

The hawala extortion method assignment

Law



HAWALA INTRODUCTION [pic] Among the methods terrorists worldwide use to move money from regions that finance them to target countries some hardly leave any traceable trail. As regulators learned recently, one of the weak points in the payments chain through which illicit funds can enter is a system of traditional trust-based banking originating in southern Asia which is known as hawala. The word hawala is Hindi meaning “ trust” or “ exchange”.

Often used in relation with the word hundi which stands for “ bill of exchange” hawala is an unofficial alternative remittance and money exchange system enabling the transfer of funds without their actual physical move. Traditional financial institutions may be involved but more often the system is used to bypass banks. There are an estimated 3000 international hawala brokers operating in Asia. Allegedly the business is monopolized by migrants from India who mostly operate from countries in the Gulf and South East Asia.

Networks include trading points in the financial centres of Singapore and Hong Kong, and some of the biggest family-based money-dealers are based in London. In principle, hawala works as follows: Individual “ brokers” or “ operators”, known as hawaladers, collect funds at one end of the payment chain and others distribute the funds at the other. For example, an expatriate working in America or Kuwait who wants to send money back to his family in Pakistan or Syria turns to a moneylender or trader with contacts in both countries giving him the money.

The trader calls a trusted partner in the home country who delivers the amount to the family, minus a commission. For identification and the details of the trade often a code is used. The two traders settle accounts either through reciprocal remittances, trade invoice manipulations, gold and precious gem smuggling, the conventional banking system, or by physical movement of currency. Usually, hawaladers operate independently of each other rather than as part of a larger organization. For Asian immigrants the hawala system provides a speedy, reliable and trustworthy method to remit money home.

In principle, it allows cash delivered in one place to be made available elsewhere in the time it takes to make a telephone call or send a fax. The system proves superior to any Western banking operation: No identification needs to be presented, commissions are very low, transmission is very fast, and the system is in operation 24 hours a day and every day of the year even in regions where no banks or other financial institutions exist. The latter also explains why the system is not only used by expatriates, drug barons and terrorists, but in some countries is quite common in rural areas.

For example, in the 1980s, about 70% of total credit outstanding in Pakistan were estimated to be in the informal sector, and about 80% of all informal credit were in agriculture. Hawala has been a traditional method of moving money in south Asia long before Western banking became established in the region protecting early merchants along the silk road against robbery. In ancient China it was known as “fei qian” or “flying coins”. The system spread throughout the world – to other Asian regions, the Middle East,

eastern and southern Africa, Europe and North and South America – following immigration patterns.

Based on a man's word there is strong market segmentation in that, for example, a Pashtun trusts only a Pashtun hawaladar, a Sikh only a Sikh one, and so on. These days, although mainly used for legitimate transfers and often operating in conjunction with Western banking operations, the hawala system is regarded as a key factor in money laundering, other financial crimes and financing of illegal organizations committed in and associated with South Asia. Hawaladars in Dubai, India and Pakistan are said to be forming a "hawala triangle" responsible for significant international money laundering activities that spread far beyond the region.

Hawala is illegal in many countries. However, Islamic and Western banks all over the world, and even central banks, make use of the system. For instance, in May and June 2001 the State Bank of Pakistan was said to have turned to hawala shops in Islamabad to buy dollars in order to support the own currency. Even top-ranking Western corporations turn to hawaladers for transactions to regions without a modern western-style banking system. In several OECD (Organization for Economic Cooperation and Development) member countries, licensed traders legally perform hawala. OECD Member Countries (And Year of joining) Australia (1971) | Austria (1961) | Belgium (1961) | | Canada (1961) | Czech Republic (1995) | Denmark (1961) | | Finland (1969) | France (1961) | Germany (1961) | | Greece (1961) | Hungary (1996) | Iceland (1961) | | Ireland (1961) | Italy (1961) | Japan (1964) | | The Netherlands (1961) | New Zealand (1973) | Norway (1961) | | Poland (1996) | Portugal (1961) | Spain (1961) | | Sweden (1961) | Switzerland (1961) | <https://assignbuster.com/the-hawala-extortion-method-assignment/>

Turkey (1961) | | United Kingdom (1961) | United States (1961) | Luxemburg (1961) | | Korea (1996) | Mexico (1994) | | What is hawala? [pic] Hawala arose out of the gold smuggling operations in South Asia during late 1960s and 1970s, a time when local governments had all but banned gold imports. Smugglers used dhows—originally fishing boats, but later speedboats—to smuggle gold from Middle Eastern ports such as Dubai and Abu Dhabi.

Once the gold reached South Asia, smugglers sold it through a network of dealers, where it ended up in legitimate jewelry stores all across the subcontinent. But this left smugglers with a problem that like the one that Colombia's drug runners face—how do you get the cash back home? Smugglers found the solution in the growing number of Indians and Pakistanis working in the Persian Gulf states. These expatriates, often single men, needed to send home money to their families. Going through the official banking channels meant that the money could only be converted at the government exchange rate, which was usually lower than the market price. The smugglers could offer better exchange rates because they were making profits on the gold.

Over time, the gold smugglers, jewelry merchants, and others built an efficient mechanism for delivering money from the expatriate in the Middle East—and increasingly as well in Southeast Asia, the United Kingdom, and even from North America—to families in Pakistan and India. The hawala money route continues to serve those who want to move money outside the official banking system. Drugs have replaced gold smuggling, especially in Pakistan. As drugs are moved out of the country, the hawala route is used to pay for their purchase in Afghanistan-Pakistan. The Pakistan-Afghanistan <https://assignbuster.com/the-hawala-extortion-method-assignment/>

region also imports huge quantities of consumer goods, including truck tires and appliances. Less importantly, the hawala route continues to be used by those who want to transfer money in an emergency.

For a check to clear through a bank, it still takes almost one month. The hawala operators, most of whom run legitimate businesses, can transfer the money much faster, often in less than a week. The use of hawala networks by terrorist organizations is easy and could pass unnoticed in the large bulk of “legitimate” transactions undertaken by expatriates South Asians. HOW DOES HAWALA WORK [pic] Hawala works by transferring money without actually moving it. In fact ‘money transfer without money movement’ is a definition of hawala that was used, successfully, in a hawala money laundering case. An effective way to understand hawala is by examining a single hawala transfer.

