

CO-OPTING *the* HAWALA SYSTEM FINANCING *of* TERROR

By Tim McDowell, CHS-III

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Abstract

One of the leading challenges in the war against terror has been tackling the financial infrastructure of al-Qaeda and many other groups on the U.S. blacklist. After September 11, 2001, intelligence discovered that hawala (meaning *transfer* in Arabic) contributed a significant amount of financial support to terror groups. Under this informal money-transfer system, funds can be transferred to terror groups without paper trails, accounts, checks, signatures, or automated teller machines. Hawala is faster and cheaper than conventional systems and is able to access places in the world where even post offices have difficulty operating. In order to win the war on terrorism, it is crucial that the United States takes charge of the hawala system.



Efforts by the United States and its allies against formal financial support of terrorist groups offer an opportunity to form a co-op with the informal hawala financiers. Rather than trying to roll-up this system, a more useful endeavor would be to recruit, or *turn*, the responsible individuals and use human intelligence (HUMINT) in the ongoing effort to identify and find unknown terrorists and cells.

The September 11, 2001, terrorist attacks resulted in policymakers, regulators, and law enforcement officials working to disrupt terrorist organizations' financial support networks (Alden, 2002). International terrorist groups such as al-Qaeda maintain complex financial global networks, which they use to raise and launder money (Jenkins,

2002). Using these networks, terrorist organizations are able to raise money from legitimate and illegitimate businesses, charities, and mosques, and to launder money by using both the global financial system and the illicit trade in commodities. The closer the United States looked at banks, the faster the money seemed to shift to non-traditional money movers such as gem dealers, charities, and attorneys, or it moved to other intermediaries. As those entities were brought under stricter controls, the money moved further underground to the informal remittance systems (known as hawala), cash couriers, and commodity-based trading systems (United States Department of State, 2005).

Since September 11, 2001, global informal financial networks, collectively referred to as the informal funds transfer systems (IFT), have received increased attention (Alden, 2002). The IFTs exist outside the modern banking system, but serve a similar purpose: to facilitate the transfer of valued goods and money. These networks have been used to finance terrorist activities in Colombia, India, Kenya, Tanzania, and throughout the Middle East. Evidence also suggests that al-Qaeda used an IFT to provide funds to the terrorists who were responsible for the September

Following hijackers'

The federal indictment of Zacarias Moussaoui gives details about the money flow between al-Qaida leaders and alleged Sept. 11

Month	Event	Amount	From	To
June 2000	Hijackers receive funds	Summer 2000		
July	Sources in the United Arab Emirates (UAE) and Germany transfer funds to Florida bank accounts of suspected hijackers Mohamed Atta and Marwan al-Shehhi			
Aug.	UAE source, Mustafa Ahmed al-Hisawi, allegedly a financial manager for Osama bin Laden			
Sept.	German source, Ramsi Binalshibh, is a Yemeni citizen; officials believe he was to be a hijacker, but failed to			
Oct.	June 29	\$4,790	UAE	to al-Shehhi
	July 19	\$9,985	UAE	to Atta and al-Shehhi
Nov.	July 26	Unknown	Germany	to al-Shehhi
	Aug. 7	\$9,485	UAE	to Atta and al-Shehhi
Dec.	Aug. 30	\$19,985	UAE	to Atta and al-Shehhi
Jan. 2001	Sept. 18	\$69,985	UAE	to Atta and al-Shehhi
	Shared accounts set up	Summer 2001		
Feb.	June 25		al-Hisawi and hijack suspect Fayed Ahmed	open separate accounts at bank in Dubai, UAE
Mar.	July 18		Ahmed	gives al-Hisawi power of attorney for his accounts in UAE
April	Aug. 22		Ahmed	uses credit card to withdraw \$4,900 in cash in Florida; money had been deposited the previous
May	Money flow reverses	Sept. 2001		
June	In days before attack, Waleed M. Alshehri and other suspected hijackers transfer funds back to UAE			
July	Sept. 6	\$8,055	Ahmed	to UAE
Aug.	Sept. 8	\$2,860	Atta	to UAE
	Sept. 8	\$5,000	Atta	to UAE
Sept.	Sept. 9	\$5,000	Alsheri	to UAE
	Day of hijackers' attack	Sept. 11		
	al-Hisawi transfers most of Ahmed's money to his own account, withdraws nearly all the rest			
	About \$40,871 is prepaid to credit card connected to al-Hisawi's account; later withdrawn from account at ATM in			

© 2001 KRT Source: U.S. Justice Dept. Graphic: Chicago

11 attacks (Baldauf, 2002). Although they serve as a powerful tool for terrorist and other illegal activities, IFTs also serve legitimate purposes. In fact, the vast majority of money transferred via IFTs is clean money, not derived from illicit activities or used for criminal purposes (Jenkins, 2002).

