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Studies warn against money transfer crackdown

Jim Bronskill, The Canadian Press

OTTAWA

Cracking down on informal money-transfer services in the name of fighting terrorism will simply drive the businesses further underground, say two new federally commissioned studies.

Researchers found that while some of these services -- also known as hawalas -- operate in Canada beyond the scrutiny of regulators, there is no reason to believe they are generally complicit in helping to finance terrorists.

"In fact it can be argued that conventional banking institutions have offered much more efficient mechanisms for the transfer of large sums of money for illegal purposes," says one study, which looked at Tamil-run services that send funds to Sri Lanka.

It was prepared by Rudhramoorthy Cheran of York University's Centre for Refugee Studies and Sharryn Aiken of the law faculty at Queen's University in Kingston, Ont.

The second report, by researcher Kalyani Munshani, examined transfer businesses in Toronto that serve the Afghan, Pakistani and Indian communities.

The studies were commissioned by the Law Commission of Canada, a federal think-tank on justice issues, with the support of York's Nathanson Centre for the Study of Organized Crime and Corruption.

Draft versions were released to The Canadian Press.  
Informal money-transfer services are commonly used by newcomers to Canada to transmit cash to family in their homelands.

The services, which often rely on trust and ethnic ties, are sometimes the only means of quickly and inexpensively moving money to **developing regions that lack formal banking systems**.

The services, which transfer billions of dollars annually, have attracted greater

attention from police and intelligence officials following the Sept. 11, 2001, terrorist attacks on the United States.

Some critics have tied the system to the black-market economy, smuggling, drug trafficking and terrorist financing.

Both studies advise the government against severely restricting the services. There is no evidence they have become "the preferred vehicle for the movement of funds by contemporary terrorist organizations or criminal networks," says the report on Tamil transfer businesses.