CHAPTER 6.

PRINCIPAL CHANNELS AND COSTS OF REMITTANCES: THE CASE OF TURKEY

by

Elif Köksal,
Consultant to the OECD, Paris

and
Thomas Liebig,
Administrator,
Directorate for Employment, Labour and Social Affairs, OECD, Paris

Introduction

The first major labour migration flows of Turks to Germany followed the bilateral agreement between the Federal Republic of Germany and Turkey on 30 October 1961.[1] For Germany, a main goal of this agreement was to alleviate labour shortages in the booming post-war industry through labour immigration. In Turkey, per capita GDP at that time was very low, there was mass unemployment and wage levels were extremely low compared to Germany. From the 1970s onwards, Turkish emigration was also directed towards other OECD European countries (*e.g* Austria, Belgium France, Netherlands) and the Middle East (*e.g.* Kuwait, Saudi Arabia), but Germany is still by far the most important host country for Turkish migrants (about 2 million Turks, or just under two-thirds of the whole Turkish community abroad live in Germany) (Annex 6.1). According to a survey among the foreign population in Germany, about 27% of the Turkish households formally remitted money to Turkey in 2001 (Table 6.1).[2]

Since the late 1960s, remittances have been an important source of foreign currency for Turkey and regularly amounted to more than 2% of the GNP (Annex 6.2). In

1. The agreement established, in particular, co-operation between the two countries' national employment agencies, payment of all relocation costs of Turkish workers and the possibility of intervention by Turkey, if considered necessary, to protect the rights and benefits of Turkish migrants. For more detailed information on bilateral agreements, see OECD (2004), *Migration for Employment: Bilateral Agreements at a Crossroads*.

2. These data are from "Ausländer in Deutschland 2001", a representative survey of 400 individuals above the age of 15 from each of the five major foreign nationalities (Turks, foreigners with a nationality of one of the successor states of the former Yugoslavia, Italians, Spaniards and Greeks).

particular, remittances corresponded to a very high percentage of export revenues, especially from 1972 to 1975 and in the early 1980s. The percentage declined in the 1990s, but still averages close to 17%. Remittances have thus financed an important part of Turkey's current account deficit. Estimates are also produced by the banking systems of the countries from which the remittances originate. As Annex 6.3 demonstrates with respect to Germany, these estimates do not necessarily coincide with the data shown in Turkey's current balance of payments, although both in Germany and Turkey (until 2003), they include money carried by migrants with them when they visit their country of origin. Such informal channels still account for about half of the overall remittance flows (see the estimates in Tables 6.2 and 6.3). Though these estimates should not be taken at face value, they provide an indication of the magnitudes involved.[3]

Little is known about the destination regions of the remittances. Information provided by Türkiye □□Bankası (*cf. infra*) shows a substantial concentration of the flows in the large cities (Annex 6.4). This concentration is already notable with respect to the number of transactions, but particularly pronounced with respect to the amounts, since transactions to rural areas involve much smaller amounts. In total, only a small part of the total remittance amount flows to the rural areas.

This chapter attempts to identify the principal formal channels that are used by Turkish migrants in Germany to transfer their savings to Turkey. The emphasis will be on the procedures for transferring remittances via banks or other financial institutions and the cost of these transactions. The analysis of the channels used and the costs of the transfers is based on interviews conducted by the authors with the principal actors in Turkey and in Germany.

The role of the banking and financial system in the remittance process

Turkish commercial banks

Turkish banks are the most important channel for the transmission of remittances. According to some surveys, the overwhelming majority of migrants use Turkish banks, and the two most important banks in this respect are the Türkiye □□Bankası and the TC Ziraat Bankası. These two banks are estimated to account for more than half of all remittance transactions from Germany to Turkey. The remittance services of most Turkish banks established in Germany are fairly similar.

Founded in 1924, Türkiye □□Bankası A.S.[4] was the first Turkish bank to open a foreign representative office (in Hamburg in 1933, with 35 employees). This office was closed during the Second World War and it was only in 1977 that Isbank returned to Germany with the prime purpose of transferring migrants' remittances to Turkey. At that time, there was still strict control of capital movements in Turkey. The reason for establishing offices abroad (which subsequently became branches), was to provide the country with foreign currency. The increasing use by Turkish immigrants of banking services in Germany motivated the creation of Isbank GmbH in 1992, with the principal aim of carrying out a broader range of banking operations in Europe.

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3. As is generally the case in such surveys, they tend to underestimate total flows.

4. The capital structure of Türkiye □□Bankası is as follows: the majority of the capital is composed of staff pension funds; another source of financing is the political party founded by Atatürk, Cumhuriyet Halk Partisi (CHP), which donates the profits to the Turkish Historical Society and the Turkish Language Academy, and is now allowed to sell its shares. The state holding of some 20% was recently fully privatised.

Isbank GmbH is 100% controlled by Turkish capital. The general management is based in Frankfurt and the bank is governed by German law. It has twelve branches in major German cities, two in the Netherlands, one in France and another in Switzerland. There is also a branch of Türkiye İş Bankası in London, five branches in Cyprus and one in Bahrain off-shore.

In some of the countries mentioned above, agreements have been signed with the Post Office to facilitate transfers of money to Turkey from all regions where there are significant Turkish communities. Transfers are also facilitated by the large banking network of Türkiye İş Bankası (135 correspondent banks in Germany). In addition, Isbank GmbH provides a range of traditional banking products and services to both private and professional clients, and businesses established in Turkey or in Europe. It plays a considerable role in international banking operations with respect to Turkey, which includes the possibility of effecting transactions in real time, on line, with the 848 domestic branches of Türkiye İş Bankası.

The second major Turkish bank with respect to remittances is T.C. Ziraat Bankası A.S., a public bank. Founded in 1863 in Turkey, it has the largest network in the country, with over 1 100 branches and sub-branches.

