



UNITED NATIONS
DEPARTMENT OF ECONOMIC AND SOCIAL AFFAIRS
STATISTICS DIVISION

**Meeting of the United Nations Technical Subgroup on
Movement of Persons – Mode 4
New York, 22 (afternoon) -24 (morning) February 2006
United Nations Secretariat
Conference Room E**

**ISSUE PAPER:
DEFINITION OF REMITTANCES**

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¹ The paper represents the views of the authors and not those of the United Nations. We gratefully acknowledge comments received from the IMF and the UN Trade Statistics Branch.

A. Introduction

1. Remittances are an important source of income for households, in particular in developing countries. The flow of remittances is the least influenced by economic downturn and remains a stable source of income. Remittances have been identified as the third pillar of development as their volume is second to foreign direct investment and higher than overseas development assistance. Analytical studies have shown that remittances contribute to poverty reduction in home countries. These are some of the reasons why remittances have been receiving increasingly the attention of politicians and analysts. The G7 recently called for improved information of remittances, which still remains weak as compared to other balance of payments components.

2. “Remittances” has now become a commonly used term, which is however rarely defined. Analytical studies define remittances as the sum of selected balance of payments flows. In some studies, the sum of workers remittances and compensation of employees (Anne Harrison 2003 and DFID 2003), in others the sum of the above balance of payments component plus migrants’ transfer are used as proxy for remittances.

3. This paper defines remittances in terms of personal transfers, personal remittances and total remittances. The rationale behind the proposed definitions is that their calculation is built on the Balance of Payments components that are likely to become part of the standard presentation, while giving due consideration to practical aspects of data collection such as symmetry of reporting.

4. The TSG discussed extensively conceptual definitions of remittances. They have further been discussed by IMF Committee on Balance of Payments Statistics (BOPCOM) and the Advisory Expert Group on National Accounts (AEG). There are minor differences between BOPCOM and AEG recommendations. The conclusions of the AEG meeting in July 2005 and of the BOPCOM meeting in June 2005 are reported in Annex III.

5. This paper reflects on-going discussion and in particular the views of BOPCOM and the AEG and aims at reconciling the differences in the recommendations by the two groups. It has been prepared to facilitate the discussion during the TSG meeting (New York 22-24 February 2006). The recommendations of the TSG will be submitted to BOPCOM and the AEG for final decision. Annex I to this paper presents a table, which combines components of the tables presented in the Annotated Outline of the Balance of Payments to highlight the BOP components related to remittances. Annex II presents a fictitious numerical example which illustrates how to calculate the various concepts of remittances from the sending and receiving country.

B. Definition of personal transfers

6. The TSG considered the definition of workers’ remittances too narrow and not precise enough. It recommended changing the existing definition of workers remittances in BPM5 to bring it in line with the 1993 SNA definition of current transfers between

households. Personal transfers would then be part of the BOP standard presentation and be defined as follows:

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

7. Personal transfers thus include all current transfers from resident to non-resident households, independently of (a) the sources of income of the sender (be it wages and salaries, social benefits or any other type of transfers, including transfers from a person receiving no income and running down his/her assets); (b) relationship between the households (be it between related or unrelated persons); (c) purpose for which the transfer is made (be it inheritance, alimony, lottery², etc.).

8. BOPCOM agreed with the recommendations of the TSG and further recommended that the BPM5 component “workers’ remittances” be renamed “remittances of resident employees”. This component will be retained in the BPM6 in order to maintain the continuity of the time series. It will be recorded as an “of which” item of “personal transfers” and will be considered a “supplementary item”³.

9. The AEG suggested that personal transfers include also capital transfers between households. This recommendation is not in line with what has been recommended by the TSG and agreed by BOPCOM. It should further be noted that including capital transfers in the definition of personal transfers would entail the disaggregation of “other capital transfers” (see table in Annex I) for which few countries have data.

