

DEFENCE ACADEMY
OF THE UNITED KINGDOM
Intellectual Excellence in Defence

Hawala and related Informal Value Transfer Systems - An assessment in the context of Organised Crime and Terrorist Finance.

Is there cause for concern?
By Shima Keene

THE DEFENCE ACADEMY JOURNAL

December 2007



The Defence Academy of the United Kingdom

The Defence Academy is the UK's Defence higher educational establishment. It is responsible for post-graduate education and the majority of command, staff, leadership, defence management, acquisition, and technology training for members of the UK Armed Forces and MOD Civilian Servants, and for establishing and maintaining itself as the MOD's primary link with UK universities and international military educational institutions.

Through exploitation of its intellectual capital, the Academy aims to act as a powerful force in developing thinking about defence and security, not only within MOD but across Government, and to influence wider debate about defence and security issues.

Defence Academy of the United Kingdom: <http://www.defenceacademy.mod.uk>

Disclaimer

The views expressed in this paper are entirely and solely those of the author and do not necessarily reflect official thinking or policy either of Her Majesty's Government or of the Ministry of Defence.

The Defence Academy Journal

The Defence Academy's on-line Journal provides a forum for the discussion of the most topical issues of Defence, development, and security.

As with all the Defence Academy's publications, its functions are: to help keep the educational curricula of the Academy's colleges at the cutting edge; to reinforce operational capability; and, to provide material to assist policymakers and decision takers working in the various fields pertaining to national security. Emphasis will be placed on rapid response and early publication of papers submitted.

A Note for Potential Authors

If you have a topic which you think it would be useful to discuss in print, either in the Journal or as a Shrivenham Paper, do please call or email Emma McCarthy (Tel: 01793 788 861, E-mail: emccarthy.hq@da.mod.uk) the Publications Manager. She will be happy either to discuss the scope and direction of your paper and help you frame it for us to publish, or she will put you in contact with one of our team qualified in your topic for an expert discussion of the issue and how to develop it best into a paper. In this way we hope to be able to ensure the high quality and above all the relevance of the items before they go before our editorial board to evaluate for publication.

Contents

<i>Hawala</i> and related Informal Value Transfer Systems	4
Introduction	5
The Complexity of Definition	6
Motivation	8
Putting Right the Myths	12
Threat analysis – where is the evidence?	14
Discussion	15
Conclusions and recommendations	17
Bibliography	18

Hawala and related Informal Value Transfer Systems

An assessment in the context of Organised Crime and Terrorist Finance.

Is there cause for concern?

By Shima Keene

The 9/11 attacks in the USA not only brought terrorism to the top of the political agenda for the USA and its allies, but also highlighted the importance of tackling terrorist finance. As the interest in terrorist financing methods increased, the subject of Hawala and related Informal Value Transfer Systems (IVTS) has received much negative attention. Much suspicion has been generated, partly due to the lack of transparency, which makes following the money trail challenging for financial investigators. However, most of the negative perception has been derived from the general lack of understanding of IVTS. In an attempt to increase transparency, regulation has been recommended as a possible solution by policymakers and researchers. However, there is much debate amongst practitioners as to the true effectiveness of regulation. This paper aims to develop a better understanding of IVTS to establish whether the perceived threat and misuse of IVTS can be justified.

Key words (5): Informal Value Transfer System, Hawala, Terrorist Finance, Regulation, Money laundering

Introduction

The 9/11 attacks not only brought terrorism to the top of the political agenda for the United States and its allies, but also highlighted the importance of tackling terrorist finance. As the interest in terrorist financing increased, the subject of Informal Value Transfer Systems (IVTS) has received much negative attention. Hawala and related IVTS transactions are perceived to be characterised by their anonymity and weak record keeping together with their lack of regulation and transparency, leaving the systems susceptible to suspicion from national and international authorities. In addition, there is a wide misconception of the mechanics of these informal systems. (Lee, 2005) It is therefore important to obtain a better understanding of the subject in order to determine whether a problem truly exists and if so, to recommend the most appropriate countermeasures.

