

REMITTANCES PROGRAMME

International Remittances in Colombia

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CENTRE FOR LATIN AMERICAN MONETARY STUDIES
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Foreword

Due to the growing importance of family remittance flows in the region, in mid-2004 the Centre for Latin American Monetary Studies (CEMLA) and the Multilateral Investment Fund (MIF) began designing a Project aimed at improving the statistical measurement of these flows. MIF's financial contribution was approved by its Donors Committee in February 2005 under the title of "Improvement of Central Bank Information and Procedures in the Area of Remittances" (RG-M1059) while in April of the same year CEMLA's Board of Governors, meeting in Cartagena, Colombia, formally approved the Centre's participation as Executing Agency for the project. The institutional arrangements for this Statistical Measurement Project (as it became known) also comprise a Working Group on Remittances (WGR) formed by experts from central banks in the region and a Remittances International Steering Committee (RISC) formed by experts from extra-regional central banks and international organizations that support the Program.

When the execution of the above Statistical Measurement Project was still in its early stages of research and preparation of materials and methodologies, the opportunity arose to broaden its scope to cover other aspects related to the topic of remittances in the region: in March 2006 the World Bank and the Bank for International Settlements (BIS) promulgated the "General Principles for the Provision of International Remittances Services", whose aim is to provide a general basis for analyzing remittances markets with a payments system approach so as to help countries improve their functioning and reduce their costs.

In three-way conversations between CEMLA, MIF and the World Bank it was decided to integrate a second project to the activities carried out by the Centre in the area of remittances, aimed at evaluating the degree of approximation to said principles exhibited by the various national remittances markets in the region. In September 2006 MIF approved additional financial support in the form of a project for the "Application of the General Principles to the Remittances Markets in Latin America and the Caribbean" (RG-M1083), while during their meeting in Manila, Philippines in the same month, the CEMLA Board of Governors approved this expansion of the Centre's activities.

This second aspect of the Remittances Programme at CEMLA (the General Principles Project) is backed by technical collaboration from the World Bank, whose experts in this field take part in the missions sent to the participating countries (23 of 30 central banks in the region). In order to take advantage of the economies of scale and scope presented by the widening of activities, it was decided that joint country-missions with an integral approach should be sent for in-depth analysis of the Statistical Measurement and General Principles aspects. It was also agreed that the convergence and coordination between both Remittances Program components should be handled in the setting of the Payments Forum, a regional initiative launched jointly by the World Bank and CEMLA, under the Technical Secretariat of the latter.

The program seeks to attain its objectives by sending country missions to study both the measurement of flows and the workings of remittance markets, whose deliverables shall include confidential reports to the authorities with recommendations for improvements, as well as public reports describing the relevant aspects of the market. The organization of sensitization events, training courses and technical assistance is also planned.

The current report, "*International Remittances in Colombia*", is the first of the descriptive public reports in the series, and was prepared with the active participation of *Banco de la República (Colombia)*.

Kenneth Coates
Director General
CEMLA

Donald Terry
General Manager,
MIF/IADB

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This Report is based on the findings of the Mission that visited Colombia in December 2006, formed by two teams that coordinated their work in the field of international remittances. The team was led by René Maldonado from the Center for Latin American Monetary Studies. The other members of the international team were Salvador Bonilla (Banco de México), John Wilson (Program consultant) and Ana Laura Sibaja (Payments Forum, CEMLA). The international team coordinated its work with the local team comprising Enrique Montes, María Mercedes Collazos and Aarón Garavito, staff members of Banco de la República, Colombia.

This report was prepared by René Maldonado, Sandra González and the Banco de la República team formed by Enrique Montes, María Mercedes Collazos and Aarón Garavito, and was complemented by comments from Salvador Bonilla, Ana Laura Sibaja and John Wilson. Similarly we wish to express our appreciation to Patrocinio Tello, RISC member and Oscar Antonio Morales de León and Rubén Ramírez, WGR members, whose comments and suggestions helped shape the final version of this report.

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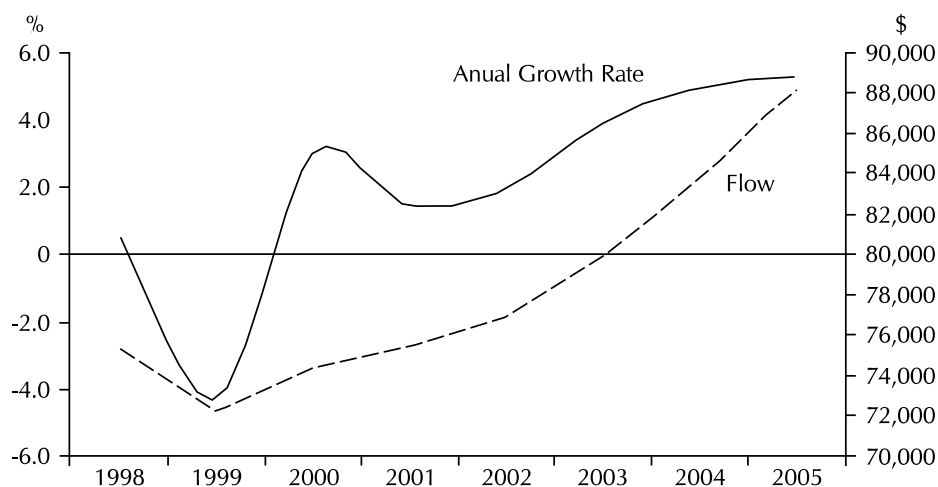
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1 ECONOMIC BACKGROUND AND THE REMITTANCES CONTEXT

1.1 THE MACROECONOMY

Between the years 1998 and 2000 there was a sharp fall in the growth rate of the Colombian economy. In these years the annual change in real GDP was close to zero in 1998 and negative (-4.2%) in 1999. GDP subsequently recovered its dynamism during the period 2000-2006 resulting in an average annual real growth rate of 3.8% with consecutive increases as from 2001 until reaching a maximum of 6.8% in 2006 (see Graph 1). The economic sectors which most contributed to this performance were construction, manufacturing and commerce.

Graph 1. GDP at Constant 1994 Prices
(Billions of dollars)

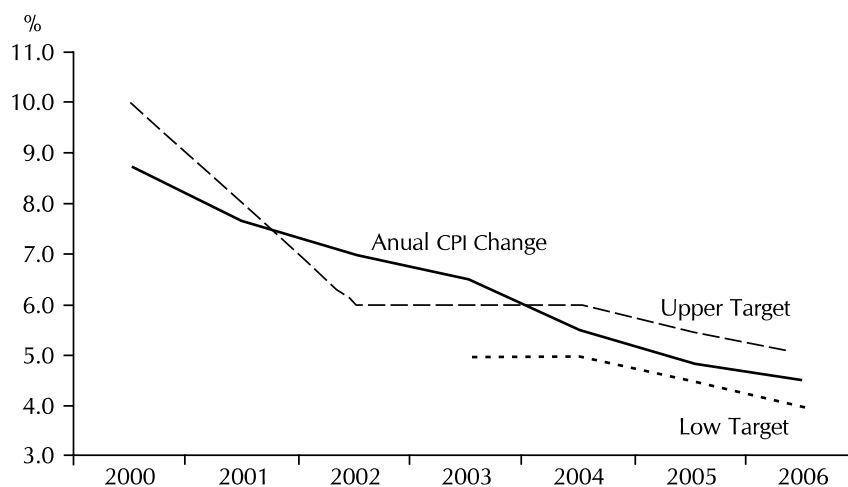


The main engine of this economic growth is internal demand, which has grown at higher rates than GDP in recent years, in particular during 2006 when it rose by 10% excluding inventory changes. Greater consumer and investor confidence has also contributed in a positive fashion, together with productivity improvements and a monetary policy that has favored low real interest rates. The external sector has also provided growth factors, amongst which the following are worthy of notice: i) the high and stable rates of growth in Colombia's main trading partners; ii) the favorable level in the terms of trade, due to the rise in the international prices of oil, nickel and coal, and iii) the increase in capital flows, in particular those related to direct foreign investment.

Since 1999 monetary policy in Colombia has adhered to an inflation targeting strategy, aimed at attaining price stability and smoothing the business cycle. Since 2000, Colombia has been registering one-digit inflation rates, which have been decreasing each year. Attaining this target has been one of the key factors in the stabilization of inflationary expectations, keeping the level

of real interest rates relatively low, and resulting in higher investment and, therefore, economic growth. Graph 2 shows the annual variation in the consumer price index, which fell from 8.8% in 2000 to 4.5% in 2006.

Graph 2. Actual Inflation and Inflation Targets

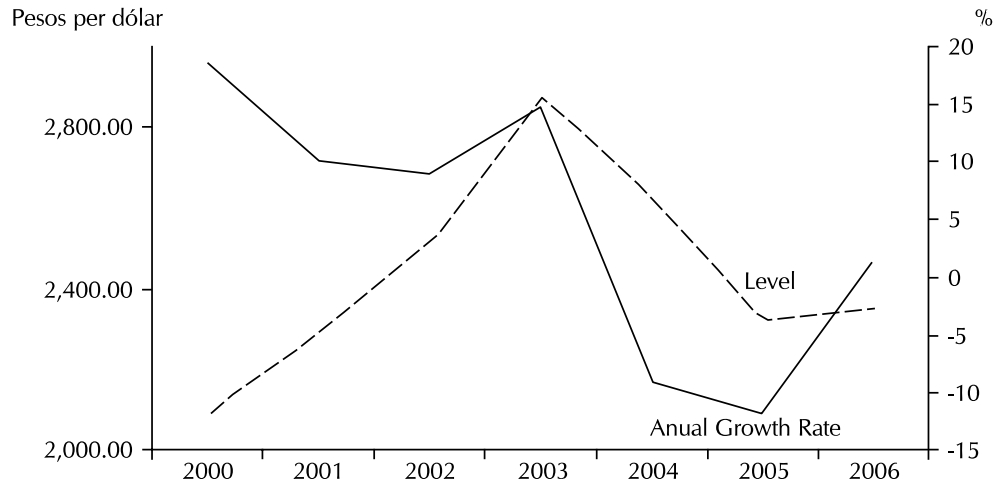


Source: Banco de la República.

In the context of its inflation targeting policy, Banco de la República has established a flexible exchange rate regime that allows for the possibility of central bank intervention in the exchange market under rules that have been clearly established beforehand, and whose main objectives are: i) to maintain an adequate level of foreign reserves so as to reduce the economy's vulnerability to external shocks, whether on current or capital account; ii) to limit excessive short run volatility in the exchange rate, and iii) to moderate excessive appreciation or depreciation that may endanger the achievement of future inflation targets, as well as the external and financial stability of the economy.

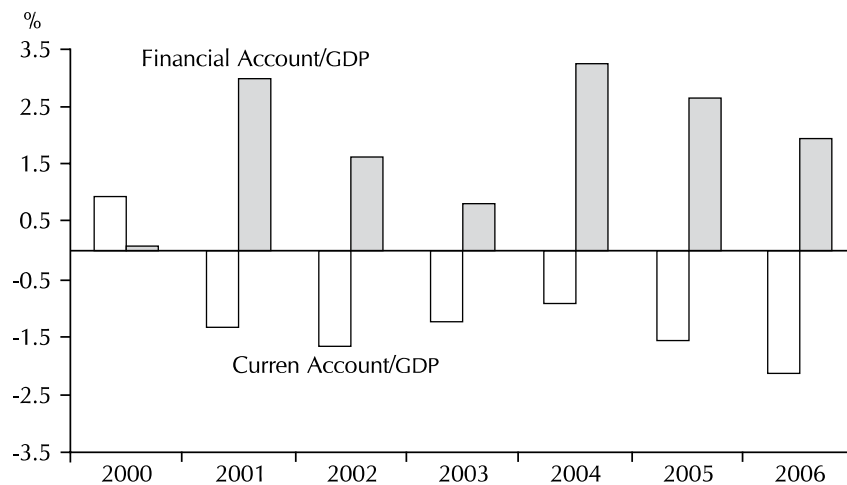
During the referred 2000-2006 period the nominal exchange rate, or representative market rate (RMR) exhibited two separate trends: i) from 2000 to 2003 there was an average annual rate of depreciation of 13%, and ii) between 2004 and 2006 there was an average annual appreciation rate of 6%. The strengthening of the Colombian peso in recent years is explained, inter alia, by: i) the strength of world demand and the recovery in the terms of trade, which set a growth benchmark for Colombian exports; ii) the inflow of funds for direct foreign investment, especially in oil and mining activities, and iii) the excess liquidity in international markets attracted by the return on external debt instruments in certain emerging markets such as Colombia and the reduction in the country risk premium, amongst other factors.

The main facts that marked the evolution of the external sector during 2000-2006 are summarized in the balance of payments. Colombia's balance of payments current account showed an average deficit of 1.3% between 2001 and 2004, registering a minimum value of -0.9% in the latter year

Graph 3. Evolution of the Nominal Exchange Rate, 2000-2006

Source: Banco de la República.

and subsequently rising to a maximum of 2.1% of GDP in 2006. The current deficit was financed by net capital inflows that fluctuated between 0.1% and 3.3% of GDP between 2000 and 2006. The relationship between the current account deficit and external financing with respect to GDP is shown in Graph 4.

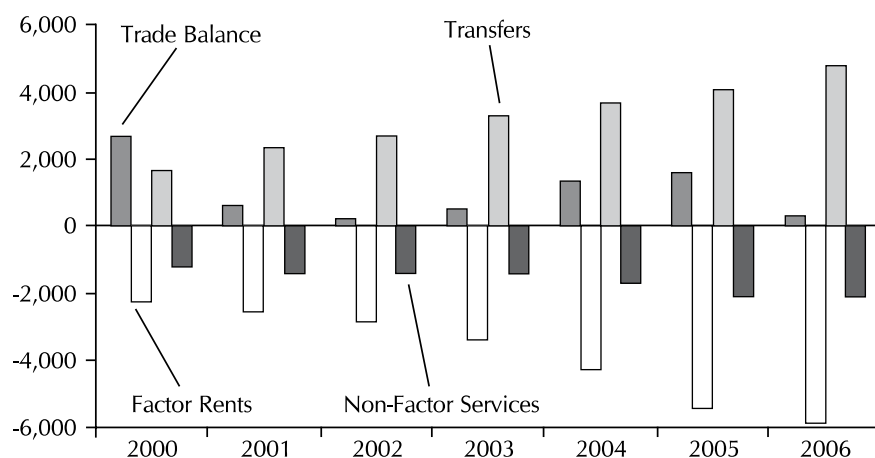
Graph 4. Current Account and Financial Account as % of GDP, 2000-2006

Source: Banco de la República.

The observed current account deficit is explained by the net demand for non-factor services and by the growing negative balance on the “factor income” account, with the latter due mainly to higher outflows on the “utilities and dividends” item. The deficits on both these items were partially

compensated by greater income received on account of current transfers, especially workers' remittances, and by the trade balance surplus.

Graph 5. Main Current Account Items
(Billions of dollars)



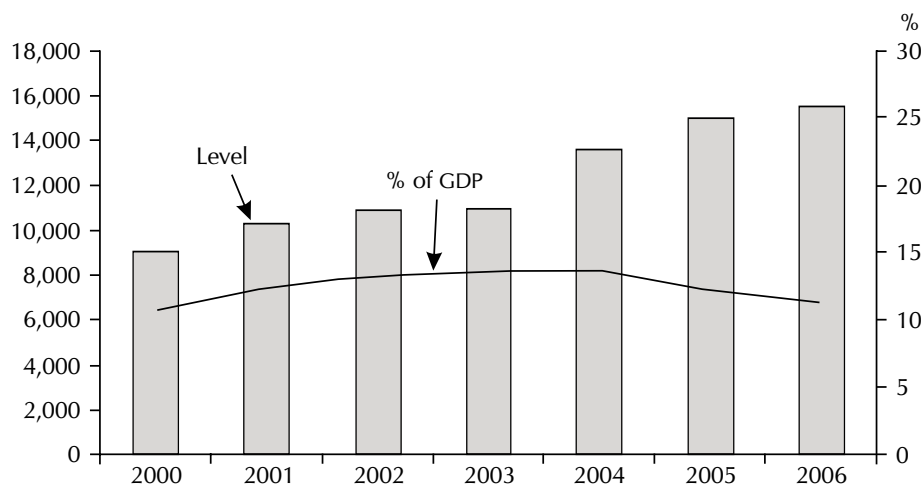
Source: Banco de la Republica.

Throughout the period under analysis the trade balance was in surplus, with some ups and downs. The degree of openness of the Colombian economy, measured as the sum of exports plus imports as a percentage of GDP, went from 30% between 2000 and 2002 to 34.7% in the following four years.

With respect to the capital account it should be noted that the structure of Colombia's external financing has been changing, with less use of external indebtedness and more intensive resources from foreign direct investment, especially since 2005. Thus, the inflows on this item went from an annual average of USD 2,380 million between 2000 and 2004 to USD 8,275 million in 2005 and 2006. As a proportion of GDP, foreign direct investment inflows went from 1.4% of GDP in 2002 to 8.2% in 2005 and 5% in 2006.

Between 2001 and 2003 Banco de la Republica undertook important efforts at exchange rate stabilization that resulted in moderate increases in the level of foreign reserves, averaging an annual growth rate of 6.8%. During this period net international reserves rose from USD 9,006 million in 2000 to USD 10,921.35 million in 2003. Subsequently the Colombian economy, like most of Latin America, received important flows of external capital which resulted in a lower rate of depreciation and a significant accumulation of foreign reserves. In 2005 and 2006 reserves continued to increase, but at a lower rate than in 2004 with a 6.8% average, with the total level of gross international reserves reaching USD 15.44 billion (11.4% of GDP) by December 2006, 71% higher than the USD 9.006 million held at the end of 2000.

Graph 6. Level of International Reserves
(USD Billions)



Source: Banco de la Republica.

In general the Colombian economy has gradually recovered its rate of growth until reaching an annual rate of 6.8% in 2006. It is worth noting that Colombia's average growth rate since 2003 has exceeded the average for Latin America, and countries such as Brazil and Mexico, allowing for the implementation of public policies that have resulted in lower unemployment and an improvement in poverty indicators. However, this progress is yet insufficient to absorb the growth in the working-age population and counter-act unemployment as one of the possible causes of Colombian migration abroad.

Table 1. Macroeconomic Indicators

	2002	2003	2004	2005	2006 ^{pr}
GDP (Real Annual Growth Rate)	1.9	3.9	4.9	4.7	6.8
Imports (USD millions)	12,077	13,258	15,878	20,134	24,859
Exports (USD millions)	12,316	13,818	17,224	21,729	25,181
Current Account Balance (as % of GDP)	-1.7%	-1.2%	-0.9%	-1.5%	-2.1%
National Consumer Price Index	7.0	6.5	5.5	4.9	4.5
Average annual unemployment (in %)	15.7	14.2	13.6	11.8	12.0
Public Sector Deficit (as % of nominal GDP)	-6.8	-5.7	-5.8	-5.2	-2.7
Interbank Interest Rate (end of period)	5.02	7.46	6.59	5.92	7.5
Nominal Exchange rate, end of period (Colombian pesos per USD dollar)	2,864.79	2,778.21	2,389.75	2,284.22	2,238.79

Source: Banco de la República.

^{Pr}: preliminary.

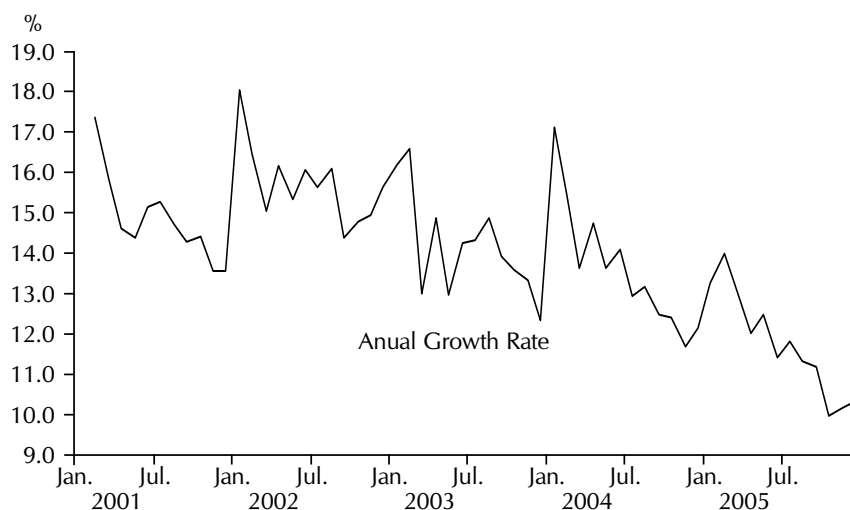
1.2 LABOR ENVIRONMENT AND THE MIGRATORY PROCESS

Labor Environment

At the beginning of the XXI century the Colombian economy had the highest unemployment rate in the region, reaching an annual average rate of 15.7% in 2002. By the second semester of 2006 this rate had gradually fallen to 12.07%. The deterioration in the labor market in the late 90's coincided with the biggest economic crisis in Colombia's recent history, during which GDP growth was 0.6% in 1998 and a negative 4.2% in 1999.

Despite the improvement in economic conditions in Colombia over the last three years, with average annual growth rates above 4%, this performance has not been sufficient to absorb the growth in the working-age population, resulting in the persistence of high levels of unemployment and under-employment.

Graph 7. National Total Unemployment Rate



Source: Banco de la Republica.

Similarly, when looking at the performance of wages based on the manufacturing salary index (coffee included) it may be seen that workers' income in this sector of the economy suffered losses of 0.3% and 0.2% in 2001 and 2003, followed by slight recoveries in 2004 and 2005 when it grew by 1.5% annually.

The high rates of unemployment, the fall in the rate of economic growth, and internal social tension together with violence and lack of security, all contributed to the high level of migration abroad by Colombians since 1996. An important flow of remittances back to the country arose as the result of this process, becoming the second source of income in the balance of payments' current account. These remittances have become quite important in terms of GDP, growing from 1.9% in the year 2000 to 3.3% in 2004 and 2.9% in 2006.

Migratory Process

Three important migratory episodes have been identified in Colombia: the first took place between 1965 and 1975, the second happened between 1975 and 1985, and the last, starting in 1996, continued in 2006.

The first migratory episode, between 1965 and 1975, coincided with the United States immigration reforms. By setting immigration quotas which did not consider race or ethnic origin, these reforms facilitated family reunification and the obtaining of residence visas in that country. The migration heading for United States was composed initially by qualified professionals (doctors and engineers) and later gave way to more diversity with the participation of qualified and non-qualified workers (E. Guarnizo, 2003)¹. This massive departure of Colombians was also a result of the labor force demand occurring in Venezuela during the petroleum economic boom, a process that mainly attracted non-qualified workers until the mid 80's.

