Nikos Passas
Professor of Criminology and Criminal Justice, Northeastern University
Distinguished Inaugural Professor, International Anti-Corruption Academy

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"Trading with the Enemy: Trade-Based Money Laundering is the Growth Industry in Terror Finance"
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Task Force to Investigate Terrorism Financing

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## Introduction

Terrorism is a persistent threat with no quick and easy solution. Anticipating the moves of terrorists and preventing their actions has become a top priority. In order to do so, the U.S. and the international community have introduced financial controls, along with military action and law enforcement techniques, to predict, restrict, and prevent terrorist activities. Countering terrorism finance (CFT) is not only about cutting off funds or mere displacement of sources and methods. Rather, the point is to undermine the finances and support networks of target groups. Conceived as financial vigilance, CFT helps focus on both fund raising and expenditure, as well as on partners, associates, facilitators, support networks, methods of operation and distribution of labor. Key nodes of information, intelligence and support can be identified and targeted as appropriate for more effective and sustainable results. The aim is to understand what they do, how they do it and how to identify the key nodes of critical networks, partners and facilitators, blind eyes and corrupt enablers, so that we can more effectively disrupt their activities and achieve sustainable and long-term success (Passas, 2007).

Trade is not only a critical support system for numerous terror groups, but also the weakest link in the anti-money laundering (AML) infrastructure built since the 1980s. Despite substantial efforts, laws, measures and resources devoted to AML/CFT, there has been no systematic review or consistent action with respect to trade, which constitutes the biggest security and crime vulnerability, a black hole undermining the entire control framework. Even if all current rules were ever to be fully and consistently enforced throughout the world, billions of dollars could still be moved illicitly without detection and sanction. When CFT is not based on the best evidence and analysis the result is missed targets, false positives, false negatives and security weaknesses.

Imports and exports can hide illegal or controlled commodities trade, but they often shield significant illicit financial transactions. This can be accomplished by mis-declaring the quality, quantity, value, origin, destination, and final use of goods. Mis-invoicing, trade diversion, counterfeiting and cargo theft are some of the most common methods (deKieffer, 2008; Passas, 1994; Passas & Nelken, 1993). Multiple terrorist groups are involved in these, so a focus on trade and terrorism is long overdue.

In this statement, I am summarizing some of the most important lessons learned through work I have been doing since 1989 on illicit financial and trade flows, including money laundering, the abuse of hawala and other informal remittance systems, terrorism and proliferation finance and the interface between legal and illegal actors. In a nutshell, the threats are serious but the good news is that effective responses are feasible and within reach. First I will review the challenges we face and then will outline available practical approaches and solutions.

The Challenges

Three global flows need monitoring and analysis for a clear picture of illicit flows: financial, information and trade. Ideally, these flows must become traceable and analyzed in parallel, so that discrepancies and anomalies can be revealed and studied. Most of our attention so far focuses on finance and information, but even there the work is imperfect and sources not cross-checked. Trade, on the other hand, is for the most part non-transparent, neglected and extremely vulnerable to abuse.

Abuses do occur routinely, not only for money laundering, but also for tax evasion, bribery and corruption, subsidy and other types of fraud, sanctions violations, embargo and quota violations, capital flight, as well as the financing of terrorism and WMD proliferation. The amounts involved are not known with precision but they are certainly staggering and likely exceed $1 trillion per annum. Many terror groups have used commodities in the modus operandi: from the Islamic State and al Qaeda in Iraq to the Kosovo Liberation Army (KLA), Jemaah al Islamiya, Tamil Tigers (LTTE), Hamas, Hizballah, the Partiya Karkerên Kurdistan (PKK) the Northern Alliance, al Qaeda, Groupe Islamique Armé (GIA), the Irish Republic Army, as well as Armenian, Chechen and Georgian paramilitary groups (Cassara, 2015; Freeman, 2012; Passas, 2011a, 2011b; Passas & Jones, 2006; Shelley, 2015).

When it comes to the trillions of dollars in trade volume annually, our vision is blurred for several reasons. First of all, relevant information is not collected in one place for consolidated analysis at the national and international level. Relevant information is collected by Customs, FinCEN, Department of Commerce, port authorities and their counterparts in other countries. Other data are in the hands of banks, insurance companies, brokers, shippers and logistics companies, importers and exporters. No one is getting the full picture because no one collects all of the information in one place.

Secondly, financial institutions are expected to focus on transactions monitoring working with large data that would presumably cover everything but end up identifying much less actionable intelligence than desired. A good deal of compliance work has become an automated tick-the box exercise that yields millions of SARs and massive false positives. These in turn tend to waste the time of personnel that must deal with them, rather than centering on the highest risks, analytical work for typologies or new algorithms, the identification of offenders and closer collaboration with controllers. After all, financial institutions have incentives to avoid heavy fines and reputational damage rather than to discover and chase away bad clients. In addition, financial institutions can only review data about their clients and have no way of accessing either government or other banks' clients and analysis. This leads to costly duplication of work and an incomplete view of the problem.

Thirdly, while some government work has been done on commerce-connected informal remittance and payment networks, such as hawala and black market peso exchange (BMPE), there has been no systematic assessment of trade threats and vulnerabilities in different economic sectors. Even when it comes to Informal Value Transfer Systems (IVTS), a term I coined in a study for the Dutch Ministry of Justice (Passas, 1999), no threat assessment has been done since the studies commissioned by FinCEN right after 9/11 (Passas, 2003a, 2003c). The problem is that these informal networks evolve constantly and adapt to regulatory and law enforcement practices in different countries and environments in many of which they are outlawed (FATF, 2013). It is essential to keep an eye on these changes and also realize that hawala is not only a challenge for controllers, but can also be an invaluable intelligence asset (Passas, 2008) that can be leveraged in many places including Afghanistan, India and Somalia for both control purposes and assistance to fragile communities. This could address at once and synergistically terrorism finance, crime control, development and humanitarian policy objectives (Passas, 2015a, 2015b, 2016; SIGAR, 2013).