The Complexity of Definition

Numerous terminologies for the IVTS exist. One example is the Alternative Remittance Services (ARS), a term used by the Financial Action Task Force on Money Laundering (FATF) to describe financial services that transfer value or funds from one geographical location to another, usually outside the formal financial sector. (FATF, 2003) The World Bank and the International Monetary Fund, on the other hand, use the term Informal Funds Transfer (IFT) system (El-Qorochi, 2003) to describe 'financial systems that exist in the absence of, or parallel to, conventional banking channels'.(APEC, 2003)

Other terms include the Informal Funds Transfer System (IFTS), and the underground, unregulated, quasi or parallel banking system. (Passas, 1999) In addition, alternative terminologies such as hawala, hundi, fei ch'ien, and phoe kuan are used, dependent on the geographic location and the ethnic group using the system. Table 1 lists some of the ethnic types of IVTS together with their country of origin and the meaning of the term.

IVTS type	Origin	Meaning
<i>Hawala</i>	India	Trust, reference, exchange; The Arabic root h-w-l means to 'change' or 'transform')
<i>Hundi</i>	Pakistan	Trust, bill of exchange, derived from Sanskrit root meaning 'to collect'
<i>Fei ch'ien</i>	China	Flying money
<i>Hui k'uan</i>	Mandarin Chinese	To remit sums of money
<i>Ch'iao hui</i>	Mandarin Chinese	Overseas remittance
<i>Phoe kuan</i>	Thailand	
<i>Nging sing kek</i>	Tae Chew and Cantonese	
Chop shop	Chinese (Foreigners)	Used by foreigners for one of the Chinese methods
Chiti-banking	Chinese (British)	Short for 'chitty' originated from the Hindi 'chitthi' , a signifying mark
<i>Hui or huikuan</i>	Vietnamese in Australia	Association
Stash house	S America	For casa de cambrio

(Source: Passas 1999)

Table 1: Types of IVTS and their Meaning

There are as many definitions as there are references for IVTS. These include:

- ‘...any system, mechanism, or network of people that receives money for the purpose of making the funds or an equivalent value payable to a third party in another geographical location, whether or not in the same form’ (FinCen 2003).
- ‘...an unofficial (or parallel) banking system..., which enables funds to move from one country to another without production of a paper trail’ (Australian National Crime Authority, 1991:35)
- ‘...a system which is subject to no external auditing, control or supervision, whereby money or value can be transferred from one country to another’ (1995:3) Schaap and Mul (1995)

These definitions are problematic for several reasons. To begin with, the definition provided by the Australian National Crime Authority is simply incorrect in that a paper trail does exist, as will be detailed later in this paper. Another problem is that much of the terminology used has an undertone of an activity that is both criminal and secret. Although such systems can be used by criminals, in the same way that any financial system can also be abused, research shows that in the majority of cases, the use of IVTS is legitimate.

The use of the term ‘**underground**’ banking is also inaccurate as IVTS are not underground in many parts of the world and, in addition, are used openly in some countries as previously stated. (Passas, 1999) The word ‘**alternative**’ can be misleading too in that it suggests the existence of other, mainstream or conventional remittance systems. (Passas, 2003) The section on motivation will cover this point in further detail.

The use of the word ‘**informal**’ can also be problematic in that attempting to distinguish between informal and formal routes of money or value transfers is not always straightforward as the routes sometimes merge. It is important to note that what is legal in one jurisdiction is not necessarily legal in another and vice-versa (Blackwell et al, 2004) and that many of the money transfer businesses categorised as ‘informal’ in the UK, for example, have been registered as of June 2003 and are now formally recognised as registered businesses. Therefore, the use of the word ‘informal’”, some may argue, is not entirely appropriate.

In attempting to identify what is ‘informal’, it is also useful to examine what is regarded as being ‘formal’. The use of the word ‘formal’ is used to refer to the regulated financial sector to include banks, credit unions, money transfer operators (MTOs) such as Western Union and MoneyGram, postal services and credit and debit card companies. (APEC, 2003) These systems are governed by laws or regulations in accordance with international standards set by FATF as well as the Basel Committee on Banking Supervision. Therefore ‘informal’ transfer systems can be seen as those that do not fall into the above category. Examples of ‘informal’ transfer systems provided by the APEC report on IVTS include ‘ethnic stores’ and ‘hand deliveries’. ‘Ethnic stores’, however, account for as much as 30 percent (APEC, 2003) of the formal financial transfers market, again making the definition problematic.

