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1 Introduction

1.1 The Problem and Main Research Questions

Since the late 1980s and especially during the 1990s, official concern has grown about what used to be commonly called ‘underground banking’ and its abuse by serious offenders. Articles in the media and on the internet as well as government reports have increasingly made reference to the threat posed by unregulated and informal networks that allow the transfer of value without leaving any tracks for investigators. Even some works by academic writers have echoed this concern and contributed to a conventional wisdom about what these ‘underground banks’ are, how they operate and what risks they represent at the domestic and international levels (Williams, 1997; Savona, 1997). All these concerns reached a new high after the 9/11 attacks in the US, for fear that al Qaeda and associated groups may be channeling their funds around the globe through hawala networks.

Unfortunately, much of what is accepted as fact and taken for granted is inaccurate or false, similarly to other areas generally discussed under the loosely defined category of ‘transnational crime’ (Passas, 1998). Yet, erroneous conventional wisdom continues to penetrate the law- and policy-making arena, as it becomes accepted by government and international bodies. The US Patriot Act, for instance, introduced regulation of informal remittance businesses resting on the assumption that Western regulatory paradigms and frameworks can apply just as well to informal ethnic networks.

As financial controls of terrorism became a high priority policy issue, it became clear that a very wide range of formal and informal fundraising and transfer channels can be used, some of them still neglected and unappreciated (Passas, 2003a). According to a Congressional Research Service report, the use of informal methods is possibly on the rise (Lee, 2002). Further, there are still substantial difficulties in flagging transactions, relationships and associations without serious disruption to normal trade and life. Some individuals or organizations that were subject to law enforcement action in the aftermath of 9-11 have been released or removed from terrorism lists for lack of evidence. This is particularly problematic not only because of human rights and due process issues, but also because the ‘collateral damage’ produced by such actions includes the draining of political capital (to be used for international cooperation) and the rise of anti-US sentiment in communities and regions needed in a coalition against terrorism. To the extent that the targeting of financial activities or funds is inaccurate, such collateral damage is unnecessary and costly (Passas, 2003a, 2003b).

At the same time, other bodies, such as the IMF and the World Bank, have come to the same conclusions as the earlier WODC study on Informal Value Transfer Systems (IVTS; see definition in following section) (Passas, 1999) and point out that ill-conceived policies are likely to cause economic costs and other collateral damage to developing countries and their citizens (el Qorchi et al., 2003; Maimbo and Passas, 2004).

It is, therefore, vital that we continue research in order to establish the facts and separate them from the myths and exaggerations, which make for unnecessary and counter-productive measures and policies. A lot of material and data are scattered around the world in police files not shared with the academic or policy community. These files are not always properly analysed to establish how typical or exceptional particular instances are and what policy adjustments are required, if any. It was deemed, therefore, worthwhile to examine systematically and critically as many cases as possible not only from the Netherlands, but also from countries where hard data are available and seem to fuel official concern that IVTS are becoming an important money-laundering vehicle. Otherwise, the Dutch reality would lack the necessary international background and context in which IVTS operate.

While informal fund transfers are illegal in some countries (e.g., the Netherlands, France, Spain, Colombia, India, Saudi Arabia), in many jurisdictions they are allowed subject to registration, licensing and reporting regulations. As emphasized before, the large majority of informal remitters' clients send honestly earned money (Passas, 1999).

While taking this context into account and the social organization of 'underground banking' in particular, however, this study focuses on the abuses of informal fund transfer channels. We were mostly interested in knowing where in this informal business illegalities may be committed and how. As will be seen, the main aspects of the informal remittance business are the relationships a) between retail clients and operators on the one hand, and b) operators among themselves in the settlement process on the other. In this light, the abuses can relate to the illicit origin of transferred funds, the illicit purposes funds may serve, or the illicit methods informal operators use to reconcile their accounts breaking laws in different countries in/through which they operate. As will become clear - and similarly to other informal economic sectors – legitimate services and well-intentioned people serving legitimate and crucial needs of expatriate communities can be used also for untoward purposes and actions.

1.2 Defining the Terms

The first task was to sort out the different practices and phenomena examined in the literature under the misleading heading of 'underground banking'. Many authors discuss under this term informal or unregulated banks operating for the most part in Asian and African countries. These are small or large scale operations offering banking services, such as credit, deposit-taking, lending and other facilities. Since they are not supervised or authorized by regulatory agencies and violate laws currently in force, these institutions may be called 'underground banks'. Their services, incidentally, are not necessarily criminal or unethical in nature. Indeed, in many instances, they represent the only or most efficient option available to local populations in need of banking services.

On the other hand, a lot of ink has been used to describe as 'underground banking' certain practices which 1) are anything but underground and 2) have little or nothing to do with what commonly defines a bank. Reports in the media, by government agencies as well as academics have been concerned with groups and individuals facilitating the transfer of money from place to place without resort to conventional institutions. One of the more reasonable accounts describes 'underground banking' as 'a commercial activity involving the transfer of money across national borders through a non-bank institution or organisation' (Schaap and Mul, 1995). These activities have been worrying law enforcement agencies in recent years, because they provide a potential route money launderers may use to avoid the increasingly regulated banking system. In many countries, however, these practices violate no law and are conducted openly in street markets. So, there is little or nothing 'underground' about them.

The specific terms employed for such practices vary according to country and ethnic origin. They include hawala, hundi and fei ch'ien among many others. The bulk of the academic and journalistic literature on 'underground banking' refers to such practices. Occasionally, the existence of multiple systems and networks is acknowledged, but then hawala is used as a generic descriptive term (Commonwealth Secretariat, 1998). This usage may be convenient, especially in the light of many similarities in methods. However, it is important not to lose sight of substantial differences in the various practices (Carroll, 1999; Passas, 1999). Indeed, a good deal of the confusion and inconsistent use of various terms originates from the objective of those writing about such practices. Overwhelmingly, this objective is to find out how criminals launder dirty money. Once some vehicles for money laundering are identified, they are all placed in the same basket of 'underground banks' (e.g., see Savona, 1997).

Yet, even the above definition has limitations. Firstly, there may be no commercial activity underlying the transaction (i.e. money sent to a relative who is studying or touring abroad). Secondly, sometimes it is not money, but commodities or other items that are transferred, such as gold, diamonds, electric appliances or computer equipment. Thirdly, the transactions are not always international; they can also be domestic. Finally, sometimes, the transfer takes place through no organisation or institution. It can be as simple as two individuals, a family or a small network of people.

If the practices worrying officials do not have much to do with banking and are not underground, the question is what term should apply to them. The central issue here is essentially with methods of money movements outside the institutional channels, which are supervised and monitored by government authorities. One author uses the concept of 'alternative banking' to refer to a 'system which is subject to no external auditing, control or supervision, whereby money or value can be transferred from one country to another' (Carroll, 1995: 3). However, some of these systems predate the conventional banking systems and in many parts of the world these 'alternatives' are actually the rule - the formal banking system is the exception, the 'alternative' system (Choucri, 1986).

The term 'IVTS' (Informal Value Transfer Systems) was originally coined for hawala and fei ch'ien (flying money), the Chinese equivalent of South Asia (Passas, 1999). Yet, it became clear that other ethnic groups and regions are associated with various currency black markets some of which are characterized by very similar mechanics (e.g., the peso exchange [BMPE] or the Nigerian Naira markets). The current project initially employed the term IVTS for all kinds of traditional ethnic systems for the transfer of funds or value across regions.

However, as I looked closer into the processes by which operators settled their accounts, I found additional methods and means often interfacing with more modern and Western trade and financial institutions. Quite sophisticated and complex transactions are employed not only for settlement purposes, but also as separate and stand-alone value transfer methods, such as invoice manipulation or the informal use of correspondent bank accounts. Common among them are the trust on which transactions are based and the ability to leave no traces for anyone seeking to reconstruct the trail of the value/funds. In order to be more precise, therefore, the IVTS definition was amended slightly to include '*any network or mechanism that can be used to transfer funds or value from place to place either without leaving a formal paper-trail of the entire transaction or without going through regulated financial institutions at all*' (Passas, 2003a).[1]

IVTS originated and are still found most prominently among Asian ethnic groups. They have spread to the other continents as a result of immigration and social mobility. They are characterised by trust, a relative absence of written records, and a reliance on contacts around the world. In most instances, value/money is transferred without the movement of money, just as is the case with formal institutions.

1.3 The Origins of IVTS

Most traditional IVTS are derived from two main methods of value transfers, both of which originated in Asia centuries ago. Hundi/hawala emerged in South Asia (India and Pakistan), while fei ch'ien was practiced in China. The majority of writings erroneously assert that IVTS emerged for illegal purposes, such as the evasion of currency restrictions and the by-passing of various laws, or in the context of political instability and distrust of banks (Bosworth-Davis and Saltmarsh, 1995; National Crime Authority, 1991; O'Hara and The Wild Palms Foundation, 1997; South, 1995). The truth is that these networks

[1] On the further distinction between informal funds transfer systems (IFTS) and informal value transfer methods (IVTM), see Passas (2003). This report focuses only on the IFTS, the more traditional IVTS used by ethnic groups and networks to transfer funds (and, for the most part, honestly earned money). IVTMs are more contemporary and often sophisticated methods that involve almost invariably misconduct.

were essentially benign and were established to serve perfectly legitimate needs (Akse, 1996). They served people well before the development of modern banking institutions, they facilitated legitimate trade or other transactions, while protecting against robbery and theft. As has been pointed out, one function of 'hundis' was to enable people to get advances; hundis were either pure finance bills or trade bills (Jain, 1929). Fei ch'ien, on the other hand, emerged as a method of settling accounts between traders and local government authorities keen to minimise the risks of robbery and to avoid the inconvenience of physically transporting large amounts of money or goods from place to place. Indeed, some of the modern banks were developed out of former IVTS (Cassidy, 1994).

Both of these models of IVTS became so widely accepted that they became integral elements of the culture in Asian countries and communities of immigrants. More recently, another variety of IVTS appeared in the Americas commonly known as 'la vuelta', which revolves around the Colombian black market for pesos and dollars (BMPE).[2] This market does currently facilitate the laundering of dirty money, but it also originated for less murky purposes. It started as a mechanism providing strong currency to Colombian importers, who needed to settle their accounts overseas, but faced currency restrictions at home.

1.4 Methods

An effort was made to collect recently detected and documented cases of hawala, hundi or other IVTS from the USA and India and analyze them in depth. This research was conducted on behalf of WODC. As the focus moved to the point of origin and the settlement process, it emerged that the main remitting regions of this study were North America, Europe, the United Arab Emirates and Saudi Arabia, whereas the remittance receiving countries included India, Pakistan, Afghanistan, Iran, Iraq, Bangladesh, Sri Lanka, Yemen, Nigeria, Somalia, Kenya, and Colombia. The method was archival analysis of court, prosecution, and investigation/police evidence made available to me. In addition to 7 Dutch cases studied by a WODC research team, this part of the project concentrates on 15 recent North American and Indian cases.

