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The Canada-Vietnam Remittance Corridor

Lessons on Shifting from Informal to Formal Transfer Systems

Raúl Hernández-Coss

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THE WORLD BANK
Washington, D.C.

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Raúl Hernández-Coss is a Financial Sector Specialist in the Financial Market Integrity Unit at the World Bank.

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Foreword

The World Bank thanks the Working Group of the APEC Initiative on Remittance Systems for the opportunity to prepare this case study, the second case study examining remittances bilaterally. This case study seeks to build upon existing remittance literature and to highlight the development potential of remittance flows. Additionally, it emphasizes the need for incentives in order to foster the use of formal fund transfer systems, while also identifying the potential business opportunities the remittance market represents for formal financial institutions. This case study also promotes the protection of the integrity of remittance flows from those that may be linked to criminal activities.

The work hereby presented is part of a continuing effort to analyze, from a bilateral point of view, the relevant issues between the economies forming a remittance corridor. While "The U.S.–Mexico Remittance Corridor: Lessons on Shifting from Informal to Formal Transfer Systems" examines a remittance corridor at a mature stage of development, the Canada-Vietnam case study is the first bilateral case study to examine and highlight relevant issues associated with remittance corridors at a nascent stage of development. The case study seeks to build on the Canadian International Development Agency's "Remittances: A Preliminary Research" by zeroing in on the specific remittance corridor between Canada and Vietnam, and this has been possible thanks to the willingness of Canadian and Vietnamese authorities to embrace the research.

The case study of the Canada-Vietnam remittance corridor is analyzed according to the three stages of the fund transfer process: Origination, Intermediary and Distribution. Each stage presents different challenges and opportunities for the market players. The case study also intends to underline some of the critical themes that identify the corridor, including the significant development potential that relatively small remittance corridors at the nascent stage possess. It also aims to highlight areas in which progress has been made and experiences that could serve other economies in transforming their remittance corridors into transparent and more competitive systems.

The World Bank is committed to support the remittance receiving economies in order to maximize the development potential of remittances and to protect their integrity. In order to reach these ends, broader incorporation of remitters and recipients in formal financial services is necessary and can be achieved through helping formal financial services recognize the business opportunity that the remittance market represents.

Margery Waxman
Director
Financial Market Integrity

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Raúl Hernández-Coss
Washington, D.C.
November 15, 2004

Acronyms and Abbreviations

ACB	Asia Commercial Bank
ADB	Asian Development Bank
AML	Anti–Money Laundering
APEC	Asia-Pacific Economic Cooperation
ARS	Alternative Remittance Systems
ATM	Automated Teller Machine
BOP	Balance of Payments
CFT	Combating the Financing of Terrorism
CIC	Citizenship and Immigration Canada
CIDA	Canadian International Development Agency
DAFEL	Department for Administration of Foreign Employed Labor Force
DFAIT	Department of Foreign Affairs and International Trade Canada
EAB	Eastern Asian Commercial Bank
FATF	Financial Action Task Force on Money Laundering
FDI	Foreign Direct Investment
FDIC	Federal Deposit Insurance Corporation
FFT	Formal Funds Transfer
FINTRAC	Financial Transactions and Reports Analysis Centre of Canada
FIU	Financial Intelligence Unit
FMM	Finance Ministers Meeting
FRFI	Federally-regulated financial institutions
GDP	Gross Domestic Product
IBPS	Inter-Bank Payment System
IFT	Informal Funds Transfer
IMF	International Monetary Fund
IMF BOP	IMF Balance of Payments
IOM	International Organization for Migration
KYC	Know Your Customer
MOF	Ministry of Finance
MSB	Money Services Business
MTO	Money Transfer Operator
NCCTs	Non-cooperative countries and territories
NGO	Nongovernmental Organization
ODA	Official Development Assistance
OSFI	Office of the Superintendent of Financial Institutions
PCMLTFA	Proceeds of Crime (Money Laundering) and Terrorist Financing Act
RFIs	Regulated and Supervised Financial Institutions
ROSCA	Rotating Savings and Credit Associations
SBV	State Bank of Vietnam
SWIFT	Society for Worldwide Interbank Financial Telecommunication
VBARD	Vietnam Bank for Agriculture and Rural Development
VBP	Vietnam Bank for the Poor
VCF	The Vietnamese Canadian Federation

VICB	Vietnam Industrial and Commercial Bank
VPB	Vietnam Bank for Private Enterprises
WB	World Bank
WU	Western Union

Introduction

Context

In 2002, the Asia-Pacific Economic Cooperation (APEC) undertook an initiative to study the impact of alternative remittance systems (ARS), also known as Informal Fund Transfer (IFT) systems on APEC member economies. In September 2002, the APEC Finance Ministers established a Working Group to examine the economic, structural and regulatory factors that encourage the use of ARS in the APEC economies. The World Bank offered technical support at the request of the APEC ARS co-chairs.

The report, entitled "Informal Fund Transfer Systems in the APEC Region: Initial Findings and a Framework for Further Analysis"[1] (APEC 2003), laid out a framework for estimating the magnitude of remittance flows and analyzing incentives for using formal vs. informal channels. It also examined the role of formal financial sector institutions in providing remittance services compliant with international standards for integrity and transparency, such as those related to anti-money laundering and combating the financing of terrorism (AML/CFT). When the report was presented at the September 2003 APEC Finance Ministers Meeting (FMM), the FMM "urged the international financial institutions to continue their valuable work on remittances."[2] Delegates attending the Deputy Finance Ministers Meeting requested the World Bank to conduct economy-specific case studies. This paper presents the second case study prepared in response to this request.[3]

1. The full report is available on the website www.amlcft.org.
2. Tenth APEC Finance Minsters Meeting Joint Ministerial Statement, September 4–5, 2003, Phuket, Thailand.
3. The first case study, "Lessons from the U.S.-Mexico Remittances Corridor on Shifting from Informal to Formal Transfer Systems," was published in November 2004.

Objectives

In recent years, as remittance flows and funds transfer systems have become a growing area of interest for international policymakers, the relevant concepts have become well documented.[4] At the same time that research continues on the nature of informal systems, efforts are under way to induce users to shift from informal to formal systems in order to increase the transparency of remittance flows and enhance their contribution to development in the recipient countries. Underlying this research effort is a concern for protecting legitimate remittance flows, such as worker remittances, and their development potential, while simultaneously strengthening AML/CFT regimes by bringing transparency to the systems that transfer funds.

Transparency

Many different kinds of flows travel through remittance systems, depending on the purpose and intent of the sender.[5] Better monitoring and evaluation of these flows is important for a number of public policy objectives. Remittances to some countries are of such a magnitude as to significantly affect the size and composition of financial assets, and reliable data on the magnitude and trends are needed to enable national monetary authorities to anticipate and manage their macroeconomic impacts. Moreover, informal funds transfer systems have been identified as weak links in nations' AML/CFT regimes. Funds traveling through transparent formal channels, as opposed to opaque informal channels, can be better monitored and recorded consistent with AML/CFT standards, while protecting the integrity of remittances flows.

Development Potential

The development contribution of remittances can also be enhanced to the extent that the shift of flows to formal institutions encourages greater savings and improves the allocation of investment resources. The formalization of remittance flows also provides a means of opening the access of lower-income families to a broader range of financial services, thereby providing them greater opportunities for improved earnings and management of their financial risks. The provision by financial services of inclusive and integrated services for remittance customers, such as checking and savings account services, credit and mortgage products, could greatly improve their economic prospects. Furthermore, remitting

4. Researchers have described the macroeconomic environment conducive for worker remittances inflow, incentives and factors that keep IFT systems popular, the general implications of these systems for the growing global task of AML/CFT and ideas for leveraging a development impact from these large international monetary flows. See World Bank, *Report and Conclusions* of the *International Conference on Migrant Remittances: Development Impact, Opportunities for the Financial Sector and Future Prospects,* London, UK, (2003) *Informal Funds Transfer Systems: An Analysis of the Hawala System* (2003); *Worker's Remittances: An Important and Stable Source of External Development Finance.* In *Global Development Finance* (2003); Orozco, *Worker Remittances; Market, Money and Reduced Costs (2003); Remittances and Markets: New Players and Practices (2000):* Sander, *Migrant Remittances to Developing Countries (2003).*

5. Personal remittances, such as migrant worker remittances, are one type of transfer, and have not been widely associated with money laundering schemes, with the exception of "smurfing." Larger transfers, such as those related to trade, generally have higher utility for money laundering schemes than do personal transfers of small amounts.

customers represent a profitable growth opportunity for the financial institutions, including for microfinance institutions that can help to link commercial banks to retail clients in poor neighborhoods and rural areas.

Scope and Focus of the Paper

This paper examines the experience of the Canada-Vietnam Remittance Corridor over the past several years.[6] In contrast to the large size and advanced level of development of the U.S.-Mexico remittance corridor, examined in the first case study, the Canada-Vietnam corridor is small in absolute terms and still at a nascent stage of shifting from informal to formal systems. The information available about the flows through this corridor and the institutions involved is also much less abundant. Canada has larger remittance outflows to other regions than it does to Vietnam; whereas Vietnam has a larger inflow from the U.S. than from Canada. However, on the global level, there exists a significant number of remittance corridors comparable in size to the Canada-Vietnam corridor. This exercise, therefore, is necessarily a first step towards identifying its main features and pointing out some of the areas and issues that researchers and authorities should examine more closely.

Migration from Vietnam to Canada

Although Vietnam has a population 2.5 times larger than that of Canada, the GDP of Canada is 20 times larger than that of Vietnam (Table 1). Consequently, the gross national income per capita of Canada is more than 50 times that of Vietnam, which explains in part the migration of Vietnamese to Canada over the past 30 years. The first significant flow of Vietnamese to Canada, however, occurred in 1975, at the end of the Vietnam War. Since then, many Vietnamese moved to Canada for both economic and political reasons.

Table 1. Population and Economic Indicators in Canada and Vietnam

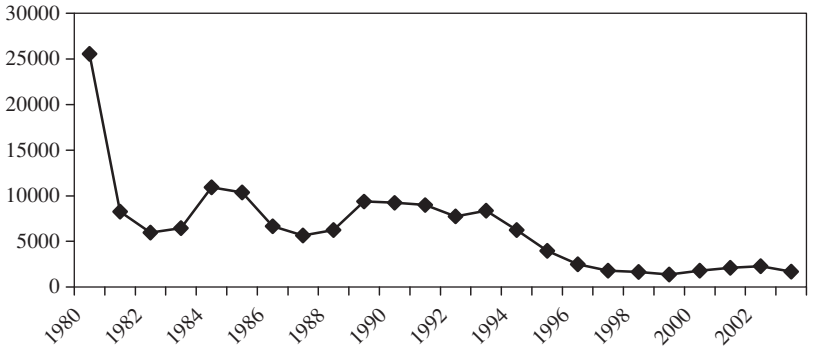
	Canada	Vietnam
Population (million)	31.0	80.4
Population growth (%per year)	0.9	1.2
GDP (US$billion)	714	35
GNI per capita (US$)	22,390	430

Sources: World Bank (2002), CIC Canada, Census 1991, 1996, 2001, Rural Migration News.

In the decade from 1991 to 2001, the number of Vietnamese living in Canada grew from approximately 94,000 to more than 151,000, most of the new migrants arriving during the first half of the decade. By the middle of the 1990s, however, the annual immigration from Vietnam had fallen to fewer than 5,000 annually (Figure 1). Of a total of almost

6. While many aspects of remittances deserve further study, including the uses of remittance funds by recipients, the scope of this project focuses primarily on lessons for moving from informal to formal systems.

Figure 1. Immigrants from Vietnam (Country of Last Permanent Residence), 1980–2003



Source: Citizenship and Immigration Canada

3 million Vietnamese living abroad in 2003, around 5 percent were in Canada. All but a very small number of temporary workers were permanent residents.

Significance of Remittances in Vietnam

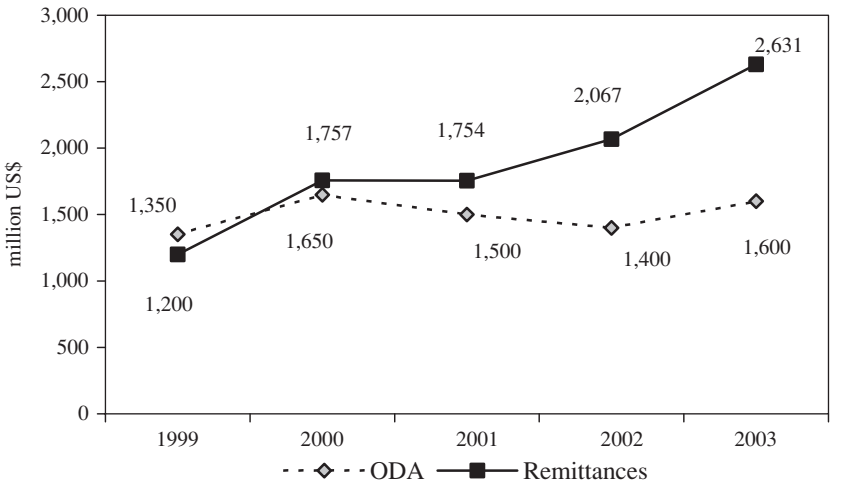
Remittances represent an important source of external funds for the Vietnamese economy. Recorded workers' remittances more than doubled from US$1.2 billion to US$2.6 billion over the four years 1999–2003 (Figure 2).[7] In the latter year, recorded remittances contributed US$1 billion more to the financing of the Vietnamese economy than the amount registered by ODA. Remittances by overseas Vietnamese are expected to reach US$3.5 billion in 2004, thus financing some 62 percent of the projected trade deficit.

Table 2 shows the importance of worker remittances relative to major economic aggregates. In 2003, remittances were equivalent to almost 7.4 percent of the GDP, 160 percent of Foreign Direct Investment (FDI) (see also Figure 3), and 13 percent of goods exports, up from 4.4 percent, 85 percent, and 10 percent, respectively, in 1999. Remittances over this period also became a much more important source of external financing for the Vietnamese economy than official development assistance, rising from the equivalent of 89 percent of ODA in 1999 to 164 percent by 2003.

Groups of Vietnamese who work abroad under government-sponsored contracts have been one source of this growth of remittance income. In addition, Vietnam has attracted growing investment flows from its emigrants abroad. Progress in the transition to a market-based economy and a growth rate that has averaged about 6.5 percent annually over the past decade and a half have spurred the development of private enterprises in various sectors, attracting resources from family members overseas.

7. The data presented here are from official government sources and are comprised principally of remittances made through formal channels. Not captured are flows through informal channels that go unreported. Unreported flows from Canada may be quite important, because a large proportion of them are believed to move through informal mechanisms.

Figure 2. Workers remittances and ODA



Sources: Vietnam Ministry of Planning and Investment, Vietnam Investment Review.

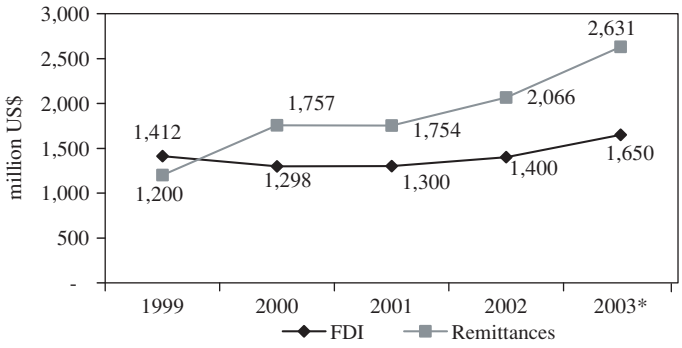
Table 2. Workers Remittances Relative to Other Economic Aggregates

Workers remittances as percentage of:

	1999	2000	2001	2002	2003
GDP	4.4	6.1	5.6	6.2	7.4
Goods Exports	10.4	12.2	11.7	12.4	13.2
Foreign Direct Investment (FDI)	85.0	135.4	134.9	147.6	159.4
Official Development Assistance (ODA)	89	106	117	148	164

Sources: Investment and Trade Promotion Center, Vietnam Ministry of Planning and Investment, Vietnam Investment Review.