In this scenario, Abdul is a Pakistani living in New York and driving a taxi. He entered the country on a tourist visa, which has long since expired. From his job as a taxi driver, he has saved \$5,000 that he wants to send to his brother, Mohammad, who is living in Karachi. Even though Abdul is familiar with the hawala system, his first stop is a major bank. At the bank, he learns several things: The bank would prefer that he open an account before doing business with them; The bank will sell him Pakistani rupees (Rs) at the official rate of 31 to the dollar; and The bank will charge \$25 to issue a bank draft. This will allow Abdul to send Mohammad Rs 154,225.

Delivery would be extra; an overnight courier service (surface mail is not always that reliable, especially if it contains something valuable) can cost as

much as \$40 to Pakistan and take as much as a week to arrive. Abdul believes he can get a better deal through hawala, and talks to Iqbal, a fellow taxi driver who is also a part-time Hawaladars. Iqbal offers Abdul the following terms: A 5% 'commission' for handling the transaction; 35, instead of 31, rupees for a dollar; and Delivery is included. This arrangement will allow Abdul to send Mohammad Rs 166, 250. As we will see, the delivery associated with a hawala transaction is faster and more reliable than in bank transactions. He is about to make arrangements to do business with Iqbal when he sees the following advertisement in a local 'Indo-Pak' newspaper (such advertisements are very common) : MUSIC BAZAAR AND TRAVEL SERVICES AGENCY | | Cheap tickets to India, Pakistan, Bangladesh, Sri Lanka, Dubai | | Great rupee deals (service to India and Pakistan) | | Large movie rental selection | | Video conversions | | Latest Bollywood hits on CD and cassette | | Prepaid international calling cards | | Pager and cellular activations (trade-ins welcome) | | Conveniently located in Jackson Heights | | (718) 555-1111 ask for Nizam or Yasmeen | |(718) 555-2222 [fax] | |(718) 555-2121 [pager] | Abdul calls the number, and speaks with Yasmeen. She offers him the following deal: A fee of 1 rupee for each dollar transferred; 37 rupees for a dollar; and Delivery is included. Under these terms, Abdul can send Mohammad Rs 180, 000. He decides to do business with Yasmeen.

The hawala transaction proceeds as follows: Abdul gives the \$5, 000 to Yasmeen; Yasmeen contacts Ghulam in Karachi, and gives him the details; Ghulam arranges to have Rs 180, 000 delivered to Mohammad. Even though this is a simple example, it contains the elements of a hawala transaction. First, there is trust between Abdul and Yasmeen. Yasmeen did not give him a

receipt, and her recordkeeping, such as it may be, is designed to keep track of how much money she owes Ghulam, instead of recording individual remittances she has made. There are several possible relationships she can have with Ghulam (these will be discussed later); in any case she trusts him to make the payment to Mohammad.

This delivery almost always takes place within a day of the initial payment (a consideration here is time differences), and the payment is almost always made in person. Finally, in some scenarios, he trusts her to repay him the equivalent of either \$5, 000 or Rs 180, 000. Connections are of equal importance. Yasmeen has to be connected to Ghulam in Karachi to arrange this payment. As her advertisement indicates, she also offers service to India, so she either knows, or has access to, someone who can arrange payment there. Hawala networks tend to be fairly loose, communication usually takes place by phone or fax (but email is becoming more and more common).

To complete this discussion, there are two related issues to be addressed. The first is the relationship between Yasmeen and Ghulam, and the second is how Ghulam ‘recovers’ the money that he paid to Mohammad on Abdul’s behalf. As was stated above, hawala works through connections. These connections allow for the establishment of a network for conducting the hawala transactions. In this transaction, Yasmeen and Ghulam are part of the same network. There are several possible ways in which this network could have been constructed. In brief, hawala ‘works’ – or competes effectively with other remittance mechanisms – because of its cost effectiveness.

A secondary consideration is that hawala is often related or even integral to existing business dealings. One reason for hawala's cost effectiveness is low overhead. A business like Yasmeen's ' Music Bazaar and Travel Services Agency' operates out of a rented storefront as opposed to a bank building (which has expensive vaults and alarm systems), and may even share space with another business (e. g. a sari or gold shop), further reducing rental expenses. Yasmeen's employees are paid less than bank officers, and they probably do not have insurance or access to a retirement plan. Some hawaladers operate with even less, using a table in a tea shop as an office and having little more than a cellular phone and notebook as overhead expenses.

The second reason is exchange rate speculation. In India, for example, the Foreign Exchange Regulation Act (FERA), states that except with the previous general or special permission of the Reserve Bank, no person, whether an authorized dealer or a moneychanger or otherwise, shall enter into any transaction which provides for the conversion of Indian currency into foreign currency or foreign currency into Indian currency at rates of exchange other than the rates for time being authorized by the Reserve Bank'. Since hawala dealers do not, in many if not most cases comply with such regulations, their transactions may be illegal (a more detailed discussion of the legality of hawala follows).

Depending on one's perspective (and possibly jurisdiction), hawaladars are either engaging in foreign exchange speculation or black market currency dealing. In any case, they exploit naturally occurring fluctuations in the demand for different currencies. This enables them to turn a profit from <https://assignbuster.com/the-hawala-extortion-method-assignment/>

hawala transactions (which, in addition to being remittances, almost always have a foreign exchange component), and they are also able to offer their customers rates that are better than those offered by banks (most banks will only transact at authorized rates of exchange). The rates cited in this paper (35 Rs/\$ for Iqbal, 37 Rs/\$ for Yasmeen and the official rate of 31 Rs/\$ as cited by the bank) reflect a difference of 12-19% over the official rate. These may actually be a little high.

A U. S. hawaladar) involved in the laundering of drug proceeds as well as legitimate remittances told one of the authors of this paper that he could still make a profit on an exchange rate margin as small as 2%, making him much more competitive than a bank. In addition, since many hawaladars are also involved in businesses where money transfers are necessary, providing remittance services fits well into these businesses' existing activities. Monies from remittances and business transfers are processed through the same bank accounts, and few, if any, additional operational costs are incurred by a business that offers hawala remittance services.

Finally, an important component of hawala is trust. Hawala dealers are almost always honest in their dealings with customers and fellow hawaladars. Breaches of trust are extremely rare. It is worth noting that one of the meanings attached to the word hawala is 'trust'!

RULES OF HAWALA

Rules of Hawala (Transferring Debt) which he is indebted (for example, if he transfers the debt of wheat while he is indebted to him for barley), the transfer will not be in order, unless he accepts it. cannot cancel the Hawala, and if the person receiving the Hawala was not poor at the time the Hawala

was issued, the creditor cannot cancel the Hawala even if the recipient becomes poor afterwards.