The original study was based largely on secondary sources: the literature in social sciences, legal periodicals and journals, documented cases, media articles and government reports. The understanding from these cases was updated in the light of additional secondary data from the USA and South Asia.

The aim has been to describe the typical and less common methods of operation and offer a deeper understanding of the social organization of IVTS. That is, besides the modus operandi, the effort is to better understand who are the main beneficiaries, how the labor is divided, what is the role of

2 Other groups, such as Nigerians have also been using the same method for fund and value transfers (Passas, 2003).

criminal organizations, in (or through) which countries do they operate, and who are the victims. The focus was on international cases with possible European elements to them.
In addition, this report draws on extensive interviews with scholars, lawyers, participants in offenses, regulators and law enforcers from all continents, a critical review of legal and scholarly literature, media and government reports, and a number of cases from around the world.[3]

1.5 Outline of the Report

Having offered a more precise definition of the practices and issues involved in what is indiscriminately called underground banking, as well as a brief look at the origin of the practices in question, this report outlines the findings of a parallel study conducted by Kleemans et al. (WODC-sponsored), discusses the prevalent modus operandi, incorporates the findings of Passas' wider IVTS research (NIJ-sponsored; Passas, 2003), examines the factors contributing to IVTS continued popularity and concludes with a summary of the findings and policy implications.

3 Such interviews and additional research further exploring the IVTS mechanics and division of labor were funded by non-WODC resources.

2 Results of the WODC Study

2.1 Background of the study

In 1996, the Minister of Justice promised the Dutch Parliament to report periodically on the nature of organized crime in the Netherlands. Consequently, the Research and Documentation Centre (WODC) started the so-called 'organized crime monitor'; an ongoing systematic analysis of closed police investigations of criminal groups. The aim of this research project was to increase the learning capacity of the criminal justice system and to construct a sound basis for preventive and repressive policy. The first report of the monitor was published in 1999 (Kleemans et al. 1998). It was based upon analysis of 40 major police investigations on criminal groups in the Netherlands. Furthermore, information was drawn from public and confidential reports, crime analysis reports and interviews with experts. The second report was published in 2002 (Kleemans et al., 2002) and elaborated on the findings of the first report. Data were collected on another 40 major police investigations and, once again, use was made of public and confidential reports and interviews. Finally, all the available financial information of the 80 extensive case studies was used for an analysis of financial transfers, money laundering, and expenditures and investments (Kleemans et al., 2002: 101-138). The conclusions about IVTS were mainly based upon 7 case studies, which have been recoded below as cases A, B, C, D, E, F, and G.

2.2 The modus operandi of IVTS operators

In the literature, routines of IVTS transactions are often described as follows (e.g. Akse, 1996a; Mul & Schaap, 1995; Nove, 1991):

> 'The client hands over money in a store with IVTS facility and requests this sum to be transferred to someone in another country on presentation of some code, such as half of a torn up photograph or bank note, or one of two identical objects like earrings. Next, the IVTS operator passes this payment order to his counterpart in this country, and provides him with this code. The client in turn, provides the beneficiary with the code. On presentation of the code, the beneficiary may receive the specified funds sent to him.'

Certain aspects of these routines, as decribed in the literature, did not occur in the analyzed investigations. For instance, there was no corroboration of the use of codes like torn up photographs or identical objects. In these cases, the IVTS operators almost exclusively use fax and telephone to transfer money:

> In one case, there is an underground banking system, with branches in the Netherlands, Jordan and Iraq. In this case, IVTS operators arrange all their transactions through faxes written in Arabic. These faxes state the exact transaction amounts, and the names of the beneficiaries in Jordan or Iraq (case E).

> In another case, the IVTS agent in the Netherlands faxes the transaction amounts and the names, addresses and account numbers of the beneficiaries to his counterpart in Pakistan. When recipients collect funds from him, he gets a fax from Pakistan with the passport numbers of these recipients and the amounts due. Sometimes he gets faxes with a copy of the passport of the beneficiary and the amount due. After payment, he calls or faxes his Pakistani counterpart to report it (case F).

Probably this (new) routine is a result of the improved phone and fax connections with countries with IVTS operations. These changes are not pointed out in the recent literature, which may reflect the lack of recent empirical studies in this field. Furthermore, authors seem to cite the same examples time and again. This way, unique operating procedures look like prototypical routines and become 'facts by repetition' (Passas 1999).
The case mentioned above shows that clients sometimes have to identify themselves. This finding is contrary to the widespread assumption that informal money transfers are completely anonymous. According to this case, IVTS agents even fax passport numbers or copies of passports to the counterparts who have to make payments. This might however be exceptional. A study of the ECD (Dutch Economic Control Service), which was mainly focused on Surinamese underground banking systems, shows that senders of funds hardly ever need to identify themselves.
In other respects the methods used in the cases of this study also differ from the methods described in the (inter)national literature. In one case, a Turkish IVTS operator uses regular banks to transfer money:

> In this case, the banker acts as intermediary: people can either remit funds to his bank account or hand them over to him personally. Next he transfers these funds through collective accounts of Turkish Rep-offices, or Turkish or Dutch banks (case D).

Interviewees state that the use of official banking institutions is typical for Turkish IVTS. The service of Turkish IVTS consists mainly of collecting funds and remitting these either anonymously or by the name of the banker. Often these Turkish IVTS operators are traders who are involved in many international value transfers. Obviously they presume that among all those transfers, the remittances on behalf of their clients do not easily attract attention.

The routines of the Iraqi IVTS agents are mainly determined by the international sanctions against Iraq since 1991. People who wanted to send money to Iraq were thus more or less forced to use either illicit physical value transfers or IVTS. In turn, IVTS agents have to search for ways to transmit the deposited money to the recipients in Iraq:

> The Iraqi underground banking system has a branch in Jordan. The payment of sums deposited in the Netherlands can occur in three ways. The IVTS agent in Jordan gets notified that the beneficiary will contact him or that he has to contact the beneficiary by telephone. Next they can make arrangements about the way in which the payment will occur. A third possibility is to make use of wealthy Iraqi families. In that case, a sum is handed over to a member of such a family living in the Netherlands. Next another member of this family living in Iraq directly hands over these sums to the beneficiary (case E).

This last payment system has advantages for all participants involved: Iraqis living in the Netherlands can make payments in Iraq, rich Iraqi families are able to accumulate Western currencies and the IVTS agents get commissions for mediating this process. Another striking feature of the Iraqi IVTS is the extra service for regular customers:

> Regular customers do not have to visit the IVTS agency for every transaction. They can give the IVTS agent a credit card with the corresponding PIN code, so that he can collect funds with this credit card and remit them abroad (case E).

Though not typical of all Iraqi IVTS agents, this routine demonstrates how strongly IVTS networks are based on mutual trust. Mutual trust is essential, because the positive side of underground banking is also its major weakness. The lack of public control and a legal banking status entails the lack of legal guarantees and formal agreements to fall back on when arrangements are broken. Therefore, IVTS networks with operators in different countries are often run by respected families or clans who enjoy much confidence (Schaap, 1999: 106).

IVTS agents are quite often owners of import and export firms, travel agencies or jewelleries (Schaap, 1999: 106), but small restaurants and snack bars can also serve as branch offices. The use of existing shops can reduce the running costs of an IVTS. Furthermore, these branches are easy to access and difficult to trace. Sometimes these retailers and branch managers act as intermediaries. They receive funds from clients and deliver them to an IVTS operator.

IVTS agents can pay amounts abroad within a day or even within several hours on a better exchange rate and commission than official banking institutions. According to the cases of this study, IVTS operators charge a commission of 1 to 2 percent of the amounts sent for non-criminal clients (e.g. case E and case F). Regular clients often enjoy an additional discount. Official money transfers (e.g. Western Union) are much more expensive and may reach up to 30 percent of the sums to be remitted. Apart from that, IVTS agents also make money out of exchange rates:

> During an interrogation, one IVTS operator explains that he runs remittances from the Netherlands to Pakistan through the United Kingdom. This detour brings in extra profit, because the exchange rate of the British pound with the rupee is more favorable than that of the Dutch guilder (case F).

IVTS agents can pay out sums in areas where official banks do not operate or function badly, such as the northern region of Vietnam or parts of Afghanistan, or countries that are subject to UN sanctions. Furthermore, IVTS are not easily subject to public control. They do not report unusual transactions, do not keep formal records of their services and the sender of a sum does not always need to identify. The 'Nederlandsche Bank' (National Dutch Bank) and the Finance Department have hardly any insight in the underground flows of money.

In principle, IVTS operators do not always need to balance mutual transactions. Only when the balance tips at the expense of one of the bankers involved, they have to even this balance. There are different ways of doing this, for instance (see also: Passas, 1999):

- Moving or smuggling cash, gold or diamonds from one country to another.
- Exporting goods from one country to another, using for instance over invoicing or under invoicing.
- Settling accounts through regular bank transactions.
- Through a system of counterbalanced payments (Schaap, 1999: 108).

This way formal banking systems can also play a part in IVTS business.

2.3 Underground Banking Systems and Criminal Networks

There is not much clarity on the relation between IVTS and criminal networks (Passas, 1999). Some scientists hold the view that criminal networks use them to a certain extent, but that the volume is limited. The capacity of IVTS would be too limited and the banks would not be able to transfer large amounts of money. These conclusions are challenged by this study:

> In one case, a Turkish IVTS agent transfers more than 14 million Dutch guilders (about 7 million Euro) for drug traffickers from the Netherlands to Turkey in a period of 12 months (case D).

> In another case, offenders transfer more than 450.000 British pounds in four transactions through one Pakistani hawala system. Through the other system, each month an average amount of 300.000 pounds of

> criminal cash was transferred. Now and then, even twice as much is remitted to Pakistan in the same period of time (case F).

IVTS agents can thus receive as well as pay out large amounts of money (see also: cases D and E). This finding is supported by the results of a British investigation, which demonstrates that a Pakistani underground banker transported 12 million British pounds in six months (Schaap, 2000: 107). In the analyzed cases, bankers were sometimes willing to talk during interrogations about their service to non-criminal clients, but they never talked about their services to drug traffickers, women traffickers, et cetera. However, from some of the cases it is clear that they are willing to work for such groups. Sometimes they adapt their regular routines for these clients:

> A Turkish underground banker uses the so-called 'smurfing' method for moving criminal profits. The large amounts offered to him by drug traffickers are divided in small portions before remitting them to Turkey. This way, the chance of detection is reduced. These sums are not only remitted to drug traffickers, but also to members of their (extended) family (case D).

