SECTION 3: REMITTANCE INDUSTRY'S PERSPECTIVE: SERVICE OFFERINGS AND FEES

This section provides an assessment of the formal remittance operators in the reference countries: a) banks; b) specialized money transfer operators (MTOs); and c) the postal network. Informal channels are shuttle traders and migrants, which decide to repatriate remittances as they travel back to their homeland. We focus on the formal operators, as an assessment of the informal channels, in terms of volumes, frequency and direction, is beyond our scope. All the material, data and information reported in the following chapters were obtained through questionnaires and interviews with the Central Banks of the reference countries, and the banks, specialized money transfer operators (MTOs), the Postal networks and other intermediaries.

3.1 The Banks

Banks provide remittance and money transfer payments to their clients, both intra-national and through their correspondent accounts in the sending countries. Remittances and money transfers can be offered to both clients and non-clients for sending transactions, and to clients only for receiving ones. In general, the most active banks in the reference countries are the largest banks. This is mainly due to the number of clients, the reputation of the banks, the sophistication of their operating systems and their larger branch networks. In Moldova for example, where there is a three-tier licensing system, the six largest banks have about 80 percent of the system deposit base and transact more than 90 percent of the bank-remittances and money transfers.

Banks are generally active in money transfer services directly (bank-to-bank) and indirectly through money transfer systems, or specialized Money Transfer Operators (MTOs), such as Western Union, MoneyGram, Anelik or Contact. Banks and MTOs work under partnership arrangements in most cases. Banks provide direct money transfer and remittance services (i) internationally through correspondent accounts in foreign banks, and (ii) domestically through a national payments system operated by the respective Central Banks. Not all banks have set up specialized units or departments for remittances, like in Armenia for example, where Anelik Bank grew a profitable business and infrastructure specialized in remittances and money transfers. Very few banks have developed cross-selling products targeted to migrants and remitters: special savings or personal loans for relatives, house

Box 1: Cross-selling banking products to remitters

Cross-Selling: Mobiasbanca in Moldova has an exclusive offer for customers who use one of the money transfer systems available at Mobiasbanca. Receivers of money transfers can open 3 types of deposit accounts in Euro and USD:

- "Express" – allows for partial deposit and withdrawal. Can be opened for a period of 6 months with an interest of 7%;
- "Advance" – allows for advance payment of the interest. Can be opened for a period of 12 months with an interest of 7%;
- "Bonus" – adds 1% to the maximum interest. Can be opened for a period of 6 months with an interest of 7% or 12 months with an interest of 8%.

Source: Mobiasbanca's advertisement

improvement or working capital loans collateralized to remittance flows, remittance bonds, etc. One recorded exception is in Moldova (see box), where 7 commercial banks set up intra-bank and inter-banks specialized transfer systems in partnership with foreign banks, or through their subsidiaries in Moldova[10]. These systems generally do not require a bank account for money transfers, which is instead a requirement for most inter-bank transfers.

When a migrant remits money from a bank in Russia, in the United States or Western Europe, the correspondent account of the commercial bank is first credited by the remittance amount. Once the correspondent account is credited, a notification to the headquarters of the receiving bank is sent via the SWIFT[11] coding system (telex transmissions) that includes information on the account to be credited or the recipient of the transfer. Recipient accounts can be either deposit account, or transfer accounts, where money is held until withdrawn. Almost all banks[12] in the reference countries have SWIFT accounts (SWIFT requires an annual participation fee of about US$15,000 per year). Not using SWIFT sharply increases transaction costs, because it requires agreements with banks holding a SWIFT code and general paper-based transactions and communications.

The bank account of the recipient is then credited, or issues a money order payment in the name of the recipient. Funds can be transferred on a cash-to-cash, cash-to-account, or account-to-account basis. In theory, a migrant with an account in Russia could withdraw funds directly in any commercial bank of the receiving country from his/her Moscow bank account.

