

CENTRAL BANK OF THE RUSSIAN FEDERATION

**CROSS BORDER REMITTANCES:
RUSSIAN EXPERIENCE**

MOSCOW 2005

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1. Introduction

The wide-ranging liberalisation of foreign economic activities and the uneven development of countries are the major factors stimulating global migration.

The movement of labour from the relatively backward to economically advanced regions ultimately is the consequence of this unevenness and the resulting vector of the migrant movement is directed towards the advanced countries with the necessary production infrastructure. As for the cross-border remittances connected with migrant production activity they are directed contrariwise.

According to the IMF¹, remittances to the developing countries are now estimated at \$100 billion a year and for many countries they exceed export earnings, foreign direct investments and other private capital flows. To put it differently, remittances have a great role to play in economic development in some cases, contributing to consumption growth, better living standards and the solution of social problems.

The world's largest remittees are India, Mexico, the Philippines, Egypt and Turkey, while the world's largest remitters are the United States, Saudi Arabia, Switzerland, Germany and France.

It is clear that for all their usefulness, the international money transfer systems, let alone their informal segment, just as other financial intermediation structures, can be used in money laundering and terrorist financing and for other criminal purposes. Therefore, these systems should be subjected to the same statistical monitoring and prudential supervision as credit institutions.

At the same time it is important for the international community to reach a common understanding of a remittance, work out its common definition and not only arrange the compiling of comparable statistics, but also adopt common approaches to monitoring and supervision.

¹ World Economic Outlook, April 2005, Chapter II

The term “remittances” is used in this report in its World Bank definition². It comprises the following three balance of payments components:

- workers’ remittances;
- compensation of employees;
- migrants’ transfers.

In the strict sense, in this configuration the indicator does not reflect the *actual* amount of remittances, because it includes, for example, the entire salary or wage paid to short-term workers, without excluding from it local taxes and locally consumed goods and services. Therefore, we believe that the outcome of the methodological research, which is being currently conducted by the World Bank, should be the elaboration of a more accurate and economically sound definition of international remittances.

2. Methodology of compiling statistics on personal remittances in Russia

According to the World Bank definition, the remittances indicator in Russia comprises three elements.

Workers’ remittances take into account the remittances of working migrants staying outside their home country for more than a year. They are calculated on the basis of data provided by Russian remittances market participants and special bank reporting form introduced in April 2004, which makes it possible to compile data on remittances of individuals made from and to Russia.

Compensation of employees includes the imputed wage and other payments to seasonal, casual and cross-border workers staying in the host country for less than a year. This indicator is calculated on the basis of the data on the number of residents temporarily employed abroad and the number of non-residents officially working in Russia provided by the Ministry of Internal Affairs of Russia. In addition, it takes into account experts’ estimates of non-residents employed in the informal economy.

² Chapter 7. “Workers’ Remittances. An Important and Stable Source of External Development Finance”; Global Development Finance, 2003.

Migrants' transfers are an estimated money equivalent of the value of migrant property and financial assets moved to another country. They are calculated as the standard value per migrant multiplied by the number of migrants moving in or leaving the country for permanent residence.

3. The Russian cross-border personal remittances market

The overwhelming majority of cross-border personal remittances *registered* in Russia are made through international and Russian money transfer *systems*.

The leading international operators were among the first to come to the Russian remittances market. They introduced approved technologies, reliable and fast data transmission systems. In addition, an extensive network of service centres throughout the world allowed them to gain control over a large part of the Russian market very quickly.

Most of the Russian money transfer systems were established in the two or three past years, that is, in 2002-2005. Almost all the Russian market operators emerged on the basis of credit institutions, which became their settlement centres. An essential precondition for the establishment of the money transfer system was the existence of a large number of bank branches all over Russia and an ample quantity of correspondent accounts with non-resident banks and non-resident bank accounts with Russian banks. The broad network of bank branches and offices provided the basis for the largest Russian money transfer systems.

Remittances between Russia and the Commonwealth of Independent States (CIS) are the most rapidly growing segment of the remittances market today. The significant inflow of legal and illegal migrants to Russia from Ukraine, Tajikistan and Moldova stimulates its expansion.

Fifteen money transfer systems are currently operating in Russia: Anelik, Contact, Inter Express, Migom, MoneyGram, PrivatMoney, Ria Envia, STB-Express, Travelex Worldwide Money Ltd, UNISream, VIP Money Transfer, Western Union, Bistraya Pochta, Guta Sprint, Zolotaya Korona.

