Households' financial transactions with the rest of the world, with special reference to remittances

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Introduction

The household sector, consistent with System of National Accounts (SNA), forms a major component in terms of savings, capital formation, income and expenditure in the Indian economy. In terms of savings, household sector accounts for more than 75 percent of total domestic savings during 2004-05. Similarly, its contribution in terms of capital formation and other components of the economy is vast and substantial. Despite these, however, information relating to the households sector in the Indian economy is not accurate. In some of the key parameters of Indian economy, viz. savings and capital formation, etc, information is derived residually rather directly as is the case in many of other economies. As regards information of the household sector transactions with rest of the world, information is still scanty, and need to be approximated by other flows or stock data reflected in the balance of payments and international investment position. Thus, there is a need to strengthen information on households sector, both relating to the domestic sector as well as relating to the transactions with rest of the world. Relating to the household data covering domestic aspect already various studies has been prepared and issues have been debated scholarly involving various participating organizations and institutions viz. Central Statistical Organisation (CSO), Reserve Bank of India (RBI), etc.

The focus of this paper is confined to the transactions of households with rest of the world. In the changing paradigm of growth scenarios across the globe, two countries viz. China and India are considered to be the engine of growth on account of their demographic structure. In this background, information relating to remittances, which could considered to be reflections of households transactions with the rest of world will become essential. It is in this background that this paper discusses some of the issues relating to the remittances from abroad. To begin with we provide definition of the household sector as adopted for compiling economic data for the Indian economy. Thereafter, we discuss the definition of remittances as per Balance of Payments Manual, 5th Edition (BPM5) of the International Monetary Fund (IMF), and their statistical measurement. The paper also provides a brief discussion on the importance of remittances in the Balance of Payments (BoP) statistics. We also cover the methodology adopted for compiling data on remittances in India, followed by limitations of the existing methodology and scope for improvement of data on remittances. which perhaps characterize this study different than other studies on the subject.The final section concludes.

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1. Definition of the household sector in the Indian economy

As per the definition adopted for compiling national accounts statistics for the Indian economy, which is consistent with the definition of SNA, the household sector consists of all resident households. It also covers institutional units and un-incorporated enterprises (the term "un-incorporated enterprise" emphasizes the fact that the producer unit is not incorporated as a separate legal entity from the household itself) owned by households. Only those household un-incorporated market enterprises that constitute quasi-corporations are treated as separate institutional units.[2] Production in the household sector takes place within the un-incorporated enterprises that are directly owned and controlled by the members of households either individually or in partnership with others. Such household enterprises, which are created for the purpose of producing goods and services primarily for sale or exchange in the market, are classified as "household market enterprise". They can be engaged in any kind of productive activity, namely agriculture, mining, manufacturing, construction, trade or any of the services. They can range from single person enterprises engaged in the activities like shoe cleaning or retail trading with little or no capital to large scale manufacturing, construction or services enterprise with several employees and large capital. Household enterprises, which are engaged in the production of goods and services for own final consumption or for own account gross fixed capital formation, are classified as "household non-market enterprise". Examples are kitchen garden, poultry, weaving or textiles or construction of residential premises for own use. The value of the output of such enterprises has to be imputed using prices of similar goods and services in the market though even the measurement of the output of such activities is problematic. The production activities of other types of households (not owning any kind of enterprise) for their own consumption are not available through any survey. All goods produced within the household for own final consumption - are treated within production boundary of the system and if non-marketed, are to be evaluated at equivalent market prices (Kumar et al, Janauary,1999).

2. Household transactions with the rest of the world with special reference to remittances

For the purposes of the SNA, the coverage of household transactions with the rest of the world should include their cross-border financial transactions. Only recently in February 2004, a liberalized remittances scheme of USD 25,000 for the resident individuals has been permitted. Under this scheme, resident individuals have been allowed to acquire and hold immovable property or shares or any other assets outside India without prior approval. As per this scheme, individuals have been allowed to open, maintain and hold foreign currency accounts at a bank outside India for making remittances under the scheme. This scheme is in addition to schemes already available for private travel, gift remittances, donations, studies, medical treatment, etc. Although the scheme for individual remittances is in existence for more than two years, information of some economic relevance is scanty and almost negligible. In view of this, the scope of the study is further narrowed down to the inward transactions with household transactions from abroad. With respect to these transactions, remittances and foreign deposits could align with the household transactions with the rest of the world, to which the rest of the paper is devoted.

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[2] Quasi-corporations are those entities including household unincorporated enterprises with full set of business accounts, including balance sheets. These Quasi-corporations are included in the Corporate sector in the National accounts.