The same will apply if the recipient of the Hawala was poor at the time it was issued, and the creditor knew about it. But if the creditor did not know that the person to whom Hawala has been issued is poor, and when he comes to know of it, the recipient is still poor, then the creditor can abrogate the Hawala transaction, and demand his money from the debtor himself. But if the recipient of Hawala has turned rich, then canceling the Hawala cannot be substantiated. [pic] Despite its informality, the hawala system has direct and indirect macro-economic implications— for financial activity as well as for fiscal performance. One aspect is its potential impact on the monetary accounts of countries on either end of the hawala transaction.

Because these transactions are not reflected in official statistics, the remittance of funds from one country to another is not recorded as an increase in the recipient country's foreign assets or in the remitting country's liabilities, unlike funds transferred through the formal sector. As a consequence, value changes hands, but broad money is unaltered. However, hawala transactions may affect the composition of broad money in a recipient country. In the remittance business, such transactions are conducted mainly in cash, even though hawaladars may use the banking system for other purposes. Individuals from developing countries who transfer funds abroad through the hawala system for investment or other purposes are usually members of wealthy groups.

They supply local hawaladars with cash by making withdrawals from their bank accounts. As a consequence, hawala-type transactions tend to increase the amount of cash in circulation. Furthermore, IFT (Informal funds transfer) systems have fiscal implications for both remitting and receiving countries because no direct or indirect tax is paid on hawala transactions. The negative impact on government revenue applies equally to both legitimate and illegitimate activities that involve the hawala system. Hawala transactions cannot be reliably quantified because records are virtually inaccessible, especially for statistical or balance of payments purposes.

This holds true for both the remitting and, especially, the receiving sides of the transactions. Hawala transactions from developing countries are sometimes driven by capital flight motivations; they may also be driven by a desire to circumvent exchange control regulations and the like, leaving no traceable records. Nevertheless, the authorities of some countries have sporadically made estimates of hawala activity based on their expatriate populations and balance of payments data. In any case, all crude estimates should take into account both hawala and reverse hawala transactions (see box) as well as transactions driven by illicit activities.

Although it would be impossible to provide a precise figure, the amounts involved in hawala transactions are likely to entail billions of dollars.

Regarding the economic impact of hawala, above all, there are two aspects.

1. One is the macroeconomic effect it has on individual economies and state sovereignty. For example, according to Pakistan estimates amounts reaching the equivalent of billions of US dollars are channeled past the country's tax authorities in this way every year. In India, there are estimates that,

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although forbidden, up to 50 % of the economy uses the hawala system for moving funds. 2. Another aspect is the impact on international financial markets, financial regulation and monetary policy.

In principle, informal money transfer systems tend to reduce the effectiveness of traditional instruments of monetary policy in making it more difficult to judge the need for money balances in an economy and the reactions to changes in rates and prices. Beside, they hamper the supervision of money and capital flows and the fight against risky or illegal financial practices. This is the reason why, for example, the Financial Action Task Force (FATF) and the Asia/Pacific Group on Money Laundering (APG) pay close attention to the system. On the other hand, there are two aspects which help to put in perspective the importance of hawala: 1. First, with an estimated annual volume of \$200bn it is a rather minor phenomenon amid the vast amounts of cash flowing through the global markets each day.

For instance, average daily turnover in traditional foreign exchange markets world-wide is estimated at \$1, 210bn. Annual transaction values in the US CHIPS and Fedwire payment systems, the British CHAPS or the German EAF reach up to hundreds of trillion dollars. 2. Second considering the intranets used by large multinational firms operating world-wide, hawala is only one among many informal payment systems bypassing traditional banks. ORIGIN OF CHIT SYSTEM The chit system did not originate with overseas Chinese remittances nor with so-called native banks. Chits are a British colonial invention. The word “ chit” itself is the derivative of “ chitty”, a word of Anglo-Indian origin borrowed from the Hindi chitthi, meaning a mark.

From the late seventeenth century, the word crept into the English usage as meaning a note, pass or certificate given to a servant. The chitty came to China in the nineteenth century by way of British custom. Foreign residents in the treaty ports found handling strings of Chinese cash or silver ingots a major inconvenience. A system was devised to eliminate this inconvenience. Harvard University economist Frank King describes this system: “ The salary of foreign employees was paid by check drawn on the Chinese compradore, who then held the funds against which the employee wrote ‘ chits’... memoranda acknowledging debts for retail transactions. These were accepted by the shopkeeper and passed for collection to the firm’s compradore. The Chinese underground banking network is active in China, Taiwan, and throughout Southeast Asia. In August 1984, Lt. General James A. Williams, then Director of the U. S. Defense Intelligence Agency (DIA), reported to the U. S. Senate, “ Some sources have stated their suspicions that this system is being used by criminal elements in Vietnam as a way of transferring funds generated in Vietnam through black market activities to a safe haven outside Vietnam for unspecified future use. In the opinion of our DIA analysts, such a system may also be used by Soviet Republic of Vietnam (SRV) intelligence and security agencies, possibly in association with criminal elements.

This system would result in availability of operational funds for the use of SRV personnel or others, both in the United States and elsewhere. Such a barter system is not unique to Vietnam. It is quite probable [you have] noted the barter system in use in other countries around the world which have strict prohibitions regarding foreign currency transactions. ” Money

Laundering: Hawala and India In 1994, the U. S. State Department reported that India is increasing in significance from a money laundering perspective. Raids conducted in August 1992 against a Colombian money launderer working for the Cali and Medellin cocaine cartels revealed that drug money was being deposited in an account in Punjab.

A multilateral effort was recently initiated in the United States to target a well known Colombian cocaine kingpin, who has used at least one bank account in India to facilitate the transfer of funds from the U. S. Although there have been no arrests/prosecutions for money laundering, investigation of a major stock market scandal in Bombay in 1993 and 1994 developed leads indicating possible ties to narcotics-related activities. In general, India is meeting the goals and objectives of the UN Convention with respect to adopting money laundering legislation, but enforcement measures needs improvement. Money laundering is a crime. Indian banks are required to maintain records on large currency transactions that are over 20, 000 rupees (approximately US\$800) and to report them to the Central Bank.

However, reliance on manual bookkeeping for some 60, 000 branches and loose accounting practices have created abundant opportunities for fraud. The Central Bank created a separate bank supervising board in March 1993 to address the widespread perception that bank supervision is weak and ineffective. The major difficulty law enforcement agencies face in the successful pursuit of financial investigations is that the Indian asset seizure law is a criminal statute requiring a criminal conviction to effect asset forfeiture. The law contains so many loopholes and requires so many years to prosecute as a criminal matter that U. S. officials consider it ineffective.

