

Challenge Working Paper

Work Package 2 – Securitization beyond borders: Exceptionalism inside the EU and impact on policing beyond borders

Development v. Terrorism — migrant remittances or terrorist financing?

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Abstract: This paper discusses recent developments in the campaign to combat terrorist financing in Europe and the intersection of these with the flow of migrant remittances from the Member States of the European Union to Third Countries. New regimes of control within the European Union (EU) towards migration affect more than just those seeking entry to Europe. Migrants frequently leave behind families that they expect to support from their earnings once they secure employment at their final destination. Measures to combat the financing of terrorism (CFT) and the related increase in anti-money laundering regulation make it increasingly difficult for those that are successful in reaching Europe (legally & illegally) and achieving paid employment to subsequently share from their wages with the family left behind. This issue is considered in the context of a proposed Directive on ‘information on the payer accompanying transfers of funds’ (COM(2005) 343 final).

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This paper considers a vital and growing aspect of global capital flows—migrant remittances. These transfers of value, electronically, in currency or in goods, may be viewed as an important contributor to economic development in Africa, Asia, Latin America and the Pacific. They may also, however, serve to conceal criminal capital and funds intended to support terrorism. In seeking an answer to the question suggested by the title of the paper, it quickly becomes clear that both the answer and one's path to it depend on one's point of entry, whether as an economist, security analyst or financial expert. It also becomes a matter of framing the question—is this merely an unintended consequence of increased regulation on remittances and money transfers as part and parcel of the 'global war on terror'? At the same time that an increased awareness has emerged for the role and benefit played by migrant remittances to both the families left behind and the economies of the developing states in which they live, the processes that are used to send this money home are being subjected to increased scrutiny. Just as the formal banking system has been used by criminal elements to transfer, conceal or 'launder' their ill-gotten gains, informal financial structures have on occasion been used by criminal elements. Since September 2001 all modes and means of finance and market exchange have been placed under intense investigation as governments (particularly in North America and Europe) seek to counter terrorism by finding and confiscating assets belonging to identified terrorists, terrorist groups and their supporters. One initial experience in this front of the 'global war on terror' and its implications for the developing world was felt in Somalia in November 2001 with the closure of *al Barakaat* after this money transfer firm was identified as a 'conduit of terrorist financing' (Vlcek, 2006a; Vlcek, 2006b). The extent of the economic spillover from increasing regulation extends beyond those states or groups readily identified as connected in some fashion with terrorism. The following discussion looks specifically at the European context and the potential impact on remittance transfers of the measures imposed to counter terrorist financing. An alternate view that is not interrogated here argues that these measures are part of some larger agenda to reduce migration to Europe by increasing the difficulties experienced by migrants in order to convince them not to begin their journey in the first instance. From this perspective the tactics used against terrorism become part of the wider debate about migrant labour.

In one sense, the extension of surveillance over migrant remittances to address the problems of money laundering and terrorist financing also extends the disciplinary power of the state into here-to-fore disconnected practices of everyday finance (Gill, 2003; Gill, 1997; Gill, 1995). The desire of migrant labour to send money home, as efficiently as possible at the lowest cost available (in order to keep as much as possible for themselves and their families rather than giving it to the money transmitter), often means the use of informal methods or non-bank institutions. This desire has been firmly placed in opposition to fears of insecurity on the part of more financially stable citizens by introducing measures to regulate and control financial transactions of all varieties. The ready acquiescence of citizens in democratic societies towards the imposition of these regulatory practices should be just as much a concern as the very direct impact produced by them upon migrant labour. To repeat once again a statement from Jeremy Waldron writing in the context of ‘Security and Liberty: The Image of Balance’ — ‘We should be even more careful about giving up our commitment to the civil liberties of a minority, so that we can enjoy *our* liberties in greater security.’ (Waldron, 2003: 210, emphasis in the original)

The structure of the paper is first to present a brief explanation of the nature of the activities involved in combating the financing of terrorism (CFT) and of migratory remittances in the context of EU Directives. The next section discusses the specific situation regarding money transfers in the United Kingdom, followed by a section identifying some of the transnational characteristics of remittances, wire transfers and economic development. The concluding section provides a provisional answer to the question posed in the title, within a context of the foregoing analysis and explains why the effectiveness aspect about the surveillance of money transfers was not addressed. The desire of the security services to keep their methods confidential combines with the desire of criminals and terrorists to keep their processes out of public view. Success is hard to measure in an environment of secrecy and fear.

