ALTERNATIVE REMITTANCE SYSTEMS
IN KAZAKHSTAN

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FOREWORD

This study on alternative remittance systems (ARSs) was written in response to a request for technical assistance from the Government of Kazakhstan under the Joint Economic Research Program (JERP). The Kazakhstan-World Bank JERP is at the core of the Country Partnership Strategy. As an innovative instrument, the JERP is financed through a cost-sharing arrangement between the Government of Kazakhstan and the Bank. The specific focus area and the scope of the economic research program are determined by the Government in consultation with the World Bank on an annual basis and currently contain four key components: (i) public administration reforms, (ii) human development, (iii) macroeconomic and financial risks, and (iv) competitiveness of the economy. In this context, the ARS study is part of the public administration reforms program, which is aimed at improving public sector performance and efficiency.

The Republic of Kazakhstan is a fast-growing country with a dynamic economic environment. The vibrant economy and the country's good relationships with its neighbors and other countries make it an attractive destination for foreign capital, entrepreneurs, and workers. Long borders and a strategic location create huge potential for international economic relations with neighboring regions. Largely as a result, the recorded volume of outward cross-border remittances has increased significantly over the past decade. According to World Bank Remittance Fact Book, outward cross-border remittances from Kazakhstan was more than US$3 billion in 2010, ten times larger than the size of inward-flowing remittances. As the economy in Kazakhstan is growing rapidly, it is expected that the volume of cross-border remittance flows will also keep increasing.

At the same time, increased remittance flows raise potential risks for money laundering and terrorist financing (ML/TF). The regulatory environment on remittances in Kazakhstan has been rigorous but complex and multifold. This appears to be one of the reasons why the large volume of informal remittances takes place outside the formal system and thus poses greater risks. Informal channels, such as cross-border physical transportation of cash and hawala systems, are used by migrant workers who do not necessarily have identification documentation required by financial institutions as well as by individuals and businesses that wish to avoid payment of taxes and duties. Informal money transfers are highly vulnerable to ML/TF schemes because they are not subject to any regulatory measures. They also raise concerns related to consumer protection. The transparency and integrity of the economic and financial environment, particularly the remittance channels, is essential if Kazakhstan (or any country) is to prevent and detect ML/TF-related crimes.

This report elaborates on the findings of the ARS study and suggests policy recommendations that will improve integrity of the remittance market while facilitating financial access and promoting the use of formal remittance channels.

We would like to congratulate Kazakh authorities in initiating this important study and thank the authorities for extending various supports to the study team.

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- Ministry of Foreign Affairs
- Customs Control Committee
- Ministry of Interior
- Committee for National Security
- Ministry of Labor
- Financial Police
- Migration Police
- Agency of Supervision and Regulation of Financial Organizations (later merged with the National Bank of Kazakhstan)
- Kazpost
- Atameken Union
- Microfinance Institutions Association
- Farmers Union
- Network of Private Exchange Office
- Forum of Entrepreneurs

- Law&Environment Eurasia Partnership
- Ar. Rukh. Khak. Foundation
- Shanyrak Association
- Uzbek Diaspora Representatives
- Tajik Diaspora Representatives
- AsiaCredit Bank
- Alpha Bank
- BTA Bank
- Bank Alliance
- Bank Centercredit
- Bank Eurasia
- Taib Bank
- Halyk Bank

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
AML	Anti-money laundering
AML/CFT	Anti-money laundering and combating the financing of terrorism
ARS	Alternative remittance system
BEEPS	Business Environment and Enterprise Performance Survey
BOP	Balance of payments
BPM5	Balance of Payment Manual 5
BPM6	Balance of Payment Manual 6
CDD	Customer due diligence
CFM	Committee on Financial Monitoring
CFT	Combating the financing of terrorism
CGAP	Consultative Group to Assist the Poor
CHAPS	Clearing House Automated Payment System
CHIPS	Clearing House Inter-Bank Payment System
CIS	Commonwealth of Independent States
CNS	Committee of National Security
EAG	Eurasian Group
EUR	Euro - European Monetary Unit
FATF	Financial Action Task Force on Money Laundering
FIU	Financial Intelligence Unit
FP	Financial Police
FSA	Agency on Regulation and Supervision of Financial Market and Financial Organizations
GDP	Gross domestic product
GNI	Gross national income
ICS	Interbank Clearing System
ISMT	Interbank System of Money Transfer
JERP	Joint Economic Research Program
KISC	Kazakhstan Interbank Settlement Center
KZT	Kazakhstan tenge
ML	Money laundering
ML/TF	Money laundering and terrorist financing
MTO	Money transfer operator
MTSI	Money Transfer System Integrator
MVT	Money value transfer
NBK	National Bank of Kazakhstan
NGO	Nongovernmental organization
RBA	Risk-based approach
RNN	Taxpayer identification document
STR	Suspicious Transaction Report
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TARGET	Trans-European Real-Time Gross Settlement Express Transfer
TF	Terrorist financing
UAE	United Arab Emirates
UNODC	The United Nations Office on Drugs and Crime
VAT	Value added tax
WB	World Bank
WDI	World Development Indicators
WU	Western Union

EXECUTIVE SUMMARY

1. The study on alternative remittance systems (ARSs) was written in response to a request for technical assistance from the Government of Kazakhstan under the Joint Economic Research Program (JERP). The main objectives of the ARS study are twofold. First, it is to provide information and analysis on the nature, trends, and volume of both formal and informal remittance transfers; the use of ARS and its vulnerabilities to money laundering and terrorist financing (ML/TF); and the legal and regulatory framework concerning remittance transfers. Second, it provides recommendations for consideration by the Kazakh authorities that would facilitate efficient and secure remittance flows that encourage a shift from the informal to formal remittances.

2. For the purposes of the study, the term *alternative remittance system* is defined as nonbank formal and informal remittance transfer channels. This study, therefore, examines remittance flows through money transfer operators (MTOs) as well as through informal channels such as hawala system. For comparative purposes, it considers remittance transfers through the banking system as well. The study also analyzes cross-border transportation of cash as a commonly preferred channel in Kazakhstan for transferring funds informally to neighboring countries.

Size of Remittance Transfers

3. Kazakhstan is clearly a remittance-sending country. The volume of outward remittances has increased by seven-fold in the past decade, reflecting rapid economic growth of the country. The pace of outward remittances grew much faster than that of inward remittances. For example, in 2010 outward remittances were recorded at more than US$3 billion while inward remittances were recorded at US$291 million.

4. Reflecting this rapid growth of remittances, the National Bank of Kazakhstan (NBK) endeavored to improve the quality of statistics on remittances. Before 2009, NBK did not collect data on money transfers sent or received by MTOs. However, with the revision of the reporting system in 2009, NBK has substantially expanded the data collection of international remittances.
In April 2011, NBK began collecting detailed statistical data on money transfers through correspondent accounts and MTOs, with a breakdown by economy sectors, residence, sender and beneficiary countries, currency, and payment purpose codes.

5. Nevertheless, in order to estimate migrant workers' remittances accurately, NBK needs to undertake further research and analysis, because remittance channels are not used solely by migrant workers. In fact the use of the channels by others than migrant workers can be said to be more common; this is one of the unique characteristics of the remittance market in Kazakhstan. For example, remittance channels are used by residents for transfers associated with purchases of cars or other goods. Further, as business transactions are prohibited for non-account-based transfers, payment for trade goods sent through remittance channels seems to be quite common. These transfers are often recorded as "grants," although they should not be recorded as such, and this necessitates further analysis of the data submitted by the reporting entities.

6. It is, therefore, useful to strengthen the analysis and examination of the data submitted by the reporting entities in order to more clearly grasp and more accurately picture migrant workers'

remittances and distinguish them from other types of transfers. Some efforts have been made by the NBK to address this challenge, but continuous examination seems necessary.

Formal and Informal Remittance Channels

7. Kazakhstan has a very competitive remittance market with large number of MTOs operating through banks and Kazpost (the country's postal service), while several banks and Kazpost also offer their own remittance services. In addition, banks offer non-account-based remittance transfers based on the Society for Worldwide Interbank Financial Telecommunication (SWIFT) system. Altogether, more than 2,000 bank outlets and close to 1,000 Kazpost offices provide access locations for remittance services across the country. Remittance fees are relatively low in Kazakhstan when compared to many other countries of major remittance corridors.

8. Despite the competitive remittance market environment, the use of these formal channels is not maximized. It is estimated that large volumes of cash are transported physically across borders. In addition, there is ample evidence of the existence of informal remittance service providers, and the use of such providers seems common for the settlement of informal trade.

9. An Asian Development Bank study (ADB 2008) indicated that about 80 percent of remittances are physically transported across borders to recipient families by migrants themselves, by their friends and relatives, or by other individuals. The remaining 20 percent of remittances is sent trough banks, MTOs, or postal money transfer channels. Interviews with diaspora groups confirmed that these figures are still valid and cross-border transportation of cash is still the most common method to send money to their home countries.

10. An informal remittance system (hawala) operates in Kazakhstan although in a tightly controlled environment. There was no indication that hawala-type money transfer system is systematically used by criminals. It seems to fill a niche for the settlement of informal trade activities. The entrepreneurs involved in informal trade activities tend to use these services because they lack the proper documentation for formal remittance channels. The main features of these hawala-type operations in Kazakhstan are as follows: (i) they are used mostly for payment for informal imports; (ii) the operators accept the customers only with a reference from a known contact; (iii) they charge commissions of around 1 percent, which is lower than the cost of formal remittances; and (iv) they do not deal with small amounts (less than US$10,000).

Reasons Lying Behind the Limited Use of Formal Remittance Channels

11. Multiple reasons lie behind the preference for informal channels: low confidence in financial systems, culture and habits, concerns related to tax, and problems associated with the financial system of destination countries. These factors drive many people to use informal services and transport cash rather than send or receive money through the existing formal financial system. In addition, Kazakhstan has a informal economy estimated to be about 40 percent of the gross domestic product (GDP), and the informal business sector prefers informal financial transactions.

12. While Kazakhstan has many access locations to remittance services through bank and Kazpost locations, given the large territory of the country, access locations are not readily available in remote areas, where people often must rely on informal or unregulated services. Some of the regulated remittance companies that offer services at a relatively low cost are not as

accessible as others that offer higher rates. Partly because remittance companies can operate only through banks and Kazpost in Kazakhstan, the number of service locations is limited to the number of branches and post office locations. Current access locations could be further expanded in order to meet the need of people living in remote locations.

13. The concern of being detected by tax authorities or having funds blocked by financial institutions or authorities is a driver for some people to stay informal. Combined with burdensome documentation requirements, these factors make many residents and non-residents (including entrepreneurs) avoid formal remittance and financial services.

Money Laundering and Terrorist Financing Risks Arising from Informal Remittances

14. Existing data and information from law enforcement agencies provide no evidence that remittance channels—in particular, alternative remittance systems—are used for ML/TF purposes. There have been a few suspected and detected cases, but these did not result in prosecution or conviction. This does not mean that remittance service providers are not vulnerable to money laundering or terrorist financing. Although they seem to be used mostly for business purposes, lack of accessible records and control renders these informal remittance channels highly vulnerable to the abuse of criminals for ML/TF purposes.

15. Tackling the ML/TF risks of alternative remittance systems requires synchronized actions among law enforcement agencies, financial intelligence unit, and regulatory/supervisory agencies. As the anti-money-laundering and combating-the-financing-of-terrorism (AML/CFT) framework is relatively new in Kazakhstan, cooperation and coordination among these state agencies has only begun recently, and there is an urgent need to strengthen this effort.

Undocumented Migrant Workers as a Source of Informal Remittance Flows

16. Kazakhstan is a popular destination for migrant workers due to its rapidly growing economy. The annual quota allocations focus on skilled labor, although there is a substantial demand for unskilled labor force. The process and procedures for employing foreign labor are cumbersome, costly, and time consuming, and these are disincentives for both the employers and employees to follow a formal process. This has, therefore, resulted in an existence of increasing undocumented migrant workers in Kazakhstan. Undocumented status of the migrant workers forces them to avoid the use of formal remittance channels.

Legal and Regulatory Framework for Remittances

17. Kazakhstan has a rigorous legal and regulatory framework for remittances. However, the current legal and regulatory framework related to remittances is scattered around several legislations and regulations and this makes it very complicated to follow and implement. Different laws and regulations cover certain aspects of remittances based on their own sets of objectives.

18. Kazakhstan's AML/CFT law was adopted in 2009. It mandates basic AML/CFT measures such as customer due diligence (CDD), monitoring, record keeping and suspicious transaction reporting (STR) requirements, among others, be carried out by the obliged institutions. MTOs are not directly subject to any laws or regulations in Kazakhstan, however, because they are not

directly licensed in Kazakhstan. They operate only through agency relationships with banks and Kazpost. Banks and Kazpost, therefore, bear the legal responsibility to ensure the compliance of the remittance services with AML/CFT legislation.

19. While the basic elements of the AML/CFT measures required by the Financial Action Task Force on Money Laundering (FATF) standard are in place, there are also technical gaps. For example, the applicability of the AML/CFT law to remittance transfers is limited to:

- money transfers abroad into accounts (deposits) opened for an anonymous person;
- receipt of money from accounts abroad (deposit) opened for an anonymous person made as one-off transaction and a transaction made during seven consecutive calendar days; and
- payments and money transfers made by a client on a grant basis in favor of another person.

20. The scope of the remittance transfers subject to AML/CFT requirements is too narrow— all wire transfers, regardless of the nature and type of transfers (except the threshold of 1,000 US dollars and euros), need to be subject to the AML/CFT requirements. Second, the threshold applied to the transfers is too high because both of these operations are subject to CDD if the transaction amount equals to or exceeds KZT 2 million (about US$13,400) or equivalent in foreign currency. The FATF standard allows wire transfers of US$/€ 1,000 or less to be exempted from CDD and wire transfer obligations.

21. Although the scope of the CDD requirement in the AML/CFT law is limited, there are other laws and regulations, such as laws and regulations on currency control and "noncash payments and remittances," that apply to remittance services and fill certain gaps. However, at the same time, the CDD and customer identification requirements arising from different laws and regulations make the combined requirements quite onerous. To given an example, a range of information must be collected from customers both on senders and recipients of remittances. In addition, different laws and regulations require slightly different information. Further, the current legal and regulatory framework essentially does not allow undocumented or unofficial workers to send money through financial institutions.

22. The current STR regime requires financial entities to report suspicious transactions prior to executing the transaction. Then the country's Committee of Financial Monitoring (CFM) can respond within 24 hours, or it can further suspend a transaction for three days. Suspicious transactions are not allowed to be further processed. On the other hand, financial entities can also inform CFM after the transaction has taken place, within 3 hours after the transaction or within 24 hours after identifying such transactions. Concerns about the suspension of transactions have been shared by the business community. While the suspension of transactions arising from a match against the list of persons and organizations engaged in financing terrorism and extremism should be done promptly—and prior to such transactions actually taking place—the current requirement seems to give more incentive for financial institutions to report other types of suspicious transactions after such transactions are completed. Further guidance by the CFM will be useful in this regard so that suspicious transactions are properly and promptly reported. It is important that interruption to prompt executions of financial transactions be kept to a minimum for. It is also important not to tip off customers by unnecessarily delaying transactions.

23. A draft national law On Making Amendments to Some E-Money Related Regulations of the Republic of Kazakhstan has been developed in Kazakhstan. As of July 1, 2011, the draft law has been approved by the parliament of the Republic of Kazakhstan. The introduction of new payment methods, such as mobile phone financial services, is welcomed as it would expand access to financial services and convenient financial services. However, the e-money issuance of up to 100 monthly indices[1] (around US$900) without identifying the recipient individual could be a concern from the AML/CFT perspective. A risk assessment needs to be undertaken to establish the ML/TF risks associated with small amounts of e-money. Based on the risk assessment, authorities are encouraged to adopt a risk-based approach to the low-risk, small-value accounts.

24. Currently AML/CFT supervision is limited. Further, examination of remittance transfers conducted through remittance companies is also very limited. Inspection of overall and thorough AML/CFT compliance needs to be firmly introduced beyond whether suspicious transactions have been filed. Most inspections of remittance transfers to date seem to have been initiated only by red flags (for example, some large transfers).

Policy Recommendations

25. A summary of the recommendations that can contribute to the improvement of the legal and regulatory framework for alternative remittance systems and prevention of abuse of these systems by money laundering and terrorist financing purposes is provided in the following table.

RECOMMENDATION	Priority	Time frame	Type of Recommendations	Lead Institution
1. Improving the access to formal remittance services and promoting their use				
Consider (by NBK) the possibility of allowing remittance companies to operate remittance services in Kazakhstan without intermediary banks or post office.	High	LT	Policy	NBK
Reduce requirements to collect certain information	High	ST	Policy	NBK and CFM
Liberalize requirements for transferring funds through bank accounts for business payments	High	ST	Policy	NBK
Promote the use of money transfers through awareness raising and consumer education	Medium	MT	Technical	NBK
Build better confidence in formal remittance channels and the formal financial sector as a whole	Medium	LT	Policy and technical	NBK with Law Enforcement Agencies (LEAs)

[1] Refers to the official coeffcient that is the base for the calculations of monetary amounts in laws and regulations in Kazakhstan.

RECOMMENDATION	Priority	Time frame	Type of Recommendations	Lead Institution
2. Understanding and formalizing hawala-type informal remittance systems				
Understand and formalize hawal-type informal remittance systems	High	MT	Technical	Financial Police, Ministry of Interior Affairs, Committee on National Security, General Prosecutor's office with participation of NBK and Ministry of Finance (CFM)
3. Ensuring the transparency of migration flows and accuracy of relevant statistics				
Strengthen the process to employ foreign labor	High	MT	Policy	Ministry of Labor (MOL)
Improve the labor quota estimate and categories	Medium	MT-LT	Technical	MOL
4. Strengthening the regulatory and supervisory framework that applies to ARSs				
Harmonize laws and regulations related to remittance transfers	High	MT	Policy and technical	NBK and CFM
Clarify and streamline non-account-based money transfers	High	ST	Policy and technical	NBK
Subject all types of remittance transfers to the AML/CFT requirements	Medium	ST	Policy and technical	CFM
Require wire transfer rules	Medium	ST	Policy and technical	NBK and CFM
Simplify customer due diligence requirement for natural and legal persons	High	ST	Policy and technical	NBK and CFM
Improving the quality of suspicious transaction reporting regime	High	ST	Policy and technical	CFM
Carefully design the e-money regulation	High	ST-MT	Policy and technical	NBK
Enhance oversight of remittance transfers	Medium	MT-LT	Technical	NBK
Issue guidelines	High	ST-MT	Technical	NBK and CFM
Clarify the applicability of sanctions against breaches of the AML/CFT law	High		Technical	NBK

RECOMMENDATION	Priority	Time frame	Type of Recommendations	Lead Institution
5. Preventing abuse of ARSs for ML and TF purposes				
Understand and formalize hawala-type informal remittance systems	High	MT	Technical	Financial Police, Ministry of Interior Affairs, Committee on National Security, General Prosecutor's office with participation of NBK and Ministry of Finance (CFM)
Enhance the detection of cross-border physical transportation of cash of illegal origins	Medium	MT-LT	Technical	Customs Control
Improve the cooperation among state agencies	Medium	MT-LT	Policy and technical	All LEAs with Statistics Agency

INTRODUCTION

1. The main objectives of the alternative remittance systems (ARSs) study are twofold. First, it is to provide information and analysis on (i) the nature, trends, and volume of formal and informal remittance transfers; (ii) the use of ARS systems and their vulnerabilities to money laundering and terrorist financing (ML/FT); and (iii) applicable laws and regulations concerning remittance transfers. Second, it provides recommendations for consideration by the Kazakh authorities that would facilitate efficient and secure remittance flows that encourage a shift from the informal to formal remittances.

2. For the purposes of the study, the term *alternative remittance system* is defined as nonbank formal and informal remittance transfers. This study will mainly examine remittance flows through money transfer operators (MTOs) as well as informal channels such as hawala system. It will also examine remittance transfers through the banking system as relevant for comparative purposes. Cross-border transportation of cash is also examined to the extent that it is relevant as a means of informal funds transfer.

3. The study takes into account relevant, although limited, past studies undertaken on remittance volumes and transfer channels in Kazakhstan.[2] It delves further into ARSs' vulnerability to money laundering and terrorist financing (ML/TF) in Kazakhstan, which has not been well studied or documented previously. It is important to stress that ARSs are as vulnerable or more vulnerable to ML/TF as any other kind transfer system. The risk of ML/TF exists in any economy and financial sector, but this risk can be mitigated by effective regulation and supervision of remittance channels.

4. The main target audiences of this study include policy makers, regulators, and supervisors of remittance service providers, staff of Kazakhstan's Committee on Financial Monitoring (CFM) and other relevant governmental agencies.

[2] Some regional level studies on remittances that include Kazakhstan are published by the World Bank as well as others. However, given the regional nature of the studies, they do not go into enough detail to understand the nature and scale of remittances and players in the markets. None of the studies focused on the analysis of the possible use of ARSs for money laundering and terrorist financing purposes.
The study "Remittances and Poverty in Central Asia and South Caucasus" by the Asian Development Bank (2008) provides great detail about the remittance market in Kazakhstan. The extensive survey of migrants was undertaken to gain knowledge of the remittance markets and migrants' remittance habits. No information is available with regard to the risk of money laundering and terrorist financing, however. There is some reference to legal framework, but the analysis and extent of the coverage is limited.
The current study contributes to the analysis of the more recent developments and trends in remittances and migrations. Since 2007, both migration and remittance trends have changed, given world economic crises and a difficult external environment faced by Kazakhstan. These trends were also influenced by policy choices that the Government took during post–financial crisis recovery period. The policy choices aimed at securing local job creation have inevitably led to a tightening of migration policy and foreign labor quotas. The changes since 2007 are also observed in a number of actions and policy reforms undertaken to fight money lanundering and terrorist financing. The Law on Counter-acting Legalization of Proceeds from Crime and Terrorist Financing (AML/CFT law) was enacted in 2009 and several bylaws on the implementation of the AML/CFT law have been issued. The Committee for Financial Monitoring (CFM) which is the Financial Intelligence Unit (FIU) of Kazakhstan, housed in the Ministry of Finance. Kazakhstan is a member of the Euroasian Group (EAG) since 2004.

5. The paper is organized as follows. Chapter 1 describes existing formal and informal remittance channels in Kazakhstan. Chapter 2 provides the scale of published remittance volume in and out of Kazakhstan. Chapter 3 describes customers who send remittances and their preferred remittance channels. Chapter 4 examines the risk of ML/TF to remittance service providers. Chapter 5 analyzes the legal and regulatory framework that applies to remittance service providers. Chapter 6 discuses the supervisory framework for remittance service providers. And finally chapter 7 provides a set of recommendations for consideration by the authorities.

6. Some key statistics for Kazakhstan are provided in tables 1, 2, and 3.

Table 1- Economic Indicators for Kazakhstan	**Figure**
Population (million, 2010)	16.0
Population growth (annual %, 2010)	1.9
GDP (current USD billion, 2010)*	146.9
GDP growth (annual %, 2010/2009/2008/2007)	7.0/1.2 /3.3/8.9
GNI per capita, Atlas method (USD, 2010)*	7,530
GNI per capita (PPP – current international $, 2009)	10,320
GDP per capita (USD, 2010)*	9,004
GDP per capita real growth (annual %, 2010)*	5
Foreign direct investment, net inflows (USD million, 2010)	2,857.3
Official development assistance and official aid (USD million, 2008)	332.55

Source: World Development Indicators (WDI) database, WB regional tables.
* Update provided by the WB Country Office.

Table 2 - Migration Data	**Amount**	**Source**
Total permanent resident inflow into Kazakhstan, 2009 (all source countries)	41,485	Statistics Agency of Republic of Kazakhstan (SAK)
Total permanent resident outflow from Kazakhstan, 2009 (all source countries)	33,983	SAK
Net migration to Kazakhstan, 2009	7,502	SAK
Estimated size of documented and undocumented Uzbek workers in Kazakhstan (2010)	300,000+	Diaspora representatives
Estimated size of documented and undocumented Kyrgyz community workers in Kazakhstan (2010)	120,000+	Diaspora representatives
Average amount of annual remittance of Uzbeks in Kazakhstan (USD, 2007)	1,522	ADB
Average amount of annual remittance of Kyrgyz in Kazakhstan (USD, 2007)	1,331	ADB

Table 3 - Remittance Data	Year	Amount	Source
Total remittance inflows to Kazakhstan (USD million)*	2010 2009 2008	291 261 193	NBK NBK NBK
Total remittance outflow from Kazakhstan (USD million)*	2010 2009 2008	3,021 3,057 3,559	NBK NBK NBK
Transfer Fees (selected MTOs) (% share of amount remitted**)**		**Min**	**Max**
USD 200 transfer fee to CIS countries		1.5	4.5
USD 200 transfer fee to non-CIS countries		3.0	11.0
USD 1,000 transfer fee to CIS countries		1.5	3.7
USD 1,000 transfer fee non-CIS countries		3.0	5.0

* Consolidated balance of payments figure, which includes workers' remittances, compensation of employees and migrants' transfers.

Exchange rate (as of May 10, 2011) US$1 = 145.75 KZT

CHAPTER 1 - REMITTANCE CHANNELS IN KAZAKHSTAN

7. This chapter describes and analyzes domestic and international money transfer channels being used in Kazakhstan. The analysis of formal and informal channels for cross-border remittances extends to physical transportation of cash as a common money transfer method preferred by many migrants and entrepreneurs.

1.1 Domestic Remittances and National Payment System

8. The National Bank of Kazakhstan's (NBK's) efforts to modernize its national payment system since 1991 has resulted in a reliable, effective, and sound national payment system. Two payment systems are available in Kazakhstan to facilitate the domestic fund transfers: Interbank System of Money Transfer (ISMT) and Interbank Clearing System (ICS).[3] ISMT is a real-time gross settlement system through which each money transfer transaction is processed and settled individually. ISMT system is designed to process high value and high priority money transfers.[4] On the other hand, ICS is a clearing system for retail payments with small value (maximum 5 million KZT per transaction, which is about US$34,000).

9. Specific data on person-to-person "domestic remittances" is not available.[5] However, considering the characteristics of two payment systems, it is likely that bulk of the domestic remittances inside Kazakhstan is processed through ICS system.

10. Table 4 summarizes the number and total amount of transactions that were processed through ISMT and ICS systems in 2010.[6] According to NBK statistics, in comparison to 2009 the number of transactions processed through ICS has increased by 14.5 percent in 2010, while the total amount has increased by 18.6 percent. Similarly, for the same period there was a 14.7 percent increase in the number of transactions and 17.5 percent increase in the total amount of money transfers in the ISMT system. When compared with the 2010 GDP growth rate (7.0 percent) and banking sector asset size growth rate (4.1 percent),[7] the increase in the use of the national payment systems is seen to be much faster. These figures indicate that the formal money transfer channels are used more frequently by both corporate and retail customers for money transfers inside Kazakhstan.

Table 4 - Transactions Processed through ISMT and ICS

System	Number of Transactions	Total Amount of Transactions (KZT)	Total Amount of Transactions (USD equivalent)
ISMT	11.5 million	184.5 trillion	1.252 billion
ICS	18.3 million	3.2 trillion	22.1 billion

Source: NBK.

[3] According to NBK statistics, in 2010 the total number of noncash payments processed through ICS accounted for 61.4 percent while ISMT accounted for 38.6 percent. In terms of amount, ICS accounted for a mere 1.7 percent and ISMT for the rest of total noncash payments inside Kazakhstan. Clearly, ICS as a small-value retail payment system, processed the larger number of domestic transactions but the total transaction value was very small due to the small value of each transaction. Different from ISMT, the ICS system clears on the net basis at the end of each business day. These payment systems are operated by NBK's daughter company, Kazakhstan Interbank Settlement Center (KISC).
[4] See NBK Web site, http://www.nationalbank.kz/?docid=488&switch=english.
[5] "Domestic remittances" here means remittances sent by domestic migrants across different regions inside Kazakhstan to their households.
[6] See NBK Web site, http://www.nationalbank.kz/?docid=501&switch=english.
[7] See AFN Web site, Banking Sector Statistics, http://www.afn.kz/en/statistics/2010-02-11-04-17-35.