Motivation

In attempting to assess the perceived threat from IVTS in the context of organised crime and terrorism, it is important to understand motivation, especially in terms of who uses IVTS and the factors that motivate them to do so. IVTS are used by a variety of individuals, organisations and governments. Expatriates and immigrants frequently use IVTS to send money back to their families and friends in their home countries. IVTS systems are also used by legitimate companies, traders and government agencies conducting business in countries where inadequate formal financial systems exist as a result of political or economic instability within that country. (FinCen 2003) In addition, formal financial institutions frequently exist only in cities making IVTS the only available option for those individuals living in remote areas.

An example of a country where one may choose to use IVTS over the formal banking system is Afghanistan. Financial institutions in Afghanistan, including its Central Bank suffer from outdated legal, regulatory and operational frameworks for banking activities. These constraints, coupled with unskilled staff at all levels, together with the lack of banking hardware and software and telecommunications networks, severely limit the formal financial sector's ability to provide an efficient and reliable service. (Maimbo, 2003) Consequently, over 300 registered money exchange dealers operate in a self-regulating system from open air markets. It must be noted, however, that between 500 and 2,000 unregistered *hawala* dealers also operate around the country. (Maimbo, 2003)

The *hawala* dealers, both registered and un-registered, offer a wide range of financial and non-financial services in local, regional and international markets. Financial services include fund transfers, money exchange transactions and deposit-taking. Non-financial businesses include telephone, fax and internet services as well as domestic and international trade assistance. International traders, investors and institutions such as international aid institutions and NGOs involved in the rebuilding of Afghanistan, are catered for specifically by international dealers based mainly in Kabul.

In general, the key benefits of IVTS include cost, speed, reliability and accessibility. In terms of cost, *hawala* commission ranges from 0.25 to 1.25 percent which is significantly lower than commissions charged by the formal banking sector. (Carroll, 1999) The low cost is primarily due to low overheads and favourable exchange rates as well as integration with existing business activities. (Jost et al, 2000) Efficiency and speed plays an important part for many users with most transactions taking only one to two days as opposed to a week for the formal banking sector, not including other delaying factors such as bank and national holidays and weekends. (Jost et al, 2000). Other motivations include transfers for investment purposes in foreign countries where foreign investment is restricted by the government of that country. One such example is India where there have been restrictions on foreign ownership of Indian company shares for many years. There is evidence that many investors used the *hawala* system to set up accounts using *benami* (false name) or nominee accounts in order to invest illegally in Indian companies which were considered to be a good investment. (Passas, 2003)

Hawala and IVTS Mechanics

There are two main aspects to the *hawala* business. The first is the sending and receiving of money involving *hawala* dealers, referred to as *hawaladars*. The second is the settlement process of such transactions involving various intermediaries. (Passas, 2003) In terms of the sending and receiving of money, Financial Crimes Enforcement Network (FinCen) distinguishes between two types of IVTS transactions. The first is the 'basic' or 'traditional' model and the second the 'modernized' or 'contemporary' model. The 'basic' model of IVTS transactions is illustrated in Diagram 1 and requires a minimum of four participants and involves five steps. (FinCen 2003)

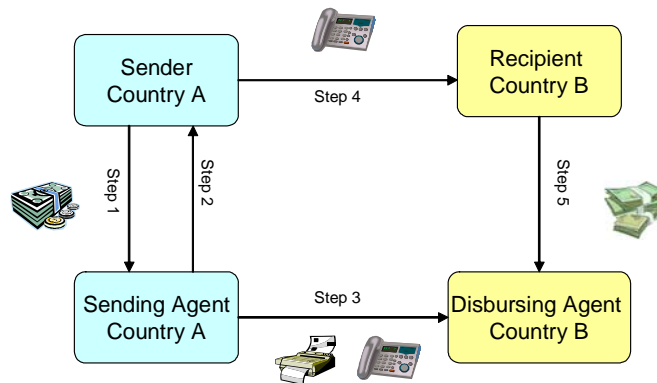


Diagram 1 – IVTS Basic/Traditional Model (FinCen)

The first step is for the sender in country A to contact and provide funds to an IVTS agent operating in country A. Secondly, agent A provides the sender with an identifier, typically a code. Thirdly, agent A contacts his opposite number in country B by phone, fax or e-mail with the code and the amount payable to the recipient in country B. The next step is for the sender to contact the recipient in country B with the code. Finally, the recipient contacts IVTS agent B, operating in country B, provides the code for authenticity and is then able to collect the funds.