Box 2: Debit/Credit Card Systems

It has been questioned at length how debit cards could help extending the network and support remittance services. In the reference countries, card systems have been developed following different strategies. In Armenia and Kyrgyzstan, the central banks took the lead in establishing a banks' Nation-shared card processing center to process all transactions for all banks. In Moldova and in Tajikistan, individual banks purchased the systems independently and started issuing their own cards. In Tajikistan, there is only one bank (AIB) that operates and issues debit cards. It utilizes a processing system of a bank in Russia. This system can read both Maestro and the Russian Gold Crown (Chip based). Nation-shared card processing centers abate the fixed costs of the core systems, and enable to standardize tariffs and pricing across banks. A card processing system can cost between US$1.5 and US$ 2.5 million excluding all costs related to interfacing (banks' hardware and software). The network is constituted by the Automation Teller Machines (ATM), Post Terminal Machines (PTMs) and Point of Sales (POSs). POSs and PTMs are different from ATMs: they with fewer modules, and are much cheaper. They are both located in shops or department stores or other trafficked areas, and operated by retailers. POSs serve to make consumer payments with both credit and debit cards. Basically POSs check balances of the card holders before finalizing a purchase, or the limits per cardholder for credit transactions. PTM would instead read debit cards and enable cardholders to withdraw funds from the client account. The retailer would then provide cash to the client net of applicable fees against a credit to its own account. Fees for these operations vary considerably: between 2 percent for local currency and 4 percent for foreign currency withdrawals, if allowed. The bank would only charge for the money transfer between accounts (from the client to the retailer). PTMs are often favored over ATMs due to the low cost of the machines and for certain specific functions, like payment of salaries. Depending on the model, volumes and functions, an ATM can cost between Euro 25,000 and Euro 75,000 (or higher), while a PTM could cost US$ 1,000. POSs could cost around US$ 800. Connectivity is a decision factor: ATMs and POSs need online and fast connections for real-time operations, while PTMs could work off-line, if necessary. The retailer could clear all operations once a day, before closing of business, if

[10] These banks are Banca Nazionale del Lavoro (ITA), ImpexBank (RUS), Gazpromexpress (RUS), San Paolo-IMI (ITA), SberBank (RUS), Banca Antonveneta – StradaItalia (ITA), Is Bankasi AS Bank (TUR). More detailed information on the products offered by these banks and operators are provided in the Annexes.

[11] SWIFT is operated by a Belgian company, which operates the system and holds all the coding of all participating banks and other institutions throughout the world. SWIFT is de facto the largest and most used coding system in the world.

[12] There are few exceptions in Kyrgyzstan and Tajikistan.

The cost charged to remittance recipients can vary significantly from country to country, and from bank to bank: it is about 2 percent for non-clients in Tajikistan, and 1 to 2 percent for clients of the transferred amount, on average for clients, if in the same currency. Also in Tajikistan, the recipient of the funds must also pay a flat fee of about US$30, irrespective of the transferred amount. In Moldova for example, SWIFT transfers costs between Euro 9.6-16.0, and decrease as the transacted amounts increase above US$ 400 equivalent.

Pricing policies reflect the costs structure of the banks, which varies depending on their level of automation of the systems, equipment, personnel, and network. Retail banks, which generally profit from large client bases, tend to lower prices to attract clients and increase the critical mass of transactions for profit margins. However, this requires large investments in technologies, personnel and infrastructure, like branches, ATMs, and other cash service centers.

Managing a correspondent account is costly for banks: overnight rates in US$ can be below 1 percent on a correspondent account, which is lower than the funding costs of the banks. Naturally, banks pass these costs to the clients, especially for small transactions, although an estimate of these costs in relation to remittances is technically impossible. Managing foreign exchange is also costly. Banks generally buy cash from the market, from the respective Central Banks or from other commercial banks. Central Banks charge around 1-3 percent for cash in foreign currencies. Fees from other commercial banks are cheaper: in Tajikistan, for example, many commercial banks' couriers travel to the Kyrgyz Republic to buy foreign currencies in cash, as Kyrgyz banks have excess reserves (related to trade) in US$. Foreign exchange fees for remittances, and thus for clients, incorporate cash management costs and banks' marks-up: in general, the spread in foreign currencies for clients, and especially for small customers, ranges between 1 and 5 percent, depending on the liquidity of the market and the banks' pricing policies[13]. In most cases though, receivers of remittances cash in foreign currencies, and then exchange at pawn shops or foreign exchange bureaus, which generally apply lower spreads.