Extent of the Hawala System

Hawala agents work in a range of settings—from curbside stalls and modest offices in South Asia to back rooms and secret locations in Europe and North America. The only limits to the size of a transaction are the willingness of the sender to carry cash and the capacity of the receiving agent to cover the transaction; exchanges in the tens of thousands of dollars are frequent (Hayaud-Din, 2003).

Although Pakistan, India, and the Persian Gulf states are home to the largest concentration of hawala organizations, Dubai, in the UAE, handles the largest volume of transac-

tions. The system has global reach, and investigators think hawala organizations exist throughout the United States and Europe.

Given its informal nature, there is no precise measure of the size of the system (Jost & Sandhu, 2002). Pakistani officials estimate that more than \$5 billion in transactions occur through hawala networks every year, making it, in effect, an extremely large foreign exchange clearing house. A third of these transactions reportedly consist of the repatriation of funds from expatriate Pakistanis to their families. Pakistani nationals may hold between \$40 billion and \$60 billion in overseas financial assets—an amount roughly equivalent to the country's gross domestic product (Dixon, 2002).

In the case of India, Interpol places the size of hawala at possibly 40% of the country's gross domestic product. In 1998, the most recent year for which data are available, estimates place the amount of money in the country's hawala system at \$680 billion, roughly the size of Canada's entire economy (Baldauf, 2002).

In summary, the hawala system, especially in South Asia, is extensive, extremely liquid, and is a rational choice for poorer segments of the population. While seeming a bit mysterious to outsiders, the hawala's mechanics and economic structure are actually comparable to most other remittance alternatives, including those that run through licensed channels. The most obvious legal problem with hawala in remitting countries is the lack of any registration or licensing, although the operations themselves are generally harmless. Also, in receiving countries such as India there exists the subtler potential clash between hawala operations and exchange controls, whereby hawala transactions often result in increased black market transactions and expanded underground activity. The fact is, though, that hawala is essentially an economic phenomenon. It would remain so even if there were no terrorist international transfers, drug trade, or money laundering (Vasely, 2002).

Although the great bulk of hawala transactions are as harmless as the remittance example noted above, the system has proved to be extremely useful for money laundering and masking the intricate financial operations terrorists, drug dealers, and other criminal elements require. Given its size and semi-legitimate status in South Asia, it is not hard for terrorists to transfer money using hawala

How hawala works

U.S. authorities say hawala, an ancient money transfer system, has been used by Osama bin Laden's terrorist financial network.

Example: Man in U.S. wants to send \$1,000 to uncle in Bombay.



Man contacts hawala broker; gives him \$1,000; asks that money be delivered to uncle



Broker charges small fee; gives man code word, then calls, emails or faxes broker in Bombay, usually a trusted



Uncle uses code word to pick up money in Bombay; there is no money transfer or record



Bombay broker knows he will eventually need services of U.S. broker and get \$1,000

- Not illegal
- Relies on trust
- No paper trail
- By 2002, hawala dealers in U.S. must report transactions over \$10,000 and suspicious

Source: U.S. Treasury Dept. Graphic: Judy © 2001

Hawala: How it Works

The word *hawala* means "transfer" in Arabic. In some contexts, *hawala* is used synonymously with *trust*, usually to express the personal connection between participants and the informal nature of the transactions (Perkel, 2003).

In essence, hawala is a transfer or remittance from one party to another, without the involvement of formal financial institutions such as a bank or money exchange, and is, in this sense, an informal transaction. There are several other common aspects to hawala. First, in most cases, Hawala transactions cross international lines, such as with worker remittances to their home countries. Second, hawala usually involves more than one currency, although, this is not required. Third, a hawala transaction usually entails principals and intermediaries. To accommodate the principals' requests, the intermediaries usually take financial positions. Later, much as in the case of conventional banking practices, these transactions are cleared amongst the units to balance their books (Gale, 2003).

