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Interview with Carlo Corazza from the World Bank about the remittances’ system and the WB research on the remittances flow in the Czech Republic.

http://publications.worldbank.org/index.php?main_page=product_info&cPath=0&products_id=23918

Abstract:

In this interview, Carlo Corazza from the World Bank discusses the results of the research on the market for remittances conducted in 2009 in the Czech Republic.

In the recent years, the question of remittance flows and their role in the economy has been gaining greater interest. Official estimates put global remittances at \$414 billion USD per year, and unofficial figures indicate the number may be much higher—closer to \$700 billion USD per year.

The Payment Systems Development Group (PSDG) is a unit inside the World Bank that focuses on the operational aspects of the remittances system. In 2009, PSDG conducted a research on the market for remittances in the Czech Republic with the aim identifying problems, constraints, and inefficiencies that might increase the cost of remittances from and to the country. Data were collected within the eight largest migrant communities in the Czech Republic throughout July and August 2009.

You work for the Payment System Development Group (PSDG), which is a part of the World Bank...

It is a unit inside the financial development sector. We oversee the development of all remittance-related aspects of the financial system. We help national central banks to establish

a reliable and efficient national remittance payment system, which includes technical, software and hardware aspects, and the necessary legal and regulatory framework. Remittances are one of the topics we have been working on for the last six to seven years. Our goal is to make the system of sending money smooth, efficient, reliable and less costly for migrants. We do not focus on the social or developmental aspects of this issue, but more on the technical side, thus it is more politically neutral.

In 2007, the G8 introduced the topic of remittances in its agenda. In 2008, the G8 officially asked the World Bank to create a group to deal with this topic in a more structured way, and to coordinate the work. The World Bank accepted the invitation and in 2009 created the Global Remittances Working Group. Currently the group gathers representatives of all the governments that want to coordinate at international level their efforts in the area of remittances. In addition to the original G8 countries, other governments have decided to participate and the representatives of the private sector are invited to attend the meetings as observers¹.

But the underlying idea is political? I.e. the idea that remittances are a good source of money for the developing countries? What role does the control of financial flows play in the prevention of terrorism?

Of course the WB considers remittances as a fundamental source of income for developing countries. They represent a large part of the GDP in many countries and are highly relevant for their resilience, as demonstrated during the last financial crisis. In addition, this sources of income are originated by migrants and directed to their families, therefore it is particular important to facilitate as much as possible their regular flow.

There are specific international institutions and departments of the World Bank working on the issues related to Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT). They take into consideration the role of remittances in this issue, always stressing the fact that the regulation in this area has to be proportionate to the risk. And remittances normally do not pose very high risk.

Why did you come to the Czech Republic?

We were invited by the Ministry of Finance of the Czech Republic in 2008. The Czech Republic is the only country in the Central Europe that had invited us to undertake this specific research. The research was financed by the Czech Ministry of Finance.

The survey analyzed the remittance market for the 8 largest migrant communities in the Czech Republic (Ukraine, Poland, the Slovak Republic, Russia, Vietnam, Moldova, Mongolia and China).

¹ Other relevant information can be found on www.worldbank.org/grwg

What is the main goal of your research?

The goal is to measure the efficiency, transparency, competition and the cost of remittances. We did not measure the exact total amount of remittances sent home by the migrants—the main focus was on the procedures and mechanisms that are used by migrants. In any case, in our research on the field we could estimate that the total amount of remittances sent by the Czech Republic broadly corresponded to the data of Czech National Bank (though there was a slight difference as the CNB has a different methodology to calculate the whole amount.). We did not include in our research data on the informal flows, as they are not easily quantifiable and any estimate would be a pure assumption.

How did you define remittance for the use of your research? Did you include also ‘in kind’ remittances (not only money, but also other items)?

We define remittances as “a low value, person-to-person, cross border transfer”. This definition exclude commercial transfers (high value or between commercial companies) and any other form of support that is not executed through a cross border transfer of money. The so called “in-kind remittances” are not included in our research, as they do not represent payments and we cannot consider them under the perspective of our work on payment systems.

