law enforcement stop at the frontiers?

Breaking down the Barriers

Criminals have **no regard for national boundaries** and they take further advantage of:

Differences between legal systems,

Clash of bureaucracies

Over-emphasis on concept of Sovereignty

Incapacity of some nations to work together to overcome their differences

There is need to break down these barriers.

Yeah, that was kind of interesting
but why should I care about it ?



“You go to Friday prayers. You could stand there and say, “Please help”. And people will give you checks, money et cetera”.

-Prince Bandar, Ambassador to the US, PBS Frontline, September 2001.

“If beneficiaries had used assistance for evil acts, that is not our responsibility at all”

-Prince Salman, Governor of the Riyadh Province, November 2002.

Whose responsibility is it??

Thank
you

Harjit Sandhu

E-mail:

atu@osce.org