The fact that underground bankers smurf criminal profits before remitting them indicates that they know the sums consist of criminal cash. This Turkish banker transfers money through regular banks. Smurfing is a fairly approved method to prevent the reporting of unusual transactions.

2.4 The Importance of Intermediaries

Another finding is that intermediaries can play an important part in making contacts between IVTS operators and criminal clients belonging to ethnic groups that are not (traditionally) familiar with IVTS. The research material shows that the contacts between an underground banker and these criminal clients come about through intermediaries with the same ethnic background as the banker, and contacts in the criminal environment. These intermediaries have either been criminally active themselves, or they have rendered services to criminal networks, like exchanging money for drug traffickers. Exchange dealers are not only intermediaries between criminal networks and legal financial services, they can also bridge between criminal groups and underground bankers:

> The contact between a Pakistani underground banking system and different drug trafficking groups is brought about by Pakistani exchange dealers. They know the drugs scene, because they have previously been working as drugs runners (case F).

These intermediaries are capable of bridging between parties that would otherwise remain separated. This contact is not only advantageous for the

people that are connected to each other, but also for the intermediary who links these people. In this particular case, the intermediary gets commission for making contacts.
Furthermore, the data show that underground bankers often transfer money for more than one criminal network. A possible explanation for this phenomenon is that the 'good news' spreads in the criminal environment and that other criminal groups follow their example.

2.5 Profit

In the cases analyzed for this study, criminal clients sometimes pay 7 to 10 percent commission, which is more than the 1 to 2 percent non-criminal clients generally pay. However, there are other IVTS agents who charge their criminal clients with only 1.2 to 1.5 percent commission.
Working for criminal clients can be very profitable for IVTS agents:

> In one of the cases, the underground banker earns at least one and a half million Dutch guilders (about 0.7 million Euro) with money transfers for drug traffickers in a time period of 3.5 years (case D).
>
> In another case, the IVTS agent transfers more than 1.6 million Dutch guilders (about 0.7 million Euro) for drug traffickers in four transactions. Assuming that he charges a commission of 3 percent, he makes a profit of 48.000 Dutch guilders (about 23.000 Euro) with this transfer.
>
> Another banker charged 10 percent commission. This banker transferred 600.000 Dutch guilders abroad in six weeks time. His profits add up to 60.000 guilders (about 27.000 Euro) (case F).

2.6 Opportunities for investigation

The opportunities for investigating the criminal abuse of IVTS seem better than is generally expected. First of all, the fact that IVTS-agents make use of official banking institutions offers good prospects for investigation. It is a stubborn misunderstanding that formal banking systems do not play a part in underground banking. A clear example is the underground banking system between the Netherlands and Turkey, where Dutch and Turkish banks are used for each transaction (case D). But other underground banking systems use formal banks as well. They remit sums to (business) accounts and make use of tele-transfers through banking institutions in Germany, the United Arab Emirates and Pakistan (cases B and F).
Secondly, it is often stated in the literature that underground banking systems do not leave a paper trail (Mul and Schaap, 1995: 19; Kleemans et al, 1998: 73). Sometimes, these authors refer to prominent IVTS bankers who state in the media that they do not take records of their transactions (Schaap, 2000: 107). However, the analyzed cases show that IVTS agents sometimes

definitely leave paper trails. Some domiciliary visits provided (parts of) the accounting of the bankers. Other IVTS agents keep detailed records of their transactions for non-criminal clients and keep (a fragmented) administration of transactions for criminal networks. Generally they record as little as possible, but even pieces of scrap paper with bank accounts that are involved in informal transactions for criminal groups can provide significant information for further investigation (case F).
Thirdly, the established frequent fax and phone traffic between underground banking agents and their clients, intermediaries and counterparts is important. The cases of this study show that tapping (mobile) phone traffic provides much useful evidence. Monitoring conversations between intermediaries – often well known exchange dealers – and underground bankers or members of a criminal network can provide additional information of (intended) transactions.

Summing up, this study shows that criminal networks make use of IVTS. IVTS agents are attractive because of their unofficial character, the anonymity, their quick service and their capability of frequently paying out substantial amounts at relatively low charges. Furthermore, it can be concluded that the opportunities for investigations into the criminal abuse of IVTS seem better than is generally expected. The frequent use of faxes and phones and the detailed or fragmented records of their transactions can offer important leads for investigating the transport of criminal cash through underground banking systems.

3 The Mechanics of IVTS[4]

As mentioned earlier, an aim of this study was to complement the other WODC research, by looking at additional cases and networks in different countries. This study to a large extent confirms some of the conclusions of that study, but adds further detail and clarifies questions raised earlier with respect to the social organization and 'routines' of IVTS operators.

The chief countries of focus were the US and India, but I went beyond them in order to follow the settlement process (also, fund transfers to/from the US and India are directed to or go through numerous countries around the world). The main remitting regions of this study were North America, Europe, the United Arab Emirates and Saudi Arabia, whereas the remittance receiving countries included India, Pakistan, Afghanistan, Iran, Iraq, Bangladesh, Sri Lanka, Yemen, Nigeria, Somalia, Kenya, and Colombia. Even though the particular name for the IVTS changes from region to region (hawala, hundi, BMPE, padala, door-to-door, etc.), the main modus operandi and operational characteristics remain essentially the same. At a minimum, there is a remitter, a recipient and two IVTS operators, one in each country.

One common misconception, which was echoed also in the previous IVTS study was that a distinguishing feature of hawala is the transfer of funds without movement (Passas, 1999). In fact, this is a feature similar to formal fund transfers – Western banks or remittance companies do not physically transfer funds either. As with formal institutions, there are accounting entries and debts that need to be balanced. As a result, there are two main elements to hawala and other similar IVTS: the remittance process and the settlement process.

The former revolves around the relationship between a remitter and an IVTS operator, while the latter involves IVTS operators among themselves and, possibly, a large number of intermediaries who play a role in the whole process. We can look at each of these processes in sequence, while also paying attention to the issues raised in previous studies and particularly the nexus with crime.

IVTS processes function most efficiently when there are pools of cash available to draw on when the payment instructions come in from other parts of the world. Effectively, each IVTS operator uses the funds of remitters in his community or larger area of operations to make payments to clients of his counterparts overseas. His counterparts do the same.

[4] It is reiterated that this study still uses the more general term IVTS but focuses essentially on informal funds transfer systems (IFTS) rather than informal value transfer methods (IVTM).

3.1 The IVTS Remittance Service

It is essential to emphasize again that the most important beneficiaries of IVTS services are immigrant workers and their extended families or friends in the homeland. So, the overwhelming majority of clients are remitting honestly earned funds, which is the main reason for the immigration (legal or clandestine) in the first place (Passas, 2003; el Qorchi et al., 2003; Maimbo and Passas, 2004).

Other beneficiaries include parents of students overseas, tourists, traders, non-governmental organizations, international organizations and companies. The term 'alternative remittance services' which is unfortunately still used in many policy and law making settings, obscures the fact that IVTS is the sole option open for legitimate transfers in many parts of the world.[5] In Afghanistan, for instance, or Somalia, hawala is the best functioning 'institution' which is used even by aid organizations active there (Maimbo, 2003; Passas, 2003). As just about everyone uses IVTS in many regions, so do criminals and terrorists operating in such regions, another category of beneficiaries to be discussed below.

When a remitter wishes to send money overseas, s/he makes payment in local currency (e.g, US dollars, Euros or some other convertible currency). The IVTS operator quotes the remitter the amount of money the recipient will get (e.g., in Indian rupees), which is almost invariably substantially larger than any other alternative (e.g., bank draft or Western Union). In some instances, the recipient is to get US dollars or other foreign currency, but in most cases, the payments are made in local currency.

Before the attacks of 9/11 in the USA, the standard fee for amounts up to $5,000 was around $5.00 and $10.00 for higher sums. Fees have gone up since - in some cases up to double the pre-9/11 level. The evidence, however, is anecdotal and no real attempt has been made in the US or Europe to study the effects of new attention by authorities and regulations applied to IVTS. In other cases, a commission is charged, usually 1-2 percent of the remittance amount.

In most cases, the fee, commission or other profit made by IVTS operators is built into the exchange rate offered to retail customers. Noteworthy is that the commissions for certain destinations, such as Iraq or Iran during periods of international sanctions, have been as high as 25 percent. For destinations with serious infra-structural challenges, such as Somalia, the commission is about 5 percent (personal interviews). Clients may also be charged extra for urgent deliveries or payments in remote destinations. Remitters of small amounts were occasionally not charged anything at all. Again, before 9/11, some IVTS networks offered remitting services for no charge to immigrants in Europe or North America at all. All their profit was coming from the liquidity

[5] This shows, once again, why definitions and terms are not academic exercises, but rather have serious policy consequences.

they were provided, which was used to cater to South Asia wealthy traders or other clients who wished to accumulate hard currency overseas – a service for which they were prepared to pay a premium.

After 9/11, many immigrants decided to do exactly the opposite; savings and investments in the global North returned to South Asia for fear that reasonable or indiscriminate freezing orders would affect them, as lists of suspected terrorists started circulating from the US to the EU and the UN affecting thousands of people with the same or similar names. This has certainly affected the IVTS environment, business and pricing practices (e.g., in Pakistan, the black market rate for US dollar was actually lower at times than the official rate, as people no longer wished to accumulate and save in that currency). In all South Asian countries, incoming recorded remittances rose sharply, giving the impression of a substantial switch out of the formal and into informal remittance services. Some of that, however, may reflect thus repatriation of existing funds overseas. The precise consequences of such developments have not been the subject of any systematic study yet.

The delivery of remittances takes place commonly within 24 hours, even though it is technically and actually possible for payments to be made within minutes. In remote areas, it may take up to two days.

The identification of remitters by IVTS operators was really not a big issue before 9/11. There are surely cases where people knew exactly who their clients were and whether the money they were asked to transfer was legitimate or not. In other cases, when agents and intermediaries, such as cash pick-up and delivery people are involved, they have very limited knowledge of the clients or the clients of the agents they deal with. As far as IVTS participants in the settlement process are concerned, the consolidation of amounts from several clients makes it highly unlikely for intermediaries to be aware of the identities, businesses and legitimacy of particular transactions or clients.

The new rules in the US, UK and elsewhere require know-your-customer procedures, record-keeping and reporting of suspicious transactions. After the introduction of such rules, registered remittance services have been complying with such requirements to the point of asking for too many (and in certain instances, unnecessary) questions and demanding some documentation of their clients. What happens with unregistered IVTS operators (whose numbers may be unknown but can be expected to be very substantial) is an open question.

Usually, IVTS operators would quote a price/rate to their clients, collect all amounts and payment instructions, organize them by destination, and send the instructions to their counterparts in each country by fax or email.

