

NOTES AND REFLECTIONS

THE ROLE 'HAWALA' IN FINANCING TERRORISM AND MONEY LAUNDERING: THE NEXUS BETWEEN INFORMAL MIGRANT REMITTANCES IN EUROPE AND FUNDING OF TERRORIST ORGANIZATIONS

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Introduction

As evident from the statements made by former President George W. Bush and former Secretary of State Colin Powell, money is regarded as vital for the planning and execution of terrorist activities, underscoring the notion that terrorism cannot persist without financial support. Comparable sentiments have been echoed by European leaders. In alignment with his American counterparts, British Chancellor of the Exchequer (later Prime Minister) Gordon Brown affirmed that 'the readily available financial resources are the driving force behind contemporary terrorism' (UK Treasury, 2001).

Admittedly, finances are a fundamental requirement for the execution of all terrorist activities, often characterized as an "energy source" or a "lifeblood" for both terrorists and their organizations. Funds are required for various purposes including the development of organizational infrastructure, recruitment, propaganda, training, planning, executing terrorist attacks (Simonovski and Ünsal, 2018), providing retirement pensions, acquiring weapons, explosives, paying bribes, obtaining communication equipment, transportation, forging documents, and more (Freeman, 2012:3). This underscores the necessity for long-term and reliable sources of funding (Simonovski and Ünsal, 2018). Without financial resources, terrorist groups cannot function effectively as organizations or carry out attacks. Nonetheless, questions persist: How do different terrorist groups acquire funds? What are the potential sources and methods of financial transfer?

Following the September 11, 2001 attacks, there was heightened scrutiny and regulation of both formal banking and non-banking financial sectors. As a result, terrorists turned increasingly to alternative value transfer systems like Hawala, or physical methods such as transporting money, precious stones, or gold. Despite its widespread use, Hawala lacks robust legal oversight, allowing for anonymous cross-border money transfers that can facilitate terrorist financing (Klemar and Cindori, 2017:124).



Despite the widespread use of such money transfer systems by minority ethnic communities in numerous countries (for instance, Sri Lankan immigrants in Canada financing the Tamil Tigers through these channels), as well as within ethnic Muslim immigrant enclaves across Europe, North America, and certain regions of the oil-rich Middle East (Ballard, 2012), there has been limited academic inquiry into comprehending the underlying causes and sources devoted to researching hawala funding system (Klemar and Cindori, 2017:122).

Thus, this essay will fill the gap by seeking to answer the question of how hawala which is regarded as a traditional form of the money transfer system in some Asian, and East Asian societies might be linked with terrorist-sponsoring. First, I examine hawala and the reason for the popularity of this money transfer, and second, in the example of Somalians, I will try to shed light on how diasporas and migrant minorities may facilitate money laundering on European soil.

Literature review. Contextualising the argument

The empirical understanding of the hawala system, a traditional informal money transfer mechanism, is subject to constraints owing to its clandestine nature and the challenges associated with its study. Despite its significance in facilitating international financial flows, comprehensive empirical research on the hawala system remains scarce. However, notable efforts have been made by institutions such as the International Monetary Fund (IMF, 2005), the World Bank (Passas and Maimbo, 2003), and the Financial Action Task Force on Money Laundering (FATF, 2013) to shed light on its workings and implications (UNODC, 2023). These institutions have undertaken various studies and analyses aimed at elucidating the operational dynamics, regulatory concerns, and potential risks associated with the hawala system.

Although the majority of FATF recommendations divides financial industry: placement, layering, and integration as three stages of money laundering, it does not explain the specific actions of criminals (Trechsel, 1997:14, Graber, 2009:2; Schneider and Windischbauer, 2008:394). In this context, the World Bank emphasizes the importance of distinguishing between money laundering and financing of terrorism due to the divergent paths taken by these funds. When money is utilized for terrorist activities, it typically follows a traceable route from its origin through a terrorist organization to the specific cell executing the attack (World Bank, 2009). FATF underscores the significance of monitoring the "direction and utilization of funds related to terrorism, as this data informs the necessary enhancements or implementations of controls" (FATF, 2019:39), aligning with the concept of monitoring terrorist fund movements. In this regard, the FATF advocates for a "comprehensive assessment" of the various stages constituting terrorist financing.

