

Trust and Control in the Informal Money Transfer Systems

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Trust in the Informal Economic Exchanges

Coordination and enforcement problems are mainly solved through the use of social norms, like reputation, trust, reciprocity, solidarity and cooperation

Trust is believed to play a pivotal role in the practices of informal credit and savings associations and microcredit communities



Trust and the Hawala Dealings

- Trust is considered important in yet another kind of the informal monetary transactions linked to the practice of international value transfer
- 'Hawala' denotes a system of cross-border financial operations, which acts in parallel with the official channels of transmitting money via bank offices and wire transfer services
- It will be shown, however, that securing financial commitments within the hawala system is achieved through employing the instruments of social control rather than norms of trust

The Hawala Financial System



Often associated with Muslim communities, but should not be regarded as a specifically Islamic practice

Has become popular with the migrant workers of Indian, East Asian and African origin, who send remittances back to their relatives

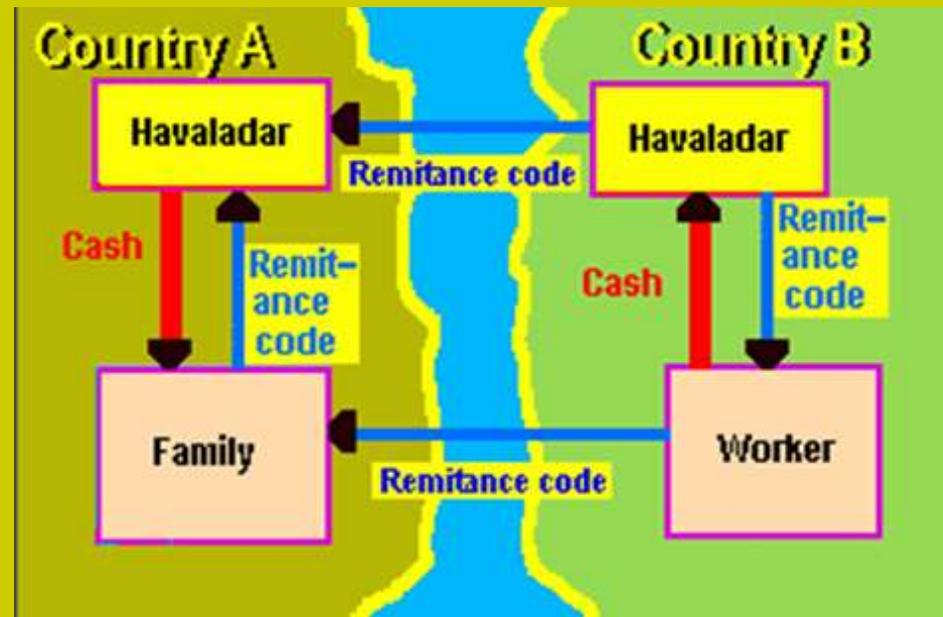
The Hawala System: How It Works

- A sender approaches a local intermediary, called hawaladar, passes him an amount of money to be delivered abroad, along with a small commission fee, and tells him where this payment has to be received
- The hawaladar takes the money, gives the sender a code word and informs his counterpart in the other country (via mobile or on the Internet) about the code and the amount of money to be paid out to the final customer

The Hawala System: How It Works

The sender reports the code message to the receiver, who passes the code on to the second hawaladar and obtains money at another location

All notes related to this value transfer, if they existed at all, are destroyed, leaving no traces of the financial transaction occurred



Main Advantages of the Hawala Value Transfer Systems (I)

Low commission fees and favorable conversion rates due to intermediaries' low overhead

Hawala acts fast, reaching recipients in major cities within several hours

Higher reliability in delivering funds: no technical errors and suspicious 'money losses'



Main Advantages of the Hawala Value Transfer Systems (II)



Hawala maintains flexibility and stays attuned to its customers' needs: on-site payments and cash advances

Lack of bureaucratic formalities and ease of identity verification procedures

Cultural affinity among the participants

Forms of Control in the Hawala Informal Financial System (I)

Purely rational considerations of economic profitability

The need to create and sustain favorable reputation among the financial intermediaries

Powerful community norms embedded in common beliefs, cultural values and social practices



Forms of Control in the Hawala Informal Financial System (II)



Tradition and loyalty to certain individuals and groups

Threat of expulsion from the community and severing all important economic and social relations

Essentially, in the hawala transactions trust is crowded out by the more effective instruments of social control

Substituting Control for Trust in the Hawala Operations



Social control protects the hawala members' interests more dependably than relations of trust. Replacement of trust with control reaches a point where participants do not even necessitate trust to perform their deals