Figure 3. Workers Remittances and Foreign Direct Investment



Sources: Vietnamese Commission of Foreign Affairs and World Bank

The Canada-Vietnam Corridor

The paper provides a broad initial overview of the Canada-Vietnam corridor and identifies areas for further actions to enhance its development and integrity. Given data limitations and the continuing importance of informal service providers in this corridor, the paper does not pretend to address all of the issues involved, but rather focuses on a few selected aspects of the remittance process that emerged from the study team's interviews in both Canada and Vietnam. For purposes of the discussion, the remittance process is broken into three stages: the *First Mile,* when decisions are in the hands of the remittance sender, the *Intermediary Stage,* comprising the systems that facilitate the cross-border transfer of funds, and the *Last Mile,* where the funds reach the hands of the remittance recipient.

With respect to the *First Mile,* the study team hypothesized that Canada possessed the technology, institutions, customer base and capital needed to strengthen formal remittance systems and attract remitters away from informal and into formal channels, but that the market had not yet made a comprehensive shift. Applying the analytical framework set out in the initial APEC report, the investigation was keyed around the market incentives that influence users' choices among the available formal or informal remittance channels. The incentives analysis generally confirmed the above hypotheses and identified the following key themes:

- Remitters from Canada to Vietnam are predominantly of similar origin with particular remittance habits that are heavily influenced by ethnicity;
- In part because of remitter preferences, and because of the lack of established business relationships between Canadian and Vietnamese financial institutions, informal operators are the dominant service providers in this remittance corridor;
- In contrast to the U.S.-Mexico corridor, the volume of bilateral flows in the case of Canada and Vietnam may not be sufficient by itself to attract large financial institutions to compete for this business; its profitability may rather depend on integrating Vietnam-related activity into their global remittances businesses; and Information about the remittances of Vietnamese migrants in Canada is quite limited, and its improvement is hampered by the absence of licensing, registration or other regulatory requirements for money service businesses in Canada.

At the *Intermediary* stage, the study team expected to find that formal monopolies dominated the market, and that IFT systems were in wide use, both features commonly associated with a market at an early stage of development. The study confirmed that IFT systems were in wide use, but that market shares were not highly concentrated. The principal themes that emerged are:

- Although data are scarce, remittances in this corridor have been growing, and new competitors have entered the market;
- IFT systems are in wide use, and some appear to have links to illicit activity;
- Banks and credit unions may face regulatory impediments to becoming more competitive; and
- Technological advances in funds transfers have yet to substantially impact the corridor.

With respect to the *Last Mile,* the study team assumed that recipients' access to distribution channels would be a critical factor in determining how senders chose to remit at the First Mile. The findings confirmed that formal institutions will need to expand and improve their distribution channels if they are to become competitive at the Last Mile. Other themes that emerged included:

- The geographical distribution of remittance flows tend to be related to the type of sender—contract workers or *Viet Kieu;*
- Policies of the Vietnamese government toward remittances play a critical role in influencing whether senders transmit funds formally or informally;
- Recipients value anonymity; and
- Authorities are exploring how to better organize records of remittance flows and collect more comprehensive data.

Outline of the Report

The remainder of the report is organized into five sections. Chapters 1–3 describe, respectively, the features of the First Mile, the Intermediary Stage, and the Last Mile. Chapter 4 summarizes the lessons learned from this preliminary study of the Canada-Vietnam corridor, and Chapter 5 sets out the resulting recommendations. Five annexes complement the report with a more detailed description of the operational features of the remittance corridor, an overview of the market, descriptions of the Canadian and Vietnamese regulatory frameworks, and an analysis of the incentives affecting remittance decisions in the corridor.

CHAPTER 1

At the First Mile

Canada is home to a large number of immigrants,[8] whose presence naturally leads to the development of remittance systems to serve them and their communities of origin.[9] Many of the basic elements exist for the development of an efficient formal remittance market, including large remitting communities, a stable financial sector, and access to technology and capital. In Canada, money remittance services are provided by regulated and supervised financial institutions (RFIs), such as banks, trust and loan companies, and credit unions. However, money services businesses (MSBs)[10] appear to be a step ahead of the RFIs in providing remittance services to the Vietnamese migrants under study in this section. MSBs are not prudentially regulated and supervised but are subject to the same AML/CFT obligations as RFIs.

The principal incentives influencing the choices of Vietnamese migrants among remittance service options in the First Mile of the remittance process include cultural familiarity,

8. Canada uses three classifications to define immigration status in Canada: "Canadian citizen," "permanent resident," and "temporary migrant worker." The remitting community from Canada to Vietnam is composed of Canadian citizens and permanent residents of Vietnamese origin. For the purposes of this report, the authors use the terms *Viet Kieu,* "Vietnamese migrants," or "Vietnamese remitters" to refer to Canadian citizens or permanent residents of Vietnamese origin.

9. The Canadian government has completed an exploratory overview of the remittance corridors linking Canada with El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, and Mexico. The Departments of Finance and Foreign Affairs, the Canadian International Development Agency (CIDA), and the office of Citizenship and Immigration Canada (CIC) have a common interest in the topic, with CIDA taking the lead in supporting the related research.

10. MSBs include anyone engaged in the business of remitting or transmitting funds, including informal or alternative remittance systems such as *hawala, hundi,* and *fei chien.*

personal contacts, and the relative speed, cost and reliability of the respective services. Key features of the market disclosed by the present study are:

- The relatively limited role played by the RFIs;
- The remittance habits of the *Viet Kieu* in Canada;
- The role of ethnicity in choosing among remittance alternatives; and
- The need for licensing/registration of remittance service providers.

The Relatively Limited Role Played by RFIs

Data limitations make it difficult to confirm the features of Canada's remittance market and the specific roles and importance of the various institutions in the industry. From initial research, it is clear that MSBs dominate Canada's funds transfer industry. These service providers include, for example, agents of established commercial MTOs as well as less commercialized operations that provide remittance services through retail stores whose primary function is the sale of other goods or services. Such stores often cater to specific ethnic groups.

RFIs play a relatively small role in this corridor at present. Although the volume of remittances to Vietnam may not attract RFIs to specialize in this corridor, it offers a profitable business opportunity, which they are beginning to recognize, as an addition to their global remittance services. Some RFIs, particularly credit unions, have introduced limited remittances programs in the Canada-Vietnam corridor with varying degrees of success.[11] To become better established in the remittance market, they will need to adopt the technology required for faster and cheaper transactions. (These aspects will be discussed further in the section concerning the Intermediary Stage.) In addition, RFIs would have to gain a better understanding of the profile and remittance habits of Vietnamese in Canada in order to tailor remittances programs to their needs.

The Remittance Habits of *Viet Kieu* in Canada

Vietnamese workers abroad are typically of two types: temporary migrant workers and *Viet Kieu.* Since 1994, the Vietnamese government has sponsored a program to send workers abroad on fixed-term contracts. In recent years, these migrant workers have gone mainly to neighboring countries such as Japan, the Republic of Korea, Lao PDR, Malaysia, and Taiwan, China. No such migrant worker program organized through government channels currently exists between Vietnam and Canada, although a small contingent of some 55 seasonal and/or temporary migrant workers from Vietnam is working in Canada under individual or company-specific arrangements. In Canada, it is thus the latter type, *Viet Kieu,* who have established communities and generally send remittances. *Viet Kieu* is a term used by the Vietnamese to refer generally to overseas Vietnamese, though the term originally referred to refugees who fled Vietnam during the socioeconomic transformation of the 1970s. A second component of *Viet Kieu* arrived later as part of the Canadian government's

11. Scotia Bank and *Caisses Populaires Desjardin* are two examples.

family reunification program. Canada also continues to accept selected immigrants on a regular basis, who help to fuel the growth of remittances to Vietnam. In view of their place in Vietnam's history, the *Viet Kieu* tend to maintain strong political views and remain wary of the Vietnamese government.

According to the 2001 Canadian census, the population of Vietnamese origin was 151,410 (Box 1), thus comprising only a small fraction of the total immigrant community in Canada. Initial research shows that *Viet Kieu* and temporary migrant workers have markedly different remittance habits—a consideration that could affect the way products and services, as well as regulations, are formulated. The remittance habits of *Viet Kieu* are shaped, in large part, by a desire to maintain personal or business contacts in Vietnam and by their perceptions of the Vietnamese government.

After 1975, the year marked as "Fall of Saigon," refugees began arriving in Canada. Between 1979 and 1980, approximately 50,000 Vietnamese "boat people" reached Canada.[12] Since then, the Vietnamese community has grown and evolved through several stages: settlement, integration, and participation. Most *Viet Kieu* now have Canadian citizenship and have been integrated into Canadian society in locally fragmented patterns, while increasing numbers have lost family connection with Vietnam. This has led to reductions in the amount of money sent to Vietnam each year to support family members. Larger amounts, however, are being remitted for investment purposes. The Vietnamese community in Canada has now entered the participation stage, where it is represented in the full spectrum of economic, political, social, and cultural life of the Canadian society.[13]

The remittance habits of the *Viet Kieu* are generally not characterized by small remittances sent regularly to sustain the family back home. Instead, *Viet Kieu* tend to send money three or four times annually for cultural occasions, such as the *Tet* holiday[14] and family events such as weddings or funerals. Other *Viet Kieu* transfers include investments in business ventures such as real estate and hotels. Often these investments are made in businesses run by family or friends. Other transfers are made to prepare for the eventual homecoming of the migrant. The amounts sent range from Can$300 to a few thousand dollars (Can$1,000–$5,000).

The Role of Ethnicity

Understanding the nature of the *Viet Kieu* communities, the strong role that ethnicity plays in these communities, and the sending habits of remitters can help remitting institutions develop products and services to meet their needs. Canadian banks have not been involved

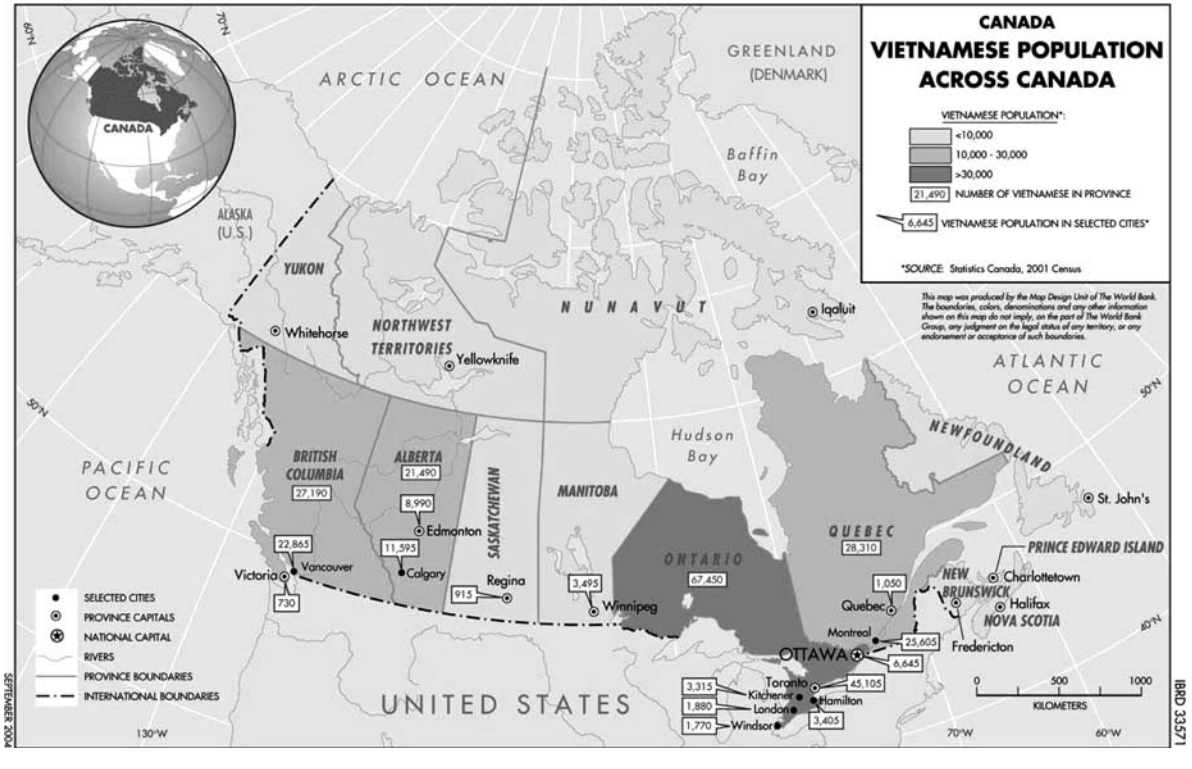
12. Among these refugees, a contingent were of Sino-Vietnamese origin. Further research could help shed light on the role and features of this sub-community within the Vietnamese community.

13. As an anchor of the Vietnamese community in Canada, the Vietnamese Canadian Federation (VCF) was founded in 1980. The VCF, now with 15 member associations across Canada, has three objectives: (1) to maintain solidarity among the Vietnamese associations across Canada and harmonize their activities; (2) to work for the preservation and development of Vietnamese culture and the enrichment of Canadian culture; (3) to foster the spirit of mutual help and community responsibility. <http://www.vietfederation.ca>.

14. The *Tet* holiday marks the Lunar New Year. It is officially celebrated for 3 days, but often involves a week-long celebration with gift giving and mass consumption. Remittances sent for the *Tet* holiday thus go toward immediate consumption rather than investments.

Box 1. The Vietnamese in Canada

The Vietnamese in Canada reside mainly in several large cities across the country. Most now have Canadian citizenship and have been integrated into Canadian society in locally fragmented patterns. As the map below illustrates, Toronto has the largest Vietnamese population followed by Montreal and Vancouver.



Source: Statistics Canada, 2001 Census.

significantly in remittances to Vietnam, in part because of a perceived "culture gap" between formal financial institutions and Vietnamese remitters. Initial study of some of Canada's major centers for Vietnamese remitters shows that the money transfer market is dominated by MSBs that have made a concerted effort to penetrate these ethnic communities.

In Toronto, for example, some 15 remitting companies are listed in local Vietnamese newspapers.[15] In Vancouver, many Vietnamese use MSBs to remit money to Vietnam. These services are run out of neighborhood businesses such as video stores, nail shops, beauty salons, flower shops, and travel agencies. In Montreal, remitters send money through formal and informal operators as well as through friends traveling to Vietnam to visit. Informal operators are preferred because of a lingering distrust of formal channels in Vietnam, as explained further in the report.[16] Ethnicity also plays a strong role in shaping preferences for using IFT systems. Interviews indicated that only Vietnamese, or those who spoke Vietnamese, could gain access to IFT systems in Vietnamese communities.

Some national MTOs in Canada target the Vietnamese community. One, by focusing on the needs of the community and adapting services accordingly, has penetrated ethnic barriers among Vietnamese remitters. It operates stores offering a range of products and services—cellular phones, electronics, and travel bookings—as well as remittances. It has its own agents in Vietnam who provide convenient, door-to-door money delivery services. This MTO advertises in Vietnamese language newspapers and charges a competitive Can$5 flat fee, plus 1.5 percent of the total transaction.

The same MTO reported that some 60 percent of the transfers it handled went to the South (around Ho Chi Minh City and Ca Mau), 15 percent to the Central region (Da Nang, Ninh Thuan, and Thua Thien Hue), and 25 percent to the North (Quang Ninh, Haiphong, and Hanoi). The volume of remittances depended on the time of year. For example, throughout December and January, before the *Tet* New Year, approximately Can$100,000 was remitted each day. During all other seasons, only Can$20,000–30,000 is remitted per day.