The EU, the FATF and ‘sending money home’¹

The subject of analysis here is the impact upon migrant remittances that results from the increased regulation and data collection/retention procedures emerging from an EU Directive currently being implemented by the Member states and a proposed EU Regulation. This analysis operates at the international level on the activities of an international organisation to

download 'international standards and best practices' into domestic legislation and regulation. The Directive currently in the implementation phase is the Third Money Laundering Directive — Directive 2005/60/EC of the European Parliament and of the Council of 26 October 2005 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing (OJ L 309 of 25.11.2005, pp. 15 - 36). It is to be transposed into national law by 15 December 2007 and replaces 91/308/EEC on the prevention of the use of the financial system for the purpose of money laundering as amended by 2001/97/EC of the European Parliament and of the Council (OJ L 344, 28.12.2001, p. 76). This new Directive explicitly serves to incorporate into Community legislation most of the latest version of the Recommendations of the Financial Action Task Force (FATF) for combating money laundering and the financing of terrorism. 'Since the FATF Recommendations were substantially revised and expanded in 2003, this Directive should be in line with that new international standard.' (OJ L 309 of 25.11.2005, p. 15). The second legal action of interest is the proposed EU Payments Regulation (Regulation of the European Parliament and of the Council on information on the payer accompanying transfers of funds, COM(2005) 343 final).² The proposed Regulation makes numerous references to the Third Money Laundering Directive, essentially binding it to the Directive. In this fashion, the proposed Regulation will resolve the problem identified in its opening paragraphs concerning the text of the Directive. 'All those measures [in the Directive] do not, however, fully prevent terrorists and other criminals from having access to payment systems for moving their funds.' Consequently, when implemented this regulation will have the immediate effect to extend aspects of financial surveillance into the money transfer business sector with its transposition of the FATF's Special Recommendation VII concerning wire transfers into Community legislation (COM(2005) 343 final, p. 2).³

Before turning to a consideration of these EU laws (current and proposed) it is important to understand the role of the FATF as a source of global financial governance and point of origin for standards and best practices in global finance to counter financial crime. The FATF is an inter-governmental forum created in 1989 at the direction of the G-7 to create policies that would guide an emerging international endeavour to eliminate the money laundering associated with drug trafficking. It has since 2001 broadened its mandate to include the financing of terrorism due to a belief that the measures taken to combat money laundering may be just as effective against the financing of terrorism. The FATF presently

has 33 members including two international organisations—the European Commission and the Gulf Co-operation Council.⁴ It has been identified in the proposed Payments Regulation as ‘the world standard in the fight against money laundering and terrorist financing.’ (COM(2005) 343 final, p. 2) The FATF itself has noted that its Recommendations against money laundering and Special Recommendations on terrorist financing ‘have been recognised by the International Monetary Fund and the World Bank as the international standards for combating money laundering and the financing of terrorism.’ (Financial Action Task Force, 2003b: iii) These claims may be slightly presumptuous, as an alternative ‘global’ organisation does not exist with which to compare the FATF while at the same time the membership of the organisation substantially reflects the dominant interests of large developed economies. Particularly problematic is the imposition of these Recommendations on states and financial structures that did not participate in their development (for example the Islamic banking institutions of the Middle East and Asia).

The potential use of informal value transfer systems (alternative remittance systems in FATF parlance) for money laundering has been recognised publicly by the FATF since the first public release of an annual Typologies Report in 1996. In that report it was identified as one method in a list of ‘the money laundering techniques most frequently employed in the Asian region’ (Financial Action Task Force, 1996: 10). Terrorist financing first appeared in these FATF reports on methods and techniques in the 1999 Report with a discussion of the extension of anti-money laundering laws to combat terrorist financing by the United States. In the case referenced in that report, the US had charged those suspected of terrorist financing with money laundering violations and subsequently used civil asset forfeiture laws to seize their personal property (Financial Action Task Force, 1999: 11). Similarly, the next FATF Typologies Report discussed an American contribution on terrorist financing that ‘suggested that anti-money laundering measures may therefore play a role in combating terrorism.’ (Financial Action Task Force, 2000: 14) The treatment of ‘terrorist related money laundering’ received substantially more attention in the FATF report published in February 2001 and one objective for this increased interest was to answer the question of ‘whether the distinction between legal and illegal sources of funding has an effect on the ability of countries to use anti-money laundering measures to detect, investigate and prosecute potential terrorist related money laundering.’ (Financial Action Task Force, 2001: 19) While the report declared that ‘all experts agreed that terrorism is a serious crime’ they could not agree