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In March 1992, duties on imports were reduced, and a variety of currency and foreign exchange requirements were liberalised. Restrictions on gold and silver imports were also relaxed. In September 1992, the Indian Government announced that foreign institutions would be allowed to invest directly in all stock market instruments, operate foreign currency accounts, and convert funds to rupees at market rates. Hawala, the Indian form of an underground banking system traditional throughout the Middle East and Asia, has links to drug trafficking. With the easing of foreign exchange controls and the unified exchange rate, Hawala activity has apparently slowed. There has been a 40 percent increase in remittances by nonresident Indians through banking channels.

Indian Customs reports a recent increase in large currency importations. Indian law requires declarations for imported currency exceeding US\$10,000. However, records are maintained by hand and investigations rarely follow. While the long-term effects of India's liberalization measures remain to be seen, the Hawala system will continue to be used by persons involved in such illicit activities as tax evasion, drug trafficking, money laundering, political corruption and arms smuggling. Invoice manipulation is pervasive and is used extensively to launder illicit proceeds. HAWALA AND TERRORISM Recent anti-terrorist legislation in the US and the UK allows government agencies to regularly supervise and inspect businesses that are suspected of being a front for the "Hawala" banking system, thus making it a crime to smuggle more than \$10,000 in cash across USA borders. There is a belief that the al-Qaida network of Osama bin Laden uses the Hawala system to raise and move funds across national borders. A Hawaladar in Pakistan

(Dihab Shill) was identified as the financier in the attacks on the American embassies in Kenya and Tanzania in 1998. But USA is not the only country to face terrorism, financed by Hawala networks. Sometime ago, the Delhi police, the Enforcement Directorate (ED), and the Military Intelligence (MI) arrested six Jammu Kashmir Islamic Front (JKIF) terrorists.

The arrests led to the exposure of an enormous web of Hawala institutions in Delhi, aided, some say, by the ISI (Inter Services Intelligence, Pakistan's security services). The Hawala network was used to funnel money to terrorist groups in the Kashmir Valley. Luckily, the common view that Hawala financing is paperless is wrong. The transfer of information regarding the funds often leaves digital trails. Written, physical, letters are still the favourite mode of communication among small and medium Hawaladars, who also resort to extremely detailed single entry bookkeeping. Such flows of funds affect the local money markets in Asia and are instantaneously reflected in interest rates charged to frequent borrowers, such as wholesalers.

Most countries have only one system, the storehouse of data regarding all banking (and most non-banking) transactions in the country. Yet, even this is a partial solution. Most national systems maintain records for 6-12 months only. Yet, the root of the problem is not the Hawala or the Hawaladars, but the corrupt and useless governments of Asia are to blame for not making flexible their banking systems, for over-regulating everything else, for not developing competition, for throwing public money at bad debts and at worse borrowers, for over-taxing, for robbing people of their life savings

through capital controls, for tearing the weak fabric of trust between customer and bank.

Perhaps if Asia had reasonably means, reasonably priced, reasonably regulated, user-friendly banks – Osama bin Laden would have found it impossible to finance his mischief so invisibly. SOURCES OF BIN LADEN'S FUNDING [pic] Osama bin Laden is believed to rely on three principal sources to finance his terrorist network and its activities: 1. personal inheritances and investments; 2. funding from Arab supporters of al Qaeda; and 3. charitable contributions from Islamic organizations. Bin Laden is believed to have exhausted most of his own money, however, and is thus likely depending on the latter two sources. 1) Personal investments [pic][pic] [pic] 1) Personal investments Osama bin Laden is the son of a billionaire Saudi construction magnate with close ties to the country's royalty.

Bin Laden inherited an estimated \$250-300 million from his family in the early 1990s, which he has invested in a range of businesses or placed in bank accounts around the world. According to the FBI, bin Laden manages a range of lawful businesses across North Africa, Middle East, Europe and Asia. While in Sudan between 1991 and 1996, he reaped profits from a holding company called Wadi al Aqiq, which acted as an umbrella for a number of businesses. He is linked to agriculture, construction, transportation and investment firms in Sudan. The Islamic Cultural Institute in Milan is considered the nucleus of the al Qaeda network in Europe. The institute is believed to have had direct involvement in the bombing of U. S. embassies in 1998.

Sources say a company named Arketa in Cyprus also helped launder money for bin Laden by moving funds between its subsidiaries and foreign banks it used. In addition it provides cover for movements of soldiers and funds, and procurement of weapons and chemicals within the al Qaeda network.

Furthermore, bin Laden is believed to own investments in Mauritius, Singapore, Malaysia, the Philippines, and possibly Panama. He holds bank accounts in Hong Kong, Malaysia, Vienna, Dubai and London. Hundreds of millions of dollars are secured in real estate in Paris and London. 2) Arab supporters According to reliable sources, about \$16 million is funneled every year from the Arab world to bin Laden's terrorist network.

Most of the amount, however, is believed to be illegal support from wealthy Arabs in Saudi Arabia — some of whom were probably blackmailed — who either sympathize with bin Laden's cause or seek protection from terrorist activities in their countries. 3) Charity organizations Islamic charities collect billions of dollars a year, and much of it is used for the generous causes the charities openly support. Some of the donations, however, are secretly handed over to Islamic terrorists and fighters by sympathizers. Gulf Arab governments' abilities to investigate the activities of charity organizations are often held back not only because they must respect members' religious sensibilities, but also because most of these charities are lawful and often well respected.

U. S. authorities have maintained a secret list of suspect charity organizations around the world, but have been reluctant to make it public due to the sensitivities involved. MONEY MOVEMENTS THROUGH HAWALA [pic] In addition to the complex combination of individuals, companies, <https://assignbuster.com/the-hawala-extortion-method-assignment/>

bureaucrats and governments that contribute funds to bin Laden, U. S. efforts to trace terrorists' money is further puzzled by the fact that many of the financial transactions are done in such a way that they leave nothing to be traced. Al Qaeda relies heavily on hawala. Brokers advance funds to depositors on a nod or a handshake, leaving no paper or electronic trails.

Those involved often operate from a back of a store or, in remote areas. They may not even have an “ office” from which they conduct transactions. Brokers are known to use telephones to communicate, but the scarcity of other evidences make the helpfulness of tracking phone calls almost nil. Furthermore, hawala's generations of existence throughout South Asia and the Middle East make it difficult for foreign authorities to eradicate the mysterious system. According to experts, hawalas have existed in the United States since the 1980s. The number of outlets in the country is unknown, but six or seven hawalas are operating in the Washington-Baltimore area alone.

