

# INTERNATIONAL MONEY TRANSFER SERVICES MARKET IN UZBEKISTAN

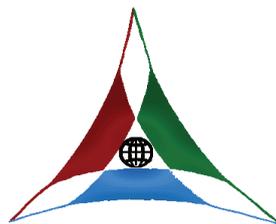
## DEVELOPMENT, COMPETITION AND TRENDS

*Prepared For*

**International Development Research Centre, Canada**



*prepared by*



**ANTIMONOPOLY POLICY  
IMPROVEMENT CENTER UNDER  
THE STATE COMMITTEE OF THE REPUBLIC OF UZBEKISTAN  
ON DEMONOPOLIZATION, SUPPORT  
OF COMPETITION AND ENTREPRENEURSHIP**

# **INTERNATIONAL MONEY TRANSFERS MARKET IN UZBEKISTAN**

## **DEVELOPMENT, COMPETITION AND TRENDS**

(C) 2006 Antimonopoly Policy Improvement Center, Uzbekistan  
18A Navoi Street,  
Tashkent, Uzbekistan  
700011  
Tel.: +998 97 139-1082  
Web-site: [www.apic.uz](http://www.apic.uz)  
E-mail: [international@antimon.uz](mailto:international@antimon.uz)

International Development Research Centre (Canada, IDRC)

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## LIST OF ABBREVIATIONS

ADB	Asian Development Bank
AINP	Associations of the Immigrants of Native Places
APIC	Antimonopoly Policy Improvement Center
ATM	Automatic Teller Machine
CIS	Commonwealth of Independent States
CR	Concentration Ratio
DOJ	Department of Justice (USA)
EBRD	European Bank for Reconstruction and Development
EU	European Union
GDP	Gross Domestic Product
GNP	Gross National Product
ICDPS	Islamic Corporation on Development of Private Sector
IDRC	International Development Research Centre
JV	Joint Venture
MAP	Ministry of Antimonopoly Policy (Russian, now Federal Antimonopoly Service)
MTS	Money Transfer Services
NBU	National Bank of Uzbekistan
HHI	Herfindahl-Hirschman Index
RSP	Remittance Service Providers
SAR	South Africa Republic
SU	Soviet Union
UAE	United Arab Emirates
UN	United Nations
WB	The World Bank
WU	Western Union

## FOREWORD

International money transfers traditionally imply the money sent by working migrants to their Home country.<sup>1</sup>

According to the information of the International Organization on Migration (Geneva, Switzerland), at the present time around 191 millions of people are international migrants, or just under 3% of the world population. Migration flows are growing with accelerating rates. If from the year 1965 to 1990 the annual growth of the world migration comprised 2.1%, nowadays it comprises 2.9%.<sup>2</sup> The bulk of these flows are comprised of the working migrants.

The World Bank presents the official figures related to the volumes of remittances from developed countries to developing ones in the amount of USD 223 billions for 2005 – the amount which doubly exceeds the size of the official support provided to these countries. The flow of remittances doubled over the last decade.

Remittances play more and more important role in the economies of the majority of countries all around the world. In many countries they already exceed significantly the level of Foreign Direct Investments and the sizes of the official international support in dollar terms. In some countries, for instance, in Nicaragua the volumes of remittances reach 1/6 of the Gross Domestic Product (GDP).<sup>3</sup>

Remittances bring a notable contribution to the economic growth and the increase in welfare of the population in need. Money transfers as a result of globalization can promote the decrease of inequality, since almost 2/3 of all transfers are directed to the developing countries.<sup>4</sup> Besides, money transfers help to develop financial markets, just as in the sending country, as in the receiving one as well.

Because of the considerable volumes of remittances many countries became aware of their role in ensuring the stable

economic development. In particular, international remittances have a wide macroeconomic effect, e.g., the improvement of the country's credit rating for getting external credits and through innovational financial mechanisms (as securitization), they can broaden the access to capital and decrease the expenses on obtaining loans. Moreover, they have a large positive effect on national incomes of many developing countries and there exist evidences of their important role in reducing the poverty.

In 2004 G countries (Canada, France, Germany, Italy, Japan, Russia, the United Kingdom and the USA), realizing the whole significance of international money transfers for the world economy, took measures on lowering the expenses for migrating workers, sending money to their children and friends in the Home country. In the last several years the issues on the development of the market for money transfers also were on the agenda of the World bank, the United Nations (UN), and other international organizations. Governments of the most countries of the world started to explore their markets of international remittances in order to decrease expenses, thus, increasing the amounts received by clients.

The collapse of the Soviet Union (SU) and transition to the market economy in Uzbekistan became the reason of serious structural changes in the allocation of incomes and flows of labor resources.

According to different estimates, the number of Uzbek workers migrating abroad amounts from 266 thousand<sup>5</sup> to 500 thousand people<sup>6</sup>. In a situation where only a slight percentage of population has bank accounts, a market for remittance services appeared to become an essential financial link between the migrating workers and their families in the Home country. According to our forecasts, the volumes of official remittances to Uzbekistan

<sup>1</sup> <http://en.wikipedia.org/wiki/Remittance>

<sup>2</sup> "Migration policy issues No.2 - Facts and figures on international migration", International Organization for Migration, Geneva, March 2003.

<sup>3</sup> Manuel Orozco, Remittances Reducing Costs, Increasing Competition and Broadening Access to the Market, 2003

<sup>4</sup> Judith Van Doorn, 2005: Migration, remittances and development

<sup>5</sup> Estimate of the Ministry of Labor and Social Development of the Republic of Uzbekistan

<sup>6</sup> The estimates of prof. L. P. Maksakov "Export of labor from Uzbekistan"

over the year 2006 will exceed \$1 bln. Taking into account the informal money flows, this amount approximately corresponds with the 10% of GDP of Uzbekistan and will exceed the Foreign Direct Investments for this year 3.5 times.<sup>7</sup>

As the international practice shows, competition and an open access to the market are the main factors, contributing to the development and decreased expenses in the sphere of remittances. Thus, for example, the experience of some Latin - American countries points to the fact that the competition

development was the only most important factor in the lowering of tariffs on remittances, since the number of participants in the sector increased sharply over the last decade.<sup>8</sup> The similar tendency has been observed in recent years in Russia and Ukraine as well, where the authorities on competition took a number of measures on providing a free access to the market of money transfers, which subsequently led to an increase in the number of market participants and the decrease of tariffs.<sup>9</sup>

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<sup>7</sup> According to the data of the World Bank the size of GDP of Uzbekistan in 2005 comprised USD 13.67 billions, and the volumes of foreign direct investments over 2006 exceeded USD 388 millions.

<sup>8</sup> Research on remittances to Latin America and the Caribbean released by IDB's Multilateral Investment Fund «Remittances scorecard report: money transfer costs drop but migrants and their families remain unbanked», (...Regarding costs, some of the sharpest drops (in tariffs) over the past years happened in Colombia, Bolivia, Mexico and Haiti. Competition was the single most important factor in bringing down fees and charges, as the number of participants in the sector exploded this decade before giving way to some consolidation...)

<sup>9</sup> The review of the experience of these countries in the sphere of protecting competition in the remittance market is presented below in the report.

## OVERVIEW

It is widely accepted that one of the main reasons of the development of international money transfers' market is the global flow of the labor migration.

Countries with higher level of income and therefore which are more attractive for immigrants are Germany, France, Great Britain, the USA, Australia, South African Republic, Russia. These are the largest countries that accept working migrants. Every year emigrants all over the world make money transfers in the volume of hundreds of billions of dollars.

Money transfers of emigrants play a positive role in the economy of the receiving countries. Income received from migrants working overseas directly or indirectly increases the total GDP and improves the payment balance.

On the other hand, level of unemployment of the emigrants' country of origin decreases, emigrants return home with valuable work experience, specific knowledge and skills which sometimes promote the development of certain spheres as it happened in India.

However, there are also some negative aspects of labor migration, for instance "brain drain", creates heavy problems for developing countries. Many immigrants remain illegally in receiving countries after the term of labor contracts expires, engaging in shadow economy.

As for Uzbekistan, the country is encouraged to export the workforce, where labor resources make up more than half of the total population. It's hard to estimate the accurate number of migrants who leave the country to work, as in most cases emigrants settle in jobs either through unofficial channels or illegally and without organization, bypassing the official channels of job placement abroad. According to the data of the Ministry of Labor and Social Security of the Republic of Uzbekistan, during 2003-2005 volume of labor migration from the country made up around 250-500 thousand people. However, this number is sensitive to seasonal adjustments; therefore it may increase with changes in season. It has to be noted that the level of

education of labor migrants from Uzbekistan is higher than the average level of education of the population of the country in general.

Emigrants from Uzbekistan are employed overseas in such fields and spheres as construction, sales, industrial sector and agriculture, catering and the services sector.

According to the data of Ministry of Labor, around 75% of total export of workforce from Uzbekistan was made to Russian Federation.

Because of the wide extent to which the unofficial and illegal migration from Uzbekistan are spread, one of the priority directions for our country in this sphere is establishing the effective system of protecting the rights of the labour migrants abroad and fighting against illegal export of workforce to prevent criminal activities. These and many other issues of labor migration are discussed in the first chapter of the present research.

With all this going on, the working migrants would not have an opportunity to send their money that much safely, quickly and comparatively cheaply, without the modern banking system. That is why the other factor of the development of the money transfer services market is the development of a financial infrastructure, in particular the banking sector, which frequently acts as an agent in the money transfer system. Thus, the second chapter of the present research reviews the development of financial sector in Uzbekistan as well as its integration to international financial system.

At present, in the banking system of the country much attention is paid to the universalization of bank activities, since for the whole system to function effectively, banks need to reach the level of other banks in the developed countries in offering the wide range of services.

During the Soviet Union financial markets did not exist. The variety of services offered by banks was extremely limited. These institutions obeyed the superior plan-making governing body, and followed their instructions, which were not always appropriate in a certain situation.

After the declaration of Independence, one of the main goals of economic reforms in Uzbekistan was to demonopolize the banking sphere. At the beginning of the period of reforms, along with the development and adoption of the respective Laws and Decrees, the former local branches of the soviet banks in Uzbekistan were transformed into independent banks. Afterwards, a two-tiered banking system consisting of the Central Bank and commercial banks was introduced.

In order to expand the scope of the coverage of national banks, the Republic of Uzbekistan establishes and promotes the partnership with international financial organizations. The country is a member of the International Monetary Fund, Asian Development Bank, European Bank for Reconstruction and Development, Islamic Corporation for the Development of the Private Sector, and so on. Thus, there is a constant expansion of the correspondent network of the banks abroad, which promotes the effective and fast-pace services for the clients from both parties.

In that way, the research reveals the prerequisites and the fundamental reasons of the development of the money transfers market abroad and its specific features in Uzbekistan.

Money transfers, just like the other sources of a family income have many effects for the country as a whole, as well as for the population specifically. That is why the Project set out the target to study the effects of financial inflows to the people and the Republic, to which **the third chapter** is devoted.

As is known, over the several recent years, the volumes of the transferred money have significantly grown. These money transfers have a special implication for the developing countries. Experts think that the spending of money transfers on consumer goods stimulates the economic development of the receiver-country. In addition, there are multiple methods of the effective usage of such money flows, with the active participation of the state and the associations (communities) of the working migrants. Such associations send the collected funds to places, where they come from and help, e.g. as in Mexico, in the

improvement of various objects of social utilization. In Mexico with the active support of the local governments, there is a system in which the local budget provides the same amount of money which the communities of working migrants invest into the development of the infrastructure of the underdeveloped areas.

With the inflow of funds the currency income in the emigrant's country increases. As migrants who acquired jobs abroad, in some sense lower the level of unemployment in their home countries, the sizes of social benefits, paid out to the unemployed citizens by the government of this country, also decrease, and this serves as a relief for the government budget.

**The fourth chapter** of this research is devoted to the study of the competition issues in the market of money transfers in Uzbekistan. As the international experience shows, the competition and open access to the market have become the main factors, responsible for the development and decreasing of costs in the sphere of money transfers. Here the results of the analysis of competitive environment in the market for international money transfers in Uzbekistan are presented. Since the analysis of the market of financial services is a relatively new phenomenon in the sphere of competition policy in Uzbekistan, the chapter includes an overview of international experience in the sphere of analysis of competitive environment in the market of international money transfers in certain countries.

As a rule, analysis of competitive environment in this or that market includes the following steps:

- **Analysis of the legal framework, which applies to this or that market. Analysis of legal barriers to enter and exit the market.** The results of the analysis of the legislature regulating the sphere of international money transfers in Uzbekistan reveals that the existing legal documents in the sphere are favorable enough for the development of the market of financial services. In particular, positive factors include the absence of taxation on the money transferred by clients – experience that exists and adversely affects the effectiveness of this market

in some other countries. On the other hand, existing legislation of the Republic of Uzbekistan in the sphere of regulating international money transfers does not ensure the realization of the whole potential of this market of financial services, originating from the potential to attract postal companies and credit unions to this market.

- **Defining the relative market and its commodities and geographic borders.**

The relative market in the Republic of Uzbekistan in the case of the current project was identified as the market of international money transfer services. The market borders in this case coincide with the geographic borders of the Republic of Uzbekistan, thus the analysis covers the whole territory of the country which is considered one market for current type of services.

- **Identifying the members of the market and calculating their market shares.**

In general, due to the fast growth of transactions in both directions (in and out of the country) and because of the entrance of new money transfer systems (MTS) the market of international money transfers in Uzbekistan is developing rapidly and rigorously. As it was identified, currently, there are eleven such economic entities (money transfer systems).

- **Estimation of the market concentration and identifying companies possessing dominant power, if there are any.**

All indicators of market concentration and its dynamics show the growing competition in the market of money transfers followed by decrease of average tariffs per transaction. The first company that entered the market of Uzbekistan and which enjoys the largest market share is Western Union. As the analysis revealed, the company possessed the dominant power during the whole time covered by the analysis, but its market share has been falling systematically (from 95% in 2002 to 53% as for the first half of 2006).

- **Identifying actions restricting competition.**

The results of the research reveal that even with the existing practice of

concluding contracts, which contradicts the Antimonopoly legislation of the Republic of Uzbekistan, such contractual practice of the companies does not impede the development of competition in the market of international money transfers of Uzbekistan. The fear concerning the overcharged tariffs also did not prove to be true. In this case, since many companies provide services in the market, the tariffs for the most popular directions of money transfers are approximately at the same level across all the remittance service providers (RSPs).

Summarizing this part of the research, related to the competition issues in the market of money transfers we can conclude that competition in the market is developed enough, which is evidenced by the decrease in market shares of main players, and also the double decrease of the average level of tariffs on the remittance services.

Finally, **the last chapter** gives out the recommendations and further guidelines of actions for developing the market for remittances in Uzbekistan. In short, these recommendations are comprised of the following:

- The necessity to broaden the network infrastructure by allowing the appearance of new money transferring points in the market (local banks, credit unions and etc.);

- Elimination of legal barriers for National Post Company, which is the most potential competitor to major players in the market;

- More transparency of customers and better understanding by customers the importance of the maximum possible neutrality of the state in regulating the sphere of international money transfers (remittances);

- Liberalization of migration policies and introducing more protection of migrant workers abroad;

- More speedy reform for the integration of banks to the international money transfer network.

# CHAPTER 1: MIGRATION AS A MAIN FACTOR OF DEVELOPING INTERNATIONAL MONEY TRANSFERS

## 1.1 WORLD TENDENCIES IN MIGRATION OF WORKFORCE

Today, international migration is widely spread all over the world. It's not surprising that workers from underdeveloped countries, where they receive insufficient, low wages are inclined to move to other more developed countries on labor contracts with foreign employers, where the level of wages is much higher than at their home countries. As a result, emigrants send part of their income to their families and relatives, who use this money for consumption of goods and services, which also promotes expansion in the volume of produced output of firms and companies.

This part defines the notion of labor migration in general, discusses the distribution of the workforce among different regions and continents of the world, reasons for such strong attraction of overseas jobs for residents. Economic aspects of international labor migration will also be explained, in particular, impact of money transfers carried out by emigrants to the economy of the receiving country; advantages and disadvantages of labor migration for labor exporting and labor importing countries; nature of jobs offered overseas and its impact on unemployment and employment on macroeconomic scale. Distinguishing features of labor migration in Uzbekistan will be discussed in conclusion; statistical data will be presented to support the discussions, all this connecting money transfers with macroeconomic indicators of the country.

Labor migration helps underdeveloped countries to decrease the level of unemployment. Money transfers promote the expansion of dollar income of the receiving country. However, cases of illegal stay of immigrants after expiration of terms of labor contract with foreign employers are not rare. Therefore, it is extremely important for Uzbekistan to establish an effective mechanism of fighting against illegal

migration, which leads to expansion of crimes in this sphere and protecting the rights of employees.

World tendencies of migration process have not left Uzbekistan unaffected. Since most of labor migrants use unofficial channels of moving to foreign countries, it is hard to evaluate the real situation of labor migration in the republic. At the same time, as our research reveals, many people are drawn into labor migration out of Uzbekistan. Statistical data and the volume of money transfers once more confirm the important role of labor migration in Uzbekistan.

Today every 35<sup>th</sup> person in the world is an international migrant (immigrant)<sup>10</sup>. Every year millions of people go out to labor market in the countries, where not as many jobs are created. At the same time in more developed regions the process of aging workforce and thus clear shortage of the latter is observed in many spheres of economy.

Stimulating factors of modern migration are numerous and complex, and generalized reasons for migration are not always applicable to certain migrants and their families. Main reasons for migration are poverty, war, hunger and repression. However, some people name other reasons as well – demographic problems, limited resources, inequality in salaries and income in different countries, increasing urbanization processes, existence of network of migrants contributing into further migration of labour force, as well as lack of employment perspectives.

Migration processes in the modern world differ substantially from such of the previous century not only by content and mass. Today the main features of migration are but not limited to the following:

- migration covers all continents of the world and gained a truly global character. If in 50s-70s of the XXth century migration moved mainly from developing countries into industrially developed countries, in the 80s we may observe the reversed migration processes: movement of foreign labour force

<sup>10</sup> "Migration policy issues No.2 - Facts and figures on international migration", International Organization for Migration, Geneva, March 2003.

from developed countries to less developed countries;

- economic motive remains as the dominant one in the migration of labor;
- migration of labour resources are also triggered by modern production technologies, based on principles of international distribution of labour;
- at the present stage of development illegal migration of labour has increased tremendously becoming a world problem;
- international migration is undergoing qualitative changes as a result of scientific-technical and technological progress, eventually causing substantial rise of share of qualified specialists among migrants;
- countries, formerly known as mother countries, emphasize on importing labour force from their former colonies and dependent countries;
- during the XIXth and the first half of the XXth century only Europeans moved into the countries of traditional migration (United States, Canada, Australia, Southern African Republics (SAR)); however, in the 80s-90s of the XXth century this segment made up an insignificant part of migrants. Nowadays immigration flow to these countries is predominated by emigrants from Asia, Latin America, Africa and the Caribbean;

- active involvement of governments in the migration process. They regulate agreements in the world labour market, give permission to entry and control the terms and duration of entry of immigrants. They are engaged in recruiting and creating favourable conditions for hiring foreign workers.

Today, using foreign labour force is an indispensable condition of normal production process. In countries which actively use foreign workforce, entire branches of economy are dependent on import of labour force. For example, in France immigrants constitute one fourth of the workers in the construction sector, in Belgium – half of miners, in Switzerland – two fifths of the workers in construction industry. In Germany almost 85% of economically active immigrants were occupied in hard, monotonous and partially dangerous sectors of economy, 60% of them belonged to the category of unqualified or low qualified workers. If low qualified workers come to a

country, then employers and consumers of goods, produced by intensive use of such labour resources, benefit from this. Salaries of qualified native employees may rise, which is not the case with salaries and other incomes of the lowest layers of labour force of receiving countries.

As the world migration processes continue for thousands of years, tendencies in this direction have led to creation of certain “polar” regions, the regions that have relatively larger balance of labor migrants and which remain attractive for even more number of potential migrants.

## 1.2 MAIN «POLAR» REGIONS

Due to economic reasons main flows of migrants were always directed from countries with low personal income to countries with higher income.

The following countries and regions may be identified as attractive areas for migrants from other countries:

### 1. Europe

Europe is considered the most important center of international migration of the workforce. The number of legal migrants and their family members here reaches 20 million, including 13 million people residing in the European Union. The outstanding feature of labor force market of this region is not universality, but specificity of each country. Countries that accept the main portion of immigrants are Germany, France, Great Britain as well as, Switzerland, Belgium, Sweden, the Netherlands.

Lately, some shifts are being observed in the traditional structure of employment of foreign workforce in Western Europe. Substantial decrease of employment of foreigners occurred in the steel industry, metal-working, automobile industry. At the same time, the share of foreign labor force rose in the field of services. In the last 10 years the number of immigrants, employed in sales and trade increased by 50% and those who are occupied in the sphere of production services – by 70%.

In the light of intensifying global competition, governments of some member countries of EU are implementing

the strategy in the field of migration in two directions:

**first**, by encouraging immigration of highly qualified employees,

**second**, by improving integration of immigrants who permanently reside in the country, especially immigrants of the second and third generation, among whom the unemployment rate is often high.

National migration policy of Austria, Denmark and the Netherlands is based on the condition that those migrants who are already in the country must be integrated before the arrival of new migrants. On the other hand, only few countries are taking legal measures to accept half qualified and low qualified employees.

In nine countries of South-Eastern Europe and the Mediterranean the main problem is emigration and not immigration. Six of these countries (Bosnia and Herzegovina, Bulgaria, Croatia, Romania, Macedonia, Serbia and Montenegro) are alarmed with high degree of emigration.

## 2. North and South America

As an economically developed country, the USA is the main direction of migration for both low qualified and highly qualified labor force. Main flow of unskilled labor force to the US is directed from Latin American countries – Mexico, countries of the Caribbean Sea. Highly qualified workers immigrate to the US almost from all countries of the world, including Western Europe, Latin America, Russia, India, etc.