In addition to the systems mentioned above, personal remittances are made by credit institutions which have the Bank of Russia licence permitting to conduct foreign exchange operations. As of April 1, 2005, there were more than 1,000 such credit institutions in Russia.

The procedure of the transfer via system resembles the bank transfer, but the latter is slower and has smaller geographic coverage.

Obviously the situation may change in the long run as the banking sector is interested in rendering personal remittance services not only to diversify its business, but also to reduce risk as such remittances involve minimum risk (the client pays on the spot for the delivery of money to the point of destination).

All system transfers and bank transfers are quite transparent. Information about most of the systems and their rates, delivery terms, service centres and performance is published in media on a regular basis.

Another official channel for the money transfers is postal remittances. According to the law of Russia, they are conducted by the state unitary enterprise Pochta Rossii (the Russian Postal Service). The advantages of this kind of transfer are the following: a great number of post offices makes it accessible in regions where there are no banks and the post service is extremely popular with and trusted by the public, because for a long time it remained the only means of transferring money in the Soviet Union.

Historically, *unofficial* remittances from Russia have been the principal means used by working migrants to transfer money to their families abroad. According to Bank of Russia estimates in 2004 seasonal and other short-term workers staying in the country for less than a year exported from Russia \$1.177 billion in freely convertible currency (of which, \$783 million exported by CIS workers and \$394 million by workers from non-CIS countries). In addition, in the same period, emigrants exported from Russia \$225 million (of which, \$116 million exported by CIS countries and \$109 million by non-CIS countries).

Most of the unofficial remittances are made in the following ways:

- foreign currency cash is exported/imported either by migrants or by their trustees (e.g., wages of several migrants are imported to the country by one migrant who is returning home);
- foreign currency is transferred through transport workers, such as bus drivers or conductor.

Unofficial remittances from Russia are practised most frequently by ethnic groups from the Caucasus, Central Asia and Ukraine. They usually specialise in petty retail trade, home repairs and construction, some work that requires no special skills (e.g., street cleaning and loading) and

small-scale consumer goods production. Passing money through relatives and acquaintances is the most common practice among the ethnic groups.

The reasons for using unofficial remittances by working migrants are the following:

- the absence of the documents essential for official remittances (most of the migrants are staying in the country illegally);
- discredit upon banking services due to ignorance of banking procedures;
- difficulty in dealing with bank operators due to the poor knowledge of Russian and low literacy level of migrants.

Besides, the commission taken by the most wide spread and well known systems is very high (in contrast to Russian systems that are at the initial stage of development) what also induces unofficial remittances.

4. Legislative and regulatory framework of cross-border personal remittances

The activity of the official money transfer systems is regulated by Russian legislation, in particular by the Federal Law on Foreign Exchange Regulation and Foreign Exchange Control.

Bank transfers are supervised by the Bank of Russia, while non-credit institutions are supervised by the federal government bodies within the ambit of their powers.

In order to detect and to control cash flows that may be connected with money laundering and terrorist financing the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism was passed. This Law stipulates that the organisations conducting operations with money and other property, including credit institutions and postal services, should implement measures to prevent the use of remittances for criminal purposes.

Operations with cash to the amount of 600,000 rubles³ (or its equivalent in foreign currency) or higher are subject to mandatory control by these organisations.

The operations subject to mandatory control are the following:

- the purchase and sale of foreign currency cash by private individuals;
- entering or transferring funds to an account;
- the transfer of funds abroad to an account (deposit) opened for an anonymous holder and the receipt of funds from foreign account opened for an anonymous holder.

³ At present, about \$21,000.

Information on operations subject to mandatory control is passed directly to a special government agency (Financial Monitoring Committee).

The aforementioned Law requires organisations:

- to identify the person it provides services to: full name, citizenship and ID particulars;
- to present to the authorised agency information on operations subject to mandatory control;
- to elaborate internal control rules and draw up programmes for implementing them;
- to appoint special executives responsible for the observance of the internal organisational rules and procedures directed against money laundering and terrorist financing.

Private individuals may make remittances through credit institutions with or without opening an account.

Russian legislation has set a limit on the sum which a resident individual can transfer from Russia without opening a bank account during one business day through one credit institution. The policy of liberalising foreign exchange operations has led to the raising of this limit: at present, a private individual may transfer from Russia up to \$5,000 in foreign currency or in rubles (previously the limit was \$2,000). Remittances may be paid or accepted in rubles and foreign currency, the bank being entitled to set or change the exchange rate. Generally the rate is close to or equals the official exchange rate set by the Bank of Russia.

