

# Cuban Integrated Financing Framework (CIFFRA)



## REPORT N° 3 EXCHANGE OF EXPERIENCES ON REMITANCES







The diagnostic and specialized debate exercises of the Joint Program "Support for the development of an Integrated National Framework for Financing the SDGs in Cuba" (CIFFRA) highlighted the importance of having clear information and data on family remittances as a prerequisite for outlining policies to channel these resources to the development strategy.

Based on this and as part of CIFFRA deliverables, an exchange of experiences between central banks in the region on the recording and estimation of family remittances was held on June 29, 2022, with the presence of around 15 representatives from the Banco Central de Cuba (BCC), the Ministry of Economy and Planning (MEP) and the Economic Commission for Latin America and the Caribbean (ECLAC). René Maldonado and Salvador Bonilla participated as regional experts.

Presentations by Lizbeth Leyva (Manager of Analysis and Measurement of the Real Sector of the Banco de México), Víctor Javier Nicolas Miladeh (Balance of Payments Deputy Director of the Banco Central de la República Dominicana) and Xiomara Hurtado (Head of the External Sector Department of the Banco Central de Reserva de El Salvador) shared their experiences in recording and estimating remittances, emphasizing on those that are conducted through informal channels.

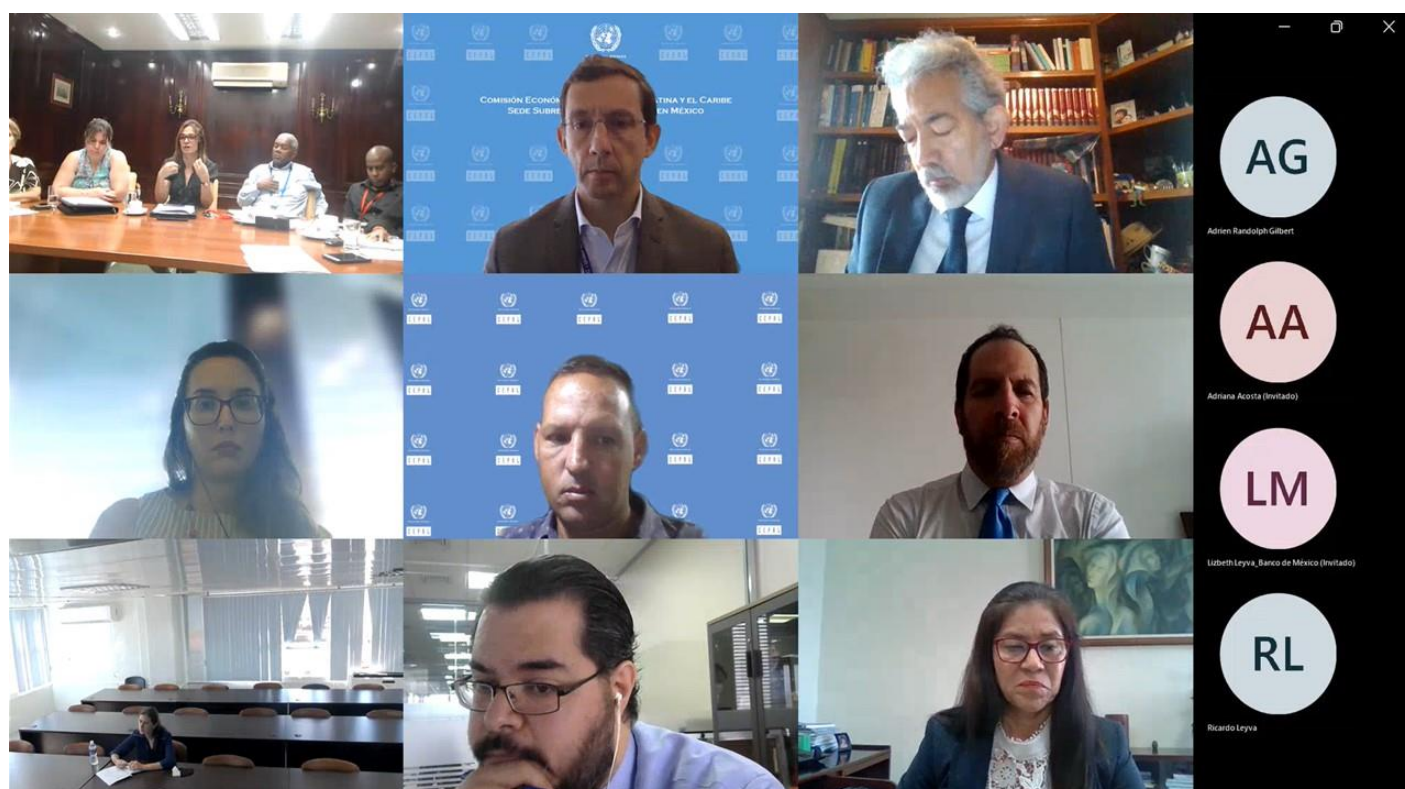
Lizbeth Leyva (Banco de México) highlighted the best practices of the sub-region's largest economy:

- ▶ The monthly and quarterly process of measuring remittances received by Mexico is carried out by the Central Bank as part of the Balance of Payments statistics. The compilation of information regarding remittances made by registered channels is done through the Family Remittance System (SRF, its Spanish acronym) created by Banco de México for operators to send information and to cross-reference this information with other internal systems of the bank.
- ▶ Companies report 14 attachments the first 20 days of the following month. The statistics are published 30 or 31 days after the end of the quarter and include a set of statistical tables, an analytical report of remittance inflows and outflows, and other related indicators.
- ▶ Direct remittances (less than 1% of the total), both in kind and in cash, are estimated based on information compiled in the survey of international travelers conducted by the National Institute of Statistics and Geography (INEGI, its Spanish acronym.) Due to the time lags between the application of the survey and the publication dates of the monthly information, a preliminary estimate is made, which is revised in the quarterly information publication.

- ▶ Application of survey to travelers is conducted in sixteen points of entry of tourists and international travelers through a stratified sampling. The results are expanded according to considerations associated with the sample. The objective of the survey is to capture flows from international travelers and remittances are only a part of these surveys (questions allow to differentiate remittances from other expenditures made by travelers).

Víctor Javier Nicolás (Banco Central de la República Dominicana) explained the experiences of an economy very similar to the Cuban economy:

- ▶ Between 2010 and 2019 remittances showed a very steady growth and represented about 7% of the GDP. With the pandemic it grew to more than 10% of the GDP. Between 2017 and 2019, 15% of remittances received in the country were sent through informal channels, though in recent years it has decreased to 10%.
- ▶ The regulatory framework is essential for the statistical compilation process. The Monetary and Financial Law and the Exchange Regulation establish the rules that market operators and authorities must follow for the statistical process.
- ▶ The compilation and publication of remittance data involves the Transactions Services Statistics Division and the Economic Surveys Sub-Directorate of the National Accounts Department, which conduct surveys of travelers. The data is processed and included in the Central Bank's reports and publications, including the sex of the recipient, the currency in which they are paid, the paying institution, the province or city of destination, etc.
- ▶ Formal remittances are compiled through reports sent by market companies on a weekly basis but with a daily breakdown of transactions on flows sent and received.



- ▶ Traveler’s surveys conducted by the National Accounts Department are used to compile remittances entering the country by informal channels. In these surveys there is a module on remittances in cash and in kind. For remittances leaving the country by informal channels, mainly to Haiti, estimates are made based on the Haitian Population Census, the employment of this diaspora and data from informal surveys conducted in the past.
- ▶ The ongoing work of compiling remittances arriving in kind represents a challenge. To this end, conversations are being held with companies that carry out these activities abroad, in order to establish a methodology to compile these flows and incorporate them into the statistics.
- ▶ Although they do not currently enjoy a strong share in the remittance market, deliveries through digital channels, apps, Fintech, cryptocurrencies and others, represent a compilation challenge that needs to be included in process and measurement methodologies.