The speed of banks' transfer is quite rapid: the transaction can take a few seconds through the SWIFT system, as the electronic transfer is real-time. Time though is a function of back-office procedures and recording and accounting systems. As a result, it takes two-to-three business days to transfer funds on an account-to-account basis (one day more if from the United States, given the time difference).

[13] This is definitively not unusual for banks around the world. Even large Western investment banks would charge high foreign exchange spreads for their clients, including for Private Banking. In general, as a rule of thumb, the lower is the transacted amount, the higher would the spread. Anecdotal evidence from one Private Bank boutique in Switzerland shows that foreign exchange mark-ups vary from 1.21 percent for amounts up to US$ 50,000, to 0.16 percent for amounts between US$ 1.0 and US$ 2.0 million and higher.

The use of formal channels by remitters is constrained by three main factors. First, senders usually need to open an account with commercial banks in the sending countries, which may be problematic for some migrants. There are several issues related to opening an account in sending countries, and especially in Russia. Surveys of migrants in Tajikistan indicated that only 18 percent of migrants have bank accounts because a Tajik migrant needs to show a passport and a "migration card." The latter can only be obtained with a valid working permit and is required to open an account with a Russian bank. As most Tajik migrants are temporary seasonal workers and have no work permit, account-to-account transfers are less frequent. In contrast, cash-to-account transfers through MTOs do not require particular documents, only a valid passport and the codes of the recipient bank and account. The same generally applies to Western European countries and the United States.

Second, foreign exchange regulations in some countries set limits on transfer amounts. In Russia, resident aliens cannot send more than US$5,000 per day, while non-residents do not have these limitations. The source of all cash deposited for money transfers above US$5,000 must be indicated in the memo of the transfer order. In Tajikistan, the origin of funds must be declared for transfers exceeding US$2,000 in cash. In the United States, under the AML/CFT regulations, cash transactions above US$ 10,000 must be recorded and reported to the authorities for investigation.

Lastly, the lack of confidence in banks and the generally low financial literacy of labor migrants are further obstacles. Lack of confidence in the banking systems is evident in Central Asia: low levels of deposits in both Tajikistan and Kyrgyzstan, and very small number of active bank accounts (less than 3 percent of the Kyrgyz population and businesses holds a bank account). Financial literacy also has an impact on remittances and the use and access to banking products. Anecdotal evidence also shows that Russian banks prefer not to serve Kyrgyz and Tajik migrants for remittances, mainly because of lack of language and basic banking skills. Russian banks indicated that it takes sometimes 30 minutes of a teller's time to process a remittance of a few hundred U.S. dollars, which makes the transaction generally unprofitable.

3.2 Specialized Money Transfer Operators (MTOs)

Growth

There is an impressive multitude of specialized MTOs in the four reference countries, which make this segment of the financial system particularly dynamic and competitive. Many of these MTOs are the internationally (and historically) present Western Union and MoneyGram. Others are specialized MTOs from Russia, Armenia and other countries in the region.

Table 11 Number of Banks and MTOs in 2006

year 2006	**Banks**	**MTOs**
Armenia	21	11
Moldova	16	19
Kyrgyzstan	20	12
Tajikistan	10	11

Most of these MTOs operate in partnership with the commercial banks of both sending and receiving countries. Partnership arrangements, as explained later, are on a case-by-case basis, so MOTs could have partnership arrangements with different banks in both sending and receiving countries. Other MTOs use their own systems and network, depending on the channels and volume of business. The attached tables give a perspective of (i) the multitude of MTOs operating in the reference countries (Table 11), (ii) their partnerships with the commercial banks (Figure 10 on Armenia), (iii) competition among MTOs (Table 12 on Armenia) and (iv) their market shares (Table 13 for remittances from Russia and Table 14 for inflows to Moldova).

