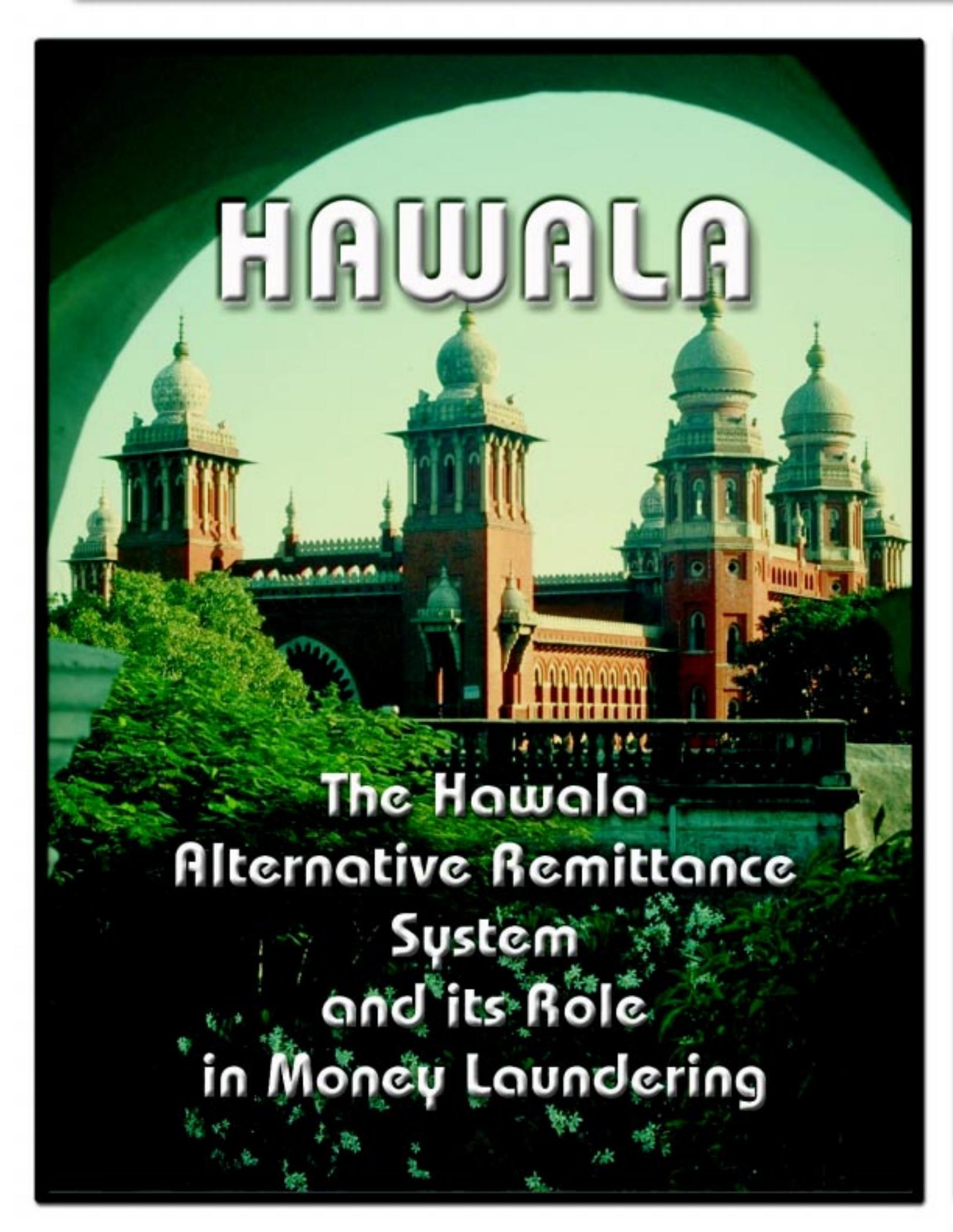


HAWALA



The Hawala
Alternative Remittance
System
and its Role
in Money Laundering

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Patrick M. Jost
United States Department of the Treasury
Financial Crimes Enforcement Network (FinCEN)
2070 Chain Bridge Road, Suite 200
Vienna, VA 22182
USA
+1 703 905 3648
jostp@fincen.treas.gov

Harjit Singh Sandhu
INTERPOL/FOPAC
200, quai Charles de Gaulle
69006 Lyon
France
+33 4 7244 7402



*Prepared by the Financial Crimes Enforcement Network
in cooperation with INTERPOL/FOPAC*

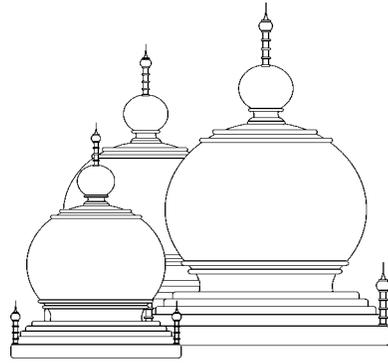


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Executive Summary

This paper presents a description of the hawala (also referred to as hundi) alternative remittance system. Hawala is an ancient system originating in South Asia; today it is used around the world to conduct legitimate remittances. Like any other remittance system, hawala can, and does, play a role in money laundering. In addition to serving as a “tutorial” on hawala transaction, this paper will also discuss the way in which hawala is used to facilitate money laundering.



What is Hawala?

Hawala¹ is an alternative or parallel remittance system. It exists and operates outside of, or parallel to “traditional” banking or financial channels. It was developed in India, before the introduction of Western banking practices, and is currently a major remittance system used around the world. It is but one of several such systems; another well known example is the “chop,” “chit” or “flying money” system indigenous to China, and also, used around the world. These systems are often referred to as “underground banking”; this term is not always correct, as they often operate in the open with complete legitimacy, and these services are often heavily and effectively advertised.

The components of hawala that distinguish it from other remittance systems are trust and the extensive use of connections such as family relationships or regional affiliations. Unlike traditional banking or even the “chop” system, hawala makes minimal (often no) use of any sort of negotiable instrument. Transfers of money take place based on communications between members of a network of hawaladars, or hawala dealers².

