# A framework for the collection and compilation of Remittances for Namibia: Evidence and Lessons from selected MEFMI countries.

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**ABSTRACT**

The purpose of this study is to review the Namibia framework for the collection and compilation of remittances. Remittances have grown remarkably during the last two decades, constituting a large source of foreign exchange flows to developing countries. This in turn has excited considerable interest among economists and policymakers seeking to have a clear understanding of the role and importance of remittances. However, to understand fully the impact of these flows, it is important to measure them accurately. Namibia's Balance of Payments (BOP) has not fully captured the volumes of these flows, evidenced in its current estimation method. This study reviews various methodologies that the Bank of Namibia (BON) could possibly adopt by examining the experiences from other central banks. The study assesses experiences of selected MEFMI member institutions, namely the Central Bank of Lesotho (CBL), Central Bank of Kenya (CBK) and the Bank of Uganda (BOU), to draw lessons and evaluate possible methods that Namibia could implement. In addition, having examined the current methodology for Namibia, the findings of the study revealed that although remittances do not outweigh other financial flows in the BOP, they are significantly understated. The study used a two-pronged approach, based on data reported by authorised dealers for preliminary estimates with some adjustments for informal and in-kind transfers and final estimates derived from household surveys conducted in collaboration with the statistics agency.


Keywords: Remittances, Balance of Payments, Namibia

**ACKNOWLEDGEMENT**

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**LIST OF ACRONYMS**

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|---|---|
| ADA | Authorised Dealers in Foreign Exchange |
| ADLA | Authorised Dealers in Foreign Exchange with Limited Authority |
| APTS | Annual Personal Transfer Survey |
| BON | Bank of Namibia |
| BOP | Balance of Payments |
| BOPCUS | Balance of Payments for Customer Transaction Reporting |
| BOU | Bank of Uganda |
| BPM5 | Balance of Payments Manual, fifth edition |
| BPM6 | Balance of Payments and International Investment Position Manual, Sixth Edition |
| CMA | Common Monetary Area |
| EAs | Enumeration Areas |
| FDI | Foreign Direct Investment |
| GDP | Gross Domestic Product |
| IMF | International Monetary Fund |
| IMO | International Migration Outlook |
| ITRS | International Transactions Reporting System |
| MEFMI | Macroeconomic & Financial Management Institute of Eastern & Southern Africa |
| MTOs | Money Transfer Operators |
| NGOs | Non-Governmental Organisations |
| NSA | Namibia Statistics Agency |
| ODA | Official Development Assistance |
| RCG | Remittances Compilation Guide |
| SADC | Southern African Development Community |
| UBOS | Uganda Bureau of Statistics |

# 1.0 INTRODUCTION

## 1.1 Introduction

Remittances arise mainly from the migration of residents for permanent or temporary employment in other countries. Orozco (2006) defines remittances as earnings of migrants sent from a country other than their own to a family member or household in their country of origin for the purposes of meeting certain economic and financial obligations. As per the International Monetary Fund (IMF) guidelines, measuring remittances in the Balance of Payments (BOP) is computed by summing two standard components in the current account: *personal transfers* and *compensation of employees* (IMF,2009). The component, *compensation of employees* in the BOP refers to the earnings of border, seasonal or other short-term workers who are employed in an economy where they are not resident and this includes income earned by resident workers employed by a non-resident. The component, *personal transfers* consist of all current transfers in cash or in-kind made or received by resident households to or from non-resident households.

The studies by Merovci and Sekiraça (2014) and Paderanga (2009) highlights the contribution of remittances as a source of external development finance and its ability to service deficits in the external accounts. According to the World Bank (2016), remittances flows to developing countries are expected to rise further by an estimated 4.0 percent per annum for the period 2016-17. Considering their volumes and relative importance, particularly the role they play in funding the needs of recipient economies, there is need to ensure the accurate measurement of remittances. However, a number of recipient countries have data gaps due to the nature of these flows, making it difficult to do thorough analysis (Kapur, 2008). Although the literature recommends various techniques for capturing remittances in the BOP, selecting a specific method will vary across countries. Moreover, with the large transactions transferred through informal channels, estimation of remittance flows becomes more difficult.

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## 1.2 Background

Namibia is a small open economy with a population of 2.5 million. As such, it has a greater dependence on international trade, represented by a high degree of trade openness. Although the country has experienced robust growth and resilience to shocks, vulnerabilities have been building up, while unemployment remains very high. Despite being a small open and commodity-dependent economy that is exposed to external shocks, the average annual real GDP growth has been around 5 percent during the past five years (BON,2016). Historically, there was high cross-border labour movement between the CMA countries – Lesotho, Namibia, South Africa and Swaziland. However, after independence in 1990, most Namibians moved back, leading to a large influx of returning migrant workers from the neighbouring countries, especially from South Africa.

In his research, Sherbourne (2016) describes the economy's heavy dependence on the mining sector, which attracts huge investment and contributes about 25.0 percent to the country's GDP. At present, considerable efforts have been made to ensure appropriate tools are adopted in measuring the major foreign exchange earning categories in Namibia's BOP, particularly Foreign Direct Investment (FDI), Southern Africa Customs Union (SACU) receipts[1] and mineral export revenues (Figure 1). These items are sourced directly from enterprises in Namibia through BON's quarterly surveys, as well as the Ministry of Finance. However, the role of remittances relative to other sources of external flows in the BOP is yet to be explored. This may be attributed to the general perception of a low migration rate and also given the magnitude of the other foreign exchange earners, such as exports of minerals, fish and tourism as well as foreign direct investment, to which greater focus is given and possibly overshadows remittance flows. While this reflects, in part, the sizeable flows from these other components, it is important to capture all transactions between residents and non-residents and continue improving the quality of the data to reduce *net errors and omissions* in the BOP.

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[1] SACU receipts are currently the largest inflows under the current transfers category in the BOP and accounts for about 30 percent of government revenue. All customs and excise reserves or duties collected in the common customs area are paid into South Africa's National Revenue Fund. The revenue is shared among member states (Botswana, Lesotho, Namibia, South Africa and Swaziland) according to a revenue-sharing formula as described in the SACU agreement.

**1.3 Statement of the problem**

Currently, remittance statistics for Namibia have been held constant for over a long period of time, owing to the absence of an appropriate and comprehensive methodology. The data on the component *compensation of employees* was first derived from an enterprise survey, and this estimate has remained fixed ever since. Estimates for *personal transfers* are also set at the same amount with no clear indication on how they were initially derived. As a result, the current estimates fail to take into account the changes that have occurred over the years, and potentially misrepresents the impact of these flows in the BOP. The World Bank (2016) indicates that, for most economies, Namibia included, the biggest impediment to the improvement of data related to remittances is finding a reliable data source, possessing the appropriate methodologies to capture the data and the political will to ensure the on-going measurement of remittance flows. A practical methodology in terms of data sourcing and compilation is required to achieve a more accurate estimate for Namibia's remittance statistics in the BOP. It is against this background that this study reviewed the current estimates in order to adopt an approach for the collection and compilation of remittances flows.

**1.4 Research objectives**

Given the relatively weak approach and the lack of a specific methodology, the study aimed to develop an approach that would accurately measure remittances in Namibia's BOP. The specific objectives included:

i.    To review existing estimates of remittances in Namibia's BOP for comprehensiveness. This entailed revising the main components that derive the total flow of remittances namely: *personal transfers* and *compensation of employees*.

ii.   To examine compilation practices of selected central banks in the region and propose an approach that can be adopted to improve Namibia's current remittances estimates.

**1.5 Significance of the study**

Despite their importance, the flows of remittances have not been closely monitored in Namibia's BOP, due to lack of an appropriate methodology in place to measure them. This

shortcoming could also be attributed to the overshadowing of other foreign inflows, which receive greater attention in the BOP. Furthermore, empirical work on the subject is quite limited. This is mainly highlighted in the results of the census and Namibia Household Income and Expenditure surveys conducted by the Namibia Statistics Agency (NSA), which do not include, statistics on migration patterns and cross-border remittances (NSA, 2012). As such, the findings of this study will serve as a good benchmark to assess the magnitude of these flows and contribute to existing literature. The study also comes at a time when the Namibian banking industry intends to participate in the development of an appropriate cross-border remittance settlement model for the Southern African Development Community (SADC) and Common Monetary Area (CMA), based on the specific requirements of the region as set out in the vision of the Namibia National Payment System (BON, 2015). This will require Namibia to participate in the development of a sound legal framework and standards for SADC/CMA remittance payment data aligned with international best practices. Additionally, this study uses the most recent data, which cover a period when issues of globalisation and cross border transactions became notable.

The rest of the paper is organised as follows: section two discusses the empirical and theoretical studies on methods, data and issues related to remittance transactions. Section three reviews good compilation practices from three central banks within the MEFMI region that have managed to establish a working method for the measurement of remittance flows. The methodology is discussed in section four, whereas. Section five present results of the new remittance estimates and the concluding section outlines lessons learnt and recommendations.

## 2.0 LITERATURE REVIEW

### 2.1 Introduction

There is growing interest in the analysis of the flow of remittances into developing countries because of their increasing volume and their impact on recipient economies. According to Gupta et al., (2007) remittances are perceived to be more stable when compared to other external flows. In their paper, Sander and Mainbo (2005) showed the magnitude of remittance flows to developing countries and they highlighted that these flows are at times amongst the largest source of financial flows after Foreign Direct Investment (FDI), and in other instances, they may even exceed flows from FDI in several economies. Nonetheless, literature reveals the poor quality of remittances data, largely attributed to the fact that measuring these flows is difficult because of the nature of the transactions and the substantial amounts which flow through informal channels (Reinke, 2007). As a result, the data generally underestimate the actual size of remittance flows. Furthermore, compilers have to consider aspects related to costs and other institutional factors when choosing to settle for a particular data source.

To understand the empirical discrepancies in the estimation of remittances, it is important to evaluate the various techniques recommended for measuring these flows. The need to review possible data sources and develop a strategy to improve estimates is fundamental to quantifying remittances that reflect the latest trends. There are a number of options for collecting and compiling remittances data, institutions may consider various factors when deciding on data sources (IMF, 2009).

### 2.2 Collection and compilation of Remittances data: Survey of different methods

There are several channels through which funds are remitted formally. As per the IMF's guide for compiling, it is essential for data compilers to assess possible available sources and cost implications when considering settling for a specific data source to measure remittances in the BOP (IMF, 2009). Literature suggests a wide range of sources for improved data collection of remittances. These are an international transactions reporting system (ITRS), direct reporting by remittance service providers, household surveys and the use of secondary source data such as administrative sources. It is, however, worth noting

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that each method has its strengths and weaknesses.

*2.2.1 International Transactions Reporting Systems*

According to the IMF guide for compilers and users of remittance data, the ITRS serves as a very good source for obtaining remittance flows for countries that already have the system in place, while setting it up can be an expensive exercise (IMF, 2009). An ITRS is a data collection system that obtains data from the banking sector, including from companies that report directly to the BOP compiling institutions, typically central banks. The ITRS is perceived to be a cost effective system for gathering information on remittances and is deemed timely when compared to other data sources for countries where the system is already in place. For economies with both the ITRS and exchange control regulations, it means that all transactions routed through the banking system and other foreign exchange licensed institutions are captured in the ITRS. A survey by de Luna-Martinez (2005) revealed that 83 percent of countries remittance transactions via electronic payment systems transmitted by commercial banks are recorded in official statistics.

Nevertheless, the ITRS has a weakness of underreporting of flows. This is because the ITRS does not capture transactions conducted through informal channels but only those channeled through the registered institutions. Secondly, most countries have reporting thresholds for the ITRS and hence might not capture the flows below the stipulated thresholds. An additional setback of using the ITRS as a primary source for measuring remittances is that comprehensive information on receivers and senders is rarely available (IMF, 2009). Moreover, in-kind remittances cannot be captured in ITRS. Data from the ITRS aggregates inward and outward flows for a given country, but gives no breakdown on remittances variables, such as country of origin or destination. Further, the likelihood of misclassification is high, especially since the officers at licensed institutions are not BOP compilers and may not understand the concepts when recording the various items.