The second important Colombian overseas departure took place between 1975 and 1985 and coincided with events such as: i) a fall in GDP growth from 8.5% in 1978 to 0.9% in 1982; ii) the increase in the unemployment rate that reached a level of 14.5% in June 1985 and a maximum of 14.7% a year later; iii) the authorization given in England for temporary employment of foreign non-qualified labor force in the sector of trade and hotel services, and iv) the expansion of the international sales networks for illicit drugs produced in Colombia.

Lastly, between 1996 and 2006, 2.1 million Colombians have left the country permanently, due to the convergence of the economic crisis with the deterioration of internal security conditions². Of this total, 56% migrated in the period 1997-2001 with an annual average of 263 thousand people. Between 2002 and the following years, the magnitude of the annual migration fell considerably with respect to the three previous years. During this period, annual average departures were 145 thousand people, with a minimum of 116 thousand in 2003 and a maximum of 178 thousand in 2006.

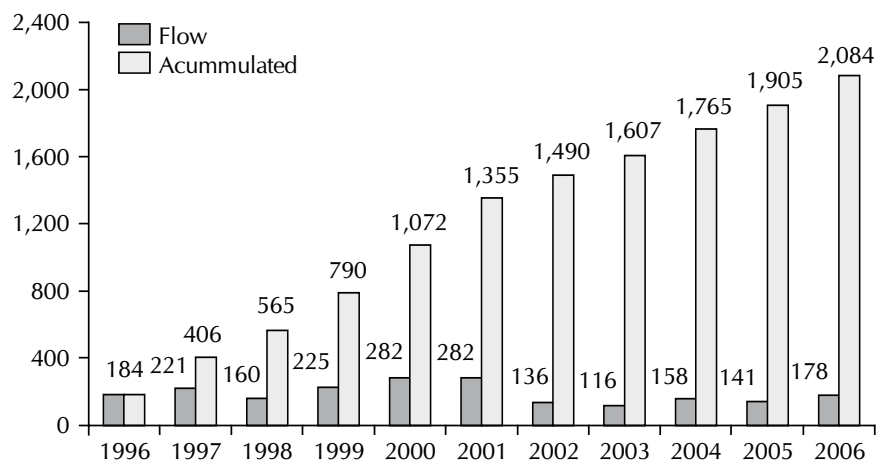
It should be noted that during this last phase, migration became generalized to all segments of the population and was directed to new destinations such as Spain, Canada, France, Germany and some Latin American countries like Ecuador, Mexico and Costa Rica.

As for the total stock of Colombian residents overseas, by means of a statistical and demographic exercise performed with the results of the 2005 population Census, the National Administrative Statistics Department (DANE) estimated a total of 3.3 million Colombian residents overseas for the year 2005. This figure shows that the majority of Colombians who today live outside the country departed during the last migration wave recorded as of 1996.

¹ Guarnizo, Luís Eduardo (2003). "Transnational Colombian Migration: Theoretical and Practical Implications", Seminar on International Colombian Migration and the Formation of Transnational Communities. Ministry of Foreign Relations. Bogotá. June 2003.

² According to the results of a survey of 481 immigrants during the first semester of 2002 in the United States, the reasons explaining the most recent international migration of Colombians are, in order of importance: 1) lack of economic opportunity; 2) violence; 3) the search for better educational opportunities, and 4) family reasons. A. Gaviria (2004) "US Visa: fortunes and misfortunes of Colombian migrants in the United States".

Graph 8. Recent Migratory Flows
(Thousands of Persons)



Source: DAS figures and calculations of the Banco de la República, (the 2006 figure is a preliminary estimate subject to revision).

Table 2. Main Destinations Abroad for Colombian Migrants

	%
United States	35.4
Spain	23.3
Venezuela	18.5
Others	13.9
Ecuador	2.4
Canada	2.2
Panama	1.3
Mexico	1.1
Costa Rica	1.0
Australia	0.5
Peru	0.3
Bolivia	0.1
Total	100.0

Source: 2005 Census DANE.

According to the results of the 2005 demographic Census, the main destination of Colombian migration is the United States, followed by Spain and Venezuela, destination countries for 77.2% of the total migrants (Table 2).

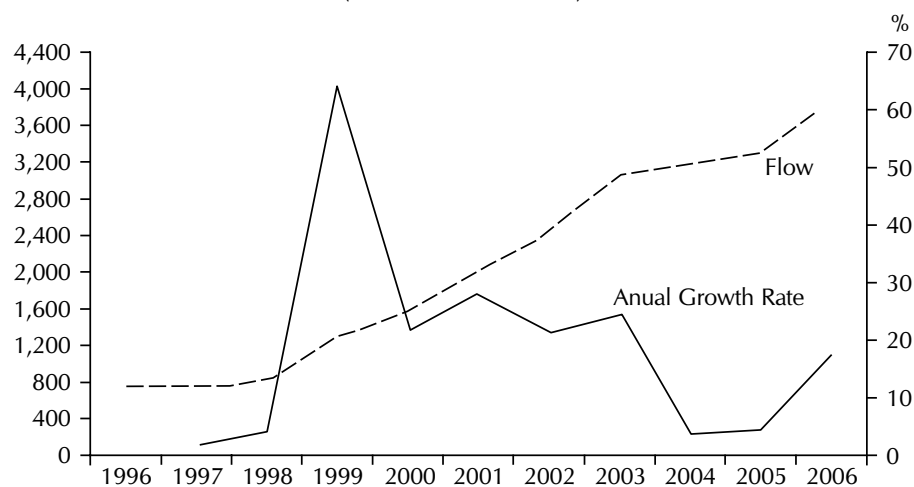
1.3 EVOLUTION AND IMPORTANCE OF REMITTANCES

In Colombia the growing inflow of family remittances is the result of the last migration wave occurring as of 1996. Because of this, income from family remittances increased from USD 1,578m

in 2000 to USD 3,890 m in 2006 (Graph 9), surpassing the income generated by exports of coffee and coal.

Graph 9. Workers' Remittances

(Millions of dollars)



Source: Banco de la República.

Since 1999, the income for this item has recorded high growth rates, especially between 2000 and 2003 when the annual rate fluctuated between 21% and 28%. In the two following years the rate fell to 4% and, in 2006, increased again to an annual rate of 17.4% (Graph 9).

In view of the above, family or workers' remittances have come to acquire significant importance. From 1.9% of GDP in the year 2000, they increased to a maximum of 3.9% in the year 2003, and by 2006 were at a level close to 2.9% of GDP.

In terms of current income on the balance of payments, in 2006 income from remittances was equivalent to 11.1% and to 15.4% of exports of goods, and represented 57.6% of capital inflows for Foreign Direct Investment (FDI) (Chart 3). In this manner, during the last five years, workers' remittances have become the second largest source of income on the balance of payments current account, and a less volatile source of resources than direct foreign investment.

The stability of remittances over time is reflected in that its standard deviation from long-term trend has not exceeded 40%, while that of capital flows has exceeded the 200% range (Graph 10). Remittances have been characterized as "quasi permanent" income, so it is highly probable that they were incorporated into consumption and spending patterns. Income from remittances is an important source of household income, representing approximately 10% of total household income according to AMCO results. Additionally, they increase the levels of liquidity and disposable income in the overall economy.

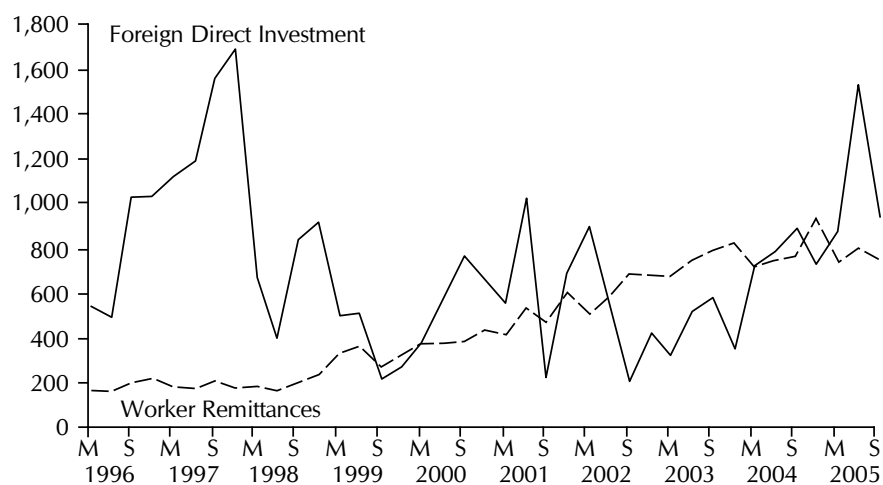
Table 3. Balance of Payments: Workers' Foreign Exchange Income in Colombia
(USD Millions, percentages and number of times)

	2000	2001	2002	2003	2004	2005 ^{pr}	2006 ^{pr}
Workers Remittances: Revenues							
(USD Millions)	1,578	2,021	2,454	3,060	3,170	3,314	3,890
As % of GDP	1.9%	2.5%	3.0%	3.8%	3.2%	2.7%	2.9%
As % of current account – Balance of Payments	8.4%	10.9%	13.7%	15.4%	13.1%	11.1%	11.1%
As % of exports of goods	11.5%	15.7%	19.9%	22.1%	18.4%	15.2%	15.4%
As number of times of exports of:							
Coffee	1.5	2.6	3.2	3.8	3.3	2.3	2.7
Petroleum and derivatives	0.3	0.6	0.7	0.9	0.7	0.6	0.6
Coal	1.8	1.7	2.5	2.2	1.7	1.3	1.3
Non-traditional	0.2	0.3	0.4	0.4	0.4	0.3	0.3
As proportion of:							
Income from Foreign Direct Investment (FDI) (%)	65.9%	80.1%	116.0%	169.9%	101.7%	32.3%	61.8%

Source: Banco de la República.

^{pr}: Preliminary.

Graph 10. Quarterly Inflows of Remittances and FDI in Colombia



Source: Banco de la República.

According to the International Monetary Fund (IMF), in 2003 Colombia was the eighth largest country recipient of remittances in the world. In the Latin American and Caribbean region, in 2005 Colombia was the second largest remittances recipient after Mexico (Table 4). However, these resources are more significant for Central American countries such as Honduras and El Salvador, where workers' remittances represented 21.3% and 16.7% of GDP, respectively, compared to 2.7% recorded for Colombia.

Table 4. Workers' Remittances in Latin America

	<i>US\$ Millions</i>				<i>% GDP</i>			
	2002	2003	2004	2005	2002	2003	2004	2005
Mexico	9,814	13,396	16,613	20,035	1.5	2.2	2.5	2.6
Colombia	2,454	3,060	3,170	3,314	3.0	3.8	3.3	2.7
Guatemala	1,579	2,107	2,551	2,993	7.3	9.7	9.5	9.5
El Salvador	1,935	2,105	2,548	2,830	13.5	14.3	16.1	16.7
Brazil	1,711	2,018	2,459	2,480	0.4	0.4	0.4	0.3
Dominican Republic	1,960	2,061	2,200	2,411	9.9	9.9	7.6	8.2
Ecuador	1,432	1,539	1,604	2,031	7.1	6.7	6.3	5.6
Honduras	711	860	1,135	1,788	11.7	11.2	15.2	21.3
Nicaragua	377	439	519	600	9.4	10.6	11.7	12.2

Source: Balance of Payments, Central Banks. Calculations of Banco de la Republica.

1.4 TRENDS IN THE MEASUREMENT AND PROVISION OF REMITTANCES SERVICES

Given the magnitude of the remittance phenomenon and the socioeconomic effects it generates on the development perspectives for both the countries and the migrants' families, institutions should give priority to pooling their efforts in order to identify and analyze courses of action that could favor transparency and efficiency in the remittance market.

The impact of remittances on the income of Colombian families, and the special interest in the functioning of this market, has attracted the attention of different institutions and researchers. The research paper "International Migration and Remittances"³ undertaken in Colombia in 2004, sought to profile migrants, remittance beneficiary households and the social networks of migrants at the socio-economic level, in order to understand the potential for productive use of these resources and to propose mechanisms that would allow for their investment in education, housing and generation of productive capital.

On a separate note in Colombia, Banco de la Republica is recognized as the authority on the measurement and analysis of remittances. The continuous evaluation and diffusion of its methodologies and the permanent contact with market operators in order to maintain the quality of information represent important efforts in this context.

Other authorities, such as the Financial Supervisor, are developing initiatives that will make more information available, both on the local and external markets, with the objective of providing consumers with all the necessary elements which will allow them to evaluate the different remittances service providers, when they need to decide whom to operate with.

³ J. Garay and A. Rodríguez (2005) analyzed the results of a survey by DANE and the OIM in the region of Pereira, La Virginia and Dosquebradas in July 2004. The survey addressed a representative sample of 2,400 households in the West Central Metropolitan Area - AMCO. Of 135,000 households in that region, 25,000 receive international remittances. This region is characterized by high rates of migration and is the second highest remittance beneficiary region in Colombia.

2 INSTITUTIONAL ASPECTS

2.1 GENERAL LEGAL FRAMEWORK

The legal framework in Colombia defines the roles of both authorities and participants in the various money and currency transfer systems that are directly or indirectly related to the provision of remittance services. Similarly, it defines the rules of the different systems for the transfer and payment of drafts, as well as the negotiation and settlement of currency.

The relative powers among authorities have been established in terms of each of their regulatory, supervisory and oversight attributes, as well as powers of sanction. The most relevant authorities in this field are Banco de la República and the Financial Supervisor. There is also a growing process of coordination and team work that strengthen the capacities of each authority and avoids excessive and redundant control over participants.

These are the principal advances in legal issues related to the remittances market:

Table 5. General Legal Framework

<i>Legislation</i>	<i>Object</i>	<i>Date</i>
Law 964	General Regulations governing the National Authorities in their regulation of the securities market, and other provisions.	08/07/2005
Decree 1400	Rules for the inspection, oversight and control of entities that administer low value payment systems, and other provisions.	04/05/2005
Law 795	Adjustments to Provisions of the Organic Statute of the National Financial System, in particular Articles 6 (modifying Art. 48 of the above Statute) and 72 (modifying numeral 2 of Art. 325 of the above Statute)	2003
External Resolution 8 of 2000 and its modifications, BRC Board of Governors	General rules and regulations applicable to the exchange market in Colombia and its authorized intermediaries.	5/05/2000
External Resolution 4	Rules and regulations on foreign currency payment and settlement systems, and other provisions.	26/05/2006
Decree Number 3078 by the Ministry of Finance	Creating the Investment Program for the Bank of Opportunities.	8/09/2006
Decree 246	Functions of the Ministry of Finance and Public Credit	18/01/2004

Source: Based on Colombian legislation.

- *Payment Systems Regulation.* Articles 6 and 72 of Law No. 795, of 2003, modified articles of the Organic Statute of the National Financial System, by establishing that the National Government has the responsibility for regulating the Low value Payment System, while

Banco de la República has the responsibility of issuing regulations for the Large Value Payment Systems (which lie within its jurisdiction and area of operation). Meanwhile, the supervision and oversight of payment systems are discharged by the Financial Supervisor. Low value Payment Systems are regulated by Decree 1400 of 2005, issued by the Ministry of Finance and Public Credit.

- *Regulation of the Exchange Market:* in accordance with the Exchange Statute (External Resolution 08 of 2000, by the BRC Board of Governors –JDBRC–) the currency market is divided in two sub-markets. The first comprises all transactions channeled by Foreign Exchange Market Intermediaries –FEMIs– through the compensation system authorized by the Exchange Statute. The free market consists of all other exchange transactions between the Colombian peso and foreign currencies. The following foreign exchange operations be channeled exclusively and compulsorily via the Regulated Market (i.e. via a FEMI) and through an overseas current account registered with the BRC: a) Imports and Exports of Goods; b) External Indebtedness Transactions of residents, including debt service; c) Foreign Direct Investment in the country, or abroad, and their returns; d) Financial investments in securities and assets issued abroad, and their returns, except when the investments are financed with foreign exchange that need not be channeled through the exchange market, e) Foreign currency guarantees and pledges, and f) Derivatives Transactions.
- *Regulation of the Foreign Currency Negotiation and Settlement System.* Managers of foreign currency settlement systems, according to External Resolution No.4 of 2003, must at minimum provide public information on: a) operational procedures; b) risk evaluation and prevention policies; c) negotiable instruments, and d) codes of conduct for system users and managers. They should also provide BRC and supervisory agencies with all the information they may request for purposes of control and oversight of the settlement system. Currently the *Foreign Exchange Market Electronic Transaction and Information System (SET-FX)* is in operation. This system allows intermediaries in the exchange market (FEMIs) to buy and sell foreign exchange. The system registers both market trades and over-the-counter transactions. In the system the operational information can be consulted in real time and on-line, allowing FEMIs to easily follow the path of the dollar *vis-a-vis* the Colombian peso. SET-FX is administered by the firm Servicios Integrados en Mercado Cambiario S.A. “Integrados FX S.A.”, whose shareholders include the Colombian Stock Exchange and SIF Garban Intercapital of Mexico, which is a subsidiary firm of the Mexican Stock Exchange and of ICAP PLC in London. SET-FX is overseen by the Financial Supervisor.
- *Anti Money Laundering Regulation:* During the 90s, a broad strategy was developed in Colombia to protect both the public and the private sector from the effects of money laundering and its close relationship with criminal organizations. At the same time, a new tool for the fight against said activity was developed in accordance with international recommendations adhering to minimum standards adopted in many developed countries. The main international and local actions, as well as the initiatives of the authorities and the financial system relative to money laundering, were the following:

International Actions: the Colombian government has adopted a series of actions and recommendations through international agreements, consisting of:

- Adoption of the concepts contained in the Vienna Convention of 1988 and the Declaration of Principles against money laundering issued by the Basel Committee in December of the same year, where money laundering is specifically defined as an independent criminal activity; the design of “know your customer” policies, and the filing and monitoring of cash transactions.
- Participation in the implementation of a legal project to punish money laundering, confiscation and regulation of financial systems (Inter-American Commission against Drug Abuse, CICAD-OAS).
- General cooperation agreements signed by Argentina, Brazil, Canada, Chile, Dominican Republic, Ecuador, Honduras, Jamaica, Mexico, Paraguay, Republic of China, Peru, the Russian Federation and Venezuela.
- A specific cooperation agreement with the United States to prohibit asset laundering and illegal maritime traffic; with Venezuela to prohibit asset laundering; and others with Brazil, the European Union and Venezuela to prohibit the traffic of illicit substances.
- In 1955, at the Organization of American States, Colombia proposed a multilateral Convention against money laundering. Since then, the country has been reaffirming its commitment and its position on the need to adopt multilateral instruments and evaluation mechanisms.
- Colombia requested its admission as an organizing member of the *South American Financial Action Task Force against Money Laundering*, GAFISUD. This new group was headed by Colombia during the period 2000-2001.
- The Information and Financial Analysis Unit (UIAF) of the Colombian Ministry of Finance and Public Credit, together with Egmont Group, have formalized Financial Intelligence Units in different countries. Additionally, the UIAF has signed cooperation agreements with its counterparts in Brazil, France, Portugal, Spain and Venezuela.

Legal Actions: Colombia has issued a series of specific regulations against asset laundering, among them:

- Decree 1872 of 1992, the first regulation directed specifically to the fight against money laundering, establishes financial system controls.
- Decree 02 of 1993 which complements Decree 1872 of 1992.
- Decree 663 of 1993, Financial System Organic Law, which introduces a special chapter on the Prevention of Criminal Activities, complementing decree 1872. Under this scheme, the

Financial Supervisor determined a series of rules for supervised entities with the purpose of implementing the Integral System for Prevention of Money Laundering – SIPLA – that includes: client and market identification, segmentation of the market, design of warning signals, implementation of important levels of technological development, detection of unusual operations, suspicious transaction reports, filing and monitoring of cash transactions and reporting to the Financial Supervisor, adoption of a Code of Conduct, and the assignment of monitoring compliance with these rules to an agency.

- External Circular 061 of 1996 of the Financial Supervisor, establishing SIPLA.
- Law 190 of 1995, the “Anticorruption Statute”, which modifies the crime of “fencing” to include money laundering activities and extends the regulatory norms to entities controlled by the Securities Supervisor.
- Law 365 of 1997 which modifies the crime of “fencing” and creates the crimes of Asset Laundering and Omission of Controls, increasing penalties and sanctions related to these crimes.
- Decree 1890 of 1998, creating the Information and Financial Analysis Unit – UIAF.
- External Circular 012 of 1999 of the Financial Supervisor, modifying external circular 061 of 1996 related to the suspicious transaction reports and the reporting period.
- Law 526 of 1999, regulating the creation of the UIAF.
- External Resolution of the Board of Governors of Banco de la Republica, and Internal Circular DCIN-31 of the Bank’s Foreign Exchange Department, which though not directly addressing the prevention of money laundering, reinforces security, transparency and confidence in foreign exchange operations.

Financial System Actions:

- The Board of Directors of the Banking Association created and issued a Uniform Code of Conduct to enable an effective fight against the different kinds of criminal behavior that threaten the financial institutions.
- The Banking Association created the Risk Management Committee, responding to the sector’s needs for special treatment of the risk of money laundering in the Financial System.
- The Declaration of Principles and Actions of the Financial System against money laundering was approved, confirming the sector’s strong stance against this activity, and calling upon both financial entities and their employees to observe self-regulation.
- The Banking Association created the Compliance Officers Committee, where money laundering topics are discussed and pertinent action is taken.

- The Inter-Bank Training Agreement against Money Laundering was approved and came into effect on February 1997. To date it has reached 60.000 employees in the financial sector.
- Adoption of the Inter-Bank Client Identification Agreement.
- To ensure compliance with inter-bank agreements through adequate self-regulation, a Follow-up Commission was created comprising five members in representation all of the entities in the Banking Association.
- The Banking Association participated in the GAFISUD encounter (December 2000 in Cartagena de Indias) in representation of financial entities, and expressed the Financial Sector's interest in cooperating in regional initiatives against money laundering.

Authorities and Trade Associations Actions:

- The authorities have designed and implemented flexible and efficient mechanisms for cooperation, exchange and support in combating and preventing money laundering.
- By means of an Internal Resolution, the Nation's Attorney General's Office created the National Unit for Money Laundering Domain Extinction (UNCLA).
- The Ministry of Justice created the Directorate of Drug and Narcotic Policies, a special department for the development of anti-drug policies,
- The Department of Security Administration – DAS – and the Judicial Police Directorate – DIJIN – initiated a process of coordination with UNCLA to work together in investigative activities.
- The Tax and National Customs Office developed strategies for the control of Exchange Houses and smuggling.
- All Supervisory agencies have been implementing mechanisms to avoid being used as money laundering instruments.