Migration of the labor force into the countries of Latin America has a long history. Starting from the second half of the XIXth century, this continent has become one of the world centers to attract immigrants; mainly migration from European countries was highly encouraged. This tendency has predominated until the 60s of the XXth century. Only between 1946 and 1960, 2 million Europeans moved to Latin America. From the 60s, intercontinental migration started to be replaced by intracontinental migration. People move mainly to Amazon basin. This is true for countries located in the Andes: Peru, Bolivia, Ecuador and Columbia. Intracontinental migration of labor force in

Latin America gained a steady character. This is explained by shortage of land for farmers and inefficient use of land as well as the speed of population growth, which is four times as much as that of developed countries.

## 3. Middle East

Oil producing countries of this region attract cheap labor force for hard and low paying jobs. Workers come mainly from neighboring Arabian countries as well as India, Pakistan, Bangladesh, Korea and Philippines. More than half of the workforce of Saudi Arabia, United Arab Emirates, Qatar, Bahrain, Kuwait and Oman is made up by foreign workers.

## 4. In the Asian-Pacific region

In the Asian-Pacific region a classic country for immigration is Australia. Share of foreigners in general labor resources makes up 24%. This is higher than the indicator characterizing the share of immigrants in the total number of population – 22.3%. Just like the US, Australia aims at assimilation of immigrants. In the 50s-60s, this area mainly attracted immigrants from Eastern and Central Europe, especially from Italy, Greece and Yugoslavia. Since the 70s Australian immigration policy re-oriented at Asia, connecting the economic future of the country with the latter. In the middle of the 70s, number of the people coming from East and South-East Asia increased by more than 30% compared to the 60s. At the same time the number of migrants from Eastern and Central Europe, on the contrary, decreased by more than 25%. Since 1982, Australia started a new migration policy to help stimulate development of businesses in the country. Besides Australia, main workforce importers of Asian Pacific region are Brunei, Japan, Hong-Kong, Malaysia, Pakistan, Singapore, South Korea and Taiwan.

Japan must be noted as the country which was the center of emigration a century ago. Emigrants from poor rural regions of Japan rushed to Western hemisphere. Since the 60s, when stormy progress of

Japanese economy started, emigration of its citizens stopped. In addition, flow of “nikkeis” (emigrant in Japanese) goes in the opposite direction.

Starting with the 90s around 400 thousand foreign workers come to Japan every year. Official agreement between South Korea and Uzbekistan, according to which, the latter sends workers officially on labor contracts, is the main reason for flow of Uzbek labor force into this country. According to the available data, around 18 thousand people from Uzbekistan work officially in South Korea, who send home about 1% of the total money transfers into the republic, which make up 10-15 million US dollars annually.

## 5. CIS countries

Appearance of 15 new states as a result of the collapse of the SU brought about major problems, not limited to controlling migration movement of the population. Suddenly millions of people quit being the citizens of the country they have been living in. Millions of other people were offered to come back to the lands from where they were forced out previously. At the same time, legislation and administrative structures, which had to regulate international migration were either absent or regulated the flow of population according to the principles of the old political system.

Around 12 countries of the CIS,

excluding the Russian Federation became the countries of pure emigration. Eight of them (Armenia, Georgia, Kazakhstan, Moldova, Tajikistan, Turkmenistan, Uzbekistan and Ukraine) consider the degree of emigration of their citizens very high. Only three of them – Byelorussia, Russian Federation and Turkmenistan – announced measures to restrict immigration. Migration flows in these countries mainly represent labor migration into Russian Federation. In contrast with other countries of the region, in the states of Central Asia increase of population is registered. Population of Tajikistan, Turkmenistan and Uzbekistan is one the youngest in the world: approximately 40% of the population here is made up of people younger than 15 years of age.

Besides, the greatest share of flow of refugees accounts for the CIS countries. At the same time these countries are transit countries for residents of Asia and Middle East, trying to go to EU countries.

As the social research shows, countries preferred by migrants from Uzbekistan are the United States of America, Germany, England, United Arab Emirates. Among countries which attract emigrants are Russia, mainly Moscow, Saint Petersburg, Kaliningrad and cities in Volga region. These people are mainly from so called medium layers, possessing higher education and who do not see opportunities to fully utilize their potential at home<sup>11</sup>.

### Box 1.1 International Migration and Labor Migration

#### International Migration

International migration includes two main parts: emigration and immigration. Emigration means leaving the country for permanent residence, immigration means coming into a country for permanent residence. International migration also includes the process of repatriation – returning of the citizens of a country that have left before.

International migrants are divided into five main categories:

- immigrants and non-immigrants, who legally entered the country;
- worker-migrants on contracts;
- illegal immigrants;
- people seeking asylum;
- refugees.

#### Labor Migration

Internal migration of the workforce that happens between regions of one state differs from external migration involving a few countries. Migration of labor is the movement of able-bodied citizens from one country to another for a period of more than a year, caused by economic and other reasons.

<sup>11</sup> Potential labor migration from Uzbekistan to Russia. L. Maksakov

Development of migration agility of native people, in particular, their participation in emigration processes, at current conditions are inhibited by a number of factors. Primary factors are complication and impediment of migration relations with CIS republics, with whom the main migrant exchange of population took place in the previous years; re-orientation of potential migrants to remote foreign countries, existing organizational, legal, financial and language barriers and so on<sup>12</sup>.

### 1.3 ECONOMIC ASPECTS OF INTERNATIONAL LABOR MIGRATION

Volume of annual money flow, resulting from international migration is measured in hundreds of billions of dollars and may be compared to the scale of annual foreign direct investments.

Nine tenths of all the income paid for labor of foreign –nonresidents and two thirds of all private unpaid transfers fall to the share of developed countries, whereas, only one tenth and one third, respectively, fall to the share of developing countries.

This means that most of the temporary worker-migrants are concentrated in developed countries and able-bodied people from developing countries, including those with transition economies, emigrate and become residents of developed countries. Within the boundaries of money flows, connected to labor migration, share of workers' remittances is around 62%, income from labor – around 31% and movement of migrants – around 7%.

Countries that pay relatively higher wage for the labor of nonresidents include Switzerland, Germany, Italy, Japan, Belgium and the United States. Among the developing countries, labor of foreigners is more actively used by SAR, Israel, Malaysia and Kuwait.

Relatively greater private remittances are sent mainly from developed countries (USA, Germany, Japan and Great Britain) and new industrial countries as well as oil producing countries (Korea, Saudi Arabia and Venezuela).

Main receivers of money transfers from abroad are developed countries, mainly for transferring part of the salaries of workers of foreign units of transnational companies, military personnel, located overseas, workers of government offices located abroad. In many developing countries, the share of private money transfers makes up 25-50% of the income from exporting goods (Bangladesh, Jamaica, Malawi, Morocco, Pakistan, Portugal, Sri-Lanka, Sudan and Turkey). In Jordan, Lesotho and Yemen money transfers reach 10-50% of GNP.

Theoretically, income of the countries that export workforce is not limited to remittances of emigrants from abroad, even though they constitute the main part of their income. Among other sources of income, which increase total GNP and positively affect the payment balance, are taxes imposed on the employment firms engaged in the international job market, direct and portfolio investments of emigrants to the economy of their native countries, decrease in the expenses on education, healthcare and other expenses of social character, which are covered for emigrants by the receiving countries. Returning home, migrants bring approximately as much savings with them as they transferred through banks during the migration period. Moreover, acquiring work experience and improving their qualification overseas, they bring the experience home, as a result of which, the country receives additional qualified specialists for free.

Emigration has noticeable positive influence on the economy of the countries with labor surplus, since departure of workers cuts down the level of unemployment. In the 1970s, the government of Egypt, ratifying the program of fighting against unemployment, specifically stimulated emigration to the countries of Persian Gulf. Puerto-Rico passed the law on minimum wage taking into account the fact that at least one third of the workforce moves to the US.

“Brain drain” is a serious problem for most developing countries, especially in Africa (Malawi, Sudan, Zaire and Zambia). But, “brain drain” ceases in many cases

<sup>12</sup> Potential labor migration from Uzbekistan to Russia. L. Maksakov.

when economic situation of home countries improves. For example, Indian scientists, returning home, after working several years at high tech American corporations in the Silicon Valley, became the founders of development of the Indian new computer software industry.

Economic effects of immigrations are often described as simply negative, because of the fact that workers coming from abroad cut-down the number of available jobs and increase the level of unemployment among the indigenous population. While agreeing with the existence of such problems, it is necessary to notice that immigrants bring new skills, knowledge and experience. The United States, Canada and Australia are the countries that arose from immigration. In other countries, immigrants introduce dynamism to the economic development of entire branches. Chinese industrial workers in Indonesia and Malaysia, entrepreneurs from Hong-Kong in Canada, Indian and Lebanese businessmen in Africa, Jordanian and Palestinian office personnel in oil producing countries of the Persian Gulf.

Moreover, immigrants fill in the positions for which there is no demand among the native population. Unskilled workers from Turkey and Northern Africa constitute 60-80% of immigration to Germany, France.

Palestinians are willingly hired for hard work in Israel, so are Indonesians in Malaysia and Bolivians in Argentine. In addition, some industrial branches that bring tremendous export income for countries, would not have survived without immigrants. Among the examples metal mining industry of SAR, agricultural plantations of Dominican Republic, Malaysia and Spain, rubber industry in Malaysia may be mentioned.

#### 1.4 ISSUES OF MIGRATION OF THE WORKFORCE IN THE REPUBLIC OF UZBEKISTAN

Uzbekistan is among countries where population is growing rapidly. Demographic growth has slowed lately, but labor resources continue to increase at a high speed as a consequence of demographic situation in previous years. For the last 10 years, number of population capable for work rose by 2.65 million people or by 26.5%, by the annual growth of 2.4%. This means that the market of labor is under a great demographic pressure. In these conditions a country must be interested in expansion of exporting labor to other countries.

By the number of population, Uzbekistan excels other countries of Central Asia. As of July1, 2006, total population

#### Box 1.2 Advantages of Exporting Workforce

##### Some Advantages of Exporting Workforce

1. Main exporters of workforce receive additional source of currency income (in the form of flow from emigrants) from exporting workforce. In such countries as Turkey, Yugoslavia and Pakistan, remittances comprise billions of dollars and help to solve many intense problems of these countries. Experts think that monetary effect of exporting workforce exceeds the one of proceedings from exporting goods by 10 times.
2. Under unfavorable economic conditions and increase in the unemployment rates, labor migration may solve the problem of employment to some extent.
3. Research, conducted in labor-exporting countries testifies that emigrants show great willingness to new forms of activities and take active part in developing new forms of economy.
4. Deficit of workforce caused by emigration may sometimes stimulate positive technological changes, including more rational use of workforce and other resources.

##### Individual Aspects

Crime rate indicators often worsen in districts inhabited by a large number of foreigners. Illegal labor migration is increasing lately and illegal immigrants try to stay in the receiving country as long as possible after the expiration of valid labor contracts, drawn into shadow economy.

Working migrants have always been and will always be subject to **discrimination** in every country. It applies to all aspects: employment, wages, social allowances and privileges, etc. It is well known that for migrants it's harder to get employed in relation to the native residents, except in the cases with the least attractive jobs.

Immigrants may simply be fired. A typical example: plants of "Reno" in France laid off 55% of immigrants while dismissing 30% of workers.

of the country approximately comprised 26.3 million people (*Table 1.1 below*), with the density comprising 58 persons per 1 square kilometer. The latter indicator varies from 7.3 persons per square kilometre in Navoiy region to almost 540 persons per square kilometre in Andijan region.

Annual growth of population makes up 300-330 thousand people. Birth is considered to be the main factor of growth. Regardless of the sharp fall of rate of birth in the last decade, at the moment, it remains at the level of 20 pro mil with a stable rate of death of 5.5-5.7 pro mil. This has to do with the age structure of the population, i.e. dominance of young generation in Uzbekistan. Labor resources make up more than half of the population of the country. Annual rate of growth reaches 2.5-2.7%, i.e. net balance in the labor market equals 220-230 thousand people. Such a great flow of labor resources is explained by an on-going effect of high rate of birth in the 70s-80s of the last century.

According to the official data, level of unemployment is considerably low and makes up only 0.4-0.5%<sup>13</sup> of the economically active population (as of July 1, 2006 around 30 thousand people are officially registered at labor departments as unemployed). According to the official data, level of unemployment is considerably low and makes up only 0.4-0.5%<sup>14</sup> of the

economically active population (as of July 1, 2006 around 30 thousand people are officially registered at labor departments as unemployed).

This is one of the lowest indicators among the CIS countries. However, the indicated level of unemployment does not reflect the real situation in the labor market: according to the data received through regular monitoring in the market of labor and employment, number of the people who need job placements makes up more than 320 thousand people or 4% of the economically active population.

Considering the high growth rates of labor resources and a significant number of young people joining the workable age every year, this level of unemployment is considerably high. In such conditions, labor migration – as a process of redistributing labor resources – is considered one of the ways of ensuring employment

At the same time with indicated demographic factors, the processes of market reforms and structural reorganization in the economy inevitably lead to dismissal of surplus workforce (for example, in the process of reorganizing large agricultural enterprises into farms).

As a result the surplus of cheap workforce with its considerably high educational level guarantees Uzbekistan competitive advantage compared to

**Table 1.1 - Main social indicators of the Republic of Uzbekistan for the 1st half of 2006**

#	Indicators	units	1 <sup>st</sup> half of 2005	2 <sup>nd</sup> half of 2006	% change compared to 2005
1.	Number of permanent population including those in the workable age	thous.	26091,6	26385,6	101,1
	Able-bodied people	thous.	14968,8	15338,7	102,5
2.	Number of births	thous.	263,0	255,8	97,3
3.	Number of employed population	thous.	9996,7	10276,0	102,8
4.	Number of officially registered unemployed population (at the end of the period)	thous.	38,1	29,3	76,9
5.	Newly created jobs	thous.	294,1	312,8	106,4
	Including in the rural regions	thous.	212,7	223,9	105,3
6.	Average nominal salaries for the last month of the period	soums	81864,5	107797,9	131,7
7.	Average amount of pensions	soums	22997,8	30828,1	134,0
8.	Available per capita income (monthly average)	soums	26629,1	33968,4	127,6

\*) – data of the State Statistics Committee and the Ministry of Labor and Social Security of the Republic of Uzbekistan

<sup>13</sup> Uzbekistan Economy. Statistical and Analytical Review for the year 2005, Centre for economic research and education/USAID "Bearing point" project, Tashkent, 2006

<sup>14</sup> Uzbekistan Economy. Statistical and Analytical Review for the year 2005, Centre for economic research and education/USAID "Bearing point" project, Tashkent, 2006

European countries of the CIS, including Russia and Kazakhstan, where supply of labor is decreasing and the value of the workforce is already noticeably higher in the market because of demographic conditions.

By migration status, Uzbekistan is considered a sending and receiving country, with a significant dominance of export of labor force over import.

Practically, with all states of the CIS Uzbekistan has a negative migration balance, excluding Tajikistan, which accounts for a small inflow of population.

There is a state monopoly for exporting workforce overseas and legal private intermediary activities are absent in this sphere. Therefore, main part of labor migration is carried out in mediated forms – through guest visas, tourism, journeys, etc.

**Labor immigration.** In 2005 the number of foreign citizens who came to Uzbekistan for purposes of working, based on the permission of the Agency on Foreign Labor Migration, made up around 4 thousand people. Turkey rates first among the countries from where workforce was attracted to Uzbekistan, followed by South Korea.

**Labor emigration.** It is hard to value the scale of emigration of workforce from the republic, since its main flows do not go through statistical reports because of:

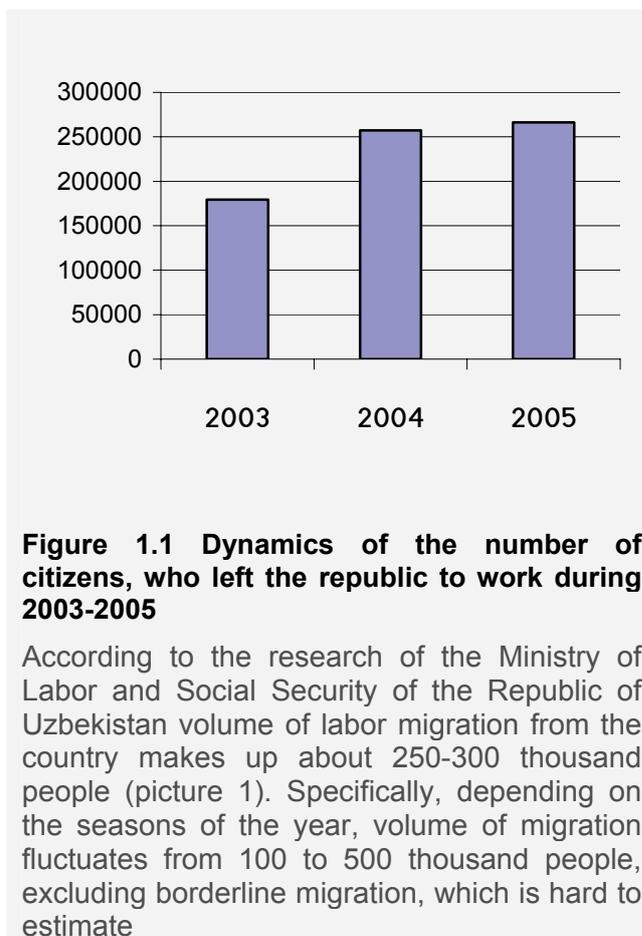
- a) absence of visa procedures with the Russian Federation, the country considered to be the main country of destination;
- b) increasing share of unofficial and/or illegal employment of labor migrants from the Republic of Uzbekistan in receiving countries.

Number of migrants who left with the aid of the Agency on Foreign Labor Migration makes up around 2.5-3 thousand people.

Volume of labor migration from Uzbekistan may only be judged on the basis of surveys and expert opinions.

According to certain sources<sup>15</sup>, total volume of foreign labor migration exceeds 0.5 million people. There is no data and estimates on borderline migration and unorganized migration.

Mainly males take part in foreign labor migration. Their number constitutes about 80%. Some experts estimate the number of women at around 12-15% of the total number of migrants. People of middle and older age are dominant among labor migrants. According to the data, gathered by way of surveys, young people (under 30 years of age) constitute less than 20%, citizens from 30 to 40 years of age – 45%, those older than 40 years of age – 35%. Ethnic composition of migration reflects the ethnic structure of the population of the republic.



**Figure 1.1 Dynamics of the number of citizens, who left the republic to work during 2003-2005**

According to the research of the Ministry of Labor and Social Security of the Republic of Uzbekistan volume of labor migration from the country makes up about 250-300 thousand people (picture 1). Specifically, depending on the seasons of the year, volume of migration fluctuates from 100 to 500 thousand people, excluding borderline migration, which is hard to estimate

As many experts note, level of education of labor migrants is higher than the average indicator across the country. According to the findings of the researches conducted in 2001, among labor migrants who worked in countries of Western Europe, Israel and the US, 90% of the migrants had higher and secondary special degrees, about 7.5% of them possessed scientific degrees.

<sup>15</sup> The estimates of professor L.P.Maksakov «Export of workforce from Uzbekistan ».

Spheres of employment of men – labor migrants from Uzbekistan – include construction, retail sales and trade, industry and agriculture. Main spheres of employment of women include – catering, retail, services sector, agriculture.

Relatively greater number of migrants accounts for the regions of Ferghana valley, Samarkand, Bukhara, Kashkadarya, the Republic of Karakalpakstan and Tashkent city (Table 1.2).

Directions of migration vary among organized and unorganized migration from Uzbekistan. Most of the unorganized labor migration directed into the CIS countries, which is supported by freer visa procedure,

absence of language barriers, previous partnership, family and other connections of people. According to the estimates, about 75% of all labor migration from Uzbekistan is directed to Russia (Table 1.3).

Flow of labor migrants to Kazakhstan also increased recently. This includes mainly the migration of construction workers, borderline and retail migrations. Number of migrations to Kazakhstan makes up about 20% of the total volume of labor migration. This migration originates mainly from regions of Uzbekistan bordering Kazakhstan: Republic of Karakalpakstan, Djizzakh, Tashkent and Horezm regions.

**Table 1.2 - Information on the number of citizens who left the Republic of Uzbekistan to work abroad in 2005**

Name of the region	Number of people who left the country to work abroad	% share in the total number of economically active population
Republic of Karakalpakstan	27704	4,8
Andijan region	27956	2,8
Bukhara region	25502	3,7
Djizzakh region	5462	1,6
Kashkadarya region	20185	2,4
Navoiy region	11576	2,9
Namangan region	7029	1,0
Samarkand region	29346	2,7
Surhandarya region	11430	1,7
Sirdarya region	9942	3,5
Tashkent region	15812	1,5
Ferghana region	24375	2,0
Horezm region	9656	1,8
Tashkent city	40125	3,5
<b>Total from the republic</b>	<b>266100</b>	<b>2,5</b>

\*) – According to the data of Ministry of Labor and Social Security of the Republic of Uzbekistan

**Table 1.3 - Information on the number of citizens who left the Republic of Uzbekistan to work by regions of the country in 2005 (in %)**

Name of the region	Total	Including:		
		Russia	Kazakhstan	Other countries
Republic of Karakalpakstan	100	27	71	2
Andijan region	100	77	19	4
Bukhara region	100	95	1	4
Djizzakh region	100	43	41	16
Kashkadarya region	100	85	11	4
Navoiy region	100	91	3	7
Namangan region	100	65	25	10
Samarkand region	100	89	6	5
Surhandarya region	100	89	9	2
Sirdarya region	100	79	7	14
Tashkent region	100	67	31	2
Ferghana region	100	81	15	3
Horezm region	100	70	26	4
Tashkent city	100	76	17	7
<b>Total from the republic</b>	<b>100</b>	<b>75</b>	<b>20</b>	<b>5</b>

\*) – According to the data of Ministry of Labor and Social Security of the Republic of Uzbekistan

South Korea remains the main partner of Uzbekistan in organized labor migration. In accordance with treaties concluded between the Republican Agency on the Matters of Foreign Labor Migration of the Republic of Uzbekistan and the Korean Association of Entrepreneurs, 4.5 thousand citizens of Uzbekistan went to Korea to work in 2003, in 2004-2005 – around 4 thousand people, from which 28 worked in Japan and the rest worked in Korea. Sphere of employment of migrants from Uzbekistan include jobs in small and medium businesses, agriculture, construction.

