

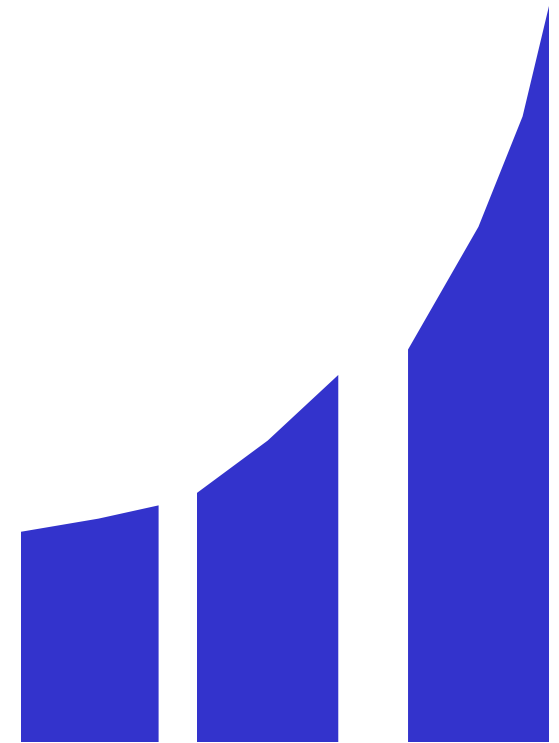
Remittances in Colombia: transaction costs and money laundering

Ximena Cadena

Fedesarrollo

Project LINK conference

Mexico DF, May 2005



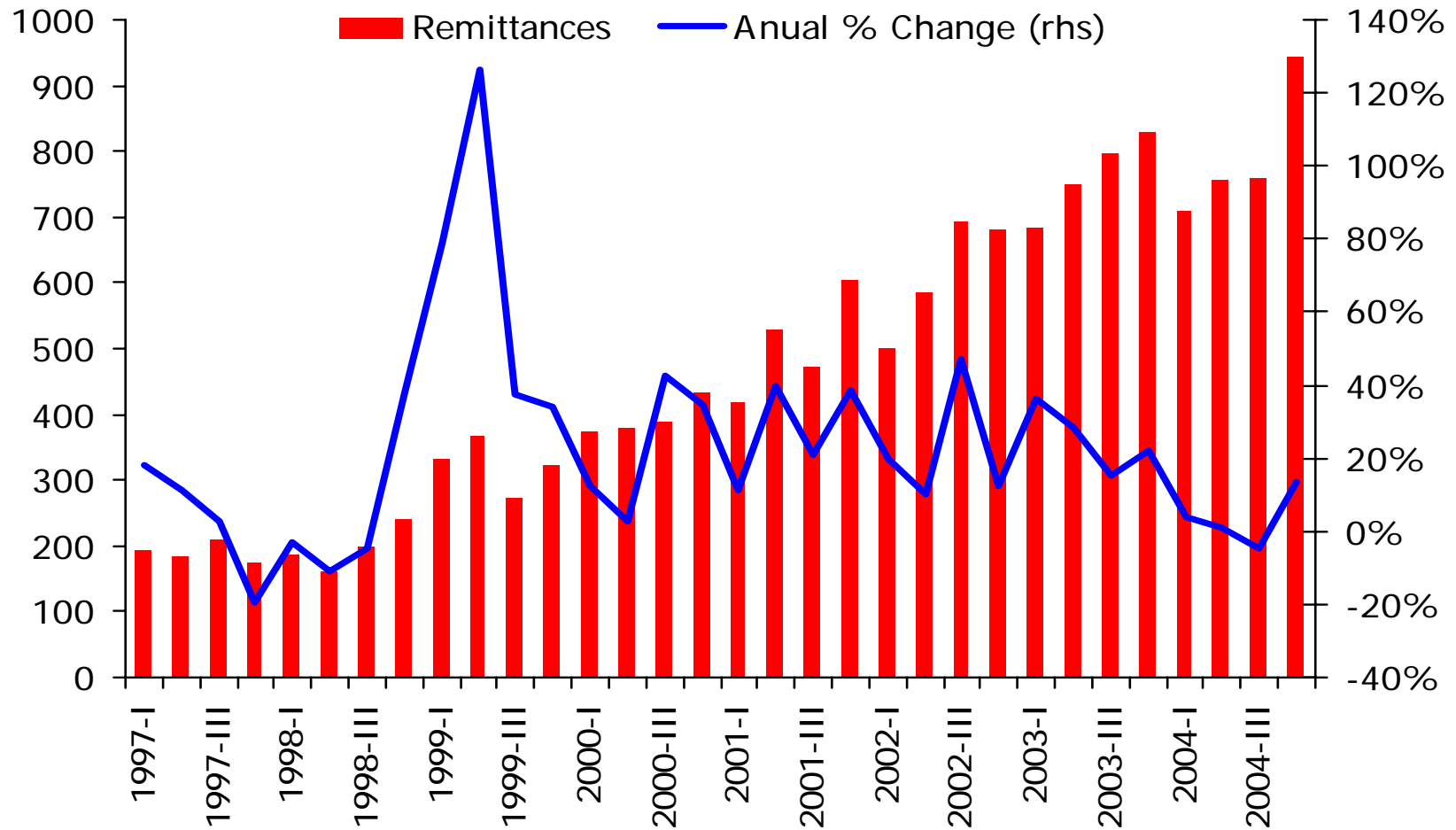
Agenda

- Remittances and development
- Industrial organization of remittances
- Who receives remittances in Colombia?
- The risk of money laundering
- Transaction costs
- Conclusions

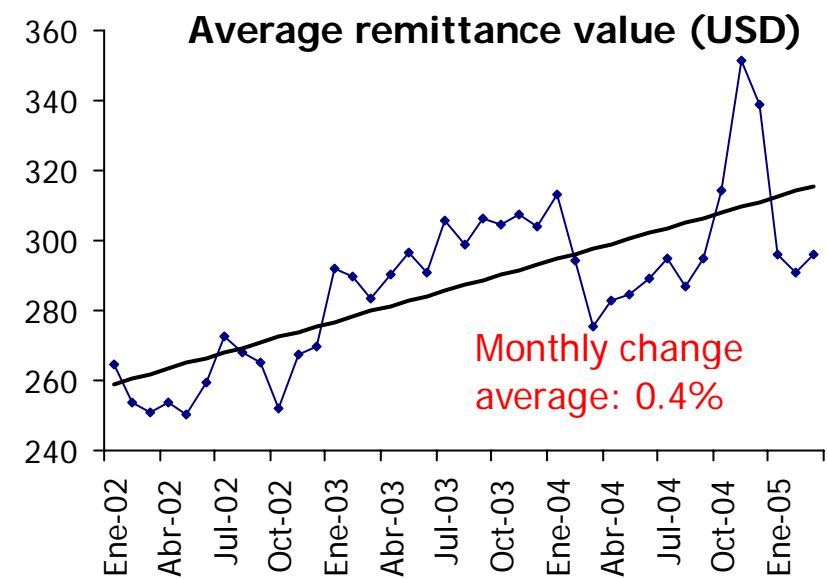
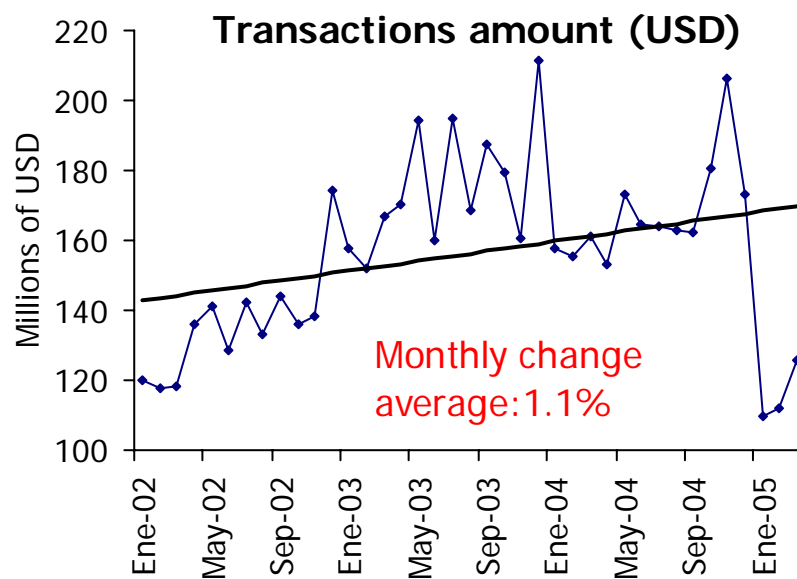
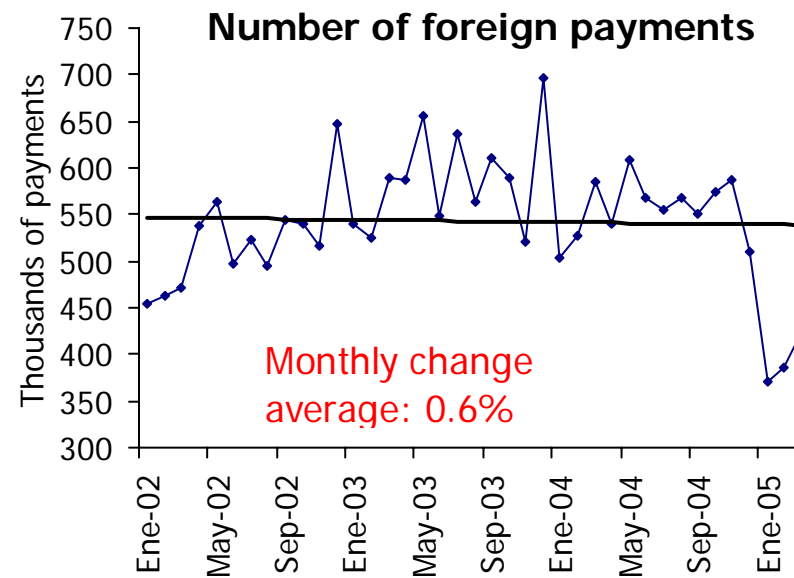
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Remittances in Colombia



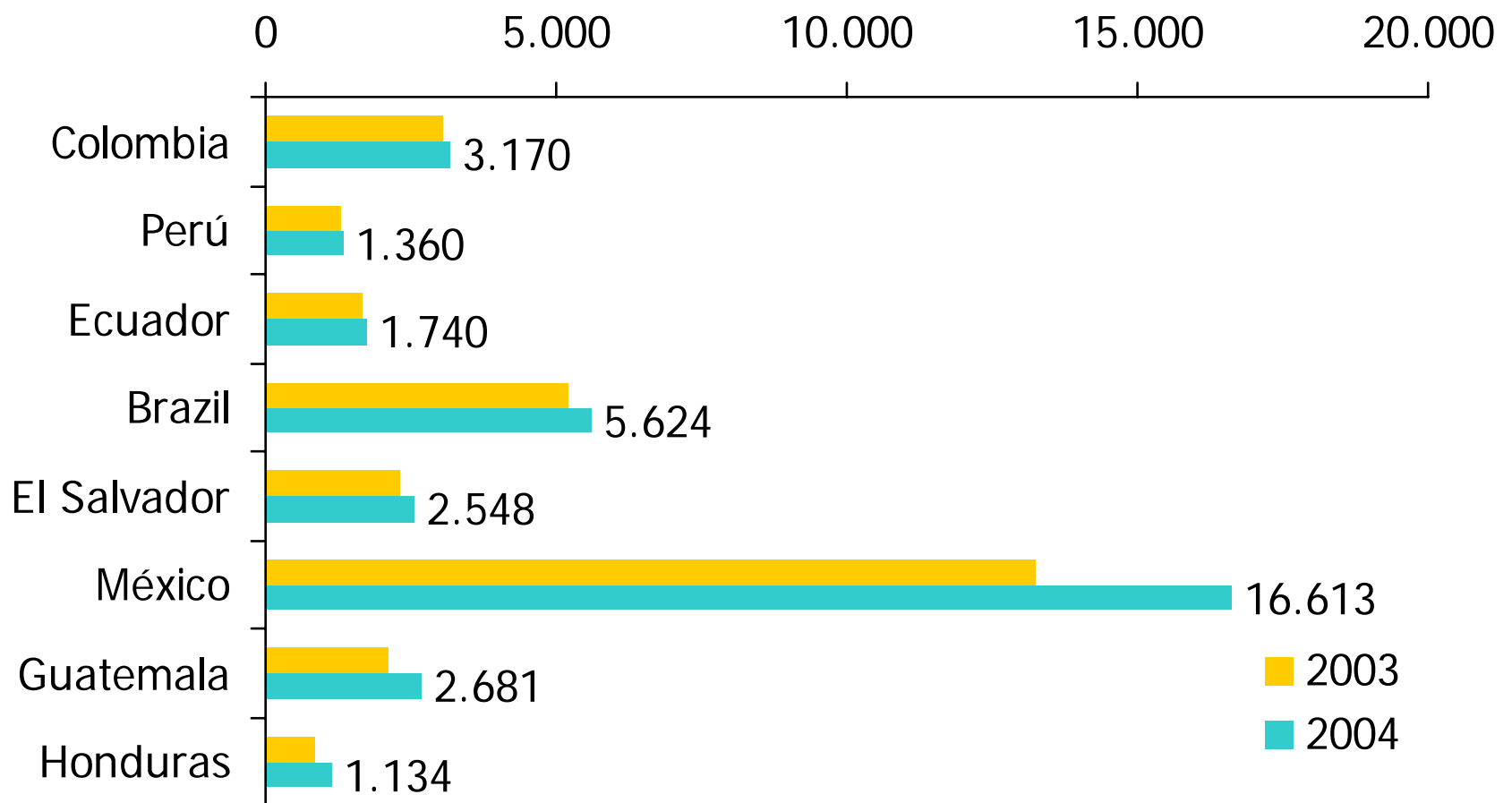
Source: Central Bank of Colombia and author calculations