2.2 REGULATORY, SUPERVISORY AND OVERSIGHT AUTHORITIES

Role of the Central Bank

The Banco de la República (BRC) was created as the Colombian central bank by a 1923 law. Its creation constitutes a milestone in the economic and institutional organization of the country, since it is the institution that issues and manages legal tender, as well as controlling the monetary, credit and foreign exchange systems of the country.

Its main functions are:

- a) To act as bank of banks;
- b) To control the issue of currency;
- c) To accept deposits on consignment from, and grant loans to, commercial banks and the Government;
- d) To manage monetary and financial policy of the country, and
- e) Among other functions, to execute foreign exchange transfers with other countries in the world.

The BRC is the exchange market regulator and the official authority which defines the conditions of operation for every agent authorized to operate as a foreign exchange intermediary, as well as the type of transactions each one of them may execute. Additionally, the BRC is in charge of producing balance of payments and foreign exchange statistics, and in particular, the remittances data.

The Financial Supervisor in Colombia

This is a technical entity ascribed to the Ministry of Finance and Public Credit with its own legal personality, administrative and financial autonomy, and own capital. Its objective is to provide supervisory services that will promote a secure, trustworthy and protective environment for the interests of savers, investors and customers of the financial system, by maintaining stability and permanence of entities, and overseeing an adequate supply of information and market integrity, contributing in this way to the country's development.

In keeping with the functions established in Decree 2739 of 1991, Decree 663 of 1993 and Law 964 of 2005, as well as its modifications, the Supervisor regulates and monitors all intermediaries in the financial and securities markets. This includes the FEMIs, who must file monthly, quarterly and annual information on their financial accounts, among other required information.

The Supervisor may only verify the existence and validity of contracts between the FEMI and the MTO, but cannot evaluate the quality of, or supervise, the MTO's since they are beyond its jurisdiction and competence. The MTO's in turn work with an extensive network of local agents overseas (stores, phone booths etc.) that are regulated by the authorities of the originator countries.

Thus, none of the local authorities have jurisdiction to regulate, supervise or sanction participants in the external markets where remittances are originated. Nevertheless, the FEMIs generally negotiate only with recognized MTOs who in turn rely on equally recognized or trustworthy agents, basically for two reasons: a) the main concern of remittance payers is to avoid the occurrence of money laundering transactions that could endanger their domestic market operation, and therefore they apply the MTO selection criteria; and b) given that the paying agents disburse funds before they are covered by the MTO, they must choose their counterparties very carefully in order to minimize the risk of non-compliance.

The Financial Services Ombudsman

In keeping with Article 24 of Law 795 of 2003, and Articles 11 and 13 of Decree 690 of 2003 as well as Article 13 of Decree 4579 of 2005, the Financial Supervisor oversees the financial services Ombudsman in the discharge of his responsibilities, which according to the mentioned Decrees, consist of hearing and resolving the complaints of financial services customers, including remittance beneficiaries.

The Ombudsman's functions are to act as spokesperson for customers and users before the respective entity, hearing and resolving individual complaints objectively and free of charge within the terms established herein, and to denounce possible non-compliance by the entity of the legal or internal regulations that govern the development or execution of services or products that they offer or render, or with respect to their quality.

The financial services ombudsman must discharge his duties with absolute independence from the entity's or its associates' management bodies, and must guarantee total impartiality and objectivity in the resolution of the submitted complaints.

Remittance recipients who wish to submit complaints regarding services received from a FEMI may lodge them at the Financial Supervisor. Complaints can be made by telephone or in person. If it is verified that the FEMI is at fault in the provision of the service, apart from having to remedy the situation and depending upon the seriousness of the infraction, it may fall subject to a reprimand, a fine or a preventive measure.

Ministry of Finance and Public Credit

According to Decree 246 of January 28, 2004, the Ministry of Finance and Public Credit has as its objectives the definition, formulation and execution of economic policy in the country, and of the general plans, programs and projects relating to it, as well as the preparation of laws, decrees and regulations in the fiscal, tax, customs, public credit, budget, treasury, cooperative, financial, foreign exchange, monetary and credit areas, without detriment to those attributes conferred to the Board of Governors of the Banco de la República, plus those others it may be given through ascribed or connected agencies, for the exercise of activities corresponding to the intervention of the State in financial, stock exchange, insurance and any other activities related to the management, benefit and investment of public savings and National Treasury funds, in accordance with the Political Constitution and the Law. In practice, it delegates these competencies to the corresponding superintendencies and other institutions (organs ascribed to the MHCP), as well as to the Central Bank.

Information and Financial Analysis Unit

This is a Special Administrative Unit ascribed to the Ministry of Finance and Public Credit, created by Law 526 of August 1999, with the objective of preventing and detecting money laundering operations in different sectors of the economy.

The Information and Financial Analysis Unit (UIAF) has the objective of preventing and detecting Asset Laundering operations in different sectors of the economy. In the exercise of its functions, it obliges all foreign exchange market intermediaries to file reports on all operations greater than USD 200, cash transactions exceeding USD 10,000 and suspicious operations, as well as implementing due diligence in complying with anti money laundering policies such as “Know your Customer”, among others.

2.3 ROLE OF OTHER RELEVANT ORGANIZATIONS

National Administrative Department of Statistics

The National Administrative Department of Statistics (DANE) is the Agency responsible for the planning, collecting, processing, analysis and disseminating official statistics in Colombia. It operates more than 30 annual research analyses of all economic sectors, industry, population, agricultural sector and quality of life, among others, and is considered the governing body with respect to statistics in Colombia.

Inquiries regarding migratory aspects can be made by means of different reports and a dynamic consultation system, with remittances highlighted among them as part of international monetary flows.

The Census and Demography Department is in charge of performing surveys and censuses that are used as the basis for studies carried out by Banco de la Republica.

National Tax and Customs Direction

The National Tax and Customs Direction (DIAN) was established as Special Administrative Unit by Decree 2117 of 1992, when in 1993 when the National Tax Department (DIN) merged with the National Customs Department (DAN). A further restructuring was imposed by Decree 1071 of 1999, creating the Special Administrative Unit – National Tax and Customs Directorate (DIAN).

DIAN administers and supervises compliance with tax and customs obligations; it oversees and controls foreign exchange operations within its area of competence, and facilitates foreign trade operations.

With respect to remittance transfers, its aim is to help guarantee the fiscal security of the State and protect the public economic national order, by managing and controlling for due compliance with the tax, customs and exchange norms, so as to facilitate remittances transfers.

International Organization for Migration —IOM

The International Organization for Migration (OIM) was established in Colombia in 1956. Its objective is to respond to the challenges posed by the management of migration, to promote a

greater awareness of migratory matters, and to support social and economic development through migration, all of this within an approach of respect to human dignity and migrant welfare.

Over time this organization has been implementing programs designed to cover the needs of the migrant population such as: shelter, family reunification, specialized technicians, skills repatriation, integrated experts, labor reinsertion, technical cooperation for migrations, etc.

It also participates actively in projects related to migratory themes and remittances that are brought forward by ALIANZA PAIS, which is an inter-institutional body for coordination in which DANE, the program "Colombia Unites Us" of the Ministry of Foreign Affairs (MRE), Banco de la Republica, AESCO, Asocambiaria and UNFPA also take part. One of these projects was the preparation of a study on the impact of migration and remittances in Colombia. Its results were published in three volumes under the name "International Migration and the Impact of Remittances".

In the future, the MRE with the financial support of OIM plans to publish the fourth volume of this series, called "Remittances in Colombia from a Gender Perspective", with the object of analyzing the impact of remittances in Colombia from a gender perspective. It should be noted that the Presidential Program "Colombia Unites Us", executed by the MRE, has the objective of strengthening links with Colombian communities outside their country of origin. It is also aimed, within the framework of Alianza Pais, to identify and propose mechanisms to facilitate sending funds to the country, to reduce their costs and to channel these towards savings and investment.

The OIM also has as action goal of promoting conversations between Governments and the International Community in favor of international policies, for the purpose of showing that migration contributes to development through remittances, investment, and the transfer of knowledge and skills.

Exchange House Association—ASOCAMBIARIA

The Exchange Institutions Association in Colombia (ASOCAMBIARIA) has the objective of contributing to strengthen the performance of Exchange Houses, through mechanisms that generate legal clarity, tax certainty and positive transmission of a corporate image in a modern and transparent manner. ASOCAMBIARIA was created to channel information, to unify positions, to further promote action in the area of prevention and control of illegal use of any authorized exchange operations and to consolidate a spokesperson role between the foreign exchange sector and the National Government.

The role of ASOCAMBIARIA is fundamental to the remittances market because it acts as intermediary between exchange houses and the authorities, and allows for record-keeping on all exchange operations (purchases and sales of foreign currency) in different modalities. The main activity of the exchange houses is to receive transfers from Colombians working abroad.

3 DESCRIPTION OF REMITTANCES

3.1 DEFINITION AND CONCEPT OF REMITTANCES

In a general context, it is well understood that remittances are the funds that migrants send back to their country of origin. However, for a country's national accounts and balance of payments, there exist different accounts and items in which this concept could be placed.

According to the definition of the International Monetary Fund's Balance of Payments Manual, three different accounting items are considered remittances: the first and most widely used defines workers' remittances as current transfers from foreign residents abroad sent to residents in the worker's country of origin, in the understanding that the worker has been or intends to remain abroad for a period of more than one year. Naturally, these tend to take place between relatives. Second, the funds earned by non-resident immigrants (that is, those who have been in the host country for less than one year), are calculated under a different entry known as compensation of employees. Lastly, migrants' transfers reflect the counterpart flow of goods and changes in financial items that arise as a result of the migration of individuals from one economy to another; in other words, the goods that the migrant takes with him from one country to another when he moves.

In Colombia, the concept of remittances employed in compiling the Balance of Payments is also used in the context of Payments Systems, and corresponds to the Exchange Declarations⁴ (DEC) by remittance beneficiaries. Therefore the operational definition of a remittance is that of any funds entering the country via Foreign Exchange Market Intermediaries (FEMIs), where the beneficiary declares (in the corresponding numeral in DEC, Form 5) that they are worker's remittances⁵.

When a Foreign Exchange Market Intermediary pays resources from abroad, the beneficiary is asked if these refer to remittances or other sources. With this information, the FEMI fills out the Exchange Declaration (DEC). However this procedure is not all that useful because it does not allow to determine if the funds come from workers whom have remained abroad for over a year.

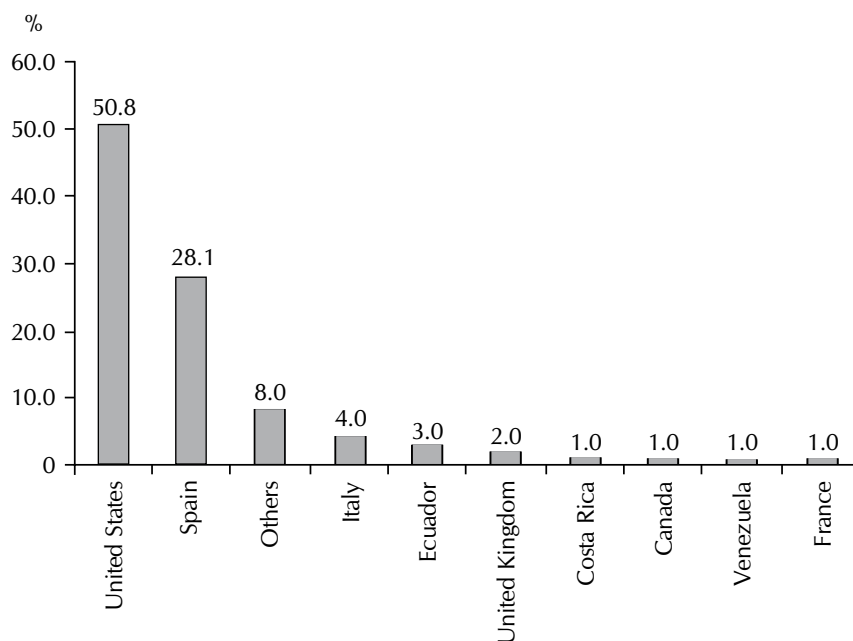
3.2 SENDER PROFILES⁶

According to the above study, remittance funds entering Colombia come mainly from the United States (50.8%) and Spain (28.1%). Colombian migration is becoming more heterogeneous in social as well as regional terms, mainly due to the plurality of destinations. Although as mentioned before, the main destinations are United States and Spain, recent figures have recorded migratory flows to Canada, Italy, Germany, England and France in Europe, and a small proportion heading to the Asian continent.

⁴ The Exchange Declaration is a control document that must be submitted and signed by anyone performing an exchange transaction in Colombia, either in person or through a representative or power-of-attorney. This declaration is presented at the FEMI through which the operation is channeled, in forms which must be completed according to terms determined by BRC.

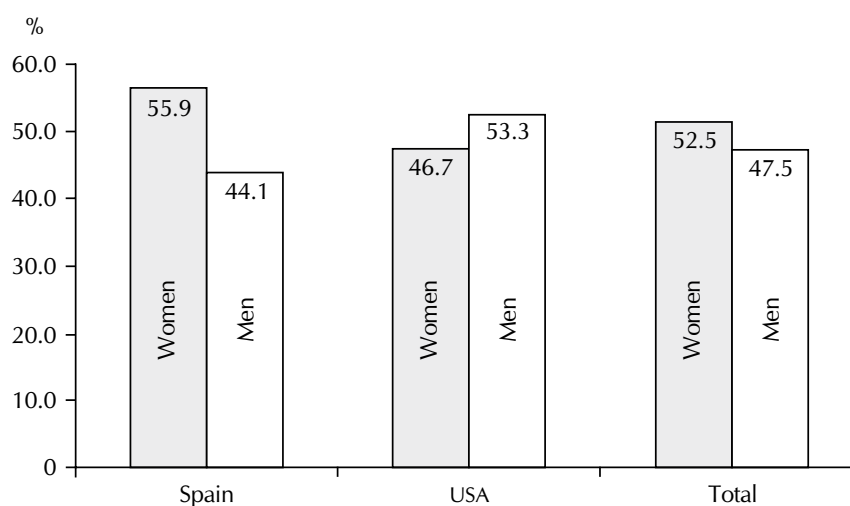
⁵ Numerals 1809 y 1812.

⁶ In sections 3.2 and 3.3, the information used is from the L.J. Garay and A. Rodriguez research paper (2005). It corresponds to the results of the survey of 22,113 beneficiaries of workers remittances in 7 regions into the country in 2004 carried out by DANE, ASOCAMBIARIA and OIM.

Graph 11. Distribution of Senders by Country of Residence

Source: *Study of International Migration and Remittances in Colombia*, Garay & Rodríguez.

Among Colombians who decide to migrate to Latin American countries, data indicates that the most representative destinations are: Ecuador, Venezuela, Costa Rica, Mexico and the Dominican Republic.

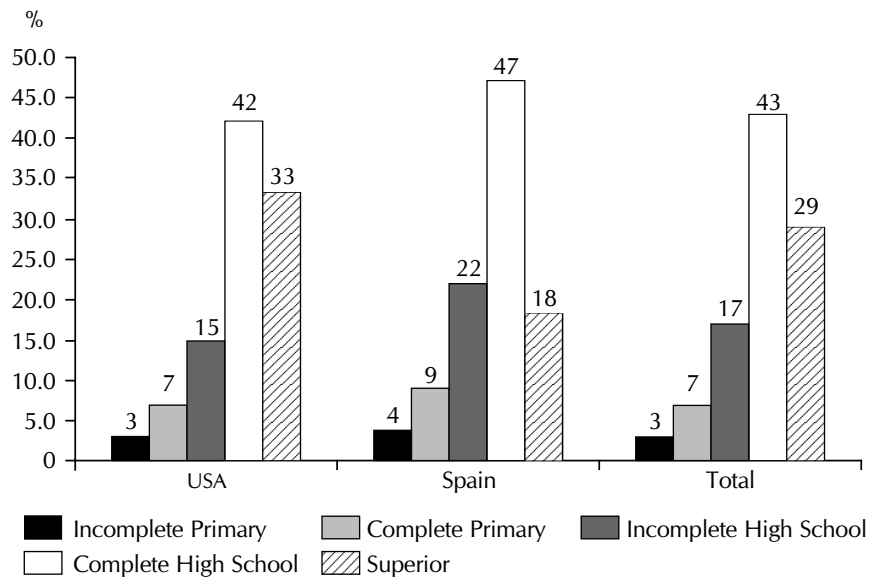
Graph 12. Distribution of Senders by Gender

Source: *Study of International Migration and Remittances in Colombia*. Garay & Rodríguez.

The migratory processes which began in the late 80s and early 90s were characterized by a significant departure of women aged 30 or older, especially to Europe. Towards the end of the 90s the process reverted and the proportion of males was greater, although the destination was the USA.

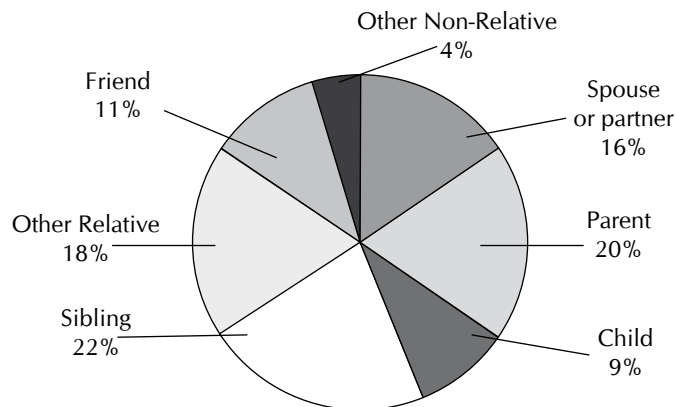
In aggregate, the most common level of education among migrants is complete high school, followed by higher education and then incomplete high school. Important differences can be seen between the two major migratory destinations: while in the US the percentage of migrants with higher education is 33%, in Spain this percentage falls to 18%. Conversely, in Spain 22% of migrants have not finished high school compared to 15% in the US. The majority of migrants to both countries have finished high school.

Graph 13. Distribution of Senders by Level of Education



Source: *Study of International Migration and Remittances in Colombia*. Garay & Rodríguez.

Graph 14. Distribution of Senders by Family Relationship (A)

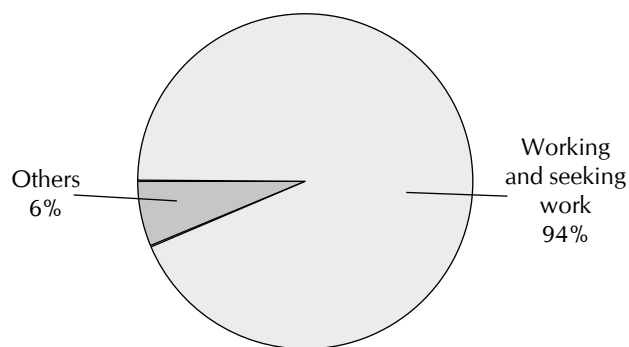


Source: *Study on International Migration and Remittances in Colombia*. Garay & Rodríguez.

Information on the relationship between remittance senders and beneficiaries is used to analyze family migration strategies. In the Colombian case, those family members living abroad are for the most part children, siblings and grandchildren of the heads of households.

Finally, it is important to emphasize that 94% of remittance senders are economically active persons, of which 92.7% work and the remaining 1.7% are looking for a job.

Graph 15. Distribution of Senders by Family Relationship (B)



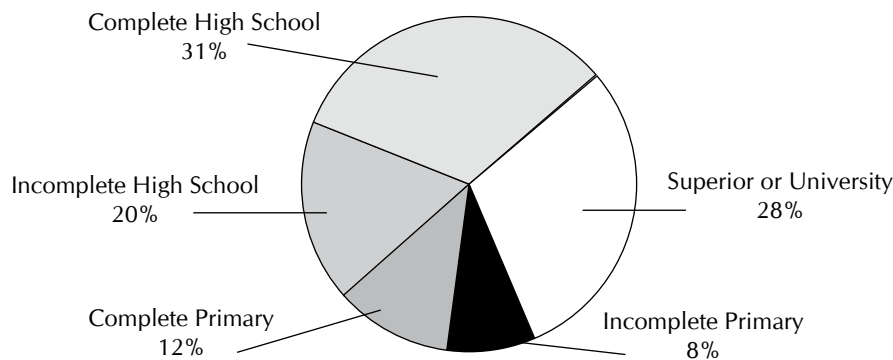
Source: *Study on International Migration and Remittances in Colombia*. Garay and Rodríguez.

3.3 BENEFICIARY PROFILES

Another important part of the remittance market corresponds to the recipients or beneficiaries of the funds. In Colombia, approximately 60% correspond to heads of household who are generally women with an average age of 40.

The level of education of beneficiaries is lower than that of their families abroad. 40% present an educational level of unfinished high school, 31% have completed high school and 28% have engaged in higher studies.

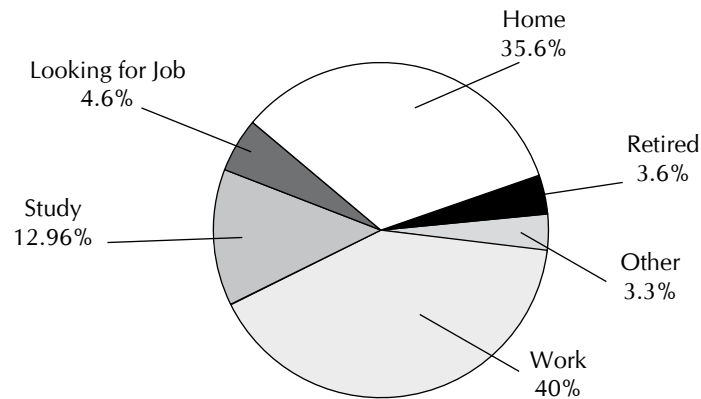
Graph 16. Distribution of Recipients by Level of Education



Source: *Study on International Migration and Remittances in Colombia*. Garay and Rodríguez.

Only 40% of beneficiaries in the Colombian remittances market have a job, which is significantly less than the 99.3% of senders. The main activities occupying beneficiaries are: work (40%), household (35.6%) and studies, 12.9%.