1.2 International Payments through SWIFT Channel

11. The Society for Worldwide Interbank Financial Telecommunication (SWIFT) is a worldwide communication system that allows member banks and other financial institutions to exchange financial information in a secure and reliable environment. The reliability, convenience, and large size of the network have made the SWIFT system the world's commonly accepted financial communication system, used by 9,000 financial institutions in 209 countries around the world.[8]

12. SWIFT is a medium through which information is exchanged in the form of standardized messages; it is not a stand-alone money transfer system as sometimes misunderstood by the public. See annex 1 for more information about the SWIFT system.

13. As of 2009, there were 8 financial institutions in Kazakhstan that were members of SWIFT, and 42 other financial institutions in Kazakhstan are connected to SWIFT's "financial messaging application."[9] In 2009, about 1.5 million messages were sent and 1.5 million others were received via SWIFT in Kazakhstan.[10] It is interesting to note that the total number of SWIFT messages sent and received is about the same while, as will be described later, the total number and volume of outward transfers are much bigger than inward transfers according to remittance data recorded by NBK. This is similar to the situation with data on cross-border transportation of cash recorded by the Customs Authority.

14. The total number of the SWIFT messages declined by 5.5 percent in 2009 compared to the previous year.[11] As the data on money transfer operator (MTO) transfers is not available prior to 2009, it is not possible to analyze whether the decline in the use of SWIFT system was affected by the competition from MTO-originated money transfer services. Since Kazakhstan was also affected by the global economic crisis, and its effects may be the reason why SWIFT transfers declined. However, it is still not clear why the SWIFT traffic declined when the use of domestic ISMT and ICS systems increased substantially.

15. The banks visited by the study team all had a connection to SWIFT system and thus offered wire transfers via SWIFT with or without the sender opening a bank account. The fees charged by the banks for SWIFT transfers are usually high for small values. A minimum transfer fee is charged regardless of transfer amount due to the fixed costs associated with the use of SWIFT system. Beyond certain amount, the fee is charged by percentage of transfer amount (for example, 3 percent was often observed as the fee among several banks). In one example, a minimum transfer fee charged was US$80. For a low value money transfers, SWIFT transfers are extremely costly for senders in Kazakhstan. Furthermore, both a sender's bank and a recipient's bank can charge fees separately and independently of each other.

16. Destination and the transfer amount are two main factors that determine the comparative cost of SWIFT and MTO services and impact the choices of the customers between the two. According to the banks, many customers prefer wire transfers via SWIFT for the larger value

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[8] See SWIFT Web site, http://www.swift.com/about_swift/company_information/index.page?
[9] Efficiency Without Compromise, Annual Review 2009, SWIFT.
[10] Ibid.
[11] Ibid.

money transfers of more than a few thousand dollars to destinations other than CIS countries,[12] because MTOs (such as Western Union and MoneyGram) who have a wide network of agents inside as well as outside CIS regions charge higher fee at 5 percent for larger transactions (which is less costly than in some markets but more expensive than the 3 percent charged by banks in Kazakhstan).

17. While MTOs tend to impose transaction limits on how much one can transfer per transaction, SWIFT transfers usually do not have a maximum limit on transaction amount.

1.3 Money Transfer Companies Housed in Banks and Kazpost

18. In Kazakhstan only banks and Kazpost are allowed to provide remittance services (see chapter 5 for more on this). It is not possible to set up and operate an independent domestic entity that provides remittance services outside bank and Kazpost premises. MTOs have to partner with banks or Kazpost. In fact, several international money transfer companies are present in Kazakhstan, having banks as their agents and subagents.

19. Interesting features of the remittance market in Kazakhstan is that despite the limitation of operating within banks and Kazpost, and despite somewhat stringent regulatory requirements, a number of MTOs operate in Kazakhstan; multiple MTOs operate through same banks (in other words, it is common to see that one bank partner with several MTOs); and the cost of remittances is relatively low.

20. There were 39 banks operating in Kazakhstan as of January 1, 2011. In total, there are 365 branches and 1,881 service offices of banks across 16 regions. Almost half of the total service locations (including branches and service offices) are located in five regions: Almaty, Astana, Karaganda, East Kazakhstan, and South Kazakhstan. A lesser number of service locations exist in the Northern Kazakhstan, Kyzyl Orda, and Akmolinsk regions. Many banks offer remittance services both through remittance companies and through bank wire transfer services.

21. According to reports sent by banks and Kazpost to NBK, apart from the generic wire transfers provided by the banks, the following 21 remittance providers were active in the remittance market in 2010 operating through banks and Kazpost locations:

1. Western Union
2. MoneyGram
3. Contact
4. Anelik
5. Unistream
6. Coinstar Money Transfer
7. Leader
8. Faster
9. FOVA
10. Fast Mail
11. Blizko
12. Blitz
13. Golden Crown
14. Migom
15. Metro Express
16. Orient Express
17. BS-Client
18. Xpress money
19. InterExpress
20. Universal Postal Union System
21. CiberPlat

[12] Commonwealth of Independent States; An association of former Soviet republics, namely Russia, Ukraine, Belarus, Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, and Uzbekistan.

22. Most of these remittance companies are sister companies of Russian banks and mostly active in the remittance corridors from Kazakhstan to Russian Federation and other CIS countries. Western Union, MoneyGram, and Coinstar are active in all destinations although naturally some corridors are much busier than others, reflecting the transfer needs of residents and nonresidents.

23. Table 5 shows the top 12 banks with largest service networks in Kazakhstan. Banks included in the table are listed in the order of the largest total number of outlets. Twelve banks represent more than 90 percent of the banking sector both in terms of the number of outlets and asset size. The table also refers to the money remittance companies with whom banks have agency relationships.

Table 5 - Branches, Service Offices, and Partner MTOs of Banks in Kazakhstan As of 2010

	Number of Branches	Number of Service Offices	Total Number of Outlets	Agency Relationships
Halyk Savings Bank	22	576	598	Western Union (WU), MoneyGram
BTA Bank	22	230	252	WU, Faster
Bank CenterCredit	20	179	199	WU, Contact
Kazkommertsbank	23	143	166	WU
Kaspi Bank	34	124	158	WU, Orient Express, Golden Crown
Alliance Bank	19	113	132	WU, Contact, Coinstar Money Trns.
ATF Bank	17	108	125	WU
Temirbank	21	93	114	WU, Anelik, Contact, Faster
Sberbank of Russia	13	91	104	WU, Fast Mail, Blitz
Tsesnabank	20	73	93	WU, Leader, Unistream
Nurbank	17	59	76	WU, Contact
Eurasian Bank	18	56	74	WU, Anelik
Others	119	36	155	See annex 2
TOTAL	**365**	**1,881**	**2,246**	

Source: FSA Web site and NBK (based on repots sent to NBK by banks).

24. Western Union (WU), which has agency agreements with 25 banks and Kazpost, is the largest player among the MTOs in Kazakhstan. Among the banks, Halyk Savings Bank has the largest network, which reaches out to all of the regions. Halyk Savings Bank partners with WU and MoneyGram. Delta Bank, Metrocombank, Senym-Bank, and Danabank, which are included under "others" in table 5 due to their smaller sizes and limited networks, seem active players in remittance markets as they partner with several MTOs. FOVA, which is the partner of Industrial and Commercial Bank of China, is active in Kazakhstan-China remittance corridor. A comprehensive matrix of all the MTOs and their agents (banks and Kazpost) is attached in the annex 2.

25. Kazpost is an important player in the remittance market. According to Kazpost, it has 3,000 locations, out of which 1,000 are equipped with the technology for the money transfers. Kazpost offers four ways to remit money: (i) money transfer through Universal Postal Union system (Giro transfers); (ii) Urgent Money Transfer System, which was developed by Kazpost; (iii) money transfer through remittance products of international remittance companies such as Western Union and Xpress money; and (iv) remittances trough the CyberPlat Money Transfer System Integrator (MTSI) platform.

26. CyberPlat has its headquarters in Switzerland and provides utility and other payment services in CIS countries, with a large number of access locations. CyberPlat provides a common interface that can be used for the money transfers of several money remittance services, namely, WU, MoneyGram, UniStream, Anelik, Bystraya Pochta (Fast Post), Leader, InterExpress, Orient Express, and Allure. This helps Kazpost as agents of multiple MTOs to save the costs that would be incurred otherwise by establishing separate technical infrastructure for each remittance service.[13]

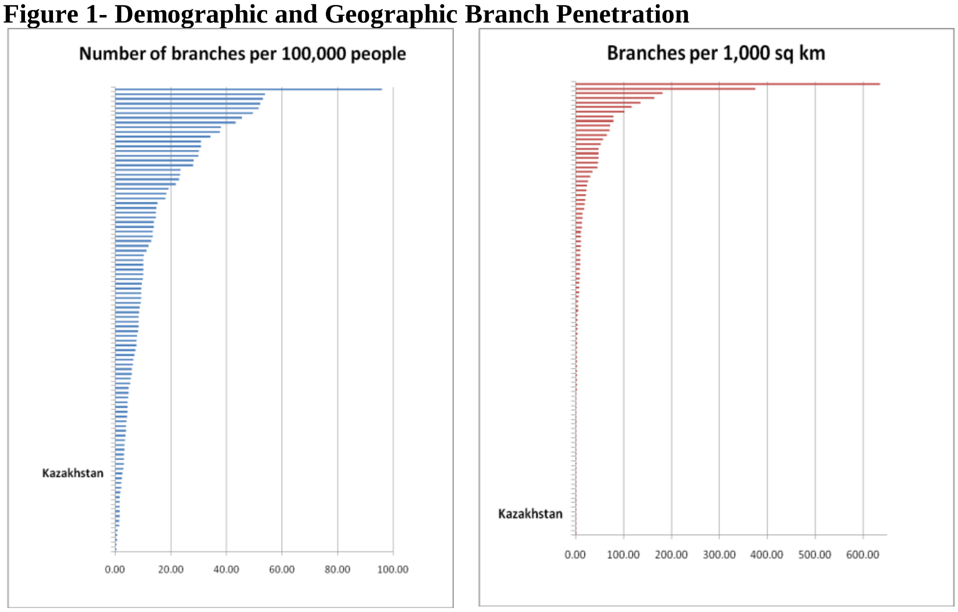
Access Locations of Remittance Service Providers

27. There are at least 3,000 remittance access locations, taking into account 2,246 bank branches and service offices (most of which provide money transfer services) and the 1,000 locations of Kazpost where money transfer services are offered. Most of these are located in the regions where economic activity is vibrant and where migrant workers are clustered.

28. Authorities and banks tend to see the existing number of the bank branches, service locations, and post offices as adequate to meet the needs of migrant workers and other users of remittance services. However, microfinance institutions and others that serve in provinces and remote areas do not consider that sufficient access locations to financial services are available in rural areas. Furthermore, some banks closed some of their service locations in rural areas, since it was not profitable for them. The need for access to remittance service providers in rural areas seems to relate more to domestic remittances rather than international ones as these rural areas do not have significant foreign labor or members of the families living abroad but have family members tending to migrate internally.

29. A study by the World Bank (2006) on financial penetration analyzed 99 countries from various regions in terms of (i) demographic and (ii) geographic penetration. Using the data provided in the study, this team's analysis shows that Kazakhstan ranks 82d and 94th out of 99 countries, respectively, based on 2.47 bank branches per 100,000 people and 0.14 banks per 1,000 square kilometers (see figure 1). The complete data set is given in annex 3.

Figure 1- Demographic and Geographic Branch Penetration



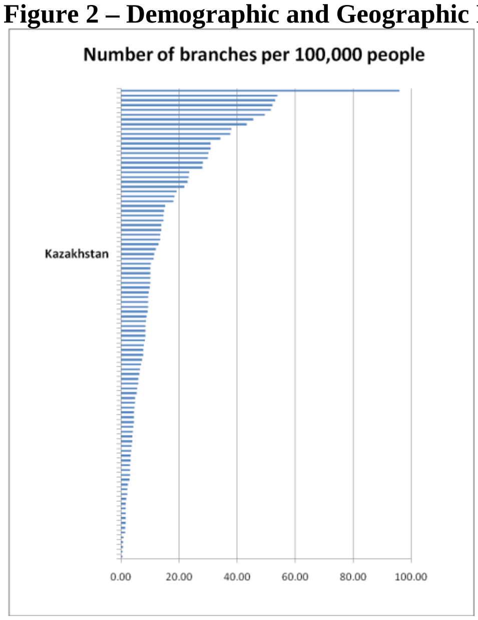
30. However, this is based only on bank branches. In Kazakhstan, in addition to branches, there are a number of smaller service offices (which are also called cash settlement centers). These

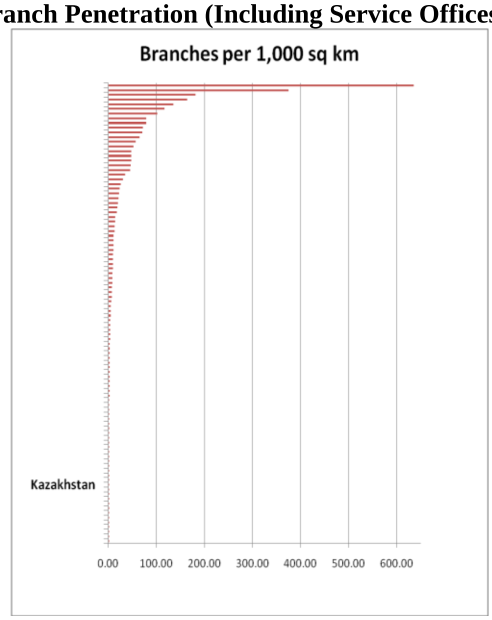
[13] See the CyberPlat Web site, http://www.cyberplat.com/about/2009report/.

offices provide most of the basic financial services, such as utility payments, foreign currency services, opening and maintaining current accounts, and so forth. According to the banks visited by the study team, most of these service offices also provide money transfer services. Including these service offices, figure 2 offers a revised view of figure 1 and includes 1,312 service offices in addition to 385 branches.[14] After the adjustment, the number of branches per 100,000 people is close to 12 which brings Kazakhstan at 35th out of 99 countries and the number of branches per sq km increases to 0.65, making Kazakhstan 86th out of 99 countries. The latter still has a low geographical penetration due to the vast size of the country.

31. Generally, statistics related to access to finance in Kazakhstan are not publicly available. For example, the Consultative Group to Assist the Poor (CGAP) publications on access to finance which collects data from 142 countries have very limited information on Kazakhstan.[15]

Figure 2 – Demographic and Geographic Branch Penetration (Including Service Offices)





Remittance Fees

32. Remittance cost usually includes fees charged by service providers and the applicable foreign exchange rate. Remittance companies and banks adjust foreign exchange rates on a daily basis, and it is difficult to gauge what margins are applied to the base rate. Therefore, this subsection focuses only on fees charged by the remittance service providers. An average remittance fee can be characterized as "affordable" and "competitive." Twenty one remittance companies (MTOs) were active in the remittance market in Kazakhstan in 2010, and severe competition in the corridors with CIS countries pushed the average fees to be very low. Fees for money transfers to Russian Federation and to other CIS counties in the amount of US$200 are as low as 1.5 percent. For higher amounts, the fee is lower than 1 percent. The remittance fees of

[14] As the WB study belongs to 2006, numbers for 2005 year-end has been used in the analysis. The numbers of branches and service offices are quoted from Annual Report ofAgency of Supervision and Regulation of Financial Organizations for Year 2005.

[15] Consultative Group to Assist the Poor, An Initiative with Participation of World Bank, Specializing in Financial Access.

different remittance companies are provided in the table 6. Since many of the MTOs are subsidiaries of Russian Federation banks, which already have networks in CIS countries and thus are able to offer remittances at low fees between CIS countries. In addition, a relatively high number of MTOs operating in Kazakhstan-CIS corridors obviously makes the fees competitive. Although some of these companies offer remittances to other destinations, they are mostly specialized in CIS countries.

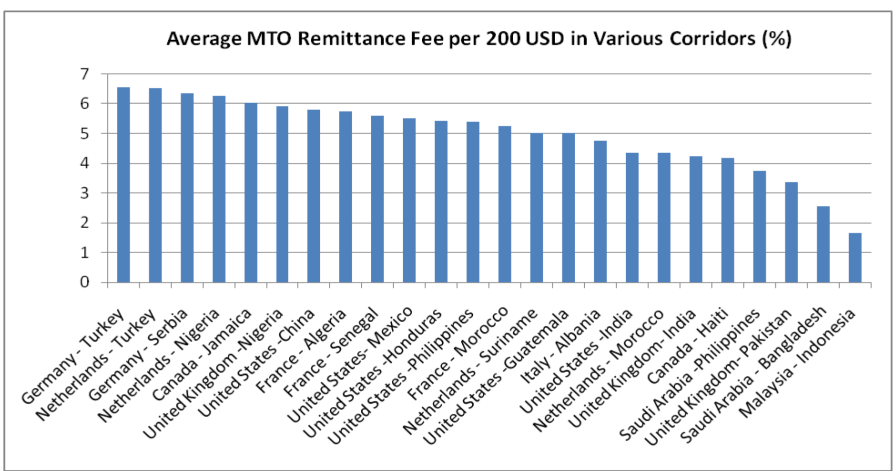
Table 6 - Remittance Fees for US$200 and US$1,000

	From KZ to CIS Countries		**From KZ to Other Countries**	
Companies	US$200	US$1,000	US$200	US$1,000
Western Union	4.5%	3.7%	11%	5%
Faster	2%	2%	Info n/a	Info n/a
Fast Mail	2.5%	2%	Info n/a	Info n/a
Golden Crown	1.5-3%	1.5-3%	Info n/a	Info n/a
Contact	2%	2%	3%	3%
Unistream	2%	2%	3%	3%
Anelik	1.5% (Ruble)	1.5% (Ruble)	3% (USD,EUR)	3% (USD,EUR)
Leader	1.5%	1.5%	Info n/a	Info n/a
MoneyGram	1.5%	1.6%	10%	5%
Coinstar Money Transfer	3%	3%	3%	3%
Blizko	2%	2%	Info n/a	Info n/a

Source: Web sites of companies and information provided by banks during the mission.

33. The remittance fees to the destinations outside CIS countries are higher, with many MTOs charging 3 percent. Figure 3 exhibits the average remittance fees in some major remittance corridors where remittance volume is relatively high and, thus, fee structure is relatively more competitive. For example, average MTO fees in the Germany-Turkey corridor is more than 6 percent while the fee in Malaysia-Indonesia, which is the lower end, is about 1.5 percent.

Figure 3 - Average MTO Remittance Fees per US$200 in Busy Corridors (%)



Source: World Bank remittance database.

34. In terms of the speed, while SWIFT transfers could take two to three days, remittance transfers through remittance companies are much faster. In most MTO services, the recipient can receive the money in less than 30 minutes after the money transfer order is placed by the sender. In addition, access to MTO agent locations (especially in other countries, since MTOs only operate through banks in Kazakhstan) is usually much easier than finding a bank branch or service office. These features make MTO services more convenient for many people. The fees charged by MTOs are much lower than bank SWIFT transfers for small amounts. For higher amounts and destinations outside of CIS countries, SWIFT transfers could be less costly than some of MTO services. At the same time, MTOs often place a transaction limit. For example, the maximum transfer amounts allowed by WU, MoneyGram, and Coinstar are US$7,500, US$10,000, and US$/€5,000, respectively. Thus, the comparative cost depends on destination and transfer amount.

Business Model of Remittance Services Providers in Kazakhstan

35. As mentioned, all the MTOs offer their services through banks and post offices through agency relationship. Some banks are agents and some others are subagents of these agents. For example, Bank Center Credit is a master agent of WU and has 12 banks as its subagents. The use of subagents by WU is not always observed in other countries and is relatively unique in CIS. Because MTOs are not allowed to operate directly, none of MTOs have their headquarters, offices, or branches in Kazakhstan. This being the case, they are not directly subject to the anti-money-laundering and combating-the-financing-of-terrorism (AML/CFT) obligations or any other obligation in Kazakhstan, but their services are subject to the Kazakh laws and regulations. Their agents (the banks and Kazpost) are subject to AML/CFT obligations and other laws and regulations and thus all services offered through them are subject to the Kazakh laws and regulations. In this regard, MTOs work with banks and Kazpost to comply with these requirements in Kazakhstan.

36. The challenge with this legal framework is that the authorities are not able to sanction remittance companies or obtain transaction and customer information from the remittance companies directly. Banks are instead sanctioned and respond to authorities' requests.

37. One of the challenges to AML/CFT is the detection of structured remittance amounts. Banks have the chance to monitor and detect the structured transactions if they occur through the same bank. But when the sender attempts to divide the amount into pieces and send these pieces through several agents of a remittance company, it is only the remittance company that could detect these related transactions, as only they might be able to monitor the transactions of all the agents at the same time. However, it is not clear how a remittance company would react if it detected such structured transactions since they do not directly send Suspicious Transaction Reports (STRs) to the Committee on Financial Monitoring (CFM), the Financial Intelligence Unit (FIU) of Kazakhstan. It's also worth noting that not all MTOs have central monitoring systems that would enable them to monitor structuring activities.

38. According to the CFM, there have not been any voluntary STRs directly filed by any of the remittance companies so far. However, several banks reported that the remittance companies suspended several transactions based on their own monitoring of transactions and reported the case to agent banks who subsequently forwarded the cases to the CFM.

1.4 Hawala Transfers

39. In Kazakhstan, hawala-type transactions and informal money transfer systems are mostly used for the purpose of informal trade payments. The team did not receive any information from the government agencies, business and social groups, or other market participants that the informal systems are used by criminals or terrorist groups, although the use of such systems by criminals is certainly possible.

40. The team relied on interviews with different parties to explore the existence and extent of the hawala-type transaction. The information is based on the following sources:

- Meetings with government agencies
- Meetings with business people, financial sector representatives, and representatives of diaspora groups and NGOs
- Interviews with several shop owners and employees, business executives, and visitors to the market places

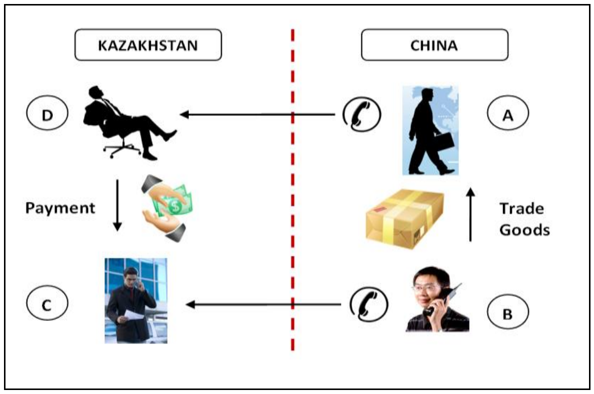
41. During the meetings with governmental agencies, the team sought any possible information and intelligence by law enforcement and other government entities regarding the existence of hawala operations. According to the representatives of law enforcement agencies, there was no money laundering or other criminal case reported or detected that involved the use of hawala. CFM does not have any STRs or official information regarding hawala.

42. During the visits to market places and to Kyrgyz border, the team approached several exchange offices and one encashment-pawn shop and attempted to transfer money. All the approached businesses declined, saying that they do not offer the service, and directed the team to closest bank offices for money transfers.

43. From multiple sources, the team received matching information that shows the existence of informal remittance systems that are used among business people mostly for the transfer of funds related to informal trade activities. The hawala systems seem to operate between Kazakhstan and trade partners such as China, Turkey, United Arab Emirates (UAE), and Uzbekistan. According to interviewed market participants, the real volume of the imports from these countries is much higher than the official records. Imported goods consist mostly of clothing, jewelry, foods, electronic devices, and household appliances, among many others imported from these countries. The existence of informal trade drives the need for informal channels to transfer the payments for imported goods, since this cannot be done through formal channels in Kazakhstan. As it is explained in chapter 5, in Kazakhstan all the payments and transfer of funds related to business activities need to be conducted through established bank accounts. Informal traders wish to avoid use of bank accounts for the informal trade since they are concerned about tax obligations. In addition, importers and exporters would need to submit a range of documents for trade transactions involving foreign currencies as per the Law on Currency Control, which is another disincentive.

44. An informal money transfer mechanism used between China and Kazakhstan is illustrated in figure 4.

Figure 4 - A Common Payment Scheme Used in Informal Trade



45. A Kazakh citizen (A) travels to China. He decides to buy some trade goods and needs money to pay for the goods. The Chinese seller in China (B) has a contact person in Kazakhstan (C) (for example, a Chinese businessman in Kazakhstan). The Chinese seller B advises A to make the payment to C. Then A calls a friend or a family member (D) in Kazakhstan, and asks him or her to pay the money to C, who receives the money in Kazakhstan. Then B gives the goods to A in China. B and/or C charges some commission for this service. A settlement between B and C is done through physical transportation of cash or netting transactions of opposite directions. They may use bank accounts for the settlement. In this scheme, the Chinese entrepreneur provides an informal payment service that facilitates Kazakh entrepreneur's purchase without any official record.

46. This is not the only payment scheme used by business people. However, market participants confirmed that this sort of informal payment scheme does exist in the trade corridor mentioned. However, such money transfers operate in a controlled environment. The parties do not accept just any person as a client or any walk-in clients. A referral seems a must. Many of the small- and medium-scale businesses that deal with international trade in those countries are aware of the informal money transfer systems.

47. The main features of these hawala-type operations in Kazakhstan are as follows:

- The operations are used mostly for the payments in return for informal imports.
- The parties accept the customers only with a reference from a known contact.
- They charge commissions of around 1 percent, which is lower than the cost of formal remittances, particularly for the destinations other than CIS countries.
- They do not deal with small amounts (say, less than US$10,000).

48. Some market participants also indicated that these informal remittance service providers have their own offices for this business or they conduct such service ancillary to main businesses such as logistics and import/export businesses. Some of them are active in trying to expand their network and they seek businesses to be their informal agents.

49. According to sources, the potential for informal remittance channels in the Kazakhstan-Russia corridor is much less than other corridors, since trade with Russia is much easier. The free customs regime between the two countries makes it easier to trade with Russia, and the presence of Russian banks makes payments for goods easier. The extent of the informal remittance channels may have a high correlation with the scale of the informal trade in various corridors.

50. The team was able to interview some business people who used these systems themselves or know others who use these services. However, having some concerns about legal consequences, those interviewed were hesitant to provide the names, contact information, and locations of these service providers.

51. From the AML/CFT perspective, obviously these operations are highly vulnerable to ML/TF, as criminals may prefer to take advantage of this underground informal transfer system.

1.5 Remote Financial Services and E-Money Service

52. Banks in Kazakhstan offer Internet banking and mobile banking services. Services provided by these avenues are mostly information services, such as balance inquiries and payment services in a limited scope. In some cases, these services allow the customers to make utility, tax, and similar payments within Kazakhstan, provided that they have an account with the bank. Mobile phone banking services (called “remote banking services” in Kazakhstan) do not offer international money transfer services. Kazakhstan is in the process of introducing a regulatory framework for e-money services. The team understands that some service providers approached NBK regulators about this in the past, but due to the lack of regulatory framework, no approval was granted at the time. In 2008, the Rules on E-Banking Services Provision by Second Level Banks and Facilities Implementing Certain Bank Transactions were adopted (approved by resolution no. 18, dated March 28, 2008, by the Board of the National Bank of the Republic of Kazakhstan). The draft national law On Making Amendments to Some E-Money Related Regulations of the Republic of Kazakhstan has been developed in Kazakhstan. As of July 1, 2011, the draft law has been approved by the parliament. Also, efforts were made to develop draft resolution by the Board of the National Bank of the Republic of Kazakhstan On Approving the Rules on Emission, Use and Clearing of E-Money as Well as Requirements to the E-Money Emitters and E-Money Systems in the Republic of Kazakhstan.