How Does Hawala Work?

Hawala works by transferring money without actually moving it. In fact “money transfer without money movement” is a definition of hawala that was used, successfully, in a hawala money laundering case.

An effective way to understand hawala is by examining a single hawala transfer. In this scenario, which will be used throughout this paper, Abdul is a Pakistani living in New York and driving a taxi. He entered the country on a tourist visa, which has long since expired. From his job as a taxi driver, he has saved \$5,000 that he wants to send to his brother, Mohammad, who is living in Karachi³.

Even though Abdul is familiar with the hawala system, his first stop is a major bank. At the bank, he learns several things:

The bank would prefer that he open an account before doing business with them;

The bank will sell him Pakistani rupees (Rs) at the official rate⁴ of 31 to the dollar; and

The bank will charge \$25 to issue a bank draft.

This will allow Abdul to send Mohammad Rs 154,225. Delivery would be extra; an overnight courier service (surface mail is not always that reliable, especially if it contains

something valuable) can cost as much as \$40 to Pakistan and take as much as a week to arrive. Abdul believes he can get a better deal through hawala, and talks to Iqbal, a fellow taxi driver who is also a part-time hawaladar.

Iqbal offers Abdul the following terms:

A 5% “commission” for handling the transaction;

35, instead of 31, rupees for a dollar; and

Delivery is included.

This arrangement will allow Abdul to send Mohammad Rs 166,250. As we will see, the delivery associated with a hawala transaction is faster and more reliable than in bank transactions. He is about to make arrangements to do business with Iqbal when he sees the following advertisement⁵ in a local “Indo-Pak” newspaper (such advertisements are very common):

MUSIC BAZAAR AND TRAVEL SERVICES AGENCY

- Cheap tickets to India, Pakistan, Bangladesh, Sri Lanka, Dubai
- Great rupee deals (service to India and Pakistan)
- Large movie rental selection
- Video conversions
- Latest Bollywood hits on CD and cassette
- Prepaid international calling cards
- Pager and cellular activations (trade-ins welcome)
- Conveniently located in Jackson Heights

(718) 555-1111 ask for Nizam or Yasmeeen

(718) 555-2222 [fax]

(718) 555-2121 [pager]

Abdul calls the number, and speaks with Yasmeeen. She offers him the following deal:

A fee of 1 rupee for each dollar transferred;

37 rupees for a dollar; and

Delivery is included.

Under these terms⁶, Abdul can send Mohammad Rs 180,000. He decides to do business with Yasmeeen.

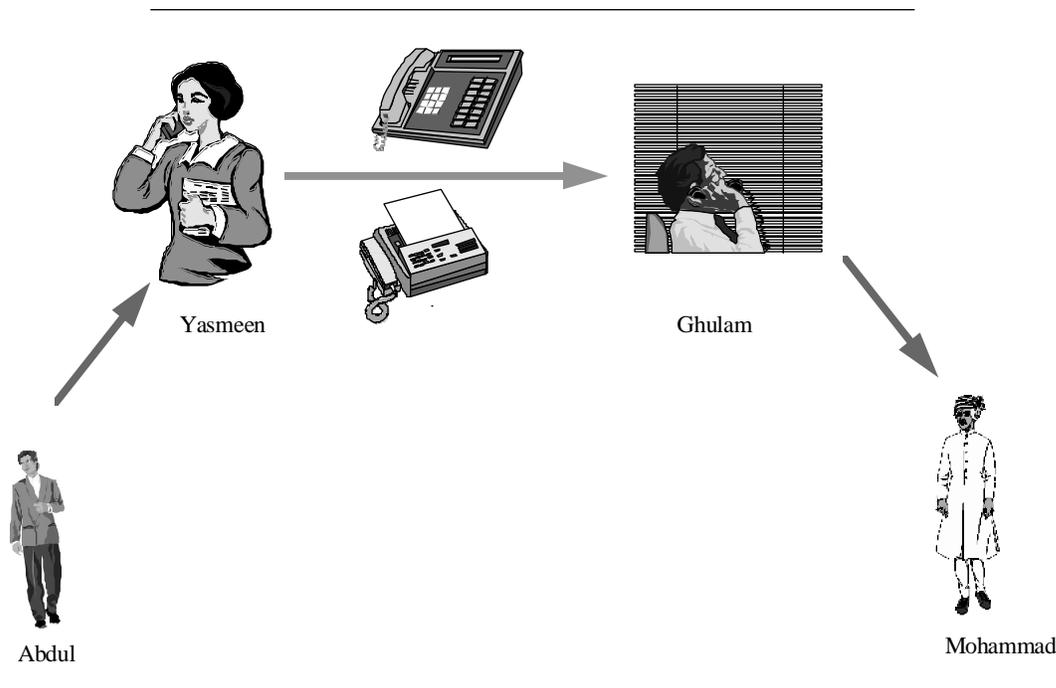
The hawala transaction proceeds as follows:

Abdul gives the \$5,000 to Yasmeen;

Yasmeen contacts Ghulam in Karachi, and gives him the details;

Ghulam arranges to have Rs 180,000 delivered to Mohammad.

This diagram summarizes the transaction:



Even though this is a simple example, it contains the elements of a hawala transaction. First, there is trust between Abdul and Yasmeen. Yasmeen did not give him a receipt, and her recordkeeping, such as it may be, is designed to keep track of how much money she owes Ghulam, instead of recording individual remittances she has made. There are several possible relationships she can have with Ghulam (these will be discussed later); in any case she trusts him to make the payment to Mohammad. This delivery almost always takes place within a day of the initial payment (a consideration here is time differences), and the payment is almost always made in person. Finally, in some scenarios, he trusts her to repay him the equivalent of either \$5,000 or Rs 180,000.

Connections are of equal importance. Yasmeen has to be connected to Ghulam in Karachi to arrange this payment. As her advertisement indicates, she also offers service to India, so she either knows, or has access to, someone who can arrange payment there. Hawala networks tend to be fairly loose, communication usually takes place by phone or fax (but email is becoming more and more common).

