

INTERNATIONAL TRANSACTIONS

IN REMITTANCES

GUIDE FOR COMPILERS AND USERS



INTERNATIONAL MONETARY FUND

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Eurostat



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Table of Contents

Foreword	v
Acknowledgments	vii
List of Abbreviations	ix
1. Background and Purpose of the <i>International Transactions in Remittances: Guide for Compilers and Users</i>	1
A. Background	1
B. Purpose of the <i>RCG</i>	2
C. Organization of the <i>RCG</i>	3
D. Terminology Used in the <i>RCG</i>	3
2. Understanding Remittances: Demography, Transaction Channels, and Regulatory Aspects	4
A. Demographic Perspective on Remittances	4
B. Inventory of Transaction Channels and Institutional Environment	6
C. Legal and Regulatory Issues	16
3. Concepts and Components	18
A. Underlying Concepts	18
B. Standard Components	19
C. Supplementary Items	21
D. Related Concepts	22
4. Data Sources and Estimation Methods	25
A. International Transactions Reporting Systems	25
B. Direct Reporting by Money Transfer Operators	31
C. Surveys of Households	37
D. Indirect Data Sources	46
E. Summary Table	55
5. Compilation and Data-Processing Issues	56
A. General Compilation Issues	56
B. Using Data from Diverse Sources	57
C. A Comprehensive Approach to Improving Remittances Data	59
D. Database Management and Computing Requirements	60
6. Dissemination Issues	62
A. General Dissemination Issues	62
B. Standard and Supplementary Components	63
C. Bilateral Data	63

D. Disseminating to Special User Groups	64
E. Data and Metadata from Experimental Compilation	64
Appendix 1. Glossary of Terms	66
Appendix 2. Data Quality Assessment Framework: Generic Framework	72
Bibliography	74
Index	75
Tables	
1.1. Compensation of Employees and Workers' Remittances, 2001 to 2007	2
2.1. Informal Value Transfer Systems	13
3.1. Components Required for Compiling Remittance Items and Their Related Account and Description	20
3.2. Tabular Presentation of Remittances Concepts in <i>BPM6</i>	20
4.1. Coverage of Remittance Aggregates Through an ITRS	27
4.2. Coverage of Remittance Aggregates Through Direct Reporting by MTOs	35
4.3. Illustration of Disproportionate Stratified Sampling: 10 Percent Sample of Enumeration Areas	42
4.4. Coverage of Remittance Aggregates Through Household Surveys	45
4.5. Coverage of Remittance Aggregates from Indirect Data	53
4.6. Summary of Data Source Characteristics	54
Figures	
2.1. Remittance Channels	7
2.2. Structure of Hawala Value Chain	14
Boxes	
2.1. Data on Migration	6
2.2. An Example of the Flow of Information and Funds in a Telephone- Based Remittance System	12
3.1. Comparison of Measures of Personal Remittances in <i>BPM5</i> and <i>BPM6</i> Frameworks	22
3.2. Personal Remittances and GATS Presence of Natural Persons	24
4.1. Direct Reporting by Different Remittance Service Providers	32
4.2. Including Remittance Variables in Household Survey	38
4.3. Adding Questions to the Ghana Living Standards Survey 2005–06	39
4.4. The Survey on Overseas Filipinos as a Rider to a Labor Force Survey	40
4.5. A Specialized Remittance Survey for Remittance Receivers in Albania	41
4.6. Estimating the Compensation of Short-Term Workers Abroad in Bulgaria	44
4.7. Estimating Personal Transfer (Payments) by the United States	47
4.8. Estimating Remittances as a Residual in Albania	52
5.1. Combining Direct Reporting with an ITRS	58
5.2. Direct Reporting as Input to a Data Model	59
6.1. User-Friendly Data Dissemination: The Example of the Banco de Portugal	62
6.2. Disseminating Bilateral Data: Data from the Deutsche Bundesbank	64
6.3. What Users Need: Tools for Critical Data Use	64

Foreword

We are pleased to introduce the first-ever manual providing detailed guidance on the compilation of remittances, *International Transactions in Remittances: Guide for Compilers and Users (RCG)*. Data on remittances are important for policymaking, analysis, and research purposes. Using the detailed guidance provided by the *RCG*, economies will be able to substantially improve the quality of these data.

The *RCG* was authored by members of the Luxembourg Group on Remittances, a working group that was composed of representatives of the International Monetary Fund, the Organization for Economic Co-operation and Development, the Statistical Office of the European Communities, the World Bank, and representatives from national statistical offices and central banks from economies throughout the world. The IMF Committee on Balance of Payments Statistics also made valuable contributions. We would like to thank all of the national and international experts involved for their invaluable assistance.