Source: Author calculations with Superbancaria data

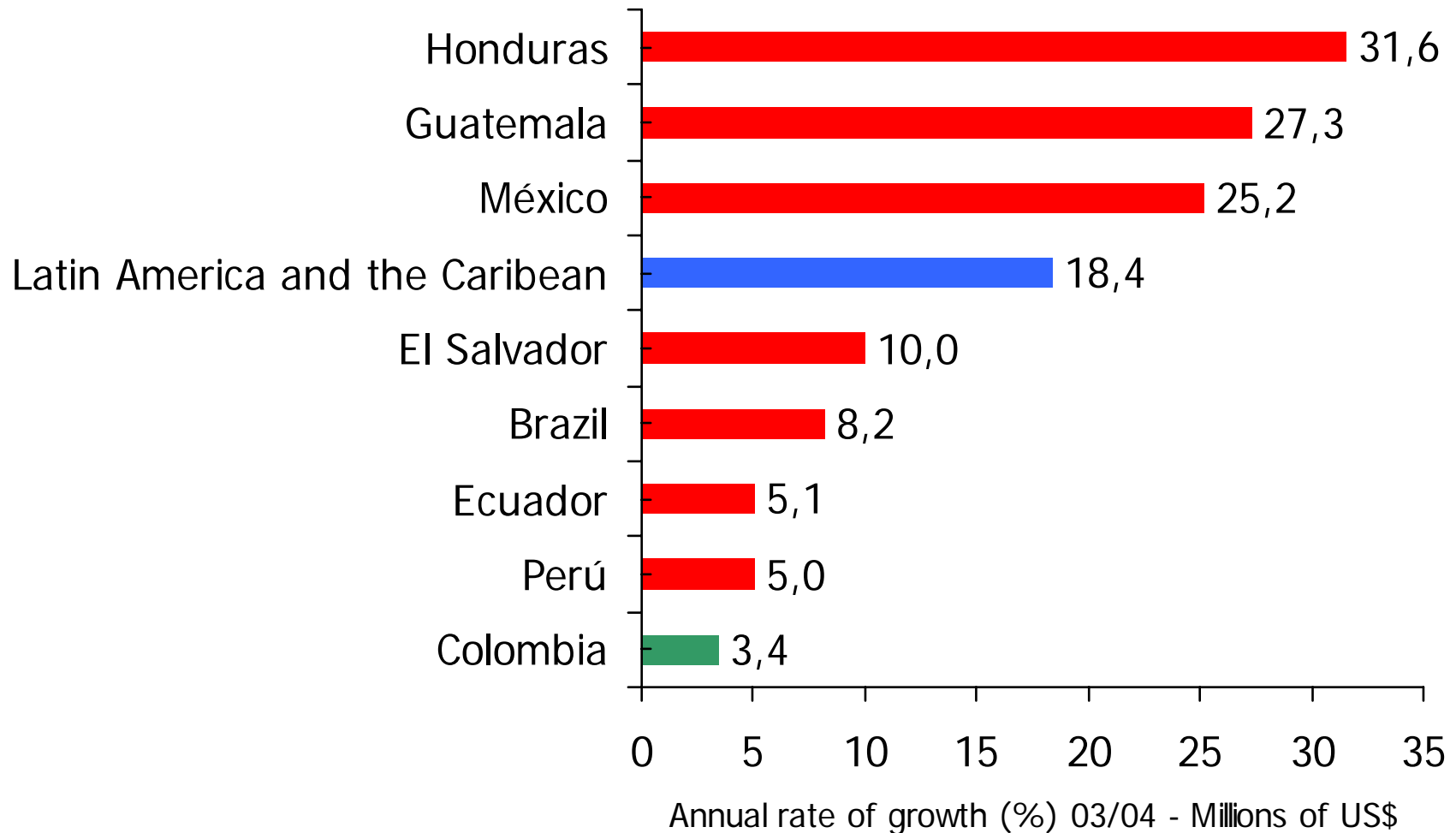
Remittances in LA

US Millions



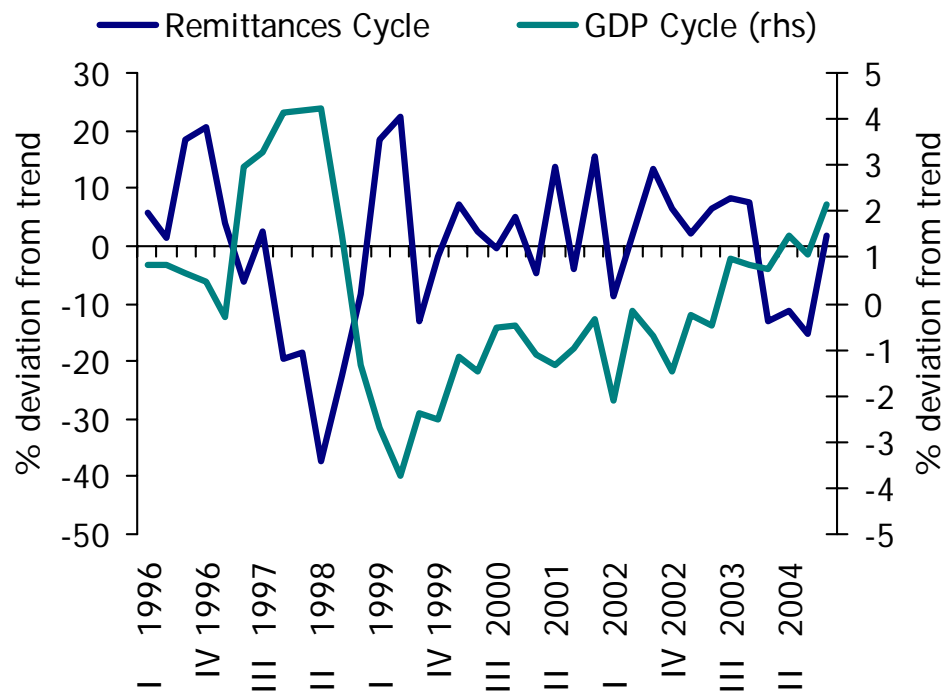
Source: Interamerican Development Bank - IADB

Remittances growth 04/03

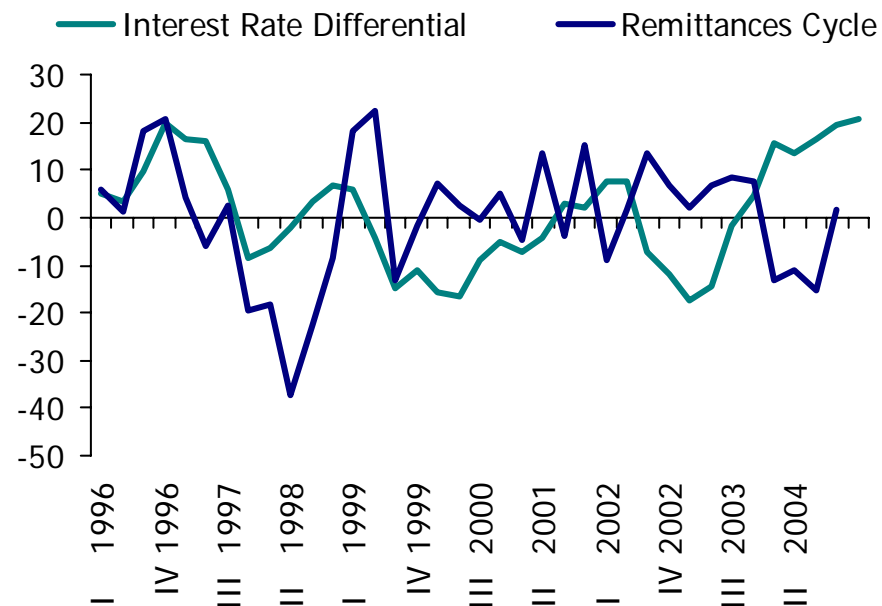


Source: Interamerican Development Bank - IADB

Stable and countercyclical



$r - r^* - \exp$ (devaluation)



Source: Author calculations - Central Bank and DANE data

Remittances and international financial markets

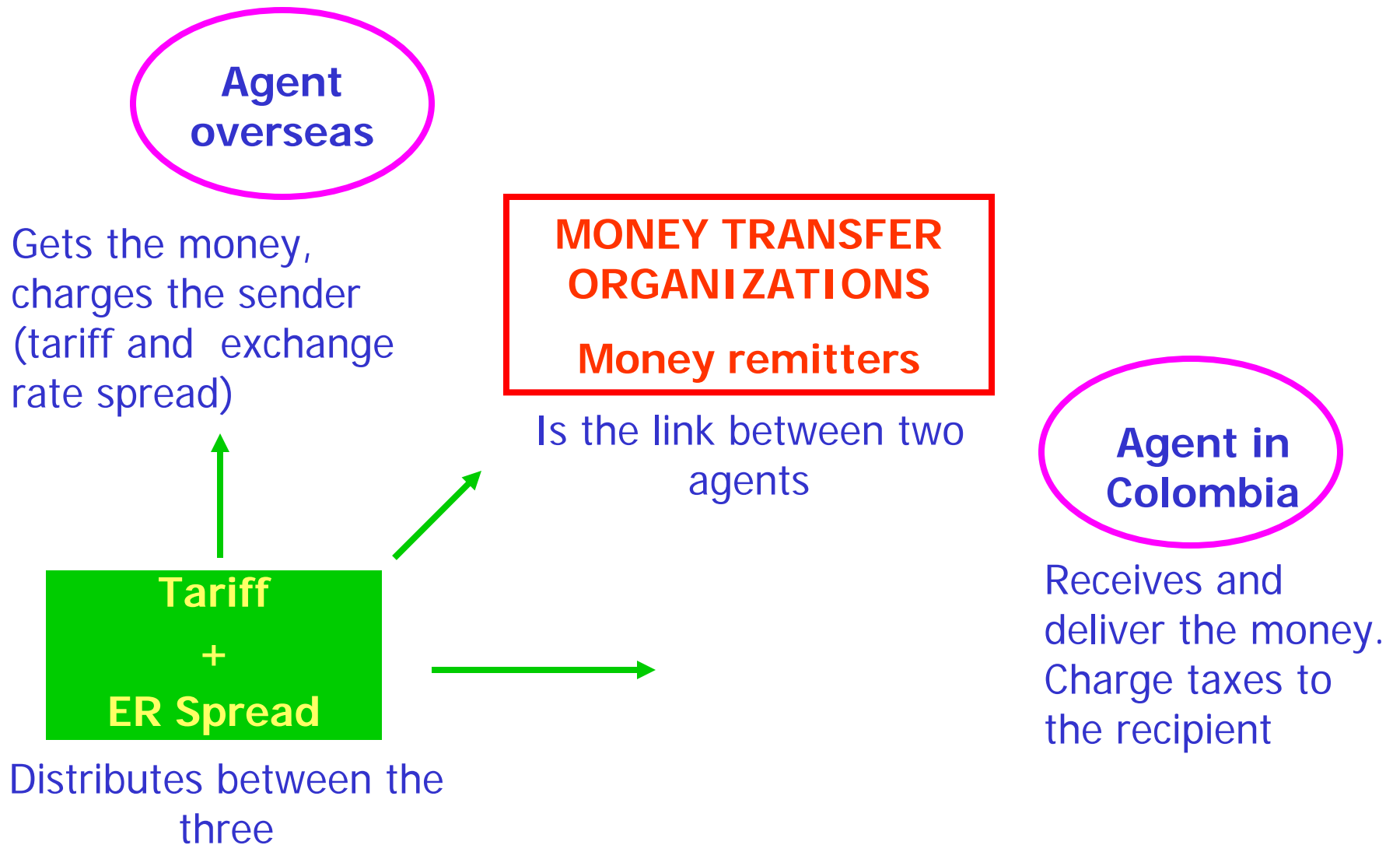
Dependent variable: remittances cycle (HP)	Equation 1	Equation 2
Constant	-0.15	-0.19
(t statistic)	(-0.04)	(-0.05)
Interest rate differential	0.11	-
(t statistic)	(0.41)	-
Interest rate differential (-1)	-	0.27
(t statistic)	-	(0.93)
Time period	1996:1 – 2004:1	1996:1 – 2004:1
Observations	33	32
Durbin Watson	1.91	1.93
R ²	0.005	0.03