The 'modernized' or 'contemporary' IVTS model is similar to the basic model with the exception that it involves the additional use of formal financial institutions such as banks as demonstrated in Diagram 2.

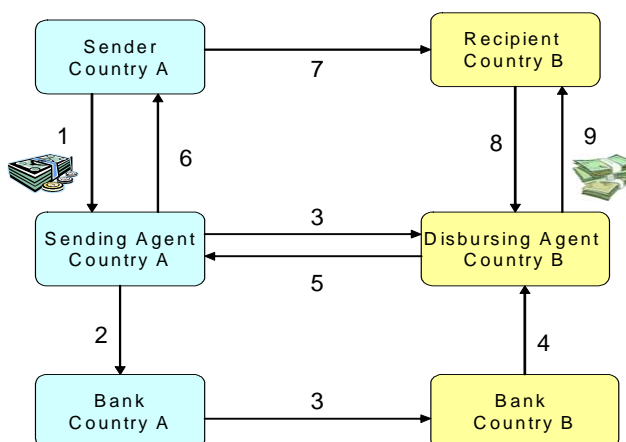


Diagram 2: IVTS Modernized/Contemporary Model (FinCen)

The second aspect of the hawala business is the settlement process. For IVTS to work effectively, there must be pools of cash at both end of the transaction in order to avoid need for the physical transfer of cash as shown in Diagram 3. Cash pool 'A' indicates money consisting of remittances from expatriates to their families, payments for imports, over-invoicing of exports and bogus exports, tax evasion money, criminal proceeds as well as contributions to militant and terrorist groups.

Cash pool 'B' typically consist of families paying student tuition fees overseas, families covering medical expenses overseas, tourist money exceeding allowable limits, payment of imports, tax evasion, over and under-invoicing of trade, bribes and laundered money from criminal enterprises. (Passas, 2003)

With every payment an IVTS operator sends to his counterpart, an informal debt is created. The settlement process is easier, the closer the relationship between the IVTS operators and the more simple the transaction. Additionally, if cash pools A and B were equal, settlement would consist of reciprocal payments covering each other's debts. However, as the relationship is likely to be asymmetric most of the time, alternative methods of settlement are necessary. These methods include cash payments, postal orders, checks, official drafts, bearer instruments or wire transfers and bank transfers. (Passas, 2003) Many operators will possess bank accounts in a central location to facilitate the consolidation of accounts thus reducing costs. The most popular centres for IVTS account consolidation include Dubai, New York, London, Hong Kong, Singapore and Switzerland. (Passas,2003)

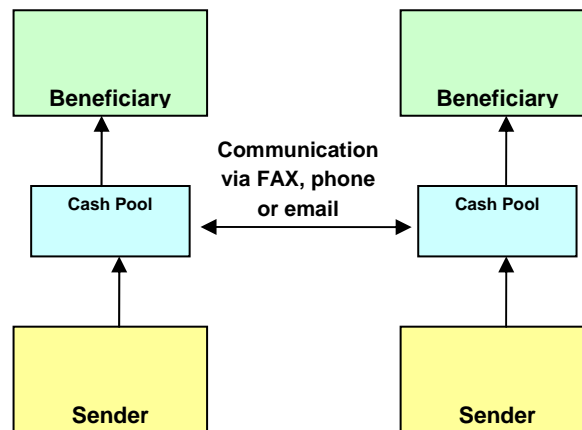


Diagram 3: Hawala/IVTS Cash Pools for Settlement Purposes

With reference to the settlement process, it should be noted that there are many similarities between the 'formal' and 'informal' sectors. For example, in both cases there are only minimal movement of funds. The main difference between IVTS settlement and western banking settlement processes is that formal, regulated banks are forced to follow the laws of each country in which they operate and transact only with authorised personnel and institutions.

Putting Right the Myths

Myth number 1

It is a paperless system and therefore has no audit trail.

