OUTLINE: REMITTANCES COMPILATION GUIDE

January 26, 2007
Balance of Payments and External Debt Division I
Statistics Department
International Monetary Fund

1.   Purpose and Introduction

Drafting Responsibility: Jens Reinke (IMF), Neil Fantom (World Bank)
Contributions: all members

This chapter will explain why a compilation guide is needed, drawing on the results of the International Meeting on Remittances held in Washington DC in January 2005 and background papers prepared for the first meeting of the Luxembourg Group. This will place the guide in the context of increased analytical interest and growing international labor mobility. It will define remittances in a broad context (including private transfers, compensation of employees, and the supplementary definitions proposed by the UN Technical Subgroup). It will also link this guide to the production of the revised *SNA* and *BPM6*. Global and regional values, as well as national remittances to GDP ratios could be given as measures of significance. The problems associated with remittance flows will be outlined—in particular, there is greater scope for undercoverage and uncertainty because remittances are typified by small household-based transactions (in contrast to large-scale business transactions for most other balance of payments items); global discrepancies will be cited as evidence. The paper prepared by the IMF for the first meeting of the Group will provide valuable material. The CEMLA Manual will be cited and its role distinguished from this guide.

2.   Understanding Remittances

Drafting responsibility: Bhupal Singh (India)
Contributions: Tamara Razin (Moldova), Toshie Koori (Japan), Giuseppe Ortolani (Italy), Javier Alvarez (Spain)

This chapter will contain the following four sections:

2.1   The demographic background of remittances

This section will cover demographic and migrations trends and issues such as labor regulations, issues related to the illegal and legal movement of labor, skill levels of migrants, length of stay, labor contracts and cross-border hiring, and the inclusion of seasonal workers, border workers, and international agency staff, migration patters of dependents (do families

move?). This section will also draw attention to the problems in obtaining data from migrant workers due to concerns about illegal immigration, social factors and concerns about taxation.

Additional material will be required for this section, but ample material is available from the growing literature on migration and remittances. This section should be kept short, serving merely as background information.

2.2   Inventory of transaction channels and their institutional environment

This section will provide a full inventory of transaction channels used for remittances and briefly discuss the impact the institutional environment has on the availability of transaction mechanisms and their choice. It will consider both formal and informal channels and attempt to identify new methods such as internet and cell phone based transactions. This section will also acknowledge that remittance service providers innovate quickly, therefore, the inventory should not be considered complete.

This section will be based on three papers prepared for the second meeting of the Group. One, by Bhupal Singh (India) provided a general overview of remittance channels, the other, by Tamara Razin (Moldova) provided further detail on informal channels. Further detail for this section will be found in the paper prepared by Giuseppe Ortolani (Italy) and Javier Alvarez (Spain) on money transfer operators (MTOs) and its descriptive part (sections 2.1 and 2.2) will be included here, too.

2.3   Legal and regulatory issues with respect to transmission channels

This section will draw attention to legal and regulatory aspects of remittances, drawing attention to the widespread use of 'informal' channels and the divergent regulatory environment around the world. The Group agreed not to label specific channels as formal or informal since such classifications depend on legal circumstances are therefore country-specific. Different channels pose different challenges to compilers, and obtaining data on transactions depends on the menu of channels used in a country and the institutional and legal environment governing remittance transactions and data compilation. This section will provide a brief outline of the impact that legal, regulatory and institutional factors have on data sourcing and compilation.

2.4   How to approach the task of improving remittance data

This section will set out a possible strategy for improving remittances data using this guide. The suggested approach is based on four steps: (1) understanding the current situation in an economy regarding the channels through which remittances flow, (2) evaluating the current situation regarding data collection, (3) prioritizing aspects that require improvement with

regard to the coverage, accuracy and frequency of data, within the context of resource constraints and other obligations, and (4) improvement or expansion of the data source base (potentially by channel). This section will be based on the paper prepared by Toshie Kori (Japan).

3. Basic Principles

Drafting responsibility: Jens Reinke (IMF)
Contribution: Tom Orford (UK)
Additional source: draft BPM6

This chapter will outline the relevant definitions of standard components and supplementary items related to remittances in the balance of payments framework. The concepts and definitions developed for BPM6 will be used as agreed by the IMF Committee on Balance of Payments Statistics in October 2006 and it is hoped that this chapter will be closely aligned with the relevant definitions contained in BPM6. The following concepts and definitions will be outlined, clearly identifying supplementary items:

- Personal Transfers

- Compensation of Employees

- Capital Transfers

- Personal Remittances

- Total Remittances

- Travel (related to short-term employment abroad)

- Residence

- Valuation

- Timing

Other items that are easily confused with remittances (or should under certain circumstances be considered remittances) will also be defined and their relationship to remittances discussed. These include investment by individual migrants in their own bank accounts in their home and host countries and real estate in home country. Also, issues related to the reclassification of assets on repatriation and certain counter-intuitive aspects related to changing residence will be discussed here. This chapter will also include a list of data items required for the estimation of the supplementary items (in particular total remittances).

