A BACKGROUND REPORT ON THE OPERATION OF INFORMAL VALUE TRANSFER SYSTEMS (HAWALA)

by

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1 The Basis on which this Report has been prepared

1.1 The sources of my own knowledge of IVTS/Hawala Banking

1.1.1 From the spring of 1999 to the autumn of 2001 I was engaged more or less full time in a study entitled *Kinship, Entrepreneurship and the Transnational Circulation of Assets*, financed by the Economic and Social Research Council. The principle objective of the project was to compare and contrast the dynamics of the circulation of social, economic and cultural assets as between the UK and three of the major sources of immigration from South Asia – Mirpur District in Pakistan, Jullundur District in India, and Sylhet District in Bangladesh. In the course of this project I made several field trips to South Asia, as well as engaging in an intensive scrutiny of migrants' behaviour in the UK. As a result I was able to construct a detailed structural model of the development and contemporary dynamics of the transnational networks which migrants from each area had built up, and of the impact which the very substantial asset flows thereby generated were having on the local economies of migrants' villages of origin back in South Asia. I am currently in the midst of publishing formal academic accounts of my findings with respect to these developments.

1.1.2 During the course of my fieldwork it soon became apparent that the greater part of this very substantial flow of remittances was being transmitted through 'informal' channels, rather than through the formal banking system. But although straightforward ethnographic methods enabled me to gain a reasonably detailed understanding of the basic principles in terms of which the system of value transfer – commonly known as 'hawala' or 'hundi' – operated, I was not surprised to find that the actual operators of the system were most reluctant to discuss what they regarded as their commercial secrets. Hence whilst I was well aware of the existence and large contemporary scale of hawala transactions, and was also able to explore the historical growth of hawala banking practices from their early mediaeval origins, during the course of my project fieldwork I found it virtually impossible to gain access to really detailed information about the transactions themselves.

1.1.3 All this changed, however, when I was asked if I was in a position to prepare an expert report on Hawala, given that Customs and Excise had charged several Hawala operators in Bradford, Leeds and Halifax with Money Laundering. Not only was I able to sketch out the broad logic of the way in which Hawala bankers facilitated International Value Transfers on behalf of their clients, but their clients – who were by now faced with extremely serious charges – were only too willing to discuss the details of their procedures with me, as well as to show me all the records which they had kept of their hawala transactions. As a result I was at long last in a position to piece together the way in which that dimension of the contemporary Hawala system which is driven by the remittance flows generated by South Asian settlers in Britain actually operates.

1.1.4 This took some time to master. Enquiries amongst fellow academics working in South, Central, East and South East Asia revealed that whilst almost everyone come across similarly structured Informal Value Transfer systems in the course of their own fieldwork, no-one had any greater knowledge of the precise details of their internal dynamics than did I. Moreover a trawl on the Internet threw up no more than a handful of responses, although one proved to be particularly valuable: a report entitled *Informal Value Transfer Systems and Criminal Organisations: a study of so-called underground networks* (hereafter IVTS), prepared by Professor Nikos Passas on behalf of the Dutch Ministry of Justice.

1.1.5 But although I initially found Professor Passas pioneering report immensely helpful, not least because it was a pioneering attempt to make a systematic study of hawala transactions, I soon became acutely aware of its limitations. Under the terms of his contract Professor Passas was operating under extremely tight time constraints, with the result (as he himself emphasises) that he had not been able to carry out nearly as much fieldwork as he would have wished; secondly the way in which his research was structured was such that he had little alternative but to take a top-down view of the operation of hawala, with the result that much of the detail revealed by taking a complementary 'bottom-up' perspective was missing from his report.

1.1.6 As a consequence of being able to combine my own prior ethnographic knowledge of transnationally active South Asian communities, the findings and conclusions of fellow academic analysts such as Professor Passas and Dr. John Wilson of the IMF, as well as the additional understandings I have acquired as a result of considering the details of a number of hawala operations where I was instructed to act as an expert witness, my own knowledge and understanding of just how contemporary hawala system actually operates has developed by leaps and bounds during the course of the past eighteen months.

1.1.7 However I should also emphasise that this has also been a collective exercise: at the outset I learned a great deal from Professor Passas' study cited above, and during the past year from the work of Dr. Wilson, who is Chief Economist in the Middle Eastern Division of the IMF. In this respect two documents were particularly illuminating: firstly a Conference paper which presented Dr. Wilson of the IMF in May 2002, in which he set out in broad brushstrokes the conclusions he begun to draw as a result of the brief he had been given to prepare a formal report on Hawala for the IMF/World Bank, and finally the full Report itself which is due to be published in the next few days, but of which Dr. Wilson was kind enough to provide me with an advance copy for my comments. While I cannot speak on Dr. Wilson's behalf, I suspect that they may well have found my contributions to the discussion of just how hawala operates just as illuminating as I found his. Moreover the process of mutual discussion continues: I have been the prime mover in setting up a workshop to discuss the findings and conclusions of Dr. Wilson's about-to-be published IMF report on the subject which is to be held at the Department for International Development on January 10th 2003.

1.1.8 Further light has been thrown on the issues by Dr. Wilson's colleague Dr. Mohammed El-Qorchi, especially in his contribution to the IMF's quarterly magazine Finance and Development.

1.2 My approach to the issues at stake in these proceedings

1.2.1 It should by now be quite clear that without an understanding of the way in which contemporary hawala systems operate, it is quite impossible to make any kind of informed judgement about the legal status of the complex sets of financial transactions which have given rise to these proceedings. With this in mind this report seeks to present a detailed review of the relevant background issues. These include:

- The historical origins of hawala banking systems
- The contemporary role of hawala banking in South Asia, within the South Asian diaspora, and in global trading networks
- The foundations of the relationships of trust which are the key to the successful operation of networks
- Three levels of hawala transaction: retail, wholesale and corporate.

- The key role of Dubai in the settlement of hawala swaps in both the Middle East and South Asia
- The flows and counter-flows of value which underpin settlement
- The role of Hawala in contemporary patterns of world trade

My objective, in other words, is to set out the logic of contemporary hawala transactions as well as the institutional framework within which it is currently organised.

2 The Historical origins of Hawala

2.1 Earliest references

2.1.1 The earliest reference to hawala that I have so far been able to track down is in Abraham Udovitch's monograph on *Partnership and Profit in Medieval Islam* (Princeton, 1970), for which one of his principal sources is *Al-mabsut*, a legal commentary prepared by the Egyptian scholar Sarakhshi in the 11th Century CE. Udovitch's discussion is very largely concerned with the legal underpinnings of long-distance trade, and he uses Sarakhshi's work to identify hawala as 'a transfer of debt'. Since Islamic Law was much more at ease with the prospect of 'real' debts being transferred between individuals than 'fictional' credits, hawala appears to have been the preferred method of organising the financial aspects of long-distance trade in the eastern Mediterranean, the Red Sea, Mesopotamia and Iran since the early medieval period of Islam.

2.1.2 Its original objective of hawala was to facilitate all aspects of long distance trade, whether by ship down the Red Sea and across the Indian Ocean, or by camel through Mesopotamia and Iran to Central Asia and China. Financial security was always a major problem for such traders. Not only was the protection of one's trade goods from thieves and pirates was a challenging enough task in its own right, but the protection of the bullion needed to acquire goods in a distant market, let alone that generated through profitable trading activities away from one's home base was even more of a headache. A banking system of some kind would obviate the worst of these worries.

2.2 Hawala as a system of Trust

2.2.1 The hawala system which emerged as a response to these challenges not only had to be reliable and effective, but also to be congruent with the principles of Islamic Law. The context in which these developments occurred was equally specific. Not only were the roads infested with highwaymen and the sea with pirates, but in a period before telegrams and telephones, let alone the internet, information-transfer across long distances was extremely slow. It followed that trust was at a huge premium if long-distance trade was to be financed with smoothness and safety. With such considerations in mind, a tight-knit extended family – whose members could by definition have absolute trust in each other – appears to have lain at the core of every Hawala operation. Members of such a family, whose inter-linkages were often reinforced by inter-marriage and/or through common sectarian affiliation, could then establish and sustain residential bases in two or more major trading centres which were far removed from one another, but between which a good deal of commercial business was transacted. They could then open for business.

2.2.2 With such a spatially-extended kinship network in place, visiting traders in any one of those centres could either deposit funds (or failing that provide goods or property as a surety to) the custodian of that arm of the hawala business, who would in turn provide a *hundi* (effectively a letter of credit), even if in technical terms [and in keeping with Islamic Law] the document was in fact a letter of acknowledgement of debt to the depositor which was encashable either on demand, or at some fixed date in the future, in some distant trading centre where another arm of the family was based. This system was of immense utility to merchants engaged in long-distance trade, above all because it enabled them to conduct their business without having to carry large amounts of bullion over long distances.

2.2.3 In comparison with most contemporary ('overground') forms of international banking, hawala lay very firmly at the informal rather than the formal end of the spectrum. Security was guaranteed not so much through setting up limited companies with complex (and costly) internal structures regulated by auditors and regulated by the state, but through highly personalised relationships of trust. Hence in the early days Hawala operators were invariably close kin, and the intensity of the multi-stranded relationships between themselves provided a guarantee that one arm of the family business would not rip off another. Secondly their customers, the merchants who wished to use the hawala system to transfer funds, invariably chose hawala operators who had a clear connection with their own community, and with whom they in turn had multi-form connections.

2.2.4 In this context it is also worth emphasising just how these multi-form connections underwrote trust, for they also gave rise to some highly effective sanctions against malfeasance. In a world where everyone belonged to tight knit communities, and non-membership of such a community and its associated networks of reciprocity left lone individuals with no protection against naked exploitation, transgressing the network's norms of reciprocity had quite disastrous implications. It was not just that the transgressor would thereafter be regarded as an unreliable business partner; he would also find that his presence at all collective meetings and celebrations was unwelcome, that visitors would no longer come to his house, that he would find it almost impossible to arrange suitable marriages for his children, and he might well find that his married daughters would be returned to him in comprehensive ignominy. In other words everyone was (and is) well aware that extremely powerful sanctions can very easily be brought down on the heads of anyone who wilfully broke the obligations of trust which were central to network membership.

2.2.5 It was precisely these kinds of understandings in which the security of relationships between geographically distant hawaladars, as well as between each of those hawaladars and their customers, were grounded. It was such considerations which provided a guarantee that the hawala operators would not rip off their customers – or vice-versa – as an untrustworthy stranger might very well get away with doing.

2.3 Records and Record Keeping

But although hawala was therefore a highly personal system of banking, it was certainly not conducted on a record-less basis. On the one hand customers who had deposited funds with them were routinely provided with a *hundi,* a promissory note recording the system's condition of indebtedness to them. Secondly whilst Hawala operators frequently relied very heavily on memory, there was no way in which they could hope accurately to remember all aspects of the increasingly complex transactions in which they were engaged. Hence they also developed their own very elaborate – and very private – forms of record keeping. Indeed in a manner parallel to the 'mysteries' of guilds in mediaeval Europe, in many parts of the Indian subcontinent such traders created their own exclusive script, which non-specialists were wholly unable to decipher, in order to guarantee the security of their private records.

2.4 The internal dynamics of hawala

2.4.1 Finally it is worth remembering that if current practice is anything to go by, the vast majority of those who regularly utilised the system would have had very little understanding of just how the whole system operated such that 'flying money' (as the Chinese aptly describe hawala) could be produced at the drop of a hat in very distant locations. However this 'mystery' is in fact quite easily explained. Although the system worked in such a way that it appeared to its customers as being a supremely effective means of money transmission – for it enabled them to feed funds into one end of the network and take them out again as and when they needed them in far-distant places – the volume of *physical* money/bullion-transmission was (and in many respects still is) dramatically smaller than one might expect if one simply focussed on each transaction separately. Indeed the ideal hawala system (at least as far as its operators were and are concerned) is one in which no physical transmission of money takes place at all (IMF/WB: 19). Once we consider the operation of hawala in systematic terms, it is very easy to see how this occurs.