The term “remittances” is used in different ways. Typically, remittances are frequent small payments made through wire transfers or a variety of informal channels- sometimes even carried by hand. Remittances are financial resource flows arising from cross-border movement of residents of a country. The major characteristics of the remittances is that these are “unrequited transfers” - referring primarily to money sent by migrants to family and friends on which there are no claims by the sender, (unlike other financial flows such as debt or equity flows) (Kapur,2004). Another feature of remittances is that these are regular flows generally small in their denominations. Analysis of remittances generally also includes compensation of employees and migrants’ transfers. Compensation of employees is funds send back by temporary workers, who work abroad for less than a year. Migrants’ transfers arise from migration, change of residence for at least a year from one economy to another and are equal to the net worth of the migrant. Cross border remittances from migrants are a growing and relatively stable, market-based external source of development finance. Presently there is enormous attention being given to measurement of accurate remittance data, for several reasons. Firstly, remittances have emerged as an increasingly significant source of external financing, especially for the developing countries. Secondly, remittances bring foreign exchange, which complement national savings and provide a source of finance for capital formation (mainly small-scale projects). Through these mechanisms, remittances can support economic growth in recipient countries. Thirdly, remittances are also considered to be more stable than capital flows like portfolio investment and international bank credit. Fourthly, in terms of development of the economy, remittances are considered to be superior to official aid.[3] Remittances fit in with a communitarian “third way” approach and exemplify the principle of self-help. People from poor countries can just migrate and send back money that not only helps their families but their countries as well. The general feeling appears to be that this “private” foreign aid is much more likely to go to people who really need it. On the sending side it does not require costly administration and. often reaches the recipient more efficiently. It appears to be good for equity and for poverty (Kapur, 2004).

Remittances are a form of household transfers and its motivation include altruism, as an implicit intra-family contractual arrangement or an implicit family loan. Remittances finance consumption, acquiring land and housing and are an important source of social insurance especially in lower income groups. Remittances also provide liquidity for small household enterprise as well as capital investments.

3. Treatment of remittances in the balance of payments

Though “remittances” is so widely used a term, however, it is not precisely defined either in BPM5 or in any other document. Analytical studies define remittances as the sum of selected balance of payments flows. In some studies (Definition of Remittances and Relevant BPM Flows, Discussion Paper 1, UN, 2005), the sum of workers' remittances and compensation of employees and in others the sum of the above balance of payments component plus migrants’ transfer (“these transfers are not transactions between two parties but contra entries to flow of goods and changes in financial items that arise from the migration of individuals from one economy to another” para 352 BPM5) are used as proxy for remittances. There is a view that the concept of remittances in BoP framework should be designed to measure the net receivable of households from employment related flows on primary distribution of income account and relevant current transfers on the secondary distribution of income account.

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[3] Remittances are considered superior to official aid, since they reach the needy directly and faster than official aid, thereby improving his or her economic conditions.

In fact as per these views, the concept of residence is fundamental for identifying the BoP flows that are relevant for study of remittance. The concept of residence in BoP is broadly consistent with the concept of residence (long- term migrant) in migration statistics (except for a few exceptions, such as students and patients, who are considered resident of the home countries even if they change their usual residence for more than one year). Incidentally there are still no debates on the coverage of workers' remittances. As per BPM5, workers' remittances are defined as:

> "current transfers by migrants who are employed in new economies and considered residents there (a migrant is considered a person who comes to an economy and stays or is expected to stay, for a year or more)" (BPM5 para 302).

Similarly BPM5 defines current transfers as:

> "those for distribution to relieve hardships caused by famine, other natural disasters, war, etc and regular contribution to charitable, religious, scientific and cultural organizations. Also covered are gifts, dowries, inheritances; alimony and other remittances; tickets sold by; and prizes won from lotteries; payments from unfounded pensions plans and non-governmental organizations" (BPM5 para 303)

> "and social security contributions … and social benefits" (BPM5, para 304).

Accordingly, in the Eighteenth Meeting of the IMF Committee on Balance of Payments Statistics, Washington June 27-July 1, 2005, it was opined that the definition of workers' remittances in BPM5 is too narrow and not precise enough. It expressed the need to expand it and clarify its coverage. It was recommended to change the definition of workers' remittances to include all current transfers from resident to non-residents households independently of the source of income of the sender (be it wages and salaries, social benefits or any other type of transfers, including transfer from a person receiving no income and running down his/her assets). The Group also proposed a new definition of current transfers between households which is in line with 1993 SNA definition of current transfers between households (1993 SNA para 8.95) as:

> "Personal transfers consists of all current transfers in cash or in kind made, or received by residents households to or from other non-resident households".