10. The TSG is invited to express its view on the inclusion of capital household-to-household transfers in the definition of personal transfers. [*Question 1 in Section E*]

C. Definition of personal remittances

11. The conclusions of the AEG and BOPCOM on the definitions of personal remittances differ. This paper illustrates the positions of both groups and requests the TSG to make a recommendation for final deliberation by the AEG and BOPCOM. The definitions are constructed from the components presented in Table A.1 in the annex of the paper, which was derived combining the components relevant to defining remittances presented in the various chapters of the Annotated Outline of the Revision of the Balance of Payments Manual, Fifth Edition (AO). There is not yet a final decision on whether those components in Table A.1 will be part of the standard presentation in BPM6. The shaded components represent the components which were not included in the AO.

12. For ease of presentation instead of providing a lengthy definition of personal remittances, we define personal remittances using a formula for calculating personal

² The net transfers paid out to winners of lotteries and gambling, that is the residual transfers excluding service charges, are considered household to household transfers (1993 SNA, para 8.97).

³ A supplementary item is an item that should be considered by countries in circumstances that the information would in their particular cases be of interest to analysts and policymakers.

remittances taking the perspective of the receiving country. Annex II presents a numerical example which illustrates how to calculate personal remittances. Personal remittances thus include all current transfers, except for net non-life insurance premiums and nonlife insurance claims⁴, paid or received by resident households, capital transfers received by households⁵ and compensation of employees (from persons working abroad for short periods of time). [*Question 2 in Section E*]. Investment income⁶ is not included because it is not directly linked to the movement of persons.

$$\text{Personal remittances} = \text{compensation of employees} - \text{social contributions} + \text{personal transfers} + \text{capital transfers between households}$$

13. Personal remittances are essentially household-to-household transfer, with net compensation of employees approximating an unrequited flow from the household to itself. To reflect this consideration, the TSG recommended in its last meeting, to call this item “personal remittances” as opposed to “household remittances”.

14. Part of the gross compensation of employees (COE) receivable by households is sent back to the country where the short term employment took place. The part of COE returned to the country where short term employment took place includes social contributions, taxes on income and travel and passengers transportation related to short term employment. While social contribution is part of the BOP standard presentation, the other components - taxes on income and travel and passengers transportation related to short term employment - are not.

15. Personal remittances defined netting compensation of employees only of social contribution would thus be part of the BOP standard presentation. Personal remittances defined in the broad sense that is by netting compensation of employees not only of social contribution but also of taxes on income and travel and passengers transportation related to short term employment would require additional calculations. [*Question 3 in Section E*]

16. BOPCOM has not deliberated on whether the disaggregation needed to calculate the net compensation of employees in the broad sense should be considered as part of the standard presentation or should be considered as a supplementary item. Personal remittances obtained netting compensation of employees in the broad sense is a more policy relevant indicator. BOPCOM should take this issue into consideration when deciding whether to recommend countries to compile taxes on income and travel and passengers transportation related to short term employment as part of the standard presentation.

⁴ Net nonlife insurance premiums and non-life insurance claims could conceptually be included in the definition of personal remittances since they are essentially redistributive flows between households. However, because it may be difficult to collect data separately for the transfers received by households, they have been left out of the definition.

⁵ Although capital transfers received by households are currently not part of the standard presentation, we are suggesting that they be included.

⁶ Investment income is not included because it is not directly linked to the movement of persons.

17. The AEG did not deliberate on the issue of netting compensation of employees in the definition of personal remittances. However, it is expected that the AEG will follow the recommendations of BOPCOM.

18. BOPCOM and AEG have discussed whether the concept of personal remittances should also include capital transfers between households. Neither group has reached a final conclusion on this. The TSG is invited to make recommendations to BOPCOM and the AEG on the inclusion of capital transfers between households in the definition of personal remittances. [*Question 4 in Section E*]

19. The AEG recommended that the definition of personal remittances be extended and its current recommendation in the draft report is closer to the definition of total remittances discussed in section C. The inclusion of net non-life insurance premiums and non-life insurance claims is not explicitly mentioned in the AEG draft report, however it is expected that the AEG would agree to exclude them from the definition of personal remittances because of difficulty in implementation. [*Question 5 in Section E*]

20. During the AEG meeting, the discussion on the definition of remittances leaned towards a definition of personal remittances including social benefits. This could be considered as a proxy for disposable income disposable income received by households from abroad⁷. Although this is not mentioned in the draft report, a new concept could be defined including not only household-to-household transfers but also social benefits, that is current transfers to households from other institutional sectors, namely government and non-profit institutions serving households. This new concept should be clearly distinguished from personal remittances and could be called “disposable income from abroad”.