When a remittance is made without opening an account, the credit institution should identify the remitter and the remittee. The following documents are accepted as identification:

- Russian internal or foreign travel passport;
- a foreign citizen's passport;
- a residence permit;
- a temporary residence permit;
- a refugee's identification.

Most of the resident personal remittances are made without any restrictions, but the Russian Government or Bank of Russia requires the use of a special account and/or reservation when the following operations are conducted:

- the acquisition of shares or stakes in property;
- the extension or receipt of loans;
- the purchase or sale of securities.

The format and the procedure of filling in and registering the settlement documents and the rules on settlement operations on correspondent accounts (sub-accounts) with credit institutions or their branches are established by Bank of Russia.

A settlement document is a payer's written or electronic order, containing details making it possible to identify an operation, such as: the kind of payment, the name of the payer (payee), his account number (for operations conducted by opening an account) and taxpayer's identification number (INN), the name and address of the payer (payee) bank, its bank identification code (BIC) and the purpose and amount of the payment.

Resident individuals may open without any restrictions accounts (deposit accounts) in foreign currency in banks domiciled in the member countries of the Organisation for Economic Co-operation and Development (OECD) or the Financial Action Task Force (FATF). A Russian resident is required to notify the tax authorities about opening an account abroad and report the balances of this account annually. There are no restrictions on any transfers to foreign accounts or payments from these accounts.

Russian legislation contains a separate clause establishing the procedure for non-resident cross-border operations. Non-residents may also make remittances with or without opening an account. Non-resident individuals may open bank accounts (bank deposits) with Russian banks in foreign currency and in rubles and transfer funds from their accounts in Russia to their accounts abroad without any restrictions.

Remittances received by private individuals are tax-free. Resident and non-resident individuals may take out of Russia without any restrictions up to \$3,000 in foreign currency. A person taking out of Russia an amount larger than \$3,000 but smaller than or equal to \$10,000 in foreign currency must fill in a customs declaration. Should a person take out more than \$10,000, he must present a document to confirm that this money was earlier brought in, sent or remitted to Russia.

Residents and non-residents can bring in foreign currency cash to Russia without any restrictions.

5. The role of cross-border personal remittances in the Russian economy

Statistics on remittances from foreign countries to resident individuals and remittances from resident individuals to non-residents show that this phenomenon is not important for the Russian economy, although its dynamics give reason to believe that in the future remittances may assume

considerable proportions. This particularly applies to remittances to CIS residents, because for the CIS countries remittances are a significant factor of economic growth and social development.

It is known that personal remittances depend on the migration activity of the population. Since the break-up of the Soviet Union and the establishment of the Russian Federation until 2004, Russia's population increased by 7.6 million people owing to the officially registered migrants, who make up 5.3% of the country's population.

The number of migrant workers have grown rapidly and in the past four years the number of non-residents employed in Russia has doubled.

On the other hand, 4.0 million people, or 2.8% of Russia's population, emigrated over the same period (see Chart 1).

As a result, the Russian remittances market has expanded at a steady pace in recent years. Its turnover (the total amount of remittances from and to Russia) grew to \$8.2 billion in 2004 as against \$4.7 billion in 2003 (see Table 1). Receipts stood at \$2.7 billion, or less than 0.5% of GDP, while payments amounted to \$5.5 billion, or nearly 1% of GDP.

Remittances from Russia increased by 71% in 2004. These dynamics are due not only to growth in the number of migrant workers in Russia, but also a shift from unofficial to official channels as a result of the expansion and improvement of the money transfer systems.

The figures cited above show that the persisting conviction that Russia is a net remittee is not true. On the one hand, the vast amounts of money brought to this country from non-CIS countries (in 2004, they accounted for 77% of the transfers received) put Russia on the 19th place in the list of recipient countries (see Table 2). The major remitters to Russia are the United States, Germany and Italy (see Chart 2). On the other hand, the remittances from Russia exceed the incoming transfers. The negative balance of remittances has increased over the past four years, testifying to the important role played by Russia in providing employment to countries with a lower level of development and smaller economic potential. According to Bank of Russia estimates, in 2003, Russia was among the top 10 remitter countries, thus reallocating a part of its GDP in favour of the rest of the world. Taking into consideration the tendency of the past five years, one can surmise that in 2004 Russia will be one of the world's top five remitter countries.