*2.2.2 Direct Reporting by Money Transfer Operators*

Some economies obtain data on remittances directly from Money Transfer Offices (MTOs). Direct reporting has further advantages compared to the ITRS in that better information on gross flows can be obtained and these entities are typically involved in

remittance transactions (IMF, 2009). An additional strength of using data from MTOs is that key information can also be obtained on both receivers and senders. Compilers can acquire information such as transaction amount, transaction purpose, and country of destination or origin. This method for capturing remittances is also timely as data submissions are frequent, mostly on a monthly or quarterly basis, depending on the terms of reference set out by the central bank. Agents reporting directly may not always be able to correctly establish residence of transacting parties, and this may result in either overstating or underreporting of amounts. The use of this data source also requires regular training and visits by compilers to MTOs to ensure that procedures are followed correctly and reporting is done in accordance with BOP guidelines. Like the ITRS, MTOs as a source also face the same shortcomings of not covering informal and in-kind remittances.

*2.2.3 Surveys of Households*

Gupta et al., (2007) describe the reliance of research on survey data on remittances, which are difficult to collect in a precise and reliable form, but can yield some insights into how remittances are used at the micro level. Including questions related to migration is one way of obtaining remittance flows in the Census surveys. Information on remittances gathered through the Census helps collect data on geographical sources and destinations to, as well as average amount of remittances received. The use of household surveys has the potential to capture household behaviour with respect to consumption, health and education. These can be useful for analysing the impact of remittances on household income. Household surveys, on the other hand are costly to conduct as they take time and resources to roll-out to the specified sample and processing of the results can be a tedious process (IMF, 2009). The survey, however, is a good method to obtain information on other dynamics of remittance data related to social and economic variables.

The study by Agaz and Martinex Peria (2014) indicates that countries that obtain household-level data tend to gather some insights into how remittances are used at the household level. Examples of variables that can be obtained include: information on the sender such as employment status, level of education, country of residence, the intended use of the remittances received and the characteristics of the recipient. Such information is useful to inform research on the relationship between remittances, migration and

development. In addition, data compilers have more control of the information obtained through surveys, and questions can be modified to obtain more information as the dynamics of the economy change over time. The use of household surveys, however, may present a couple of weaknesses when conducting them related to sampling errors that may occur where the target population is difficult to find or when the number of respondent households in the sample is small (IMF, 2009). Non-sampling errors where information on remittances is underreported may occur. Conducting household surveys is not a cheap exercise as expenditure on training and compensating enumerators, sourcing technical advice, among others, is costly. The IMF recommends that the inclusion of questions in an existing survey may be a less expensive approach of acquiring household information on remittances.

### 2.2.4 Indirect Data Sources

Remittances can also be measured indirectly if the use of direct reporting channels such as the ITRS, MTOs or household surveys, is difficult or impossible to use. Estimating remittances using a secondary method, such as a model to determine the size of the flows is largely dependent on existing data on BOP components, demography as well as other economic variables. The RCG lists three main models for estimating flows of remittances, namely *demographic models*, *econometric models* and *residual models*.

The use of demographic models to estimate personal remittances, involves multiplying the portion of the population that remits by the estimated average per capita amount sent. There are several benefits of using this approach mainly that this model-based approach estimates both formal and informal remittances and the estimates are built on demographic data, which provides detailed information (IMF, 2009). On the downside, households may not report data obtained using demographic models correctly and measuring the population of remitters may be challenging. This approach also requires regular surveys as the migration population and the amounts remitted change, in line with the economic conditions in both sending and receiving economies. For example, the United States is a host to a large number of immigrants and seasonal workers, but the Bureau of Economic Analysis (BEA) does not source data directly and they adopted a demographic model to estimate remittances data (IMF, 2009). The primary assumption by the BEA is that all foreign-born

citizens are likely to remit funds to their country of origin and this is used as a proxy to derive *personal transfers*.

Economic models on the other hand are usually a representation of various economic variables and their relationships. The use of these models for the measurement of remittances involves expressing an equation explaining how one variable changes as a result of a change in other key variables (IMF, 2009). Constructing the model requires compilers to come up with a list of explanatory variables – determinants of remittances flows. The explanatory variables that are included in the model depend on whether the compiling economy is estimating total remittances received from the rest of the world or paid to the rest of the world. The IMF (2009) suggests that some of the common indicators to include in the equation are *income differential* (between sending and receiving economies), *migration statistics*, remittance cost and *exchange rate differentials*. Expressing a simple linear relationship between remittance flows and their explanatory variables in an equation to estimate remittances, the model is specified as follows:

$$Y = \alpha_0 + \alpha_1 X_1 + \alpha_2 X_2 + \alpha_3 X_3 + \alpha_4 X_4 \dots + \varepsilon \qquad (1)$$

Where;
$Y$ is remittance flows
$Xi$ represents selected determinants of remittances
$\alpha_i$ are the coefficients representing the changes in the explanatory variables
$\varepsilon$ is the error term measuring the portion of Y that cannot be explained by the selected determinants of remittances

As more information becomes available to compilers, it is important to update some of the determinants to incorporate changes and to capture relevant indicators. The linear equation is not always the best approach to adopt due to issues related to stationarity, hence the IMF (2009) recommends that several statistics describing the goodness of fit should first be analysed in order to decide on the best model to use. This approach is inexpensive, although other information on remittances cannot be obtained via the model.

Using residual models to measure the amount of remittance flows is also an alternative secondary method for compilers. The use of this model, is primarily based on BOP

variables closely related to remittances. The fundamental assumption of this model is that once all inflows and outflows are accounted for in the BOP, the residual, which is mostly reflected in the *errors and omissions*, are unobserved remittances (IMF, 2009). This approach is very cost effective in estimating remittance flows as it uses existing data and takes into account formal as well as informal flows. The downside, however, is that despite the simplicity of this approach, there is need for correct measurement of all other flows as the estimation is simply based on the remittance related flows in the BOP. Another drawback is that the model does not have a breakdown of information regarding the purpose of remittances. According to the IMF, the Bank of Albania (BoA) has adopted this approach to estimate remittances. The BoA uses the residual inflows as an estimate for remittances, using two main assumptions:

- *Recipients convert their remittances to Lek, to use in the domestic economy*
- *Foreign exchange inflows are equal to outflows*

Albania has adopted the residual model approach in the absence of a direct survey for personal remittances received. The central bank ensures that the ratios in their model remain consistent with other BOP variables and continue to monitor the trend in the indicators that are obtained from direct sources (IMF, 2009).

In summary, though none of the data sources can be exhaustive in nature, ideally the estimates from each of these sources should be consistent and comparable to each other. For effective capturing, the IMF recommends that compilers establish the type of channel that is typically used for remitting when choosing a data source. Studies on remittances suggest strongly that countries should make use of more than one source to estimate remittance flows to ensure comprehensive and comparable results. More importantly, due to the high prevalence of informal remittance transactions, for example, Orozco (2004) highlighted that transfers in the informal sector account for over 50 percent of the total volume transferred to Haiti, Cuba and Nicaragua. It is important to account for transfer in the informal sector when estimating total remittances.

## 2.3 Application of different methods for collection and compilation of Remittances data in selected African countries

Sub-Saharan Africa is contributing to the increasing global trend of remittances, with total flows to developing countries projected to increase by around 4 percent in 2016-17, according to the World Bank (2016). A World Bank (2016) study shows that Kenya, Lesotho and Uganda are key remittance recipients on the continent. However, research by Plaza et al., (2011) highlights that national statistics of a majority of African countries fail to provide accurate statistics on migration, mainly due to the huge volumes that are transacted through informal channels, which are attributed to underdeveloped financial sectors and high transaction costs. The collection methods vary from censuses, living standards measurement studies, demographic and household surveys, and labor force surveys and direct reporting.

As part of the Africa Migration Project, six Migration and Remittances Household Surveys were conducted during 2009 and 2010 in Burkina Faso, Kenya, Nigeria, Senegal, South Africa, and Uganda; a collaboration between international institutions and respective country officials (Plaza et al., 2011). The surveys provided special data on remittances and migration for the selected economies, useful for both national and international compiling organizations. Since the surveys were conducted by locals, new methodology for collecting information on migration and remittances were obtained in the respective countries. The data included a series of demographic, economic, migration, and remittance variables. Since the questionnaires were standardized in terms of the questions covered, training modules provided and sampling strategies, more countries could implement the same survey using a similar methodology.

According to a study by the African, Caribbean and Pacific (ACP) Observatory on Migration (2012), the primary policy influencing the official recording of remittance inflows to Lesotho is the Deferred Pay Act. The Policy facilitates the use of formal channels to remit funds for mineworkers employed in neighboring South Africa. Following the introduction of the Deferred Act, some commercial banks offer remittance-linked savings products as an incentive for migrant workers to bank their remittances (Nalane et al., 2012), thereby facilitating measurement of volumes of flows by the compiling institution.

Besides this, the study also reveals that a large share of funds is remitted via informal channels because the majority of recipient households reside in the rural areas where formal channels are not easily accessible. A study Motelle (2011) confirmed the significant role of remittances in Lesotho, and how the development of the financial sector could support the increase in the propensity to remit through formal channels.

The methodology currently employed by the Bank of Namibia (BON) to estimate inflows of remittances is derived from results of a quarterly enterprise survey conducted some years ago on the component *compensation of employees*. The receipts from *compensation of employees* have been held constant at N$66.6 million since the figures were first obtained from the survey. The approach used for estimating personal *transfers* is based on a constant figure from an unknown data source. Since remittances often involve small transactions by individuals directly to households using numerous channels, sourcing these flows via an enterprise survey may present weaknesses in the measurement of both categories (IMF,2009). Namibia's current estimates for remittance receipts are shown in Table 1.

**Table 1: Remittance receipts (N$ million)**

| Component | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|
| Compensation of employees (credit) | 66.6 | 66.6 | 66.6 | 66.6 | 66.6 | 66.6 | 66.6 |
| Personal transfers | 44.0 | 44.0 | 44.0 | 44.0 | 44.0 | 44.0 | 44.0 |
| Total remittances received | 110.6 | 110.6 | 110.6 | 110.6 | 110.6 | 110.6 | 110.6 |

*Source: BON Research Department*

Severe limitations in the quality of remittances data exist, as there is no particular methodology adopted. The BON simply continues to report a constant amount on inflows in both components (Table 1). This is largely because there is currently a lack of information on diaspora and migrant workers. There is no study that has been conducted to identify weaknesses inherent in the remittances data for Namibia. This is in contrast to data on other external flows where tremendous efforts have been made to improve their

quality. Given the current gap, the study reviewed methodologies by selected MEFMI member countries that could be adopted by the central bank to improve data collection and the compilation of remittances.