In 1964, T.C. Ziraat Bankası A.S. started its banking activities in Germany with a representative office in Frankfurt, in order to achieve better results in the field of international banking by using existing domestic experience. Over time, the number of offices increased to eight. Due to the accelerating trade relations between Turkey and Germany, and the increase in the Turkish population in Germany, the necessity for a fully licensed branch equipped with all the financial tools in private and corporate banking emerged. Therefore, the Frankfurt main branch was established in 1988. By the end of 1999, all of the representative offices had been turned into sub-branches.

In 2001, T.C. Ziraat Bankası A.S. transformed its Frankfurt Main Branch and its eight sub-branches (Berlin, Cologne, Duisburg, Frankfurt, Hamburg, Hanover, Munich and Stuttgart) into a subsidiary entitled Ziraat Bank International A.G.

In the same year, in order to benefit from the synergy effects arising from the merger of two financial units working in similar fields, this new bank merged with Deutsche Türkische Bank, whose capital was also wholly owned by T.C. Ziraat Bankası A.S.[5]

German commercial banks

Most of the wages and bonuses of expatriate Turks living and working in Germany are paid into German savings banks (Sparkassen), co-operative banks (Genossenschafts- und Raiffeisenbanken) or into private banks. The savings banks, which host about 50 million accounts in Germany, have a special status in German administrative law and each of the agencies is independent in its collaboration with Turkish banks. The situation is very similar with respect to the co-operative banks, which host about 30 million accounts.

5. With regard to the international structure of T.C. Ziraat Bankası A.S., a distinction should be made today between: i) its four subsidiaries: Turkish Ziraat Bank Bosnia D.D., Ziraat Bank International A.G., Ziraat Bank Moscow CJSC, Kazakhstan Ziraat International Bank; ii) its four joint-venture banks: Azer Turk Bank, Turkmen Turkish Commercial Bank, Uzbekistan Turkish Bank, Banque Du Bosphore; iii) its five branches in: New York City, Sofia, London, Skopje, Tbilisi; iv) its representative office in Rotterdam.

In general, German banks do not make any distinction based on their clients' nationality. It appears however that they are not very much involved in the remittances of Turkish expatriates to their country of origin. The main reason is because the commissions charged by the Turkish banks established in Germany for these transfers are very low compared with those charged by German banks *(cf. infra).*

In addition to the savings and co-operative banks, there is only one bank which has a strong local retail banking branch network, the Postbank. Despite its strong local presence and worldwide connections, apparently far less Turkish migrants have accounts there, compared to the savings and co-operative banks.

Other financial institutions: the case of Western Union

Created in 1851 in the United States, Western Union was one of the first firms in the area of cable services. It started effecting transfers of money in 1871 and is nowadays regarded as having the largest worldwide network in this area. Western Union covers some 195 countries and territories, and has about 200 000 local agencies. In France and Germany for example these agencies are mainly situated in post offices, while in Turkey they have been located in commercial banks.[6] In 2004, however, Western Union signed a strategic relationship agreement with the Turkish Post Office to enhance its presence on the Turkish market.

According to the results of the interviews carried out by the authors, Western Union has not been a major player with respect to remittances flows from Germany to Turkey. Within Western Union, Turkey ranks 25th in the list of countries by amount of transfers executed from Germany, despite the fact that Turks are the largest migrant group in that country.[7] Recently, in order to increase its market share, Western Union introduced a number of measures to reduce the commission rates charged on transfers (*cf. infra*).

Western Union is currently collaborating with four partners in Germany: American Express, Reisebank, the Postbank and a few local savings banks.

The respective roles of the German and Turkish governments in the remittance process

German intervention in transferring the money of expatriates occurs only on an institutional basis, primarily to combat money laundering and for the purposes of the national accounts. In this regard, German money-laundering law requires that the exact identity of each individual wishing to transfer more than EUR 15 000 in cash should be known. At the same time, the German Central Bank (Deutsche Bundesbank) requires that commercial banks report all transactions over EUR 12 500.

It should be noted that up to the mid-1990s, Turkish migrants could remit cash directly to a collective account (*cf. infra*) via any bank in Germany without having an account there. This is no longer possible due to the German legislation which obliges the individual to have an account with the bank from which the money is transferred. This measure was introduced to combat money laundering.

6. These are Denizbank, Dışbank, Finansbank, MNG Bank, Oyak Bank and TC Ziraat Bankası.

7. This stands in stark contrast to the remittances towards Ukraine, Kazakhstan and Russia, where Western Union is a very important channel.

As regards Turkey, the current regulations on remittances are governed by a measure introduced in 1989 (Decision No. 32 on “protection of the value of the Turkish lira”).[8]

Turkey plays an active role in the area of remittances and the financial returns on migrants’ savings. The Central Bank of the Republic of Turkey is the only bank of this type which also performs certain functions devolved to commercial banks in addition to its institutional functions. In this regard, it offers two types of deposit account *(cf. infra),* intended solely for Turkish residents abroad. It has been the aim of these measures to increase the volume of receipts of foreign currency in Turkey.

The modalities of money transfers and their remuneration by the banks

In this section, the modalities of transfers by banks and other financial institutions are examined, followed by an analysis of the various financial products or services offered by the Central Bank of Turkey. Lastly, a list is drawn up of the new banking and financial products offered to migrants by banks and financial institutions to attract a larger client base.

Turkish commercial banks

Among the Turkish banks present in Europe, three main transfer modalities can be distinguished:

The “passing trade”/“on line system”

The remitter passes the money to one of the local branches of the Turkish bank abroad. Neither the sender nor the recipient needs to have an account at the respective bank. The cash remittance takes place simply on presentation of an identity document valid in the country of residence and an identity document valid in Turkey on reception. The money is transferred to Turkey on the same day. Isbank even has an on line system, thanks to which the money is almost immediately available in one of the national branches in Turkey. This service is thus very similar to that offered by Western Union, but only functions if the sender or the recipient is resident in Turkey. Its principal advantage, however, is the low costs involved, compared to the Western Union’s rates.