In Afghanistan, for example, although there are no standard documentary requirements and there is no requirement to open their books for external inspection, each *hawaladar* designs, develops and maintains independent documentary policies and procedures which, in many cases, have been in existence for many years and have been adapted to the changing business environment. (Maimbo, 2003) Documentation includes *Hawala* slips for each client containing a number or code as well as customer identification documents and records. Data collected includes the date of transaction, name and address of the sender and recipient, passport number or other identification number and the name of the counterpart dealer. In terms of accounting records, according to the World Bank, '... dealers maintain files with invoices and quotations, copies of receipts and transaction contracts and agreements. The accounts between the organizations are reconciled periodically and hawaladars maintain debit and credit columns in an accounting ledger book or computer'. (Maimbo, 2003)

Myth number 2

***Hawala* is seen as being 'unique' in that it can be used to send money without sending money.**

The statement implies that '*hawala*' and other forms of IVTS are unique in this aspect. The reality is that the economic technicalities and implications of transfers in IVTS are very similar to other types of international financial transactions, including those going through formal banking systems. The key difference with informal systems is that formal banking channels may or may not be used at some point of the transfer process. (Wilson, 2002)

Myth number 3

'Money never enters the formal banking system...'

(UN General Assembly, 1998) *Hawaladars* frequently possess conventional bank accounts in which they deposit their clients' money, which they use to offset balances with their counterparts in other parts of the world. (Passas, 1999) The use of the formal banking sector is also recognised by FinCen and is part of the "FinCen contemporary IVTS model" described earlier in the paper.

Myth number 4

Know Your Customer (KYC) rules do not apply

It is true that KYC rules are not enforced by a regulatory body as IVTS are not regulated. However, it can be argued that IVTS operators know their customers far better than their counter-parts in the regulated financial sector. Basic information such as sender name, address, phone number, reference to a clan as well as similar information regarding the recipient is taken and entered into a ledger or spreadsheet, where there is access to personal computers, and is usually maintained for several years. (Passas, 2003) One of the reasons why the operation works so well is because the system is built on trust, not only amongst the operators, but also between the operators and their clients. For such a trust to exist, a relationship must first exist, and for this relationship to exist, the participants must know one another. It could be argued that the more informal approach enables a more personal relationship, unlike the western system where the customer is essentially a bank account number and many of the transactions do not require any human contact as this can often be achieved electronically as in the case of internet banking, for example.

In terms of Suspicious Activity Reports (SARs), research suggests that a *hawaladar* will have a better idea compared to Western bankers as to whether or not a transaction is suspicious. For example, where other options are available to the sender, it can be assumed that the reason for using IVTS is suspicious. It is known that some operators charge a significantly higher rate of commission for known criminals, which is again further proof that the operator not only knows his client well, but in addition knows his business.

Threat analysis - where is the evidence?

Since 9/11, there has been much speculation about the misuse of IVTS for terrorist financing purposes. It should be noted that, despite claims that the 9/11 hijackers utilised informal methods of transfer, all available evidence points to the use of formal banking services including bank wire transfers, credit card accounts and regulated remitters (Passas, 2003; Keene 2005) However, all the benefits of IVTS previously listed, namely cost, reliability, speed and so forth, can also be enjoyed by criminals as well as non-criminals. There is indeed evidence that IVTS is utilised by criminal organisations to purchase illegal arms, narcotics and other illegal commodities, to make corrupt payments, to receive ransom demands and to make and demand payments for illegal trade in body parts as well as for money laundering purposes. (Carroll, 1999)

In February 2000, the Asia Pacific Group (APG) collated 62 case studies relating to IVTS. The findings discovered that a mix of legitimate and criminal funds, but confirmed that in most cases IVTS use was legitimate. The findings also stated that in cases involving criminal proceeds, the large majority involved narcotic offences followed by people smuggling and revenue evasion and also involved the use of the regulated financial sector. (Butler, 2003) These findings further support the fact that IVTS alone must not be singled out as a system that is vulnerable to abuse.