The United Nations Technical Subgroup on the Movement of Natural Persons (TSG) at its meeting in New York (22-24 February 2006) agreed on the conceptual definition on remittances based on the issue paper "Definition of Remittances". The TSG agreed to introduce a new item "personal transfers" as a standard item to bring it in line with the 1993 SNA definition of current transfers between households. "Personal transfers" replaces the Balance of Payments Fifth Edition (BPM5) component "workers' remittances", which has been retained, following the recommendations of BOPCOM, as a supplementary item. Accordingly personal transfers will be defined as follows:

> "Personal transfers consist of all current transfers in cash or in kind made, or received, by resident households to or from other non-resident households."

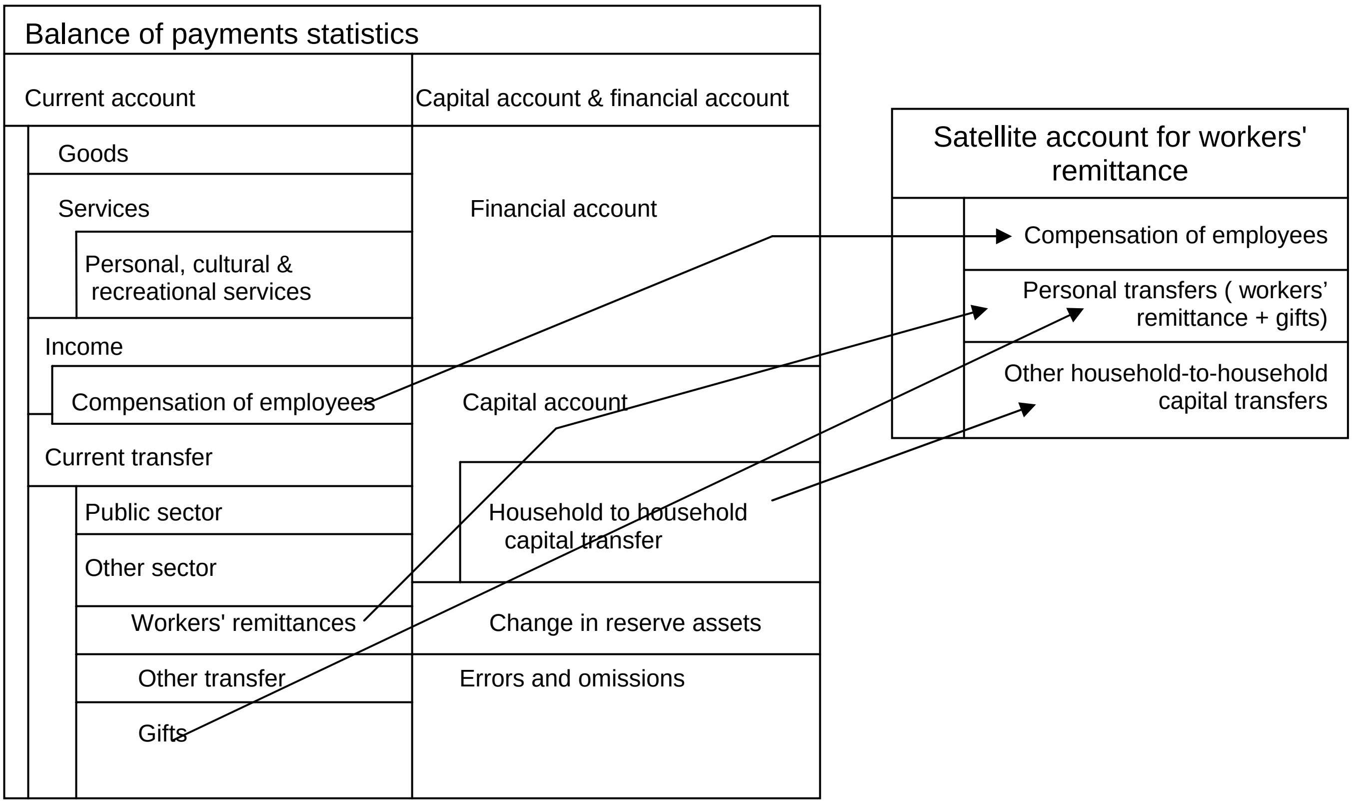
Further the TSG agreed to define personal remittances, taking the perspective of the receiving country, as follows:

> "Personal remittances = personal transfers + net compensation of employees + capital transfers between households"

Personal remittances are essentially household-to-household transfer, with net compensation of employees approximating an imputed unrequited flow from the household members as employees to the households themselves. A pictorial representation of the above definition as given in Satake & Hassine (2006) is reproduced in Chart 1 below.

Chart 1:

Conceptual diagram of "personal transfer" and "personal remittance"



Source: Satake & Hassine (2006).