The Regulation of MSBs

In Canada's regulatory scheme, RFIs are the only financial institutions providing remittance services that are subject to formal regulation and supervision. They are regulated by federal or provincial authorities.[17] As with financial institutions, however, MSBs in Canada are subject to AML/CFT obligations (customer identification, record keeping, reporting obligations). In addition, the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) has undertaken a wide-reaching outreach campaign, which has been aimed at making MSBs better aware of these obligations. The Canadian authorities are currently considering how best to implement international AML/CFT standards that require money transfer agents to be registered or licensed with authorities (Box 2).[18]

15. *Thoimoi* (in Toronto), *Thoi Bao* (in Toronto), and *Thoi Su* (in Vancouver) are examples of such newspapers.

16. The study team visited Toronto, Vancouver, and Montreal. Observations were confirmed in interviews with the *Communauté Vietnamienne au Canada,* a Vietnamese-Canadian NGO that is close to the Vietnamese communities and familiar with Vietnamese remittances.

17. The federal regulator is the Office of the Superintendent of Financial Institutions (OSFI). Each province also has its designated regulatory authority.

18. FATF Special Recommendation VI.

Box 2. Definition of Licensing and Registration

According to FATF's Special Recommendation VI, all funds transfer systems (formal and informal) should be licensed or registered with governing authorities. Of course, mere licensing or registration does not mean that a system is supervised in the same way as institutions in the regulated financial sector. According to the June 2003 International Best Practices Paper, licensing implies that the regulatory body has inspected and sanctioned the particular operator to conduct such a business, while registration simply means that the operator has been entered into the regulator's list of operations.

Source: FATF 2001.

The Proceeds of Crime (Money Laundering) and Terrorist Financing Act of 2001 (PCMLTFA) and implementing regulations contain AML/CFT measures which cover a broad range of reporting entities in Canada, including MSBs. The legislation also created FINTRAC, which is responsible for receiving, analyzing, assessing, and disclosing financial intelligence on suspected money laundering, terrorist financing, and threats to the security of Canada. Under this legislative framework, a number of regulatory requirements are applied to MSBs, including the development of an internal AML compliance program.

CHAPTER 2

At the Intermediary Stage

The intermediary channel involves funds transfer services whose principal motivation is profit. Intermediaries respond to the needs of consumers in order to develop and sustain the profitability of their businesses. Despite the continued widespread use of IFT systems, Vietnam has made progress expanding the range of formal intermediary services in its market. This formalization of the channel is still at an early stage of development, however, and the potential for abuse of some informal channels remains. The notable features at the intermediary stage in this corridor are discussed as follows:

- The continued widespread use of informal systems for cross-border money transfer;
- The level of development of the Vietnamese financial sector; and
- Impediments to the development of remittance services by Canadian RFIs.

Widespread Use of IFTs

As noted above, IFT systems are widely used in the remittance corridor between Canada and Vietnam. There are generally three methods for informal transfers from Canada to Vietnam: transfer through an MSB, "hot transfer" (*Chuyen Tien Tay Ba*), and hand delivery of undeclared cash. The main incentives for using IFT systems in this corridor are cost, speed, and cultural familiarity. Views are mixed as to whether IFT systems are more reliable than formal channels. IFT users interviewed in the field, along with members of the remittance industry, generally perceive IFT systems as reliable channels, while members of

the law enforcement community say they are less reliable than their reputation indicates, and that users are often scammed.[19]

MSBs. While MSBs are subject to regulations issued by FINTRAC, there are informal channels that operate within this class of money remitters that may not fully respect their regulatory obligations. This does not necessarily mean that these channels are unreliable, illegal, or illegitimate, but it does raise concerns about the potential for abuse that exists in the operation of these informal channels. This potential is illustrated in Box 3.

Box 3. Maintaining the Integrity for the Canada-Vietnam Remittance Corridor

In remittance corridors, there is the possibility that criminals may misuse transfer systems in an effort to further their illicit activities. Therefore, in order to protect the integrity of remittance flows, there must be appropriate regulatory framework and effective implementation of these standards. While the following reports from the Canadian media should not be generalized to suggest that remittance systems facilitate crime, they should alert policymakers that it is necessary to guard against the possible abuse of these systems by criminals.

A series of coordinated searches conducted by authorities in Canada and the United States were reported by the media on March 31, 2004. These searches were said to have targeted both residences and businesses thought to belong to an international criminal network involved in drug-trafficking and money laundering. Newspapers reported that this particular criminal network was responsible for producing ecstasy and marijuana in Canada and distributing it throughout the United States and then laundering the illicit proceeds from the drug-trafficking back to Canada and to Vietnam.

This criminal network reportedly employed both real and fictitious companies in order to launder the proceeds from the drug-trafficking back to Canada and Vietnam and is said to have also provided money laundering services for other drug-trafficking networks. According to *The Ottawa Sun,* the network disguised the origin of the proceeds and used money remittance firms to launder the money. In one particular instance, a drug courier was reported to be found by officials at the United States-Canada border with approximately US$750,000 concealed in the fuel tank of his automobile. This particular criminal network is reported by the media to have laundered approximately US$5 million each month.

Sources: RCMP (News Release), the Globe and Mail, the Ottawa Sun.

Hot transfer. "Hot transfers" use offsetting accounts and other booking methods to facilitate transactions in a manner similar to that used by *hawala* dealers. Interviews with private sector entities and government authorities suggest that the settlement of most hot transfers is connected to trade flows. IFT operators in Canada usually have other businesses at the same location, such as a video store, or a parcel delivery service, or an ethnic stores grocery store. These businesses use trade flows and shipments to facilitate value transfers in the corridor through over- and under-invoicing.

Hand delivery. Vietnam's custom regulations allow an individual to bring a maximum of US$3,000 into Vietnam. Interviews by the study team revealed mixed views of the utility of hand delivery for remittances. Some interviewees suggested that it had declined in popularity due to more stringent customs and declaration measures in Vietnam. However,

19. Interviews conducted with members of Ontario Police, Ottawa Police, and the Royal Canadian Mounted Police.

some interviewees also revealed that couriers and people carrying cash were able to find ways to circumvent measures at the border.

IFT Operators in Vietnam

IFT systems are widespread in Vietnam. Operators were easily found in a market in Ho Chi Minh City and on a street in Hanoi. It took the study team two store visits in both cities to find the IFT operators. Informal money transfers tend to be directed more towards the North, while formal transfer services have greater penetration in the South. The large sums of money that enter Vietnam through informal money transfers fund a variety of activities. Remittances may support ordinary household consumption or used in connection with a holiday or family celebration. Some recipients interviewed by the study team have used remittance funds to open restaurants and hotels (Box 4).

Box 4. IFT Systems in Vietnam

Informal funds transfer systems operate in the main markets in Vietnam. IFT operators were easy to find in Ho Chi Min City and Hanoi. The study team found them in the second shop they visited.

Ho Chi Min City (*Ben Thanh* market)

The operator owns a jewelry shop located approximately 10 meters from a Western Union agency. Members of the study team pretended to be conducting a transfer operation between Canada and Vietnam. A fictitious transaction was described in the amount of $600,000. The IFT operator made a few phone calls to her contacts in Canada. She asked for a telephone number in Canada where the sender could be reached and received instructions from her correspondent in Canada. The commission was to be 6 percent.

This system is part of a network connecting senders and recipients in Canada and the United States. The following steps are required to complete the money transfer operation.

- A sender deposits money in a designated bank account in the originating economy.
- An IFT system operator in Canada confirms the deposit and provides a code to the remitter.
- The IFT system operator in Canada calls an IFT system operator in Vietnam to transmit the code;
- The sender calls the recipient to convey the code.
- The recipient receives the money in exchange for the code from the IFT system operator in Vietnam.

The money is available in Vietnam as soon as the deposit of money in Canada is confirmed by the IFT system operator in Canada. This type of system could be classified as informal value transfer because there is no actual transfer of funds, but rather offsetting entries to separate accounts.

Hanoi: (*Hang Bac* Street)

IFT operators were identified in Hanoi. However, they said that they had temporarily halted transfers because of pressure from authorities. They asked the study team to come back in a week.

Source: Interviews with IFT operators.

Interviews revealed that IFT operators follow a general pattern for remittance operations. The operator in Canada sends money to Vietnam every business day at five in the afternoon (morning in Vietnam). The partner in Vietnam delivers the money to the recipient within

the day. In total, the transaction takes less than 24 hours. Accounts between operators are settled through bank accounts or flows associated with trade (Box 5).

Box 5. 24-Hour IFT Operations between Canada and Vietnam

IFT operators in Vancouver and their counterparts in Vietnam require less than 24 hours to transmit and deliver a remittance. For example, a remitter deposits money at 10 a.m. in Vancouver; the IFT operator transfers it to Vietnam the same day at 5 p.m. The IFT operator's counterpart in Vietnam receives the money instantaneously (at 7 a.m. Vietnam time). The recipient has the money within the day by a door-to-door delivery.

Time Elapsed	0 Hour	7 Hours	17 Hours
Canada Pacific Time	10:00 AM	5:00 PM	3:00 AM
Canada (First Mile)	**Deposit**		
Intermediary		**Money Transfer**	
Vietnam (Last Mile)			**Delivery**
Vietnam Time	12:00 AM	7:00 AM	5:00 PM

Source: Interviews with the Vietnamese community in Vancouver and IFT operators.

Advantages of IFTs

Formal funds transfer systems have yet to match the speed and low prices of IFT systems from Canada to Vietnam. In the Canada-Vietnam corridor, speed is a critical difference between formal and informal systems. Transfers through banks and other major MSBs, such as Western Union, can take 2–5 days in contrast to 24 hours for IFT operators. In some cases a remittance through formal channels to a rural region in Vietnam can take a month.

An IFT agent typically charges 1–2 percent of the transferred amount for each transaction, depending on the size of the transaction. Fees in the formal sector vary widely, from 2 to 10 percent. Some formal system operators charge a smaller percentage but with the addition of a flat fee.[20] In the case of bank transfers, additional fees may be charged to recipients by the intermediary and distributor in Vietnam. Remitters are thus likely to pay more when using formal operators.

Development of the Vietnamese Market

Economic growth in Vietnam and the increase in remittances from Vietnamese abroad have attracted new market players to the remittance market in Vietnam. While Vietnam has much to do to foster its remittance market, progress has been made in recent years.

20. According to interviews we conducted with remittance system operators and the Vietnamese communities, the fee for the FFT is approximately 2 percent. IFT agents charge 1.6 percent of the transferred amount for each transaction (2 percent if the transaction is smaller). Most major banks and MTOs charge 3 percent or more depending on the speed of the remittance. Flat fees may also be incorporated into the price.

New market competitors. In 2002, the state widened the field of companies that could operate as MTOs. About 50 banks now are allowed to conduct remittances business in Vietnam. The top three in remittance receipts are VICB, East Asia Bank, and Asian Commercial Bank. One bank claimed in interviews that it had controlled the entire remittance market in Vietnam in the past but now has just 10 percent of it, having lost market share to new competitors that entered with aggressive market strategies and specialized services.

Banks partner with MTOs and other businesses to create channels.[21] These partnerships have produced a variety of networks with varying degrees of success. Most of the commercial banks sign contracts with other financial institutions to operate as agents, while some banks have their own MTOs. In Vietnam, banks are allowed to enter into relationships with any kind of company. Nonbank financial intermediaries—finance companies and leasing companies—began last year to develop remittances business.

The technological imperative. If intermediaries in the formal sector upgraded their technology and otherwise improved their remittance services, they could begin to compete with the faster service and cheaper rates offered by the IFT service providers. Currently, banks and credit unions rely almost exclusively on the SWIFT network, which is expensive and slower than a network platform designed specifically for personal remittances.[22] Some formal intermediaries simply rely on Western Union's system network, but operators that depend exclusively on Western Union and SWIFT to conduct remittances are not likely to catch up with the speed and low cost of IFT systems.

Modernizing payment systems. The Vietnamese government has undertaken a much-needed reform of the country's payments systems. Compatibility problems among the systems in place in different regions of the country has been a serious obstacle to the clearing of interregional transactions. With the assistance of The World Bank, a nationwide clearing house is being established, and assistance is being provided to strengthen, *inter alia,* banks' own internal payments systems, which should also serve to facilitate remittances transactions.[23]

Limited ATM/card products. Developing card products and increasing the number of ATM machines are technological advances that could facilitate further expansion in Vietnam's remittance market. Nationwide, there are currently some 400 ATMs in Vietnam, of which 300 have been upgraded. State and commercial banks are planning significant investments in ATMs. Credit cards have not as yet come into use, but Eastern Asian Commercial Bank (EAB) is reportedly planning the issuance of credit cards for remittances.

Impediments Facing RFIs in the Canada-Vietnam Corridor

Canada's banks and credit unions are beginning to explore the potential of the market for remittances to Vietnam. As Canadian RFIs generally prefer correspondent banking

21. Western Union has started to build a presence in Vietnam. It has some 200 agency offices in the country. Western Union has signed a direct contract with several banks and a trading company—ACB, VBARD, VPB, and EDEN—providing them with software and staff training.

22. SWIFT is the acronym for The Society for Worldwide Interbank Financial Telecommunication, an industry-owned cooperative supplying standardized messaging services and interface software to 7,600 financial institutions in 200 countries.

23. Implementation of the Payment System and Banking System Modernization Project, which was approved in 2002, got off to a slow start but is now reported to be progressing well.

relationships with foreign banks, however, the limited development of the Vietnamese financial sector is currently a constraint on the formalization of the remittance market in the corridor. Its pace will depend to a considerable degree on progress in Vietnam's transition to a modern financial system. The strength of ethnic preferences among the *Viet Kieu* in Canada, along with their relatively small number, also limits the incentive for RFIs to make the investments necessary to integrate migrant Vietnamese customers into their global remittance operations.

CHAPTER 3

At the Last Mile

In addition to relative costs, reliability and their own convenience, senders' choices among remittance options at the First Mile are influenced in part by the convenience and costs to their relatives on the receiving end. The following discussion highlights the following issues:

- The limitations of available remittance data in Vietnam;
- The principal distribution channels;
- Recipients' desire for anonymity; and
- The impact of government policies on remittance decisions.

Data Limitations

Lack of data severely limits the analysis of remittances to Vietnam. Improving the quality of data on remittance flows and migration patterns is a priority for enabling a better understanding of remittance impacts and the design of more effective policies. The State Bank of Vietnam (SBV) is making efforts to record and better organize data on remittance flows, but the process needs to be strengthened. According to officials, SBV began to record remittance flows to Vietnam in 1996, and authorities continue to explore ways to organize data in a way that is compatible with the IMF's balance-of-payments statistics. Banks are currently required to report the total volume of remittance flows passing through the institution, but are not asked for more detailed information regarding, for example, the origin of the flows or their regional distribution. Similarly, no official record is kept of the average value of remittances or the number of transactions per year. The present report has thus had to rely largely on interviews and anecdotal evidence to go beyond the aggregate numbers.

Principal Distribution Channels

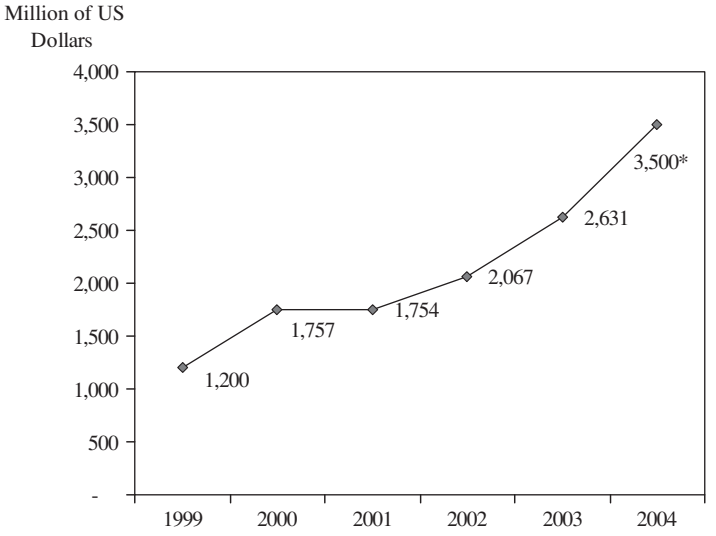
Vietnam is largely a cash-based economy, the banking sector is weak, and IFT systems are widely used. Furthermore, the rural sector is poor, and its access to formal financial institutions is severely limited. Apart from the lack of physical infrastructure, banks have not developed the internal technology necessary to make efficient transfers, leading to high costs that discourage potential clients and stunt the expansion of these channels. Banks and businesses that distribute remittances have made some effort to improve their accessibility to customers, but the impediments in Vietnam's financial and banking sector mean that IFT systems remain faster and cheaper than formal systems.