2.4.2 In a situation where there are a multiplicity of transactions in which funds are being sent back and forth to finance trade between two or more hawala centres (let us say Damascus and Hormuz, for example), and if the total value of the cash flows in either direction are broadly in balance, then it follows that there is no need for the bullion (or some other form of credit) deposited by customers in Damascus to be sent physically to Hormuz, if the deposits in Damascus could be passed out to creditors from Hormuz, and the deposits taken in Hormuz were returned to creditors from Damascus once they arrived back in their home base. With such a system in place customers could be kept happy by taking a margin on these transactions which was substantially less than the cost (and danger) of physically transferring bullion from one centre to another, whilst hawala bankers could make substantial profits from the relatively small margins which they took on the funds which they were in effect constantly re-circulating as between differing groups of customers. The traditional process of hawala therefore replicated a key component of contemporary banking practice, even though it did so within the context of an organisation in which security was grounded in informal relationships of trust rather than more 'modern' (and certainly far more expensive) bureaucratic procedures.

3 Hawala in the contemporary world

3.1 The changing context

3.1.1 During the past two centuries patterns of global trade have been transformed as Britain and then the United States gained global dominance, so much that their national currencies successively became the vehicle through which prices were quoted, deals agreed and invoices settled in the greater part of international trade. Along with this European-style Banks – operating in terms of such formal bureaucratic procedures – also moved into a position of global dominance. But although it was widely assumed, at least from a European perspective, that the more informal systems of value transfer such as hawala had consequently been reduced to a condition of terminal collapse, it has now become apparent that this view was mistaken. Not only did Hawala/IVTS systems survive the onslaught to which they were subjected, albeit on the margins of the new mainstream, but having made the necessary adjustments to the new conditions, have expanded rapidly once again during the course of the last few decades.

3.1.2 There are several reasons for the recent re-emergence of hawala transactions. Firstly, and perhaps most importantly, there has been rapid growth in the number immigrants from the third world living and working in Europe and North America, who have begun to send every larger sums of money as remittances to their families back home; secondly there has been an equally rapid growth in business and manufacturing activity in South, East, and South East Asia, much of which is located in countries such as India, China – and indeed post-revolutionary Iran – where formal restrictions on foreign exchange are so restrictive as to constitute a virtual stranglehold on business enterprise; and thirdly the replacement of the old-fashioned telegram with far speedier – and far cheaper – means of data transmission via fax and the internet. Taken together, these developments have enabled Asian financial entrepreneurs to put together an alternative system of international value transmission which is much easier to access, far swifter, very much less expensive and just as reliable as that provided by the formal banking system.

3.2 Hawala, Labour migration and remittances

3.2.1 As far as the economics of hawala are concerned, Wilson's account in the Conference Paper which he presented in May 2002 is both clear and illuminating:

> Why would Hawala be widely used? Here there is some consensus on the motivations. Hawala-type informal transfers are often faster, more reliable, reach more destinations, sometimes benefit from a better exchange rate, and can be much cheaper than transfers through established, licensed financial institutions. Hawala-type transactions will be especially popular in countries where there are large ethnic or expatriate worker populations who often make transfers or remittances to their families in home….
>
> An expatriate worker uses an intermediary, the hawaladar, to arrange a remittance to his home country. He makes payment in dollars or other convertible currency. The hawaladar in A contacts a counterpart in the receiving country, B, who makes payment in local currency to the remitter's family or other beneficiary. Obviously, some network of family or connections among hawaladars is required to make such a system work on a large-scale and ongoing basis. Small scale hawaladars seem to be concentrated in certain shops and businesses in the relevant communities: travel agencies are a favourite candidate; sometimes laundries and food stores. Money exchanges are reported to sometimes have back-room hawala operations.
>
> The economic attraction of hawala to the remitter usually is the speed, low cost, and reliability of the system compared to use of an established financial institution. It has been argued (and mission discussions tended to confirm) that this system often has advantages compared to banks, money exchanges, Western Union, MoneyGram, and other providers of this service. Hawala-type transactions also provide special advantages in situations where the remitting country has a convertible currency and no capital controls, and the receiving country has inconvertible currency and/or a black market exchange rate. Such transactions often can be carried out at better rate than the official rate, also to the benefit of the remitter and recipient. (Wilson, 2002: 3 – 4).

3.2.2 Several points emerge from Wilson's argument. Firstly that contemporary hawala has a clear *economic* rationale: using hawala rather than the formal banking system has real advantages as far as both the sender and the recipient are concerned. Secondly that the development of contemporary hawala operations is closely linked to the emergence of large expatriate worker populations who make remittances to their families at home. Thirdly that some network of family or connections among hawaladars is required to make the system work on a large scale and ongoing basis. As we shall see, all these conditions are powerfully fulfilled in the case of Britain's Pakistani population.

3.3 The global scale of migrant remittances

Whilst Dr Wilson avoids making an estimate of the global scale of financial flows currently generated by migrant remittances, not least because a central thrust of his argument that whenever such is derived from the measurement of flows through formal channels, the outcome will be a substantial underestimate of the true figure, such estimates are readily available elsewhere. Hence, for example, Susan F. Martin, Director of the Institute for the Study of International Migration at Georgetown University argues

3.3.1 Worldwide, the flow of remittances exceeds $100,000 million per year, with more than 60 percent going to developing countries. Having presented these statistics, it is worth noting the weaknesses of existing data on remittances. These numbers likely under-represent the scale of remittances by thousands of millions of dollars since many countries have inadequate processes for estimating or reporting on the funds remitted by foreign workers. (http://usinfo.state.gov/journals/ites/0901/ijee/martin.htm)

Within that broad framework there is not only widespread agreement that in a South Asian context not only is Pakistan's economy particularly heavily dependent on the large-scale inflow of migrant remittances, but also that a particularly high proportion of that inflow is directed through informal rather than formal channels. Once again Wilson is very helpful on this score. Having once again emphasised that 'Quantification effort will not be undertaken today', he nevertheless goes on to indicate that

> rumour, hearsay, the literature, and conversations on our recent mission do suggest that some countries fall into certain categories in this regard. There is remarkable consensus that the "degree of Hawala" for inward remittances to Pakistan is very high, and likely is also high for several other South Asian countries. (Wilson 2002: 11)

In addition to singling out Pakistan as a country where hawala plays an extremely salient role in the organisation of foreign exchange transactions, Wilson also very specifically identifies the local hub through which the majority of these transactions are organised: the United Arab Emirates. As he puts it:

> Where are such entities concentrated? We can't tell for sure but, for various reasons Dubai, in the United Arab Emirates, has often been singled out as a location where many hawala transactions are consolidated and cleared. There are also 105 exchange houses in the U.A.E., and for some reason even as we speak the U.A.E. authorities are holding an International Conference on Hawala, with one of my mission colleagues as a featured speaker. (Wilson, 2002: 6)

3.4 Hawala and international trade

3.4.1 Although there is no dispute that migrant remittances have powerfully reinforced the use of hawala (as well as what Professor Passas has usefully identified in more general terms as Informal Value Transfer Systems) in virtually all corners of the globe, remittances are by no means the only kind of value transfers for which such systems provide a vehicle. Precisely because of the strictness with which foreign exchange transactions are regulated by the state in many parts of the non-European world, let alone exceedingly high levels of taxation and excise duty, severe controls on what may or may not be manufactured, exported and imported, all of which are further underlined by the non-convertibility of domestic currencies, businessmen and manufacturers who find themselves subjected to such restrictions have increasingly turned to hawala as means of facilitating their transactions with trading partners overseas.

3.4.2 Hence the growth of remittance driven value transfers moving broadly from the first world to the third has been matched by the parallel growth of funds being counter-transferred in the opposite direction, thus generating a 'settlement' in banking terms. Hence whilst hawala outflows (at least if viewed from a metropolitan perspective) have thus far attracted the greatest degree of analytical attention, it follows (as the recent IMF/World Bank report explicitly recognises) that the reverse flow needed to achieve settlement must by definition be in a scale which closely matches the remittance outflow. Whilst even less is known about these counter-transfers than about the outflow of migrant remittances, the recent IMF/WB report nevertheless presents a long list of the various forms which such counter-transfers might take. They include

- Simple reverse hawala
- Complex reverse hawala
- Bilateral financial settlement
- Multilateral financial settlement
- Bilateral trade
- Multilateral trade
- Misstatement of trade values (*i.e.* 'under- and over-invoicing')
- Smuggling – e.g. the purchase of gold in Dubai for customers in India
- Purchase of health and educational services overseas
- International investment services and capital flight

3.4.3 Last but not least the Report also points to the likely key role of high level consolidators who effectively arrange wholesale hawala swaps on a global scale. (IMF/WB 2003: 20 – 23) Whilst the Report emphasises that at present neither the IMF nor the World Bank can provide an accurate measure of the current scale of Hawala transfers (although by common agreement it is very large), and also that even less is known about the reverse transfers which are the necessary counterpart of the slightly better understood outward flow of migrant remittances, the Report nevertheless concludes that in structural terms,

> the accounting details of hawala transactions are similar to other kinds of international payments, including those that go through the banking system. Like the hawala system, banks do not necessarily move physical cash between branches or correspondent banks when effecting transfers. The main difference between hawala and formal institutions is that the subsequent settlement of accounts usually remains outside formal operating channels that can be monitored by national authorities. (IMF/WB 2003: 36)

4 Hawala in a Contemporary South Asia

4.1 My own specific knowledge-base

4.1.1 Turning now to my own professional experience, I can readily confirm that the rapid recent growth of hawala transactions in India and Pakistan has been strongly associated with the onset of large-scale labour migration to a wide variety of overseas destinations, which rapidly precipitated a demand for long-distance money-transfer facilities. Over the course of the past thirty years I have made numerous visits to the Punjab region of northern India and Pakistan to conduct ethnographic fieldwork, and have also kept in equally close touch with the UK-based communities which settlers from these areas have constructed. In doing so I have watched at first hand the transfer of remittances go through a series of phases of growth and decline, with varying use of both Banks and the hawala sector as a means of money transfer. However during the course of conversations with members of these communities, as well as a result of my efforts to monitor the academic literature, I also learned a great deal about movements from rural Punjab (as well as from other regions in South Asia) to East Africa, the oil-rich states in the Persian gulf, and more recently to North America.

4.1.2 It is also worth noting that the internet has now become a very useful source of information on Hawala. When I first began to look for anything that had been posted up on the subject rather more than a year ago, almost nothing was to be found on the subject: however a great deal more material has appeared since. Moreover the ‘Exchanges’ in Dubai which are the principal vehicles through which hawala flows are articulated on a global basis have also begun to have an increasing – and extremely illuminating – presence on the web. I have also made the fullest possible use of these sources.

4.2 The early phases of emigration and the initial growth of hawala

4.2.1 My own personal knowledge of Hawala operations in grounded in my long-standing interest in immigrant inflows from South Asia to the UK, and most especially from Mirpur District in Pakistan and Jullundur District in India. Taken together, these two relatively small areas are the original homelands of approximately half of Britain’s current 2 million strong South Asian population. Emigration from both areas has a long history, stretching back to well before the beginning of the twentieth century.

4.2.2 From the 1880s onwards Mirpuris served as stokers on merchant ships sailing out of Karachi and Bombay, whilst the earliest destinations of Sikh emigrants from Jullundur were Hong-Kong, British Columbia and East Africa, where settlements begin to be established from the beginning of the last century onwards. Both groups established their initial bridgeheads in the UK shortly before the outbreak of the Second World War, and mass migration began in response to the intense shortage unskilled and semi-skilled workers which developed in many of the more traditional sections of British industry between the late 1940s and the late 1970s. During the early phases of settlement, when the immigrant population was all male, virtually everyone remitted the greater part of their earnings (of which they were often able to save as much as 80% by working long hours and living extremely frugally) straight back home. When families were reunited following the arrival of wives and children (from the mid-60s for the Jullunduri Sikhs, and from the late 70s onwards for the Mirpuris), their rate of savings, and hence of remittances, dropped very sharply. However the outflow has since picked up substantially, especially in the case of the Mirpuris (and indeed all other

Pakistanis), who have generally kept in much closer touch with their home-bases in Pakistan than have their neighbours from India.