that money laundering laws could be used to investigate and prosecute terrorist financing, because of the requirement to demonstrate a connection between the funds in question and a criminal source for them (Financial Action Task Force, 2001: 20). In the Report released a year later the answer to this question was provided. A number of unidentified FATF member jurisdictions reported that because terrorist financing did not meet their legislation's definition of money laundering 'they were limited in the actions they could take against terrorist monies in the framework of anti-money laundering laws.' (Financial Action Task Force, 2002b: 2)⁵

As already noted, the FATF extended its mandate in October 2001 to explicitly include the creation and promotion of policies and standards for combating the financing of terrorism. In conjunction with this decision, the group produced a set of Special Recommendations and strongly encouraged their implementation by non-member jurisdictions (Financial Action Task Force, 2002a: 1). As with a number of other disciplinary measures initiated after the terrorist attacks in September 2001, the attention placed on informal value transfer systems increased and the traditional methods of money transfer that have been used by migrants for their remittances home have received extensive media coverage. The FATF created two Special Recommendations with a direct impact

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the formal sector (e.g. – Western Union and

that may not be as rigorous about data privacy and data protection as is the European Union. Moreover, in those cases where the individual remitting money home is an asylum seeker in the EU, they may have justifiable reasons for not wanting the government officials of the receiving jurisdiction to become aware of their current location and circumstances while they attempt to continue to provide financial support for family members left behind.⁷ The point here is that efforts by law enforcement and security agencies are directly in conflict with the desires of migrants to send money home. Tactics that make criminal conduct difficult are also making legitimate actions more difficult. The increased difficulty experienced by migrants may unintentionally promote the use of informal or underground methods by them in order to transmit their remittances.

At the same time, it is important also to appreciate the size and scale of the market affected by these regulations and the conflicting aims of governments and individuals with regards to remittances. Here the perspective at the international level shifts from a concern for national security to a concern for economic development (and aspects of human security). The World Bank reports that workers' remittances received by developing countries (fundamentally those received through the formal banking sector) amounted to US\$ 115.9 billion in 2003 (World Bank, 2005: 136). A survey was conducted to assess the extent and nature of migrant remittances from the EU to third countries in 2004. The Summary Report of this 'ad hoc' survey found that € 17.3 billion (approximately US\$ 12 billion) was remitted from eleven EU member states to non-EU jurisdictions in 2003 (European Commission, 2004: 3). All of these figures are widely acknowledged to be incomplete and represent a lower boundary for the actual private capital flows of migrant labour back to the developing world. The use of informal methods and personal transfers along with incomplete data collection by governments indicate that the actual quantity is greater. The extent of these unknown remittance transfers offers the opportunity for a variety of econometric exercises with the intention to provide a better estimate (Freund and Spatafora, 2005; El Qorchi et al., 2003). One point here is simply to recognise that migrant remittances exceed official development aid (ODA) and in some instances it also exceeds foreign direct investment (FDI) in these developing states (World Bank, 2004: 169). A second point is to appreciate the difficulty experienced by economists and policy makers to assess the full role and impact played by remittances in a developing state economy. The wider implications of these remittance flows

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as part of economic development are discussed below, in the section ‘Transnational perspectives on the question’.

Both data collection by regulatory authorities

The money transfer business and increasing regulation in the UK

As indicated by the figures above, the nature of the money transfer business varies greatly amongst the member states of the EU. At this point in the discussion the level of analysis moves from the international down to the national, and considers the operation and regulations of the money transfer industry in one specific EU Member State. Given the number of firms involved in this financial sector and the size of recorded remittances originating in the United Kingdom, it is enlightening to consider it in more detail. The question that is central to this paper has been recognised by the UK Treasury, as indicated by these remarks made to the Global Money Transmitters Conference.