To complete this discussion, there are two related issues to be addressed. The first is the relationship between Yasmeen and Ghulam, and the second is how Ghulam “recovers” the money that he paid to Mohammad on Abdul’s behalf.

As was stated above, hawala works through connections. These connections allow for the establishment of a network for conducting the hawala transactions. In this transaction, Yasmeen and Ghulam are part of the same network. There are several possible ways in which this network could have been constructed.

The first possibility is that Yasmeen and Ghulam are business partners (or that they just do business together on a regular basis). For them, transferring money is not only another business in which they are engaged but a part of their normal business dealings with one another. Another possibility is that, for whatever reason, Ghulam owes Yasmeen money. Since many countries make it difficult to move money out of the country, Ghulam is repaying his debt to Yasmeen by paying her hawala customers; even though this is a very “informal” relationship, it is quite typical for hawala. A third (and by no means the final) possibility is that Yasmeen has a “rupee surplus” and Ghulam is assisting her in disposing of it.

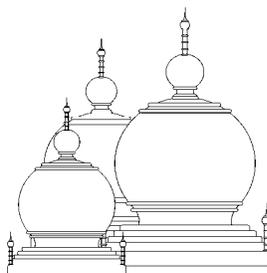
In the last two cases, Ghulam does not need to recover any money; he is either repaying an existing debt to Yasmeen, or he is handling money that Yasmeen has entrusted to him, but is unable to move out of the country. In the first case, where Yasmeen and Ghulam are partners, a more formal means of balancing accounts is needed.

One very likely business partner scenario is an import/export business. Yasmeen might import CDs and cassettes of Indian and Pakistani music and 22 carat gold⁷ jewelry from Ghulam, and export telecommunications devices to Ghulam. In the context of such a business, invoices can be manipulated to “conceal” the movement of money.

If Yasmeen needs to pay Ghulam the Rs 180,000 that he has given to Mohammad, she can do it by “under invoicing” a shipment to him. She could, for example, send him \$20,000 worth of telecommunications devices, but only invoice him for \$15,000. Ghulam pays Yasmeen \$15,000 against this invoice. The “extra” value of goods, in this case \$5,000 (the equivalent of Rs 180,000) is the money that she owes him.

In order to move money the other way (in this case, from Pakistan to New York), “over invoicing” can be used. For this example, it is assumed that Ghulam owes Yasmeen \$5,000. She could buy \$10,000 of telecommunications devices, and send it to Ghulam with an invoice for \$15,000. Ghulam would pay her \$15,000; this covers the \$10,000 for the telecommunications devices as well as the other \$5,000.

Since many hawala transactions (legitimate and illegitimate) are conducted in the context of import/export businesses, the manipulation of invoices, as discussed above, is a very common means of settling accounts after the transactions have been made.



Why Would Anyone Bother With Hawala?

When compared to a “traditional” means of remitting money, such as obtaining a check or ordering a wire transfer, hawala seems cumbersome and risky. In this section, we will examine the motivations for using the hawala system.

The primary reason is cost effectiveness. As was shown in this example, Abdul was able to obtain nearly Rs 30,000 more (averaging exchange rates, this is about US\$ 880), a significant savings by using the hawala system. Some of the reasons for this cost effectiveness, namely low overhead, exchange rate speculation and integration with existing business activities, will be discussed in the next section of this paper.

The second reason is efficiency. A hawala remittance takes place in, at most, one or two days. This can be contrasted with the week or so required for an international wire transfer involving at least one correspondent bank (as well as delays due to holidays, weekends and time differences) or about the same amount of time required to send a bank draft from North America to South Asia via a courier service (surface mail is not a reliable option where the contents are valuable, and it can also take several weeks to arrive).

The third reason is reliability. Complex international transactions, which might involve the client’s local bank, its correspondent bank, the main office of a foreign bank and a branch office of the recipient’s foreign bank, have the potential to be problematic. In at least once instance reported to the authors, money for a large commercial transaction (money being sent from the United States to South Asia) was lost “in transit” for several weeks while trying to conduct such a transaction. When the bank located the money, it was returned to the customer. He enlisted the services of a local hawaladar, who was able to complete the transaction in less than a day.

The fourth reason is the lack of bureaucracy. Abdul is living and working in the United States on an expired student visa; he does not have a social security number (and since he deals almost exclusively in cash, he really does not need one). It would be difficult, if not impossible for him to open a bank account as he does not have adequate identification. In addition, he does not completely trust banks and would prefer not to use them if at all possible. Iqbal and Yasmeen do not operate in a “bureaucratic” framework, making them a preferable alternative to the bank.

The fifth reason is the lack of a paper trail. Even though Abdul earned the money that he sent to Mohammad legally, he would prefer to remain anonymous (this is a much more important consideration in illicit hawala transactions). Since it is rare for hawaladars to keep records of individual transactions, it is unlikely that Abdul’s remittance will ever be identified as part of the business dealings between Yasmeen, Ghulam and their associates.

The sixth reason is tax evasion. In South Asia, the “black” or parallel economy is 30%-50% of the “white” or documented economy. Money remitted through official channels might invite scrutiny from tax authorities; hawala provides a scrutiny-free remittance channel.

Why Does Hawala Work?

In brief, hawala “works” – or competes effectively with other remittance mechanisms – because of its cost effectiveness. A secondary consideration is that hawala is often related or even integral to existing business dealings.

One reason for hawala’s cost effectiveness is low overhead. A business like Yasmeen’s “Music Bazaar and Travel Services Agency” operates out of a rented storefront as opposed to a bank building (which has expensive vaults and alarm systems), and may even share space with another business (e.g. a sari or gold shop), further reducing rental expenses. Yasmeen’s employees are paid less than bank officers, and they probably do not have insurance or access to a retirement plan. Some hawaladars operate with even less, using a table in a tea shop as an office and having little more than a cellular phone and notebook as overhead expenses.