4.2.3 During the early days of settlement, remitting their savings back to their families in South Asia was often a far from straightforward operation. Many of the early settlers were illiterate, and hence ill at ease with and distrustful of the procedures of formal banking systems; secondly there were no banks – let alone banks with facilities for dealing with foreign exchange – to be found in the relatively remote rural areas from which most of them were drawn; moreover even if there was a suitable bank which was accessible to their kin back home, formal banking procedures were such that it could take weeks or even months before a remittance arrived at its destination.

4.2.4 In the very earliest days the Post Office appears to have been a favoured means whereby migrant workers could send remittances back to their families. Since their homes lay in what was then still British India, and since the Indian Postal Service maintained offices made deliveries even in the most remote of rural areas, this was a very effective means of sending money home, even though – in the days long before air mail – it often took a very long time for their money to arrive. However some time after the end of the Second World War this system began to be superseded. As the number of South Asian settlers grew, Hawala brokers began to step in to fill the gap, not least because they could offer a swift and personalised service. Within days of a deposit being made with a hawala operator in Bradford or Birmingham, a courier on a bicycle would appear in the sender's home village, and when the assigned recipient had been identified, the cash would be delivered in person. Few of my (now elderly) informants had any idea as to just how the system worked. All they knew that the system was swift, efficient and safe.

4.3 The partial eclipse of hawala during the 1970s and 80s

4.3.1 By the time I began to conduct my fieldwork in the early 1970s, Hawala had lost its virtual monopoly over the transmission of migrant remittances from Britain back to India and Pakistan. There were several reasons for this. Firstly the flow of funds generated by migrants to the UK soon became so large that India's, and most especially Pakistan's, formally organised banks sector stepped in to make the most of the commercial opportunities which this inflow represented, especially since the greater part of the remittance inflow (especially in Pakistan) was saved rather than spent. Very soon even the smallest villages in high emigrant areas in Pakistan boasted branches of all five of the country's major banks, not only to facilitate the transfer of funds, but also to provide a safe haven for migrants' savings. Before long each such branch found itself holding very large sums on deposit, and most still do so to this day. Somewhat similar developments took place across the border in India. However in this case Jullundur District was already better provided with Banks than was Mirpur, and a much higher proportion of the remittance inflow was invested either in house construction and the purchase of agricultural land and machinery. Hence whilst the total inflow of remittances into Jullundur was on a similar scale to that in Mirpur, a much smaller amount was left on deposit in the local banks.

4.3.2 The scale of remittance flows – whether they were channelled through hawala or the formal banking sector – has also varied very considerably over time. During the initial phase of all-male settlement, sojourners saved as much as three-quarters of their wages; but when they brought their families to join them, their propensity to save – and hence to remit – dropped sharply. Moreover the speed with which the transition to family reunion took place varied from community to community. For reasons which need not concern us here, the

Jullunduri Sikhs began to move towards family reunion in the early 1960's, whilst their Pakistani (and especially their Mirpuri) counterparts only began to do so in the mid-1970's, just as they also began to be hit by financial disaster – the sudden collapse in the demand for labour in the heavy engineering and textile industries during the closing years of the 1970s. The combined impact of family reunion and high rates of unemployment meant that the Jullunduris, and rather later on the Mirpuris' propensity to remit funds back home suddenly dropped very sharply. This trend was further reinforced a result of the insurrection in Indian Punjab which followed the Indian Army's disastrously ill-conceived assault on the Golden Temple in 1984. I recall having a lengthy conversation with a Sikh luxury car dealer in Leeds in 1985 in which he told me that business had never been better as a result of the troubles in Punjab: no-one was investing back home any more.

4.4 The revival of remittance outflows from the UK, and the use of hawala in the 1990s

4.4.1 As the 1990s progressed, however, the outflow to Jullundur began to pick up again. Once Punjab's troubles were over in 1993/4, a growing number of British based settlers rather gingerly began to implement their plans to build a new house for themselves and their families back home; even so the level of remittances never returned to anything like the levels which they had achieved prior to the cut-off in 1984.

4.4.2 However Mirpuri settlers from Pakistan followed a rather different course. Although the demand for labour in heavy engineering and textiles never picked up again, settlers from Pakistan began to exploit all sorts of new niches in the labour market: small business enterprises such as shops, take-aways, and taxi-driving were much favoured. Not only did this mean that large numbers of younger people came 'on-stream' as income earners (very few Pakistani families contain less than two sons), but an ever-increasing number of those in the older generation began to reach retirement age. As this occurred, many of them felt that they were at long last in a position to implement a long-cherished dream: to build a splendid new house back home in their villages of origin, and thereby publicly celebrate their achievements overseas.

4.4.3 Not only did long established settlers therefore begin to send substantial sums of money back to Pakistan to satisfy their construction dreams, but further sums were frequently dispatched as settlers took their families back home for extended visits, most often either to celebrate marriages or attend funerals (the majority of Pakistanis who pass away in Britain are still buried back in their home villages). To cut a long story short, linkages between Pakistani settlers in Britain and their home villages back in Pakistan remained as intense as ever. Hence as the Mirpuri/Pakistani community grew steadily more prosperous during the course of the 1990s, there was an even sharper escalation in the volume of funds being sent back from Britain to Pakistan.

4.5 The changing character of local economies in high-emigrant areas

4.5.1 The arrival of this new wave of remittances from Britain after the dip during the 1980s had far reaching consequences for the local economies of those relatively small areas of Pakistan from which the majority of UK settlers were drawn. When I made my first detailed study of the impact of remittances on Mirpur's local economy in the mid 1980s, I reached some extremely gloomy conclusions about the region's long-term economic future. Although those who had stayed behind (for by the nearly 50% of the population of many villages had already moved to Britain) were in many ways much wealthier than those in nearby areas from which mass migration to the UK had not taken place, the local economy had nevertheless become locked into what is best described as a condition of comprehensive economic dependency. During the previous decade there had been a massive inflow of funds from the UK, which had transformed the physical environment of Mirpur District, the area in which I conducted the greater part of my research. Most strikingly, virtually all the old-style adobe houses had been swept away to be replaced with spanking new brick, steel and concrete constructions. This building boom had also set off a parallel boom in all sorts of other areas of the local economy, including brick-making, and the sale and transportation of all manner of other construction materials, including cement, steel reinforcing bars, doors, window-frames and so forth, as well as transport (often by camel) to deliver the materials to often-remote villages in this mountainous area. As a result all the local bazaars had expanded rapidly to accommodate the new trade.

4.5.2 However what was equally striking that very little of the massive inflow of capital resources which generated this boom had gone into improving levels of agricultural production. Hence even though agriculture was the mainstay of the real local economy – as opposed to that part of it which was driven by remittances from overseas – the profits and wages available in that sector were so great that agriculture went into serious decline. After all there was now plenty of money available to buy in wheat from elsewhere in Pakistan. For Mirpur to have moved into this condition of dependency would not have mattered one whit if migrant remittances had continued on the same ever-escalating path as they did in the 1970s. But that was not what happened, and by the mid 1980s the consequences were plain to see. The construction boom had come to a sharp end, and the bazaars were filled with hundreds of now-untenanted shop units. Many houses were locked up and gently decaying in the tropical climate. And since little or none of the remittance inflow had been invested in productive areas such as agriculture, the future of Mirpur's local economy did not look bright.

4.5.3 But when I returned a subsequent research visit three years ago, it was clear that a further transformation had taken place. The volume of remittances had not only picked up once again, but had begun to flow in on an even larger scale than they had during the 1970s. Once again the local environment was being transformed by a building boom – this time by the demolition of the now old-fashioned houses which had been built in the 1970s, in favour of spectacular multi-storied modern palaces. Likewise many of the bazaars were thriving once again, thanks to the presence of large numbers of free spending (at least in local terms) visitors from the UK. Although it was impossible to make an accurate assessment of just how much money was now flowing into Mirpur's local economy from the UK, it was quite clear that the flow was running at tens of millions, and perhaps even hundreds of millions of pounds per annum.

4.6 Changes in the international convertibility of Pakistani rupee

4.6.1 Over and above the local British factors discussed above, developments within Pakistan have also encouraged this inflow. As the scale of the remittance outflows from the UK to Pakistan began to rise sharply once again during the course of the 19990s, hawala has come back into increasing favour as the preferred means of transferring funds back home. In part this has been an outcome of the factors cited earlier – ease, speed, reliability and so forth – but in the past few years another factor has come further and further to the fore: the substantial (although constantly varying) gap between the 'official' and 'unofficial' rates of exchange of the Pakistani rupee.

4.6.2 Like many other third-world countries, the Government of Pakistan has long sought to control the outflow of rupees, and their conversion into foreign exchange, by restricting the convertibility of its currency. That was regarded as an effective means of lessening – although certainly not of eliminating – Pakistan's chronic trade deficit. However in recent years the IMF has put those countries to whom it offered support – and Pakistan is a massive borrower from this source – under ever more intense pressure to liberalise its economy, and hence, amongst other things, to remove all restrictions on the convertibility of its currency. At the beginning of the 1990's the Government of Pakistan complied with those demands, although in an effort to control the expected foreign exchange haemorrhage, the State Bank of Pakistan was instructed to issue no questions asked US$-denominated bonds with a coupon considerably higher than international rates which were available to all Pakistani citizens whether resident at home and abroad, and which were repayable either in rupees or in US$ on demand. The bonds proved attractive: many millions of dollars of deposits were drawn in on this basis, and the foreign exchange deficit was thereby considerably eased.

4.6.3 However all this changed in the aftermath of overt nuclear competition between India and Pakistan during the summer of 1998. In an effort to contain the prospect of further nuclear testing – let alone of outright war – the United States imposed severe economic sanctions on both parties. The USAID program was sharply cut back, and it was made quite clear that IMF loans were no longer available. In the absence of any guarantees the Pakistani currency began to sink like a stone, and having effectively made the rupee freely convertible only a few years before, exchange controls were once again imposed. Much more painfully – at least as far as the purchasers of the dollar denominated bonds were concerned – it was announced that these were to be re-denominated in rupees, such that the funds effectively became non-repatriable. The result was predictable: a wide gap opened between the official and the unofficial rates of exchange of for the Pakistani rupee.

4.6.4 But just how was that exchange to be conducted. An additional feature of the liberalisation process which had taken place earlier was the introduction of further competition for the established banks, since provision was made to bring exchange dealers off the backstreets. Instead they could now apply for a license to carry out their trade from the State Bank of Pakistan, and once approved, could freely operate what would be described as *bureaux de change* in a UK context. A substantial number of dealers in foreign exchange gained licenses under the new rules, but whilst the rupee remained freely convertible they could only compete with the banks in terms of ease and speed of service. However the removal of the convertibility of the rupee changed all that: the hawala operations in which most of the licensed foreign exchange dealers participated enabled them to deliver almost unlimited quantities of rupees to Pakistan based recipients in exchange for hard currency deposits elsewhere, and at rates considerably higher than that which the banks had no alternative but to offer. Hence it was little wonder that when I visited Pakistan to conduct fieldwork in the spring of 2000, I found that virtually all the remittances arriving in Pakistan from Britain were being channelled through these licensed money changers rather than the banks. Hawala had come to dominate this section of the money transmission market.

5 The organisation of hawala in a British Context

5.1 The growth of South Asian ethnic colonies in the UK

Although most members of Britain's Indian and Pakistani population have now been resident in the UK for long enough to be fully conversant with English ways, not least because they constantly participate in English social arenas whilst at school, at work, and in all manner of commercial and leisure contexts, once one explores their behaviour in more personal and domestic arenas it is immediately apparent that the great majority continue to organise their interactions with each other in terms of cultural, moral and linguistic conventions which are primarily inspired by their South Asian ancestral heritage. Once the existence of these multicultural capabilities have been acknowledged, it becomes easy to comprehend the way in which contemporary hawala operations are conducted within an alternative world: namely the moral and cultural conventions routinely deployed within local ethnic colonies South Asian settlers (and indeed many other minority groups) have constructed around themselves, rather than in terms of those current within the wider English society within which those colonies are set. Hence if we are to begin appreciate the ways in which Hawala currently operates, we must first take cognisance of these alternative cultural conventions. With this in mind it is worth making a number of points:

5.2 The settlers' propensity to save

5.2.1 Since they first began to arrive in Britain, the great majority of South Asian settlers have displayed very frugal habits: above all they have remained committed to maximising their incomes and minimising expenditure in every conceivable sphere. In doing so they have avoided buying anything on credit like the plague, and have instead displayed an immense capacity to save, no matter how meagre their incomes may have been. It is also worth remembering that at least as far as almost everyone who was born and brought up in South Asia was concerned, the purposes of saving was to support – and to develop the financial prospects of – their entire extended family.