Part of labor migration from Uzbekistan is directed at countries of Western Europe, the USA, Israel. Migration which fell into the vision of official agencies, were realized based on private invitations and included highly qualified specialists. In 2003 total of 30 permissions were given for departure. There were also departures on interagency treaties. Major part of it is directed to Afghanistan, where Uzbek specialists and workers are taking part in post conflict reconstruction of the country. Migration to Kyrgyzstan is increasing since 2002. Its main forms are working in the retail, agriculture, etc.. Small flow of commercial migration is directed to the United Arab Emirates, Turkey and Iran.

The country is interested in exporting the workforce, but at the same time it is trying to keep control over migration. Preferred form of organizing departure of workforce is the contracts of a state body – the Agency on the Matters of Foreign Migration of the Republic of Uzbekistan – with enterprises of receiving countries on the basis of bilateral treaties or contracts with representatives of such official organizations as, for instance, Korean Association of Enterprises of Small and Medium Business.

However, aspiration of Uzbekistan for exporting workforce through government channels strikes against the specifics of the situation, appearing at the moment in international labor markets as well as the forming international practice of workforce departure.

## 1.5 MIGRATION OF THE WORKFORCE AND INTERNATIONAL MONEY TRANSFERS

Official estimations of money transfers from foreign labor migration are absent in Uzbekistan, because of the lack of banking system for money transfers of migrants, excluding transfers from South Korea. People of the country do not use usual banking services either, because of lack of trust to banks.

Researches indicated that a labor migrant from Uzbekistan who is working in the US may save around 5 thousand US dollars during his/her guest stay (6 months) even at the most simple jobs that do not require a special qualification (excluding the living and transport expenses). A labor migrant from Uzbekistan in South Korea may save up to 300 US dollars monthly. In Russia a seasonal migrant from Uzbekistan may set aside from 500 to 700 US dollars in a season (7-8 months)<sup>16</sup>. According to the estimations of Russian researchers, citizens of Uzbekistan working in Russia may send 52 US dollars each month<sup>17</sup>.

Income of traders – “shuttles” – is considerably higher. Greatest volume of remittances is realized through the agencies on money transfers (Western Union, MoneyGram, Anelik, etc).

According to world experience and considering the lack of trust of the population regarding the banking system, the amount that migrants bring home with themselves reaches the volume of official remittances.

Labour migrants buy and bring to Uzbekistan expensive electronic appliances, medications, clothes, footwear and other products for their family members, and rarely – to sell.

At the same time, there is an informal system of remittances or “Havala”, widely used in Uzbekistan in two forms:

1. Money transfers through illegal financial structures, connected to retail business. Money transfers are subject to commissions, which depend on the amount

<sup>16</sup> Tyuryukanova E. Labor migration in the context of globalization in: Labor migration and protecting the rights of Hester biters. Experience of post communist countries, Kishinyev, 2003

<sup>17</sup> Economy of illegal migration in Russia. Centre on demographics and ecology of people Institute of prognosis of national economy RAN, Moscow, 2005

of the transfer and distance to which money is transferred. This usually makes up 2-3%.

2. Purchase of goods (practiced in South Korea). Usually once in a few months, a Korean businessman comes to enterprises where Uzbek migrants work. He collects money from migrants, which is recorded in the overall list. Businessman buys goods for this money in South Korea and sends them to Uzbekistan. Profits from sold goods are distributed among receivers of remittances (families of migrants) according to the amount of their initial payment.

On the whole, it's very hard, even impossible to estimate the volume of money transfers in Uzbekistan. Based on the official data in 2005 about 500 million US dollars were transferred through bank remittance systems. According to the estimations of specialists approximately the same amount of money entered the country through routes other than the banking system. Correspondingly, income of the national economy from labor migration may have been around 1 billion US dollars, which equals 21% of gross export of the republic or 4 times as much as the volume of direct foreign investments to the country in 2005.

## 1.6 DETERRENTS OF LABOR MIGRATION

In conditions of Uzbekistan there are factors that inhibit the development of labor migration in the country:

1. Opportunities for expansion of potential partners on labor migration and increasing quotes for departure of workforce through contracts are not used effectively enough in the republic.

2. Lack of enough experience of the population to enter international labor markets, low compatibility of the national workforce. Labor markets of relatively developed countries of Europe and the US are difficult of access for migrants from Central Asian countries because of selectiveness and restrictive character of the immigration policy in the receiving countries, as well as considerably low quotas for job placement of foreign citizens. In such conditions, government support on labor

migration is extremely important in Uzbekistan.

In general, main goals and tasks of foreign labor migration policy must remain the following:

- expansion of cooperation with other countries in the sphere of labor;
- promotion of the citizens in the world labor market;
- decrease of demographic pressure on the national labor market;
- supporting acquisition of new labor and professional skills by the citizens of Uzbekistan;
- improving the qualification and compatibility of the workforce, to introduce the advanced technology to it;
- developing mobility, entrepreneurial skills of specialists, accustoming them to market forms of labor organization;
- creating efficient mechanisms of social protection of the citizens working overseas or willing to get a job there.

One of the priority trends, requiring state interference in cooperation with international organizations that have their representative offices in Uzbekistan, is developing and establishing an effective mechanism of fighting against illegal migration, which creates conditions for organized crime. Based on the experience of other countries, information-analytical and research departments must be established within the structures of the Ministry of Internal Affairs, Ministry of Foreign Affairs and other ministries that deal with problems of migration. In the process of their work, they have to reveal situations, estimate the degree and direction of migration pressure on the system of national security.

Considering the significance of economic impact of the money transfers to society, immigrants from some countries establish associations of the immigrants of native places (AINP), which unite immigrants, living and working abroad and sending community funds to the villages they left. Collected from different sources, these funds have already assisted the villages in improving the condition of roads, water supply and sewage systems, medical institutions, schools and other public utilities. These associations often commence their activity,

being very limited in the resources, but sometimes they turn into large-scale organizations. Sometimes governors of some states and local authorities allocate funds of their budgets in the amount, equaling the donation of the AINP, in order to increase its positive effect. There is a recently observed tendency to encourage AINP to invest money into private sector and manufacturing for creation of new jobs for villagers. These are truly national initiatives, which promote the development of links between population abroad and in the homeland.

Because of the illegitimacy of the employment status of most Uzbek immigrants, establishing associations of Uzbek immigrants may be hard. But, considering the number of migrants from Uzbekistan in certain countries,

such associations would be very useful, not only to represent the legal and social interests of immigrants, but also to carry out joint-projects to improve the infrastructure and living conditions of the community they came from.

Finally, considering the growing number of people who want to migrate to other countries to pursue jobs, more attention needs to be paid to establishment of intermediaries who would support Uzbek migrants in finding jobs overseas and ensuring their legal and social protection during their stay in the receiving country. The continuing state monopoly over the activity of sending workers abroad may result in a substantial increase in the number of unofficial and illegal migrants who leave their homes on their own, by putting their safety and the well-being of their family under risk.

## CHAPTER 2: DEVELOPMENT OF THE FINANCIAL SECTOR OF THE REPUBLIC OF UZBEKISTAN AND ITS INTEGRATION INTO INTERNATIONAL FINANCIAL SYSTEM

On February 15, 1991 the Law of the Republic of Uzbekistan “On banks and banking activities” was accepted, which became the first step in the history of banking system of the country. Before the declaration of independence, only one State Bank and a few specialized banks existed. Other financial institutions were underdeveloped and the financial system in general was ineffective.

This chapter overviews the history of development of banking and financial systems of Uzbekistan. At the beginning, the condition of the financial system before independence will be overviewed. Then, the process of reforming the banking system of Uzbekistan will be studied in three steps, starting from 1991 until today, and the results of these reforms; cooperation of bank institutions with international financial institutions, since it plays an important role in the overall banking system. Further, the foundation of the market of money transfers at banks of the country will be studied.

Since the independence, the process of licensing banking institutions is in effect and currently 28 banks operate in Uzbekistan. In order to achieve the effectiveness in the banking system, banks intensively diversify their “portfolio” of services in the financial market, stressing the global market of banking and financial services.

As a result of the reforms carried out, currently the double layer banking system functions in Uzbekistan, represented by the Central Bank and all other commercial banks. Main goal of all the reforms is liberalizing the financial and accordingly the banking system.

Complex process of forming socially oriented market economy in Uzbekistan assumes existence of a stably functioning system of commercial banks. Progressive development of the banking system is extremely important from the perspective of developing the national economy.

Acceptance of the Law of the Republic of Uzbekistan “On banks and banking activities” (February 15, 1991) laid the legal basis for establishment and functioning of the banking system of the Republic of Uzbekistan, underlying its constituents, opened the route to establish the network of commercial banks based on both public and private capital, to establish banks with participation of foreign capital, to open branches and representative offices of foreign banks. The process of establishing the banking system started by way of licensing. First licenses were received by “Uzpromstroybank” and the National bank of Uzbekistan.

Specifics of the banking sector of Uzbekistan is characterized by a few number of banks compared to other republics of the CIS.

During the command economy banking institutions were highly tailored, their activities were “bound to” the development of specific branches of economy of the republic. At the moment, banking system of the Republic of Uzbekistan is moving towards universalization of activities of banks, i.e. banks direct their activities to performing different banking operations. In other words, banks continue to diversify their “portfolio” of services not only in the national, but also in regional and as well as world financial market. Universalization of activities of banks ensures their continuous involvement in market economy structure.

Specialization of most of the banks, leading to extreme concentration of credit risk in one branch of economy as well as state monopoly of bank ownership led to grave financial conditions of banks, which demanded solving questions of developing and forming the banking system that meet new demands. One of the priority tasks of reforming the banking sector was demonopolization of the banking sphere.

## **2.1 THE FINANCIAL SYSTEM BEFORE INDEPENDENCE OF UZBEKISTAN**

When analyzing the development of the financial sector of the Republic of Uzbekistan, we have to analyze the situation before and after independence. As is known, main task of every financial system is to distribute investments. While placing investments in a market economy, benefits of investments are compared with expenses. During the system of Soviet Union there were no financial markets and all decisions were made by planners and heads of enterprises.

All other functions of the financial system were carried out by the banking system. This was because of the fact that non bank institutions were extremely underdeveloped. Bank services were mainly carried out by the State Bank (Gosbank). Gosbank performed the function of the Central Bank and commercial bank at the same time. But, due to the fact that money market and securities market were underdeveloped, the State Bank could not fully accomplish the functions of traditional banks.

At the same time, the State Bank performed such tasks as offering short-term credits, controlling over fulfillment of plans by enterprises, paying monthly salaries, etc. Because of their dependence on Gosbank to finance their inventory and to receive short-term credit, banks had to report to Gosbank. Income was usually handed in to Gosbank and receiving money to pay salaries was also subject to approval of the bank. Profits of enterprises were kept on special accounts of the bank.

In addition to the State Bank some other specialized banks also functioned. They were: Promstroybank (intended to finance industry and construction), Agroprombank (to finance agriculture), Sberbank (to attract financial means of the population into the savings accounts) and Vneshtorgbank (to finance international economic relations and trade).

Non bank institutions were rather passive and underdeveloped. The only insurance company Gosstrah (State Insurance) was totally owned by the state. There was only one pension fund,

which was owned by the state. Other specifics of the financial system of Soviet Union were absence of money market and exchange markets and restrictions on money turnover.

## **2.2 STAGES OF REFORMING THE BANKING SYSTEM**

From the moment of proclamation of independence in 1991 until today we may outline three stages of banking reforms.

The first stage covered the period from 1991 to 1995 and envisaged acceptance of legal and normative acts, conducting institutional reforms, establishing bank regulation.

After independence, branches of Soviet banks which were located in Uzbekistan were transformed into independent banks of Uzbekistan. In 1991, the first law to define the new structure of the banking system – the Law on Banks and Banking Activities – was accepted. This structure envisages implementing double level banking system, i.e. establishing the Central Bank of Uzbekistan and commercial banks in different forms of ownership (private, cooperative, joint, etc) on the basis of the State Bank.

According to the law, Central Bank reports to Oliy Majlis (Parliament) and its main tasks include realization of monetary policy and controlling the activities of banks as well as to provide the country with its own payment system.

The branch of Vneshtorgbank (Soviet bank for financing international trade) in Uzbekistan was changed into the National Bank of Uzbekistan for Foreign Economic Activity. Former Sberbank (savings bank) was changed to Halq Banki (People's Bank), Soviet Promstroybank was changed to Sanoat Qurilish Bank (Industrial Construction Bank) of the Republic of Uzbekistan.

The Central Bank of the Republic of Uzbekistan underwent significant changes. If Gosbank of former SU was considered a secondary element of plan economy, after gaining independence the Central Bank of the Republic of Uzbekistan was given a key role in economic reforms. On December 21, 1995, the Law of the Republic of Uzbekistan

“On the Central Bank of the Republic of Uzbekistan” was accepted.

Thus, as a result of the first stage of banking reforms, double level banking system was formed in the Republic of Uzbekistan.

During the second stage, which began in 1995-1996 the main attention was paid to improving the quality indicators of banking system.

While the economy and financial system of Uzbekistan continued to develop, the Law “On Banks and Banking Activities” was accepted on April 25, 1996.

Special emphasis was made to bringing the quality of bank services up to the world standards, transition to payment system which would allow to integrate into universal standards and to increase the investment attractiveness of the sector.

Starting 1995 specialized non bank financial institutions – integral part of the financial system of the nation with developed market economy - began to be actively established. They include Biznes Fond (Business Fund) that foresees financing small and medium size businesses, and state insurance companies – “Madad”, “Uzbekinvest” as well as a few private insurance companies.

As a result of realizing the programs of the second stage of reformations, such challenges were met:

- improving the legislative and normative documents of Uzbekistan with the purpose of creating favorable conditions for functioning of the national banking system;
- establishing a completely new system of training and retraining specialists for banks in all stages of education;
- establishing a modern banking-financial infrastructure, including joint ventures with capital of trust and leasing companies, new insurance structures and consulting services;
- forming the optimal architecture of information technologies for banking sector of the economy
- protection of legal interests of commercial banks united to Association of Banks of Uzbekistan.

The third stage of reforming the banking system began in 1997-1998. The main task of this stage included stimulating establishment of stock-commercial banks with the participation of private capital, including measures to increase attractiveness of investing free capital of people and entrepreneurs into the authorized capital stock of newly established and functioning commercial banks. Newly established private banks started to compete with giant stock-commercial banks because of their more advantageous mobility.

The issue of privatizing state owned banks have been discussed since the moment of proclamation of independence. But, active measures have not been taken in this sphere until 1998. In 1998, the Government has worked out the strategy of privatizing five banks.

### 2.3 RESULTS OF REFORMS

The Central Bank was empowered by the task on conducting monetary policy of the country as well as conducting control and regulating activities of commercial banks.

The second level of the banking system is constituted by commercial banks, established in the form of joint-stock companies of different kinds.

Process of restructuring and privatization of banks has been launched. With that purpose, the state shares of five commercial banks – Tadbirkorbank, Trastbank, Savdogarbank, Aviabank and Ipak Yuli bank – were sold in 2003.

Another direction in improving the effectiveness of banks in the process of reforming banking sphere was consolidation of banks. In the last years, 6 small banks were reorganized by means of merger and acquisition by large banks. Settlements were made on merging of Kapital bank with Aviabank, joining of Mevasabzavotbank to Uzsavdogarbank.

Thus, as of January 1, 2005, 32 commercial banks functioned in the republic with more than 800 branches in the regions of the republic. Among them, two are state banks, five – with participation of foreign capital, fourteen joint-stock banks and twelve private banks.

The National Bank of Uzbekistan is considered to be the largest commercial institution in Uzbekistan. At the end of 2001, assets of the National Bank made up 75 per cent of the assets of the whole banking system, capital of the National Bank made up 60 per cent of the capital of the banking system. Thus, 70 per cent of all the credits and loans offered by commercial banks was offered by the National Bank and 85 per cent of all bank transactions were made by this bank.

At the same time, it has to be noted that, according to the legislation of the Republic of Uzbekistan, private banks of the Republic of Uzbekistan are the banks with shares of physical persons not less than 50%, and the remaining part of the stock capital may belong to non state legal entities.

To protect the interests of banks and to provide them with research, Association of Banks of the Republic of Uzbekistan was established, uniting 21 commercial banks, to serve as a regulator of second layer banks.

The main goal of the Association is to help commercial banks reach international standards, followed by integration of the banking sector into universal banking system.

In order to further reforms and liberalize the banking system, strengthen and increase steadiness of commercial banks, increase their degree of capitalization, according to the decree of the administration of Central bank of the Republic of Uzbekistan on July 16, 2005, #15/3 adopted for execution of the Presidential Decree of the Republic of Uzbekistan on April 15, 2005, # 56 "On the measures for the further reforming and liberalization of the banking system", minimum amount of capital stock of newly established banks was defined as follows:

**- starting from July 1, 2005:**

*for commercial banks* – equivalent of 3,0 million US dollars;

*for private banks* - equivalent of 1,5 million US dollars;

**starting from July 1, 2006:**

*for commercial banks* – equivalent of 4,0 million US dollars;

*for private banks* - equivalent of 2 million US dollars;

**starting from July 1, 2007:**

*for commercial banks* – equivalent of 5,0 million US dollars;

*for private banks* - equivalent of 2.5 million US dollars.

Among the tendencies of developing the banking system of Uzbekistan in 2005, the most noteworthy one is the increase in the capitalization of credit organizations, abolishing the restrictions and observing the demands on uninterrupted payment of cash. This requirement to some extent promoted the substantial growth of savings among the population of the country. During the last year, the volume of crediting real sectors of economy by banks grew tremendously. In 2005, the total assets of financial institutions of Uzbekistan in dollar equivalent increased only to 0.9%, reaching 4.8 billion US dollars. Growth rate of total assets of the capital were higher – 1.3% (up to 789 million US dollars)<sup>18</sup>.

## **2.4 BRIEF HISTORY OF SYSTEM OF PAYMENTS**

Until 1994, the payment system that functioned in the republic was based on the system that was formed during Soviet times. It was designed to be managed from the centre, which ceased to exist by that time. In the republic, payments from one bank to another bank went through the postal system. This took much time - up to a month – because of unpredictability of the period of postal deliveries. Processing the information of banks of some regions was carried out centrally at the Computing centre of the Central bank. On the one hand, this process regulated accounts to some extent, but made the commercial banks completely dependent on the centre and impeded the payment process.

Payments were carried out in the period from three days up to a month. Control over transfer of payments was executed in the old scheme, which did not give satisfactory results. To solve this problem and in order to fulfill the requirements of the Decree of the Cabinet of Ministers of the Republic of Uzbekistan #146 dated 18.03.1996,

<sup>18</sup> Energy of success, September, 2006

the Central bank of the Republic of Uzbekistan in cooperation with commercial banks worked out specific arrangements. Department of informatization was established at the Central bank of the Republic of Uzbekistan, which was engaged in the problems of providing the banking system of the Republic with technology and communication. All of the commercial banks were supplied with needed amounts of equipment and communication lines.

Some effort was made to improve the system of electronic payments. By October of 1994, "Regulation on electronic payments" was worked out and electronic payments started to be implemented among the regions of the Republic. Settlements through the Republic started to be put in order, the period of payment transfers declined to 3-9 days. However, the scheme of transfer of payments and control over them remained as before, which prevented from improving the situation fundamentally.

In 1995, the Central bank of the Republic of Uzbekistan started to work out the system of electronic payments, urging the exclusion of paper technology in banking settlements.

Starting 1995, the Board of the Central bank accepted a new Regulation on electronic settlements, which fundamentally changed the accepted technology of bank settlements in the Republic and was oriented at fully automated functions on computers and electronic transfer of payments. At the same time, this system started to be exploited in the empirical routine at 5 banks of Tashkent city. Concurrently, within the Main Centre of Informatization, a new type banking structure was established – the Centre of Settlements, which had to replace Clearing centers.

By 1996, Centers of Settlements were established in all regions of the Republic and all commercial banks as well as their 600 branches were transferred to the new system of electronic settlements.

This caused the drastic reduction of settlement period (up to one day), giving up the paper exchange of bank documents in the Republic and substantial improvement of reliability of banks. Thousands of workers of Clearing Centers were released.

Some time later, several technological improvements, which helped to stabilize

the functioning of the electronic payment system in the Republic, were introduced to the banking system. The result achieved was the shortening of the time length of payment transfer from one bank to another, performing it during several minutes.

At the present, the work is conducted on providing these payments in a few minutes. Everyday on average around 30-40 thousand payment documents accounting for several billion soums flow over the payment system. If before these sums of money was transferred within a month or during several days, nowadays it takes a single day. Here one can calculate what benefit is brought for the recovery of financial economic activity of the firms.

As a continuation of the payment system development there were introduced payments with plastic cards. Today in the Republic of Uzbekistan several payment systems based on the plastic cards function, for instance, the application of the non-cash payments based on the Union Card in "Andijanbank", the SmartPay technology in the National Airline Company "Uzbekistan Airways". In 1996 the pilot project of non-cash payment system based on micro-processor cards (the UEPS technology) is launched by the National Bank, which is now in the introduction stage in the *Narodniy* Bank.

It should be noted that the introduction of such individual systems and the existence of the electronic cards of a various type and the special equipment for them leads to the problems of compatibility of electronic cards on information part as well as on technical one.

For solving the above-mentioned problems the Government adopted a Decree, where the creation of the national system of non-cash payments with the usage of plastic cards was pointed out.

The main purpose of the creation of the national system of non-cash payments with the usage of plastic cards is to decrease the cash amount in circulation, putting in order the money circulation, the attraction of monetary funds of population and employing them in the household circulation, and the creation of internationally accepted banking services for the population, firms and organizations.

In order to introduce the payments using the plastic cards in the quickest way Central Bank of the Republic of Uzbekistan in cooperation with commercial banks and the Association of Banks developed the project of the Conception of introducing the national system of non-cash payments with the usage of electronic plastic cards in the Republic of Uzbekistan.

The development and improvement of bank services and financial system, the introduction of payment cards and other methods of non-cash payment among the wide groups of population serve as a necessary link in attracting and using money transfers in the form of cheap capital and can increase the importance of the money transfers in economic and social development.

## **2.5 INTERNATIONAL INTEGRATION**

Throughout the process of conducting reforms in the banking sphere a great attention is paid to the process of integration into the universal banking system and attracting capital of foreign banks to the republic.