The second reason is exchange rate speculation. In India, for example, the Foreign Exchange Regulation Act (FERA), 8(2)⁸ states that “(e)xcept with the previous general or special permission of the Reserve Bank, no person, whether an authorised dealer or a money-changer or otherwise, shall enter into any transaction which provides for the conversion of Indian currency into foreign currency or foreign currency into Indian currency at rates of exchange other than the rates for time being authorised by the Reserve Bank”. Since hawala dealers do not, in many if not most cases comply with such regulations, their transactions may be illegal (a more detailed discussion of the legality of hawala follows).

Depending on one’s perspective (and possibly jurisdiction), hawaladars are either engaging in foreign exchange speculation or black market currency dealing. In any case, they exploit naturally occurring fluctuations in the demand for different currencies. This enables them to turn a profit from hawala transactions (which, in addition to being remittances, almost always have a foreign exchange component), and they are also able to offer their customers rates that are better than those offered by banks (most banks will only transact at authorized rates of exchange).

The rates cited in this paper (35 Rs/\$ for Iqbal, 37 Rs/\$ for Yasmeen and the official rate of 31 Rs/\$ as cited by the bank) reflect a difference of 12-19% over the official rate. These may actually be a little high. A U.S. hawaladar⁹ involved in the laundering of drug proceeds as well as legitimate remittances told one of the authors of this paper that he could still make a profit on an exchange rate margin as small as 2%, making him much more competitive than a bank.

In addition, since many hawaladars are also involved in businesses where money transfers are necessary, providing remittance services fits well into these businesses’ existing activities. Monies from remittances and business transfers are processed through the same bank accounts, and few, if any, additional operational costs are incurred by a business that offers hawala remittance services.

Finally, an important component of hawala is trust. Hawala dealers are almost always honest in their dealings with customers and fellow hawaladars. Breaches of trust are extremely rare. It is worth noting that one of the meanings attached to the word hawala is “trust”!

Is Hawala Legal?

Since hawala is a remittance system, this question really addresses regulations governing remittance services¹⁰ and the circumstances of the remittance. The assumption here, of course, is that these remittances are like Abdul's, and "legitimate"; the illicit use of hawala in money laundering is discussed in the next section of this paper.

Even though hawala is illegal from a regulatory standpoint in some U.S. jurisdictions, hawaladars advertise their services widely in a variety of media (ethnic newspapers have been the traditional place to find them, now some are using the Internet). Enforcement of these regulation is difficult with respect to hawala. The advertisements are often printed in foreign languages, and wording like "sweet rupee deals" does not necessarily suggest remittance services. Moreover, businesses like Yasmeen's do not conduct remittances as their primary activity.

In South Asia, the situation is more complicated. Many South Asian nations (such as India and Pakistan) have laws that prohibit speculation in the local currency, prohibit foreign exchange transactions at anything other than the official rate of exchange, and impose strict licensing requirements on money remitters and foreign exchange dealers. In addition, there are regulations governing inbound and outbound remittances.

A detailed discussion of these regulations is beyond the scope and intent of this paper. It is, however, possible to state "hawala is illegal in India and Pakistan" with nearly complete accuracy.

The important point for our purposes is that the existence of these regulations is another reason hawala is still used. Many people in these countries have money that they would like to move to another country due to concerns about stability, to pay for education or medical treatment. Hawala provides a ready means of doing this, and its use as a facilitator of "capital flight" on both large and small scales is very common. The existence of these laws also explains, in part, the prevalence of invoice manipulation as part of hawala schemes.

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

This paper should not, however, be considered a condemnation of the economic policies of India or Pakistan, both of which have taken concrete steps to combat money laundering. The efficiency and cost effectiveness of hawala make it an attractive means of remitting money under almost any regulatory regime.

How is Hawala Used to Launder Money?

Up to this point, no distinction has been made between hawala transactions where the source of the money is legitimate (e.g. Abdul's remittance to his brother) and where the source, and intent, of the transactions is illegitimate. Following Indian and Pakistani usage, the term "white hawala" is used to refer to legitimate transactions, such as Abdul's. The term "black hawala" refers to illegitimate transactions, specifically hawala money laundering¹¹.

This distinction is valuable for money laundering enforcement. Many "white" hawala transactions are essentially remittances, and, while illegal under Indian and Pakistani law, are not illegal in other jurisdictions. "Black" hawala transactions, however, are almost always associated with some serious offense (e.g. narcotics trafficking, fraud), that is illegal in most jurisdictions.

Money laundering consists of three phases: placement, layering and integration. Since hawala is a remittance system, it can be used at any phase.

In placement, money derived from criminal activities is introduced into the financial system. In many money laundering schemes, the biggest "problem" here is handling cash. Some jurisdictions, such as the United States, require reporting by financial institutions of cash transactions over a certain amount (in the U.S. it is US\$ 10,000)¹², and attempting to circumvent such reporting requirements by making smaller transactions is an offense.

Hawala can provide an effective means of placement. In the example, Abdul gave Yasmeen US\$ 5,000 in cash. Since she also operates a business (and also performs remittance services for others), she will make periodic bank deposits consisting of cash and checks. She will justify these deposits to bank officials as the proceeds of her legitimate business. Even though she might prefer it if reports were not filed, she will not object to this as it would arouse suspicion at the bank (and her business provides more than adequate justification). She may also use some of the cash received to meet business expenses, reducing her need to deposit that cash into her bank account.

In the layering stage, the money launderer manipulates the illicit funds to make them appear as though they were derived from a legitimate source. A component of many layering schemes has been seen to be the transfer of money from one account to another. Even though this is done as carefully as possible, when it is done through the "traditional" banking system it presents two problems to the money launderer. First, there is the possibility that a transaction could be considered to be suspicious and reported as such. Related to this is the paper trail created by these transactions. If any portion of the laundering network is examined, the related paper trails could lead a diligent investigator directly to the source of the criminal proceeds and unravel the money laundering network.

Hawala transfers leave a sparse or confusing paper trail if any. Even when invoice manipulation is used, the mixture of legal goods and illegal money, confusion about 'valid' prices and a possibly complex international shipping network create a trail much more complicated than a simple wire transfer.