As far as fees are concerned, while smaller banks still do not charge any commission to the sender, these fees, where existing, have been traditionally quite low. For example, Türkiye □ Bankası did not charge commission on transfers to Turkey during the first years of its presence in Germany. The first charges were introduced only in 1992 (DM 1, *i.e.* about EUR 1 per transaction). Currently, the fees charged to the sender at Isbank are as follows:

8. Any incoming or outgoing funds transfer is governed in Turkey by Decision No. 89/14391 of the Prime Minister, published in the Official Journal of 11/8/1989 under the Turgut Özal government. This measure on the “protection of the value of the Turkish lira” determines in particular the institutions accredited to play a role and the procedures to be followed with respect to transactions in currency, minerals, precious stones and articles, imports and exports, and capital movements. Paragraph 6, which deals with currency transactions, authorises the Central Bank of the Republic of Turkey to determine convertible currencies, and defines its powers and those of banks, private financial institutions, the Post office, and dealers in precious minerals. Each of these institutions pays its stock of foreign currency to the Central Bank in accordance with the arrangements and in the proportions defined by the Office of the Prime Minister. Reasons of national interest have priority.

- EUR 5.50 for transfers under EUR 5 000.
- EUR 8 for transfers between EUR 5 001 and 9 999.
- 1‰ of the amount sent (with a minimum of EUR 13) for transfers above EUR 10 000.

The fees charged by Ziraat are very similar: EUR 6 for transfers up to EUR 5 000; and 1.5‰ for transfers above EUR 5 000. These fees have been stable in recent years.

Transfers from collective accounts: Naturally, the branch network of the Turkish banks in Germany does not cover all communities with resident migrant Turks. Thus, to allow an individual to transfer remittances to Turkey without having to pass directly to one of the branch offices, the Turkish banks have installed collective accounts. The operating procedure for these accounts is that individuals deposit at their German bank (*e.g.* a local savings bank) the money that they wish to transfer, by filling out a regular "inland" transaction form. In some areas, the major Turkish banks distribute (*e.g.* at the mosques) pre-filled forms where the number of the collective account at the Turkish bank is already shown by default as the recipient. In any case, in addition to indicating the collective account, the sender has to specify the contact information of the recipient in Turkey in the line reserved for the purpose of the transaction. The German bank then passes the money to the collective account (compounded of transfers made via all German banks following the same process) of the Turkish bank in Germany. The money is finally sent to Turkey by the respective Turkish bank, which directly deducts its fees from the amount transferred. The time required for this procedure varies from two to four days, according to the sending city in Germany and the receiving city in Turkey. As regards the amount of commissions, intra-Germany transfers are usually made without charges or at low charges, and the Turkish banks charge the same fees as for on line transfers *(cf. supra)*.

Transfers from one account to another using the Society for Worldwide Interbank Financial Telecommunication (SWIFT) process

This channel is used for transactions where the receiving bank in Turkey differs from the sending institution in Germany. Because of the involvement of SWIFT as an additional intermediary in the remittance process, this modality is more time-consuming and costly.

A SWIFT transaction via Turkish banks takes at least two days. It costs a minimum of EUR 23 for individuals as well as for professionals (1.5‰ of the amount sent, with a minimum of EUR 13, added to the EUR 10 charged for the SWIFT transfers).

Consequently, this modality remains of relatively minor importance, given the overwhelming cost advantage of the first two modalities. However, since the SWIFT transaction is the main channel used by the German banks, it will be explained in more detail below.

Two further channels – Telex and postal transfers – were used more frequently in the past, but are rarely used today, since they are both slower and more expensive than the channels presented above.

In the near future, the Turkish banks in Germany plan to move to an "on line banking" system to attract young, mainly third-generation immigrants. While this will quicken the process and lead to cost-savings, a reduction in fees is not envisaged despite this technological advance.

Concerning the potential costs to be borne by the recipient, it should be noted that if the money is withdrawn in Turkish lira or if the withdrawal in a convertible currency is made more than 15 days following the remittance, Türkiye İş Bankası does not take any commission. On the other hand, if the money is withdrawn in foreign currency in less than 15 days, the bank withholds 0.5% of the amount remitted, with a minimum commission of 20 New Turkish liras (approximately EUR 10).[9] While at first sight, banks like Isbank GmbH appear not to overly profit from remittances, the withholding of 0.5% demanded by Türkiye İş Bankası in the case of immediate disbursement reflects the importance of foreign currency reserves to commercial banks in Turkey. At times of high interest rates and consecutive devaluations of the Turkish lira, the opportunity cost of not immediately withdrawing or re-investing this sum was also substantial. In this case, a large part of the transaction cost was borne by the recipient, even though this may not have been perceived as a direct out-of-pocket cost.

The fees charged by the major Turkish banks appear to have been both fairly similar and quite stable in recent years, despite technological advances. No further reductions are envisaged. There are three principal reasons for this surprising stability. First, the market appears to have reached a certain competitive equilibrium. Second, along with savings in transaction costs due to further automation of the process, interest rates in Turkey have fallen and the need to attract foreign currency has diminished. This resulted in lower fees for the recipient and diminished the attractiveness of remittances for some of the smaller banks. In fact, these banks, which did not charge fees in the past, are now withdrawing from the market. Last but not least, given the relatively low current fee level, clients appear to be less concerned with the actual fee than with the reliability of production and the respective situation of the German and Turkish economies. With respect to the latter, it should be noted that all banks reported a significant fall in remittances in the last two to three years, due to the worsening of economic conditions in Germany.

German commercial banks

In the case of the German banks (savings, co-operative and private banks), the transfer is generally conducted by the use of the SWIFT formats and network in the following manner:

- The remitter obtains the so-called Z1 form which he/she has to fill out. As important information is often lacking, there is a need to consult him/her.
- The form has to be filed electronically. The consultation and subsequent filing together may take up to twenty minutes and account for the major part of the fees cost. Only a few banks have automated this process and manual adjustments of faulty data are still often necessary.
- If the bank does not have a Turkish correspondent bank, which is the case for almost all savings and co-operative banks, an order is forwarded to a central institution (*e.g.* a Landesbank such as WestLB or BayernLB, or a co-operative central bank such as DZ Bank or WGZ Bank). An order is then passed on to the Landesbank, the umbrella organisation at the Land level.
- The order is forwarded to the Turkish partner bank, cleared and settled. If the remitted currency is not the euro, a foreign exchange contract has to be placed in addition.