1.6 Cross-Border Physical Transportation of Cash

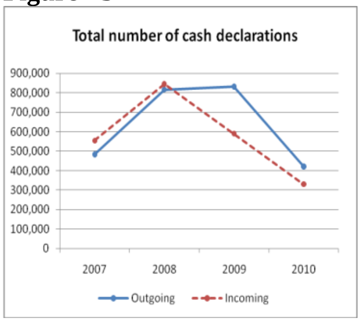
53. Kazakhstan is a member of a customs union established by Russia, Belorussia, and Kazakhstan. The cash transportation regime of the customs union was ratified by Kazakhstan in January 2011. The cash declaration threshold, which was US$3,000, has been increased to US$10,000 with the introduction of new regime. All physical transportations of cash exceeding US$10,000 and equivalent in other currencies to and from custom union are subject to mandatory cash declaration at customs. Declaration is optional below US$10,000. See chapter 5 for further details regarding the legal obligations.

54. Figure 5, figure 6, and figure 7 show the total number, total amount, and average amount of cash declarations filed by individuals during 2007–2010.[16] The summary tables that are based on cash declaration data provided by government agencies are given in annex 4.

55. The total number of both incoming and outgoing cash declarations was more than 800,000 in 2008. There is a substantial decline with the number of the cash declarations in 2010, which may be related to the slowdown of the economy. Contrary to the number of declarations, amounts of outgoing and incoming declarations have increased in 2010. According to 2010 data (only the first 11 months), total volume of outgoing cash declared was almost US$1 billion. For the same period, the volume of incoming cash declared was around US$200 million. Following the trends for increasing volume and declining numbers, the average cash declaration amount increased after 2008.

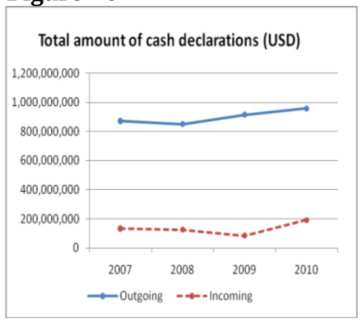
[16] The data in 2010 includes only the first 11 months.

Figure - 5



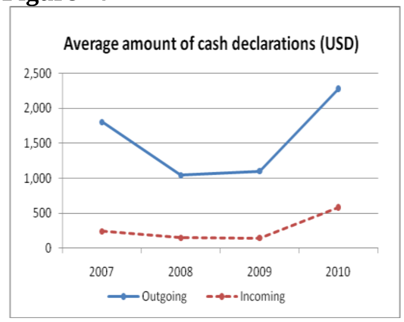
Source: Customs Control Committee (Authors' representation)

Figure - 6



Source: Customs Control Committee (Authors' representation)

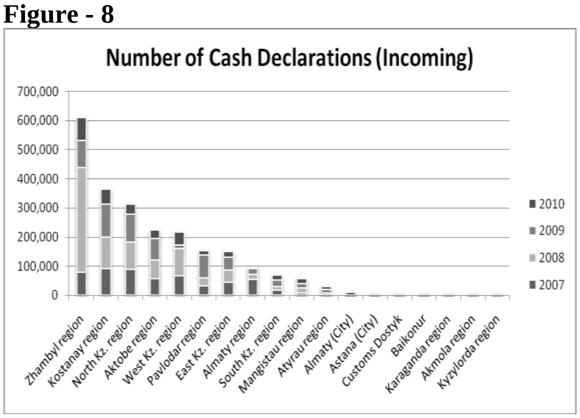
Figure - 7



Source: Customs Control Committee (Authors' representation)

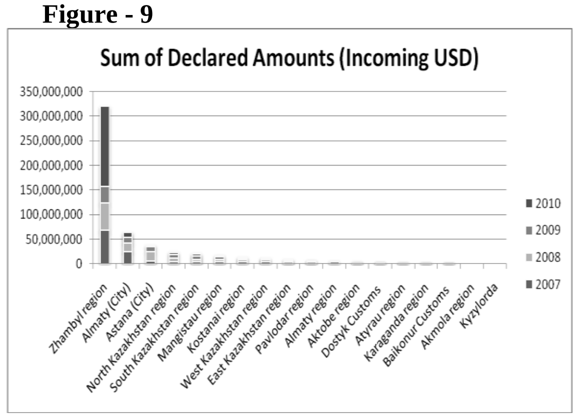
56. Figure 8 and figure 9 show the regional distribution of incoming cash declarations. Each bar represents the total number or volume of the cash declarations in a region during 2007-2010.[17] Increments of each bar show the distribution among four years. The Zhambyl region, which shares a border with Kyrgyzstan, had the highest number and amount of incoming cash declarations. This may be a result of higher passenger flow or better enforcement to comply with cash declaration requirement. Zhambyl is followed by the Kostanay and North Kazakhstan regions, which have borders with the Russian Federation. The declaration volumes in other regions are very low when compared to the Zhambyl region.

Figure - 8



Source: Customs Control Committee.

Figure - 9

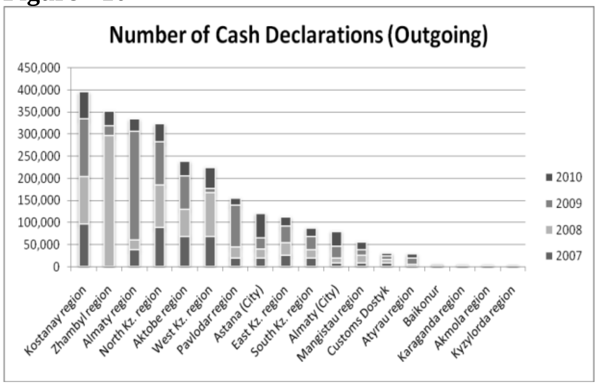


Source: Customs Control Committee.

57. Regional distribution of outgoing cash declarations differs from incoming declarations. Figure 10 and figure 11 show, respectively, the number and the sum of only outgoing cash declarations. Kostanay, Zhambyl, and Almaty regions have received the highest number of cash declarations compared to other regions. Kostanay is a gateway to the Russian Federation. Both Zhambyl and Almaty regions have borders with Kyrgyzstan. Almaty region, which has the country's only border with China, is the region with the highest declaration volume. The bulk of the declaration amount in Almaty region belongs to Khorgas Customs with the Chinese border. Almaty region, Almaty city, and Astana city together account for almost 80 percent of the total cash declaration amount. The high amounts in Almaty city and Astana city may be coming from better enforcement at airports and relatively higher declaration amounts of airway passengers.

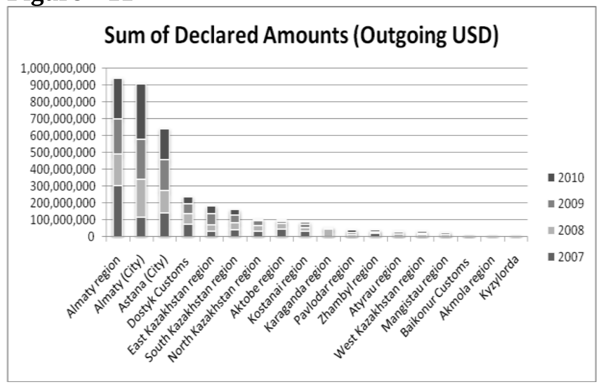
[17] The data in 2010 include only the first 11 months.

Figure - 10



Source: Customs Control Committee.

Figure - 11

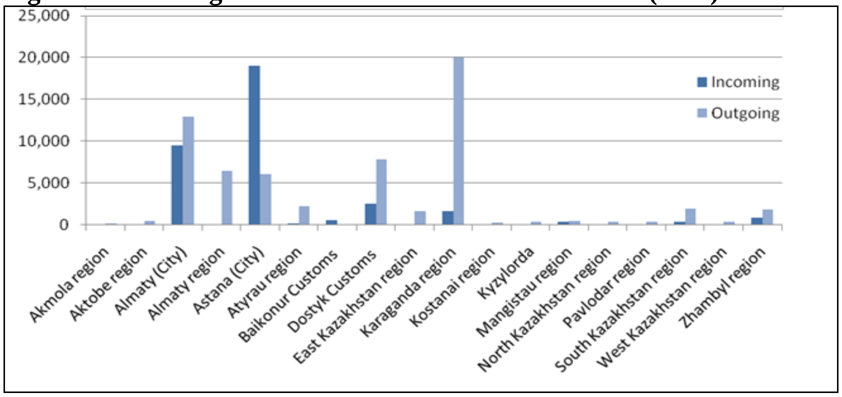


Source: Customs Control Committee**.**

58. There is a sharp leap in the declaration numbers in Zhambyl in 2008. The leap is in both incoming and outgoing remittances. Further analysis shows that this is heavily driven by cash declarations filed at Korday Customs, which is the busiest border point between Kazakhstan and Kyrgyzstan. In Korday Customs, the number of outgoing cash declarations was 161 in 2007, jumped to 202,850 in 2008, and then dropped to 8,555 in 2009. Another sharp increase occurred in outgoing cash declarations in Almaty region in 2009. In 2009 Khorgas Customs at the Chinese border received 222,000 outgoing cash declarations. This number rapidly declined in 2010. It is difficult to understand this rapid change of the number and the volume of declarations. It does not seem possible to explain such significant fluctuations in declaration statistics simply by the change in economic activities, the move of labor migrants, or imports and exports of goods. It may be the behavior of travelers to declare, which can drastically change from one year to another depending on the tightness of the enforcement. It should be also cautioned that the declaration statistics may be representing only a proportion of actual cash transportation amounts. At the same time, diaspora representatives stated that the enforcement for cash declaration requirements at the borders is becoming stricter in recent years. Further analysis and information is required to understand the fluctuations in statistics.

59. Figure 12 below exhibits the average outgoing and incoming declaration amounts. Almaty city and Astana city have the highest average amounts due to air travel. The average outgoing cash in Almaty region is high because of the cash transportation to China. The high outgoing average cash amount in Karaganda region seems an anomaly. This may be due to data problems; further investigation is necessary. Finally, it is interesting to note that the average amount of cash declaration is less than the official declaration threshold, which was US$3,000 until recently. It is not clear whether the accuracy of the data should be questioned or whether many passengers are declaring amounts below US$3,000.

Figure 12 – Average Declaration Amount for 2007–2010 (USD)



Source: Analysis by the team based on data obtained from the Customs Control Committee.

Informal Transportation and Smuggling of Cash

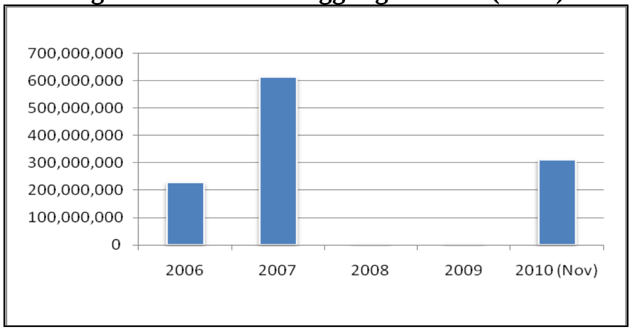
60. Through interviews and surveys of migrant workers, the ADB (2008) study analyzed how migrant workers send money home. According to the study, 37 percent of the total remittances is hand-carried by the migrants, 36 percent is carried by friends and relatives, 6 percent is carried by other individuals, and 20 percent is sent trough bank/MTO and Postal money transfer channels. It is striking to note that as much as 80 percent of money is hand-carried by migrants themselves or other individuals to family members outside the country. Interviews with diaspora groups seem to confirm that this figure is still valid, and cross-border transportation of cash is still the most common method to send money to home countries.

61. The law on Currency Control prohibits business-related funds from being transported as cash across borders; they have to be transferred via bank accounts. These legal restrictions push many business people to transport cash without declaration.

62. If the cash that is being transported without declaration exceeds KZT 14 million (about US$95,000), the legal consequences for failure to declare can be severe, since this violation will be considered "smuggling" of cash as per Article 209 of the Criminal Code. Customs authorities tend to focus on these high-value cases. In a recent cash-smuggling case, US$942,000 was found on a flight to Turkey. The investigation by the authorities revealed that this amount belonged to several retail businessmen aiming to purchase trade goods from Turkey.

63. Statistics on the seizures of cash from smuggling cases over the past five years are provided in figure 13. The volume of cash-smuggling fluctuates over the five-year period and the level of fluctuation is striking. Total amount of detected smuggled cash was above KZT 600 million (around US$4 million) in 2007 but went down dramatically in 2008 and 2009. According to the authorities, this reflects the economic downturn and less demand for purchases of goods from abroad. This further confirms that most of cash smuggling cases are associated with the payments of imports. Given that the drug trafficking and other crimes do exist in Kazakhstan, one would expect some seizure of cash related to those proceeds, but most of the seizure cash seem to relate to smuggling of cash to pay for imported goods by circumventing the transfer requirement under the Currency Control (transfers via banks).

Figure 13 – Cash Smuggling Volume (KZT)



Source: Customs Control Committee.

64. The team was not fully convinced that customs authorities are able to detect the majority of cash smuggling cases. Detected volume seemed a small proportion of the actual cash being smuggled. The intensive flow of people and vehicles at the borders, particularly to and from the other CIS countries, make it difficult to apply very strict controls. The total volume of *declared* cash at the borders was about US$1.2 billion in 2010 (for both incoming and outgoing). About US$2 million was seized in 2010 (up to November), which is about 0.16 percent of the *declared* cash at the borders.

65. Also there seems to be varied levels of control between airports and land-crossing locations. For example, a custom declaration form has to be filled while entering and exiting the country if one carries currencies exceeding US$10,000 or the equivalent in other currencies (in the new customs union regime). The team observed that these forms are generally filled before going through the checkpoints at the airports. However, for land-crossing locations, such as the Kazakhstan-Kyrgyzstan border, which was visited during the mission, this did not appear to be systematically followed.

Destinations

66. Cross-border physical transportation of cash is very common with neighboring CIS countries. Particularly, the immigrants from Kyrgyzstan, Uzbekistan, and Tajikistan prefer to carry cash themselves or get their cash carried by a community member when travelling to their home countries for the reasons explained below. Visitors from other CIS countries such as Azerbaijan, Armenia, and Ukraine also tend to carry cash, since it is common to carry cash, reflecting the cash-based nature of these economies.

67. Apart from the CIS countries, the cash-smuggling cases detected by the government authorities indicates that Turkey, UAE, and China are three main destinations for relatively large amounts of cross-border physical transportation of cash. This reflects the direct trade and imports of good from these countries. UAE is also a financial center where the bulk of cash is carried for the settlement purposes.

Reasons for Carrying Cash across Borders

68. Understanding the main factors that drive people to transport and use cash is important to making appropriate policy decisions to promote the use of formal financial services. The following factors stand out as main reasons for the preference for the cross-border physical transportation of cash.

69. *Geographic location:* Kyrgyzstan, Tajikistan, and Uzbekistan are geographically very close to Almaty region, Zhambyl region, and South Kazakhstan region, which have the most populous cities in Kazakhstan. Almaty region also has a border with China. It is very easy to drive or take buses to these neighboring countries.

70. *Habits and culture:* Culturally, the economy of the country and the wider region is cash-based. People prefer to have cash at hand, use cash for all kinds of payments, and give cash to families and friends.

71. *Sizable informal economy:* A significant amount of the economic activity occurs in the informal sector. As the source of money is informal economic activities, people tend to avoid formal financial services and conduct their transactions in cash in order to avoid tax obligations. A recent World Bank study provides the estimates of informal economy in 21 transition countries (Schneider et al. 2010). The study estimates that 38.4 percent of the economic activity occurred in the informal sector in Kazakhstan in 2007. Kyrgyzstan, Tajikistan, and other CIS countries similar shares of business in the informal economy. (See table 7.)

Table 7 - Shadow Economy in 21 Transition Countries (% of GDP)

		Years									
No.	Country	1999	2000	2001	2002	2003	2004	2005	2006	2007	Country Average
1	Slovak Republic	18.9	18.9	18.8	18.6	18.3	18.1	17.6	17.2	16.8	18.1
2	Czech Republic	19.3	19.1	18.9	18.8	18.7	18.4	17.8	17.3	17.0	18.4
3	Hungary	25.4	25.1	24.8	24.5	24.4	24.1	24.0	23.7	23.7	24.4
4	Slovenia	27.3	27.1	26.7	26.6	26.4	26.2	25.8	25.3	24.7	26.2
5	Poland	27.7	27.6	27.7	27.7	27.5	27.3	26.9	26.4	26.0	27.2
6	Latvia	30.8	30.5	30.1	29.8	29.4	29.0	28.4	27.7	27.2	29.2
7	Estonia	-	32.7	32.4	32.0	31.4	31.1	30.5	29.8	29.5	31.2
8	Turkey	32.7	32.1	32.8	32.4	31.8	31.0	30.0	29.5	29.1	31.3
9	Lithuania	33.8	33.7	33.3	32.8	32.0	31.7	31.0	30.4	29.7	32.0
10	Croatia	33.8	33.4	33.2	32.6	32.1	31.7	31.3	30.8	30.4	32.1
11	Romania	34.3	34.4	33.7	33.5	32.8	32.0	31.7	30.7	30.2	32.6
12	Albania	35.7	35.3	34.9	34.7	34.4	33.9	33.7	33.3	32.9	34.3
13	Bulgaria	37.3	36.9	36.6	36.1	35.6	34.9	34.1	33.5	32.7	35.3
14	Macedonia	39.0	38.2	39.1	38.9	38.4	37.4	36.9	36.0	34.9	37.6
15	Kyrgyz Republic	41.4	41.2	40.8	41.4	40.5	39.8	40.1	39.8	38.8	40.4
16	Kazakhstan	43.8	43.2	42.5	42.0	41.1	40.6	39.8	38.9	38.4	41.1
17	Tajikistan	43.5	43.2	42.9	42.7	42.1	41.7	41.5	41.2	41.0	42.2
18	Russian Federation	47.0	46.1	45.3	44.5	43.6	43.0	42.4	41.7	40.6	43.8
19	Moldova	45.6	45.1	44.1	44.5	44.6	44.0	43.4	44.3	-	44.5
20	Ukraine	52.7	52.2	51.4	50.8	49.7	48.8	47.8	47.3	46.8	49.7
21	Georgia	68.3	67.3	67.2	67.2	65.9	65.5	65.1	63.6	62.1	65.8
	Time Average	36.9	36.3	36.1	35.8	35.3	34.8	34.3	33.7	32.6	

Source: Schneider et al. (2010).

72. *Limited access to financial services in Central Asia*: Access to financial services in Central Asia is very low, according to a CGAP study (CGAP 2010). Information on Kazakhstan is very limited in this study.

73. *Low confidence in banking system:* People in Central Asia still lack the confidence in the banking system. People are afraid that money can be seized or blocked in a bank for currency control or tax purposes. For example, in Uzbekistan during the ruble devaluations of late 1990s, the withdrawal of the deposits was restricted several times by the government. These restrictions shook the confidence in financial system.

74. *Black foreign exchange market in neighboring countries*: The selection of a transfer channel is also affected by conditions on the other side of the border. This is particularly the case for the Kazakhstan-Uzbekistan corridor. When the amounts are transferred through official channels such as banks and MTOs, these remittances have to be exchanged at the official exchange rate, which is significantly higher than the informal market rate.

75. *Fear of being detected by authorities*: Many unofficial or illegal immigrants live in Kazakhstan, and they fear being detected and deported. This will make them avoid the use of formal channels. Similarly, the concerns of being detected by tax authorities may be a driver for carrying cash.

76. *Cost:* Although MTO fees are in the lower band, it still costs when compared to carrying cash, which is free. The ability to carry cash when travelling their home countries or asking friends and family to deliver cash may allure migrants with lower wages, despite the risk of having their money lost or stolen.

CHAPTER 2 - SCALE OF RECORDED REMITTANCES IN AND OUT OF KAZAKHSTAN

77. This chapter provides a snapshot of available remittance data for Kazakhstan and discusses the method used for the compilation of data. The chapter also touches upon the estimation of the size of informal remittances.

2.1 Remittance Data in the Balance-of-Payment Statistics

78. The National Bank of Kazakhstan (NBK) collects remittance data from the commercial banks, Kazpost, and the statistical agency. Key point to consider is that NBK until 2009 did not collect remittance data from the MTOs, since NBK does not directly regulate activities of the MTOs, which operate through banks and Kazpost.[18] Thus, the data sources for workers' remittances in the balance-of-payment statistics before 2009 and after are very different.

79. While keeping the above caveat in mind, the balance-of-payment statistics in table 8 show that Kazakhstan is clearly a remittance-sending country. Outward remittances are much larger than inward remittances. For example, in 2010 outward remittances were recorded as more than US$3 billion while inward remittances were recorded as US$291 million. And over the past decade, the pace of remittance flows has increased moderately for inward flows but quite rapidly for outward flows, reflecting the rapid GDP growth of the country. These facts usually indicate that Kazakhstan is a labor-importing country. Contrary to this notion, the World Bank estimate indicates that the stock of *emigrants* is larger than the stock of *immigrants* in Kazakhstan. The stock of emigrants was estimated at 3.7 million people, which is about 25 percent of the population, while the stock of immigrants was estimated at 2.5 million people, which is about 16.9 percent of the population (World Bank 2011). Kazakhstan is a middle-income country and, usually, the stock of emigrants being larger than the stock of immigrants could point to larger inward remittances; however, this is not the case in Kazakhstan. This seems to be attributable to unique features of Kazakh migration in the past 20 years.[19] For example, entire families often emigrate together from Kazakhstan and do so fairly easily, given that the large migration flows occurred between Kazakhstan and Russia, as will be explained in the next chapter.

[18] The NBK has sent requests to commercial banks to provide information retroactively on transactions with MTOs during 2000-2008. As of May 2011, NBK had received the requested data from all the banks and is currently processing the data. The NBK plans to retroactively adjust the "workers' remittance" in its balance of payments later this year.

[19] Demographically, in 1989 the ethnic Russian population in Kazakhstan numbered 6.2 million. There was also a large ethnic German population of nearly 1 million. Since then, about two-thirds of the German population has left the country as has about one-quarter of the Russian population. According to the 2002 Russian census, there were 1.4 million people who lived in Kazakhstan in 1989 who now live in Russia; much of this was the migration of ethnic Russians. Thus, over the past two decades, Kazakhstan had a rather significant emigration of native-born, non-Kazakhs who became foreign-born emigrants. At the same time, Kazakhstan has become a migration magnet within Central Asia, largely due to oil and gas sector.

Table 8 - Consolidated Balance-of-Payment of the Republic of Kazakhstan (USD million)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
	Total	Total	Total	Total	Total	Total	Total	Total	Total	Total	Total
Inward remittance flows	**122**	**171**	**205**	**148**	**166**	**178**	**186**	**223**	**193**	**261**	**291**
of which:											
Workers' remittances	64	81	107	38	53	56	73	132	120	193	221
Compensation of employees	4	4	4	4	4	6	11	11	5	5	5
Migrants' transfers	54	86	94	105	108	116	103	80	67	63	65
Outward remittance flows	**440**	**487**	**594**	**802**	**1354**	**2000**	**3033**	**4303**	**3559**	**3057**	**3021**
of which:											
Workers' remittances	74	143	286	421	806	1158	2000	2998	2004	1624	1595
Compensation of employees	47	60	79	230	414	735	959	1214	1457	1310	1350
Migrants' transfers	319	284	230	151	134	107	75	91	98	123	76
Source: National Bank of Kazakhstan											

80. Kazakhstan follows standard IMF Balance of Payment guidelines on compilation of remittance data. Following the Balance of Payment Manual 5 (BPM5), Kazakhstan collects three types of remittance data: workers' remittances, compensation of employees, and migrants' capital transfers.

Worker's Remittances

81. The data prior to 2009 and after 2009 are not comparable due to the reasons explained below. Prior to 2009, the data were compiled based on the information collected from banks on payments. In accordance to the rules for application of the State Classifier of Republic Kazakhstan—the uniform classifier of a payment purpose and payment information provision as the Uniform Payment Purpose Classifier approved by the Resolution no. 388 dated November 15, 1999 (hereinafter Rule no. 388)—until April 1, 2011, banks and Kazpost submitted information on payments made through correspondent accounts using SWIFT to NBK in the format of the Uniform Payment Purpose Classifier Codes. However no information on money transfers through MTO was included.

82. In order to calculate the "migrant workers' remittances" item in the balance-of-payment statistics, NBK sorted out the relevant transactions from the reported data, using three criteria:

- Sectoral code: only sector 9 (household)
- Purpose code: only grant basis (code 119)
- Residency status: resident or nonresident

The aggregate amount of outgoing worker remittance is compiled based on transactions by residents to nonresidents with sector code 9 (household) and purpose code 119 (grant basis).

The aggregate amount of incoming worker remittance is compiled based on transactions from nonresidents to residents with sector code 9 and purpose code 119 (grant basis).

83. In 2009, NBK developed a new and additional reporting mechanism that requires banks and Kazpost to report *international transfers by natural persons.* This new report aims to gain a better understanding of person-to-person remittance transfers by collecting transaction data going through money transfer companies in addition to Kazpost- and SWIFT-based remittance transfers. In essence, this form aims to collect data on all the non-account-based remittance transfers through banks, MTOs, and Kazpost

84. Since 2009, these additional data collected by NBK have been taken into account in estimating the workers' remittances in and out of Kazakhstan. Accordingly, in addition to transfers through banks via SWIFT (account and non-account basis), which was the basis for the reporting for the balance of payment statistics, the data collected on MTO transfers are added.

85. The major difference before and after 2009 is that the data after 2009 includes transfers made through MTOs. At the same time, the data on non-account-based SWIFT transfers and Kazpost transfers (using the Universal Postal Union system) were collected in two reporting forms after 2009 until April 2011, when yet another new reporting form was introduced (as will be explained).

86. Expanded collection of data since 2009 enables NBK to undertake better analysis of remittance data. According to the data collected under the new methodology by NBK, the total amount of international transfers through MTOs and postal systems is US$1.2 billion for outgoing remittances in 2009 and 2010 and US$0.5 billion for incoming remittances in both years (see table 9). It should be noted that this data do not include the transfers through SWIFT.

Table 9 - Total Remittance Transactions through MTOs and the Postal System

	Total outgoing remittance volume		**Total incoming remittance volume**	
	KZT	USD equivalent	KZT	USD equivalent
2009	178.2 billion	1.2 billion	76.6 billion	0.5 billion
2010	179.8billion	1.2 billion	74.5 billion	0.5 billion

Source: National Bank of Kazakhstan.

87. The reports provided by banks both on correspondent accounts (SWIFT system) and payments through MTOs contain data on grant-based transfers. However, rather than taking these reported amounts as the aggregate workers' remittances, NBK adjusts the data based on its estimation of the actual size of the "grant" transfers, because it is aware that many of these transactions are related to purchases of goods and services even though they may be categorized as "grant" (see the analysis in following paragraph). After the adjustment, a proportion of transfers declared as grants are actually reported as "worker's remittances" in the balance-of-payment statistics. This estimation is made based on an anonymous survey of remitters, which is conducted at participating bank locations. Using the survey results, NBK adjusts the data based on the share of nonrepayable transfers, destination countries, and transfer methods (table 10).

Table 10 - Outgoing Workers Remittances in 2009 and 2010 (USD million)

	Workers' Remittances		
	Bank transfers (SWIFT)	MTOs and Postal System	**Total**
2009	918	706	1,624
2010	941	654	1,595

Source: Authors' representation, NBK, statistical agency.

88. When table 9 and table 10 are compared for MTOs' and Kazpost's outgoing transfers, the "workers' remittances" constitute 59 percent (2010) and 65 percent (2009) of overall MTO transfers, indicating that 41 percent (2010) and 35 percent (2009) downward adjustments were made by NBK. The team did not receive the raw data on the SWIFT transfers and information on

what proportion of the SWIFT transfers is categorized as "grant" transfers, thus the team was not able to undertake the similar analysis for the SWIFT transfers.

89. Further, the data in table 10 on workers' remittances can be disaggregated by destination countries. Table 11 shows the top destination countries within the CIS and outside the CIS for outward remittances based on SWIFT or MTO transfers. The table shows that transfers to CIS countries are largely dominated by MTO transfers: 95 percent and 89 percent out of all the transfers in 2009 and 2010, respectively, were sent by using MTOs to CIS countries. MTOs are preferred because of their lower cost compared to banks. On the other hand, transfers to other countries are dominated by SWIFT transfers: 87 percent and 90 percent of SWIFT transfers in 2009 and 2010, respectively, went to non-CIS countries. This characteristic is striking. This may result from the cost of transfers, since sending more than a few thousand dollars outside CIS countries can be less expensive through banks than through MTOs. Or it may be simply because of relatively well developed banking system in major destination countries, such as China and Turkey. Or this may be because these SWIFT transactions represent payments for "purchase of goods," despite the adjustments made by NBK.