Both of the authors of this paper have investigated hawala money laundering, and have found that even “basic” hawala transfers can be difficult to trace and tie to the original, criminal source of money. There is no reason, however, why hawala transfers could not be “layered” to make following the money even more difficult. This could be done by using hawala brokers in several countries, and by distributing the transfers over time.

In the final stage of money laundering, integration, the launderer invests in other assets, uses the funds to enjoy his ill-gotten gains or to continue to invest in additional illegal activities. The same characteristics of hawala that make it a potential tool for the layering of money also make it ideal for the integration of money. This is when money seems to become legitimate, and, as we have seen, hawala techniques are capable of transforming money into almost any form, offering many possibilities for establishing an appearance of legitimacy.

Given hawala’s close ties to business activities, there is no reason why money cannot be “reinvested” in a legitimate (or legitimate appearing) business. Yasmeen could very easily arrange for the transfer of money from the United States to Pakistan, and then back to the United States, apparently as part of an investment in a business there.

What Are Some Indicators of Hawala?

As has been shown in this paper, hawala is actually quite simple; much of the complexity associated with and ascribed to hawala money laundering comes from the nearly infinite number of variations that are encountered in hawala transactions.

This complexity of variation makes it nearly impossible to lay out a straightforward guide to recognizing hawala money laundering as part of a criminal undertaking. It is, however, possible to provide a few indicators that may be useful.

One of the most consistent and valid indicators of hawala activity in investigations conducted in the United States is seen in bank accounts. A “hawala” bank account almost always shows significant deposit activity, usually in the forms of cash and checks, which are often from one or more ethnic communities (e.g. Afghan, Bangladeshi, Indian, Pakistani, Somali) associated with the hawaladar. These checks may be made out to the primary account holder, or some secondary entity (often outside the United States) somehow associated with the account. These checks may also have some sort of notation, consisting of a name (presumably of the person to whom the money is remitted to) or something supposedly indicating what was “bought” with the money. In one case, many checks were seen with the word “bangle” written on them; this was done apparently in order to make it appear as though the checks, which were almost all for even dollar amounts, had been written to purchase jewelry.

These accounts will also almost always show outgoing transfers (usually by wire) to a major financial center known to be involved in hawala. Three of the most common locations are Great Britain, Switzerland, and, as discussed previously, Dubai. Given the flexible and casual nature of the hawala business, hawala accounts will not always be seen to balance. The following diagram summarizes “hawala account” behavior:



As has been discussed, certain businesses are also more likely than others to be involved in hawala. Once again, it is not possible to give an exhaustive list, but the following is a starting point:

- Import/Export
- Travel and Related Services
- Jewelry (gold, precious stones)
- Foreign Exchange
- Rugs/Carpets
- Used Cars
- Car Rentals (usually non-chain or franchise)
- Telephones/Pagers

Laws in India, Pakistan and other countries make it difficult to convert foreign currency (or foreign currency instruments, such as travelers' checks). Criminal activities in these countries may often involve foreign currency (especially dollars), which pose something of a problem. A "solution" that has been seen to this problem is the shipment of these negotiable instruments from South Asia to the United States. Even though such shipments may violate both courier policies and U.S. law, the money launderers accept these risks rather than try to attempting to place these instruments into their local economies.

Appendix A: Origins of *hawala*, *hundi* and Other Related Words

This section provides linguistic background on some Arabic, Hindi, Urdu, Gujarati and Farsi (Persian) words associated with *hawala*.

The words *hawala* and *hundi* are both used, correctly and interchangeably, to describe the alternative remittance system discussed in this paper. Since there is only one system, the usage “the *hawala* and *hundi* systems” is incorrect. Either name can be used, or one can say “the *hawala* or *hundi* system.”

The word *hawala* comes from the Arabic root h-w-l (ح و ل), which has the basic meanings “change” and “transform.” The word “*hawala*” (حوالة) is defined as a bill of exchange or a promissory note. It is also used in the expression *hawala safar* (حوالة سفر), traveler’s check.

When the word came into Hindi¹³ and Urdu¹⁴ (हवाला / حوالہ) it retained these meanings, but it also gained the additional meanings “trust” and “reference” which reflect the manner in which the system operates. Furthermore, in popular usage, “*hawala*” is often used to refer to any sort of financial crime, particularly money laundering or fraud.

A *hawala* operator is a *hawaladar* (हवालादार).

The word *hundi* (हंडी / हण्डी) comes from the Sanskrit root meaning “collect.” In India, one of its most common meanings is for the collection box found in a Hindu temple. In addition to this, it also has the same meanings as *hawala*: bill of exchange, promissory note, trust, reference and the alternative remittance system.

A *hundi* operator is a *hundiwala* (हंडीवाला), which also means banker or foreign exchange dealer.

Both terms are used; there appears to be some slight geographic preference for the term *hundi* in northern Pakistan, particularly around Lahore. *Hawala*, on the other hand, seems to be used almost exclusively in Indian journalism. In Iran, the term *havala* (also spelled حواله as in Urdu) is used, this is the same as the word “*hawala*” due to a difference in pronunciation of the letter و (*w* in Urdu, *v* in Farsi).

A Hindi word which is of interest for historical reasons (see Appendix B) is *potedar* (पोतेदार), which means “treasurer” or “paymaster” and comes from the word *pot* (पोत), which means “assessment.”

The Arabic root s-r-f (ص ر ف) has, among other meanings, “pay” and “disburse.” The Arabic word for bank, *masrif* (مصرف), comes from this root. It is also the basis for the Farsi words *saraf* (صراف), which means a “money changer” or “money remitter (*hawala* dealer)” and *sarafi* (صرافی), which is the name for the business.

Appendix B: The History of Hawala

Hawala predates “traditional” or “western” banking (the first “western bank” in India was the Bank of Hindostan, established in Calcutta around 1770)¹⁵. Prior to this, the operations of *sarafs* and *potedars* (see appendix A), who were primarily moneychangers (and essentially the predecessors of the hawaladars discussed in this paper) were a fundamental component of the commercial and financial infrastructures.

Contrary to some accounts, hawala did not begin during the Vietnam War. It was, however, during the Vietnam War that many Americans were exposed to hawala through the operations of Indian merchants in Saigon. Americans often took advantage of their hawala service to remit money.