In 1992 the Law of the Republic of Uzbekistan was passed on «Membership of the Republic of Uzbekistan in International Monetary Fund, International Bank for Reconstruction and Development, International Association of Development, International Financial Corporation and Multilateral Agency of Guaranteeing Investments», identifying legal basis of Uzbekistan's entrance to universal banking system on equality basis, membership in these organizations and using their opportunities for development of the republic.

During this time Uzbekistan became a member and one of the shareholders of European Bank for Reconstruction and Development, Uzbek-Turkish joint-stock bank "UT-bank" was established. In succeeding years Uzbekistan became a member of Asian Development Bank (1995), which opened its representative office in 1998, and Islamic Development Bank (2003).

In 2004 Islamic Corporation on Development of Private Sector (ICDPS) approved the decision on accepting Uzbekistan into this organization.

In 2005 National Bank for Foreign Economic Activity of the Republic Uzbekistan signed a multilateral agreement on inter bank partnership among member countries of Shanghai Organization of Cooperation. The agreement was signed by Foreign Economic Bank of Russia, Development Bank of Kazakhstan, State Development Bank of China, National Bank of Tajikistan. In 2006 decision was made on opening representative office of Development Bank of Kazakhstan in Uzbekistan.

Correspondence network is enlarging allowing banks to widen geography of operations and carry out uninterrupted accounts of ventures and organizations of the Republic with their partners in other countries. National Bank of the republic alone has more than 600 leading international correspondent banks. In establishing correspondence relations with foreign banks, local banks are guided by three main principles:

- reliability and stability of correspondent banks;
- conformity of correspondence networks with long-term interests of clients;
- possibility of transactions in the shortest time with minimum expenses.

Although the banking system and the payments system are developed in the republic, for some reason banks are not directly involved in international money transfers system, but act as intermediaries between remittance service providers and consumers. Considering the low cost of transactions of money transfers, banks should get directly involved in the market of money transfers on the basis of agreements with foreign banks (as it is in the case of "Azia Express" joint venture).

Involving banks to the market of international money transfers, first of all, may strengthen competition in this market and cause the next fall of prices and secondly, may raise the trust of people regarding the local banks and gradually attract people to banking services.

## CHAPTER 3: EFFECT OF INFLOW OF FINANCIAL RESOURCES OF INDIVIDUALS INTO UZBEKISTAN

### 3.1 SOME STATISTICS ON THE REPUBLIC OF UZBEKISTAN

The State Committee of the Republic of Uzbekistan on Statistics was founded by the Decree of the President of the Republic of Uzbekistan "On Reorganization of the Ministry of Macroeconomics and Statistics of the Republic of Uzbekistan" dated December 24, 2002 # UP – 3183, and the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan "On Arranging Activities of the State Committee of the Republic of Uzbekistan on Statistics" dated January 8, 2003, # 8. Along with other activities, it forms the informational system of statistical indicators for comprehensive analysis of social and economic processes, taking place in the country and in the regions, as well as conducts the initial statistical analysis of the most important economic and social processes and events in the country.

Statistical periodicals, published by the Committee are the official source of the reliable statistical information. Thus, analyzing some parameters of statistics of the economical, demographical and social development of the Republic, it is necessary to note the following aspects.

Demography of Uzbekistan has some peculiarities. First of all, population of the Republic grows with natural increase of 400 thousand people on average annually, comprising 26.4 million people by the end of 2005. At the same time, the specific features are the following:

- population of younger than able-bodied age (i.e. younger than 16) comprises around 9-10 million people and its number remains relatively stable year by year;
- population of older than able-bodied age (i.e. men older than 59 and women older than 54) comprises around 1,8 million people and its number also remains relatively stable year by year;
- taking into account these two factors, there is a stable growth of able-bodied population with a 3% average rate, i.e. 300-400 thousand people annually;

The average annual unemployment rate in percentage terms to the economically active population makes up 0,4%.

At the same time, it is necessary to mention the improving situation with economic welfare of the population. Such indicators as the significant growth of GDP per capita, money incomes of population, as well as expenses and savings can serve as an evidence for that.

**Table 3.1 – Employment Statistics of Uzbekistan**

Indicators (in millions)	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Number of constant population	23,0	23,4	23,9	24,2	24,6	24,9	25,2	25,5	25,8	26,1	26,4
<b>Including:</b>											
Those, who are younger than able-bodied age	9,8	9,9	10,0	10,0	9,9	9,9	9,7	9,6	9,4	9,3	
Those, who are in able-bodied age	11,4	11,7	12,0	12,4	12,7	13,1	13,6	14,0	14,4	14,9	
Those, who are older than able-bodied age	1,8	1,8	1,8	1,8	1,8	1,8	1,8	1,8	1,8	1,8	
Average annual number of employed population	8,5	8,6	8,7	8,8	8,9	9,0	9,2	9,4	9,6	9,9	10,2

**Table 3.2 – Income of Population of Uzbekistan**

Indicators (in billion of Uzbek Soums)	1997	1998	1999	2000	2001	2002	2003	2004	2005
GDP	976,8	1416,2	2128,7	3255,6	4925,3	7450,2	9837,8	12189,5	15210,4
Money Incomes of Population	631,5	935,2	1505,3	2377,4	3605,6	5196,7	6490,4	7781,6	9989,8
Money Expenses and Savings of Population	610,0	890,6	1439,7	2284,9	3498,2	5248,1	6212,8	7604,2	9794,6

Special attention should be paid to the statistics in the educational sphere. The constant increase of the number of the educated all over the Republic should be particularly noted here. At the same time, the number of the educated at schools, professional colleges and universities also constantly and significantly increases. Increase of the latter two indicators implies the raising level of

education of population as a whole, including the able-bodied part of it.

Taking into account the aspects of labor force migration and development of the financial system of the Republic, as well as its integration into the international financial system, we may make an assumption about substantial contribution of money transfers into the social-economic situation inside the Republic.

**Table 3.3 - Statistics on Education of Uzbekistan**

Indicators (in thousand people )	1998	1999	2000	2001	2002	2003	2004
Number of the educated	6703,1	6833,4	7075,0	7154,2	7468,0	7529,0	7515,5
Including those, educated in:							
Schools of general education	5686,0	5820,9	6037,4	6076,4	6329,1	6263,1	6151,4
Academic High Schools	1,8	7,3	9,8	17,5	20,5	26,2	30,5
Professional Colleges	3,8	30,9	59,5	216,8	366,9	531,6	757,6
Professional and Technical Educational Institutions	236,9	232,8	208,5	105,0	63,7	4,4	6,1
Specialized Secondary Educational Institutions	249,1	266,8	254,8	211,9	158,5	126,2	-
Universities and Institutes	158,7	166,5	183,6	207,2	232,3	254,4	263,6
Other institutions	366,8	308,2	321,4	319,4	297,0	323,0	306,3

### 3.2 PARADIGM REGARDING THE EFFECT OF THE MONEY TRANSFERS FROM ABROAD

Up to relatively recent period of time, world scientists, economists and development agencies tended towards underestimating the importance of money transfers to relatives or used to note their negative aspects only. They argued that money, transferred back home by the overseas employees to their relatives and close people was mainly spent for consumer goods and rarely invested into the production activity, which facilitated the growth of economy of the developing counties. They were also afraid that beneficiaries of money transfers would become completely dependent of them, and consequently there would be a lack of motivation to invest money into their own independent profitable activity.

Besides, in their opinion, this excessive consumerism may result in a disparity, when families, receiving money from abroad will have a much better living, than those, whose members did not go to work abroad. Government's attempts to encourage or to

demand investing of the money, received from abroad were often very tough, but almost never resulted in any positive changes in the economy. Critics noted that as migrants start to consider their new home to be a real home for them and gradually lose the links with their native country, the amount of the money transfers to the relatives will decrease over time.

Due to the fact that the amount of money transfers to the relatives recently has increased so significantly (in Western hemisphere it has increased almost 4 times within a last decade), the experts admit now that money transfers to the relatives have a more considerable positive impact on the population of the developing countries, than it was considered earlier. Such specialists as Edward Tailor from University of California in Davis consider that even the consumption of the money transfers stimulates economic development, especially if family spends the money in the area of residence. Multiplying effect of money transfers can be significant, if every single dollar generates additional dollars as the result of the economic growth of the enterprises, manufacturing and delivering products, bought for this money.

Microeconomic impact of the money transfers to the relatives can also be significant. Here the important role belongs to Associations of the Immigrants of Native Places (AINP), which unite immigrants, living and working abroad and sending community funds to the villages they left. Collected from different sources, these funds have already assisted the villages in improving the condition of roads, water supply and sewerage systems, medical institutions, schools and other public utilities. These associations often commence their activity, being very limited in the resources, but sometimes they turn into large-scale organizations. Sometimes governors of some states and local authorities allocate funds of their budgets in the amount, equaling the donation of the AINP, in order to increase its positive effect. There is a recently observed tendency to encourage AINP to invest money into private sector and manufacturing for creation of new jobs for villagers. These are truly national initiatives, which promote the development of links between population abroad and in the homeland.

Besides, money transfers to relatives are frequently used to help their families in satisfying their most daily needs, which could possibly be more efficiently satisfied or

prevented by other means. For instance, many families use a part of money transferred to them to pay for emergency calls, as they might have no access to the regular medical services or have no medical insurance. "Mexican Migration Project" organizes polls in order to find out what the relatives spend money transferred to them for. According to one survey, the biggest separate part of expenses out of transferred or saved money was the part of expenses for medical services for their family members. Three fourths of those, who transfer money (around 60% of all respondents) mentioned that certain amount of it is spent for healthcare purposes". At the same time many migrants do not apply the initiative of Mexican government, which enables to acquire the medical insurance policy for Mexican families at a very low rate. Significant part of the volume of money transfers, for instance, to the Central America, is being used for elimination of the consequences of the continuous civil wars, and very recently – of the hurricanes and earthquakes. Money transfers became such an important part of the rehabilitation programs, so that they were indicated as one of the most fundamental aspects of the external policy.

### Box 3.1 Pros and cons for the economy, resulting from labor migration

#### Advantages

- The inflow of capital, which is not borrowed like public debts, and doesn't entail expenses
- New employment opportunities, unavailable in the country of residence
- Reduction of unemployment rate, elimination of effect of excessive labor resources supply
- Attraction of new "know-how"s
- Increase in the volume of investments and venture capital from abroad due to the increase in the number of Diaspora members
- Possible increase of commodity circulation between countries
- Reduction of risks of collapse of the economy after economic and political crisis

#### Disadvantages

- Loss of experienced and/or well-educated employees and deterioration of quality of basic goods and services in the short-time period
- Growth rates of economy and labor productivity slowing down in the long term perspective due to the flow-out of qualified labor resources
- Low efficiency of state investments into education
- Possible reason for conflicts in the society due to the different level of incomes of the representatives of the same profession
- Decrease of incomes of state budget and social funds
- Decrease of migrants' capital inflow in the long term perspective

Along with provision of national economy with free capital (which is not supposed to be returned or does not entail any interests, which is applicable in case of attraction of international loans), one of the most considerable advantages of labor migration is budget relief. National economy temporarily gets rid of “excessive mouths” (labor resources, which remain unemployed by the society at existing structure of economy), thus paying much less amount of social allowances, than it could if citizens of the country did not go anywhere.

Money transfers of labor migrants may frequently serve as “safety cushion” in case of economic crisis. Foreign investments, exports and international aid are very unsteady due to occurring economic and political shocks, while incomes of the labor migrants are mainly steady.

For instance, during the default in Argentina in 2001 the volume of money transfers from migrants has seen a significant increase, and though national economy is still unable to overcome the crises of debts, the support of overseas migrants still continues to flow into the country.

Finally, another positive aspect, mentioned by economists, is gaining knowledge and experience - speaking in plain words, accumulation of the human capital during living abroad. Frequently experience of working abroad, gained by migrants, helps them to make a good career in their Motherland. To be fair, this conclusion concerns the special higher segment of migrants – managers and financiers, those, who go abroad to gain the new career opportunities, rather than to earn their living.

## CHAPTER 4: COMPETITION IN THE MARKET OF INTERNATIONAL MONEY TRANSFERS IN UZBEKISTAN

### 4.1 FOREIGN EXPERIENCE

In many foreign countries, issues of competition protection in financial services markets have been within the authorities of antimonopoly bodies for many years. These countries have accumulated some valuable experience and knowledge in the sphere of competition policy and law in the financial services markets. In Uzbekistan analysis of financial services markets from a competition perspective is a novelty for the Uzbek competition authorities. Currently the Uzbek competition law does not cover financial services markets, regulation of which has until recently been outside competition authority's powers. The regulation of the financial services markets has been carried out by the Central Bank and/or the Cabinet of Ministers (in particular via the Ministry of Finance or the Ministry of Economy).

Therefore, besides its socio-economic significance, the market of money transfers is of particular interest for the State Committee of the Republic of Uzbekistan on De-monopolization, Support of Competition and Entrepreneurship. According to the Presidential Resolution PP-66 "On the organization of activities of the State Committee of the Republic of Uzbekistan on De-monopolization, Support of Competition and Entrepreneurship", dated May 2, 2005, the Committee is charged (amongst other responsibilities) with the task of conducting analysis of financial services markets with the aim of detecting dominant position, curbing anti-competitive actions and unfair increases in prices.<sup>19</sup> It is expected that the task of protection of competition in financial markets by the state competition authority will also be provided for with the passage of the new law "On Protection of Competition" approximately during the first half of 2007.

Thus, the financial services sector is a relatively new field for the competition authority of Uzbekistan (the Committee). With regards to this fact, and in view of similarities in socio-economic background

and competition legislation among CIS countries, the Project entailed studying the experience of Russia, Ukraine, Kazakhstan, Byelorussia and Armenia in the sphere of analysis of competitive environment in the market of international money transfers. Of particular usefulness was also the US experience in the sphere, namely the investigation conducted by the Antitrust Division of the US Department of Justice in regard to Western Union in 2004 and 2005. In addition to this, the study of foreign experience was useful not only for carrying out of the project, but also for development of draft regulations and methodological guidelines for competition authorities to conduct analysis of competition in the market for financial services in general.

In particular, the Ukrainian experience was helpful in defining the relevant market with its product and geographical boundaries, as wells as in choosing the proper indicator for calculating market shares of market participants. The Ukrainian competition authorities were also successful in affecting the tariffs of the dominant company towards decreasing.

The Armenian competition authority's experience was unique in the sense that the state of the matters in the market was such that no clear market leader was detected. Therefore none of the money transfer operators was accused of abusing its dominant position.

Byelorussian experience is different from the others by the fact that, despite the possible existence of a dominant firm in the market that has engaged in exclusionary contractual practices, the market of international money transfers was so appealing for the agent banks that few banks abided by the exclusivity clause in their contracts with the market leader.

The Russian competition authority (at that time - the Ministry of Antimonopoly Policy, MAP, currently the Federal Antimonopoly Service, FAS) issued a decision declaring the leading firm's

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<sup>19</sup> Item (r) of PP-66 (02.05.2005)

exclusionary practices against the law, i.e., restricting competition, and that the exclusivity clause in the contracts should be either annulled or amended appropriately. What's more, the Russian law on protection of competition in financial services markets does not require that the firms' dominance be determined to qualify as an infringement of the law. This fact was confirmed by the Moscow Arbitration Court after the company filed an appeal against MAP's decision.

The Antitrust Division of the US Department of Justice, recognizing Western Union's market power, nevertheless issued a decision that the contractual practices of the latter did not restrict competition unfairly in the market of money transfers and closed the investigation.<sup>20</sup>

#### 4.2 ANALYSIS OF LEGAL CONSTRUCT REGULATING THE SERVICES OF CASH-TRANSFERS

Uzbekistan has an established normative-legal basis regulating the activities of judicial persons rendering the services of international money transfers, which consists of the laws and by-laws of the Republic of Uzbekistan. International remittances in Uzbekistan are mainly carried out through commercial banks. According to article 3 of the Law "On Banks and Banking Activity" the authorized body in the sphere of currency regulation is the Central Bank of Uzbekistan. In addition to this the Central Bank also carries out licensing and general regulation of the banking activity.

In 1993 Uzbekistan adopted the Law "On Currency Regulation" with an aim of regulating relations in the sphere of rendering currency operations on the territory of Uzbekistan. According to the article 6 of this Law international money transfers are considered to be a type of currency operations. To carry out currency operations commercial banks have to obtain a license from the Central Bank of Uzbekistan. Authorities in charge of the currency control in the Republic of Uzbekistan are the Central Bank,

the Ministry of Finance, the State Tax Committee and the State Customs Committee.

Hence, the Uzbek legislation currently establishes that money transfers are currency operations carried out by mainly commercial banks having valid licenses from the Central Bank of Uzbekistan to render currency operations.

Current regulations set a maximum remittance amount not exceeding \$5000 per person per day.

In general the current Uzbek legislation in the sphere of currency regulation has created favorable conditions for the development of remittances market. A clear advantage in the existing legislation is the lack of taxation on remittances. In fact in many countries clients can remit money freely. However, some governments have introduced regulations with the aim of earning currency or taxing. In particular, in Brazil international remittances have to go through the National Bank of Brazil, which makes the transactions costly and time-consuming. In Columbia, clients have to pay a 3% tax on money received. Sri Lankan regulations require that workers going abroad pay a portion of their wages in a foreign currency. Vietnamese regulations are even harsher. They establish that citizens working abroad should pay 3% of their earnings to the government. In Philippines, the Investment fund of international workers does not regulate the use of remitted money, but rather stimulates the citizens working abroad to take part in official schemes of payments, thereby decreasing country's debt. Such measures often reduce the effectiveness of remittance market and compel migrants to transfer money through unofficial means.<sup>21</sup>

Meanwhile, the current Uzbek legislation pertaining to regulation of remittances does not make use of the market's full potential. This potential comes from the postal services and credit unions.

In July 2004 the Government of the Republic of Uzbekistan passed a Decree #399 "On improving the activities in the sphere of postal communications" which

<sup>20</sup> A more in-depth overview of the foreign experience in the field of analysis of competition environment in the market of international money transfers is provided in the Appendix

<sup>21</sup> Julian van Dorn, 2005: Migration, money transfers and development, MOT.

stipulates that one of the main tasks by “Uzbekiston Pochtasi” (the Uzbek national postal company) is to organize postal remittances, including with foreign countries.

In line with this policy and to consistently introduce the practice of transferring money in the activities of “Uzbekiston Pochtasi”, on 19.05.2005 the Government passed another decree #128 “On the program for modernization of the postal communications network, introduction and development of new services on the basis of information-communication technologies until 2010”. The Program approved by the Decree envisages introduction of information-communication technologies for rendering postal services for the transfer of money with the use of modern technologies for information transferring (e.g., ATM, Fram Relay, Fast Ethernet, Gigabit Ethernet) through attracting grants and loans from foreign financial institutions.

The services of remitting money could also be rendered by credit unions, the activities of which are regulated by the Law “On Credit Unions”. According to article 10 of the abovementioned law to get the rights for remitting money a credit union should stipulate the right to transfer money internationally in its charter.

Another way for credit unions to enter the market is to explicitly provide for their right to remit money in a legal act.

### 4.3 DATA GATHERING THROUGH WRITTEN REQUESTS, INTERVIEWS, SURVEYING COMPETITORS AND CONSUMERS

Currently 28 banks have valid licenses of the Central Bank of Uzbekistan and offer commercial bank services. 17 banks out of the 28 registered commercial banks submitted information. The majority of them represent the largest and medium-sized commercial banks of Uzbekistan. Although the collected data relevant to the project cannot be deemed exhaustive, the analysis of the information is pretty much indicative of the market structure and its dynamics. It turned out 3 out of 11 non-surveyed commercial banks did not render remitting services and that the remaining 9 banks had very small number of money transfer transactions during the first half of 2006 that accounted for less than 10 percent in total.

**Table 4.1 - Banks of Uzbekistan engaged in International Money Transfers**

No	Bank name	Data	No	Bank name	Data
1.	NBU	Y	15.	Parvina-bank	N
2.	Xalq banki	Y	16.	Alp Jamol Bank	N
3.	Asaka Bank	Y	17.	Turkistan*	N
4.	Ipoteka-bank	Y	18.	Davr-bank	N
5.	PSB	Y	19.	Uktam-bank	N
6.	Paxta Bank	Y	20.	Samarqand	Y
7.	Gallabank	Y	21.	Universal bank	Y
8.	Turon	N	22.	Credit-Standart	N
9.	Mikrokreditbank	Y	23.	Ravnaq-bank	N
10.	Aloqa bank	Y	24.	UzKDB*	Y
11.	Ipak Yo'li	N	25.	Uzbek-Turkish bank	N
12.	Hamkorbank	Y	26.	ABN AMRO	Y
13.	Kapital bank	Y	27.	Savdogar bank	N
14.	Trastbank	Y	28.	Saderat bank*	

\* - banks that did not render remittance services for the period covered by the analysis

## 4.4 RESEARCH FINDINGS

### *Market definition*

Market definition was one of the challenging tasks during the project implementation. As was noted earlier, Uzbek competition authorities do not have much experience in analyzing markets of financial services due to restricted scope in the current competition legislation. The workgroup agreed to follow procedures on market definition similar to those of the Ukrainian experience in defining market boundaries of money transfers services. It should be noted though that underlying principles in defining product and geographic market dimensions are still same for all types of markets. That is, while defining the relevant market boundaries the workgroup used the principle of substitutability in terms of timeliness, cost and other demand factors.

Hence, the relevant product market has been defined as follows:

***International (cash) money transfers without opening a bank account, the speed of remittance – not more than 24 hours.***

While trying to define the product market the workgroup assessed the following factors; timeliness and ease of transfers.

There are currently 10 other money transfer systems rendering the service similar to that of Western Union (see infra). All of them offer almost instant transactions, however the time limit they promise the client will actually receive the money varies somewhat. A time limit of 24 hours has been chosen as there is at least one company that claims on its advertisement that it guarantees clients to receive money within less than an hour on average and no later than 24 hours. Therefore, we reckon that a 24-hour boundary would be a reasonable time limit for the money transfers services claiming they are instant.

Within the course of the project, it was found that account-to-account transfers between banks and postal remittances do not constitute close substitutes for instant cash money transfer and should not be incorporated into the relevant product market for the following reasons.