Source: author's estimations

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The business of remittances



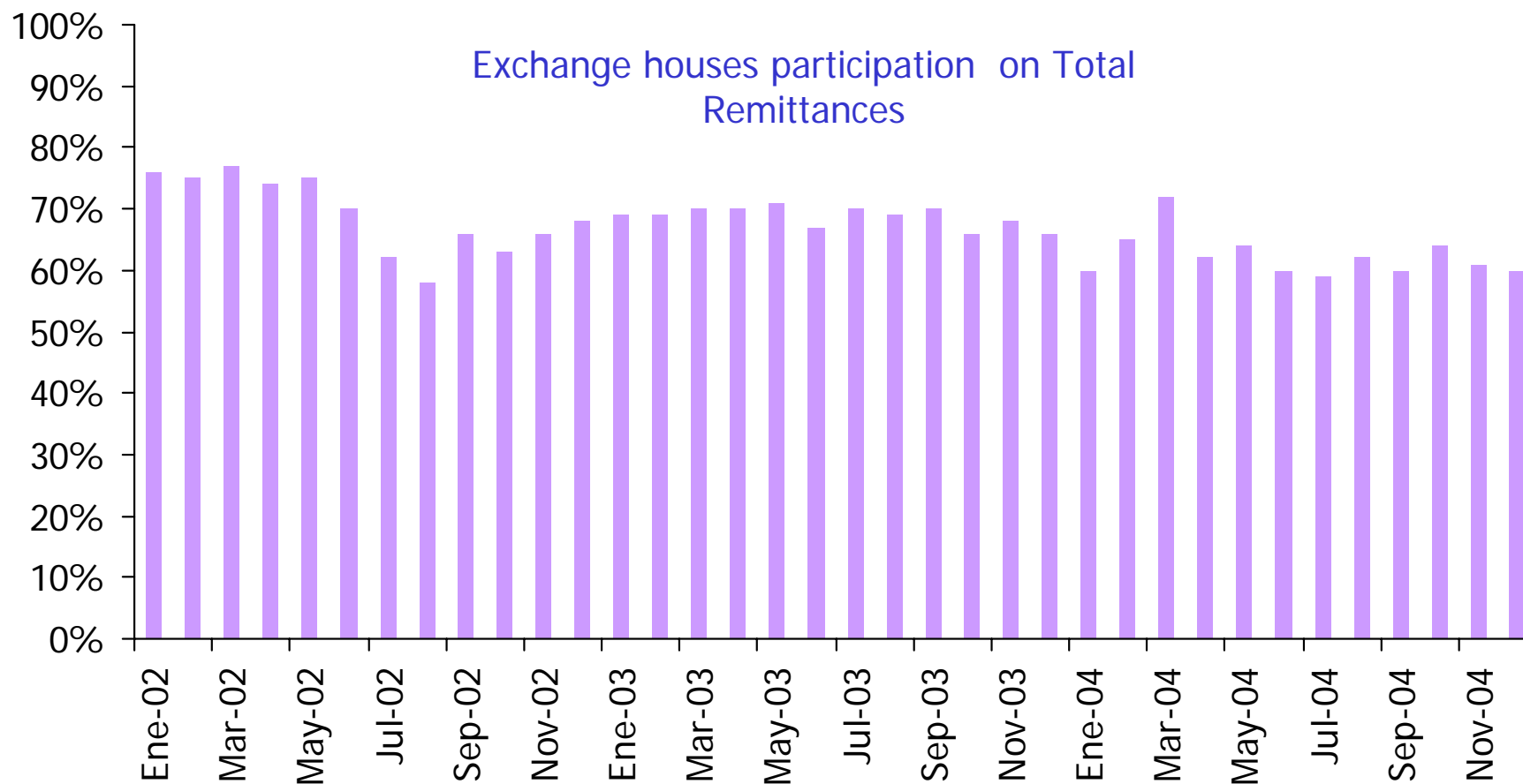
Agents in Colombia

- Banks and financial corporations
 - Exchange houses- *casas de cambio*
 - Non credit or deposit institutions
 - Main point of remittances arrivals
-
- Professional exchangers
 - Money exchange
 - Deal with cash currencies but not remittances

REMITTANCES
INTERMEDIARIES

UNAUTHORIZED

Exchange houses are the main point of remittances arrivals

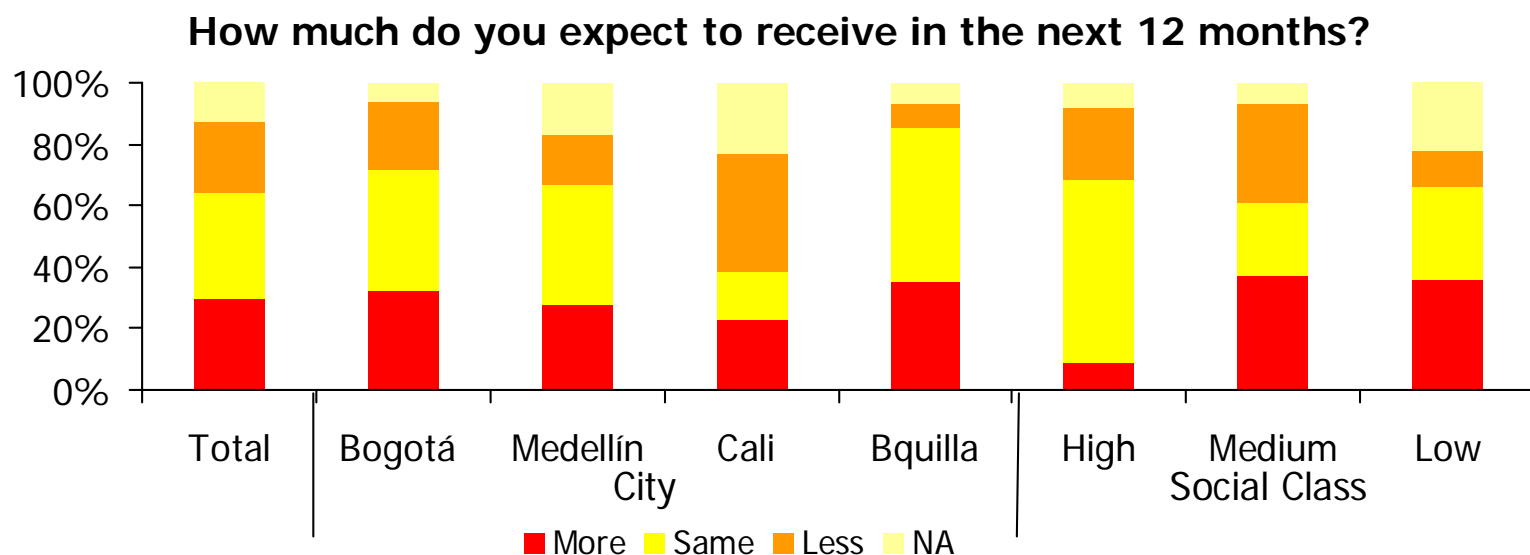
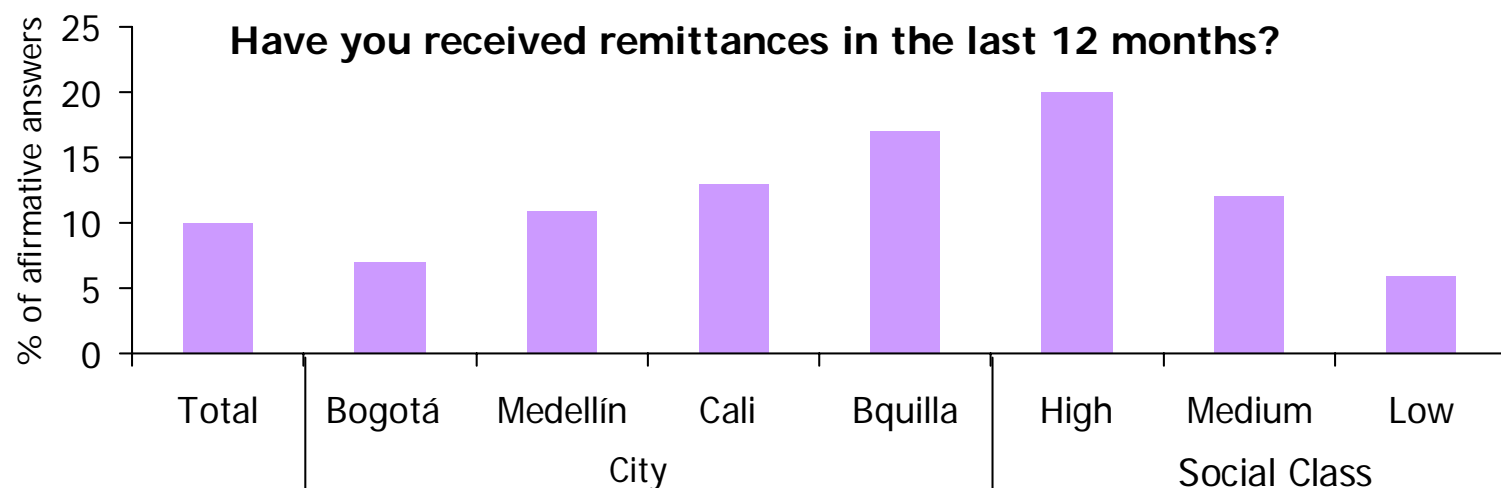


Source: Author calculations with Superbancaria data

Agenda

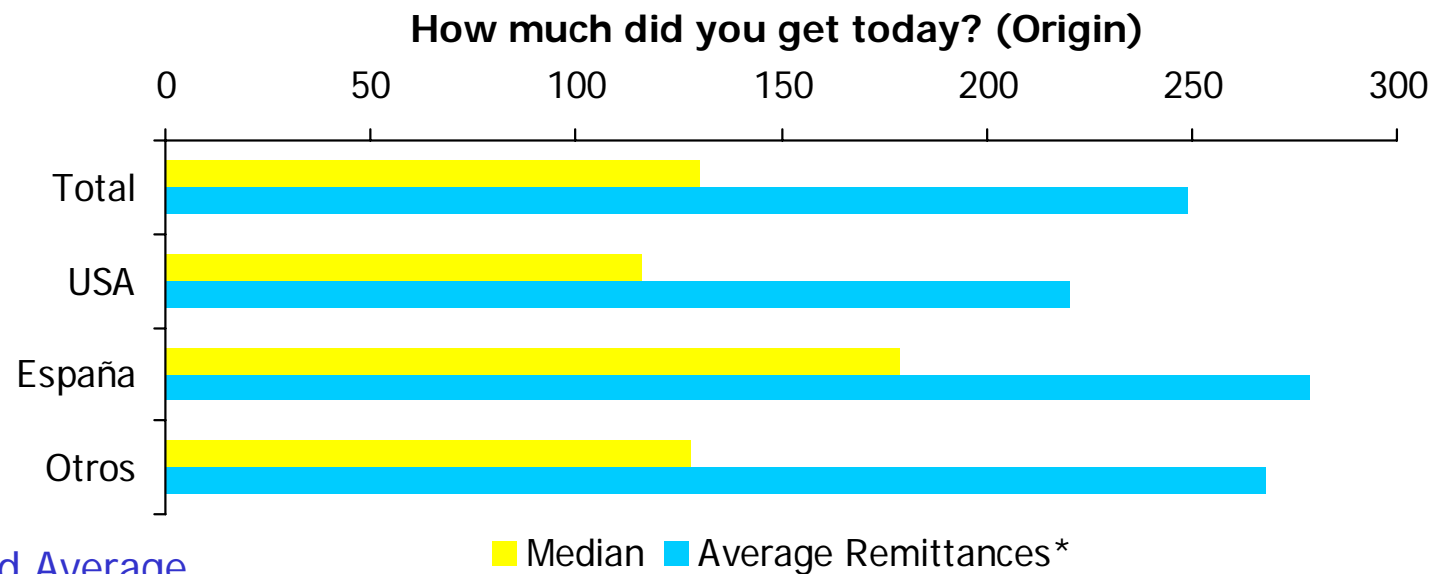
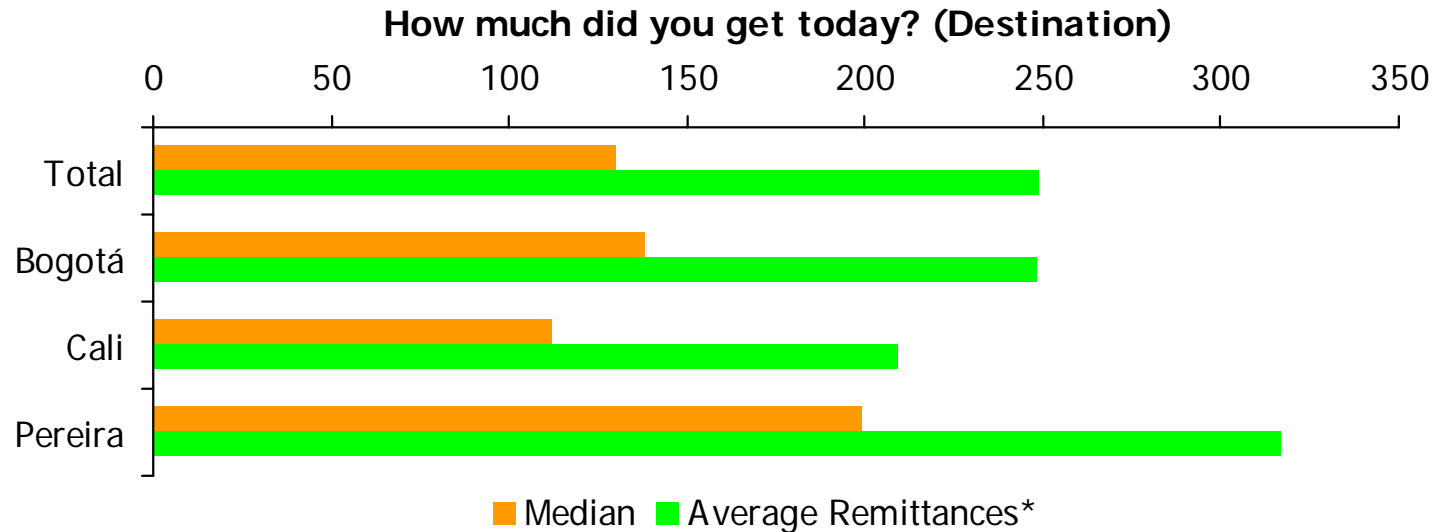
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A lot of homes received and will continue to receive remittances