Finally, the value of open source information is under-estimated and under-utilized. Reviewing and working only with classified and private data excludes information on the internet, in the press, public reports and research literature from NGOs and academics. Yet, these sources point to knowledge gaps, misunderstandings, contextual information, insights and items unavailable elsewhere that might contradict conventional wisdom or non-public data and discredit sources we should not rely too much on. This is all particularly relevant to the analysis of illicit networks, identification of true beneficial ownership, adverse media news in local or foreign publications, terrorism finance, sanctions violations, corruption, illicit enrichment and other issues of interest to those in charge of due diligence and investigative tasks.

## The Solution

The answer to all of these challenges can be found by simply addressing the opportunities we have been missing up to now. As noted, all of the necessary data are not in one place but do exist. Hawala is not only a problem but also an intelligence asset and resource, if properly handled. Agencies that gather useful information can be encouraged to share it. Open source data are available for analysis. The private sector and academia can assist with additional data, collection in a secure environment, analysis and feedback to both government and business with red flags and guidance. Our view is blurred thus unnecessarily. It is like having a 4K TV that we use for analog programs instead of creating the feed for a high-definition picture of the global illegal trade and finance. The means are there to create it.

There are several data categories that can be collected systematically.

- Inbound Manifest/Movement data are provided to governments by carriers and shippers on goods arriving in a country by road, rail, sea, and air. These records offer details on what goods are received where, when and who is involved.
- Outbound Manifest/Movement Transactions are equivalent data on goods leaving a country.
- Import Declarations to governments when goods enter the economy. These are usually public in aggregate form.
- Export Declarations for goods leaving the economy.

Some of these data are published online, but there are also companies that collect and provide such information for a fee (e.g., Port Import Export Reporting Service - PIERS). U.S. import and export data can be obtained from U.S. Department of Commerce and International Trade Commission websites. Other countries publish theirs in revenue collection and official statistics agencies' websites. The United Nations also publishes trade information.

Port and ship-loading information, Electronic Data Interchange (EDI) records, which are standardized computer-to-computer documents between businesses can be used for the analysis for shipments, invoices and container movements. Trade finance, insurance, storage, satellite imaging, cash handling and movements data can be added to the database too. In the U.S., for example, Geographic Targeting Orders have been used in different states and yield complete records of Money Service Business (MSB) transactions.

By adding crime statistics, criminal records, reports of investigations, open source literature in multiple languages and qualitative on-the-ground sources, such as interviews from different jurisdictions, we can make case studies, pattern analysis and the mapping of criminal networks much easier, richer in details and policy useful. Oil, trade finance, antiquities, food and agriculture, medical and arms-related data can be tracked and added to the database especially for action against terrorist groups like the Islamic State that control territory, have access to natural resources, engage in trade and perform quasi government functions that leave traces.

## A Promising Way Forward

Concrete steps the U.S. Government should consider include the following:

- Ensure that all government data are gathered and analyzed in one place that can liaise also with law enforcement agencies for swift action. FinCEN, for example could be ideal for this purpose.
- With appropriate legal pathways, bring all available private sector trade data and open source data together through a trusted third party, such as a university, that can develop a system to receive, securely store and analyze them in a consolidated way. A university can generate new data and collaborate with government agencies (e.g., FinCEN) to develop patterns, identify irregularities, generate typologies and red flags, issue guidance, and produce evidence-based investigative clues. Many of the problems cited with respect to financial institutions could be resolved with this type of collective action and synergies among business and the government. The university would also help obviate the reluctance of businesses to share information for competitive reasons.

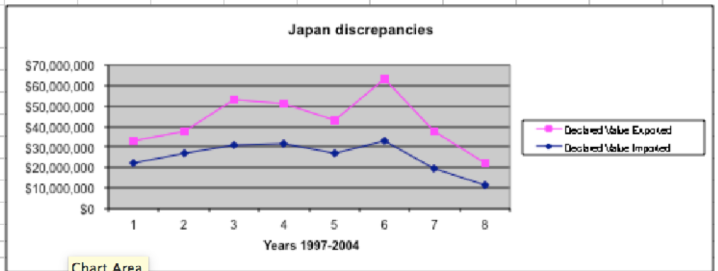
Below are some illustrations of how such analysis has been done in the past in Northeastern's NIJ-sponsored collaborations with FinCEN, DHS and the Department of Justice. It should be emphasized that the examples below do not constitute evidence of serious misconduct and crimes. Disparities may reflect errors, honest mistakes or some special commercial practices, such as inventory management and returned goods. These are clues for follow-up and investigations that can produce the necessary evidence.

The simplest first step is to compare import and export official records to see where these do not match. Items declared as exported from country A to country B, should be about the same the items declared as imported in country B from country A. This is often not the case as shown in tobacco trade statistics between the United States and Japan or Switzerland in the past.

