

Use of the hawala system for money laundering



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Hawala is an alternate or parallel remittal system. It exists and operates outside of, or parallel to ancient banking or monetary channels. It was developed in the Republic of India and was initially devised as a sort of medieval commerce to permit transactions between South Asia and also the Middle East[1]before the introduction of Western banking practices and is presently a closed remittance system used throughout the world. This system typically noted as underground banking; as this term is not always correct, as they usually operate within the open with complete legitimacy, and these services are typically heavily and effectively publicized[2]. The elements of this style banking industry that distinguish it from different remittal systems are trust and therefore the in-depth use of connections like family relationships or regional affiliations[3]the dealings take place entirely on the honor system. Because the system does not depend upon the legal enforceability of claims, it will operate even within the absence of a legal and juridical surrounding.

In contrast to ancient banking or perhaps the hawala system makes use of stripped often no use of any legal instrument. Transfers of cash occur based on communications between members of a network of hawaladars, or hawala dealers. While hawala employed for the legal transfer of funds, its obscurity, and marginal documentation have additionally created it liable to abuse by people and criminal syndicates transferring funds to finance outlaw activities.[4]For example, a man by the name of Robert Ulbricht, the owner of the dark website Silk Road used bitcoins along with the Hawala system for money laundering.

Ross William Ulbricht was born in March 1984, in Austin, Texas. After graduating from high school in 2002, Ulbricht received a free educational scholarship and attended the University of Texas in Dallas majoring in physics. He later studied libertarian philosophy as a part of his degree at Pennsylvania State University. It had been throughout now he became genuinely inquisitive about libertarian theory and took part in campus debates on the topic. In 2009 Ulbricht received his degree, and he moved back to Texas, having no interest in holding a daily job, he began to take positions in various entrepreneurial ventures like day trading, along with a computer game company, and later a web used bookselling business. It was during this point that Ulbricht initially developed the concept of making a web marketplace utilizing Tor encryption and bitcoin, which was still in its infancy stages at the time. By adopting encryption and cryptocurrency, Ulbricht believed that his marketplace might offer namelessness and security for its participants, permitting them to avoid government scrutiny. The Tor program that is utilized to get to the dark web passes the user info through an enormous network of encoding procedures, effectively disguising the identity and placement of participants on the network, whereas bitcoin offers a decentralized and anonymous transactional platform. This early plan would eventually grow to be the Silk Road marketplace.

However, ultimately, he was caught in 2013, and two years later, was condemned of narco trafficking, computer hacking, money laundering, and conspiring to traffic fake identity documents. Despite his appeals and was denied by the U. S. Court of Appeals in 2017, Ulbricht continues to serve his sentence without the possibility of parole[5]

In conclusion, the hawala system and bitcoin have inherited the name of duplicity with authorities. This can be in its regards to its association with dishonest behaviors like money laundering and the funding of terrorist cells. It is worthy to note that paper currency and regular banking channels utilizing the usual standard have long been used for money laundering, and even such prestigious world banks as HSBC have been penalized in recent history for involvement in such activities. Even the noblest of economic establishments that pride themselves on their reputations, like Credit Swiss and UBS in Switzerland, have a less-than-impeccable record from aiding high-net-worth people in avoiding taxes on an immoral scale. It should be accentuated that it is not digital coins or Hawala system or junk bonds that commit the crime and misallocate funds—it is those who use those monetary instruments for such functions. Law enforcement has to forestall money laundering, whether or not through banking industry or Bitcoin, or the Hawala system and to be effective it should target the idle actions of individuals abusing those systems, instead of the systems themselves.

Bitcoins are useful to lots of individuals. Since they are a world currency, you will be able to use them in any country while not having to convert between currencies. The Blockchain is secure and it helps you to ensure your cash goes to/comes from the correct person. Individuals receiving Bitcoins won't need to pay something for the transactions, and Bitcoins have lots of support. These will help facilitate Bitcoin to get more users, and if everybody uses Bitcoin, it may replace official currencies. Sure, it has some disadvantages. However, a number of those disadvantage is because of Bitcoin being a new factor. Therefore, as time goes on, they will be of less controversy and the other systems will simply be avoided. The Hawala

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industry is an economical and accepted system of cash transfer within the Middle East; eradicating such an entrenched system is not practical.

Moreover, the removal of hawala would be economically damaging to many nations.

The crucial role that the hawala system plays within the economies of the many developing nations implies that any attempts to control it might finish in economic disaster. In developing countries like Somalia, years of violence and economic upheaval have resulted in the lack of formal banking infrastructure and dependence upon the hawala system. Roughly 80 % of the Somali population receives around \$1.2 billion annually in remittances from the country's diaspora. The periodic shutdowns of banking industry organizations, like that enforced by the Republic of Kenya in early 2015, run the danger of urging economic and humanitarian crisis. As an example, the terrorist attack on the country's Garissa University school in April of 2015, the Kenyan government shut down thirteen hawala companies which most of the remittent cash going from Europe and the United States to Somalia all was transferred. This ending lasted till June 2015 and that interrupt, for that amount of time, inflicted millions of dollars in loss to the daily inflows to the Somali region that Hawala funds provided. Consequently, this caused the Somali currency to lose 25 % of its worth and increasing the number of black-market transactions within the country this cash is essentially utilized by the families of expatriate employees to cover basic needs and living expenses and immensely exceeds international aid that flows to the region.

Another developing country that has traditionally depended upon the hawala system in Afghanistan. A 2003 world bank report on hawala in Afghanistan

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cited that the bulk of the nation's international aid establishments and NGOs use the hawala system to transfer cash into and around the country to fund humanitarian efforts. It is estimated that the Afghan drug trade, brings in \$1.5 billion in remittances into Afghanistan through hawala networks, which clearly shows the dependency of the Hawala system in the region[6].

My conclusion and assessment of the criminal element with money laundering,

Although the Hawala system is used for criminal activities it also plays a vital role in the survival of many of the 3rd world countries where standardize banking is nonexistent. However, the shutting down of the Hawala system would crumble many 3rd world countries. Also, instead of the system being criticized a new look at the criminals using the system is where our primary focus should be. A more stringent look should be in the investigations in countries such as Afghanistan, Dubai, and India along with the Balkan Region where this is a major hub for the criminal element to move their drugs, it is also a stopping point for human traffickers. But getting rid of the system should be out of the question.

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[1]Berti, Benedetta. 2008

[2]Harjit, Patrick M, Jost and Singh Sandhu. n. d

[3]Berti, Benedetta. 2008

[4]Ibid

[5]Ross Ulbricht, ND

[6]Lawlor, Patrick. 2017