Source: Consumer Confidence Survey Fedesarrollo- Invamer Remittances module Jul-2004

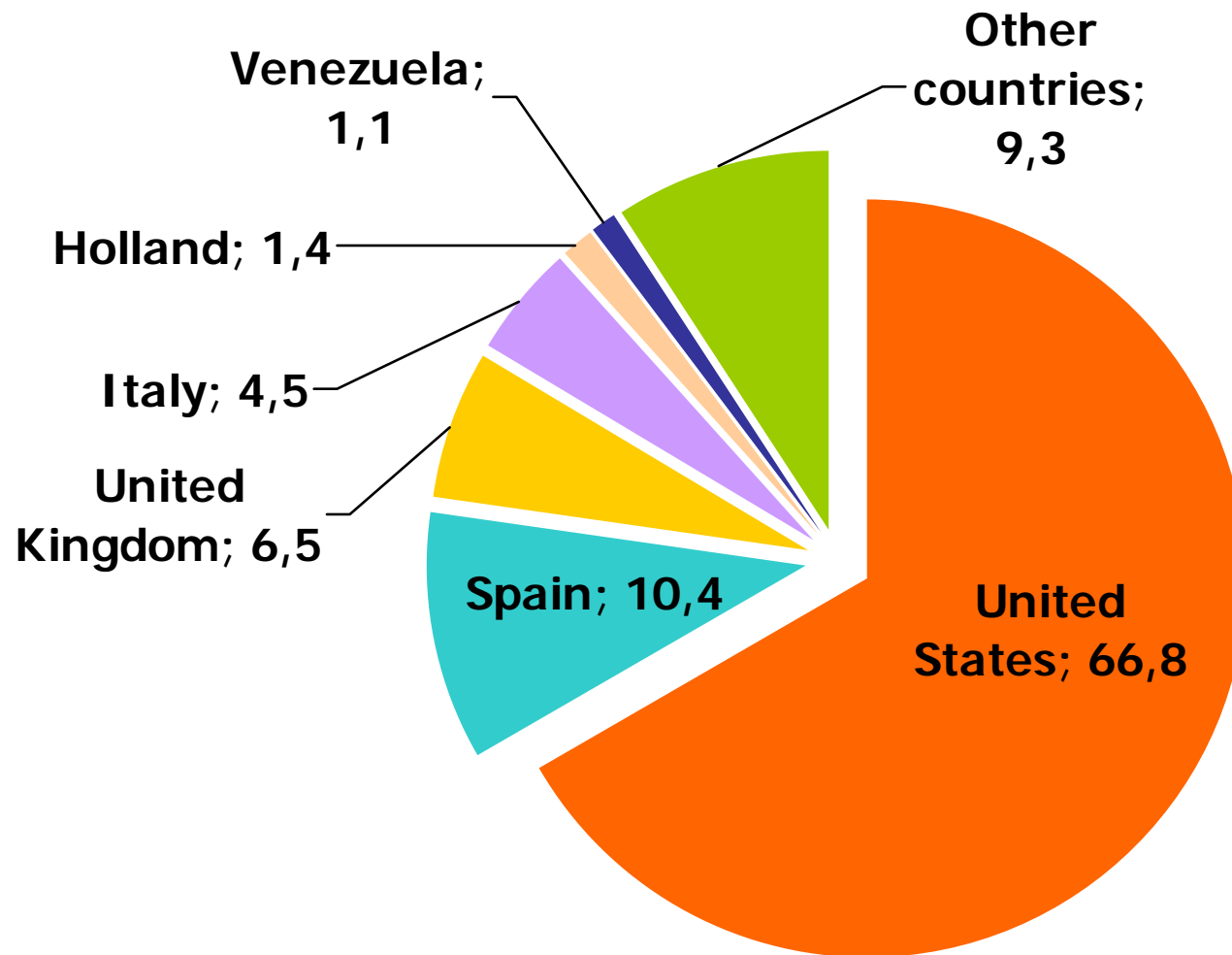
How much do they receive?



* Centered Average

Source: Remittances recipients Survey-Exchange houses

Origin of Colombian remittances

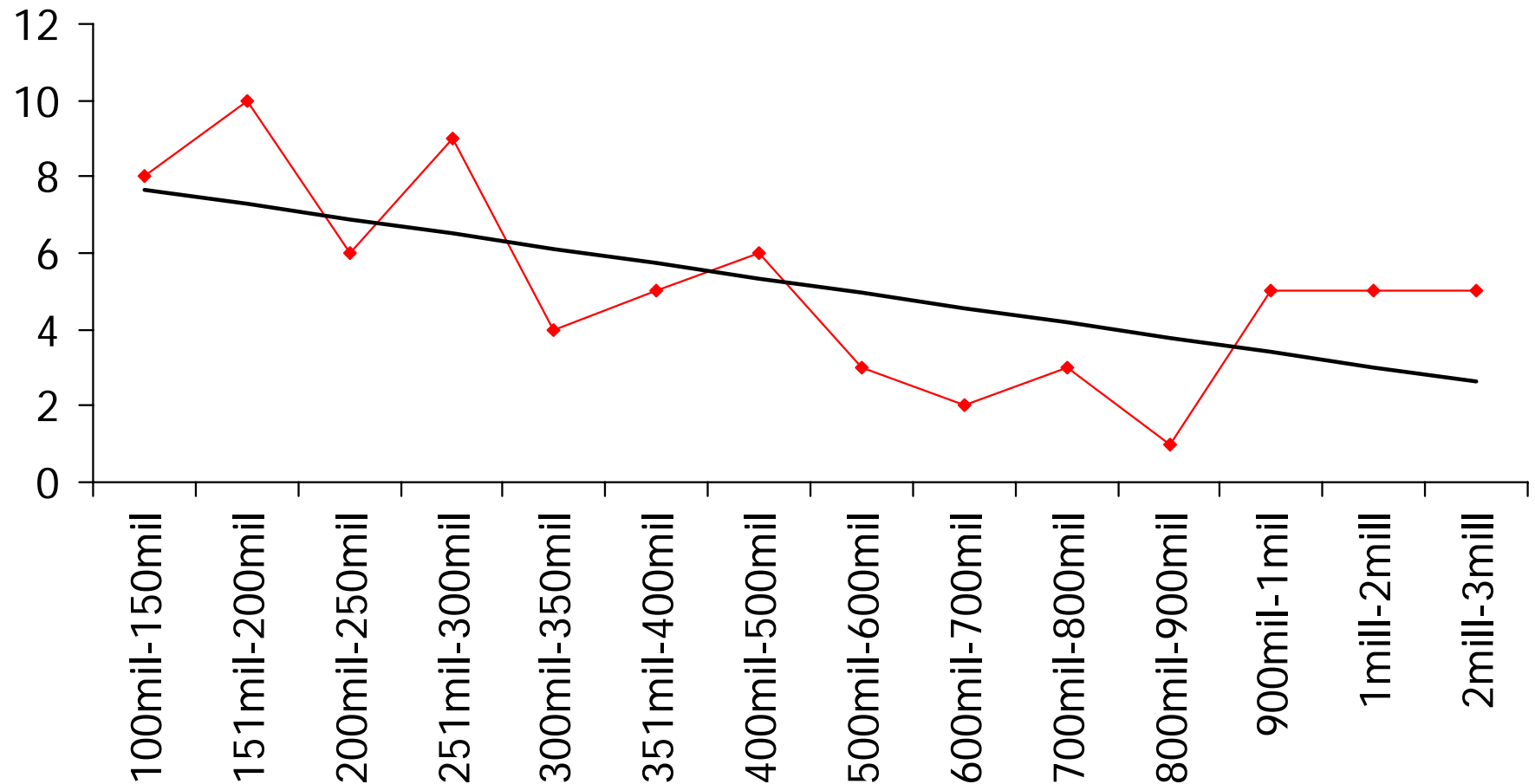


Source: Banco de la República.

How much do families receive?

% Distribution of received amounts

Colombian Pesos

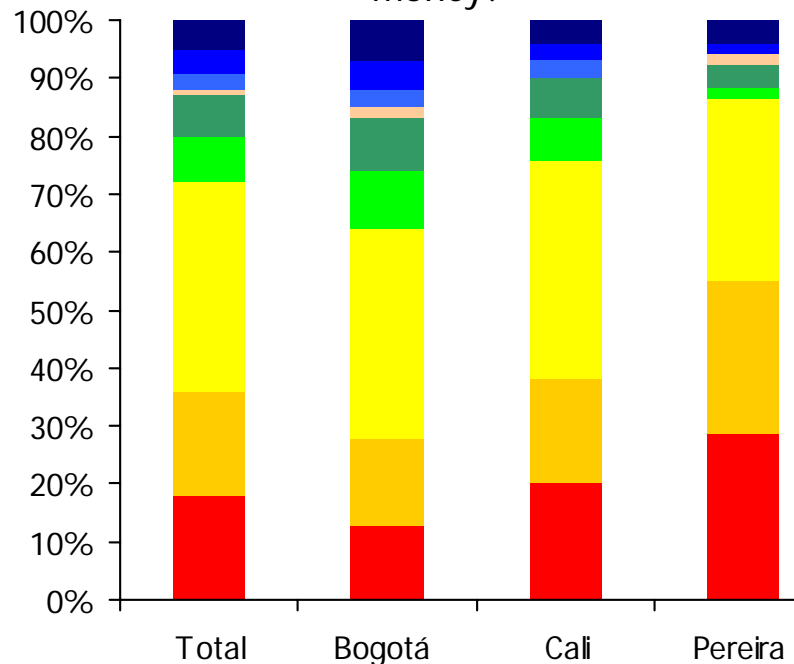


Source: Remittances recipients Survey-Exchange houses

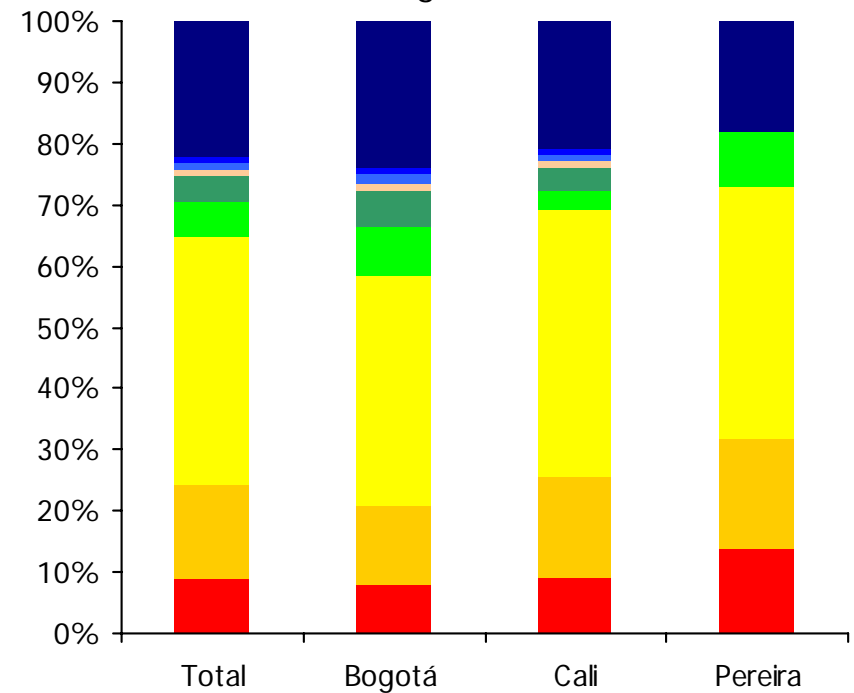
How often do they get them?