Most clients are immigrants who use the system — which often transfer money faster than regular banks — for the lawful purpose of sending money to relatives and friends abroad. Some users, however, exploit the system to launder money obtained or intended for illegal activity. Drug dealers have relied on hawala to send profits of drug sales from the United States, often to arms dealers abroad. In a major step to uproot suspicious hawala networks, the Treasury Department on Nov. 7, 2001, launched domestic raids to shut down two hawalas, Al Barakaat and Al Taqwa, both believed to be funneling millions of dollars from the United States to abroad to support terrorist activities. Al Barakaat is a financial, telecommunications and construction group headquartered in Dubai and operating largely out of Somalia.

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It was founded in 1989 and operates in 40 countries around the world. It transfers about \$140 million a year in remittances, 80 percent of which goes to Somalia, while the rest goes to Somali refugees living in other African countries. The Treasury Department said the raids on Nov. 7 resulted in the blocking of approximately \$971, 000 in Al Barakaat assets. The Bush administration asked nine countries — Switzerland, Somalia, the Bahamas, Liechtenstein, Sweden, Canada, Austria, Italy and the United Arab Emirates — to crack down and freeze Al Barakaat and Al Taqwa assets. A BANKING SYSTEM BUILT FOR TERRORISM [pic] ‘ Hawala’ can move millions of dollars around the globe with no paper trail and no questions asked

In the labyrinthine depths of old Delhi, where the lanes are too narrow even for a rickshaw, men drink tea and chat in shabby offices. Nobody seems to be doing any work, until the phone rings. Then, numbers are furiously scribbled, followed by some busy dialing and whispered instruction. Although it's far from obvious in the innocuous setting, these men are moving money — to exporters, drug traffickers, tax evaders, corrupt politicians And terrorists. Welcome to the world of hawala, an international underground banking system that allows money to show up in the bank accounts or pockets of men like hijacker Mohammed Atta, without leaving any paper trail.

There are no contracts, bank statements or transaction records, and yet those who use the hawala networks can move thousands of dollars around the world in a matter of hours. In a smoke-filled, empty office in Delhi, Ali — who would not give his real name — explains his trade. “ All it needs is a good network of trustworthy people,” he explains. “ If today you want to me <https://assignbuster.com/the-hawala-extortion-method-assignment/>

to arrange a delivery of cash anywhere in the world — Hong Kong, Johannesburg, New York, Paris — it will be done in, maximum, eight hours. ” To move money to New York, for instance, Ali will accept payment in Indian rupees from a client in Delhi. Then he’ll call associates in Dubai, who in turn contact their man in New York.

The client in Delhi is given a code, usually the numbers from a currency note, which is passed on to the recipient. When the phone rings in New York, both messenger and recipient will read back alternate digits from the password. Identity thus established the recipient will be paid in dollars. Not only is there no paper trail, Ali’s system avoids bank charges, transmission delays and foreign exchange regulations. All that hawala requires is trust. And that, ironically, is why it thrives in the underworld. No one cheats, Ali insists. And if they do? He looks a little shifty. “ The small gain will not be worth the bigger price,” he says. “ You will lose respect, and for a man, honor is his most important asset. ” How about his life? Ali laughs. Yes, if someone is very upset, he might want to kill the thief,” he says. “ But it seldom comes to that. ” Although Indian authorities have found Kashmiri militants making extensive use of the hawala system, funding terrorism is not a priority for the hawala dealers. The big money comes from defrauding trade regulations: An importer arranges with a supplier to charge a fraction of his real prices on an invoice, and pays the difference via hawala. Drug traffickers and corrupt officials also use the system for money laundering. “ Hawala dealers don’t care about where the money comes from or what it is being used for,” says Ali. “ They only concern themselves with the deal. “

The industry's hub is the oil emirate of Dubai, home to many gangsters from both India and Pakistan who maintain legitimate enterprises there but also operate hawala networks. Dubai is a free trade zone with no limitations on the movement of goods or currency. In the absence of laws expressly prohibiting the practice of hawala, it is difficult to track and arrest the offenders. And since hawala does not affect the Dubai economy, and it's not a priority for local law enforcement. Hawala hurts the national economies of developing countries desperate for foreign exchange deposits, but every individual in the chain has the incentive of earning a commission. And that's what keeps the networks going. People know that salaries cannot buy the good things," says Ali, one of thousands of operatives in an underground banking world that stretches from New York to Tokyo. " You need a little extra. " Even at a cost of enabling crime and terrorism. DIFFICULT TO TRACE Typically, a transaction begins with a visit to a hawala broker. The person wanting to send money gives the broker the sum of money to be transferred plus a fee and the name and location of the person he wants the money delivered to. The broker then gives his customer a receipt. The receipts are usually nothing elaborate, often just a bit of paper. The broker then contacts a broker in the recipient's country. The recipient contacts the local hawala broker.

While the system may be ancient, hawala brokers routinely use fax machines or the internet to communicate with other brokers. The broker is given a code. It could be anything. It could be a string of numbers, or it could be a \$5 bill with a specific serial number sent to him by his relative. Records are kept only until the transaction is completed. Then they are destroyed. The money

does not move, either physically or electronically. Brokers dole out money from the same pool that they take it in. They make money from the fees they charge for the transactions. The system is built on the trust between brokers, a trust built up between generations of hawala brokers.

Though the government has taken various measures to avoid these kind of transactions within the country, hawala is widely used measure. Till date no transaction is conducted as efficiently and smoothly like the hawala transaction. This trust indeed is a boon to the people and a curse to the nation. MODERN ROOTS [pic] While the hawala system may have ancient roots, much of the present hawala network grew out of gold smuggling operations in South Asia in the 1960s and 1970s. To get around gold import restrictions, smugglers used boats to ship gold from Dubai and Abu Dhabi to South Asia. After selling the gold, they then needed to get the cash back home. The smugglers discovered a solution in the growing population of Indians and Pakistanis working in the Gulf States.