9. Again, the modalities are broadly similar among the major Turkish banks.

- A SWIFT transfer is made.
- Further processing may take place in Turkey, depending on the partner bank and the ultimate recipient.

The SWIFT transaction via German banks takes about five days, due to the fact that these banks always have to pass by correspondent banks in Turkey. Costs differ from one bank to another. This is partly due to the administrative independence of each individual savings or co-operative bank. On average, a commission of EUR 15 is charged for a transfer of EUR 1 000. For example, in the case of the *Stadtsparkasse Köln* (Cologne savings bank), commissions range from EUR 11 to 130, depending on the amount and possible special instructions given by the payer. Only several cents are direct costs payable for the banks' use of the SWIFT service. The largest part of the cost is due to the fact that each SWIFT transaction represents a separate order. In addition to the German banks' commissions may be added other costs, depending on the correspondent bank in Turkey.

A second channel is offered by the Postbank. In 1998, Turkey joined the Eurogiro network, a collaboration network of postal banks around the world aimed at facilitating money transfers.[10] In this way, people may pass a money order to Turkey through any of the post offices within the network. The costs involved are uniform across the entire network and amount to EUR 15 for the first EUR 250 and EUR 5 for each additional EUR 250. No fees are charged to the recipient. The sum is either transferred to a postal account or directly delivered in cash or by cheque via the postal service (which takes about six days). In the past, only cash orders to Turkey were possible, since the Turkish Post only started to offer financial services in May 2004. Despite relatively low fees, the Eurogiro has never been of major importance with respect to Turkey, and has not even reached the importance of the Western Union service offered by the Postbank. Interestingly, the number of Eurogiro cash transfers towards Turkey is considerably less than those towards for example Italy or Spain, where the same service is offered at the same charge. In addition to the higher costs *vis-à-vis* the Turkish banks, this fact is attributed to two main obstacles: the first is the relative slowness of the process, the second simply a lack of adequate marketing.

The German banks also act as intermediaries for the collective accounts. In some cases, the collective forms are not properly filled out by the migrants, which prevents the transmission of the funds to the recipient in Turkey. In these cases, special investigations have to be carried out which are both time-consuming and costly.

The co-operative banks, in collaboration with their Turkish partner bank (Türkiye Halk Bankası), are planning to offer a collective service in the near future. During each business day, all Turkey-related transactions of the co-operative banks are grouped together and subsequently transferred in a single transaction to the Turkish correspondent. In the initial stages, only account-to-account transactions are envisaged. In order to avoid errors due to faulty data, the establishment of a call-centre based in Turkey is also being discussed.

10. Prior to that date, orders were sent in paper format. This was a large-volume business until the 1970s, when the Turkish banks offered their remittance services on a large scale.

Procedure and the cost of transfers via the Western Union

To make a remittance via the Western Union, it is necessary to go to an accredited local agency and fill out the relevant form by presenting a valid identity document. After depositing the money and paying the related commission, an identification number, the money transfer control number (MTCN) is given to the person making the transfer. The same code is used by the recipient of the transfer to collect the money, who also presents a valid identity document. Remittances can be made only in euros or dollars and the transfer takes place within a few minutes.

The German Postbank has been collaborating with Western Union since 1991. At that time, it was considered that the minute-cash transfer service was a good complement to the regular money transfer system, which took much longer. The cost is 5% of the amount of the sum transferred, with a minimum of EUR 26 and a maximum of EUR 260.[11] Since it is deemed that the services of the Postbank and Western Union are not competitive with the Turkish banks, they have been considering special promotion strategies.

Presumably, the largest amount of the Western Union's transactions passes via Reisebank (traveller's bank and member of the co-operative banking group), which is present in the airports and the major train stations in Germany. Their collaboration with the Western Union dates from the early 1990s. Despite the fact that the Turks are the main group of foreigners in Germany, the Reisebank has never had a significant amount of Turkey-related transactions. Therefore, the Reisebank introduced - in collaboration with Western Union - a special promotion for Turkey in May 2004, *i.e.* a fee of EUR 6 for transactions up to EUR 500, and 2% of the transaction sum above that amount. This ended in December 2004. There is no further special promotion with respect to Turkey envisaged in the near future. Similar to the Reisebank, the Western Union's collaboration partner American Express has participated in a special promotion which also terminated at the end of 2004.

Table 6.4 summarises the channels outlined above.

Modalities of transfers via the Central Bank of Turkey

Two services are offered by the Central Bank of Turkey with respect to migrants' remittances and management of savings:

Foreign currency deposit accounts with credit letter

The credit letter is a bank document which allows payment of the sum stated therein to the individual account-holder. The payment is effected by the central bank, or one of its branches, or by a correspondent bank abroad. This practice dates back to 1976 when Turkey was desperately short of foreign currency and tried to attract foreign exchange into the accounts of the central bank. This objective lost its importance towards the end of the 1980s with the liberalisation of capital movements.

Super Foreign Exchange (FX) accounts

This is a second type of deposit account offered by the Central Bank of Turkey and was introduced in 1994. It offers more attractive interest rates (*cf. infra*) than the above-mentioned foreign currency deposit accounts with a credit letter.

11. The fees of the local savings banks which collaborate with Western Union are similar.

Concerning Foreign Currency Deposit Accounts with a Credit Letter, one or two-year term deposit accounts may be opened with a minimum deposit of EUR 1 000, USD 1 000, GBP 1 000 or CHF 2 000. In the case of Super FX Accounts, one, two or three-year term deposit accounts may be opened with a minimum deposit of EUR 5 000 or USD 5 000.

When another foreign currency that is traded by the central bank is remitted, accounts can also be opened in legal tender by converting it into one of the above-mentioned currencies.

To use these modalities, persons must be Turkish expatriates, aged over 18 years, resident abroad and in possession of a work or residence permit. Persons authorised to work abroad for a long term by the public agencies, and those employed at representative offices and bureaus of public and private sector organisations abroad, are also entitled to open these accounts.