Graph 17. Recipients' Occupation

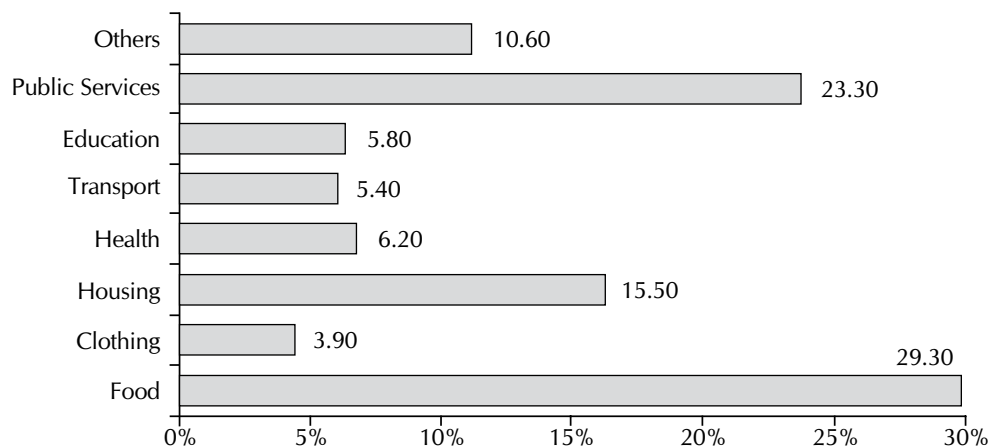


Source: Study on International Migration and Remittances in Colombia. Garay and Rodríguez.

The availability of additional resources such as remittances generates an important effect in the local labor market. In many cases the permanent reception of remittances generates security in families and discourages the search for employment.

84% of remittance recipients surveyed indicated that they receive money from one sender, while 12% receives from two persons, 3% from three persons and 1% from four or more persons. Additionally, these resources have been received on a regular basis for more than five years.

Graph 18. Use of Remittances



Source: Study on International Migration and Remittances in Colombia. Garay and Rodríguez.

Survey results indicate that the main use made of remittances is for recurrent expenses, in other words, expenses related to: food, clothing, housing (i.e. rent, mortgage payment or utilities), health, transportation, recreation, education, public services, domestic services, consumer credit payment or personal debts. The remaining percentage is used for investment, consumer durables and savings.

The subject of the use of remittances has awoken a special interest among the Colombian authorities in the search for alternatives to allow the reorientation of part of these resources to productive sectors of the economy. However, the recipients are who decide their use, and while domestic conditions with respect to employment and income remain unfavorable, beneficiaries will not have incentives to increase their demand for durable goods, investment and savings.

3.4 REMITTANCE INDICATORS IN COLOMBIA

Although as mentioned, the major portion of remittances received from abroad originate in the United States, their average value is lower than those received from Spain and other countries. The following chart shows the average value of a draft from the more important remittance originating countries for Colombia. It can be seen that family remittances coming from Europe are the highest, exceeding USD 425 per draft, while family remittances coming from the United States are relatively low, USD 272 per draft; the lowest come from Aruba, USD 194, Costa Rica, USD 225 and Panama, USD 235.

Table 6. Average Transfer in Dollars by Country of Origin

<i>Country</i>	<i>Average Draft</i>
England	458.9
Italy	442.0
Spain	425.4
Ecuador	375.3
Mexico	352.5
United States	272.6
Panama	234.5
Costa Rica	225.1
Aruba	193.8

Source: Banco de la República.

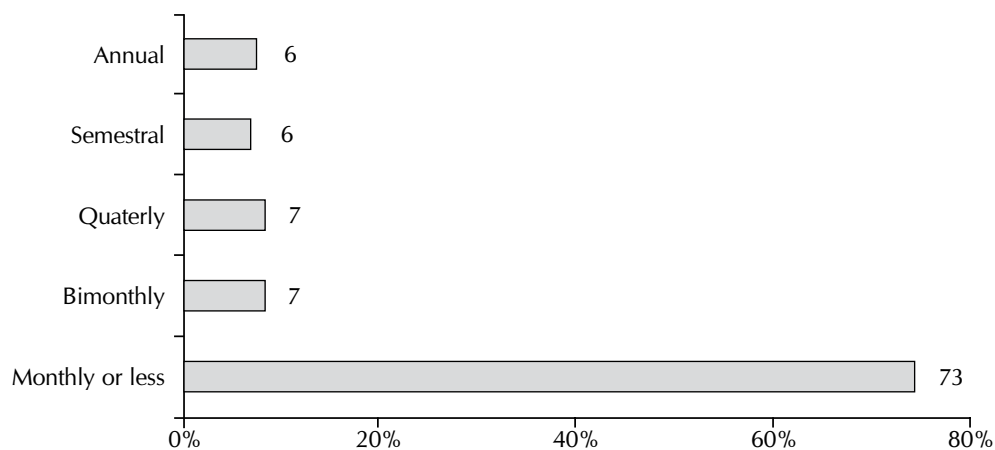
The average monthly income from remittances is estimated between USD 250 y USD 300. Even though the reception of family remittances has increased considerably during the last years, the average value of drafts has remained relatively stable throughout the years. A very small proportion of remittance transfers are in excess of USD 1,000.

In terms of the number of transfers, the relative importance of the United States is greater, since the average value of drafts coming from this country is lower. Countries like England, Ecuador, Italy, Panama and Aruba, among others, are also important in terms of the volume of remittances.

In 73% of the cases of international remittance transfers, their frequency is monthly or greater.

A very small proportion of remittance income in the country is received in cash (1%); according to data from DANE, a low but higher proportion (4%) is received through non formal channels such as ATM's. The rest of remittances are received through the Foreign Exchange Market Intermediaries.

Graph 19. Frequency of Remittances

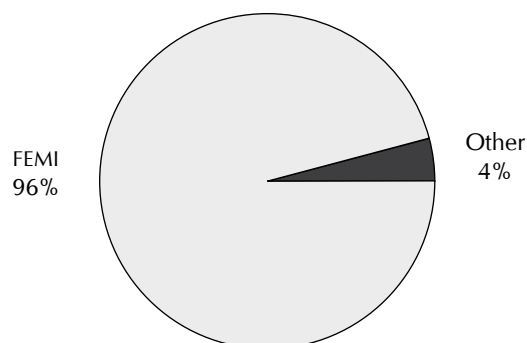


Source: Study on International Migration and Remittances in Colombia. Garay and Rodríguez.

4 INTERNATIONAL REMITTANCES SERVICE PROVIDERS

According to current regulations in Colombia, only Foreign Exchange Market Intermediaries (FEMI) are authorized to undertake international remittances transactions. External Resolution N° 8 of 2000 approved by the Board of Governors of Banco de la Republica defines the following institutions as FEMIs: commercial banks, financial corporations, Trade Finance Companies, the National Energy Finance company (FEN), Banco de Comercio Exterior S.A. (BANCOLDEX), financial cooperatives, stockbroker firms and exchange houses.

Graph 20. Remittances Service Providers



Source: Banco de la República.

Because of this legal structure and the way the market has developed, most remittances entering the country travel through formal channels, in other words through a FEMI that is licensed, registered and authorized to engage in this activity. However, surveys of remittance beneficiaries at Exchange Houses, as reported in ASOCAMBIARIA⁷ database, show that formal entities (FEMI) carried out 96% of total remittance transactions, while the remaining 4% took place via hand-delivered cash, mail, international cards or informal (non-institutional) operators.

4.1 INSTITUTIONAL PROVIDERS

There are 73 authorized FEMI entities in Colombia, of which 41 (56%) in effect pay out family remittances. The foreign exchange received on account of remittances is mainly negotiated through the registered FEMIs, since other agents operating in the free market are not authorized by foreign exchange regulations to receive or send foreign transfers.

4.2 REGISTERED INSTITUTIONAL PROVIDERS

In recent years commercial Banks have increasingly participated in the remittance payment business, while the number of Exchange Houses and TFCs taking part in this activity has

⁷ The Colombian Association of Exchange Institutions (ASOCAMBIARIA) brings together twelve FEMIs, mostly Exchange Houses and Trade Finance Companies.

remained constant. Indeed, while in 1991 there were 14 entities, among EH, TFC and a stockbroker firm, which channeled 95% of remittances, in 2006 their market share fell to 63%. At the same time, the number of entities involved in paying out remittances has become more concentrated: in 2004 47 FEMI paid out remittances in Colombia, while two years later their number had fallen to 31. It should be noted that two TFC currently in the remittances market started out as Exchange Houses and then became TFC in order to broaden their supply of services.

Table 7. Structure of the Remittances Market in Colombia

	<i>Number of Remittance Payers</i>				<i>Percentage Market Share</i>			
	<i>2001</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2001</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>
Exchange Houses and TFC ^(a)	14	14	13	12	95%	86%	70%	63%
Other Exchange Intermediaries (Banks Financial Corporations, Stockbroker firms)	4	33	22	19	5%	10%	26%	33%
Others, non FEMI ^(b)	n.a.	n.a.	n.a.	n.a.	n.d.	4%	4%	4%
Total	18	47	35	31	100%	100%	100%	100%

Source: Banco de la República.

^(a) Includes TFC and a stockbroker firm. In 2005 and 2006, corresponds to CC and TFC.

^(b) Cash, ATM, couriers.

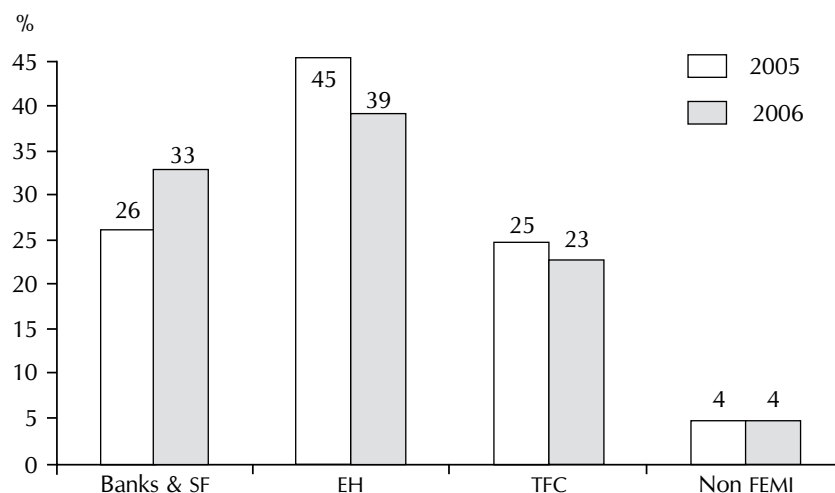
n.a.: not applicable.

n.d.: not available.

The conversion of the two Exchange Houses with the highest market share into TFCs and the progressive entry of commercial banks into the remittances business, reflects the market trend towards complementing remittance transactions with other types of financial services. It also reveals the high degree of competition prevailing in the Colombian market.

The greater competition forces entities to offer new related products and/or to complement their income with other kinds of services in order to stay in this market. In this sense, it can be seen that the market share of Exchange Houses, TFCs and one stockbroker firm which operated mainly as a remittance payer, fell markedly from 95% in 2001 to only 63% in 2006. On the other hand, the market share of other financial system intermediaries (commercial banks and stockbroker firms) increased from 5% in 2001 to 33% in 2006.

Within FEMIs, there was an important loss of market share from EH to banks during 2005 and 2006, while TFCs maintained their market share (see Graph 21).

Graph 21. FEMI Share in the Colombian Remittances Market^(a)

Source: Banco de la República.

^(a) Foreign Exchange Market Intermediaries

Exchange Houses⁸

Since 1993 Exchange Houses (EH) are the traditional channel for migrants' remittance flows to Colombia. In view of their impact and social relevance they were included under the International Exchange Regime by the exchange authority.

Exchange Houses were incorporated as bearer-share societies, authorized and supervised – since 2000– by the Financial Supervisor. The following requirements must be observed in order to obtain and keep the authorization: partners must display sound character, responsibility, skill, moral integrity and solid finances; their net worth must reach or exceed 4,099 million Colombian pesos (annually adjustable according to the consumer price index (CPI)); they must also possess an adequate administrative and technical infrastructure for the proper control of their transactions, comply with money-laundering prevention and the information requirements from the different authorities (BRC, Financial Supervisor and UIAF).

Of the 16 entities that operated as exchange houses in Colombia until 2000, only 12 met the BRC requirements for consideration as FEMIs and therefore were able to retain their exchange house status. The remaining entities, which could not meet the requirements, became professional moneychangers, and were excluded from undertaking overseas exchange transactions. The current condition of these exchange houses is shown in Table 8. It can be seen that 5 of the 10 exchange houses currently operating in the remittances market in 2006 disbursed 34.7% of total remittances.

⁸ There are currently 12 Exchange Houses in operation. Of these, 7 have access to the BRC Large Value Payments System, the Electronic Deposit Account System (CUD) that can be accessed through the Banco de la República Portal or Interbank Network, SEBRA. The Exchange Houses are: Intercambio 1A S.A.; Titán Intercontinental S.A.; Cambios y Capitales S.A.; Casa de Cambios Unidas S.A.; Cambio Exacto S.A. Casa de Cambio; Pagos Internacionales S.A. Casa de Cambio; Cambiamos S.A. "Casa de Cambio"; Univisa S.A.; Mercurio Internacional S.A.; and Giroamérica S.A.

Table 8. Remittance Paying Exchange Houses

<i>Exchange Houses Operating in Colombia as FEMIS and Paying Out Remittances:</i>		
<i>Authorizes Entities</i>	<i>Non-current Entites</i>	<i>Became EH</i>
1. CAMBIAMOS S.A.		
2. CAMBIO EXACTO S.A.		
3. CAMBIOS COUNTRY S.A.		TFC MACROFINANCIERA
4. CAMBIOS Y CAPITALES		
5. CASA DE CAMBIOS UNIDAS S.A.		
6. GIRAR S.A.	GIRAR S.A.	
7. GIROAMERICA S.A.		
8. INTERCAMBIO 1A S.A.		
9. MERCURIO INTERNACIONAL S.A.		
10. PAGOS INTERNACIONALES S.A.		
11. TITAN INTERCONTINENTAL S.A.		
12. UNIVISA S.A.		

Source: Banco de la República.

Banks

According to the Organic Statutes of the Financial System and their modifications, commercial banks (CB) are financial institutions whose main function is attracting funds on bank current accounts, as well as other sight or fixed-term deposits, for the principal objective of undertaking loan transactions. There are currently 26 (CB) in operation, which are regulated and supervised by the Financial Supervisor.

Table 9. Remittance Paying Commercial Banks

<i>ACTIVELY undertake remittances</i>	<i>Undertake remittances as a COMPLEMENT</i>
Banco Caja Social S.A	ABN Amro Bank (Colombia) S.A. –ABN Amro Bank–
Banco DAVIVIENDA S.A	Banco Agrario de Colombia S.A. –Banagrario–
Grupo BANCOLOMBIA S.A	Banco Aliadas S.A.
Banco Bilbao Vizcaya Argentaria Colombia S.A.	Banco Andino Colombia S.A.
	Banco Colmena S.A.
	Banco Colpatría Red Multibanca Colpatría S.A.
	Banco Comercial AV Villas S.A.
	Banco Cooperativo de Crédito y Desarrollo Social
	Banco de Crédito de Colombia S.A. Helm Financial Services
	Banco de Crédito y Desarrollo Social Megabanco S.A.
	Banco de Occidente
	Banco del Pacífico S.A. –BP.–

(Continue on next page)

Table 9. (Conclude)

<i>ACTIVELY undertake remittances</i>	<i>Undertake remittances as a COMPLEMENT</i>
	BANCO GNB SUDAMERIS S.A.
	Banco Intercontinental S.A.
	Banco Selfín S.A.
	Banco Tequendama S.A.
	Banco Uconal S.A.
	Banco Unión Colombiano
	Banistmo Colombia S.A.
	Bank of America Colombia
	Bansuperior
	Caja de Crédito Agrario Industrial y Minero
	Citibank–Colombia
	Granahorrar Banco Comercial S.A. o Banco Granahorrar
	Granbanco S.A.

Source: Own Elaboration.

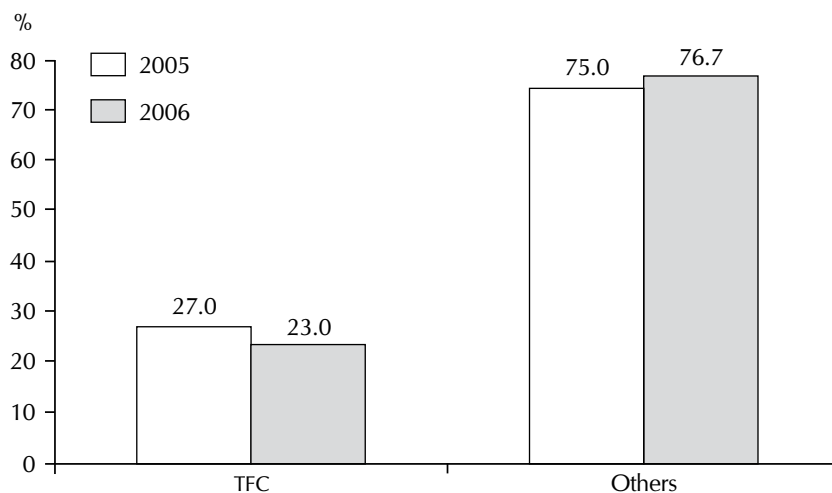
Although all commercial banks undertake remittance transactions as part of exchange operations they offer their customers, only 4 entities take a serious commercial interest in this product and have developed an aggressive promotional campaign to attract remittance beneficiaries, leading their market share to increase to 36% by 2006.

Remittance paying banks in Colombia have modified the structure of their international operations in order to compete with exchange houses and replicate their business model so as to reduce transaction costs. To this purpose they established a commercial relationship with the principal Money transfer organizations (MTO) sending foreign exchange to Colombia and reduced their remittances business with correspondent banks and the more costly ETDs.

Trade Finance Companies

TFCs are institutions whose main function is to attract term deposits for the funding of lending operations aimed at facilitating commerce in goods and services and carrying out leasing operations.

The Financial Supervisor has a total of 52 companies registered as TFCs, of which 20 are dedicated to leasing and the remaining 32 carry out different activities. Among this type of entity, only 2 actively participate in the remittances market. These two TFCs started out as Exchange Houses, but given their growth needs and desire to broaden the scope of their services they became TFCs. In 2006 they disbursed 23% of total remittances, down from the previous year, but in recent years they have been the most stable group of entities in the market despite growing competition from banks.

Graph 22. TFC Share in the Remittances Market

Source: Banco de la República.

Because of the way these two entities came into being, to date they maintain strong links with Exchange Houses, especially through ASOCAMBIARIA of which they are still members. Their business structure is not homogenous: while in one case commercial agreements have been reached with various ETDs, in the other there is an exclusive relationship with one of the world's largest ETDs.

Stockbroker Firms

SFs are entities that are legally authorized to execute transactions for the purchase or sale of securities in the Stock Exchange, and must be registered in the National Securities and Intermediaries Registry. They are allowed to carry out operations for third parties or on their own account. They are also authorized to undertake foreign exchange intermediation transactions.

Stock broking firms do not currently participate actively in the remittances market, or at least not directly, since their efforts in the field of remittances are directed more towards complementary activities such as buying and selling foreign exchange for the Exchange Houses.

Postal Orders

The Government has decided to participate in the market through the postal system; however, until now the postal service has been undergoing a process of restructuring, and therefore has not yet begun to operate actively as a payer of remittances. The conditions under which this type of agent may operate have already been established by the regulatory authorities, setting them on an even footing with other participants in the remittances market (see BRC Board of Governors' Resolution N°8 of 2000 on Financial Cooperatives and Resolution N°3 of 2006). Therefore the participation of these new players will ensue on equitable and competitive conditions, and it is not foreseen that market conditions (price, access, etc.) will be artificially affected.

Financial Cooperatives

Financial Cooperatives also have an interest in the Colombian remittances market, and for this reason they have planned to enter the market as players in 2007 through the creation of SumaRed, a common network among various cooperatives, aimed at serving as a link between the owner cooperatives. Operating conditions have already been established by the regulatory authorities, and were set up on equal conditions to other remittance market participants (BRC Board of Governors' Resolution N°8 of 2000 on Financial Cooperatives and Resolution N°3 of 2006).

4.3 NON-REGISTERED INSTITUTIONAL PROVIDERS

Money transfer organizations (ETD)

Because of the current legislation, international ETDs cannot provide international remittances services locally and therefore cannot open branches in the country nor utilize their own networks for the local leg of the transfer. Therefore there are no unilateral or franchise services offered directly by these types of intermediaries. Their entire operation, in the Colombian case, is limited to the sourcing leg of attracting funds in the remittance originating country, which must then be sent to the beneficiaries via one of the legally established and locally incorporated FEMIs.

Electronic Funds Transfer Companies

Some remittances may arrive by these means, for example, through credit, debit or prepaid cards or via electronic checks.

In the case of cards, there are different ways of using them: for example, the originator may request a credit or debit card from his bank (which must be compatible with the international networks) and send it to his relatives at the place of destination. The originator may then periodically credit the card account so that family in the destination country may make withdrawals at ATMs or purchases at POSs.

Similarly in the case of prepaid cards, the originator may purchase them in his country and send them to his relatives in the destination country, so enabling them to may make withdrawals at ATMs or purchases at POSs. Depending on the card's features, it may be reloaded through transfers or deposits at origin.

These instruments were originally developed mainly for the purpose of attending tourist needs, given the safety and availability of the money they guarantee; nevertheless, it has recently been ascertained that they have been used for sending remittances. However, in the Colombian case, there is no information on this instrument.

Messenger services

International messenger services do not provide remittance services in Colombia, since they are not authorized to operate as FEMIs by Banco de la Republica.

Professional Buyers and Sellers of Foreign Exchange

Professional moneychangers (PM) are natural or legal persons, registered at the Chamber of Commerce and authorized by the International Exchange Regime (Exchange Statute, External Resolution N°8 of 2000) to transact in the purchase and sale of foreign exchange, exclusively in cash and in the local market, and excluding transactions that must be channeled through the regulated market. PMs are supervised by DIAN in line with article 27 of Decree 1265 of 1999. Among other requirements, PMs must have a deposit account at a commercial bank and prove that they own their own office premises. Once they meet these requirements and prior DIAN authorization, they are provided with a Single Tax Number (RUT) with which they may begin to operate. Once in operation, PMs must complete various Exchange Declarations for each foreign currency sale or purchase transaction, and send them to DIAN.⁹

4.4 NON-INSTITUTIONAL PROVIDERS

There are two kinds of remittances that take place through non-institutional providers: those that are made in cash, and those that take place through alternative methods. According to the surveys of remittance beneficiaries at Exchange Houses, extracted from the ASOCAMBIARIA database, formal entities (FEMIs) accounted for 96% of total transactions while the remaining 4% took place through different means, among them cards and cash.