It must be remembered that criminals, including terrorists, use numerous other techniques to move funds from one location to another. Examples include the use of shell or front companies (Ehrenfeld, 2005), precious commodities such as gold and diamonds (Global Witness, 2003 and Farah, 2004), and charities (Napoleoni, 2003). Within the regulated financial sector, private and offshore banks are still believed to be used to transfer criminal proceeds. (Robinson, 2003) There is also evidence that criminals are taking advantage of the advancements in technology especially in the areas of internet banking as well as the use of smart cards. (Gabosky and Smith, 1998; FATF, 1999)

One point to note is that IVTS have come under scrutiny mainly for terrorist finance purposes. However, it is generally accepted within the counter-terrorism community that terrorists do not on the whole launder money. In fact, the process has been described as being the reverse of money laundering. Money laundering is a process by which the proceeds of crime are processed through legal channels in order to conceal their criminal origins. In other words, it is about making dirty money clean, hence the term "laundering". Terrorists, on the other hand, are in the business of taking clean money and making it dirty. It seems ironic, therefore, that IVTS should be connected to terrorism when research indicates that they have more to do with organised crime and money laundering than with terrorist financing. However, with the increasing nexus between organised crime and terrorism the *modus operandi* for the raising and transfer of funds are becoming increasingly blurred.

Discussion

The negative perception of IVTS has come about partly as a result of the lack of the understanding of the mechanics of IVTS, the complexity of some IVTS mechanisms, as well as a deep suspicion of anything that is culturally different. There is the added problem of the lack of transparency to external authority which can be challenging to law enforcement officials attempting to carry out investigations.

In order to increase transparency, the possibility of implementing regulation has been under much debate. The Financial Action Task Force (FATF) recommends regulation in order to increase transparency. Transparency is important, but since one of the key attractions of IVTS is its low cost, there is concern that the additional systems and personnel costs required to improve transparency would not make this a viable option for most providers of IVTS.

There is also much debate as to the effectiveness of regulation. The financial sector in the UK, for example, is felt to be over-regulated whereby the various reporting requirements have led to a 'tick in the box' mentality and are accused of becoming nothing more than an insurance scheme that fails to deal with the root of the problem. It is important that regulation should be effective and that it should not be implemented for its own sake.

In looking at possible regulation of the informal sector, it is important to note that any attempt to regulate cannot be achieved without understanding the inner workings of the system. In addition 'insider buy-in' is essential. What is meant by 'insider buy-in' is the consensus and input of the operators, users and intermediaries, which is necessary for regulation to be effective. Without this support, IVTS will inevitably be driven underground, making it even harder for intelligence and law enforcement bodies to investigate transactions. It must be remembered that western models of regulation are neither a guarantee for success nor appropriate for IVTS. Prescribing regulation alone will not ensure compliance.

This view was supported at the international conference on *hawala* held in April 2004 and jointly hosted by the International Monetary Fund and the United Arab Emirates. (U.A.E) (Lee, 2005) The conference identified the challenges of implementing a regulatory framework for IVTS and concluded that close consultations with IVTS providers were necessary to ensure the effectiveness of any new regulatory framework. As a follow up to the conference, discussions were held in selected countries in Europe, in the UAE and in the US between the private remittance sector and staff at the IMF. (Lee, 2005)

If western style regulation of IVTS providers proves to be too big a challenge to implement, an alternative would be to encourage current legitimate users of IVTS to switch to alternative, more transparent systems. This would allow for law enforcement investigators to focus their efforts on illegitimate uses. The formal banking system would be one such alternative, but other financial products and services offer a viable alternative to IVTS. In recent years, various initiatives have been implemented and continue to be developed. One such initiative is the development of bilateral initiatives to strengthen remittance services within the formal financial sector. One example is the U.S and Mexico Partnership for Prosperity, which is a private-public sector alliance launched in September 2001 (APEC, 2003) to promote economic development in the poorer regions of Mexico. The key driver for this initiative is to lower the cost of remittances sent by Mexican migrants to their families back in Mexico. Other similar initiatives were established between the US and the Philippines in 2003 and between Malaysia and Nepal in 2002. (APEC, 2003)

Other initiatives to improve remittance services include the use of card-based innovations which bring the convenience and flexibility of ATM service to the remittance market. (APEC, 2003) Examples of card-based innovations include 'the Opportunity card' developed jointly by HSBC, the largest banking and financial services organisations in the world and Opportunity International, an international network of microfinance organisations operating in Asia, Africa, Latin America and Eastern Europe. The project, originally designed to help Filipino migrant workers to send money back to their families in the Philippines, was funded partly by the European Commission in the form of a Euro 530,000 grant and is now being expanded to other parts of the world. (Opportunity International, 2005). Another example is the Visa TravelMoney® Card, a service launched in November 2004 by the Independent Community Bankers of America (ICBA) and Travelex. (ICBA, 2004) Similar card services are provided by numerous providers.