Remittance transactions have grown in importance over the past decade. In a number of developing economies, receipts of remittances have become an important and stable source of funds that exceeds receipts from exports of goods and services or from financial inflows on foreign direct investment.

But the quality of statistical remittance data is not high. Remittances are a challenge to measure because of their nature. They are heterogeneous with numerous small transactions conducted by individuals through a wide variety of channels.

The economic significance of remittances, and concern for the reliability and consistency of the estimates of remittances, prompted the G-8 Heads of State to call for improvements in the quality of statistical data on remittances.

The sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)* addressed the definitional issues associated with international labor mobility, including remittances. The *RCG* addresses the need for practical compilation guidance to improve the quality of estimates. The *RCG* is the first compilation guide based on the concepts set out in *BPM6*.

We recommend the *RCG* to compilers and users. We urge economies to consider the practical compilation guidance provided in the *RCG* to improve the quality of their data on remittances.

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Acknowledgments

In response to requests from policymakers, compilers, and other data users, the International Monetary Fund (IMF) and the World Bank invited experts in remittances statistics from selected economies and international organizations to identify a set of best practices, and to prepare a compilation guide, for remittances statistics. The first meeting of the group was held in Luxembourg (and thus named the “Luxembourg Group”) in June 2006. It identified data sources and compilation methods, and it drafted and reviewed the *International Transactions in Remittances: Guide for Compilers and Users* (also called *Remittances Compilation Guide*, or *RCG*), during 2006–08. The IMF coordinated the preparation and edited the text of the *RCG*.

The members of the Luxembourg Group were Beth Alarilla (Bangko Sentral ng Pilipinas), Javier Alvarez (Bank of Spain), Kenneth Coates (Centre for Latin American Monetary Studies—CEMLA), Neil Fantom (World Bank; Mr. Fantom was the World Bank coordinator with the IMF on this project), Carla Ines Ferreira (Bank of Portugal), Mushtaq Hussain (Eurostat), Toshie Kori (Bank of Japan), Fernando Lemos (Banco Central do Brasil), Michael Mann (Bureau of Economic Analysis, United States), Tom Orford (Office of National Statistics, United Kingdom), Giuseppe Ortolani (Banca d’Italia), Tamara Razin (IMF, formerly of the National Bank of Moldova), Jens Reinke (IMF), Evis Rucaj (Bank of Albania), Claude Saadeh (Central Bank of Lebanon), Bhupal Singh (Reserve Bank of India), Jens Walter (Deutsche Bundesbank), and Bettina Wistrom (Organization for Economic Cooperation and Development). Ms. Razin and Mr. Reinke were the IMF coordinators on the project. All members made important contributions to the *RCG*, which are gratefully acknowledged. The diversity of experience of this group helped to ensure that a wide variety of remittance flows, data sources, and compilation practices were considered, and that the resulting *RCG* has the widest possible appeal.

The Secretariat for the Luxembourg Group consisted of the IMF, World Bank, and Eurostat. The three meetings of the Luxembourg Group were hosted by Eurostat (June 2006), Deutsche Bundesbank (December 2006), and Banco Central do Brasil (June 2007). The United Nations Statistics Division led the work that resulted in the adoption of improved definitions for major remittance aggregates.

The *RCG* also benefited from the expert advice of the members of the IMF Committee on Balance of Payments Statistics.

Within the IMF, the *RCG* was prepared under direction of the chiefs of the Balance of Payments Division of the IMF’s Statistics Department, Neil Patterson (2006) and Ralph Kozlow (2007 forward). In addition, Emmanuel Kumah, Deputy Chief, Tamara Razin, Senior Economist, and Pontsho Mochipisi, Special Appointee, contributed to the project. Esther George and Marlene Pollard, also of the Balance of Payments Division, prepared the drafts of the *RCG* for publication.

The contributions of the above experts and staff are gratefully acknowledged. Their experience and expertise were essential to the success of the project.