Hand-carried cash

Cash which enters the country can do so in different ways; for example, it can be introduced by the so-called couriers, by a relative or friend of the family who is travelling abroad, or by the sender himself who may bring it in his pocket when visiting the country. Another option is through correspondence sent by mail.

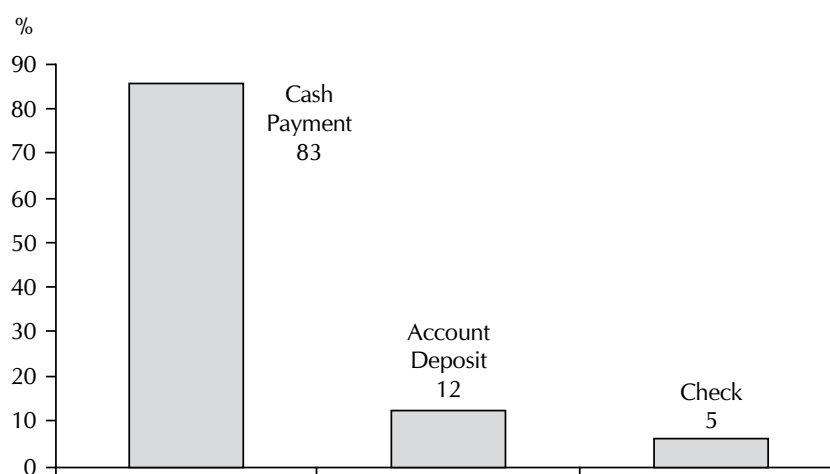
According to BRC, these types of remittances do not account for an important portion of the remittances market, since both cost and other factors such as the lack of security discourage their use as a mass means for the transfer of remittances.

⁹ PMs send DEC under Form N° 10, which are different and simpler than those the FEMIs authorized to undertake international remittances, which correspond to Form N° 5.

5 MEANS OF PAYMENT FOR REMITTANCES

The instruments employed for the payment of remittances may vary according to the market characteristics in each country. Thus, in Colombia, the FEMIs may pay out remittances in cash, by check, through deposits in account or by means of cards. However, due to the low level access to banking services witnessed in the Colombian market, the greater portion (83%) of the final disbursement of remittances takes place in cash, and only 17% is deposited in current or savings accounts, or paid by check.

Graph 23. Remittances Market Distribution by Type of Instrument



Source: Banco de la República. Remittances Survey 2006.

In general, and within the group of Colombian foreign exchange market intermediaries, it is the commercial banks and trade financing companies who are most interested in providing remittance beneficiaries with access to banking services; first, because it will make payment easier by simply crediting their accounts, and second, because these funds could be channeled into other profitable financial products such as savings accounts, checking accounts and various lines of credit. These activities are forbidden to exchange houses.

Table 10. Payment Modality

Remittances Payment Modality in Colombia by Type of Intermediary

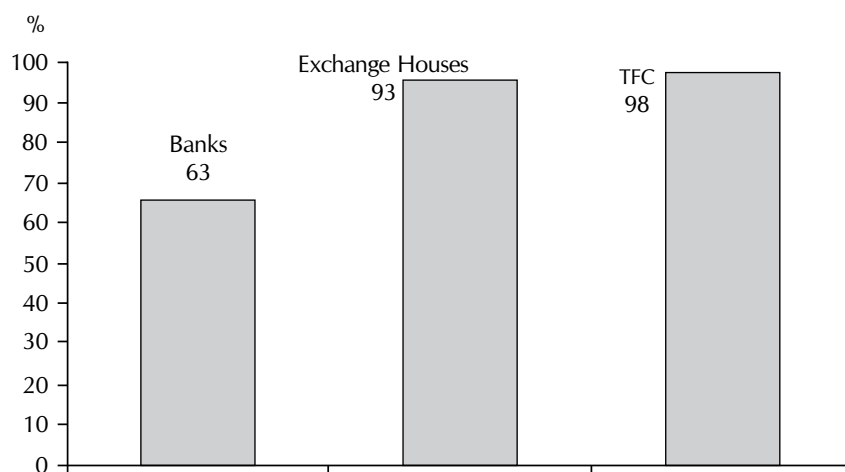
	Relative Importance 2006			Total
	Cash Paymen	Account Credit	Check	
Banks	63	23	14	100
Exchange Houses	93	7	0	100
Trade Financing Companies	98	2	0	100
Total	83	12	5	100

Source: Banco de la República.

5.1 CASH

Most remittance payments take place in cash. While EH and TFC make 93% and 98% of their remittance payments in cash, respectively, banks do so only in 63% of the cases.

Graph 24. Payment of Remittances in Cash, by FEMI



Source: Banco de la República.

The payment modality of remittances in Colombia for each kind of intermediary depends on the applicable regulations. Banks, therefore, may combine different payment modalities since they are authorized to offer savings or checking accounts, while Exchange Houses must pay out mainly in cash since they cannot offer other services directly.

Cash payment has advantages because it simplifies the process. However, the need to have sufficient cash available to meet all payments imposes an additional cost upon FEMIs, in particular for Exchange Houses. In view of this constraint, BRC allowed exchange houses to open accounts and participate in the Electronic Account Deposit System (CUD), which has provided greater availability of cash and therefore has reduced costs.

5.2 CHECKS

In general, FEMIs seldom employ checks for the payment of remittances. Only 5% of all remittances payments take place through the issuance of checks. The use of this means of payment is higher in the case of banks, where 14% of their remittance transactions take place via this instrument. However, even though payment to the ultimate beneficiary of the remittance through this means is in its early stages, it is not foreseen to grow in the future, due to the delays

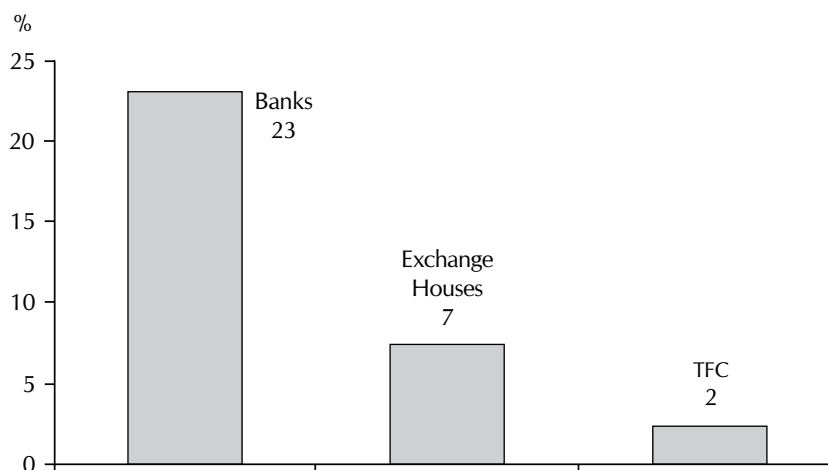
involved in collecting and the additional paperwork required for conversion into cash or deposit in account.

5.3 ACCOUNT DEPOSITS

Deposits or credits to account have become an innovative instrument during recent years, consisting of the payment of remittances directly into the beneficiary's account, who may then use the funds as if they were cash. This instrument, which stands out for its security and convenience to beneficiaries, is a service provided exclusively to those whom already have some type of account in the Colombian financial system; this is why its use is not widespread.

In Colombia, 12% of remittance payments took place via this mechanism in 2006, which is used mainly by banks in 3% of their remittance transactions, exchange houses in 7% of their transactions, and by TFC for 2%, as shown in Graph 25.

Graph 25. Payment of Remittances into Account, by FEMI



Source: Banco de la República.

Currently, 56% of surveyed Banks make intensive use of deposit or credit to account for the payment of remittances, while 44% do it to a lesser degree. At the same time, 6 out of 10 active exchange houses report that to some degree they pay remittances by crediting accounts at another FEMI, while the TFCs involved in remittances employ this method for less than 2% of their transactions.

There are many kinds of financial services offered to remittance beneficiaries, according to the type of paying entity:

Table 11. Additional Financial Services Offered, by FEMI

<i>FEMI</i>	<i>Name</i>	<i>Account Deposit</i>	<i>Additional Financial Services</i>
Exchange Houses (EH)	Cambiamos	x	
	Cambio Exacto	x	
	Cambios y Capitales	x	
	Giroamerica	x	
	Intercambio 1A	x	
	Mercurio Internacional	x	
	Pagos Internacionales	x	
	Titan Intercontinental	x	
Commercial Banks (CB)	Univisa	x	
	Banco Caja Social	x	Savings Account, Current Account, Credit cards, CDT, Credit lines And Insurance
	Banco Davivienda	x	Savings Account, Current Account, Credit cards, CDT, Credit lines And Insurance
	Grupo Bancolombia	x	Savings Account, Current Account, Credit cards, CDT, Credit lines And Insurance
Trade Finance Companies TFC	Macrofinanciera	x	CDT, General purpose loan
	Giros y finanzas	x	Savings account, CDT, general purpose loan

Source: Own Elaboration.

5.4 POSTAL INSTRUMENTS

The postal service is not an option within the Colombian international remittances market, given that its domestic payments service is currently being modernized and restructured by the government, while current transactions are characterized by problems associated with the lack of agility, costs and unreliability in receiving the transfer.

5.5 CARDS

It is not possible to determine the proportion of remittance payments channeled through credit, debit and prepaid cards in Colombia with the information available on the remittances market. However, even if data were available on the number of withdrawals or utilization of these international (non-local) cards at ATMs or POSs in Colombia, it would be difficult to determine whether the expenditure referred to spending on tourism or business, or to a remittance. Perhaps if the frequency of use of

these international cards not issued in the country could be determined, some light would be shed on the subject.

There is broad scope for the use of this kind of instrument in the future, and therefore the features prepaid cards should contain for their proper use in the payment of remittances are being determined. The analysis of this instrument is at an advanced stage, with these cards being equipped with an identifier that will recognize them as a means of payment dedicated exclusively to remittance transactions, and being issued by a Colombian bank under the mandate of a foreign bank. This will allow identifying whether the transaction is a remittance.

5.6 ELECTRONIC MONEY

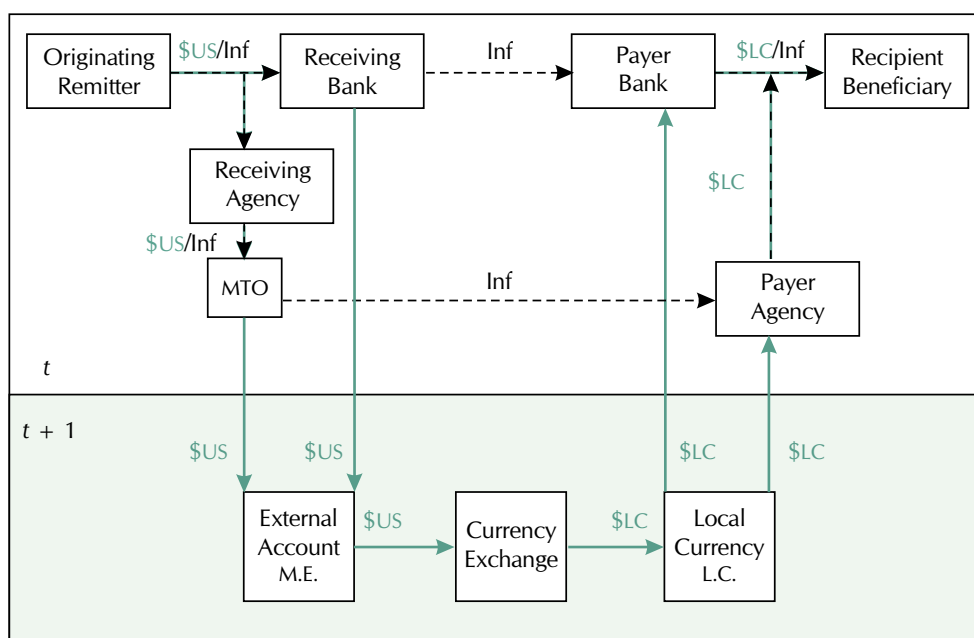
Its use is not yet significant in Colombia. In this sense, there is no information about the frequency of its use to pay out remittances.

6 SYSTEMS AND CHANNELS FOR THE TRANSFER AND PAYMENT OF REMITTANCES

The vast majority of remittance transactions in Colombia take place through the FEMIs, which use the Foreign Exchange Negotiation and Settlement System. Because of the current legislation in the country, money transfer organizations –MTO– are not authorized to operate directly in Colombia, and therefore FEMIs are the only entities authorized to offer international remittance services. Because of this, remittance transactions are divided into two legs, the first refers to their attraction abroad which corresponds to the MTOs, and the second involving their payment via FEMIs.

In general the relationships between MTOs and FEMIs reflect negotiated agreements in which the FEMI pays the beneficiary within a few minutes or hours after the transaction is initiated abroad, based on the information received from the MTO. However, the MTO abroad will deposit the corresponding funds with the FEMI sometime later, after the latter has requested the payment of a batch of remittances, usually in T + 1 or T + 2 days.

Figure 1. The Path of Remittances through the Payments System



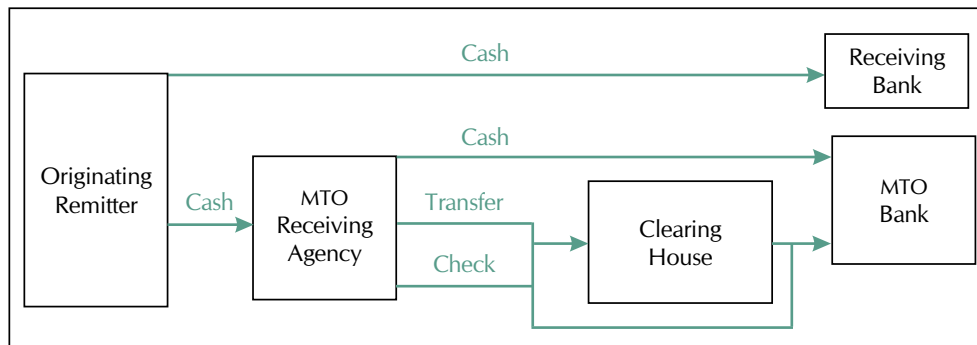
Source: Own Elaboration.

In this way FEMIs normally pay the value of remittances to the beneficiaries between 24 and 72 hours prior to receiving the foreign currency from the MTO, which exposes them to foreign exchange and credit risk. For this reason some of the FEMIs, especially the Commercial Banks, ask the MTOs with whom they work to set up a guarantee fund, and also contract coverage or create special funds to mitigate the impact of a delay or non-payment of the monies they have delivered to the remittance beneficiaries.

6.2 SYSTEMS ABROAD

The following figures summarize the general schemes in which remittances are sought and transferred from the MTO abroad. The remitter may begin the remittance through different means, among them, cash.

Figure 3. Gathering of the International Remittances with Cash



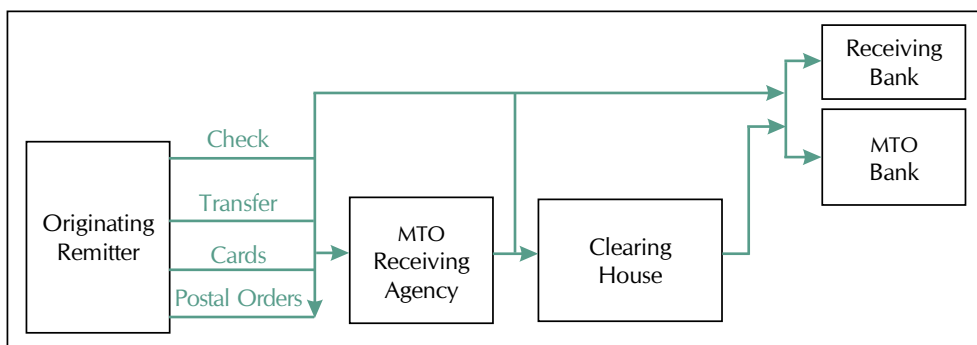
Source: Own Elaboration.

If the originator sends the remittance through a bank, the moment the cash is deposited at one of its windows the transaction is concluded. However, if it is deposited at an agency, there may be a series of mechanisms whereby the agency sends the money to the MTO, among them cash, transfer or check.

If the transfer or check is on the same bank as the MTO, this part of the process concludes there; otherwise, if the agent's check or transfer is not on the same financial entity as the MTO, then these instruments must go through a clearinghouse before being received and settled in an MTO account.

On the other hand, the remittance originator could begin the process with an instrument other than cash, for instance a check, electronic transfer, debit or credit card, or postal orders sent to the MTO, as may be seen in the following figure:

Figure 4. Gathering of the International Remittances with Non-Cash Instruments



Source: Own Elaboration.

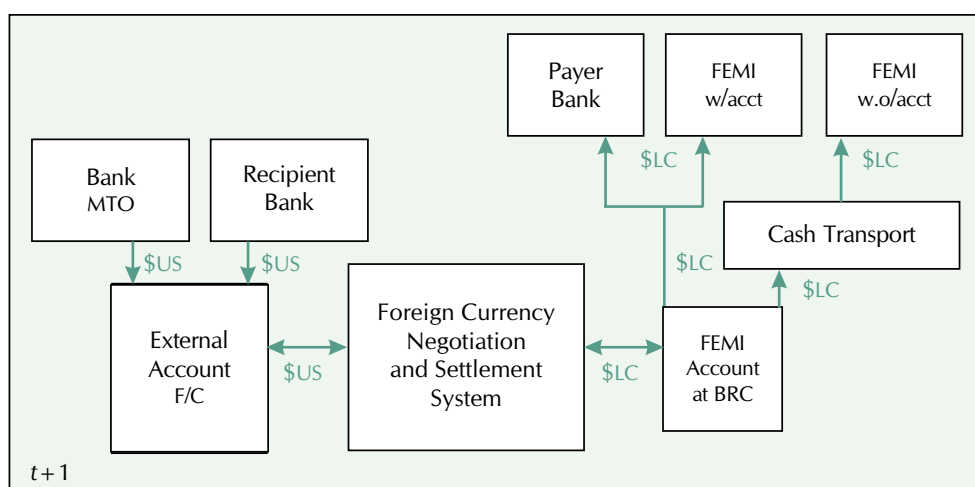
In this case, if the instruments are negotiated at the same bank where they were issued, the funds may proceed directly to the bank or MTO account. Otherwise, if the instruments are issued by other financial institutions, they must go through one of the clearinghouses before they become available for sending in a bank or MTO account.

This kind of transfer can be executed in batch form, rather than one by one upon arrival, depending on the systems and working arrangements each bank or MTO may have in place with their respective agents, branches and other remittance gathering windows.

6.3 CROSS-BORDER SYSTEMS

Cross-border systems allow the transfer of money funds abroad, and vice-versa. In the Colombian case, since 100% of remittances are paid in local currency, the cross-border system is linked to the currency exchange system, known as the Foreign Currency Negotiation and Settlement System (SET-FX).

Figure 5. Transfer of Remittances by Cross-Border System



Source: Own Elaboration.

Foreign Currency Negotiation and Settlement System

Currently, the SET-FX is the only system for trading and settlement of foreign exchange that actually operates in Colombia. Three markets are managed by this system: Dollar Spot, Next Day (1 and 2 days) and Forward. There are approximately 60 participants in SET-FX, including the FEMIs and some public institutions, as well as the BRC. Currency trading is not altogether transparent, since participants do not know who their counterparty is until the time of settlement; nevertheless, participants assign each other a priori trading quotas. The settlement of currency trades is not Payment vs. Payment; in other words, the settlement of local and foreign currency does not occur simultaneously. The foreign currency is settled abroad through correspondent banks, while the position in Colombian pesos are settled at the BRC through the Deposit Accounts System.

This system registers both market traded operations as well as OTC transactions. Transaction data may be consulted on-line in real time, which allows FEMIs to easily follow the value of the dollar in terms of Colombian pesos. SET-FX is managed by the company Servicios Integrados en Mercado Cambiario S.A. "Integrados FX S.A.", whose shareholders include the Colombian Stock Exchange and SIF Garban Intercapital of México, which is a subsidiary of the Mexican Stock Exchange and ICAP PLC of London. SET-FX is overseen by the Financial Supervisor.

There is a project to set up a Foreign Currency Clearing and Settlement House in 2007, which would be operated by the Colombian Stock Exchange and would be owned by the Stock Exchange (25%), the Stockbrokers (25%) and the Commercial Banks (50%). Besides controlling for currency risk in the foreign exchange trading system by adhering to a Payment vs. Payment mechanism, this system will allow OTC transactions, thus allowing Exchange Houses access to the trading system. As the exchange market authority, charged with compiling and publishing official remittances statistics, and also as the payments systems authority, BRC has been actively involved in the design of the above system.

6.4 LOCAL SYSTEMS

Local systems may be divided into those of large and low value. The former allow for the settlement of cross-border and national transactions, while the low value systems typically settle local transactions, although in some cases they may generate cross-border liabilities when, for example, among their participants there are entities or representatives of foreign companies, as in the case of credit, debit and prepaid cards used at local ATMs and POSs.

6.5 LARGE VALUE PAYMENT SYSTEMS

The system of large value payments allows FEMIs in the remittances market to settle their transactions and trades in the SET-FX, and also allows them to acquire the funds required for cash payment of remittances and to settle their balances in the different clearinghouses in which they are allowed to participate. The Banco de la Republica is charged with regulating Large Value Payments Systems (those which fall within its area of responsibility or operational environment), while the supervision and oversight of payments systems in general corresponds to the Financial Supervisor. In Colombia the large value payments system is known as the Electronic Deposit Account System (CUD).