**Figure 1: Major balance of payments components compared to remittances (inflows)**
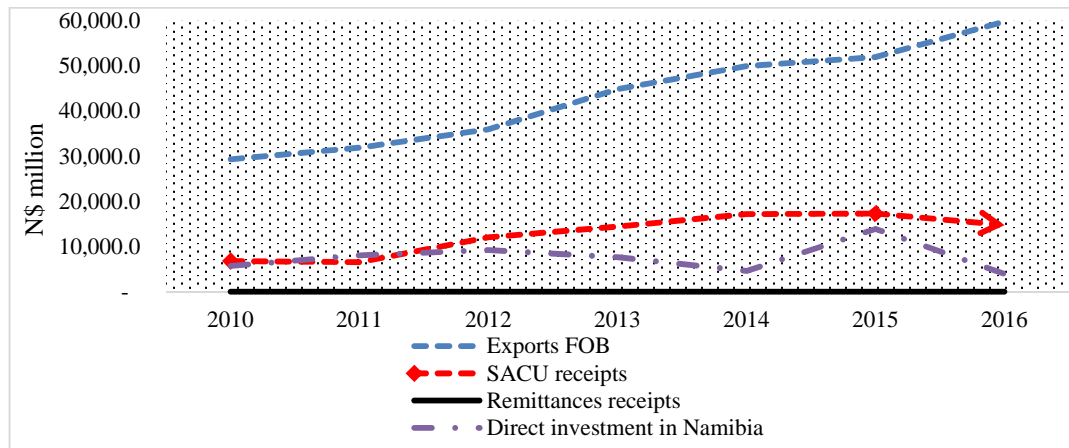
Namibia is largely driven by export-led industries, which is evidenced in the data depicted in Figure 1. Total exports continue to increase over the years, with inflows reaching N$59.8 billion in 2016, whereby the mining sector contributes over 70 percent to the share. Export earnings are particularly led by commodities like diamonds, uranium, gold and zinc. The receipts from the SACU pool are the second largest inflows, reaching N$17.3 billion in 2014, however moderating in 2016. These flows are recorded in the secondary income account, contributing around 30 percent to total Government revenue. Inflows in the form of FDI are also significant; and are predominantly in the mining, financial and fishing sectors. FDI into Namibia is, however, not as stable as the inflows from exports and revenues from the customs pool. Nonetheless, these flows remain key contributors, enhancing Namibia's international stock of reserves. When compared to the other flows, estimated remittance inflows are very low and remain flat, registering inflows of N$110.6 million per annum.

## 2.4 Namibia's current remittance estimates

As depicted in Figure 1, the inflows from remittances have remained flat over the years at around N$110.6 million per annum. This is because the current estimates of both *personal transfers* and *compensation of employees* are based on a fixed estimate that was determined 20 years ago and has remained unchanged. Inflows from both *compensation of employees* and *personal transfers* have been fixed at N$66.6 million and N$44.0 million, respectively over the years (Table 2).

**Table 2: Excerpts from Namibia's BOP Compilation Worksheet**

| N$ million | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|
| **Compensation of Employees (net)** | **-111.7** | **-101.8** | **-56.0** | **-56.9** | **31.9** | **-52.8** | **-74.4** |
| *Credit* | *66.6* | *66.6* | *66.6* | *66.6* | *66.6* | *66.6* | *66.6* |
| Short-term employees | 37.0 | 37.0 | 37.0 | 37.0 | 37.0 | 37.0 | 37.0 |
| Gross wages | 37.0 | 37.0 | 37.0 | 37.0 | 37.0 | 37.0 | 37.0 |
| Non-cash wages | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Local employees of embassies and international organisations | 29.6 | 29.6 | 29.6 | 29.6 | 29.6 | 29.6 | 29.6 |
| Gross wages | 29.6 | 29.6 | 29.6 | 29.6 | 29.6 | 29.6 | 29.6 |
| Non-cash wages | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| *Debit* | *178.4* | *169.5* | *123.7* | *124.6* | *99.6* | *120.5* | |
| Short-term employees net income | 160.4 | 150.4 | 104.6 | 105.5 | 80.5 | 101.4 | 123.0 |
| Gross income | 176.7 | 166.7 | 121.0 | 121.8 | 96.8 | 117.8 | 139.4 |
| Gross wages | 166.6 | 141.7 | 110.5 | 115.9 | 82.3 | 111.8 | 116.8 |
| Non-cash wages | 10.1 | 25.0 | 10.4 | 5.9 | 14.6 | 6.0 | 22.6 |
| LESS personal expenditure in Namibia | 16.4 | 16.4 | 16.4 | 16.4 | 16.4 | 16.4 | 16.4 |
| Foreign employees of Namibian embassies abroad | 18.0 | 18.0 | 18.0 | 18.0 | 18.0 | 18.0 | 18.0 |
| | | | | | | | |
| **Secondary Income Account** | | | | | | | |
| | | | | | | | |
| **Personal Transfers (net)** | **17.1** | **17.1** | **17.1** | **17.1** | **17.1** | **17.1** | **17.1** |
| *Credit* | | | | | | | |
| Personal Transfers | 44.0 | 44.0 | 44.0 | 44.0 | 44.0 | 44.0 | 44.0 |
| *Debit* | | | | | | | |
| Personal Transfers | 26.9 | 26.9 | 26.9 | 26.9 | 26.9 | 26.9 | 26.9 |

*Source: BON, Research Department*

The methodology used to derive these estimates, particularly for wages of short-term employees, were obtained from reported figures in a quarterly enterprise survey.

Details on how personal transfers estimates were initially derived in the BOP are unknown. The trend in the data presented in Table 2, shows that there is a major weakness that exists

in the current measurement of these flows and the likelihood of misrepresentation is apparent. The BON continues to report the same size of remittance receipts over time. The literature by Brown et al., (2014) emphasised that the accurate measurement of migrant remittances is central to understanding both the dynamics and the consequences of migration. With the current estimation method, it is difficult to conclude whether the size of the inflows supports remittances trends in the case of Namibia. Using the current estimates, we find that the ratio of remittances to GDP is mainly reflective of the changes in the growth rate of GDP and not necessarily the fluctuation in remittances (Figure 2).

**Figure 1: Namibia's Remittances estimates (% of GDP)**
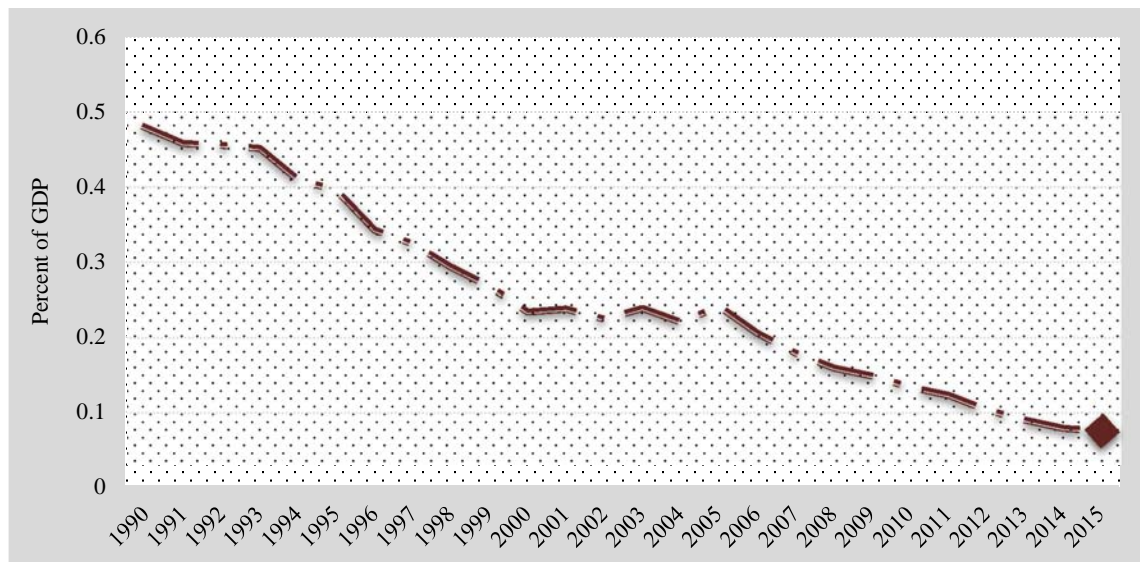
Since Namibia's independence in 1990, the ratio of remittances to GDP has remained below 0.5 percent, and has declined rapidly over the last ten years (Figure 2). The BON potentially has missed a substantial portion of remittances over the years with the current ratio of about 0.1 percent to GDP, despite the expansion of the economy from the time when the estimate was adopted. It is also not evident as to whether the existing estimate take into account informal and in-kind transfers.

Re-examining the current estimate is necessary in order to reflect the changes in migrant patterns and improve the methodology to facilitate careful analysis of the impact of remittances in Namibia's BOP.

**2.4.1 Foreign Exchange Control Regulations**

Research highlights that changes in economic policies of many developing countries especially with regard to foreign exchange control regulations have sharply reduced premiums in the informal market, resulting in a shift towards the use of formal channels to remit funds (Kapur, 2003). According to the Exchange Control Act of 1961, all foreign currency acquired by residents of Namibia, both for current and capital transactions, are subject to exchange control regulations. This means that all foreign exchange transactions are to be processed through the central bank. It is therefore possible that informal transactions occur. There are a number of licensed financial institutions operating in foreign currencies that directly report to the Exchange Control Department at BON on a daily basis. The functions of the licensed institutions are to assist the central bank in overseeing exchange controls, report any suspicious transactions and submit reports on flows on a daily basis. While many central banks have the exchange control and BOP divisions working closely to monitor cross-border flows, this is not the practice at BON. The BOP section uses its surveys of enterprises and administrative sources to compile data on external statistics. Since remittances are a form of household transfers, tracking these flows via enterprise surveys may not be an optimal approach. The limitations in the current measurement potentially understate the relative importance of remittances in Namibia when compared to other countries in the region.

# 3.0 MEASURING REMITTANCES: COMPILATION PRACTICES BY SELECTED MEFMI CENTRAL BANKS

## 3.1 Introduction

To adopt an appropriate methodology for the collection and compilation of remittances for Namibia's BOP, it is essential to assess approaches implemented by other central banks who closely monitor these flows to ensure a better estimate of this component. This section discusses the techniques by the selected central banks. The countries were selected based primarily on the impact of remittance flows in the respective economies and their unique compilation practices for measuring the flows in the BOP.

## 3.2 Case Study Analysis

### 3.2.1   Compilation of Remittances in Lesotho

Lesotho, a small landlocked kingdom encircled by South Africa, is one of the most migration dependent countries in the world. Remittances are the country's major source of foreign exchange, accounting for over 20 percent of GDP (Figure 3). A majority of the households in rural Lesotho depend on personal remittances for their livelihoods (Nalane et al., 2012). Due to the country's narrow resource base, and its history, a majority of the working class men have pursued employment in South Africa, mostly in the mining sector. The Central Bank of Lesotho (CBL) reports that remittances make up significant inflows in Lesotho's BOP, contributing over 70 percent to total credits.  This notwithstanding, the data reported by CBL are believed to be understated given the difficulty of measuring remittance transactions, especially those in the informal sector.

**Figure 2: Lesotho's remittances estimates (% of GDP)**
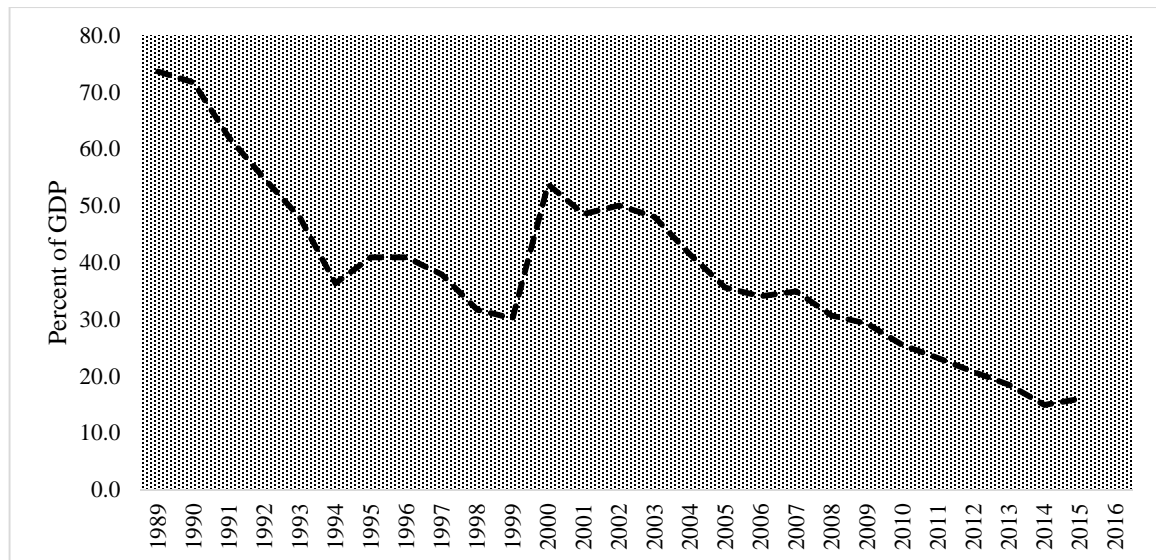
Data shows that dependence on *remittances* started to slowdown noticeably around 2008, and declined to less than 20 percent as a share of GDP by 2013 (Figure 3). This can be attributed to a number of factors including the global financial crises, declining commodity prices, which have a direct impact on mineworker's income, as well as job security, and lesser remittances transmitted via formal channels. According to the authorities, remittance inflows from Basotho migrants are predominantly through informal channels, such as carrying money personally and via friends or co-workers. In 2010, results from a survey conducted by the Southern African Migration Project (SAMP) showed that about 88 percent of the sampled population remitted money through informal channels; they used neither the banking system, post office nor any other formal channel (SAMP, 2010). There are various reasons for this, mostly related to high transfer costs when using formal channels. Moreover, a majority of the migrant workers and their families do not have bank accounts, as they do not meet requirements to open one. According to the CBL, increasing bank charges are also a result of higher informal transactions.