- One week
- One month
- Three months
- 5 or 6 months
- NA
- 15 days
- Two months
- Four months
- More than 6 months

When was the last time you received money?

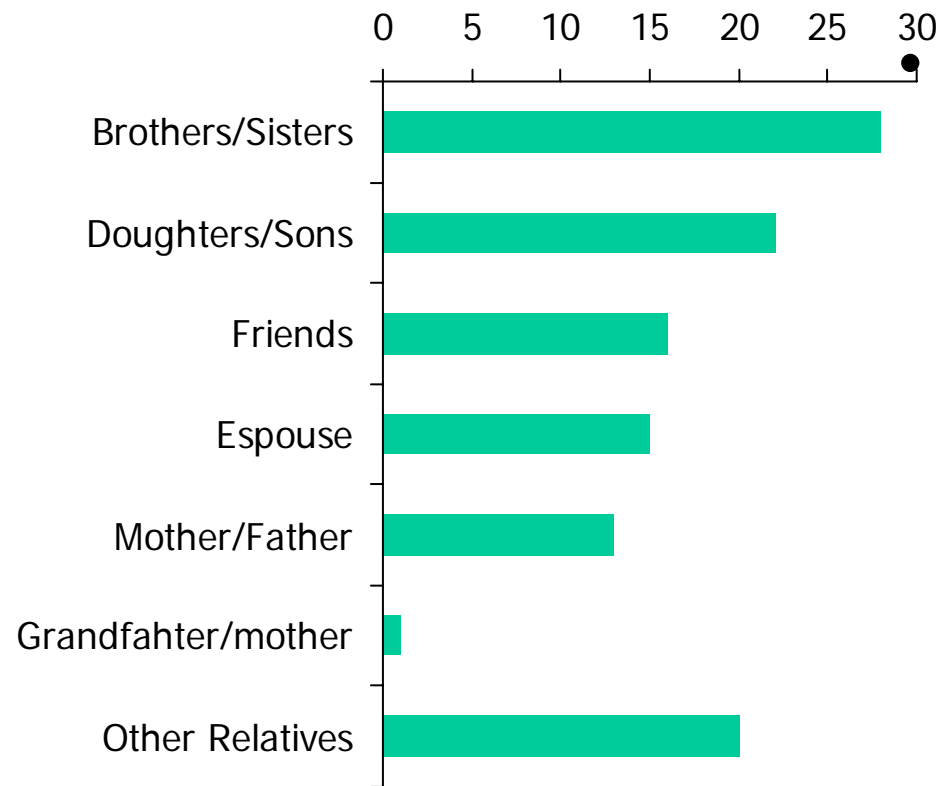


When are you expecting to receive money again?



Source: Remittances recipients Survey-Exchange houses

Who sends them?

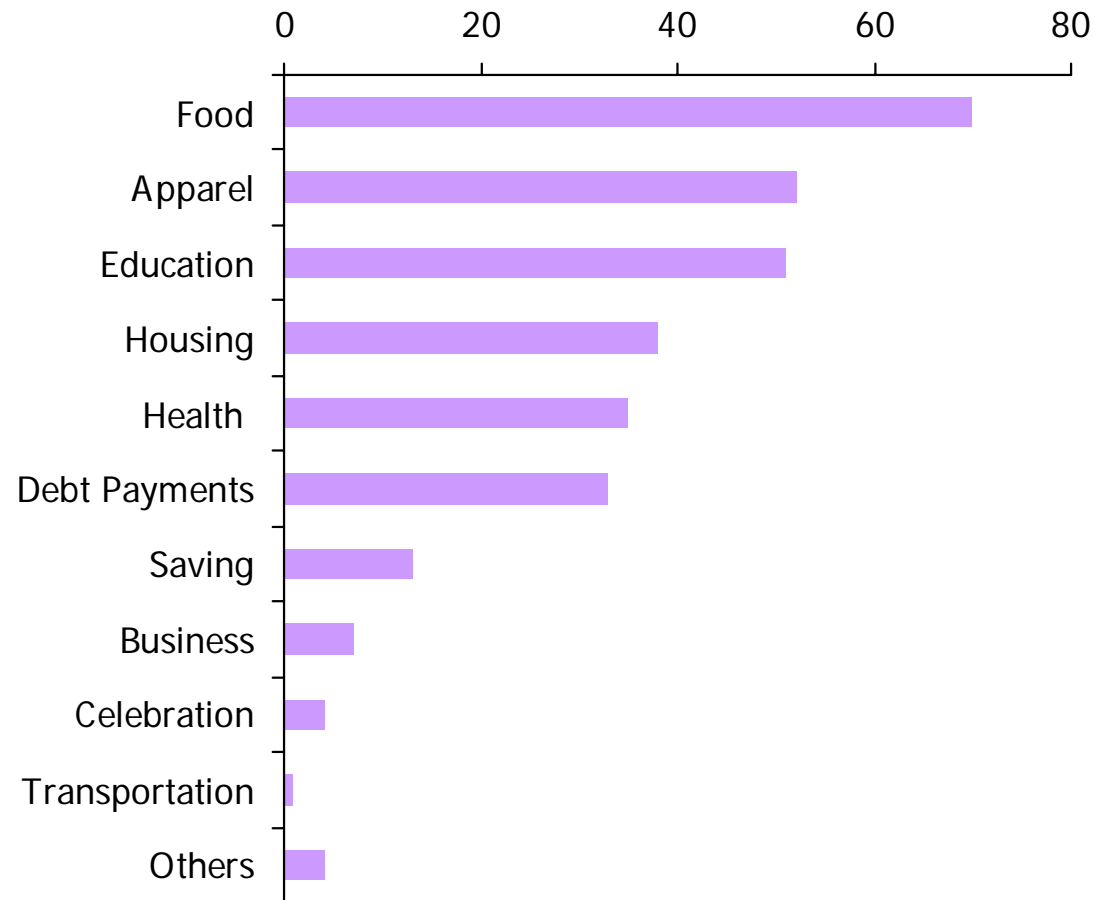


Most of them went abroad looking for a better job (69%) and ways to help their families with extra money (17%)

Source: Remittances recepients Survey-Exchange houses

What do they use them for?

- Remittances are a gift (71%)
- They are used to afford basic needs



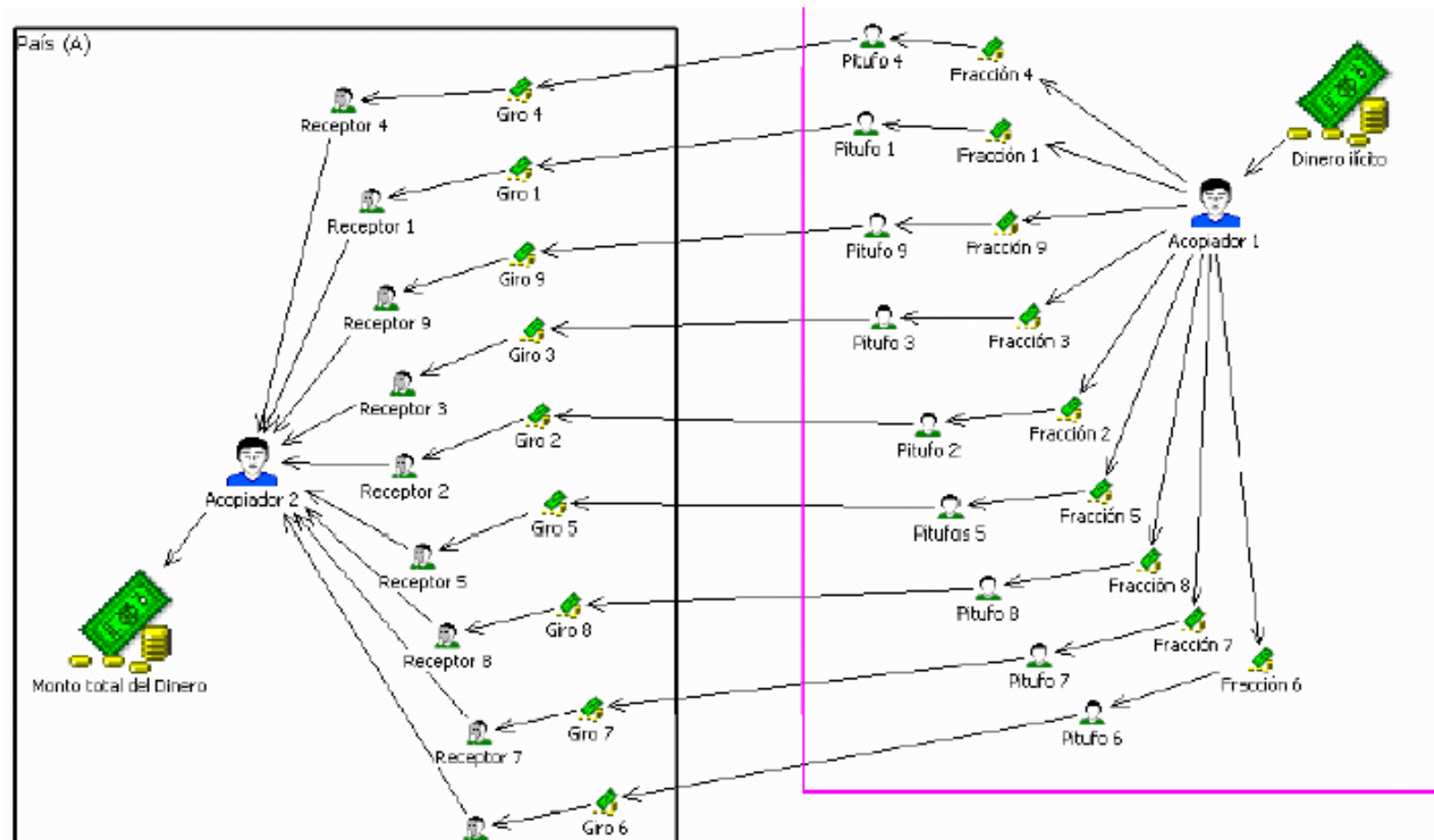
Source: Remittances recipients Survey-Exchange houses

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Money laundering through international payments

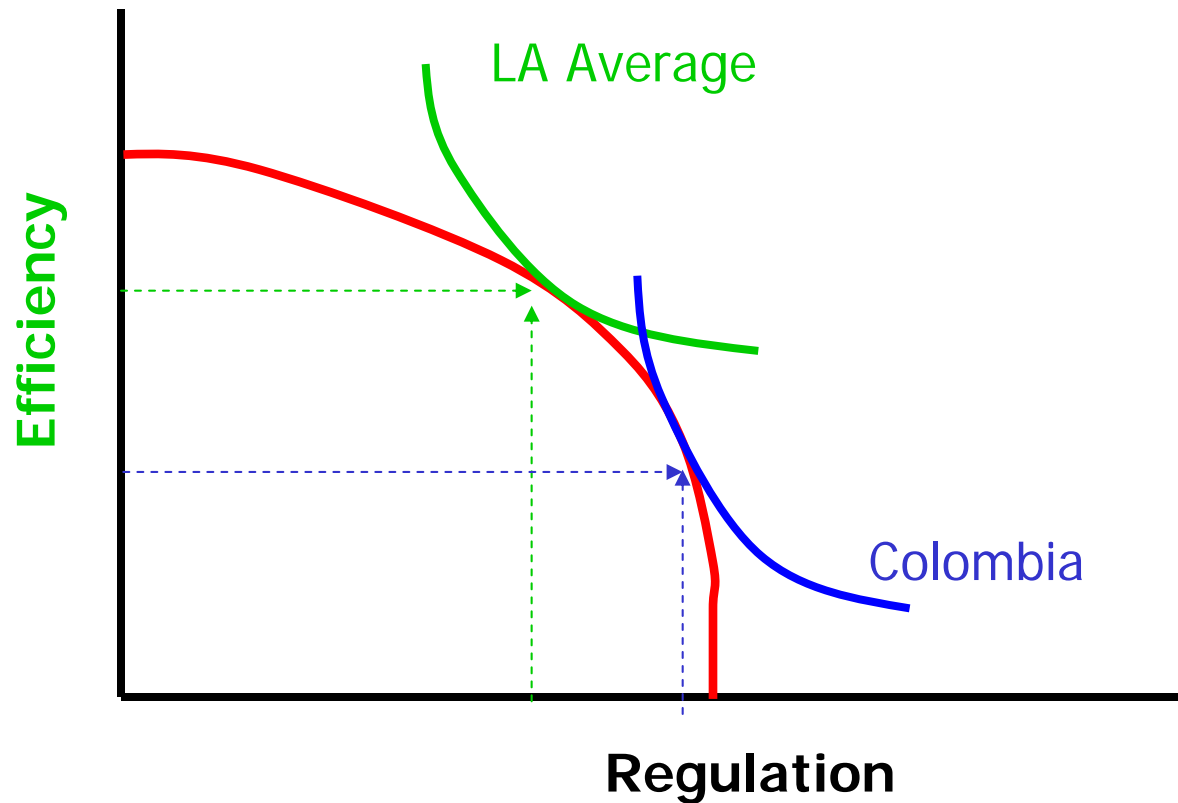
Ilicit money is partitioned through money orders