Joint accounts may be opened solely for husbands and wives under the "and/or" clause.[12] Furthermore, citizens with a Credit Letter and/or Super FX Accounts may continue their accounts under the prevailing legislation also after their final return to Turkey.

Turkish citizens in possession of a valid passport may open Foreign Currency Deposit Accounts with Credit Letter and Super FX Accounts by making deposits in the accounts of the Central Bank of Turkey at the following banks:

- In Turkey: one of the 21 branches of the central bank.[13]
- In the Netherlands (EUR): Garanti Bank International N.V. (Amsterdam), Demir-Halk Bank NV (Rotterdam/Amsterdam/La Haye/Utrecht).
- In the United Kingdom (GBP): Turkish Bank U.K. Ltd. (London).

At the same time, accounts can also be opened by making transfers in euros, dollars or Swiss francs via post offices in the country of residence or correspondent banks of the Central Bank of Turkey as follows:

- In Germany, Frankfurt (EUR): Citigroup Global Markets Deutschland AG CO. KGAA, Ziraatbank International AG, Isbank GmbH, Commerzbank AG, Deutsche Bank AG.
- In the Netherlands, Amsterdam (EUR): ABN Amro Bank NV.
- In the United Kingdom, London (GBP): Barclays Bank PLC, Lloyds TSB Bank PLC, HSBC Bank PLC, National Westminster Bank PLC, Sabancı Bank PLC, Türkiye İş Bankası AS, TC Ziraat Bankası.
- In France, Paris (EUR): Société Générale, Crédit Lyonnais, BNP Paribas SA.
- In Switzerland, Zurich (EUR): Union Bank of Switzerland AG, Crédit Suisse.
- In the United States, New York City (USD): JPMorgan Chase Bank, Citibank NA, TC Ziraat Bankası, Vakiflar Bankası TAO.

12. Accounts under the "and" clause permit the husband and wife jointly to use them while those under the "or" clause will enable the husband and wife individually to have access to their accounts.

13. These branches are located in Adana, Ankara, Antalya, Bursa, Denizli, Diyarbakır, Edirne, Erzurum, Eskişehir, Gaziantep, İskenderun, İstanbul, İzmir, İzmit, Kayseri, Konya, Malatya, Mersin, Samsun, Trabzon and Van.

The fees charged for transferring the deposited amounts to Super FX Accounts by banking institutions in Turkey and abroad are paid by the account holder. Accountholders of foreign currency deposit accounts with Credit Letter can withdraw cash from their accounts by submitting their Turkish passports with their Credit letters to one of the respective banks [in Turkey: branches of the Central Bank of the Republic of Turkey; in the Netherlands: United Garanti Bank International N.V. and Demir-Halk Bank N.V.; in the United Kingdom: Turkish Bank (U.K.) Ltd.].

Super FX accountholders can withdraw money only from branches of the Central Bank of the Republic of Turkey. Moreover, individuals can make transfers to their own accounts abroad from their credit letters and Super FX Accounts.

Interest rates vary according to the duration of the deposits and were at the end of 2004 as indicated in Tables 6.5a and 6.5b[14].

For comparison, at the end of 2004 for a one-year deposit[15] in dollars, Ziraat Bank offered 3%, Isbank 2.50% (3% for deposits over USD 100 000), Garanti Bank 3.25% and Akbank 3% (3.25% for deposits over USD 100 000). Likewise, for a one-year deposit in euros, Ziraat offered 2.75%, Isbank 2.75% (3% for deposits over EUR 100 000), Garanti Bank 2.75% (3% for deposits over EUR 100 000) and Akbank 3% (3.25% for deposits over EUR 100 000).

When comparing the interest rates offered on a one-year term by the central bank to those of the commercial banks, it is apparent that only deposits in Super FX accounts in euros are attractive to migrants as they are above the market rate. In contrast, returns on Super FX deposits in dollars are virtually the same as offered by commercial banks.

Moreover, market interest rates are even significantly higher than those offered by the Central Bank on Foreign Currency Deposit Accounts with Credit Letter, making this type of account rather unattractive. This can doubtlessly be explained by the fact that funds deposited in these accounts are accessible abroad as well as in Turkey, while in the case of Super FX accounts, direct withdrawals can only be made in Turkey (*cf. supra*).

Due to the attractiveness of Super FX accounts, the Central Bank is a major player in the transmission of migrants' savings towards Turkey, but is not necessarily viewed as a competitor by other Turkish banks engaged in the remittances business. The Central Bank of Turkey has a rather long-term focus (*i.e.* savings-targeted, with a possibility of deposits above one year with very attractive rates), in contrast to the short-term approach (*i.e.* transaction-targeted) of Isbank, Ziraat and others.

14. Interest rates are calculated annually and credited to the accounts on maturity date. In the case of withdrawals prior to the maturity date, the interest rate applied to the deposits is 0.25% for Foreign Currency Deposit Accounts with Credit Letter and Super FX Accounts for the duration (minimum one month) the money remained in the account. If the balance amount of the Credit Letter, after the withdrawals, is not below the minimum requirement, the deposit term is not changed. When the total amount of the Credit Letter is withdrawn, and if the balance amount in the account is above the minimum requirement, a new Credit Letter is posted to the account holder. After partial withdrawal, and if the balance amount in Super FX Account is below the minimum requirement, a Credit Letter Account for the residue may be opened at the request of the accountholder.

15. Commercial banks in Turkey cannot legally offer deposit accounts with a term going beyond 365 days.

New banking and financial products offered to migrants by banks and financial institutions

Türkiye İş Bankası A.S. has an insurance company (Anadolu Sigorta) which offers a wide range of products (different types of life insurance, pension schemes, education plans etc.) for persons who wish to take out insurance policies. The main obstacles to offering these and other products to migrants are seen to be the banking regulations of the host country. Most Turkish products do not conform to these regulations.

