Query: Please identify literature on the Hawala system. In particular, how widely used is it? Is it predominantly used by poor people? To what extent does it link in with the idea of the ‘ummah’ (global community of Muslims)?

Enquirer: DFID Middle East and North Africa Department

1. Overview

Since September 11, there has been a great deal of interest in informal systems of transferring money around the world. Much of this has focussed on the hawala system (a type of informal funds transfer system functioning outside the formal banking sector and prevalent in South Asia, the Middle East, and some parts of Africa); its alleged role in financing illegal and terrorist activities; and proposals to bring it into mainstream financial and regulatory structures.

There is, however, little in-depth analysis on the socio-economic or cultural dimensions of the hawala system, or of the extent to which it is used by poor people. However, it may be possible to draw some inferences about the latter from the information that is available. Most commentators agree, for example, that hawala has experienced a resurgence in recent years, mainly as a result of the significant rise in immigration from developing to developed countries since the 1970s. This has produced an increase in migrant worker remittances to their home countries. There is some evidence that while some remittances are sent for investment purposes, mostly they are sent to cover the basic needs of families at home. The Sharma (2006) study found that the majority of expatriate workers from the Punjab in India came from middle to lower income groups. Also, most commentators agree that one of the reasons for the enduring popularity of the hawala system is that it provides financial services to remote rural areas where formal banking arrangements do not exist. Some analysts have also highlighted that many hawala users are illiterate or lack formal education, and prefer the hawala system to the impersonal and intimidating environment of banks.

Most commentators also agree on the additional reasons that many expatriate workers opt for the hawala system and why the formal financial sector finds it hard to compete. These are that hawala systems are more expedient and speedy; they offer competitive exchange rates; they are convenient – hawala brokers often travel to remote locations to deliver funds in cash; and they are anonymous and don’t require any documentation. In addition, according to many observers, the formal financial infrastructure, in both developed and developing
countries, has proved both unable and unwilling to handle large numbers of small transactions simply and has failed to offer the efficient services needed by migrant workers, especially in rural areas.

This helpdesk report does not address the general characteristics of hawala systems in much detail, as this work has already been undertaken by the recent research report commissioned from the U4 Helpdesk. A number of the papers below, however, do focus on what is considered a particularly distinctive feature of the hawala system. This is that hawala transactions are underpinned by a deep sense of trust between participants, which is fostered through religious, national, ethnic, tribal, and linguistic links. Hawala brokers often work within a particular community to which they themselves also belong. As a result their customers are members of a wider network in which everyone is ultimately connected to everyone else. Therefore if anyone betrays the trust of the transaction, he or she is likely to be held accountable by the whole network, leaving the person unable to operate as a network member.

While some commentators identify some Islamic principles which formed the basis of the evolution of the hawala system, there is little evidence that the system is considered a global ‘Islamic’ institution. In fact, hawala systems mostly operate within very specific national, ethnic, and tribal communities, which can often be non-Muslim. However some literature does highlight that hawala systems seem to incorporate the Islamic prohibition against usury by not charging interest – hawaladhars take only a nominal commission fee instead.

In light of these factors, experts argue that any intervention to regulate hawala systems must understand the social, cultural, ethnic, and economic factors from the perspective of the people who use hawala system, as well as its potential for illegal usage.

Most analysts also agree that the extent to which hawala systems are used is difficult to quantify reliably and accurately given the informal nature of the transactions. However, they are widely considered to have a vast global reach, serving millions of people and channelling several billions of dollars every year, mainly to countries in Africa and South Asia. Most of the available estimates have already been detailed in the U4 Helpdesk’s research report.

This research report also briefly considers recent government and international efforts to understand the economic and regulatory implications of hawala systems and to design approaches for dealing with them. This stems from concerns expressed by many commentators about the social costs of the criminalisation of these systems. Some of the reports below highlight the closure, in the aftermath of September 11, of the US/Somali bank Al-Barakaat which the administration believed to be a major player in terrorist financing. Al-Barakaat offered hawala services to the Somali expatriate community in the US and the closure had far-reaching consequences as it interrupted the flow of vital funds to conflict-affected Somalia. For the average Somali migrant, such agencies are the only reliable means of sending money to their country.