List of Abbreviations

ATM	automated teller machine
BEA	United States Bureau of Economic Analysis
BIS	Bank for International Settlements
BNB	Bulgarian National Bank
BoA	Bank of Albania
<i>BOPSY</i>	<i>Balance of Payments Statistics Yearbook</i>
<i>BPM5</i>	<i>Balance of Payments Manual</i> , fifth edition (1993)
<i>BPM6</i>	<i>Balance of Payments and International Investment Position Manual</i> , sixth edition (2008)
CEMLA	Centre for Latin American Monetary Studies
CPSS	Committee on Payment and Settlement Systems
DQAF	Data Quality Assessment Framework
EU	European Union
FATF	Financial Action Task Force
FinCEN	Financial Crimes Enforcement Network
FTS	funds transfer system
GATS	General Agreement on Trade in Services
GDDS	General Data Dissemination System
GDP	gross domestic product
<i>GEP</i>	<i>Global Economic Prospects</i>
IADB	Inter-American Development Bank
<i>IFS</i>	<i>International Financial Statistics</i>
IHSN	International Household Survey Network
IMF	International Monetary Fund
INSTAT	Albanian Institute of Statistics
IRnet	International Remittance Network
ITRS	international transactions reporting system
LFS	Labor Force Survey
LSMS	Living Standard Measurement Study
MTO	money transfer operator
NPISH	nonprofit institution serving households
OCC	Office of the Controller of the Currency (United States)
OECD	Organization for Economic Cooperation and Development
OFWs	overseas Filipino workers
<i>RCG</i>	<i>International Transactions in Remittances: Guide for Compilers and Users</i>
SIM	Subscriber Identity Module
SNA	System of National Accounts
SOF	Survey of Overseas Filipinos
SWIFT	Society for Worldwide Interbank Financial Telecommunication
UNICEF	United Nations Children's Fund



Background and Purpose of the *International Transactions in Remittances: Guide for Compilers and Users*

A. Background

1.1. Remittance flows have increased rapidly in recent years. From 2001 to 2007, remittance receipts reported in the IMF's *Balance of Payments Statistics Yearbook* (measured as global receipts of "workers' remittances" and "compensation of employees") more than doubled to US\$336 billion (Table 1.1). This sharp increase is linked to rising migration and labor mobility, more liberal and competitive financial intermediaries, and improved data recording. For some countries, receipts from remittances exceed receipts from the export of goods and services and from financial inflows on foreign direct investment.

1.2. Remittances essentially represent household income from foreign economies arising mainly from the temporary or permanent movement of people to those economies. However, formal definitions are slightly broader than this because they are based on balance of payments definitions that are not based on the concepts of migration, employment, or family relationships. Remittances include funds that flow through formal channels, such as electronic wire, or through informal channels, such as cash carried across borders in pockets. They may consist almost entirely of funds sent by individuals who have migrated to a new economy and become residents there, and of net compensation of border, seasonal, or other short-term workers who are employed in an economy in which they are not residents.

1.3. Many governments now consider remittances to be of high policy interest and wish to analyze their impact on economic development and security. The Group of Eight (G-8) Heads of State have been promoting improvements in the availability of statistical data on remittances. At their 2004 meeting at Sea Island, Georgia (United States), the G-8 Heads of State identified remittances as an important factor in defining their

relationships with developing countries. Their concerns were brought together at an international meeting in January 2005, hosted by the World Bank and the IMF, where data compilers and data users from around the world sought to set an agenda for improving remittances data. Subsequent G-8 meetings, including the summit in Hokkaido Toyako, Japan, in July 2008, reaffirmed data users' interest in improving data. Also, international institutions, including the World Bank, the Bank for International Settlements, and regional development banks, have programs devoted to analyzing remittances. These institutions and others consider remittances to be an important anti-poverty tool and are striving to lower the costs and other barriers to sending remittances, and to facilitate the transfer of remittances via formal channels through improved regulatory and institutional arrangements.

1.4. Despite the high level of interest in remittances, evidence suggests that data on remittances are less reliable than are data on many other items in the balance of payments accounts. At a global level, remittance receipts consistently exceed remittance payments, and the gap has been growing in recent years, indicating growing inconsistencies in the coverage and compilation of remittances data. Some data users lack confidence in the estimates of remittances. Furthermore, remittance-related items in the balance of payments framework up through the fifth edition of the IMF's *Balance of Payments Manual (BPM5)* were defined in ways that made identification and analysis of remittances difficult for some data users.

1.5. Emerging from the January 2005 World Bank/IMF meeting was a consensus that a process for improving data on remittances required two steps: first, simplifying, clarifying, and expanding the definitions of remittance-related items to meet the needs of data users; second, developing practical compi-

Table I.1. Compensation of Employees and Workers' Remittances, 2001 to 2007*(In millions of U.S. dollars)*

	2001	2002	2003	2004	2005	2006	2007
Compensation of employees							
Credit	43,517	49,475	60,096	70,714	76,460	82,602	98,934
Debit	51,030	57,312	67,926	76,463	84,883	95,144	113,975
Global discrepancy	7,513	7,837	7,830	5,749	8,423	12,542	15,041
Workers' remittances							
Credit	81,168	93,410	112,693	126,007	153,009	180,715	237,396
Debit	67,612	77,829	81,465	91,780	99,853	117,259	135,748
Global discrepancy	-13,557	-15,582	-31,228	-34,228	-53,156	-63,457	-101,648
Sum of compensation of employees and workers' remittances							
Credit	124,686	142,885	172,789	196,721	229,469	263,318	336,330
Debit	118,642	135,141	149,391	168,242	184,736	212,403	249,722
Global discrepancy	-6,043	-7,745	-23,398	-28,479	-44,733	-50,915	-86,608

Source: IMF, *Balance of Payments Statistics Yearbook 2008*, Part 2.