Today, hawala and “traditional” banking exist as parallel, but intertwined, economic systems in India and Pakistan.

Appendix C: Another Hawala Pricing Scheme

In this scenario, Abdul wants to send 100,000 rupees to his brother Mohammad. This differs from the previous scenario in that he wants to send a fixed amount in rupees, rather than dollars.

The Bank

The bank gives the official exchange rate for rupees (for the purposes of this paper, that is assumed to be 31 Rs/\$) and charges \$25 for the exchange. The cost of the 100,000 rupees would be \$3,125; adding the \$25 fee brings the total cost of this transaction to \$3,150.

The Hawaladars (Iqbal and Yasmeen)

Iqbal offers his usual rates: 35 rupees for a dollar and five percent commission. The rupees will cost Abdul \$2,857, Iqbal's fee is \$142, for a total of \$2,999.

Yasmeen also offers her typical terms: 37 rupees for a dollar and a fee of one rupee for each dollar remitted. The rupees will cost Abdul \$2,702 and Yasmeen's fee is \$73. At \$2,775, Yasmeen still has the best deal in town!

Appendix D: Hawala Bookkeeping

“Hawala bookkeeping” emphasizes keeping track of how much money is owed to whom. The following sample chart is based on records analyzed by one of the authors of this paper during a recent investigation¹⁶, and is representative of the records that might be encountered during a hawala investigation (note that these charts are usually handwritten, and it is not uncommon for English and another language to be used):

16/6/98	Vinod	100000	37.6	2659.57	F-1202
16/6/98	Ashish	250000	39.25	6369.42	F-1203
16/6/98	Nitin Bhai	350000	42.3	8274.23	B-8146
17/6/98	DK	50000	38.75	1290.32	F-1204
17/6/98	Suresh Kumar	300000	39.25	7643.31	B-8147
17/6/98	Anil	200000	40.1	4987.53	S-5428
17/6/98	Vinod	150000	39.75	3773.58	F-1205
18/6/98	Manoj	300000	41.25	7272.72	B-8148
18/6/98	Vinod Bhai	350000	42.2	8293.83	L-2160
18/6/98	Ganesh Trading	200000	38	5263.15	५२ त
19/6/98	Suresh Kumar	175000	39.5	4430.37	B-8149

The first column indicates the date of the transaction. The second column is the name of the hawala broker to whom the debt is owed; it is very common to use partial names (e.g. “Vinod”) or codes (e.g. “DK”). The third column is the amount of the debt. This chart reflects a tendency to do business in multiples of 100,000; so it would not be uncommon to see things like “1.5” for 150,000. The third column indicates the dollar/rupee exchange rate in effect for the transaction. The fourth column is the value of the transaction in dollars. The fifth column reflects the way in which the payment was made. Notations such as “F-1202” usually represent a bank (“F” might be “First Bank”; “B” and “L” would represent other banks) and the check number. The notation ५२ त for Ganesh Trading is “52 t” in Hindi. This represents 52 tolas¹⁷ of gold, possibly paid to a local goldsmith or jeweler instead of remitting the money via a bank.

Appendix E: Hawala Cases

This section provides brief descriptions of cases where hawala or hawala-like techniques were used to launder proceeds derived from various predicate offenses. If the case has been adjudicated, identifying information is provided. In others, the investigation was ongoing at the time of writing, so particulars are not provided and certain details of the case may be designated as hypothetical.

Narcotics Trafficking (1)

In mid-1997, several people were convicted of conspiracy to launder as well as laundering the proceeds of the sale of Pakistani heroin and opium¹⁸. This case involved a legitimate foreign exchange business, Frankfurt-based MGM Marwex Geldwechsel, its U.S. branch, MGM Marwex International and a hawala network spanning several countries.

Narcotics Trafficking (2)

Several Pakistani and Afghan nationals allegedly importing heroin into a major U.S. metropolitan area are suspected of collaborating with a bank officer to launder the proceeds of the sale of the heroin. This bank officer is believed to open accounts without following appropriate “know your customer” procedures and also assists the traffickers with the management of these accounts, which are used for hawala-like transfers. Large numbers of checks have been processed through these accounts, and money has then been wired to Dubai and other places. It is also believed that other traffickers have availed themselves of this money laundering scheme. In addition, this bank officer may be handling the receipt of shipments of negotiable instruments from a south Asian country on behalf of suspected criminals in that country. These shipments may represent part of a money laundering scheme as well as potential violations of U.S. laws regarding the import of currency and the source country’s laws regarding the export and possession of currency.

Narcotics Trafficking (3)

In 1985, British courts convicted a Mr. Choraria¹⁹ of “being knowingly concerned in the fraudulent evasion of the prohibition of importation of a Class A controlled drug, namely heroin.” Choraria was described as the “banker who knowingly enabled payment for heroin imported into this country illegally to be transferred to India from whence the heroin had been sent.”

Choraria operated two legitimate businesses, an import/export financing firm (confirming house) and a remittance business (it is possible that at least part of this remittance business was hawala-based). In this case, Mr. Choraria brokered the transfer of funds between parties in Karachi and Mumbai as part of heroin smuggling.

This case has two somewhat humorous aspects: hawala had to be explained at length during the trial by Mr. Choraria’s nephew, as the system was not known to Choraria’s bankers. In addition, some of the British criminals involved in the case did not seem to understand how the money was being transferred.

Narcotics Trafficking (4)

The investigation of a Delhi-based hashish trafficking organization revealed that the traffickers had established several false corporate identities. Under the cover of these identities, machinery was shipped to Germany, the United Kingdom, the Netherlands and Australia. Hashish was concealed in this machinery. Hawala was used to repatriate the proceeds of the hashish sales back to the Indian traffickers.

Terrorism (1)

The investigation into the assassination of an important Indian politician revealed that the assassins were, in fact, terrorists. These terrorists used hawala to transfer the proceeds of the sale of narcotics to arms dealers for the purchase of military hardware.