5.2.2 However there was often a considerable gap between putting those savings together in dribs and drabs, and the point at which they were actually made use of, whether in the UK or – as many of the early settlers had long planned – sent back to South Asia to finance a major project such as buying land or constructing a new house. Where, though were their savings to be kept in the interim? Although virtually all South Asians in Britain now have accounts with banks and building societies, they nevertheless display a strong tendency to use those accounts as safe deposits in which to squirrel away funds against an eventual rainy day. However my experience also suggests that very few keep *all* their savings in the bank: instead almost everyone stands at the centre of a vast network of loans, which are either contracted with their kinsfolk, or failing that between friends and associates who have known each other for so long that they treat each other as if they were kin.

5.3 Savings and Loans

5.3.1 All South Asian communities support a wide range of credit raising mechanisms. Some of these are more or less formalised, as in the case of *kommittis*, rotating credit associations usually organised and run by women. Every member puts a similar sum (anywhere between £5 and £50, depending on the wealth of those involved) into the collective pot each week, which each member takes turns to withdraw: in a large committee, each weekly pot may well contain several thousand pounds. Loans given on a more individualistic basis, whether to help kinsfolk over an exceptionally rocky patch, or to help to provide them with the working capital to set up a new business enterprise of one sort or another. Such loans are invariably made in cash, and are rarely, if ever, recorded on paper. Nor is the term of the loan specified: instead it is understood that the money will be returned as and when the person who made the loan needs his or her money back.

5.3.2 In Western terms all these activities might seem desperately unwise: substantial sums are loaned without any supporting evidence on paper, and the term of the loan is unspecified.

It should be a fraudster's paradise. Yet it is not. Whilst a few such relationships inevitably go bad, the vast majority of loans are repaid as and when requested, and with no sign of dispute between the parties concerned, despite an absence of records and absolutely no security. How can this be?

5.3.3 The answer is straightforward. Such transactions are conducted within networks of kinship reciprocity, and it is against those reciprocities which the loan is secured. There are many dimensions to these processes, but two key features are worth highlighting here. Firstly it is not just the person who receives the loan who is held to be responsible for the repayment of the loan, but also all the other members of that person's extend family, of which he or she is regarded as being an integral part. Secondly the sanctions against failing to fulfil ones obligations within the extended family as well as the wider kinship network are extremely severe, for the miscreant will promptly find himself cut off from all forms of reciprocity, so much so that he effectively ceases to be a member of the community and all its internal support networks. Such sanctions fall on the entire extended family of the defaulter – who may well repay the loan in his or her stead. Failing that the only way out is either for the whole family who takes its medicine, and suffer comprehensive exclusion for the community, or for the entire family to exclude the defaulter, so much so that they not only refuse to have anything to do with their offspring, but deny their very existence. Such sanctions are relatively rarely applied: their consequences are so severe that potential defaulters are normally brought to heel long before this fearful ultimate sanction is applied.

5.3.4 It is also worth noting that non-kinsfolk are regularly incorporated into such networks though conventions of quasi-kinship. In South Asian contexts friendship is rapidly transmuted into fictive kinship, partly at a terminological level – so friends and associates swiftly begin to address one another as 'brother' – but also in more practical terms: they begin to invite each other to religious celebrations and family ritual, and begin to engage in complex patterns of gift exchange, does as real kin do. Although quasi-kinship is by definition a matter of choice rather than of blood, quasi-kinship ties can easily become just as all embracing as ties of real kinship, particularly when the alliance is to the partner's mutual benefit.

5.4 The role of cash

5.4.1 However a further feature of all this is that almost all financial transactions between South Asian themselves, and especially the making and repayment of loans, are normally conducted in cash. Moreover all major purchases, whether they be of consumer goods such as televisions and cars, of tickets for flights back to Pakistan, or even of buying houses, are likewise regularly made in a cash. The same is true of remittances to Pakistan. It is easy to see why. Not only are older and less qualified people (who are particularly likely to adhere to these traditional values and methods) particularly likely to wish to remit large sums of money to Pakistan with which to build houses, but such people also have a strong propensity to make loans to their kinsmen, rather than to leave their savings sitting idly in the bank. Hence someone setting off for Pakistan will very often call in all his or her extant loans – which will of course be repaid in cash – shortly before setting off abroad.

5.5 The cultural context Hawala

5.5.1 All hawala operations are conducted within a similarly-structured cultural context. The most specific sense in which this is so is with respect to the issue of trust, not least because unlimited trust in each other's *bona fides* is a fundamental prerequisite for the operation of the back-to-back exchange of debts between two spatially separated partners operating in tandem. Only then can both be confident that neither will betray the other by diverting the very substantial sums which each owes the other at any given point in time into their own pockets. It is for precisely this reason that Hawala operators are usually close kin – or at least have such a close and long-standing relationship that they treat each other *as if* they were kin. Likewise the circle of customers to which Hawala operators offer their services are normally drawn from a single community to which they themselves also belong. As such they and their customers are members of a wider network of quasi-kinship reciprocities in which everyone ultimately has connections with everyone else, with the result that if anyone acts in a way which betray the trust which others in the network have in him or her, the whole network is likely to close ranks against the miscreant, leaving him or her unable to operate as a network member. Since this is a very powerful sanction, it is also an extremely effective source of security.

5.5.2 Such networks of trust are crucial to the operation of all levels of the hawala system. Once one can take the existence of trust for granted, it becomes much more explicable as to why customers should walk straight in off the street and entrust large sums of money to a hawaladar whom they hardly know. Both the hawaladar and his customers are well aware that if the operator were ever to cheat his customers, he would not only find himself out of business, but he would also have the whole of his community down on his back.

5.6 Record keeping

5.6.1 However just because the security which underpins hawala transactions arises from the close knit networks of reciprocity between those involved, rather than the bureaucratic procedures routinely utilised by more formally organised banking systems, it would be quite wrong to conclude that these processes are untouched by the competitive dynamics of commerce, or that they operate without any kind of formal record keeping. Far from it. Every South Asian community in Britain is filled with entrepreneurs keeping a sharp eye open for potential sources of profit, with the result that anyone who opens a successful business of any kind can soon expect rivals to open a similar business somewhere just down the road; and as ever, customers are driven quite as much by considerations of price as they are by those of personal loyalty – with the result that all such businesses are under constant pressure from their customers to offer a discount, and hence shave their margins still further. But reduced levels of prices not only means lower margins, but also reduced levels of overall profitability.

5.6.2 By the same token, no hawala system can operate in the absence of extensive records, most particularly of the precise amount of the funds to be delivered to a particular person at an equally distant destination – all of which must be accurately delivered to the person operating the other arm of the hawala, and who is responsible for making the deliveries. Likewise the local hawaladar will regularly receive instructions from his partners elsewhere indicating just where and to whom he should deliver the currency he has received from his customers. Technology steps in here. Whilst old-style hawala relied on written promissory notes to convey such information, communication in the contemporary world is conducted by fax.

5.6.3 Whilst these faxes provide the clearest possible audit trail of the operations of any hawaladar (and as far as I am aware all hawaladars carefully preserve copies of all these faxes) it is also worth noting that one of the central consequences of the unlimited trust which underpins all these networks is that such records are effectively ordered on a 'need to know basis'; insofar as any given hawala network normally includes a plurality of hawaladars (as spelled out in Section 6.2 below), it follows that any given hawaladars records will only cover those transactions (both inwards and outwards) *which have passed through his node in the system, rather than the totality of transaction in the system as a whole*. Hence his lack of records of, and indeed his ignorance of, the details of all the multitude of transactions which have taken place elsewhere in the system of which his node is but a small component part should not, therefore, be regarded as evidence of any kind of malfeasance: rather it is a wholly predictable consequence of the way in which hawala systems are organised.

6 The day to day operation of Hawala in the UK

6.1 The spatial organisation of hawala

6.1.1 How, though, does hawala operate in practice? Within all South Asian settlements of any size anywhere in the UK, specialist travel agents can invariably found doing very active business. Such agents not only sell cut-price tickets to South Asian destinations, but also offer a money-delivery service – or in other words hawala facilities to members of the local population. However only the very smallest of settlements only boasts one such agent; almost all have several. Mutual competition ensures that the costs to customers are cut to the lowest level which is still compatible with commercial viability.

6.1.2 It is also worth highlighting the sheer scale of the population whom these Hawala outlets serve. In 1991 (the last year for which Census figures are currently available) Britain's Pakistani population was already 475,000 strong, whilst its Indian population had reached 834,000: however the size of this population is still rising rapidly, and when the 2001 figures are published later this year, total numbers will almost certainly be substantially larger. It is also worth highlighting their geographical distribution. Not only have Pakistanis settled in large numbers in the textile towns on both sides of the Pennines, but they are also heavily represented in engineering centres in the Midlands (and most especially in Birmingham), in various parts of London, as well as in a variety of towns around London such a Luton, Reading and Slough. Within that pattern there are yet further concentrations, such that migrants from Mirpur District in Azad Kashmir – who currently make up well over 50% of the Pakistani population in Britain – are particularly heavily concentrated in the Midlands and the Pennine region, and with their epicentres in Birmingham and Bradford.

6.2 Agents, sub-agents and sub-sub-agents

6.2.1 Just as only a privileged few travel agencies have direct links with airlines such as PIA, Emirates, Air India and so forth such that they can issue tickets directly on their behalf, whilst all the rest are in effect sub-agencies who use the services of the more central agencies in return for a small percentage fee, so only a similarly small minority of hawaladars occupy the same position of privilege within the hawala system. Those latter persons – who are best described as agents as opposed to sub-agents – can be distinguished by their access to a foreign currency bank account of their own, through which hawala funds which have been collected from customers in Britain are finally routed overseas in US$, the international medium of currency transmission and exchange.

6.2.2 As every holiday-maker is aware, bank charges for converting small amounts of money from one currency into another are far from insignificant. If the actual transmission of funds from one country to another is also required, the charges are considerably steeper still. However the larger the sums of money involved, especially when they reach hundreds of thousands of pounds, the smaller the percentage charged by way of commission becomes. Hence those agents who have been granted the facilities of a foreign currency accounts are not only in a position to become full scale hawala agents on their own account, but also to act as patrons to a substantial number of smaller scale operators who become their sub-agents, who route their transactions through the main agent in return, once again, for a small percentage fee. Hence one of the secrets of the success of major UK-based hawaladars lies in their capacity to gross up large quantities of foreign exchange, and thereby to sharply reduce the scale of bank charges associated with moving the funds overseas.

6.3 Retail and wholesale hawala

6.3.1 As one might expect, most of the high-level hawala operators are based in cities with a major South Asian presence such as Birmingham and Bradford; each also supports a large network of sub-agents and sub-sub-agents, some of whom will be based in the same city, but many of whom are scattered round settlements across the length and breadth of the UK, who use the high-level operator as a conduit through which to move their customers' funds overseas. In a further complexity, these sub-agents may be of two types:

i) those who simply collect funds from 'off-the-street' customers, whose details they pass on to the higher level hawaladar to be incorporated in the list of transactions stemming form his own 'off-the street' customers

ii) those who have their own relationships with overseas partners, and who use the higher-level hawaladar's facilities solely as a means of converting cash into dollars.

6.3.2 This distinction has a significant impact on the records which the higher-level hawaladar keeps. In the first case he will receive bulked up cash from his lower-level agent, together with detailed instructions as to exactly how much should be paid to whom in Pakistan; these details will normally be faxed onwards to his partner hawaladar overseas. All such transactions can usefully be classified as **retail** hawala.

6.3.3 However in the second case the sub-agent will conduct the retail dimension of the transaction independently: i.e. he will himself fax the details overseas. In these circumstances the higher-level hawaladar will once again receive bulked up cash (usually on a considerably larger scale, since such sub-agents may well have their own sub-sub-agents), instructions as to where the money should be sent overseas once converted into dollars, but with no indication as to where or too whom rupee payments should be made, since the sub-agent had looked after that part of the deal himself. Such transactions can usefully be identified as **wholesale** hawala.