Note: This table uses *Balance of Payments Manual* (fifth edition) definitions. In particular, "workers' remittances" is defined as current transfers from employment income by migrants who are employed in new economies and considered residents there. In the list of standard components for the balance of payments accounts, "workers' remittances" has been replaced in the sixth edition by "personal transfers" (however, the latter term is defined more broadly).

lation guidance to support compilers. The meeting recognized that the improvements in remittances concepts could be better achieved using the balance of payments framework and recommended the creation of a "city group" of experienced compilers to prepare a set of best practices for remittances statistics in the form of a compilation guide.

1.6. The sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)* completed the review and improvement of the conceptual framework of remittances. The new concepts are summarized in Chapter 3 of *International Transactions in Remittances: Guide for Compilers and Users (RCG)*. The *RCG* seeks to support data compilers in their effort to provide accurate, complete, and timely data on remittances consistent with the improved concepts and definitions.

B. Purpose of the RCG

1.7. The purpose of the *RCG* is to promote lasting improvements in remittances data. It seeks to accomplish this purpose by summarizing the definitions and concepts related to remittances in the balance of payments framework and by providing practical compilation guidance.

1.8. The biggest obstacle to improving data on remittances is the nature of the flows, often involv-

ing small transactions by private individuals using a variety of transaction channels, many of which are informal or personal. The small size of individual transactions means that they often go undetected by typical data source systems, although the aggregate level of transactions may be substantial. As a result, the *RCG* focuses on the problems of and solutions to obtaining better source data on remittance transactions, but it also summarizes compilation and data dissemination issues. The *RCG* draws on the Data Quality Assessment Framework (DQAF) for balance of payments statistics to highlight good practices in data compilation and dissemination.

1.9. Although the *RCG* is primarily aimed at those whose task is to compile and disseminate data on remittances, it may also be useful for other users who wish to understand the limitations of the data. Remittances are complex to measure, and the compilation practices may not be perfect. An understanding of the data limitations will promote more informed and appropriate uses of remittances data.

1.10. The *RCG* was written for professional use, but care was taken to make it accessible to nonspecialists. The authors hope that it will be easy to understand and to use. The *RCG* is not prescriptive. Instead, it discusses alternative approaches and data sources for measuring remittances and provides guidance on the development of a statistical program for improving remittances data.

It draws on recent experiences and best international practices. The *RCG* acknowledges that country circumstances differ vastly and that compilers need to develop data compilation strategies based on the needs, constraints, and capabilities of their own countries. Experts in remittances from several countries and organizations contributed to the *RCG*. The diversity of experience of these authors helped to ensure that a wide variety of remittance flows, data sources, and compilation practices were considered, and that the resulting *RCG* has the widest possible appeal.¹

C. Organization of the *RCG*

1.11. Following this introduction, Chapter 2 discusses the institutional and regulatory context of remittances,

¹The Centre for Latin American Monetary Studies (CEMLA), an association of Latin American and Caribbean central banks, has developed a separate compilation guide on remittances for its member countries. This effort was undertaken as part of a joint project on remittances with the Multilateral Investment Fund of the Inter-American Development Bank. The CEMLA compilation guide is more prescriptive than the *RCG* because it promotes a standardized compilation methodology for member countries based on the use of transactions reporting by banks and direct reporting by money transfer operators. The CEMLA guide also is more oriented to receiver countries, whereas the *RCG* is oriented toward both sending and receiving countries.

including demographic issues and transaction channels. It also introduces a structured approach to improving remittances data. Chapter 3 discusses relevant concepts and definitions. Chapter 4 includes several sections that discuss different approaches to obtaining data on remittances. Chapter 5 reviews good compilation practices with a focus on remittances, and Chapter 6 concludes with a look at dissemination options.

D. Terminology Used in the *RCG*

1.12. In the balance of payments framework, there is no single item or account known as “remittances.” In the *RCG*, the word *remittances* will be used to refer to the remittance-related items in the balance of payments framework. These transactions are often related to migrants and short-term workers and frequently involve households on both the sending and receiving ends. As set out in Chapter 3 of the *RCG*, it will always refer to the appropriate balance of payments terminology in a technical context. In the *RCG*, remittances as well as the technical terms refer only to transactions between residents and nonresidents of a compiling economy. For quick reference, the *RCG* includes a glossary of remittances-related terminology (Appendix 1).