Unlocking Public and Private Finance for the Poor

REMITTANCE REPORTING AND ANALYSIS SYSTEM: CAPTURING, MONITORING AND ANALYSING REMITTANCE FLOWS

BRIEFING

Cross-border remittances are challenging to measure because the market is fragmented among many diverse provider types. Central banks' estimates pay particular attention to remittances transferred through official channels, and not all remittances are captured, especially those transferred through new digital and informal channels. As a result, a widespread deficit of information on the remittance market across countries and jurisdictions limits the implementation of policies and regulations that on one side reduce the cost of money transfers and on the other limit the likelihood of current account deficit. Remittance data are also predominantly reported at highly aggregated levels, which severely limits their use in the development of supportive policy. Compiling and analysing complete, accurate, granular and remittance statistics helps a country to better understand its economy – including its economic vulnerabilities and risks – and formulate more informed policies.

Based on recent consultations with over 30 regulators, central banks acknowledge that the way they think about remittances data is changing, as there is an ever-growing need for detailed insights and automated and data driven systems. Understanding remittances markets requires more than measuring access to finance and remittance volumes: it will also require an assessment of the quality and use of remittance services and key positive impacts of remittances on sustainable development outcomes such as inclusive economic growth, financial resilience and gender equity. One way to strengthen the policies and processes that facilitate the understanding of remittances markets is to leverage technology to drive efficiency and sustainability, reducing costs and improving overall efficiency, in capturing, monitoring and analysing remittance flows to inform policymaking, private sector investment and product development.

THE ROLE OF REMITTANCES IN GLOBAL DEVELOPMENT

Every year, low-and middle-income (LMI) countries receive over US$550 billion in personal remittances. In recent years, the volume of remittances has seen sustained growth, outpacing, and even surpassing global foreign direct investment (FDI). As they increase in value on national balance sheets, remittances – and their contribution to local economies – are capturing the attention of policymakers around the world.

For many LMI countries, remittances constitute a key source of foreign exchange; in 30 countries they represent more than 10 percent of gross domestic product (GDP) and for another 27 countries, over 5 percent of GDP. Based on the consultations with central banks many highlighted that as per their estimates the true scale of remittances, however, is even larger. Despite the fact that remittances are private financial flows, they play an important role in fortifying the economies of LMI countries at both the macro and microeconomic levels. Formal international remittance flows increase foreign currency reserves, improve balance of payments, reallocate capital from urban to rural areas, and contribute to consumption and productive investments. Remittances are also linked to improved health, education and gender equality outcomes for recipients, over half of whom globally are women.

The COVID-19 pandemic has further highlighted the importance of remittance flows; while the resulting global economic downturns have dried up other income streams and put over half of least developed and low-income countries at a high risk of debt distress or in debt distress, remittances have proven to be a stabilizing source of income during the crisis.[1]

THE IMPORTANCE OF MEANINGFUL REMITTANCE DATA

Given the importance of remittances to least developed countries (LDCs), the international community has repeatedly called for reducing the cost of remittance transactions. Provisions to this effect are contained in the Sustainable Development Goals, the G20[2] and the Addis Ababa Plan of Action.[3] The Addis Ababa Plan of Action explicitly calls to address obstacles that hinder remittance flows through lowering transaction costs, providing for faster, cheaper, and safer remittance flows, increasing financial access, providing competitive and transparent market conditions, and improving the collection of data.

Improving the collection of data to generate more accurate statistics on formal and informal remittance flows should beget the reduction in costs and promotion of access by unlocking policy and business intelligence insights for targeted public and private sector interventions. Central banks are increasingly relied upon by policymakers and the private sector to collect and process data that support macro- and microeconomic policy, as well as inform investment and innovation decisions. In particular, accurate data on remittances enables (i) an understanding of household, consumption and savings trends, (ii) the identification and investigation of significant changes in international fund flows, (iii) combating terrorist financing and money laundering, (iv) policy and regulatory responses in areas such as financial stability and financial inclusion, and (v) a private sector understanding of market dynamics and operational and strategic decision-making.

LIMITATIONS OF CURRENT REMITTANCE DATA COLLECTION

Despite the global significance of remittances, difficulties in data collection obscure our knowledge of the true volume of remittances, the channels of transfer and much about who the remittance senders and receivers are. Central banks' estimates typically focus on remittances transferred through official channels, such as banks. But, in practice, the market is fragmented among a diversity of provider types, both licensed and unlicensed, and informal remittances are not captured. Inaccuracy in official remittance data thus limits the development of effective policies and regulations.

Measuring and analysing cross-border remittances presents several challenges. Central banks in LMI countries often lack the in-house human and technical capacities to collect reliable remittance data and to monitor the impacts of innovation in the remittance ecosystem. As a result, many central

1 World Bank, Debt Sustainability Framework (DSF), 2018, www.worldbank.org/en/programs/debt-toolkit/dsf.
2 G20 Rome Leaders' Declaration, 1 November 2021, paragraphs 49 and 50, www.g20.org/wp-content/uploads/2021/10/G20-ROME-LEADERS-DECLARATION.pdf.
3 United Nations, Addis Ababa Agenda of the Third International Conference on Financing for Development, 27 July 2015, paragraph 40, www.un.org/esa/ffd/ffd3/index.html.

banks and national statistical offices rely on legacy core systems to capture remittance flows and publish only aggregated remittance statistics. The utility of aggregated data for policy development and private sector applications falls short of the potential of transaction-level disaggregated data, which can be used to understand the contribution of remittance services towards sustainable development outcomes, such as inclusive economic growth, financial resilience and gender equity.