Figure 4 shows the level of remittances arriving in Vietnam through the formal financial system, and Figure 5 indicates the breakdown by type of institution. As shown, some US$1.4 billion, or 67 percent of total recorded remittances, were transferred through the banking system in 2002. MTOs accounted for most of the remainder, US$553 million, with small amounts transferred through the postal service and customs administration.

Distribution Systems in Rural Areas

The urban and regional centers of Vietnam have begun to pave the road for remittances. Remittance distribution networks such as banks, MTOs, and some nonfinancial institutions have been useful in the distribution of remittances to the recipients in major urban areas such as Hanoi and Ho Chi Minh City, which have the largest concentrations of remittance recipients. However, few banks or MTOs have opened branches in rural areas. Postal

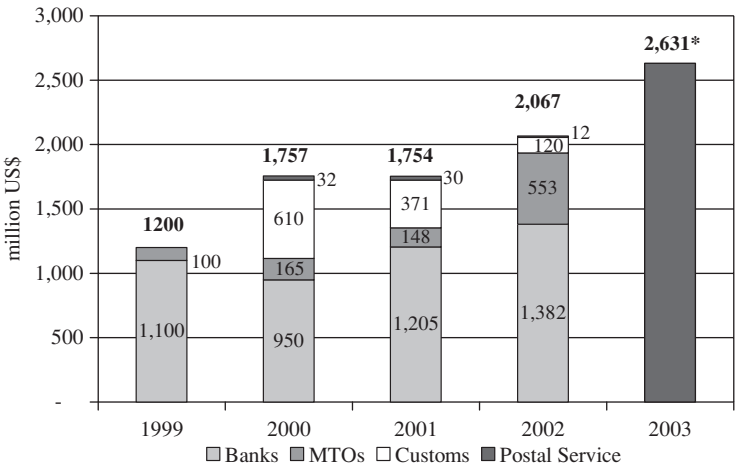
Figure 4. Remittances Transferred through the Vietnamese Banking System, 1999–2004



* Projected by the State Bank of Vietnam.

Sources: Vietnamese Commission, Ministry of Foreign Affairs.

Figure 5. Composition of Worker's Remittances by Transfer Instruments, 1999–2003



*No data are available for the 4 categories

Sources: Vietnamese Commission, Ministry of Foreign Affairs.

services are widely available throughout Vietnam, but this channel has yet to be exploited for the distribution of remittances.

Western Union has recently agreed to partner with the Vietnamese Bank for Agriculture and Rural Development (VBARD), which has the country's largest branch-banking network, in order to assist remittance transfers to rural areas, where 87 percent of VBARD branches are located. Under the partnership, Western Union will offer its services at more than 615 branches. This is a positive but still small first step in paving the road for formal remittances into rural communities.

Meanwhile, because the distribution of remittances through formal channels can take up to a month in rural areas, IFT systems serve an important and legitimate need. The authorities realize that improving technology and infrastructure will be key factors to overcoming these problems. Meanwhile, given the early stage of development of the remittance market and the weakness of the Vietnamese banking sector, it is clear that IFT systems will continue to serve the demand for financial services in rural areas.

System Preferences by Type of Sender

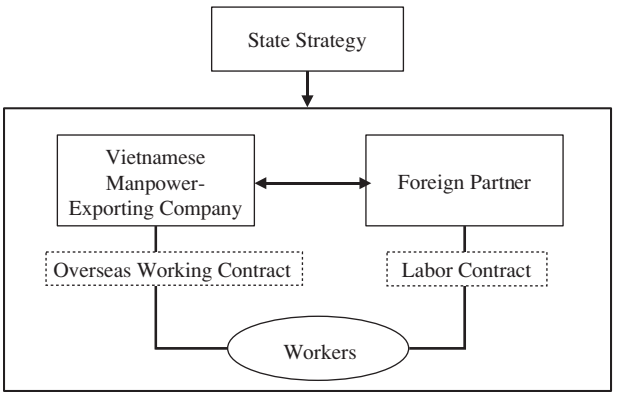
Particular types of senders tend to be associated with specific remittance delivery systems. Most temporary workers, for example, having been organized by the government into work programs and plugged into a formal remittances arrangement as part of their orientation, use formal channels to remit. The Vietnamese government provides pre-departure training and orientation for temporary workers, including language, an introduction to the host country's laws and customs, and vocational skills. Furthermore, the government has put in place a supporting system for migrants facing problems abroad and for the reintegration of returning migrant workers. The *Viet Kieu,* on the other hand, have tended to develop and rely on informal channels for reasons discussed below.

Box 6. Legislation and Procedure of Vietnam's Labor Export

Vietnam does not have a consolidated law on labor migration yet. Labor migration is stipulated in the Labor Code, promulgated in 1994 and amended in 2002, as well as in other legal documents which include:

- Government Decree No. 152/1999/ND-CP of September 20, 1999, guiding the implementation of the Labor Code's regulations on the sending of Vietnamese workers abroad to work for a definite time.
- Circular No. 28/1999/TT-BLDTBXH of November 15, 1999, providing guidance for the implementation of the Decree No. 152/1999/ND-CP.
- Decree No. 05/2000/ND-CP of March 3, 2000, on exit and entry of Vietnamese citizens.
- Government Decree No. 12/1995/ND-CP of January 26, 1995, on promulgating the Social Security Registration.

Figure A. Procedures of Labor Export



Sources: International Organization for Migration (IOM), Department for Administration of Foreign Employed Labor Force (DAFEL)

Use and Regional Distribution and Costs of Remittances

There seems to be a high correlation between the type of sender and the end-use of the remitted funds in Vietnam. Based on the interviews carried out, remittances from *Viet Kieu* are primarily used for holiday events and investments in family enterprises and real estate. On the other hand, remittances from temporary migrant workers go primarily to sustain family consumption in rural and urban areas.

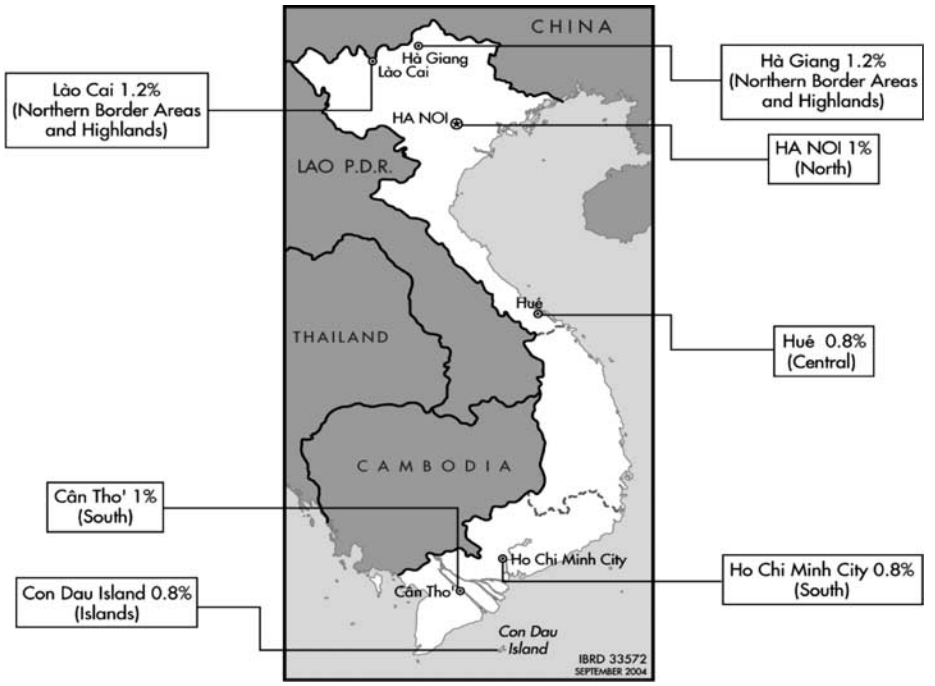
The geographical distribution of remittance flows also varies with the type of sender. Because most *Viet Kieu* migrated from the South and maintain links to that region, remittances from the countries where they reside (United States, Canada, Australia, and France) tend to go to the South. In contrast, most of the temporary workers who have gone abroad under government-sponsored programs are from the Central region and the rural areas of the North, which are the least developed in Vietnam. There have been three waves of temporary worker migrations. The first began in the early 1980s, with a small number of tech-

nical workers going to former socialist countries in Eastern Europe. The second commenced in the late 1980s, when thousands more workers were sent to Eastern Europe. The third wave started in 1994, when migrant labors were sent to Japan, Republic of Korea, Kuwait, Lebanon, and Saudi Arabia, in addition to neighboring countries.[24]

Finally, as shown in Box 7, the costs of remittance distribution at the Last Mile, vary widely by location of the recipients. The highest costs are typically paid in the northern border areas and highlands, with the lowest costs found in the major cities of the South.

Box 7. The Cost of Distribution at the Last Mile in Vietnam

The commission collected by distributors of funds in Vietnam is determined as a percentage of the funds transferred. The percentage charges vary according to the region in which the funds are delivered, depend principally on the difficulty of delivery and the availability of channels to pay out remittances. The highest percentage is for communities in the northern border areas and highlands and the islands of Phu-Quoc, Phu Qui, and Con Dao. Cities in the North and remote areas in the South fall in the middle range, while cities and surrounding areas in the South and Central regions pay the lowest commissions. The map below illustrates the three levels and some of the cities that have been identified as the main centers of recipients in the country.



Source: World Bank.

24. IOM (International Organization for Migration). 2003. *Labour Migration in Asia: Trends, Challenges and Policy Responses in Countries of Origin.* Switzerland. http://www.iom.int//DOCUMENTS/PUBLICATION/EN/LabourMigAsia.pdf.

Anonymity as a Last Mile Incentive

IFT operators meet the demand of the recipients in rural areas in many ways. Not only do they offer distribution into rural areas where formal systems have not penetrated, but they conform to the cultural and personal desire for anonymity—an important factor for many recipients in Vietnam, especially in rural areas. Some rural recipients prefer IFTs, because they do not want neighbors or local officials to know they receive money. In rural areas, local government oversight can be strong and, at times, intrusive from the perspective of senders and recipients. Once government officials or other community members know that the person receives money from overseas, they question where the money comes from, ask for loans or "gifts," and monitor the spending habits of the recipient. In formal transactions, particularly when large amounts are involved, identification papers *(Chung Minh Nhan Dan)* must be produced at the pickup window to receive remitted funds. IFT systems, in contrast, offer discrete door-to-door service, allowing the recipient to avoid making public trips to a bank or outlet. Some formal channels are now also offering door-to-door remittance service.

Government Policy and Remittances

Vietnam's strict foreign exchange and capital account controls have been a burden on the formal remittances industry, and migrants abroad pay careful attention to Vietnamese regulations affecting remittances. Generally, money can be received and withdrawn only in local currency, and U.S. dollars may be used only in authorized shops or deposited in banks. The market for informal systems is fuelled in part by the strong incentive for Vietnamese workers abroad and their families in Vietnam to evade these policies and the unfavorable exchange rate that underlies them. Anecdotal evidence indicates that the Vietnamese authorities have often seized particularly large, formal remittance transactions. This sort of unpredictable behavior on the part of regulators undercuts efforts of formal remittance channels generally to establish a reputation for reliability.

These past experiences feed the skepticism and uneasiness already present among *Viet Kieu* remitters. While Vietnam has increasingly embraced market-oriented principles over the years, a general sense of mistrust lingers among the *Viet Kieu* in North America. Because the SBV and the government of Vietnam continue to play substantial roles in Vietnam's remittance market, *Viet Kieu* remitters will respond to interventions in formal remittance markets by using informal channels through contacts that they believe can be trusted. However, Vietnamese authorities note that, in order to increase the remittances coming into Vietnam, they removed a 5 percent tax on remittances in 1997, and that their policies toward remittances have not drastically changed in the past five years. They believe that many *Viet Kieu* remitters simply are not familiar with current government policies. These remitters, according to Vietnamese officials, simply continue to use IFT systems by force of habit.

Personal contacts are important in IFT systems, which rely on trust, respect, and long lasting relationships. An incentive to use this form of transfer is that it provides a way around laws, taxes, and administered prices that affect the transfer of money in and out of Vietnam. Personal contacts can facilitate exchange of value between sending and recipient economies, especially when the amount involved exceeds the legal amount allowed for a transaction within a specific period. As the Vietnamese government adjusts policies and decreases unpredictable interventions into the remittance market, *Viet Kieu* remitters are more likely to explore formal options for remitting.

CHAPTER 4

Lessons from the Canada-Vietnam Remittance Corridor[25]

The volume of funds moving through the Canada-Vietnam remittance corridor has been growing over the past decade but the corridor's operations are only partially formalized. Informal remittance service providers and transfer systems offer substantial advantages to clients in terms of speed and cost, and cater to the cultural preferences of the Vietnamese immigrants in Canada. The immigrants' distrust of the Vietnamese authorities, and the desire to evade the costs imposed by the latter's controls on financial inflows and the exchange rate, provide additional incentive to eschew formal transfer mechanisms. Moreover, the number of Vietnamese in Canada is small relative to other immigrant groups, and their remittance business has not yet attracted the investments by formal financial institutions that would permit the latter to compete with the informal service providers.

Based on an analysis of market incentives, using the APEC Framework, the report discusses the main factors that are affecting users' choices among formal and informal transfer systems in this corridor.

1. Remittances to Vietnam have grown considerably over the past decade, but Canada is only one sending country among many, and the market for remittances between the two countries remains relatively small in absolute terms.
   - The Canadian-Vietnamese population is relatively small compared to other ethnic groups in Canada. Even so, several Vietnamese banks and MTOs name

25. The scope and depth of the conclusions presented here have been limited by the relatively scarce data that are available. The conclusions have therefore been based largely on the interviews conducted by the study team in both Canada and Vietnam. A principal recommendation from this exercise is the need for further research.

Canada among their top sending countries. While remittances have been a growing area of interest in Vietnam, the formal market serving this corridor in Canada is not highly developed.
- Further research is needed to evaluate the market potential of this corridor. Requiring financial institutions in both Canada and Vietnam to collect and organize remittances data at both the First and Last Mile could enhance understanding of this corridor as well as of remittance flows from and to the two countries more generally.

2. There are two distinct classes of "senders" to Vietnam: temporary migrant workers and *Viet Kieu.*
   - Vietnamese authorities facilitate the overseas travel of temporary migrant workers and have them establish bank accounts for remitting home. *Viet Kieu* are expatriates who have been living abroad for a longer period of time, many having left Vietnam following socio-political upheavals.
   - Temporary migrant workers tend to remit smaller amounts more frequently for daily family consumption, while *Viet Kieu* typically remit larger amounts less frequently for investments and business purposes as well as for special holidays.
   - Formal institutions could capture a larger share of the remittance business in this corridor by developing remittance products and services that more closely meet the particular financial needs and habits of each type of sender.
3. The growth of the remittance market in Vietnam is evident, even though detailed data are lacking.
   - The State Bank of Vietnam requires that financial institutions report the total value of remittance flows received, but without specifying senders or other information. The organization of the data is inconsistent with that of the balance of payments. The authorities are open to amending their data recording procedures to be more consistent with international norms.
   - Better data collection and organization could bring information and greater transparency to the market for the benefit of consumers, regulators and the private sector.
4. The behavior of the Vietnamese government and the regulatory framework play critical roles in influencing whether senders transmit funds through formal or informal channels.
   - The government of Vietnam plays an active role in the remittance market, and its foreign exchange and capital account controls have affected the industry. Formal remittance flows have decreased, presumably shifting to informal channels, when the receipt of remittances has been taxed or allowed only in local currency at an unfavorable exchange rate.
   - Vietnamese expatriates based in North America tend to be more skeptical of Vietnamese authorities than do their counterparts in other places of the world.
5. Canada's regulatory scheme targets international remittances systems in the context of AML/CFT.
   - Canada's financial institutions are regulated federally or provincially, depending on their respective charters. AML/CFT reporting requirements and com-

pliance regimes are in place for all institutions involved in money transfer. Outside of the AML/CFT context, however, international remittance operators are not covered by financial sector regulations.

