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**OBJECTIVES AND COMPONENTS
OF THE PROGRAMME
IMPROVING CENTRAL BANK REPORTING AND
PROCEDURES ON REMITTANCES**

Centro de Estudio Monetario Latino Americano (CEMLA)

Improving Central Bank Reporting and Procedures on Remittances

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Objectives and components of the Project

The Latin American and Caribbean Region (LAC) has a growing market of remittances sent by migrants to their countries of origin. In 2003, flows of remittances to LAC amounted to US\$38 billion, which is 50% higher than combined flows of foreign direct investment and official external aid for the region. An estimated 150 million individual transactions take place each year, with 20 million families receiving between US\$200 and US\$300 per remittance. In the countries that expressed an interest in this project, the volumes of remittances reported in 2003 were: Mexico, US\$16,613 million; Philippines, US\$8,544 million; Colombia, US\$3,857 million; Dominican Republic, US\$2,438 million; Guatemala, US\$2,681 million; Ecuador, US\$1,740 million; El Salvador, US\$2,548 million; Peru, US\$1,360 million; Jamaica, US\$1,497 million; Honduras, US\$1,134 million; Haiti, US\$1,026 million; Nicaragua, US\$810 million; Paraguay, US\$ 506 million; Bolivia, US\$422 million; Costa Rica, US\$320 million; Venezuela, US\$259 million; Guyana, US\$143 million; Uruguay, US\$105 million; Barbados US\$84 million and Belize, US\$77 million.

Even though these figures are high, the estimates are conservative, given that no standards have been established for measuring flows of remittances that can be used systematically by the private sector and public authorities in making policy decisions. Insofar as the figures reflect the true size of the flow, the private sector will have incentives for competing in this high-potential market, permitting the entry of new participants, lowering the costs of sending remittances, and, in short, benefiting the recipients. In addition to the impact that information has on the public sector and the private remittance market, it can make a significant contribution to greater involvement by financial institutions, which will lead to wider access by the public to banking services in the countries that send and receive remittances. To achieve this aim, more and better information on the potential of the existing market for remittances is required.

International family remittances are becoming increasingly important in the region's economies, both in terms of macroeconomic stability brought about by the receipt of large capital inflows, and in terms of development and poverty alleviation, particularly in rural communities. One key aspect of this phenomenon is that migrants in the originating country who send remittances and the beneficiaries in the receiving country are excluded from formal banking systems, a factor that has a substantial impact on transfer costs and the net amount received by the recipient. Attempts by the authorities to encourage bypassed social groups to join formal banking systems (financial democratization), through information and sensitization campaigns that promote service agreements with the banking industry or even through changes in the regulatory framework should, in the first place, rest on a thorough understanding of the phenomenon. Accordingly, efficient, systematic, and harmonized gathering of information on the most relevant remittance brokers for the different countries of the region is an important first step in enabling the financial authorities to design appropriate policies and programs.

Justification of the project

The Center for Latin American Monetary Studies (CEMLA), through its close relations with the region's central banks, has been active in the field of remittances. In the context of its multiyear programs for training in statistics, payment systems, and savings and loan cooperatives, it has held different events which have clearly shown that the central banks believe that this subject merits differentiated treatment to achieve, as one of their main objectives, better reporting on magnitude of remittances and its other characteristics. There is an obvious need to obtain reliable data, understand the rationale of the agents involved, and analyze the structure of remittance markets, in order to promote policies that will help to better define the phenomenon, contribute to greater transparency in sending/receipt, and avoid inappropriate rules and/or regulations.

Proposals should give rise to practical recommendations for accurately measuring these flows, which are so important for national economies. The following limitations have been identified with respect to the problem of availability and quality of information that can serve as the starting point and/or benchmark for the work to be done under the proposed project: (i) lack of agreement on basic definitions for the different aspects of remittances; (ii) lack of precision in measuring flows and their global differences; (iii) insufficient statistical information compiled on remittances by the central banks (CBs), particularly their failure to include remittances in household surveys; and (iv) lack of information on the structure of international remittance brokers and the respective markets and insufficient discussion of regulatory aspects that could help in future to promote financial intermediation and spur competition.

There are other more general aspects that could also be addressed indirectly through the project: (i) lack of identification of good practices which, through financial literacy campaigns, encourage remittance senders and recipients to join formal banking systems; (ii) suitable application of the domestic legislation of sending and

receiving countries, to promote transparency in the origin and destination of funds; (iii) lack of understanding of the particular microeconomic nature of family remittances as flows of external savings that do not create debt, and their potential macroeconomic impact on variables such as investment and foreign exchange; and (iv) insufficient sensitization and dissemination of the lessons learned and good practices from the studies being conducted in the LAC region.