On the receiving end, the customer identification has varied from region to region. Typically, the information collected and kept by IVTS operators includes, the name of remitter, amount in local currency, equivalent in US dollars,[6] equivalent in destination country's currency, the address/location,

[6] The US dollar continues to be the dominant currency in informal markets, despite a noticeable shift to Euro in recent years.

name and telephone number of the recipient, and a running balance with business they do with counterparts in each location. South Asian IVTS operators keep a separate book for each counterpart or agent they deal with. This study confirms that documentary records in US, UK, Indian, Pakistani, Afghani, Iranian, United Arab Emirates, Kenyan, Nigerian and other IVTS networks are kept, even though the length of time they are maintained and detail included vary. In two of the cases (involving Indian and Pakistani networks) examined, records going back to several years were kept by operators based in the West. Indian interviewees also confirmed that ledgers with details of customers and deals are very commonly found upon investigation. The Iranian case examined here also demonstrated how systematically information was kept both in the US and in the intermediary spot (United Arab Emirates). As the findings of the WODC study also show, it is simply a stubborn myth that hawala-type of transactions are paperless and leave no trails. In certain instances, there is just too much evidence rather than no lead to follow.

It is true, however, that there is no uniform accounting method systematizing this material, which represents a challenge to regulators and controllers as they seek to understand certain transactions and follow the trail of transfers.[7] Whenever IVTS operators collaborate, the reconstruction of deals and fund transfers is no harder than with formal financial institutions.

On the other hand, there is no guarantee that IVTS clients would use their true names – these are after all informal markets and practices we are dealing with. Trust reigns supreme, and it would be offensive if someone asked for formal proof of identity from the remitter or the purpose of a transaction. This is especially so with family run IVTS operations servicing members of the same ethnic community, where people do know each other. At the same time, given the spread and growth of IVTS networks, family and ethnic ties are no longer necessary. In some cases, clear cross-ethnic and cross-religious transactions are typical.

For the delivery of funds, therefore, some type of identification of the legitimate recipient is required. In the Indian sub-continent, a most frequent practice is to use the serial number of a rupee note in the hands of the intended recipient. Particularly when the amounts transferred are above a given threshold, the faxed payment instructions would include a note such as 10 Indian rupee note, serial number 123456789. This practice is ingenious and sensible, as each note has a unique serial number. The IVTS operator would keep this note as evidence that the funds were delivered to the right person. However, this constitutes a vulnerability of these methods, as the transparency of the transactions is clearly undermined. Even though the name, telephone number and address of the recipient are included in an IVTS operator's records, the bearer of the designated rupee note could be anyone.

[7] On the challenges one faces in the course of hawala-related investigations, see Passas (in press a).

In other parts of South Asia, a code word may be used – for example, the IVTS operator would ask: ‘what is the color of the rose’? The correct answer may be ‘black’, so when the person coming to collect the funds provides the expected answer, the cash is paid out.

In Pakistan, on the other hand, national identification or passport is used increasingly, even for informal fund transfers. The identification of customers issue is not easy to handle in many parts of the world where records and other verifiable information on people is simply not available. For example, in parts of Africa, the elder of a tribe can provide the best evidence of someone’s identity (this is the equivalent of DNA testing, as a Somali interviewee put it).

Before 9/11, many providers of remittance services advertised in the ethnic press quite openly. Finding someone to assist with the sending of small or relatively large amounts has never been a problem in any country with expatriate communities. Things in this respect have also changed recently, as many IVTS operators may not be registered or licensed as required. How easy it is now to find someone to take care of this substantial need among immigrant laborers is not clear. However, the numerous cases of unregistered/unlicensed remitter premises raided by US authorities in recent months strongly suggest that the grapevine (informal communication by word of mouth) is quite efficient.

Walk-in customers are probably the majority, but IVTS operators also visited clients at their home or business address or received cash into designated accounts. Agents and sub-agents would also collect funds in various communities, bundle them together and forward them to bigger players in the same country (see case study of Pakistan in the following section).

IVTS operators commonly set a rate for the currency most in demand among their clients in the morning for the whole day. This involves some risk for them, in the event the currency prices move against them. Experienced IVTS operators would allow some profit margin to protect against this risk, especially if the competition environment allows that. Even small money changers and IVTS operators are constantly up to date with the official exchange rates in their jurisdiction and in other countries (through online or TV channels). They can thus find opportunities for arbitrage throughout the day.

In the afternoon, all transfer requests are organized by destination and the IVTS operator contacts a partner in the receiving country, who arranges payment in local (or other) currency to the remitter’s family or other beneficiary the next business day.

The payment is most frequently in cash, but other options are available too. For example, a Pakistani service offered three main alternatives. Cash delivered to or picked up by the recipient, a check made to the intended recipient or a deposit into the recipient’s bank account.

IVTS have a very long tradition of reliable, inexpensive, speedy, accessible and convenient service in Asia and many other parts of the world following waves of immigration. The element of trust is a defining characteristic of most informal remittance systems, ensuring that rarely, if ever, customers lose their money. Informal dispute resolution processes among service providers have also rendered it an efficient payments system that attracted little interest or attention by regulators in developed countries until recently. In one case where an intermediary went bankrupt and left many IVTS operators exposed to substantial losses (in the hundreds of thousands of dollars), an informal meeting took place, where arrangements were made to cover and support each other. No retail customer lost a penny. The bankrupt partner (he had lost a fortune in gambling) was ostracized and ended up as taxi driver in another city (this was regarded by his former partners as serious degradation and irreparable loss of good name). Only one out of close to twenty IVTS operators decided to pursue him in formal courts, while the others simply absorbed their losses and moved on.

As cash accumulates in different parts of the world, the essence of the IVTS business is currency trading. In other words, what happens is that IVTS operators have their pools in currencies for which there is demand in other countries (e.g., British pounds, Euros or US dollars). They effectively sell these currencies to their counterparts in the receiving country - for example, dollars for Indian rupees. The exchange rate they agree on will factor in both the profit of the two IVTS operators and the delivery expenses – the delivery may be delegated to agents or a local boy. In a sense, the money transfer business is tangential to the main occupation of IVTS dealers: currency trading.

Some of them may in fact speculate in the currency markets by buying or selling cash they do not yet have, in anticipation of future business and in the expectation that the rates will move in their favor. Again, this activity involves risks that may land careless or inexperienced IVTS operators in trouble or simply cause them losses rather than profits.

The communication of payment instructions takes place most often through fax (straightforwardly or in code), although telephone and email communications are also possible. In Afghanistan, satellite phones are used for these purposes, as the infrastructure is lacking for other means. It is an interesting question whether reported increases in the use of e-mail continues after the intense scrutiny of cyberspace in the aftermath of 9/11. Further empirical research is necessary to answer this question.

IVTS operators very often specialize in deliveries to a given country or service particular ethnic groups. Nevertheless, for most IVTS operators, no destination for funds would be impossible and virtually no country is off limits. Some of the cases examined involved operations sending funds to more than two dozen countries.

3.2 The Structure of a Pakistani Hawala Network

Many aspects of IVTS social organization are illustrated by a case of Pakistani hawaladars that I was able to look into very closely both by examining extensive records seized by the authorities but also by spending two days speaking with the hawala operators involved and by getting detailed accounts of their practices and explanations of their ledgers and relationships with agents. Since we rarely have the opportunity to study a single network at such depth, it may be useful to devote some space to it.

In this case, three general or main levels of IVTS operators could be discerned in the remittance-sending country (referred to here as A, B, and C; see diagram 1). A similar hierarchy of IVTS operators could be found in Pakistan, as these funds are distributed throughout the country on the one hand, while traders or other clients also wish to have funds sent out of Pakistan for a variety of reasons (D, E, F – for simplicity reasons, we do not deal with all Pakistan-based hawaladars here).

The lowest level hawaladar (A) provides a funds transfer service to individual customers from a close vicinity or community and acts as an agent to bigger players. As remitting clients come in with local currency (British pounds, for example), a rate for rupees is quoted to A by Pakistan-based hawaladars – these are based mostly in Karachi.[8] To the retail customers, that exchange rate is altered by a small margin, so that the hawaladar can make a (comparatively small) profit. There is no discussion of fees or commissions between hawaladar and clients – all they discuss is how many rupees will be paid out for a given amount of local currency. This amount is typically much better than anything offered by a bank or formal remittance service. The profit A expects or hopes to make is built into the exchange rate offered to the retail client for the funds that are to be delivered to relatives in Pakistan (next day) or a check to be handed to the local customer (within a couple of days). This latter service is for expatriates who plan on traveling to Pakistan themselves or wish to send a check to their relatives. Effectively, this lower-level hawaladar sells checks, which he has to purchase from someone else, who has access to banking facilities.[9]

In the next level of IVTS social organization, a hawaladar (B) has several agents (around 20),[10] sufficient turnover and a relatively large cash pool enabling him to negotiate or dictate the exchange rate to Pakistan-based hawaladars (Ds) and agents (As) acting on his behalf. In addition, B may have his own bank accounts in Pakistan, so he can sell checks to retail customers

8 South Asia's most important hawaladars are based in Karachi, Mumbai, Dhaka, Kabul and Colombo.

9 This study confirms the WODC finding that IVTS networks do not operate completely independently of formal financial institutions. Such interface was noted also by the earlier, Passas report (1999).