This chapter will mention the need for bilateral data, as expressed by data users, and countries will be encouraged to publish such data where possible, especially for important remittance "corridors".

The Group suggested that a graphical representation of the relationship of personal transfers, compensation of employees, personal remittance and total remittances could be included. Such a diagram would be based on one contained in the paper prepared by CEMLA for the second meeting of the Luxembourg Group.

4.   Data Sources

Each data source and its associated methods will be discussed in general terms, based on knowledge of practices in a range of countries, but written so as not to be specific to a particular system. The guide will state best practices. Cross-references will be made to relevant aspects of particular country's systems that are dealt with in the case studies. Strengths and weaknesses of each will be identified. Institutional aspects will also be noted, e.g., central banks usually have an infrastructure for reporting by formal intermediaries, statistical offices usually have the infrastructure for household surveys. Institutional and legal factor affecting the practicality of each source will be outlined.

This chapter will be divided into five sections. The first four describe different data sources and estimation practices in detail and each one will contain:

- Description of the collection or estimation system;

- Preconditions necessary to function efficiently;

- List of channels that can be covered;

- Merits and drawbacks;

- Practical compilation guidance, i.e. how to realize the system;

- Breakdown into sending/receiving countries perspectives; and

- Potential output in terms of BPM6 definitions.

The fifth section will compare these sources in terms of their output (i.e., which data need they address), timeliness and periodicity of data, cost and practical considerations. It will also discuss how different data sources and practices can be combined to achieve better data coverage than any single source would allow.

4.1   International Transactions Recording System

Drafting responsibility: Fernando Lemos (Brazil)
Contributions: Carla Ines Ferreira (Portugal), Claude Saadeh (Lebanon), Jens Walter (Germany).

This section will outline the use of ITRS in compiling remittance data. It will describe the different types of ITRS and the difficulties that open ITRS applications as well as thresholds and exemptions present for their use in compiling data on remittances. This section will also discuss to which extent informal remittances can be captured indirectly by an ITRS and how well data captured by an ITRS is aligned to the definitions of BPM6 and compilers' data needs.

Institutional and legal factors such as reporting requirements (which institutions, what level of aggregation), exchange controls and IT infrastructure (for timely reporting of data) influence the effectiveness of an ITRS and these will be highlighted. The section will further state that an existing ITRS may be a convenient source of data (if it is able to record relevant data), but that countries are not advised to establish or substantially invest in an ITRS for collecting remittance data.

Additional material on the IT requirements for direct electronic data exchange will be required and Claude Saadeh (Lebanon) and Fernando Lemos (Brazil) agreed to provide it.

4.2   Direct reporting system

Drafting responsibility: Giuseppe Ortolani (Italy), Javier Alvarez (Spain)

This section will discuss the role that direct reporting can play in providing data on remittances, in particular from specialized remittance sending agencies, known as money transfer operators (MTOs). Direct reporting requires that MTOs are obliged by legal or regulatory means to provide all necessary data to the data compiling agencies. These data should include all relevant transactions with appropriate classifications as well as partner country and other information as required. The section will discuss the appropriate level of reporting (i.e., reporting by national headquarters of MTOs, not agencies) and it will note that direct reporting can be carried out as surveys or census.

The material for this section is contained in the paper that Giuseppe Ortolani (Italy) and Javier Alvarez (Spain) prepared for the second meeting of the group.

4.3   Household surveys

Drafting responsibility: Neil Fantom (World Bank)
Contributions: Evis Rucaj (Albania), Tom Orford (UK), Tamara Razin (Moldova), Jesus Cervantes (Mexico) and Jens Walter (Germany)

Numerous countries and international agencies have tried to use household surveys for obtaining data on remittances payments and receipts. The results have been mixed. This section will discuss the experience so far, outline the drawbacks and distill best practices. Issues such as periodicity, accuracy and costliness will be discussed.

This section will be based on new material. Since the Luxembourg Group comprises mostly balance of payments compilers (and not statisticians normally involved with household surveys), Neil Fantom (World Bank) will coordinate this section drawing on resources from the World Bank (since it has several household survey projects) and other agencies (e.g. ILO experiences). Other members of the Group will contribute their experience with household surveys that they have implemented specifically for obtaining data on remittances.