Cost-Benefit Analysis

Source: UIAF

Regulation and efficiency relation



The Colombian conflict has address the equilibrium to one with more regulation. This could rise the costs

Anti-laundering regulation

General guidelines:

- Patriot Act
- EOSF (Decreto-Ley 663 of 1993, Leyes 190 of 1995, 365 of 1997 and 526 of 1999)
- Adopting sufficient rules to avoid money laundering is mandatory
- External Bulletin 025 of 2003 *SIPLA*
 - Client knowledge
 - Warning signs
 - Electronic consolidation of operations
 - Transactions report (multiple transactions and cash)
 - Identification of unusual actions
 - Suspicious operations report (to **UIAF**)

Anti-laundering regulation

Specific regulations

	Exchange houses	Banks and other financial inst.
Cash operations report	From US 500	From US 5.000
Multiple Transactions Report	From US 1.500	From US 50.000
Checks payments for foreign currency	From US 3.000	Form US 10.000
Exchange Operations Report	Yes	No
Exchange Operations Report	From US 200	From US 200



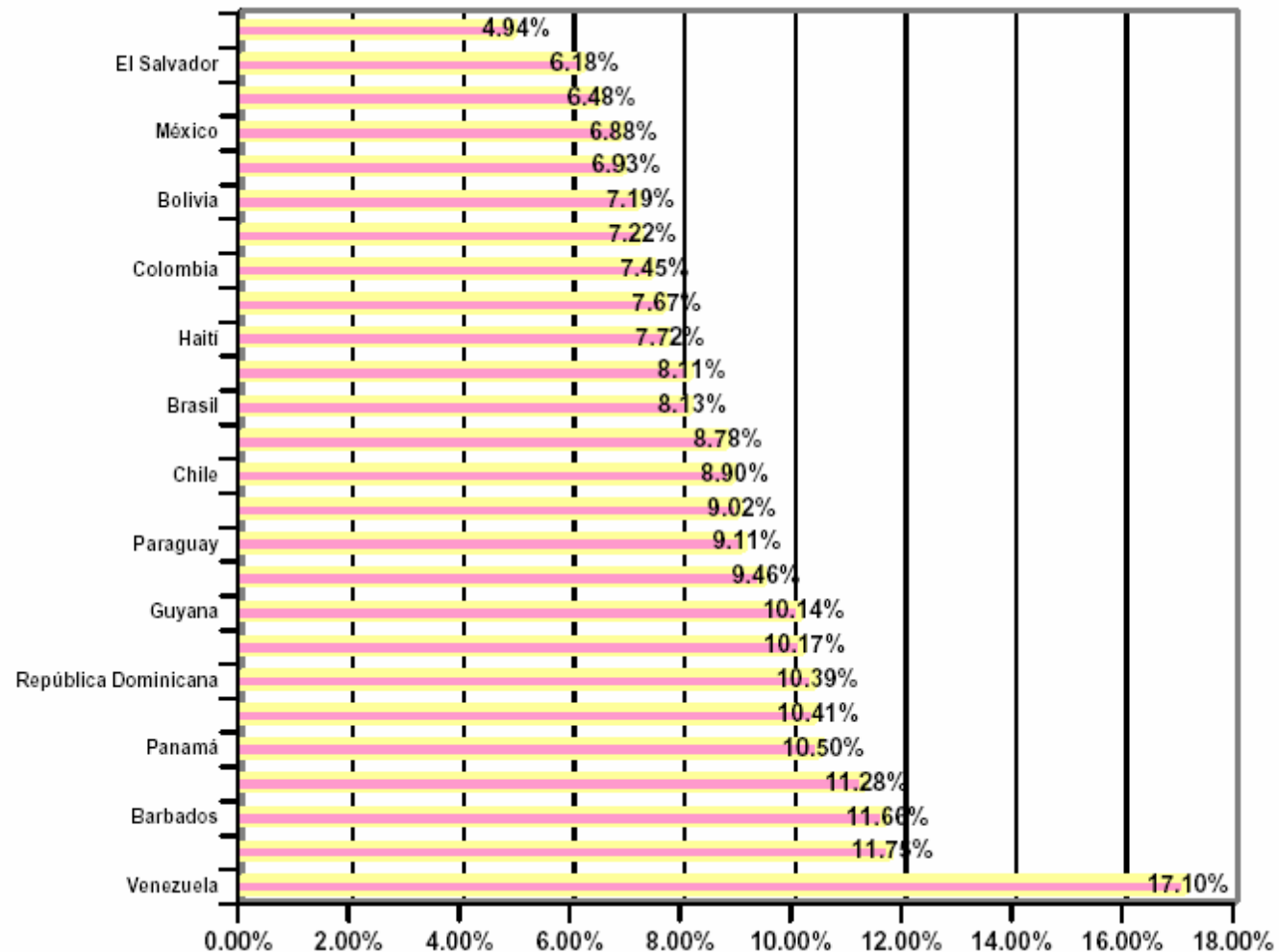
Feb, 2005

Source: Bulletin 025/03 Resolution 8/00 JDBR Circular 4004 Superbancaria

Agenda

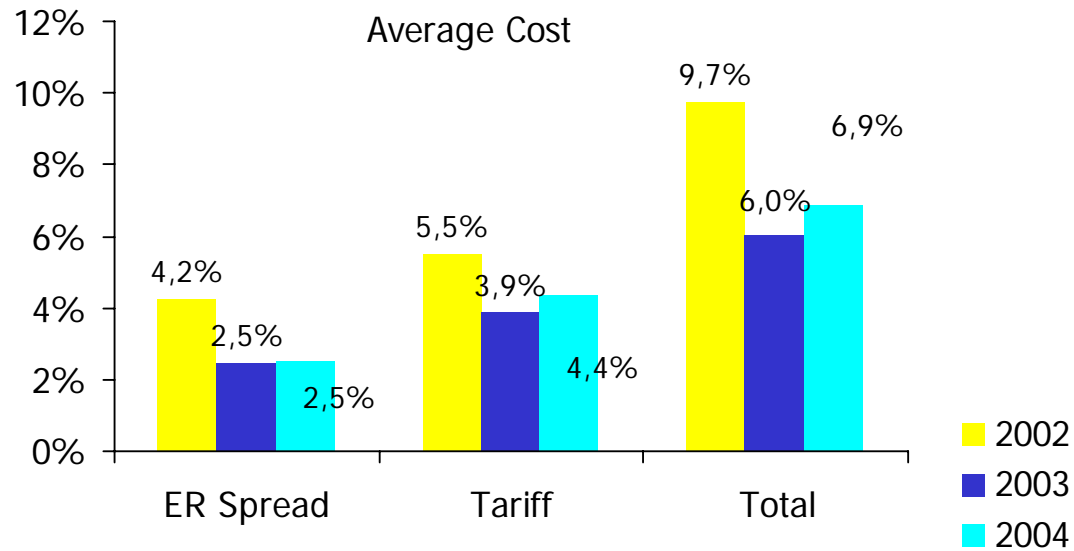
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Costs are still low within LA countries

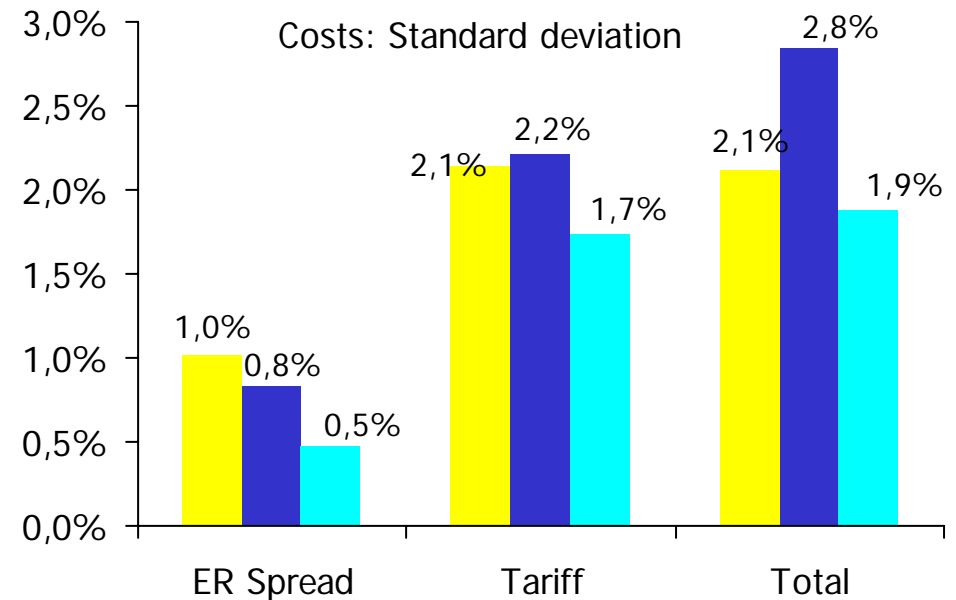


Source: Manuel Orozco (2004)