But from our perspective, there is also a clear tension between the different objectives of money transfers. Between on the one hand promoting remittances and avoiding unjustified prudential regulation. And on the other in ensuring that money laundering and the risk of terrori

increased interest from the retail banking sector itself because of the untapped business potential (and related profits) that remittances represent for business growth.

In addition to the beneficial aspects of migrant remittances Lewis highlighted the government's regulatory concerns—money launde

(JMLSG) Guidance Notes (Prevention of money laundering/combating the financing of terrorism, January 2006). The UK Remittance Working Group noted the reason for this fragmented situation in the opening sentence to their report's chapter from the Regulatory Sub-Group. 'Money remittance is not a "regulated" activity (as defined by the Financial Services and Markets Act 2000) and is therefore not subject to regulation by the Financial Services Authority (FSA) or other designated professional bodies. (UK Remittance Working Group, 2005: 13)' This situation was acknowledged in testimony to Parliament in May 2006 by the Chief Executive of the FSA, John Tiner, who then pointed to the forthcoming Payment Services Directive 'which is going to bring these sorts of organisations [MSBs] into fuller regulation and it is not yet clear who is going to have that regulatory responsibility ...' (House of Commons, 2006: Question 722). The focus of these particular hearings before the House of Commons Treasury Committee concerned financial inclusion and from the exchange of questions and answers involving remittances a further point emerges. If smaller MSBs are 'excluded' from retail bank access (due to risks of money laundering) then the consumer that uses these services is essentially excluded twice by the financial system (see Questions 720 - 723, 732 - 734). In the first instance, they were excluded from the financial system because their economic circumstances or migrant status prevented them from establishing a bank account, and secondly, they were excluded because their alternate choice of a method to send money home was also blocked when banks refuse to accept the business of a small MSB (UK Money Transmitters Association, 2006a: 2). In addition to reminding the committee of the limited regulatory coverage of MSBs by the FSA, Tiner emphasised that those banks with international wire transfer facilities were 'so worried about whether those money service providers are engaging in money laundering activities' that they are closing accounts for MSBs (Question 720). Written testimony submitted to the committee by the UK Money Transmitters Association included the results of a survey of its members on their banking relationships as evidence for these difficulties, and underscored the potential risk that 'they will then exit the formal sector but continue to trade in the black market.' (UK Money Transmitters Association, 2006a: 2, see also Question 732)

Another result from these efforts to establish sufficient regulation of the money transfer industry (to counter money laundering and terrorist financing) is the perception that the retail banking industry has taken the risk-based guidance provided by government regulators as the means to eliminate competition from the money transfer industry for handling migrant

remittances. The conflicting objectives of financial regulators and the financial industry with respect to migrant remittances now emerges. The business case for a retail bank with respect

As indicated by these observations there is a clear justification for the perception that banks have encouraged the increased regulation of the money transfer sector in order to raise the costs experienced by their non-bank competition. At the same time, it reinforces the perception noted above that banks are using the regulations to argue that the risk of mis-use (in the form of money laundering or terrorist financing) by a MSB justifies closing their business account.

These circumstances increase the difficulty of MSBs to operate legitimately, as indicated by the evidence provided to the House of Commons by the UKMTA (UK Money Transmitters Association, 2006a).¹¹ The consumer or retail user of a money transfer business, however, has far more basic and instrumental concerns with regard to sending money home. In some cases, migrant remittances represent a main source of income for the family unit left behind. Alternatively, these remittances may serve to repay debts (related to travel or education prior to immigration), charitable contributions to the home community, investment in a family business or savings for future return and retirement (2005b: 16 - 17). As such, workers are foremost concerned with the speed and security of their transfer at the lowest possible cost. The consequences of the actions of individuals should be of more concern to regulatory authorities, because it is their desire to send money home efficiently and cheaply that generates the demand for the services supplied by the various informal value transfer methods. In the UK, DFID has responded to this line of reasoning and recommended that the regulation imposed upon MSBs be proportionate and risk-based. In a presentation made to a conference sponsored by the World Savings Banks Institute on 'Remittances and Financial Inclusion: Cross-Regional Perspectives', the head of the Financial Sector Team of DFID offered several recommendations. Specifically, the regulation and enforcement measures directed against money laundering and terrorist financing should be 'appropriate to developing countries' (Pearce, 2005: 11). Similar recommendations have been made in the context of instituting these regulations in developing states, where the foremost concern may