Nonetheless, criticisms around the researching hawala and money laundry is that the vast majority of the literature currently in publication concentrates either on efforts to estimate the volume of money laundering or on institutions and processes designed to prevent it (Takáts, 2007:4, Bagella et al., 2009:896). And these estimations lack persuasiveness, as accurately assessing the global volume of crime would require the ability to quantify worldwide criminal activities—a formidable challenge given the scarcity



of data and the limited understanding of the true scope of organized crime (Van Duyne, 1994:62, Harvey, 2004:339, Walker, 1999:36). While, there is widespread recognition that money laundering remains a significant global issue (Schneider, 2008:309). Consequently, efforts to combat money laundering have thus far fallen short (Maximilian,2022).

In "The Sources of Terrorist Financing: Theory and Typology" Michael Freeman distinguished a detailed analysis of the complex interplay between terrorist financing sources and the strategic considerations of terrorist organizations. Yet, from the first page Freeman provides specific examples of terrorist groups, such as the Shining Path, FARC, ELN, ETA, Pakistani Taliban, and others, and their methods of fundraising. Furthermore, illegal and legal activities as sources of funding for terrorist groups according to Freeman highlights how these activities can provide reliable income, enhance legitimacy or undermine state legitimacy, offer geographical flexibility, and sometimes lead to loss of control or unwanted attention from authorities. Additionally, Freeman identifies the role of popular support, including charitable donations and contributions from diaspora communities, in financing terrorist organizations. He explains how popular support signals legitimacy, provides a relatively easy source of income, but also poses risks such as loss of control or dependence on economic conditions.

Whereas Nikos Passas and Samuel Munzele Maimbo focuses on the relationship between Islamic institutions and terrorism financing in Europe. Which underscores the multifaceted nature of terrorist funding, highlighting both legitimate and illegitimate channels used by extremist groups. Which elucidates how Islamist terrorist organizations exploit Islamic institutions, such as mosques and cultural centers, as conduits for fundraising and recruitment. Passas and Maimbo finding out the Islamic banking system and its susceptibility to abuse for terrorism financing. Authors explain the structure of Islamic banks, including the pivotal role of Sharia Committees, and highlights the potential diversion of 'Zakat' funds to terrorist groups. The collaboration between Islamic banks and international networks of correspondent and offshore banks further complicates efforts to trace terrorist financing. Finally they underscore the challenges posed by the lack of common legislation in Europe and the political sensitivity surrounding investigations into Islamic banks.

Arguably, in the wake of the September 11, 2001 attacks, there has been a growing acknowledgment, if not consensus, that understanding terrorist financing remains insufficient. Despite significant efforts in what is often referred to as the "financial war against terrorism", many of the assumptions underlying regulatory frameworks are yet to be adequately tested and proven plausible (Witting, 2011). The book authored by Timothy Witting offers a comprehensive examination of the existence of a profound disparity between the expansive regulatory measures implemented to combat terrorist financing and the actual comprehension of the financial and economic dynamics employed by terrorist actors. This discrepancy is highlighted by various experts within the government and the financial sector, who admit to a lack of clarity in identifying the indicators of terrorist financing. These challenges underscore the necessity for a coherent and systematic approach to understanding terrorist financing, one that transcends the conventional focus on uncovering the sources and mechanisms of funding. Moreover Witting challenges orthodoxies surrounding terrorist finance, advocating for a more



contextualized understanding that emphasizes the socio-political dimensions of terrorist actors' interactions within local and global political economies and social movements. By reframing terrorist financing as part of broader socio-political dynamics rather than an isolated financial phenomenon, Witting proposes a more nuanced and analytically rigorous framework for researching and responding to terrorist finance.

The same is true for the financing of terrorism. However, it should be noted that majority of literature explains that terrorist financing exists, it does not describe exactly how such criminals operate (Bagella et al., 2009; Graber, 2009; Harvey, 2004; Schneider and Windischbauer, 2008; Takáts, 2007; Trechsel, 1997; Van Duyne, 1994; Walker, 1999). Thus the aim of this research is to further elucidate, step by step, how intelligent criminals use hawala banking to finance terrorist organizations and to use these findings to develop new prevention mechanisms. This research aims to close the gap described above. In particular, it will examine how criminals can use the hawala in Europe to launder money or finance terrorism. This will be achieved by analyzing which concrete steps they would have to take and which resources they would need to be successful.