Having discussed about the definitional aspect of workers' remittance, it will be of interest to study the various methodology adopted by major remittance receiving and paying countries. The data collection procedures and compilation methodologies for workers' remittance adopted in Mexico, Philippians, Indonesia, Italy, Japan and UK are detailed in Annex 3.

4. Sources and compilation methodology of workers' remittance in India

In the BoP statistics of India, workers' remittances are presented as a part of Private Transfer under the head "Transfers" and "Compensation of Employees" is presented under the head income. The data for Private Transfers covers (a) inward remittances from Indian workers abroad for family maintenance, (b) local withdrawals/redemptions from non-resident deposits, (c) gold and silver brought through passengers baggage and (d) personal gifts/donations to charitable/ religious institutions in India. This presentation of the data is mostly in consistent with the definition of workers' remittance as given in BPM5. The items under (a) and (d) are compiled from the Foreign Exchange Transactions- Electronic Reporting System (FET-ERS) reported by the authorized dealers branches, information on (b) is compiled based on STAT-Returns (Technical Notes on FET-ERS and STAT returns is given at Annex 1) and (c) is compiled based on custom data. The information on compensation to employees is compiled based on FET-ERS, as well as from the information obtained from National Association of Software Computer Manufactures and Maintenance (NASCOMM).

As a part of the administrative requirements under the Foreign Exchange Management Act (FEMA), the Authorized Dealer (AD) Branches who are authorized to deal in foreign exchange transactions are need to report all the foreign exchange transactions dealt with them on a fortnightly basis to Reserve Bank of India (RBI). AD branches are categorized into 3 categories namely “A”, “B” and “C”, where category “A” branches are the branches who opens and maintain foreign currency accounts with foreign banks or with foreign counter parts (Nostro account). Category B branches are those branches which can freely operate on these accounts. They are operating these account through a subsidiary ledger opened at their end. These “A” and “B” category branches have to report the details of the foreign exchange transactions on a fortnightly basis to RBI through a statuary return called R-Return. Category “C” branches can also deal in foreign exchange, but the reporting of all the transactions routed through them have to be reported through a link office which may be either “A” or “B” category branch. In addition to this some bank branches also maintain Rupee account and Asian Currency Union Dollar (ACU$) account of foreign banks/Private Exchange houses (Vostro account) with them. The transactions routed through these Vostro accounts also have to be reported by the account maintaining branches through fortnightly R-Return. At present around 3,000 such bank branches submit the details of foreign exchange transactions on a fortnightly basis to RBI. As regards to inward remittance to India, for reporting purpose, there exist a threshold limit of Rs. 5 lakh (around US$ 10,000), below which only aggregate figures are to be reported. For the transactions above or equal to the threshold limit, AD branches reports the details like purpose, country, currency, amount, etc, at individual transaction level. Accordingly, data on workers’ remittances reported through the AD branches above or equal to the threshold limit can be obtained through FET-ERS. In order to estimate the distribution pattern of transaction under the threshold limit a survey called Unclassified Receipt Survey (URS) is conducted among the “A” and “B” category branches. For this purpose, all the branches that have reported more than Rs. 50 million as inward remittance to India in a calendar year under the threshold limit is selected. Two randomly selected dates in a fortnight will be advised to these selected branches, advising them to report the details of the transactions during the selected dates on a fortnightly basis to RBI. Based on this sample data and the population aggregates (total of the figures reported under the threshold limit by all the reporting AD branches) advised by the banks, the purpose wise classification of the inward remittance transactions to India under the threshold limit are estimated. Thus if “P”, “S” and “Sw” are the population total, sample total and sample total for workers’ remittance, the estimates for workers’ remittance, “Pw” under the threshold limit is calculated as $Pw = Sw * P/S$. In addition to the remittances received from migrant workers for their family maintenance in India, remittances are also received from the migrants, which are not meant for immediate consumptions locally, but received for depositing in the various deposit schemes with banks in India. Initially these transactions are classified as financial transactions (capital account as per India’s BoP presentation). At the time of withdrawing these funds locally for consumption, they will be considered as private transfer receipts under current account with a contra entry in the capital account to balance the double entry system of BoP statistics. Bank branches which are authorized to maintain these Non-Resident accounts reports their flow of transaction like all the fresh inflows, local credits, local debits and repatriation outside India in monthly Returns called STAT returns. This information is compiled at the branch level and will be consolidated by the head offices of the Banks. The consolidated information is received at RBI on a monthly basis from around 200 Banks. As regards to the third component in India’s presentation of private transfer in BoP statistics, passengers coming to India after a period of not less than six months of stay abroad can bring gold and silver as part of the baggage by paying necessary duties. This data is included as workers’ remittance as a contra entry to import in the BoP statistics. The data is compiled based on information received from the customs office. Since in India data on migrants’ transfer is not available, all transfers are part of current account.