These workers often sent money back home to their families, but if they went through official banking channels it cost more than the hawala system set up by the smugglers. They could offer better rates because of the profits they were making on smuggled gold. They developed an efficient system for moving money from expatriates in the Middle East, South-East Asia, the UK and even in North America to families in Pakistan and India, “ The use of hawala networks by terrorist organisations is easy and could pass unnoticed in the large bulk of ‘ lawful’ transactions undertaken by expatriate South Asians. IS HAWALA LEGAL AND WHAT ARE ITS INDICATORS [pic]

Since hawala is a remittance system, this question really addresses regulations governing remittance services and the circumstances of the remittance. The assumption here, of course, is that these remittances are like Abdul's, and 'legitimate'; the illicit use of hawala in money laundering is discussed in the next section of this paper. Even though hawala is illegal from a regulatory standpoint in some U. S. jurisdictions, hawaladars advertise their services widely in a variety of media (ethnic newspapers have been the traditional place to find them, now some are using the Internet). Enforcement of these regulations is difficult with respect to hawala.

The advertisements are often printed in foreign languages, and wording like 'sweet rupee deals' does not necessarily suggest remittance services. In South Asia, the situation is more complicated. Many South Asian nations (such as India and Pakistan) have laws that prohibit speculation in the local currency, prohibit foreign exchange transactions at anything other than the official rate of exchange, and impose strict licensing requirements on money remitters and foreign exchange dealers. In addition, there are regulations governing inbound and outbound remittances. A detailed discussion of these regulations is beyond the scope and intent of this paper. It is, however, possible to state 'hawala is illegal in India and Pakistan' with nearly complete accuracy.

The important point for our purposes is that the existence of these regulations is another reason hawala is still used. Many people in these countries have money that they would like to move to another country due to concerns about stability, to pay for education or medical treatment. Hawala provides a ready means of doing this, and its use as a facilitator of '<https://assignbuster.com/the-hawala-extortion-method-assignment/>

capital flight' on both large and small scales is very common. The existence of these laws also explains, in part, the prevalence of invoice manipulation as part of hawala schemes. Another aspect of these regulations is the use of the United Arab Emirates, specifically Dubai, for hawala transactions. There are two main reasons for this.

The first is the large population of expatriate workers from India and Pakistan; they use hawala to send money home. The second is Dubai's large gold market, which is the source of much of the gold sent (licitly and illicitly) to India and Pakistan. Dubai, unlike many other South Asian nations, allows essentially unregulated financial dealings. Because of this, many South Asian businessmen maintain offices in Dubai, and money is often wired there to circumvent regulations elsewhere. In addition, Dubai offers a neutral meeting place for Indian and Pakistani businessmen, as tension between these countries makes travel between them difficult if not impossible.

This paper should not, however, be considered a condemnation of the economic policies of India or Pakistan, both of which have taken concrete steps to combat money laundering. The efficiency and cost effectiveness of hawala make it an attractive means of remitting money under almost any [pic] INDICATORS As has been shown in this paper, hawala is actually quite simple; much of the complexity associated with and ascribed to hawala money laundering comes from the nearly infinite number of variations that are encountered in hawala transactions. This complexity of variation makes it nearly impossible to lay out a straightforward guide to recognizing hawala money laundering as part of a criminal undertaking. It is, however, possible to provide a few indicators that may be useful.

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One of the most consistent and valid indicators of hawala activity in investigations conducted in the United States is seen in bank accounts. A ‘hawala’ bank account almost always shows significant deposit activity, usually in the forms of cash and checks, which are often from one or more ethnic communities (e. g. Afghan, Bangladeshi, Indian, Pakistani, Somali) associated with the hawaladar. These checks may be made out to the primary account holder, or some secondary entity (often outside the United States) somehow associated with the account. These checks may also have some sort of notation, consisting of a name (presumably of the person to whom the money is remitted to) or something supposedly indicating what was ‘bought’ with the money.

In one case, many checks were seen with the word ‘bangle’ written on them; this was done apparently in order to make it appear as though the checks, which were almost all for even dollar amounts, had been written to purchase jewelry. These accounts will also almost always show outgoing transfers (usually by wire) to a major financial center known to be involved in hawala. Three of the most common locations are Great Britain, Switzerland, and, as discussed previously, Dubai. Given the flexible and casual nature of the hawala business, hawala accounts will not always be seen to balance. As has been discussed, certain businesses are also more likely than others to be involved in hawala. Once again, it is not possible to give an exhaustive list, but the following is a starting point: Import/Export

Travel and Related Services Jewelry (gold, precious stones) Foreign Exchange Rugs/Carpets Used Cars Car Rentals (usually non-chain or franchise) Telephones/Pagers Laws in India, Pakistan and other countries
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make it difficult to convert foreign currency (or foreign currency instruments, such as travelers' checks). Criminal activities in these countries may often involve foreign currency (especially dollars), which pose something of a problem. A 'solution' that has been seen to this problem is the shipment of these negotiable instruments from South Asia to the United States. Even though such shipments may violate both courier policies and U. S. law, the money launderers accept these risks rather than try to attempting to place these instruments into their local economies. [pic] HAWALA BOOK KEEPING 'Hawala bookkeeping' emphasizes keeping track of how much money is owed to whom. The following sample chart is based on records analyzed by one of the authors of this paper during a recent investigation, and is representative of the records that might be encountered during a hawala investigation (note that these charts are usually handwritten, and it is not uncommon for English and another language to be used):

16/6/98	Vinod	100000	37.6	2659.7	F-1202
16/6/98	Ashish	250000	39.25	6369.42	F-1203
16/6/98	Nitin Bhai	350000	42.3	8274.23	B-8146
17/6/98	DK	50000	38.75	1290.32	F-1204
17/6/98	Suresh Kumar	300000	39.25	7643.31	B-8147
17/6/98	Anil	200000	40.1	4987.53	S-5428
17/6/98	Vinod	150000	39.5	3773.58	F-1205
18/6/98	Manoj	300000	41.25	7272.72	B-8148
18/6/98	Vinod Bhai	350000	42.2	8293.83	L-2160
18/6/98	Ganesh Trading	200000	38	5263.15	
19/6/98	Suresh Kumar	175000	39.5	4430.37	B-8149

The first column indicates the date of the transaction. The second column is the name of the hawala broker to whom the debt is owed; it is very common to use partial names (e. g. 'Vinod') or codes (e. g. 'DK'). The third column is the amount of the debt. This chart reflects a tendency to do business in multiples

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of 100, 000; so it would not be uncommon to see things like ' 1. 5' for 150, 000. The fourth column indicates the dollar/rupee exchange rate in effect for the transaction. The fifth column is the value of the transaction in dollars. The sixth column reflects the way in which the payment was made. Notations such as ' F-1202' usually represent a bank (' F' might be ' First Bank'; ' B' and ' L' would represent other banks) and the check number. The notation for Ganesh Trading is '52 t' in Hindi.