The specification of Hawala

Arguably, before contemplating about hawala system and its role in financing terrorism it worth to define what Hawala means. In doing so, we will refer here to John Cassara and Saeed Al-Hamiz's definition, which define Hawala (Arabic: حوالة – transfer) also known as "Hundi" (collect) is an informal financial money transfer system (Al-Hamiz, 2005) "without money movement" (Cassara, 2006), that exists and operates outside the "traditional" banking system and financial channels. Hawala does not pay taxes and is outside of economic regulation. The main component of the hawala system is the network of hawala brokers (Bowers, 2009:379). They are responsible for facilitating transfers between countries. Notably, the funds do not physically cross international borders; rather, the sender provides the funds to a hawaladar-service providers in one country and receives a confidential code from to another hawaladar to receive the equivalent amount in local currency. Although, hawala is far from being a recent development. In fact, this informal method of transferring value has roots in antiquity. Its modern iterations are also recognized under different names such as Fei ch'ien in China, Phoe Kuan in Thailand, and the Black Market Peso Exchange in South America (Klemar and Cindori, 2017:121).

Admittedly, the expression may be relatively novel in Western vocabulary, but it enjoys widespread usage in various forms across Africa, Asia and throughout the Middle East. Thus this paper, acting as a mediator, aims to acquaint (or reacquaint) not only with the term "hawala" but also with the distinctive security hurdles posed by this concept—an informal and opaque means of transferring value (Bowers, 2009:379).

The sustained appeal and growing demand for Hawala as an alternative financial mechanism can be attributed to several key characteristics: Firstly, its inherent secrecy plays a pivotal role in its enduring allure. This multifaceted appeal directly addresses the apprehensions of money launderers, providing a shield against disclosure and legal ramifications, while also alleviating concerns among terrorist financiers regarding potential disruptions to their activities (Turner, 2011). Secondly, the widespread



dissemination of Hawala across more than 20 Asian and Pacific nations underscores its global presence and accessibility (Klemar and Cindori, 2017:122-123). In Afghanistan, the number of hawaladars is thought to be between 500 and 2,000 (Bolta, 2010) while fund movement direction covers Kabul, Peshawar, Dubai, and London. The total volume of transfers via Hawala is estimated to reach several billion dollars annually. Figures from 2011 (Ratha, 2012) indicate that funds transferred through alternative value transfer systems amounted to \$483 billion, with \$351 billion of this sum allocated to developing countries. Moreover, according to Richardson (2011), approximately 80% of start-up capital for small-scale entrepreneurs was facilitated through Hawala channels. Thirdly, Hawala transactions primarily benefit immigrant workers residing in developed countries. This is because many of them initially place their trust in representatives of the Muslim communities in hosting countries, who, in addition to running small businesses in EU countries, facilitate these illicit transactions. Finally, a significant portion of migrants may be residing in the country illegally or with expired visas. In such circumstances, hawala often becomes the sole method of transferring money without the necessity of confirming their identity.

Hawala and its nexus to terrorism

Terrorism, having become institutionalized and integrated into the realm of the shadow market, has established its own distinct financial and economic enclave. It possesses the capacity for substantial autonomous operations not only within its own national boundaries but also across international borders. The conduct of illicit activities necessitates the presence of financial institutions and substantial amount of finances capable of committing 'expensive' attacks' (Nagy and Somogyi 2023:22). In this instance, hawala networks prove to be highly advantageous for terrorist activities (Gordon, 2009:4). This system guarantees an inexpensive, discreet, and effective method for facilitating frequent money transfers across the globe, making it an attractive option for terrorists (G. Feiler 2007:35).