5. Trends in workers' remittances in India

Workers' remittances, more specifically private transfer in Indian context forms a significant share in the total invisible current account receipts. During 2003-04 these remittances accounted for around 42.5 percent to total current account invisible receipts. It also accounted for 4.1 percent of India's GDP at current prices. Table 1 below provides information from 1989-90 to 2003-04.

Over the period of 15 years, private transfer, as defined above have increased more than 10 times, from 2.3 billion USD in 1989-90 to 23 billion USD by 2003-04. In 1989-90 these remittances formed about 14 percent of merchandise exports, 11 percent of merchandise imports and about 1 percent of overall gross domestic product, measured at factor cost at current prices. After about 15 years, these percentages were much higher at 36.3 percent, 30 percent and 4.2 percent respectively. Perhaps the increase in the number of migrants from India and the migration of high skilled worker's over the time has contributed to robust increase in remittance especially in the recent post liberalization period. Empirical evidence as gathered by some of the scholars (Gupta, 2005) has concluded that remittances have not been affected by the risk-return considerations to the same extent, such as portfolio investment or even non-resident deposits.

Table 1

Private transfer receipts to India

Year	Private transfer (US$ million)	Private transfer/ exports	Private transfer/ imports	Private transfer/ GDP
1989-90	2297	13.8	10.8	0.9
1990-91	2084	11.5	8.7	0.7
1991-92	3797	21.3	19.6	1.6
1992-93	3864	20.8	17.7	1.7
1993-94	5287	23.8	22.7	2.1
1994-95	8112	30.8	28.3	2.8
1995-96	8540	26.9	23.3	2.7
1996-97	12435	37.2	31.8	3.6
1997-98	11875	33.9	28.6	3.2
1998-99	10341	31.1	24.4	2.7
1999-00	12290	33.4	24.7	3.0
2000-01	13065	29.3	25.9	3.1
2001-02	15760	36.0	30.7	3.6
2002-03	17189	32.6	28.0	3.7
2003-04	23183	36.3	29.7	4.2

Source: Compiled from various RBI Bulletins.

In view of these stability characteristics as displayed by remittance, they have emerged as one of the stable source of strength for balance of payments in India. Among the variables that are considered to be significantly associated with the movements in remittances include indicators of economic activities in the source countries. Remittances are higher when economic conditions abroad are benign, and remittances are also found to be somewhat counter cyclical, that is, higher during the period of negative agricultural growth (Gupta, 2005).

6. Coverage of remittances in national statistics

Considering the volume and relative importance of remittances, internationally, the quality of data on remittances is poor. It reflects that a considerable volume of remittances are transferred through unofficial channels since transfer through official channels incur high transactions cost. In order to facilitate the remittances through formal channels, the World Bank in its "Committee on Payment and Settlement Systems- General Principles for International Remittances Services" has recommended to reduce the cost of remittances by way of inducing transparency in the process of remittances adopted by the formal channels. This should also include to provide access to financial literacy programs where appropriate and by working with the private sector to extend the range and reach of these services. This also recommends to promote better coherence and coordination of international organizations that are working to enhance remittances services and heighten the developmental impact of remittances receipts in developing countries; encourage cooperation between remittances service providers and local financial institutions in ways that strengthen local financial markets and improve access by recipients to financial services and government should evolve regulatory mechanism and work towards modernizing financial infrastructure.

In India the channels through which remittances received are commercial banks and Money Transfer Companies. Moreover, commercial banks, Post offices, exchange bureau and other non-banking institutions, etc act as paying agents of Money Transfer Companies. As discussed earlier majority of the remittances to India are routed through the Nostro/Vostro accounts of the Non Resident banks/Private Exchanges houses maintained with Authorised Dealers in India. Presently international organizations like Western Union Money Transfer Services, Money Gram, etc, are also engaged in sending foreign remittances through their agents in India. According to the RBI guidelines on Money Transfer Scheme issued in June 2003, only personal remittances, such as remittances towards family maintenance and remittances favouring foreign tourists visiting India are permitted under this scheme.

As discussed above, all foreign exchange transactions routed through Nostro/Vostro accounts are reported by the AD branches to RBI through the fortnightly R-Return under FET-ERS, which captures the transaction-wise data above a threshold limit of Rs 5 lakh (half a million of the Indian Rs. currency). For transactions below the threshold, a survey (Unclassified Receipts Survey, a Technical Note given at end) is conducted among the banks to estimate the purpose wise distribution of these low value transactions. As regards to remittances received through Money Transfer Companies, the settlements of the transactions are taking place through the banking channel. Thus, though the data is not collected at the time of remittances paid by the beneficiaries in India, the same is getting reported through the FET-ERS at the time of settlement of these transactions through authorized dealers.