Figure 10 Money Transfer Systems and Partnership with Commercial Banks

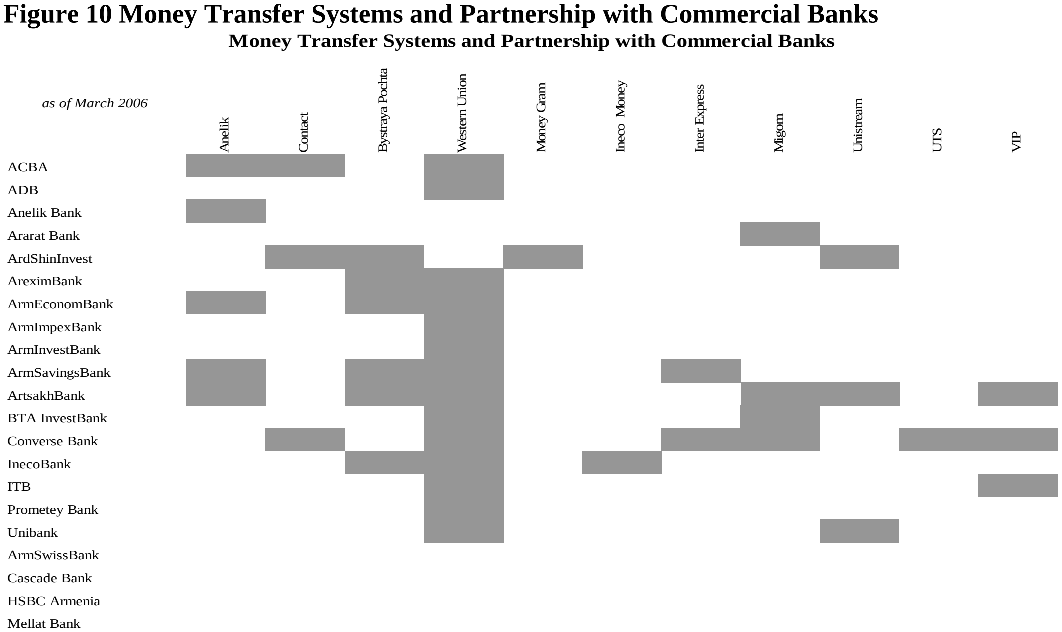


Table 12 Value of Transfers by "Selected" MTOs in Armenia

Value of Transfers by "Selected" MTOs in Armenia

in Million US$		2000	2001	2002	2003	2004	2005
Western Union	sent	5	4	7	7	6	7
	received	53	50	58	65	72	90
	Received/Sent (Ratio)	*11*	*11*	*9*	*10*	*12*	*12*
	Market Share	*61%*	*37%*	*25%*	*22%*	*19%*	*16%*
Money Gram	sent	3	1	1	1	1	2
	received	34	7	9	10	10	12
	Received/Sent (Ratio)	*12*	*7*	*12*	*14*	*8*	*8*
	Market Share	*39%*	*5%*	*4%*	*3%*	*3%*	*2%*
Anelik	sent		8	15	13	11	8
	received		77	126	121	83	83
	Received/Sent (Ratio)		*10*	*8*	*9*	*8*	*10*
	Market Share		*58%*	*55%*	*40%*	*23%*	*15%*
Unistream	sent			4	9	17	29
	received			30	77	112	208
	Received/Sent (Ratio)			*8*	*9*	*7*	*7*
	Market Share			*13%*	*26%*	*31%*	*39%*
Other	sent			0	2	20	25
	received			8	29	79	141
	Received/Sent (Ratio)			*28*	*12*	*4*	*6*
	Market Share			*3%*	*10%*	*24%*	*27%*
Total	sent	7	13	27	32	55	71
	received	86	133	231	302	356	534
	Received/Sent (Ratio)	*12*	*10*	*9*	*10*	*7*	*7*
Total transfers		**94**	**146**	**258**	**334**	**411**	**605**