2. Key Documents

Socio-cultural dimensions

http://envplan.com/epd/editorials/d310t.pdf

This paper argues that the negative stereotyping of hawala in press and policy discourses has implicitly constructed Western banking as the normal and legitimate space of international finance. The author argues however that hawala addresses the financial
exclusion of migrant workers. She documents the case of the closure of the Somali bank, Al-Barakaat, on suspicion of terrorism financing through its hawala services. The author highlights that: "It transpired that al-Barakaat was the only bank, the largest employer, and the only Internet provider in war-torn Somalia. The bank offered international money transfers to the Somali diaspora for example, to Somali families living in the USA sending money to relatives in refugee camps. The actions against al-Barakaat "made it harder for Somalis and other immigrants to send money to destitute family members in Africa", one journalist noted" (p. 521).

The author also argues that while there has been little research into exactly how remittances reach their destination, it is clear that hawala and other informal money transfer networks are indispensable to remittance flows, in particular to Africa and Asia. She cites an ILO study on Bangladesh which found that 40% of remittances take place through hundi (an informal funds transfer system, comparable to the hawala system). This is compared to 46% through official banking channels. The average cost of sending remittances through hawala is significantly lower than those of sending the money through Western banks or money-transfer companies such as Western Union. The author argues that there are further reasons for the popularity of hawala systems: "Migrant workers may be excluded from Western banking and 'legitimate' money-transfer institutions for a complexity of reasons, including a lack of required paperwork in order to open a bank account (most importantly in the case of illegal immigrants), lack of language skills, lack of a formal education and the skills required to understand and fill out banking documents, and a distrust or fear of banks and other unfamiliar financial institutions. In Western countries in general, and in the USA in particular, opening a bank account is a complicated process which requires a number of official documents. In the USA, customers have to pay a fee in order to maintain a bank account, and account holders can be penalised for having bank balances below minimum requirements. In fact, financial exclusion of migrants has been exacerbated in the USA as a result of the Patriot Act, which requires additional identification of foreign nationals wishing to open bank accounts...Finally, it is important to note that the services offered by Western banks for international money transfers are wholly inadequate: they are costly, time-consuming, and not designed for small individual transactions...Banks have not shown much interest in workers' remittances in the past...The rural areas in, for example, Afghanistan and Pakistan from which migrant workers originate are often not connected to Western banking networks. In the Muslim world, a professor at Georgetown University testified before (a) Senate hearing, "cash remains the preferred medium for settling transactions. Banking institutions are concentrated in urban centres and cater mainly to the needs of governments and elite segments of society" (p. 523).

El Qorchi, M., 2002, 'Hawala: How Does This Informal Funds Transfer System Work and Should It Be Regulated?', Finance & Development, Vol. 39, No. 4

This article argues that for the formal banking sector to compete with the informal remittance business, it would have to focus on improving the quality of its service and reducing fees and charges. This would need a longer-term and sustained effort to modernise and liberalise the formal financial sector, with a view to addressing its inefficiencies and weaknesses. So long as there are reasons for people to prefer such systems, they will continue to exist and even expand. This article argues that in addition to the economic considerations, the kinship, ethnic ties and personal relationship between the hawaladars and migrant workers make the system more convenient and easy to use. These relationships are important for several reasons, that include important gender dimensions: "The flexible hours and proximity of hawaladars are appreciated by expatriate communities. To accommodate their clients, hawaladars may instruct their counterparts to deliver funds to beneficiaries before expatriate workers make payments. Moreover cultural considerations encourage expatriate workers to remit funds through the hawala system, and such considerations also apply to family members in the home country. Many expatriate communities are exclusively male, because wives and other
family members remain in the home country, where family traditions prevail. These traditions may require family members, especially women, to maintain minimal contacts with the outside world. A trusted hawaladar, known in the village and aware of the social codes, would be an acceptable intermediary, protecting women from having direct dealings with banks and other agents. Thus, a system based on national, ethnic, and village solidarity depends more on absolute trust between the participants than on legal document.” (p.33).