A typical transaction often involves an expatriate remittance. For example, an expatriate Pakistani worker in the United Arab Emirates (UAE) who wishes to send money back home goes to an intermediary, the hawaladar, to arrange the transfer. He makes payment in dollars or other convertible currency. The hawaladar in the UAE contacts a counterpart in Pakistan, who makes payment in rupees to the remitter's family or other beneficiary. Obviously, some network of family or connections among hawaladars is required to make such a system work on a large-scale, ongoing basis (Rhodes, 2003).

It is important to note that although the remitter, in this case, wishes to have money sent to a distinct location, no money actually crosses the border physically, and no money necessarily enters the conventional or official banking system (unless the Pakistani recipient decides to place it there). The transaction rests upon a single communication between hawaladars and is often not recorded or guaranteed by a written contract. The trust between the two hawaladars secures the debt and allows the debt to stand with no legal means of reclamation. There is an implicit guarantee on payments, however, because broken trust results in community ostracism, constituting economic suicide for a hawaladar (Jost & Sandhu, 2002).

Typically, individuals with low incomes use the hawala system to take advantage of the low cost and quick delivery the system provides. The unofficial hawala is far cheaper than the official banking system to send money. The hawala charges about 1% of the amount transferred. Because of its low overhead costs, hawala provides a more favorable market exchange rate than the official one. In short, the customer's economic attraction to hawala is usually the speed, low cost, and reliability of the system compared to established financial institutions such as banks, money exchanges, or Western Union. The system is ideal for use in isolated localities like the tribal areas of Pakistan and Afghanistan where formal financial institutions are rare (Franz, 2001).

channels. They are labyrinths replete with pseudonyms, middlemen, and dead-ends. Wealthy Arab patrons in the Middle East likely send funds to al-Qaeda through hawala organizations, as do myriad Arab charities acting as fund-raising fronts. The smaller the value of the transfer the less attention it is likely to attract, but it is still easy to transfer large amounts of money without raising questions (Alden, 2002).

Co-opting Hawala and National Security Concerns

Until recently, the exception to the success in fighting terrorism has been on the financial front. With recent developments in Syria and Afghanistan, impeding the formal financing of terror has gained a better foothold, but it has by no means been cut off. Interruptions in the formal financial systems have forced terrorist organizations to use the hawala systems to fund terror. Hawala has also been targeted by U.S. and international authorities. Some arrests have been made, but hawala has not been significantly impeded.

Al-Qaeda's financial network is very sophisticated and complex, dating back to the late 1980s and early 1990s. Osama bin Laden set out to establish an organization that would be self-sustaining over time. Al-Qaeda was designed to be self-reliant, but also reliant on the Muslim community. The layered and redundant financial backbone was built on a foundation of charities, non-governmental organizations, mosques, websites, fund-raisers, intermediaries, facilitators (hawala), banks, and other financial institutions that helped finance the Mujiheddin throughout the 1980s. This network extends to all corners of the Muslim world, Europe, and North America.

After September 11, the need to track down terrorists and prevent future attacks led to a search for a means of uncovering the money trails. The Treasury Department's Office of Foreign Assets Control provided lists of names of known terrorists and terror organizations, but it was clear that terrorists were using individuals who had only minor or no criminal histories. These individuals would not set off alarms at borders or teller windows. The United States attempted to intercept funding of this sort under the existing money laundering regulations. However, terrorists often move funds with no criminal roots. The money may come from donations

to charities, gifts from family members, or grants from subversive governments or their agencies. In these cases, only the transfers' purpose is illegal.

The USA Patriot Act, passed in October 2001, expanded the federal government's investigative powers and created important new criminal offenses. One of them makes it a felony for money-remitting businesses not to register with the Financial Crimes Enforcement Network (FinCEN).

Penetrating hawala circles requires language skills and a physical appearance still uncommon among federal undercover agents. The investigative spotlights of Operation Green Quest are starting to shine on the seemingly infinite variety of financing sources that feed foreign terrorist activities. Hawala transactions may leave no footprints, but certain kinds of banking transactions and certain kinds of small businesses can provide clues that point investigators to possible Hawaladars (US Customs Service, 2001).

The financial war against terrorism is as important as the military one, if not more so. It will likely be a long, drawn-out, expensive fight. Terrorist groups have been shown to be evolutionary, rather than revolutionary. They employ changes to their tactics and financial systems that they hope will keep them just ahead of countermeasures. Penetrating and co-opting hawaladars worldwide is a viable means of gaining an intelligence foothold on terrorist group locations, members, activities, and funding sources. Instead of arresting and publicly exposing hawaladars in the United States, it may be wiser to confront them and encourage them to assist in the war on terror financing. *Turning* hawaladars—in the CIA sense of the word—and capitalizing on hawala's basis of trust would create invaluable assets favoring U.S. counter-terrorism efforts. Rebuilding HUMINT capabilities in the involved areas of the world will take decades, which is time our country does not have if we are serious about winning the struggle against violent extremism.