Table 11 - Transfers by Individuals by Region and Top 5 within Category (USD million)

	2009			2010		
	via bank accounts	MTOs	TOTAL	via bank accounts	MTOs	TOTAL
TOTAL	918	706	1624	941	654	1595
						0
CIS countries	207	617	824	198	588	786
Russia	189	242	431	180	219	399
Uzbekistan	0	212	212	0	189	189
Kyrgyz Republic	3	59	62	4	80	84
Ukraine	7	23	30	7	22	29
Azerbaijan	3	36	38	2	33	35
Other countries	711	89	800	743	66	809
China	292	11	303	358	16	374
Turkey	179	23	202	163	16	179
Germany	60	4	64	64	4	67
USA	34	2	36	30	1	32
UAE	17	4	21	17	4	21

Source: National Bank of Kazakhstan.

90. NBK has further amended the reporting form which came into effect in April 2011. This new reporting format aims to consolidate the various reporting requirements that were in place, namely, two reporting requirements explained in paragraphs 81 and 83 and three other reporting requirements (including a report on payment tools, and two additional reports on payments through correspondent accounts made in KZT). Thus, NBK now collects information on all remittances (including SWIFT and money transfer companies) under a unified format that includes information on 16 different items: for example, the type of remittance system used; information about the sender and recipient of remittances (residency status, sector of the economy, and country of origins); and additional details, such as the purpose of the remittance.

91. While the improved data collection will assist NBK in gaining a better understanding of the transfer of funds in and out of Kazakhstan, the challenge with the estimation of the migrant workers' remittances will most likely remain because these remittance channels (in particular, through money transfer companies) are frequently used also by Kazakhstan citizens for payments

in return for purchases of cars and other goods, and possibly by entrepreneurs to make business-related payments, although legally the business payments are supposed to be made only through bank accounts. As stated earlier, NBK adjusts the data collected and estimates the actual size of workers' remittances.

Compensation of Employees

92. The calculation of compensation of employees is based on a quarterly report collected from the employers who hire migrant workers, using the form "10-ПБ." This is matched by the data from the Ministry of Labor and Social Protection that manages the foreign labor quota. In addition, NBK estimates the employee compensation made to unofficially employed immigrants. The total compensation of employees is estimated to be US$1,310 million in 2009 and US$1,350 million in 2010, of which the officially employed account for US$690 million and US$668 million, respectively, and the unofficially employed account for US$620 million and US$682 million, respectively (table 12). NBK's estimate for the compensation for the unofficially employed is close to the same for officially employed migrants in Kazakhstan. Given that the unofficially employed are usually hired for low-paying jobs, the number of unofficially employed may be considered higher than that of the officially employed.

Table 12 - Employee Compensation, (BOP, USD million)

	2009	2010
Compensation of Employees	**1,310**	**1,350**
Including		
officially employed	**690**	**668**
of which		
CIS countries	60	67
Non-CIS	630	601
Unofficially employed	**620**	**682**

Source: National Bank of Kazakhstan.

Migrants' Capital Transfers

93. This item will be removed from the remittance calculation in accordance with the Guideline 6 of the Balance of Payment Manual 6 (BPM6). To date, NBK estimated the size of migrant transfers based on the average value of the imports and exports of property by migrant, evaluated by NBK, and multiplying it by the number of entries and exits of migrants, which is obtained from the statistic agency. Recorded migrant transfers are relatively small, being about US$76 million for outward transfers and US$65 million for inward transfers in 2010.

2.2 Estimate of Informal Remittances

94. As stated, NBK estimates the employee compensation made to the unofficially employed, which was US$620 million and US$682 million in 2009 and 2010, respectively. This figure is about the same size as the compensation of officially employed migrants in Kazakhstan.

95. Different sources state that the number of unofficially employed labor migrants to Kazakhstan is between 300,000 to 1 million (at the peak of the employment season). The team's discussions with diaspora organizations in Kazakhstan, associations, and direct observation of

selected service sectors such as trade and public catering, confirm that the number of labor migrants is much bigger than the officially recorded figure, which mainly comes from official work permits issued (see chapter 3 for further information). Although the official work permits are not the stock of the migrants living in Kazakhstan, it is quite plausible to assume, based on the information provided to the team, that the neighboring Central Asia countries alone are the source of at least half a million labor migrants in 2010: Tajikistan, around 50,000; Kyrgyz Republic, around 120,000; and Uzbekistan, around 330,000.[20]

96. The ADB (2008) study found that the average remittance amount per year per migrant worker was about US$1,350 in 2006. Assuming that the average remittance amount remains the same and considering the half million estimate of unofficial workers, it is plausible that an additional US$675 million is transferred, probably through carrying cash home to neighboring countries.

[20] There is an important caveat in the definition of *labor migrant* as stipulated by the World Bank regional migration study relating to long-term migrants, students, border migrants, temporary/seasonal, returning migrants, family members, and so forth that makes the estimates difficult to calculate. See World Bank (2011).

CHAPTER 3 - SENDERS OF REMITTANCES AND THEIR PREFERRED REMITTANCE CHANNELS

97. This chapter first provides a summary of the users of remittance channels and their preferred channels. The chapter then highlights the key profile characteristics of labor migrants as money remitters and assesses the existing migration policy stance in Kazakhstan..

3.1 Users of Remittance Channels in Kazakhstan

98. Alternative remittance channels are usually preferred channels by labor migrants in many countries. However, in the case of Kazakhstan, not only migrants but also residents use the system. Table 13 summarizes the users of different remittance channels.

Table 13 - Users of Remittance Channels

Sender	**Main Purposes**	**Preferred Remittance Transfer Channel**				
		Through Remittance Companies (MTOs)	**Through Bank-Wire Transfers, without Accounts (SWIFT)**	**Through Bank-Wire Transfers, from Own Accounts (SWIFT)**	**Cross-border Transporta-tion of Cash**	**Informal Hawala Transfers**
Migrant workers (legal nonresidents)	Sending money home	Preferred	Preferred	Preferred	Highly preferred	Usually not possible to access
Migrant workers (undocumented nonresidents)	Sending money home	Usually not possible to access	Usually not possible to access	Usually not possible to access	Highly preferred	Usually not possible to access
Resident (natural persons)	Payment of goods	Highly preferred	Preferred	Preferred	Highly preferred	Usually not possible to access
Small- and medium-scale entrepreneurs and businesses	Payment of informal trade	Possibly preferred	Possibly preferred	Possibly less preferred	Highly preferred	Preferred

99. Legal migrant workers who have a legal nonresident status usually do not have a problem accessing banks and MTOs for remittance services, because they have the necessary documents, such as a migration registration document, which is required by the service providers. The service providers usually check the validity of the registration, although it is not required by law. However, the most preferred method still seems to be carrying cash across borders to families.

100. Undocumented illegal immigrants mostly do not have an access to formal remittance service providers such as banks and MTOs due to a lack of documentation (such as migration registration document). Thus, the most preferred channel for them is carrying cash across borders to families.

101. Residents in Kazakhstan often seem to use MTO or bank wires without accounts for the payments of cars or other purchases from countries such as UAE and Germany. Most of the time these payments are declared as grants, which hide the true nature of the transactions. As is the

case for nonresidents, carrying cash across borders seems quite common among residents for various reasons.

102. Many small- and medium-scale businesses and entrepreneurs send the payments for informally imported goods by declaring them as “grants” through MTOs and bank wires without accounts. Carrying cash across borders is also common and preferred to avoid taxes when making payments for informal trade goods.

103. Generally speaking, cross-border transportation of cash is very common among both migrants and entrepreneurs/business people. Only a limited proportion of actual cash transportation is estimated to be declared properly at the customs. The informal hawala systems, which are often used by illegal immigrants and others in many other countries, seem to be used by entrepreneurs and business people in Kazakhstan in order to make informal trade payments.

3.2 Scale and Characteristics of Migrant Workers

104. The World Bank’s *Migration and Remittance Factbook 2011* (based on 2009 data) ranks Kazakhstan as one of the top 15 destination countries around the world, with 3.1 million immigrants. Kazakhstan also ranks as one of the top 15 emigration countries in the world, with 3.7 million emigrants. Kazakhstan-Russia and Russia-Kazakhstan migration corridors rank as the sixth and seventh top migration corridors in the world, with 2.6 and 2.2 million migrants, respectively. US-Mexico, Russia-Ukraine, Turkey-Germany, and Bangladesh-India corridors are the largest in the world. An interesting feature of migration in Kazakhstan is that there is a heavy intraregional migration among countries in Central Asia and with Russia. Among the top 10 source and destination countries for Kazakhstan, the first four countries are exactly the same for immigration and emigration: Russia, Ukraine, Uzbekistan, and Germany (World Bank 2011). However, the source countries to which the highest number of work permits are issued annually are China, UK, India, Italy, and Turkey.[21]

105. The data on the number of work permits certainly seem to indicate a discrepancy from the reality. Kazakhstan has seen many migrant workers coming from primarily neighboring countries of Central Asia. The discrepancy seems to point to the fact that most of migrants from Central Asia come and work as informal laborers.

106. Formal migration flows are primarily managed through the system of quota. The quota system was introduced in Kazakhstan in early 2001 and is designed to attract not only low-skilled workers but also skilled migrants. This mechanism was modified in 2008 to include four categories of skills subject to quota: (i) senior staff, (ii) specialists with higher and secondary professional education, (iii) skilled workers, and (iv) seasonal agricultural workers. In 2010 a quota of 63,682 was established. However, as of November 2010, only 21,931 workers filled the quota, or 34.4 percent. In 2009, only 48.8 percent of the established quota was filled. Table 14 indicates the top five migrant-employing sectors: construction, real estate, mining, processing industries, and trade. These five account for well over 90 percent of all quotas. Construction is largest, but the number of permits issued for construction companies has been on a steady decline, from two-thirds to under half of all work permits issued. The top five source countries to receive work permits are China, UK, India, Italy, and Turkey. In terms of location of workers, the top five regions are: Arytau, Almaty and vicinity, Astana, Mangistau oblast, and West

[21] Data source: Ministry of Labor, as of Januarty 1, 2010.

Kazakhstan,[22] and they accounted for 90 percent of all quota actually allocated. It should be noted that the forth category of migrants (seasonal agricultural workers) accounted for only 3 percent of all migrants during the past three years (on average 800 per year, but only 25 in 2009).

Table 14 - Selected Labor Quota Indicators

	2005	2006	2007	2008	2009	2010*
Established quota	25,600	56,000	79,527	132,758	63,483	63,682
applications				68,674		
actual attraction	24,760	40,897	58,810	54,204	30,988	21,931
Actual/established	96.7%	73.0%	73.9%	40.8%	48.8%	34.4%
CIS countries	4172	6440	5540	6459	2766	
% of the total	16.8%	15.7%	9.4%	11.9%	8.9%	
non-CIS	20588	34457	53270	47745	28222	
% of the total	83.2%	84.3%	90.6%	88.1%	91.1%	
Top 7 sectors						
Agriculture	1932	3946	2089	1704	25	691
Mining	3709	4049	5444	4682	3327	2755
Processing indutry	1190	1259	2560	3613	2764	1156
construction	14456	26598	43477	36669	17785	10943
trade	319	466	641	797	475	1064
real estate	612	2018	1966	3616	3391	3717
Communal services	987	964	633	1203	1205	494

Source: Ministry of Labor and Social Protection (as of November 2010).

107. The lack of fulfillment of established quotas may indicate that the need for migrant labor is limited in Kazakhstan, but this is not the case. The most recent Business Environment and Enterprise Performance Survey (World Bank 2010) for Kazakhstan, which covered 500 enterprises from across the sectors, showed that lack of “skills and education of workers” ranked as the number one problematic area for Kazakh companies ahead of tax regime, corruption, energy supply, and crime (table 15). Three-quarters of all firms surveyed stated that it is a constraint for doing business.

108. Analysis also shows a real need for technical/specialized skill and competitively priced lower skilled labor. However, existing requirements for foreign labor within foreign labor quotas are very challenging and costly, forcing a large-scale informal sector to be formed to bypass such complex regulations.

[22] Ministry of Labor, as of January 1, 2010,

Table 15 - Business Environment and Enterprise Performance Survey in Kazakhstan: Business Constraints

	Rank in 2005	Rank in 2008
Tax rates	2	2
Corruption	5	3
Electricity	13	4
Skills and education of workers	6	1
Access to finance	4	6
Crime, theft and disorder	10	5
Tax administration	1	8
Telecommunications	14	9
Courts	8	12
Access to land	9	11
Business licensing and permits	3	10
Transport	12	7
Labor regulations	11	14
Customs and trade regulations	7	13

Source: BEEPS 2008 (World Bank 2010).

109. In order to fulfill the labor needs, informal migrant workers are employed. The sectors hiring the largest number of informal workers seem to reflect the same ranking as those who hire official workers, namely construction and mining sectors. Informal migrant workers often come from Central Asia (Uzbekistan, Kyrgyz Republic, and Tajikistan) because the visa-free regime allows them a relatively freer entry facilitated by no language barriers.

110. In 2006, Kazakhstan took a step to legalize illegal migrants from CIS countries by providing amnesty. From August 1, 2006, through December 2006, the amnesty was granted to CIS migrants who arrived in Kazakhstan more than 60 days prior to the amnesty and held an official labor contract. This amnesty was considered a success, bringing 164,000 unofficial workers into the program. Under the program, work permits for no longer than three years were issued: if the applicant had already worked for one year, a permit was issued for another two.

111. Well over two-thirds of all legalized migrants are in the construction business. The approximate share between legal construction labor (quota) and informal (usually lower skilled) seems to be about 1:10. In other words, each formal construction job (for a foreigner) actually corresponds to around 10 for those who are illegally employed. An analysis and discussion of migration policy in Kazakhstan and some recommendations for improvement are provided in annex 5.

CHAPTER 4 - RISK OF MONEY LAUNDERING AND TERRORIST FINANCING TO THE REMITTANCE SERVICE PROVIDERS

112. This chapter first analyzes the crime environment and risk of money laundering and terrorist financing (ML/TF) in Kazakhstan. This is followed by information on law enforcement agencies that are involved in ML/TF investigation. The chapter also provides brief information on money laundering cases and typologies identified by Kazakh authorities and attempts to indicate ML/TF risks posed to remittance service providers.

4.1 Money Laundering and Terrorist Financing Offences in Kazakhstan

113. The Financial Action Task Force on Money Laundering (FATF) recommendation 1 requires countries to criminalize money laundering on the basis of the United Nations' Vienna Convention and Palermo Convention and apply the crime of money laundering to all serious offences.[23] Recommendation 1 allows four options for designating predicate offences: (i) by a reference to all serious offences, (ii) by a reference to a threshold in terms of imprisonment, (iii) by listing the predicate offences, or (iv) a combination of these approaches.

114. In Kazakhstan, money laundering crimes and applicable penalties are defined in Article 193 of the Criminal Code (box 1). The definition refers to the transactions with monetary funds or other property obtained illegally, which implies that illicit proceeds that have been generated by any crime can be subject to money laundering. Thus, pursuant to the first approach explained in the previous paragraph, in Kazakhstan all offences regardless of their penalties are considered as predicate offences.

Box 1 - Article 193. Legalization of Monetary Funds or Other Property Obtained Illegally

1. Conduct of financial operations and other transactions with monetary funds or other property obtained illegally, given guilty party being aware of that fact, as well as the use of indicated funds or other property to exercise entrepreneurial or other economic activity, shall be punished by a fine in an amount from five hundred up to seven hundred monthly assessment indices, or in an amount of wages or other income of a given convict for a period from five to seven months, or by detention under arrest for a period up to six months, or by imprisonment for a period up to three years with a fine in an amount up to one hundred monthly assessment indices, or in an amount of wages or other income of a given convict for a period up to two months, or without it.

115. Regarding terrorist financing, FATF's special recommendation 2 stipulates that all countries should criminalize the financing of terrorism, terrorist acts, and terrorist organizations and include such offences among the predicate offences of money laundering. In Kazakhstan, terrorism and relevant crimes are defined, criminalized, and penalized by Articles 233, 233-1, 233-2, 233-3 of the Criminal Code (box 2).

[23] According to FATF recommendation 1, the countries should ensure that *participation in an organized criminal group and racketeering, terrorism, including terrorist financing, trafficking in human beings and migrant smuggling, sexual exploitation, including sexual exploitation of children, illicit trafficking in narcotic drugs and psychotropic substances, illicit arms trafficking, illicit trafficking in stolen and other goods, corruption and bribery, fraud, counterfeiting currency, counterfeiting and piracy of products, environmental crime, murder, grievous bodily injury, kidnapping, illegal restraint and hostage-taking, robbery or theft, smuggling, extortion, forgery, piracy, and insider trading and market manipulation* are covered as predicate offences.

Box 2 - Article 233-3. Financing of Extremism or Terrorist Activity

1. Financing of extremism or terrorist activity shall be punished by imprisonment for a term not exceeding five years.

2. The same action committed shall be punishable with imprisonment for a term of three to eight years.

116. In addition to the provisions in the criminal law, Kazakhstan has the Law on Combating Terrorism no. 416-1/1999, which establishes the legal framework for counter-terrorism activities. Internal "extremism" is also punishable under terrorism crimes (Article 233, 233-1, 233-2, 233-3) and Article 235 (the Creation and Guidance of an Organized Criminal Group or Criminal Organization, and Participation in a Criminal Organization) depending on the circumstances.

4.2 Crime Environment in Kazakhstan

117. In Kazakhstan, among the list of 20 predicate offences listed by the FATF, the following appear as the most prevalent that have the potential to generate illegal proceeds:

- Drug trafficking
- Fraud (bank fraud, tax fraud, fraud of government assets)
- Corruption
- Smuggling
- Theft/robbery

118. Table 16, released by the United Nations Office on Drugs and Crime (UNODC) Regional Office for Central Asia, summarizes the detected criminal activities in Kazakhstan between 2005 and 2010. According to the statistics, theft cases are the highest. This is followed by robbery, fraud, and drug related crimes. Given that many thefts and robberies are less organized and generate limited proceeds, fraud and drug crimes emerge as the major potential crimes that may generate illegal proceeds in Kazakhstan.

Table 16 - Crime Statistics for Kazakhstan

Crime	2005	2006	2007	2008	2009	2010
Total Offenders						
Other offenders	72 780	76 745	71 494	70 496	n/a	n/a
DRC Offenders	7 429	8 244	8 147	7 583	7 260	n/a
Total:	**80 209**	**84 989**	**79 641**	**78 079**	**7 260**	**n/a**
Total Crime						
Drug Related Crime	9 741	10 423	10 502	10 065	9 705	n/a
Total crime - Other Crimes	136 606	130 848	39 103	38 672	n/a	n/a
Fraud	n/a	n/a	10 639	9 871	n/a	n/a
Total theft	n/a	n/a	51 482	52 781	n/a	n/a
Robbery	n/a	n/a	10 930	11 231	n/a	n/a
Rape	n/a	n/a	1 518	1 296	n/a	n/a
Assault, major assault	n/a	n/a	2 213	1 892	n/a	n/a
Intentional homicide, completed	n/a	n/a	1 677	1 679	n/a	n/a
Total:	**146 347**	**141 271**	**128 064**	**127 487**	**9 705**	**n/a**

Source: UNODC Regional Office for Central Asia.

Drug Trafficking

119. Although Kazakhstan does not have immediate borders with Afghanistan, its geographical location renders the country vulnerable to drug trafficking originated from Afghanistan. Its vast territory, spreading from Caspian Sea to China, makes Kazakhstan an unavoidable transit country for northern trafficking route toward Russia and Eastern Europe. Detailed information on the northern route of Afghanistan-originated opiate trafficking is provided in Annex-6.

120. Table 17 shows the drug seizures by Kazakh authorities during 2005-2010. There is a significant leap in all three of Hashish, Heroin and Marijuana seizures in 2008.

Table 17 - Drug Seizures in Kazakhstan (kg.)

Drug Type	2005	2006	2007	2008	2009	2010
Hashish	284.15	305.65	261.80	511.06	556.90	417.00
Heroin	625.65	554.65	522.00	1 639.32	731.60	323.29
Marijuana	21 732.60	22 868.66	21 793.70	25 656.53	26 331.50	27 348.00
Morphine	n/a	n/a	n/a	n/a	0.00	0.00
Opium	668.85	636.78	335.50	16.68	171.88	168.28
Other	219.82	511.60	566.50	101.36	35.59	56.47
Poppy straw (kuknar)	165.37	164.41	n/a	67.95	126.88	104.84

Source: UNODC Regional Office for Central Asia, http://dbroca.uz/?act=seizures.

121. According to interviews with Ministry of Interior officials, cannabis and related drugs are produced in Kazakhstan, while the country is just a transit route for opium-based drugs. The Russian Federation has the largest heroin market in the world. From 1.6 million to 1.8 million users in the Russian Federation consume 70 tons of heroin annually, which constitutes 21 percent of the world's total heroin market (UNODC 2011, 22). Another report by UNODC estimates that 50 to 55 tons of heroin is trafficked to the Russian Federation via four main overland routes, all of which pass through Kazakhstan, and this is estimated to be about 75 percent of all the heroin reaching to Russia (UNODC 2009, 50).

122. UNODC estimates the typical wholesale heroin price for Kazakhstan as US$15,781 per kilogram (UNODC 2009, 257). Thus, the wholesale price of heroin passing through Kazakhstan toward Russian Federation may be roughly between US$790 million and US$868 million. The opium consumption of Russian Federation is 56 tons (UNODC 2011, 53). Assuming that the same ratio of opium is trafficked through Kazakhstan as heroin (75 percent), the wholesale price of 42 tons of opium would be around US$187million (42 ton x 4,455) (UNODC 2009, 258). On the other hand, in the past decade domestic drug consumption in Kazakhstan also increased significantly. Total amounts of annual opium and heroin consumption in Kazakhstan are around 18 tons and 3 tons, respectively (UNODC 2011, 53). Putting all these together, the proceeds that are associated with transit and domestic consumption of heroin and opium in Kazakhstan can be estimated at around US$1 billion to US$1.2 billion annually.

123. World Drug Report 2010 (UNODC 2011) estimates the total size of Russian Federation-Central Asia opiate market as US$13 billion to US$15 billion, emphasizing that the figure is imprecise due to the lack of data on heroin purity levels in Central Asia and size of the Russian heroin-using population.

Fraud

124. The crime of fraud is defined in Article 177 of the Criminal Code. According to UNODC statistics in 2007 and 2008, about 10,000 frauds were committed in Kazakhstan annually. During this period, the number of recorded fraud cases was close to the number of recorded drug crimes.

125. Tax fraud committed by the use of fraudulent documents is a particularly widespread criminal activity. One of the most characteristic money-laundering cases detected so far involved the transfer of tax fraud proceeds to Hong Kong.

126. Four banks were recently taken over by the Government due to financial problems mainly arising from significant amount of nonperforming loans. As experienced in many other transition economies, the rapid growth of the banking sector accompanied by lax loan policies has created a lucrative environment for fraudulent loan practices.

Corruption

127. In the course of interviews by the team, corruption was pointed out as one of the major crimes underlying the detected money-laundering cases by Financial Police: 5.8 percent of the ML convictions involved civil servants, some of whom were in executive positions.

128. Corruption is a severe problem in the Central Asia region. Transparency International's 2010 Corruption Perception Index ranks Kazakhstan as the 105th among 178 countries with a score of 2.9 out of 10 (Transparency International 2010). It is interesting to compare this with 2008 ranking, when Kazakhstan was ranked 145th with a score of 2.2 (Transparency International 2008).

Smuggling

129. Table 18 shows the value of detected smuggled goods between 2007 and 2010. The total value of the seized goods during this period is KZT 3.6 billion (US$25 million), of which the first 11 months of 2010 alone recorded KZT 3 billion (US$21 million). The Almaty region accounts for more than half of the cases during this period. However, this seems due to the large scale of smuggling detected in Almaty region in 2010. The region also led in the jump in the value of seizures in 2010. The total value of seizures fluctuated enormously during the period for which the data are available. It was KZT 618 million (US$4.2 million) in 2007, KZT 1.8 million (US$12,356) in 2008, and merely KZT 1 million (US$7,173) in 2009.

Table 18 - Total Value of Smuggled Goods (KZT)

Regions	2007	2008	2009	2010 (11 Mnt.)	TOTAL
Almaty	15,710,052	137,310	136,426	2,045,446,909	2,061,430,696
Zhambyl	150,996,845	204,525	187,682	461,827,018	613,216,070
Almaty (City)	24,551,700	546,376	143,647	129,284,134	154,525,857
East Kz.	58,322,836	398,974	120,292	68,785,533	127,627,635
Pavlodar	95,784,000	34,078	25,538	18,954,980	114,798,595
Aktyubin	50,758,000	77,804	25,813	51,080,457	101,942,073
South Kz.	12,787,640	49,015	102,806	83,246,863	96,186,324
Karaganda	11,941,723	79,486	40,981	82,154,301	94,216,491
Dostyk	76,652,000	9,282	5,024	0	76,666,306
West Kz.	18,477,000	20,582	42,138	35,250,980	53,790,700
Kyzylorda	44,666,655	3,908	29,171	2,172,821	46,872,555
North Kz.	17,968,033	68,150	87,270	22,843,321	40,966,774
Atyrau	17,170,000	78,247	12,626	9,714,856	26,975,729
Mangist	16,776,591	32,650	24,592	9,442,751	26,276,584
Kostan	4,522,000	25,447	5,324	19,530,245	24,083,016
Astana (City)	1,295,492	1,500	56,074	11,277,932	12,630,998
Others	0	33,488	0	0	33,488
Total	**618,380,567**	**1,800,820**	**1,045,401**	**3,051,013,101**	**3,672,239,891**

Source: Anti-smuggling Committee, key indicators.

130. After Almaty region, Zhambyl region is the one with the highest goods smuggling amount. Korday Customs, which is the busiest border pass between Kyrgyzstan and Kazakhstan, is located in Zhambyl region. Because Kyrgyzstan is currently the only member of World Trade Organization in Central Asia, customs duties imposed by Kyrgyzstan on goods originating from China are much less than those in Kazakhstan. Taking advantage of this, huge volumes of trade goods are brought to Zhambyl and Almaty regions in Kazakhstan from China via Kyrgyzstan (IWPR 2005).

4.3 Detected Money-Laundering Cases and Channels

131. The money-laundering offence is defined in Article 193 of the Criminal Code. The statistics in table 19 on the number of money laundering investigations and confiscated amounts were provided by the Financial Police.

Table 19 - Number of Detected Money-Laundering Cases

Year	Number of Cases	Confiscated Amounts (USD)
2005	49	162,000
2006	66	6.2 million
2007	57	1.6 million
2008	40	23.5 million
2009	104	14.7 million
2010	126	18.7 million

Source: Financial Police.

132. According to the Financial police, the distribution of offenders was as follows:

- 58.1 percent - Private entrepreneurs (mostly in oil, gas, construction, and food sectors)
- 22.3 percent - Unemployed
- 13.3 percent - Financial sector (bank and microcredit institutions staff)
- 5.8 percent - Civil servants

133. Representatives from the Financial Police stated that currently only individuals can be subject to criminal penalties. In this regard, authorities are planning to amend the law to enable the criminalization of legal persons.

134. Fraud and stealing are the main predicate offences, making up roughly 50 percent of reported and investigated money-laundering cases, according to the Financial Police. This seems in line with UNODC reports, which indicated that fraud, theft, and robbery are the country's main crimes reported, along with drug use. In the fraud category, tax fraud and loan fraud are the dominant crimes. Some fraud cases were related to stealing and embezzlement of state budget and assets. Also, purchases of houses and cars through fraudulent documents are found to be common. Many fraud and money-laundering cases involved the use of shell companies. In total, 586 shell companies were identified in detected cases.