Terrorism (2)

The series of bomb blasts in a major Indian city in 1993 was financed through hawala. The investigation revealed that the funds supporting these bombings (specifically funds used to buy explosives and to pay the bombers) were handled by hawala operators in the United Kingdom, Dubai and India.

Alien Smuggling

A worldwide alien smuggling network is suspected of using hawala banking techniques to move money between North America and South Asia to pay the alien smuggling “fee” and additional payments (e.g. for lawyers) are also made.

Welfare Fraud

Certain immigrants from a particular country are accused of committing large scale welfare fraud in two major U.S. cities. An employee of a car rental agency deposits large numbers of checks into a personal checking account, and then wires money to a variety of locations, including Dubai (this is documented by Suspicious Activity Reports filed by the bank where the account is held). Since it is known that there are many immigrants from this country working in Dubai, it is suspected that hawala is then being used to remit money (which probably includes proceeds derived from welfare fraud) from Dubai back to this country, which has a poorly developed banking system, via couriers. This is the sanitized text from one of the Suspicious Activity Reports associated with this case:

SUSPECT ONE MAKES FREQUENT LARGE CASH DEPOSITS INTO HIS CHECKING ACCOUNT AND IN A FEW DAYS HE WIRES IT OUT OF THE COUNTRY. HE HAS BEEN SEEN WITH SUSPECT TWO. THIS ACTIVITY SEEMS UNUSUAL FOR HIS OCCUPATION.

Insider Trading

A citizen of a south Asian country, who was an investment banker in a major U.S. financial center is accused of giving “tips” to various friends and relatives. After some illegal trades took place, the banker resigned and apparently fled the United States for his homeland. At the same time, several of his associates also traveled to this same country as well as several European financial centers. An analysis of seized bank records indicates that money was wired to persons apparently of the same nationality in at least one of these financial centers. It is possible that these wire transfers were the first part of hawala-like transfers of the proceeds from the illicit trades to the investment banker’s home country.

Customs and Tax Violations (1)

A Pakistani living in the Washington, D.C. metropolitan area was doing hawala transfers for other expatriates. Large cash transactions at the bank used by some of the defendants were brought to the attention of customs and tax authorities. Their subsequent investigation uncovered a scheme in which surgical instruments manufactured in Pakistan were being imported at inflated prices (over-invoicing) to facilitate the transfer of money from the United States to Pakistan, in apparent violation of Pakistani law. Convictions were obtained for customs violations, making false statements and tax fraud²⁰.

Customs and Tax Violations (2)

An individual representing himself as being in the gold business in a large U.S. city, specifically as a “gold broker,” is suspected of various customs and tax violations as well as money laundering. This individual has made very large cash deposits at several banks, and at least one bank has closed this individual’s account because of these deposits. This individual’s bank account was examined in conjunction with a tax investigation. This individual claims to supply various gold shops with gold bullion, and also that he sells gold coins and jewelry to individuals. Interviews with owners of these businesses and alleged clients indicate that this is not the case. It is believed that this individual is acting as a bank for various individuals and businesses, assisting them in evading the payment of taxes.

Gambling

Hawala has been used not only as an alternative remittance system but as an alternative banking system in a South Asian gambling operation. Currency control laws made it nearly impossible for citizens of one country to take money to gamble in another, and there are similar problems with bringing gambling winnings back into the country. The gambling operators have engaged hawaladars to accept money “on deposit” from gamblers, and pay winnings through them as well. This is something of a testimony to the reliability of hawala. During a conversation with one of the authors of this paper, one of the principals in this gambling operation reported that this had been going on for nearly twenty years without any significant difficulties.

Appendix F: Glossary

This glossary contains certain terms used in this paper as well as others that the reader may encounter while researching hawala and related topics. Where appropriate, Hindi, Gujarati and Urdu spellings are given. “Hawala,” “hundi” and other words closely connected to money movement are discussed in detail in Appendix A.

confirming house: in the import/export business, a confirming house acts on behalf of the buyer by dealing directly with the exporter to complete the contract. There is no overseas credit risk or financial burden for the exporter because the confirming house provides short term credit to the overseas buyer, who pays a commission for this service.

crore [करोड़ / કરોડ / کروڑ]: 10,000,000 [ten million]; part of the South Asian numbering system, frequently used when discussing money. A crore is 100 *lakhs*. A billion is often referred to as 100 *crore*. The South Asian numbering system is based on three units: thousands, *lakhs* (100,000) and *crores*. For this reason, “two crore” will be heard instead of “twenty million”. The placement of commas reflects the number of crores; 2,00,00,000 would be written instead of 20,000,000 (the first is “two crores” the second is “twenty million”).

integration: the third and final stage of money laundering In this stage, the launderer invests in other assets, uses the funds to enjoy a luxurious lifestyle or reinvests his profits into criminal activities.

khokha [खोखा / ખોખા / کھوکھا] (also spelled *koka*; *khokhu* in Gujarati): The literal meaning of this word is “something hollow,” “bag” or “paid bill;” it is used colloquially to refer to 10,000,000 [ten million] rupees. When speaking of money, this word is often used interchangeably with *crore*.

lakh [लाख / લાખ / لاکھ] (also spelled *lack* or *lac*): 100,000 [one hundred thousand]; part of the South Asian numbering system, frequently used when discussing money. The term “hundred thousand” is rarely used; instead; “five lakhs” will be heard instead of “five hundred thousand”. The placement of commas reflects the number of lakhs; 5,00,000 would be written instead of 500,000 (the first is “five lakhs” the second is “five hundred thousand”).

layering: the second stage of money laundering. In this stage, the money launderer manipulates the illicit funds to make them appear as though they were derived from a legitimate source.

man [मन] (also *maund*): approximately 40 kg.

money laundering: the process of converting the proceeds of a criminal activity into funds with an apparently legal source. Money laundering may be further divided into three subprocesses or stages: *placement*, *layering* and *integration*.

numerals: for reference, here are the forms of the numerals as written in Hindi, Gujarati, Punjabi, Bengali, Urdu, Arabic and Persian (Farsi/Dari)²¹:

	1	2	3	4	5	6	7	8	9	0
Hindi	१	२	३	४	५	६	७	८	९	०
Gujarati	૧	૨	૩	૪	૫	૬	૭	૮	૯	૦
Punjabi	੧	੨	੩	੪	੫	੬	੭	੮	੯	੦
Bengali	১	২	৩	৪	৫	৬	৭	৮	৯	০
Urdu	۱	۲	۳	۴	۵	۶	۷	۸	۹	۰
Arabic	١	٢	٣	٤	٥	٦	٧	٨	٩	٠
Persian	۱	۲	۳	۴	۵	۶	۷	۸	۹	۰

peti [पेटी / পেটী / پیٹی]: The literal meaning of this word is “box,” “suitcase” or “belt;” it is used colloquially to refer to 100,000 rupees. When speaking of money, this word is often used interchangeably with *lakh*.

placement: the first stage of money laundering. In this stage, the money launderer disposes of the proceeds of a criminal activity (which are often in the form of cash).

ser [सेर] (also *seer*): approximately 1 kg, 1/40th of a *man*.

tola [तोला / तोळे / تولا] (*tolo* in Gujarati):: approximately 11.7 grams (the weight of a silver rupee); this is a common unit used in the precious metals and jewellery businesses in India, Pakistan and Persian Gulf. One twelfth of a tola is a *masha* [माशा / ماشہ].

Appendix G: Bibliography

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End Notes

- ¹ The terms hawala and hundi refer to the same system and may be used interchangeably. Refer to Appendix A for background on the origins and meanings of these words.
- ² The term “hawala operator” is also very popular; see Tharoor (1997).
- ³ This scenario would be just as valid if the money were being sent to India, or from one of several South Asian nations to the United States; note that hawala is also frequently used to move money out of South Asia. Appendix C has another scenario, showing another aspect of hawala pricing schemes.
- ⁴ The rates of exchange for various South Asian currencies fluctuate widely; a consistent, but possibly not current, rate of exchange is used throughout this paper.
- ⁵ This is a fictitious advertisement; it does, however, combine the elements of “hawala ads” seen by the authors.
- ⁶ This pricing scheme was encountered in the case U.S. v. Ismail, which is discussed in Appendix D of this paper.
- ⁷ The gold trade is very much a part of hawala; hawaladars may also be involved in the buying, selling and delivery of gold.
- ⁸ Puliani *et. al.* (1971:20); the FERA is one piece of current Indian legislation used to address money laundering; it will eventually be replaced by comprehensive anti-money laundering legislation and a revised foreign exchange act called the FEMA (Foreign Exchange Management Act).
- ⁹ His “legitimate” business consists primarily of exchanges between the U.S. and Iran [dollars and rials]. Hawala is also very common in Iran, where it is referred to as “havala.” The difference in profit margins may, in part, be accounted for by the difference in markets for Iranian rials and Indian and Pakistani rupees.
- ¹⁰ Under Section 1960 of Title 18 of the U.S. Criminal Code, “whoever conducts, controls, manages, supervises, directs, or owns all or part of a business, knowing the business is an illegal money transmitting business shall be fined in accordance with this title or imprisoned not more than 5 years or both;” this reinforces individual states’ efforts to license money remittance businesses, but there is no overall mechanism for regulating these businesses. Under proposed regulations requiring registration of money transmitters, it would be a criminal offense to engage in hawala without being registered with the U.S. Department of the Treasury.
- ¹¹ See Jost (1997) for a detailed discussion of “black hawala.”

- ¹² In other jurisdictions, large cash transactions are often considered at least cause to alert a bank or other financial institution to the possibility that the transaction should be reported as “suspicious” under applicable regulations.
- ¹³ In Gujarati, it is હાવલો, *hawalo*; Gujarati information is included in this paper as the language has figured prominently in several significant hawala cases.
- ¹⁴ Hindi is one of the national languages of India; Urdu the national language of Pakistan. They are Indo-European languages; their origins are Sanskrit, the liturgical language of Hinduism and the Persian of the Mughals, the Islamic rulers of India. In addition, there are many Arabic words in these languages, reflecting the influence of Mughal culture. Today, the spoken languages are nearly identical, leading some to claim that they are dialects of the same language. Hindi is written in the Devanagari script, borrowed from Sanskrit, and tends to favor Sanskrit for the creation of new words. Urdu follows Mughal tradition; it is written in a slightly modified version of the Arabic script, and favors Arabic and Persian as sources of new words.
- ¹⁵ Tripathi and Misra (1985:6).
- ¹⁶ The names and transactions in this example are fictitious.
- ¹⁷ The amount owed is \$5263.15; assume a price for 22K gold of US\$ 8.64/g and 11.7 grams/tola (see Appendix F for more information on South Asian weights, measures and numerals).
- ¹⁸ Gonzalez (1997)
- ¹⁹ R v. Choraria Court of Appeal (Criminal Division) 27 March 1985.
- ²⁰ UNITED STATES OF AMERICA, Plaintiff-Appellee, v. ISMAIL, Defendant-Appellant. UNITED STATES OF AMERICA, Plaintiff-Appellee, v. SHAKEEL AHMAD, a/k/a Javed Iqbal, Defendant-Appellant. UNITED STATES OF AMERICA Plaintiff-Appellee, v. MIAN TAUQIR AHMED, a/k/a Tauqir Ahmed, Defendant-Appellant. UNITED STATES OF AMERICA, Plaintiff-Appellee, v. MOHAMMAD BASHIR, Defendant-Appellant. No. 95-5299, No. 95-5324, No. 95-5325, No. 95-5326. 97 F.3d 50; 1996 U.S. App. LEXIS 25229; 96-2 U.S. Tax Cas.
- ²¹ “Western” numerals (1, 2, 3, etc.) can be referred to as “Hindu-Arabic” numerals. These numerals, including the important sign for zero, apparently originated in South Asia (Cajori 1993: 45-70; Menninger 393-445; Maharaja 1977:xlii) and were adopted by the Arabs, and ultimately made their way to Europe. Note that the “Hindi” numerals are actually the original Devanagari (Sanskrit) numerals, and are also used for Nepali.