# COMTRADE data

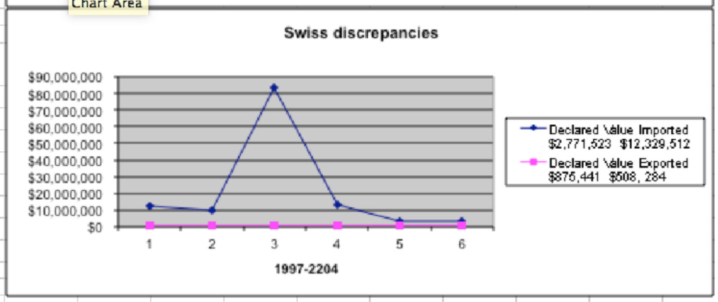
JAPAN

| Year | Declared Value Imported | Declared Value Exported |
|---|---|---|
| 2004 | $21,975,197 | $11,045,812 |
| 2003 | $26,913,805 | $10,869,551 |
| 2002 | $30,660,816 | $22,610,485 |
| 2001 | $31,778,065 | $19,387,160 |
| 2000 | $27,180,986 | $15,871,261 |
| 1999 | $32,790,176 | $30,369,101 |
| 1998 | $19,489,510 | $18,396,887 |
| 1997 | $11,268,342 | $10,639,088 |



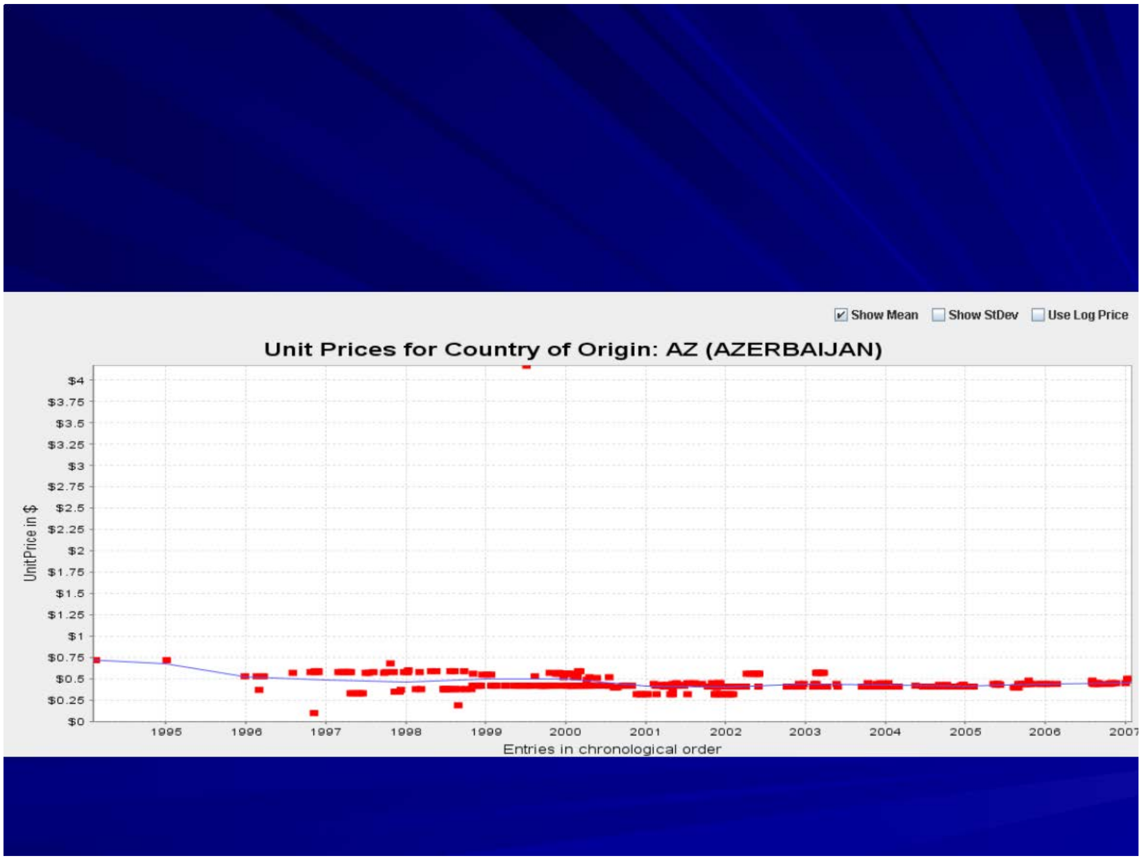

CH

| Year | Declared Value Imported | Declared Value Exported |
|---|---|---|
| 2004 | $2,771,523 | $875,441 |
| 2003 | $12,329,512 | $508, 284 |
| 2002 | $12,219,684 | $540,791 |
| 2001 | $9,551,221 | $564,012 |
| 2000 | $83,585,929 | $925,925 |
| 1999 | $13,605,613 | $889,134 |
| 1998 | $3,045,227 | $910,532 |
| 1997 | $3,685,607 | $989,907 |