Transnational perspectives on the question

There has been a convergence of the various initiatives to bring more migrant remittances into formal banking/regulated money transmitting firms and proposals to enhance funding for

order that they may be leveraged as collateral to underwrite financing from international capital markets (World Bank, 2006: 100 - 104). A similar case was presented in a report produced under a contractual objective 'to determine ways by which the efficiency of workers' remittances in Mediterranean countries can be improved' that was prepared for the European Investment Bank (ECORYS-NEI, 2006: 15). This study also recommends the securitisation of remittances to underwrite the sale of bonds in global capital markets (ECORYS-NEI, 2006: 141). The goals behind these proposals may or may not benefit the ordinary individual recipient, but they will surely benefit local elites (Ballard, 2005: 110 - 111). The European Commission acknowledges the aggregate benefit that remittances provide to developing state economies, yet the Commission remained very clear on the point that 'migrant remittances are private money, that ought to be spent according to the wishes of the individuals concerned' (European Commission, 2002: 15).

Another strategy for developing states to achieve collective benefit from these individual transfers has been a suggestion for the imposition of a direct tax on the remittance transfer itself, with the proceeds to be used by the receiving state to underwrite development (UK Money Transmitters Association, 2006b: 7). The implicit assumption embedded within these proposals to leverage private capital flows for macroeconomic purposes is a belief that the government can and should incorporate remittances flows into the government's budget and with that movement into its overall macroeconomic planning process. At the same time, the fact that these remain *individual* transfers from one person to another, even if across borders, has been forgotten by most commentators (the EC being one exception). This fact seems to have become obscured by some fantasy portraying the possibilities for development if the *collective* remittance flow to any particular state were to be made available for development goals. Here the observation that migrant remittances (as recorded through formal channels) often exceed official development aid (ODA) functions as the justification to capture them for the greater good. Indeed, the question that should be put to these development professionals is how these proposals involving migrant remittances are any different from the past forty years of ODA programmes and their spotty record of success for economic development in Africa and Asia? If the motivation driving the liberal democratic state is 'life, liberty and the pursuit of happiness' on the part of individual citizens (admittedly following the ideals of the American and French revolutions), then certainly the current state of migrant remittances from the developed world to the developing world advances these

state, enhanced development opportunities) and the amount of emphasis placed on ‘security’ as a factor (security against terrorism, of the financial system against criminal conduct, or individual security to maintain the privacy of one’s details). This set of circumstances has created the variety of opinions assembled here concerning migrant remittances in the past few years. Within the framework of the research question that animates this paper, the complete absence of the illicit potential of these financial flows in many instances has also been observed. Naturally, law enforcement organisations (Interpol, FATF, etc.) have always been cognisant of this potential, but it is generally only in connection with the regulation of money transfer services that the illicit potential of some methods (hawala) emerges within these discussions of economic development.

The nature of the money services business varies from Member State to Member State within the European Union. The implementation of a common regulation (the EU Payments Regulation) will supersede the currently existing legal and regulatory structures of the individual member states. But the nature of migrant remittances within the member states will remain varied, reflecting the historical and cultural tradition of the local community and the migrant communities it attracts and sustains (European Commission, 2004). For the United Kingdom, there are valid reasons for the possibility that increased regulatory requirements for data collection and retention may drive some portion of the currently above-board money transfer business underground (or perhaps drive the marginally profitable providers out of business only to see them replaced by new underground or clandestine providers offering a transfer service at lower prices or without identity requirements.). This case was made to the Treasury in February 2006 in comments offered on the draft Payments Regulation from the UK Money Transmitters Association.¹²