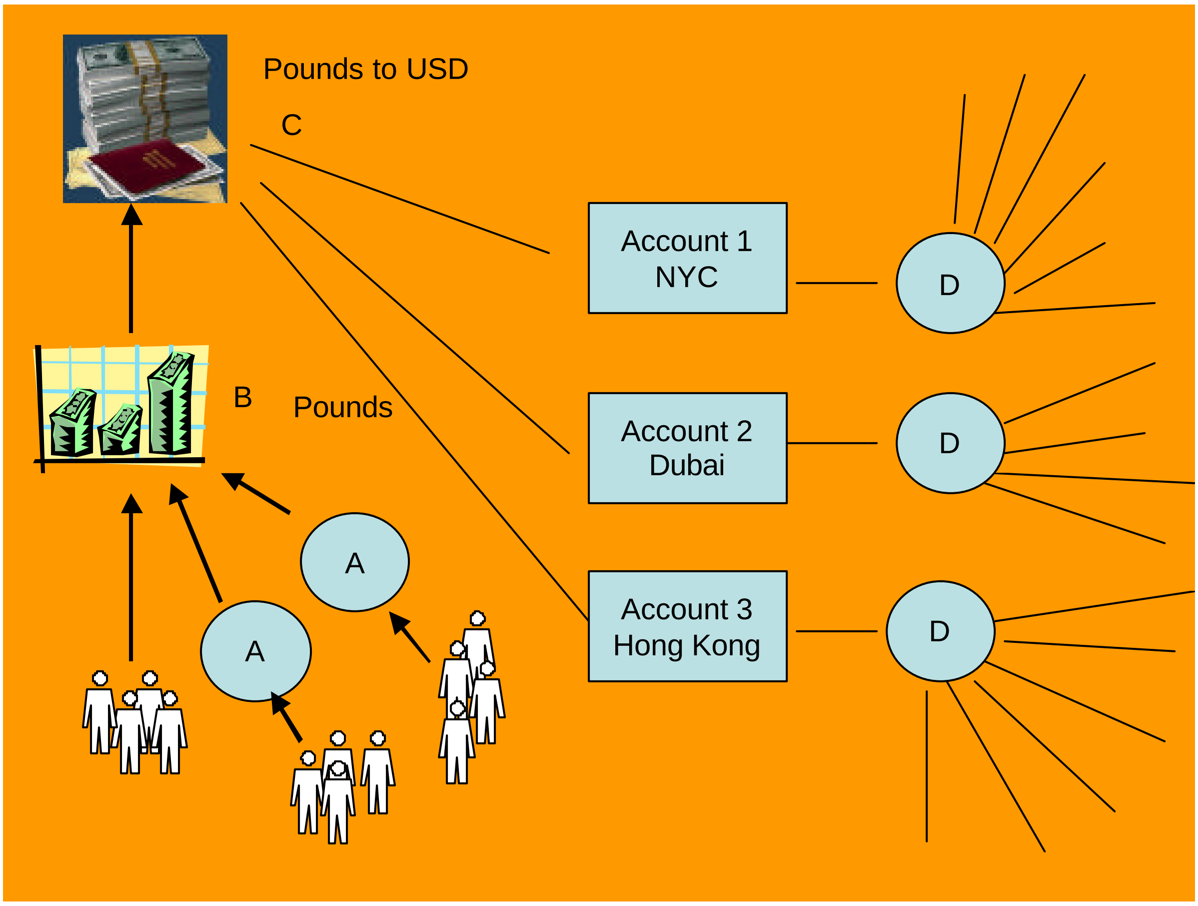
10 It is also possible that A-level hawala players work with agents of their own – sub-agents. Local store owners, students or others interacting with people from the same ethnic community may offer to assist friends in remitting funds home. The differentiation of A-, B- and C-level IVTS operators is to some extent analytical pointing to the types of functions and roles performed in these networks. In practice, variations and more complex structures may be encountered.

immediately, rather than have to wait for a couple of days for a service he needs to obtain from another source.
He (B) still needs to convert his local cash into dollars, as this is the currency in demand from the Pakistani side. He purchases dollars from another hawaladar or a money exchange business (C) and then sells these dollars to his Karachi counterparts (Ds). Hawaladar C would wire the dollars to Karachi hawaladars (Ds) or to accounts they nominate. These nominated accounts could be maintained anywhere in the world and are mostly US dollar accounts held either by large hawala dealers or of commercial hawala clients and their trading partners.
The Ds receive the faxed payment instructions in Pakistan at the end of each day, in order to make the local cash delivery. Again, no fee or commission would be recorded, as the profit of D is built into the rate of the dollar he offers to his Pakistani customers. A detailed set of accounts is kept for the running balance with the local agents on the one hand, and the Karachi counterparts on the other.
The deals occasionally involve a degree of currency speculation, as the exchange rate is quoted in the morning and kept the same for the whole day. Hawaladars A, however, would be free to set their own rate to their clients to ensure that they make some profit. The books close at around 4.00-5.00 pm and faxes are received from A and sent out to Pakistan (Lahore, Peshawar and mainly Karachi) with the consolidated requests for payment. In the meantime, the price of the dollar or other currencies may have moved in favor or against hawaladar B.
As a number of B-level hawaladars are able to accumulate substantial amounts (for example, hundreds of thousands of British pounds weekly), all of them would deal with C for US dollars. C would have a security transfer arranged – three collections of cash per week. Agents (as well as sub-agents) would know when the collection is due and they physically bring the cash, which is counted by B and bundled properly (sub-agents often have idiosyncratic ways of counting and bundling the cash, which is not the way banks would like to receive the cash). The amount they transfer on behalf of their clients is almost never exactly the same as the amount delivered to B on a given date. Instead, each A hawaladar would have a running balance with B. Hawaladar B would keep a separate book/ledger for each one of As.

B's own Pakistan bank accounts would also be kept separately for each Karachi hawaladar, who would be asked to deposit or transfer rupees into those accounts.
At the highest level in this network is hawaladar C, who maintains a dollar facility and has a very large turnover, a number of sub-agents, as well as retail customers who come from the vicinity. His service is the most efficient and can offer all services required in the community very fast and cheaply. C would regularly have his British sterling account credited from lower-level hawaladars. He would use funds from these accounts to purchase US dollars from banks.

This case study illustrates very clearly how mythical is the view circulating online or in other reports that hawala and other ethnic informal remittance services somehow operate entirely 'underground', keep no records, and have nothing to do with formal Western banks and institutions.

Diagram 1 A Pakistani Hawala Network (source: personal interviews, analysis of original records and additional research done in the course of a World Bank study by the author).



3.3 The Settlement Process

Four points are further illustrated by the more complex part of the IVTS social organization, the process of settling balances among various operators and intermediaries. Firstly, the capacity for the transfer of substantial amounts of money is indeed there. Other IVTS (such as the IVTMs mentioned earlier) clearly have a much larger capacity. This, however, does not mean that only small amounts are transferred through the traditional, ethnic IVTS we are focusing on. Single operators examined for this study could manage the equivalent of 1-2 million US dollars per day. Even Afghani hawala operators could handle requests for delivery of a million US dollars or more in remote areas of the country.

Secondly, some of the early family or village-based networks have become much larger and complex. Especially when it comes to the settlement process, it is no longer just family member operations that sustain the global networks of fund transfers. Cross-ethnic associations and deals are also possible and evident in some of the cases examined for this study. In the contemporary, global economy and in view of very substantial amounts that are going around, hawaladars must rely on people beyond kinship or, occasionally, even ethnic ties.

Thirdly, IVTS operations take place in premises commonly used for other businesses, such as travel agencies, corner stores, video/music shops, import/export enterprises, banks, as well as licensed money transfer businesses. In other words, IVTS is almost never a full-time and exclusive occupation of the providers of this service. This characteristic is even more prominent in the settlement process, where third party reconciliations and payments are commonplace.

Finally, the interface noted above between IVTS and formal institutions is the rule rather than an occasional feature. In one particular case, a brother operated in Afghanistan and another in Australia. Their accounts would be settled in several ways. One method was to use couriers to transport the money where needed. Another was to send all excess money they had to a bank account they held in Dubai or New York. A third one was to send the money to an account in Japan and use it to purchase commodities or other items, such as used cars, for export to South Asia (Maimbo, 2003; personal interviews). The proceeds of the sale would be used to replenish the cash reserves in South Asia.

Ideally, the cash pools in each location would be symmetrical never raising the problem of reconciliation. However, this is never the case, as each IVTS operator does business simultaneously with numerous counterparts and, sometimes, many different countries. As funds are delivered to local beneficiaries, IVTS operators in the remitting country are indebted to the counterparts in the recipient country.

The agents can settle their positions in various ways, including simple transactions going in the opposite direction (compensatory payments), cash delivered by courier, checks, wire transfers, in-kind payments and trade transactions. Importantly, their positions can also be transferred to other intermediaries. Very frequently, the settlement takes place through third parties, a process which lends itself to very shady operations due to the informal nature of the transactions and networks involved.

In fact, the process is quite similar to the way formal banks do their business. The main difference with hawala is that hawaladars and other IVTS operators are not necessarily restricted by rules on how and with whom they need to transact in this process. In other words, banks must follow the laws of each country in which they operate and deal with licensed people and institutions. The informality of IVTS operations renders them more flexible in that respect enabling them to get around laws, as they must do in India, Pakistan, Sri

Lanka, France, Spain, Saudi Arabia and elsewhere. There is no doubt that the 'underground economy' or 'black markets' play a large role in this part of the business. Some interviewees have suggested that this is precisely what gives hawala a competitive edge over money changers and other financial channels. At any rate, there is no doubting of the nexus of hawala with unauthorized dealers, 'black money' and unaccounted for fund transfers.

In many instances, a courier brings the cash from one party to another. This is a frequent method in the Middle East, where currency trading requires the physical transfer of money. In Europe, many traders may take cash with them when they wish to buy goods from abroad. According to Indian interviewees, when it comes to substantial deals, they prefer to do such deals themselves and the cost of travel becomes relatively insignificant. In addition, couriers are very often used for the transfer of illegal funds.

Balances can also be evened out through postal orders, checks (including third-party checks), official drafts, bearer instruments or wire transfers. Bank-to-bank transfers constitute another option. IVTS operators in Afghanistan, Pakistan or India may maintain accounts in big financial centers, such as the United Arab Emirates, London, New York, Tokyo, Singapore or Hong Kong for at least three reasons.

Firstly, such accounts allow the settlement of debts with counterparts in one central place, thus consolidating accounts and reducing cost. This means that, when an IVTS operator has a cash surplus, he may transfer it to a clearing account used by another party.

Secondly, by keeping accounts on which they can draw on in several jurisdictions, IVTS operators can serve customers, even if they have no counterparts in particular countries.

Thirdly, having accounts in hard currency makes conversion from and to other currencies easier. They also provide stability for the whole business, as the rates are unlikely to fluctuate dramatically in short periods of time. Such accounts also enable IVTS operators to move their profits out of the country in which they reside and to diversify their financial resources.

Foreign bank accounts are held by IVTS dealers operating even in war-torn societies and countries lacking basic infrastructures, such as Afghanistan, Somalia or Yemen.

There are several layers of IVTS participants that play a part in the global networks, and most of them settle up through financial centers like Dubai, New York, London, Hong Kong, Singapore and Switzerland, as this offers economies of scale and better exchange rates (Passas, 2003; personal interviews; research conducted in the course of a World Bank study to be published next year).

Because there are several layers in the settlement process, there was at some point a question whether there is some sort of 'wholesale' hawala or central nodes in the networks assisting in the consolidation of accounts (el Qorchi et al., 2003). A wholesale hawaladar might be someone presumably involved only in the settlement process. In other words, he would not be transacting with retail customers, but would play a role in the balancing of accounts for several smaller-scale hawaladars operating in several jurisdictions. In more formal language, wholesalers would have no connection with informal remittances, but would play purely a role of financial intermediation by buying, selling and consolidating the claims and liabilities of lower-level intermediaries. This would also involve a very large network and high currency volume.