Although these initiatives should be encouraged, the downside of any card system is that it requires the recipient to use automated teller machines (ATM) to access the funds. As ATMs are rare in developing countries, especially in remote rural areas, these initiatives are unable to address the problem of accessibility at this moment in time.

There have also been a number of initiatives led by the IMF to improve the formal financial sector by attempting to lower transactions costs, improve transparency as well as improve operations in general in a number of developing countries. (Lee, 2005) According to the IMF, remittance costs through the formal sector vary between 10 and 20 percent of the principal amount being remitted. Not only is this a drain on remittance flows to developing countries, the high transaction costs are also encouraging remittance senders to use IVTS instead. To counter this problem, an initiative is underway to harmonize payment systems in order to prevent the operators from having to invest in expensive proprietary payments systems, hence enabling the operators to offer their services at a lower, more competitive rate. (Lee, 2005)

An additional problem is that until recently, policymakers and researchers knew very little about the formal remittance market. Therefore, not only is the informal sector poorly understood, the understanding of the formal remittance market was also inadequate. As the two are in effect competing with one another, an understanding of both markets and mechanisms is essential. In order to tackle this problem, various organisations have carried out studies into remittances in recent years. These organisations include the World Bank, the Inter American Development Bank (IDB), the Asian Development Bank (ADB), the Asia-Pacific Economic Corporation (APEC), the U.S. Agency for International Development, the U.S. Treasury and the Department for International Development (DFID).

If the legitimate use of IVTS is to be discouraged, an alternative system must exist. Not only must this option exist, but it must also be an attractive option. Alternative, competitive channels for funds transfers must therefore be established. It is therefore essential that more research is conducted to obtain an understanding of both informal and formal systems in order to be able to provide alternatives that are attractive to both users and investigators alike.

Conclusions and recommendations

IVTS have thrived typically in jurisdictions where the formal financial sector is either absent or weak. The large majority of IVTS serve legitimate needs and are frequently the only option available, especially for communities who work away from their home country.

IVTS face risks for misuse either for terrorist financing purposes or for money laundering purposes. However, *Hawala* and other IVTS networks are by no means the only or main vehicles of illegal fund transfers or of the funding of organised crime including terrorist activities.

In terms of regulation, the western model may not be appropriate for IVTS. However, in attempting to introduce any type of regulation, a thorough understanding of the inner workings of the system is required together with the support of those involved, namely the IVTS operators. As the primary aim of regulation would be to increase transparency thereby making it easier for law enforcement and other agencies to carry out investigations, alternative ways to achieve this must be born in mind. It must be remembered that western models of regulation are neither a guarantee for success nor appropriate for IVTS. Prescribing regulation alone will not ensure compliance.

Looking ahead, an improved understanding of IVTS at a global level should be encouraged through international co-operation together with a better understanding of transnational crime. In addition, a better understanding of not only informal but formal money and value transfer mechanisms must be understood as well as the *modus operandi* of organised crime gangs and terrorists.

There is much confusion between the mechanisms of terrorist finance and money laundering. It is essential that the distinction is made in order that an incorrect threat assessment can be avoided.

The paper recommends that further research and analysis is required in the field of financial crime in conjunction with the areas of research already recommended.