Originally, tight regulations within the European Union and particularly in Germany (*e.g.* with respect to single-country risk exposure) were meant to exclude "grey markets" from the industry. Nowadays, the regulations are increasingly viewed as placing emerging markets such as Turkey at a disadvantage.

Isbank GmbH has been fairly active with respect to new products and tried to circumvent these problems by collaborating with German banks (such as in the case of Turkey-related investment funds in Luxembourg) and life insurance providers. While the investment funds are very successful, the life insurances were a failure, since the German partner company simply changed the brand name into a Turkish-sounding appellation without modifying the ultimate product or the marketing strategy. The Turkey-related investment fund, however, is not only demanded by Turkish migrants, but also by Germans who wish to profit from the bank's knowledge of the Turkish market and Turkey's growth prospects.

In addition, Isbank GmbH offers Turkish immigrants deposit accounts in New Turkish lira or convertible currency in one of the branches of Türkiye İş Bankası A.S. In this respect, Isbank GmbH acts merely as intermediary, since the money, like the bank holding the account, is in Turkey. Türkiye İş Bankası also offers financial investment accounts in New Turkish lira, which allows individuals to invest on the stock exchange or buy State bonds.

Many first and second generation migrants have invested in property in Turkey. German banks generally do not accept Turkish property or accounts as a security for credits. In contrast, since the late 1990s, Ziraat and Isbank accept these as a collateral, based on an evaluation by their head offices in Turkey.

Although the Turkish banks in Germany have started to introduce new products, this business is still a minor one. However, they plan to increasingly augment their portfolio. In contrast, German banks do not offer any new financial products targeted at migrants.

Summary and conclusions

Remittances from Germany have played an important role for Turkey as a source of foreign currency. Turkish banks have a virtual monopoly in the field of (formal) migrants' remittances from Germany to Turkey. However, a large part of the overall remittance flows appear to be still transferred to Turkey by informal means, notably holiday travel. It is also noteworthy that the formal flows are disproportionately oriented towards the major agglomerations.

Originally, the aim of the large-scale establishment of Turkish banks in the field of migrant remittances was not solely to profit from the migrants' money through transaction fees. In fact, the main focus was a macro-economic one, especially via facilitating the entry of foreign currency into Turkey through low transfer costs.

A particularity of the Turkish situation is the role played by the Central Bank of Turkey, where only migrants and Turkish citizens residing abroad may open bank accounts. For medium and long-term savings accounts from which direct withdrawals are only possible within Turkey, the central bank offers higher interest rates than the Turkish commercial banks. Through these provisions, the central bank has apparently tried to channel remittances into savings and investment in Turkey.

For German banks, remittances are neither a major issue nor a crucial component of their portfolio of activities. They are not competitive in this market and unlike the Western Union, whose principal activity is the transfer of money worldwide, they do not feel the need to acquire a significant market share with respect to migrant remittances. Although Western Union has tried promotion strategies by temporarily reducing the fees charged for transfers, it is still minor player *vis-à-vis* the Turkish banks.

Currently, there appears to be a marked decline in remittance flows, due to the difficult economic situation in Germany, by which Turkish migrants seem to be particularly affected. In the medium to long-term future, a major challenge would arise from the eventual membership of Turkey in the European Union. The adhesion would lead to a situation in which money transfers to Turkey would become "inland" transactions. This would have a profound impact on the fees being charged by German and Turkish banks and, thereby, on the remittance channels. In this context, it should also be noted that Turkish migrants are increasingly integrated in Germany, which may materialise not only in declining remittances flows, but also in growing entrepreneurship and property investment in Germany.

Annex 6.1. Distribution of Turkish residents abroad

Country	Number of resident Turkish citizens abroad
I. Western Europe	
Germany	1 924 154
France	341 728
Netherlands	330 709
Austria	130 703
United Kingdom	90 000
Switzerland	79 470
Belgium	45 866
Denmark	31 978
Sweden	31 894
Norway	10 915
Italy	5 284
Finland	1 981
Spain	1 289
Liechtenstein[1]	809
Luxembourg[1]	210
Subtotal	**3 026 990**
II. Other main destination countries	
Saudi Arabia	100 000
Israel	22 000
Central Asian Republics	19 800
Russian Federation	18 000
Libya	3 200
Kuwait	3 000
Subtotal	**166 000**
III. Other	
United States	220 000
Australia	56 261
Canada	40 000
Other	8 044
Subtotal	**324 305**
Total	**3 517 295**

1. Data for these countries are taken from the Website of the Ministry of Labour and Social Protection of the Republic of Turkey (www.calisma.gov.tr/yih/yurtdisi_isci.htm).

Source: Turkish Ministry for Labour and Social Affairs (2002), *Annual Report on Turkish Citizens Abroad*, Ankara.

Annex 6.2. Remittances and their relative importance with respect to GNP, exports and imports to turkey, in million USD

