

#### What is a hawala?

Hawalas are unregulated international financing networks. Hawalas are not limited to specific geographic regions, and are found throughout the world. The word hawala means "in trust" in Hindi. The money-transfer system is used primarily by individuals to transfer cash, locally or overseas, to people who do not have access to a bank. Hawalas are commonly used by immigrants in Canada. Transfers are usually from one blood relative to another. They leave no paper trail and offer anonymity to both the originator and the recipient.

#### How do they work?

The operator of a hawala is a thakedar. A fee, traditionally five per cent of the amount to be transferred, is charged for the service. When a person wishes to transfer money, the thakedar of one hawala contacts his counterpart in the other location. This is now usually done via e-mail. Within minutes, the originating thakedar gets a response from the recipient thakedar, confirming that there is enough cash on hand to complete the transfer. To verify the transaction, a password is shared among the donor, the recipient and the two thakedars. The recipient must provide his thakedar with the password to receive the money. The system is based on trust between the two thakedars, in a relationship that develops over the years. The cash debt is settled later between the two thakedars.

#### • MORE: Hawala History

##### Hawala how-to

John is based in Toronto, and wants to send his mother \$5000.

John's mother lives in Calgary. She is retired and has no money, and has never had a bank account.

John goes to his local thakedar in Toronto. He gives the thakedar \$5,000. He also pays a fee for the service, traditionally 5% of the principal. In this case, that would be \$250.

The thakedar phones/e-mails a thakedar in Calgary. If the Calgary thakedar has \$5,000 in cash on hand, the thakedar in Toronto asks John for a password.

The Toronto thakedar gives this password to the Calgary thakedar.

John later tells his mother in Calgary the password.

John's mother provides the Calgary thakedar with the password.

The Calgary thakedar gives her the money and the transaction is complete. She will pay no fee for the transaction. The two thakedars will settle up their debt later.

How long have hawalas been around?

Hawalas have existed for centuries. Initially the messages and money transactions were distributed via mule and camel. The system slowly migrated to the mail system, then to phones and faxes, and now commonly uses e-mail.

Where do hawalas exist?

Hawalas exist in over 50 countries. There is little use of hawalas in cities, as most people there rely on banks or other institutions to send money abroad. Hawalas are more common in rural areas, especially where people do not have access to a bank. They are used predominantly in Islamic nations, but they are catching on in parts of the Middle East, Indian subcontinent, Southeast Asia and Africa.

Why is the U.S. government so concerned about hawalas?

Obviously, there are no taxes paid and money-laundering laws can be skirted easily. Now, the American government has accused two groups, Al-Barakaat and Al Taqua, of using hawalas to secretly funnel tens of millions of dollars a year to al-Qaeda, Osama bin Laden's organization. U.S. officials say sealed court documents prove the groups skim money for al-Qaeda from hawala exchange fees, using these fees to finance weapons and intelligence for terrorists.

On Nov. 7, the U.S. government suspended the assets of 62 people and organizations in 10 countries, which it said are using hawalas inside these two agencies. The chair of Al-Barakaat denies the allegations, saying his organization has nothing to do with terrorists.

Al-Barakaat and Al Taqua have operations in over 40 countries. U.S. investigators say much of the money these groups transfer overseas is sent by Somali residents in the United States to their relatives back home. One Canadian man told reporters that since Nov. 7 he has no longer been

able to send money from a hawala in an Ottawa  
food store to his family in Somalia.

"They've already frozen everything," said Ibrahim  
Nur, who came to Canada 15 years ago. He says  
his family in Somalia could receive cash in minutes,  
compared with the days and weeks required via  
banks or other formal systems.