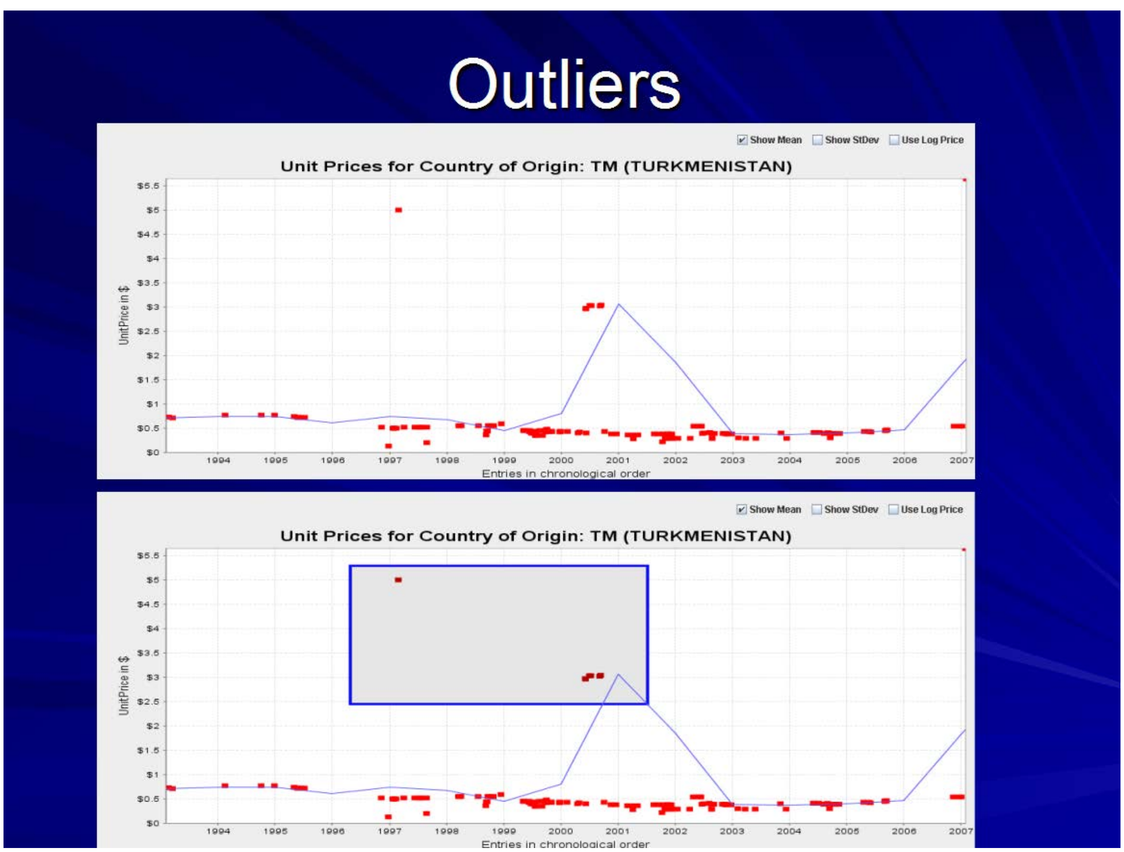



Source: UN Commodity Trade Statistics Database (COMTRADE);

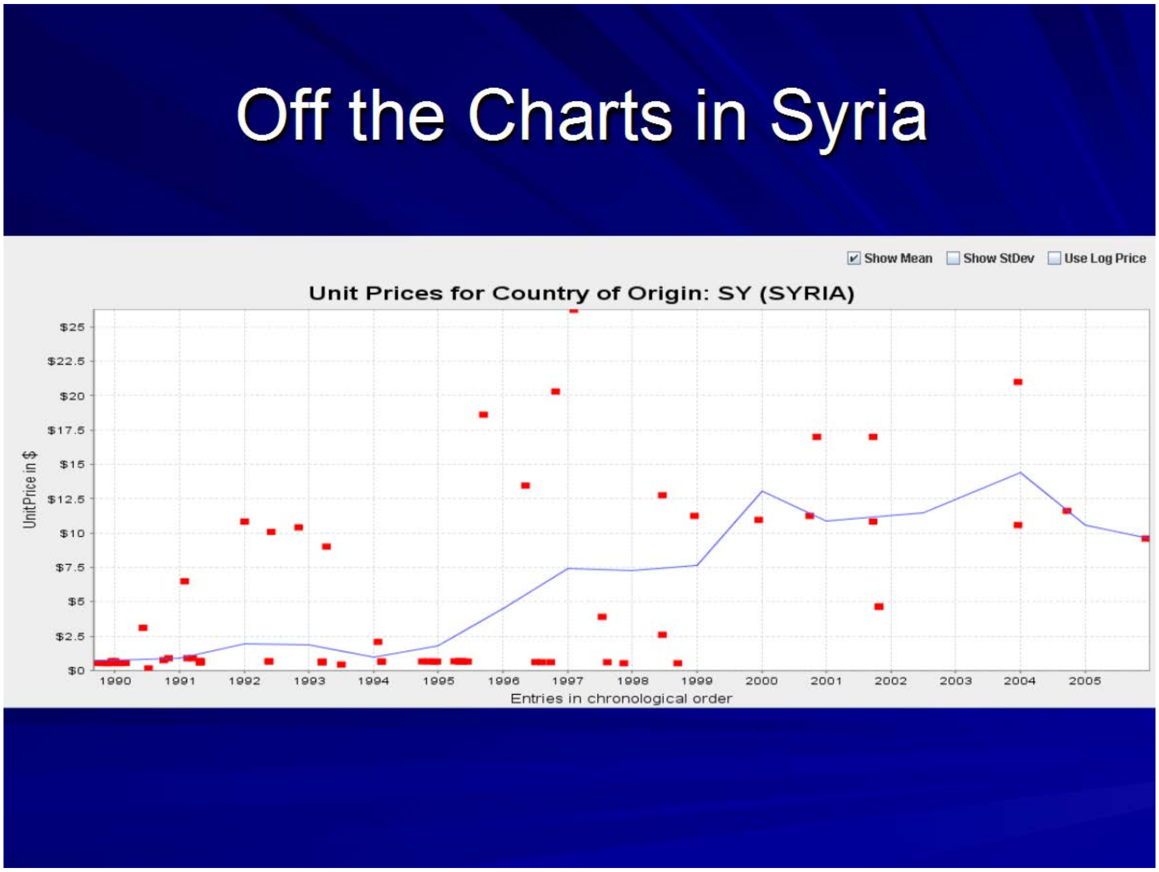
Another type of analysis is comparing declared value per unit for the same commodity in a given time period in different countries. When looking at world market prices for licorice for example, we see that these ranged roughly between $.50 and $.75 in the period between 1994 and 2007. This is what we see by looking at imports from Azerbaijan below. However, when we examine the figures for imports from Turkmenistan during exactly the same time span, we can identify substantial outliers worthy of investigation, as some values go up to $5.00. The numbers go through the roof, when we do the same analysis for Syria during the same period. In fact, the whole pattern of value is completely lost with transactions showing values in the teens and the twenties reaching all the way up to $26.00. It is certainly important for someone to routinely and regularly monitor for such discrepancies and irregularities to find out what explains them and what action must be taken.