Apart from a very large network and substantial daily amounts, they would require extensive communications with both local and overseas hawaladars whom he would be assisting to settle up. Because this business would involve lending and borrowing of various currencies and, therefore a substantial risk of big movements in prices, high levels of liquidity would also be necessary. The movement of funds would be from and to multiple jurisdictions.

The existence of high-level consolidators is a theoretical possibility, as this would make sense and generate economies of scale. Nevertheless, there is no credible empirical evidence to support this scenario. Both the IMF/World Bank and my own research efforts[11] focused on this hypothesis in many countries. We looked in Dubai, where rumors had it that this was the center of hawala high-level consolidation, we looked in the UK, in the USA, Pakistan and India. We also reviewed all kinds of literature from media accounts to scholarly publications. I specifically kept raising this question wherever I found myself interacting with hawaladars, their clients and controllers with hands-on experience with hawaladars. In Dubai, where hawala is legal, there would be no problem for anyone practicing this wholesaling to simply say so. Yet, not a single person or company would accept that their role is that of hawala consolidator. Nevertheless, the precise number of levels of consolidation remains unknown; this is another important point in need for further empirical research.

At the same time, there is no doubt that many international hawala operators employ quite complex settlement methods through both legal and illegal trade, third party accounts, nominee accounts, shell companies and multiple jurisdictions. All sorts of intermediaries may get involved in it in any combination of type of business and geographic location (see also the discussion of IVTS criminal abuses below).

An important finding that changed significantly since the first Passas IVTS report (1999) is the picture on IVTS activity in Russia and the former Soviet Republics. There is now some evidence that these jurisdictions (especially Moscow) have become important hubs for IVTS operations, particularly in the settlement process. Also, there is some evidence of Russian and Chinese collaborations via locations in South Asia and the United Arab Emirates. In addition, there is evidence of cross-ethnic collaborations involving North and South Americans, the Middle East and Panama (personal interviews). These networks and cases need to be carefully collected and analyzed as they are likely to shed new light and significant knowledge on the operation and evolution of IVTS.

11 From the NIJ-sponsored study (Passas, 2003).

3.4 How do hawaladars make profit?

The following are in a nutshell the ways in which hawaladars gain: exchange rate differences; selling or 'renting' cash; commission/fees; financing of legal or criminal trade; loss leader; non-profit service. Apart from a few instances in which expatriates offer free services to their compatriots (see Australian – African case in Passas, 1999), the main aim of engaging in hawala is to make profit. This could be done indirectly. That is, by offering money transfer services for free in order to attract clients to the main business, such as a travel agency or retail store. The most common and direct way of making profit, however, is by playing the difference between the exchange rate agreed with the customer and the rate obtained in the black market in Pakistan or India (see table 1; Source: el Qorchi et al. (2002)).

Table 1 Black Market Exchange Rate Premiums, 1981-2000

	India	Pakistan
1981	9	41
1982	13	25
1983	28	30
1984	16	11
1985	17	0
1986	8	1
1987	13	19
1988	14	10
1989	12	0
1990	15	6
1991	18	9
1992	4	8
1993	5	8
1994	5	8
1995	6	6
1996	6	6
1997	3	11
1998	2	25
1999	2	20
2000	2	20

As can be seen, the incentive for hawala can be quite substantial (in countries under sanctions or embargo, they are much higher; see el Qorchi et al., 2002). In those cases, the services to retail customers can be offered for free, given the substantial profits made in the exchange arbitrage. We can also see that in India, these asymmetries have been drastically reduced towards the end of the decade. This is due to a process of gradual liberalization of the economy in India. This means that hawaladars would have to use additional sources of profit to stay in business, as a 2 percent differential does not leave much room for the various intermediaries and their costs.

A good alternative is to charge a commission or set fees for the service. The commission rates range very substantially depending on

- the place of ultimate destination (higher rates for remote villages);
- the amount;
- the relationship between hawaladar and client;
- the frequency or regularity of transfers;
- the urgency of the payment;
- whether the remitter gives his cash before or after confirmation of payment on the other end (often no cash is given until the recipient notifies the remitter that the money is there);
- the currency for payment (local currency, US dollars, Euros, et cetera);
- the country of the recipient (the rates are higher for countries that lack basic infrastructure or are subject to sanctions, embargos, et cetera; so, rates would be higher for Somalia, Afghanistan, Iran or Iraq, but lower for India or Pakistan);
- law enforcement practices (how aggressively they enforce the rules or not); and
- the understanding of the hawaladar that the cash received is dirty. This is logical, because the rate charged must reflect the risk of detection and getting in trouble with the authorities.

There is an extraordinarily wide range of fees and charges that IVTS clients have to cover. The costs have risen in the aftermath of the 9-11 attacks, in many instances hawaladars accept money only from known customers. Sending 500,000 rupees from India would cost 15,000; i.e. 3 percent charge (Kalappa, 2001).

Another means of profiting from hawala is the selling or 'renting' (lending) of cash available on either end of the transactions. As will be explained below, major customers fuelling the need for hawala in South Asia are politicians, bureaucrats, businesspeople, and industrialists. It is unfortunate that this region suffers from a very widespread practice of money taking even for simple tasks. According to some of my interviewees, the people who are 'on the take' and those who make corrupt payments - in order to save taxes or merely get a contract or a job done relatively fast - generate a huge demand for hawala services there. Effectively, hawaladars make money by furnishing cash used to bribe officials and end up with a good deal of that cash again, as the recipients of bribes wish to get it out of the country or launder it. The hawaladars' profits from the sale or renting of cash are also added to the cash pool enhancing their liquidity and ability to accommodate requests for payments from other hawaladars.

Finally, the financing of both criminal and legal trade is another significant source of profit to hawaladars. As most hawaladars (if not all) are also shop owners, traders or entrepreneurs, they can use the cash to make their own deals or facilitate those of others (in a way similar to the previous category of 'selling or renting cash'). In this sense, the honest or dirty cash they receive from their customers provides liquidity and free financing. When that is the case, there is no need to charge their retail clients with high rates or anything at all, because their profit is generated elsewhere.

A close relative to the financing of illegal trade is that of straightforward money laundering, for which a commission is charged in order to start moving the money around to obfuscate its original source and owner, and to integrate it back into the conventional economy for easy use. The rates charged by IVTS operators in Latin America and the USA are much higher (up to 20-30 percent of the amount laundered) than in Europe and South Asia, where the charges have come down to 2 percent or lower (Passas, 1999; personal interviews; review of black market peso and third party check cases in the US[12]).

It is important to note that hawala-type of networks are not the only IVTS discovered so far. As shown by a different study (Passas, 2003a), a long list of methods and networks operate in similar ways and perform similar services. Money and value transfers on behalf of a variety of customers (legal actors, terrorists or other criminal groups) are taking place informally or without leaving obvious traces for investigators through the following additional avenues:

- invoice manipulation schemes;
- in-kind fund transfers;
- trade diversion schemes;
- courier services and physical transfer methods, including smuggling;
- the use of correspondent bank accounts;
- gift and money transfer services overseas via special vouchers and internet web sites;
- internet based payments/transfers;
- stored value, such as pre-paid telephone cards and 'chits'[13];
- security transfers, such as brokerage accounts;
- options/futures trading;
- debit and credit cards used by multiple individuals.

It is beyond the scope of this study to examine these methods. Because of the clear relevance to the Netherlands, however, a short description of trade diversion is in order. Trade diversion is a sophisticated form of money

[12] This reflects the ease with which laundering is done in different parts of the world as well as the competitiveness of the market in certain areas; that is, how many alternative methods for doing the same thing may be available. In Europe and South Asia we find both diverse law enforcement practices/priorities and the popularity of courier services, physical transportation in bulk, as well as trade-based laundering methods. However, examining those issues would take us beyond our present scope.

[13] 'Chits' are a functional alternative to Indian hundis: they refer to receipts or proof of claim in transactions introduced by the British in China (it may have been shorthand for 'chitty', a word borrowed from the Hindi 'chitthi', signifying a mark) (Passas, 1999).

laundering in which operators with a deep understanding of international trade divert products from their intended destinations, in order to profit from price asymmetries in different countries. It belongs to the IVTS sub-category of informal value transfer methods (IVTM, see footnote 1 and Passas 2003a), which are almost always serving illicit purposes.

The basic diversion scheme works like this: A manufacturer of a beauty product or food item wishes to enter an emerging market. Because of the varying needs of the foreign country, such as lack of marketing and distribution mechanisms, the US manufacturer will not sell the item for the same price as in the United States. The American company agrees to sell the products abroad at a discounted rate – usually at 25% to 50% of the domestic price.