135. One of the money-laundering cases detected involved the laundering of tax fraud proceeds. The criminals overstated the export amounts by 700 percent in order to receive VAT returns. They attempted to transfer the proceeds from fraudulent VAT return to Hong Kong and invest in the Hong Kong financial market. During the meetings, several participants indicated to the study team that VAT-related fraud crimes were widespread in the country.

136. On the other hand, the team did not receive information on any drug-related money-laundering cases. The reasons underlying the nonexistence (or low number) of detected drug-related money laundering crimes need to be further analyzed.

137. The cash-based economy and high level of informality creates a suitable environment that may facilitate the concealment of illegal proceeds. In addition, the current legal and regulatory framework governing the remittances, albeit very rigorous, may be counter-productive because the existing framework may impede the efficiency of AML/CFT efforts if it reduces transparency and drives people to informal channels. These factors make formal and informal remittance channels in Kazakhstan highly vulnerable to money laundering.

4.4 Financing of Terrorism and Potential Channels

138. Compared to the Russian Federation and many other CIS countries, Kazakhstan has faced a limited number of terrorist attacks or attempted cases so far.[24] In 2000, two police officers were killed in a terrorist attack. In November 2006 Kazakh authorities revealed a planned attempt of a series of terrorist attacks and arrested 11 terror suspects with arms and explosives (US Embassy 2007).

[24] As of the date of the WB onsite visit to Kazakhstan, November 2010.

139. Regardless of the low number of the cases, the Kazakh Government attaches high importance to combating terrorism. In this regard, Kazakhstan is actively participating in international initiatives against terrorism, while aggressively fighting groups listed as terrorist organization that attempt to settle in the territory of Kazakhstan. The Committee on Financial Monitoring's list of terrorist organizations is given in annex 7. Among others, most of the detected terrorism cases were related to Hizb-u Tahrir, which is active in various CIS countries.

140. As a result of its geographic location, Kazakhstan is subject to the risk of being a transit point between terrorist groups operating in the Russian Federation, China, Central Asia, and Afghanistan. Kazakhstan cooperates with neighboring countries in their counter-terrorism efforts.

141. Kazakhstan is a member of Eurasia Group (FATF-style regional body) and other regional initiatives that facilitate cooperation against terrorism. These initiatives include the Shanghai Cooperation Organization; Regional Antiterrorism Center (with China, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan); and the CIS Collective Security Treaty Organization (US Embassy 2007).

142. According to law enforcement agencies with which the team has met, there have been no severe terrorist financing cases that resulted in prosecution or conviction thus far beyond some limited investigations triggered by intelligence or suspicions.

143. Diaspora representatives, civil society organizations. and market participants with whom the team met during the mission were not aware of any link between terrorist financing and informal or formal money transfer systems. As mentioned in the previous chapters, the existence and use of hawala-type informal remittance systems in Kazakhstan seems to occur in a controlled environment, mostly for informal trade activities. Due to their informal nature and lack of accessibility to transaction and customer records, informal schemes are highly vulnerable to abuse by criminals, including terrorists.

144. In addition, physical transportation of cash appears also to be a vulnerable money transfer channel that can be abused for not just money laundering but also terrorist-funding purposes. Considering the origins of the listed terrorist organizations, the customs offices on the southern border faces a particularly high risk of cash transportation related to terrorist activities.

4.5 Role of the Committee on Financial Monitoring in AML/CFT Activities

145. The Committee on Financial Monitoring (CFM) is the Financial Intelligence Unit of Kazakhstan. CFM was established by the decree of the government of the Republic of Kazakhstan (April 24, 2008, no.387) as an agency under the Ministry of Finance. The AML/CFT law which designates CFM as an "authorized body" specifies the main tasks as: (i) realization of state policies regarding AML/CFT; (ii) combating ML/FT and coordination of state bodies in AML/CFT areas; (iii) creation and maintenance of the national AML/CFT database; and (iv) cooperation with other countries and representation of Kazakhstan's interests in international organizations related to AML/CFT issues.

146. In addition to mentioned tasks, CFM has a regulatory function. The AML/CFT law entitles CFM to determine the rules that apply to the implementation of AML/CFT obligations, such as internal control, CDD, and STR reporting procedures, which apply to all the reporting entities covered under the AML/CFT law. For further discussion of regulatory and supervisory functions of the competent authorities, please refer to chapter 6.

147. With regard to the investigation and prosecution of ML and TF crimes, the main function of CFM is serving as an intelligence, analysis, and coordination center. CFM receives and analyzes the data and information sent by the entities subject to financial monitoring, government agencies, and other sources. Where necessary, this information is disseminated to authorized law enforcement agencies and courts within certain rules.

148. CFM has five main information sources:

- The data and information received from reporting entities under Financial Monitoring Obligations
- The data, information ,and intelligence that is reported to CFM by state bodies, under the notification requirement of AML/CFT law
- The data and information reported by financial monitoring entities and state bodies, upon a particular request from CFM
- Data and information received from foreign FIUs
- Any other voluntary information submitted by any party.

149. In the ML/TF investigations, CFM functions in two directions. If the analysis of financial monitoring data or any other intelligence and information received by CFM indicates that "there is a reason to believe that a transaction with money and (or) other property is connected to legalization (laundering) of ill-gotten proceeds and (or) terrorist financing" (AML/CFT law 16.5), CFM notifies authorized the law enforcement agency and forwards the relevant information to it. The law enforcement agency will take action and if necessary initiate the ML/TF investigation.

150. On the other hand, CFM is authorized to request information from all reporting entities and state bodies within certain rules. Furthermore, all state bodies are obliged to notify CFM if they have any suspicion or information regarding ML and TF issues.

151. CFM is empowered to suspend operations with money and/or other assets for up to three calendar days in the event of detection of signs of money laundering and terrorist financing (Article 13.3, Article 17.1.2). If "there is reason to believe that" the transaction or property is related to ML or TF, CFM is obliged to forward the information to the relevant law enforcement agency within five hours after receiving information on the suspicious transaction (Article 17.5).

4.6 Role of Law Enforcement Agencies in AML/CFT Activities

152. The AML/CFT law designates "law enforcement bodies" to take further decisions with respect to the information forwarded from CFM. However, the AML/CFT law does not specify the "law enforcement bodies." The team understands that there are two law enforcement agencies that conduct ML/FT investigations:

- Financial Police (FP)
- National Security Agency

153. FP has the main responsibility for the ML investigations. Investigations of all economic crimes, by decree of the president, fall under the mandate of the FP. Thus, any ML cases regardless of the predicate offenses are handled by FP. It has some experience in investigating fraud, tax crime, and corruption-related ML cases, as explained in the previous section. However,

it seems that FP has yet to investigate drug and organized crime related ML cases. The Drug Control Committee of the Ministry of Interior, which was recently established, has the main responsibility for drug-trafficking cases. However, the committee does not go after ML cases and passes these cases to FP. It is not clear why FP has not had any investigation of ML cases related to drug trafficking, which is one of major proceeds-generating crime in Kazakhstan.

154. Other law enforcement agencies such as customs and other units of the Ministry of Interior are also involved in the investigation of predicate offenses of ML. However, they do not have direct mandates in ML/TF investigations.

155. The Committee of National Security (CNS) has an important role in high-profile money-laundering cases and terrorism-related crimes. The main function of CNS is conducting intelligence activities in areas concerning economic security (including financial sector stability). However, the tasks of CNS are not limited to intelligence activities; it has law enforcement powers that allow it to take an active role in the investigations of high-profile criminal cases. In this regard, terrorism and crimes against the financial and economic security of Kazakhstan are being investigated by CNS. It is also responsible for coordinating international correspondence with other countries in regard to terrorism, terrorist financing, and other transnational crimes.

156. The AML/CFT framework is relatively new in Kazakhstan, and cooperation among different state agencies working on AML/CFT matters did not appear to be effective. Addressing ML/TF risks associated with alternative remittance systems requires synchronized actions supported by close cooperation and coordination between law enforcement and regulatory/supervisory agencies.

CHAPTER 5 - LEGAL AND REGULATORY FRAMEWORK FOR REMITTANCES AND CASH COURIER

157. This chapter reviews the legal and regulatory framework for remittances and cash courier in Kazakhstan and assesses whether the existing framework is conductive to efficient and secure remittance flows. It further assesses whether the existing framework meets the FATF standards on AML/CFT. This chapter does not perform a full and detailed assessment of the compliance against relevant FATF 40+9 Recommendations since Kazakhstan has separately undergone such an assessment in 2011.[25] However, this section provides general assessment of the legal and regulatory framework related to alternative remittances in Kazakhstan.

5.1 Relevant FATF Recommendations and Their Implementation Challenges

158. The FATF 40+9 Recommendations are the international standards to fight money laundering and terrorist financing. A set of preventive measures apply to a range of financial activities in order to ensure that financial activities are not abused by money launderers and terrorist financiers. Remittance transfers are one such financial activity and thus subject to AML/CFT requirements. Kazakhstan is a member of the Eurasian Group (EAG) which is a FATF-style regional body. As a member of the EAG, Kazakhstan has committed to implement the FATF 40+9 Recommendations.

159. The following FATF 40+9 Recommendations are most relevant to remittance service providers, although there is a full range of applicable recommendations:[26]

- Special Recommendation VI on Alternative Remittance
- Special Recommendation VII on Wire Transfers
- Recommendation 5 on Customer Due Diligence
- Recommendation 10 on Record Keeping
- Recommendation 11 on Complex and Unusual Transactions
- Recommendation 13 on Suspicious Transaction Reporting
- Recommendation 15 on Internal Control.

160. The term *remittance service providers* in this report refers to any entities providing remittance services: banks, remittance companies, and other financial institutions. It should be noted that Special Recommendation VI is intended to apply to remittance services (the term *money or value transfer service* is used in the Special Recommendation VI) that are traditionally conducted outside the formal financial system.

161. In addition, with regard to cross-border carrying of cash, Special Recommendation IX for cash courier applies. Each of the above FATF recommendations is explained in annex 8.

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[25] The *Mutual Evaluation Report of the Republic of Kazakhstan* was adopted by the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG) Plenary of June 2011.

[26] Special Recommendation VI requires that countries should ensure that all money and value transfer service operators are subject to the all FATF recommendations that apply to banks and nonbank financial institutions. The applicable recommendations are Recommendations 4-11, 13-15, and 21-23, and FATF's Nine Special Recommendations (in particular SR.VII)..

162. Notwithstanding the demanding requirements of the FATF standards in general, the FATF standards also have some degree of flexibility in consideration of the level of ML/TF risks. However, most of the countries have not taken advantage of this flexibility.[27] Thus, in those countries, a uniform requirement applies to all types of financial activities. This poses a challenge to money remittances because money remittances are usually a small value transaction; nevertheless, they are required to meet the same level of AML/CFT counter-measures as much larger financial activities such as private banking and corporate transactions. Kazakhstan has not introduced a risk-based approach (RBA), except that they introduced a threshold for different type of financial activities above which the AML/CFT law applies.

163. RBA allows countries to exempt the application of AML/CFT measures to certain financial institutions or activities. RBA also allows countries not to apply some of the FATF recommendations for financial institutions. However, these exemptions or limited applications of the FATF recommendations do not apply to money value transfer (MVT) services. There is indeed a notion within the FATF that MVT services represent a systematic ML/TF risk and have to be covered by the AML/CFT regime in all countries without exception.

164. However, this does not mean that RBA cannot be applied at the level of each relevant recommendation. For example, with regard to CDD, countries can introduce simplified CDD, normal CDD, and enhanced CDD and can apply different level of CDDs to different types of financial transactions (even within the remittance transactions).

165. Brief information on international best practices of regulating and supervising remittance service providers is provided in annex 9.

5.2 Applicable Laws and Regulations in Kazakhstan

166. This section analyzes the legal and regulatory framework in Kazakhstan that is relevant for international remittances, approaching from a broader perspective but focusing on AML/CFT measures.

Who Is Allowed to Operate a Remittance Transfer Service in Kazakhstan?

167. The FATF recommendations do not set the type of financial institutions that can provide remittance services. However, they require that all remittance service providers, regardless of the types of financial institutions, be subject to the AML/CFT requirements.

168. In Kazakhstan, according to NBK, banks and Kazpost offer international remittance services. Thus, as described in earlier chapters, currently all MTOs that do operate in Kazakhstan partner with banks and Kazpost, having these as their agents. MTOs are not directly regulated in Kazakhstan since they are not allowed to operate independently.

169. The law On Banks and Banking Activity in the Republic of Kazakhstan (no. 2444, August 1995) stipulates banking activities. Transfer of funds is one of such activities that can be conducted by banks. Article 30, paragraph 2 lists the recognized banking operations, and one of

[27] See FATF Guidance on Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion (2011). TTL of this report was a project leader of the FATF Guidance Paper, which is available at http://www.fatf-gafi.org/document/4/0,3343,en_32250379_32235720_48294212_1_1_1_1,00.html.

them is “transfer operations: execution of payment and transfer orders of legal entities and individuals.” Further, Article 38 on Payments and Transfer of Funds stipulates that

1. Banks shall perform payments and transfers of funds in the territory of the Republic of Kazakhstan in accordance with the procedure, established by the legislation.

   …

2.International payments and transfers of funds shall be carried out by banks in the forms, through the methods and in accordance with the procedure, used in the international banking practice, and which do not contradict current legislation of the Republic of Kazakhstan.

170. Article 30, paragraph 6 of the Law on Banks and Banking allows other entities than banks to conduct some banking operations. It stipulates that banking operations (which include international remittances) can be offered also by the Kazakhstan stock exchange, Depositary of Securities, brokers/dealers, and the operator of interbank transfers. However, these institutions do not provide direct international remittance services. Other legal entities can also provide international remittance services based on the laws established in Kazakhstan. For example, Kazpost can provide international remittances, pursuant to the law on Kazpost.

171. Article 30, paragraph 13 of the Law on Banks and Banking explicitly prohibits provision of banking operations related to deposit-taking activities by any other entities than banks and Kazpost. It stipulates that “only the banks, which are participants of the system of obligatory guaranteeing of deposits, as well as the National Mail Operator in accordance with the normative legal act of the Republic of Kazakhstan regulating its activity, shall have a right to carry out the bank operations specified in subparagraph 2) paragraph 2 of this Article, on the basis of a license, issued by the authorized body.” Subparagraph 2) of the Paragraph 2 of Article 30 refers to “acceptance of deposits, opening and maintenance of the bank accounts of individuals.”

172. NBK has not authorized MTOs to operate directly in Kazakhstan.

173. If authorities decide to allow money transfer companies to operate directly in Kazakhstan, this can be done by adding such entities in the list of those that can conduct what is considered “banking activity” if this is done based on the banking law. Another method would be to issue a new law or regulation on remittance service providers as a stand-alone legislation or as part of legislations on payment institutions. Given that remittances are a currency operation, authorization of the operation may be established in the law on currency control, as is the case in some other countries.

Relevant Laws and Regulations on Remittance Transfers in Kazakhstan

174. Currently, there are four main laws in Kazakhstan that are relevant to domestic and international remittance transfers.

- The law on Combating Legalization (Laundering) of Illegally Gained Income and Financing of Terrorism (no. 191-IV, dated August 28, 2009), the so-called AML/CFT law
- The law On Payments and Remittances (no. 237-I, dated June 29, 1998)
- The law On Banks and Banking Activity in the Republic of Kazakhstan (no. 2444, dated August 31, 1995)

- The law on Currency Regulation and Currency Control (no. 57, dated June, 2005).

175. Further, the following rules are issued by NBK as normative acts that regulate the carrying out of remittance transfers:[28]

- Rules for noncash payment and remittances in territory of Kazakhstan without opening a bank account (no. 395, of October 2000)
- Rules for use of payment documents and realization of noncash payments and remittances in territory of the Republic of Kazakhstan (no. 179, of April 2000)
- Rules of realization of noncash payments between the client and bank serving it (no. 433, of November 2000)
- Rules of application of the state classifier of Republic Kazakhstan—the uniform classifier of a payment purpose (no. 388, of November 1999)
- Rules of exchange of electronic documents at realization of payments and remittances in the Republic of Kazakhstan (no. 146, of April 2000):
- And other normative acts.

176. The following section reviews some of the most relevant laws and regulations in facilitating efficient and safe remittance flows.

Law no. 191-IV on Combating Legalization (Laundering) of Illegally Gained Income and Financing of Terrorism (August 2009)—the AML/CFT Law

177. Law 191-IV subjects licensed financial institutions in Kazakhstan to the AML/CFT requirements. Remittance companies such as Western Union are not licensed in Kazakhstan and therefore are not directly subject to the AML/CFT law and regulations. However, since banks are subject to the law, operations of remittance companies at bank locations are also subject to the AML/CFT law and regulations through banks. In this regard, banks are responsible for the implementation of the AML/CFT law and regulations.

Scope of the applicability of the AML/CFT law to a range of money transfers

178. The law specifies the type of operations subject to financial monitoring. *Financial monitoring* is defined as a set of measures to collect and analyze information received from financial monitoring entities. There are two types of operations related directly to money transfers that are specified in paragraph 2 of Article 4. Article 4, paragraph 2, subparagraph 7 refers to money transfers abroad into accounts (deposits) opened for an anonymous person; receipt of money from accounts abroad (deposit) opened for an anonymous person made as a one-off transaction; and a transaction made during seven consecutive calendar days. Article 4, paragraph 2, subparagraph 9 refers to payments and money transfers made by a client on a grant basis in favor of another person. Both of these operations are subject to financial monitoring if the

[28] In adiditon, the following rules are also issued by NBK for the purpose of regulating the activities of national payment systems: (i) rules of remittances in the Interbank System of Money Transfer; (ii) rules of realization of interbank clearing in Republic Kazakhstan; and (iii) rules of the carrying out of operations in the clearing system of the National State Commercial Enterprise Kazakhstan Interbank Settlement Center.

transaction amount equals to or exceeds KZT 2 million (about US$13,400) or the equivalent in foreign currency.

179. The current scope of the remittance transfers subject to AML/CFT requirements creates some gaps with the FATF standards. First, the threshold of KZT 2 million is clearly above the threshold set in the Recommendation 5 and Special Recommendation VII, which is USD/EUR 1,000 or equivalent in other currencies. Thus, CDD requirements should be set no higher than USD/EUR 1,000 or equivalent, regardless the nature and purpose of the money transfer.

180. Second, with regard to the reference to transfers to anonymous accounts, FATF Recommendation 5 explicitly prohibits the use of anonymous accounts. Authorities mentioned that they are actually prohibited in Kazakhstan now and that the recommendation applies only in the case of transfers into anonymous accounts abroad. Nevertheless, it is suggested to discourage transfers into anonymous accounts abroad. Further, authorities should encourage financial institutions in Kazakhstan not to enter into any corresponding relationship with respondent institutions that keep anonymous accounts.

181. Third, the AML/CFT law does not apply to all money transfer operations but is limited to those two operations described in paragraph 178 above (referring to the law's subparagraphs 7 and 9, which deal with transfers to or from anonymous accounts and grant transfers respectively). While grant transfers appear to be common in Kazakhstan, they are not the only type of transfers.

182. In order to meet the FATF standards with regard to remittance transfers, these three main gaps related to the applicability of the AML/CFT law should be addressed.

183. The team noted that some financial operations are subject to financial monitoring requirements only if transacted in cash. This scope is very limited, since many financial transactions today are undertaken beyond cash, for example, through account-to-account transfers; use of credit, debit, or store value cards; and transfers by mobile phone. However, this limitation is not applicable to money transfers.

CDD requirement

184. Article 5 of the AML/CFT law specifies CDD requirements. CDD should be undertaken in the following cases:

- when establishing a business relationship with a client;
- when conducting operations with money and/or other assets that are subject to financial monitoring; and
- if there are grounds to doubt the authenticity of previously obtained information about individuals and legal entities.

185. Suspicious operations are subject to financial monitoring regardless of the amount.

186. Article 5(3) states that the CDD process involves recording necessary information for identification of an individual, a legal entity, or a recipient. Table 20 presents the minimum information which need to be recorded.

Table 20 - Main CDD Requirements

Identification of an Individual	Identification of a Legal Entity	Identification of a Recipient or Its Representative
Identity document data	Constituent documents	Taxpayer's identification number
Taxpayer's registration number, personal identification number (save for the cases when the customer has not been assigned the taxpayer's registration number and personal identification number in accordance with the legislation of the Republic of Kazakhstan).	Taxpayer's registration number, business identification number (save for the cases when the customer has not been assigned the taxpayer's registration number and business identification number in accordance with the legislation of the Republic of Kazakhstan)	Taxpayer's registration number, personal identification number (if available) of the recipient or its representative
	Street address	Stamp (confirmation) of signature verification of the recipient or its representative

187. Further, Article 10(1) states that the list of documents for CDD shall be determined by the authorized body. The minister of finance issued the Order no. 56 on February 15, 2010, which elaborates on the list of documents required for CDD purposes. The main requirements are summarized in table 21.

Table 21 - List of Documents Required for CDD to Be Conducted by Reporting Entities

Resident Individuals	Non-resident Individuals	Resident Individuals (for enterprise activity)	Legal entities
Identification document	Identification document	Identification document	Identification documents of the authorized persons
RNN - taxpayer identification document	RNN - taxpayer identification document (if issued to the individual)	RNN - taxpayer identification document	RNN - taxpayer identification document (if issued to the legal entity)
	Registration document (migration registration with authorized state bodies)	State registration document	State registration document
			State license document (if licensed entity)
			Statistical card
			Foundation documents
			Identification documents for the founders
			Document which confirm the power designated to the authorized person (including the power of attorney)
			Address of the legal entity

188. In Kazakhstan, only individuals are allowed to conduct non-account based transactions. As per Law no. 57 on Currency Regulation and Currency Control (June 2005), which will be explained later, non-account-based remittances are allowed only for grant transfers in and out of Kazakhstan (for example, tax and license payments, fines, transfers of legacies, alimony, grants, and so on) and other money transfers out of Kazakhstan that are not connected with an individual's entrepreneurial activity. Legal persons can make payments to the state budget, voluntary contributions to the retirement fund, and social charges without opening an account. Besides that, a legal body can pay for a bank service through a contribution in cash but not exceeding 4,000 conventional salary units. Accordingly, in practice only the first two categories of customers—resident individuals and nonresident individuals—are allowed to conduct non-account-based transfers, as long as the transfer is not related to any business activity.

189. According to CFM, all the listed documents under the Order no. 56 of the minister of finance need to be obtained for the CDD purpose. On the other hand, it is not clear whether all the listed documents need to be obtained or if one of the listed documents is sufficient for the CDD purpose under the Law no. 57. In order to be safe, financial institutions seem to require all the listed documents from customers, following the most strict requirement.

190. The "identification document" refers to the Kazakhstan national ID card, Kazakhstan Passport, passport of any other country, permanent residency ID card, and ID card for noncitizens. Kazakhstan has not adopted a risk-based approach to AML/CFT requirements; thus, the same list of documents for CDD purposes applies to all financial activities subject to the AML/CFT law whether it is for remittance transfer or for opening a bank account.

191. In addition, it is not clear whether the types of information that need to be recorded as per Article 5(3) are simply an example or mandatory information to be recorded. If the latter, identification of a recipient or its representative should also be collected and recorded, although it is not required as per Order no. 56.

Record Keeping

192. Article 11(4) specifies a record-keeping requirement of not less than five years from the date of termination of the relations with a client. The record-keeping requirement covers information related to clients but does not cover information about transactions. However, it could be derived that Article 11 of the Law on Bookkeeping (Article 11 on Keeping Accounting Records) and the Supervisory Authority's Rules no. 320 (on establishing a list of documents to be stored and duration of record keeping) require transaction records to be kept and maintained for five years.

Suspicious Transaction Reporting

193. As per Article 13(1), financial entities are obliged to refuse to conduct operations if q specified CDD cannot be performed. Article 13(2) obliges financial entities to report a suspicious transaction *prior to* executing the transaction. Then the authority (CFM in this case) has 24 hours before it may further suspend the transaction for an additional three days. Once identified, suspicious transactions, including matches against the list of persons and organizations engaged in financing terrorism and extremism,[29] are not allowed to be processed further. On the other hand, Article 13(2) allows that suspicious transactions that for some reason cannot be suspended

[29] In Kazakhstan, these transactions are also referred to "suspicous transactions".

should be communicated to the authority (CFM in this case) not later than 3 hours after the transaction or within 24 hours after the suspicious nature of such transactions has been revealed.

194. It may be interpreted that if the suspicious transaction was identified before the transaction was undertaken, then it needs to be *suspended* and reported to the CFM. And if the suspicious transaction was identified after the transaction took place, then it should be reported within 24 hours after the transaction. This provision seems to provide more incentives for financial institutions to report suspicious transactions after they are identified in order to avoid automatic suspension of transactions. While the suspicious transactions that match against the list of persons and organizations engaged in financing terrorism and extremism should be automatically suspended, there is discretion on whether to suspend and report other suspicious transactions prior to the transaction or only report after to the transaction.

Law no. 237 Concerning Payments and Remittances (June 1998)

195. The Law of the Republic of Kazakhstan on Payments and Remittances stipulates the major rules concerning handling and effecting payments and remittances. It stipulates (i) types of banking accounts, methods of payments and money transfers, timelines and procedures for acceptance and order implementation, as well as implementation of court orders and resolutions by the court; (ii) procedures for execution of payments and money transfers (including authorization, completion, return and revocation); and (iii) procedures for emission, use and clearing of e-money. Based on this law, norms and regulations were developed to guide the requirements for contents of payment documents, including electronic documents, and the opening and maintenance of banking accounts that are used as CDD.

Rules no. 395 for Noncash Payments and Remittances on the Territory of the Republic of Kazakhstan without Opening a Banking Account (October, 2000)

196. Rules no. 395 sets the rules for non-account-based transactions. Non-account-based payments and remittances are allowed by natural persons but not by legal persons unless legal persons are making payments of taxes and other compulsory payments to the budget, voluntary pension contributions, and social assessments. By the *noncash* the rules refer to the transfer of funds on a noncash basis, and the rule do not mean to prohibit accepting cash from senders or disbursing cash to beneficiaries. The rules also apply to payments and remittances processed through interbank payment systems as well as domestic remittances through MTO systems. However, in accordance with the Law of the Republic of Kazakhstan on Payments and Remittances, legal entities can make payments only for transactions exceeding 4,000 conventional salary units through a bank.

197. The rules focus primarily on the procedure for execution and receipt of notices of payment, the requirement for remittance agreement, and responsibilities of transmitter and beneficiary banks.

198. Article 11 of the rules stipulates the requirement to supply notice of payment to the transmitter and the notice of payment should contain the following obligatory requisites, among others:

i. Name of the notice of payment
ii. Number of the notice of payment, date, month, and year of the transaction

iii. Family name, first name, and a patronym or middle name (if applicable) (of a physical person-transmitter and (or) a beneficiary, or a full name of the legal entity, acting as a transmitter or a beneficiary, including the form of incorporation)
iv. Individual identification codes of a transmitter or a beneficiary–if a physical person does not have a personal identification code, then ID card details and postal address (country, city, ZIP code, street, building, and apartment)
v. A full name of the transmitter's bank and the beneficiary's bank including the form of incorporation and their banking identification codes
vi. Transmitters code (Cod), beneficiary's code (Cbe), purpose of payment and associated code for the purpose of payment in accordance with the regulations established by NBK
vii. Amount of payment in figure and words
viii. Tax registration number of a transmitter or a beneficiary, if payment is made with indication of their individual identification code
ix. If the transmitter is a legal person then family name, first name, and patronymic of the authorized representatives and a seal; if the transmitter is a physical body , then a signature
x. Other requisites stipulated by the laws of the Republic of Kazakhstan.

199. While the information collected for the notice of payment was not intended for the purpose of fighting ML/TF, the information is useful for identifying and verifying customers for AML/CFT purposes as well. Because individual identification codes (or other ID card and address) need to be recorded in the notice of payment, there is a form of verification of customers. There is no different procedure stipulated for different transaction amounts; it is interpreted that this requirement applies to all transactions regardless of the amount.