As already noted, there are conspiratorial hints that the disciplinary practices discussed here serve motives other than security against terrorism. It may be suggested that they also are intended to reduce/control migration to the EU, however, we must not forget that the FATF recommendations are expected to be implemented globally. The Directive on Payments merely implements FATF Special Recommendation VII for the Single Market. It is the intention of the United Nations Security Council that all of the FATF Recommendations be implemented by all states, for with Resolution 1617 the Security Council now ‘strongly urges’ all member states to implement ‘the comprehensive, international standards embodied’

in them (United Nations Security Council, 2005). It also may be suggested that the extent and range of anti-money laundering and terrorist financing regulations are encouraged by retail banks that are interested in expanding their direct participation in the remittance business. Whether true or not, it is not increased regulation alone that will change the habits of migrants in how they send money home. Rather the choice of provider has been found by DFID to be subject more to 'advice from the person's UK-based community network', the security of the transfer method and the speed of delivery of the transferred funds. Together these factors tend to lead to the habitual use of a particular transfer method and transfer agent (2005b: 16 - 21). However, we must not let these conspiratorial whispers cloud our

This intelligence programme is consistent with the argument made by Phil Williams, that monitoring financial *flows*, rather than freezing assets, is a more effective strategy with respect to terrorist financing (Williams, 2005). But once again, this intelligence programme dealt with observing the actions of *known* individuals, in order to identify other unknown (though not necessarily terrorist) individuals as part of the wider intelligence activity against terrorism via their financial transactions.

Still and all, collecting and retaining data on cross-border money transfers may do little to prevent or reveal future terrorist attacks in Europe or the United States. This point represents the second reason that the question of effectiveness was not treated in this paper. Recall that the recent terrorist attacks in Europe were not executed by some internationally co-ordinated terrorist network despite some efforts by al Qaida to stake a claim to credit for them. Rather, radicalised residents of the European Union with locally generated funds perpetrated them (Intelligence and Security Committee, 2006: 29 - 30). Events in North America during June 2006 demonstrated that the radicalisation of Muslim youth is not a problem unique to Europe. Canadian authorities arrested 17 men on charges of plotting to commit terrorist acts in Ontario on 3 June (Austen and Johnston, 2006). Two weeks later in the United States seven men were arrested in Miami and accused of plotting to blow up the Sears Tower in Chicago (Schmitt, 2006). Together, these events demonstrate that the potential for local agents of terror to emerge is as much a threat to domestic security as any terrorist threat originating outside of the territory.¹⁴

At the same time, as indicated by the reaction of the US Treasury noted above, US government officials can be quite defensive about the value of the efforts taken to combat the financing of terrorism in the face of criticism. Furthermore, an *Economist* article in October 2005 asserted that '[h]indering flows across international financial networks is costly and does not stop terrorists' primary activity' (2005a). This magazine piece also drew a quick response in the form of a letter to the editor from Stuart Levey, the US Under-Secretary of the Treasury for Terrorism and Financial Intelligence, 'Your report on financing terrorism does a disservice to a critical subject.' (Levey, 2005) Again, no evidence has accompanied the refutation of ineffectiveness. In criticising these practices of financial surveillance the objective is not to make the work of the security services more difficult, or to aid and abet the terrorist. The critique emerges from a concern that actions limiting the liberty and freedom of

the citizens of democratic states effectively accomplishes a goal of the terrorists themselves, namely to force a change in the formerly liberal practices of a democratic society. And measures that hamper the desires of migrant labour to improve their lives and those of their families hamper both the economic advancement of these individuals and any hope for the emerging democratisation of the developing world.

Endnotes

¹ The last phrase is the name of the UK's Department for International Development website/programme to promote and assist with the development aspects of migrant remittances, see <www.sendmoneyhome.org>.

² Within the EU legal system a Directive is binding upon the member states, but first must be transposed into national law. EU regulations on the other hand are directly applicable as written. (Shaw, 2000: 243 - 245)

³ The July 2006 draft of the Regulation in circulation contains the the following text in Article 20 – Entry into force: ‘This Regulation shall enter into force on the twentieth day following **the day** of its publication in the *Official Journal of the European Union*, **however not earlier than 1 January 2007.**’ (emphasis in original)

⁴ The member states of the FATF are: Argentina, Australia, Austria, Belgium, Brazil, Canada, Denmark, Finland, France, Germany, ns Hi-gTuel)Artictiing i

⁶ Though this particular point may now be irrelevant following the public disclosure in June 2006 that the US security/intelligence services

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