Data Source: Questionnaire and interviews

Table 13 Remittances from Russia

Remittances from Russia

in US$ million	2003	2004	2005	2006 Q2
Money Tranfers of Individuals from Russia	n/a	n/a	12,507	7,992
to non-CIS countries	...	...	8,592	5,706
to CIS countries	...	...	3,915	2,216
Remittances from Russia	1,310	2,070	3,549	2,105
to non-CIS countries	...	...	323	234
to CIS countries	...	...	3,226	1,871
Share of MTOs	n/a	n/a	28.4%	26.3%
to non-CIS countries	...	...	3.8%	4.1%
to CIS countries	...	...	82.4%	84.4%

Data Source: Central Bank of Russia

Table 14 Market Shares in Moldova

Market Shares in Moldova

In million US$	Total Inflows	Spec. Money Transfer Operators	MTOs (to total)
1999	90	52	58%
2000	153	102	67%
2001	212	140	66%
2002	254	161	63%
2003	317	176	55%
2004	422	235	56%
2005	683	498	73%
2006 (QI)	152	106	70%

Growth in the number of MTOs has been steady since 2000, as the region slowly recovered from the financial turmoil of the Russian crisis of 1998. Literature has suggested that the increasing number of MTOs and their capacity to penetrate the market contributed to substantially lower the cost of remittances since 2000, to almost 1-to-3 percent of the transferred amounts.[14]

There are several factors contributing to the sharp growth and sudden emergence of new MTOs in the region, and the observed decrease in prices. First of all, the market enjoyed a fully liberalized regime. In 2002, for example, Western Union lost a court case with the Russian Antimonopoly Commission. According to the resolution, all contracts with exclusivity clauses signed by banks with Western Union were cancelled and revoked. At that time, Western Union had such contracts with more than 200 banks in Russia. Second of all, MTOs largely benefited from the introduction and development of new technologies, and in particular improvements in internet connectivity throughout the region. This enabled MTOs to transfer all their accounting and cash management modules from bank-based to internet-portal based. Third of all, the legal and taxation environment has improved significantly: none of the reference countries apply taxes on remittances and remittance transfers. Lastly, there were significant improvements in the economic environment and in the development of the financial and banking systems. Banks improved their technologies and invested in their networks, thus improving the outreach and penetration to low density clientele.

[14] See: Global Economic Prospects, 2006.

Box 3: The Business Models of MTOs

The business models of MTOs in the region and in the reference countries are relatively simple. The most common model is MTOs as stand-alone enterprises (Western Union for example) that develop their in-house software system and network of offices and branches. They often sign partnership agreements with commercial banks to access their physical infrastructures, thus the branch networks. In many cases, these MTOs also open stand-alone offices in critical and trafficked places, or within the premises of foreign exchange bureaus, pawn shops and other “money-points”.

Under partnership agreements, these types of MTOs provide the software and hardware to their partners, and in turn the latter provide the needed staffing to process transactions and the physical infrastructure (retail spaces, connectivity, branch windows, sometimes fully dedicated to multiple or individual MTOs). These types of agreements are generally signed to cover the whole branch network of banks, or specific point of sales if the agreement is with foreign exchange bureaus, pawnshops and other. In most cases, MTOs provide training to the partner institutions’ clerks. For standalone MTO offices, the MTO would cover all costs associated with the stations, i.e. rental, staffing and software and hardware, and cash management (purchase of cash from banks).

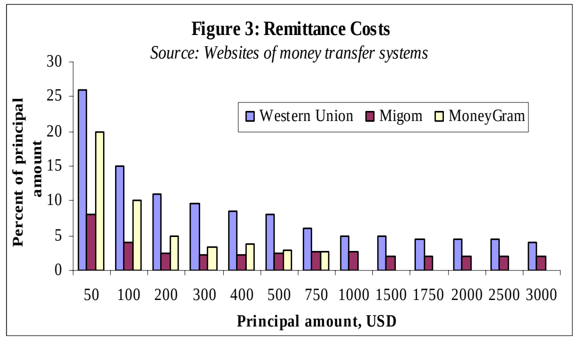
The most common type of partnership agreement is with commercial banks. Under these agreements, same banks and same branches can offer the services of several MTOs from the same windows. Each MTOs holds a bank account with the commercial bank for cash management and clearing purposes. Their account is credited in the sending bank/country whenever a remittance is originated. The sending bank credits the MTO account and transfers the funds to the receiving bank/country through the SWIFT system on the account of the same MTO. Sending and receiving banks can differ, so that the transfer resolves in an inter-bank transaction (clearing system). Transactions can be queued by the sending bank, so that SWIFT transfers are made at the end of the day through the settlement system, which is more secure and relatively cheaper.