ELECTRONIC DEPOSIT ACCOUNT SYSTEM

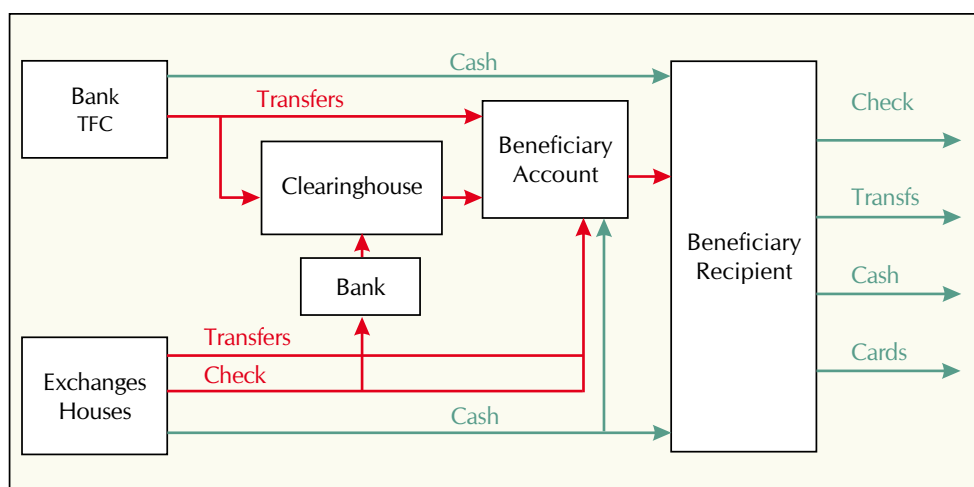
The BRC operates the Electronic Deposit Account System (CUD) through which large value funds transfers take place between financial intermediaries. The system participants access the CUD through SEBRA (BRC Electronic Services), where in addition to Clearinghouse settlement and currency trading, they may obtain cash from Banco de la República. BRC recently authorized exchange houses to open Deposit Accounts, so that currently all FEMIs may use the BRC platform, which facilitates their cash management and participation in the payments system. The monthly membership costs for SEBRA and CUD are about USD 350, plus the fees paid for each transaction.

Obtaining cash is very important for the remittances market, since 90% of remittances are paid out in cash. Before BRC authorized deposit accounts for exchange houses obtaining cash was very costly, since both the foreign currency and transport services had to be negotiated bilaterally with commercial banks. In addition, now that 7 of 10 exchange houses having opened current accounts at the BRC, they can negotiate directly with the securities transport companies to have the cash picked up at BRC, which has allowed them to reduce and improve their allocation of costs.

6.6 LOW VALUE PAYMENT SYSTEMS

The Low Value Payment Systems are regulated by Decree N° 1400 of 2005. Besides CENIT¹⁰ there are six private Low Value Payment Systems that settle one or more payment instruments.¹¹ According to the regulations all Credit Entities (Banks, TFC and Credit & Loan Cooperatives), EH, the Government and Social Security may participate in low value payment systems. Although regulations do not prohibit it and costs do not pose a barrier to entry, to date no EH has requested to be a direct participant in any ACH. Some EH have displayed an interest in channeling remittance payments via interbank account deposits, but only through the commercial bank where they hold their deposit account and not as direct participants in a clearinghouse, or alternatively, only between banks. Other EH and even some banks do not yet pay out remittances via account deposits.

Figure 6. Payment and Use of the Remittances



Source: Own Elaboration.

FEMIs can basically offer two types of payment instruments for remittances: cash payment and account deposit. Once the account is credited, the remittance beneficiary may possibly employ other instruments, mechanisms and financial services such as checks, credit and debit cards, electronic transfers, etc.

¹⁰ The BRC check clearinghouse.

¹¹ The private Clearinghouses are: Asociación Gremial de Instituciones Financieras "Credibanco", ACH Colombia S.A., Servibanca S.A., A Toda Hora S.A. "ATH", Redeban Multicolor S.A. and Central Cooperativa y Solidaria de Servicios Múltiples - "Visionamos".

There are various possible channels for an account deposit, depending on the type of FEMI and the location of the beneficiary accounts. When the remittance is paid by a bank or TFC, the account deposit can be made directly if the beneficiary account is at the same entity, which is usually the case in Colombia, or through an inter-bank transfer (which must go through a clearinghouse to become effective) if the account is at another financial entity.

When the FEMI is not a financial entity, as in the case of exchange houses for, the account deposit can be made via an interbank transfer, or by deposit cash or a check in the beneficiary's account. If the beneficiary's account is in a different entity to that where the exchange house's account is, this transaction (check or transfer) must also pass through a clearinghouse before becoming effective. Exchange houses in Colombia use checks as the main instrument for making account deposits. On the other hand, transfers are not widely used for reasons of follow-up and control of financial movements.

Clearinghouses for checks and other payment instruments

Check settlement is a service that is provided nation-wide and exclusively by Banco de la República through CEDEC and Clearinghouses, which are the premises where the actual physical exchange of documents takes place. Commercial banks may participate in this service, alongside Banco de la República who also manages the process.

Documents are settled in the same day in these clearinghouses, with the process finalizing the following day when the unpaid checks are registered. All checks must be pre-classified at the recipient entities according to bank of payment, and submitted to the clearinghouse during pre-established hours, where the net value of charges and payments to each bank is determined and the physical exchange of instruments takes place. This process is costly and inefficient for the financial institutions, since it does not allow for the adequate use of automated processing systems.

Briefly, according to this procedure, each recipient bank sends Banco de la Republica, who is in charge of the clearinghouse, a file with the information required by each paying bank to decide whether or not to authorize the cancellation or payment of the corresponding check. Those checks whose value exceeds the fixed amount will not be rejected, and therefore must be physically delivered to the clearinghouse, although their information shall be previously included in the mentioned files.

Transactions in CEDEC must be settled with value date equal to the date of submission of the instruments to the entity.¹²

Clearinghouse for Electronic Transfers (ACH)

The CENIT system – National Interbank Electronic Settlement - is an Automated Clearinghouse (ACH) operated by Banco de la República, that provides the processing service for low value payment or collection orders, originating in participating entities on their own account or on that of

¹² Further detail regarding the payments systems in Colombia may be found at www.forodepagos.org

customers, whether legal or natural persons, who have current or savings accounts. The following entities participate in CENIT, in addition to all Banking Entities: the General Office for Public Credit and National Treasury, that channels transfers and payments made by the Central Government to territorial entities; Information Operators, who process Payments to the General Social Security System via the Unified Collection Form; DECEVAL, that services its depositors' debt; and Banco de la República, for its own payments and collections.

Banco de la República, whose constitutional mandate includes oversight of financial system stability and public confidence in the currency, has actively participated in the upgrading process of the Colombian payments systems since the late 80's, with the main goal of furthering their efficiency, safety and reliability.

In this context and within the framework of an agreement with banking entities, in 1999 it began operating an automated clearinghouse (CENIT) that allowed for the substitution of cash and check payments by electronic payments, thus providing greater security and speed as well as lower cost.

The recurrent payment of payroll, pensions, suppliers, and in general the invoicing of purchases of all goods and services, as well as claims on all these transactions, may take place electronically through CENIT via the affectation of current or savings accounts at any bank and in any city of the country. Given that payments and claims effected through this means can be credited to the bank accounts of the final beneficiaries on the same date on which they take place, the management of financial resources is optimized through the elimination of the so-called float, benefiting not only the population with access to banking services but also the banking entities themselves who can broaden their array of services.

In addition to CENIT, which is managed by BRC, among the ACH there are six private clearinghouses, namely Credibanco, ACH Colombia, Servibanca, ATH, Redeban multicolor and Visionamos. These houses clear various payments instruments including credit, debit and other types of cards, debit and credit electronic transfers, etc.

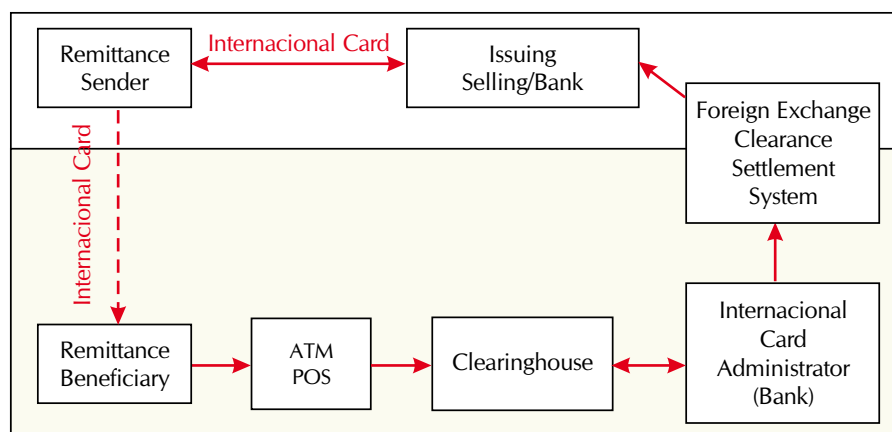
Clearinghouses for Automatic Teller Machine, International Credit, Debit and Prepaid Card Networks

There is a growing use of new alternative or innovative instruments in the remittances market, especially of cross-border instruments that allow for permanent contact between the source of funds and the remittance beneficiaries. Amongst these, until now the most developed and frequently used are credit, debit and prepaid cards.

The use of cards in the remittances market begins with a request by the sender for a debit or credit card (linked to an account at the originating bank), or via the purchase of a prepaid card. Credit and debit cards require an appropriate legal status for the applicant, and are therefore unavailable to senders who are not formally resident in the host country. Prepaid cards, on the other hand, require less formality in their purchase and reloading, and could therefore probably become the instrument of preference for migrants whose residence papers are not completely in order.

Once the sender acquires the card, it must be physically sent to the beneficiary so that it can be used for withdrawal of local currency at automatic teller machines (ATM), or at points of sale (POS) for the purchase of goods and services.

Figure 7. The Use of Cards for Sending Remittances



Source: Own Elaboration.

Once the cards are used at POSs or ATMs, the value of purchases and withdrawals is sent to a clearinghouse for credit, debit and other cards, thus generating a debit position for the International Card Administrator in the country. This position is then settled with the bank that issued or sold the international card through the cross-border system.

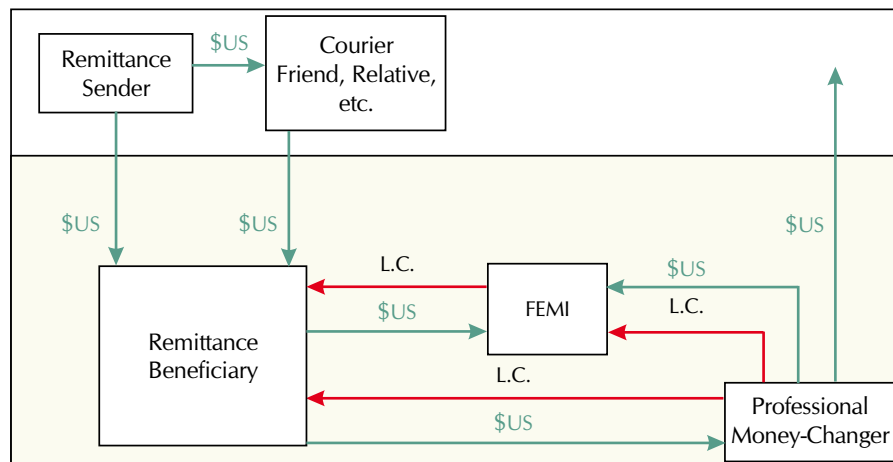
The sender can periodically increase the funding on the debit card account, pay the expenses on the credit card or reload the prepaid card, in order that the beneficiaries may retain access to the remitted funds.

6.7 OTHER SYSTEMS AND CHANNELS

Apart from the channels used by formal entities that provide international remittance services, there are other mechanisms which allow migrants to transfer their funds to their countries of origin, such as the use of couriers, sending via friends or relatives, and even the simple fact of taking remittances personally during migrants' visits to their home countries in the holiday season. Almost all these remittance mechanisms are cash-based.

The market and cash delivery mechanisms described are very expensive, especially in view of the implicit costs of foreign exchange transactions and the transport itself, and therefore it is believed that this channel is not frequently used.

In each case the sender gives the money to another person, who may be a courier, relative or friend. Or the money may be carried by the sender to his/her country of origin. Once the foreign currency enters the country and is delivered to the beneficiaries, they must exchange it for local

Figure 8. Sending Remittances by Courier

Source: Own Elaboration.

currency. These foreign exchange transactions may only take place with foreign exchange market intermediaries – FEMIs – or with professional money-changers (PM).¹³ Transactions between FEMIs and the public, as well as those between PMs and FEMIs, correspond to the regulated market, while exchange transactions between PMs and the public are part of the free market.

Once the foreign currency is in hands of the FEMIs, they either exchange it on the domestic market or negotiate it through the foreign exchange trading and settlement system. For their part, professional money-changers either exchange the foreign currency with the FEMIs or carry it themselves across the border. Such transport must be reported for transactions in excess of ten thousand dollars.

¹³ Professional Money-changers are Sellers and Buyers of Foreign Currency. They are considered as specialized intermediaries, are authorized by the Colombian National Customs and Tax Department (DIAN) and are registered at the Chamber of Commerce. It is currently estimated that there are 3,000 PM, although only 1,500 of them are fully authorized by DIAN. PMs are not supervised by the Financial Supervisor. In this case PMs are only authorized to engage in cash foreign exchange transactions, and are not allowed to provide international remittances services.

7 COSTS, TIME AND ACCESS

In general, remittances represent an important source of funds for developing countries, with a multiplier effect on the economy given that they stimulate domestic demand; therefore, it is important that the markets guarantee the greatest net receipt of resources, which necessarily leads to an analysis of their cost structure.

7.1 THE COST OF REMITTANCES

The transaction costs of family remittances are related to the number of agents involved in the transfer chain and subsequent payment. The total cost to the consumer is composed of an explicit cost – commissions – and an implicit cost linked to the exchange rate margin. The explicit cost of sender commissions is applied by the remitting entities (local stores and MTOs), and in some cases, the paying entities. The calculation of this cost relies upon the modal commission, i.e. the most frequently reported commission rate. On the other hand, the implicit cost stems from the exchange rate differential for the original currency of remittance, the actual exchange rate applied to the remittance disbursement and the time delay in payment. The exchange rate differential is mainly, although not exclusively, applied by the disbursing entities.

Table 12. Remittance Transaction Costs in Colombia by Type of FEMI

Percentages		2005	2006
BANKS	Commission ^(a)	4.0%	4.0%
	ER Differential ^(b)	0.8%	-0.2%
	Total	4.8%	3.8%
T.F.C.	Commission ^(a)	1.3%	1.1%
	ER Differential ^(b)	1.5%	1.6%
	Total	2.8%	2.7%
EX.HOUSES.	Commission ^(a)	1.0%	1.0%
	ER Differential ^(b)	1.3%	2.7%
	Total	2.3%	3.7%
MARKET	Commission ^(a)	2.0%	2.1%
	ER Differential	1.2%	1.3%
	Total	3.2%	3.4%

Source: Banco de la República.

^(a) Modal commission reported by FEMIs to MTOs.

^(b) Annual average exchange rate differential.

Remittance transaction costs in Colombia are low compared to other Latin American and Caribbean countries, since their 2005 level was 3.2% with a slight increase to 3.4% in 2006. The highest cost is applied to remittances originating with MTOs and paid through banks, which averaged 4.8% in 2005 and fell to 3.8% in 2006. In a second order of magnitude are the cost of remittances paid

through exchange houses, which showed a sharp increase from 2.3% in 2005 to 3.7% in 2006. The lowest costs are for transactions with TFCs, which fluctuated between 1.3% and 1.1% during these two years.

It is important to note that the cost structure depends on the negotiating power of paying agents in relation to the foreign MTOs. In the specific cases of the TFCs and exchange houses, more than 56% of total costs originate from the exchange rate differential, which is their only source of income associated with remittances. For banks, on the other hand, costs are mainly (more than 80%) associated with the transfer commission, which in some cases, depending on the bank's negotiating strength, can be shared with the MTO.

7.2 COMMISSION CHARGES

The level of commissions charged in Colombia varies as a function of factors such as the country of origin of the remittance, the remittance amount and the nature of the transmitting agents involved in the chain of foreign exchange reception, transmission and payment. Reports provided to Banco de la República and information from other sources¹⁴ shows that the highest commissions occur in situations of an exclusive relationship between the MTO and the payer in Colombia. This is the case of the highest commission reported between an MTO and a TFC, which has fluctuated around 10% during the period under consideration. The high level of commissions applied to transfers which take place through correspondent banks, and which are paid through banks in Colombia, should also be noted. These commissions reached a maximum of 15% in 2006. In general, the lowest commissions applied to remittances occur when these originate at a foreign MTO, and are independent of the paying agent.

Table 13. Recent Evolution of Commissions Charged by Remittance Originators to Colombia^(a)

Type of entity used abroad for the transfer		Type of entity paying out the remittance in Colombia											
		2003			2004			2005			2006		
		Exch.			Exch.			Exch.			Exch.		
		Bank	House	TFC	Bank	House	TFC	Bank	House	TFC ^(b)	Bank	House	TFC
		%	%	%	%	%	%	%	%	%	%	%	
Money Transfer Organizations	Min.	n.d.	n.d.	5.0	n.d.	n.d.	5.0	2.0	0.5	1.3	1.0	0.7	1.1
	Max.	6.3	6.3	10.6	5.5	5.5	10.0	7.0	8.0	10.0	6.0	8.0	10.0
Correspondent Bank	Min.	n.d.	n.d.	n.d.	n.d.	n.a.	n.a.	3.3	n.a.	n.a.	1.8	n.a.	n.a.
	Max.	13.3	n.a.	n.a.	10.0	n.a.	n.a.	n.d.	n.a.	n.a.	15.0	n.a.	n.a.

Source: Banco de la República.

^(a) Calculations based on a US\$300 transfer.

^(b) The TFC group includes a new FEMI that operates with different MTOs than the FEMI reported in 2003 and 2004.

n.a. Not applicable.

n.d. Not available.

¹⁴ See Manuel Orozco, various studies of transactions costs in Latin America.

It should be noted that, according to the 2006 Banco de la República remittances survey, the most frequently reported (modal) transfer commission was 4% in the case of banks and 1% in the surveys of exchange houses and TFCs.

7.3 EXCHANGE RATE DIFFERENTIAL

According to the transactions costs survey implemented by the BRC, the average annual exchange rate differential for all reporting entities fell from 2.3% in 2003 to 1.3% in 2006, for a 43.5% reduction during the period.

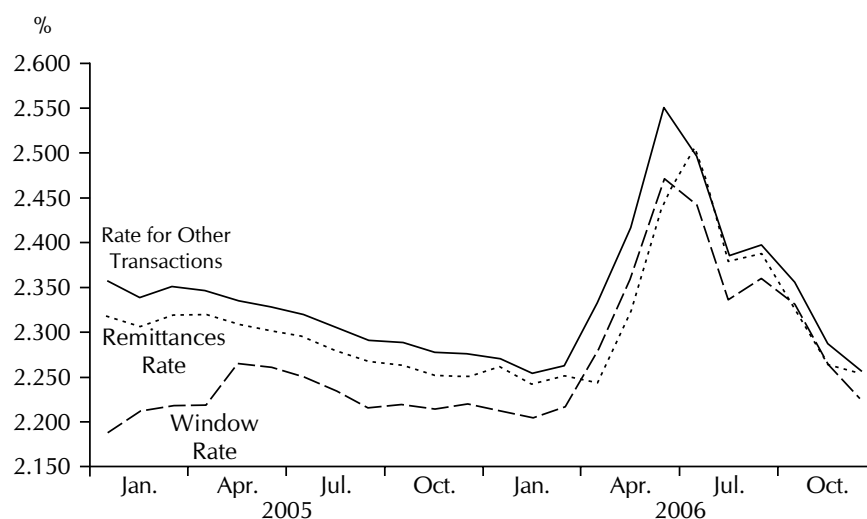
Table 14: Exchange Rate Differential in Colombia

2003	2.3%
2004	1.9%
2005	1.2%
2006	1.3%

Source: Banco de la República.

Graph 26 shows for the years 2005 and 2006 the path of the average exchange rate at which the set of remittance payers in Colombia paid out these foreign exchange flows to recipient families. The remittance exchange rate fluctuates between a minimum which is defined by the rate applied to foreign currency cash tendered to FEMI bank windows, and a maximum applied to foreign currency transfers originating from the export of goods, foreign investment in Colombia or external debt, among others.

Graph 26. Comparison of Exchange Rates



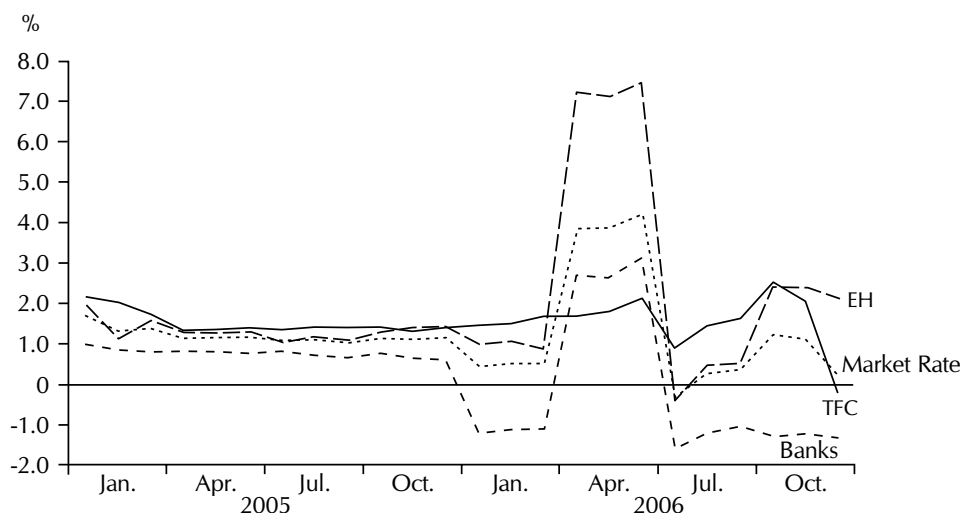
Source: Banco de la República.

As can be seen, in the months during which nominal exchange rate depreciates there is a widening of the differential between the exchange rate applied to remittances and the maximum rate that

the market recognizes for other exchange transactions. Conversely, during periods of currency appreciation, the differential narrows (as happened between July and September 2006). During the months of depreciation, the exchange rate differential widened until it reached 4.2% in June 2006, and then fell to -0.4% in July. According to the evidence, it can be stated that local remittance payers find difficulties in quickly adjusting the rate applied to remittance payments during times of appreciation, while at the same time these payers are less likely to increase the rate during periods of depreciation in the nominal exchange rate. The adjustment lag is due to the fact that the exchange rate for remittance payments in Colombia is set by the MTOs abroad on the basis of information obtained from payers one day before the remittance is committed.

When analyzing the exchange rate differential by type of intermediary (Graph 27), it can be seen that in most months during 2005 and 2006 the exchange rate differential applied by the TFCs presented the highest levels, followed by the exchange houses (whose differential cost exceeded the market average) and the banks, in last place, with the lowest differential. However, it is important to bear in mind that the exchange rate differential is the only source of profit in remittance payments for the exchange houses, whereas banks, and in some cases TFCs, are able to negotiate a share of the income from commissions which allows them to charge a lower differential, and also possess a broader structure of exchange business with sources of profit from transactions other than remittances.

Graph 27. Exchange Rate Differential by Type of Payer



Source: Banco de la República.