Can you say a few words about the methodology?

All the researchers were native-speakers; we looked for them through the embassies. We asked for students of economics, statistics or social sciences – someone who can understand the problem.

Approximately 100 locations were selected in the Prague metropolitan area. Interviewees were selected randomly to ensure the sample would not be biased. The interviewers were instructed to attempt surveying every third person passing by their designated location, counting only passersby who could be from the nationality of interest.

Due to the sensitive nature of some of the information we were looking for, we recognize that it was sometimes difficult to receive an honest answer. On the other hand, we were not looking for exact data about the amounts being sent or migrants’ statuses. As I have said, we were focusing on the payment systems aspects of market. For example, what was interesting to us was the proportion of respondents that indicated that they use informal ways to transfer the money, like bus drivers, friendship and family ties, etc.

As you have said, the Czech Republic is the first country in the region where the World Bank conducted this research. Did you find any part of the results surprising?

What was surprising for me was that as much as about 2 % of the Czech GDP (i. e. \$ 3.3-3.4 billion USD) goes officially to remittances. It is quite remarkable, and it corresponds to the level of remittances in other advanced economies in Europe.

The legal framework in the Czech Republic is quite good and the exclusivity agreements² are not enforced. Exclusivity conditions sometimes occur with negotiated or franchised services (although they are not a necessary feature of such services). The difficulty with such conditions is that, by restricting choice, they create an increased likelihood of de facto local monopolies.

I think that the fact that exclusivity conditions are not applied it is particularly important in the Czech context, as the remittance market is already weak, i. e. not quite competitive and if they were applied it would be even worse. The lack of competition is not due to the Czech legal framework, but to the fact that some money transfer operators³ (MTOs) entered the market at an early stage and they gained a very strong position in it. In this sense, it is important to notice that there is no exclusivity contract with Czech Post, so there is still the possibility for competition - as the postal system represents a great network for the distribution of remittances.

According to the PSDG, transparency and consumer protection are essential elements for a reliable and competitive remittance market. The survey revealed that in the case of the Czech Republic a number of factors have contributed to a low level of transparency and consumer protection. Above all, information on the details of remittance transactions is not clear or readily available. For example, the prices for remittances do not include exchange rate or the MTOs do not provide sufficient information before the money transfer occurs. Nor is it clear to remitters what services are available to them to protect their interests.

According to the research, more than 40 % of the respondents used informal ways (friends, bus drivers, carrying cash themselves) to transfer money...

This is connected to the migrant's level of integration within their host country. The more migrants are integrated, the more they are able to use the formal channels.

The informal channels which you mention are anonymous, so you do not have to show documents. Another important aspect— and this is what we met in the case of Ukrainian and also Moldavian communities— is the client system. In some cases, some of these people do not have any other option than to send the money through a client.

According to the research, about half of the respondents use formal channels. Out of these the proportion of people using MTOs is quite high compared to bank institutions (44 % to 6 %) – how do you explain it?

There are different reasons. In most cases, migrants do not use banks when they arrive in the host country. Banks are seen as a complicated and perhaps intimidating place to go, especially when you do not have the proper documents. Migrants start using banks when they are really

² Exclusivity agreements are where a Remittance Services Provider (RSP) allows its agents or other RSPs to offer its remittance service only on condition that they do not offer any other remittance service.

³ Money transfer operators provide only basic transfer services— compared to banks, they can not offer further financial services as saving, credit accounts, etc.

integrated; this is, for example, the case of many Chinese or Vietnamese who have been living in the Czech Republic for fifteen years or more.

And then— although this is not the rule— the banks can be more expensive when it comes to sending the money.

Are the MTOs therefore only a transitional phenomenon?

No, there will always be a market for MTOs unless there is some technological innovation that at the moment is not available. The MTOs only offer really basic services—they cannot provide saving or credit accounts, for example—but this is why their service can be so cheap and accessible.