CBL uses the ITRS as the main source for compiling data on remittances and results from the system shows significant flows over time. In addition, compilers also obtain data on

remittances submitted through Shoprite, a supermarket, as well as information from mobile money. Besides this approach, a few years back, the central bank, in collaboration with the Bureau of Statistics, used to conduct a survey of Basotho Mineworkers to collect statistics related to remittances and other migrant indicators. Due to resource constraints, the most recent survey was, however, conducted back in 1999. The results from this survey showed that the largest portion of remittances were derived from wages and salaries of mineworkers, ultimately making the component, *compensation of employees,* a huge inflow in Lesotho's BOP. In 2008, the CBL, with the assistance of the Employment Bureau of Africa (TEBA) and a technical mission from the European Union, gathered information on the number of mineworkers, as well as the income of Basotho in South Africa.

Research by the central bank found that a typical mineworker visits home (Lesotho) at least once every three months, with most of them visiting every month, given the proximity of Lesotho and South Africa (CBL, 1995). TEBA is the largest recruiting agency for Lesotho mineworkers - about 75 percent of engagement contracts are processed by the agency – hence, for the purpose of a representative measure, the interviews were conducted at TEBA offices. The contracts of mineworkers expire every year; therefore, migrant mineworkers visit TEBA offices for renewals of contracts every month, depending on when the initial contract was entered into. For this reason, in order to include all mineworkers in the sample, the survey was conducted during all the months of the year, covering seven days in each month excluding public holidays, the day following a public holiday as well as Fridays. The target sample size was set at 297 interviews per day for all the seven days of each month (translating in 2,079 interviews) with 15 enumerators conducting the interviews. In particular, there were three variables that were of great importance in the survey, namely; *monthly cash income*, *monthly remittance* and *percentage remittance*. The design of the survey involved a two-stage sampling approach, whereby the first stage of sampling involved sampling of days within any given month, while the second stage involved sampling of interviewees on a sampled day. Key questions covered in the questionnaire included demographic particulars of the migrant, economic characteristics such as the Name of Employing Mining Company, amount of most recent income, how often money is remitted to Lesotho and the channel that is frequently used to remit funds to Lesotho.

**Table 3: Profile of Basotho migrants**

| Age group | No. | % |
|---|---|---|
| 15-19 | 7 | 0.6 |
| 20-24 | 53 | 4.4 |
| 25-29 | 123 | 10.2 |
| 30-34 | 143 | 11.8 |
| 35-39 | 221 | 18.3 |
| 40-44 | 216 | 17.9 |
| 45-49 | 203 | 16.8 |
| 50-54 | 145 | 12.0 |
| 55-59 | 61 | 5.1 |
| 60-64 | 25 | 2.1 |
| >65 | 10 | 0.8 |
| **Total = 1,207** | | |
| **Sex** | | |
| Male | 979 | 80.7 |
| Female | 234 | 19.3 |
| **Total = 1,213** | | |

*Source: Southern African Migration Project (SAMP)*

The results from the survey as shown in Table 3, highlights that a majority of Lesotho's migrants are in the economically active age groups and dominated by male migrants. As alluded to earlier, a large number of households in Lesotho depend on remittances received from family and friends to meet their daily needs. The reliance on migrant remittances is outlined in Table 3 using the results from the SAMP survey (2012) which revealed the average source of income for Lesotho households.

**Table 4: Average income by source (in South African Rand)**

| Mean Income by source | No. | Mean Income |
|---|---|---|
| Remittances- money | 1 151 | 10 078 |
| Remittances- value of goods | 234 | 2 386 |
| Wage work | 120 | 7 707 |
| Income from informal business | 101 | 2 700 |
| Casual Work | 94 | 2 330 |
| Income from farm products | 58 | 1 704 |
| Gifts | 44 | 1 143 |
| Income from formal business | 21 | 6 446 |
| Pension/disability | 10 | 2 890 |
| Other | 4 | 2 025 |
| **Total = 1 827** | | |

*Source: Southern African Migration Project (SAMP)*

Since the last information gathered through the questionnaire, the CBL extrapolates the data for the periods going forward to estimate the share that is remitted through informal channels. The inflows derived from all the various channels and methods are presented in Figure 4, with observable declines since 2012.

**Figure 3: Lesotho's Remittances Inflows**
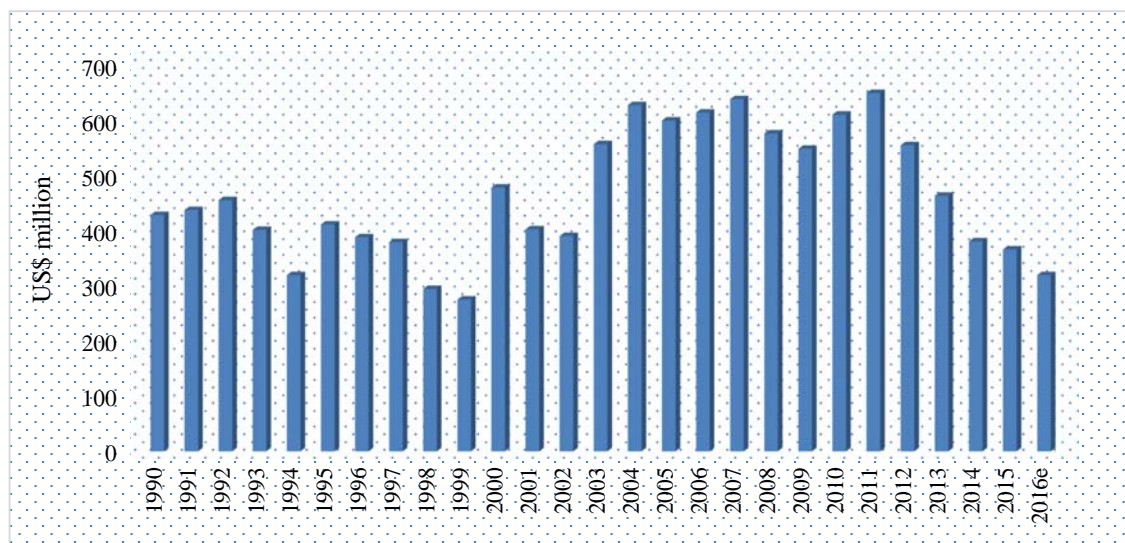


*Source: World Bank*

Given the heavy dependence on informal transfers, the likelihood of the flows being underestimated for Lesotho are very high. At present, the only formal channel that is available in the rural areas is postal services. According to the central bank, the use of mobile-based money transfer services is still very new in Lesotho and only provided by a single commercial bank. Given that, remittance flows are the largest foreign inflows in Lesotho, it is important to introduce and encourage the use of modes that are easily accessible within the formal setting for accurate capturing and monitoring by CBL. Despite the limitations of accurately measuring the flows, Lesotho formulated a number of approaches to enhance the data on remittances. According to officials in the BOP division, along with the migration to the 6th edition of the BOP manual (BPM6) in 2017, CBL expects that the data obtained via the ITRS will improve further due to the training that will be offered to all licensed operators by the South African Reserve Bank.

### 3.2.2 Remittance Compilation Practice at the Central Bank of Kenya

Kenya is among the top recipients of remittances from abroad and the study selected the country due to the size, as well as its good compilation practice for compiling the flow of remittances in the BOP. Remittances are significant flows influencing economic growth in Kenya as indicated in Figure 5. On average, Kenya's remittance receipts are about 2.1 percent of GDP per annum, making it an important foreign exchange earner for the economy. In 2016, the World Bank reported that remittance flows to Kenya from the diaspora had significantly increased when compared to the rest of Sub-Saharan Africa.

**Figure 4: Kenya's Remittances estimates (% of GDP)**
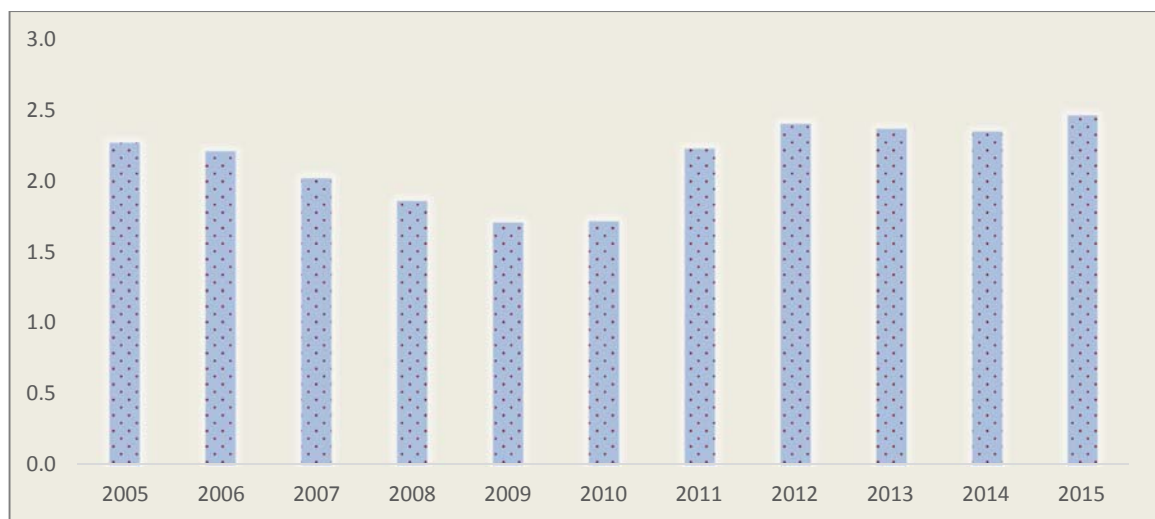


*Source: World Bank*

The Central Bank of Kenya (CBK) approves money remittances services operations of commercial banks, forex bureaus and the Kenya Post Office Saving Bank, and to a limited number of certain money remittance companies (Kiiru, 2010). The CBK conducts a survey on remittance inflows every month through formal channels that include commercial banks and other authorized international remittances service providers in Kenya. According to the central bank, remittance inflows through the formal channels in 2016 increased to US$ 1.7 billion, compared to US$1.5 billion reported in the previous year. The monthly survey estimates from the formal channels are as shown in Table 5 below.