This represents 52 tolas of gold, possibly paid to a local goldsmith or jeweler instead of remitting the money via a bank. WHY THESE SHOCKING FACTS ABOUT HAWALA CASE ARE BEING CONCEALED FROM YOU? • The Hawala accused politicians claim to be innocent. They say that there are no evidences against them. They say that it is a conspiracy to frame them in this case. If it is true then why are they so scared of an honest probe into this case ? • Hawala is the biggest ever scandal in the world involving 115 top politicians and bureaucrats. Never have so many top politicians been caught in a single scandal. Not even in the Bofors, Harshad Mehta scandals.

Vineet Narains Hawala crusade has given a jolt to Indian politics. In the post Hawala period three general elections have been held in four years and 5 Prime Ministers have taken oath. Instead of one party, two dozen political parties have been forced to run the government. Despite such serious ramifications of Jain Hawala Scam no political party has made it an issue to demand honest investigation in this historic case. • Why is it that so much noise was made in the past on other scams. But the same people have been maintaining mysterious silence about in the Hawala Case, Obviously because everybody who matters in Indian politics is involved in it, then who would <https://assignbuster.com/the-hawala-extortion-method-assignment/>

want punishment for the guilty. • Indian overnment accuses Pakistan for encouraging dreaded militant outfit Hijbul-Mujahideen to spread terrorism in India, but why it does not want to investigate the Jain Hawala case, which is directly connected with the funding of the Hijbul-Mujahideen? It is the same organisation which caused the Kargil war and took the toll of our young officers and soldiers. • Vineet Narain has been single-handedly and persistently fighting against 115 mightiest people of the land since 1993. To prove his point about the unscrupulous hushing-up of this case, he did not hesitate in locking horns with the top judiciary of the country. Interestingly those, who could not achieve even a fraction of what Mr. Narain has accomplished, were projected as media heroes by different governments in the past. At the same time Mr. Narains role is being underplayed by the established opinion makers.

Is it because they are not able to digest the fact that an individual can create such a history without their patronage? • Vineet Narains credentials as an investigative TV journalist are well-known in the media circles. His bold expose have repeatedly created ripples in the country since 1986. Despite this, why is it that ever since he started the Hawala crusade in Aug 1993, the electronic media is shying away from him? Is it because vested interests do not want the truth to be presented before the nation? Several hawala accused politicians mislead the nation through electronic media in 1996 by alleging that the Hawala case was a conspiracy to frame them.

Why were they not confronted with the probing questions as mentioned above? Why were they allowed to get away with such open lies, which created the wrong impression as if there were no evidences in the Hawala

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Case? • The hawala case on 1st Nov. 1994 gives us a feeling that the authorities waste their time over matters which are nothing compared to the matter – something which is eating in to the vitals of the system it gives rise to a suspicion that the (CBI) were made to remain inactive in this dark affair by some forces. • On 28th Aug 1998, the CBI did not do proper investigations in the Hawala case, otherwise so many politicians would not have gone scot free. • On 10th Feb 2000, Mr.

BR Lal, DGP Haryana, (who was the then Joint Director, CBI incharge of Hawala investigations) told the nation on Prime Time show of Zee TV, that CBI had sufficient evidences against Hawala accused politicians but there was tremendous pressure from its Directors and from above to conceal the same or file flimsy chargesheets, so that the politicians could be let off. He also said that he was willing to present these facts before any Court of Law. Why the print media ignored such a bold revelation ? Why the government and CBI did not take notice of it ? OVERVIEW In the wake of the September 11 terrorist attacks on the USA, attention was drawn to the age-old, secretive, and globe-spanning banking system developed in Asia and known as “ Hawala”. While not limited to Muslims, it has come to be identified with “ Islamic Banking”.

Islamic Law (Sharia'a) regulates commerce and finance in the Fiqh Al Mua'malat, (transactions amongst people). Modern Islamic banks are overseen by the Shari'a Supervisory Board of Islamic Banks and Institutions (“ The Shari'a Committee”). The Shi'a “ Islamic Laws according to the Fatawa of Ayatullah al Uzama Syed Ali al-Husaini Seestani” has this to say about Hawala banking: “ If a debtor directs his creditor to collect his debt from the <https://assignbuster.com/the-hawala-extortion-method-assignment/>

third person, and the creditor accepts the arrangement, the third person will, on completion of all the conditions to be explained later, become the debtor. Thereafter, the creditor cannot demand his debt from the first debtor. “

The prophet Muhammad (a cross border trader of goods and commodities by profession) encouraged the free movement of goods and the development of markets. Numerous Muslim scholars railed against hoarding and harmful speculation (market cornering and manipulation known as “ Gharar”).

Muslims were the first to use promissory notes and assignment, or transfer of debts via bills of exchange. Among modern banking instruments, only floating and, therefore, uncertain, interest payments (“ Riba” and “ Jahala”), futures contracts, and forfeiting are frowned upon. But agile Muslim traders easily and often circumvent these religious restrictions by creating “ synthetic Murabaha (contracts)” identical to Western forward and futures contracts.

Actually, the only allowed transfer or trading of debts (as distinct from the underlying commodities or goods) is under the Hawala. “ Hawala” consists of transferring money (usually across borders and in order to avoid taxes or the need to bribe officials) without physical or electronic transfer of funds. Money changers (“ Hawaladar”) receive cash in one country, no questions asked. Correspondent hawaladars in another country dispense an identical amount (minus minimal fees and commissions) to a recipient or, less often, to a bank account. E-mail, or letter (“ Hundi”) carrying couriers are used to convey the necessary information (the amount of money, the date it has to be paid on) between Hawaladars.

The sender provides the recipient with code words (or numbers, for instance the serial numbers of currency notes), a digital encrypted message, or agreed signals (like handshakes), to be used to retrieve the money. Big Hawaladars use a chain of middlemen in cities around the globe. But most Hawaladars are small businesses. Their Hawala activity is a sideline or moonlighting operation. “ Chits” (verbal agreements) substitute for certain written records. In bigger operations there are human “ memorizers” who serve as arbiters in case of dispute. The Hawala system requires unbounded trust. Hawaladars are often members of the same family, village, clan, or ethnic group. It is a system older than the West. Hawala arrangements are used to avoid customs duties, consumption taxes, and other trade-related levies.