7. Issues related to compilation and coverage of workers' remittance in India

As mentioned above, India's BoP Statistics presents the workers' remittances as private transfers consisting of 4 components. The major component, remittances on account of family maintenance is compiled based on bank reporting system as discussed in the earlier section. The major issue in bank reporting is that of the misclassification of transactions. As in any statistical system, when the data is collected from large number of reporters (around 3,000 in Indian case) data cleaning is a bit difficult task. For Banks also, when they handle large number of transactions, it becomes difficult to classify the transactions, unless and until, the information is readily available. In most of the cases, remittances will be received through SWIFT messages, electronic wire transfer or through telegraphic transfer, where the purpose for which the funds are received will be seldom available. In this scenario, the quality of reporting depends on the quality of the person who reports the transaction. It is also observed recently that, for statistical data reporting, banks used to outsource the resources instead of using their own experiences staff as a measure of cost reduction. This may again fuel the bad/ wrong reporting of the data. When the transaction is wrongly reported, it is quite often observed that these transactions are classified as unknown purpose. Accordingly, the chances of underreporting of workers' remittances cannot be ruled out. In the case of small value transactions, the estimates for the workers' remittance depend on the quality of the sample. In sample reporting also, the amount of misclassification into unknown purpose, is on the rising trend, leaving the estimates far away from the actuals. Another statistical issue in bank reporting is regards to the incorrect reporting of country of remittance information. A natural trend, we have observed is that, to record the country as USA, since mostly the transactions will be received in US Dollar.

As mentioned above, since workers' remittances data routed through the Money Transfer Companies are not directly captured, the statistical issues arises in this type of transactions are as follows:

- Misclassification of the transactions under FET-ERS by the banks reimbursing the funds to the agents.
- Information on number of transactions, which is vital for policy decisions, may be missing as banks may be reporting only consolidated transactions.
- Quite often country from which remittances are received get wrongly reported under the FET-ERS.

Another statistical issue is of the misclassification of "compensation of employees" as "workers' remittances" and vice-versa. We understand that internationally, also this problem persists due to the difficulty in practice to make distinction between migrant resident and non-migrant resident.

The RBI has carried out steps towards maintaining a systematic data on foreign exchange transactions in particular workers' remittance. Periodical trainings are conducted for the bank branches reporting foreign exchange transactions data with an emphasis of the importance of the data in compilation of BoP statistics. Banks are also given training on the classification issues so as to minimize the classification problems. Towards setting up a proper statistical system, more initiatives are required to be taken. It may be in the lines of supplementing the present reporting system, like periodical surveys among selected branches collecting detailed information, introduction of households surveys specifically for the purpose of collecting data on workers' remittance, etc. In addition to the above, maintaining a database relying on the information collected from Money Transfer companies is a need of the situation. Another very important statistical system to develop is regarding the migration statistics, which is vital for countries like India where enormous rise in the remittances are observed.

8. Workers' remittances and Mode 4

Discussions on setting up a statistical framework for the measurement of services rendered through the movement of natural person - Mode 4 is on its high in international forums. The objective of the framework is to obtain a more in-depth picture of the economic impacts of temporary movements of persons in the home and host countries as well as more reliable estimates of economic indicators, such as Gross Domestic Product (GDP), remittances and by extension, Gross National Income (GNI) and Gross National Disposable Income (GNDI) An underlying assumption under the General Agreement on Trade in Services (GATS) framework to measure delivery of services through Mode 4 is that the migrant workers' remittances mirror the export of services. It may be noted that all the funds remitted by migrants are not treated as workers' remittance for the compilation of BoP. As per the BPM5, the money remitted by a migrant for the purpose of making a deposit in his or her account with a bank located abroad represents a financial transaction rather than a remittance. Such remittances may also be out of the income the migrant received, for rendering a service and as such related to trade in services through Mode 4. At present India does not have a proper statistical system so as to classify the workers' remittance into various service categories based on the economic activities performed by the migrant workers. Therefore, a proper identification, classification and measurements of remittance repatriated by the migrant workers are became a need of the situation under the GATS to asses the magnitude of services delivered under Mode 4.