6. Competition in the Vietnamese remittance market has increased in recent years, and the market has witnessed the forming of a variety of partnerships among intermediary channels.
   - Several years ago, one bank in Vietnam monopolized the market for remittances. Today, this same bank reportedly retains only a 10 percent share the market. In 2002, regulations were changed to allow more financial companies to provide remittances services. MTOs, banks and other financial institutions are sharing networks and building partnerships to enhance their business potential.
7. Technological advances have yet to impact the Canada-Vietnam corridor.
   - The Vietnamese market has relied largely on traditional MTO network platforms and bank-to-bank wires for the transfer and clearing of remittances. While formal channels in Canada enjoy access to new technology, this has not yet been transformed into new remittance products for the Canada-Vietnam corridor.
   - Competitors at both the First and Last Mile are interested in developing card-based products. Vietnam is particularly interested in increasing its number of ATMs to facilitate card-based transfers, as well as developing modernized clearing and payment systems to link regions.
   - Canadian and Vietnamese financial institutions could promote the formalization of remittance flows and improve their own market shares by cooperating in the development of innovative products that take advantage of available technology.
8. Informal remittance channels are still widely used in the Canada-Vietnam corridor.
   - While some close to the industry claim that IFT system use has declined in recent years, field interviews revealed that IFT channels are easily accessible and remain popular in Vietnamese communities at the First Mile. At the Last Mile, Vietnam's banking sector is weak in the underdeveloped rural areas that comprise most of the country. Though data are scarce, it is evident that informal systems are in wide use.
   - Further research is needed on the role of IFT systems in Vietnam to gauge their operational features and beneficial aspects, as well as dangers, and to devise efficient methods for improving the access of rural families to formal financial services.
9. Informal remittance channels continue to have a competitive advantage in cost, speed, reliability and cultural familiarity.
   - Practitioners in the market note that IFT systems tend to be cheaper and faster than formal channels.
   - At the First Mile, IFT systems to Vietnam are ethnically exclusive, and one generally has to be Vietnamese to access them. This aspect of culture, combined with the fact that IFT systems have long operated in spite of Vietnam's economic and socio-political shocks and government interventions, lends them a reputation for greater reliability.

- Formal competitors would have to make their operations more efficient to be able to compete with channels unburdened by the costs of regulatory compliance.

10. IFT systems are associated with legal trade as well as with smuggling and other criminal activities.
    - Many IFT systems use trade and smuggling to balance transactions between informal operators. At the First Mile, recent law enforcement stings have targeted Vietnamese gangs associated with the drug trade and money laundering.

CHAPTER 5

Policy Recommendations

Although this study has shown that the shift of remittance activities from informal to formal channels in the Canada-Vietnam corridor is still at an incipient stage, a number of measures could be taken to encourage this development while also improving the enforcement of international standards for integrity and transparency in the market.

1. More detailed research should be initiated and better data collected on the characteristics and potential of the Canada-Vietnam remittance corridor to better evaluate its potential for development and to inform private investors and official policymakers of the measures needed for its regulation and formalization.
2. More research is needed on the link between IFT systems in the Vietnamese community and crime to raise awareness and reveal the potential instabilities and danger of relying on such systems.
3. Regulations affecting remittances should be applied transparently and consistently in both countries to give predictability and ensure a level playing field for market competitors.
4. Requiring the registration, licensing, and supervision of money service businesses in Canada could help to strengthen the regulation of remittance flows in the corridor and ensure the integrity of the system.
5. As the regulatory framework is further developed in Canada, care should be taken to ensure harmony between federal and provincial regulations and to maintain a level playing field among the competing institutions.
6. Vietnamese regulators should recognize the benefit of regulations that foster competition and private sector expansion to stimulate more improved service and a more dynamic and efficient formal remittance sector.

7. The government of Vietnam needs carefully to consider how its policies and interventions into the market affect remittance flows, which have become an increasingly important source of financing for the economy.
8. Bilateral government initiatives to encourage the formalization of the market should be explored by Canada and Vietnam.
9. Both the public and private sectors can help generate awareness of, and confidence in, basic banking services, including remittance services in both Canada and Vietnam, by sponsoring financial literacy programs.

APPENDIXES

APPENDIX I

Operational Features of the Remittance Industry

This Annex discusses some of the key terms used in this APEC case study to describe the operations and features of a remittance system and the industry. It begins with a brief global overview of flows, followed by a description of the various stages of the remittance process, and concludes with a discussion of some aspects of the business side of a transfer system.

Global Flows

Migrant worker remittances flow through both formal and informal fund transfer systems. In 2003, workers' remittances totaled an estimated US$93 billion and were the second-largest financial flow to developing countries after foreign direct investment. In 2002, remittances were larger than both official and private investment flows in 36 developing countries for which data were available (World Bank 2003a). In some regions, such as Latin America, worker remittances account for most of the flows going through fund transfer systems.

Overview of Operational Features of Fund Transfer Systems

There are three stages involved in the basic operations of remittance systems: origination, systems operation, and distribution.

Origination

This is the "point of entry" or "First Mile," where originators receive the transaction request and funds from a remitting customer. Formal funds transfer systems generally aim

to have a wide network of originators that are conveniently located and customer-oriented. For example, in the United States, entry points include branches of money transfer operators (MTOs), money services businesses (MSBs), banks, agencies operating in grocery and other retail stores and many other creative outlets. The number of points of entry in the United States for remittances is unknown. Regulators' estimates, based on little more than guesses, range from the tens to hundreds of thousands.

Systems Operation

The systems operator creates the cross-border path, linking origination and distribution points. Systems operators typically accomplish this through a digital network platform that is specially developed to facilitate remittance transactions and connect a series of originators and distributors together. The persons and companies that provide this service are the key players of the "Intermediary Stage," affecting the transfer of funds from the originator to the distributor.

Distribution

The distributor delivers funds to the recipient at the Last Mile. As in the case of an originator, the key criteria for choosing a distributor are reliability, convenience, location and customer service. The available distribution channels in a recipient country are important factors in guiding a sender's choice of remittance system. While points of origination tend to be plentiful in sending countries, due to the developed financial sectors, points of distribution in recipient countries can be scarce, especially in rural areas.

Some market competitors are able to dominate the industry with well-established distribution networks that other competitors cannot rival. It is this "Last Mile" challenge that requires attention if remittance-receiving countries want to maximize the potential of remittances by expanding distribution channels that offer a variety of useful financial services to the remitter, such as savings accounts.

Together, the three functions represent a "channel," which may be configured in a variety of ways. Some businesses own points of origination on one side of the border and contract with other businesses that run points of distribution on the other side of the border. These two may, in turn, contract with a systems operator to run the network between them. Thus, three market players may be involved in one channel and split the costs and profits among them. Some competitors may have diversified their market roles, occupying different niches based on agreements with other business partners. The competitive dynamic is complicated when, for example, a systems operator not only runs the network for third-party businesses, but also runs its own originators and distributors, and possibly outsources some specific operations. Originators and distributors, if not themselves formal financial institutions, will typically maintain accounts in formal institutions for clearing their transactions.

Cost, Price, and Profit in the Remittance Industry

The relative costs associated with running the different functions of a formal channel typically break down as follows:[26]

26. Industry averages provided by Grace, David and Anna Cora Evans. 2003. "Offering a Practitioner's View of Remittances." World Council of Credit Unions. Washington, D.C. February.

- *Origination* (30–40 percent). Costs include staff, retail location, telephone line, and marketing.
- *Systems Operation* (40–60 percent). Costs include licensing fees, staff, office, network, operating platform, marketing, regulatory and compliance costs.
- *Distribution* (17–25 percent). Costs include staff, retail location, telephone line, and marketing.

The key link is the systems operator, who bears the burden of most expenses and claims the largest share of the revenue. Competition is centered around the systems operator, who controls the technology linking the sender to the recipient through originator and distributor networks.

Generally, the division of revenue follows the division of costs in remittance business relationships. Fees are paid up front by the sender. Distributors, who usually do not collect any revenue from the recipient, receive their compensation from the revenues collected by the originator. Profit from a remittances transaction comes from two main sources: explicit transaction fees and a spread on the foreign exchange conversion. Remittance services can also add to providers' profit by the cross-selling of other services or products at both the points of origination and distribution. This is particularly the case with banking institutions.

Promoting competition is an important way to reduce prices. Remittance prices tend to be lower in countries with the most competition (Inter-American Dialogue 2004). In countries where competition is limited, prices are higher, and increasing competition, along with pressure from clients, social groups and legal demands, has led to the drop in prices from the dominant money transfer operators in some remittance corridors (Orozco 2003a). This competitive dynamic is quite apparent in the United States–Mexico corridor, where traditional MTOs are no longer the single dominant players in the market, and prices have dropped steadily over the past decade.

Growing competition, technological innovation, improving efficiency, profitability, and market expansion all feed on one another as the market develops. Given the high fixed costs of mounting a modern digital transfer network, a large volume of transactions is needed to realize the available scale economies. At the origination and distribution stages, where many migrants require intensive personal assistance to deal with language and other social barriers, remittances can be highly service-intensive and involve high operating costs. By offering these services, formal financial institutions, attracted by the growing remittance market and the opportunity to sell other services, are increasingly competing with informal remittance service providers for this business.

Money transfer operators charge high proportional fees to compensate for the cost of small transactions (Solimano 2003). Other factors affecting the remittance market and prices are exchange rate risk and government regulations in the receiving and sending countries. Where exchange rate administration and/or capital controls result in an official exchange rate significantly different from the free market rate, a strong incentive is created to use informal remittance channels as a means of evasion. Where the market rate itself is subject to large fluctuations, remittance operators will charge higher fees or spreads to the remitter and/or to the recipient to cover the risks involved. Government regulation of financial institutions and of remittance transactions, even though warranted by the risks of fraud and misuse, also raise the cost of doing business, and perhaps impede the entry of market competitors, thereby also raising the costs to senders and receivers of remittances.

APPENDIX II

Market Overview of the Canada–Vietnam Remittance Corridor

Appendix II introduces the general concepts of formal and informal funds transfer systems in Vietnam and identifies entities that fall into these two categories. The discussion then moves into the Canada-Vietnam remittance corridor highlighting formal and informal systems in the corridor.

Market Competitors: FFT Systems and IFT Systems

Vietnam's remittances industry is still in early stages of development, and growing remittances present entry opportunities for an assortment of competitors. For the purpose of the present study, these competitors can be classified according to the business nature of their institutions and the official registry of their transactions. Banks and credit unions, money transfer operators (MTOs), debit and credit card companies, and postal administrations are formal funds transfer (FFT) systems. Cash couriers and hot transfers are examples of informal funds transfer (IFT) systems. A robust informal financial sector, providing credit and other services to its customers, operates in Vietnam alongside the formal financial sector. This informal financial sector includes the moneylenders and ROSCAs (Rotating Savings and Credit Associations), also known as *Choi Hui* (Box II.1).

Formal Funds Transfer Systems

The following discussion of formal funds transfer systems describes the categories and features of different key market competitors in the Canada-Vietnam corridor. The lack of industry data makes it difficult to confirm detailed features of Canada's remittance market and the

Box II.1. The Informal Financial Sector in Vietnam

In Vietnam, like in many low-income economies, poor individuals and private enterprises have limited access to mainstream financial services in the formal sector. Therefore, it is common for these entities to seek credit and other services from the informal sector. According to the Far East Economic Review, March 4, 1993, 60–70 percent of credits given in the early 1990s came from the informal sector. The sources of informal credit in Vietnam include moneylenders, self-help groups organized with the help of NGOs or by the participants themselves and operating as ROSCAs (Rotating Savings and Credit Associations), also known as *Choi Ho/Hui*. Such informal credit operations are not legally protected and are thus especially risky for both lenders and borrowers.

Moneylenders

Moneylenders may be professional lenders, traders, or relatives or friends of the borrower. Typically, they are relatively wealthy members of their clients' communities. This close proximity to clients helps them to monitor the activities of the borrowers and to recover loans. Thus, moneylenders often do not require collateral, relying rather on mutual trust, developed through long and intimate relationships, as the basis for credit. It appears that the degree of this mutual trust determines the interest rates for loans. Interest rates charged by Vietnamese moneylenders are substantially higher than those of the state-owned commercial banks. Loans from moneylenders may frequently be associated with urgent consumption needs: for example, medical expenses, funerals or weddings. Sometimes people borrow from moneylenders in order to repay bank loans, thereby maintaining a credit relationship with the banks, which offer lower interest rates.

***Choi Ho/Hui* an example of ROSCA**

Choi Ho/Hui is a popular form of ROSCA in Vietnam that has existed for generations but has never been officially recognized. *Ho* derives from the word for 'relative' and is a credit group of 5 to 20 people. A *Hui* is normally a group of individuals who know and trust each other and contribute a set amount of money each month. *Ho* is popular in the North, while *Hui* (almost the same working mechanism but different name) is found in the South. *Ho/Hui* serves as an informal community or neighborhood credit system. The host is responsible for managing the funds collected for *Ho/Hui* and receives a commission. A member can withdraw an amount from the fund as a loan, which he or she later pays back with interest. The host or hostess guarantees the loan in the event of a borrower default.

Sources:
—Investment of Rice Mills in Vietnam: The Role of Financial Market Imperfections and Uncertainty, Chapter 3, by Le Khuong Ninh
—Analysis of the Informal Credit Sector in Vietnam by Tran Tho Dat http://www.gdrc.org/icm/viet-dat_tran.html
—Interviews with Vietnamese Canadian Federation in Ottawa
—Microfinance in Vietnam: A Survey of Schemes and Issues by Adam McCarty MDE Team Leader

roles and weights of the various enterprises in the industry. But the initial study indicates that banks and credit unions, the regulated financial institutions (RFIs), play a small role, while money service businesses (MSBs) play a dominant role in Canada's funds transfer industry.

RFIs

Some RFIs, particularly credit unions, have explored remittance programs in the Canada-Vietnam corridor in limited ways and with varying degrees of success. In Canada, banks typically seek customers for full banking services and have not sought business limited to remittances. There are technical challenges for banks and credit unions to become better-

established competitors in the remittance market, such as developing technology to facilitate faster and cheaper transactions and finding appropriate counterpart institutions to partner with at the Last Mile. In addition, if RFIs found the profit opportunities sufficient to justify this investment, they would need to better tailor remittance programs to serve the specific needs and preferences of Vietnamese migrants. As a start, they would need a better understanding of the general profile and remitting habits of the Vietnamese in Canada.

Money Service Businesses (MSBs)

MSBs, which include established commercial MTOs as well as less formal operators, dominate the Canada–Vietnam remittance market. MSBs are not prudentially regulated, nor are they currently subject to registration or licensing standards. There is a set of AML/CFT regulations that apply to all MSBs and RFIs, but enforcing these regulations for MSBs has been problematic. This does not automatically imply that these channels are unreliable, illegal or illegitimate. The institutions operating as MSBs include international giants like Western Union and MoneyGram. However, the lack of licensing/registration requirements or supervision makes it possible for anyone to open and run an MSB, and their lack of transparency is a concern. Some of these IFT systems are maintained by trading companies for furniture, textiles, rice, seafood, and other commodities; others may be mingled with illicit activity.

Debit and Credit Card Companies in Vietnam

After the mono-bank system in Vietnam was broken up, many credit institutions were created throughout the country. Although approximately 90 banks were created, Vietnam still remains an under-banked country with a primarily cash-based economy. There are four state-owned banks[27] that account for 80 percent of total banking transactions in the country and hold 70 percent of all customer accounts. An Inter-Bank Payment System (IBPS), which will provide data security, alternate routing and automated backup to protect the network, is currently being established in Vietnam as a key component of the developing financial sector.