**Table 5: Monthly Remittance inflows 2009 to 2016 (US$ '000)**

| Month/Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|
| January | 39,535 | 45,117 | 64,139 | 89,755 | 102,969 | 110,969 | 114,642 | 137,494 |
| February | 53,353 | 46,423 | 60,759 | 103,970 | 102,372 | 110,421 | 123,236 | 136,979 |
| March | 55,361 | 52,309 | 71,557 | 106,198 | 103,393 | 119,585 | 126,259 | 141,107 |
| April | 48,117 | 52,679 | 70,071 | 95,625 | 104,993 | 113,409 | 124,473 | 143,526 |
| May | 49,180 | 51,172 | 68,124 | 100,995 | 110,150 | 119,657 | 129,101 | 146,760 |
| June | 46,347 | 52,541 | 71,888 | 99,488 | 99,809 | 116,064 | 135,963 | 146,658 |
| July | 50,372 | 50,652 | 72,797 | 92,736 | 112,834 | 117,101 | 131,055 | 134,661 |
| August | 55,947 | 51,993 | 79,563 | 94,819 | 107,049 | 128,826 | 132,949 | 146,744 |
| September | 53,347 | 58,557 | 84,854 | 92,519 | 107,452 | 127,399 | 128,484 | 143,188 |
| October | 53,037 | 58,503 | 81,311 | 91,627 | 112,919 | 120,907 | 137,146 | 142,555 |
| November | 48,058 | 56,380 | 80,802 | 97,504 | 113,420 | 113,972 | 130,718 | 143,691 |
| December | 56,329 | 65,617 | 85,244 | 105,656 | 113,216 | 130,172 | 134,005 | 160,941 |
| **Annual Total** | **608,893** | **641,943** | **891,109** | **1,170,893** | **1,290,575** | **1,428,482** | **1,548,032** | **1,724,304** |

*Source: Central Bank of Kenya*

To validate trends in remittances reported by the central bank as well as sourcing other aspects related to remittances, Kenya's *Household Questionnaire for Migration Survey* covers details on amounts received, frequency of remitted amounts, channel used by senders to remit the funds, the purpose of the money and the value of food/good received in kind. Moreover, the survey and the submissions by the licensed operators also show personal remittance receipts by source country as depicted in Figure 6.

**Figure 5: Kenya's Remittance Inflows by Source - January 2016**
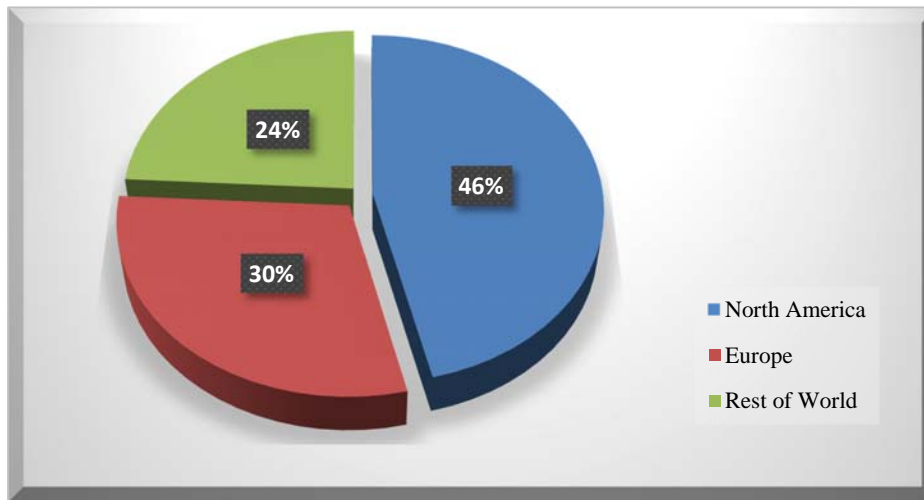


*Source: Central Bank of Kenya*

The bulk of Kenya's remittances originate from North America, followed by Europe and the rest originate from other countries across the globe. The inflows from North America are predominantly from the United States of America and Canada, where most of Kenya's diaspora resides. The statistics reported by the central bank on a monthly basis are those that are submitted from the licensed dealers. These flows do not take into account the informal and in-kind transactions. However, they continue to increase on an annual basis. Kenya continues to monitor and report on the formal flows using a source that is readily available and is relatively of high frequency, an approach Namibia could also apply especially with the BOPCUS system in place, while other sources can also be explored to improve the existing estimates.

### 3.2.3   Bank of Uganda's Remittances Compilation Methodology[2]

The Bank of Uganda (BOU) was another institution deemed to have sound statistics in this area. It is for this reason that this section will focus on the data compiled by BOU in measuring remittances flows. The country has managed to develop various methods to

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[2] The staff at the Bank of Uganda kindly provided most of the information contained in this section.

comprehensively capture the fast growing remittance inflows accurately and these methods will be reviewed in detail in the forthcoming sections.

Over the past decade, Uganda's policy makers have recognized the contribution remittances make to the economy and this has effectively prompted the central bank and other key stakeholders to find ways to monitor and thereby measure these inflows continuously. The BOU uses the following data sources for the derivation of remittances in the BOP:

- Annual Inward Personal Transfer Survey (APTS)
- Commercial Banks
- Money Transfer Operators
- Diaspora conferences (where questionnaires are conducted)
- Cross-Border/ Seasonal Worker's Survey

Thus, the BOU uses two main approaches to collect data on personal transfers in cash and in-kind, namely:

- **Surveys** – The APTS is conducted in collaboration with the Uganda Bureau of Statistics (UBOS). The sample of the survey is determined by UBOS and a specialised questionnaire is used. In addition, a monthly cross-border workers survey is conducted under the auspices of the informal cross border trade survey, but with a focus on compensation of short-term cross border workers. The data are collected from all borders by enumerators for all residents leaving the country to perform work in another country on a daily or short-term basis.
- **Non-survey** – These cover estimates External Sector Employment statistics (obtained from the Ministry of Gender, Labour and Social Development), foreign exchange bureaus and commercial banks for money/cash remittances transactions. The transfers from banks and foreign exchange bureaus are submitted on a monthly basis to BOU.

*3.2.3.1 Using surveys to estimate personal transfers*

As an example, if the sample size is 4,000 households, then at the listing exercise it is established whether they are recipients of *personal transfers* or not. After establishing the number of recipient households from the non-recipients, the questionnaire is then

25

administered only to the households who receive *personal transfers*. The questions are mainly intended to establish the value of cash and in-kind transfers, channels and frequency of receipts. The intention is to determine an accurate urban average vis-à-vis rural average of amounts received per household and thereafter deriving a weighted average (unbiased weighted average) for the population. For example:

If the Urban average = US$500 and Rural average = US$300 and 80 percent of the recipients are residing in urban areas and the remaining 20 percent in rural areas, then

$$Average\ personal\ transfers received\ per\ houshold = 500 * 80\% + 300 * 20\%$$
$$= 460$$

The next step involves using information from the listing exercise to estimate the share of households that receive *personal transfers* relative to sampled households, which is then used as the basis to determine the number of recipients. For instance, if the survey listing found that 1,000 households out of the sampled 4,000 received personal transfers and the entire population has 5,000,000 households, then the number of recipient households in the population and total personal transfers can be determined as follows:

$Number\ of\ reciepient\ households =$ (5,000,000* 1000)/4000=1,250,000
Total Personal Transfers: 1.250,000 * US$460 = US$575,000,000

It is also important to note that in a single household you may have more than one recipient. The questionnaire is usually completed by the head of household who reports only on what he/she receives. Therefore, to get a reasonably accurate estimate for other members of the household, to the questionnaire asks the household head if other occupants of the household receive transfers and how many they are. If the number is established for all other household members that receive remittances, then this is used to adjust the estimate based on receipts of household heads to obtain total remittances. For instance, suppose 500 households in the sample have one additional recipient including the head of household, it would mean that the estimate of total receipts should be adjusted by the additional 500 recipients. However, since the household head may not know how much they receive, it is assumed that they each receive an average equivalent to the sample average of USD460.

The adjustment is, therefore, done as follows;

$$Total\ personal\ transfers = \left(1 + \frac{500}{4000}\right) * 575{,}000{,}000 = 646{,}875{,}000$$

### 3.2.3.2 Conducting APTS at the BOU

In order to improve the accuracy and reliability of statistics on personal transfers, the BOU and UBOS jointly conduct the Inward Personal Transfer Survey on an annual basis. The survey measures all money and items in kind received by resident households/individuals in Uganda from non-resident households/individuals abroad. Another key outcome of the survey is the establishment of the relative importance of the different remittance channels. International MTOs (such as Western Union and MoneyGram) are the popular channels as indicated by about 40.5 percent of the recipient households. The bulk of *personal transfer* receipts through the MTOs are used for consumption purposes. The survey also collects information on household expenditures. Generally, household expenses and education are the most common expenditure categories. Non-consumption expenditure is mostly for building works/construction.

A sample of households and communities in various regions of Uganda are selected. The survey is usually conducted during the first three months of the year. The sampling design the BOU applies follows two-stages. At the first stage, the sample is stratified into regions and thereafter, the primary sampling units (i.e. Enumeration Areas - EAs) are selected using Probability Proportional to Size (PPS). Subsequently, a listing of all households in selected EA's is divided into three categories, namely; recipients, senders and those who neither receive nor send. When this step is completed, for estimation of receipts, households that reported having received are selected using a Simple Random Sampling (SRS) method. For example, if the sample size is 4,000 households and 10 households are required per EA to be surveyed, then 400 EAs will be selected (4000/10). Assuming there are 5 regions in the country, then from each region a representative number of EAs is selected based on the size of the region from which the 10 households are selected per EA. Table 6 shows how the selection is done.

**Table 6: Allocated number of households per Enumeration Area**

| Region (strata) | Number of EAs | Selected EAs | Number of Households per region |
|---|---|---|---|
| *Kampala* | 112 | {112/812 * 400} =56 | 560 |
| *Central* | 150 | {150/812 * 400} =74 | 740 |
| *Western* | 180 | {180/812 * 400} =89 | 890 |
| *Eastern* | 170 | {170/812 * 400} =84 | 840 |
| *Northern* | 200 | {200/812 * 400} =99 | 990 |
| *Total* | **812** | **402** | **4020** |

It is also crucial to ensure that the sample includes a representative number for rural and urban households per region. Therefore, at the stage where the number of EAs per region is determined, the EAs are further distinguished by location to determine urban and rural EAs and selection of EAs ensures that both urban and rural EAs are well represented in the sample. The survey determines the size of cash and in-kind *personal transfers*, characteristics, channels used (formal and informal) and primary purpose of transfers.

*3.2.3.3 Trends in recent survey results*

Using the results from the APTS conducted by the BOU and the Uganda Bureau of Statistics (UBOS), Uganda received an estimated amount of US$1.0 billion in personal transfers in 2016, 12.6 percent higher than the $901.9 million recorded in the preceding period (Figure 7). The trend of personal inflows over the last eight years shows that remittances to Uganda have accounted for about 4.1 percent of GDP, on average. In Uganda, flows received from remittances continue to be among the major sources of foreign exchange and are used as funding for domestic consumption and investment.

**Figure 6: Uganda's Personal Transfers (% of GDP)**
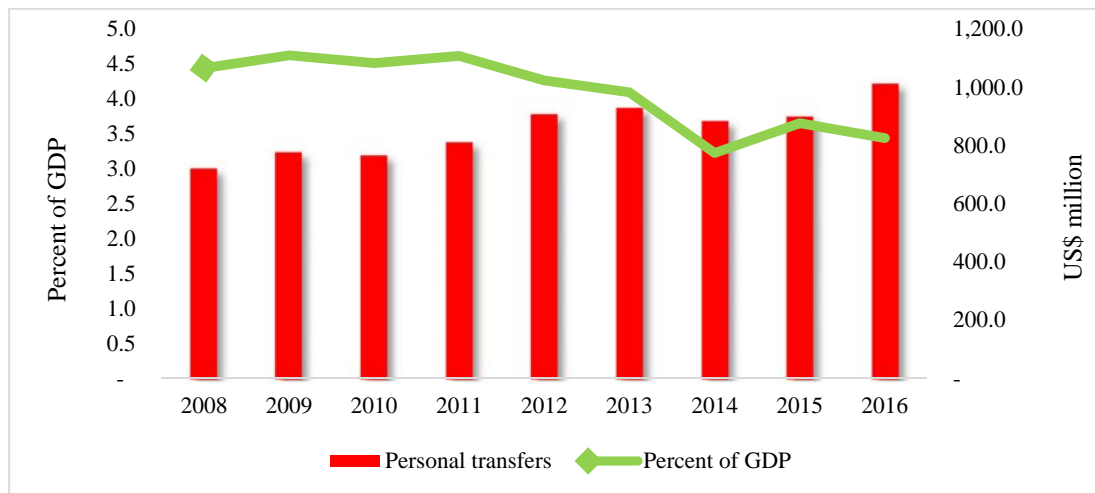


*Source: Bank of Uganda*

When compared to other foreign inflows, the average remittances per annum to the East African economy have steadily increased, and recently, this has exceeded inflows from other categories such as official aid, foreign direct investments (FDI) and portfolio flows (Figure 8). In addition, remittances have shown stability over the years when compared to the fluctuations in the other categories as depicted in Figure 8. The average remittances per year between 2008 and 2015 amounted to about US$839 million, exceeding official aid, which averaged US$417 million, but remained closely comparable to FDI inflows in Uganda. To a certain extent, it can be argued that, for Uganda, remittances are a more stable source of foreign funds compared to private capital. Moreover, remittances have a more direct impact on poverty reduction when compared to other foreign flows mainly because they flow directly to households. Recipient households use remittances to support general household expenses and education.