200. When this requirement under the Article 11 of the rules and the CDD requirement under the AML/CFT are compared, it is clear that the former is much more demanding. Further analysis of the CDD-related requirements based on various laws and regulations is provided later in this section.

Law no. 57 on Currency Regulation and Currency Control (June 2005)

201. Law no. 57 also applies to remittance transactions. Article 16(1) requires that payments and transfers of money in currency operations should be made through accounts with authorized banks. However, there are exceptions to this requirement. Among the exceptions relevant to remittance transfers by individuals are

- payments and transfers of money done by individuals and in local currency in Kazakhstan, and
- transfers of money in accordance with the Article 16(3).

Transfers without Opening an Account

202. The Article 16(3) provides that resident and nonresident individuals shall have the right to carry out the following transactions without opening an account with authorized banks:

- Grant transfers in and out of Kazakhstan (for example, tax and license payments, fines, transfers of legacies, alimony, grants, and so forth)

- Other money transfers out of Kazakhstan that are not connected with an individual's entrepreneurial activity

203. A code (nature of transfer) should be identified and recorded in all money transfers regardless of the amount. Customers are supposed to specify the code themselves from a list of codes (with more than 1,000 codes corresponding to different types of financial activities) made available at the money transfer counters. However, in practice, the bank employees help customers identify the right code based on the client's account on the nature of transaction.

204. Grants are considered to be financial aid to other individuals. The rules for application of the State Classifier of Republic Kazakhstan—the uniform classifier of a payment purpose and payment information provision as the Uniform Payment Purpose Classifier approved by the Rule no. 388 dated November 15, 1999—specify three purpose codes for gratuitous (grant) remittances:

- Code 111 – gratuitous transfer of funds for health
- Code 112 – gratuitous transfer of funds for education
- Code 119 – other gratuitous transfer

205. The reason for the preference to categorize as "grant" seems due to the provision in Article 16(3) of Law no. 57 on Currency Regulation and Currency Control that allows grant transfers to be undertaken without opening a bank account. On the other hand, it is explicitly prohibited to send money outside bank accounts for entrepreneurial activity. This requirement is reflected in remittance-transfer-request forms used by banks for non-account-based transfers. The forms usually ask the sender to confirm that the transfer is not linked to an individual's entrepreneurial activity, and the sender needs to sign the form to certify that s/he made a true declaration.

206. Article 16(3) does not specify what is meant by "other money transfers" out of Kazakhstan that are permitted without a bank account. It could be considered that all other kinds of transfers than "grant" will fall under "other money transfers." Since both terms seem to indicate broad coverage of type of transactions, money can be still sent without opening a bank account.

207. It is a common practice among Kazakh residents to make payments for the purchases of goods, cars, equipment, and so on. These transactions may be undertaken either under this provision for "other money transfers" or for "grant" transfers. It could be possible that the former is used for these purposes. However, as explained earlier, accuracy of the use of the code is questionable.

208. In addition, the law specifies that the limit on the amount for transfers without bank accounts should be set by NBK. However, this has not been done.

Reporting Requirements

209. Instead, NBK issued Rules no. 129 for Execution of Currency Transactions (2006). The rules require banks to report two types of transactions made by individuals:

- Transactions made by individuals *without opening bank account* that exceed US$10,000 or the equivalent in foreign currency

- Transactions over US$50,000 or equivalent in foreign currency through bank account when the sender (individual) does not provide all the necessary documents.

210. The first requirement is an automatic transaction-reporting requirement for every single transaction made by individuals without a bank account, if the amount exceeds US$10,000 or equivalent. The second reporting requirement relates to specific cases where necessary documents are not provided. These reports are submitted by banks on a monthly basis. These are simply reporting requirements and this is not a transaction limit imposed by regulation.

211. According to NBK officials, the Rules no. 129 were introduced as a way to collect statistics as well as to address ML/TF concerns, since there was no AML/CFT law at the time.

Customer Due Diligence

212. Paragraph 7 of the Rules no. 129 specifies the information that needs to be provided by the customers to the authorized bank as follows:

i. An identity document (for individuals)
ii. A document certifying the right of permanent residence, if exists
iii. A certificate of state registration, if the document has not been submitted before or has been changed
iv. A document confirming the state registration of the taxpayer, or a document of the tax authority that the person is not is registered with the tax authorities, if the document has not been submitted before or has been changed
v. Foreign exchange contract, except as provided for in paragraph 7.1 of the rules; document copies are acceptable
vi. Registration certificate, certificate of notice, as stipulated by the rules of cases
vii. Passport of the transaction (for transactions related to export or import of goods, works, or services that require registration of the transaction passport)
viii. Documents confirming the fulfillment of obligation or outstanding commitments that must be executed under the contract related to export or import; document copies are acceptable

213. The list of documents to be submitted by customers specified in Rules no. 129 mirrors the list of documents specified in Article 29 of the Law no. 57 on Currency Regulation and Currency Control, although the language in the Article 29 is that “currency control agents have the right to demand” the information specified. For non-account-based remittances, the information required will come down to the following (table 22):

Table 22 - Requirements for Non-Account-Based Remittances

Permanent Resident (Individuals)	Nonresident (Individuals)
Identification document	Identification document
Permanent resident document	Registration document (registration with authorized state bodies)
RNN - taxpayer identification document (if issued to the individual), otherwise a document of the tax authority to confirm that the individual is not registered with the tax authority. If this cannot be presented, nonresident customers need to confirm that the transaction does not relate to business activity and is not subject to a registration certificate, certificate of notification, and registration of the transaction passport.	RNN - taxpayer identification document (if issued to the individual), otherwise a document of the tax authority to confirm that the individual is not registered with the tax authority.

Physical Transportation of Cash across Borders

214. In terms of physical transportation of cash, until recently, Law no. 57 on Currency Regulation and Currency Control governed the inward and outward carrying and mailing of cash and other negotiable instruments across borders. Article 18 of the law required individuals to declare to a customs authority the carrying of currencies (whether domestic or foreign currencies) above US$3,000 or equivalent in other currencies in and out of the Republic of Kazakhstan.

215. In January 2011, Kazakhstan ratified a customs union treaty on transportation of cash and negotiable instruments by individuals. The customs union is formed with Russia and Belarus. Because the international agreements ratified by the Republic of Kazakhstan supersede domestic legislations and regulations, the treaty is now in force. NBK has amended Article 18 of the Law On Currency Regulation and Currency Control. The draft law on making amendments to the Law on Currency Regulation and Currency Control has been tabled into the Parliament. The treaty sets the following rules:

- Export of cash and negotiable instruments from Kazakhstan to any other customs union country, or import to Kazakhstan from any other customs union country will be carried out without restrictions and customs declaration.
- Cash and (or) traveler's checks exceeding US$10,000 (at one time) are subject to declaration, if these are being imported to Kazakhstan from a third country out of the customs union, or being exported from Kazakhstan to a third country out of the customs union. Below this amount, the declaration of the cash and (or) traveler's checks is optional.
- Export of other negotiable instruments than the traveler's checks from Kazakhstan to a third country out of the customs union and import of these to Kazakhstan from a third country out of customs union is subject to written declaration irrespective of the sum.

216. Special Recommendation IX requires jurisdictions to implement a declaration or disclosure system on incoming and outgoing cross-border transportations of currency or bearer negotiable instruments. If a declaration system is chosen, which is the case in Kazakhstan, the declaration threshold cannot exceed USD/EUR 15,000. In this regard, the threshold in Kazakhstan is below

the requirement set by the international standards. FATF requirements subject not only currency but also bearer negotiable instruments. In this regard, contrary to the intension of the FATF requirements, previously the Article 18(3) explicitly allowed carriage of payment documents—bills and checks, including travelers checks shall not be subject to written declaration and shall be performed without restrictions. New declaration system addresses this deficiency.

217. The Article 18 of the law required the submission of supporting documents if individuals carried more than US$10,000 or equivalent in other foreign currencies out of the Republic of Kazakhstan. This requirement has been abandoned in the new declaration regime.

5.3 Overarching Issues and Requirements

Overall Reporting Requirements

218. Until March 2011, three types of data/information needed to be submitted to NBK, one of which is the threshold requirement explained above. Beyond this, there are two types of aggregate data which need to be submitted to NBK. In summary, three types of reports are the following:

i. *Monthly remittance data sent or received through MTO channels submitted to the Department of Payments Systems of NBK*: This report was in force from 2009 till March 2011 and the data are submitted quarterly. The main purpose of this requirement is to capture remittance transactions through MTOs that were not collected previously. The current remittance calculation in BOP uses the data collected by this report.

ii. *Money transfers through correspondent accounts (by using SWIFT messages)* (as per Rule no. 388, November 15, 1999): These data have been collected monthly since 2000. The past remittance calculation in BOP prior to 2009 depended solely on this report. After 2009 the remittance calculation analyzed the data both from this report and the report above.

iii. *Threshold-based reporting to the Department of Balance of Payments and the Department of Currency Control* (as per No. 57, 2005, law on currency control). These are the threshold reporting regarding (a) transactions without bank accounts above US$10,000 or equivalent in foreign currencies (or a sum of the transfers above this amount when carried out at the same time), and (b) transactions through bank accounts above US$50,000 (or a sum of the transfers above this amount when carried out at the same time) without proper supporting documents as per exchange regulation. This requirement has been in place since 2009. These reports are not used for BOP calculation; they are used for currency control and AML/CFT purposes.

219. Starting from April 2011, a new reporting form has been introduced. This new reporting form combines two reporting forms above i and ii above and add other key information. The new report addresses deficiencies in the current reports. For example, report i did not include the sector code, purpose code, and residency status, and report ii did not include the data of MTO company remittance channels. The new reporting form contains data both on money transfers through correspondent accounts and through MTOs with a breakdown by residence aspects, economy sectors, transmitter and beneficiary countries, payment purpose codes, and payment currency.

220. There is a suspicious-transaction-reporting requirement that needs to be submitted to CFM as per the AML/CFT law when a suspicion is raised. In addition, those transfers that are subject to financial monitoring need to be reported to the CFM as explained earlier. There are 19 categories of operations that are subject to financial monitoring.

Customer Due Diligence Requirement

221. CDD requirements for remittance transfers seem quite complex, with multiple laws and regulations at play as described in the previous section. In responding to such complexity, banks adopt the strictest and most rigid reading of the laws and regulations and require multiple documents for all types and amounts of remittance transfers (without clear relation to risks). Based on this, remitters are usually required by banks to present an identification document and provide a tax identification number, the source of funds, reasons for remittances, as well as declaration that the transfer is not an entrepreneurial activity, among others. The four main relevant laws and regulations on CDD cover only certain aspects of remittances, as explained above.

222. Since account-based remittance transfers do not require the CDD process each time customers request such transfers, the analysis in this section will focus only on the CDD requirement for non-account-based transfers. In Kazakhstan, non-account-based transfers are limited to transfers by individuals; the analysis will first focus on the clients who are individuals, then discuss the clients who are legal entities, although the latter is allowed only in very limited cases.

CDD Requirements for Individuals

223. The Rules no.395 for Noncash Payments and Remittances on the Territory of the Republic of Kazakhstan without Opening a Banking Account (October 2000) requires the following information to be collected from the customer who is a natural person, and this applies to every single non-account-based transaction:

i. Family name, first name, and a patronym or middle name (if applicable) of a physical person-transmitter and (or) a beneficiary, or a full name of the legal entity, acting as a transmitter or a beneficiary, including the form of incorporation)
ii. Personal identification codes of a transmitter or a beneficiary—if a physical person does not have a personal identification code, then ID card details and postal address (country, city, ZIP code, street, building, and apartment)
iii. A full name of the transmitter’s bank and the beneficiary’s bank, including the form of incorporation and their banking identification codes
iv. Transmitters code (Cod), beneficiary’s code (Cbe), purpose of payment, and associated code for the purpose of payment in accordance with the regulations established by NBK
v. Amount of payment in figure and words
vi. Tax registration number of a transmitter or a beneficiary, if payment is made with indication of their individual identification code
vii. Signature of transmitter
viii. Other requisites stipulated by the laws of the Republic of Kazakhstan.

224. The CDD requirements as per the AML/CFT law for resident and nonresident individuals are specified in table 23, and these apply to transactions above KZT 2 million (US$13,400) and any suspicious transactions regardless of the amount.

Table 23 - CDD Requirements as per the AML/CFT law

Resident Individuals	Nonresident Individuals
Identification document (bank account number)	Identification document (bank account number)
RNN - taxpayer identification document	RNN - taxpayer identification document (if issued to the individual)
	Registration document (migration registration with authorized state bodies, i.e. Migration Committee, Ministry of Internal Affairs)

225. It should be further noted that collection of information on a recipient or its representative (for example, taxpayer's identification number and personal identification number) is also required as per Article 5 of the AML/CFT law. This requirement to collect information on recipients also exists in the Rules no.395 for Noncash Payments and Remittances. However, in this case, the requirement is either on remitter *or* a beneficiary.

226. The type of information that needs to be collected from customers for non-account-based transfers under Law no. 57 on Currency Regulation and Currency Control is presented in table 24:

Table 24 - Information Required for Non-Account-Based Transfers

Permanent Resident	Non-Resident
Identification document	Identification document
Permanent resident document	Registration document (migration registration with authorized state bodies, i.e. Migration Committee, Ministry of Internal Affairs)
RNN - taxpayer identification document (if issued to the individual), otherwise a document of the tax authority to confirm that the individual is not registered with the tax authority	RNN - taxpayer identification document (if issued to the individual), otherwise a document of the tax authority to confirm that the individual is not registered with the tax authority If this cannot be presented, nonresident customers need to confirm that the transaction does not relate to business activity, and is not a subject to a registration certificate, certificate of notification, and registration of the transaction passport.

227. These three laws, regulations, and other enforceable instruments require information that needs to be collected from customers. While there are similarities on the requirements, they are not entirely the same. The following discrepancies and uncertainties are observed:

i. In terms of documentation that needs to be submitted by resident individuals, the Rules no. 395 regarding non-account-based transfers and Minister's Order no. 56 the regarding CDD require identification document and RNN (tax document). However, Rules no. 129

of Currency Regulation and Currency Control also require permanent resident document in addition to identification document and RNN.

ii. In terms of documentation that needs to be submitted by *nonresident individuals*, the Rules no. 395 regarding non-account-based transfers require an identification document and RNN. However, Minister's Order no. 56 regarding CDD and the Rules no. 129 of Currency Regulation and Currency Control require migration registration document, in addition to the identification document and RNN.

iii. While an RNN is required in all three cases, the Rules no. 395 regarding non-account-based transfers require an RNN if payment is submitted via the individual identification code (i.e., bank account number). Thus the presentation of RNN is linked to whether one possesses or submitted the individual identification code. In addition, the Rules no. 129 of Currency Regulation and Currency Control allow a substitute if an RNN is not issued to nonresident individuals. In this case, the nonresident customer needs to confirm that the transaction does not relate to business activity and is not subject to a registration certificate, certificate of notification, and registration of the transaction passport.

iv. The CDD requirements apply to all the transactions regardless of the amount in the case of the Rules no. 395 regarding non-account-based transfers and the Rules no. 129 of Currency Regulation and Currency Control, but only to transactions above KZT 2 million (US$13,400) in the case of Minister's Order no. 56.

228. Because of the discrepancies and some uncertainties in these requirements, banks usually require remitters to present an identification document and provide a tax identification number, source of funds, reasons for remittances, as well as a declaration that the transfer is not an entrepreneurial activity, among others.

229. Clearly there is a need to harmonize requirements under different laws and regulations that are similar but not exactly the same. In addition, in order to facilitate remittance transfers of small values, it is suggested that for small remittance transactions of less than USD/EUR 1,000 (or the threshold determined by the authority having applied a risk-based approach), the CDD requirement be kept minimum and entail identifying customers but not requiring multiple identification documents for verification. One identification document should be sufficient for relatively small transactions and a range of acceptable identification documents should be issued, unless such is left to be determined by financial institutions. In constructing a list of acceptable identification documents, a range of customers who use the system needs to be considered, including those currently excluded (for example, unofficial workers).

230. Some banks seem to have introduced a concept of simplified CDD. However, since banks already require a higher standard than any single law or regulation in order to comply with different pieces of laws and regulations, the simplified CDD requirement introduced is not so simple as the word may indicate. For example, as a matter of its own internal control in the case of one bank, a simplified CDD is applicable only after two years of relationship with the customer.

CDD Requirements for Legal Entities

231. All the documents required for CDD purpose for individual customers also applies in the case of customers who are legal entities or their representatives. Legal entities are further required

to submit a form of incorporation as per the Rules no. 395 for Noncash Payments and Remittances and, if the transaction is beyond KZT 2 million, state registration document, state license document, statistical card, identification documents for the founders, documents that confirm the power designated to the authorized person (including the power of attorney), and address of the legal entity are required by the AML/CFT law.

232. Because the AML/CFT law does not introduce a risk-based approach, the required CDD process is the same for an account opening at a bank or for one-off remittance transfer without a bank account. This makes the non-account-based remittance transfers by legal entities too onerous.

233. Further, although sending money through the non-account-based method for entrepreneurial activities is not allowed in Kazakhstan, authorities may wish to consider liberalizing this requirement because cross-border transportation of cash is still common not just for personal use but also for business transactions. The number of documents required for legal entities for non-account-based transfers is onerous for small value transactions. Authorities may consider introducing a risk-based approach to the CDD.

Tax Identification Document

234. It is understood that a taxpayer identification document (or certificate)–the RNN—is commonly available to residents in Kazakhstan, and this document is often used as a common national identification document beyond tax purposes. At the same time, it is also understood that Kazakhstan will be issuing a new national identification document to harmonize different identification documents that are currently being used (for example, RNN, individual social number, driver's license number, and so forth).

235. As it stands now, it is not clear what percentage of the population has an RNN, since many individuals who do not work may not have obtained it. Thus, limiting the acceptable document to only the RNN, or making it a precondition (if all the documents on the list need to be obtained) for the financial service, would have tremendous negative effect on the range of customers whom financial institutions can serve.

236. In addition, the RNN seems to discourage some customers away from using the formal channel. Informal economy and tax avoidance/evasion is rather widespread in Kazakhstan and the economy is largely cash based. Requiring the RNN number could discourage remitters to come to the formal channels.

E-money Regulation

237. The draft national law On Making Amendments to Some E-Money Related Regulations of the Republic of Kazakhstan was approved by the Parliament of the Republic of Kazakhstan on July 1, 2011. Also, efforts were made to develop a draft resolution by the Board of the National Bank of the Republic of Kazakhstan On Approving the Rules on Emission, Use and Clearing of E-Money, as well as Requirements to the E-Money Emitters and E-Money Systems in the Republic of Kazakhstan. According to the above draft law, a second-level bank can act as an e-money emitter carrying out e-money issuance and clearing within the e-money system in accordance with the rules and regulations of NBK.

238. In regulating e-money issuers, largely speaking there are two models. One is a bank-based model in which banks act as e-money emitters. The other is a non-bank-based model in which a customer account is created with the service provider (such as telecom company). Usually only a pooled account is maintained in a bank by the service provider. Kazakhstan chose a bank-based model, and only banks can issue e-money. In addition, only physical bodies are allowed to pay to vendors with e-money, and legal entities can accept e-money only from individuals in Kazakhstan.

239. There will be transaction limits placed on the e-money. The limit for the e-money issuance without identifying the individual is 100 monthly indices (around US$900). For e-money issuance exceeding 100 monthly indices, the issuer has to identify the e-money owner by means of identity documents and certificates of taxpayer (RNN). E-money issuance to an identified owner cannot exceed 500 monthly indices (around US$4,500) per transaction. Starting in January 1, 2012, there will be no requirement to provide the RNN because it will be replaced with personal identification number (IN).

CHAPTER 6 - SUPERVISION OF REMITTANCE SERVICE PROVIDERS

6.1 Supervisory Authorities

240. There are two authorities in Kazakhstan involved in the regulation and supervision of remittance market:

- National Bank of Kazakhstan (NBK)
- Committee on Financial Monitoring (CFM)

241. Previously, the Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Organizations (FSA) was also one of the supervisory authorities. However, the agency has been merged with NBK since April 2011. FSA now operates as the Committee for the Control and Supervision of the Financial Market and Financial Organizations under NBK.

242. NBK is responsible for implementation of the Law on Payments and Remittances (no. 237, June 1998); Rules for Non-Cash Payment and Remittances without Opening a Bank Account (October 2000); and Currency Control Regulation (no. 57, June 2005), among other laws and regulations.

243. Previously, FSA and currently the subsequent committee of the NBK is responsible for the implementation of the Law On Banks and Banking Activity in the Republic of Kazakhstan (no. 2444, August 1995) and Combating Legalization (Laundering) of Illegally Gained Income and Financing of Terrorism (no. 214, August 2009), the so-called AML/CFT law.

244. CFM is responsible for implementation of the AML/CFT law and issues implementing regulations. However, CFM does not have a supervisory function. Accordingly, CFM’s regulatory responsibility needs to be closely coordinated with NBK as the main financial regulator and supervisor. Under the AML/CFT law, NBK is the supervisory authority. Currently no comprehensive guidelines have been issued to assist financial institutions to implement AML/CFT requirements, except the Orders 56 (on appropriate check of clients), 57 (on internal controls), and 58 (on suspension of suspicious transactions) of the Ministry of Finance, and these contain only basic rules and have limited scope.

6.2 Examination of Banks

245. When FSA was undertaking the AML/CFT compliance examination of banks, the examinations were conducted as part of prudential oversight. Some elements of AML/CFT requirements seemed to be checked during the prudential examination. Since the AML/CFT law in Kazakhstan is relatively new (effective as of August 2009), only limited focus was given as to how to conduct AML/CFT compliance examination.

246. FSA staff felt that because money remittance transactions were usually small amounts (about US$1,000 or less), supervisors did not focus on these transactions. If a remitted amount was high, then FSA supervisors further investigated to examine whether supporting documents had been provided as required and the transaction could be justified. The examination seemed

heavily focused on whether suspicious transactions had been identified. Inspection of remittance transfers done through remittance companies have been undertaken only in limited occasions thus far.

247. Another supervisory body, NBK usually focused on off-site monitoring, reviewing information and data submitted by banks. NBK also conducted on-site examinations with regard to regulatory compliance for payments and money transfers.

248. Neither regulations nor guidance has been issued by supervisory authorities so far to implement the AML/CFT law.

6.3 Implementation of Requirements by Banks

249. During the visits to the banks and post office, the study team observed that most of the international remittance companies have their own monitoring systems to automatically screen and block certain suspicious transactions—in particular, when names match against their own database for terrorists and related organizations. The remittance companies also provide training to banks that are their agents and provide internal guidelines regarding the CDD procedures and suspicious transaction red flag indicators. Each remittance company has its own internal policies, procedures, and monitoring system, which usually take into account not only laws and regulations in Kazakhstan but often also home country laws and regulations of the remitters and international standards (such as FATF recommendations). This results in banks needing to implement different requirements of different remittance companies. In addition to the policies and procedures of remittance companies, banks have their own internal policies and procedures.

250. Banks seem to be quite rigorously implementing the regulatory requirements. If customers are not able to present required documents, they decline to offer the service.

6.4 Sanctions

251. In Kazakhstan, all administrative violations of laws, rules, and regulations are penalized according to the Code on Administrative Offenses of the Republic of Kazakhstan. Monetary penalties for violation of respective laws, rules, and regulations are specified in the Administrative Code. In this regard, breaches of the AML/CFT legislation are specified in Article 168-3 (chapter 15) of the Code on Administrative Offenses. Table 25 provides the list of breaches of AML/CFT law and related fines.

Table 25 - Sanctions for Breaches of the AML/CFT Law

		Individuals	Small or medium-sized institutions and NPOs	Large institutions
AML/CFT law	Ch 15, Article 168 Violations against documentary record and transaction reporting requirements	100 monthly calculation indices (about US$900)	200-220 monthly calculation indices (about US$1,800-1,818)	350-400 monthly calculation indices (about US$3,000-3,600)
AML/CFT law	Ch 15, Article 168 Violations against internal control requirements	100 monthly calculation indices (about US$900)	220-250 monthly calculation indices (about US$1,818-2,250)	800-900 monthly calculation indices (about US$7,200-8,100)
AML/CFT law	Ch 15, Article 168 Violations against tipping off	140-150 monthly calculation indices (about US$1,260-1,350)	140-150 monthly calculation indices (about US$1,260-1,350)	140-150 monthly calculation indices (about US$1,260-1,350)
AML/CFT law	Ch 15, Article 168 Repeated violation within a year	100-150 monthly calculation indices (about US$900-1,350)	250-300 monthly calculation indices (about US$2,250-2,700)	1000-1200 monthly calculation indices (about US$9,000-10,800)
AML/CFT law	Ch 15, Article 168 Repeated violation (three or more times) within a year	150-200 monthly calculation indices (about US$1350-1800)	380-400 monthly calculation indices (about US$3,420-3,600)	1,800-2,000 monthly calculation indices (about US$16,200-18,000)

252. Beyond fines, Article 46 of the Law on Banks and Banking (2000) provides a range of measures that NBK can impose when it finds a violation against provisions of the law. For example, a letter of warning, letter of commitment, agreement, and execution order can also be imposed. NBK also has the authority to revoke a license.

CHAPTER 7 - POLICY RECOMMENDATIONS

253. In general, Kazakhstan has a very competitive remittance market, with many remittance companies operating through banks and Kazpost, while banks and Kazpost offer their own remittance services. Remittance fees are relatively low in Kazakhstan. Despite this market environment, the use of these formal channels is not maximized. In fact, a large volume of cash is being transported across borders.

254. It is not clear to what extent remittance channels are used to transfer proceeds of crime. Existing data and information from law enforcement agencies do not suggest that remittance channels, and in particular, alternative remittance systems, are used for ML/TF purposes, although there were a few suspected and detected cases, which have not resulted in prosecution or conviction. This does not mean that remittance service providers are not vulnerable to money ML/TF. Kazakhstan faces a ML/TF risk, as explained earlier.

255. This chapter provides recommendations that are aimed at assisting relevant authorities in improving the policy, legal, and regulatory framework in order to ensure the efficiency and the integrity of the remittance market in Kazakhstan and prevent the abuse of remittance channels for ML/TF purposes. This chapter suggests the recommendations based on the findings, analysis, and discussion in the previous chapters. In addition to international standards and best practices, the recommendations also take into account the knowledge and experience gathered by the World Bank in this area.

256. Recommendations are organized under following objectives:

- Improving the access to formal remittance services and promoting their use
- Improving the statistics on various remittance channels and enhancing the knowledge on ARSs
- Ensuring the transparency of migration flows and accuracy of relevant statistics
- Strengthening the regulatory and supervisory framework that applies to ARSs
- Preventing abuse of ARSs for ML and TF purposes

257. It should be noted that the recommendations listed in this chapter are for consideration by relevant authorities. Those authorities are strongly encouraged to further enhance, tailor, and calibrate these recommendations, using their knowledge and experience and develop, feasible and concrete action plans accordingly.

7.1 Improving the Access to Formal Remittance Services and Promoting Their Use

Expanding the Range of Financial Institutions Allowed to Offer Remittance Services

Findings

258. While Kazakhstan has many banks and access locations to remittance services through bank locations, given its large territory, formal financial institutions are not always readily available, in particular in remote areas where people may tend to rely on informal or unregulated service providers. Some of the remittance companies that offer services at lower fees are not as accessible as other remittance companies that offer higher rates. In addition, the use of formal remittance

transfers is limited (only 20 percent of remittances), and the rest are transported through cash across borders. Because remittance companies can operate only through banks and Kazpost in Kazakhstan, the number of service locations is limited to the number of bank branches and post office locations. As explained in chapter 1, current access locations can be further expanded in order to offer remittance services to more areas and encourage those who currently do not use the formal system to do so by providing more accessibility, convenience, and cultural familiarity.

259. If remittance companies are allowed to operate independently outside banks, then they often build a network of agents who are small retail businesses such as mom-and-pop shops, gas stations, and small grocery stores. People who do not have bank accounts do not like to walk into a bank but prefer to walk into these agent locations. Beyond the expanded access to financial services and increased use of formal channels, another benefit of allowing remittance companies to operate independently in Kazakhstan is the opportunity to access their information directly and subject them to Kazakh laws and regulations directly.