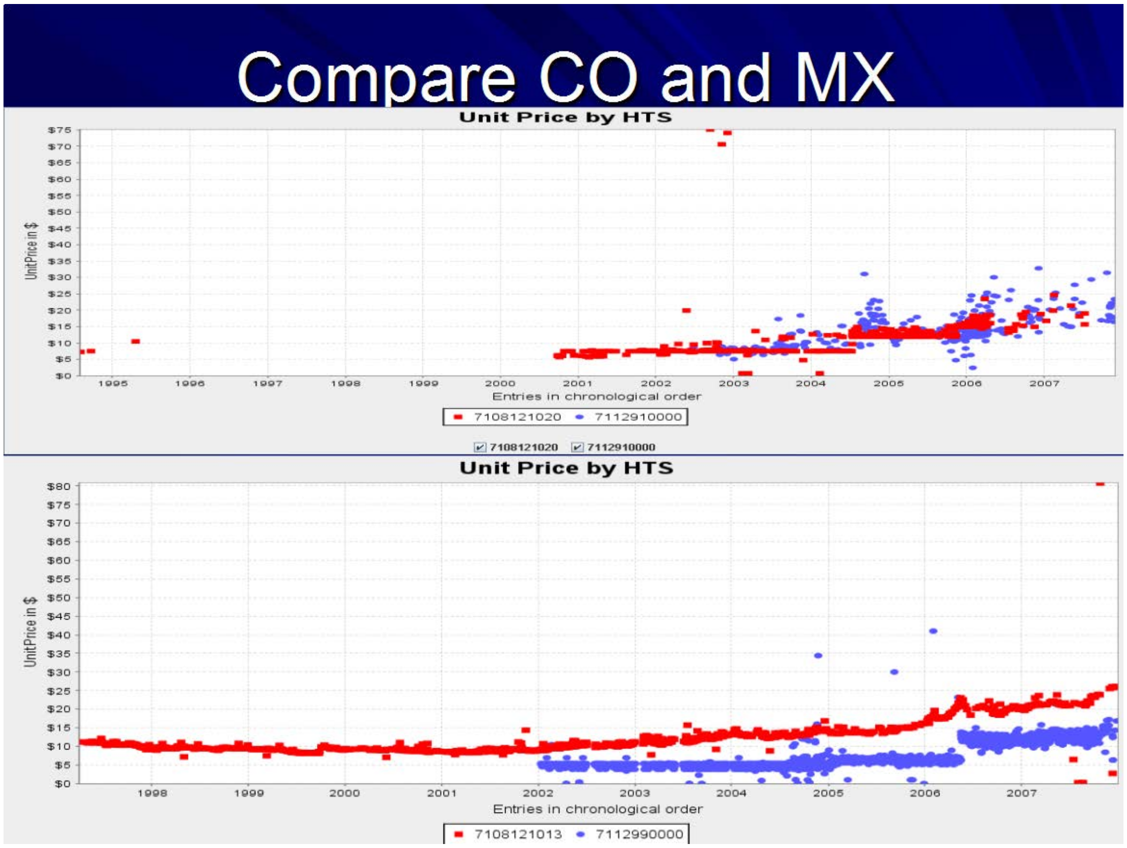
Show Mean
Show StDev
Use Log Price
Unit Prices for Country of Origin: AZ (AZERBAIJAN)
UnitPrice in $
Entries in chronological order

Outliers
Show Mean
Show StDev
Use Log Price
Unit Prices for Country of Origin: TM (TURKMENISTAN)
UnitPrice in $
Entries in chronological order
Show Mean
Show StDev
Use Log Price
Unit Prices for Country of Origin: TM (TURKMENISTAN)
UnitPrice in $
Entries in chronological order



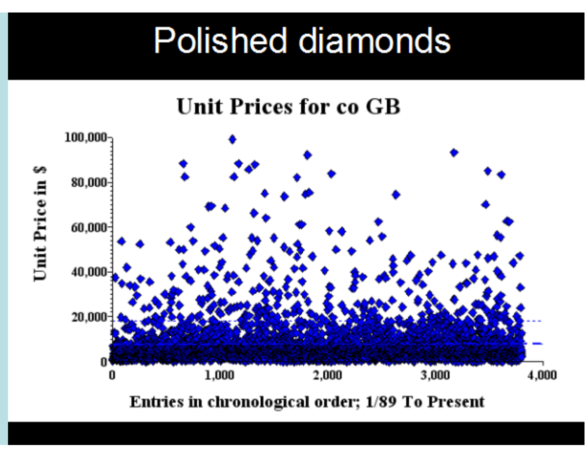

Pricing irregularities that make no commercial sense includes instances where obviously cheaper goods are imported for too high values. Scrap gold (in blue in the figure below), for example, must be much cheaper than pure gold (in red). This is the pattern observed in U.S. imports of gold from Mexico. Scrap and pure gold U.S. imports from Colombia however are all over the place. Some must ask the question who in the U.S. is buying scrap gold for double the price of pure gold and why.




A review of diamond imports into the U.S. show how we sometimes do not know where things are coming from, where they are going and what values are moved: over a period of many years, brokers did not declare to Customs the identity of the real importers of record, but gave instead their own tax ID or someone else's. G. Britain has been declared as the place of origin and provenance of rough diamonds, even though G. Britain has no diamond mines. The declared price of polished diamonds imported from G. Britain ranged between a few dollars to $100,000 showing how diverse the value of stones is and how vulnerable this market is to mis-invoicing.

| DATE | CO. OF ORIGIN | CO. OF EXPORT |
|---|---|---|
| 20030709 | GB | GB |
| 20030711 | GB | GB |
| 20030715 | GB | GB |
| 20030722 | GB | GB |
| 20030725 | GB | GB |
| 20030821 | GB | GB |
| 20030822 | GB | GB |
| 20030823 | GB | GB |
| 20030827 | GB | GB |
| 20030830 | GB | GB |
| 20030910 | GB | DE |
| 20030925 | GB | GB |
| 20030929 | GB | GB |
| 20031002 | GB | GB |
| 20031007 | GB | GB |