21. Both personal remittances and disposable income from abroad are policy relevant concepts and address different policy questions. The first is relevant for questions related to improving financial infrastructure. As indicated during the International Technical Meeting on Measuring Remittances (World Bank/IMF, Washington DC 24-25 January 2005) for development policy the focus is on “household to household” transactions. The second concept is more relevant for poverty analysis as it provides a proxy for disposable income of household from abroad. The TSG may wish to take into consideration the policy relevance of the two aggregates, when making recommendations.

D. Total remittances

22. As in the case of personal remittances, for ease of presentation instead of providing a lengthy definition of total remittances, we define it using a formula and taking the perspective of the receiving country. Annex II presents a numerical example

⁷As indicated in para 12, net non-life insurance premiums and nonlife insurance claims, paid or received by resident households, capital transfers received by households and compensation of employees (from persons working abroad for short periods of time)as well as investment income from abroad are excluded.

which illustrates how to calculate total remittances from the credit and debit perspective. Total remittances are the sum of personal remittances and current transfers to households and non-profit institutions serving households (NPISHs) from any sector. [Question 6 in Section E] It would thus be calculated as:

$$\text{Total remittances} = \text{personal remittances} + \text{social benefits} + \text{current transfers to NPISHs}^8$$

23. Social benefits are likely to be considered part of the standard presentation in BPM6. We therefore suggest that current transfers to NPISHs become part of the standard presentation. In this case, total remittances would either be considered as a standard presentation item or a supplementary item, depending on whether current transfers to NPISHs would be considered part of the standard presentation. . [Question 7a in Section E]

24. As credit entries, total remittances would thus cover all flows from abroad which are either receivable by households directly or indirectly through NPISHs in the home countries for their benefit. BOPCOM agreed to the definition of total remittances at its last meeting.

25. The AEG mentions including capital transfers to NPISHs in the definition of total remittances. The TSG is invited to make recommendations on whether to include capital transfers to NPISHs to the definition of total remittances and whether this item should be part of the BOP standard presentation or a supplementary item. [Question 7 in Section E]

26. Table I below provides a summary of the different concepts related to remittances discussed in the paper.

⁸ This concept may also include transfers directly to households from government or NPISHs for relief purposes (e.g. in response to a natural disaster), classified as other current transfers. However, they are not explicitly included in total remittances as they are often not significant.

Table I Definitions related to remittances

Personal transfers	Comments
All current transfers in cash or in kind made, or received, by resident households to or from other non-resident households	BOPCOM has agreed to replace “workers remittances” with personal transfers as part of BOP standard presentation. The AEG questions whether capital transfers between households should be included in the definition of personal transfers.
Personal remittances	Comments
(Gross compensation of employees – social contributions) + personal transfers + capital transfers from households to household	All components are part of the standard presentation of BOP. Personal remittances would be part of the BOP standard presentation. The disaggregation of capital transfers into capital transfers made/received by households is currently not part of the standard presentation.
(Gross compensation of employees – social contributions – <i>taxes on income – travel – passengers transportation</i>) + personal transfers + capital transfers to households	<i>Taxes on income and travel and passengers transportation</i> related to short term employment are supplementary items. Considering the item as part of the standard presentation will be an issue for discussion at the next BOPCOM.
Disposable income from abroad	Comments
Personal remittances + social benefits	Social benefits are part of the standard presentation. This concept follows from the discussions during the AEG meeting.
Total remittances	Comments
Personal remittances + social benefits + current transfers to NPISHs	BOPCOM has to deliberate whether current transfers to NPISHs would be considered as part of BOP standard presentation or supplementary item. AEG questions whether capital transfers to NPISHs should be included in the definition.

E. Questions to the TSG

27. The issues raised in the paper are listed below in the form of questions for discussion during the TSG meeting.

- (1) What is the opinion of the TSG on whether to include capital transfers between resident and non-resident households in the definition of personal transfers in para 6 (see paras 9-10) ?