But they seem to be rising

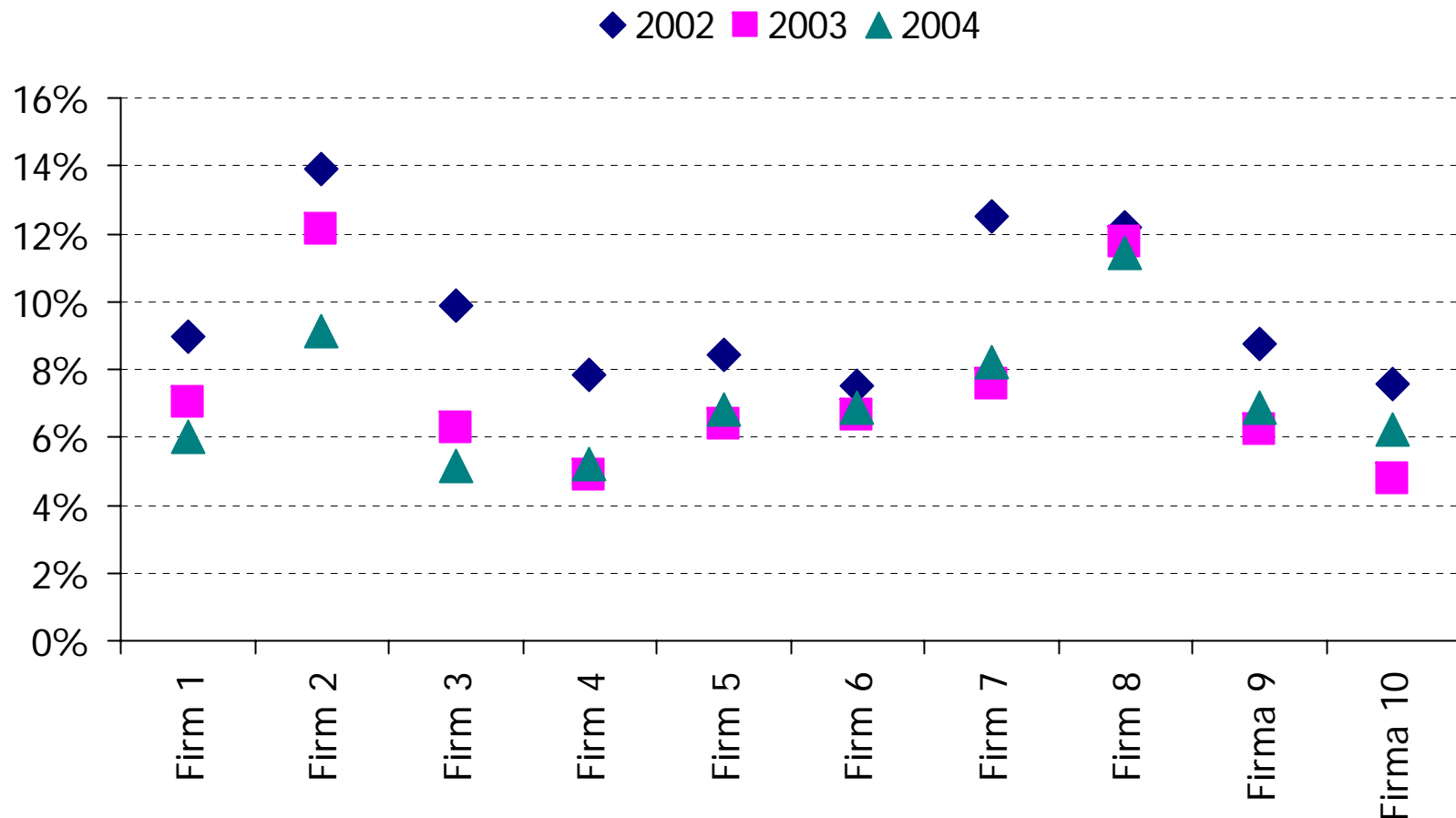


Average cost of sending US
200, 250 and 300 for all
companies



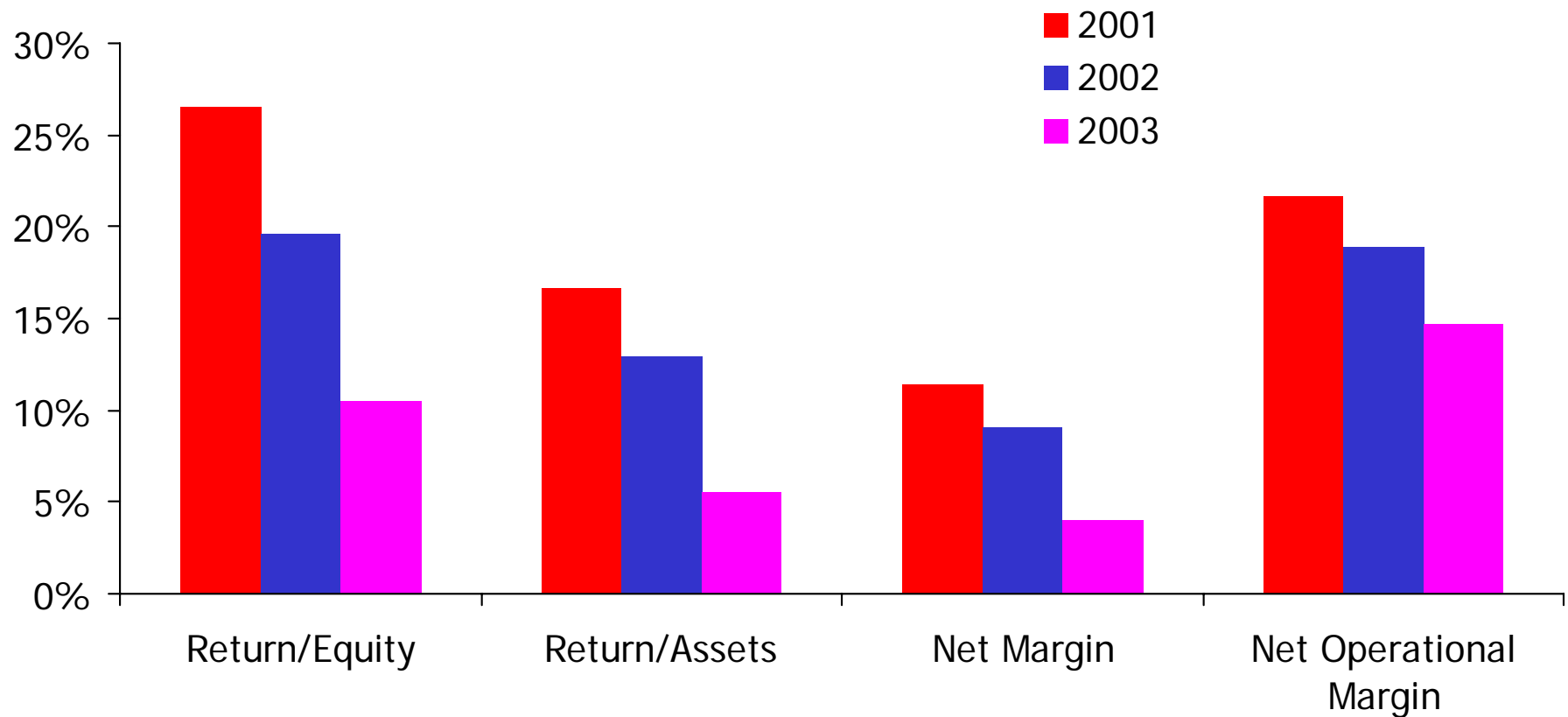
Source: Authors calculations with Manuel Orozco's data

Costs have decreased from 2002 and the market is less heterogonous



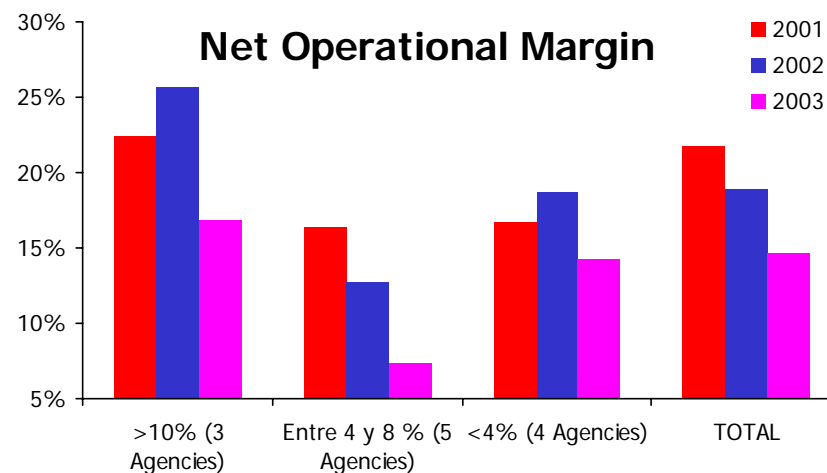
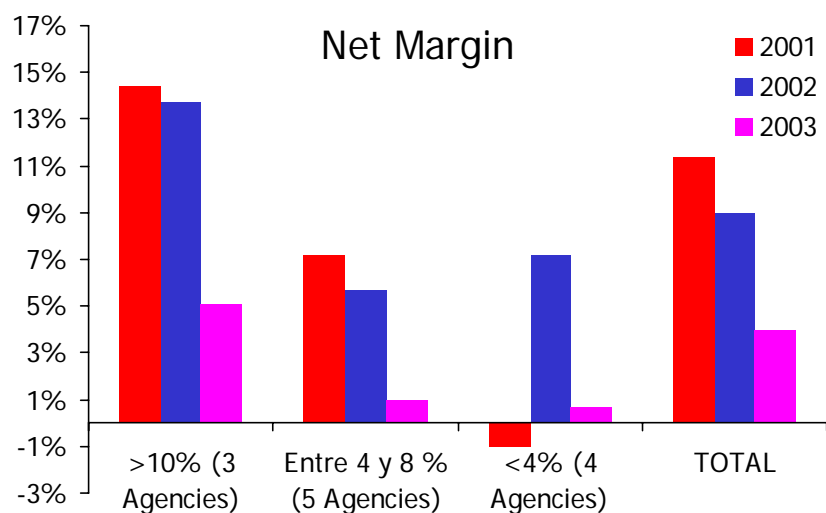
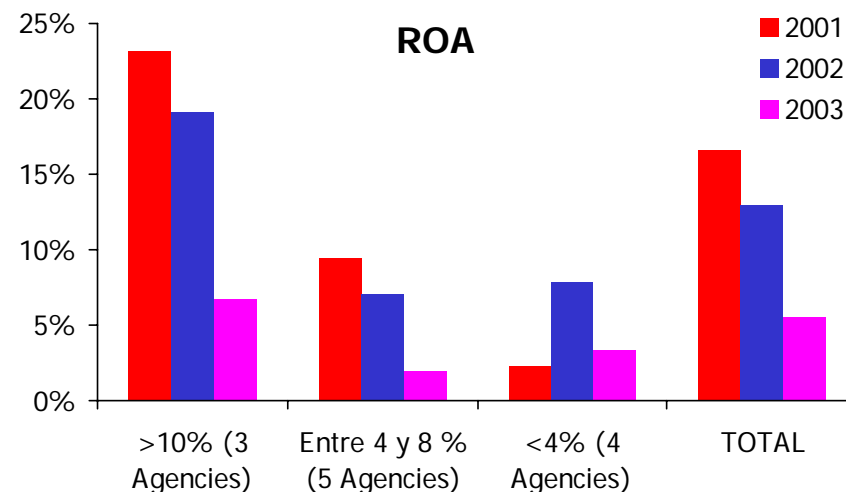
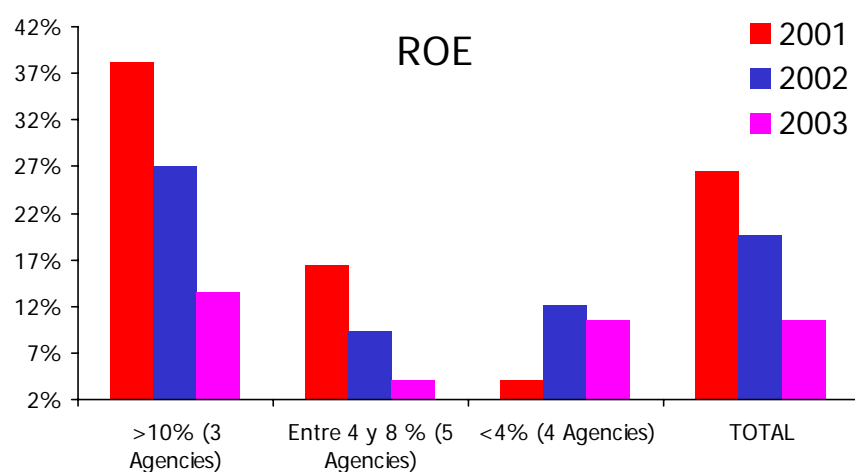
Source: Authors calculations with Manuel Orozco's data

Profits and margins of business have decreased



Source: Authors calculations with Superbancaria data

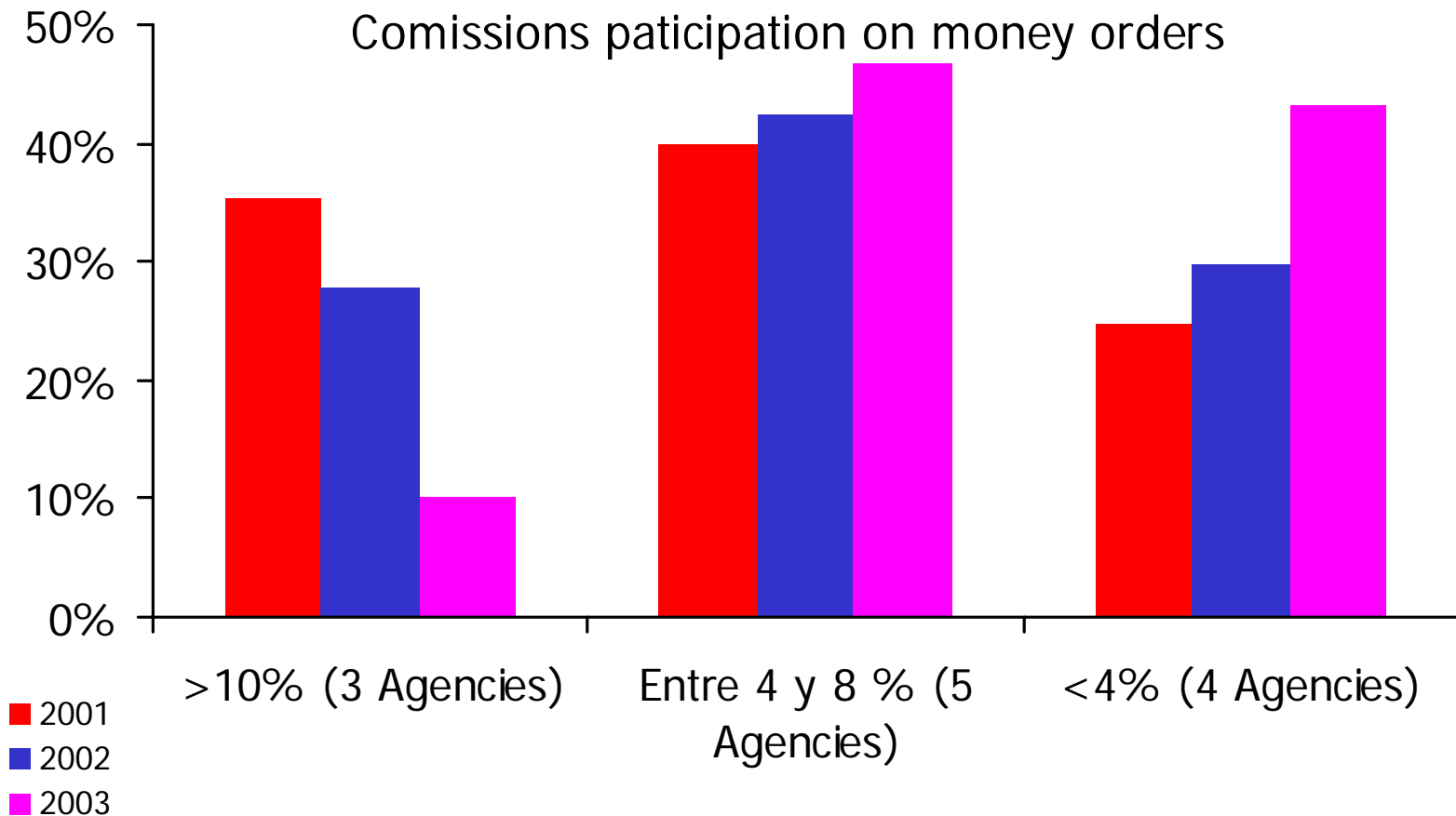
Maybe they moved to a less concentrated industry