**Rough diamond import declarations**



- Such clues and associated red flags can be communicated to banks and all relevant private sector entities for focused action and for their feedback with what information they find on such targets from their end. This can generate valuable new insights into specific targets and help control terrorist finance more effectively. A happy circle will be set off with the private sector making tangible contributions at a much lower cost.
- Update information on hawala and related IVTS methods of operation in the US and other geographic areas of concern. Methods keep changing and adapting to regulatory and law enforcement practices around the world. A new hawala review will be instrumental to more effective AML/CFT as well as control of illegal migration and smuggling. When hawala intermediaries want to help, they can. The Islamic State blackmails and steals a great deal from them too. Victims of extortion, including individuals and hawaladars can be extraordinary intelligence sources. Suspecting that this Committee may examine more in depth remittances, de-risking practices and hawala in the future, I leave a review of this issue and how hawala can be leveraged for CFT and crime control in the appendix to this statement.
- None of this is new. The feasibility of these proposals is demonstrated by the results of work on hawala, IVTS (Appendix) and trade of commodities like gold, diamonds and tobacco (above) at Northeastern in collaboration with U.S. government agencies right after 9/11 (Passas, 2004a, 2004c, 2004d; Passas & Jones, 2007). Other studies have been conducted in partnership with the Caribbean FATF to (free trade zones and financial crime in 6 jurisdictions) and with the Arizona Attorney General's office, when we combined MSB, official and PIERS trade data to analyze a Trade-Based-Money-Laundering case involving the U.S., Mexico and China (Passas, forthcoming). Ongoing work with Europe and M. East-based research organizations furnishes several partners ready to be enlisted in a collective action (offering data, adding resources, facilitating interviews, etc.), for instance targeting the Islamic State. This would be an excellent pilot of the general approach as the Islamic State has enemies in virtually all state and non-state actors in and around the territory they control. Similar universal condemnation and collective action took place in the financial against coalition against child pornography (see http://www.missingkids.com/FCACP), so there is good precedent for acting against serious and specific targets with consensus. Moreover, legal hurdles with data protection in Europe might be lowered as security, refugee and illicit flows have become a top priority there.
- Once positive outcomes are produced, this can be scaled up for other groups and financial crimes to include consolidated and low-cost risk analysis, regularly updated and focused guidance, training and capacity building for business and government officials.

With all this, instead of shooting in the dark, we can shed light on shadowy economic activities and go after well-defined targets. The data, the networks to produce new data, the technology for analysis, the analytical capacity, the previous experience and willingness to collaborate are all there. You have in your hands the switch to turn the lights onto what is now shadowy economic activities supporting the Islamic State, Boko Haram, al Shabab and other terror groups. I urge you to do it.

**Appendix to Statement by Dr. Nikos Passas**
**Hawala mechanics and control opportunities**

Contrary to conventional wisdom, hawala and similar informal remittance channels could be a blessing in disguise. Although informal value transfer systems bring in risks and uncertainties, they also create practical and useful opportunities that could be leveraged in parallel with the international community's efforts to gradually build regulatory and governance capacity in fragile environments. In order to appreciate these opportunities, it is helpful to take a closer look at hawala and its modus operandi.

**1. The mechanics and operations of informal financial intermediaries (hawala)**

The word "hawala" refers to money transfer in Arabic. The operations of informal value and fund transfer systems, including hawala, have been described in works freely available online (Passas, 1999, 2003c, 2004b). More recent details on hawala routes and transactions of Pakistani and Indian networks (Passas, 2006; Razavy, 2005) apply to Somali and Afghani hawala as well (Maimbo, 2003; Orozco & Yansura, 2013; Thompson, 2011).

Hawala is a hierarchical network and market in which funds transfers for retail clients are tangential. The intermediaries (hawaladars) – active in different occupations and economic sectors - trade and speculate in currency in parallel to their main business. The basic way it works is as follows: migrants or donor organizations wish to send money from point A (e.g. the UK) to point B (e.g. Afghanistan). Importers and other customers want to send money from B to A. Intermediaries collect the money, organize and send payment instructions from each end and execute payment instructions received on a daily basis. Payment instructions contain a reference point for each transaction, as well as data on amount, payer, beneficiary, so if there is a delay or error, hawaladars go back to their records and sort it out.

Figure 1. Payment Instructions

Example of fax record keeping

F.A.O. GURU 22/05/01 PAGE 1

492 SENDER : - HARJIT SINGH RECEIVER : - R.K. GUPTA W / O SANJOY SINGH 128/6 PREET NAGAR LADOWALI ROAD JULLUNDHUR TEL : - 181 12345 **DISTT. JULLUNDHUR 1400//=**

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493 SENDER : - JOHANDER PARTHA RECEIVER : - BHAGWANT SHARMA WIFE OF LATE SEN SINGH SON JOGINDER SINGH HOUSE NEAR THE GURUDWARA VILLAGE DALEWAL P.O. GORAYAN TEL : - 1826 12345 **DISTT. JULLUNDHUR 1000//=**

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494 SENDER : - KANG RECEIVER : - ARJINDER SINGH DEFENCE COLONY **MOBILE NO.98141-12345 OR 981 55 123456 JULLUNDHUR 18000//= TOKEN NO. 4AS 689122 (50 INR)**

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**URGENT MESSAGE**

**THE ORDER NO 494 ABOVE MUST BE DELIVERED BY WEDNESDAY 23RD MAY 2001 OR THE LATEST 24TH MAY 2001 IT IS EXTREMELY URGENT**

Source: a case of South Asian hawala (names and numbers have been altered).

Delivery can be made at the hawaladar's office, in a bank account or at the beneficiary's doorstep in local or foreign currency. The exchange rate they offer is much better than that of banks, Western Union or money changers.

