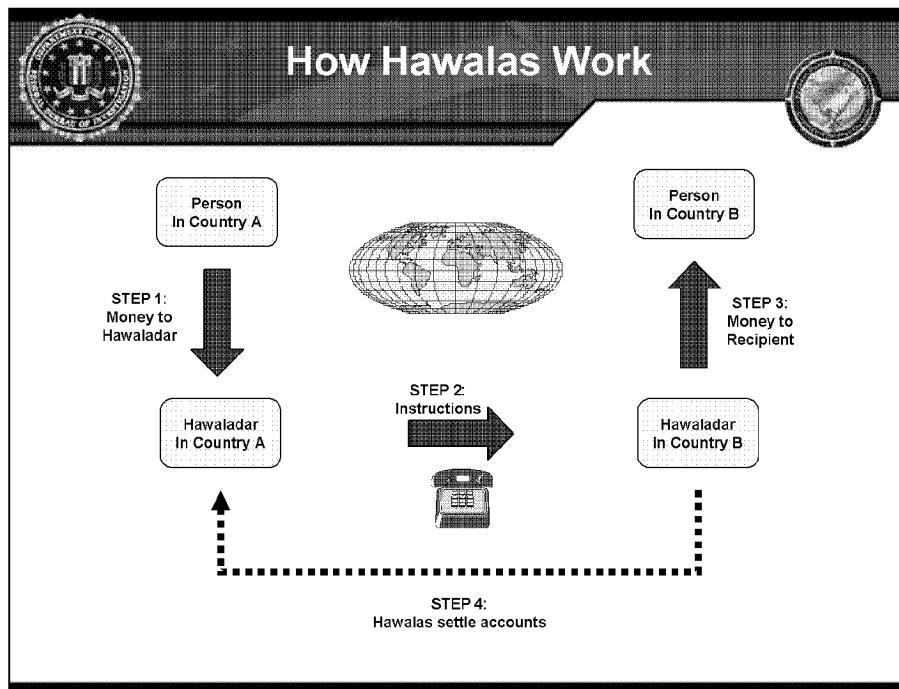


HAWALAS/ALTERNATE VALUE TRANSFER SYSTEMS

An Alternative Value Transfer System (AVS) is a way to transfer money without using the formal banking system. In some countries AVT systems run parallel with formal financial institutions or as a substitute or alternative for them. Depending on the ethnic group AVT systems are called by a variety of names , including:

- Hawala (Middle East, Pakistan, Afghanistan);
- Hundi (India),
- Phoe Kwan (Thailand);
- Black Market Currency Exchange (South America)

In the Arabic world, hawala means transfer. This system is based on trust and a network of connections. Usually family, ethnic, regional or business affiliations are the basis of trust between the client and the hawaladar and between the hawaladars (the hawala keeper).



Often no currency actually moves between origin and destination. Hawaladars maintain records and, when

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necessary may settle books through the exchange of goods rather than currency.

The advantages of using a Hawala:

- Confidential and legitimate in many countries.
- Convenient, no delay in receipt of funds/available 24 hours: allows for immediate use of funds in worldwide transfers.
- No excess bank charges. Fees range from 0% for "charities", 2-3% for Pakistani to 5% for Somali hawalas. Western Union can be 15%.
- No outside audit/examination of records: Avoids Bank Secrecy Act Reporting requirements.
- Minimum paper trail. Paper trail is attached to the hawaladar not the sender or the recipient.
- Undetected use of illicit funds

In the US, informal money remitters are required to be licensed and to report suspicious transactions.

A suspicious activity report (SAR) might show a suspect makes frequent large cash deposits into his checking account and then a few days later wires a lump sum out of the country. The suspect may have multiple currency accounts and/or his banking activity might seem unusual for his occupation.

Al-Qaeda has developed a financial network established to disguise terrorist activities behind a visible, mostly legitimate, business cover using and abusing tools and methods that constitute the basis of Islamic banking, religious donations and modern economic globalization to move and raise money.

By mixing religious beliefs, tools and interpretations with financial purposes, without proper regulations and controls, Saudi Arabia allowed the traditional Zakat to become a financial tool for terrorists. Zakat is a form of tax and is calculated on capital and earnings from and on all proceeds, profits and gains from business, industry or personal work and on property or monetary acquisitions of whatever type or description. It is estimated that Saudi Arabia generates about \$10 billion annually in Zakat funds. Through this means, Al-Qaeda obtained \$300-\$500 million

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dollars during the last 10 years from wealthy businessmen and bankers representing about 20% of the Saudi GNP. This was done through a web of charities and companies acting as fronts, most of which are still unknown to law enforcement and are supporting terrorist activities. Knowing the source of the funds generated by the terrorist networks, it is important to understand how the terrorist funds are then moved to support operational terrorist missions. Because Hawala is simply a method of moving the money used by terrorists, it is only a step towards the disruption of the terrorist networks. The Hawala system is basically the "end user" tool for terrorists on the ground, used to transfer money for operational purposes.