In parallel, the MTO sends a message to the office of the MTO in the receiving city and country, to notify the origination of the remittance, the sending and receiving person. Some MTOs now offer additional services, such as small messages/greetings and SMSs. The transfer speed is almost real-time. Some MTOs though record the transaction with up to one-day delay, mainly due to the specific configuration of their accounting and processing systems. MTOs do not require a bank account, but simply a valid ID for both senders and receivers. Some MTOs can hold the remittances for more than 40 days if not cashed immediately. After 40 days, the MTO sends it back to the originating bank. Very few MTOs (only two) offer saving rates to the held remittances. Most MTOs operate in all currencies, and provide foreign exchange services through the hosting bank.

A different model of MTOs is used by a few large banks and bank groups in the Russian Federation and Armenia. Under these models, commercial banks have developed specialized software for handling remittances and individual transfers, a sub-system within their core banking system. The software is generally applicable and usable by other commercial banks. One example is Anelik Bank of Armenia, which developed the software and signed agreements with several commercial banks in the region. Another system is the one of Unistream, a consortium of Russian commercial banks that operates the same software for their inter- and intra-bank remittance and small money transfers.

Cost and Pricing Structure for MTOs

Figure 11 Remittance Costs



The success and pricing policies of MTOs vary widely, depending on the country, the partnership arrangements, the serviced remittance channels, the transferred amounts and the currency denomination, the services attached to the transfer and other. Fees are paid by the sender, and the receiver does not bear any transaction fee apart from the currency conversion, which is charged locally at the receiving bank or MTO. Figure 11 presents remittance costs among the three international MTOs. Table 15 is a snapshot of the pricing policies of the main MTOs in Armenia.

Table 15 Armenia MTOs

Armenia MTOs Offers	Fee	Coverage (countries)	Transfer speed
Western Union	4-26% depending on the amount transferred	200	real-time
MoneyGram	6.1-28% same day, 2.8-20% economy	170	10 min same day, 3-5 days economy
Anelik	1.5% in rubles, 3% in foreign currency	90	3-24 hours
Unistream	Russia - Armenia 1%, other CIS 1.5%	80	10 min
Contact	2% across Russia in rubles, 3% otherwise	70	4-24 hours
InterExpress	2.5% across Russia, 2.8% across CIS, 3% Vietnam, China	12	15 min
Bystraya Pochta	2%	13	1 min
Migom	2-4% depending on the amount transferred	CIS & Baltics	5-10 min
VIP	1.50%	12	5-10 min
InecoMoney	1-1.5%	7	5-10 min
UTS	Russia – 1%, Georgia - 1.5%, Ukraine & Moldova - 2%	5	15 min

Data Source: Interviews/Questionnaires

Overall, the cost structure of MTOs and their flexibility in delivering their services and in reaching out to potential clients make these operators particularly inexpensive. The main advantages of MTOs in terms of pricing policies and product development capacity can be summarized in the following:

- MTOs operate built-in-house communication and accounting systems, which run in parallel with the core banking systems of the partner and correspondent banks. In this way, MTOs can use low cost internet communication systems and clear all cash management operations through the clearing system of the partner banks on a gross basis. In practice, sending MTOs queue payments throughout the day or even weeks, and make one single payment to the MTO branches through the clearing systems of the partner and correspondent banks. Receiving branches pay out remittances out of their bank accounts up to their account balances, and replenish the accounts through single transactions on their correspondent accounts. Thus, MTOs make profit on fees, the maximization of their cash and liquidity management practices, and the interest differential between the funding (remitted money is at zero cost) and the available cash reinvested in correspondent accounts and other assets placements (any delay in cashing out remittances generates profits for MTOs);