Bibliography

- Apec (2003) *Informal Funds Transfer Systems in the APEC Region: Initial Findings and a Framework for Further Analysis* APEC ARS Working Group Report prepared for APEC Finance Ministers and Deputies Meeting held on September 1-5, 2003, Phuket, Thailand.
- Blackwell, M and Seddon D (2004) *Informal Remittances from the UK: Values, Flows and Mechanisms* A report to DFID by the Overseas Development Group, Norwich
- Butler, M and Boyle, R (2003) *Alternative Remittance Regulation Implementation Package: APG Typologies Working Group on Alternative Remittance and Underground Banking Systems*. Asia Pacific Group on Money Laundering
- Carroll, L (1999) *Alternative Remittance Systems* FOPAC Bulletin/Interpol Secretariat, 1999, no. 20
- Cassidy, W.L (1994) *Fei-Chien or Flying Money: A Study of Chinese Underground Banking* Internet, <http://users.deltanet.com/wcassidy/wlrc/Flyingmoney.html>, 1994
- Chami, R, Cosimano, T.F and Gapen, M.T (2006) *Beware of Emigrants Bearing Gifts: Optimal Fiscal and Monetary Policy in the Presence of Remittances* International Monetary Funds Working Paper
- Ehrenfeld, Rachel (2004) *Funding Evil Updated: How Terrorism is Financed and How to Stop It* [Chicago, USA: Bonus Books]
- Faist, T (2000) *The Volume and Dynamics of International Migration and Transnational Social Spaces*. [New York: Oxford University Press]
- Farah, Douglas (2004) *Blood from Stones* [USA: Broadway books]
- FATF (1999) *Report on Money Laundering Typologies* Paris, Financial Action Task Force, OECD
- FinCen Advisory (2003) *Informal Value Transfer Systems* United States Department of the Treasury Financial Crimes Enforcement Network Advisory Issue 33
- Global Witness (April 2003) *For a few Dollars More: How al Qaeda moved into the diamond trade*
- Grabosky, P.N., and Smith, R.G (1998) *Crime in the Digital Age: Controlling Telecommunications and Cyberspace Illegalities* New Brunswick, Transaction
- Harris, N (2002) *Thinking the unthinkable: The Immigration Myth Exposed* [New York: I.B. Tauris & Co]
- Held, D; McGrew, A; Goldblatt, D; and Perraton, J (2000) *Global Transformations: Politics, Economics and Culture* [Oxford: Polity Press]
- Jost, P.M and Sandhu, H.S (2000) *The hawala alternative remittance system and its role in money laundering* Interpol General Secretariat
- Keene, S (2005) *Al-Qaeda – Financing Terror* Airey Neave Trust

Lee, C.S, Bokkerink, M, Smallwood, J and Hernandez-Cross (2005) *Approaches to a Regulatory Framework for Formal and Informal Remittance Systems: Experience and Lessons* International Monetary Fund Report, prepared by the Monetary and Financial Systems Department.

Maimbo, S.M (2003) *The Money Exchange Dealers of Kabul: A Study of the Hawala System in Afghanistan* Finance and Private Sector Unit, South Asia Region, World Bank

Napoleoni, Loretta (2004) *“Modern Jihad: Tracing the Dollars behind the Terror Networks”* [London: Pluto Press]

Orozno, M (2002) *Worker Remittances: the human face of globalization* Working Paper commissioned by the Multilateral Investment Fund of the Inter-American Development Bank. October 10, 2002

Passas, N (1999) *Informal Value Transfer Systems and Criminal Organisations; a study into so-called underground banking networks*

<http://usinfo.state.gov/eap/img/assets/4756/ivts.pdf>

Passas, N (2003) *Informal Value Transfer Systems, Terrorism and money laundering* A Report to the National Institute of Justice

Passas, N (2003) *Hawala and Other Informal Value Transfer Systems: How to Regulate Them?* Risk Management 2003 Volume 5 (2) pp 49-59

Rainer Muenz (2004) *Towards a European Migration Policy. Challenges and Opportunities for the EU and Its Member States.* Hamburg Institute for International Economics

Rainer Muenz (2005) *Dimensions and Impacts of Demographic Aging: The Case of Europe and its Public Pension Systems* Hamburg Institute for International Economics

Robinson, J (1993) *The Sink: How banks, lawyers and accountants finance terrorism and crime – and why governments can't stop them* [London: Constable]

Robinson, J (1993) *The Laundrymen: inside the world's largest business* [UK: Simon & Schuter]

Schapp, C.D (1995) *Underground Banking* Tijdschrift voor fr Politie, 1995. p10

Wilson J.F (2002) *Hawala and other informal Payments Systems: An Economic perspective* IMF Paper prepared for the Seminar on Current Development in Monetary and Financial Law

UN General Assembly (1998), Special Session on the World Drug Problem, 8-10 June 1998

<http://www.opportunity.org.uk/OpportunityInternational-publications-press-releases-opportunitycard-release.htm>

<http://www.icba.org/news/newsreleasedetail.cfm?ItemNumber=4241&sn.ItemNumber=1733>