The use of cash and credit cards and ATMs is also increasing. The country began with about two ATM machines in 1996 and now has more than 400. An SBV official predicts that there will be around 2,000 ATMs in the country in a few years.[28] There are about 350,000 debit cards in Vietnam, of which 295,000 are domestic and 85,000 are from international financial institutions. The development of ATM machines benefits customers and bankers. For bankers, ATMs attract many more customers and are able to operate more efficiently. Customers are afforded the 24-hour convenience and lower time and travel costs. HSBC has introduced a new global ATM to Ho Chi Minh City which operates 24 hours a day year round.[29] From these ATM machines, a customer can perform balance inquiries, cash transactions, and cash transfers between personal accounts. The ATMs are connected to Visa Plus and MasterCard/Maestro/Cirrus networks, which enables customers to control finances more easily.

27. Vietcombank, Bank for Investment and Development, VBARD, and Incombank.
28. ATM Growth Predicted in Vietnam: www.atmmarketplace.com/news
29. ATM Cards—HSBC Vietnam: www.vn.hsbc.com

The National Financial Switching Joint-Stock Company of Vietnam, which has US$6 million of funds, has started linking ATMs in Vietnam through its BankNet.[30] The network is represented by state-owned commercial banks and joint-stock commercial banks. Besides BankNet, there are also many other commercial banks that plan to link their ATM systems. For example, Vietcombank is planning on linking its 290 ATM machines with five other banks (Techcombank, Habubank, Chohung Bank, Military Bank and Eximbank).

Postal Administration

The postal system offers money transfer services. There is little data available on the volume of remittances transferred through this medium in Vietnam, but it does not appear to be a preferred channel for remittances, because it is significantly slower than IFTs and other FFTs.

Microfinance Institutions

The Vietnamese government recognizes the necessity to facilitate access to financial services to the poorest members of society, while also reducing other causes of poverty. In 1988, the creation of the Agricultural Development Bank (later transformed into the VBARD) and the development of NGOs were the first official steps toward lending to private enterprises in rural areas, mostly for farming activities (Fallavier 1998). In an effort to provide financial services specifically aimed at the poor, the government created two main institutions: (i) the People's Credit Funds (PCFs), created in 1994 as autonomous and self operated credit-and-savings cooperatives under the control of the Central Bank; and (ii) the Vietnam Bank for the Poor (VBP), created in 1995 as a non-profit branch of VBA that distributes subsidized credit to the poor. Microfinance activity in Vietnam has grown substantially in the last decade with the financial support of international donors and NGOs.

The government has directed a lot of attention to the development of rural areas. They have distributed funds to the rural Vietnamese banking system, and they are developing the postal system to facilitate the mobilization and transfer of savings. Experiments have been performed to test new forms of credit cooperatives. However, the lack of an overarching legal or regulatory framework for these efforts has been a deterrent to their progress.

Informal Funds Transfer Systems

Even though IFT systems operate informally, they may use bank savings and checking accounts to disperse the money into remittance recipients' bank accounts or to transfer funds to branches located in other locations far away.

IFT systems are widely used in the remittance corridor between Canada and Vietnam. There are generally three methods for informal transfers from Canada to Vietnam: 1) transfer through an MSB, 2) hot transfer, and 3) hand delivery (people traveling to the country carrying often undeclared cash). The main incentives for using IFT systems in this corridor are perceived reliability, reasonable fees, speed and cultural familiarity.

There are different views as to whether IFT systems are more reliable than formal channels. Members of the law enforcement community say that they are less reliable than

30. Commercial Banks Link ATM Systems: www.saigontimesweekly.saigonnet.vn/data/vietnam

their reputation, and that users are often scammed.[31] IFT users interviewed in the field, however, along with members of the remittance industry, perceived IFT systems as generally reliable channels and noted their extensive networks in the rural areas. IFT systems tend to offer lower fees and better exchange rates than FFT systems. The Vietnamese in Canada prefer MSBs or IFTs, because they offer better and speedier services. Formal transfers to a remote area can take months to reach the intended recipient. IFTs are also considered more reliable insofar as they help to evade administrative controls and invasive and sometimes arbitrary interventions by the Vietnamese authorities.

Hot Transfer

Hot transfers are based on offsetting account or booking methods to facilitate transactions. This is similar to a *Hawala* transaction. Interviews with private sector entities and government authorities reveal that most hot transfers are connected to trade flows. IFT operators in Canada usually have other businesses at the same location, such as a video store or parcel delivery service. Ethnic stores are often groceries stores, which sell groceries from the country of origin and surrounding regions. These businesses may use trade flows and shipments to facilitate value transfers in the corridor through over/under-invoicing.

Cash Courier

Hand Delivery is another common way of transferring money to Vietnam. This form of remittance delivery can be very tricky in Vietnam, as mountains dominate the terrain. Vietnam's custom regulations allow an individual to bring a maximum of US$3,000 into the country. Interviewees offered mixed views regarding the utility of hand delivery for remittances. Some suggested that hand delivery has declined in popularity due to more stringent customs and declaration measures in Vietnam, particularly relating to the movement of cash. However, some interviewees also indicated that couriers and people in general carrying cash were easily able to circumvent controls at the border, sometimes through bribes.

Remittance Distribution in Vietnam

In Vietnam, IFT systems provide a "broad-band" connection between Canada and Vietnam. The systems add additional channels to formal remittances in terms of the volume of the money flow to Vietnam and in terms of the increased connections with illicit activities, such as drug smuggling and false invoicing. It appears that the IFT systems are widespread. The study team easily located IFT operators in Ho Chi Minh City and in Hanoi. Informal money transfers tend to be directed more towards the North, while formal transfers commonly go to the South. Large sums of money come to Vietnam through informal money transfers and end up funding a variety of activities. Remittances that are not used for ordinary personal consumption may be used in connection with a holiday or special family activity. Some recipients use funds for business ventures such as opening restaurants and hotels.

31. Interviews conducted with members of Ontario Police, Ottawa Police and the Royal Canadian Mounted Police.

APPENDIX III

Canada Regulatory Overview for Funds Transfer Systems

Officials in Canada have estimated that the development of the remittances industry is about five years behind that of the United States. As Canada continues to embrace a comprehensive approach to international remittances and shifting from informal to formal systems, a key area of consideration is the regulatory framework that applies to the industry and its competitors. What kinds of regulations are in place? Who are the regulators in the industry? What is the impact on different market competitors? How does the regulatory environment impact the potential for abuse of informal channels? These questions have prompted some research, and continue to do so, as policymakers and researchers expand the scope of their interest in Canada's international remittances industry. The following section takes initial steps toward discussing these issues in the context of a general overview of the regulatory framework.

Federal and Provincial Regulations

Formal financial institutions involved in money transfers include banks and credit unions. Banks are federally chartered, while credit unions are provincially chartered. Regulatory regimes for money transfers through these institutions thus vary between federal and provincial authorities and from province to province.

The Office of the Superintendent of Financial Institutions (OSFI) is the regulatory authority for federally chartered and federally regulated financial institutions (Fries). OSFI's mandate is to supervise and regulate all banks, all federally incorporated or registered trust and loan companies, insurance companies, cooperative credit associations, fraternal benefit societies and pension plans. These institutions must file certain information with OSFI on an ongoing basis, and OSFI conducts regular onsite examinations.

Correspondent banking is the provision of banking services by an FRFI (the 'correspondent bank') to another bank (the 'respondent bank'). This arrangement is used by banks globally to conduct business and provide services that banks do not offer directly. In February 2002, OSFI wrote to FRFIs, encouraging them to adopt measures that prevent correspondent banking relationships with shell banks, in light of new international standards. OSFI directed that FRFIs should weigh risks and take initiatives to ascertain whether correspondent banks operate with due regard for AML/CFT standards.

Credit unions play a substantial role in Canada's financial sector. They are subject to provincial regulations and oversight. Generally, credit union members exercise control over local credit union policies and operations. The government's role is to ensure that credit unions, as financial institutions, conform to sound financial practices. Most provinces require credit unions to have their financial statements prepared by external auditors. Provincial regulators also conduct annual onsite examinations of the credit unions in their respective jurisdictions. According to government officials and members of the financial sector, this layering of regulations and supervisors does not produce wide disparities in regulations. Efforts are made to harmonize standards, and authorities cooperate with one another.

Money services businesses (MSBs) represent a wide range of businesses and operations that are involved in facilitating remittance transfers. MSBs are required to conform to AML/CFT requirements. However, they are not supervised or regulated by a federal or provincial authority and they are currently not subject to registration or licensing standards.[32] Therefore, they tend to operate like IFT systems in this economic jurisdiction. "Informal" does not imply that these businesses are illegitimate. However, the absence of a regulator, registration or licensing standards for these businesses creates potential risks for the remittance market and the possibility of links between money transfer and illicit activity.

AML/CFT and The Proceeds of Crime (Money Laundering) and Terrorist Financing Act

The Proceeds of Crime (Money Laundering) and Terrorist Financing Act (the Act) is the key piece of legislation for applying AML/CFT regulations to organizations involved in money transfers. This law is the product of amendments added in 2001 to what was then called the Proceeds of Crime (Money Laundering) Act. The law applies across the spectrum of FRFIs and provincially regulated institutions, as well as MSBs. The Act puts forth some key provisions as it relates to businesses involved in money transfers.

One key provision requires financial institutions to introduce specific measures to detect and deter money laundering and the financing of terrorist activities, and to facilitate the investigation or prosecution of money laundering and terrorist financing offences. These measures include record-keeping and client identification requirements for financial service providers, the reporting of suspicious financial transactions and cross-border movements of currency, and establishing an agency responsible for dealing with reported and other information.

32. Canada is considering how to implement licensing/registration standards in accordance with FATF Special Recommendation VI.

Another key provision is designed to respond to threats posed by organized crime by providing law enforcement officials with the information they need to investigate and prosecute money laundering or terrorist financing offences. The Act simultaneously aims to ensure that appropriate safeguards are put in place to protect the privacy of persons with respect to personal information. An important implication of this provision is to assist in fulfilling Canada's international commitments to participate in the fight against transnational crime, particularly money laundering and the fight against terrorist activities.

FINTRAC Regulations

The Financial Transactions and Reports Analysis Centre (FINTRAC), Canada's financial intelligence unit, was created pursuant to the Act. FINTRAC is not a regulator, but has responsibility for administering the Act. This includes ensuring that reporting entities comply with reporting, record keeping and client identification and compliance monitoring obligations. Consequently, FINTRAC has authority to issue regulations necessary to implement the Act's provisions.

Three regulations have been issued by FINTRAC pursuant to the Act. The Proceeds of Crime (Money Laundering) and Terrorist Financing Suspicious Transaction Reporting Regulations applies to banks, credit unions, *caises populaires* and "money service businesses which cash checks, remit or transmit money or redeem monetary instruments." This regulation prescribes, *inter alia,* the information to be included in a suspicious transaction and terrorist property reports, time limits, and reporting formats. The Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations prescribe customer identification requirements, record keeping requirements, transactions that must be reported and compliance regime requirements. The Cross-Border Currency and Monetary Instruments Reporting Regulation defines "monetary instruments," sets the reporting threshold at Can$10,000 and defines the form and manner of reporting.

One key implication of FINTRAC regulations is that it extends AML/CFT regulatory requirements to MSBs. As outlined by FINTRAC, enforcement involves four steps: 1) identifying who is operating in the market, 2) initiating an awareness campaign, 3) addressing compliance questions, and 4) conducting onsite examinations. However, because FINTRAC is not a regulator, officials acknowledge that there are enforcement challenges with regard to ensuring that MSBs comply with these regulations. The most difficult step in the process is the first because of the lack of oversight, licensing standards or registration requirements for these businesses. MSBs are supposed to apply regulations to themselves, but they are not subject to the same kind of scrutiny as the regulated institutions accountable to a specific regulator. FATF has asked Canada to apply licensing regulations to MSBs, and Canada is currently considering the best way to approach the issue.

OSFI and AML/CFT Expectations

In its 2001–02 Annual Report, OSFI reported the following with regards to AML/CFT efforts: "It is clear that money laundering and terrorist financing pose potential risks to the reputation of financial institutions, both individually and collectively. Damage to a financial institution's reputation, if severe enough, can result in financial loss." OSFI has implemented a formal program of assessing FRFIs in compliance with the Act. OSFI issued a best

practices paper for managing money laundering risks in the 1990's and revised it in 2003 to reflect the role of FINTRAC and highlight the need for strong customer identification standards.

Institutions are expected to establish an internal AML process commensurate with the nature and scope of their operations and potential exposure to money laundering and terrorist financing. Among key controls that OSFI encourages are 1) corporate-wide compliance obligations that are updated and reviewed, 2) a prudent compliance framework that applies both to the institution in Canada and to its branches or subsidiaries in other jurisdictions, 3) ongoing compliance training, 4) independent review and testing of the framework and procedures, 5) self assessments, and 6) evidence that compliance and control issues are materially reported to appropriate persons. Furthermore, OSFI recommends that any entity dealing with an institution from FATF's NCCT list should approach the relationship with a higher level of due diligence.

Cooperation between OSFI, FINTRAC and Other Regulators

FINTRAC and federal and provincial regulators cooperate in their AML/CFT efforts. The collective understanding is that cooperation will minimize risks of non-compliance, better ensure that entities meet requirements, generate additional information, and prevent overlapping efforts. These agencies compliment the efforts of one another. While FINTRAC is not a regulator, it is responsible for investigating transactions and specific cases of illicit activity. Though OSFI does not perform investigations of specific cases, it is primarily concerned with the quality of management and governance systems (policies and procedures).

OSFI can pass on concerns to FINTRAC, which will help them get a better assessment of how AML/CFT efforts are proceeding. FINTRAC can pass along concerns to OSFI, which can help identify and direct resources to areas of high concern. The positive attitude toward coordination is an advantage for Canada as it tackles money laundering and terrorist financing, and further steps can be taken to enhance cooperation. Bill C-17 in House of Commons, if passed, would remove some information-sharing restrictions between the two and pave the way for an MOU on a more comprehensive plan for information exchange.

Perspective from Canada's Law Enforcement Community

The study team met with members of the law enforcement community in Canada, including the Royal Mounted Canadian Police and officers from the Ottawa City and Ontario Provincial police forces. The following section describes the opinions and perspectives of these persons, based on their first-hand experience dealing with the criminal law enforcement side of illicit activities and financial transactions.

Law enforcement persons interviewed generally agreed that the lack of regulatory oversight, licensing, or registration is likely to make MSBs more prone to be abused for illicit purposes and to subject remitting customers to higher risk of scams. Officials also commented on the enforcement gap between MSB requirements under FINTRAC regulations and MSB behavior. Instead of implementing regulations some MSBs are known to have destroyed transaction documents, thus eliminating any paper trail.

Recent investigations into drug trafficking and money-laundering schemes support the notion that links between IFT systems and illicit activity can be easily forged. One investigation revealed that MSBs operating through ethnic stores were using personal remittances as a front in a "smurfing" scheme. Money earned from drug-trafficking was packaged into small remittances, and over 300 fictitious names were used to create the impression that the funds represented legitimate personal transfers.

Some officials believed that if migrants could be encouraged to use formal institutions by improving their access and reducing the cost of remitting small amounts, it would assist the policing of illicit transfers traveling through informal channels. In the specific context of Vietnam-Canada relations, officials noted that joint efforts were hampered by the absence of a mutual legal assistance treaty or other bilateral agreements. Canadian officials believe that Vietnamese authorities would have more incentive to cooperate with investigations if arrangements could be made for the governments to share assets seized as a result of law enforcement efforts.