Russia is a net remitter mainly in respect to the CIS countries. Its negative balance with these countries, which accounted for 64% of the total value of remittances from Russia, stood at \$2.9 billion in 2004. According to data provided by money transfer systems and the Russian Postal Service, most of the remittances from Russia went to Ukraine, Uzbekistan, Tajikistan, Armenia, Azerbaijan, Georgia and Moldova.

As for incoming flows, wage accounted for the largest part of them, as Russia is a country exporting skilled labour to the industrialised nations.

6. Characteristics of cross-border remittances conducted through money transfer systems and the Russian Postal Service

The principal sources of statistics on cross-border remittances are special bank reporting forms, reports by individual money transfer systems and a report on postal remittances. Data on the number and the value of remittances is provided quarterly on the gross basis by group of countries (CIS and non-CIS), currency and operation code (settlements and resident personal remittances).

The main component of the balance of payments indicator “workers’ remittances” is cross-border remittances (see Table 3), conducted through money transfer systems and the Russian Postal Service. In 2004, they accounted for 77% of remittances from Russia and 71% to Russia. The remainder is represented by the bank transfers made without opening an account.

The average value of a remittance made through money transfer systems from Russia was \$407 in 2004 (\$837 to non-CIS countries and \$391 to CIS countries) and the average remittance to Russia stood at \$389 (\$481 from non-CIS countries and \$279 from CIS countries). (See Table 4).

The principal objectives of remitting money from Russia are:

- supporting the migrant’s family living abroad;
- covering the current expenses of students studying at foreign educational establishments;
- covering the expense of medical treatment.

The main purposes of making remittances to Russia are:

- covering the current expenses of students studying at Russian educational establishments;
- transfers to relatives living in Russia;
- supporting the migrant’s family living in Russia.

7. Remittance market trends

The facts and the figures cited above show that a well-developed remittance market, represented by Russian and international systems conducting cross-border operations, is evolving in Russia. The amount of funds they remit grows each year and there is reason to believe that this trend will continue because so far few people use these services in Russia compared to other countries. In other words, we shall see the

continuing contraction of the unofficial money transfer market and the flow of clients from that market to the official systems.

Market participants also play a part in this process: more and more often they hold meetings and conferences to share experience and discuss the latest tendencies on the remittance market in Russia. In November 2004, they organised the first open international interbank conference “Money Transfers,” which became a major event for this sector of the Russian economy.

To attract customers, the money transfer systems will:

- reduce fees;
- reach out to customers in uncovered regions;
- accelerate data transmission and increase security.

The size of a *fee* is the most important factor for clients deciding what money transfer system to use (see Chart 3). At present, the fee charged makes up 4-5% of the amount of the transfer and the larger the amount transferred, the smaller the fee. The last three years saw the reduction of the entire transfer price range (see Table 4). This trend is largely the result of the pricing policy pursued by new Russian systems, which offer their customers services at lower prices than their foreign competitors. At the same time, market participants say that from now on prices will decrease far more slowly as virtually all systems have exhausted their possibilities for price reduction and almost reached the prime cost level.

It appears that one of the most effective means of *extensive growth* of money transfer systems will be using on a wider scale the practice of concluding agent agreements with credit institutions that have a ramified network of branches and offices. The expansion of the branch network of the bank that serves as the settlement centre for a money transfer system will also help attract more clients.

The unification of the agent networks of several operators may prove an effective means of expanding a system’s share of the market. It will also facilitate geographic expansion and make money transfer services more accessible. In the future we may see a single network of service centres covering the entire territory of Russia and the CIS.

The introduction of advanced information technology will help reduce the *data processing* and transmission speed and the time it takes to make and receive a remittance. This is particularly important for postal remittances, which have always been the slowest means of delivery. In addition, the use of advanced software will make data transmission far more secure and protected against fraud.

Speaking of the latest trends of the remittance market in Russia, mention should be made of the expansion of the range of services, especially those provided free of charge. Now a client can not only transfer money, but also pay his cell phone, satellite TV and Internet fees and pay money into his bank account.