6.4 Corporate hawala

6.4.1 Last but not least there is also a further category of transactions which I have not explicitly mentioned so far: those which emanate not so much from individual persons or families moving financial assets back to the sub-continent, but those where business enterprises are using the system to settle their debts to overseas suppliers. Typically this would involve Asian clothing wholesalers operating cash-and-carry businesses in cities such as Leeds, Manchester and Leicester reimbursing their suppliers who made up clothing to their orders in places such as China, the Philippines or Indonesia. Imports of made-up clothes – especially although by no means exclusively at the bottom end of the market – is now extremely big business in the UK, and much of it is controlled by South Asian (although relatively rarely by Mirpuri) businessmen. Similarly there is a rapidly expanding market for all manner of other consumer goods, and most especially for electrical products and toys. Moreover wherever the distribution network is runs through Asian-controlled Cash and Carrys to Asian market stall holders – as the greater part of it does – all transactions are settled strictly in cash, no matter how delayed the settlement may be, given the inevitable presence of all manner of loans.

6.4.2 At one level the logic of corporate and/or commercial hawala is very similar to that of wholesale hawala. By settling overseas invoices through a high-level hawaladar, such transactions attract a significantly lower level of overhead costs than if they were routed through the commercial banking system. Moreover this enabled such businesses to avert the considerable marginal costs associated with paying the large sums of cash which come into a cash-and-carry business into the bank, since most high-level hawaladars also negotiate significantly reduced rates for that service. Last but not least, many manufacturers based in soft-currency countries with stringent exchange controls also have a strong interest in having all or part of their invoices settled through informal systems; not only do they receive payment a great deal more quickly than would have been the case if passed through the formal commercial banking systems, but such manufacturers will very often have a strong interest in having their invoices settled in dollars, rather than the local currency (as would be the case if the settlement was made through the 'overground' banking system. Not only does IVTS enable them to keep reserves in dollar accounts (for at the end of the day most of these payments do end up in the formal banking system), but they will then also be much better placed to purchase raw materials from their suppliers, who are also likely to welcome being paid in dollar-denominated 'flying money', rather than non-negotiable *renmenbi.* Given the cut-throat competition between all those involved in these Far Eastern 'emergent markets', everyone is looking for the slightest advantage in an effort to get ahead: in these circumstances successful manufacturers and traders cannot be expected to eschew local forms of IVTS as a mode account settlement, especially when it offers positive financial margins as compared with the terms and conditions offered by the formal banking system. This is precisely the point of all Dr. Wilson's arguments.

6.5 Records and record keeping

6.5.1 Much of the critical literature on hawala, and especially that produced by excited authors who suggest that hawala in *necessarily* a cover-up for criminal activity, suggests that hawaladars do not keep records, and therefore leave no audit trail as a deliberate means of covering up their malfeasance. In my own opinion all three of the major elements of this argument are unsound.

6.5.2 In the first place my own experience suggests – as I indicated earlier – that all hawaladars *do* keep records, and that despite the excellent memories that many of them develop, the transactions soon begin to reach such a level of scale and complexity that some kind of formal record keeping is essential if they not to do a disservice to their customers. However the records which each member of the hawala chain keeps (and is interested in keeping) are tightly circumscribed. No-one is greatly interested in exactly where their partners got their money from: that is their business; similarly no-one is greatly interested in how those funds are passed on once they reach their assigned destination: all that matter is that they get there. It therefore follows the amount of information which hawaladars will have immediately to hand with respect to the transactions which pass through their node in the system will vary considerably depending on their precise location in the network, as well the category of transaction at hand.

6.5.3 In general it is over-the counter retail hawaladars in the UK whose records will be most detailed, at least with respect to the precise amount of funds which is to be paid over to individual recipients in specific locations in Pakistan. However as transactions are consolidated to an ever greater degree the further one moves up the scale from retail to wholesale to commercial and finally to global hawala, so reference to such fine detail progressively disappears. Indeed at the level of maximum consolidation – global hawala – the only information that the hawaladar will be likely to have to hand will be the size of the consolidated sum in millions of US$ to be transferred from one brokers account (where that broker is acting on behalf of a whole string of agents, sub-agents and sub-sub-agents) to another brokers account, where the second broker may well be acting on behalf of an equally complex web of recipients.

6.5.4 Moreover the further one moves up the scale of consolidation, the less and less likely it will be that the hawaladar who arranges the deals will be permanently physically based in the UK. Instead is strategically far more appropriate for wholesale, and above all for global operators to locate themselves at the point where the larger scale consolidations are likely to take place: in the first instance that means Karachi, Bombay of Dhaka, and for those right at the top of the hierarchy, in Dubai. Once again it must be emphasised that there is nothing intrinsically suspicious about the fact that from a UK perspective the larger scale hawaladars are invariably based overseas, or that the larger the scale of the transaction, the less detailed the information about either the original sources and the ultimate destinations of the funds in question will normally be. Just as foreign exchange brokers sit hunched over their screens in dealing rooms in London with a telephone to each ear as the deal in millions of dollars, the ever increasing anonymity of higher level transactions is an inherent characteristic of the way in which the contemporary global IVTS operates.

6.6 A note on laundering the profits of drug smuggling

6.6.1 It goes without saying that such large scale IVTS transactions *could* be used as umbrella under which to conceal (and hence launder) profits accrued from illegal trafficking in drugs; however it is just as easy for such transactions to be buried amongst those passing through the only other contemporary international value transfer system, that run by formally organised banks.

6.6.2 However the issue at stake here is not so much whether hawala could in principle be used to launder the profits of drug smuggling, but whether it *is* currently being so used, and most especially whether money being laundered in this way *actually* accounted for a significant proportion of the funds which passed through the defendants' hands. It is, of course, quite impossible to prove a negative. No financial institution of any size, whether formally or informally organised, could ever hope to produce proof positive that none of the funds passing through its hands had ever, at some point, passed through the hands of a drug smuggler. The best that any financial institution can do is to show that it has taken all relevant steps – given the nature of its business – to ensure that its facilities are not being used for such purposes. How, then, does Hawala/IVTS score in these terms?

6.6.3 As we have seen records are not the issue. It is not so much that hawala operators keep no records, but rather that such records are kept on a need-to-know basis, and are therefore widely spatially scattered. Secondly it is also worth noting that in purely financial terms, IVTS networks are extremely fragile. Such is the extent of competition between all the various players, all margins are cut to the bone, and no-one but the very largest consolidators makes much money. That does not exclude the possibility that some players may make a good living out of hawala, but they do so by shaving ever narrower margins off ever more comprehensively consolidated financial transactions. A margin of .01% may seem to be very measly, until one notes that this is regularly being taken off flows of tens of millions of US$. Then it is not to be sniffed at.

6.6.4 However precisely because margins are so narrow, none of those involved can afford to make a mistake. Not only do all partners in the system need to trust each other, and therefore mutually guarantee their *bona fides* with respect to the transaction in hand, but they also need to ensure that no-one in the network will *get the network* into trouble – as inevitably occurs the moment one starts dealing in the profits of illegal activity, and most especially the proceeds of the most dangerous activity of all. Hence it is not just that drug smugglers can expect to find themselves paying much higher premiums, if indeed they can find anyone to accept their business at all, but also that active commercial hawaladars have a very strong interest in *not getting involved in such dangerous business at all*, and also ensuring that *none of their associates do either*, above all because that would bring the whole fragile edifice from which they nevertheless manage to extract a reasonable living down around their heads. Hence there is a very powerful sense in which hawala networks are – and indeed have to – internally self-policing if their long-term stability is to be ensured.

6.6.5 In this respect Professor Passas' comments on the issue are most significant. Having noted that hawaladars make their profits from currency exchange rates manipulation together with a commission ranging from 0.25-1.25% of the amount involved, he points out (quoting Caroll 1999) that

> "When the hawaladar understands that the transaction involves criminal proceeds or transactions by the client, the charged commission may go up to 15-20 percent" (Passas 1999: 14).

6.6.6 This dramatically higher commission clearly reflects an assessment of the very much higher risks involved in engaging in such transactions. Moreover those risks have two quite different dimensions: firstly of being apprehended by the authorities, but of being found to have betrayed the confidence of other members of the hawala network, and thereby to have put all their business under threat as well. In my view errant hawaladars would be far more fearful of the sanctions emanating from the latter than the former source. Those who betraying the network of absolute trust know that they and all the immediate members of their family face comprehensive social and commercial ostracism.

6.6.7 Finally it is also worth addressing a specific issue at stake in these proceedings: the fact that some of the cash which the defendants deposited were found to be disproportionately contaminated with traces Class A drugs. Whilst I am not in a position to comment on the issue of contamination *per se*, it is nevertheless worth noting that if virtually all this cash was derived in one way or another from the legitimately acquired funds of a South Asian clientele, as the Defence contends, this is precisely the outcome which one would expect. Not only are members of Britain's disproportionately concentrated – at least in residential terms – in inner-city areas, but a most of their business customers, whether in innumerable Asian corner shops, curry houses and taxi ranks, or of the market traders who buy their supplies in Asian-owned cash and carry warehouses, will be members of poor white working-class communities living in inner-city areas. This is, of course, precisely the kind of population which is likely to contain a disproportionate number of users of Class A drugs. If so it follows that the currency notes which pass through its members' hands – and which they in turn used to make purchases on a wholly legitimate basis from Asian shopkeepers, taxi drivers and market stallholders – are particularly likely to be contaminated with the residue of class A drugs. This raises major evidential issues. Precisely because of the particular niche in the British economy currently occupied by South Asians in general, and Pakistanis in particular, it is only to be expected that a high proportion of the currency notes which they receive from their customers, and which in good time they pass on to hawaladars for value transmission overseas, will have spent a disproportionate period of time circulating in inner-city areas – or in other words in arenas where contamination is particularly likely to occur.

6.6.8 Two points follow from this. Firstly hawala operators have very good reasons for avoiding any kind of association with drugs traffickers, and for cutting all those whom they suspect of seeking to engage in such transactions out of their network; secondly given that there is good reason to assume that the greater part of the currency notes which Pakistani remitters deposit with frontline hawaladars will have circulated for some time in inner city areas, those notes are disproportionately likely to be contaminated with Class A drugs.

7 Hawala in South Asia

7.1 The contemporary context

7.1.1 Given the huge scale of emigration from India, Pakistan, Bangladesh and Sri Lanka to a wide variety of destinations right across the globe, migrant remittances play a large part of in the national economy of all four of these South Asian countries, and even more so in the local economy of those very much smaller areas from which particularly large numbers of migrants have set off overseas. Hawala has long played a salient role in facilitating these transfers, not least because in the aftermath of Independence in 1947 all of the successor Governments followed Britain's example by imposing strict exchange controls in an effort to maintain their scarce reserves of foreign exchange. In these circumstances it was extremely difficult for residents in any of these South Asian countries to get permission to switch their 'soft' rupees into hard currencies such as US dollars and pounds sterling. Because the demand for hard currency hugely exceeded supply, a considerable discrepancy rapidly opened up between the official and 'unofficial' rate of exchange. This opened up major opportunities for hawaladars, most especially when mass migration to the UK, and then to the Gulf, began to take off in the 1950s and 60s.

7.1.2 As ever, it is virtually impossible to measure the actual scale of such 'unofficial' transactions. However given the scale of emigration from the region (which can be measured in millions for each country), and the fact that the great majority of upper-middle class families throughout the region now have substantial (unofficial) hard currency holdings in overseas banks, there can be little doubt that hawala/IVTS 'swaps' played a major role in facilitating this outcome – and that throughout the region that process continues to this day. The reasons why all this occurred are precisely those set out by Dr. Wilson. Over and above the swiftness and efficiency with which hawala transactions could be executed, a further attraction – particularly to those wishing to buy rupees with harder currency – was the premium on the 'official' rate which they could very often obtain. The scale of that premium was, of course, largely determined by the scale of 'unofficial' demand for harder currency by rupee holders, as well as on how realistically the 'official' rate of exchange was pitched – just as Dr. Wilson argues. However at this level we find considerable differences between the two countries.