APPENDIX IV

Vietnam Regulatory Overview

The industry in Vietnam is gaining momentum, but its development is still at an early stage. Consequently, Vietnamese regulators face the challenge of shaping a framework that keeps pace with the growing industry to safeguard its integrity, while also allowing it to flourish according to its potential. Striking the balance between appropriate levels of regulations and incentives can be a difficult task. The following section discusses some of the features of Vietnam's regulatory framework for money transfer-related issues.

The Key Regulators: State Bank of Vietnam and Ministry of Finance

The State Bank of Vietnam (SBV) is the country's central bank and the financial sector's primary regulator under the Law on Credit Institutions. It is responsible for general banking supervision and licenses banks to operate in Vietnam. Foreign exchange control is also within the responsibilities of the SBV, including the regulation of foreign exchange transactions in the country. The Ministry of Finance (MOF) has wide-ranging responsibilities, some of which are related to money transfers. The traditional role of the MOF is to develop financial sector policies. In addition, the MOF is Vietnam's taxation agency and it has general banking supervision responsibilities as well. As part of a 2002 restructuring, the customs agency was moved into the MOF. The SBV and MOF appear to have a good working relationship with regards to developing financial sector policy and cooperating on regulatory matters.

A number of regulations have impact on the remittance market. Regulations were issued in 1999 and 2000 for collecting information about remittance flows from formal channels, such as banks, MTOs and the postal service. The SBV only requires the total flow

information and collects this data monthly. The SBV is open to revising its data collection regulations to conform to international accounting methods such as the IMF Balance of Payments.

When Vietnam adopted the *Doi Moi* policy, to help attract investment from Vietnamese living abroad, remittances became an important external flow coming into Vietnam. Traditionally, the formal remittance market was dominated by banks and MTOs. In 2002, the SBV began to allow other companies to operate in the formal remittance market. The policies of the SBV have thus helped the formal remittance market grow and diversify. Not only do banks have their own MTOs, or partner with MTOs, but banks can choose to start relationships with any kind of company for remittances. Non-bank financial companies, including leasing companies, have recently started to develop remittances businesses.

General Operating Regulations and Standards for Remittances

Vietnamese living abroad and foreigners are encouraged to transfer unlimited amounts of foreign currency to Vietnam to support family and relatives or for other charitable purposes, with due regard to Vietnam's and sender countries' regulations.[33] However, for funds transferred domestically within Vietnam, residents and non-residents are prohibited from buying, selling, paying, or lending to each other in foreign currencies.[34]

Regulations for remitting entities are issued by the central government and applied evenly to institutions, regardless of their status as a central or provincial organization. Institutions that provide remittance services should be licensed by the SBV.[35] Licensing standards include the following requirements: (a) a valid contract with a foreign counterpart regarding the operations of remittance receiving and disbursement, (b) a feasible business proposal, and (c) a network that can disburse funds rapidly and conveniently to beneficiaries. Entities licensed by the SBV to perform remittances are generally not allowed to sub-contract the activity of disbursing funds to another entity,[36] except under the following provisions.

According to Decision 170/1999/QD-TTg and Decision 78/2002/QD-TTg, signed by the Prime Minister on June 17, 2002,[37] the following institutions can perform remittance services and formulate agency contracts to delegate certain operations. Commercial banks authorized to provide foreign exchange services can directly take and disburse remittances to beneficiaries or delegate the disbursement services to other agent banks and companies. Banks that are not permitted to provide foreign exchange services can either operate as disbursement agents for entities that are licensed by the SBV or act as agents for banks already permitted to provide foreign exchange services. Other non-bank entities that are licensed by the SBV for remittances can perform disbursements through the banking system or delegate that operation to credit institutions. Companies in the international postal and telecommunication sector may also channel remittances.

33. Decision 170/1999/QD-TTg released by the Prime Minister on August 19, 1999.
34. SBV Circular 01/1999/TT-NHNN7. The circular provides guidelines to implement Decree 63/1998/ND-CP on foreign exchange management.
35. Pursuant to Circular 02/2000/TT-NHNN7 released by the State Bank of Vietnam in February 24, 2000.
36. According to Decision 878/2002/QD-NHNN released by the State Bank of Vietnam.
37. Amendments and supplements apply to some articles of Decision 170/1999/QD-TTg.

Credit institutions that are already allowed to operate foreign exchange services, including foreign currency taking and disbursement operation, can perform remittance services without asking for permission from the SBV, under SBV Circular 02/2000/TT-NHNN7. Any credit institution, whether or not they may perform foreign exchange services, can operate as an agent for other credit institutions that are permitted to provide foreign exchange services or for entities that do not need the SBV's permission to operate foreign exchange services under SBV Decision 878/2002/QD-NHNN7.[38] Economic and credit institutions acting as agents for remittance disbursement are not allowed to sub-contract or delegate the service to another economic or credit institution. All economic and credit institutions that perform remittance services need to send periodical reports to the SBV.

Except for U.S. bank branches, foreign bank branches are generally not permitted to take deposits in foreign currencies in any form from Vietnamese individuals. Remittances can only be withdrawn from remittance accounts opened in these branches, without being transformed to deposit accounts. Currently, joint-venture banks are permitted to take deposits in foreign currencies from Vietnamese individuals up to 50 percent of their statutory capital.[39] Therefore, remittance accounts in joint-venture banks can be transformed to deposit accounts. However, the total transformed amount should not exceed 50 percent of that joint-venture bank's statutory capital.

Regulations on the Physical Transport of Cash. All individuals entering Vietnam carrying an amount of foreign currency exceeding a certain benchmark (US$3,000 at present) should report to Customs. When leaving Vietnam, individuals carrying an amount of foreign currency exceeding that benchmark should also report to Customs and, simultaneously, submit a permission form issued by the SBV or other authorized bank, under SBV Decision 337/1998/QD-NHNN7.

AML/CFT

Central to Vietnam's challenges in regulating funds transfers and developing an appropriate comprehensive approach to AML/CFT is the fact that Vietnam largely remains a cash-based economy, with thriving underground markets dealing in dollars and gold. While money laundering undoubtedly occurs in Vietnam, there are no analyses or reliable estimates of the volume of this activity. However, Vietnamese authorities have openly acknowledged that corruption is a problem that the government takes very seriously. Furthermore, the drug trade is a factor in Vietnam's informal economy. One MOF official noted that the decision of the Vietnamese authorities to open up the economy has brought many benefits, but has also exposed Vietnam to new criminal threats and activity. The presence of such activity brings with it money laundering schemes to channel illicit proceeds.

The Criminal Code has criminalized money laundering, and authorities have the power to seize and confiscate money laundering proceeds. Vietnam's legal framework contains some requirements and regulations for AML/CFT, but Vietnam has not yet built a

38. The Decision is dated August 19, 2002 and provides amendments and supplements on some articles of the Circular 02/2000/TT-NHNN7 promulgated by the SBV.

39. Pursuant to SBV Decision 1380/2001/QD-NHNN released November 5, 2001.

comprehensive AML/CFT regime. One of the problems is the lack of inter-agency coordination. The SBV and MOF are concerned with the financial side of money laundering, while other agencies look at law enforcement issues. The international donor community is actively assisting the Government of Vietnam to develop the legal and regulatory framework for AML and creating a financial intelligence unit to monitor and enforce regulatory compliance. Such regulations and enforcement will have to be implemented very carefully to avoid deterring the public from utilizing the formal banking system.

Comprehensive AML Draft Decree

The government has been working on a comprehensive AML draft decree which will further empower the SBV and other government agencies in the fight against money laundering and terrorist financing. The Criminal Code of the Socialist Republic of Vietnam; the Organizational Code of the Government of December 25, 2001; the Law on Credit Institutions of December 12, 1997; and the Ordinance on Administrative Penalties of July 2, 2002 serve as the legal underpinnings for the decree. Some of its key features call for the establishment and powers of an FIU and the creation of administrative penalties, and international cooperation and extradition.

The decree will also address a wide range of issues, including application to entities inside and outside Vietnam, related offenses, the obligations of "reporting entities," information processing, and account-freezing/asset-forfeiture. The decree will mandate institutional standards, such as KYC policies. Currently, such policies are not imposed by law, though some institutions have implemented KYC procedures based on internal policies. At present, institutions are not required to file suspicious transactions reports, but the decree will make this a requirement and outline the standards and format of such filings.

International Cooperation

As Vietnam has opened its markets and policies, it has also taken steps to build international partnerships on legal issues related to AML/CFT. Vietnam is a signatory to and has acceded to the 1988 United Nations Convention against the Illicit Traffic in Narcotics and Psychotropic Substances, the 1999 International Convention for the Suppression of the Financing of Terrorism. It has signed the United Nations Convention Against Transnational Organized Crime but has not yet ratified its provisions. Vietnam has bilateral mutual legal treaties with a handful of Asian and Eastern European nations.

Government Behavior

A key issue is the behavior of regulators and authorities to avoid unpredictable interventions into the remittance market and to build a reputation of reliability and consistency in accordance with the rule of law in the formal financial sector. At times, the government's policies toward remittances has been unpredictable, providing incentive for remittances senders and receivers to use informal channels to avoid arbitrary actions.

Vietnam's strict foreign exchange and capital control policies have put a strain on the remittances industry, and migrants abroad pay careful attention to Vietnamese regulations for remittances. Generally, money can be received and withdrawn only in local currency, and US dollar may only be used in authorized shops or deposited in banks.[40] A market for informal systems is spurred in part by the government's strict policy on movement of capital in and out of Vietnam. Administered foreign exchange rates, fixed by the SBV, can also add a "tax" on remittances in formal channels. If exchange rates are more favorable in the informal market, remitters have a monetary incentive to use these channels. The SBV is aware of this impact and recognizes the general need for more appropriate regulation of foreign exchange consistent with an open market.

Some anecdotal evidence reveals that authorities in Vietnam have on occasion seized particularly large remittances, or that officials, particularly in rural areas, may ask remittance recipients for monetary gifts and donations. Although many such stories may be doubtful, they have reputational costs that reduce the attractiveness of formal channels. As the Vietnamese government adjusts policies and minimizes unpredictable interventions into the remittance market, remitters may be more likely to explore formal options for remitting.

40. The dollarization of the Vietnamese economy is a key financial sector issue. Although, technically, only authorized shops and traders may deal in dollars, the reality is that both the legitimate economy, along with the underground economy, circulates dollars widely.

APPENDIX V

Incentive Analysis for Canada-Vietnam Bilateral Case Study

This annex analyzes some main incentives that contribute to determining the users' choices between FFT and IFT systems. The table, which follows the format of the initial APEC Report's "incentives analysis,"[41] was applied by the study team as a basis for identifying and discussing key features of the remittance corridor. The information was drawn from field interviews, document searches and official reports. In a mission to Vietnam, the study team visited Hanoi and Ho Chi Minh City, conducting 17 interviews with Vietnamese authorities, private sector entities, the World Bank country office and informal fund transfer operators. In two missions to Canada, the team visited Vancouver, Ottawa, Montreal, and Toronto, conducting 23 interviews with the Canadian authorities, private sector entities, IFT operators and Vietnamese-Canadian community representatives.

First Mile

A shift from informal to formal remittance systems is ultimately the result of customer decisions to choose one avenue for money transfer over another. Because a transaction is created by the sender, the perceived market incentives faced by the sender at the First Mile are key elements for identifying how formal channels may be strengthened to attract and retain money remitting customers.

41. APEC Working Group on Alternative Remittance Systems, 2003, "Informal funds Transfer Systems in the APEC Region: Initial Findings and a Framework for Further Analysis," Paper prepared for the meeting of APEC Finance Ministers and Deputies, Phuket, Thailand, September 2–4.

First Mile	
Personal Incentives	
Anonymity/Secrecy	♦ Money services businesses (MSBs), which comprise a wide range of money transfer services, including commercial MTOs and IFT systems, are not regulated by a financial supervisory entity in Canada, nor are they licensed or registered. ♦ FINTRAC has issued regulations for reporting transactions and developing an internal compliance regime. Authorities are launching an awareness campaign to inform MSBs of their legislative responsibilities. ♦ IFT operators identified in the course of field research often run services through other business, such as video or jewelry stores, so it is not obvious to someone from outside the community where many MSBs or informal transfer operators are located. Interviews with users of these systems revealed that it was possible to send as much money as one would like without showing identification.
Cultural Familiarity	♦ The aspect of cultural familiarity should be understood in the larger context of the relationship between Vietnamese migrants/expatriates and the government of Vietnam. Interventions in the remittance market by the Vietnamese government play an important role in influencing remitters' choices between informal and formal funds transfer systems. ♦ Vietnamese IFTs appear to be particularly ethnically exclusive. One has to be a Vietnamese or speak Vietnamese in order to use these channels. ♦ Immigrants in Canada in general tend to favor service providers with cultural links to their country of origin. Immigrants also obtain information about providers through local papers in their languages. Advertisements in ethnic newspapers play an important role in identifying MTOs specialized in sending remittances to the countries of origin.
Personal Contacts	♦ Remittances to Vietnam play a social as well as a business role. Money is remitted to family or close neighbors for family/community events, such as a wedding or the *Tet* holiday. Remitters often ask friends or relatives who visit Vietnam to carry small amount of money to their families and neighbors. ♦ Remitters tend to use services that they trust based on past transactions, recommendation from friends and relatives, or general reputation in the community. Some senders encountered during field research stated that they would never use a service provider who they did not know personally. ♦ Cash is physically transported to Vietnam by traveling friends or relatives. These informal couriers may deliver funds to friends, family or neighbors on behalf of others from their community. Because the visitors bring money to Vietnam as a favor, they do not charge fees for the delivery. ♦ There is risk in being caught at customs with large cash amounts, but anecdotal evidence suggests that this obstacle may be frequently overcome by bribes to border agents.

First Mile	
Customer Service Incentives	
Dispute Resolution	♦ No relevant information available.
Accessibility	♦ While banks and credit unions have yet to establish a firm niche in this remittance market, MSBs are plentiful and easily accessible. ♦ MSBs can operate on their own or as part of another business, such as a video store, jewelry shop or travel agency. IFT systems are widely available in ethnic enclaves and easily accessible to the Vietnamese community.
Class Discrimination	♦ No relevant information available.
Versatility/Resilience	♦ Ethnic operators provide extensive fund transfer services that banks and others do not. ♦ Some operators have expanded their own networks wide enough to reach locations in the countryside of Vietnam, thus providing a significant advantage over other fund transfer operators.

First Mile	
Economic Incentives	
Speed	♦ Formal fund transfer systems have yet to match the speed of IFT systems from Canada to Vietnam. In the Canada-Vietnam corridor, speed is a critical difference between formal and informal systems. An informal transfer can be completed from Canada to Vietnam within twenty four hours. ♦ An IFT agent conducts operations at five in the afternoon (Pacific Time, Canada), which is in the morning in Vietnam and delivers the money within the day in Vietnam. ♦ Transfers through banks and other major FFT agents can take 2–5 days. A bank usually uses a network which connects banks worldwide to wire the money transfer such as SWIFT. The bank wires the remittances through the network to a bank in Vietnam connected to the network.
Cost	♦ An IFT agent charges 1–2 percent of the transferred amount for each transaction, depending on the size of the transferred amount. ♦ Fees in the formal sector vary widely, from 2–10 percent, though some FFT systems charge a smaller percent with an added flat fee. An example of pricing structure according to one MSB is as follows: FFT operators and the Vietnamese communities, a fee for the FFT is 2 percent. In some cases, an FFT operator charges a Can$5 flat fee plus 1.5 percent of the transferred amount for each transaction. An IFT agent typically charges 1.6 percent of the transferred amount for each transaction, although it charges 2 percent of the transferred amount on smaller transactions. ♦ Other major banks and MTOs usually charge approximately 3 percent or more depending on the speed to deliver the remittance. ♦ In the case of banks, this fee does not include other fees that the intermediary entity and a bank in Vietnam may charge. Therefore, a remitter eventually pays more when using FFT operators.