In terms of the average annual differential, table 15 shows that, in general, this cost tended to increase in 2006 due to the cycles of depreciation of the nominal exchange rate, which allowed operators to pay out remittances below the market rate. During 2005 the market average was 1.2% while 2006 showed a slight increase to 1.3%, led by the increase from 1.3% to 2.7% in the exchange rate differential applied by exchange houses between both years. This increase was compensated by the decline from 0.8% to -0.2% in the differential applied by the banks.

Table 15. Exchange rate differential by type of Payer in Colombia

	2005	2006
T.F.C.	1.5%	1.6%
Exchange Houses	1.3%	2.7%
Banks	0.8%	-0.2%
Market	1.2%	1.3%

Source: Banco de la República.

7.4 TAX COSTS

Remittances are not subject to taxation in Colombia. However, the net amount received by the beneficiary is affected by the application of general taxes such as VAT and GMF (tax on financial transactions). The GMF is applied to all financial intermediation transactions and consists of a 4x1000 rate which impacts the net amount paid from remittances, similar to any other financial transaction. It should be noted that, as from the fiscal reform of 2006, a threshold was adopted below which the large majority of remittances are exempt from GMF payment. In addition, when the amount of the remittance is deposited in the beneficiary's deposit account, and these funds are accessed through a payment card at a POS, the beneficiary receives a reimbursement of 2 percentage points of VAT. This can have a positive impact on the amount of the remittance, in view of an existing program in Colombia to encourage the use of payment cards.

7.5 ACCESS COSTS

An important cost for the recipients of remittances, which is not always recognized, is that arising from difficulties of access to the payment outlets for these funds. In the case of Colombia, remittance beneficiaries enjoy adequate access to the market, which is not affected negatively by any exclusivity arrangements. The EH have more than 550 payment agents and banks count on more than 1,500 branches that pay out remittances. There is no geographic area in the country that is not covered by at least one FEMI. Only in very few cases do the contracts negotiated by the FEMIs with foreign MTOs include exclusivity conditions. However, even in these cases, given the large number of service providing outlets, exclusivity does not imply access restrictions for the final beneficiary.

Foreign Exchange Market Intermediaries (FEMIs) have developed agile, efficient and safe systems for international transactions, which also provide domestic coverage. A greater penetration of formal financial services guarantees less use of the informal channels for remittance transactions. In Colombia, the number of entities involved with the payment of remittances increased from 18 in 2001 to 34 in 2006, and of these 50% are banks. It should be noted that there are 26 banks active in the Colombian financial market, which implies that 54% are involved with remittance transactions. EH have more than 550 payment agencies and banks more than 1,500 branches, and this number increases significantly if ATMs are included. Therefore, there is no geographic area in the country that is not covered by at least one FEMI.

7.6 COST, TIME AND ACCESS TO NON INSTITUTIONAL CHANNELS

Remitting through non-institutional channels such as couriers and hand delivery implies different costs, especially relating to the time delay in paying the remittance and the risks associated with these channels. This kind of channel is very limited in terms of access, since it cannot be found everywhere and depends upon the network of communications among the migrant community.

In Colombia, travelers entering or departing the country face restrictions on carrying foreign currency cash in amounts above USD 9,999¹⁵; for amounts of USD 10,000 or greater, the services of a duly registered firm for the transport of valuables (semi-formal channel) must be contracted. Violation of this regulation implies that the funds will be confiscated by the customs authority, for the purpose of initiating the corresponding investigation.

According to the research carried out by the BRC, the cost of using couriers for the transport of cash remittances is higher than the formal market, making them less attractive to users.

In this sense, the estimation of the commission charged by a hand courier for transporting cash remittances was calculated in the following way: given the USD 9,999 that one courier may enter with on each trip, and an average remittance of USD 300, the courier will be able to bring 33 remittances on each journey. In order to remain competitive with the formal market, the transport commission should not exceed 2.1% which would be equivalent to USD 6.30 per remittance, in other words a total of USD 207.90 per trip.

This commission would not allow the courier to cover the transaction costs incurred for airfare, entry and exit taxes, and local transport costs to the cities where the remittance beneficiaries are located. If it is supposed that the minimum costs incurred by a courier are USD 300 (depending on geographic location with respect to the remittance originator), and that these are pro rated among the 33 remittances carried, a minimum commission of 3% would result, which is higher than the transactions carried out by the formal market.

The exchange rate differential is also an important disincentive to sending remittances through informal channels. In order to estimate the cost of the differential, the exchange rate applied by professional moneychangers was used, since foreign currency would be negotiated through them in the free market. During the first quarter of 2006, the average rate for payment applied by professional moneychangers in the purchase of cash foreign exchange was \$2.154 pesos per dollar while on average FEMIs bought at \$2.252 pesos, with a difference of 4.6% between the two markets.

The total transaction cost for remittances in the formal market during 2006 was 3.4%, while in the informal market, via hand courier, it reached 7.6%. This would tend to incline users of remittance transfer services towards the formal mechanism, even without considering other risks associated with transactions through informal channels.

¹⁵ External Resolution No.8 of 2000, BRC Board of Governors.

8 MEASUREMENT METHODOLOGY

8.1 RESPONSIBILITY AND COORDINATION

As was mentioned in the preceding sections, Banco de la República is the official authority charged with compiling and publishing statistics related to workers' remittances. All activities concerning the foreign exchange market, which include the origination and payment of remittances, are subject to registration, control and licensing by BRC and the Financial Supervisor, and carry the obligation to prepare registries, maintain regulated accounts and send reports to the authorities, in such ways and formats as they may determine. Therefore BRC possesses all the necessary attributes for the compilation and publication of complete information on the market, as well as the authority to review the compilation system when it deems it necessary.

For the measurement of remittances BRC follows the recommendations and definitions of the IMF BOP5 manual. In its role as compiler, BRC also has inter-institutional agreements with other entities that gather information related to international remittances, as well as to the migratory process. These relations have been strengthened by the creation and operation of an Inter-institutional Committee on Migration Statistics (CIEM). BRC also maintains links and coordinates permanently with market participants, allowing it to obtain adequate knowledge of its workings. The following are some of the coordination efforts that BRC implements with different entities in the field of migration and remittances, at different levels and scopes:

- i) The establishment of institutional committees such as the Committee for Migration Statistics, comprising the BRC, the Security Administrative Department (DAS), DANE and the Colombian Foreign Ministry, among others, whose goal is to create a complete database on the migratory process in Colombia.
- ii) The establishment of technical cooperation agreements with public and private institutions (non-governmental organizations such as the IOM, academic institutions such as universities and trade associations such as ASOCAMBIARIA) which, under the name of "Country Alliance", have initiated research projects in the field of migration and remittances that have allowed for the strengthening and validation of the methodology employed in BRC's calculation of remittances.
- iii) The implementation of data provision agreements among public entities that receive information on the activities of FEMIs, such as the Financial Supervisor and the UIAF.

As result of these mechanisms for cooperation, BRC is able to obtain, compare and share complete information about the remittances market and with the different entities and actors related to the topic.

8.2 MEASUREMENT BY CHANNELS

The major portion of remittances to Colombia is made through registered institutional channels, which are adequately covered by BRC's information gathering system. As shown in the following

table, remittances can be divided into two major groups, formal and informal. From a conceptual viewpoint, the former flow through institutional financial channels, whether registered by BRC or not, while the informal flows correspond to all other channels.¹⁶ Only a small portion of remittances flowing through formal channels are difficult to measure, while for the most part it is impossible to measure any kind of informal remittance with accuracy. Therefore, BRC employs indirect methods such as household surveys and others in order to obtain estimates of these flows. The data on informal remittances and those paid out through ATMs are generally estimated by use of household surveys, which are conducted by DANE (jointly with ASOCAMBIARIA and BRC).

Table 16: Sources to Estimate the Remittances Data

Sources, Frequency, Coverage and Weight of Remittance Data in Colombia
(By Channel)

	<i>Formal (FEMI)</i>				<i>Informal</i>		
	<i>Banks</i>	<i>EH</i>	<i>TFC</i>	<i>ATM</i>	<i>Cash</i>	<i>Mail</i>	<i>Hawala</i>
<i>Source Data</i>	DEC ^(a)	DEC ^(a)	DEC ^(a)	ATM Manager Reports	Household Surveys	Household Surveys	n.a.
<i>Frequency of Reporting</i>	Daily	Daily	Daily	Weekly	Annual (2005)	Annual (2005)	n.a.
<i>Concept</i>	Remittance identified under Exchange category	Remittance identified under Exchange category	Remittance identified under category	All types of disburse- ments	Remittance	Remittance	n.a.
<i>Coverage* /-</i>	100%	100%	100%	100%	n.d.	n.d.	n.a.
<i>Quantitative Impact</i>	33.3%	39%	23.7%	4% according to household surveys			

Source: Own Elaboration.

^(a) Exchange Transaction Declaration.

As mentioned above, the results suggest that about 4% of family remittances arrive through channels other than those provided by FEMIs. Therefore the balance of payments data is “grossed up” by approximately 4% to allow for informal or not directly measurable flows. In fact, the impact is even less if it is considered that beneficiaries could monetize such remittances through CB, EH or PM, and therefore be registered when filling out the respective DEC and thus be included in the remittances statistics.

¹⁶ This distinction does not imply that there are exact methods of measuring all flows, whether formal or informal. For example, as discussed below, although ATM remittances clearly flow through formal international payment channels, they are currently not measurable. On a separate note, remittances sent by mail (not only postal orders, but also bank drafts or in envelopes) are classified as informal according to this typology.

The Colombian measurement system basically employs two sources of information in calculating total flows of remittances into the country: direct reporting by FEMIs and estimates made on the basis of household surveys for the measurement of remittances arriving outside FEMI channels.

8.3 REGISTERED INSTITUTIONAL

The FEMIs carry out most of the activity in the exchange market, and therefore support the conclusion that, in general, remittances statistics are of widespread coverage¹⁷. The Colombian data gathering system intercepts the information channel of remittance flows, and therefore avoids any measurement problems associated with netting and batching of information that could arise in systems which intercept the monetary channel.

FEMI (Foreign Exchange Market Intermediary) Reports


The system reaches all the main institutional participants. The preparation and filing of reports by all players with cross border activity in the exchange market is obligatory, and includes all transactions whether large or small. According to opinions expressed in FEMI reports on the Colombian market, the system operated by the Colombian authorities is similar to an International Transactions Reporting System (ITRS), at least in the measurement of the exchange market, in the sense that the different types of transactions are all registered, regardless of size.

The estimates of income from abroad via workers' remittances that are reported quarterly in the Colombian Balance of Payments employ three sources of information: i) Exchange declarations sent to Banco de la Republica by foreign exchange market intermediaries (FEMIs) regarding their exchange transactions. Remittance payers in the Colombian market are exchange houses, banks, trade finance companies and stockbrokers; ii) The information provided by remittance paying agents to monitoring entities such as the Bank Supervisor, and iii) Information reported in the annual survey on transaction costs and general characteristics of the remittance market in Colombia, which Banco de la Republica carries out with remittance paying agents, and the BOP workers' remittances. The estimate obtained is then compared with the average value per transfer, its frequency, the trends in migratory flows, the evolution of host economies to Colombian migrants, trends vis-à-vis the dollar of currencies in which family remittances originate, and the different activities carried out by Colombians according to the host country.¹⁸

¹⁷ BRC. In the Colombian case, theory is translated into practice. For further clarification it is recommended the IMF balance of payments ROSC to Colombia in September 2005 be consulted.

¹⁸ Banco de la República. "Reports from the Issuer", April 2005.

Figure 9. Form No.5- Foreign Exchange Declaration for Services, Transfers and Other Concepts



**Declaración de cambio por Servicios,
Transferencias y otros Conceptos
Formulario No. 5**

Circular Reglamentaria Externa DCIN - 30 de julio 8 de 2003
3 Manual de Cambios Internacionales
Departamento de Cambios Internacionales

Formularios Hoja 10 - 14

I. Tipo de operación

1. Número:	▼
2. Operación de:	▼

II. IDENTIFICACIÓN DE LA DECLARACIÓN INICIAL

3. Ciudad	4. NIT del I. M. C.	5. Fecha (AAAA/MM/DD)	6. Número

III. IDENTIFICACIÓN DE LA DECLARACIÓN DE CAMBIO ANTERIOR (SÓLO PARA LOS TIPOS DE OPERACIÓN 3 Y 4)

7. NIT del I. M. C.	8. Fecha (AAAA/MM/DD)	9. Número

IV. IDENTIFICACIÓN DE LA EMPRESA O PERSONA NATURAL QUE COMPRA O VENDE DIVISAS

10. Tipo	11. Número de identificación	D. V. 12. Nombre
▼		
13. Teléfono		14. Dirección
		15. Ciudad

V. DESCRIPCIÓN DE LA OPERACIÓN

16. Código y nombre de moneda de giro o reintegro	17. Valor moneda de giro o reintegro	18. Tipo cambio a USD	19. Valor total USD

VI. INFORMACIÓN DE LA(S) OPERACIÓN(ES)

20. Numeral	21. Valor USD	20. Numeral	21. Valor USD

Observaciones

VII. IDENTIFICACIÓN DEL DECLARANTE

PARA LOS FINES PREVISTOS EN EL ARTICULO 83 DE LA CONSTITUCIÓN POLITICA DE COLOMBIA, DECLARO BAJO LA GRAVEDAD DE JURAMENTO QUE LOS CONCEPTOS, CANTIDADES Y DEMÁS DATOS CO CONSIGNADOS EN EL PRESENTE FORMULARIO SON CORRECTOS, Y LA FIEL EXPRESIÓN DE LA VERDAD.

22. Nombre	23. Número de identificación	24. Firma

Validar
Imprimir
Borrar

Source: Banco de la República.

The measurement system for remittances flowing through registered institutional channels is based on data compiled through individual forms (the Exchange Declarations – DEC) that all remittance beneficiaries must fill out upon receiving payment at any FEMI. Form No.5 of the DEC has been designed in order to gather information on the different types of transactions in the foreign exchange market, amongst which remittances may only be a small fraction (11% of the 2006 reports), although forming part of the statistical format subject to tabulation and reporting. The beneficiary must include the following information on the remittance in filling out the DEC:

- Name and official identification of beneficiary (ID or Tax number, address, etc.).
- Reason for remittance (by Exchange Numeral) (these first two provided by the beneficiary).
- Amount received.
- Other data, such as USD amount and exchange rate applied.

The data compiled from the DEC are important from the viewpoint of measurement reliability, especially the amount, origin (a natural person in the case of family remittances) and the reason for the remittance. According to current definitions (BOP5), workers' remittances must be transfers between natural persons and cannot include flows for purposes of debt repayment, investment or other motives. These two features of the remittance are captured in Form No.5 under Numeral 1809 (workers' remittances) and Numeral 1812 (workers' remittances for house purchase). Being able to distinguish between these transfers in the registration of remittances is very useful for compiling more precise data on this market in any country, and consequently for compiling and publishing reliable statistics in the balance of payments. As a result, the Colombian system of data gathering from the micro base where the transactions actually take place (remittance by remittance), has important advantages, and the data provided by the beneficiaries are correct.

This is the role that BRC has been actively pursuing in recent years, by broadening the institutional coverage through reporting and refining the statistical data, in order to improve the transparency of the published results. The fact that registration and licensing are obligatory does not necessarily ensure or safeguard the quality of compiled statistical data; however, the Colombian reporting system reflects considerable effort aimed at a coverage of remittance market transactions that does not present any significant gaps.

The system is characterized by its high frequency and one hundred percent coverage of the domestic market. There are no upper or lower thresholds in filling out the individual forms or in the reports sent by FEMIs to BRC. Thus, the system is structured to capture all remittance transactions operated through institutional channels, with the exception of ATM disbursements. Reports are submitted to BRC on a daily basis and only by electronic means, thus avoiding and preventing handling error in the process of transcription.

Currently, a portion of remittances is not paid out in cash, but instead deposited in bank accounts. From the measurement viewpoint, these remittances are captured by the DEC and reported by FEMIs

to BRC, regardless of their means of payment. Consequently, they also take part of the compiled data.

The exchange numerals allow for a more detailed identification of remittances, and enable BRC to achieve better handling and control of information. For example, in 2004 the authorities decided to obtain more information on “home purchase remittances”, which are now detached from the general category of “workers’ remittances”, for which purpose a new Exchange Numeral was included to identify remittances for home purchase (1812) and differentiate them from current remittances (1809). This change allows for greater analytical potential and for applying the possible new definitions for the new Balance of Payments Manual. An important aspect is that both kinds of remittances are considered within the total flow of workers’ remittances, and therefore the statistics are not affected by this distinction.

MTO (Money Transfer Organizations) Reports

MTOs do not participate directly because of the legal features of the Colombian market, and their operations must be channeled through authorized and registered FEMIs. Because of this, BRC does not gather information from them, but of the points and institutions used to carry out the payments.

8.4 NON-REGISTERED INSTITUTIONAL

Given that FEMIs account for the near totality of international remittance transactions in the country, among non-registered institutional channels¹⁹ there would remain only those transactions carried out through the use of international credit, debit and prepaid cards at domestic ATMs and POSs, which do not represent a significant portion of the remittances market, and therefore form part of the estimated 4% of remittances taking place through non-FEMI channels.

These transactions are undertaken by International Card Administrators (ICA) who assume responsibility for the positions and final settlement of transactions which take place with these types of cards.

International Card Administrators

Currently, remittances transferred through stored value cards (included as a possibility in household surveys) do not seem to constitute a large part of total flows, but are likely to grow in coming years. They do not flow through informal channels, since they go through the institutional payments network of the banking system. With regard to measurement, the data content of such cards could, in principle, become a means of measuring the flow and distinguishing between different types of cards (prepaid, credit, debit) and origin (local or foreign). Currently, however, the data content of these cards does not allow distinguishing between different types of transactions, of which only a small part would seem to be for personal remittances. Other market innovations such as,

¹⁹ It is important to point out that in the present context “registration” is used in the sense of being authorized to undertake remittances, since ICA are indeed registered and authorized to carry out their business, although they are not included in the universe of entities registered as part of the international remittances market.

for example, cell-phone remittances from abroad, are analytically similar and also face similar compilation problems.

BRC does not yet have an information reporting system that allows it to directly and systematically capture data on remittances channeled through ATMs, since there are technological restrictions on the differentiation of transactions undertaken through this mechanism. Therefore BRC has chosen to rely on estimates based on the mentioned surveys, which currently is the only viable option for incorporating these remittance flows to the measurement. For the future, BRC has compilation mechanisms under study that incorporate data from innovative payment instruments such as these.

Figure 10. Measurement of Remittances sent Via International Cards through ATMs and POSs

Even though the magnetic stripes on debit, credit and prepaid cards would allow it, currently the information contained on these does not allow distinguishing whether or not an ATM withdrawal is a remittance. According to the information received from the larger companies owning ATM networks, it is known that the magnetic stripes on these cards contain both the space and capacity to store data that will allow distinguishing remittances from other uses.²⁰ Currently, however, the data stored on the tracks in the stripe (tracks 1, 2 and 3 available for data storage) do not shed much light on the exact type of account supporting the cards. This gets even more complicated, since currently neither the identification of the bank sponsoring the card, the primary account number (PAN) assigned to the card nor the indication of a collective account with individual sub-accounts for the purchasers of these cards, can distinguish one type of cash withdrawal from another. Therefore, the only option available for the moment with respect to remittances implemented through prepaid cards is to continue with estimates based on household surveys. On the other hand, it does not seem likely that the use of prepaid cards will attain a large scale in the near future. Although this mechanism is fast and attractive from the technical point of view, it is possible that the charges and collateral costs involved, which in some cases are significant, may dampen the initial enthusiasm for this massive means of sending remittances.²¹

8.5 NON-INSTITUTIONAL

According to surveys of remittance beneficiaries carried out by DANE, around 4% of the total value of remittance transactions takes place via hand delivery, postal services, international cards or informal

²⁰ For example, it is likely that a prepaid card purchased in the USA and used in a Latin American country corresponds to a family remittance and not a cash withdrawal from a tourist's account or other transaction.

²¹ For instance, there are typically charges for buying one or two cards, and also to "load" or "reload" the value of the card. There are additional charges for issuing a bank statement of account, withdrawals and other transactions, and in some cases, monthly charges. In some cases there even are charges for non-use of the card over certain periods. These costs are related to the different players that intervene in the payments chain for this instrument, including the company that sells the card, the FEMI company that sponsors the network, the bank that manages the prepayment accounts and, naturally, the owners and operators of the automatic teller machine network.

(non-institutional) operators. BRC then estimates from this 4% figure the flow of remittances which is not channeled through a FEMI.

Cash

Remittances that arrive in cash (usually dollars) and that are exchanged for pesos at the FEMIs are added to the estimate as part of the overall estimation of informal remittances. As previously described, coverage of remittance and other payment information through CB, EH and TFC is very thorough, based on existing paper files and electronic registries for all transactions, and on filling out Form No.5 at the time remittances are monetized at their windows.

Those that are exchanged for pesos by a PM instead of passing through a FEMI form part of the 4% estimate of remittances sent through non-institutional registered means. Although there is an administrative form for the capture of this information, known as Form No.10, BRC does not use it to calculate remittance income because it does not break down the many possible sources of the cash: donations, remittances, non-financial services, settlement of foreign currency assets held by residents, unregistered trade, among other free market transactions. In order to estimate remittance inflows through informal channels, BRC employs the evidence stemming from remittance beneficiary surveys undertaken by DANE together with ASOCAMBIARIA. In these surveys the recipients of remittances are asked via which channels they regularly receive this foreign exchange. The relative weight of remittances received by informal channels and ATMs is then calculated from the responses, and this value is included in the total estimate of remittance inflows in the balance of payments.

In addition to considering the information reported by remittance beneficiaries on their channels of reception, BRC analyzed the economic pros and cons of receiving foreign currency through formal or informal channels, and decided that there is insufficient evidence in Colombia to conclude that cash foreign exchange operated through PM in the free market originates from remittance transactions over and above the 4% considered by BRC.


According to census data from 2005, 79% of Colombian migrants live in non-border countries. This coincides with the fact that 87% of remittances originate from countries such as the United States, Spain and England. These two facts support the conclusion that cash remittances entering over the land borders from Colombian migrants are not significant, and can therefore be included in the 4% estimate of informal and ATM remittances applied by BRC in its calculation of the total estimate of remittance inflows in the balance of payments.

Finally, the statistics on international travelers and the foreign exchange they carry, as well as the border traffic survey of all persons crossing the borders for whatever motive carried out quarterly by BRC, support the conclusion that it is not possible that an important part of the cash foreign exchange sold through professional moneychangers can originate from family remittances.