7.1.3 Although India exercised strict controls on the export of financial resources for very much longer than has Pakistan, in recent years India's economy has proved to be very much more robust than that of its neighbour and rival. As a result the constraints embodied in the FERA regulations have been steadily relaxed, even though they have still not yet been wholly abolished. By contrast Pakistan has not only run a very much larger foreign exchange deficit than India, so much so that its total foreign debt is currently more than US$ 40 billion, for the late 1980s onwards it found itself under much ever greater pressure from its principal creditor, the IMF, to de-regulate its economy. As a result all restrictions on the convertibility of the Pakistani rupee were abandoned in the early 1990s. However in an effort to replenish its foreign exchange reserves, the State Bank of Pakistan advertised the availability of bearer bonds denominated in US$, carrying a very much higher rate of interest than similar bonds issued in London or New York, which were made available to Pakistani citizens on a no-questions-asked basis. Although the 'no questions asked' dimension of this bond issue caused some concern to the regulatory authorities in New York, the operation proved successful. The State Bank of Pakistan was soon gathered sufficient deposits to boost its foreign exchange reserves by several hundred million dollars.

7.1.4 Meanwhile a parallel and much less noticed change in Pakistan's Banking rules was also introduced. Hitherto dealing in foreign exchange had hitherto been a monopoly of formally constituted banks, and now this restriction was also removed. Having paid a relatively small fee to the State bank, a permit to operate as a licensed money changer could be obtained on a relatively straightforward basis. Although the new regulations facilitated the operation of hawala, since they provided a set of 'over-ground' legal conventions within which to operate, the system also lost one of its crucial advantages vis-à-vis as a result of the free convertibility of the rupee. Since the new rules entirely eliminated the possibility of an 'unofficial' rate of exchange, hawaladars could no longer offer premium rates of exchange. Hence the only way in which licensed money changers (most of whom also operated as hawaladars) could compete with the banks was either by responding to their customers' needs with greater speed and flexibility, or their greater physical closeness to them. Hence the money changers who achieved greatest success in the immediate aftermath of the introduction of the new rules were those operating in relatively remote rural areas from which a large proportion of overseas migrants were drawn, and who could therefore make the most of these potentialities.

7.2 Nuclear testing and its consequences

7.2.1 Whilst the new regulations effectively meant that hawala transactions, together with the institutional structures needed to facilitate their operation have now been open, legal and wholly above board in Pakistan for a full decade, the whole system received a huge – if unexpected – boost following the tit-for-tat testing of atomic weapons by both India and Pakistan in 1998. All sections of the International Community – led by the United States – promptly imposed severe financial sanctions on both India and Pakistan. Given that its internal economy is a great deal more robust than that of Pakistan, India withstood the impact of these sanctions without too much difficulty. However Pakistan found itself in much more serious difficulties. There was promptly a severe run on the rupee, which the authorities had no means of stemming as long as the currency remained freely convertible. There was only one way out: exchange controls were promptly re-imposed. However precisely because the bearer bonds had been issued to boost the country's foreign exchange reserves, they were also caught in the net. Not only did the State Bank renege on its promise to repay to repay deposits in US$, but it re-denominated them in rupees which were in principle at least, non-negotiable onto harder currency units.

7.2.2 As was only to be expected these developments opened up a wide gap – initially as much as 20% – between the official and the unofficial value of the rupee: although the bearer bonds had nominally been sold to Pakistani depositors on a 'patriotic' basis, it soon became clear that high and guaranteed interest rates and ensured convertibility were far more important than patriotism. Fearing that the value of the Rupee would drop still further – as indeed it has – many depositors promptly began to look for a means of moving their funds to safer havens overseas. Moreover there was a ready means of doing so: although the Government of Pakistan rescinded the convertibility of the rupee, it had introduced no restrictions on the activities of the licensed money changers.

7.2.3 The outcome was predictable. Whilst Karachi (and New York) was full of unhappy bond holders eager to cut their losses by moving their now-depleted savings overseas before their value dropped still further, many more working-class migrants saw this as an ideal moment to repatriate the funds they held overseas to Pakistan, since the rate of exchange – especially in unofficial terms – was suddenly very much higher than ever before. Hawala thrived – and have continued to do so ever since. Those businesses which had already obtained licenses to operate as moneychangers rapidly extended the scale of their operations, and as opportunities expanded, many more entrepreneurs applied for, and received, licenses which enabled to fill more localised niches.

7.3 The emergence of 'official' Hawala in Pakistan

7.3.1 Even before the financial crises of the late 1990s, most of Pakistan's licensed money changers had in fact been running hawala operations. They obtained foreign exchange (which was rarely actually brought to Pakistan) on behalf of wealthy Pakistani clients through swap arrangements with colleagues in the Gulf whose migrant worker clients wishes to send their hard-currency savings back to their families in Pakistan, where they expected payments to be made to their families in rupees. When the margin between the official and unofficial rates of exchange widened to 20% or more, as they did when the impact of nuclear testing was reinforced by General Musharraf's *coup d'etat*, the licensed money changers stepped in with a vengeance. Pakistan's more regularly constituted Banks lost the greater part of their foreign exchange business, which was promptly routed through hawala operations instead. Indeed during the past few years the 'hawala market' has become such a routine component of financial activities in Karachi that the State Bank of Pakistan now routinely turns to this source whenever it need urgently to top up its reserves of foreign exchange.

7.3.2 At present there are a very large number of Licensed Currency dealers in Pakistan, the great majority of whom have only emerged during the last decade. However the largest businesses are now becoming extremely well organised, and as a result now have an internet presence.

7.4 Retail (distributional) hawala in Pakistan

7.4.1 Major licensed Foreign Exchange dealers in Pakistan are best described as wholesale hawaladars: they have direct links with the major exchanges in Dubai (described in detail in section 8), and sometimes with counterpart wholesale hawaladars in the UK. However to the extent that the great majority of hawala recipients in South Asia are based out in the countryside rather in its major cities, wholesale hawaladars (who invariably operate in major conurbations) frequently turn to all manner of sub-agents (some of whom are also hawaladars) to distribute the funds to their eventual recipients. As described in the CD-ROM, careful arrangements have to be made to ensure that those responsible for delivering rupees are accurately informed by the sending hawaladar as to just how much should be paid to whom in which village: this is almost always done by fax. Always remembering that such information is transmitted from retailer to retailer (for it is of no interest or concern to wholesalers) such detailed customer information is invariably transmitted – and hence most usually recorded – in all cases where the hawala facilitates long-distance personal financial transactions.

8 Global Hawala

8.1 Hawala as a global system of value transfer

8.1.1 So far my discussion has almost exclusively been concerned with localised manifestations of hawala in the UK on the one hand, and in South Asia on the other. However the key to the operation of these local transactions is that they are located within, and contribute substantially to, a global hawala system. Although the windows through which I myself have begun to examine this global system are located in my South Asian experience, I have gradually come to the same conclusion as both Professor Passas' and Dr. Wilson's view: that although Informal Value Transfer Systems may go by different names in different parts of the world, they now form a global network whose activities stretch into all seven continents. I would also suggest that its operation in any given locality cannot properly be understood unless its global reach is also taken fully into account.

8.1.2 However it is also worth noting that the three of us have approached the issues from rather different perspectives. My own approach, as can be seen from the contents of this report so far, has been broadly anthropological in character: as such my exploration of hawala has been conducted from the bottom up, with a specific focus on the internal operation of transactions stretching between the UK on the one hand and South Asia on the other. By contrast Professor Passas is a criminologist by background, even though he eventually reached the conclusion that the widely held view that IVTS was primarily a vehicle for laundering the proceeds of criminal activity was overwhelmingly mistaken. Finally Dr. Wilson not only looks at the issues from a banker's perspective, but is also particularly well informed about many of the local contexts within which hawala operates, since he is the senior Economist in the Middle Eastern Department of the IMF. In view of his undoubted expertise in this area, his remarks – even if delivered on an off-the-cuff basis in a Conference address, are nevertheless worth quoting in detail.

8.2 Dr. Wilson's paradigmatic models of hawala settlement processes

8.2.1 The greater part of the second half of Dr. Wilson's paper is concerned with exploring just how debts amongst hawala are operators are settled up, and with showing that the whole process is practice far more complex than the simple reciprocal deals envisaged by many commentators – Professor Passas included. On the issue of settlement, Dr. Wilson begins by stressing that

> It should be intuitively clear that it will be difficult and costly to settle, bilaterally, scads of positions among small operators on different continents. Thus, it is fairly well agreed that small balances are "consolidated" at one or more higher levels of the

> hawala network; there are other intermediaries in the system. Hawaladar A settles his dollar balance due with a payment to some intermediary, probably but not necessarily one located in country A. Hawaladar B may collect his local currency claim from an intermediary, probably in country B. These intermediaries consolidate small positions into larger subtotals in fewer hands. Such entities …. are larger scale operators than the small scale hawaladar. (I would argue, parenthetically, these operators also should not be called hawaladars.) Where are such entities concentrated? We can't tell for sure but, for various reasons Dubai, in the United Arab Emirates, has often been singled out as a location where many hawala transactions are consolidated and cleared. There are 105 exchange houses in the U.A.E. …….
>
> after the original remittance, there are a broad range of permutations and alternatives by which the downstream rebalancing can be settled. Eventually, some kind of settlement is inevitable; this can take place either through the goods markets (as with international trade) or, in some cases, financial markets. The number of possibilities is quite large, and depends on specific countries and institutional rules …. (Wilson 2002: 10)

8.2.2 In other words the moment the issue of settlement is addressed, together with the *de facto* recognition that contemporary hawala invariably involves consolidation, brokers at operating at various levels and in a variety of locations in transnational space, the whole system self-evidently becomes a great deal more complex than many journalistic commentators have hitherto assumed. Hence as Dr. Wilson goes on to argue

> Moving on some of the clearing and settlement alternatives that lie downstream from hawala remittances … is … an area in which common press reports about hawala tend to dissolve into verbal fog or they reach for implausible resolutions. For instance, simple, bilateral, reverse hawala—that is a symmetric set of remittances sent in the opposite direction through the same intermediaries [is] highly unlikely in the real world. Aggregate international remittance flows are, by their nature, very asymmetric. For instance, millions of Subcontinent workers in the Gulf countries clearly send large amounts home, but there is no obvious reverse flow to balance hawala markets. Other clearing mechanisms surely are more important.
>
> In some cases bilateral settlement through bank or financial accounts may be possible, but often this is not feasible, owing to exchange controls or other restrictions, usually in the recipient country B. In other words, Hawaladar A simply cannot pay into Hawaladar B's account at home, not least because one side of the transaction is in dollars, and the other in B's local currency. From the B side one of the attractions of Hawala (at least at the consolidated level) seems to be evading currency control regulations. "Currency control," in quotes, usually means that if you get your hands on hard currency, the authorities will take it away from you and give you local currency instead, often at an unfavourable rate compared to out there on the street. Hawaladar B and his/her consolidator associates behind them will not be excited at this prospect. (*Ibid*: 6 - 7)

8.2.3 Hence Dr. Wilson moves on to consider other possibilities:

> A third alternative for settlement runs through the goods market: exports from country A (or elsewhere) to country B, which can be paid for by the Hawala balances due between the parties. This can be a bilateral deal between the Hawaladars or, more

likely, at a higher level of consolidation. In other words, the Hawala remittance from country A to B enables and finances exports from A to B. In balance of payments terms, a current account remittance finances a current account export. It bears noting again that no foreign exchange transaction needs take place in such a scenario. Here the connection of a simple Hawala transaction to international trade and balance of payments begins to come into profile (*ibid:* 8)

8.2.4 Beyond that there are yet further possibilities

as to the other kinds of international transactions that our prototype Hawala remittance could eventually finance. It is often said—and we do not dispute—that Hawala remittances help finance purchases of international services, such as education, medical treatment, and so forth, by residents of country B. This can be in country A or elsewhere. Recall that a common feature in Hawala is that the currency of country A usually is convertible; so a deal done in Kuwaiti dinars in Kuwait through to rupees in India gives rise to balances that are eminently translatable into U.K. pounds sterling or U.S. dollars. Since the money is so fungible, little wonder that the so-called "audit trail" of all the possible variants becomes most elusive….