Suppliers provide importers with lower prices on their invoices, and get paid the difference via Hawala. Legitimate transactions and tax evasion constitute the bulk of Hawala operations. Modern Hawala networks emerged in the 1960’s and 1970’s to circumvent official bans on gold imports in Southeast Asia and to facilitate the transfer of hard earned wages of expatriates to their families (“ home remittances”) and their conversion at rates more favourable (often double) than the government’s. Hawala provides a cheap (it costs c. 1% of the amount transferred), efficient, and frictionless alternative to morbid and corrupt domestic financial institutions. It is Western Union without the hi-tech gear and the exorbitant transfer fees.

In 1999, Institutional Investor Magazine identified 1100 money brokers in Pakistan and transactions that ran as high as 10 million US dollars apiece. As opposed to stereotypes, most Hawala networks are not controlled by Arabs, <https://assignbuster.com/the-hawala-extortion-method-assignment/>

but by Indian and Pakistani expatriates and immigrants in the Gulf. The Hawala network in India has been brutally and ruthlessly demolished by Indira Gandhi (during the emergency regime imposed in 1975), but Indian nationals still play a big part in international Hawala networks. Similar networks in Sri Lanka, the Philippines, and Bangladesh have also been eradicated. The OECD's Financial Action Task Force (FATF) says that: Hawala remains a significant method for large numbers of businesses of all sizes and individuals to repatriate funds and purchase gold.... It is favoured because it usually costs less than moving funds through the banking system, it operates 24 hours per day and every day of the year, it is virtually completely reliable, and there is minimal paperwork required. " CASE STUDY: National Fertilisers Limited (NFL) V. Sundershan M. Sambasiva Rao VEN as Justice V. B. Gupta of the Special Court administered a rap on the knuckles of the Central Bureau of Investigation (CBI) on November 17 by asking it to examine whether the agency did not have sufficient grounds to file charges against P. V.

Prabhakar Rao, son of former Prime Minister P. V. Narasimha Rao, in the urea deal case, the Enforcement Directorate (E. D.), which is independently pursuing the foreign exchange violation angle in the matter, went ahead and arrested Prabhakar Rao and got him remanded to judicial custody for 15 days from November 30. The E. D. , which claims to have tracked down the trail of the complex transactions leading to the ultimate beneficiaries of the alleged Rs. 10. 8-crore payoffs involved in the deal, will soon issue show-cause notices to all the accused, including Prabhakar Rao. The charge-sheet filed by the CBI in May 1996 named nine accused including M.

Sambasiva Rao and B. Sanjeeva Rao (associates and relatives of Narasimha Rao), who put through the deal; the then top executives of National Fertilisers Limited (NFL), the public sector company involved in the matter; officials of the Turkish firm, Karsan Limited, which defaulted on the supply of urea but allegedly paid kickbacks to certain individuals in India; and Prakash Chandra Yadav, son of Ram Lakhan Singh Yadav, the then Union Minister for Fertilizers. The charge-sheet did not mention Prabhakar Rao, one of the alleged recipients of kickbacks. A few months ago the CBI told the Special Court that it did not have any charges to level against Prabhakar Rao.

However, in the first half of June 1996 the CBI had produced records that apparently led the trail to the doorsteps of Prabhakar Rao. If the court calls for the CBI case diaries and notes of the investigating team, it will find that the officials had gathered enough evidence to charge-sheet Prabhakar Rao. For some reason this situation was not reflected in the charge-sheet filed by the agency. The CBI team had traced a cheque for Rs. 10 lakhs, dated March 16, 1996 and drawn in favour of B. V. Rama Rao, an executive of Sinclair Electronics Industries Limited, a company owned by Prabhakar Rao. The amount had been deposited in the current account of Rama Rao.

The individuals concerned, when questioned by the CBI about the transaction, said that it was a personal loan given to Rama Rao and produced records in support of this claim. However, further investigation, including the questioning of an auditor of the company, apparently revealed that the loan documents had been fabricated hastily to conceal the identity of the real beneficiary. The CBI obtained statements from the auditor to the effect that the document was fake and that the payment was intended for

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Prabhakar Rao. Thereupon, the investigating team sought to arrest the persons concerned in Hyderabad, but the then CBI Director reportedly turned it down. The CBI team had found that the cheque originated from S. R. R. Investment & Finance Limited, a company owned by B. Sanjeeva Rao.

The CBI had also established that another firm owned by Sanjeeva Rao, Medicon Marketing Private Limited, an intermediary in the urea deal, had received an identical sum from Mallesham Goud a couple of days earlier, and that it was this sum that was transferred to the account of Rama Rao.

Mallesham Goud, alongwith Sambasiva Rao, was a director of Sai Impex Private Limited, the Indian agents of Karsan Ltd. NFL had remitted the entire sum of \$38 million (Rs. 133 crores, at the exchange rate prevailing at that time) as 100 per cent cash prepayment for the supply of urea into the accounts of Karsan Ltd. While 1 per cent of the amount had been remitted into Karsan's account in Ankara, 99 per cent had been remitted into the company's account in Pictet Bank, Geneva, in November 1995.

Two other Swiss banks had refused to accept the funds, citing stringent disclosure requirements for such transactions. The CBI team found more evidence. It established that Sai Krishna Impex had purchased air tickets from Hyderabad to Delhi for Sanjeeva Rao and Prabhakar Rao on March 11, 1995 and the journey was undertaken on March 12, 1995, around which time the deal was planned and executed. It also established that Prabhakar Rao was in Delhi when the deal was struck. It also traced certain leads that showed that the money from Karsan's account found its way to Hyderabad to finance the purchase of land at Nampally in the city by the recipients of the funds.

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Yet, it told the Special Court that it did not have any charge against Prabhakar Rao. THE E. D. ' s remand report on Prabhakar Rao has made comprehensive disclosures about various transactions in the deal. The charges are that \$4 million out of the total of \$38 million remitted by NFL to Karsan Limited found its way as commissions to Edible Foodstuff Trading in Dubai, from where it came to India through hawala channels. The remand report alleges that in the process Rs. 10. 8 crores came into the country, of which Rs. 40 lakhs was handed over to Sambasiva Rao by Mallesham Goud who, in turn, issued three cheques, for a total amount of Rs. 32 lakhs, all of which found their way to Prabhakar Rao.

The report alleges that Sanjeeva Rao used his kinship with Prabhakar Rao to procure the order for the supply of two million tonnes of urea by Karsan Ltd. It alleges that Sambasiva Rao had negotiated/deliberated with Karsan Ltd for the payment of a commission of \$4 million out of