On the other hand, where the banks have started to work with remittances they have had great success by offering discount services and related products, for example. Someone who has been regularly sending money for eight years may be also given some credit, such as a loan for his own business.

For example, in Nicaragua (which receives remittances from the US and Costa Rica), there was a bank that five years ago had almost no relevance in the market for remittances importance, making transfers of approx. \$ 8000 USD per month. Then they started to focus on services for migrants. In five years, they had become the most important channel for remittances; they have 40 % of the market in Nicaragua, which is quite huge. Also, some banks in the USA that are focusing on the migrants (for example Wells Fargo) have had great success.

There is place in the market for both banks and MTOs. When the market is developed, then what is more advantageous depends on the kind of service you are looking for.

According to the research recommendations, the next step for the Czech Republic may be the creation of a national database on the cost of remittances. Can you describe briefly what it means?

We have created similar databases in other countries. The main goal is to provide information to the migrants on how much does it cost to send money through different operators, to different countries, what are the different services provided, and so on. The Czech Ministry of Finance should decide by the end of 2010 if they want to start this database.

Attached to the database there will be a series of information campaigns that will involve NGOs, migrant organizations, various consulates, the media, etc. The tool has to be accessible to everybody, even if he has no access to the internet, so we want to include leaflets and information at consulates and NGOs that can be updated each month.

Are such databases in other countries run by the state?

The first one we created was the Remittance Prices Worldwide database⁴ that was created in 2008 and is completely administrated by the World Bank. There is an international selection each year for the company that is in charge of providing the data.

The Central American Database⁵ is financed by the Inter- American Development Bank. The World Bank is giving training and assistance to set it up. In eight months, the Inter-American Development Bank and the World Bank will leave the management of the database to the Confederation of Consumer Protection Agencies of Central America and by then it should be able to take complete and independent care of it.

Then there is Italy. There we have an agreement with the Italian Central Bank and one local NGO. The NGO basically gathers all the information every month, the World Bank double checks and certifies the project and the Bank of Italy finances it, with the support of other governmental agencies. As you can see the model is different in each country.

Do you find it useful for the Czech Republic to have its own national database?

Definitely. There are now 425 000 migrants in the Czech Republic, which is quite a significant number.

The purpose is to increase the transparency and the competition between remittance services providers, thereby reducing the costs of sending remittances. As the costs of sending remittances are reduced, the migrants will have a choice regarding what to do with this spared money. Most migrants spend their money in the destination country, to eat, pay the rent and for any other consumption item related to their life. So there is also some profit for the host country by increasing the reliability and transparency of remittances.

Moreover, sometimes the country supports the creation of the database as a development tool. As a matter of fact, if the migrant spends less money to send remittances, he/she will be able to decide how to use the resulting savings. Migrants might decide to send the additional amounts to their families, improving their living conditions, or they might decide to keep the additional amounts for themselves and use them for themselves, possibly saving or investing them.

Another recommendation proposed the creation of Code of Conduct.

In 2007, the Committee on Payment and Settlement Systems of the BIS (Bank for International Settlement) and the WB, in consultation with several central banks, published the General Principles for International Remittance Services⁶. These are international standards on the remittances endorsed by the G20, the G8 and the Financial Stability Forum. They are suggested tools, but countries are not obliged to apply them.

⁴ <http://remittanceprices.worldbank.org>

⁵ www.enviacentroamerica.org

⁶ http://siteresources.worldbank.org/INTPAYMENTREMITTANCE/Resources/New_Remittance_Report.pdf

The Code of Conduct is based on the General Principles and should be adjusted to the situation in each country. It is a sort of agreement between the MTOs and the banks to provide certain level of quality in their services, mostly related to consumer protection and transparency. It is a free choice of each MTOs or bank to apply these rules. A similar Code of Conduct now exists in the UK⁷.

⁷ <http://www.afritrans.co.uk/fileuploads/customer-charter-040108.pdf>. Many MTOs accepted it and most of the rest have their own code of conduct that is quite similar in many aspects.