This article is available for purchase from Sage Journals:
http://icj.sagepub.com/cgi/content/abstract/16/2/99

Based on primary and secondary research, this article presents a descriptive and exploratory analysis of informal money transfer systems such as hundi and hawala. It charts the re-emergence of hundi as a hawala-like system in South Asia and the Middle East. The author argues that hawala is a consequence of a number of factors, such as poor banking infrastructure, global migration, economic crimes, and political corruption. In a section entitled ‘Migration, Industrialisation and Urbanisation’, the author argues: “(I)n most of the Indian families, money is not a “personal entity”; rather a family uses it for its members depending on needs and availability. In the middle class, there is largely no notion of repaying either. There is an increasing concern among urbane Indians regarding the sustenance of family values in the face of a more individualistic culture that is reaching India through media and Indian migration and is a preferred way of life among youngsters. But for now, it is clear that even when Indians go abroad, they have been keen on maintaining their family ties, both for economic and emotional reasons. It is this sense of caretaker coupled with limited banking means that has made people find alternate ways of sending and receiving money” (p. 112-113). The author also notes of her fieldwork in India: “There has been a constant increase in the migration of Punjabis to the United Kingdom, the United States, Canada, and Australia. It was very common to find families in Punjab who have their relatives or family members living abroad. Most of them belong to middle income or lower income groups (p. 111).

Turning to government efforts to regulate hawala systems, she argues: “(I)t is impossible to understand and tackle the issue of Hawala in a vacuum. It is therefore equally pertinent to understand social, cultural, ethnic, and economic factors from the perspective of the people whose lives Hawala regulates as it is to identify the extent of criminal abuses of Hawala. This would in turn help us to understand people’s perception toward IVTS (informal value transfer systems) and develop sentencing guidelines. By understanding the larger context, their local legal and cultural compulsions, and by differentiating between legal, illegal, and criminal uses of IVTS, U.S. law enforcement agencies can collaborate with foreign agencies whose assistance is necessary for steps toward regulation. Governmental and nongovernmental agencies must develop ways to create awareness among people who use IVTS by highlighting the damage that it does to the economy as well as the larger harm that it causes through facilitating crimes like human trafficking, organ trade, drug trafficking, and terrorism. This could be done effectively by devising means to encourage these countries to have better banking infrastructures and by bringing transparency and accountability in overall governance. Finally, a thorough understanding of Hawala could easily be applied toward understanding attitudes, perceptions, and behaviours of immigrant and refugee groups in the United States (and elsewhere) that use other forms of IVTS” (p.118).

The trust factor

This report presents the principles of contemporary hawala transactions as well as the institutional framework within which they are organised. The most relevant background issues discussed include the historical origins of hawala banking systems; the contemporary role of hawala banking in South Asia, within the South Asian diaspora, and in global trading networks; and the foundations of the relationships of trust which are the key to the successful operation of networks. In a section entitled ‘Cultural context’, the author argues: “All hawala operations are conducted within a similarly-structured cultural context. The most specific sense in which this is so is with respect to the issue of trust, not least because unlimited trust in each other's bona fides is a fundamental prerequisite for the operation of the back-to-back exchange of debts between two spatially separated partners operating in tandem. Only then can both be confident that neither will betray the other by diverting the very substantial sums which each owes the other at any given point in time into their own pockets. It is for precisely this reason that Hawala operators are usually close kin – or at least have such a close and long-standing relationship that they treat each other as if they were kin. Likewise the circle of customers to which Hawala operators offer their services are normally drawn from a single community to which they themselves also belong. As such they and their customers are members of a wider network of quasi-kinship reciprocities in which everyone ultimately has connections with everyone else, with the result that if anyone acts in a way which betrays the trust which others in the network have in him or her, the whole network is likely to close ranks against the miscreant, leaving him or her unable to operate as a network member. Since this is a very powerful sanction, it is also an extremely effective source of security... Such networks of trust are crucial to the operation of all levels of the hawala system. Once one can take the existence of trust for granted, it becomes much more explicable as to why customers should walk straight in off the street and entrust large sums of money to a hawaladar whom they hardly know. Both the hawaladar and his customers are well aware that if the operator were ever to cheat his customers, he would not only find himself out of business, but he would also have the whole of his community down on his back” (p. 16).


This article argues that while hawala plays a key role in facilitating remittances, especially those of migrant workers and is an integral part of the international finance system, there is little understanding of its concept, mechanism and impact on global financial channels. This article aims to provide a historical background to its origin, and discusses why it has lasted over the last several hundred years. The paper also presents the operational features that make the system attractive for both legitimate and illegitimate uses and its advantages over the formal sector. The authors argue: “Hawala system is entirely based on ethnic and family solidarity and depends on absolute trust between the participants, so in order to encourage foreign exchange transfers through their system, hawala dealers may instruct their counterparts to deliver funds to beneficiaries before expatriate workers make payments... In his testimony before a US Senate panel, Rahim Bariek, a hawaladar agent, said that in Afghan culture the hawaladar is an honest person, with a good reputation and credit and without him people would never be able to send money to their families abroad. Because of language issues and lower social status, expatriate workers may experience difficulties with formal institutions... In many parts of the world, especially in the rural areas of the developing countries, informal networks are the only possible means of receiving money from within the country or abroad. There are places where conventional banking facilities do not exist, are terribly inefficient, slow or expensive (for instance, the lack of banking linkages between Australia or SUA and several African countries)” (p. 6).
Hawala and Islam

http://scholar.google.co.uk/scholar?hl=en&lr=&q=info:AQR53RukNMwJ:scholar.google.com/ &output=viewport