- (2) Does the TSG agree with the definition of personal remittances as a household-to-household transfer defined as in para 12?
- (3) Is the TSG in favour of “netting” compensation of employees as part of the BOP standard presentation? This would imply the calculation of travel and transportation costs as well as taxes on income related to short term employment (see paras 14-16).
- (4) Does the TSG agree with the inclusion of capital transfers between households in the definition of personal remittances? Should capital transfers to/from households be a BOP standard component or a supplementary item? (see paras 12 and 18).
- (5) Does the TSG agree with the definition of disposable income from abroad defined as the sum of personal remittances and social benefits? (see para 20)
- (6) Does the TSG agree with the definition of total remittances as defined in para 22?
- (7) What is the opinion of the TSG on whether to include capital transfers to NPISHs in the definition of total remittances? (see para 25)
 - a. If in favour, should capital transfers to NPISHs be a BOP standard component or a supplementary item? (see para 23)

ANNEX I

TABLE A1. OVERVIEW OF COMPONENTS OF PERSONAL AND TOTAL REMITTANCES

Based on the tables in the Annotated Outline (AO)

	Credits	Debits
Services (AO Table 9.1)		
Travel ⁽¹⁾		
Transportation ⁽²⁾		
Primary distribution of income (AO Table 10.1)		
Compensation of employees		
Secondary distribution of income (AO Table 11.1)		
Current taxes on income and wealth ⁽³⁾		
Social contributions		
General government		
Other		
Social benefits		
General government		
Other		
Net nonlife insurance premiums		
Nonlife insurance claims		
Personal transfers ⁽⁴⁾		
Other current transfers		
General government		
Non-profit institutions serving households		
Other		
Capital transfers (AO Table 12.1)		
General government		
Household		
Non-profit institutions serving households		
Other		

Notes:

- (1) of which: travel costs related to short term employment (e.g. seasonal and border workers and other non-resident workers)
- (2) of which: transportation costs related to short term employment
- (3) of which: taxes on income related to short term employment
- (4) of which:
 - Remittances of resident employees
 - Other current transfers

Of which items above (1-4) should be considered as supplementary item.

Shaded items are not presented in the Annotated Outline. It is recommended that they be included as part of the standard presentation.

ANNEX II

EXAMPLE

Calculation of personal transfers, personal remittances, disposable income from abroad and total remittances

Suppose a resident of country A sends to a household in country B a transfer of \$100. During the same period he/she sends a transfer of \$30 to a family member resident in country B to help in the purchase of a house in country B.

Suppose that another individual, resident of country B, works for three months in country A and earns \$500 in cash before tax. In addition the employer provides accommodation to be worth \$100. Income tax of \$120 is paid to the government of country A. Social contributions of \$50 is paid by the individual to the government of country A.

Suppose that a resident of country B receives a pension of \$300 from country A.

Suppose also that an organized diaspora group (NPISH) in country B receives \$1,000 from a charity organization in country A and \$40 directly from a household in country A.

The following entries would appear in the BOP of country A and in the BOP of country B.

Country A			Country B		
	Credit	Debit		Credit	Debit
Travel	300 ⁹	...	Travel	...	300
Compensation of employees	...	600 ¹²	Compensation of employees	600	...
Current tax on income	120 ¹⁰	...	Current tax on income	...	120
Social contributions			Social contributions		
General government	General government	...	50
Households	50 ¹¹	...	Households
Social benefits			Social benefits		
General government	...	300	Households	300	...
Personal transfers	...	100	Personal transfers	100	...
Other current transfers			Other current transfers		
Households	...	40	Households
NPISHs	...	1,000	NPISHs	1,040	...
Capital transfers			Capital transfers		
Households	...	30	Households	30	...
Reserves	1,600	...	Reserves	...	1,600

⁹ 200 for food and clothing plus 100 for accommodation.

¹⁰ Income tax payable to government of country A.

¹¹ Social contribution payable to government of country A.

¹² 500 paid in cash plus 100 for accommodation paid in kind.