Hawala balances [can also] serve to finance asset purchases, ranging from real estate to financial instruments, outside of country B. This is the classic example of "capital flight," usually supposed to occur in contravention of local exchange control regulations and sometimes branded as "economic sabotage" by national authorities. Note, however, the other economic and interpretative complexities that arise in such transactions sequences. It is possible in such cases that the ultimate purchaser of services or assets never actually purchases foreign exchange. Payment in country B can be made in local currency; the exchange rate against, say, the U.S. dollar remains entirely implicit in such transactions, and nothing goes, necessarily at least, through any financial institution.

Finally, sometimes policy changes in a hawala country affect settlement choices. India has shifted course on foreign exchange regulations several times in the last decade. In the mid 1990s the authorities went over to a "no questions" policy concerning residents foreign exchange holdings and deposits made into their local bank accounts. Obviously, such a change immediately opens the possibility for simple financial settlement of hawala balances, and there is some evidence this indeed occurred. (*ibid:* 8 - 9)

8.2.5 It is also worth noting that on the basis of this careful, balanced and well-informed analysis Dr. Wilson reaches some extremely important conclusions, most especially as far as the issues at stake in these proceedings are concerned:

By its nature an Informal Funds Transfer System such as Hawala cannot be easily measured. The number and scale and final magnitude of Hawala transactions simply are not captured in any country's compilation systems, for example, in balance of payments statistics, monetary accounts, or national income statistics. I don't propose to go into technical aspects of these topics, but it is worth mentioning that the substantial literature on underground economic activity is not likely to be helpful in assessing the scale of Hawala. That is, if nothing else, because *Hawala remittances have little to do with underground or illicit economic activity; they are generally an*

> *informal, alternative channel to send remittances that could also be sent via licensed channels, but at greater cost and inconvenience*. (*ibid:* 10) [Italics mine]

8.2.6 With all this in mind let us now turn our attention to the specific issues thrown up in these proceedings, especially as far as the operation of hawala global is concerned.

8.3 The role of Dubai and New York

8.3.1 Once we turn our attention to the operation of hawala at global level, virtually all transactions are settled through the formally organised banking system. Indeed since individual transactions at this level (which are the hugely consolidated sum of innumerable lower-level hawala deals) frequently amount to millions or even tens of millions of dollars, there is no way in which value transfers of this scale can be made other than through the international bank system. It is also worth noting that in that arena, hawala settlements only constitute a very small fraction of the global flow of foreign exchange transactions, which I understand now run at around US$ 1 trillion per day. It is also worth noting that all transactions at this level are denoted in US$, whatever their original currencies of provenance such funds may have, since the US$ is the sole medium of exchange in contemporary global financial transactions. (The £ sterling occupied a similar position until shortly after the end if WW I)

8.3.2 Whilst the deals which underpin these transactions may take place anywhere in the world (London is one of the most important centres for doing so), it is worth noting that the actual movement of funds between computers (for paper money plays no role whatsoever in transactions conducted at this level) is normally routed through New York. Hence the funds in virtually all hawala transactions touch base in New York (at least in an electronic sense) at some point in their career.

8.3.3 But whilst London has remained a major centre for currency transactions of all kinds, despite the demise of sterling as the global unit of exchange) nothing is static. Hence it is now it is now becoming equally clear that Dubai (rather than London or New York) is emerging as one of the most important financial hubs in which transactions to support activities in South Asian – and possibly also in South East Asian – trading contexts. It is not difficult to see why this should have occurred, since Dubai is ideally placed to fulfil that role. In the first place it a small desert state with substantial oil reserves, although these are in fact relatively small as compared to those of most of its neighbours, suggesting that it would be unwise to rely on oil revenue alone to sustain its wealth. Nevertheless its proximity to big oil not only means that it has been able to peg the value of its currency permanently to the US$, but that it is well place to take strategic advantage of its location at the mouth of the Persian Gulf.

8.3.4 Dubai has for many years been a convenient *entrepôt* for traders operating in and from Saudi Arabia, the UAE, Iran, Afghanistan, Pakistan and India, who would undoubtedly have utilised hawala as a means of financing their activities in pre-modern times. However, Dubai's ever-increasing importance as a regional trading 'hub' – a role which its government very actively fosters – has yet further reinforced the scale and importance of these transactions. Just as the ever-growing use of migrant labour throughout the region has been the foundation of the commercial success of Dubai-based Emirates Airlines – the core of whose business rests in ferrying such workers back and forth on a global scale – so the exponential growth in the scale of migrant remittances has similarly enabled Dubai to emerge as a major banking hub through which these funds are transmitted onwards to relevant destinations in South and Southeast Asia. Largely staffed by expatriate Indians and

Pakistanis, Dubai's financial institutions now play a similar role in the entire Indian Ocean region as do those of London in Europe, New York in the Americas, and Hong Kong in East Asia.

8.4 The 'Exchanges' in Dubai and their role a hub for global hawala

8.4.1 Whilst Dubai is now a major banking centre in its own right, since over forty international banks have now established branches there, but also a hub for the settlement of large-scale hawala transactions. The crucial institution through which these transactions are organised is the UAE Exchange Centre, which forms the heart of Dubai's money-exchange *suq*. Established in 1980 by an Dubai-based Indian businessman who has made a fortune from building a chain of private hospitals, the UAE exchange began life as a means of facilitating the repatriation of Malayali and Tamil migrants' (of whom a large number work in the Gulf region) savings to their families in South India – doubtless on the basis of hawala transactions. Over the years the business grew steadily in size, taking a major step forward in 1994 when the UAE Exchange Centre became a member of SWIFT. This is an extremely secure electronic communications system through which major international banks conduct transactions with one another. The availability of SWIFT facilities spurred yet further growth, especially when the UAE Exchange Centre set up a secure Local Area Network linking up all the other lower-level Exchanges doing business in the money *suq*. The existence of this LAN not only gives all its participants' direct access to the UAE Exchange's SWIFT facilities, but also facilitates the resolution and settlement of hawala accounts on a global basis.

8.4.2 That does not necessarily mean that the customers of all the Exchanges in Dubai are randomly distributed all around the globe: on the contrary most Exchanges appear to service a more or less specialist regional markets. Hence I have become particularly familiar with Multinet Trust Exchange, World Link Exchange, Wall Street Exchange, and Sajwani Express. All appear to specialise in Anglo-Pakistani transactions, with the result that most wholesale hawaladars operating in the British/ Pakistani market appear to do the bulk of their business with one or other of the businesses. However it is quite clear that hawala deals involving Pakistani migrants to Britain – or indeed to elsewhere in the Gulf region – by no means exhaust the scope of the deals which take place under the umbrella of UAE Exchange Centre. I have also been able to identify a number of similar businesses – Al Ahlia Exchange, Al Ansari Exchange, Al Fardan Exchange, Al Ghrurair Exchange, and Harib Sultan Exchange – which appear, amongst other things, to perform a similar role for the global Philipino diaspora.

8.4.3 But just what is the role of the UAE Exchange, as well as the numerous smaller exchange businesses which operate under its umbrella? As far as I am able to determine the term 'Exchange' precisely identifies the function of the whole structure: it is a facility in which bilateral and multilateral exchanges of hawala debts involving hugely consolidated tranches of funds can be lined up and swapped on a global scale. In these circumstances the classic hawala pattern truly comes into its own: it facilitates processes of account resolution and settlement which are identical in structure and function to the deals which also take place as between formally constituted banks. So it is that whilst the deals made in Dubai may at one level appear to be quite different from the arrangements made by formally constituted banks, in the sense that trust is articulated on a personalised 'oriental' basis rather than through formalised bureaucratic procedures, it is nevertheless clear that they have an identical outcome, namely the 'settlement of accounts' in a banking sense. Likewise the *implementation* of both sets of deals is handled in an identical fashion – namely the SWIFT network, which is of course the 'formally constituted' Banks own preferred means of crossjurisdictional settlement. Where they differ, however, is in the cost of the settlement process: it is far cheaper to effect global settlements through informal networks in the money Suq in Dubai than do so from an expensive office block in New York or London housing largely numbers of highly paid staff to implement the necessary bureaucratic procedures: it is precisely its efficiency in a financial sense which provides global hawala with its competitive edge.

9 Corporate Hawala

9.1.1 Once the Exchanges in Dubai (and in other parallel hubs in centres such a Hong-Kong, for example) are identified as an active competitors with formally constituted banks for a piece of the action in the global settlement market, a great deal of what might otherwise be a confusing jigsaw falls into place. Nevertheless one crucial element still requires identification. Although it is common ground that migrant remittances – which take the form of an extremely large transfer of value from hard-currency regions in the developed world to soft-currency regions in Africa, Latin America and above all Southern and Eastern Asia – have driven the rapid expansion of IVTS during the last few decades, the system can only work if there is an equal and opposite outflow of value from soft currency areas into hard currency zones on the basis of which to organise settlement. What, then, is the principal source of this reverse flow of value?

9.2 The role of corporate transactions in Hawala settlement

9.2.1 Whilst a whole series of possible sources of such a counter-flow of value to match the remittance outflow currently emanating from Euro-America is set out in section 3.4 above, but given the enormous scale of that outflow, there are only a restricted number of sources from which counter-flows of a sufficient scale could credibly be generated:

- the export of capital by members of indigenous elites in soft currency areas in order either to purchase property and other real assets in safe havens overseas, or to gain access to services such as medical treatment and education both for themselves or their offspring

- the clearing of export/import invoices both for goods services imported from hard currency areas, and to finance inter-regional trade between producers, manufacturers and distributors in soft currency domains, all of which is settled in dollars.

9.2.2 Since such deals invariably involve very large transfers of value, they are not normally conducted by individuals other than members of the tiny elite of super-rich kleptocrats who can be found in most very poor countries. Rather they are almost always conducted on a corporate basis – or in other words between business enterprises of one kind or another.

9.2.3 Corporate hawala, where a commercial enterprise (typically an importer) uses the system to honour an invoice from another commercial enterprise (typically either a manufacturer or a producer of raw materials operating in some distant market), operates on a rather different basis from the migrant-remittance driven processes outlined in the previous sections. Firstly the sums involved in each deal can be expected to be very much larger – typically in tens and not infrequently hundreds of thousands of dollars; secondly each deal can be expected to be tailor-made, and hence to involve a very much smaller number of agents and intermediaries. Thus whilst corporate hawala deals may still be routed through the Exchanges in Dubai, in such cases it may well only be staff members of the Exchanges themselves (mega-wholesalers as far as remittance-hawala is concerned) have direct dealings with the corporate customers who stand at one or other (and sometimes both) ends of the chain.

9.2.4 But although there is good reason to suppose that the greater part of the funds used to match – and hence settle – remittance outflows is Corporate in character, and derives from business of various kinds operating in the countries where the remittance payments are ultimately made, it would be quite wrong to conclude that Corporate hawala is solely restricted to third-world arenas: there are also sound financial reasons why businessmen operating in metropolitan arenas in Europe and North America may also find themselves participating in the system.

9.2.5 Consider, for example, a mainline manufacturer whose market includes a significant number of customers based in countries with tight restrictions over importers' rights of access to foreign exchange – as is the case in Iran, India and China, for example. Whilst such customers may be eager buyers of the manufacturer's products, they are simply not in a position to cover his invoices (or at least very substantial part of the full purchase price) through the formal banking system in their own country. But if the manufacturer is prepared to accept payment in cash – or at least from another banking source – to meet his invoice, he can sell his product for the full price, and the importer can settle the bill by utilising informal hawala networks which circumvent the local exchange controls which would otherwise prevent him from doing so. Such practices are clearly widespread, and in no sense illegal – at least from a UK perspective. Indeed deals of this kind are sometimes actively encouraged by HMG. One such case is BAE's multi-billion Al Yamamah contract with Saudi Arabia, in which BAE is recompensed in kind – namely in tanker-loads of oil. Whilst it would be erroneous to identify 'swaps' of this kind in a straightforward way as Hawala, they are in fact organised on exactly the same basis.

9.2.6 However by contrast with the one-off swaps which underpin deals such as Al Yamamah, Hawala is well organised system which is readily available as a means of settling invoices of all kinds swiftly, reliably and cheaply on a truly global scale: indeed it is so efficient that commercial enterprises no less than migrant workers remitting relatively minute amounts to their kinsfolk back home can also find that the system offers significant financial advantages. This is particularly so when the proprietors of commercial enterprises are also in a position whereby they can establish their own *bona fides* of trust within the system, since entry costs then drop to virtually zero.