Prior to the September 11, 2001 attack, Hawala transactions were not prohibited in the United States as long as they adhered to US laws and were reported to the Financial Crimes Enforcement Network (Klemar and Cindori, 2017:123). The push for regulating these systems arose from global apprehension about their potential for facilitating terrorism financing. Western entities such as the UN, FATF, and IMF held deep suspicions toward certain informal value transfer systems (IVTS). These suspicions were further fueled by US narratives regarding the risks associated with IVTS and accusations of their involvement in the events of 9/11. Consequently, the 9/11 Commission Report documented the transfer of Al Qaeda funds through hawala networks in Pakistan and the Middle East before the September 11 attacks (Cooper and Walker, 2006:1125). As Keller (2005) investigated, the financing utilized by al-Qaeda in 1998 for orchestrating terrorist attacks on US embassies in Kenya and Tanzania, revealing hawala's role in facilitating such activities. Given the high risks associated with physically transporting large sums of cash, many terrorist financiers prefer the discreet hawala system, which enables the transfer of billions of euros daily without raising suspicion (Neue Zürcher Zeitung, 2002).



An illustration of Hawala's utilization in support of terrorist activities is exemplified in the transcripts from the trial of Muhammed al-Owahali, an al-Qaeda member serving a life sentence for his involvement in the 1998 U.S. embassy bombing in Nairobi, reveal that funding for the attack was channeled through a hawala office located in the infamous Easleigh district of the city, known for its largely Somali population. Similarly, according to the charges against Faisal Shahzad, the Pakistani American who attempted to detonate a bomb-laden SUV in New York's Times Square in May 2010, hawala transfers were utilized to finance the plot (J. Cassara and Ch. Poncy, 2015:68). Shahzad allegedly received around \$12,000 from his handlers in Pakistan, specifically from the Tehrik-e-Taliban, to execute the attack (CBS News, 2010).

Another the most notable instance involves the exposure of a vast covert hawala network in Spain, comprising 300 hawaladars operating clandestine offices across Spanish cities, notably within 250 butcher shops, grocery stores etc., This network handled the finances of over 150,000 Muslims, many of whom were suspected to be receiving social welfare benefits from the Spanish state, without any legal oversight. Furthermore, the network facilitated the payment of salaries to jihadists in Syria, providing approximately \$800 for single individuals and \$1,200 for married individuals (Klemar and Cindori, 2017:126). These operations were conducted from concealed and anonymous Hawala stations, categorized as modern Hawala due to the provision of value transfer services from butcher shops, grocery stores, etc. (Ranstorp, 2016).

Multiple studies have shed light on this issue (Nagy and Somogyi 2023:23). Rowald (2014)_et al. highlight that al-Qaeda operates an extensive financial network comprising companies and bank accounts, while also relying on hawala for fund transfers. Arianti (2020) documents cases where the Arakan Rohingya Salvation Army in Myanmar distributed money through hawala. Similarly, the Katibat Imam Al-Bukhari group reportedly obtained funds from its affiliates through hawala channels (Soliev, 2019:17). The Khalistan Liberation Force funded its activities through criminal means in India, receiving financial support from the Sikh diaspora in Canada and the United Kingdom via hawala (Fair, 2004). Furthermore, hawala is also widely used by the Islamic State to avoid being tracked down for official banking transactions (Almohamad, 2021).

In summary, these studies underscore the utilization of hawala by terrorist organizations, elucidate its role in financing terrorism, and highlight the challenges encountered by law enforcement agencies.

Funding terrorism: the case of Somalian Al-Shaab Terrorist Organisation

Once Osama bin Laden stated that Jihadists aware of the vulnerabilities 'cracks' in the Western financial system. And unofficial payments, far from being mere fissures, represent vast chasms akin to the Grand Canyon. It is evident that beyond their legitimate purpose of transferring wages, they are also exploited by criminal and terrorist groups (Cassara, 2017:4). Islamic charitable organizations are not exception to this list and are heavily involved in funding terrorism.

According to Daniel Glaser (2011), the US Assistant Secretary of State for Terrorism Financing, charities—which are widely publicized and encouraged among immigrants—



are being used by terrorists as a means of "raising, moving, and utilizing funds." The charities are better suited to offer logistical cover for the transfer of funds and have evolved into a front for radicalization and brainwashing. Admittedly, there are diverse avenues through which terrorist funds flow. As outlined in this paper, tracing terrorist financing poses challenges, because the role of diaspora and proliferation of Islamic charities in various countries, some of which harbor a strong radical element. These funds are often channeled through the international hawala network (V.Chadha, 2014:40).