Year	Remittance inflow	Exports	Remittances as % of exports	Imports	Remittances as % of imports	Remittances as % of GNP
1964	8.1	411	1.97	-537	-1.51	0.1
1965	69.8	464	15.04	-572	-12.20	0.6
1966	115.3	490	23.53	-718	-16.06	0.8
1967	93	523	17.78	-685	-13.58	0.6
1968	107.3	496	21.63	-764	-14.04	0.6
1969	140.6	537	26.18	-801	-17.55	0.7
1970	273	588	46.43	-948	-28.80	1.5
1971	471.4	677	69.63	-1 171	-40.26	2.7
1972	740	885	83.62	-1 563	-47.34	3.3
1973	1 183	1 317	89.83	-2 086	-56.71	4.1
1974	1 425	1 532	93.02	-3 777	-37.73	3.6
1975	1 312	1 401	93.65	-4 738	-27.69	2.7
1976	982	1 960	50.10	-5 129	-19.15	1.8
1977	930	1 753	53.05	-5 797	-16.04	1.5
1978	983	2 288	42.96	-4 599	-21.37	1.4
1979	1 694	2 261	74.92	-5 069	-33.42	2.2
1980	2 071	2 910	71.17	-7 909	-26.19	3.0
1981	2 490	4 703	52.94	-8 933	-27.87	3.4
1982	2 140	5 746	37.24	-8 843	-24.20	3.2
1983	1 513	5 728	26.41	-9 235	-16.38	2.4
1984	1 807	7 134	25.33	-10 757	-16.80	3.0
1985	1 714	7 959	21.54	-11 344	-15.11	2.5
1986	1 634	7 457	21.91	-11 105	-14.71	2.1
1987	1 021	10 190	10.02	-14 158	-7.21	1.2
1988	1 776	11 662	15.23	-14 335	-12.39	2.0
1989	3 040	11 625	26.15	-15 792	-19.25	2.8
1990	3 246	12 960	25.05	-22 302	-14.55	2.1
1991	2 819	13 598	20.73	-21 038	-13.40	1.9
1992	3 008	14 715	20.44	-22 872	-13.15	1.9
1993	2 919	15 345	19.02	-29 428	-9.92	1.6
1994	2 627	18 106	14.51	-23 270	-11.29	2.0
1995	3 327	21 636	15.38	-35 709	-9.32	1.9
1996	3 542	23 225	15.25	-43 627	-8.12	1.9
1997	4 197	26 261	15.98	-48 559	-8.64	2.2
1998	5 356	26 973	19.86	-45 922	-11.66	2.6
1999	4 529	26 588	17.03	-40 671	-11.14	2.4
2000	4 560	27 485	16.59	-54 503	-8.37	2.3
2001	2 786	31 334	8.89	-41 399	-6.73	1.9
2002	1 936	36 059	5.37	-51 554	-3.76	1.1
2003[1]	729	47 253	1.54	-69 340	-1.05	0.3

1. Change in method of accounting for remittances. From 2003 on, spending by migrants during their visits as tourists to Turkey are entered under the heading “tourism” in the balance of payments.
Source: Central Bank of Turkey (balances of payments): State Institute of Statistics (national accounts).

Annex 6.3. Remittances to Turkey and the relative importance of Germany

Year	Amount remitted from Germany to Turkey[1] (million DM)	Exchange rate[2]	Amount remitted from Germany to Turkey (million USD)	Total amount of remittances received in Turkey (million USD)	Resulting part of total remittances to Turkey of German origin (percentage)
1971	1 800	3.4795	517	471	109.8
1972	2 100	3.1889	659	740	89.0
1973	2 400	2.659	903	1 183	76.3
1974	2 850	2.5897	1 101	1 425	77.2
1975	2 600	2.4631	1 056	1 312	80.5
1976	2 750	2.5173	1 092	982	111.2
1977	2 600	2.3217	1 120	930	120.4
1978	2 750	2.0084	1 369	983	139.3
1979	2 700	1.833	1 473	1 694	87.0
1980	3 100	1.8158	1 707	2 071	82.4
1981	3 350	2.261	1 482	2 490	59.5
1982	3 300	2.4287	1 359	2 140	63.5
1983	3 200	2.5552	1 252	1 513	82.8
1984	3 600	2.8456	1 265	1 807	70.0
1985	2 900	2.9424	986	1 714	57.5
1986	2 500	2.1708	1 152	1 634	70.5
1987	2 450	1.7982	1 362	1 021	133.4
1988	2 500	1.7584	1 422	1 776	80.1
1989	2 500	1.8813	1 329	3 040	43.7
1990	2 010	1.6161	1 244	3 246	38.3
1991	1 629	1.6612	981	2 819	34.8
1992	2 610	1.5595	1 674	3 008	55.6
1993	2 838	1.6544	1 715	2 919	58.8
1994	3 000	1.6218	1 850	2 627	70.4
1995	3 000	1.4338	2 092	3 327	62.9
1996	2 640	1.5037	1 756	3 542	49.6
1997	2 600	1.7348	1 499	4 197	35.7
1998	2 400	1.7592	1 364	5 356	25.5
1999	EUR 1 227	1.0658	1 151	4 529	25.4
2000	EUR 1 200	0.9236	1 108	4 560	24.3
2001	EUR 1 200	0.8956	1 075	2 786	38.6
2002	EUR 1 200	0.9456	1 135	1 936	58.6

1. These amounts have been provided by the *Deutsche Bundesbank*. Annual estimates were derived by country taking into account estimated transfers in cash and bank transfers below the exemption threshold of EUR 12 500 and which are not already covered by banks' and post offices' collective reports. Adjustments were made in order not to overestimate transfers undertaken by already naturalised residents.
2. The DM/USD exchange rates have been taken from the German Bundesbank (www.bundesbank.de/stat/weitreihen/html/wj5009.htm); the EUR-USD exchange rates come from the European Central Bank (*European Central Bank Statistics Pocket Book*, December 2003, p. 16).

Source: Central Bank of the Republic of Turkey (balances of payments).