Table 1

Personal remittances from and to Russia in 1999-2004

million US dollars

	1999	2000	2001	2002	2003	2004
Remittances to Russia	1290	1275	1403	1360	1453	2669
from non-CIS countries	454	523	960	914	1083	2053
from CIS countries	836	752	443	446	370	616
Compensation of employees received	425	500	624	704	814	1206
from non-CIS countries	425	500	624	704	814	1202
from CIS countries	0	0	0	0	0	4
Workers' remittances	...	...	362	232	300	1099
from non-CIS countries	...	...	318	157	207	781
from CIS countries	...	...	44	75	93	318
Migrants' transfers	865	775	417	424	339	364
from non-CIS countries	29	23	18	53	62	70
from CIS countries	836	752	399	371	277	294
Remittances from Russia	1408	1099	1822	2226	3233	5534
to non-CIS countries	835	654	987	1176	1570	2002
to CIS countries	573	445	836	1050	1664	3532
Compensation of employees paid	204	232	493	507	958	1810
to non-CIS countries	68	84	164	180	345	612
to CIS countries	136	148	329	327	613	1198
Workers' remittances	...	...	421	788	1306	2672
to non-CIS countries	...	...	175	303	501	569
to CIS countries	...	...	246	485	805	2103
Migrants' transfers	1204	867	908	931	969	1052
to non-CIS countries	767	570	648	693	724	821
to CIS countries	437	297	261	238	246	231
<i>For the record:</i>						
<i>Balance</i>						
Remittances	-118	176	-419	-866	-1780	-2865
non-CIS countries	-381	-131	-27	-262	-487	51
CIS countries	263	307	-393	-604	-1294	-2916
Direct investment flows						
Direct investment in Russia	3309	2714	2748	3461	7958	11672
from non-CIS countries	3304	2708	2746	3657	7913	11637
from CIS countries	6	6	3	-196	46	36
Direct investment from Russia	2208	3177	2533	3533	9727	9601
to non-CIS countries	1690	2898	2035	3259	9033	8655
to CIS countries	518	278	498	274	694	945

Top 20 remittance countries in 2003
(based on data from the World Bank's 2004 remittance survey)

billion US dollars

	Compensation of employees	Workers' remittances	Migrants' transfers	Total
Mexico	1,3	13,3	0	14,6
India	0,1	8,1	0	8,2
Philippines	7,6	0,2	0	7,9
China	1,3	3,3	0	4,6
Pakistan	0	4,0	0	4,0
Morocco	0	3,6	0	3,6
Bangladesh	0	3,2	0	3,2
Colombia	0	3,1	0	3,1
Egypt	0	3,0	0	3,0
Brazil	0,3	2,0	0,5	2,8
Dominican Rep.	0,3	2,1	0	2,3
Poland	0,4	2,0	0	2,3
Jordan	0,2	2,0	0	2,2
Guatemala	0	2,1	0	2,1
El Salvador	0	2,1	0	2,1
Thailand	1,6	0	0	1,6
Ecuador	0	1,5	0	1,5
Indonesia	0	1,5	0	1,5
Russia	0,8	0,3	0,3	1,5
Sri Lanka	0	1,4	0	1,4

Top 10 remitter countries in 2003
(based on IMF 2004 Balance of Payments Statistics Yearbook)

billion US dollars

	Compensation of employees	Workers' remittances	Migrants' transfers	Total
USA	8,5	25,5	...	34,1
Saudi Arabia	...	14,9	...	14,9
Switzerland	9,2	2,7	...	11,9
Germany	5,8	3,8	0,3	9,9
France	1,7	3,0	0,0	4,7
Luxembourg	4,6	...	0,0	4,6
Italy	3,0	1,3	0,1	4,4
Spain	0,5	3,3	0,3	4,0
Malaysia	0,8	2,6	0,0	3,5
Russia	1,0	1,3	1,0	3,2

Table 3

**Remittances of individuals from and to Russia via money transfer systems and the Russian Postal Service
in 2004 (million US dollars)**

Remittance direction	Q1	Q2	Q3	Q4	2004	Remittance characteristics		<i>For the record: 2003</i>
						Average value, \$	% share of US dollar remittances	
Remittances from Russia	320	435	612	683	2 050	407	98	1 306
to non-CIS countries	...	35	46	54	...	837	100	...
to CIS countries	...	399	566	629	...	391	98	...
Remittances to Russia	162	183	201	230	777	389	98	588
from non-CIS countries	...	129	138	154	...	481	100	...
from CIS countries	...	54	63	77	...	279	94	...
Balance	-158	-252	-410	-453	-1 273	X	X	-719
non-CIS countries	...	94	92	100	...	X	X	...
CIS countries	...	-345	-503	-552	...	X	X	...