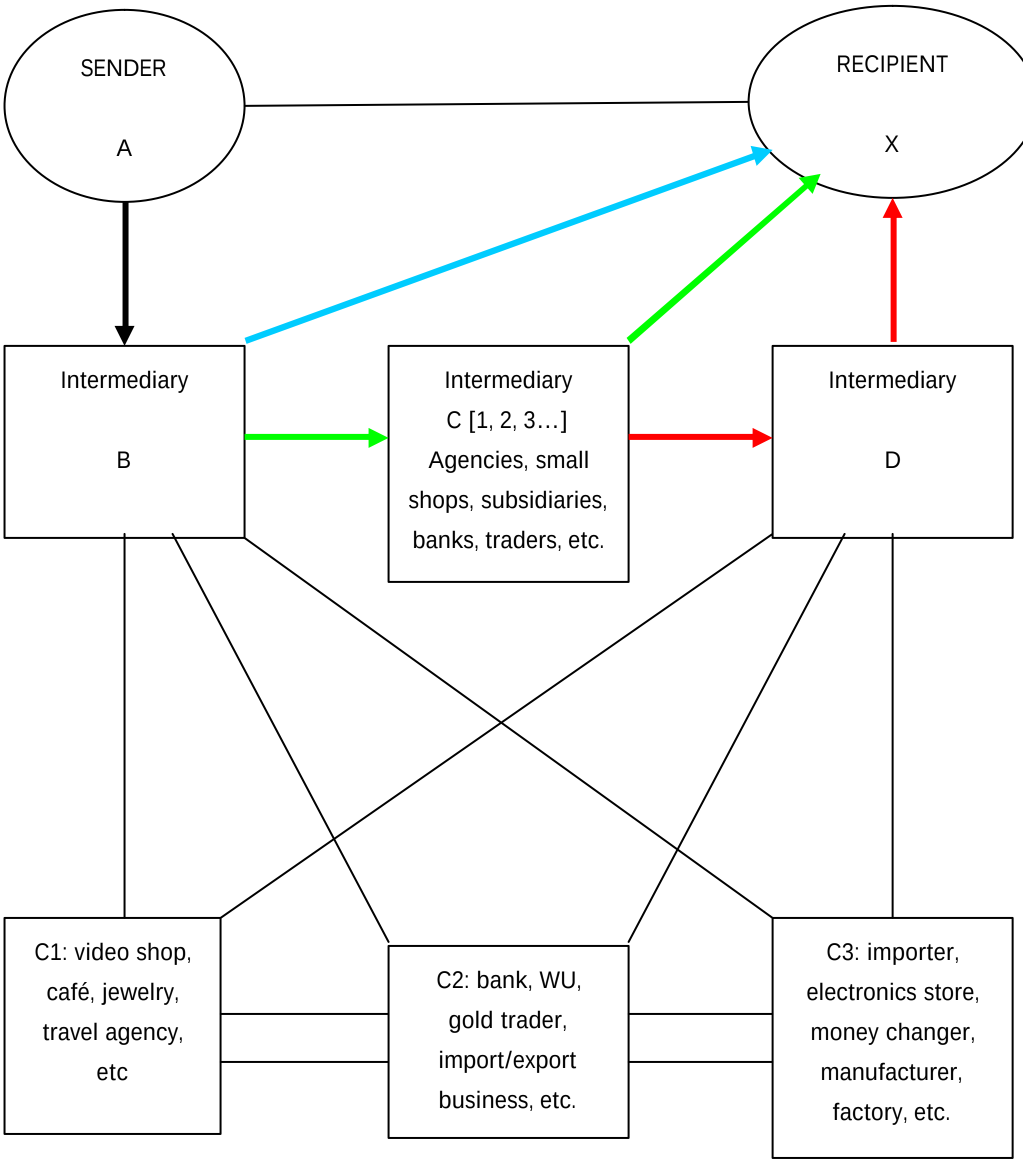
The goal of diverters is either to launder illicit proceed and/or to make a profit from the price differentials in the two countries. In the former case, a third party company or financier may be enlisted to devise a scheme to 'clean' the dirty funds. This third party might operate a legitimate company or may create a front company to facilitate the transactions. They then approach a US company with an offer to sell its product in a new market. The US company is attracted to offers that could break them into an untapped market with little effort. The reduced price the diverters demand yields a smaller gross margin of profit, but this is made up by up-front payments in cash – this is a transfer from the foreign market to a Swiss bank, where it is held until the US company ships the goods to the diverters' associates, who prepare the goods for shipment abroad. The goods may be sent to their first port of entry, which often is via Rotterdam, the Netherlands. The US Company receives a legitimate bill of lading as proof that their products are being directed to the correct port. The Swiss Bank is informed of the paperwork and wires the funds.

According to this actual scenario, from Rotterdam, the goods are re-routed to the U.S. as 'returned US goods'. In the US, they are picked up at the docks by a wholesaler or other associates of diverters. The products are sold at below normal price levels – but nowhere near the 30%-50% discount rates at which they were purchased.

This is a modus operandi that allows for money laundering, relatively risk-free illicit profit and, most importantly, the transfer of money for terrorist purposes without leaving traces. Sophisticated operators from Eastern Europe, the Middle East, Asia and Latin America have been found by private investigators to engage in this fraud. When everyone is looking at 'hawala', wire transfers and ordinary banks as a site for intelligence collection to prevent and fight the funding of terrorist, this method is completely overlooked (Passas, 2003a; Passas and Medina, forthcoming; case analyses; personal interviews in US, Europe, India and United Arab Emirates).

The mention of more modern forms of IVTS is not just theoretical or for the sake of completeness. The point is that the settlement process may and does bring several of these methods together even in a single network or set of transactions. Consequently, a fuller understanding of hawala and other raditional IVTS cannot be achieved without taking the whole range of IVTS into account (see Diagram 2).

Diagram 2: Mechanics of IVTS and Settlement Process in IVTS in view of Possibly Multiple Intermediaries C



1 A-X [physical transport; in-kind payment; pre-paid tel. cards and stored value]
2 A-B-X [courier, epayment, credit and debit card use]
3 A-B-C-X [hawala and other traditional IVTS; wire remitters, in-kind payment; gifts and vouchers]
4 A-B-C-D-X [trade diversion; correspondent banking; mixed IVTS, including sophisticated hawala]

Source: Passas, 2003

3.5 IVTS and Criminal Abuse

The convenience and availability of IVTS to ordinary and legitimate customers makes it just as attractive to illegal actors. Despite the widely accepted fact that the overwhelming majority of clients remit honestly earned money through the traditional forms of IVTS, crimes and abuses also occur at both the remittance and the settlement process. Just about any type of misconduct can be either facilitated or perpetrated through traditional IVTS. This section describes some of the abuses discovered in the 15 cases examined for this study.

In two of these cases, dirty funds generated by drug trafficking and cigarette smuggling were funneled through Indian and Pakistani networks operating out of Europe and through the US as well. Some of the operators involved in these cases were able to move more than 1 million US dollars per day. The fees charged for these funds were slightly higher than those charged to legitimate customers, consistently with the independent WODC finding. The collection methods for the cash were also different in one of the cases, as it involved pick-ups in public places (such as the parking lot of fast food restaurants or the middle of the highway). The persons in charge of these collections had no idea whom they were about to meet and how much they were supposed to receive. Instructions were given to them by mobile phone on where exactly to drive. The cash was delivered in big bags, transferred to the back-room of a travel agency out of which the IVTS was operating, counted, bundled properly, deposited in bank accounts, and wire transferred overseas following faxed instructions from the Middle East.

The trickiest instances, however, can be found in the settlement process, where fund transfer, finance, trade and commerce intersect most heavily. Let us take a look at a sample of scenarios illustrating how these operations work.

A relatively common scenario, particularly in the past before a liberalization of gold trade in India, involves the smuggling of gold or precious stones. Once IVTS funds accumulate in the cash pool, IVTS agents or their partners would have used them to purchase gold from various countries. The gold was then legally exported to Dubai and from there smuggled to India. The gold was subsequently sold in the black market and the proceeds were used to balance the debt between operators.

The same mechanisms can and have been used with precious stones, medicine, medical equipment, car or bicycle parts or, indeed, any commodity. The smuggling part is essential when one of the aims served is to break an embargo, evade sanctions on a country, quotas, taxes, customs duties or any other restrictions regarding the country of origin or final destination.

After the change of Indian laws allowing the importation of up to 10 kilograms of gold to non-resident Indians every six months they entered the country, a different method was used: IVTS operators in North America advertised in the ethnic press free flights to New Delhi. Low-income respondents were given the tickets, 9.5 kilograms of gold and the funds to pay for the importation of this gold, which was declared to Customs at the airport. Several persons would be flying even in the same flight carrying equivalent value in gold. Once cleared through Customs, employees of the Indian IVTS operator picked up the gold. Because demand for the precious metal was still much higher than the supply, the gold would still sell at a premium in the black market, generating a profit as well as enabling the balancing of IVTS accounts and replenishing the local cash pool.

A more contemporary and technologically enhanced method is the use of 'gifts services' available on the internet. Goods may be purchased with cash from one side and delivered to another country. The goods, ranging from electronics and refrigerators to jewelry and foodstuff, may be sold in secondary markets generating the cash to join the respective cash pool locally.

I would like to emphasize again that some of this trade can be perfectly legitimate – although observers may often find it impossible to see the commercial or economic rationale for using hawala (that is, when these transactions can be accomplished through properly documented and sanctioned routes cost-effectively, efficiently and without risking reputational or legal damage). In some of these cases, money laundering may be the underlying reason for going through IVTS rather than formal channels. Tainted money does not return for the most part to Africa, South Asia or, more generally, comparatively unstable economies after laundering. The dirty cash can be used for all sorts of deals in the interim, of course. This is a reason why it is important to separate analytically the remittance/payment system from the settlement aspect. The cash from drugs sales in the US, for example, can be used to finance other people's ordinary commerce and keep the money in some other country under the legitimate façade of trade proceeds.

The following is an example of how the laundering of significant amounts of criminal proceeds in the US can occur. The money is not usable for legitimate purposes, so it will have to 'leave' the country on paper and get back clean. If IVTS is to be used, the money may actually never leave. Instead it joins the local cash pool to satisfy the needs of the clients of counterparts in other countries. If the amount is too high, however, at least a large part will be wired or sent by online banks or couriered overseas to a big trade center such as New York or Dubai. Once physically moved or converted to cash, the funds purchase goods such as textiles or computer equipment. The goods can be 'exported' to Afghanistan to areas enjoying duty free status (i.e. under the 'Afghan Transit Trade'), but then get diverted to Pakistan, Iran or Turkey and through to Europe. Besides duty free zones,[14] another problem was generated by the low customs duties in Afghanistan compared to

[14] As noted in the description of trade diversion, free trade zones can be used for all kinds of misconduct, some of which may combine with ethnic/traditional IVTS or as an independent modus operandi geared toward profit and value transfers internationally. Given the number of free trade zones around the world, there are several 'hot spots', which merit closer scrutiny and empirical research.

Pakistan's. As a result of these duty asymmetries, importers have been smuggling goods across the Pakistan-Afghanistan border, sometimes bribing border officials too (personal interviews).

Price asymmetries, however created, provide the necessary incentive for such deceptive practices. Whenever protectionist measures, such as subsidies and price supports, are introduced by governments, there is evidence of carousel frauds, whereby the origin, destination, quantity and quality of goods are falsified (cases of EU frauds could be investigated also to determine whether there is some nexus with IVTS too).

If contraband goods are sold in the legal market, then clean money becomes available for any type of use. In this way, the drug money is integrated back in the metropolis. On the other hand, some of these goods may be sold in the black market re-fuelling the need for money laundering. Moreover, regardless of whether the goods are sold in South Asia, the Middle East, Europe or North America, at least some of the money can be used to finance terrorist groups or cells. As a recent study in India pointed out, a good number of the transfers from Dubai to Punjab are going to fund militant groups (Jamwal, 2002).

Another scenario involves straightforward invoice manipulation and bogus export of 'antiques' or books to India. A wealthy trader, for example, wishes to send legally or illegally derived funds from Mumbai to London. He orders and pays for the shipment of books that can be purchased cheaply (by weight) in England. He places the order through a company that may be folded as soon as the shipment occurs. The value of the books is exaggerated, so that he can officially send a payment that raises no cause for suspicions given the invoice he receives. When the books or other worthless items arrive in Mumbai, he does not go to claim them, so that the authorities cannot trace his identity. Another fashionable scheme employed in India recently involves the purchase of useless goods that are described on paper as 'antiques'. Quite a lot of 'rubbish', thus, gets exported to India with very high value declared, so that the capital flight or other needs of the Indian residents can be met (personal interviews with Indian controllers).