Secondary Benefits	♦ In Canada, many of the ethnic agents provide gifts based on bonus points collected by sending remittances. ♦ Most large formal institutions, such as banks, see remittances as a fee-only product, rather than as a way to cross sell other financial services.
Legal/Regulatory Environment	♦ The desirability of inducing remitters to shift to formal channels has recently garnered attention in Canada. ♦ With increased interest in AML/CFT, Canada is considering new legislative measures that target international funds transfer systems. ♦ The only financial institutions engaged in remittance activity that are prudentially regulated and supervised in Canada currently are banks and credit unions. MSBs are not yet required to be licensed or registered. ♦ Credit unions are regulated by provincial authorities. Banks are federally chartered and regulated. The Office of the Superintendent of Financial Institutions is the regulator for federally chartered institutions. Each province also has a designated regulator for provincially chartered institutions. Many banks are federally chartered, while most credit unions are provincially chartered. ♦ FINTRAC, Canada's financial intelligence unit, has issued regulations, pursuant to Canada's AML law, that extends to MSBs as well as to banks and credit unions. ♦ FINTRAC administers Canada's AML/CFT related regulations for money transfers pursuant to the Proceeds of Crime (Money Laundering) and Terrorist Financing Act. ♦ While OSFI and the provincial regulators are generally concerned with institutional policies and procedures related to record-keeping and identifying clients, FINTRAC is the depository for reports and records and conducts specific investigations. ♦ FINTRAC has issued regulations for, among other things, recording and reporting information on suspicious transactions and customers, outlining standards for institutions to establish an internal compliance program and establishing thresholds for cross-border currency reporting and instrument monitoring.

Last Mile

The landscape of the Last Mile is an important factor for the sender in the choice of a remittance system. Senders are influenced not only by prices and incentives at their end, but will also consider manner in which the remittance will be received. Of utmost concern to the remitter, of course, is that the funds are actually received by the recipient.

The Last Mile

	Personal Incentives
Anonymity/Secrecy	♦ In formal transactions, and particularly for large amounts, an ID or residential book, called *Chung Minh Nhan Dan,* must be presented to receive remitted funds, thereby eliminating the anonymity and secrecy of the transaction. ♦ However, IFT systems offer door-to-door services in a confidential fashion. ♦ This is an important factor for remittance recipients that do not want to draw attention to their receipt of funds from abroad. ♦ The desire for privacy is typical in Vietnamese culture. Recipients often do not want neighbors or local authorities to know about these extra incomes.
Cultural Familiarity	♦ While Vietnam has embraced democratic and market principles over the years, a general sense of skepticism and mistrust lingers among the *Viet Kieu* in Canada toward the Vietnamese government. ♦ The SBV and the government of Vietnam continue to play substantial roles in Vietnam's remittance market, and *Viet Kieu* remitters will seek to evade interventions in formal remittance markets by using informal channels.
Personal Contacts	♦ Personal contacts are important in the informal funds transfer systems, which typically rely on trust, respect, and long lasting relationships. ♦ Another incentive for using IFT systems is that they provide anonymity and a way of evading certain laws regarding the transfer of money in and out of Vietnam. ♦ Personal contacts can facilitate exchange of value between sending and recipient economies, especially when the amount involved exceeds the legal amount allowed for a transaction within a specific period. ♦ Personal contacts facilitate remittances connected to trade. In Vietnam, remittances are often linked to trade without cost because it is possible to bundle the remittances with the trading business. ♦ This connection between remittances and trade is an area for further research.

Last Mile	
Customer Service Incentives	
Dispute Resolution	♦ The intervention of authorities in formal remittance channels is unpredictable, and inefficient formal systems can lead to long delays before funds may be picked up or withdrawn. ♦ IFT systems are perceived to offer greater reliability and may offer easier dispute resolution than formal channels.
Accessibility	♦ At the Last Mile, accessibility is one of the key issues for remittances between Canada and Vietnam. ♦ Although many banks operate in Vietnam, the banking system has not yet developed products specific to remittances. IFTs are generally more accessible to the recipients, though some have observed that the use of IFT systems has declined as more formal competitors have entered the market. ♦ IFT operators provide extensive fund transfer services that banks and major FFT agents cannot provide. These operators are specialized in money transfer from Canada to Vietnam. Some have expanded their networks to reach locations in countryside. Therefore, many remitters choose the specialized IFT operators over others. ♦ Banks may either contract with other financial institutions to develop distribution networks, or they can work directly with customers. ♦ Hanoi and Ho Chi Minh City are the hubs for receiving remittances. Most rural recipients come to the main urban areas to receive remittances. ♦ According to Vietnamese authorities, distribution through formal channels in Vietnam is cheap, the financial network is spreading, and staff are in place to handle remittance services. ♦ Banks and competitors are expanding networks by increasing the presence of ATM machines and developing card-based products, which presently have a minor presence. ♦ By sharing networks many market players are creating partnerships that increase the number of distribution points. ♦ A remittance competitor without a massive presence on the market can still use the banking network, which is small but growing.
Class Discrimination	♦ There is no evidence of overt class discrimination at the Last Mile for recipients. ♦ Poor Vietnamese, who generally do not have funds to open bank accounts, may be limited in their access to formal remittance channels and networks.
Versatility/Resilience	♦ There are mixed views regarding whether formal or informal systems are more reliable and resilient. ♦ Despite improvements, the banking sector still suffers from a reputation of instability. For example, in the last 15 years, Vietnamese currency has changed three times. During these changes, funds saved in the banking system were lost, or people received very low value for their savings. ♦ As the number of competitors has increased in Vietnam's remittances industry, and as the government has created policies that favor remittances, formal channels have become more reliable and more service-oriented.

	♦ Rural areas continue to experience low banking penetration. ♦ In general the informal sector has thrived on a reputation for resilience and reliability. Some IFT systems are reputed to be scams, however, with the funds never reaching the intended recipients. ♦ Because many informal channels are tied to drug traffic, tax evasion or smuggling; the informal sector is also vulnerable to shocks and unpredictable interventions related to law enforcement activities.

Last Mile	
Economic Incentives	
Speed	♦ IFT systems are faster channels, and this is often a key factor in remitter preferences. ♦ The Postal Service in Vietnam is relatively slow; it takes about two weeks for the funds to reach the recipients. The postal network in Vietnam is organized in a way that prevents local post offices from communicating directly. They must instead send mail through a hierarchy of centralized post offices, which then circulates the mail back down to local offices. ○ According to officials, the Vietnamese postal infrastructure includes 15,189 establishments that service the public, of which 2,610 accept financial transactions. ♦ Remittances to rural areas through formal channels can take up to a month for delivery. ♦ IFT systems are more reliable in rural communities, and the providers deliver funds to the door. This is a faster and more efficient method for recipients than a lengthy commute to banks in the urban areas.
Cost	♦ As described in the First Mile section, the cost for formal transfers tends to be higher. This is partly because it remains costly for some banks at the Last Mile to receive overseas transfers and reliance on the SWIFT network is expensive for banks, which reflect in the prices to consumers.
Secondary Benefits	♦ For the recipients, secondary benefits could take the form of innovative business schemes, for example bundling remittances with trade items, or financial services such as loans. ♦ In Vietnam, there are reports of an MTO that provides loan services to regular remittance recipients. Some institutions view remittances as a way to cross-sell other financial services as well.
Legal/Regulatory Environment	♦ The industry in Vietnam is gaining momentum, but remains at a nascent stage. Consequently, Vietnamese regulators face the challenge of shaping a framework that keeps pace with the growing industry, allowing it to flourish according to its potential while applying the appropriate level of oversight.

Legal/Regulatory Environment	♦ Regulations were issued for collecting information about remittance flows from formal channels, such as banks, MTOs and the postal service in 1999 and 2000. ♦ The SBV only requires monthly data on the total flow. The SBV is open to revising its data collection regulations to conform to international accounting methods such as the IMF Balance of Payments. ♦ Some AML/CFT requirements are present in legal codes and regulations. ♦ The Criminal Code has criminalized money laundering, and authorities have the power to seize and confiscate money laundering proceeds. Article 251 of the Criminal Code of the Socialist Republic of Vietnam creates the money laundering offense and makes all criminal offenses predicate offenses for money laundering purposes. ♦ A draft decree is under consideration that will grant the SBV broad powers to better enforce the criminal code. ♦ Banks have noted the already increasing cost for compliance measures. Identification requirements are also imposed on the receiving side, as recipients must show ID or a residential book that is certified by the state in order to pick up the funds. ♦ A key problem is reportedly the unpredictable interventions of regulators and authorities in the remittance market. Formalization of the market requires the establishment of a reputation for reliability and consistency, in accordance with the rule of law.

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Map of Circulation of Legitimate Money Flows between Canada and Vietnam

Two types of senders remit to Vietnam: temporary migrant workers and *Viet Kieu*. The arrows on the map illustrate the remittance flows coming into Vietnam from the country's top remittance-sending nations. Provinces of Vietnam have been shaded with different colors according to the commission charged by remittance distributors in Vietnam for facilitating the disbursement of funds in that province.

Understanding the nature of *Viet Kieu* communities, the strong role that ethnicity plays in these communities, and the sending habits of remitters can help formal funds transfer systems develop products and services tailored to the remitters' needs.

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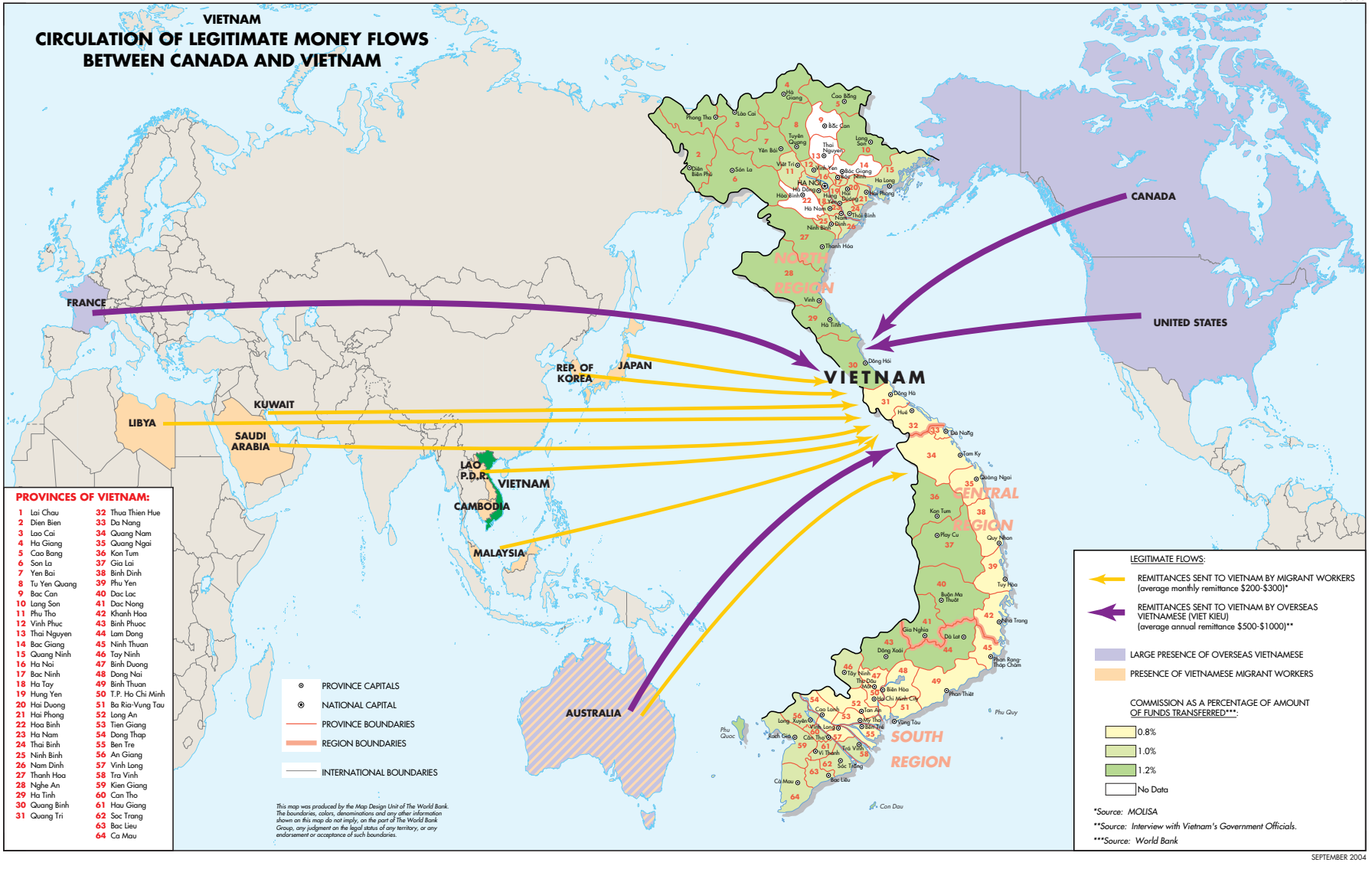
VIETNAM
CIRCULATION OF LEGITIMATE MONEY FLOWS BETWEEN CANADA AND VIETNAM



PROVINCES OF VIETNAM:

1	Lai Chau	32	Thua Thien Hue
2	Dien Bien	33	Da Nang
3	Lao Cai	34	Quang Nam
4	Ha Giang	35	Quang Ngai
5	Cao Bang	36	Kon Tum
6	Son La	37	Gia Lai
7	Yen Bai	38	Binh Dinh
8	Tu Yen Quang	39	Phu Yen
9	Bac Can	40	Dac Lac
10	Lang Son	41	Dac Nong
11	Phu Tho	42	Khanh Hoa
12	Vinh Phuc	43	Binh Phuoc
13	Thai Nguyen	44	Lam Dong
14	Bac Giang	45	Ninh Thuan
15	Quang Ninh	46	Tay Ninh
16	Ha Noi	47	Binh Duong
17	Bac Ninh	48	Dong Nai
18	Ha Tay	49	Binh Thuan
19	Hung Yen	50	T.P. Ho Chi Minh
20	Hai Duong	51	Ba Ria-Vung Tau
21	Hai Phong	52	Long An
22	Hoa Binh	53	Tien Giang
23	Ha Nam	54	Dong Thap
24	Thai Binh	55	Ben Tre
25	Ninh Binh	56	An Giang
26	Nam Dinh	57	Vinh Long
27	Thanh Hoa	58	Tra Vinh
28	Nghe An	59	Kien Giang
29	Ha Tinh	60	Can Tho
30	Quang Binh	61	Hau Giang
31	Quang Tri	62	Soc Trang
		63	Bac Lieu
		64	Ca Mau

This map was produced by the Map Design Unit of The World Bank. The boundaries, colors, denominations and any other information shown on this map do not imply, on the part of The World Bank Group, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries.

*Source: MOLISA
**Source: Interview with Vietnam's Government Officials.
***Source: World Bank

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The Canada-Vietnam Remittance Corridor: Lessons on Shifting from Informal to Formal Transfer Systems **is part of the World Bank Working Paper series. These papers are published to communicate the results of the Bank's ongoing research and to stimulate public discussion.**

This paper examines the experience of the Canada-Vietnam remittance corridor over the past several years. In contrast to the large size and advanced level of development of the U.S.-Mexico remittance corridor examined in the first case study, the Canada-Vietnam corridor is small in absolute terms and still at a nascent stage of shifting from informal to formal systems. The information available about the flows through this corridor and the institutions involved is also much less abundant. This exercise, therefore, is necessarily a first step toward identifying its main features and pointing out some of the areas and issues that researchers and authorities should examine more closely. For purposes of the discussion, the remittance process is broken down into three stages: the First Mile, when decisions are in the hands of the remittance sender; the Intermediary Stage, comprising the systems that facilitate the cross-border transfer of funds; and the Last Mile, where the funds reach the hands of the remittance recipient.

By analyzing the objectives, obstacles, incentives, and changes occurring at each of these stages in the Canada-Vietnam corridor, this exercise seeks to draw lessons for other remittance sending and receiving countries that seek to encourage formalization of the flows.

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THE WORLD BANK
1818 H Street, NW
Washington, DC 20433 USA
Telephone: 202 473-1000
Internet: www.worldbank.org
E-mail: feedback@worldbank.org