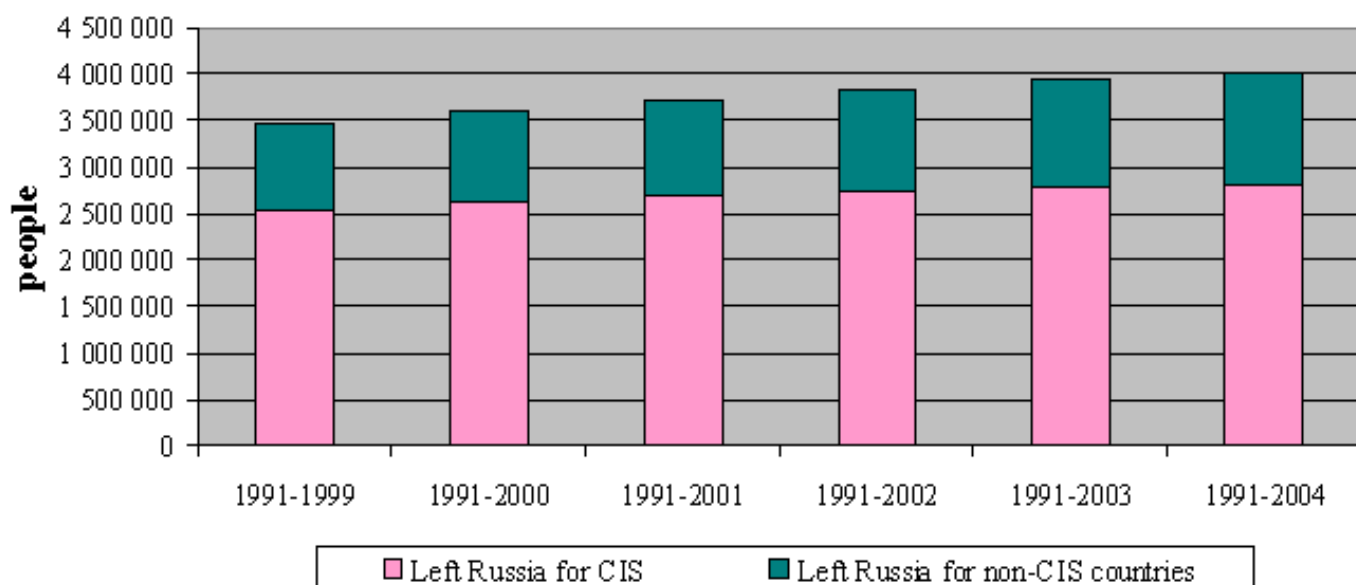
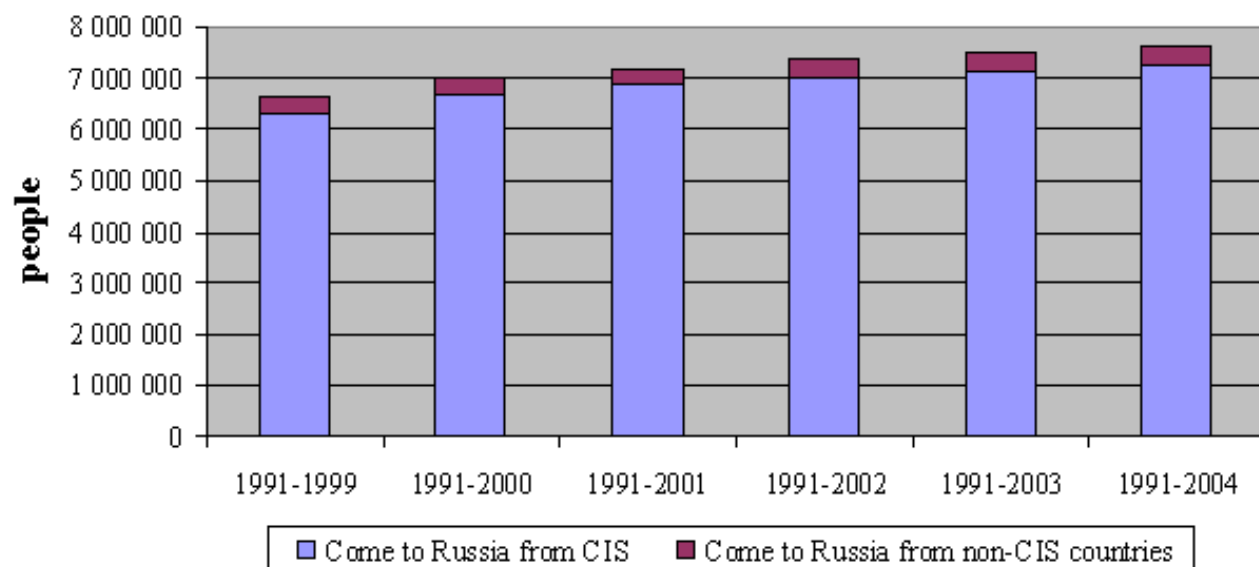
Note: Remittance characteristics are calculated for April-December 2004