This article aims to explore ways in which the hawala system can be brought into a financial regulatory framework. It looks at proposed alternative remittance systems more economically favourable and argues that these fail to meet six major concerns facing hawala customers: the lack of anonymity; efficiency; reliability; inexpensiveness; accessibility; and religious concerns. On the last, the author argues: “The final problem, and perhaps the most difficult for any proposed alternative remittance system to address adequately, is its failure to contend with religious concerns. Islam mandates the use of hawalas; the Koran teaches (or its followers often believe) that the charging of interest runs counter to the teachings of the Koran. Zagaris explains that investment companies, like Al Taqwa, provide clients investment opportunities like a mutual fund, but abide by Islamic law doctrine forbidding “charging interest or owning anything connected with alcohol, weapons, gambling, or adultery.” Under sharia Islamic law, procedures exist to “provide for the regulation of commerce and financing.” These procedures, called thick al muwamalat, mean ‘transactions amongst the people’.” Religious leaders have articulated the proper procedures for transferring debt and the rules regarding hawala to ensure that transactions do not violate Islamic law. Because the Koran encourages Muslims to “build financial relationships based on trust rather than contract,” a “Western Unionized” hawala system necessarily would entangle the hawala customers in a larger, contract-based relationship, diluting the ability to build relationships on trust” (p. 487)

Any approach to combating the potential for abuse of the hawala system, the author argues, “should account for the inherent values of the system lauded by customers. Economic competitiveness alone is not the answer. From a culturally relative perspective, economics is a factor, but other factors exist in deciding how to transfer money. Governments will need to be creative and assess the means by which hawaladars conduct their business. No catchall solution will cure the problem of hawala abuse. Though generally following the same premise, each country and each network uses different mechanisms, and it is up to each government to regulate those mechanisms” (p. 496).

This article is available for purchase from Ingenta Connect:
http://www.ingentaconnect.com/content/klu/cris/2005/00000044/00000003/00009019

This article provides an overview of hawala banking, together with the historical and cultural milieu that gave rise to, and continues to foster it. It suggests that while Islam addresses the issue of debt transfer through the Islamic concept of hawala, the system is widely practiced through many parts of the world by both Muslim and non-Muslims alike. Therefore, to refer to the practice as wholly “Islamic” is erroneous. This study also demonstrates that the initiatives taken towards regulation and/or elimination of hawala are ill suited to deal with the operation of this particular system. This failure particularly reflects the lack of appreciation, on the part of authorities and policy-makers, for the broader social and cultural context in which hawala operates. Thus, any attempts at regulating hawala should ensue with great cultural and religious sensitivity. They should also address some of the larger issues that continue to uphold the system, such as the existence of inadequate economic infrastructure in such nations as Afghanistan and Somalia.
The article includes two relatively in-depth sections on hawala and Islam and the cultural dimensions of hawala banking. It argues that historically the system of hawala banking was not a new phenomenon that arose out of a particular religious institution. "The term 'hawala' itself, however, as a signifier of a particular pattern of remittances, is Islamic, in the sense that it materialized as a system harmonious with the tenets of Islam (for the most part), and with a body of Islamic law devoted to it [...] Much of the current literature that exists on hawala banking suggests that one of the primary Islamic affinities of this type of remittance service is its lack of interest charges. Indeed, hawala transactions, theoretically, do not charge interest, but rather a nominal commission fee – a notion that many believe evolved out of the Islamic doctrine of usury" (p. 281-282).

