

Informal Funds Transfer Systems

An Analysis of the Informal Hawala System

A JOINT IMF-WORLD BANK PAPER

**Mohammed El Qorchi, Samuel Munzele Maimbo,
and John F. Wilson**

INTERNATIONAL MONETARY FUND

Washington DC

2003

© 2003 International Monetary Fund

Production: IMF Multimedia Services Division
Typesetting: Julio R. Prego
Figures: Martina Vortmeyer

Cataloging-in-Publication Data

El Qorchi, Mohammed.

Informal funds transfer systems: an analysis of the Hawala system /
Mohammed El Qorchi, Samuel Munzele Maimbo, and John F. Wilson —
Washington, D.C.: International Monetary Fund, 2003.

p. cm. — (Occasional paper, ISSN 0251-6365; 222)
A Joint IMF-World Bank paper.

Includes bibliographical references.
ISBN 1-58906-226-4

1. Hawala system. I. Maimbo, Samuel Munzele. II. Wilson, John F.
III. International Monetary Fund. IV. World Bank. V. Occasional paper
(International Monetary Fund); no. 222
HG177.7.E46 2003

Price: US\$25.00
(US\$22.00 to full-time faculty members and
students at universities and colleges)

Please send orders to:
International Monetary Fund, Publication Services
700 19th Street, N.W., Washington, D.C. 20431, U.S.A.
Tel.: (202) 623-7430 Telefax: (202) 623-7201
E-mail: publications@imf.org
Internet: <http://www.imf.org>



recycled paper

Contents

Foreword	vii
Preface	ix
I Overview	1
Background, Definitions, and Recommendations	1
Implications for Work of the World Bank and the IMF	3
II Introduction	4
III Features of the Informal Hawala System	6
Definitions and Conceptual Framework	6
Operational Characteristics	7
IV Origin and Modern Uses of IFT Systems	10
Historical Perspective	10
Legitimate Uses	12
Illegitimate Uses	12
V Economic Analysis of Informal Hawala Transactions	14
Settlement Procedures	14
Balance of Payments	17
Macroeconomic Implications	18
Quantitative Dimensions	20
VI Legal and Regulatory Aspects of the Informal Hawala System	22
Hawala-Recipient Countries	22
Hawala-Remitting Countries	23
VII Conclusions	26
Appendixes	
I Types of Settlement for Hawala Intermediaries' Remittances	29
II Formulation and Simulation of the Quantification Model	33
III Regulatory Frameworks for Money Exchange and Remittance Business	41
IV Examples	47

Bibliography	49
Boxes	
4.1. Hundi in India	11
4.2. Terrorism Financed by Informal Hawala: A Hypothetical Example	13
Appendix Boxes	
A1.1. Informal Hawala: Levels of Financial Consolidation	32
A4.1. U.A.E. Money Transfer Form for Money Changers	47
A4.2. Registration Requirements for Money Service Operators in the United Kingdom	48
Text Tables	
3.1. Prototype Informal Hawala Remittance Transaction	8
5.1. Types of International Funds Transfer Systems	15
Appendix Tables	
A1.1. Settlement via Reverse Hawala Transaction from Country B to Country A	29
A1.2. Bilateral Financial Settlement Through Bank in Country A	30
A1.3. Bilateral Settlement via Exports to Country B	30
A1.4. Clearing by Means of International Services for HB Paid for by HA	31
A1.5. Clearing by Means of Nonbank Capital Flows	31
A2.1. Parameter Values Used in Informal Hawala Estimates	34
A2.2. Summary of Estimated Private Remittances, 1981–2000	35
A2.3. Recorded Private Current Transfers	36
A2.4. Black Market Exchange Rate Premiums	37
A2.5. Simulated Shares of Informal Hawala in Total Private Transfers	38
A3.1. Pakistan	41
A3.2. United Arab Emirates	44
Text Figures	
3.1. Prototype Informal Hawala Transaction	7
5.1. Balance of Payments Entries in Remitting and Recipient Countries	17
Appendix Figures	
A2.1. Estimation Function for Hawala Share in Total Private Remittances	35
A2.2. Recorded Private Transfers	39
A2.3. Estimated Hawala Share in Total Private Remittances	39
A2.4. Estimated Value of Hawala Transfers	40

The following symbols have been used throughout this paper:

- . . . to indicate that data are not available;
- to indicate that the figure is zero or less than half the final digit shown, or that the item does not exist;
- between years or months (e.g., 2000–01 or January–June) to indicate the years or months covered, including the beginning and ending years or months;
- / between years (e.g., 2000/01) to indicate a fiscal (financial) year.

“Billion” means a thousand million.

Minor discrepancies between constituent figures and totals are due to rounding.

The term “country,” as used in this paper, does not in all cases refer to a territorial entity that is a state as understood by international law and practice; the term also covers some territorial entities that are not states, but for which statistical data are maintained and provided internationally on a separate and independent basis.

Preface

This paper was prepared by an International Monetary Fund–World Bank staff team comprising Mohammed El Qorchi (IMF, Monetary and Financial Systems Department, head of the team), Samuel Munzele Maimbo (World Bank), and John F. Wilson (IMF, Middle Eastern Department). The research team members visited Germany (Bonn), Pakistan (Karachi), the Philippines (Manila), Saudi Arabia (Riyadh), the United Arab Emirates (Abu Dhabi and Dubai), and the United Kingdom (London). On return, team members continued their discussions with the relevant parties. Later, some team members visited Afghanistan (Kabul, Herat, and Jalalabad) and participated in international conferences on informal remittance systems in Abu Dhabi (May 2002), Oaxaca (September 2002), and London (January 2003), among others.

The authors note that the paper benefited from the review and comments of many colleagues, including Stefan Ingves, V. Sundararajan, Barry Johnston, Tomás Baliño, Patricia Brenner, Zubair Iqbal, Peter Stella (all IMF); Cesare Calari, Marilou Uy, Margery Waxman, Joseph Del Mar Pernia, Simon Bell, Ismail Radwan (all World Bank); and Professor Nikos Passas. The authors also wish to thank Eduardo Aninat, Jeffrey Goldstein, Executive Directors, and staff of several IMF and World Bank departments for their insightful comments and suggestions. The authors are indebted to Steven Kennedy, Natalie Baumer, Oriana Bolvaran, Margarita Aguilar, Mary Wilson, Tsegereda Mulatu, Sarah Guymont, and Baerbel Bernhardt for their assistance and to Archana Kumar of IMF's External Relations Department for editing the Occasional Paper and coordinating its production.