**Figure 7: Comparison of remittance flows with other foreign exchange flows in Uganda**
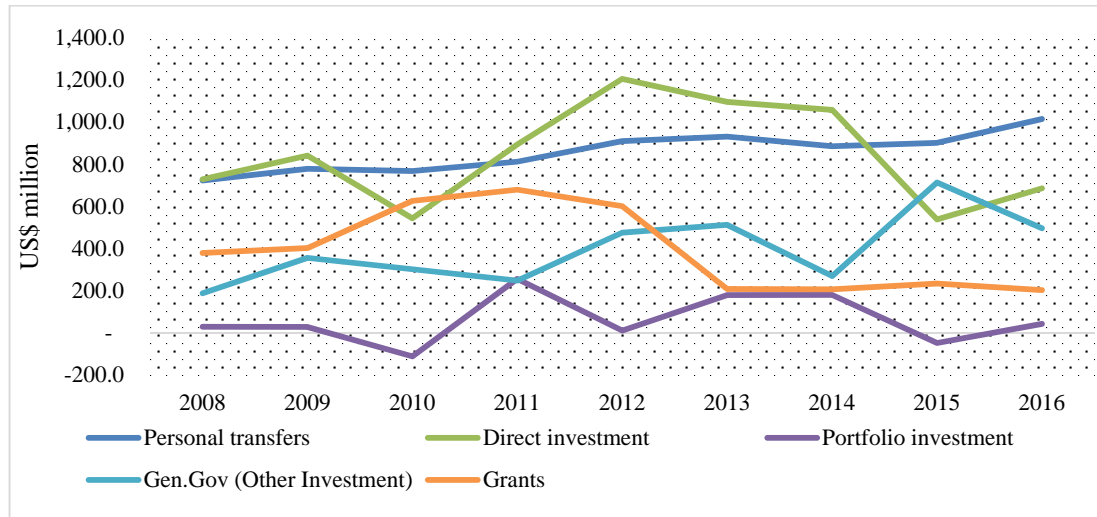


*Source: Bank of Uganda*

### 3.2.3.4 Integrating Survey data with non-survey data

The BOU also relies on formal financial sector institutions to collect administrative data to estimate personal transfers received on a monthly basis, which comprise of data from:

- Commercial Banks and
- MTOs
  - ⇒ Western Union
  - ⇒ MoneyGram
  - ⇒ Ria; and
  - ⇒ Local transfer operators

  *represents about 40%*

The central bank strictly uses the above channels as a proxy for cash transfers only and for deriving preliminary estimates. However, it is important to note that these formal sources may include other transfers such as funding for trade (import/export) and education, especially funds remitted via the commercial banks. Given the cash limits set for transfers via Western Union and MoneyGram, these two channels are considered to be a more representative source for *personal transfers* by the BOU as opposed to the commercial

banks where transfers for huge amounts of money may be made for other purposes, including trade. In addition, MTOs also provide detailed information about the remitter, which provides a good tool for crosschecking during compilation and analysis as it may include information on sender and receiver addresses, amounts remitted and purpose for transfer. As a result, the BOU relies mainly on cash transfers from both Western Union and MoneyGram to compute preliminary estimates of cash transfers from MTOs, which are then used to estimate total personal transfers using their share to total *personal transfers* (estimated at about 40 percent) as determined by the results of the previous year's APTS. In general, the various forms and channels of personal transfers for Uganda carry the following weights:

- Banks (10%)
- Western Union (25%)
- MoneyGram (15%)
- Other International MTOs (20%)
- Local MTOs (5%)
- Shops (15%)
- In-Kind (10%)
  **100%**

To illustrate how the central bank computes preliminary monthly estimates of personal transfers, the following example describes the process. Using the weights above, if collected data shows that money remitted via Western Union and MoneyGram is US$320, 000, 000 which is 40 percent of total cash transfers (as indicated above) then:

$$Total\ transfers = \frac{USD320,000,000}{40\%} = \text{USD800, 000,000}$$

The estimated total is then redistributed into cash and in-kind transfers using the respective shares, which as shown below are 90 percent and 10 percent respectively.

- Banks: *10% of US$800,000,000* = US$ 80,000,000
- Western Union & MoneyGram: *40% of US$800,000,000* = US$ 320,000,000
- Other International MTOs: *20% of US$800,000,000* = US$160,000,000
- Local MTOs: *5% of US$800,000,000* = US$40, 000,000

- Shops:                                         *15% of US$800,000,000* = US$120,000,000
- In-kind:                                        *10% of US$800,000,000* = US$80,000,000

***Total Personal Transfers***                                    **US$800,000,000**

The data sourced from the administrative data serves as a good source for determining the preliminary estimates and are later replaced once the annual survey results are concluded. In summary, the BOU has invested a great deal of resources to measure *personal transfers* using a wide range of techniques. Careful consideration is taken when determining the sample to be included to avoid misinterpretation of results when conducting the APTS. The approach adopted by the BOU offers a wide-range of remittance information, which is not only useful for compiling the BOP, but also presents rich evidence that can be used for policy formulation. For this reason, Namibia, as well as other countries within the region can address existing gaps related to the remittance infrastructure by developing and eventually adopting similar approaches.

# 4.0 METHODOLOGY

## 4.1 Study approach

To address the research objectives, the study utilised content analysis to review the websites, reports to determine current compilation practices of three selected MEFMI countries institution's to determine an appropriate framework for estimating remittances to be used in   in Namibia's BOP compilation. The study reviewed the key components used in deriving remittances for the selected countries' institutions. The evaluation of the available channels and data sources in each case study was in accordance with recommendations by the IMF (IMF, 2009). Apart from the fact that all countries institutions selected are MEFMI members, they each have unique approaches for improving data collection on remittances. This is useful in assessing the various methods used by the chosen central banks, highlighting strengths and weaknesses associated with each approach to determine a suitable technique for Namibia's BOP. While there is no particular empirical methodology recommended for the estimation of informal remittance flows in general, Uganda presents a technique that takes into account the share of transactions outside the formal setting. Freund and Spatafora (2005) emphasizes that the most accurate estimates of the informal share of remittances tend to be derived from household surveys that include questions on the amounts received and through which channel the flows were received. Deriving some information in this way permits direct estimation of the share transmitted through informal channels.

The information obtained through reviewing other practices allows for the construction of a suitable methodology that could improve remittance inflows in Namibia. The study applied the formal flows reported by the commercial banks and other licenced foreign exchange bureaus to re-estimate the flows of remittances. This approach is considered more effective as it covers transactions of 14 authorised dealers, including all the commercial banks. In addition, the method is cost-effective, and data are readily available and timely for continued monitoring in the BOP (IMF, 2009).

Given that one of the focus areas of the study was to evaluate the current estimates of remittances, exploratory data content analysis was used to form a basis for determining the shortcomings of the current estimates. In addition, the qualitative analysis of what other countries do based on the selected case studies, informed the recommendations for the proposed approach to be adopted. The selection of the methodology used for the study was mainly due to its simplicity compared to other conventional econometric forecasting techniques. In addition, having embarked on the study with the knowledge that available data do not accurately reflect the amount of remittances received, using the same data for some type of econometric analysis would have resulted in misleading findings.

For this study, the population is all 14 MEFMI countries and the sample selection includes; the Central Bank of Lesotho, the Central Bank of Kenya and Bank of Uganda. The variables of interest are flows on the following components in the Balance of Payments: *compensation of employees* and *personal transfers*

## 4.2 Data and sources

In order to assess the methodology of selected countries, the study obtained key data variables from the World Bank website and respective central bank websites. The key components included annual data on major variables in the BOP, covering the period between 1989 and 2016. For Namibia, data for the current account sub-categories were obtained from the Bank of Namibia's Annual Reports, Quarterly Bulletins and compilation worksheets. The updated estimates for both personal transfers and compensation of employee's components were derived from the Balance of Payments for Customer Transactions Reporting (BOPCUS) system, supervised by the Exchange Control department staff of the Bank of Namibia. The data regarding top corridors were sourced directly from the largest MTO in Namibia, namely Novacambios Namibia (Pty) Limited.The study further accounted for informal remittance flows by following an approach adopted by one of the institutions within the MEFMI region with a sound database.

## 4.3 Study limitations

This study used secondary data, which should be treated with caution as there is risk of it being outdated and at times inaccurate. In addition, using the data submitted by the authorised dealers in this study also poses weaknesses of having limited information on how the data were collected and what precision was assigned to it, especially whether the appropriate codes were used to enter each cross-border transaction in the BOPCUS system. This notwithstanding, care was taken to ensure that some meaningful analysis could be achieved through discussions with some of the data providers about the level of reliability of the data used.

# 5.0 RESULTS OF THE RESEARCH

## 5.1 Proposed methodology for compiling Namibia's remittances

### 5.1.1 Introduction

Remittance flows into and out of Namibia are subject to foreign exchange controls, and the exchange control department receives all transactions via the Balance of Payments for Customer Transaction Reporting (BOPCUS), a reporting system connecting all licensed offices. Information submitted in BOPCUS is currently not incorporated in the BOP worksheets due to existing quarterly surveys that are used for compiling the external accounts. Moreover, transactions in BOPCUS are on a cash basis only and as such do not cater for accrual basis principle to capture the huge financial transactions in the BOP. Furthermore, although the system is designed to cater for BOP needs as codes are similar, the use of the system is presently restricted to staff in the exchange control department. BOPCUS operates and serves the same purpose as an International Transactions Reporting System (ITRS) in other economies, as shown under the Lesotho case study. BON compilers do not have any methodological guide for the compilation of remittance flows, hence a new and improved data collection framework is proposed. This section presents the results of the new remittances estimates for Namibia using the data derived from BOPCUS to replace the current estimates. This allows for the compilation of actual flows as reported by the authorised dealers. Further, as a proxy, the new estimates will account for funds remitted in the informal sector by applying similar ratios used by the BOU to account for the share of transactions not reported via the BOPCUS.

### 5.1.2 Using available data sources for better measurement of Namibia's remittances

All authorised dealers in foreign exchange in Namibia are required to report cross-border transactions to the central bank as per the exchange control regulations[3]. Changes have taken place within the various codes under the BOPCUS to reflect the dynamics in the BOP standards, especially with the migration to BPM6. The purpose of the system is to provide

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[3] Exchange Control Regulations, 1961 : details outlined on www.bon.com.na

comprehensive information on foreign exchange and cross-border flows in an accurate and timely way. Previously, reporting by the authorised dealers to the central bank were done manually on paper, however, this has now changed to real-time electronic transmission of information.

Besides being readily available with no cost implication for the compilation of the BOP, an added advantage of using data from BOPCUS is that amounts are not netted-off for entries within the system. This makes it easy to measure the inflows and outflows during a particular period. At present, there are four authorised dealers in foreign exchange (ADA) comprised of all commercial banks and ten authorised dealers in foreign exchange with limited authority (ADLA), consisting of exchange bureaus and money transfer operators. There is a threshold for the amounts handled by the ADLAs, while the commercial banks deal with higher volumes of transactions. The list of all dealers operating in foreign exchange in Namibia is shown in Table 7.