The author notes that recent attempts to regulate the hawala system have economically harmed, for example, the citizens of Somalia by the shutdown of remittance services (in this case the post-September 11 closure of Al-Barakaat bank in the US). The author argues that these attempts have also been met with "an unenthusiastic reaction from those social communities whose members rely upon and favour this particular method of banking. In their view, the West's immediate response in labelling hawala as an 'Islamic' method of banking, together with the West's resolve to abolish (or at least regulate) the centuries-old practice of hawala is simply an act of Western ignorance. Indeed, in the mind of some hawala customers, the battle to infiltrate and regulate the remittance organisations results from ignorance and fear of something exotic, mysterious, and unknown. In short, these customers see the Western response as an attack on something associated with Middle-Eastern and Islamic culture. This view is interesting because many parts of the globe (including the Arab sections of the Middle East, and various Asian nations) have an equivalent version of hawala banking that American authorities rarely address" (p. 278).

http://findarticles.com/p/articles/mi_m0IMR/is_1-2_78/ai_106558980/pg_6?tag=artBody;col1

This study aims to investigate whether it is possible to replace the culturally entrenched system of hawala with a modern economic system. The author argues that an understanding of the ideological underpinnings and operation of the hawala system in Afghanistan is crucial in determining the chances for success of current and long-term economic development programs in that country. The author argues: "Two factors have had a profound and lasting impact over the cultural linkages of the Hawallah network. The Islam of Prophet Mohammed clearly dictates the restraints and ethos that govern financial activities within Muslim societies. Moreover, the Qur'an identifies the tenets that should guide Muslims in conducting their financial affairs. Each factor has played a significant role in establishing the importance of personal trust between Muslims that governs their economic activities. Furthermore the belief that Allah controls wealth creates a burden of responsibility for those with greater fiscal resources to fulfil a social obligation to the poor, the ill, or the disadvantaged members of their society. This commitment manifests itself in the form of vital remittances by Muslim expatriates to their native state. Since fulfilling this duty is highly valued, expatriates enjoy a dignified status within Islamic communities. The Hawallah system thus provides Muslims a channel for satisfying their religious obligations and achieving higher social standing… As Islam spread across Asia, the Middle East, and Africa it included an indoctrination process of the Hawallah system into the economic lives of Islamic societies. Islam dictates the basic principles by which Muslims anywhere can sue the Hawallah system. Trust is established through a shared value system. Ethnic and linguistic linkages only serve to solidify the sense of community and trust between the parties involved in the Hawallah network" (p.22).

The author also argues: "Typically a Hawallah user is an expatriate worker who comes from the poorest parts of the Islamic world. Those workers often leave behind families who depend on their financial support. They need a fast, reliable, and cheap method of getting money..."
back to their home countries. The Hawallah system caters to such demands of its large clientele base. How else would an Afghan family living in a remote mountain village outside Mazar-e-Sharif receive $300 a cousin has sent it to buy food? Modern technologies and advanced communication infrastructures are not as common as one is led to believe” (p.23).

This article is available for purchase from Science Direct:
This article examines the evolution and the institutional foundation of the hawala system. It argues that it is a highly efficient, extremely robust institutional arrangement for overcoming the risks of opportunism among the transaction partners, who are assured enforcement of contracts without relying on any national law. Today, therefore, it is able to expand outside and independently of existing laws and regulations. Functioning with minimal record-keeping, it is instead based on the trust of the participating parties and its social and religious embeddedness within the Islamic community. The author argues that one of the ways in which participants manifest credible signals of trustworthiness is through ethical and religious identifying features. “A factor that has fuelled economic Islamization is that an Islamic subeconomy helps its participants cope with the prevailing adversities by fostering interpersonal trust. [...] Their shared commitment to Islam, even if partly feigned, keeps many of their activities within social circles in which information about dishonest behaviour spreads quickly, thus providing a basis for mutual trust” (p. 413)

The authors also examine the extent to which hawala adheres to Islamic law. They argue that “at least a number of the hawala financial networks are clubs that look to the Koran for their guiding principles and establish shari’a as the law for their members and execute it. Accordingly, these organizations take over governmental functions inasmuch as they administer justice in an area in which the formal juridical system is considered by definition to have no jurisdiction. The basic characteristic in such a club that makes possible the identification of members and the development of trust between them would thus be mutual recognition of shari’a or identification with common religious principles and values[...] Connected with this is the willingness to subject oneself to an automatic mechanism of sanctions with the threat of excessive punishment, whereby one’s credibility as a trustworthy business partner is convincingly signalled within the religious community. The mechanisms described above lead to a situation in which, in most cases, the increasing advantages of maintaining a long-term business relationship significantly outweigh any short-term profit that might result from an opportunistic breach of contract. Therefore, the network members behave in accordance with their contractual obligations” (p. 413).