Table 4

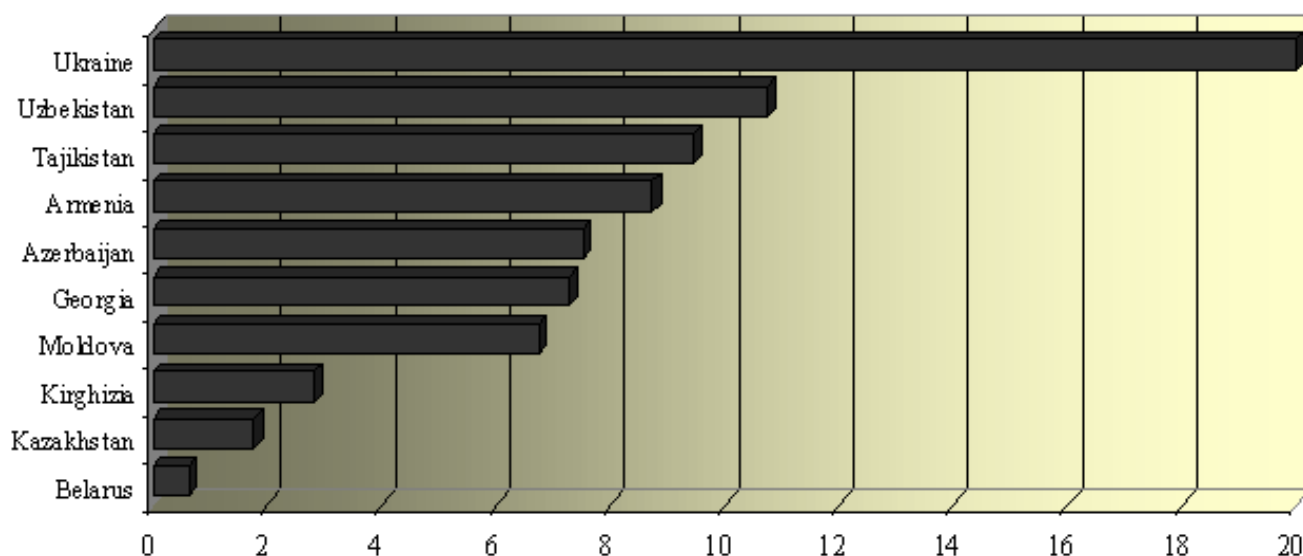
Dynamics of an average fee charged for a remittance from Russia (*US dollars*)

Remittance value, US\$	2003	2004	2005
100,00 or less	not more than 8	not more than 8	not more than 8
100,01-200,00	11	9	9
200,01-300,00	14	13	13
300, 01-400,00	18	17	17
400,01-500,00	22	21	20
500,01-750,00	29	27	27
750,01-1250,00	40	38	38
1250,01-1750,00	58	55	54
1750,01-2250,00	73	70	70
2250,01-2750,00	90	87	86
2750,01-3000,00	100	98	97
3000,01 or more	not less than 102	not less than 98	not less than 97