Firstly, most of the money transfers are made by migrant workers only few of which have banks accounts. Opening bank account is often a costly procedure, not mentioning the fact that a majority of migrant workers will have legal issues opening an account in a foreign country (refer to sociological survey for further details). Account-to-account transfers cannot be therefore compared in terms of convenience to instant cash money transfers. Secondly, although technically postal services could now offer instant money transfer services (as is the case in many countries), Uzbek postal service currently are not allowed to carry out foreign currency transactions using the technology similar to that of the other firms in money transfers market (refer to the part on the analysis of the legal construct of the market supra). So the only way to transfer money abroad by post has so far been sending them physically – by sending them in envelopes or banderoles, which of course doesn't make it a close substitute to contemporary means of money transfers.

***The relevant geographic market has been defined as the territory of Uzbekistan.*** At first the workgroup assumed there might be some vivid regional patterns in terms of penetration of money transfer systems. However, later the data received from the banks showed that the majority of the existing money transfer systems had entered contracts with the largest commercial banks in Uzbekistan, having wide network of branches in every region of Uzbekistan. Hence the spread and penetration of the money transfer systems is fairly uniform throughout the territory of Uzbekistan. That is, the relevant market is likely to constitute the whole territory of Uzbekistan.

One of the peculiarities of defining geographic boundaries for the market of money transfer services is that the service is essentially carried out at two different locations, one of which is outside the territory of Uzbekistan, that is, outside the national competition protection jurisdiction. At first, the work group considered choosing certain "corridors" – like Uzbekistan–CIS countries (including Baltic states), or Uzbekistan–Rest-of-the-World money transfers –

as possible choice for defining relevant markets. However, that would have led to some legal (technical) contradictions for the reasons mentioned above. Hence the territory of Uzbekistan was chosen to be the relevant geographic market for further analysis.

#### 4.5 MARKET PARTICIPANTS (COMPETITORS)

The study has revealed that the following money transfer systems exist and operate in Uzbekistan (*Table 4.2*).

**Table 4.2 - International Money Transfer Market Players**

No	Name of the money transfer system and country of origin	Date of market entry
1	Western Union (USA)	01.2002
2	MoneyGram (USA)	04.2002
3	Contact (Russia)	05.2002
4	MIGOM (Russia)	02.2004
5	Anelik (Armenia)	09.2004
6	Inter Express (Russia)	11.2004
7	Travelex (UK)	02.2005
8	Xpress Money (UAE)	06.2005
9	Unistream (Russia)	08.2005
10	Bistraya Pochta (Russia)	12.2005
11	Azia Express (Uzbek-Russian JV)	06.2006

Their services fall under the relevant market definition given above

#### 4.6 MARKET SIZE AND ITS DYNAMICS

As the table above reveals, USA-based world leader in money transfers Western Union was the first mover into the Uzbek market for money transfers in January, 2002. WU's competitor MoneyGram was quick to follow its rival in three months time the same year. Russia-based Contact system entered Uzbek market next – in May 2002.

It was not until the beginning 2004 that new competitors began to enter the market on an almost regular basis. The newcomers were mostly from Russia, but also from UK and UAE. The latest registered competitor is an Uzbek-Russian JV. Currently there are eleven money transfer systems offering the service in Uzbekistan.

The chart below shows a rapid growth in the volumes of money transfers both to and from Uzbekistan<sup>22</sup>. In 2002 only around

\$225 million were remitted to Uzbekistan from abroad, whereas by 2005 this figure grew to almost \$790 million (average year-on-year growth rate - 52%). By the end of 2006 this figure is likely to exceed 1 billion US\$.

The outgoing money transfers have been growing at a slower rate (in fact, twice as slow as incoming money transfers) and from a much smaller base. In 2002 \$86 million were sent abroad, while by 2005 this figure increased to around \$168 million (year-on-year growth rate – 26%).

As the figures show Uzbekistan is a net receiver of money transfers and is becoming such at a fast growing rate.

Thus, we can conclude that the market for money transfers in Uzbekistan has been growing both in terms of the number of market participants (competitors) and the size.

<sup>22</sup> The figures are taken from the Central Bank of Uzbekistan statistics on money transfers.

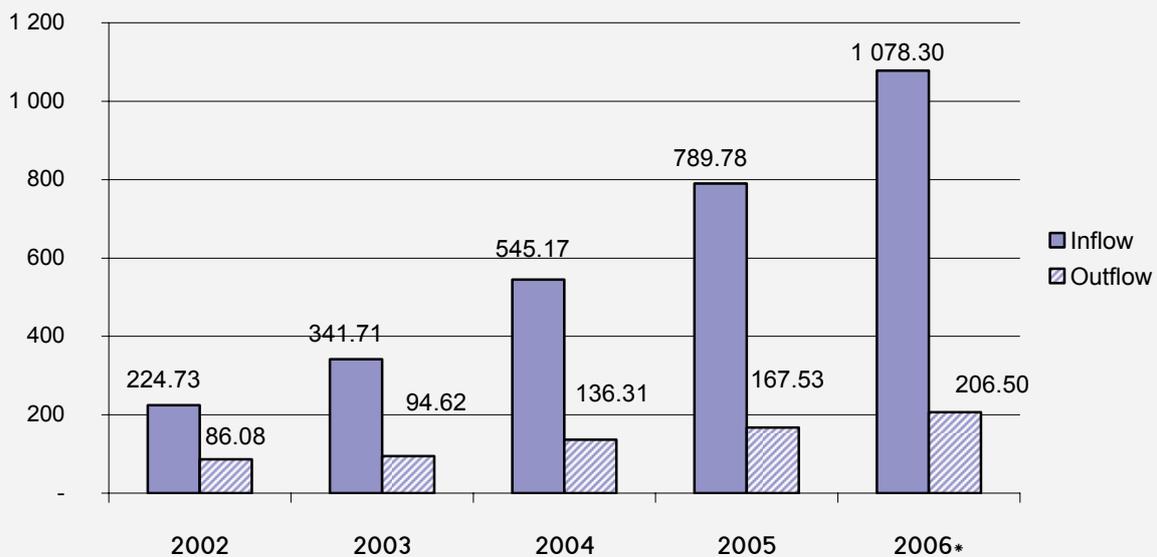


Figure 4.1 Annual amount of money transfers in Uzbekistan in 2002 - 2006

#### 4.7 MARKET STRUCTURE AND ITS DYNAMICS

Another difficult task for the workgroup was to choose an indicator for calculating market shares of Western Union and its competitors. It has been hinted earlier that to prove WU's dominance (at least according to Uzbek competition legislation) one needs to establish its market share as an indicative and quantifiable measure of a firm's dominance. Several indicators for each competitor were considered at first to help establish the market structure:

1. Number of retail points in Uzbekistan
2. Amount of cash remitted to Uzbekistan from abroad
3. Amount of cash remitted from Uzbekistan abroad
4. The cash turnover (the some of 2. and 3.)
5. Total (inflow and outflow) number of transactions in Uzbekistan

These indicators had been chosen based on the Ukrainian competition authorities' experience that used the first and second indicators to determine Western Union's market share in their country.

The workshop and seminar held with the participation of bank and the money transfer system representatives, however, revealed that a more accurate indicator for calculating market shares could

be the number of transactions carried out by each competitor. The Central Bank upon our written request provided information on money transfer transactions only for the first half of 2006, so the 5<sup>th</sup> indicator from the list above was only used to calculate market shares of remittance system for the first half (January to June) of 2006. The results obtained look as showed in Tables 4.3-4.5

Interestingly, Western Union's market share for the first half of 2006 has yielded very close market share figures if calculated based on any of the last 4 indicators mentioned above – around 53%.

Putting the market structure in time perspective, one can see that WU's market share has been decreasing from an almost monopoly 95% in 2002 to 53% by 2006 (midyear). Clearly, for the period since 2002 till today Western Union has occupied a significant market share to qualify as being dominant in the market. The Uzbek competition law qualifies any firm possessing more than 35 percent of the market as possessing dominant position.

Second to the market leader's share of the market for the whole period that the analysis covered has been that of Contact. Contact's market shares have been rather volatile, starting from as low as 5% in 2002, continuing with its record of almost 33% in 2004, only to drop to 20% by 2006 (midyear).

**Table 4.3 – Market Shares based on Number of Branches**

Name of remittance system	Starting date	Current number of partner banks	Current number of branches (retail points)	Market Shares based on the number of branches
Western Union	21.01.2002	13	755	58%
MoneyGram	03.04.2002	2	29	2%
Unistream	11.08.2005	3	62	5%
Bistraya Pochta	30.12.2005	2	69	5%
Xpress Money	15.06.2005	2	3	0%
Anelik	22.09.2004	3	79	6%
Contact	23.05.2002	3	88	7%
MIGOM	16.02.2004	3	63	5%
Travelex	03.02.2005	3	98	7%
Inter-Express	17.11.2004	2	61	5%
Azia Express	01.06.2006	1	N/A	0%
TOTAL:			1307	100%

**Table 4.4 – Market Shares based on Annual Inflow/Outflow**

Name of remittance system	Market Shares based on annual inflow of money transfers					Market Shares based on annual outflow of money transfers				
	2002	2003	2004	2005	1/2 2006	2002	2003	2004	2005	1/2 2006
Western Union	95%	73%	64%	59%	52%	98%	94%	81%	66%	55%
MoneyGram	0%	1%	1%	1%	1%	2%	1%	2%	1%	1%
Unistream	0%	0%	0%	3%	8%	0%	0%	0%	3%	7%
Bistraya Pochta	0%	0%	0%	1%	3%	0%	0%	0%	1%	5%
Xpress Money	0%	0%	0%	0%	0%	0%	0%	0%	0%	1%
Anelik	0%	0%	0%	9%	10%	0%	0%	1%	9%	6%
Contact	5%	26%	35%	23%	21%	0%	5%	15%	11%	9%
MIGOM	0%	0%	1%	3%	4%	0%	0%	1%	8%	12%
Travelex	0%	0%	0%	0%	0%	0%	0%	0%	2%	3%
Inter-Express	0%	0%	0%	0%	1%	0%	0%	0%	0%	0%
Azia Express	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
TOTAL	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

**Table 4.5 – Market Shares based on Number of Transactions**

Name of remittance system	Market Shares based on annual turnover of money transfers					Market shares based on the total number of transactions
	2002	2003	2004	2005	1/2 2006	1/2 2006
Western Union	95%	75%	66%	60%	53%	53%
MoneyGram	0%	1%	1%	1%	1%	2%
Unistream	0%	0%	0%	3%	8%	5%
Bistraya Pochta	0%	0%	0%	1%	3%	8%
Xpress Money	0%	0%	0%	0%	0%	0%
Anelik	0%	0%	0%	9%	10%	10%
Contact	5%	24%	33%	22%	20%	19%
MIGOM	0%	0%	1%	3%	5%	3%
Travelex	0%	0%	0%	0%	0%	0%
Inter-Express	0%	0%	0%	0%	1%	1%
Azia Express	0%	0%	0%	0%	0%	0%
TOTAL	100%	100%	100%	100%	100%	100%

Anelik, Unistream, MIGOM and Bistraya Pochta are success stories, having seen their market shares grow from less than 1% the year they started (2004) up to 10%, 8%, 5% and 3% by 2006 (midyear) respectively.

The remaining money transfer systems' (MoneyGram, Xpress Money, Travelex, Inter-Express, and Azia Express) market shares have been around 1% or less for each system.

Having put market concentration ratios (HHI and CR3) in time perspective one can clearly see their decrease since 2002 when Western Union was first to enter the domestic market.

Almost a threefold decrease in Herfindahl-Hirschman Index (HHI), calculated based on any of the three indicators (inflow, outflow, or turnover) signifies that competition has been growing in the market, at least from a structural perspective. Yet, high CR3 indexes are a sign that money transfers market in Uzbekistan remains highly concentrated i.e., it's an oligopoly (Table 4.6).

The results of the survey conducted as a part of the Project support the conclusions reached after the structural analysis laid above. (Complete results of

the survey are given in Appendix 1). The following ranged series was composed based on the results of the responds for the question: «Services of which companies dealing with international money transfers did you ever use?»:

Western Union	79.3%
Bistraya Pochta	15.6%
Anelik	9.5%
UniStream	6.9%
MoneyGram	4.5%
Travelex	1.9%

Analyzing the data on the cities (Chart 3 below), it is necessary to mention, that the major part of the respondents uses the services of Western Union Company (up to 79,3%), Bistraya Pochta Company (up to 15,6%), Anelik Company (9,5% of the respondents). The Chart illustrates that Western Union Company is very popular among the respondents in Samarkand (up to 94,4%) and Fergana (up to 95,2%). In the second place there are UniStream and Anelik companies (13,3% and 14% of the respondents). In Tashkent-city along with Western Union (63.6%) most popular companies in this sector are «Bistraya Pochta» (24.1%), Anelik (8.0%), MoneyGram (7.5%).

Table 4.6 - Market concentration indexes

Market Concentration Indexes	2002	2003	2004	2005	1/2 2006
<b>Based on total inflow of money transfers</b>					
HHI	9 041	6 029	5 280	4 148	3 346
CR3	100%	100%	99%	92%	83%
<b>Based on total outflow of money transfer</b>					
HHI	9 668	8 840	6 726	4 564	3 418
CR3	100%	100%	98%	85%	77%
<b>Based on total money transfers turnover</b>					
HHI	9 092	6 212	5 367	4 170	3 332
CR3	100%	100%	99%	91%	82%

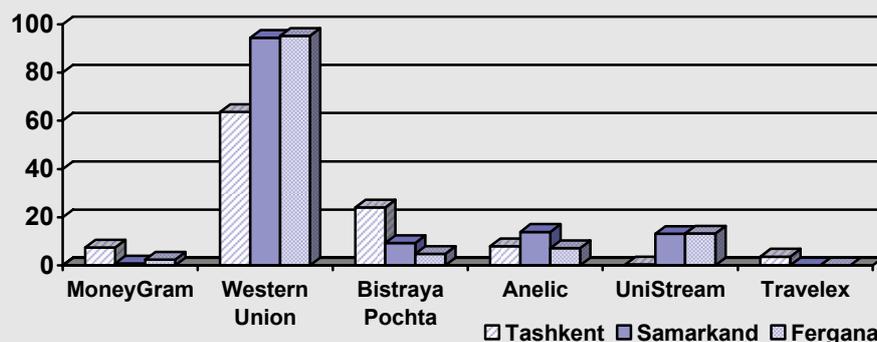


Figure 4.2 Companies, providing the services of international money transfers, most frequently used by respondents in Tashkent, Samarkand and Fergana, %

To sum up, the market for money transfers in Uzbekistan has been expanding in volume at a very fast rate. This has been attracting new competitors into the market. And although Western Union's transaction volumes are still far from reachable by any of competitors, WU's market shares have dropped to 53% since 2002 when it ended up the year with an almost absolute monopoly 95% share of the market. In general, the market for money transfers shows all characteristics of the introductory and growth stages of product life cycle (PLC).

#### 4.8 COST STRUCTURE ANALYSIS

Within the course of the project, attempt was made to analyze the cost structure of remittance services. It has been clear that total costs of remittances include the fee charged to the sender by the capturing agency, rate of currency exchange applied, possible tax levied and in the case of smaller operators the fee charged at the receiving end.

As a whole, costs of the remittance services consist of the following components:

- Direct costs of the company related to supporting the system (software, channels of communication, system of protection (against breaking in and virus attacks, etc.) and upgrading the system
- Costs of the company related to advancement of the trademark (advertisements, marketing research, PR and etc.)
- Commissions of partners (percentage ratio of income among each member of the system).
- Costs related to mutual compensations (changes in currency rates, compensating banks (SWIFT, Telex, and etc).
- Costs related to ensuring security and guaranteeing against risks of each money transfer (conformity of AML, insuring against financial risks).
- Salaries of company employees.

Before this project, a multiple analysis have been conducted to study the cost structure of remittance services and it has

been found that costs of providing remittance services are much lower than fees charged for transactions. Economies of scale enable RSPs to lower prices as amount of remittances rise. This fact may encourage migrants to remit money less often in bigger volumes. Costs are especially lower in high-volume corridors. For example, "Bistraya Pochta", "Contact" and "Unistream" companies, which are based in Russia and the Russian-Uzbek joint venture "Azia Express" charge the lowest fees for remittances sent from Russia to Uzbekistan and vice-versa. A US based company Western Union also charges lower rates for Russia-Uzbekistan direction, because of the high volume of transactions. But sending money from Uzbekistan to Russia through the system of WU costs much more than sending money in the opposite direction.

According to the findings of Global Economic Prospects 2006 issue some banks offer free remittance services to attract new business, which suggests that the actual costs of remittances is fairly low. In fact, in some corridors fees for international money transfers are as low as \$1.80 per transaction. Moreover, analysis of profitability of market leaders using publicly available financial statement also reveal that remittance costs are significantly lower than the fees charged to customers. Therefore, intense competition is forcing remittance service providers to lower the fees for their services.

Average fee for remittances was a little more than 10% in 2002, when there were only three companies operating in Uzbekistan (although three companies were registered, only two operated: WU - with 95% of the market share and Contact – with 5%). In 2005, number of companies reached 10 and average fee dropped to 4-5%. Considering the approximate 5-6% decrease in average remittance fees between 2002 and 2005, it may be concluded that migrants from Uzbekistan saved around 40-45 million dollars under reduced fees.

It was found that when approving tariffs, remittance service providers use one of the following approaches:

- Marketing approach – tariff is defined with regard to the level of competitors' or a little lower.

- Technical approach – tariff of services is calculated as expenses of the company plus percentage commission of the company.
- Social approach - tariff of services is defined depending on the potential of people of this or that country or territory.

When operators use the marketing approach, tariffs of competitors is a main factor to come up with its own tariffs. Main goal of the company is to get maximum results at the shortest period.

In the technical approach, expenses of the company are considered a main factor in approving tariffs. Goal of RSPs using this approach is seizing the market and holding the position thanks to untwisted brand.

When using the social approach income and financial opportunities of people are considered a starting point in approving tariffs. The main goal here is determining tariffs acceptable by the people of the country. So, it's pretty much the company's choice which approach to use when coming up with tariffs, but the key determinant here, like in any other market, is the preference of consumers.

#### 4.9 WESTERN UNION'S FORECLOSURE ITEM IN ITS MODEL CONTRACT

The study of the contracts entered by the remittance systems and commercial partner banks in Uzbekistan, found that Western Union and Money Gram had engaged in the same exclusionary practices as in the case with the Russian banks. In particular, Western Union's item 4.2.8 of its model contract set out that "the bank is prohibited to cooperate with other companies rendering the services of online monetary transfer in a manner similar to the one used by the Western Union system during the period of validity of the agreement with Western Union". Item 9.1 of MoneyGram's contract have a similar rule, according to which agent banks are forbidden to act as agents for other companies.

Unlike with the Russia's case, to qualify this as an infringement of the law on competition in Uzbekistan<sup>23</sup>, one first needs

to prove that 1) Western Union possessed a dominant position in the market, and 2) that the practice (i.e., foreclosure item 4.2.8 in WU's model contract) harmed or restricted competition. It is almost without a doubt that Western Union has had a significant market share in the market to qualify as a dominant firm in the market (see supra). It is also evident, though that Western Union's dominance (at least in market share terms) has been falling since 2002 when the company was the first to enter Uzbek market. However, it is rather doubtful that Western Union's foreclosure item in its model contract has restricted competition considerably and here are the reasons why the workgroup has grounds to believe so:

- Western Union's market share has dropped since 2002 from 95 percent to 53 percent by 2006 midyear.
- The market has seen many new firm (competitor) entrances since 2002 and now incorporates the services of 11 money transfer systems
- There have been no complaints to competition authorities from either banks or competitors against Western Union's foreclosure item.
- There remained other banks (retail outlets) with whom competitors still had a chance to enter contract for market entry (refer to the table below).
- The foreclosure item did not stop banks cooperating with WU from entering contracts with WU's competitors. In fact, less than half (6) of the 13 banks having contracts with Western Union had abided by the item 4.2.8 of the contract (refer to the Table 4.7).

The black boxes in the table below correspond to contracts entered between the money transfer systems and the Uzbek commercial banks.

So the findings reveal that Western Union has had dominant market position but its foreclosure item in its model contract has not unreasonably restrained competition or actually harmed competition.

Nevertheless, the Uzbek competition authority, the Committee on Demonopolization, Support of Competition and

<sup>23</sup> Abuse of dominance in the form of restricting entry into the market and/or impeding competition through exclusivity clauses in agreements/contracts. (articles 5 and/or 6 of the Law on Competition of the RUz)

Table 4.7 - Partnership of Banks and Money Transfer Systems

#	Commercial banks	Money transfer systems (listed in order of market entry)											TOTAL			
		Western Union	Money Gram	Contact	MIGOM	Anelik	Inter Epxress	Travelex	Xpress Money	Unistream	Bistraya Pochta	Azia Express				
1	NBU															2
2	Xalq banki															2
3	Paxta bank															1
4	Mikrokreditbank															1
5	Hamkorbank															5
6	Kapital bank															1
7	PSB															3
8	Alp Jamol Bank															4
9	Uzbek-Turkish Bank															1
10	Universal bank															1
11	Gallabank															1
12	Savdogar bank															5
13	Ipoteka bank															1
14	Trastbank															4
15	Credit-Standart bank															4
16	Aloqa bank															1
17	Asaka bank															2
<b>TOTAL:</b>		<b>13</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>4</b>	<b>2</b>	<b>3</b>	<b>2</b>	<b>3</b>	<b>2</b>	<b>1</b>				

Entrepreneurship had led its own investigation into the market of money transfers.

In June 2006 the Committee officials had talks with the representatives of Western Union and expressed their concern over the clause of the latter's model contract. Western Union agreed to change the contract item 4.2.8 so that it would stop violating the text of the law on competition. Currently, Western Union has annulled clause 4.2.8 of its contract with all the commercial banks it has had contracts with and instead has signed an additional contract that would ensure Western Union's interests expressed in the item 4.2.8 of the contract but yet would not violate Uzbek competition legislation. Thus an amicable agreement was reached between Western Union and the Committee, which put an end to any further allegations of unlawful restriction of competition by the former.