260. In addition, allowing nonbank institutions to operate may also help bring the hawala system under regulatory oversight.

Recommendation
261. Kazakh authorities with a long-term perspective may consider allowing remittance companies as well as other nonbank service providers to establish and operate remittance services independently, taking into account the international experience. In this regard, consultation with a range of players in the private sector may be useful. In addition, it would be certainly useful to undertake a survey of potential target customers.

Promoting the Use of Money Transfers through Awareness Raising and Consumer Education

Findings
262. Migrant workers from Central Asian countries prefer to carry cash home. This may be due to cultural and habitual reasons, among others. At the same time, lack of trust in the financial sector makes people sustain these habits, a situation not unique to Kazakhstan but common in many other countries. Given that the remittance fees are relatively low in the region, it would be useful to raise awareness among migrant workers through diaspora and other organizations about using the formal channels. For undocumented workers, however, another solution should be found, and this is touched upon later.

Recommendation
263. NBK is already conducting consumer education on an ongoing basis. Building on this, a targeted awareness-raising and consumer-education campaign can be organized with diaspora and other organizations to encourage migrant workers to send money through formal channels.

Building Better Confidence in Formal Remittance Channels and the Formal Financial Sector as a Whole

Findings
264. Use of official money transfer channels are not at desired levels because public confidence in the financial sector is low. Many people still have some fear that their money can be seized and blocked in the bank due to currency control or tax-related reasons. The concern of being detected by tax authorities as well as having fund transfers suspended by financial institutions or authorities (when it is deemed a suspicious activity) is a driver for many people to stay informal.

These factors make many residents, nonresidents, and entrepreneurs likely to avoid formal remittance services and financial services as a whole.

Recommendation
265. The government agencies need to be transparent about the purposes and use of financial records. It should be clear to all residents and nonresidents under what conditions a transaction can be suspended or money can be seized, frozen, or confiscated. In addition, as explained later under recommendations for the legal and regulatory framework, automatic suspension of suspicious transactions need to be carefully implemented (unless it arises from the match of names relating to terrorists and terrorist organizations). Authorities may also consider abolishing the requirement to present an RNN (taxpayer identification document) for low value transactions undertaken by natural persons. (Note that the RNN will be replaced with Uniform Identification Number starting January 1, 2012.)

Reducing Requirements to Collect Certain Information

Findings
266. As explained in chapter 5, a range of information must be collected from customers both on senders and recipients of remittances. While this information is useful in provide more accurate remittance data as well as in fighting ML/TF (for example, by identifying the nature of transfers, etc.), the gathering of certain other information seems to discourage customers from using the formal system: for example, the presentation of an RNN as explained above. In addition, there are a number of unofficial migrant workers in Kazakhstan (estimated to be around 300,000 to 1 million), and due to very stringent documentation requirement, they are not able to access formal financial institutions at all.

Recommendation
267. As a general rule, there needs to be harmonization of requirements on customer information. This will be further explained later. Second, authorities may wish to consider applying limited document requirements (for example, focus only on identification of customers without requiring identification documents for verification purpose) for small-value remittance transactions—less than USD/EUR 1,000, which meets the current FATF standards. The FATF standards exempt transfers below this threshold from AML/CFT requirements. However, it is important to note that new FATF requirements are expected to be issued in 2012. Lowering the requirements to present documentary evidence for small-value transfers will help address the challenge of how best to allow unofficial workers to use formal transfer methods. In this regard, authorities may consider abolishing the requirement to present an RNN for low-value transactions undertaken by natural persons.

Liberalizing Requirements to Transfer Funds through Bank Accounts for Business Payments

Findings
268. While business transactions are prohibited for non-account-based transfers, it is one of the unique characteristics of the remittance channels of Kazakhstan that these channels are used by more than migrant workers. While it is not clear at this point to what extent such business transfers or payments of goods by residents are undertaken, it seems that not small portions are transferred for such purposes. These transfers are often recorded as “grants,” although they should not be recorded as such. In addition, cross-border transportation of cash is still common not just for personal use but also for business transactions.

Recommendation
269. In order to have more accurate data for remittances, and provided that it is usually difficult to identify such transfers, authorities may consider liberalizing the requirements to transfer any type of transfers without accounts. In order to mitigate the potential risk and concern of such transfers, authorities may consider limiting the amount of transfers that can be sent or received at once through transfers without bank accounts.

270. In moving in this direction, authorities should introduce a risk-based approach to customer due diligence and reduce the number of documents required for legal entities for non-account-based transfers under certain values. For example, transfers up to USD/EUR 1,000 may be exempted from the requirement to submit documents; transfers up to USD/EUR 15,000 may require only certain documents to be submitted; and larger value transfers above USD/EUR 15,000 may be subject to a full CDD requirement.

7.2 Understanding and Formalizing Hawala-Type Informal Remittance Systems

Findings
271. An informal remittance system (hawala) operates in Kazakhstan in a tightly controlled environment. There was no indication that the hawala-type money transfer system is systematically used by criminals. It seems to operate for the settlement of informal trade activities. The entrepreneurs who are involved in informal trade activates tend to use this type of service since they lack the proper docum***e***ntations required for formal remittance channels.

Recommendation
272. There are numerous reasons to use informal money transfer services rather than banks—cost of transfers, convenience, tax implication, and lack of a documentation requirement—and so multiple answers may be required to shift the informal to formal transfers.

273. First step toward formalization would be for the authorities to have a better grasp and understanding of the system (what type of transfer methods are used), corridors (which corridors have more informal remittance transfers), service providers (who is providing service), and users (who comes to informal service providers). A survey of business people, especially those who are involved in international trade and informal trade, may provide useful information.

274. Based on the information gained, a concrete strategy and plan as to how to shift the informal to formal transfers can be discussed. Formalization of these services is a potential solution that has successfully been achieved applied by many countries in the past. A legal and regulatory framework can be designed to allow these informal services to apply for a license or registration while ensuring some minimum requirement is met. In addition, there should be a clear sanction regime for operating informal remittance services.

7.3 Ensuring the Transparency of Migration Flows and Accuracy of Relevant Statistics

Strengthening the Process to Employ Foreign Labor

Findings
275. Since 2005, actual quota fulfillment has been steadily decreasing from over 95 percent fulfillment in 2005 to slightly over a third in 2010. This is not due to the reduced labor needs but rather it seems that it is the reflection of cumbersome process to employ foreign labor. Companies can hire foreign labor only once they prove that positions cannot be filled by Kazakh citizens. For

example, the employers have to advertize the positions in a local and a national newspaper for 15 days. The required qualifications, skills, and education, among other things, must be clearly defined in the advertisement. After the announcement period is closed, the employer has to provide evidence that the position has been publicly advertised and that it was not able to find needed labor in Kazakhstan. In addition, the employer has to pay a guarantee deposit for each worker in the amount of the travel cost back to their countries. This deposit is returned only after the worker returns to his/her country.

Recommendation
276. There is a need to fine tune and improve existing quota mechanisms to provide more flexibility and incentives (for example, reduced fees, removal of guarantee deposit requirement, and less number of steps required) for the employers so that they are willing to hire foreign workers through formal channels. Hiring procedures could be simplified in order to meet employers' need for hiring foreign labor.

Improving the Labor Quota Estimate and Categories

Findings
277. While the allocated labor quota has not been filled in recent years and the fulfillment is declining each year, there is clearly a shortage of labor, which is filled through unofficial workers. The quota is estimated based on the survey of information that the Ministry of Labor collects. However, companies prefer to go through informal processes in order to avoid costly and a cumbersome formal process.

278. The current official labor quota does not account for various low-skilled jobs except seasonal agricultural workers.

Recommendation
279. The estimate of foreign labor needs should be improved while simplifying the process as described above.

280. Authorities may consider introducing a simplified patent-type work permit for seasonal workers and those employed by individuals and households. This practice recently has been implemented in Russia in efforts to provide more liberal migration reforms, ensure protection of labor migrants, and provide clear and transparent rules leading to a win-win-win situation for employers, labor migrants, and state budget.

7.4 Strengthening the Regulatory and Supervisory Framework That Applies to ARSs

Harmonizing Laws and Regulations Related to Remittance Transfers

Findings
281. The current legal and regulatory framework related to remittance transfers in Kazakhstan is scattered around several legislations and regulations and difficult to follow. Major relevant laws and regulations have been laid out in chapter 5. Each of these laws and regulations covers certain aspects of remittances based on its own set of objectives. There are overlapping requirements (such as a set of information that need to be collected from customers) but they are not exactly the same among different laws and regulations. This creates confusion and makes the combined approach, which is applied by banks, the most conservative approach beyond requirements of any single law or regulation.

Recommendation

282. Harmonization on related provisions in the laws and regulations should be considered. For example, information required from the customers is not exactly the same, as further explained under the CDD section. A thorough review of laws, regulations, and rules is necessary to reduce the number of applicable different rules and regulations. Authorities are encouraged to consider introducing lesser requirements for small value transfers.

Clarifying and Streamlining Non-Account-Based Money Transfers

Findings

283. Rules no.395 for Noncash Payments and Remittances on the Territory of the Republic of Kazakhstan without Opening a Banking Account (October 2000) allow non-account-based payments and remittances only by individuals or otherwise legal persons who are making payments of taxes and other compulsory payments to the budget and voluntary pension contributions.

284. Article 16(3) of Law no. 57 on Currency Regulation and Currency Control (June 2005) further limits non-account-based payments and remittances by individuals to

- grant transfers in and out of Kazakhstan (for example, tax and license payments, fines, transfers of legacies, alimony, grants, and so forth), and
- other money transfers out of Kazakhstan that are not connected with an individual's entrepreneurial activity.

285. In essence, both Rules no. 395 and Law no. 57 try to limit the use of non-account-based payments and transfers by legal persons for business transactions. Because remittance transfers without bank accounts (either through SWIFT system or money transfer companies' systems) are common in Kazakhstan, it is important that customers (both legal and natural persons) can send money for all the legal purposes without accounts. At this point, the banks seem to be commonly using the categorization of "grant" transfers for most of non-account-based transfers. It is not clear how banks interpret "other money transfers out of Kazakhstan."

Recommendation

286. It seems useful to clarify "grant" and "other type of money transfers out of Kazakhstan" to understand clearly what types of payments and transfers are allowed for non-account-based transactions and how these transfers match which uniform purpose codes.

287. Authorities should consider eliminating the restrictions on the type of transfers that can be undertaken on a nonaccount basis so that all legitimate transfers can be sent or received on a nonaccount basis. Further, authorities should consider lifting the current restriction on non-account-based business transfers. Please see "Liberalizing Requirements to Transfer Funds through Bank Accounts for Business Payments" under 7.1 Improving the Access to Formal Remittance Services and Promoting their Use.

Subjecting All Types of Remittance Transfers to the AML/CFT Requirements

Findings

288. The applicability of the AML/CFT law to remittance transfers seems limited to

- money transfers abroad into accounts (deposits) opened for an anonymous person;
- receipt of money from accounts abroad (deposit) opened for an anonymous person made as one-off transaction and a transaction made during seven consecutive calendar days; and
- payments and money transfers made by a client on a grant basis in favor of another person.

289. Both of these operations are subject to financial monitoring if the transaction amount equals to or exceeds KZT 2 million (about US$13,400) or equivalent in foreign currency. Thus, the scope of the remittance transfers subject to AML/CFT requirements is too narrow. Second, the threshold applied to the transfers is too high, because the FATF standards allow wire transfers below USD/EUR 1,000 to be exempted from CDD and wire transfer obligations. However, beyond this amount they should be subject to those AML/CFT requirements.

Recommendation
290. Authorities should subject all types of remittance transfers to AML/CFT requirements. In addition, authorities should consider discouraging transfers into anonymous accounts abroad by eliminating the reference to such in the AML law. Instead, authorities should encourage financial institutions in Kazakhstan not to enter into any corresponding relationship with respondent institutions that keep anonymous accounts. Finally, the applicable threshold of KZT 2 million should be brought at least to the level equivalent to USD/EUR 1,000.

Requiring Wire-Transfer Rules

Findings
291. Regarding payments initiated within Kazakhstan, there is a mandatory requirement to provide complete data on the transmitter and on the beneficiary. However, it should be considered whether it is necessary to keep the complete information on the transmitter throughout the whole chain of payments when making transboundary transactions.

Recommendation
292. Authorities need to ensure that originator information is sent throughout the wire chain and that financial institutions have a risk management framework to handle wire transfers that are not accompanied with full originator information, in line with the FATF Special Recommendation VII. It should be also noted that SR VII will be amended by the FATF in the near future.

Simplifying Customer Due Diligence Requirement for Natural and Legal Persons

Findings
293. The customer due diligence requirements, including the documents and information that need to be collected from customers, are quite onerous. Different laws and regulations require slightly different information. Also, the current regulation does not provide any room for unofficial workers to send money through financial institutions.

294. With regard to CDD requirements for legal entities, although sending money through the non-account-based method for entrepreneurial activities is not allowed in Kazakhstan, in practice, this is happening, especially for the settlement of informal trades.

Recommendation

295. It is suggested that CDD requirements be clarified, especially the types and number of documentation required. In addition, requirements under different laws and regulations need to be harmonized. Further, authorities should consider keeping the CDD requirement at the minimum for small remittance transaction less than USD/EUR 1,000 (or the threshold determined by the authority having applied a risk-based approach), with the aim to identify customers but not to require multiple identification documents for verification and record keeping of related information. In this regard, one identification document would be sufficient for relatively small transactions, and the range of identification document acceptable for remittance transfers needs to be clarified. Since Kazakhstan plans to introduce Uniform Identification Numbers (UINs) starting January 1, 2012, this can be considered the only needed identification document, provided that UIN proves reliable. It is understood that a UIN will be assigned to all physical and legal persons, and it can be used in all state departmental systems and in bank systems.

296. While the UIN is going to be introduced, it would be also important to consider what type of document the foreigners should present. In this regard, a range of customers who use the channels need to be considered, since if they do not have a required document, they will not use the formal system.

297. Further, authorities may wish to consider liberalizing the prohibition of business transfers outside bank accounts because cross-border transportation of cash is still common, not just for personal use, but also for business transactions.

298. In doing so, authorities should introduce a risk-based approach to customer due diligence and reduce the number of documents required for legal entities for non-account-based transfers under a certain value. For example, transfers up to USD/EUR 1,000 may be exempted from the requirement to submit certain or all documents; transfers up to USD/EUR 15,000 may require only certain documents; and larger value transfers above USD/EUR 15,000 may be subject to a full CDD requirement.

Improving the Quality of Suspicious-Transaction Reporting Regime

Findings

299. The current STR regime requires financial entities to report a Suspicious Transaction Report *prior to* executing the transaction. Then the CFM can respond within 24 hours, or it can further suspend the transaction for three days. Suspicious transactions are not allowed to be further processed. However, on the other hand, financial entities can also inform CFM after the transaction has taken place, within 3 hours after the transaction or within 24 hours after such transactions have been perceived. Concerns about the suspension of transactions were shared by the business community. While the suspension of transactions arising from a match against the list of persons and organizations engaged in financing terrorism and extremism should be promptly suspended prior to such transactions, the current requirement seems to give more incentive for financial institutions to report other types of suspicious transactions after such transactions are identified.

Recommendation

300. It is important to ensure that financial institutions do understand when suspicious transactions needs to be suspended and reported to the CFM, and when reports can be filed to the CFM after the transactions. In this regard, more guidance and training from the CFM to financial institutions would be useful. It is important that interruption is kept to a minimum for prompt

executions of financial transactions. It is also important not to tip off customers by unnecessarily delaying transactions.

Carefully Designing the E-money Regulation

Findings

301. E-money regulation is under consideration in Kazakhstan. Introduction of the new payment method is a welcome step forward in expanding access to more convenient financial services. The limit for the e-money issuance without identifying the individual is 100 monthly indices (around US$900).

Recommendation

302. In regulating e-money issuers, authorities should carefully review whether the bank-based model or non-bank-based model should be encouraged. The decision will depend largely on which model will enable expanded financial inclusion, in particular among the people who are currently outside the formal financial system, and whether the ML/TF risks can be mitigated. A limit on transaction amount and volume is certainly one way toward such risk mitigation. However, the current threshold needs to be clarified further in terms of the limitations imposed on transactions. Is it the maximum limit per daily transaction, weekly, or monthly? Or is it a maximum balance? The current threshold for anonymous owners seems high and needs to be properly determined based on the outcome of the risk assessment.

Enhancing Oversight of Remittance Transfers

Findings

303. Currently, AML/CFT supervision is limited. Inspection of overall AML/CFT compliance needs to be firmly introduced beyond checking whether suspicious transactions have been filed. It is important to examine banks' internal policies and procedures for AML/CFT requirements, CDD processes, and record keeping. In addition, examination of remittance transfers conducted through remittance companies is also very limited. Most inspections of remittance transfers to date seem to be initiated by red flags (for example, some large transfers). Certain remittance transfers are not the major focus of bank supervisors.

Recommendation

304. In order to protect the use of this channel from being abused, supervisors should pay more attention to the transactions conducted through remittance transfer channels. This does not mean that more time and resources be used for checking small transactions. However, supervisors should have an examination plan and strategy to include remittance transfers as part of examination and transaction testing.

Issuing Guidelines

Findings

305. Currently no guidelines have been issued to assist financial institutions to implement AML/CFT requirements. Guidelines can be either a binding or nonbinding document that aims to assist financial institutions in implementing rules and regulations by providing further guidance.

Recommendation

306. It is suggested that guidelines be issued to assist financial institutions in implementing AML/CFT requirements. As NBK is a new supervisor and compliance examiner of the AML/CFT law, it is advisable that NBK issue the guidelines while consulting with CFM.

7.5 Preventing Abuse of ARSs for ML and TF Purposes

Understanding and Formalizing Hawala Type Informal Remittance Systems

307. Please refer to the same issue addressed under the section 7.2 on "Understanding and Formalizing Hawala Type Informal Remittance Systems".

Enhancing the Detection of Cross-Border Physical Transportation of Cash of Illegal Origins

Findings

308. Cross-border physical transportation of cash is widespread means among immigrants of taking money home and among entrepreneurs of paying for goods. There are many reasons: the low confidence in financial systems, culture and habits, concerns related to taxes, and problems associated with the financial system of destination countries. These factors drive many people to transport cash rather than use the existing financial system. The enforcement of a declaration requirement does not seem effective, and when the volume of cross-border transportation of cash is high it becomes difficult to distinguish informal from illegal proceeds.

309. The declaration statistics are not reliable as only a limited proportion of actual transportation is declared appropriately. Thus, the information on the actual size of physical transportation, which would be valuable information for policy and statistical purposes, is not complete.

Recommendation

310. The effectiveness of the cash declaration system needs to be improved. Authorities should raise the awareness of passengers about the declaration requirement. Tighter controls at customs stations will help prevent and detect cash-smuggling cases more effectively. This should also assist in better compliance with declaration requirements by passengers and encourage the use formal remittance channels for the transfer of high-value amounts.[30]

Improving the Cooperation among CFM and Regulatory/Supervisory Agencies

Findings

311. Addressing AML/CFT risks associated with alternative remittance systems requires synchronized actions supported by close cooperation and coordination among law enforcement agencies, FIU, and regulatory/supervisory agencies.

Recommendation

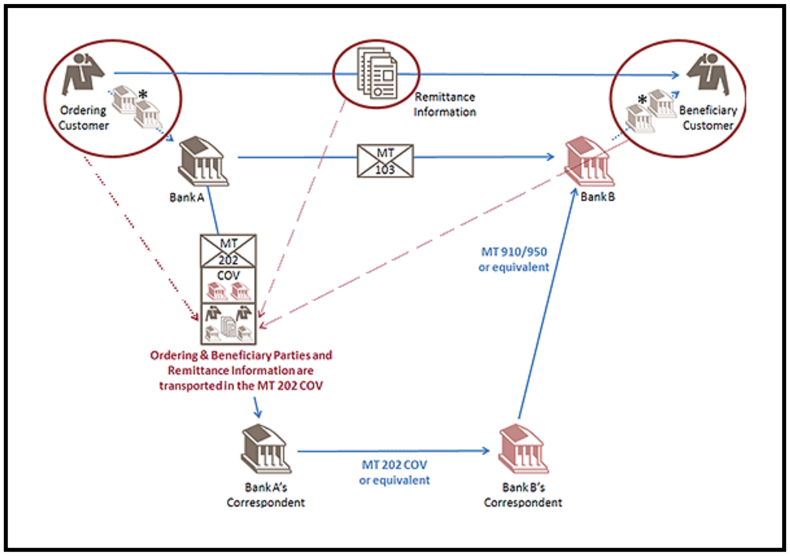
312. Coordination, harmonization, and effective information sharing among CFM, law enforcement agencies, and regulatory/supervisory agencies should be established.

[30] In this regard, the authorities should consider consulting the FATF guidance document (February 19, 2010) on international best practices on detecting and preventing the illicit cross-border transportation of cash and bearer negotiable instruments. See http://www.fatf-gafi.org/dataoecd/50/63/34424128.pdf.

Annex - 1 Illustration of the SWIFT System

Figure A1.1 depicts the mechanics of a wire transfer via the SWIFT system. During a wire transfer, the sender's bank, recipient's bank, and correspondent banks are involved in the process and all communicate through standardized SWIFT messages.

Figure A1.1 - Wire transfer via SWIFT



Source: SWIFT Web site,

http://www.swift.com/about_swift/press_room/swift_news_archive/home_page_stories_archive_2009/Newstandardsforcoverpayments.page.

When the sender places the money transfer order, the sender's bank informs the recipient's bank with an MT103 message. As SWIFT is not a stand-alone money transfer system, the beneficiary's bank will not make the payment to him/her depending solely on initial message. There should be an actual movement of funds from Bank A to Bank B. If there is a correspondent bank involved, which is the case in almost all international money transfers, the sender's bank communicates with its correspondent bank through MT202COV messages.[1] The fund is transferred from Bank A's correspondent bank to bank B's correspondent bank. This transfer between correspondent banks is usually effected through one of the real-time gross settlement systems depending on the currency and country: Fedwire or CHIPS (for USD), CHAPS (for GBP), TARGET for (EUR), and so forth. Once the fund is transferred to Bank B's correspondent account, Bank B's correspondent bank informs Bank B with a separate SWIFT message (MT910/950). The beneficiary will receive the money only after relevant amount is credited to beneficiary's account (or to a provisional account if the beneficiary does not have an account at Bank B).

Although the transaction requires a number of steps and the involvement of several banks, it is quite possible to complete the wire transfer within a couple of hours. But in practice, wire transfers can take more than two days, since the banks usually do not rush to process and pay out these funds, which constitute interest-free funding sources for them.

[1] MT202COV messages were introduced by SWIFT in 2009 to as a replacement to MT202, to address transparency concerns and allow correspondent banks to obtain originator and beneficiary information associated with the wire transfer being processed.

Annex - 2 MTOs and Their Agents (Banks[1] and Kazpost)

		MTOs																					
		Western Union	Contact	Fast Mail	Golden Crown	Anelik	Unistream	Leader	Faster	Coinstar Money Transfer	FOVA	MoneyGram	Metro Express	Orient Express	Blizko	Blitz	Migom	Inter Express	BS-Client	Xpress money	Universal Postal Union System	CyberPlat	TOTAL
1	Kazpost	X																		X	X	X	4
2	Delta Bank	X		X		X		X							X								5
3	Metrocombank	X		X	X		X						X										5
4	SENYM-BANK	X		X	X		X												X				5
5	Danabank	X	X														X	X					4
6	Temirbank	X	X			X			X														4
7	Alliance Bank	X	X							X													3
8	Kaspi Bank	X			X									X									3
9	Sberbank	X		X												X							3
10	Tsesnabank	X					X	X															3
11	Eurasian Bank	X				X																	2
12	Halyk Savings Bank of Kazakhstan	X										X											2
13	Nurbank	X	X																				2
14	BTA Bank	X							X														2
15	Bank CenterCredit	X	X																				2
16	Astana-Finance Bank	X						X															2
17	Bank VTB -Kazakhstan	X	X																				2
18	Bank "RBK"	X																					1
19	Home Credit Bank	X																					1
20	ATFBank	X																					1
21	Alfa-Bank	X																					1
22	BankPositive Kazakhstan	X																					1
23	Kazkommertsbank	X																					1
24	AsiaCredit Bank	X																					1
25	Industrial Com. Bank of China										X												1
26	TAIB Kazakh Bank	X																					1
27	Kazakhstan-Ziraat International Bank	X																					1
	TOTAL	26	6	4	4	4	3	3	2	2	1	1	1	1	1	1	1	1	1	1	1	1	

Source: National Bank of Kazakhstan (based on the repots sent to NBK by banks) and Kazpost.

[1] The list includes only the banks that partner with MTOs.

Annex - 3 Demographic and Geographic Penetration in Selected Countries

Country	Total Number of Bank Branches	Total Number of ATMs	Number of Branches per 100,000 People	Branches per 1,000 sq km
Albania	67	75	2.11	2.45
Argentina	3,841	5,721	10.01	1.40
Armenia	232	42	7.59	8.23
Australia	5,939	12,765	29.86	0.77
Austria	4,341	7,028	53.87	52.47
Azerbaijan	338	.	4.11	3.90
Bahrain	96	191	13.48	135.21
Bangladesh	6,178	79	4.47	47.46
Belarus	473	500	4.79	2.28
Belgium	5,500	6,942	53.15	181.65
Belize	38	.	14.67	1.67
Bolivia	137	431	1.53	0.13
Bosnia	160	222	3.86	3.15
Botswana	65	155	3.77	0.11
Brazil	25,763	31,471	14.59	3.05
Bulgaria	1,085	2,331	13.87	9.81
Canada	14,424	42,773	45.60	1.56
Chile	1,481	3,790	9.39	1.98
China	17,083	49,000	1.33	1.83
Colombia	3,880	4,262	8.74	3.74
Costa Rica	384	514	9.59	7.52
Croatia	1,041	1,787	23.36	18.62
Czech Republic	1,138	1,997	11.15	14.73
Denmark	2,027	2,822	37.63	47.77
Dominican Republic	524	1,318	6.00	10.83
Ecuador	1,212	823	9.30	4.38
Egypt	2,443	1,200	3.62	2.45
El Salvador	302	723	4.62	14.58
Estonia	205	779	15.19	4.85
Ethiopia	283	.	0.41	0.28
Fiji	46	104	5.51	2.52
Finland	993	4,127	19.06	3.26
France	25,819	41,988	43.23	46.94
Georgia	161	60	3.14	2.32
Germany	40,792	50,487	49.41	116.90
Ghana	326	.	1.60	1.43
Greece	3,291	5,078	30.81	25.53
Guatemala	1,246	2,486	10.12	11.49
Guyana	24	50	3.12	0.12
Honduras	51	248	0.73	0.46
Hungary	2,859	2,975	28.25	31.04
India	67,097	.	6.30	22.57
Indonesia	18,107	10,387	8.44	10.00
Iran	5,569	827	8.39	3.40
Ireland	924	1,914	23.41	13.41
Israel	986	1,258	14.74	47.82
Italy	30,014	38,738	52.07	102.05
Japan	12,692	144,700	9.98	34.82
Jordan	532	498	10.02	5.98

Kazakhstan	368	1,045	2.47	0.14
Kenya	439	317	1.38	0.77
Korea	6,419	43,133	13.40	65.02
Kuwait	197	469	8.27	11.05
Kyrgizstan	157	.	3.11	0.82
Lebanon	810	756	18.01	79.18
Lithuania	117	994	3.39	1.81
Madagascar	111	38	0.66	0.19
Malaysia	2,427	4,074	9.80	7.39
Malta	120	148	30.08	375.00
Mauritius	146	270	11.92	71.92
Mexico	7,806	17,011	7.63	4.09
Namibia	90	244	4.47	0.11
Nepal	423	21	1.72	2.96
Netherlands	5,550	7,556	34.23	163.81
New Zealand	1,124	2,019	28.04	4.19
Nicaragua	156	143	2.85	1.29
Nigeria	3,010	.	1.62	2.41
Norway	1,045	.	22.92	3.41
Pakistan	7,016	786	4.73	9.10
Panama	384	483	12.87	5.16
Papua New Guinea	90	.	1.64	0.20
Peru	1,133	1,587	4.17	0.89
Philippines	6,381	4,328	7.83	21.40
Poland	3,119	6,611	8.17	10.25
Portugal	5,257	11,117	51.58	57.45
Romania	3,054	2,768	13.76	13.26
Russia	3,216	9,000	2.24	0.19
Saudi Arabia	1,208	3,312	5.36	0.56
Singapore	388	1,612	9.13	636.07
Slovakia	553	1,572	10.28	11.33
Slovenia	43	1,299	2.19	2.14
South Africa	2,711	7,926	5.99	2.22
Spain	39,404	52,033	95.87	78.90
Sri Lanka	1,319	705	6.87	20.41
Sweden	1,952	2,647	21.80	4.74
Switzerland	2,790	5,185	37.99	70.54
Tanzania	206	61	0.57	0.23
Thailand	4,452	10,572	7.18	8.71
Trinidad and Tobago	121	269	9.22	23.59
Turkey	6,009	12,726	8.50	7.81
Uganda	133	178	0.53	0.67
Ukraine	.	450	.	.
United Kingdom	10,877	25,162	18.35	45.16
United States	89,814	352,000	30.86	9.81
Uruguay	216	.	6.39	1.23
Venezuela	1,127	4,242	4.41	1.28
West Bank-Gaza	110	109	3.27	18.33
Zambia	158	68	1.52	0.21
Zimbabwe	429	443	3.27	1.11

Source: Beck et al.(2006).