Country A/ payable		Country B/receivable	
Personal transfers	-100	Personal transfers	100
Personal remittances	-260	Personal remittances	260
<i>Personal remittances = Compensation of employees – social contributions + personal transfers + capital transfers between households =</i> $-(600-300-120) + 50 - 100 - 30 = -260$		<i>Personal remittances = Compensation of employees – social contributions + personal transfers + capital transfers between households =</i> $(600-300-120) - 50 + 100 + 30 = 260$	
Disposable income from abroad	-560	Disposable income from abroad	560
<i>Disposable income receivable from abroad = Personal remittances + social benefits + other current transfers to households = -260 – 300 = -560</i>		<i>Disposable income receivable from abroad = Personal remittances + social benefits + other current transfers to households = 260 + 300 = 560</i>	
Total remittances	-1,600	Total remittances	1,600
<i>Total remittances = personal remittances + social benefits + current transfers to NPISHs =</i> $-260 - 300 - 1,000 - 40 = -1,600$		<i>Total remittances = personal remittances + social benefits + current transfers to NPISHs =</i> $260 + 300 + 1,000 + 40 = 1,600$	

ANNEX III

Third Meeting of the Advisory Expert Group on National Accounts

ESCAP, Bangkok 18 – 22 July 2005

Description of the issue

In the case of non-permanent workers with connections to two or more territories, it would be useful to prepare a supplementary presentation for countries where the number of nonpermanent resident persons is significant, bringing together relevant components of contract services, compensation of employees, workers' remittances and migrants' transfers with shortterm non-resident workers. Also harmonization of the residence concept with demographic, tourism, and migration statistics should be sought and any remaining differences spelled out.

Presentation

313. The substantive paper for this session (document number SNA/M1.05/15.; Issue 39c) was written by Alessandra Alfieri and Ivo Havinga. The results of the e-discussion were presented by Ivo Havinga. The session was chaired by Adriaan Bloem.

314. Non-permanent workers are increasingly important in the globalised world. It is not possible to identify the universe satisfactorily so an e-discussion was held to obtain AEG Members' views on eliminating the concept of migrant and to replace the item "workers' remittances" with a wider concept of personal transfers.

Recommendations/questions

315. It was suggested that:

- (a) There was no need for the concept of "migrant" in the SNA or BPM; non-resident was sufficient.
- (b) The standard item "workers' remittances" should be replaced by "personal transfers". This would include all transfers from households in one country to households in another whether or not the source of the transfer was income from employment and whether or not the households were related.
- (c) In addition there should be a supplementary item called "personal remittances" which comprised (on the receipts side) compensation of employees earned abroad, personal transfers, current transfers payable by other institutional units to households and current transfers from any institutional unit to NPISHs.
- (d) Personal transfers and personal remittances could appear both including and excluding capital transfers between households and from other institutional units to households.

Discussion

316. The conclusion of the consultation was that all the AEG members participating supported the recommendations on non-permanent workers. This was accepted and there was no further discussion on this issue.

Summary conclusions

Decisions

317. The AEG accepted the recommendations on non-permanent workers.

IMF Committee on Balance of Payments Statistics

Summary outcomes of meeting of IMF Committee on Balance of Payments Statistics,
Washington D.C. June 27 – July 1, 2005

Remittances:

- 1) There was a general consensus on the conceptual treatment of remittances.
- 2) The Committee decided to introduce the concept of “personal transfers” as a standard component, with “remittances of employees” included as a supplementary component.
- 3) The Committee decided to introduce the concept of “personal remittances”, constituting the sum of “personal transfers” and “compensation of employees less taxes and social contributions and travel expenditures made by these parties” either with or without capital transfers between households
- 4) The Committee agreed on the concept of “institutional remittances”
- 5) The Committee agreed that the concept of migrant was no longer needed in the new balance of payments manual and 1993 SNA rev. 1 for remittances as remittances should be based on residence, not migration status.
- 6) The Committee considered that, absent the formation of a City Group to consider remittances, it may be useful to devote significant time to the topic at its meeting in 2006, although, because of the urgency of the issue, concerns were expressed about the time gap to the next scheduled meeting. The IMF will reflect on this issue and communicate with the Committee in due course. Were the session to go ahead, the IMF would invite other interested international organizations and countries that are recipients of remittances.