One should be noted that Somalia stands as one of the world's economies highly reliant on remittances (Cockyne and Shetret, 2012:2). Within Somalia, xawilaad (hawala) serves as the predominant means for transferring money into, out of, but also recognized as the most cost-effective, straightforward, and secure method for these transactions (Witting, 2011:121). With the absence of traditional banking institutions, the hawala system serves as the sole financial transfer mechanism in Somalia, facilitating family support, investments, and business transactions. Studies conducted by the United Nations Development Programme (UNDP) have revealed that 26 percent of Somalia's entire population relies entirely on transfers, while up to 66 percent depend on it for at least half of their basic needs (Houssein 2005:89).

However, hawala in Somalia serves not only as an informal money transfer system but also as a means of fostering cross-clan relationships, often involving specific clan members. Bigger xawilad businesses, like Dahabshil, Amal, and the now-defunct al-Barakaat have strategically expanded their services across clan lines, operating within the framework of Sharia (Islamic law) and xeer (Somali customary law). This cross-clan, pan-Somali approach, rooted in religion and culture, closely mirrors a core ideological belief of al-Shabaab, emphasizing the significance of Islam (Witting 2011:122).

Al-Shabaab, also referred to as the Somali Youth Mujahedeen Movement, is a Sunni Islamist extremist group with the goal of expelling foreign, particularly Ethiopian, forces from Somalia and implementing Islamic law in the nation. Linked with al-Qa'ida and recognized as a terrorist organization by multiple countries, emerged as a potent and radical faction within the Islamic Courts Union (ICU) movement, which gained substantial support among Somalis in southern and south-central Somalia in early 2006 (WashingtonDC, 2007). The financing of this group partly relies on monetary donations from Somali diaspora communities situated in Europe, North America, Kenya, and the Middle East. In Scandinavia, for instance, individuals connected to Al-Shabaaab reportedly seek contributions from member of Somali communities in Odense, Copenhagen, and Malmö, many of whom hail from the southern Somali regions where al-Shabaab holds influence (Witting 2011:123). Investigators from the European Union claim that this kind of fundraising usually centers on "older, manipulative Islamic extremists" who can persuade people who might be sympathetic to the cause—including attendees of family gatherings, mosques, public gatherings, and charity events—to donate to al-Shabaab. These individuals reportedly do this by presenting stories that affirm that money given to al-Shabaab not only satisfies the Islamic obligation to give zakat (mandatory donation), but also that the funds will be used to fight against Ethiopia, the Somali Transitional Federal Government (TFG), and Western states, including the United States (Washington DC, 2010).



In this way, through the UK-based Somali community, Al-Shabaab has managed to secure substantial funding, estimated to be in tens of thousands of pounds, given their population size of around 250,000 (Shay, 2021). While some British Somalis voluntarily contribute to the terrorist organization, a portion of the money sent back to relatives in Somalia is diverted by extremists. Additionally, Muslims often donate to Islamic charities, typically through cash transactions via hawala (Nagy and Somogyi 2023:24). There's a strong likelihood that some of these donations to Islamic charities have inadvertently financed terrorism, unbeknownst to the devout immigrant workers (Patel, 2017).

Conclusion

The analysis of hawala, an informal yet pervasive money transfer system, reveals its role as a conduit for terrorist financing. Despite being traditionally associated with legitimate remittances and cross-border transactions, hawala has increasingly been exploited by terrorist organizations due to its secrecy and accessibility. Moreover, the examination of specific case studies, such as the Somali diaspora's contribution to funding Al-Shabaab, underscores the global reach and impact of terrorist financing networks. By elucidating these connections, this work contributes to a deeper understanding of how terrorist organizations exploit informal financial systems and diaspora communities to sustain their operations. This study not only identifies gaps in existing research but also proposes avenues for future investigation. By emphasizing the need for nuanced, context-specific approaches to understanding terrorist financing, it advocates for a shift away from conventional frameworks towards more holistic and interdisciplinary methodologies. Due to word limit of this essay, it has some limitations and requires further research on this issue. In essence, this work serves as a critical contribution to the field of counterterrorism by illuminating the evolving dynamics of terrorist financing mechanisms.

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