- MTOs have limited fixed costs compared to banks and other financial intermediaries. They generally operate through the banks' branches and the premises of pawnshops, foreign exchange bureaus, post offices, etc. MTOs also do not have specialized staff on their payroll: most of the operators are banks' clerks trained by the MTOs and dedicated to money transfers and remittances. Only when MTOs open their own offices they incur fixed costs such as premises. Anecdotal evidence[15] shows that the agreements with the commercial banks can vary, but they are generally set as fixed percentage of each transaction (between 25 and 50 percent according to interviews);

- The extent of their fixed costs associated with premises and staffing is a key determinant of the success of MTOs, which highly depends on the extent of the network and the geographical coverage. Furthermore, MTOs do not need to generate funding like banks (deposits) to operate, and thus have the competitive advantage (flexibility) of signing partnership agreements based on a selected number of branches and locations, and based on effective demand for money transfer services;

- MTOs are not affected by general issues such as access and confidence in the financial system and/or country risk. MTOs do not require clients to open accounts, because money transfers and remittances sit in transfer accounts of the receiving MTO branches and thus are cashable immediately by simply presenting a valid ID and the transaction reference number (generally provided to the sender). In practice, given that most MTOs process a remittance almost on a real time basis, both senders and receivers of funds are exposed to very limited risk of default of the service providers (bank, MTO or other); and

- Lastly, MTOs are extremely flexible in setting pricing policies: most MTOs in the reference countries are pricing flat fees irrespective of the transacted

[15] Banks and MTOs generally keep confidential that financial information related to partnership agreements with banks and other intermediaries. In one exception, Tajikistan, few banks were able to disclose them.

amounts and currency denomination. This facilitates transparency, and it is definitively a sharp divergence from the standard pricing policies of worldwide operators such as Western Union, MoneyGram or Migom (see Figure), which price remittance services based on the transferred amounts (the higher the value, the lower the proportional fee).

Rarely are banks and MTOs' clients well informed of the final cost of a remittance, as many small prices and fees must be added up. For example, a website of one large MTO in Armenia advertises remittance costs of 2 percent per transaction, irrespective of the transferred amount. However, the MTO further discloses that communication and processing fees will be added to the advertised 2 percent, without specifying such charges. Tariffs for money transfers on a bank account-to-account are also extremely variegated and difficult to trace. Foreign exchange fees, for example, are not necessarily related to market prices, but rather operational costs. Some banks offer services of multiple MTOs, which all have different pricing policies and services attached to remittances, and this might complicate the decision making process, especially for low-skilled or financial illiterate clientele.

3.3 The Postal Network

Postal networks have historically played a critical role in delivering a number of services throughout Central Asian countries, including mail and parcels, billing delivery and collections services, general fiscal and quasi-fiscal payments (salaries and pensions, tax collection), and savings where Postal Banks were established.

The main competitive advantage of the Postal Systems is their large branch network covering remote areas, where low density discourages banking and financial intermediation. In the Soviet system, in the absence of postal banks, postal networks were generally partnered with savings banks, which operated as the last links of the payments system infrastructure and provided the postal networks with cash and account management services.

Generally, the profitability of postal systems in the ECA region is plagued by the fixed costs of running large branch networks and the posts' low value generating activities. Large networks and high fixed costs (premises - although they do not pay rent to the State - vehicles and personnel) reduces the capability of postal systems to generate resources to re-invest into the infrastructure, and this makes them highly dependent on national budgets and political wills. As a result of these constraints, the infrastructure of the postal systems throughout the region is fast depleting. In the Kyrgyz Republic, for example, the postal system estimated that automating (computerizing) operations and the accounting system in the main branches and head office only would cost about US$ 25 million, close to 1 percent of GDP.

Postal systems face several competitive disadvantages in processing remittances, including:

a) Pricing: it can cost up to 12-15 percent of the transferred amount in Tajikistan, for example;

b) Time of service delivery: one-to-two weeks in Central Asia, and up to three days in Armenia and Moldova, depending on the remoteness of the sending and receiving post offices, and the existing infrastructure; and

c) Legal constraints: in all reference countries, with the exception of Armenia, the postal systems cannot operate in foreign currencies or hold foreign currency accounts with commercial banks, and this limits significantly their capacity to handle remittances, which are mostly foreign currency denominated.