Figure 2. Exchanges Rates and Fees

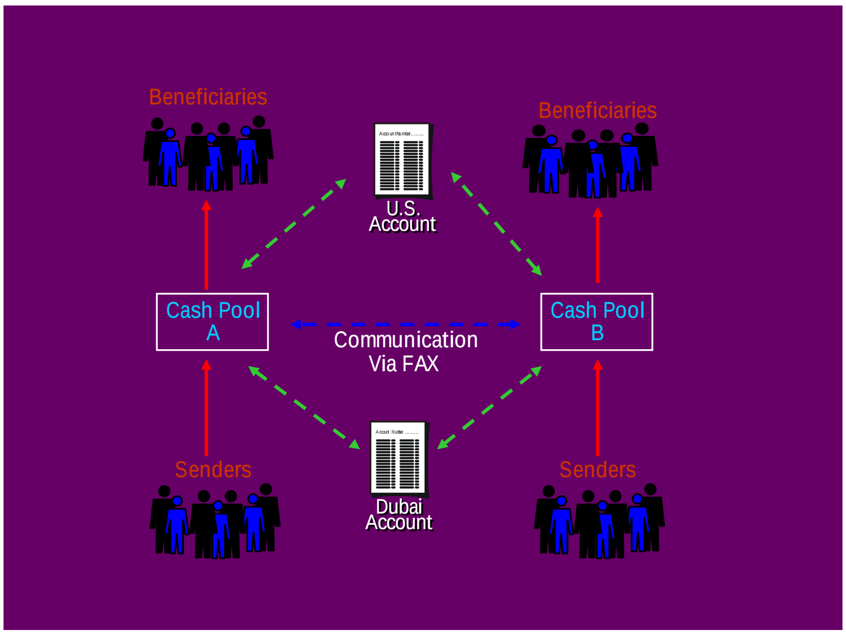
Comparative amounts received in Pakistan for 100 USD from Dubai

| Method of remittance | Charges | Total paid | PK Rupees received |
|---|---|---|---|
| Draft (exchange house) | 1.36 - 2.722 | 101.36 - 102.722 | 5901 – 5910 |
| Draft (Bank) | 2.722 - 6.80 | 102.722 - 106.80 | 5890 |
| TT (exchange house) | 9.52 - 16.33 | 109.52 - 116.33 | 5901 – 5910 |
| TT (Bank) | 12.25 - 27.22 | 112.25 - 127.22 | 5890 |
| Western Union | 9.52 | 109.52 | 5858 |
| Hawala | NIL | 100 | 5920 |

Source: Nikos Passas field research in 2005.

Efficient hawala operates with pools of funds on both ends of transactions: one cash pool in a labor-importing country like the USA on one side (pool A) and another cash pool in a remittance-receiving country such as India on the other (pool B). Each hawaladar makes payments for the counterpart's clients and minimizes the need to move money. Asymmetric flows are balanced through transfers to and from accounts held in large financial centers.

**Figure 3**




Source: Passas (2003c).

If the amounts pooled together in each jurisdiction were the same, there would be no need for either physical or other cross-border funds transfers or currency conversions. The British pounds of expatriates would cover exporters to Afghanistan, for example, while the afghanis of importers could be distributed to family recipients in Afghanistan. However, these pools are asymmetrical because people may remit in multiple directions or wish to receive funds in a third country (sometimes on behalf of another client). Account reconciliation between hawaladars occurs at regular intervals and depends on their relationship. If they are family, this may happen on an irregular basis. If they do not know each other well, they may balance accounts weekly. US dollar accounts in big financial centers (e.g., New York, London, Dubai, Hong Kong, or Singapore)[1] are typically used for this purpose.

So, the generic hawala modus operandi involves three components: (i) sending funds, (ii) delivering funds, and (iii) account consolidation and balancing. As networks

[1] Dubai's role is vital, because it is a commercial and financial hub for Asian, Middle Eastern, and African businesses connected with the West.

evolve and grow, hawaladars engage in arbitrage and shop around for the best dollar, pound, rupee, or other currency exchange rates. Consequently, multiple intermediaries become involved adding to the complexity of hawala networks of operators, agents, sub-agents, clients, and clients of clients. These counterparties and clients may be traders or service providers. Travel agencies, money changers, corner shops, delicatessen shops, music stores, and import/export businesses are all often involved in hawala.

The service is fast, reliable, convenient, cheap and, in some locations, the only option. Recipients can get their money at the speed of a fax and receive their funds even when police confiscate hawala assets. Delivery at the recipient's home benefits women who in some parts of the world do not leave their house unaccompanied. Illiteracy and lack of formal ID cards do not block access to this service, which yields more cash to the recipient than any alternative. Even small savings on the transaction cost represent significant amounts to those dependent on these flows for survival and basic expenses.

The more intermediaries join in, the less transparent transactions become to outsiders or government authorities, even in countries where hawala is authorized. <u>On the other hand, traceability is not lost</u>. On the contrary, because each node of these networks maintains records and knows its immediate counterparts, it is feasible and possibly easier to follow transactions and the money in these networks than in Western financial institutional systems[2]. Despite the mythology of paperlessness in hawala, operators create and keep records (Passas, 2006). The reason is simple: as retail, payment instruction, delivery and reconciliation transactions take place constantly, there is no other way they can keep track of what they are doing and with whom. It is a commonsense, necessary business routine. At least for the legitimate side of their business, they maintain their records for some time. Illegitimate deals may be entered in a different way or records destroyed after reconciliation is done, but this would create a red flag (Passas, 2004a).

For this reason, we need to <u>stress the distinction between transparency (that is, easy access to comparatively mechanized data) and traceability (the ability to find answers to investigative questions by contacting the information-rich nodes of these networks)</u>. To the extent these nodes are open to collaboration, this is a great opportunity and low-tech tool for investigators and intelligence collectors, who can trace funds and intermediaries (Cockayne & Shetret, 2012; SIGAR, 2013) and solve important money laundering and terrorism cases.