Annex 6.4. Isbank's remittance flows by recipient locality, 2004

City	By number of transfers (%)	By amount of transfers (%)
Istanbul	24,3%	58,0%
Ankara	7,2%	12,2%
Izmir	6,8%	7,6%
Bursa	2,5%	1,9%
Kocaeli	1,6%	1,8%
Antalya	2,8%	1,5%
Zonguldak	1,1%	1,4%
Hatay	1,3%	1,3%
Gaziantep	2,5%	0,8%
Kayseri	2,4%	0,7%
Konya	3,4%	0,7%
Mersin	2,3%	0,7%
Denizli	1,5%	0,7%
Aydin	1,6%	0,6%
Adana	1,8%	0,6%
Mugla	1,0%	0,5%
Eskisehir	0,8%	0,3%
Balikesir	1,5%	0,3%
Kahramanmaras	2,1%	0,3%
Samsun	1,5%	0,2%
Usak	0,8%	0,2%
Manisa	0,9%	0,2%
Adapazari	1,2%	0,2%
Afyon	0,6%	0,2%
Isparta	0,5%	0,2%
Giresun	0,6%	0,2%
Yozgat	1,7%	0,1%
Trabzon	1,3%	0,1%
Aksaray	1,2%	0,1%
Elazig	1,0%	0,1%
Tekirdag	0,5%	0,1%
Sanliurfa	1,1%	0,1%
Artvin	0,1%	0,1%
Rize	0,2%	0,1%
Adiyaman	1,1%	0,1%
Sivas	1,0%	0,1%
Burdur	0,3%	0,1%
Nevsehir	0,8%	0,1%
Iskenderun	0,1%	0,1%
Düzce	0,4%	0,1%
Ordu	0,8%	0,1%
Karabük	0,1%	0,1%
Kirklareli	0,3%	0,1%
Canakkale	0,3%	0,1%
Corum	0,6%	0,1%
Karaman	0,7%	0,1%
Erzurum	0,6%	0,1%
Kirsehir	0,6%	0,0%
Malatya	0,6%	0,0%
Mus	0,4%	0,0%
Igdir	0,4%	0,0%
Agri	0,4%	0,0%
Amasya	0,3%	0,0%
Edirne	0,4%	0,0%
Mardin	0,4%	0,0%
Yalova	0,4%	0,0%
Bingöl	0,3%	0,0%
Tokat	0,3%	0,0%
Kütahya	0,4%	0,0%
Sinop	0,4%	0,0%
Erzincan	0,4%	0,0%
Bartin	0,4%	0,0%
Diyarbakir	0,4%	0,0%
Subtotal	95,4%	95,7%
Other	4,6%	4,3%
Total	100,0%	100,0%

Source: Isbank GmbH.

Table 6.1. Remittance behavior of foreign households in Germany, by nationality

		Nationality					Total
		Spanish	Italian	Turkish	Greek	Former Yugoslav	
Remitted in 2001	yes	20%	18%	27%	23%	32%	25%
	no	80%	82%	73%	77%	68%	75%
Total number of households represented		**45 000**	**248 000**	**574 000**	**120 000**	**138 000**	**1 125 000**

Table 6.2. The relative importance of formal remittances and cash transfers by travel
Estimated number of households per nationality[16]

Cash transfer to country of origin by personal travel of a household member			Household formally remitted in 2001		Total
			Yes	No	
Yes	Nationality	Spanish	5 000	6 000	11 000
		Italian	23 000	51 000	74 000
		Turkish	85 000	105 000	190 000
		Greek	19 000	22 000	41 000
		Former Yugoslav	27 000	15 000	42 000
	Total		**159.000**	**199 000**	**358 000**
No	Nationality	Spanish	4 000	27 000	31 000
		Italian	21 000	138 000	159 000
		Turkish	61 000	289 000	350 000
		Greek	7 000	65 000	72 000
		Former Yugoslav	16 000	74 000	90 000
	Total		**109.000**	**593 000**	**702 000**
	Grand total		**268.000**	**792 000**	**1 060 000**

16. Due to deletion of cases with missing variables, the number of households represented here is smaller than that in Table 6.1.

Table 6.3. Mean transfers per household and the relative importance of the family support motive, by nationality

	Turks	Former Yugoslavs	Italians	Spaniards	Greeks	Total
Mean sum (in DM) formally remitted in 2001	1 006	1 305	1 101	1 119	1 165	1 085
% of which for direct family support	52	58	25	30	38	45
Mean cash transfer (in DM) by travel	929	1 015	936	796	1 090	953
% of which for direct family support	37	40	27	33	24	33
Total mean	**2 009**	**2 385**	**2 119**	**1 994**	**2 249**	**2 105**
% of which for direct family support	**45**	**51**	**27**	**31**	**31**	**40**

Note: DM 1.95583 = EUR 1.

Table 6.4. Overview of the formal remittance channels

	Turkish banks		German banks		Western Union
	Is Bank	**Ziraat Bank**	**Savings banks. Co-operative and private banks**	**Postbank**	
Most frequently used transfer modalities	a) On line transfer proper to the bank b) Collective accounts	a) Electronic transfer proper to the bank b) Collective accounts	SWIFT transfer to a Turkish bank	Eurogiro electronic transfer (international Postal network)	Worldwide on line system
Time for transaction	a) A few minutes b) 2-3 days	a) 1 day b) 2-3 days	4-5 days	About 6 six days	1 hour
Costs of remitting *m* €	• 5.5€ if *m*<5 000 € • 8 € if 5 001<*m*<9 999 € • 1‰ of *m* if *m*>10 000 €	• 6 € if *m*<5 000 € • 1.5‰ of *m* if *m*>5 000 €	Differs from one bank to another. On average. 15 € for *m*=1 000 €	• 15 € for the first 250 € • 5 € for each additional 250 €	5% of *m* (with minimum 26 €. maximum 260 €)
Remarks	No direct further fees in Turkey only if money is withdrawn in Turkish Lira or after 15 days	No direct further fees in Turkey if money is withdrawn in Turkish Lira. or if *m*<1 000 €. or if withdrawal takes place after more than 15 days	Additional fees for the receiver may apply depending on the correspondent bank and the receiver's bank in Turkey	No further fees in Turkey	• No further fees in Turkey • In 2004. promotion for commissions (in co-operation with Reisebank): 6 € if *m*<500 €; 2% of *m* if *m*>500 €

Table 6.5a. Foreign currency deposit accounts with credit letter

Type of foreign currency	One-year deposit	Two-year deposit
EUR	2.50%	2.75% (annual)
USD	1.50%	2.25% (annual)
GBP	4.50%	4.75% (annual)
CHF	0.75%	1.00% (annual)

Table 6.5b. Super FX Accounts

Type of foreign currency	One-year deposit	Two-year deposit	Three-year deposit
EUR	3.50%	4.00% (annual)	4.75% (annual)
USD	3.00%	3.75% (annual)	4.50% (annual)

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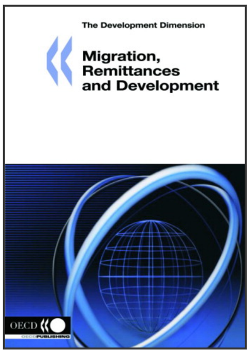
REMITTANCES AND PROMOTION OF DEVELOPMENT: SOME PROPOSALS



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