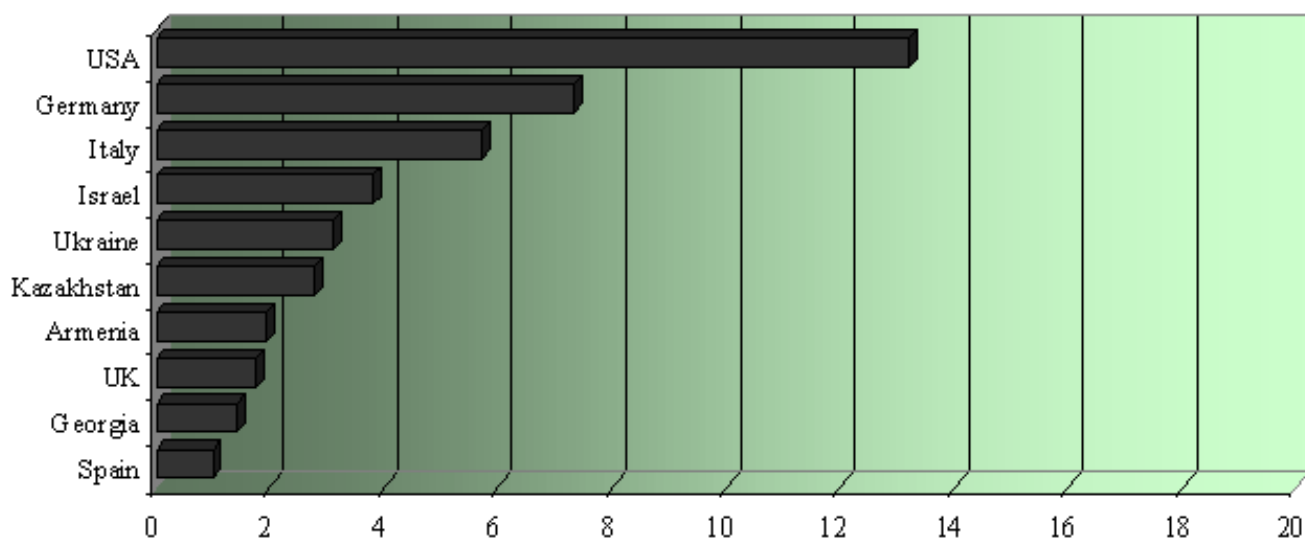
International migration



Top 10 countries receiving remittances from Russia in 2004
(as % of total remittances made)

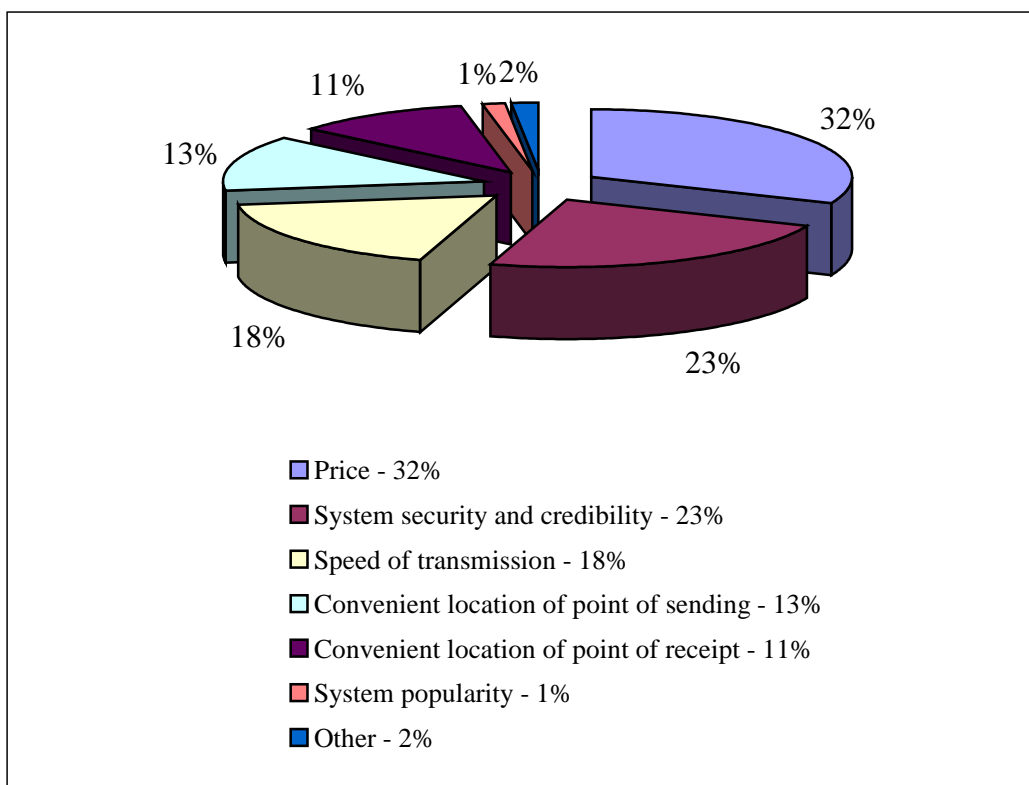


Top 10 countries making remittances to Russia in 2004
(as % of total remittances received)



Note:
Calculated on the basis of data provided by money transfer systems and the Russian Postal Service.

Major criteria of selecting money transfer systems



Source: Rbc.ru Survey