#### 4.10 WESTERN UNION'S TARIFFS – ABUSIVE OR NOT?

Western Union's tariffs have indeed been some of the highest in the market and there

maybe a concern that these tariffs are "monopolistically high" (excessive) and therefore may violate article 5 of the Law on Competition (Abuse of dominance in the form of charging monopolistically high prices). However there are several facts that can refute this concern.

First of all, the analysis of the competitors' tariffs (commission for money transfer) reveals that at least one other company has applied charges within a close range of those of WU's – that competitor is MoneyGram (see *Figures 4.3-4.4* below and compare dark blue and yellow lines). Moreover at some amounts of money transfers the charges by MoneyGram are even higher than those of Western Union. Both systems are worldwide money transfer systems and this leads to assume that the high charges by both of them reflect firstly the fact that they are first-comers to the Uzbek market, and secondly reflect the cost of being worldwide networks.

Secondly, Western Union's tariffs on money transfers from Russia to Uzbekistan – the most popular direction of money transfers in Uzbekistan, the corridor constituting half of the remittance inflow to Uzbekistan in monetary terms – are almost as low as those

of its competitors (the blue dashed line in the charts below).

Next, the group believes that Western Union's high charges have in fact been pro-competitive and attracted new competitors into the market. However, because most of the followers did not have such a well-known brand name as Western Union they mostly entered the market with lower rates for their service than Western Union.

In the charts below tariff rates for the money transfers systems in Uzbekistan are shown in the order of their market entry and

one can see that every other new-comer charged on average lower rates than did Western Union or other incumbents. Hence, for example, the latest market entrants – Bistraya Pochta and Azia Express – charge only 2% of the sum being remitted (The light blue and dashed pink color line at the bottom of Figures 4.3-4.4).

Finally, the fact that many new-comers offer charges below those of Western Union indicates that consumers do have choice and may choose whichever service they afford and/or trust more.

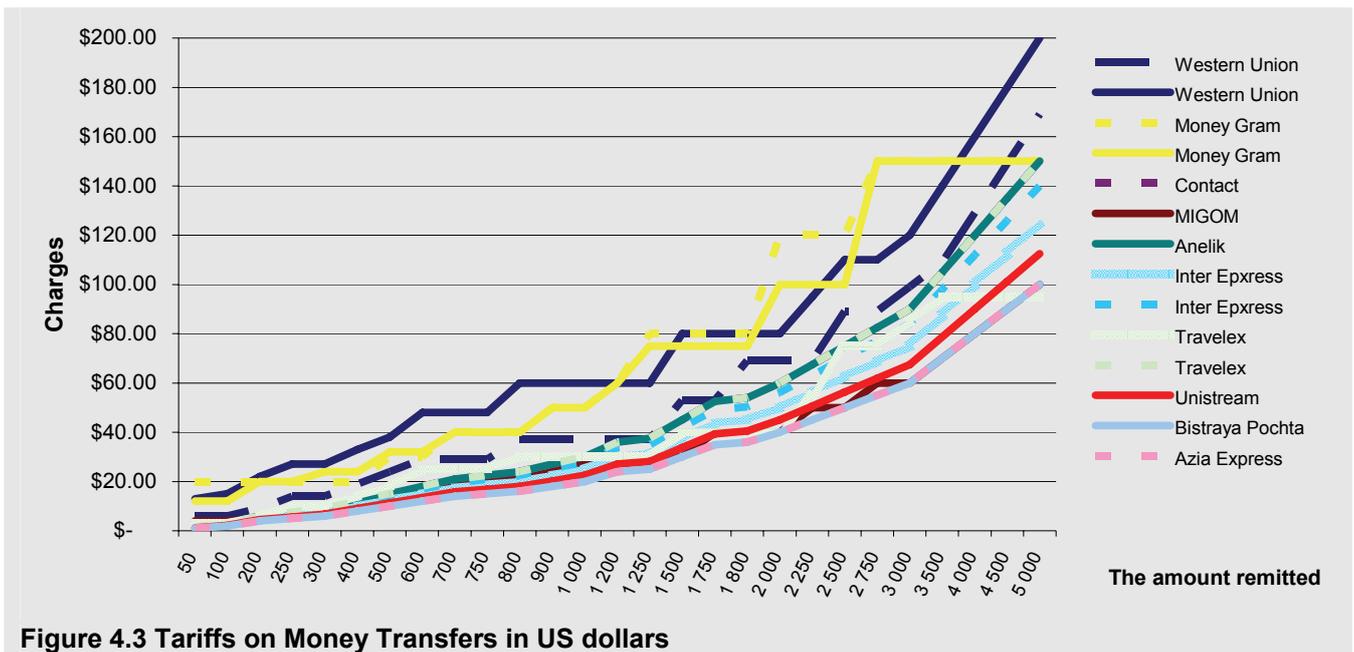


Figure 4.3 Tariffs on Money Transfers in US dollars

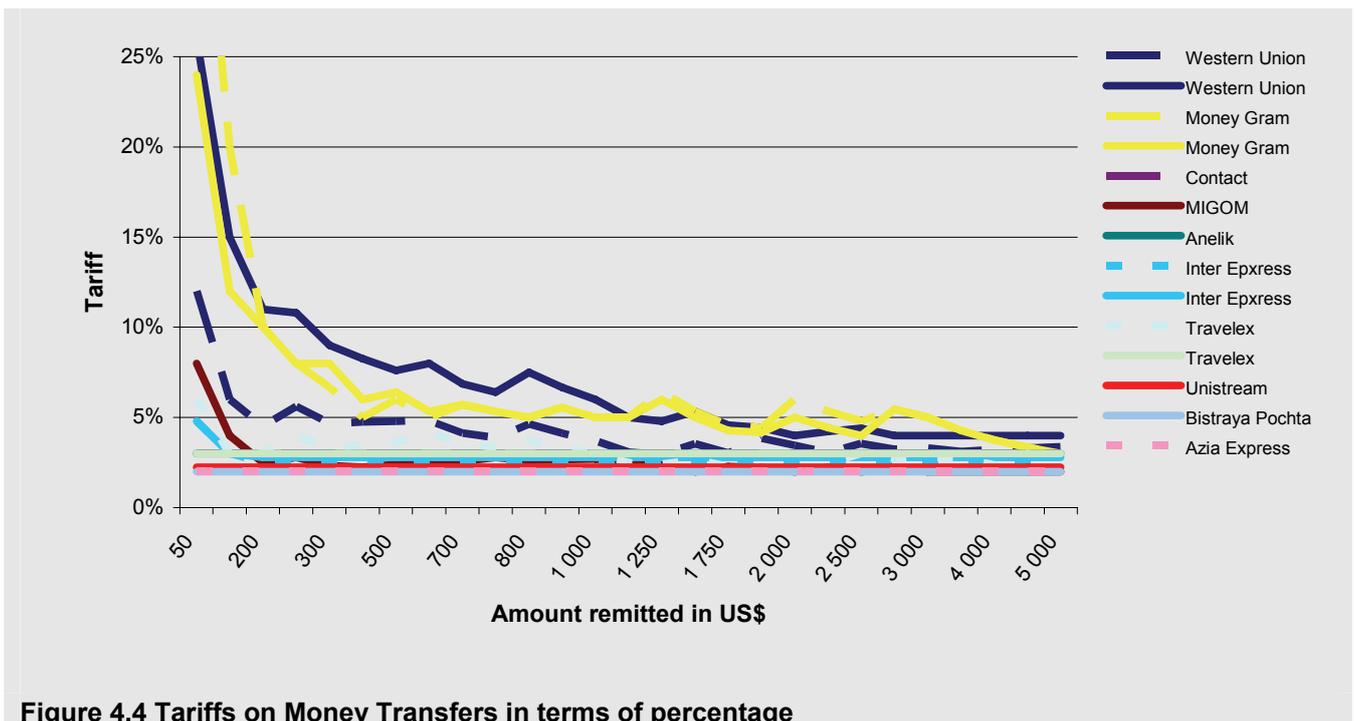


Figure 4.4 Tariffs on Money Transfers in terms of percentage

Thus, there is a ground to believe that despite being one of the highest in the market (at least on outgoing money transfers) Western Union's tariffs should be assessed based on the whole picture and dynamics of tariffs of other incumbents. Tariffs in the market have not been stable and were decreasing on average over

the course of the last 4 years. This indicates that competition is vibrant in the market and is about to grow further. Western Union's charges are more pro-competitive than abusive, as there is a growing choice of lower tariffs on transfers by alternative systems for the consumers.

## CHAPTER 5: RECOMMENDATIONS AND GUIDELINES FOR ACTIONS

### 5.1 THE BROADENING OF NETWORK INFRASTRUCTURE BY ALLOWING THE APPEARANCE OF NEW MONEY TRANSFERRING POINTS IN THE MARKET

Nowadays the infrastructure of money transfers in the Republic of Uzbekistan counts more than 1000 points and 11 RSPs, through which clients can receive or send money internationally. Despite the impressive growth in the number of RSPs, the volumes of money transfers and the number of money transferring points, there exists an unemployed potential for further expansion of the network infrastructure of money transfers, which will favorably reflect in the market with wider choice available for consumers, and even stronger competition. This potential comes from the numerous credit unions, which commenced their business in recent years. According to the information we possess, 35 credit unions operate today in Uzbekistan, 26 of which are registered in the regions of the Republic and 9 – in Tashkent City. Their involvement in the market for international money transfer services will have a positive effect not only on the market for money transfers but also on the activities of credit unions, which will obtain additional source of income. Most likely, for realizing this objective the legislative initiative on behalf of the Association of Credit Unions of the Republic of Uzbekistan in cooperation with the Central Bank of the Republic of Uzbekistan will be necessary for introducing relevant amendments into the existing legislation.

### 5.2 POST-OFFICE AS A POTENTIAL COMPETITOR IN THE MARKET

The National Company of Postal Services “Uzbekiston Pochtasi” has the widest network of its branches with 177 regional postal branch offices and 2991 postal points locally throughout the republic. “Uzbekiston Pochtasi” undoubtedly can serve as a potential competitor for functioning RSPs. Currently, “Uzbekiston Pochtasi” executes international money transfers mainly with

the CIS countries in the national currency “soum”. As it was already mentioned, in accordance with the internal legislation international money transfers are viewed as a type of currency transactions and the organizations are obliged to obtain the license from the Central Bank for carrying out the currency transactions. Hence, the Uzbek legislation currently establishes that the money transfers are currency transactions, executed mainly by commercial banks, which in turn have valid licenses from the Central Bank for providing currency transaction services.

So, at present, postal service companies are not permitted to carry out transactions in foreign currencies, since “Uzbekiston Pochtasi” is not considered as a financial organization. This restriction serves as a barrier for the company to fully enter the market for money transfer services. However, Uzbek national postal service company signed a Treaty on international money transfers with Russia and Ukraine and there is an opportunity of signing treaties with Armenia, Azerbaijan, Kazakhstan and Byelorussia. To speed up the service of money transfers through the postal service, “Automated system of electronic money transfers” (ASEMT) was established starting December 1, 2005. The service is provided between Tashkent city and regional centers as well as Chirchik city. The functions of ASEMT include:

- Automation of technologic processes for the service of money transfers from the moment of accepting till the moment of paying .
- Speeding up the process of money transfers.
- Establishing a single information base about the accepted and paid remittances for centralized processing.

Just as in the case with credit unions, for the national postal company to enter the market for international money transfers, there probably will be needed a certain legislative initiative and relevant amendments to the existing legislation on currency regulation and on telecommunications. Obviously, the market for international money transfers will

benefit from it. First of all, benefits will concern consumers in terms of more geographical availability of services. It's also considered that the entrance of "Uzbekiston Pochtasi" to the given market will lead to another decrease of average market tariffs for the service.

### 5.3 ACHIEVING MORE TRANSPARENCY IN THE MARKET AND BETTER UNDERSTANDING BY USERS

When measuring the degree of transparency in the sector of remittances, main attention is paid to how well the total price and speed of service are defined. Throughout the research it has been clear that total price of the transaction includes the direct fee charged to the sender by the capturing RSP (in some cases the price also includes the fee charged to the receiver by the disbursing agent) and any tax that may be levied (which is not the case in Uzbekistan). Total price of the remittance may also depend on the exchange rate applied – the difference between the exchange rate of the Central Bank and the exchange rate used by the RSP (assuming the sender pays in a different currency than that paid to the receiver).

Naturally, what all users want to know is how much they should remit for the receiving party to receive a certain amount. However, because fees may vary according to the amount sent and exchange rates may change each day, typical users must have an easy access to information about the components of the total price in easily understandable language. Even though there is a ground to believe that the level of transparency of remittance service providers operating in Uzbekistan is satisfactory, the following actions may help improve transparency of remittance services.

First of all, RSPs could use such methods as signs and brochures, making them available for consumers at all of their representative points. Some other popular methods include making the information available on the internet and/or through customer service phone numbers thereby allowing potential end users to obtain sufficient general information about prices and services – i.e. to achieve transparency

without having to enquire about a specific transaction. According to the findings of the report done by the task force, full transparency would mean that RSPs clearly disclosed the following information without requiring any other action from the consumer such as opening an account or committing to use the remittance service:

- the total amount in originating currency that will be paid by the sender;
- the amount in disbursing currency that will be paid to the final recipient;
- the fees paid by both sender and receiver (and any other costs such as taxes) and the exchange rate;
- the time when the remittance will be available for pick-up by the recipient or delivered to the recipient;
- the location(s) where the remittance will be available for pick-up.

To achieve full transparency, RSPs should also provide information about any other relevant aspects of their service. For example, this might include the ability of the sender to revoke the transfer after it has been paid for, or whether the RSP will inform the receiver when the funds are available, etc.

### 5.4 THE IMPORTANCE OF THE MAXIMUM POSSIBLE NEUTRALITY OF THE STATE IN REGULATING THE SPHERE OF INTERNATIONAL MONEY TRANSFERS

The majority of recommendations of international experts in the sphere of money transfers point to the fact that the government interference into this sphere in the form of tax-levying has an extremely negative effect upon the market development. Even in the case when a symbolical tax on a transaction is established, there is a quite high probability that the clients will stop transferring money through formal ways (specifically, through the RSPs) and will switch to informal ones. Thus, the experts prevent the governments of countries from introducing various taxes on the receipt or sending of money transfers by a client.

The only justified form of the government interference into the given sphere is the regulation or control against money-laundering. Most countries require from RSPs to register or to obtain a license for these very reasons.

In addition to safety issues, some countries set the rules of prudence - i.e. such requirements like the capital adequacy, or rules on liquidity, created for ensuring that the RSPs will be financially strong. In fact, for this very reason in some countries only banking institutions are allowed to act as the agents of RSPs.

## 5.5 MIGRATION POLICY

In general the main goals and problems of the external labor migration policy for legislators of the Republic of Uzbekistan should become the following:

- expansion of interaction with other countries in labour sphere;
- bringing out its citizens to the world labour markets;
- decreasing the demographic pressure on the national labour market;
- acquiring the new working and professional skills by the citizens of Uzbekistan;
- increasing the qualification and competitiveness of the labour force, its junction to advanced technologies;
- development of mobility, enterprise of workers, integrating them to the market forms of the working activity organisation;
- creation of powerful mechanisms of social and legal protection of the citizens, who work abroad or desire to get a job there.

## 5.6 INTEGRATION OF BANKS TO THE INTERNATIONAL MONEY TRANSFER NETWORK

Most of the money transfers by labour migrants up to now have been executed through the money transfer systems. RSPs serve as intermediaries between the senders and recipients, although most of the time they use the services of banking institutions as agents. Uzbek commercial banks should realize that the money transfers to bank accounts provide the banks with wide opportunities in terms of the increase in bank's capital, deposits of population and attracting clients to use the traditional bank services. The existence of bank accounts to which labour migrants could transfer money, can also be beneficial for the clients, since the money on such accounts earn interest. In foreign countries with developed banking system the tariffs on the inter-bank transfers are minimal or do not exist at all.

Undoubtedly, the development of inter-bank money transfers (from one account to another) requires the development of the partnership agreements between the Uzbek and foreign banks. The search and the signing of such agreements can be difficult and costly, but the results obtained in the end quite probably will cover all the initial expenses incurred for this initiative.

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## APPENDIX 1

## GALLUP POLL

In the framework of the given Project, together with “Ijtimoiy Fikr” Company the poll was conducted to reveal the degree of comprehension of the systems of international money transfers by local population.

The poll was conducted in August 11-17, 2006, in the cities of Tashkent, Samarkand and Fergana. 900 people were interrogated, including 500 people in Tashkent, 200 – in Samarkand, 200 – in Fergana. Representativeness and adequacy of the results was secured by scientifically grounded sampling of respondents.

Analysis of the results of the poll reveals that the ratio of those, who ever used the service of international money transfers and those, who never did, is 2:3. In the given locations, the major part of the beneficiaries reside in Samarkand – up to 53,5%, up to 41,5% - in Fergana, and 37,4% of the respondents - in Tashkent-city.

In order to analyze the nature and specificity of money transfers in Uzbekistan, one of the objectives envisaged the analysis of money transfer directions and their number from year 2000 till 2006.

Countries of destination of money transfers in the year 2006 were the following:

- every third money transfer was sent to Germany (29,0%);
- 17,4% of respondents transferred money to Russia;
- 11,6% of respondents transferred money to South Korea;
- every tenth money transfer was sent to Turkey (10,1%);
- 5,8% of respondents transferred money to the UK and the same percentage - to Kyrgyzstan;
- 4,3% of respondents transferred money to the USA, and the same percentage - to Iran, Japan, Portugal;
- 2,9% of respondents transferred money to Kazakhstan.

Within this year the absolute majority of money transfers from Samarkand was sent to Germany. In Fergana 41,7% of money transfers was sent to this country, and 23,6% - sent from Tashkent-city. In Fergana the second major recipient countries are Iran and Kyrgyzstan (each of 16,7% of respondents) and third – South Korea, Turkey and Kazakhstan (each of 8,3% of respondents).

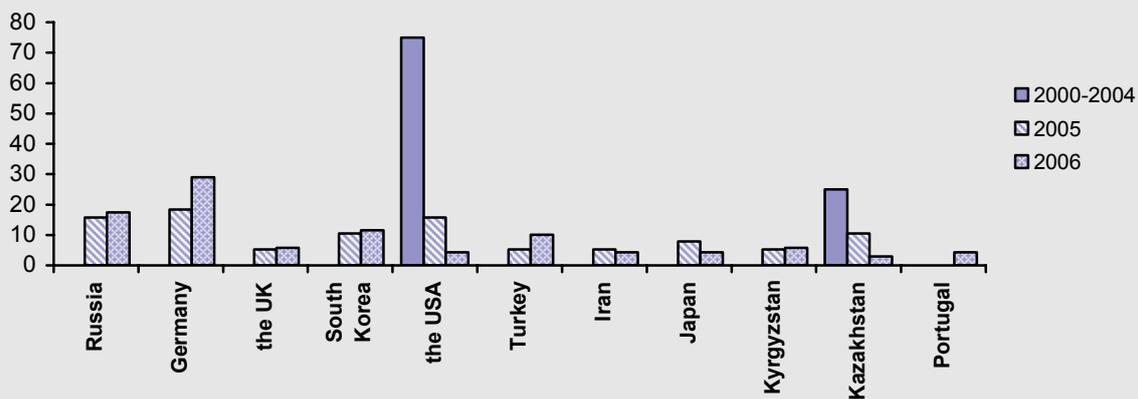


Figure A1 Indexes of countries - recipients of money transfers from Uzbekistan in 2000-2006, %

Money from Tashkent was transferred to all the above-mentioned countries, the major of which are Germany (23,6%), Russia (21,8%), South Korea (12,7%), Turkey (10,9%), and the UK (7,3%).

General trends of increase/decrease of money transfers in the context of the recipient counties in the years 2000-2006

are illustrated in the Figure A1. Within the year 2006 the indexes of money transfers comparing to the year 2005 have seen a significant increase in case of Russia (from 15,8% up to 17,4%), Germany (from 18,4% up to 29,0%), Turkey (from 5,3% up to 10,1%) and Portugal (up to 4,3%).

Within 2000 – 2006 the indexes of money transfers dropped sharply in case of the US (from 75% up to 4,3%), Kazakhstan (from 25% up to 2,9%), Japan (from 7,9% up to 4,3%).

Countries of origin of money transfers to Uzbekistan within the year 2006 are the following:

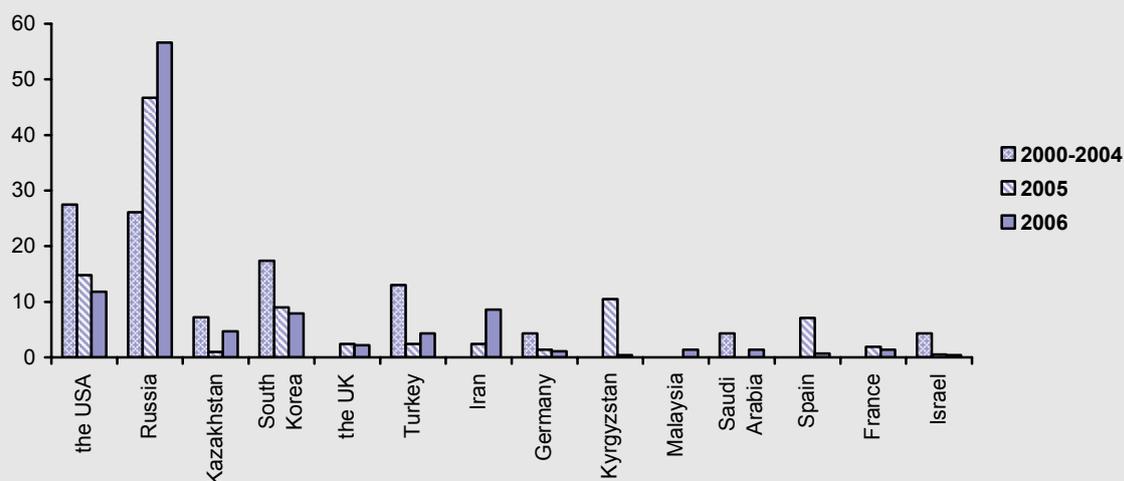
- more than a half of transfers was received from Russia (56,6%);
- 11,8% of respondents received money from the US;
- 8,6% of respondents received transfers from Iran;
- 7,9% of respondents received transfers from South Korea;
- 4,7% - from Kazakhstan;
- 4,3% of respondents – from Turkey.