**Table 7: Licensed Dealers in Namibia**

| Name | Type |
|---|---|
| Bank Windhoek Limited | ADA |
| First National Bank of Namibia Ltd | ADA |
| Nedbank Namibia Ltd | ADA |
| Standard Bank Namibia Ltd | ADA |
| Cambio Express Exchange Bureau (Pty) Limited | ADLA |
| Cambio Seguro Foreign Exchange (Pty) Limited | ADLA |
| Casa de Cambio Forex (Pty) Limited | ADLA |
| Interchange Money Exchange Namibia (Pty) Limited | ADLA |
| Magnet Bureau de Change (Pty) Limited | ADLA |
| Namibia Bureau de Change (Pty) Limited | ADLA |
| Novacambios Namibia (Pty) Limited | ADLA |
| Oshikango Bureau de Change (Pty) Limited | ADLA |
| Real Transfer Bureau de Change (Pty) Limited | ADLA |
| Rock Hard Bureau de Change (Pty) Limited | ADLA |

*Source: Bank of Namibia Exchange Control Department*

Both recipients and senders are required to provide identification and purpose of remitting, making it easier for officers to report amounts under the correct codes. As highlighted earlier, the coding within the system was structured according to the BOP categories, which makes it easy to sort the data for BOP compilation (see Appendix I for remittances categories and coding in the BOPCUS system). After reviewing the data, results from BOPCUS show that the top source countries were the United States of America, Zimbabwe, United Kingdom, Germany, Canada and South Africa (Figure 9).

**Figure 8: Namibia's top remittance corridors**
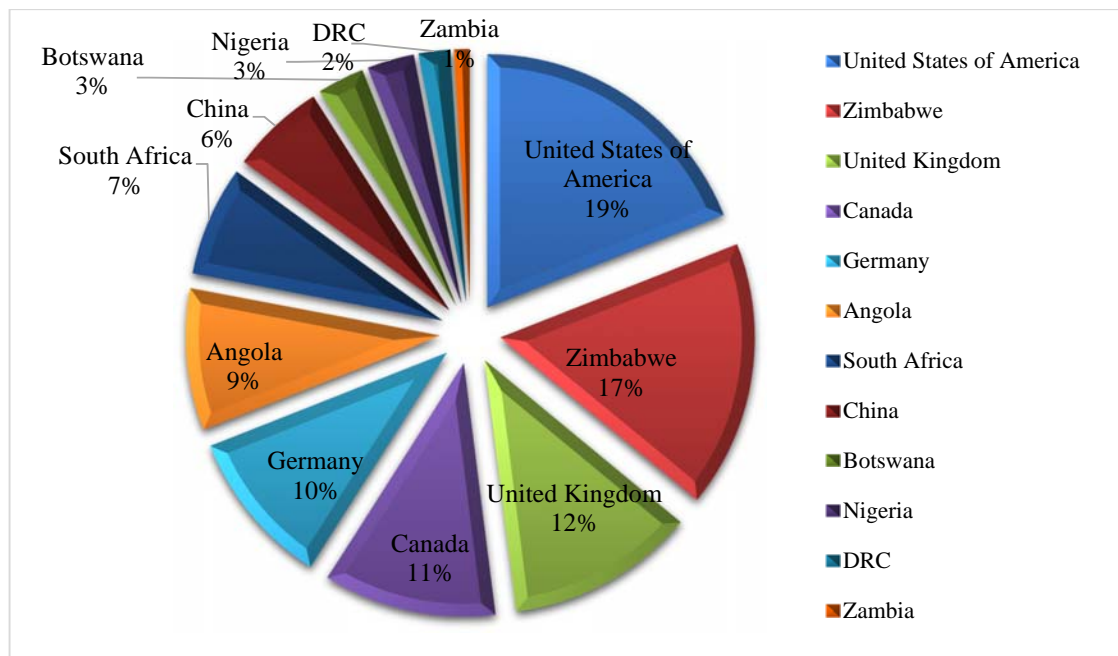


*Source: Novacambios Namibia (Pty) Limited – July 2016*

According to the largest MTO in Namibia, Novacambios Namibia (Pty) Limited, a subsidiary of Western Union, most of the outbound and inbound flows are to/from the top corridors as shown in Figure 9. These are countries assumed to have a large number of Namibian immigrants as well as countries where migrants based in Namibia are originally from. Most transfers are made between the United States of America, Zimbabwe, United Kingdom and Canada.

Results from BOPCUS also reveal that Namibia is generally a net receiver of remittances from abroad when compared to outward flows for the period between 2010 and 2016 (Figure 10). In terms of the two standard components of remittances, Namibia is a net receiver of both *compensations of employees* and *personal transfers*. The previous estimates also assumed the same position, although these were underestimated given the huge margin between flows reported in BOPCUS and the current estimates. It is worth noting that figures depicted in Figure 10 are those derived solely from BOPCUS, which excludes all transactions outside authorised dealers.

**Figure 9: Namibia's Remittances estimates[4]**
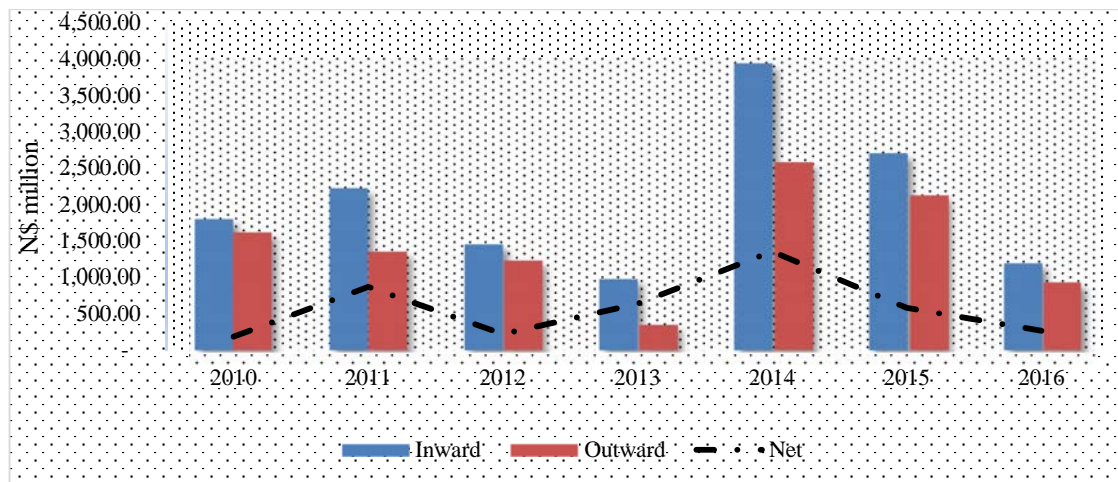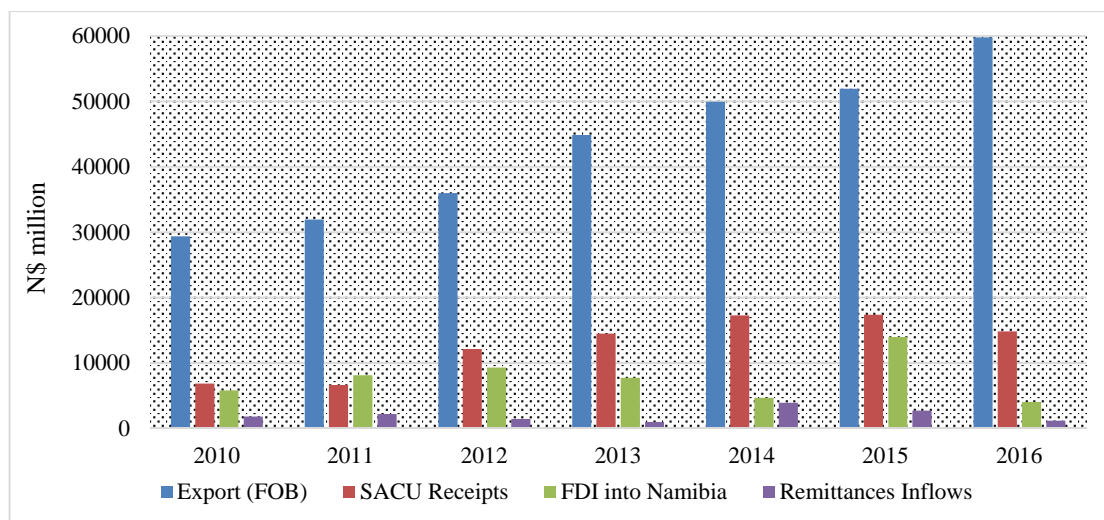


*Source: BOPCUS, Bank of Namibia*

Figure 10 indicates that there is no apparent trend in the remittance flows, except that there was a noticeable increase in both inward and outward remittance flows in 2014. Flows in 2015 slowed, and thereafter went back to the "normal" trend of around N$1.0 billion during 2016. The increase in inflows during 2014 can partly be attributed to the number of authorised dealers that came into operation at that time, the depreciation of the domestic currency against the U.S Dollar as well as the increase in oil prices, especially for

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[4] Note: This data only capture remittances sent through the authorised dealers channel such as banks and money transfer operators. Currently, no uniform and authoritative historical data on informal flows exist. Given the widespread use of informal remittance channels, the data should be regarded as underestimates of total flows.

remittances from the Angolan economy. Inflows in 2016 declined to N$1.2 billion following the strengthening of the local currency when compared to major corridors.

A graphic illustration comparing Namibia's major foreign inflows against the new data on remittances obtained from the BOPCUS is depicted in Figure 11. Although remittances are lower than the other categories, it is clear that the existing estimates were entirely understated, proving that the incorporation of data from BOPCUS as a data sources is a necessary exercise. What is more is that the results from BOPCUS show that more than N$1.0 billion is received in remittances from abroad, when compared to the constant estimate of N$110.6 million that has been reported for years.

**Figure 10: Namibia's inward remittances compared to major foreign inflow components**



*Source: BOPCUS, Bank of Namibia 2016 Annual Report*

Moreover, given that the estimates from BOPCUS exclude transactions conducted outside the formal system as well as in-kind transfers, it can be concluded that the current estimates understate the actual amount of remittances received. Taking from the Ugandan and Lesotho experiences, it is indeed essential to account for the portion of remittances taking place in the informal sector to adjust the estimate of the volumes of transactions reported by the licensed operators. In the Ugandan case study, it was revealed that about 10 percent of the reported transactions were received via informal channels or in-kind. By simply

assuming, the same ratio for Namibia, adjusting the amounts derived from BOPCUS by 10 percent to account for informal transactions, would amount to higher estimates as depicted in Figure 12.