Market size corresponds to 2001

Source: Authors calculations with Superbancaria data

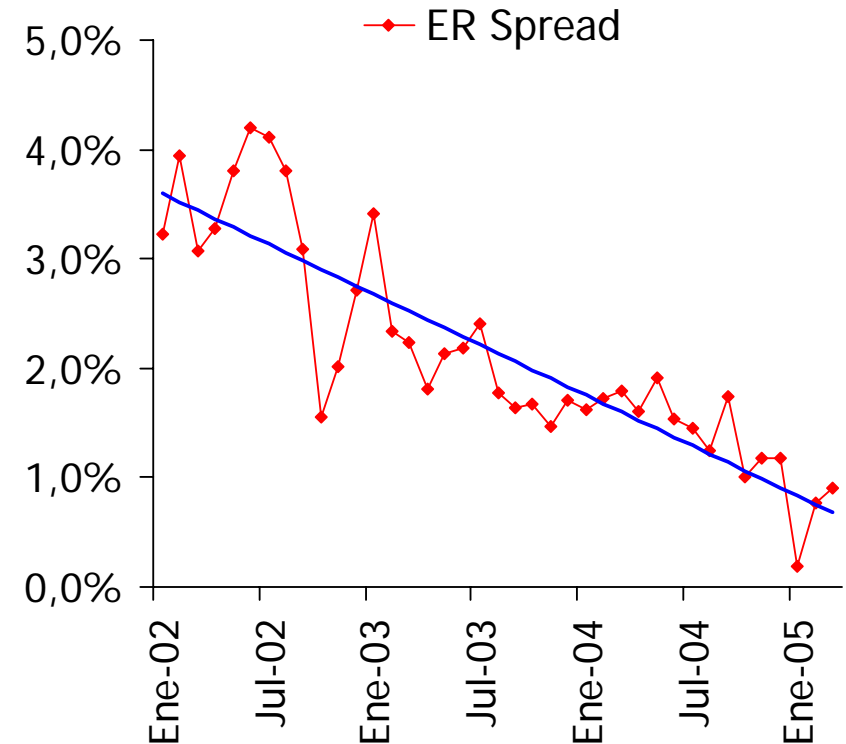
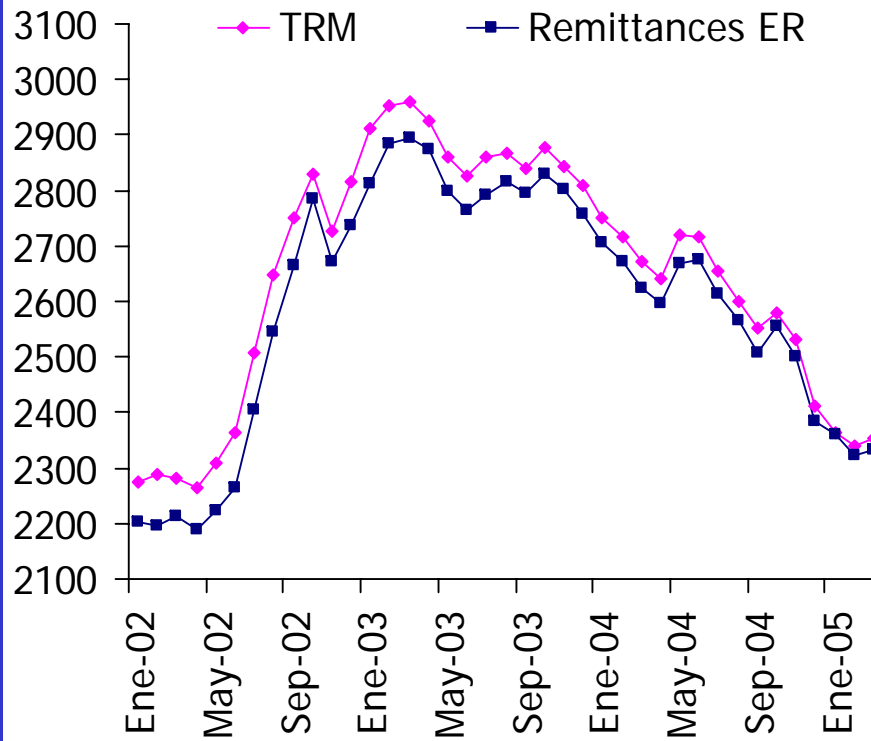
Mostly in commissions



Market size corresponds to 2001

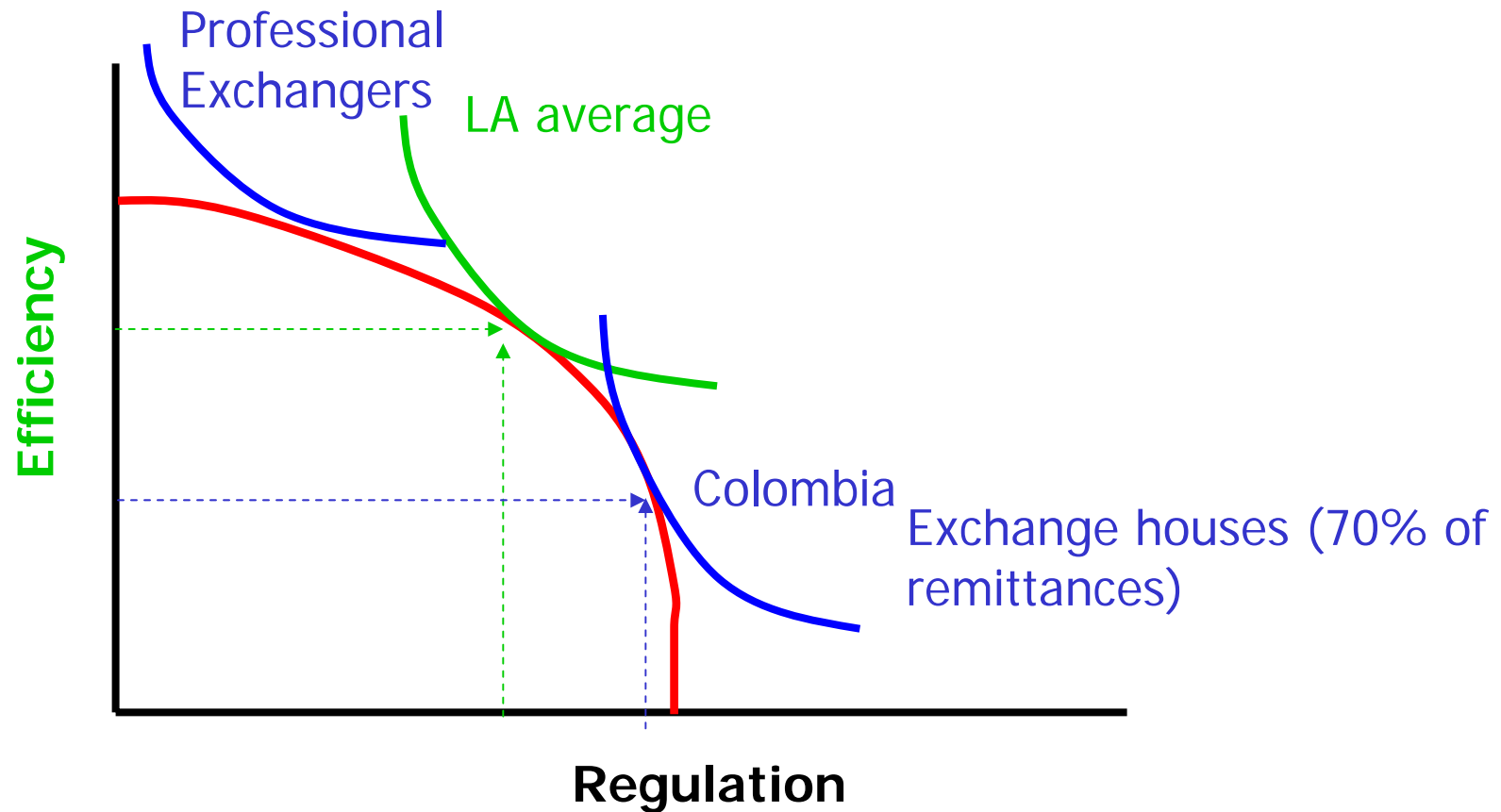
Source: Authors calculations with Superbancaria data

Which allowed a reduction in the exchange rate spread



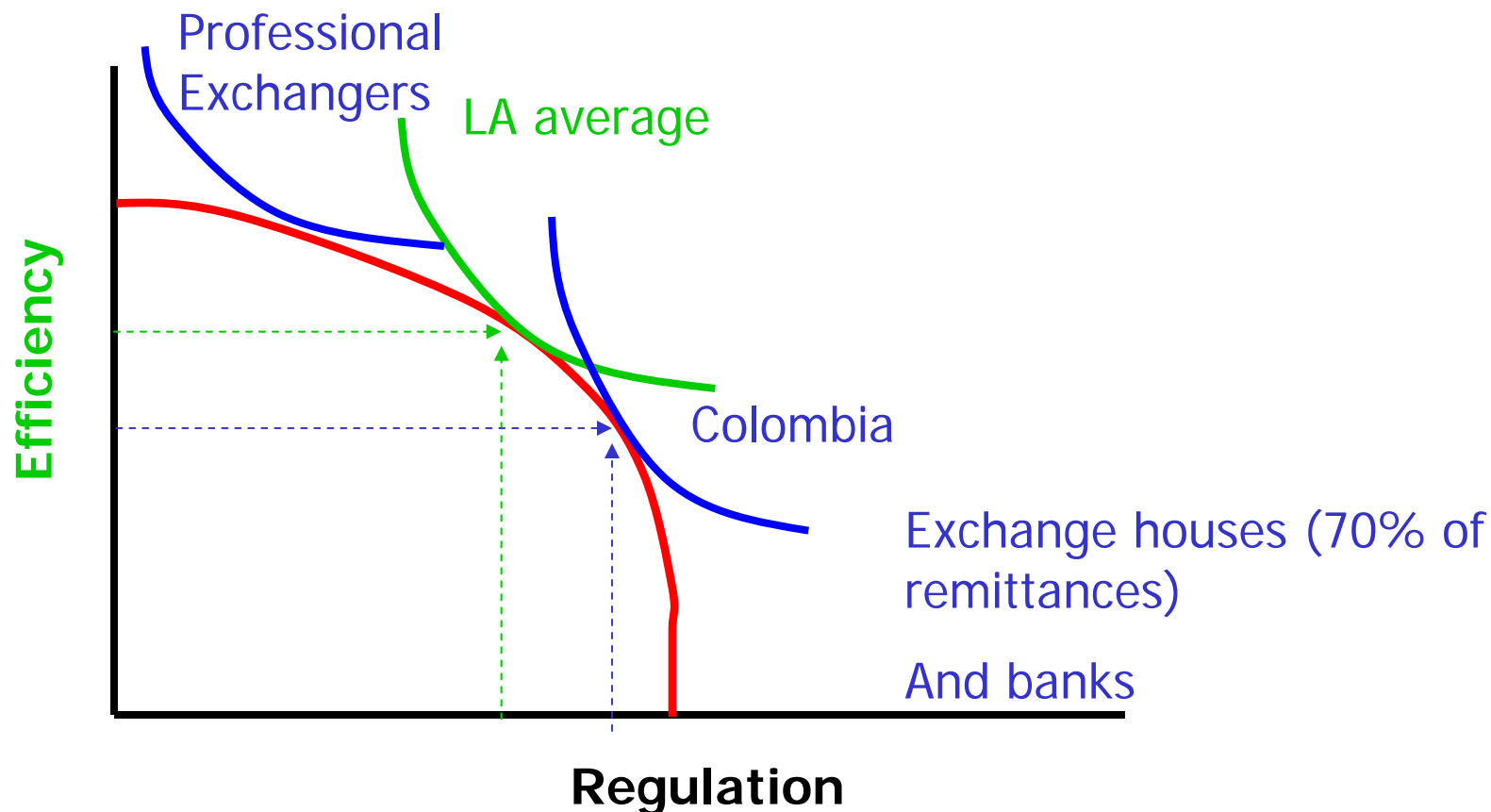
Source: Authors calculations with Superbancaria data

Regulation and efficiency relation



The regulation has an implicit bias against remittances

Regulation and efficiency relation



Very recently, after this paper was finished and published, the authorities remove some controls from the exchange houses and reinforce others for the banks, now regulation for remittances is more symmetrical but the bias continues

Adopting controls in other market segments

Professional Exchangers

- Unregulated Market
- Have not fulfilled regulations (Bulletin 0170 DIAN)
- 3.210 are registered in the Chamber of Commerce
- In June 1.500 were punished for not reporting their operations
- Their sales to the IMC were 2.6 times greater in July of 2004 (US\$782 millions)
- 6/04 Bulletin will require registration for them
- The Central Bank won't receive deposits of foreign currency from the IMC

Conclusions

- Colombia has one of the lowest costs and is the regional leader in anti- money laundering regulation
- Homes are expecting transfers to rise in part due to costs reductions
- Regulation suggests that money laundering through the remittances mechanism is costly, riskily and highly inefficient
- Remittances should not be restricted, they allow consumption smoothing
- Are private resources, their owners make rational decisions about their most efficient use
- Anti-laundering regulation must focus to other agents of the market

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