Reform efforts

This paper highlights that after September 11, informal money transfer systems (IMTS) such as hawala have been suspected of being used for terrorist purposes, leading some to call for their prohibition. The authors argue that such a response is too drastic and instead propose
measures to make IMTS less prone to possible abuse by criminal elements and encourage the development of formal sector alternatives. The authors argue: “The recognition that macroeconomic and institutional deficiencies are the primary reasons for leakages from formal to informal channels shifts the emphasis to political and economic crises, to extensive government intervention, including through repressive financial policies, excessive taxation, currency and trade restrictions and banking systems that are not trusted by the population and also global market dominance by large service providers as illustrated by Western Union. As long as these problems exist, IMTS will continue to thrive in many developing countries and fill important gaps left by the conventional financial system at the national, regional and international levels” (p. 5).

This article is available for purchase from Wiley InterScience: http://www3.interscience.wiley.com/journal/118508664/abstract?CRETRY=1&SRETRY=0
Note: I have not been able to review this article. The summary below is adapted from the publisher’s abstract.

Policy making usually assumes that the best way to harness migrant remittances for development is by shifting them into the regulated money transfer sector. However, much research evidence concludes that alternative methods are often cheaper and more reliable, accessible and convenient. This article explores this tension between policy objectives and evidence. Based on a review of remittance mechanisms in seven sub-Saharan African countries, the authors question the validity of the distinction between ‘formal’ and ‘informal’ remittances. They conclude that the formalisation of remittance systems should not be approached as a regulatory task carried out from the top down, but as a bottom-up evolutionary and organic process that should be encouraged. The authors suggest that the current regulatory thrust in this area is likely to be counterproductive, since it risks undermining the many vibrant institutions emerging through the movement of migrants and their money, together with their potential to enhance much needed economic and social development.

This article is available for purchase from the National Criminal Justice Reference Service: http://www.ncjrs.gov/App/Publications/abstract.aspx?ID=237176

This article examines the UK’s anti-money laundering/counter-terrorist finance legislation (AML/CTF). It explores the claims that this legislation has increased financial exclusion, made it difficult for migrants to send remittances abroad, and damaged Islamic charities and civil society generally. The criticism that the AML/CTF has increased social exclusion refers to the fact that banking institutions are now required to obtain identifying information about banking clients. Critics have pointed out that people from poor communities often do not possess identification papers such as passports and driver’s licenses. The author argues, however, that financial institutions are also advised not to turn away potential customers who can offer alternative forms of identification, thus diminishing the possible negative effects of the AML/CTF with regard to financial exclusion. The criticism that the AML/CTF has made it difficult for individuals to send remittances abroad focuses on the contention that AML/CTF policies have effectively criminalised the informal money transfer networks that have historically operated as legitimate and inexpensive financial systems for migrants to send money home. The author notes however, that there are other means of sending remittances abroad available, and that there is little evidence that migrants have had to turn to more expensive corporate systems. The third and fourth criticisms levelled argue that CTF laws
have made it legally risky to donate to non-governmental organizations (NGOs) such as Islamic charities and that the AML/CTF may actually be part of a neo-liberal political agenda designed to promote neo-liberal globalisation at the expense of other interests. The author notes that there is no empirical evidence to support either argument.

Further Resources

Martin, M., 2008, 'Hundi/Hawala: The Problem of Definition', Modern Asian Studies, Published online by Cambridge University Press
http://journals.cambridge.org/action/displayAbstract?fromPage=online&aid=1908480
Note: I have not been able to review this article. The summary below is adapted from the publisher’s abstract.

Hundi is an informal funds transfer system, comparable to the hawala system, that is used mainly in South Asia. In this article the author argues that while hundi has acquired a notorious reputation recently, the critical problem with its criticism lies in definition. As there is an incomplete understanding of hundi’s form and remit, there is also a rather limited understanding of why the system persists, set against the backdrop of modern banking. In many ways the problem of definition presented legal and financial authorities of the early and late twentieth century with core issues which remain unresolved and problematic for authorities in the twenty-first century. By drawing on archival and other historical material pertaining to the system’s usage amongst Indian merchants, this paper attempts to tackle much of the confusion and many misconceptions surrounding hundi. The discussion explores the idea that hundi is more accurately described as an indigenous banking system endowed with a complex range of functions, but whose central purpose is trade.

3. Additional information

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Websites visited


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