9. Challenges ahead to strengthen the statistical system and concluding remarks

As noted earlier, migrant transfers have a positive effect on the welfare of recipient families, poverty reduction in significant segments of the population etc. The government can also make leverage of remittances for the development purpose, foreign exchange management etc. In recognition of the importance of remittance for economic development, The government may need to take various policy initiatives in the area of migration policy, monetary and fiscal policy and financial sector policies. The policy initiatives are needed to evolve appropriate payment channels for the remittances, to create international money transfer systems especially to ensure that remittances are not used as a part of money laundering and as a channel to finance illegal activities, etc. At present data on remittances are collected largely to identify the BoP flows and attempt made to relate such flows to income generation in the economy are rare. With increases in the volume of remittances and the availability of different products to remit the funds, it may become more difficult for the compilers to cover the remittance transactions only through the bank reporting system. Further, the information on the country of remittance, the number of remittance transactions, the mode of remittance, etc, may also be of importance to identifying and elaborating legislative and regulatory policy frameworks which enhance remittance flows and maximize developmental impacts. The additional data availability may also require for improving financial infrastructure and the productive use of remittances. Policymakers may like to understand the propensity of migrants to send remittances, their volume, and their final use, etc, so as to fully grasp the complex relationships between various players involved in the whole process of remittance. The negative effect of migration in terms flight of skilled human capital may leads to a threat to economic growth of the country by depriving industry and key services sectors with skilled personals. To understand the extent of such negative impacts and to take necessary policy initiatives under migration policies,the government may require high quality data giving information on various parameters. A few other areas which may call for higher quality data, may be:

- Interlinkages between migration and remittance policies;
- Anti money laundering and Anti terrorism regulations and their effect on remittances;
- Policy initiatives to reduce transaction cost of remittances.

In short, there are challenges in the area of taking further steps towards building an orderly, and efficient statistical system to collect and disseminate the information on various parameters of the remittance transactions. Building up a proper statistical system should be given utmost importance in the wake of increasing volume of remittances, their impact on the economy, growing security concerns relating to money laundering and terrorist financing. In order to develop an estimate for trade in services through Mode 4, classified according to various economic activity, it is essential to develop a migration statistics giving information on various parameters like economic activity in which the migrants are involved, the country of migration, the number of migrants, etc. A proper statistical system so developed may work as key inputs to take appropriate regulations and policy initiatives as and when needed.

Annex 1:
Explanation on the various returns/schedules

Stat 5 return: A statutory return, which gives the monthly currency wise flow as well as stock of the Foreign Currency Non-Resident (FCNR) deposit. This return has to be submitted to Foreign Exchange Department, of the Reserve Bank of India on a monthly basis by the head office of the banks, which maintain FCNR deposits

Stat 8 return: A statutory return, which gives the monthly flow as well as stock of the Non-Resident External (NRE) rupee account deposit. This return has to be submitted to Foreign Exchange Department, of the Reserve Bank of India on a monthly basis by the head office of the banks, which maintain NRE deposits.

Stat 9 return: A statutory return, which gives the monthly flow as well as stock of the Non-Resident Non-Repatriable (NRNR) rupee account deposit. This return has to be submitted to Foreign Exchange Department, of the Reserve Bank of India on a monthly basis by the head office of the banks who maintain NRNR deposits. Since the NRNR scheme has been discontinued with effect from April 1 2002, there may not be any Stat 9 return to be submitted from April 1, 2005 onwards.

Foreign Exchange Transactions - Electronically Reporting System (FET-ERS): A system of reporting foreign exchange transactions routed through the Nostro/Vostro Account maintained by the Authorized Dealer (AD) branches. AD branches have to report on a fortnightly basis, the information on purpose, currency/country of remittance, date of remittance, and amount in foreign currency, etc, for all the foreign exchange transactions except for inward remittance below the equivalent of Rs. 5 lakhs on account of other than merchandise trade transactions.

Unclassified Receipt Survey (URS): In order to estimate the purpose and country wise distribution pattern of the aggregate figures reported for below the equivalent of Rs. 5 lakhs on account of other than merchandise trade transactions, a survey naming, Unclassified Receipt Survey (URS) is conducted among selected AD branches. All the AD branches reported more than Rs.5 crores as total unclassified transactions during a calendar year are considered for the survey. Two dates in a fortnight are randomly selected and advised to the selected bank branches in advance. The selected branches have to report on a fortnightly basis, coded information on purpose, country of remittance and amount in foreign currency, etc of all the transaction with value below the equivalent of Rs. 5 lakhs routed through the branch.

