INTRODUCTION

Remittance flows in the Eastern European and Central Asian countries (ECA region) are large and consistently increasing. In 2004, officially recorded remittances to the ECA region amounted to over US$15 billion, the equivalent of seven percent of global remittances and ten percent of remittances received by developing countries. Remittances measured in the balance of payments constituted over 30 percent of GDP in Moldova, 20 in Tajikistan, and just below 10 in Armenia and the Kyrgyz Republic.

The formal infrastructure to channel remittance flows in the ECA region is experiencing rapid developments, primarily driven by (i) the number of remittances and money transfer services providers -banks, specialized money transfer operators (MTOs) and the Postal systems, and (ii) the level of competition. The growth of MTOs has been particularly significant under improved macroeconomic conditions in Russia and in the region, the development of financial and banking systems, an almost fully liberalized remittances transfer regime, and the introduction and development of new technologies.

These developments present an opportunity, as increased remittance flows through formal channels would allow increases in the deposit and savings base, with beneficial effects on overall credit and investment levels. Recent studies on Mexico and other Latin American countries have shown strong positive correlation between the level of formal remittances and deposits, and strong positive correlation between remittances and the overall level of development of the financial infrastructure.

However, the formalization of remittance transfers remains complicated and in need of support by policymakers. In the ECA Region, using commercial banks for remitting funds is complicated by issues such as a lack of confidence in the banks of the receiving countries, and the low educational levels of labor migrants. MTOs on the other hand do not provide savings and other banking services, which limits their development impact. Finally, the postal systems are generally constrained by limitations on operations in foreign currencies and their dependence on national budgets.

The objective of this paper is to collect, organize and analyze information on remittance corridors from Russia to Armenia, the Kyrgyz Republic, Moldova and Tajikistan.[1] It aims to provide an overview of the current framework and infrastructure for sending and receiving remittances, including aggregate flows, existing and potential operators, cost structures and, barriers and other factors affecting costs. Ultimately, it turns to setting out topics for policymakers' attention. Section 1 provides an overview of migration, remittances and financial sector developments; Section 2 analyzes results from surveys undertaken with migrants who had returned in Georgia, the Kyrgyz Republic and Tajikistan (and uses as benchmarks, Bosnia-Herzegovina, Bulgaria and Romania); Section 3 turns to the results of questionnaires and interviews with central banks, banks, MTOs, postal networks and other intermediaries; and Section 4 turns to the emerging topics for policymaking.

[1] Data has not always been available, especially in the case of Moldova. Notably, we make use of some available data on Georgia, and, when possible, Bosnia-Herzegovina, Bulgaria and Romania as benchmarks.