Figure A2 demonstrates the trends of increase/decrease of amounts of money transfers, originating from different countries. Thus, in the years 2000 - 2006 there was a sharp reduction of the amounts of

money transfers from the US, (from 27,5% up to 11,8%), South Korea (from 17,4% up to 7,9%), Turkey (from 13% up to 4,3%), Germany (from 4,3% up to 1,1%), Israel (from 4,3% up to 0,4%).

At the same time the amount of money transfers from Russia and Iran has seen a significant increase (from 26,1% up to 56,6% from Russia and from c 0 up to 2,4% in 2005 and up to 8,6% in 2006 from Iran). Kazakhstan is among the countries, money transfers indexes of which have seen both a sharp drop in the years 2000-2004 up to 2005 and increase in 2006 (dropped from 7,2% up to 1,0% and increased up to 4,7% in 2006).

The opposite situation was observed in case of Kyrgyzstan, where money transfer indexes were relatively high and dropped sharply by the year 2006: in 2000-2004 the index increased up to 10,5% and dropped up to 0,4% in 2006.



**Figure A2 Indexes of countries – origins of money transfers to Uzbekistan in 2000-2006, %**

The trends of variation of money transfer amounts, sent and received by respondents in the years 2000 - 2006 are illustrated by Figures A3 and A4.

As shown in the Charts, the major part of money transfers in 2000–2004 constituted from 500 up to 1000 USD. In comparison to this index, only 14,5% of respondents received the amount within this category in 2006. Transfers of large amounts (starting from 1000 USD) have seen a decrease, whereas the indexes of money transfers of smaller amounts (from 100 up to 500 USD) have increased significantly.

The same situation was observed in case of receipts of money transfers: indexes of money transfers of smaller amounts (up to 100 USD) as well as of amounts from 100 up to 500 USD have seen an increase and transfers of larger amounts (from 500 up to 1000 USD and over 1000 USD) have decreased.

Intentions of respondents to send/receive money transfers by means of relevant companies are graphically illustrated. Most of the amounts of money transfers to be sent by respondents in 2006 range from 100 up to 500 USD (39,1% of respondents), and

from 500 up to 1000 USD (30,4% of respondents). At the same time the paradox situation was discovered in this regard, when almost the same percentage of respondents were planning to send both small and quite large amounts. Thus, 13,2% of respondents reported about their intentions to transfer the amount not exceeding 100 USD and another 13,0% - to transfer the amount exceeding 5000 USD.

Countries of destination of money transfers are the following (Figure A4):

1. Germany - 30,4%
2. South Korea, Japan, Iran - 13,0%
3. Russia, Turkey, the US - 8,7%
4. Kazakhstan, Kyrgyzstan, Ukraine, the UK - 4,3%

From educational point of view (Table A1), respondents with incomplete secondary education were planning to receive money transfers from Russia (90,9%), with

secondary and specialized secondary education - from Russia (57,2%), Iran (12,4%), the US (10,3%). Half of the respondents with higher education were planning to receive money from Russia (49,2%), the US (16,9%) and South Korea (13,6%). Young people at the age of 18 up to 24 were planning to receive money transfers from Russia, the US, Turkey, of 25-28 – from Russia, Kazakhstan, South Korea and the UK. Aged 29-35 – mainly from Russia and the US, majority of respondents at the age 36-45 - from Russia and every tenth – from Kyrgyzstan.

Group of respondents at the age of 46 up to 60 were expecting money transfers from Russia and Iran. People of declining years, over 60 were expecting to receive money transfers from Russia, Iran and the US.

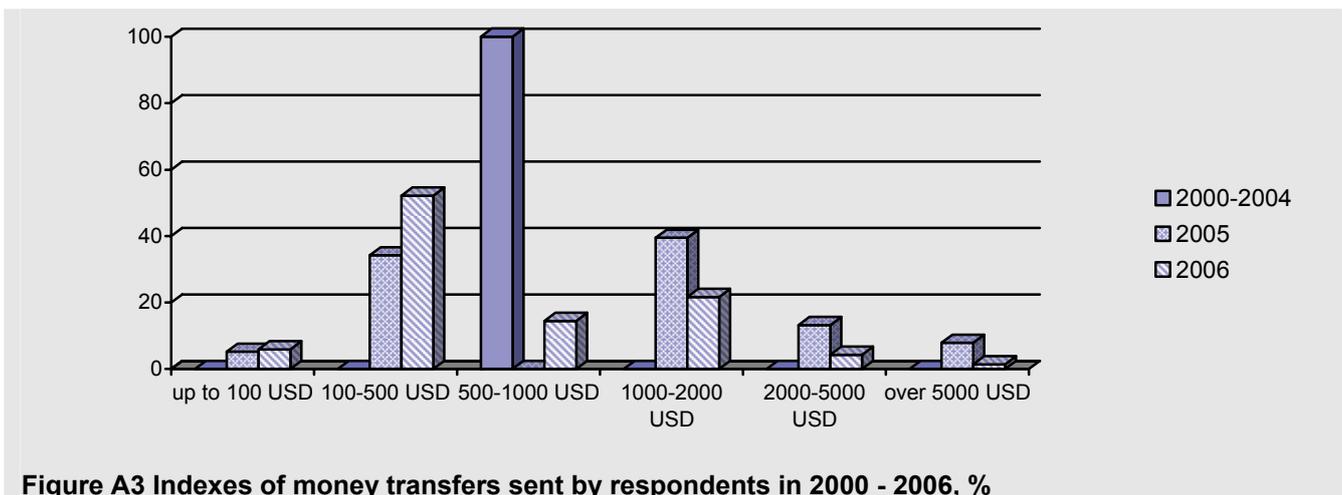


Figure A3 Indexes of money transfers sent by respondents in 2000 - 2006, %

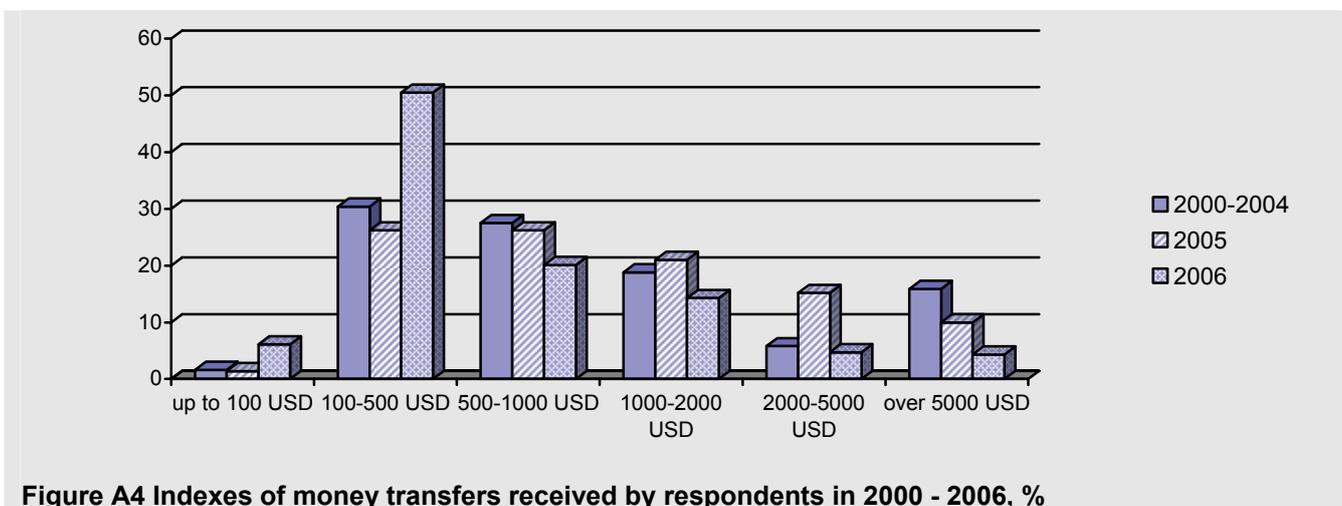


Figure A4 Indexes of money transfers received by respondents in 2000 - 2006, %

**Table A1 - Indexes of countries - origins of money transfers to Uzbekistan in the year 2006 in the context of respondents' education and age, %**

Countries	Education			Age					
	Incomplete secondary	Secondary, specialized secondary	Higher	18-24	25-28	29-35	36-45	46-60	Over 60
The USA	-	10,3	16,9	15,8	8,3	25,0	5,5	5,2	18,4
Russia	90,9	57,2	49,2	47,4	37,5	38,9	71,2	75,0	36,8
Kazakhstan	6,1	3,6	6,8	10,5	16,7	5,6	2,7	3,1	-
South Korea	-	5,7	13,6	5,3	12,5	5,6	11,0	3,1	5,3
The UK	-	3,6	1,7	-	12,5	5,6	1,4	-	5,3
Turkey	3,0	2,6	3,4	10,5	8,3	5,6	2,7	-	-
Iran	-	12,4	-	5,3	-	5,6	1,4	10,4	26,3
Kyrgyzstan	-	1,0	3,4	-	-	2,8	1,4	2,1	-
Germany	-	0,5	1,7	-	-	-	1,4	1,0	-
Malaysia	-	0,5	1,7	-	-	-	1,4	-	2,6
Spain	-	1,5	1,7	5,3	-	2,8	-	1,0	2,6
Portugal	-	0,5	-	-	4,2	-	-	-	-
Israel	-	1,0	-	-	-	2,8	-	-	2,6

Summarizing the results of the research, we try to determine typological peculiarities of each amount to be transferred in 2006 (Table A2).

Men at the age of 25-28, with secondary or secondary specialized education are mostly planning to receive money transfers up to 100 USD.

Women at the age of 29-35 and 46-60, with various education degrees are mostly planning to receive money transfers at the amount of 100 up to 500 USD.

Both women and men at the age of 18-24 and over 60, mostly with incomplete secondary and secondary specialized education, are planning to receive money transfers at the amount of 500 up to 1000 USD.

Irrespective of their sex, respondents

with higher and secondary specialized education at the age of 18-28 and 36-60 are planning to receive money transfers at the amount of 1000 up to 2000 USD.

Mostly men with higher education are planning to receive money transfers at the amount of 2000 up to 5000 USD.

Both women and men at the age of 46-60 or 25-28 with various education degrees are planning to receive money transfers at the amount exceeding 5000 USD.

The majority of respondents in Tashkent-city would like to use Western Union money transfer system (61,6%), every fourth - «Bistraya pochta» (24,8%). In Samarkand and Fergana the absolute majority of respondents (90% and 100% accordingly) would also use the services, provided by Western Union Company.

**Table A2 - Summary table of money transfers to be received in 2006 in context of sex and education of the respondents, %**

Indicators	Up to 100\$	100-500\$	500-1000\$	1000-2000\$	2000-5000\$	Over 5000\$
<b>Sex</b>						
Men	6,1	21,2	18,2	20,2	13,1	21,2
Women	1,7	39,0	14,4	21,9	4,8	18,2
<b>Age</b>						
18-24	5,2	26,3	31,6	26,3	5,3	5,3
25-28	20,8	20,8	4,2	25,0	-	29,2
29-35	-	52,8	8,3	11,1	11,1	16,7
36-45	2,7	26,0	19,2	28,8	12,3	11,0
46-60	-	40,6	2,1	24,0	1,0	32,3
Older than 60	2,6	18,4	50,0	5,3	18,4	5,3
<b>Education</b>						
Incomplete secondary	-	27,3	45,5	-	-	27,3
Secondary, secondary specialized	4,7	34,5	13,9	22,7	7,7	16,5
Higher	-	30,5	5,1	28,8	11,9	23,7

Principal grounds of their selection of money transfer services provider according to the opinion of the respondents are the following characteristics: fast (39,9%), reliable (39,8%), convenient (15,4%).

Convenience is the main ground for 34,4% of respondents from Tashkent-city, reliability – for 32,0% and speed – for 28,8% of respondents. Respondents from Samarkand indicated 2 grounds for selection only: reliability and speed (48,9% and 46,7%).

In Fergana half of the respondents indicated speed (50,7%) and

reliability(42,3%) as the main grounds of their selection.

As for today half of respondents (50,9%) give positive and another half (49,1%) - negative answer for a question “Do any of your relatives work abroad?” The major part of those respondents, who gave positive answer, are at the age of 46-60 and over 60 (58,9% and 65,2% accordingly). Major part of relatives working abroad are men – up to 78,9%. These are mainly brothers (20,7%), husbands (18,6%), sons (16,6%), uncles (10,0%), fathers (9,0%) of the respondents.

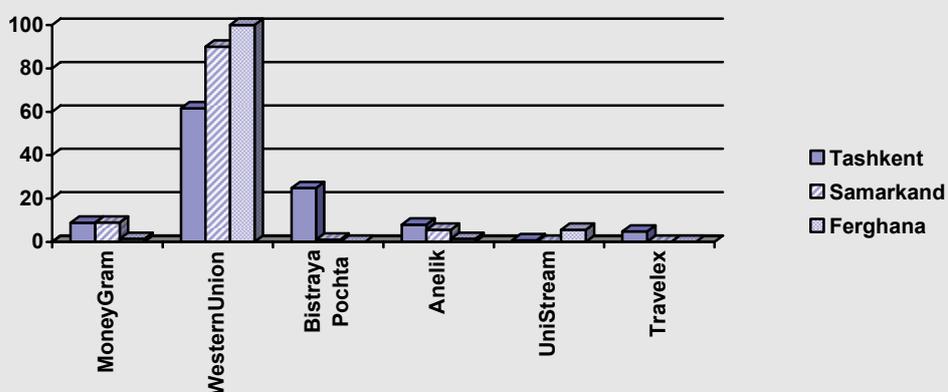


Figure A5 Indicators of consumer preferences in the cities of Tashkent, Samarkand and Ferghana regarding the choice of companies providing international money transfer services, %.

Table A3 - Indexes of availability of relatives, working abroad, %

Indicators	Positive answer	Negative answer
<b>Cities</b>		
Tashkent	48,2	51,8
Samarkand	58,0	42,0
Fergana	50,5	49,5
<b>Sex</b>		
Men	58,4	41,6
Women	46,1	53,9
<b>Age</b>		
18-24	36,6	63,4
25-28	47,5	52,5
29-35	52,7	47,3
36-45	48,8	51,2
46-60	58,9	41,1
Older than 60	65,2	34,8
<b>Education</b>		
Incomplete secondary	57,5	42,5
Secondary and Secondary Specialized	46,8	53,2
Higher	58,5	41,5

Respondents from Tashkent replied that of relatives working abroad the major part was their brothers, husbands, fathers, sisters, sons. In the opinion of respondents from Samarkand one third of all relatives working abroad are their sons and husbands, in Fergana this one third part comprises of uncles, husbands, brothers and sons (Table A3).

At the same time Russia with 57,9% and the US with 12,0% hold the leading positions amongst the countries – employers of respondents' relatives. Samarkand respondents indicated that their relatives worked mainly in Russia (79,3%), Iran (16,4%) and the US (4,3%), whereas

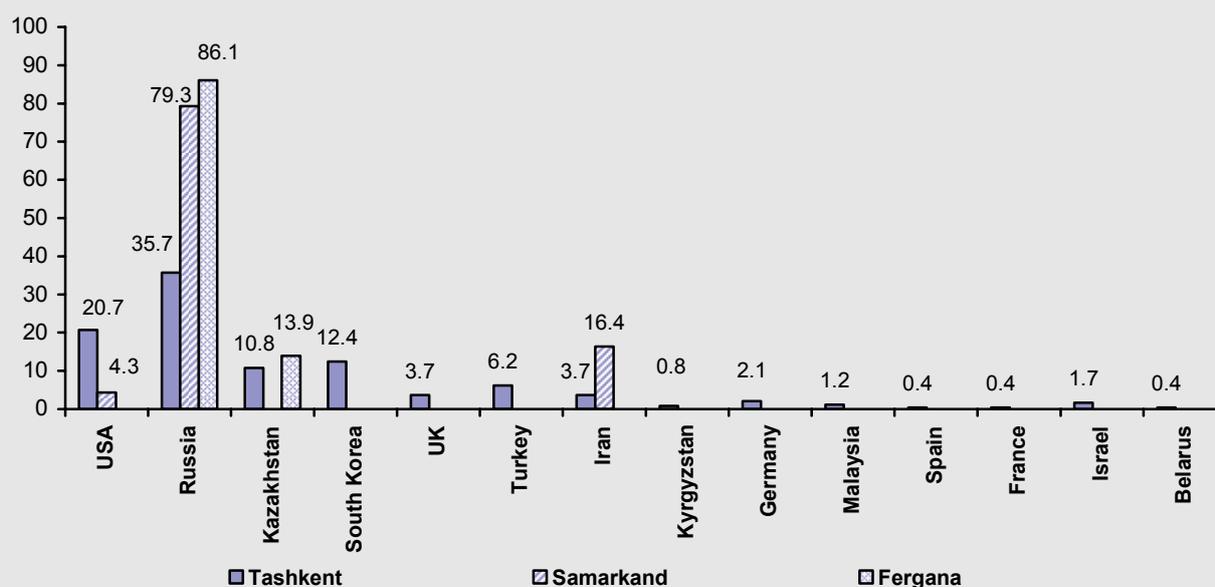
the respondents from Fergana indicated Russia (86,1%) and Kazakhstan (13,9%).

The respondents from Tashkent-city indicated that their relatives were employed in Russia (35,7%), in the US (20,7%), South Korea (12,4%) and Kazakhstan (10,8%).

Answering the question «How long have your relatives been working outside Uzbekistan?», half of the respondents indicated a period from 1 up to 3 years (53,1%), one fourth or 26,1% - less than a year and one sixth or 15,1% - from 3 up to 5 years. Only 4,6% of the respondents indicate a period of 5 - 10 years, 0,4% of the respondents – a period of 10 up to 15 years and 0,7% - over 15 years.

**Table A4 - Indexes of relation degree of relatives, working abroad with respondents from Tashkent, Samarkand and Fergana, %**

Indicators	Tashkent	Samarkand	Fergana	Total
Father	10,0	6,0	9,9	9,0
Mother	7,1	2,6	6,9	5,9
Brother	31,1	3,4	15,8	20,7
Sister	10,0	5,2	4,0	7,4
Son	9,1	33,6	14,9	16,6
Daughter	4,6	2,6	5,0	4,1
Husband	13,7	30,2	16,8	18,6
Uncle	8,7	5,2	18,8	10,0
Friend	0,4	0,9	1,0	0,7
Grandfather	0,8	-	3,0	1,1
Nephew	2,9	0,9	2,0	2,2
Aunt	1,2	10,3	2,0	3,7
Wife	5,0	1,7	2,0	3,5



**Figure A6 - Countries - employers of relatives of respondents from Tashkent, Samarkand and Fergana, %**

Samarkand respondents indicated that the major part of their relatives had been working outside the Republic for a 1 up to 3 years (62,9%), 28,5% of the respondents indicated a period less than a year and 8,6% of respondents – from 3 up to 5 years.

Half of the respondents from Fergana indicated a period from 1 up to 3 years, and another half - of less than a year (48,5%).

Half of the relatives of respondents from Tashkent have been working outside the country for a 1 up to 3 years, 24,5% - for 3 up to 5 years, 15,8% - for less than a year, 8,7% - for 5 up to 10 years.

Average level of income (Figure A7) of one third of working relatives (35,8%) makes up from 100 up to 500 USD. Every fourth (24,5%) earns from 500 up to

1000 USD, every fifth (20,1%) – from 1000 up to 2000 USD. 6,1% of them receive an income at the amount of 2000 up to 5000 USD and over 5000 USD.

Data on city level (Figure A8) clearly demonstrates the difference in level of income of relatives, working outside Uzbekistan. Thus, if Tashkent-city is represented by almost equal shares of income levels of 100-500 USD, 500-1000 USD and 1000-2000 USD, Samarkand respondents mainly indicated the level of 100-500 USD and less – the income of 1000-2000 USD. Majority of relatives of Fergana respondents receive an income at the amount of 100 up to 500 USD (64,4% of respondents) and of 500 up to 1000 USD (33,7% of respondents).

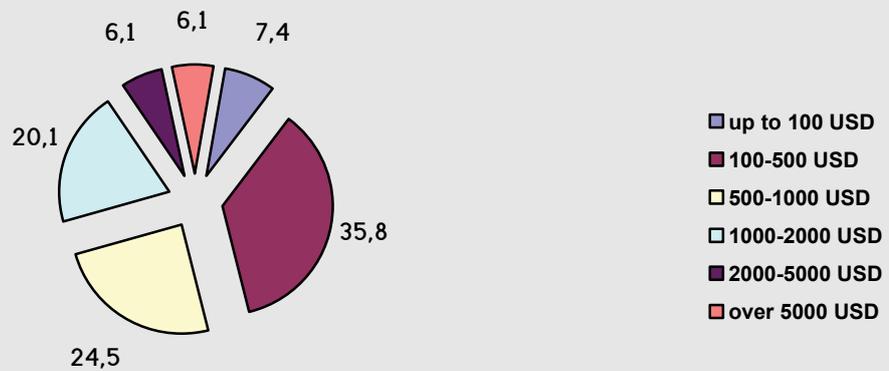


Figure A7 Average level of income of relatives, working outside the Republic (1 person per month), %

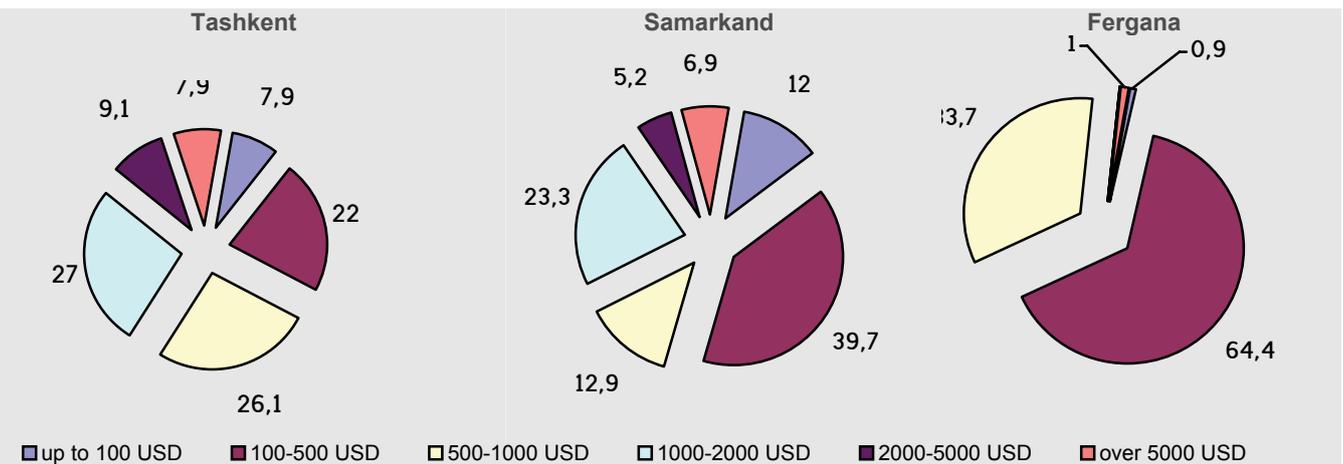


Figure A8 Average level of income of relatives, living abroad (1 person per month) according to the results of the poll in Tashkent, Samarkand and Fergana, %

At the same time, the results of the survey demonstrate that 85,4% of respondents mentioned that none of their family members was planning to go abroad to work. Only 14,6% of respondents mentioned the intentions of theirs or their relatives to work abroad. (Table A5). At that the women mentioned this a bit more often than the men (15,0% and 13,9% accordingly).