4.4   Models and Estimations

Drafting responsibility: Michael Mann (USA)
Contributions: Evis Rucaj (Albania), Javier Alvarez (Spain), Mushtaq Hussain (Eurostat)

Although data models are not a data source, they are used as alternative (or supplement) to direct measurement where data on remittance transactions are difficult to obtain or of poor quality. This section will discuss approaches to estimating (or modeling) remittance data using demographic, macroeconomic, and administrative or any other relevant data. It will describe approaches to estimate remittance data indirectly using statistical information on stock of migrants, their family situation, and duration of stay, average income, and propensity to remit. Other approaches to be discussed make use of observable macroeconomic data, including other balance of payments items, or partially estimate remittances as a residual from current account imbalances. The section will illustrate some existing models, but point out the opportunities for inventing new models and estimation approaches based on local conditions.

The section will draw on the paper prepared by Michael Mann (USA) and Tom Orford (UK) for the second meeting of the Group and the papers by Evis Ruci (Albania) and Javier Alvarez (Spain) presented at the first meeting. Mushtaq Hussain (Eurostat) will provide further material on econometric modeling. The Bulgarian National Bank has also permitted the use of a paper describing their methodology (estimating remittance receipts from informal migration using demographic data) for this guide.

4.5 Summary

Drafting responsibility: Jens Reinke (IMF)
Contribution: Fernando Lemos (Brazil), Giuseppe Ortolani (Italy), Javier Alvarez (Spain), Neil Fantom (World Bank), Michael Mann (USA)

This section will contain a summarized version of merits and drawbacks of individual data collection methods, as described in the sections 4.1–4.4. The comparison will focus in particular on aspects of data quality, meeting data requirements in terms of definitions, and practical considerations. The authors of the sections 4.1–4.4 will provide appropriate summaries. Furthermore, this section will illustrate that no individual data source is likely to meet all needs and that various sources, estimation methods and approaches have to be combined in most circumstances.

5. Data Processing

Drafting responsibility: Jens Reinke (IMF), Michael Mann (USA)
Contributions: Various members

Chapter 5 will discuss issues in estimating for missing data and combining data from different sources with the objective of arriving at complete and consistent results. This issue is important because the varied nature of remittance flows and the limitations of many data sources require that various sources of transactions data and estimates be combined in most circumstances.

This chapter will be drafted after the completion of chapter 4. In fact, the Group considered the possibility that all relevant material could be presented in section 4.4 in which case chapter 5 would be dropped. Probably it will be better to address data modeling and data processing separately. This would require a clear demarcation between the topics of section 4.4 (models as alternatives to direct measurement) and chapter 5 (data processing from various sources). Relevant material for this chapter, if pursued, will be found in drafts for chapter 4, especially section 4.4. At the next meeting, decisions will be made about the delineation between these sections and chapters and the need for additional material, if any.

6. Dissemination Issues

Drafting responsibility: Jens Reinke (IMF)

This section will discuss issues relating to the publication of remittance data in a coherent and user-friendly manner. It will address the publication of remittance data as part of the standard presentation of balance of payments statistics (and the optional inclusion of supplementary items in such standard publications) and as a stand-alone. The appropriate

level of detail (e.g., bilateral data), the publication of metadata, and the preparation of experimental data in the development phase will be discussed. Forms of publication, including the inclusion of remittance data in the BOPSY, IFS and on the website of the IMF and the World Bank will be addressed. Country publications could be referred to, where readily available and showing best practice (especially if available on the internet).

7.   Case Studies

Drafting responsibility: Jens Reinke (IMF)
Contribution: participants of the first meeting of the Group, drafting authors

Case studies will be based on the papers prepared by country compilers for the first meeting of the Luxembourg Group. The case studies are meant to emphasize and illustrate points made in the guide by drawing on relevant aspects of country experience, not to document country-specific compilation practices more generally (metadata is available for documentation). The objective would be to provide material of interest to other compilers, therefore editing and abbreviating of papers will be needed for consistency of style and to avoid repetition concerning treatments dealt with elsewhere and where the country is not distinctive.

The Group provisionally agreed to insert case studies as text boxes in the compilation guide. Assuming that this style will be followed, authors of all sections and chapters should propose appropriate case studies for their respective contribution. Alternatively, the style and layout may follow the case studies in the *Coordinated Portfolio Investment Survey Guide*.

Glossary

Drafting responsibility: Jens Reinke (IMF)
Contribution: Kenneth Coates (CEMLA)

As part of its remittance project, CEMLA is preparing a glossary of terminology related to remittances, listing the English and Spanish version of all relevant terms. A draft of this glossary has already been circulated for comment. The Group suggested, and CEMLA agreed, that it would be desirable to use the same glossary for the compilation guide, thereby ensuring that a uniform terminology will be established. The Group will review the CEMLA glossary and may adopt an abbreviated version. The compilation guide will list only the English language terms (although the translations of the guide may benefit from a bilingual version).

References
Relevant references will be compiled from the individual contributions.