Several cases from India interface with the diamond trade. In one case, the value of exported diamonds was over-stated in order to officially account for dirty funds in India. The tax-free status of profits from diamond exports enables the traffic in such mis-statement with no tax liability. In addition, tax-free export licenses for other items can be obtained on the basis of the value of such diamond exports. These licenses can be used by the IVTS operators themselves or traded/sold in the black market. In another diamond-related case, the payment for ostensible imports was sent through official channels to bank accounts in Singapore and Hong Kong. Instead of high-value diamonds, however, only some fast food and cosmetics items of much lower value were actually imported into India.

Similarly, the value of genuine imports can be understated, so that duties are evaded. In such a case, two things happen. 1) The importer now owes his trading partner the difference between the real value of the goods and the stated one. So, he will use hawala to compensate the exporter in the UK. 2) The importer's profits will be officially much lower and income taxes will be evaded too. The extra profits may flee South Asia via hawala for diversification or any number of other reasons.

Subsidy fraud is also involved in two of the examined cases. In both instances, the South Asian cash pool was fuelled by a) payments for over-invoiced exports of bicycle parts that would go to South Asia, Africa and Europe or of fake medical supplies that were delivered to a fictitious company in the United Arab Emirates and b) by the fraudulent receipt of export subsidies provided by the government (which are based on the invoiced value of exported items).

Businesspeople involved in such practices do not have to be in the business of IVTS themselves. If they are, however, they can very easily mix the cash flows of their 'day jobs' with hawala and obscure their illicit deals. In this way, massive amounts can be sent or received according to one's needs.

Corrupt officials also use IVTS in order to launder their bribes, convert them into hard currency or take them overseas in secure bank accounts or other investments. Recent scandals in India and Pakistan have demonstrated that even though corrupt funds end up in the West in prestigious and respected institutions, they pass through hawala/hundi first before getting there. The most publicized scandal in India involved a number of very high-level politicians and businessmen, leading to a political crisis (Jain hawala case; Kapoor, 1998).

A case of Nigerian IVTS operated out of the USA involved the proceeds of a variety of credit-card, welfare and other frauds, which were used to settle accounts with Nigeria-based traders. The funds were wire transferred to a number of countries, whereas Nigerian currency was paid out to IVTS counterparts in Lagos.

The modus operandi of this case is almost identical to the South American variety of IVTS, the black market peso exchange (see Passas, 1999), which very frequently facilitates drug money laundering for Colombian traffickers. The Colombian cash pool is fuelled by importers who can gain access to US dollars or Euros more cheaply through the brokers, while the North American cash pool is chiefly fed by the proceeds of illegal drug sales. The latter are deposited into bank accounts and used to pay for the exports of legitimate goods to Colombia or other places in Latin America, usually going through New York, Florida or Panama's Colon Free Zone (quite frequently, third party checks are used for the payment of exporters). Interestingly, in one case discussed with interviewees, some of these funds first moved to the Middle East and then to Panama, highlighting once more the cross-ethnic elements of contemporary IVTS.

IVTS interfaces with drug trafficking and other offenses surface in other parts of South Asia as well. Afghani IVTS operators - hawaladars – are very active and able to make very large payments throughout this conflict-ridden country. According to some observers, their ability to serve individuals as well as international and non-governmental organizations and to make cash payments of hundreds of thousands of US dollars in areas in need of reconstruction can be explained to a large extent by funds generated through illegal drugs, arms and other smuggling operations as well as the use of counterfeit money (personal interviews).

Suspicions have been voiced that hawala may have been used by the 9/11 hijackers and al Qaeda operatives to transfer fund for their operations. As a consequence, attention was particularly paid to possible links of hawala and other similar IVTS with militant and extremist groups. According to Indian authorities and media reports, almost all of the money funding militants in the North of the country is indeed moving through hawala. Pakistani high- and low-level officials share this opinion too about terrorist actions in Pakistan (personal interviews). To this can be added the voice of the UN Monitoring Group regarding Sanctions on Afghanistan, which recently reported that a large proportion of the Taliban resources have been transferred via hawala channels through Dubai as well (UN Monitoring Group, 2002).

In addition to these types of illicit interface, IVTS cases involve the financing of smuggling of other goods, bank crimes, currency control violations, embargo busting, trade in human organs, tax evasion, the payment for human smuggling fees, and money laundering for a variety of criminal enterprises (Passas, 1999; 2003a; 2003b). Whenever prohibitions and regulatory restrictions lead to a high differential between official and black market rates in the price of currencies or gold, there is a corresponding increase in the volume of hawala transactions. All opportunities for arbitrage created by price and other market asymmetries underpin as well as are exploited by IVTS businesses.

4 Conclusion and Policy Implications

My earlier report sought to clarify the issues in the controversy on the extent, growth and threat of IVTS and establish what is known and what is uncertain (Passas, 1999). With continuing absence of reliable estimates and hard evidence, a proper assessment remains impossible. Without systematic and long-term studies, including household surveys, participant observation and in-depth interviews in several jurisdictions, credible estimates are unlikely to emerge. Recent studies provide case material and shed new light on earlier suggestions that IVTS may not have the capacity to handle large volumes of funds. The traditional IVTS examined in the present study have shown the ability to handle hundreds of millions of US dollars per annum. Additional forms of IVTS examined elsewhere show much higher capacities and serious vulnerabilities (Passas, 2003; Maimbo and Passas, 2004; Passas and Medina, forthcoming). Just like formal banks, hawala and similar IVTS are not by definition criminal. Yet, just like banks and other financial institutions, they are vulnerable to abuse.

Capital flight, violations of currency controls and tax evasion have traditionally worried officials in the global South. The recent official concerns in the US and the global North stem from the perception that IVTS are increasingly becoming a vehicle for money laundering and, most importantly, terrorist finance. It is essential to note that, contrary to media and political statements, about the methods used by the 9-11 hijackers to transfer their funds, all available evidence points to the use of banks, wire services, credit card accounts, cash self-carry and regulated remitters (Passas, forthcoming). This study has encountered no instance of terrorist finance in the US or Europe through traditional IVTS. In South Asia and Africa, there are such instances, but this is mostly because the general use of IVTS for all kinds of transfers and payments. So, while the funding of terrorism may take place through IVTS, there is no empirical ground to believe that a) traditional IVTS would be militants' favorite method or b) that traditional IVTS are more vulnerable than the regulated sector.

Further, it remains true that many criminals find money laundering unnecessary, as they either integrate it in local economies or use it for illicit enterprises. When money must be laundered, there are multiple alternatives. This means that the IVTS-related crime and risks may be exaggerated. Many IVTS practices are still misunderstood and treated with suspicion even when nothing illegal or unethical is involved. The approach recommended before (Passas, 1999) remains valid: when officials are worried about a potential problem in their jurisdiction, they should see that studies are conducted into the existence and strength of conditions contributing to the use of IVTS.

Several additional points emerge from this study's look into the social organization of traditional IVTS:

- Even if the remitters and recipients deal with honest money, the cash pool on which the IVTS operators draw may contain also dirty funds. Furthermore, the settlement process may go through very shady operations and transactions.
- The success and efficiency of traditional IVTS like hawala have inspired imitators outside Asia (e.g. Nigerian and Surinamese groups).
- There are instances of cross-ethnic collaboration with respect to both legitimate and criminal value transfers, including funds destined for the support of terrorist groups. The previously held view that these are family-based and exclusively ethnic networks is challenged. Consequently, over-emphasis and crack-downs on one IVTS or ethnic group may not only be perceived as discriminatory, but also open up opportunities for criminals to take advantage of relative inattention to certain routes or networks for easier and undetected value transfers.
- A variety of IVTS operators may be involved at different stages, as the settlement process can implicate numerous intermediaries and users of funds. Some of them may be honest, others naïve, still others professional criminals. Some may be aware of what is going on, while others see only the legitimate side. So, the whole settlement process is likely to generate interfaces of innocent with dirty operators and clients.
- As transactions are fragmented, the settlement process can be intentionally broken up in ways that each jurisdiction only gets to see or detect a small part of the total picture. In this way, substantial amounts and serious misconduct can be masked.
- Records of transactions are often available, but may be in an unintelligible form to an outside observer or leave out parts of the settlement process and the role of intermediaries in other jurisdictions.
- Apart from hawala, a range of methods and networks operate in similar ways and perform similar services. It appears that hundreds of billions of dollars are channeled through these IVTS annually.
- Finally, IVTS include a very wide range of methods from low-technology and simple ones to extremely sophisticated ones. There are many instances where several of them are combined in the same set of transactions.
- Trade-related or -based value transfers are extremely sensitive because they allow for the secret circulation of substantial amounts of money, but need to be monitored without unduly hampering the legitimate international trade. For this reason, an in depth study of these methods is needed.[15]

[15] Studies looking into trade diversion and the trade in precious stones, gold and tobacco are currently underway with the sponsorship of the US National Institute of Justice (NIJ) at Northeastern University under the direction of N. Passas.

In some jurisdictions, IVTS are completely illegal or criminal, in others subject to registration and/or licensing, while in others completely unregulated. A more uniform approach is desirable, but it would only perform the desired functions if it is founded on empirical evidence and systematic, well-funded comparative studies. Short-term studies have exhausted their utility: we do have the necessary indications about vulnerabilities and risks as well as useful and unique socio-economic functions of IVTS. We have good evidence about the importance of local cultures and traditions. We need solid comparative data on several countries at once on prices, conditions, social organization, functional alternatives, the use of new technologies, the drivers of demand, the availability and success of formal institutions offering competing services, the precise extent and nature of the interface with criminal enterprises and the relationship between the two general categories of IVTS - IFTS and IVTM.[16]

The relevance of this distinction is that authorities currently concentrate their regulatory attention on IFTS, that is the traditional IVTS like hawala. To the extent that these efforts are not well thought out and widely accepted by the participants, the demand for remittance services may lead to a shift towards IVTM. The problem is that even less is known about IVTM vulnerabilities and serious criminal abuse. So, we run the risk of not only leaving the door open for sophisticated value transfer methods with a higher capacity for voluminous amounts, but we may be providing incentives for legitimate actors to turn to such shady operators. In other words, insensitive or unsuccessful regulatory frameworks can have a criminalizing effect for legitimate actors and funds. Instead of increasing transparency of fund transfers and reducing crime, the authorities' efforts may produce the opposite result.

Critical is also the training of police and regulators to be more sensitive to other cultures as well as to be able to identify IVTS patterns and irregular (possibly criminal) transactions.[17]

Finally, given that the issues are mostly international in nature, better collaboration and exchange of information among control agencies is essential. This can be achieved by avoiding unilateral and ethnocentric policies, while paying attention and respecting in practice the interests, priorities and policies of all countries concerned.

[16] Described earlier in footnote 1.

[17] Red flags – or indicators of abuse - have been developed in the course of the NIJ/FINCEN study (see Passas, in press b).

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