Xiomara Hurtado (Banco Central de Reserva de El Salvador) commented on the experiences of one of the main remittance-receiving countries in the sub-region:

- ▶ Remittances are very important for El Salvador. In 2021 they represented 26.2% of the GDP and it is estimated that at least one fourth of Salvadoran households received remittances.
- ▶ Compilation of information is based on a regulatory framework that includes the Organic Law of the Central Bank, the Financial System Supervision and Regulation Law, and the instructions and technical standards of the Central Bank.
- ▶ Formal remittances are measured on the basis of the information sent by remittance agents (banks and other companies) and account for 96.4% of the total information compiled. In addition, information is received from telephone companies (payment of phone minutes from abroad), companies that allow the use of electronic purses, and banks (payment of remittances as part of their operations).
- ▶ Remittance agents and banks report on a daily basis. They provide detailed information (place of payment, type of currency, type of transfers, etc.) on each transaction and a specific field for transactions over \$5,000. Telephone and digital wallet companies send their information on a monthly basis.
- ▶ Remittances by informal channels represent 1.5% of all the information published and are measured through biennial surveys in the United States, with the support of consulates (random sampling stratified by state). Remittances in cash and sent through messengers are also estimated.
- ▶ A cash coefficient is estimated from the surveys, which is distributed on a monthly basis according to the seasonality of traveler flows. For remittances through messengers, the coefficient is distributed according to the seasonality of remittances in the formal market.
- ▶ Alternative means were tried (local surveys or inclusion of questions in the travelers’ survey) but it was concluded that surveys in the United States are best for El Salvador.
- ▶ The challenges are similar to those of other countries in the region: compilation of remittances by digital means, measurement of in-kind remittances, payment of services from abroad and better geographical breakdown of the origin of remittances by state.



Following the presentations, expert Salvador Bonilla pointed out that in the case of Cuba, the particular circumstances of the country have made the informal channel the main means for sending remittances. Therefore, establishing measurement mechanisms and methodologies that favor the compilation of remittances by these means is required. The challenges, as in other countries in the region, include the compilation of information on remittances in kind and those through innovative channels (cryptocurrencies and others), as well as payment of services directly from abroad (phone minutes, e-wallets, etc.)

Expert René Maldonado pointed out that policy design needs to be based on reliable and clear information. It is no coincidence that the region's central banks, as a first step in analyzing the remittance phenomenon, have improved the processes and methodologies for measuring remittances. Fifteen years ago, the information and estimates of international organizations differed from the publications of the monetary authorities, which led to a complex revision of the methodologies for recording and estimating remittances.

For information on remittances flowing through informal channels, it is necessary to determine the capacities and scope of each country. In some countries, questions can be established or included in existing traveler or household surveys. In others, it is possible to implement specific surveys on remittance senders (as in the case of El Salvador) or surveys at travelers' border crossings, which allows profiling remittance recipients and senders.

Transparency in remittance information and measuring methodology has benefitted the countries of the region. By improving the transparency and quality of remittance information, the market became more formal because: (i) the authorities were able to adjust regulations to encourage the use of formal channels; (ii) users became aware of the existence and advantages of formal channels in terms of risk, efficiency and cost, and (iii) market operators were able to establish market opening strategies, displacing informal operators.

Once the region made progress in the area of remittance measurement, identifying and making progress on other related issues, such as the effects of remittances on financial inclusion or, more recently, on the achievement of the SDGs, was made possible through the information available.

Dayamis Muñoz, General Director of Economic Policies of the Banco Central de Cuba, stressed that remittances are a very important issue for Cuba, not only because of the importance of recording these flows in the Balance of Payments, but also because of the contribution they make to the population's income. The authorities are currently in the process of evaluating the mechanisms for measuring remittances, so this workshop comes at the right time.

In Cuba, remittances have their specificities but also similarities with remittance flow in other countries in the region. Remittances tend to go through informal channels, largely due to the restrictions imposed by the U.S. blockade (impossibility for formal entities to establish their office in the country and closure of correspondent offices for Cuban banks). On the other hand, remittances go through channels similar to other flows (private investment, commercial transactions, etc.), making it difficult to identify and compile them properly.

Other issues of relevance for Cuba were addressed in the debate, such as experiences in recording remittances made through service payments (telephony, basic services, etc.) or the use of customs information for estimating remittances in kind.

Experts also stressed that the process of reviewing and improving the remittance measurement methodology by the Banco Central de Cuba could benefit from the experience and knowledge of other central banks in the region through technical assistance missions, such as those carried out in other countries over the last 15 years.

CIFFRA Technical Committee – October 31, 2022



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