Conclusions and Recommendations

When declaring war against terrorism, President George W. Bush also declared war on the financing of terrorism. The call to arms has been complemented by a concerted, worldwide effort to track down and freeze suspected terrorists' assets, and financial institutions have risen to these challenges over

the last year by contributing their expertise, which is gathered mostly through searching for techniques to combat money laundering. This is just the beginning.

As stated earlier, terrorists are evolutionary in nature. What can financial institutions realistically contribute to the ongoing fight against terrorist financing? Attacking terrorist funding does not eliminate it, but necessarily drives it further underground, leaving the illegitimate sources wide open for intelligence agency use.

Some argue that simply killing terrorists may spawn new terrorists to rise in their stead. The same is likely true with underground financial systems around the world. Certainly, hawala has not persisted for the last 1,600 years with minimal participation. Attempting to crush this trust system will not eliminate its use in funding terrorism. In many cases, the government pressure and law enforcement raids may serve to bolster hawala terrorism financing efforts.

The Justice Department and FinCEN officials have proposed legitimizing IFT. After obtaining the proper license, hawaladars will be permitted to operate within the legitimate financial markets. Likely, this is primarily meant to generate revenue and has less to do with interrupting terrorism financing. While some hawaladars will obtain legal status, doing so will effectively end their business. The paperless, anonymous, tax-free, cut-rate, and timeliness of transactions seen in hawala will be replaced by the same red-tape dealings imposed upon all of us. Legitimacy would constitute economic failure for the hawaladar. I believe that the numbers of hawaladars worldwide will grow with supply and demand. As terrorism financing is driven out of the legitimate financial field, more and more terror groups will be forced to use hawala and hawala-like activities to conduct financial transactions. Locating and co-opting hawaladars world-wide will provide counter-terrorism forces with valuable real-time intelligence needed to follow the money and disrupt terrorist groups from all sides.

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About the Author

Timothy J. McDowell, CHS-III, received his bachelor's degree in chemistry from the University of San Diego and his master's degree in information technology from Alameda University in 2003. In 2006 he completed a graduate certificate program in homeland security from the Center for Homeland Security at the University of Colorado in conjunction with U.S. Northern Command. McDowell is the systems administrator for the 21st Comptroller Squadron for Perot Systems Government Services. He has been an ACFEI member since 2006.



CE Test: One credit available with the completion of this test.



Learning Objectives

After studying this article, participants should be better able to do the following:

- 1.) Understand the nature and extent of the Informal Funds Transfer System (IFT).
- 2.) Understand the basic concept of Hawala and its' relationship to terror financing.
- 3.) Identify other actions that could be taken to disrupt Hawala and further the global war on terrorism.

CE Test for "Co-opting the Hawala System Financing of Terror"

- 1.) Terror groups use IFT for which of these reasons?
 - A. Underground remittance systems control large amounts of money.
 - B. IFT systems exist outside the modern banking system.
 - C. There are stricter government controls on unlicensed money dealers.
 - D. Gem dealers and other charities are more likely to be under banking authority scrutiny.
- 2.) Hawala must possess what in order to function:
 - A. Implicit guarantee on payments
 - B. A single currency
 - C. Transactions that do not cross international lines
 - D. Written contracts
- 3.) Hawala activities in India alone control 40% of which:
 - A. Illegal drug traffic proceeds.
 - B. The terror funding for al-Qaeda's September 11 attacks.
 - C. India's gross domestic product.
 - D. The Canadian economy.
- 4.) What action must governmental agencies take to win the financial war on terrorism?
 - A. Use HUMINT in an attempt to infiltrate Hawala.
 - B. Continually change investigative tactics in an attempt to keep terror groups from evolving their financial transactions.
 - C. Closely follow Hawala transaction footprints.
 - D. Trace the criminal roots of Hawala money laundering schemes.
- 5.) Co-Opting the Hawala system may lead to:
 - A. Revenue generation for the United States.
 - B. The rise in new terror groups.
 - C. The collapse of the IFT.
 - D. Real-time intelligence needed to disrupt terrorist group funding.

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