OPTIONS FOR IMPROVING REMITTANCE DATA COLLECTION AND ANALYSIS

While there is no 'one size fits all' approach to remittance data collection, UNCDF has engaged in consultations with central banks and solution providers around the world to identify successes in the implementation of remittance data collection systems that may open opportunities for central banks and policymakers to strengthen their existing efforts. The consultations spawned the following list of options, compiled and explained in five corresponding UNCDF tools (Figure 1 expands on these options offering a visual guide for improving remittances data collection and analysis).

1. **Assess the existing national framework for remittance data collection to determine gaps, data needs and opportunities for intervention.** Before implementing a new system, understanding the existing processes, requirements and challenges faced by regulators in the capturing and analysis of remittances flows is critical to chart the path for introducing innovation. The national remittance data collection landscape assessment guide provides a comprehensive list of relevant resources and stakeholders to consult when conducting a preliminary assessment along with potential questions to ask. The assessment helps to support the outcomes that the system needs to meet and addresses any data gaps that may have hindered evidence-based policy and migrant-centric product design.

2. **Prospects of innovative data - traditional and non-traditional - transition towards systematically contributing to official statistics and policymaking.** Lessons learned on building an ITRS to collect remittance data collates reflections from countries that have pioneered advances in remittance data collection. This paper shares learnings to assist central banks in developing countries in developing tools and systems to improve the collection of remittance data and discusses the environmental considerations that may play a role in the development of a new system, such as accounting for the array of possible channels, choice of data collection methods, sources and systems, choice of IT architecture, implementation and running costs. The paper also discusses the need to consider a flexible and scalable approach to remittance data collection to accommodate the evolution of remittances markets, and to adapt the national legal framework that governs the collection of remittance data. Lastly, the paper stresses the importance of enhancing data analytics capacity and engaging with the private sector, especially the remittance service providers.

3. **Leverage technology to capture the full potential of remittance system-generated data.** Technological advances have significantly reduced the cost of building or upgrading systems, enabling large amounts of data to be stored, accessed and configured to meet specific reporting requirements, while also reducing the burden on reporting institutions and the margin for human error. This presents the opportunity for central banks and financial regulators to shift from aggregated data reporting to transaction-level data reporting. Granular remittance data can reveal patterns and motivations behind remitting behaviours and generate the insights necessary to regulate evolving markets, inform data-driven policies and direct private sector investment. A model for the systematic capture, management and analysis of remittance data by central banks looks into key aspects for an automated remittances data system

Figure 1. Policy options for improving remittance data collection and analysis

Assess the national remittance data collection framework

- Understand existing processes and systems
- Identify data collection barriers and challenges
- Spot opportunities for the development of data-driven platforms
- Consult reporting institutions
- Connect purpose and users of remittances data

Take an institutional development approach

- Consider a flexible and scalable approach
- Adapt the legal framework
- Enhance data analytics capacity
- Engage with the private sector

Leverage technology and innovation to capture the full potential of remittances data

- Enable automated systems
- Collect granular data
- Analyse remittances data

Collect but also analyse remittances data

- Consider all data collection sources and providers
- Attention to sex disaggregated data
- Strength evidence-based use-cases for policy and for private investment and product development

Implement the transaction-level remittance reporting and analysis system

- Define your outcome and use case
- Map your resources and costs
- Define your approach and technical feasibility
- Develop a system model

that will allow granularity, access to frequent data and insights to be generated.

4. **Collect but also analyse granular remittances data, including sex-disaggregated data.** Supply-side remittance data has the power to not only inform financial policy, but also to support broader economic development goals by informing migration, education, financial integrity, foreign and broad economic policy choices. It can also be used by central banks to support remittance service providers to develop more appropriate products and services. Remittances and the behaviour around the sending and receiving of remittances are highly gendered. Besides the different total values sent and received by men and women, there are differences in preferred channels, transfer methods, usage, frequency and access to technology. Thus, collecting data on the sex of remittances senders and receivers is essential to understanding the gender dynamics around access and usage to formal services, to increase the use of formal services and to the development of new remittances services. The case for the collection and analysis of transaction-level, supply-side data on remittances examines examples of the analysis that is possible using granular supply-side data, the potential insights that could be generated and how these can be used by policymakers and remittance service providers. It also explores five case studies from various countries that have gone beyond high-level aggregate data reporting.

5. **Implement the remittance reporting and analysis system following an outcome-focused approach.** Systems that capture and analyse transaction-level data can be costly in terms of resources, time, increased compliance burden for reporting entities, the need for new regulation and reporting standards, and increased requirements for technical capacity, within both regulators and reporting entities. Additionally, costs may include structural and organizational changes to optimize data-driven decision-making. The remittance reporting and analysis system reference guide provides a path and list of steps to explore and define use cases and insights most supportive to the needs of reporting entities, most appropriate to the remittances market/economy, and most achievable in the operating environment.

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