9.2.7 A simple example will serve to illustrate this. Consider, for example, the case of a Cash-and-Carry clothing merchant in Manchester who is of Pakistani origins, and who buys most of his stock from manufacturers in China. If he has a personal contact with a Hawaladar in Dubai (and such Hawaladars routinely visit UK to make those contacts), he might well telephone him to let him know that he wishes to settle an invoice for £50,000 from his Chinese supplier; let us also suppose that an Indian running a machine-tool business in Leicester has sold £50,000 worth of equipment to a customer in Iran, who is only in a position to pay by Hawala, in a deal which will be routed through Dubai. Whilst neither of the two Asian businessmen in the UK will know – or ever need to know – of each other's existence, the Dubai Exchanges specialise in matching up such transactions. In the simplest of examples (reality is normally a great deal more complex) a deal would be done whereby

£50,000 is collected in cash from the clothing manufacturer and delivered directly to the machine tool business in Leicester. A double settlement is thereby quickly, efficiently and very efficiently achieved – and matched by a complex series of further transactions overseas, all orchestrated from Dubai.

9.2.8 This is, of course, a highly simplified example. In real life such a neat match of dates and sums to be transferred is very rarely achieved, so the sums involved are much more regularly consolidated and deconsolidated so they fit to customers demands. Secondly the case is frequently switched between sectors, so it could well be that the currency notes delivered to the machine-tool business actually came from individuals sending money home to their relatives in Pakistan as from a Cash and Carry business. Thirdly one or other of those involved might not be based in Britain at all, so the cash delivery might well be made to a business in Amsterdam rather than in Leicester, and be run by an Iraqi Kurd rather than an Indian. Last but not least since the total outflow of funds deposited by individual South Asians in the British-based component of the hawala system is clearly very much larger than the than the potential take-up for such funds from commercial recipients and so forth, a large surplus remains to be dealt with: this is routinely converted into dollars by British-based wholesale Hawaladars who have set up a foreign exchange account with a local bank, from where it is routinely transmitted onward in bulk by TT to New York, where it is further distributed according to instructions emanating from Hawaladars in Dubai.

9.3 A system without records?

9.3.1 A frequent criticism of this system – which is as frequently voiced by those in pursuit of 'terrorist finance' as it is by formal bankers who alarmed to find their business being undercut by competition from hawaladars – is that Hawala is a system without records. How far is this true?

9.3.2 One point worth making at the outset is that if that charge is indeed true, hawala is nevertheless a remarkably safe mode of money transmission. Despite handling many millions – and possibly hundreds of millions – of dollars everyday, there is very little sign of customer dissatisfaction, or of huge sums of money going missing on the way. How can that be? Two answers can be proffered. Firstly the role of trust: the whole system does indeed depend on absolute trust – or to put it another way, that the sanctions which can be deployed against any one foolish enough to betray that trust are be extremely severe. Secondly *it is not a system without records*.

9.3.3 Just as in any other system, the way in which data is recorded and checked is specific to the system: every office orders its records differently. This is partly because there are numerous possible ways of doing so, and these choices are further conditioned by the business the office is supervising. Whatever the personal preferences of the office manager, the records of a steel mill will be quite differently organised from those in a doctor's surgery. So, too, with hawala. Whilst it is just as much of a money transmission as operation as is a formal banking sector business such as Western Union, the business is organised in a very different way. Above all it is a *distributed system* which is grounded in expectations of absolute trust, and hence of mutual guarantees, which hold across the entire system. As a result it has no need for expensive central headquarters in London or New York to which details of every single transaction are returned for scrutiny. Hawala has no central filing system of this sort *because its records are as distributed as the system itself*: that is the source of its efficiency as well as its flexibility, and of course its ability to compete on price with the bureaucratic behemoths of which the formal banking sector is now composed.

9.3.4 Behemoths may well find the competition unwelcome. But for them to complain, as they do, that hawaladars are breaking all the rules is rather like someone who arrives for a running race equipped with steel-shod armour-plated boots complaining that some his competitors are wearing running shoes: or in other words equipped with the bare necessities for swift movement on a well-prepared running track. Whilst formally constituted Banks may indeed be handicapped by the cost of supporting their armour-plated administrative and record-keeping systems, it is nevertheless quite inaccurate for them to suggest that hawala systems dispense with record systems altogether. On the contrary records are indeed kept within the hawala system: the sums of money involved are simply to large, and the transactions too many and too complex for those involved to rely on memory alone. However records are only kept on 'a need to know' basis. Hence those whose only role in a given transaction is to act as money transmitters will only have – and will only expect to have – instructions about the arrival of a consignment of money, and to where it should be sent. He is most unlikely to know where the money has come from (for it may well have been consolidated from several sources), or where it is ultimately going to, especially because it may well be re- and de-consolidated again several times over before it reaches its final destination. It also follows that the prospect that the money transmitter (or indeed any other link in the huge chain of hawaladars) will be privy to the detailed modalities of the entire range of transactions in which they are precipitating is virtually non-existent. There is nothing inherently suspicious about this in the context of a distributed system. Moreover when considered closely, formal banking systems – particularly at a global level – share these distributed characteristics. From this perspective hawala money transmitters can be seen to be in the same position as commercial banker who receives a payment from a client (and not infrequently from his clients' agent) asking for funds to be taken from one account and transferred into account number such and such in the name of so and so in such and such a branch of a such and such a bank on the far side of the world.

10 Conclusion

10.1 On being the importance of being 'light-footed'

10.1.1 As well as being 'light-footed' in organisational terms, the nimbleness of hawala operations are further reinforced by their strongly entrepreneurial character. Not only have most contemporary hawaladars only been in the business for relatively short periods – even the UAE Exchange, currently the king-pin of the entire system, is less than thirty years old – but they all continue to look out for every possible avenue of competitive advantage. One way of doing so is to move steadily up the system, so enabling one to operate at ever higher levels of consolidation: whilst the margins grow ever tighter, the profits that can be reaped from process yet larger transactions still nevertheless grow steadily larger. It follows that everyone operating at a lower level in the market has an interest in moving up a rung – always provided that they have both the capital resources and the organisational nimbleness to hack it at that level. However even when hawaladars do move up market to become wholesale and mega-wholesale operators, few cease to operate at lower levels in the system. Just as most UK-based hawaladars continue to conduct over-the-counter retail business alongside their consolidated wholesale business, so, to, does the UAE Exchange, as well as most Hawaladars in India and Pakistan.

10.1.2 Although it seems quite clear that Indian and Pakistani operators play a leading role in the global system of hawala, there is in my view no need to see the practices they have evolved as being uniquely grounded in South Asian cultural traditions. This point can be underlined in several different ways.

i) it is quite unnecessary to argue that South Asian hawaladars have gained such global salience because the propensity to do hawala deals is somehow 'in the blood'. Their current position can be much more straightforwardly explained as a result of the huge scale of labour migration from the sub-continent, which generated an unprecendentedly large demand for a means to facilitate remittance payment back home.

ii) it is equally clear that neither the capacity to remit, nor the capacity to construct networks of trust to facilitate Informal Value Transfers over long distances is in any sense uniquely South Asian: instead such developments can be expected to occur within any community whose members sustain tightly knit extended networks of kinship and quasi-kinship.

iii) the higher up the hawala consolidation system one moves, the less and less likely settlement by means of simple bilateral swaps becomes. The hub in Dubai is all about multilaterality, and its capacity to facilitate complex swaps between networks operating on a basis of unqualified trust in European, North America, West Asian, Iranian, Afghan, South Asian, Chinese, and South East Asian markets. Once relationships of trust are in place, which at this level are organised primarily in terms of quasi-kinship, differences of ethnicity and nationality are no obstacle to the construction of hawala deals.

10.2 The growth of hawala in the contemporary world

10.2.1 In keeping with both Dr. Wilson's and Professor Passas' findings, my studies of the hawala system have led me to conclude that the whole contemporary edifice – which incorporates all those active in the hawala system whose deals are ultimately settled in Dubai – has grown up in response to some dramatic developments which have taken place during the course of the last few decades. As a result number of interlocking factors have precipitated a rapid growth of – and in some senses a comprehensive re-invention of – the hawala system. These factors include:

- An explosion in the number of migrant workers from the third world moving to the Gulf and Euro-America during the past three decades, followed by a parallel explosion in the volume of remittances they have sent back home.
- The growth of electronically based international banking, as opposed to 'Telegraphic Transmission'. Until not so long ago TT really involved sending a telegram.
- The high levels of commission which mainline banks still charge for TTs, even though telegrams were no longer sent.
- An explosion in the scale of manufacturing-for-export business through South and South East Asia. Whilst the ultimate market for these manufacturers is Euro-America, such manufacturing has also generated a large volume of intra-regional trade (and now migration, for that matter).
- The re-imposition of exchange controls in many parts of this region as a result of recent financial crises, such that many such manufacturers prefer to see their invoices settled in US$ rather than in their local currency.

10.2.2 Put together, these factors opened up major opportunities for entrepreneurial initiatives for hawala operators. On the one hand they provided a means of evading the obstacles to free trade established by those governments which sought comprehensively to regulate all aspects of national economic activity: India and China provide particularly graphic examples of that tendency – but many other regimes were not very far behind them. If hawala therefore oiled the wheels of mechanisms which had virtually ground to a halt in the face of excessive regulation, it also did so in successful competition with formally constituted international banks, which the hawaladars were nimble and skilful enough to be able to beat at their own game.

10.2.3 However this did not involve them doing anything intrinsically illegal. Rather by the articulation of trust through informal reciprocal networks, rather than through elaborate, expensive and sclerotic bureaucratic procedures, hawaladars developed a structure through which to move money around the globe much more swiftly, much more cheaply and just as reliably as formally organised banks – and still make a profit as they did so. To be sure their skills enabled them to drive a coach and horses through the constraints of excessive regulation – much to the chagrin of those committed to regulation, and who believed that commercial deals should be regarded as illegitimate unless they had received a regulators' *imprimatur*. In defence of their position, battered regulators frequently argued that those who operated these underground banking systems made immense fortunes in the 'black market', and that they deserved to be prosecuted for their pain. However the initial premise of those who make such arguments is mistaken. Hawala is at least as competitive as is any other form of commercial organisation and in some senses more so. Hawaladars may deal in immense sums of money, but competition is both fierce and continuous, and margins are very small. Profits can only be made by keeping one's overheads even smaller than one margins: successful Hawaladars therefore make profits, but on a very much smaller scale than excited journalistic imagination often suggests.

10.2.4 There is no evidence that they contemporary hawala system is the outcome of an explicit plan of any sort. Despite the huge volume of funds which currently passes through its operators on a daily basis, it has no Mr. Big; rather, like Topsy, it just growed. This growth appears to have been the outcome of initiatives taken by a myriad of small-scale entrepreneurs responding to opportunities as and when they encountered them with the result that the contemporary hawala system has expanded very rapidly from a small base. Most hawaladars at every level in the system are therefore relatively new to the game. Moreover since the system has grown so rapidly, most hawaladars – including the super-wholesalers – appear to have entered the system as retail hawaladars very recently indeed. But given that moving up a step in the system opens the prospect of generating ever-larger profits, all the most skilled entrepreneurs are constantly seeking to do deals which will enable them to move up a grade.

10.2.5 Hence the largest returns in the British market are no longer made by retail hawaladars, or even by wholesale money transmitters, but rather by skilled entrepreneurs who are busily engaged in sewing up large scale deals through one or other of the Exchange Houses in Karachi, or better still in Dubai. All deals at this level appear to be constructed *ad hoc*, and there is fierce competition between lower level hawaladars for the opportunity to implement them. It is, of course, the setters-up of the very largest and most consolidated deals who reap the greatest profits, but only in rare circumstances will they be able to undertake the entire operation themselves. Hence in normal circumstances Exchange House operators will also rely on all sorts of agents, gophers and sub-contractors who are only to eager to assist the higher level consolidator, both to gain a share in the deal, and in the hope that their experience of participating in such higher-level deals will in the long run enable them to book a place at the next level up.

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