Annex - 4 Incoming and Outgoing Cash Declaration Data (USD)

A. INCOMING

Table A4.1 - Number of Declarations

REGION	2007	2008	2009	2010	TOTAL
Zhambyl region	80,589	358,833	92,862	79,764	612,048
Kostanay region	93,591	106,546	114,886	50,808	365,831
North Kz. region	89,407	94,773	94,773	36,159	315,112
Aktobe region	58,734	62,542	75,626	27,653	224,555
West Kz. region	67,289	94,875	12,383	44,255	218,802
Pavlodar region	33,853	28,021	77,410	15,636	154,920
East Kz. region	45,558	41,082	44,922	20,714	152,276
Almaty region	54,915	18,456	20,459	3,458	97,288
South Kz. region	18,314	12,529	23,265	17,541	71,649
Mangistau region	8,795	16,570	16,064	17,961	59,390
Atyrau region	310	8,378	12,699	9,069	30,456
Almaty (City)	1,312	1,482	2,224	6,193	11,211
Astana (City)	738	401	668	505	2,312
Customs Dostyk	134	262	758	111	1,265
Baikonur	429	261	217	47	954
Karaganda region	127	396	268	137	928
Akmola region	88	55	30	39	212
Kyzylorda region	76	40	17	6	139
TOTAL	554,259	845,502	589,531	330,056	2,319,348

Table A4.2 - Sum of Declared Accounts

REGION	2007	2008	2009	2010	TOTAL
Zhambyl region	68,445,488	55,284,865	33,396,381	163,241,162	320,367,896
Almaty (City)	25,491,433	17,322,912	11,785,290	9,983,442	64,583,077
Astana (City)	5995610	19070452	10570532	2218346	37,854,940
North Kazakhstan region	4,274,920	7,758,442	7,758,442	4,451,770	24,243,574
South Kazakhstan region	4,845,234	4,893,431	6,040,529	5,446,285	21,225,479
Mangistau region	5,087,246	4,077,500	6,293,058	1,707,575	17,165,379
Kostanai region	4,488,706	4,570,864	2,759,999	1,044,368	12,863,937
West Kazakhstan region	5,041,146	3,925,062	1,191,728	856,228	11,014,164
East Kazakhstan region	3,355,699	1,682,750	2,030,403	2,040,114	9,108,966
Pavlodar region	1,657,984	3,128,886	417,165	317,945	5,521,980
Almaty region	2,185,109	1,838,677	18,971	0	4,042,757
Aktobe region	1,030,411	687,687	534,714	308,801	2,561,613
Dostyk Customs	820,121	508,464	262907	179,079	1,770,571
Atyrau region	188,618	271,732	944,230	222,756	1,627,336
Karaganda region	340,501	250,265	644,025	133,063	1,367,854
Baikonur Customs	242,178	120,800	16,832	548,00	434,610
Akmola region	0	0	0	0	0
Kyzylorda	0	0	0	0	0
TOTAL	133,490,404	125,392,789	84,665,206	192,205,734	535,754,133

Table A4.3 - Average per Declaration

REGION	2007	2008	2009	2010	AVERAGE
Astana (City)	8,124	47,557	15,824	4,393	18,975
Almaty (City)	19,429	11,689	5,299	1,612	9,507
Dostyk Customs	6,120	1,941	347	1,613	2,505
Karaganda region	2,681	632	2,403	971	1,672
Zhambyl region	849	154	360	2,047	852
Baikonur Customs	565	463	78	1,166	568
Mangistau region	578	246	392	95	328
South Kazakhstan region	265	391	260	310	306
Atyrau region	608	32	74	25	185
North Kazakhstan region	48	82	82	123	84
East Kazakhstan region	74	41	45	98	65
West Kazakhstan region	75	41	96	19	58
Pavlodar region	49	112	5	20	47
Almaty region	40	100	1	0	35
Kostanai region	48	43	24	21	34
Aktobe region	18	11	7	11	12
Akmola region	0	0	0	0	0
Kyzylorda	0	0	0	0	0
AVERAGE	2,198	3,530	1,405	696	1,957

B. OUTGOING

Table A4.4 - Number of Declarations

REGION	2007	2008	2009	2010	TOTAL
Kostanay region	97,536	106,564	130,612	61,282	395,994
Zhambyl region	2,833	294,499	22,110	33,311	352,753
Almaty region	39,039	22,615	245,336	27,409	334,399
North Kz. region	89,522	96,548	96,548	40,682	323,300
Aktobe region	68,072	61,758	76,568	32,175	238,573
West Kz. region	68,206	99,756	8,806	48,674	225,442
Pavlodar region	20,241	25,695	93,177	16,392	155,505
Astana (City)	19,625	20,407	25,486	55,115	120,633
East Kz. region	26,600	27,526	38,594	20,145	112,865
South Kz. region	20,015	18,372	29,801	19,987	88,175
Almaty (City)	9,286	10,988	26,455	33,855	80,584
Mangistau region	9,627	16,228	13,720	16,530	56,105
Customs Dostyk	8,868	8,378	8,224	5,142	30,612
Atyrau region	1,276	5,113	13,841	8,911	29,141
Baikonur	1,307	1,201	946	291	3,745
Karaganda region	917	603	1,014	477	3,011
Akmola region	600	497	286	127	1,510
Kyzylorda region	44	19	26	8	97
TOTAL	483,614	816,767	831,550	420,513	2,552,444

Table A4.5 - Sum of Declared Amounts

REGION	2007	2008	2009	2010	TOTAL
Almaty region	303,077,816	186,896,338	211,605,598	241,722,506	943,302,258
Almaty (City)	116,340,487	223,452,745	240,493,386	329,281,588	909,568,206
Astana (City)	140,414,139	134,277,873	181,366,349	186,150,707	642,209,068
Dostyk Customs	76,003,776	61,412,970	58,636,579	41,933,948	237,987,273
East Kazakhstan region	32,648,485	39,377,086	65,583,983	45,461,284	183,070,838
South Kazakhstan region	39,623,202	44,796,655	42,702,500	33,836,774	160,959,131
North Kazakhstan region	34,811,350	30,063,631	30,063,631	10,769,643	105,708,255
Aktobe region	45,145,747	34,186,971	13,132,340	8,519,142	100,984,200
Kostanai region	33,376,166	21,025,834	21,142,587	10,182,882	85,727,469
Karaganda region	7,679,972	38,458,001	3,494,679	2,166,577	51,799,229
Pavlodar region	5,590,663	5,248,182	15,043,476	15,447,624	41,329,945
Zhambyl region	19,141,834	8,796,258	1,153,505	10,557,699	39,649,296
Atyrau region	6,672,334	8,747,053	11,624,683	8,449,713	35,493,783
West Kazakhstan region	4,492,450	6,405,372	10,475,809	11,688,163	33,061,794
Mangistau region	6,247,378	7,792,329	8,648,951	2,170,010	24,858,668
Baikonur Customs	204,799	84,139	70,042	19,000	377,980
Akmola region	173,509	73,940	46,845	0	294,294
Kyzylorda	18,500	16,000	4,700	0	39,200
TOTAL	871,662,607	851,111,377	915,289,643	958,357,260	3,596,420,887

Table A4.6 - Average per Declaration

	2007	2008	2009	2010	
Karaganda region	8,375	63,778	3,446	4,542	20,035
Almaty (City)	12,529	20,336	9,091	9,726	12,920
Dostyk Customs	8,571	7,330	7,130	8,155	7,796
Almaty region	7,763	8,264	863	8,819	6,427
Astana (City)	7,155	6,580	7,116	3,377	6,057
Atyrau region	5,229	1,711	840	948	2,182
South Kazakhstan region	1,980	2,438	1,433	1,693	1,886
Zhambyl region	6,757	30	52	317	1,789
East Kazakhstan region	1,227	1,431	1,699	2,257	1,653
Mangistau region	649	480	630	131	473
Aktobe region	663	554	172	265	413
Pavlodar region	276	204	161	942	396
West Kazakhstan region	66	64	1,190	240	390
Kyzylorda	420	842	181	0	361
North Kazakhstan region	389	311	311	265	319
Kostanai region	342	197	162	166	217
Akmola region	289	149	164	0	150
Baikonur Customs	157	70	74	65	92
AVERAGE	3,491	6,376	1,929	2,328	3,531

Annex - 5 Migration Policy in Kazakhstan and Some Recommendations for Improvement

Kazakhstan will likely continue to be one of the key migration corridors in the CIS, second only to Russia, due to its need for both high-skilled and low-skilled labor. Given projected labor demands for the Kazakh economy, recent development with the unified customs union, and discussions related to accession to the World Trade Organization, it is estimated that the economy will need an additional 300,000 workers by 2015.[1] Given expected growth rates in Kazakhstan and aspirations to become a top 50 economy in the world by 2020, this number may be even higher. There are a number of measures—"quick fixes"—that could help ensure that the domestic labor market is protected while the demands of private sector (especially the service sector) are met and the labor rights of migrants are protected. These will not only help Kazakhstan solidify its regional leadership but will serve as good integration mechanisms and elements of post-crisis recovery for the economy.

To help facilitate achievement of development challenges, Kazakhstan has a migration policy concept covering 2007–2015 that sets out basic principles and tasks aimed at improving the current mechanisms and working out of new ones to manage migration. The two key elements of the migration policy are (i) repatriation of ethnic Kazakhs (Oralmans) through voluntary resettlement programs—the latest program, Nurli Kosh, spans 2009–2011 and aims to bring an additional 60,000 ethnic Kazakh families back to Kazakhstan; and (ii) an internal migration program that addresses recent trends of rural-urban migration and ecological migration. The overall policy of the Republic of Kazakhstan that regulates inward foreign labor migration is stipulated in the Law on Migration that dates back to 1997. This law has been amended a number of times, but the overall goal is to protect the domestic labor market. The law also provides for equality of legally employed labor migrants and clearly states preferences and balances for foreign labor in certain programs, such as industrial and innovation development strategy (2015), Caspian seashore development program (2010), and housing construction (2007). The Government's sole instrument for achieving the preferences and balances is an annual foreign labor quota.

With the completion of the above sector programs, and considering the emerging challenges and trends in migration (inside and outside Kazakhstan), the *need to revise the general framework (law) becomes quite apparent.* There is also a need for Kazakhstan to solidify its regional positions, ensure post-crisis growth, and undertake efforts to formalize the economy. Kazakhstan is an active participant in regional discussions on migration policy in the CIS, yet local efforts to strengthen, streamline, and harmonize migration policy seem to require a strong push from within. There are many reasons for this, including the following:

- The government sets annual quotas as a percentage of a total labor force (in 2010 it was 0.65 percent) and follows an extensive and complex process from application to review and actualization. Most of the interviews conducted within the scope of this work suggest that these procedures are burdensome and rather inflexible. Many countries in the region are currently thinking of better ways to administer quotas as a more flexible tool, better linked with labor market needs that allow protecting the rights of both Kazakh workers and foreigner labor migrants.[2]

[1] Forecasts of the Ministry of Labor of Kazakhstan
[2] World Bank's Migration and Remittances Peer Assisted Learning Network (MiRPAL) in Europe and Central Asia provides assistance in this regard and facilitates peer-based learning.

- While a number of bilateral agreements governing seasonal migration (especially in agriculture) do exist in Kazakhstan, their impact and actual implementation is quite limited. There are virtually no temporary migration schemes that have proven to be a good tool for managing temporary/seasonal migration. A program could be designed so as to protect both the interests of Kazakh workers and the rights of labor migrants while providing a win-win-win solution for labor-sending and receiving countries, employers, and migrant workers themselves. Such programs has proven to be potentially efficient tools to address illegal migration and employment provided proper checks and balances are in place.

- There is a need to develop incentives for employees, on one hand, and ensure clear supervision and monitoring of law enforcement, on the other, in the hiring of foreign labor. This is especially true for small and medium enterprises (SMEs), service sectors, and individual people who hire foreign labor. One fact is clear, with the quota rejection rate approaching 30 percent (in 2008, when over 68,600 applications were received and 21,200 were rejected), SMEs in general will continue to hire labor illegally as the demand for labor is still quite high given current demographic and labor market trends. Again, the government could consider developing patent-type arrangements (especially for the self-employed) that, provided they are implemented efficiently and transparently, would help formalize illegally employed foreign workers (self-employed, working for individuals, or temporary workers) on the basis of a monthly patent that labor migrants purchase in exchange for legalization of their status. This would greatly help combat illegal employment, provide direct benefit to the country both financially and in terms of rule of law, and give greater protection and access to formal remittance channels to the labor migrants.

- Creating an interministerial working group under the prime minister's office/ of economic development may facilitate further labor market reforms.

Annex - 6 Trafficking Routes of Afghanistan-Originated Opiates

Figure A6.1 depicts the two main routes for opiates to reach consumer markets from Afghanistan. The northern rote first passes through one of four countries located on the north of Afghanistan, namely, Uzbekistan, Tajikistan, Turkmenistan, and Kyrgyzstan, then enters Kazakhstan as the main gateway to Russian Federation. The Russian Federation is a major drug market and a transit point to Eastern Europe. According to UNODC (2011), most of the drug reaches Kazakhstan through Tajikistan-Kyrgyzstan route and then is carried to the Russian Federation mostly via private and commercial vehicles. Thirty percent of the drug is carried via air and rail, while rest is carried via road (UNODC 2011).

Figure A6.1 - Drug Trafficking Routes from Afghanistan to the Russian Federation and Europe

Source: UNODC, *World Drug Report 2010*.

Efforts by the UNODC Regional Office for Central Asia[1] and other international initiatives improved the capacity of the agencies fighting against the drug trafficking in the region as well as the cooperation among the Central Asian countries and other countries located on the opiate trafficking rotes. Despite the international efforts to control drug trafficking and drug production Afghanistan still remains the main source of the opium based drugs due to the instability in the country. A recent report (UNODC and AMCN 2010) states that Afghanistan provides 85 percent of the estimated global heroin and morphine supply. Both the high supply from the originator country and increasing demand by consumer regions feeds the drug smuggling and imposes a drug-trafficking risk to the countries located on the routes including Kazakhstan.

[1] Established under the Paris Pact Initiative" following the "Conference on Drug Routes from Central Asia to Europe," held in Paris ,21–22 May 2003, to take coordinated actions against the smuggling of Afghan opiates.

Annex - 7 CFM List of Terrorist and Extremist Organizations (updated January 2011)

№	Name	Note
1	Al-Qaeda	
2	The Islamic Party of East Turkestan	Also known as the "East Turkistan Islamic Movement," "Party of God," and "National Revolutionary Front of Eastern Turkestan"
3	Kurdish People's Congress	Also known as "Kongra-Gel," and "Working Party of Kurdistan"
4	Islamic Movement of Uzbekistan	Also known as the "Islamic Liberation Movement of Uzbekistan, the Islamic Renaissance Party"
5	Asbat al-Ansar	
6	Muslim Brotherhood	
7	Taliban	
8	Boz Gurd	Also known as the "Grey Wolves"
9	Jamaat Mujahideen Central Asia	Also known as the "Union of Islamic Jihad"
10	Lashkar-e-Taiba	
11	Social Reform Society	
12	East Turkestan Liberation Organization	Also known as "Sharkey Turkestan ozatlik tashhilaty"
13	AUM Shinrikyo	Also known as "Aleph"
14	Islamic Party of Turkestan	Also known as "Zhamagat Turkestan, Turkestan zhamagat"
15	Hizb ut-Tahrir al-Islami	Also known as the "Party of Liberation, Hizb-ut-Tahrir al-Islami, the Islamic Liberation Party"

Annex - 8   Relevant FATF 40+9 Recommendations

Special Recommendation VI is the main recommendation for alternative remittances. By *alternative remittance* it refers to a money or value transfer (MVT) service provided formally or informally through nonbank financial institutions or other business entities. There are three main elements in this recommendation: first, MVTs should be licensed or registered with a competent authority; second, MVTs should be subject to applicable FATF 40+9 recommendations; and third, MVTs should be subject to sanctions. In terms of agents, MVT operators or principals need to maintain a current list of agents, which should be made available to the designated competent authority.

Special Recommendation VII relates to wire transfers, both cross-border and domestic transfers. Because remittances are either wire transfers or funds transfers, this recommendation is also of the direct relevance to remittance transfers. The main elements of the recommendation concerning the cross-border wire transfers are that for transactions above USD/EUR 1,000, accurate and meaningful originator information (such as name, account number, and address)[1] should be supplied.

Recommendation 5 relates to customer due diligence. This recommendation is quite extensive in scope and is one of the most challenging recommendations to implement. The main elements of the recommendation that are relevant to nonbank remittance transfers are identification and verification of the identity of customers by using reliable independent source documents, data, or information; identification of the beneficial owner, and taking reasonable measures to verify the identity of the beneficial owner; and obtaining information on the purpose and intended nature of the business relationship. It is also important to undertake ongoing due diligence on the business relationship and ensure that the transactions being conducted are consistent with the institution's knowledge of the customer, their business, and risk profile, including, where necessary, the source of the funds.

Recommendation 10 ensures that records are kept for information on customers as well as on transactions for at least five years after the transactions or after the termination of business relationship with customers.

Recommendations 11 and 13 are linked. Recommendation 11 requires that financial institutions monitor transactions and pay special attention to complex and unusual transactions. Recommendation 13 requires that, based on monitoring of transactions as well as customer information, suspicious transactions need to be reported to a competent authority (i.e., financial intelligence unit).

Recommendation 15 requires that financial institutions develop internal AML/CFT policies and procedures, including compliance management and screening of employees; ongoing training program for staff; and an audit function to test the system. An internal control program can be developed, taking the risk and size of the financial institutions into account.

[1] Information accompanying qualifying cross-border wire transfers must always contain the following:(i) the name of the originator; (ii) where an account exists, the number of that account, or in the absence of an account, a unique reference number; and (iii) the address of the originator, or a national identity number, customer identification number, or date and place of birth.

Special Recommendation IX relates to cross-border cash couriers, namely, physical cross-border transportation of currency and bearer-negotiable instruments. Countries need to institute either a declaration or a disclosure system. A declaration system requires travelers to declare cross-border transportation of currency or bearer-negotiable instruments exceeding the value of a pre-set threshold to designated competent authorities. However, this threshold should not be higher than USD/ EUR 15,000. A disclosure system requires disclosure by travelers upon request by the designated competent authorities. Countries do not need to use the same type of system for incoming and outgoing cross-border transportation of currency or bearer negotiable instruments.

To see the original text of these FATF recommendations, interpretative notes, and other relevant related information (such as best practices paper and guidance paper), please see the FATF Web site at http://www.fatf-gafi.org.

Annex - 9 Lessons Learned from Regulation of the Remittance Market Around the World[1]

When regulating the remittance market, it is important to understand the market characteristics such as structure, players, users (customers), transactions, and product features. Even within a single country, characteristics of remittance markets may differ substantially depending on corridors: namely, where the money is going and where it is coming from. In addition, it is important to understand the incentives of remittance service providers as well as those of users (customers), because an incentive-compatible framework works much more effectively and efficiently than an incentive-incompatible framework.

Well-regulated market tend to be characterized by a high formality of transactions. A well-regulated market does not mean that the stringent regulation is always better. The regulation should be effective and proportionate to risks.

High formality of transactions can be achieved by encouraging customers to use the remittance service providers that are regulated. There are mainly three main mechanisms for sending international remittances through financial institutions. The first method is through bank's international payment systems. SWIFT is the most common system used. The second is through use of a money transfer operator (MTO) information system and its network. There are a couple of well-known MTOs such as Western Union and MoneyGram, but there are many other MTOs that are active in some regions. The third is through Postal Financial Network system.

In terms of person-to-person transfers, the use of MTO is probably the most common method. MTOs operate by establishing their own network of agents who handle receipt of cash by senders and disbursement of cash to beneficiaries. In many countries, MTOs are allowed to operate outside banks, but in smaller number of countries they are required to operate only through banks: in other words, only banks can be their agents. When MTOs are allowed to obtain a license or registration to operate, they use a wide range of agents in their network network, such as grocery stores, gas stations, and pharmacies, among others. MTOs also leverage the existing financial institutions such as banks, credit and savings institutions, microfinance institutions, and postal financial services.

But this does not arise just from a regulation. It is also a question of incentives by the senders and recipients; in other words, it is a question of whether remittance senders and recipients prefer to use the regulated remittance service providers. Customers are motivated to select the remittance channels based on their speed, convenience, availability, security, trust, cost, and cultural familiarity, as well as other factors. Thus, although it could be more expensive to send money using a remittance company than a postal money order, a sender may prefer to pay the higher fee in order to see that the money is sent instantly to a family member and avoid waiting for one or two days. In addition, customers may not always have a choice to resort to regulated service providers simply because the service by a regulated provider is not available. In that case, migrant workers may ask friends to take money home, or even ask bus or taxi drivers to carry money home across borders for them.

[1] Findings presented in this section are based on the experience of studying different corridors, some jurisdictions' regulatory and supervisory frameworks, and advising client countries. These are further elaborated in the upcoming publication E. Todoroki et al.,"Evolving Remittance Markets" (Washingtoin, DC: Wortld Bank, forthcoming).

Important lessons can be drawn from the experiences in regulating the remittance market around the world. While jurisdictions should design a regulatory framework that meets the FATF recommendations, they should also make sure that the regulatory framework reflects the local conditions. Ill-designed regulations can be counter-productive. Implementation of the FATF recommendations does not mean a one-size-fits-all approach. The FATF recommendations provide flexibility while ensuring minimum standards. Thus, countries should take an advantage of this flexibility accorded to them. To stress the point, it is important that regulations be flexible, effective, and proportionate to the risk and vulnerability of the remittance services offered in the jurisdictions.

Consultation with the Industry

In designing the regulation, consultation with the remittance service provider is important and should be taken seriously. This will help authorities design a regulatory framework that is feasible and implementable in the domestic environment. It will also provide a stronger buy-in by the industry, as its members feel that their views have been considered during the creation of the regulatory process. Such buy-in will prove to be important in later stages. The industry tends to exhibit a better compliance level when it was consulted.

Registration or Licensing Regime

FATF Special Recommendation VI requires countries to institute either a registration or a licensing regime for remittance service providers. If a remittance service provider is a bank and already has a license to operate, then there is no need to require a separate license for the remittance service. If a remittance company is operating only through a bank, then there is no need to require a separate license from the remittance company because the remittance service is covered under the agency relationship established with the bank. Special Recommendation VI aims to ensure that no financial institution or financial service provider is operating without any license or registration and without any oversight of a competent authority.

Between the licensing and registration regime, the registration regime usually has a lower barrier, since service providers need to report the requested information only at registration. On the other hand, a licensing regime provides authorities the ability to filter service providers and issue licenses only to those who meet the fit and proper test. Thus, the registration regime may better encourage service providers to come forward and register with a competent authority, due to its simpler process. For the authority, the cost of operating the licensing regime will likely be higher than operating the registration regime, and this cost is either absorbed by the authority or passed down to service providers in the form of licensing fees.

It is also important to consider who should be subject to registration or licensing. Should it only be the principal money transfer companies, or should it also be their agents, or should it be only the principals, provided that they are responsible for their agents? This is an important question to address in designing the registration or licensing regime.

It is interesting to note that many developing countries tend to opt for a licensing regime, while registration regimes are seen more often in the developed economies. This may be explained by the fact that remittances are more important as a source of external funding to the developing countries than to the developed economies. Remittances support families in developing countries through, for example, meeting family’s daily needs, paying for children’s educations, paying for special events such as weddings and funerals, and paying house rents and mortgages. Thus, authorities in developing countries have a stronger interest in protecting the remittance market and ensuring that the remittance channels are not abused by criminals.

This interest often goes beyond the AML/CFT requirements. Authorities in developing countries are interested in understanding the size of remittance inflows into the country in order to collect macroeconomic data so it can be accurately reflected in the balance-of-payments data. They are also interested in protecting the customers by making the market and the transaction flows transparent, including the cost of remittances, and by ensuring that there is a mechanism to provide dispute resolution (consumer protection). In addition, authorities are interested in ensuring that service providers are fit and proper and, in some countries, have adequate capital to run their business. Whether to impose the capital requirement is determined by the country's interest in controlling the size of the service providers. If authorities do not wish to have a number of small-scale remittance service providers, then imposing some level of capital requirement would be certainly an option.

In rolling out a registration or a licensing regime, it is important to adequately reach out to the service providers. Regulators who made these efforts tended to see better compliance levels by the regulated entities and individuals.

Customer Due Diligence Requirement

The issue of the customer due diligence (CDD) requirement, especially the type of identification documents that service providers should require from clients, is a challenging one. Identification policies that do not meet local conditions will not be effective. For example, when most customers who use the remittance service providers do not have a valid national identification document for whatever reason, an alternative identification document should be required. It is also important to consider whether there is a need to address an identification issue when a country has a sizable illegal immigrant population who send money home. A requirement that is too stringent may push both service providers and customers underground.

The remittance studies by the Financial Market Integrity Unit of the World Bank find that in all the corridors that have been studied to date, an average transaction of migrant workers' remittances is only about a few hundred US dollars or its equivalent in other currencies. Thus, one way to alleviate this problem is to set a threshold of USD or EUR 1,000 (or an equivalent in foreign currencies) for the CDD requirement, since this is the minimum requirement in the FATF standards. In practice, many developing countries have set threshold lower than USD/EUR1,000, or even no *de minimus* threshold. The decision on what threshold to apply should be considered carefully by assessing the characteristics of remittance service providers, customer types, and risks to ML/TF.

Clear and Simple Requirements and Guidance

Above all, requirements should be clear and simple, whether they are about application documents and processes, background checks, compliance programs, or other requirements. Also, the authorities should provide clear guidance to the industry as far as compliance requirements go, explaining the relevant laws and regulations.

Supervision and Monitoring of the Remittance Service Providers

With regard to supervision and monitoring of the remittance service providers, a competent authority should be designated. The level of supervision and monitoring should not differ whether the jurisdiction has a registration or a licensing regime. Regardless of the particular regime, there should be adequate supervision and monitoring of the industry.

In this regard, it is critical to identify a suitable agency for undertaking the required tasks. Which agency is best placed to register or issue a license to the service providers? Which agency is best placed to supervise and monitor the service providers? Should one agency be responsible for both registration/licensing and supervision/monitoring? Or should separate agencies be designated for respective tasks? These are critical questions because the agency would need to have adequate resources and skills to undertake those tasks. In this regard, the models differ around the world. Developing countries tended to designate a supervision department in the central bank or other supervisory agency as the supervisory authority for the remittance service providers, while developed economies designate a financial intelligence unit or other government agencies, such as a tax authority or customs, if not a financial supervisory authority.

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