The project aims to contribute to the develop and adopt of a harmonized regional methodology for measuring international family remittances, based on good practices in this field, which will help to bridge many of the existing gaps in information. By giving a strong impetus to this specific issue and raising the awareness of the public authorities and economic agents, a demonstration effect will be produced that promotes systematic discussion. The recommendations that arise from the project, systematically applied by the beneficiary CBs, will lend sustainability to the project's proposals. Last, the project will provide permanent institutional arrangements for revising the methodology and for systematic discussion of the issues.

Objectives

The goal of the project is to increase the net proceeds of remittances in the region, reducing the cost of transfer through a more competitive market. The purpose of the project is to improve and/or implement procedures for the statistical measurement of remittances in CBs.

The specific objectives of the project are to: (i) improve the compilation of statistical information on formal and informal flows of remittances by the CBs, in an effort to promote the adoption of good international practices in remittances as the focal point of a harmonized regional methodology; (ii) conduct studies on the structure of the national markets that receive remittances, with participation by the CBs, focusing on regulatory aspects that can reduce transfer costs and promote transparency in the intermediaries; (iii) propose recommendations on encouraging remittance recipients to open accounts in the formal banking system, including financial literacy campaigns; and (iv) disseminate the results through sensitization seminars.

Components

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Improving Central Bank Reporting and Procedures on Remittances

Component 1

Preparation, design, and implementation of procedures

The objective of this component is to set out guidelines for ensuring smooth project execution by preparing the start-up materials and drafting and signing the necessary agreements with the participating CBs. The main activities in this component will be: (i) preparation of a general report describing the main problems with current procedures for measuring flows of family remittances statistically; (ii) definition of institutional arrangements for the project; (iii) holding of a seminar to launch the project; and (iv) publication of a manual on good practices in the statistical measurement of remittances.

As a result, a Working Group on Remittance (WGR) will be established by the CBs, and international organizations and other institutions will be invited to participate in an Remittances International Steering Committee (RISC). Meetings of WGR and RISC will be called to familiarize them with the project's subject matter and procedures and to approve a program of work and a general timetable for its implementation by the CBs, in addition to a manual on good practices in Spanish and English (500 copies in each language) on the statistical measurement of remittances.

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Improving Central Bank Reporting and Procedures on Remittances

Component 2

Strengthening of information on the remittance market

The objective of this component is to support the CBs in adopting the new procedures for the statistical measurement of remittances. The main activities in this component will be: (i) project monitoring seminars bringing together the WGR and the RISC, and workshops on sustainability and a closing seminar; and (ii) technical assistance missions to collect information on the market for remittances and measurement practices.

A document will be prepared on each country visited that describes the remittance market, its participants, and the current situation with respect to its measurement, including recommendations for changes. The information needed for statistical procedures will be developed and an analysis will be performed of changes in regulations to promote better information, lower cost, and more participation. The document will also form the basis for the publication included in Component 3.

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Improving Central Bank Reporting and Procedures on Remittances

Component 3

Transfer of knowledge

The objective of this component is to communicate the results and recommendations of the work of the missions to the monetary authorities and to document the information compiled for general use. The main activities include: (i) preparation of a preliminary report with the findings of the missions, for discussion with the authorities of each CB with which work was done; (ii) publication of a document describing the remittance market in each country and the procedures for its measurement; and (iii) preparation of three additional general publications a glossary of technical terms, a comparative regional analysis, and a compendium of good practices in regulating the remittance market.

The result will be a set of documents and publications available to the project's direct and indirect beneficiaries, which will contribute systematically through the transfer of knowledge proposed in this component.

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Improving Central Bank Reporting and Procedures on Remittances

Component 4

Sensitization and training

The objective of this component is to train central bank personnel in the new statistical procedures for measuring remittances and inform the general public about the importance of improving this information. The main activities include: (i) nine training courses in the statistics of remittances (one for each country visited); (ii) two regional sensitization events to publicize the existence of the information; and (iii) the creation of a web site for the project as a tool for communications and work.

As a result, an estimated 108 officials from the CBs will be trained and a total of 200 representatives of the different stakeholders in remittances will be sensitized. The statistical methodology of measuring remittances will also be disseminated to at least nine CBs that did not participate directly in the project.

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