**Figure 11: Namibia's net personal transfers including informal estimates**
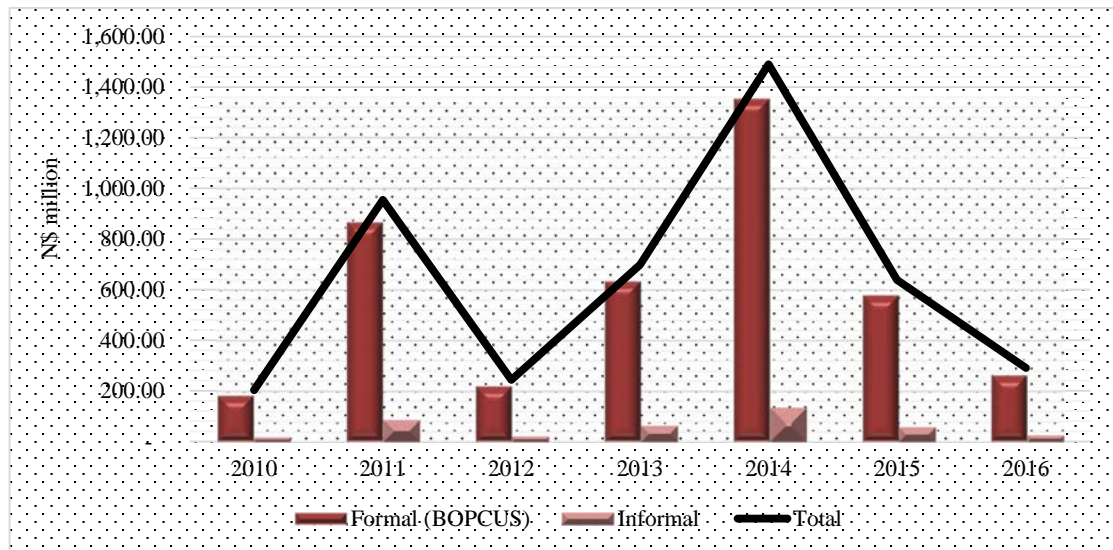


*Source: BOPCUS & Author's estimates*

After incorporating the informal portion to derive total remittances, the flows increase notably using the reported transactions from BOPCUS assuming that amounts transacted in the informal sector account for 10.0 percent of the reported flows in the formal channels in each period (Figure 12). The lowest reported figure for the reviewed period is N\$933.5 million during 2009, and thereafter, Namibia's remittance inflows are estimated to be over N\$1.0 billion. Earlier sections of the study revealed that Lesotho, Kenya and Uganda continue to report high shares of *personal transfers* inflows to GDP of 15.8 percent, 2.1 percent and 4.1 percent, respectively. Using the estimates derived from BOPCUS, the ratio of remittance receipts to GDP for Namibia will also change in line with the new data. Remittances receipts as a share of GDP are much higher incorporating the new estimates, when compared to 0.5 percent or lower, previously reported. The new ratios increase to a high of 3.1 percent of GDP in 2014, before declining to less than 1.0 percent in 2016 (Figure 13).

**Figure 12: Namibia's new remittances inflows estimates (% of GDP)**
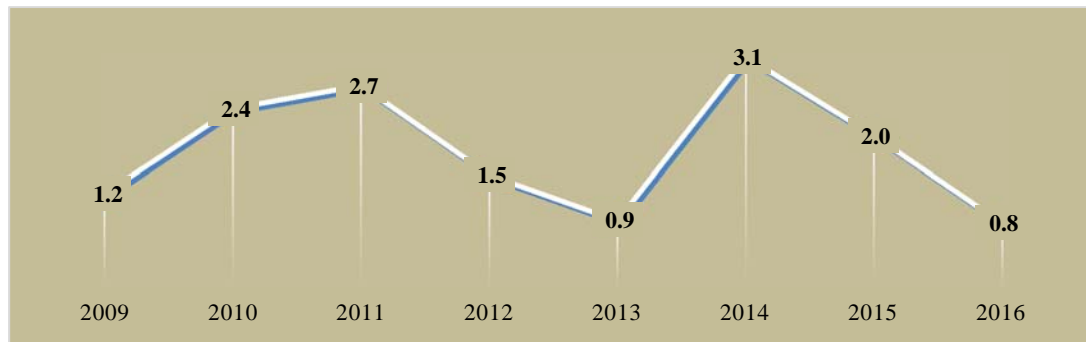


*Source: Bank of Namibia, BOPCUS & Author's Estimates*

Fundamentally, adopting the data from BOPCUS also improves the balance in the current account with the same magnitude of the growth in remittances compared to the past estimates. Namibia has reported a deteriorating current account deficit, mainly arising from a higher import bill compared to export proceeds. Adjusting the receipts from remittances results in a declining deficit in the current account (Figure 14).

**Figure 13: Impact of new remittances estimate on the Current Account balance**
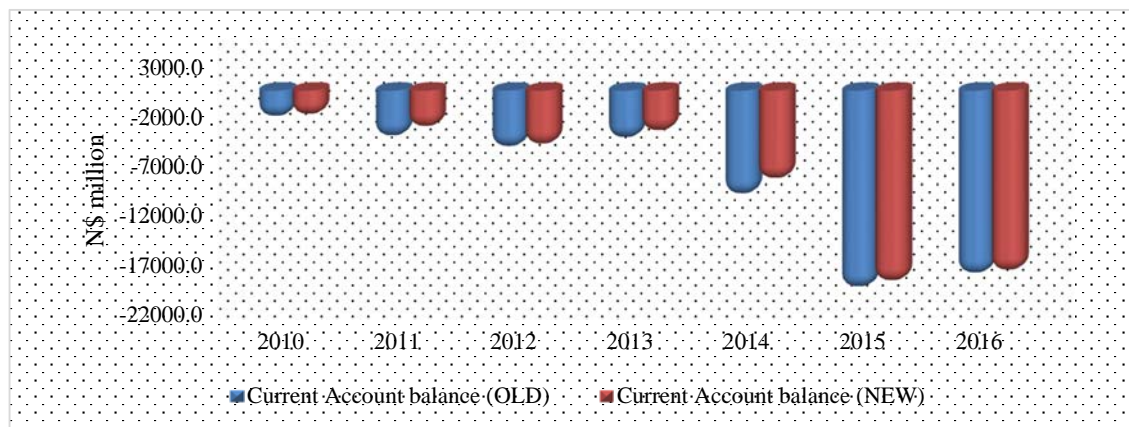


*Source: BOPCUS, Bank of Namibia 2016 Annual Report*

The results suggest that remittances play some role in Namibia, but perhaps not a major one when compared to the other key components in Namibia's BOP. Despite remittances, remaining much lower when compared to the major foreign exchange flows, Figure 14 above shows an improvement in the current account deficit when new estimates are

adopted. Using the new results from BOPCUS, Namibia's remittance inflows exceed outflows, although not by significant margins. This result, however, indicates the standard outcome of remittances in a developing economy. Using the reported amounts submitted by the ADLAs as well as incorporating a share for informal remittances assuming a similar percentage as the one adopted by BOU, the study finds that remittances receipts were understated and the ratio to GDP is relatively significant after applying the new method of estimation.

## 6.0 CONCLUSION AND RECOMMENDATIONS

### 6.1 Conclusion

The study found that there is a need to improve the data on remittances evidenced in the existing estimates for Namibia. Hence, a practical guidance on data sourcing and compilation was required to achieve estimates that are more accurate and adopt an improved methodology to closely monitor these flows. However, there is still some uncertainty regarding the actual volumes of flows because BOPCUS data is incomplete and at times inconsistent, with periods of high volatility. The experience from other countries shows that it was essential to review the current approach and introduce a method that Namibia could adopt to improve its remittance estimates, and thereby improving the current account balance as well as the *errors and omissions* in the BOP. Having reviewed the various methodologies by the three central banks within the MEFMI region, it is imperative for the BON to introduce one or more of the approaches in order to supplement the results from BOPCUS and to ensure a comprehensive methodology for compiling remittances. More importantly, better estimates for the informal and in-kind transfers can be determined using a household survey in future. Although BOPCUS potentially misses a large proportion of the remittances, as it does not measure the informal and in-kind transactions, it provides a relatively good estimate in line with IMF recommendations outlined in the guide. The current estimates are evidently not based on an adequate methodology and do not conform to the standard of BPM6. The study revealed that remittances for Namibia have for long been underestimated and the contribution of these flows to GDP were found to be significant compared to the existing estimate.

In summary, the paper did not only highlight the importance of compiling reliable data on international remittances, but also indicates that it is equally important to generate data that is consistent and comparable across all sources. The proposed method to capture and improve data on remittances may not be sufficient unless the various stakeholders make an attempt to internalise the entire data gathering process and generate efficient and consistent data. Inaccurate or incomparable data may have severe implications on the outcomes of the research on remittances, and consequently on the policies formulated based on such data.

Undocumented migration patterns, the prevalence of informal remittance channels, and the relatively weak official data in Namibia could likely understate the size of remittances. Statistics on remittances are key for the formulation of macroeconomic policy, particularly for countries with a large number of their population living abroad, as remittance inflows can influence the level of savings, investment and consumption. In addition, improved data on remittances serves as an important tool for monitoring cross- border flows of money and timely detection of money-laundering or other illicit flows that may undermine the integrity of a financial system.

## 6.2 Recommendations

The study particularly highlighted the severe quality problems with the current remittance estimations and also revealed the weak methodological foundations of the current estimates, which resulted in the underreporting of remittances for Namibia. Going forward, it is important to look at key issues that will address the current weakness and also improve the data on remittances in the future.

Firstly, to capture the size of the flows appropriately, the compilation of remittances requires the use of multiple data sources. It is however important to note that improving data on remittances has cost implications depending on the channel to be used. Hence, compilers should identify a channel that is deemed reliable and expand over time to include other methodologies. In the absence of a household survey to measure remittances, BON should make use of the current BOPCUS system, which measures flows submitted by all authorised dealers. Easy access to the database should be extended to BOP data compilers. Gaining access to BOPCUS will also address other current data gaps in the BOP. Furthermore, the study also recommends that the officials in the BOP section visits regularly authorised dealers to ensure accurate recording of transactions in line with BOP standards. To increase confidence in the estimates from BOPCUS, a review of individual transactions reported by authorised dealers should be done regularly to reduce the chance of misclassifications. The regular reviews would also help to identify outliers and seek clarification from the reporting authorised dealers.

The possible inclusion of questions related to remittances and migration patterns in the income and expenditure survey conducted by the statistics agency is also recommended. This will ensure better measurement as well as sourcing detailed information on various variables on migration data. This will however, require collaboration between the BON and Namibia Statistics Agency (NSA). Additionally, as part of the medium-term plan, BON should start to budget for financial and human resources to conduct a personal transfer survey similar to the one adopted by Uganda. Results from this survey will reveal the impact these flows have on households in Namibia, and both the central bank and statistics agency will benefit from the results.

The lack of data on migration patterns is challenging in that it is difficult to determine or estimate remittance flows into the country as no proxy can be used to measure the size of these transactions in relation to diaspora statistics. Thus, collaborative efforts to involve Namibian embassies and consulates abroad to obtain better estimates on the number of Namibians in the diaspora in the various host countries will be useful for improving the data. This can be done through regular conventions and meetings at the various consulates in host countries. Questionnaires pertaining to migrants' relationships with their families in Namibia, channels and amounts remitted can be distributed during these engagements. This will assist in keeping an updated database on Namibian diaspora, which is not only useful for compilers in the BOP, but also for policy planning as well as other key decisions.

While BON works towards incorporating the additional approaches outlined above to measure remittances flows comprehensively, the study recommends the adoption of the new and adjusted estimates in Namibia's BOP as they are more representative when compared to the existing data. The suggested framework uses actual data reported by the licensed offices and also takes into account the transactions that takes place outside of the formal system, which further makes it a much superior measure of remittance flows than the current estimates.

In conclusion, the results from this study allow for further research on the impact of remittances and their role in the Namibian context given the limited literature on this

subject. The study also serves as a good benchmark to highlight the importance of remittance flows in the region and why there is need to monitor these flows closely.

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# APPENDIX

**Appendix I:    EXTRACT FROM BOPCUS ON BOP CATEGORIES APPLICABLE TO REMITTANCES –   INWARD & OUTWARD PAYMENTS**

*The Balance of Payment categories consists of a category and in some cases a sub-category is also applicable.*

## INCOME RECEIPTS

| | |
|---|---|
| 303 | Compensation paid by a non-resident to a resident employee temporarily abroad |
| 304 | Compensation paid by a non-resident to a non-resident employee in Namibia (excluding remittances) |
| 305 | Compensation paid by a non-resident to a migrant worker employee |
| 306 | Compensation paid by a non-resident to a foreign national contract worker employee |

## (1)  TRANSFERS OF A CURRENT NATURE

**Transaction adjustments**

400        Adjustments / Reversals / Refunds related to transfers of a current nature

**Current payments**

| | |
|---|---|
| 401 | Gifts |
| 505 | Workers' (migrant) remittances |

## (2)  TRANSFERS OF A CAPITAL NATURE CAPITAL TRANSFERS AND IMMIGRANTS

**Transaction adjustments**

500   Adjustments / Reversals / Refunds related to capital transfers and immigrants