18,6% of respondents from Tashkent were intending to go, whereas only 7,0% of respondents from Fergana replied positively. The majority of those, planning to go to work abroad are the young people of 18-24 years old, they make 24,6% of the people, who gave a positive reply. 20,3% of the respondents mainly have a higher education.

The chart of the countries, where the relatives of respondents and their family members would primarily like to work is the following:

- |                         |       |
|-------------------------|-------|
| 1. South Korea          | 32,1% |
| 2. Russia               | 20,6% |
| 3. The USA              | 16,0% |
| 4. Kazakhstan           | 15,3% |
| 5. Turkey               | 5,3%  |
| 6. Israel, Saudi Arabia | 3,8%  |
| 7. The UK               | 3,1%  |

Almost every second respondent (44,6%) mentioned money transfers in cash

(without opening a bank account) as the most preferable way to transfer and to receive money. Every third (30,5%) considers that bank cashless transfers (from one bank account to another) are better, every sixth – that it is more convenient to send money through acquaintances, relatives and friends (15,2%) (Table A6).

The majority of respondents from Tashkent-city give their preference to cash money transfers (52,0%), whereas 14,6% of respondents consider bank cashless transfers and 17,4% of respondents – the assistance of relatives and friends more preferable.

According to the opinion of respondents from Samarkand, cash and cashless transfers have almost equal shares (48,0% and 37,5% accordingly), whereas 13,5% of respondents have chosen the assistance of friends and relatives as the most preferable way of sending/receiving money.

Polling in Fergana revealed the opposite situation – the majority of respondents (63,5%) consider that bank cashless transfers are more preferable than cash transfers (22,5%), and 11,5% of respondents name the mediation of friends and relatives as the most reliable means of transferring money.

**Table A5 - Indexes of intentions of family members to go to work in 2006, %**

Indicators	There are intentions to work abroad	There are no intentions to work abroad
<b>Cities</b>		
Tashkent	18,6	81,4
Samarkand	12,0	88,0
Fergana	7,0	93,0
<b>Sex</b>		
Men	13,9	86,1
Women	15,0	85,0
<b>Age</b>		
18-24	24,6	75,4
25-28	12,9	87,1
29-35	15,2	84,8
36-45	13,9	86,1
46-60	11,1	88,9
Older than 60	7,6	92,4
<b>Education</b>		
Incomplete secondary education	8,0	92,0
Secondary, secondary specialized	13,2	86,8
Higher education	20,3	79,7

**Table A6 - Ways of transferring/receiving money, chosen by the respondents, %**

Indicators	bank cashless transfers (from one bank account to another)	Cash transfers (without opening a bank account)	Human factor (relatives, friends, acquaintances)	Abstaining from the reply
<b>Cities</b>				
Tashkent	14,6	<b>52,0</b>	17,4	16,0
Samarkand	37,5	48,0	13,5	1,0
Fergana	<b>63,5</b>	22,5	11,5	2,5
<b>Sex</b>				
Men	<b>36,8</b>	40,8	11,9	10,5
Women	26,5	<b>47,0</b>	17,4	9,1
<b>Age</b>				
18-24	31,4	<b>36,6</b>	20,1	11,9
25-28	25,8	<b>46,5</b>	19,8	7,9
29-35	28,5	<b>47,9</b>	13,9	9,7
36-45	28,2	<b>49,6</b>	14,8	7,4
46-60	37,3	41,6	9,5	11,6
Over 60	30,3	39,4	19,7	10,6
<b>Education</b>				
Incomplete secondary education	25,3	51,7	16,1	6,9
Secondary, secondary specialized	34,3	42,3	15,4	8,0
Higher education	23,3	47,5	14,4	14,8

Table A7 demonstrates the basic categories of expenditures of income, received through the system of money transfers. The major part of expenditures are the expenditures for food and consumer products (65,0%), for clothes (45,4%), for house/apartment construction and maintenance (36,0%), medical treatment and medicine (31,5%), home appliances (29,0%).

Every city, involved in the poll, has its peculiarities in basic expenditures of income, received through the system of money transfers. In the capital the expenditures for education (colleges and universities) prevail over other categories (32,2%), whereas according to the responses from Samarkand and Fergana this category makes 7,7% and 8,6% in these cities, and expenditures for fun, amusements and jewelry are 2-3,5 fold higher.

The respondents from Samarkand mentioned high expenditures for clothes (up to 51,9% of respondents), home appliances (up to 42,3%), expenses for medical treatment / medicine and for house/apartment construction and maintenance which are 2 times higher than in Tashkent and Fergana, whereas the expenditures for purchasing a car are 10 times lower. The highest indexes of savings

were also observed in Samarkand (according to the one third of respondents).

Throughout the survey, each respondent was requested to recollect any aspect of activity of companies, providing the services of international money transfers in Uzbekistan, giving the preference to one of them in this aspect. Thus, many companies such as “Bistraya Pochta”, Anelik, MoneyGram, Travelex have improved their rating.

As a result, the first place remains taken by Western Union Company, followed by “Bistraya Pochta”, Anelik, MoneyGram, Travelex, UniStream.

The respondents were also requested to determine, whether there had been any obvious improvements in the conditions of provision of the money transfer services. Almost half of the respondents found it difficult to reply or didn't give any answer. The main improvements were expected to be made by reducing interest rates and increasing advertising. Clear answers were received in this regard in Fergana: up to 32,5% of respondents mentioned the necessity to reduce interest rates, 24,5% - to increase advertising, 10% - to insure timeliness of receiving money transfers.

While evaluating conditions of provision of international services of money transfer,

the respondents were requested to share their opinion on reasonable level of costs of international money transfer services. 40,1% of respondents mentioned interest rate lower than 1% of transferred amount, 32,6% mentioned rates at 1-3% and 5,7% - at 3-5% of transferred amount.

Every fifth didn't reply this question at all.

The majority of respondents from Fergana consider the interest rate lower than 1% of the transferred amount to be the most affordable, 40,0% of respondents from Samarkand share this opinion.

**Table A7 - Categories of expenditures of income, received through the system of money transfers, %**

Indicators	Tashkent	Samarkand	Fergana	Weighted average
Food and foodstuffs	50,3	78,8	74,3	<b>62,0</b>
Clothes	41,3	51,9	44,3	<b>44,3</b>
Home appliances	22,4	42,3	22,9	<b>26,9</b>
House/apartment construction and maintenance	33,6	52,9	15,7	<b>33,9</b>
Purchase of a car	18,2	1,9	20,0	<b>15,0</b>
Medical treatment and medicine	24,5	47,1	22,9	<b>29,2</b>
Education (colleges, universities, etc.)	32,2	7,7	8,6	<b>21,5</b>
Fun / amusements	4,2	1,9	1,4	<b>3,1</b>
Jewelry	4,9	-	1,4	<b>3,0</b>
Savings	8,4	31,7	-	<b>11,7</b>
Securities	1,4	1,0	-	<b>1,0</b>
Business	8,4	7,7	10,0	<b>8,6</b>
Others	1,4	4,8	2,9	<b>2,5</b>

**Table A8 - The most reasonable interest rates of international money transfer services in the opinion of respondents from Tashkent, Samarkand and Fergana, %**

Indicators	Tashkent	Samarkand	Fergana	Total
lower than 1% of transferred amount	31,6	40,0	62,0	<b>40,1</b>
1-3% of transferred amount	42,4	23,5	17,0	<b>32,6</b>
3-5% of transferred amount	7,6	6,5	-	<b>5,7</b>
5-10% of transferred amount	-	-	-	<b>--</b>
10-15% of transferred amount	-	-	-	<b>--</b>
Over 15% of transferred amount	-	-	-	<b>--</b>
No reply	18,4	30,0	21,0	<b>21,6</b>

Based on the results of the poll conducted among the population of 3 cities, the following can be concluded:

1. Up to 40% of respondents are the clients of companies, providing international money transfer services. At the same time, it is necessary to mention that the number of the clients in the regional centers increases up to 50% on average. The major age category of the clients of companies, providing international money transfer services is represented by the 46-60 years old respondents (they make 56,3%) and people older than 60 years (51,5%). Age groups of 25 up to 45 make from 35% up to 45% of respondents. Young generation at the age of 18-24 is represented by 26,9% of respondents (Table A8)\_.

2. Average monthly income level of almost half of the clients of companies, providing money transfer services, makes from 50 up to 100 thousand soums, income level of every sixth respondent is less than 50 thousand soums. Monthly income level of a family mainly averages up to 200 thousand soums.

3. Among the companies, providing international money transfer services, the first place is occupied by Western Union Company (up to 85% of respondents), the second - by "Bistraya Pochta", the third – by Anelik, and further by MoneyGram, Travelex, Unistream accordingly. The respondents basically choose a company (mostly Western Union) for timeliness and reliability of its services

4. In 2000-2006 the amount of money transferred outside Uzbekistan constituted the following categories: in 2000–2004 the amount of transferred money constituted from 500 up to 1000 USD, in 2005 this amount constituted from 1000 up to 2000 USD, in 2006 the majority of money transfers constituted from 100 up to 500 USD.

5. The situation with received money transfers within 2000-2006 was the following: in 2000-2005 the respondents mainly received the amounts of 100 up to 1000 USD. In 2006 this amount constituted 100 up to 500 USD.

6. The main transfer destination countries: comparing to 2005 in 2006 there was an increase of amounts of transfers to Russia (from 15,8% up to 17,4%), Germany (from 18,4% up to 29,0%), Turkey (from 5,3% up to 10,1%) and a decrease of amounts of transfers to the US (from 75% down to 4,3%), Kazakhstan (from 25% down to 2,9%), Japan (from 7,9% down to 4,3%).

7. In 2000-2006 there a decrease of amounts, received from the US (from 27,5% down to 11,8%), South Korea (from 17,4% down to 7,9%), Turkey (from 13% down to 4,3%), Germany (from 4,3% down to 1,1%), Israel (from 4,3% down to 0,4%). At the same time the amounts of money transfers from Russia and Iran have seen a significant increase (from 26,1% up to 56,6% and from 2,4% in 2005 up to 8,6% in 2006 accordingly). The analysis of data received allows to assume about the further increase of the amounts to be transferred from Russia.

8. Presumable amounts to be transferred in 2006. The respondents are intending to send mainly from 100 up to 500 USD (up to 40% of respondents), from 500 up to 1000 USD (up to 30% of respondents) to Germany, South Korea, Iran, Japan, Russia, Turkey and the USA. The respondents are expecting to receive from 100 up to 500 USD (up to 33% of respondents), from 1000 up to 2000 USD (up to 22%), over 5000 USD (up to 20%) mainly from Russia (up to 60% of respondents), the USA (up to 10%) and Iran (up to 9%).

9. As of 2006 the half of the respondents mentioned about their relatives, working abroad (50,9% of the respondents). The major part of those relatives are men– up to 78,9%. Mainly they are brothers (20,7%), husbands (18,6%), sons (16,6%), uncles (10,0%), fathers (9,0%) of the respondents. The leading positions among the countries – employees of respondents' relatives are occupied by Russia (57,9%) and the US (12,0%). Relatives of respondents from Samarkand are mainly working in Russia (79,3%), Iran (16,4%) and the US (4,3%), whereas relatives of respondents from Fergana are mainly working in Russia (86,1%) and Kazakhstan (13,9%). Working relatives of the respondents from Tashkent reside in Russia (35,7%), the US (20,7%), South Korea (12,4%), Kazakhstan (10,8%).

10. The major period of working abroad lasts from 1 up to 3 years. One third of the relatives of respondents receives an average monthly income from 100 up to 500 USD and one fourth – from 500 up to 1000 USD. Working relatives from Samarkand and Fergana receive a lesser income than the relatives of respondents from the capital.

11. Around 15% of respondents are planning to go to work abroad, and the major part of them are the young people at the age of 18-24. South Korea, Russia, the US and Kazakhstan are the main countries where the respondents are willing to go to.

12. Half of the respondents give the preference to money transfers in cash as the main way of sending and receiving money.

13. Basic expenditures of transferred money: food and foodstuffs (65,0%), clothes (45,4%), maintenance / construction of a house /apartment (36,0%), medical treatment and medicine (31,5%), home appliances (29,0%).

14. Up to 40% of respondents consider the interest rates for money transfers of less than 1% of the amount of transfer as the most affordable ones, and up to 30% of respondents indicate the rate of 1% up to 3% of the amount of transfer in this regard.

## APPENDIX 2

## THE OVERVIEW OF THE STUDIES OF COMPETITIVE ENVIRONMENT IN THE MARKET OF INTERNATIONAL MONEY TRANSFERS IN SELECTED CIS COUNTRIES AND USA

In view of similarities in socio-economic background and competition legislation among CIS countries, the Project entailed studying the experience of Russia, Ukraine, Kazakhstan, Byelorussia and Armenia in the sphere of analysis of competitive environment in the market of international money transfers. Of particular usefulness was also the US experience in the sphere, namely the investigation conducted by the Antitrust Division of the US Department of Justice in regard to Western Union in 2004 and 2005.

Hence, below is the overview of the foreign experience of studies and investigations conducted by competition authorities of selected CIS countries and USA in relation to the competition issues pertaining to the remittances market.

### Ukraine

A thorough analysis of remittances markets was conducted by Ukrainian competition authority. In Ukraine the case on remittances was raised by the competition authority in response to complaints from the National Bank of Ukraine, alleging Western Union had been engaging in unlawful contractual practices. The Association of Ukrainian Banks had also complained about excessive charges on remittances by Western Union. The first study of the matter revealed signs of monopolistic position held by the company and thus raised suspicion of abusing monopoly (dominance) position forbidden under the law on protection of economic competition.

Defining relevant product and geographic boundaries of the market had been the most difficult part of the investigation in Ukraine. Although many alternatives exist to the remittance technology used by Western Union, they hardly can be viewed as close substitutes.

The analysis of the cost, timeliness, accessibility and convenience showed that

postal remittances and inter-bank money transfers cannot be regarded as close substitutes to Western Union's service, and hence do not comprise a single product market. Remittances carried through the technology used by firms like Western Union, MoneyGram and others are unique in several aspects:

- They are instant. Normally the operation takes about 15 minutes to carry out. Postal transfers take much longer and depending on the remoteness may require several days.
- Money can be received at any branch of the system. Postal and bank remittances require exact destination points to send money.
- No need to open an account. Inter-bank remittances are too bureaucratic because they require IDs and other legal documents. For the majority of people making remittances this is an unnecessary and unfeasible burden due to often illegal status of the sender.

The product market thus was defined as **the service of paying money to physical persons in Ukraine remitted to them in foreign currency cash from abroad by instant transfer and without the need to open a bank account (on non-commercial operations).**

The geographic market was defined as **the territory of Ukraine** due to the fact that the remitted money could be received at any branch of the remittance system in any part of Ukraine.

To calculate market shares as a primary indicator of dominance Ukrainian competition authority chose to use two indicators: **the number of branches of remittance systems** and **the amount remitted to Ukraine**. Thus, it was argued that Western Union had acquired a dominant market position thanks to a wide network of direct and indirect representatives in Ukraine, among which there were 110 banks and non-banking financial establishments.

In the course of 2002-2004 the company managed to increase its network of local branches from 5.5 thousand to around 7 thousand, which made 87% of the market. To compare, the company's closest rivals Money Gram had only 8 agent banks and 650 branches in 2004 (9% of the market), Anelik had 20 agent banks and more than 190 branches (2,7% of the market), and Contact had 14 agent banks and 130 branches (only 1,85% of the market).

Based on incoming remittances amount, Western Union's market share comprised more than 80% during 2002-2004.

It was then argued that Western Union had managed to gain a monopoly (dominant) position largely through entering exclusive contracts with its agent banks, thus foreclosing the network for its competitors. During the investigation the issue was resolved on legislative level by making certain amendments to the Ukrainian Law "On payment system and remittances in Ukraine".

Comparative analysis of tariffs charged by Western Union and competitors gave grounds for the Ukrainian competition authority to allege the former in charging monopolistically high prices. However, no official orders were issued and in March 2005 the authority only sent the company recommendations to stop violating the law, in particular by decreasing charges on remittances to Ukraine. Realizing the seriousness of the authority's position, the company followed the recommendations and began consistently lowering its charges on most popular remittances corridors like Russia-Ukraine, EU member states and USA. Despite the Ukrainian competition authority's decision to close the investigation (due to the company's following the recommendations) Western Union continued to decrease its charges on remittances during the course of 2005 and 2006.

### **Armenia**

In the case with Armenia, there were four remittance companies operating in the country during 2003 and 2004 without a clear market leader. In 2003 Anelik was a faint leader with 36.5% of the market, while Western Union had 30% market share.

In 2004 it was UNIstream who became the market leader with 30%, Western Union becoming third with 23% market share only to lose Anelik that saw its market share drop to 25.3%.

So never during the time span that the investigation covered was Western Union a market leader in Armenia. The company's contracts with the Armenian agent banks did have though a clause providing for temporary (1 year) exclusivity, which could fall under violations prohibited by the article 7 of the law on protection of economic competition on the abuse of dominance position.

According to article 6 of the above mentioned law a company is deemed to occupy a dominant position if its market share exceeds 1/3. This was not the case with Western Union in Armenia. Consequently, the Armenian competition authorities decided they didn't have any legal grounds to continue the investigation in regard to Western Unions foreclosure practices.

### **Russian Federation**

In Russia, as the largest remittances sender to Uzbekistan, the remittances market has not been studied by competition authorities in particular, but exclusionary contractual practices of Western Union have been investigated. The investigation was triggered by a complaint from a bank and remittance system Contact against Western Union's item 4.2.8 of its model agreement, according to which a bank is prohibited to cooperate with other companies rendering the services of online monetary transfer in a manner similar to the one used by the Western Union system during the period of validity of the agreement with Western Union. The investigation that was initiated in September 2003 lasted until the first quarter of 2004. After lengthy research and fact-finding activity the Russian competition authority arrived at a decision that Western Union's item 4.2.8 of the model contract did violate the Law on Protection of Competition on the Markets of Financial Services (art. 6 Agreements and concerted actions of financial entities that restrict competition), i.e., Western Union's contractual practices restricted competition and harmed banks and consumers.

Western Union's appeal against the competition authority's decision to Moscow Arbitration Court in March 2004 was declined. Basically the company's objections against the Russian competition authority's decision concerned two major points:

- Firstly, for an agreement to have some restrictive effect on competition what needs to be proved first is that the company concluding the agreement has significant market power or market share. Russian competition authority (at that time Ministry of Antimonopoly Policy, MAP) has done nothing to define the relevant market and to identify Western Union's significance in the market.

- Secondly, Western Union's exclusivity clause (item 4.2.8 of the model contract) does not restrict competition and is merely guided by safety, compliance and avoiding free-riding considerations.

Moscow Arbitration Court turned down the company's appeal on the following grounds (in short):

- To prove violation under Article 6 of the Law on Protection of Competition on the Markets of Financial Services (Agreements and concerted actions of financial entities that restrict competition) does not require identifying market power (market share) of the parties entering the agreement.

- MAP has presented enough evidence to show that Western Union's contractual practices do foreclose the entrance to the market (i.e., blocking the network of banks) and harm competition significantly.

### **Byelorussia**

Even though the market structure of its remittances market was not been studied in Byelorussia, the contractual relations between Western Union and commercial banks was investigated. It turned out that Western Union had entered contracts with 18 of 20 commercial banks in Byelorussia

and that it did incorporate exclusivity clause in its contracts. But interestingly many of those banks still carried out remittances simultaneously through one or several of other remittance systems such as Contact, MIGOM, UNistream, Money Gram, and PrivatMoney. The survey of banks showed that the majority of them were content to have business with Western Union because their remittance system was the fastest and allowed remitting money in any currency.

### **USA**

In 2004 and 2005 US Department of Justice conducted investigation of Western Union's contractual practices and their effects on money transfer market. The concern had arisen due to WU's persistently high market shares. The purpose of the investigation was to find out whether WU's contractual practice unreasonably restrained competition and hence helped WU maintain monopoly power in the market. The evidence gathered by DoJ was not however sufficient to support allegation that WU's practices had any substantial anticompetitive effect on the US money transfer market. Despite WU's exclusionary practices retail locations remained available through which competitors could offer their services to consumers. Besides, in recent years WU's competitors had been able to increase their transaction volumes and expand their networks. DoJ also obtained other evidence indicating that WU's contractual practices did not have substantial anticompetitive effect. DoJ however specifically stressed the importance for policy makers (including those in other countries) of keeping the access to the networks barrier-free. The growing breadth of the network (particularly through the involvement of credit unions), as well as free access to it for competitors, were found to be the major pro-competitive forces in the market for money transfers.<sup>24</sup>

<sup>24</sup> Department of Justice Antitrust Division, Statement regarding the closing of its Western Union money transfer services investigation, March 16, 2005