Despite the above constraints, the postal systems in the region could play an important role in enabling better remittance outreach to the most remote areas (in both sending and receiving countries). The main issues seem to be related to the existing infrastructures and the costs associated with operations. A comparative analysis between HayPost and Anelik Bank, based on interviews with both operators, shows that HayPost's cost structure yields to lower transaction costs, and in fact the two entities price policies are basically identical. However, in countries like Tajikistan or Kyrgyzstan, where the infrastructure is particularly weak and labor and premises costs are extremely low, remittances cost between 10 and 15 percent and the speed is 15/21 calendar days.

Table 16 Estimating the cost of remittance transaction from Moscow to Yerevan

Estimating the cost of a remittance transaction from Moscow to Yerevan

	Cost, US dollars		
Components of cost	STEFI	Anelik	Notes
Sending staff	0.53	0.53	10 minutes of staff time at $3.2 per hour
Receiving staff	0.26	0.26	10 minutes of staff time at $1.6 per hour
Fixed costs	0.50	2.20	STEFI: $10,000 system cost recovered over 10 years; $6,500 annually maintenance cost, 900 branches with 1 transaction per day Anelik: $316,446 maintenance cost in 2005, 144,078 transactions annually.
Rent	-	1.00	
Administrative costs	0.50	0.50	
Total cost	1.80	4.49	

Source: World Bank staff calculations

In fact, in all reference countries, the postal systems have signed partnership agreements with specialized MTOs, which basically rent windows in the post offices and branches throughout the countries. In these cases, postal systems use their traditional postal services to process remittances, and use their commercial bank accounts to transfer the funds from one country to another. In addition, postal systems share the fees of remittances with the originating postal offices. Remittances processed directly by the Postal systems, thus not through MTOs hosted by the posts, have remained limited in volumes (in Tajikistan, the postal system processed less than 2 percent of all remittances in 2005).

The Moldovan and the Armenian posts have modernized some of their operating systems, and are now engaging directly in remittance services. In Armenia, HayPost launched its money transfer system in 2005 and is successfully gaining market share thanks to its competitive offer: it charges 2 and 4 percent of the transaction amount to individual and legal entities respectively, while the transaction time is 15 minutes. Clients can also send a message of up to 140 words. The Moldovan postal system, with its 1150 post offices, is also launching a similar system, although to date there are no indications on its achievements in terms of increases in volumes and transactions.

Box 4: the Armenian postal system

Haypost CJSC is a national postal operator in Armenia. HayPost entered the money transfers market in 2005, after it was granted a license for implementation of money transfers systems by the Central Bank. In addition to the "Contact" system, starting from 2005 HayPost also employs international money transfer systems such as STEFI (Secured Transfer of Electronic Financial Information) and the UK-registered Travelex. STEFI, maintained and managed by Universal Postal Union headquartered in Berne, Switzerland, currently covers thirty-one countries and territories, including Armenia, Azerbaijan, Belarus, Kazakhstan, Moldova, Russia, and Ukraine in the ECA region. Generally the cost of adopting the STEFI solution averages 20,000 USD with an additional 13,000 USD annual fee for maintenance, upgrades and support. However, the least developed countries benefit from a 50 percent cost reduction.

Although the fees charged by HayPost are relatively higher than the ones charged by other money transfer operators, there are expectations for increases in the market share of HayPost mainly because: a) the new systems would enable to enhance effectiveness and efficiency of the network; and b) HayPost is currently managed by a private company. In 2005, Converse Invest assumed the trust management of HayPost for five years. Converse Invest receives 20 percent of HayPost profits, with the remainder remitted to the state. Converse Invest is an investment company registered in Latvia and founded by the Armenian Converse Bank. Converse Invest invited the French La Poste for participation in the project of modernizing HayPost and the Dutch financial company ING was invited by the Central Bank of Armenia.