Annex 2:
Disaggregated data on private transfer remittance (million US$)

Table 2

Disaggregated data on private transfer receipts to India

Year	Family mainte-nance	Gifts & donations	Migrants' transfers	Repat. of saving by Indian	Repat. of PF and oth. benefit from abroad	Reimb. of M.O. drawings	Imports of gold and silver	ID bonds transf. to residents	Other	Local redemp-tions from NRD	Total
1989-90	720	405	0	1,161	10	0	0	0	1	0	2,297
1990-91	626	417	2	1,027	11	0	0	0	1	0	2,083
1991-92	702	344	1	2,738	11	0	0	0	1	0	3,798
1992-93	730	445	0	1,604	5	3	1,076	0	1	0	3,864
1993-94	514	838	4	2,241	15	4	1,670	0	1	0	5,287
1994-95	1,727	587	7	3,665	17	8	2,100	0	1	0	8,112
1995-96	1,003	1,359	3	4,198	13	19	1,943	0	2	0	8,539
1996-97	2,518	726	11	1,935	11	10	2,718	1,017	62	3,427	12,435
1997-98	5,232	526					2,699			3,418	11,875
1998-99	7,661	650					171			1,859	10,341
1999-00	7,423	734					13			4,120	12,290
2000-01	7,747	581					10			4,727	13,065
2001-02	6,569	632					13			8,546	15,760
2002-03	9,914	613					18			6,644	17,189
2003-04	10,798	681					19			11,685	23,183

Source: Compiled from various RBI Bulletins.

Annex 3: Country practices for compilation of workers' remittance

Mexico: The Banco de México (Central Bank of Mexico) has legal power to regulate fund transfer services carried out by financial institutions and any other agent professionally involved in such activity. During 2002, a set of rules were issued instructing all firms dedicated to the service of funds transfers to provide monthly information on the amounts and volume of remittances sent to Mexico, classified by Mexican recipient state. The rules were issued with an intention to create a register of firms dedicated to money transfers, to standardize the information received, and to produce information at a national level and state level. Further, there is an agreement between the Federal Reserve of the United States and Banco de México to connect their respective system of payments ("Automatic Clearance"). By this agreement, banks can transmit and receive payments in a way similar to the one they use in their countries. Information particular on the remittances is to be collected as a byproduct of this system. For non-house hold transfers like grants and pensions, for which the data are obtained from international organizations, private foundations, and the embassy of the United States.

Philippines: Workers' remittances and Compensations of employees' data are complied based on bank reports to Bangko Sentral ng Pilipinas (BSP) on cash passing through banks and remittances through Money Transfer Operators (MTOs). In addition to this, Survey on Overseas Filipinos (SOF) for estimates of cash passing through other channels and for remittances-in-kind is also used. Migrant workers are classified as Sea based workers and Land based workers. Remittance from all the Sea based workers is considered for compilation of compensation of employees, while remittance from Land based workers except that of entertainers are considered as workers' remittance. Compensation of employees is estimated using the formulae

Remittance = Stock of workers$_{t=0}$ * Ave. salary per worker$_{t=0}$ +

No of workers deployed $_{t=1}$ * Ave. salary per worker $_{t=1}$ –

No of workers with finished contract * Ave. salary per worker

BSP had also initiated to establish a benchmark estimate of stock of Overseas Filipino workers. They are also Gathering data on average salary per worker by skill category and by country to fine-tune their estimates.

Indonesia: The data on worker' remittance receipts are derived from the relevant ministry's reports on the number of Indonesian workers abroad and their average wages and salaries. In case of payment side also data are derived from relevant ministry's reports on the number of foreign workers and their average wages and salaries. Data for non-household transfers are derived from information provided by the Ministry of Finance and National Development Planning Agency. The entries include grants in cash and in kind received for development, including technical assistance.

Italy: In Italy a system similar to India exists. Banks and Non-banks are reporting their cross border data through the International Transaction Reporting System (ITRS). In accordance with the rules for the European Monetary Union countries, the minimum threshold for these flows to be recorded is 12,500 euro. In particular data on workers' remittance are collected from the cross border transaction reports. A portion of flows recorded as remittances is allocated to compensation of employees since an estimated proportion of remittances from abroad is attributed to wages and salaries earned by Italian employees. Data on compensation of employees are also based on receipts and payments related to wages and salaries and on expenditures by foreign embassies in Italy or Italian embassies abroad and are obtained mainly from the cross border transaction reports. These data are supplemented with estimates based on information from the OECD on the tax and social security system in member countries.

Japan: Japan also uses ITRS for the compilation of workers' remittance in principle. Due to the high exemption threshold (currently 30 million JY), 35 major commercial banks are required to submit the partial reporting on transactions from 2 million up to 30 million JY on monthly aggregated basis. Those partial reporting is used to supplement ITRS. For compilation of regional workers' remittance data “Annual Report of Statistics on Japanese Nationals Overseas” is been used.

United Kingdom: The UK does not have any exchanges controls system since 1979. Transactions-based reporting, direct reporting system or data sources within the banking or wider financial sector is not available. No information on expenditure form population statistics is also available. Accordingly, workers’ remittances are projected forward mainly on the basis of IMF BoP Yearbook counterparty data. For most countries in most years a percentage of the country total that goes to UK is estimated.

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