Therefore, considering the factors that shape the decisions of remittance senders and recipients in choosing a formal or informal transfer channel, it is concluded that there is insufficient evidence or cause to suppose that the foreign currency operated in the free foreign exchange cash market

Figure 11. Form No.10- Declaration of Transactions on Current Compensation Account

Hoja 10-F10-11



Relación de Operaciones Cuenta Corriente de Compensación
Formulario No. 10
 Circular Reglamentaria Externa DCIN-83 de junio 22 de 2007

Diligenciar en línea

USO EXCLUSIVO DEL BANCO DE LA REPUBLICA

I. TIPO DE OPERACION

1. Número:

II. IDENTIFICACION DEL TITULAR DE LA CUENTA CORRIENTE

2. Tipo 3. Número de identificación DV 4. Nombre o razón social

III. IDENTIFICACION DE LA CUENTA CORRIENTE

5. Código asignado 6. Número de cuenta 7. Fecha AAAA-MM

IV. DESCRIPCION DE LAS OPERACIONES SIN MOVIMIENTO

8. Numeral	9. Valor ingresos	10. Numeral	11. Valor egresos

V. DEVOLUCIONES

8. Numeral	9. Valor ingresos	10. Numeral	11. Valor egresos

12. Saldo anterior	13. Ingresos del periodo	14. Egresos del periodo	15. Nuevo saldo
<input style="width: 100%;" type="text"/>	<input style="width: 100%;" type="text"/>	<input style="width: 100%;" type="text"/>	<input style="width: 100%;" type="text"/>

INFORME SOBRE INVERSIONES FINANCIERAS Y ACTIVOS EN EL EXTERIOR
(NO REQUIERE PRESENTACION DE LA DECLARACION DE CAMBIO FORMULARIO No. 4)

16. Saldo anterior	17. Ingresos del periodo	18. Egresos del periodo	19. Ajustes	20. Nuevo Saldo
0.00	0.00	0.00	0.00	0.00
21. Overnight pendientes del redención a fin de mes				0.00
22. Total				0.00

23. La redención del capital de inversiones financieras por valor de corresponden a inversiones financieras no constituidas a través de la cuenta corriente de compensación motivo por el cual no se diligencian las casillas 16 a 22.

VI. IDENTIFICACIÓN DEL TITULAR (CONTRAPARTE) VENDEDOR O COMPRADOR Y/O RESIDENTE O IMC

24.Tipo	25. Número de identificación	DV	26. Código asignado	27. Numeral	28. Valor

AAAA-MM-DD

VII. CANCELACION DEL REGISTRO Fecha

Para los fines previstos en el artículo 83 de la constitución política de Colombia, declaro bajo la gravedad de juramento que los conceptos, cantidades y demás datos consignados en el presente formulario son correctos y la fiel expresión de la verdad.

VIII. IDENTIFICACION DEL REPRESENTANTE LEGAL, APODERADO O TITULAR DE LA CUENTA

29. Nombre	30. Número de identificación	31. Firma
<input style="width: 100%;" type="text"/>	<input style="width: 100%;" type="text"/>	<input style="width: 100%;" type="text"/>
32. Dirección para notificación	33. Código ciudad	34. Teléfono
<input style="width: 100%;" type="text"/>	<input style="width: 100px;" type="text"/>	<input style="width: 100px;" type="text"/>
35. Correo electrónico		
<input style="width: 100%;" type="text"/>		

Para uso exclusivo del Banco de la República

2006-09-06

Source: Banco de la República.

originates mainly from remittance transactions, or that these are greater than the 4% (USD 150 million in 2006) estimated by BRC.

Postal Instruments

In Colombia, as in other countries, there is no means other than through household surveys of remittance beneficiaries to quantify transactions undertaken with checks or drafts enclosed and mailed in envelopes. Although official information suggests that the use of postal orders (different to money orders) is negligible, this does not imply that the postal channel, employing other means and instruments, has disappeared. Nevertheless, the risks associated with this type of remittance transfer channel compared to the efficiency, safety and decreasing cost of formal mechanisms, explain why its use is declining. In any case, this remittance inflow is being captured by household surveys as part of the previously mentioned 4%.

8.6 VALIDATION AND CONTRASTING

Even though social and economic statistics are not infallible, and there is no way to obtain 100% assurance, certain steps are taken in Colombia to ensure that they are a reasonable approximation to the reality they attempt to describe. In addition to contrasting with migration statistics, in Colombia the BRC employs different ways of validating and contrasting the data it gathers, compiles and publishes on remittance flows. Among these are the following:

- Use of statistics and estimates on migration flows. It is worth emphasizing that the data on migratory flows are not an absolute means for validating measurement, but a relationship does exist between this data and remittance flows. In the case of Colombia this relation apparently does hold, and therefore BRC keeps in frequent contact with migratory topics and collaborates in research in this field, for example with an active participation in the Inter-institutional Committee on Migration, which allows it to interact and coordinate with other entities and agencies which compile information related to migration and remittances. Remittance estimates, within feasible limits, appear consistent with migration results, lending confidence to the measurement of flows.
- Follow-up and continuous communication with agents, which allows for first-hand information and a better feel for the market. While BRC is aware of the existence of informal remittance channels and even some institutional ones (such as prepaid cards) which cannot yet be measured directly, it employs household surveys that allow it to estimate these flows, even with the complications implied in the measurement of this kind of flow.
- Although remittance measurement is not in itself an econometric exercise, the use of econometric models to contrast observed data with previous forecasts also lends reliability to BRC figures. Likewise, this type of exercise is carried out for the purpose of detecting structural or transitory changes in the determinants and dynamics of remittances, from which it can be inferred that it is constantly evaluating the market and reinforcing the reliability of its estimates.
- Comparison with statistics published by other agencies. In order to contrast its statistics, BRC consults with other sources on remittance data such as that published by IADB/MIF. For

some years these figures differ widely from the official data (Table 17). In 2001 the IADB/MIF figure was 13% lower than the figure published by BRC, in contrast to the years following 2003 when the IADB/MIF figures were greater by 22%, 25% and 8%, respectively. In 2003, it should be noted, both figures were similar.

Table 17. Differences in Remittance Estimates

Workers' Remittances in USD millions

Differences between data published by IADB and Banco de la República

	BID (A)	BRC (B)	Difference (A-B)	% Difference 1-(A/B)
2001	1,756	2,021	-265	-13
2002	2,431	2,454	-23	-1
2003	3,067	3,060	7	0
2004	3,857	3,170	687	22
2005	4,126	3,314	812	25
2006	4,200	3,890	310	8

Source: Banco de la República calculations.

Other sources are used for the validation of remittances data, which include:

- Exchange House reports to the Banking Supervisor (information on bank draft commissions, number of drafts and amount paid).
- BRC quarterly survey of remittance payers (information on market structure, transaction costs, remitting agents and remittance originating countries, among other variables).
- Travelers' declarations: the amount of cash foreign exchange entering the country with Colombian residents abroad is contrasted.
- Reports on the use of cards issued abroad at Colombian ATMs are used to validate the 4% figure reported in household surveys.
- Household surveys: AMCO 2004
- Remittance beneficiary surveys: DANE-ASOCAMBIARIA 2004.

8.7 TRENDS, PROGRESS AND CHALLENGES

BRC is currently working on other models that will permit even more validation and contrasting of the data published on remittances. Among them, the use of micro-data obtained directly from FEMIs will give access to direct information on individual remittances, allowing for the study of the behavior of distributions by number and amount in order to detect changes in quality or data trends in the reports.

9 TRANSPARENCY AND THE PUBLICATION OF INFORMATION

9.1 OFFICIAL INFORMATION

In accordance with its role, BRC sends regular and timely reports on remittance flows to the IMF and other international organizations for inclusion in their respective compilations. Similarly, other players in the system recognize BRC as the only source of official data on the topic.

The BRC methodology for remittance calculation is available on the Internet web page of the monetary authority: <http://www.banrep.gov.co/documentos/publicaciones/pdf/report-71A.pdf>, besides being presented in detail in this report. Colombian remittance statistics are based on a well defined and publicized methodology, a clear regulatory framework and reliable data sources that describe the behavior of these flows in a transparent fashion. In addition, contrasting exercises are carried out in order to verify and validate the data.

BRC frequently publishes research and analytical documents on the topic of remittances. This activity allows it to constantly monitor the markets and disseminate its research to the public, and provides it with necessary leeway to contrast its findings and data with other players. The constant task of dissemination has achieved recognition for it among other market participants as the “authority on the subject” and allows it to interact fluidly with them. In this context, BRC shall continue with these activities and seek to broaden the scope of current research for in-depth analysis of components such as the costs, efficiency and effectiveness of individual providers of international remittances services, as well as of the industry in general.

Through its International Exchange Department, BRC offers capacity building in the changes that are introduced to the follow-up and analysis systems for foreign currency transactions. This type of training is critical in order to maintain the quality of the data BRC compiles by means of the DEC.

Currently the BRC and other organizations undertake occasional and regular publications of information related to remittances (cost, time, exchange rate and others), although the information is at a consolidated level that does not permit consumers to evaluate the specific services of an individual provider. The Financial Supervisor is planning to publish this type of information in 2007, and to make transparent the costs of fixed and variable commissions, the exchange rate differential, delays in delivery and other aspects. The published information will allow for a proper evaluation by consumers and potential new entrants to the system, which should increase the level of competition and help to keep costs low. The information shall be published on the internet, so that access to it will be easy, broad and comprehensible to all those who need it. BRC’s participation in the design of the information to be published by the Financial Supervisor should be beneficial in ensuring that improvements in transparency shall come about shortly and that the largest amount of data available should be published for the market, including costs by type of market operator and by type of payment instrument, so that the published data will be compatible with that periodically published by BRC.

Lastly, CIEM is planning to publish data on its website that can be used by Colombian migrants abroad. These pages will also allow for the gathering of migrant data to complement currently available information. BRC and the Financial Supervisor are active participants in CIEM, ensuring that the data included on the website shall improve transparency and capture information that is relevant to the system of measurement, including costs and consumer rights. This webpage shall be publicized and disseminated through international entities such as embassies, migrant associations and others, in order that it may become familiar to the senders of international remittances in the countries where these flows are originated.

The Financial Supervisor is responsible for a system for denouncing and registering complaints with respect to the services provided by FEMIs in the area of remittance payments. The frequency of complaints is low, and they generally refer to the exchange rate applied by the FEMI when converting the remittance. It has been found, based on the follow-up of complaints, that a large part of these arise from a lack of information on behalf of the remittance beneficiary.

9.2 INFORMATION PROVIDED BY FEMIS

FEMIs are obligated to obey and disseminate customer protection regulations. Although this rule does not apply abroad, its cross-border dissemination contributes to the knowledge and exercise of rights by consumers. Law 795 of 2003 and Decree 690 of the same year establish the regulations which must be observed by FEMIs with regard to Customer Protection, including the dissemination of the norms and the establishment of internal mechanisms to ensure their compliance.

In terms of information at the time remittances are sent, in almost 100% of the cases originators know the applied exchange rate and its variations, which is generally the most important element in the choice of channel for the remittance transfer. As far as commissions are concerned, it is not clear whether the information available is sufficiently clear and complete, in order that combined with the exchange rate information, the remittance senders may adequately calculate the total price of the remittance.

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A1. Basic Statistical Data (End of Year)

	2002	2003	2004	2005	2006
GDP (USD millions)	81,122.3	79,458.6	98,059.3	122,900.5	135,961.6
Income on BOP Current Account (USD millions)	17,911	19,851	24,144	29,811	35,112
Exports (USD millions)	14,183	15,733	19,479	24,393	28,554
Goods (USD millions)	12,316	13,812	17,224	21,729	25,181
Services (USD millions)	1,867	1,921	2,255	2,664	3,373
Total net current transfers (USD millions)	2,706	3,309	3,724	4,082	4,736
Net Foreign Direct Investment (USD millions)	1,283	820	2,941	5,593	5,197
Net National Income					
Final Household Consumption (USD millions)	53,056	50,451	61,454	75,769	83,408
Exchange rate per USD					
End of year	2,865	2,778	2,390	2,284	2,239
Average	2,508	2,878	2,626	2,321	2,358

Source: National Administrative Statistics Department – Banco de la República.

A2. Population and Migration (End of Year)

	2002	2003	2004	2005	2006
Total Population (annual average – thousands) ^(a)	42,417.8	43,134.5	43,860.6	44,575.7	45,089.6
Econom. Active Population (PEA) ^(a) (annual average – thousands)	2,563.0	20,398.4	20,309.9	20,461.6	20,791.7
Working Age Population (PET) (annual average – thousands) ^(a)	19,701.1	32,755.2	33,458.2	34,167.3	34,761.3
Average Unemployment Rate	15.7	14.2	13.6	11.8	12.0
Migrants_ total for each year (thousands) ^(b)	n.d.	140,533	143,611	140,815	178,260.0
Men	n.d.	n.d.	63,188.8	71,060	n.d.
Women	n.d.	n.d.	80,422.2	69,755	n.d.
United States (1st. Main destination)	n.d.	n.d.	n.d.	49,849	n.d.
Spain (2nd. Main destination)	n.d.	n.d.	n.d.	32,810	n.d.
Venezuela (3rd. Main destination)	n.d.	n.d.	n.d.	26,051	n.d.
Others (4th. Main destination)	n.d.	n.d.	n.d.	32,106	n.d.
Immigrants (thousands)	n.d.	n.d.	n.d.	126.3	n.d.

Source: National Administrative Statistics Department.

^(a) For 2006, data at end of second quarter.

^(b) Source: Administrative Security Department- DAS.

A3. Remittance Flows (End of Year)

	2002	2003	2004	2005	2006
<i>Total Income from Remittances</i>	2,453.7	3,060.1	3,169.9	3,313.7	3,889.6
Personal Remittances	2,453.7	3,060.1	3,169.9	3,313.7	3,889.6
Net Remuneration of employees	n.d.	n.d.	n.d.	n.d.	n.d.
Current Personal Transfers	2,453.7	3,060.1	3,169.9	3,313.7	3,889.6
Resident employee remittances	n.d.	n.d.	n.d.	n.d.	n.d.
Other current transfers	475.0	414.0	n.d.	n.d.	n.d.
Capital transfers between households	n.d.	n.d.	n.d.	n.d.	n.d.
Social benefits	n.d.	n.d.	n.d.	n.d.	n.d.
<i>Total Expenditure on Remittances</i>	144.0	52.5	31.4	37.3	46.8
Personal Remittances	144.0	52.5	31.4	37.3	46.8
Net Remuneration of employees	n.d.	n.d.	n.d.	n.d.	n.d.
Current Personal Transfers	144.0	52.5	31.4	37.3	46.8
Resident employee remittances	n.d.	n.d.	n.d.	n.d.	n.d.
Other current transfers	160.0	181.0	n.d.	n.d.	n.d.
Capital transfers between households	n.d.	n.d.	n.d.	n.d.	n.d.
Social benefits	n.d.	n.d.	n.d.	n.d.	n.d.
<i>Transfers to NPISH</i>	n.d.	n.d.	n.d.	n.d.	n.d.
<i>Transfers from NPISH</i>	n.d.	n.d.	n.d.	n.d.	n.d.

Source: Balance of Payments- Banco de la República.

NPISH: Non Profit Institutions Serving Households.

A4. Characteristics of Remittances (End of Year)

	2004
Number of monthly remittances (average over 12 months of the year)	745,880
<i>Frequency of remittance reception (percentage distribution)</i>	
Weekly	8.3
Fortnightly	16.2
Monthly	47.1
Bimonthly	7.3
Quarterly	6.8
Semesterly	5.7
Occasionally	8.6
Other	8.7
<i>Originating country (Percentage distribution by paying agent)</i>	
United States 1st main origin	48.4
Spain 2nd main origin	34.1
United Kingdom	17.5
Italy	n.d.
<i>By average remittance</i>	
United Kingdom	458.9
Italy	442.0
Spain	425.4
Ecuador	375.3
Mexico	352.5

Source: Cost of Remittances Survey- Banco de la República.

A5. Characteristics of Remittance Beneficiaries (End of Year)

	<i>2004</i>
Sex	
Men	24.5
Women	75.5
Age (%) ^(a)	
18-24	17.0
25-35	31.0
36-49	31.0
50-64	14.0
65 or older	7.0
Education (%)	
Primary Education	20.3
Secondary Education	51.0
Higher Education	28.1
Income Level	
Lower income level	n.d.
Middle income level	n.d.
Upper income level	n.d.
Length of stay in host economy (percentage distribution)	
Less than one year	13.5
More than one year	86.5
Residence status	
Legal	n.d.
Illegal	n.d.
Period during which remittances have been Received/sent	
Less than one year	26.1
From one to five years	58.0
More than five years	15.9

Source: DANE-ASOCAMBIARIA.

^(a) Data from 2003.

A6. Use of Remittances in Beneficiary Households (End of Year)

	2003
Basic Expenditure (% of households using remittances for category below)	68.0
Non recurrent expenditure	12.0
Investment	4.0
Home (purchase)	3.0
Business or micro enterprise	7.0
Other expenditure	6.0

Source: DANE Survey AMCO: This survey covers the Western Central Metropolitan Area.

A7. Remittance Service Providers (End 2006)

Categories	Number of institutions/ branches	Number of annual transfers (millions)	Value of annual transfers (USD millions)	Average value
<i>Direct Institutional Providers</i>				
Registered ^(a)	34	10.0	3,740	373
Banks	17	2.1	1,263	606
Exchange Houses ^(b)	11	4.5	1,542	343
TFC	2	3.4	905	266
Stockbrokers	4	0.05	29	589
Unregistered	n.a.	n.a.	n.a.	
Non Institutional Providers ^(c)	n.d.	n.d.	150.0	

Source: Banco de la República calculations.

^(a) Entities paying out more than US\$.05 m in annual remittances.

^(b) Only 10 exchange houses were in operation at the end of December 2006.

^(c) Includes ATM transactions.

n.a.: not applicable.

n.d.: not available.

A8. Remittance Payment Instruments (End of Year)

Categories	2006	
	Number of Annual transfers	Annual value of transfers
Cash	n.d.	3,229
Institutional	n.d.	3,079
Others (including ATM)	n.d.	150
Savings Accounts	n.d.	468
Payment orders (checks, drafts, etc)	n.d.	193
POS	n.d.	n.d.
ATMs	n.d.	n.d.

Source: Banco de la República calculations.

A9. Cost of Remittances by Type of Issuer (For a USD 300 remittance)

	Comission % ^(d)		Fixed charge (\$US) ^(a)		Transfer time (days) ^(b)	Exchange differential ^(c)	Other % of fixed costs
	Issuer MTO	Receiver	Issuer	Receiver			
<i>Direct Institutional Providers</i>							
<i>Registered</i>							
Banks	4%	0	0	0	up to 2 days	-0.2%	4 per mil
Exchange Houses	1%	0	0	0	minutes	2.7%	4 per mil
TFC	1.1%	0	0	0	minutes	1.6%	4 per mil

Source: Banco de la República.

^(a) Only where a fixed charge exists in addition to the percentage commission.

^(b) Time between the moment the remittance is sent by the originator until it is received or is available for delivery to the recipient.

^(c) Difference between the Rate of Exchange applied in paying the beneficiary or the transaction and the highest exchange rate in the market.

^(d) Modal commission charged by MTOs and reported by FEMIs.

LIST OF ABBREVIATIONS

ACH	Automatic Clearinghouse
ATM	Automatic Teller Machine
BIS	Bank for International Payments
BOP	Balance of Payments
BRC	Banco de La República de Colombia
CB	Commercial Bank
CEMLA	Centre for Latin American Monetary Studies
DANE	National Statistics Administrative Department
DAS	Security Administrative Department
DIAN	National Tax and Customs Department
EH	Exchange House
FEMI	Foreign Exchange Market Intermediary
GP	General Principles for International Remittances Services
IADB	Inter-American Development Bank
IMF	International Monetary Fund
IOM	International Organization for Migrations
MIF	Multilateral Investment Fund at IADB
MTO	Money transfer organizations
PMC	Professional Money Changers
POS	Point of Sale
PSWG-LAC	Payment Systems Working Group for Latin America and the Caribbean
RSP	Remittances Service Provider
SB	Stockbroker
TFC	Trade Finance Companies
UIAF	Information and Financial Analysis Unit
WHF	Western Hemisphere Payments Forum

GLOSSARY

The Program for Improvement of Central Bank Information and Procedures in the Area of Remittances, which aims at improving and standardizing the information and procedures for gathering, compiling and presenting data on remittances at central banks in the region, has produced helpful technical consultation documents on the remittance market, including the Glossary, in both English and Spanish, where all the terminology related to this market can be found. This glossary may be consulted on the website: <http://www.cemla-remesas.org>

In addition, certain terms that are not mentioned in said glossary, and which are exclusively employed in the context of the Colombian remittance market, are explained as follows:

Foreign Exchange Market Intermediaries - FEMIs:	According to JDBR Resolution 8 of 2000, commercial banks (CB), mortgage banks, financial corporations, trade finance companies (TFC), National Electric Financial (FEN), Banco de Comercio Exterior S.A. (BANCOLDEX), financial cooperatives, stockbrokers and Exchange Houses (EH) are all foreign exchange market intermediaries.
Commercial Banks - CB:	Banks (CB) are financial institutions whose main function is to attract deposits on current banking account, as well as sight and fixed term deposits, for the primary purpose of making loans.
Trade Finance Companies - TFC:	Trade finance companies in Colombia were created in the 70's for the purpose of halting the proliferation of a parallel banking market; this modality of financial intermediation emerged as a means of attracting term deposits and applying them to short and medium term finance of trade in goods and services and leasing operations. They must be incorporated as bearer stock companies and are subject to the control and oversight of the Financial Supervisor.
Exchange Houses - EH	Exchange houses must incorporate as bearer stock companies, which since 2000 are authorized and supervised by the Financial Supervisor. Partners must comply with the following requirements in order to obtain and maintain their authorization: good character, responsibility, skill, and moral and financial solvency. They must present a net worth equal to or greater than \$4.099 million Colombian pesos (adjustable annually according to the consumer price index (CPI); they must also have an adequate administrative and technical infrastructure for the sound control of their operations, and comply with money

laundering prevention and information requirements from the different authorities (BRC, Financial Supervisor and UIAF). EH are dedicated exclusively to two types of foreign exchange transactions: a) sending or receiving remittances (international money transfers) and b) buying and selling foreign currency. Exchange regulations establish that exchange houses may not undertake foreign exchange transactions related to external indebtedness, investment and financial derivatives.