If hawaladars do not wish to collaborate, they can obscure transactions or information about their clients. Blanket prohibitions of hawala for decades in South Asia and the Middle East (indeed, in any country with capital controls) have strengthened these networks and made them remarkably resilient and adaptable. The state neither can nor should try to abolish hawala – the question is rather how to handle and regulate it (Passas, 2003b). This is why it is helpful to engage in outreach and build communication and collaboration bridges in networks not overseen by government authorities. Such outreach can take place both in countries where hawala is legal (e.g. UAE) and where it is not (e.g. India). A FATF study reported that hawala is per se illegal in 18 out of 33 reviewed countries – 12 of the countries outlawing hawala are in the developing world (FATF, 2013). The outreach and handling of hawala players in different cash societies

[2] For example, someone in the back office can abuse their position of trust and mix individual transactions with correspondent accounts. In such a scenario, even if the bank and its compliance office genuinely want to collaborate with authorities, it is not able to do so (interviews on an actual case in a big financial center).

will necessarily vary and would need to be based on an assessment of risk, capacity and local practices.

Absence of formal oversight does not mean that hawala is not regulated for integrity (Ballard, 2005). While trust may no longer be the most salient feature and condition sine qua non for hawala networks (Joint Narcotics Analysis Centre, 2008), there are in-built self-regulatory processes and mechanisms for dispute resolution and compliance with their own set of rules. One cannot over-estimate the significance of potential loss of reputation, honor and economic viability, as well as collective shame or ostracism suffered by dishonest participants. Violence is very rare, but has occurred in some instances in the past (Passas, 1999, 2004b).

When disputes arise, hawaladars from different locations meet and consult with each other. In some instances, there are also special bodies, such as a commission of elders in Afghanistan who assist with conflict resolution. Costs resulting from fraud or law enforcement action are usually absorbed in a shared and fair way, so individual remitters do not run a risk in established ("mature") hawala networks, esp. in S. Asia.

## 2. Recommendations

The first and most basic step is to establish the facts and the particular problems to be addressed in a given country, a thorough risk assessment for money laundering and related serious crimes. Well-designed research, solid data and thoughtful analysis will help produce a proper diagnosis and uncover the most serious vulnerabilities, risks and top priorities.

This is not a one-off process. Risks and vulnerabilities identified for each country need to be monitored and updated regularly with the active participation of all shareholders whose insights on irregularities and changes in the socio-political, economic and business environment are invaluable.

Attention thus should be paid to specific sectors, including remittance services and intermediaries. An open mind and shunning of misperceptions will lead to effective measures. Studies indicate that remittances are equally or less vulnerable to abuse than other institutions, contrary to regulator and bank assumptions (Orozco & Yansura, 2013; Passas, 1999; Todoroki, Noor, Celik, & Kulathunga, 2014). Informal remitters may even provide an advantage in fighting terrorism and other crimes. This becomes even clearer when we distinguish between *transparency* and *traceability* of transactions.

Risk assessments may show that in some areas we are exaggerating the problem or over-shooting with controls. For instance, there is no need for enhanced customer due diligence for de minimis amounts. According to a recent survey, Somali expatriates remit an average $2,040 per annum (FSNAU, 2013). The average Somali remittance is £25 in the UK and $170 in the USA (Thompson et al., 2013). Minimal verification is appropriate for trivial amounts, which appear to be the overwhelming majority of remittances to cash societies (Shehu, 2012).

If a risk-based approach is applied to transactions lower than $200, a threshold informally discussed in FATF and regulatory circles, it could be that most transactions to Somalia, Afghanistan and other societies worry authorities and banks needlessly, while adding unnecessary compliance costs. The risk assessment should determine how much of the volume falls into this category. Enhanced due diligence efforts can then focus on large transactions, which may be a comparatively small and more manageable number.

This does not mean that low transaction flows would be left unchecked. A systematic effort could be made to connect sending and delivery actors and to compare their respective data (on clients and amounts). Inconsistencies between the two sides would be investigated and followed up. If no irregularities appear in the volumes of small transactions (i.e., no signs of structuring, nominee arrangements, amount discrepancies, etc.), then the bulk of attention would center on larger transactions. Congress should consider sponsoring and supporting the creation of a clearinghouse that allows the consolidation and analysis of sending and delivery data. Given the current Somali remitter willingness to collaborate, there is a window of opportunity to introduce a tool for the collection and analysis of data in order to detect suspicious activities.

At the same time, it is worth considering ways to leverage hawala information nodes and willingness of participants to collaborate with authorities. Hawala is a headache for controllers and bank compliance officers, but it is also a resource for risk analysis, monitoring, intelligence gathering and investigations. Outreach and good connections within hawala networks provide unique and valuable insights into otherwise non-observable shady networks and operations. It is a problem but also a solution.

The international community can help leverage the local agents' good knowledge of their clients, the ability to "smell a rat" and willingness to collaborate. Despite some arguments that informals in the UAE and Afghanistan resist state regulation, most participants desire to collaborate and contribute to AML/CFT (Todoroki et al., 2014; Vaccani, 2010). Hawala is the only reliable means to investigate AML assets in Afghanistan, for example (SIGAR, 2013). We can raise awareness on this and promote a data linkage with the sending and settlement parts of the hawala process.

This suggests that there might be advantages to informality or at least that money laundering and terror finance risks in cash economies can be managed better. As pointed out elsewhere, "Informal remittance providers are not riskier than other financial intermediaries, while they may extend a helping hand with better governance and control in financial sectors especially in challenging environments. Hawala is a very good business model that helps communities and can foster development and humanitarian support. When traceability is possible, authorities and banks should take advantage of it rather than squander the opportunity to use such a strategic and operational tool" (Passas, 2016).

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