

ESTIMATING THE ECONOMIC MODEL OF HUNDI (AN INFORMAL REMITTANCE CHANNEL) USING MICRO-LEVEL DATA

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Abstract

Following Friedman et. al. (2000), we have developed an economic model of hundi (an informal money transfer system) behavior and is designated to identify the factors that determine the channels (formal or informal) used by remitters. The model is empirically tested using Tobit analysis for a sample of 132 returned migrants of greater Sylhet region in Bangladesh with work experience in 11 different host countries. Our findings suggest that sending remittances through hundi first increases with age, peaks at one point and then declines thereafter. It is observed that single or unmarried migrants are more likely to remit through hundi while relatively educated migrants have the opposite preferences. Cost and financing of migration have significant impact on individual's decision to choose the remitting channel. It is also found that the nature of the migration and type of job abroad affect individual's decision to use the remitting channel. Furthermore, migrants' who have no ability to speak the language of the country of destination are generally more inclined to remit through informal channel. Finally, migrants', who receive low commission to remit, have families or relatives living in remote areas and mainly dependent on remittances, have the opportunity to remit in holidays are more likely to remit through hundi than their counter parts.

Field Of Research: Economics

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