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**INTERNATIONAL WORKING GROUP ON
IMPROVING DATA ON REMITTANCES**

Interim Report, November 2005

Background

The importance of the accurate measurement of remittance flows was emphasized by the G8 Heads of State, meeting at Sea Island in 2004: remittance flows reported in official statistics – notably in balance of payments statistics – are large, and have been increasing in recent years. Remittance flows to developing countries have been estimated to be around \$116 billion in 2003.¹

There are weaknesses in official data on remittances, however, and G7 Finance Ministers and others called for the establishment of a statistical working group, to be led by the World Bank, for improving remittance data. The purpose of this interim report of this working group is to present its progress so far and to outline areas where further work will be carried out. The report has been produced jointly by the Development Data Group of the World Bank and the Statistics Department of the International Monetary Fund, in collaboration with the Statistics Division of the United Nations.²

Key data sources for remittance flow data

Relevant aggregate data for measuring remittances are collated by the IMF from national data compiled and reported by appropriate statistical authorities in member countries. They are then reported by the IMF as part of global balance of payments statistics. Three items from the current balance of payments framework are most often used by data users: compensation of employees,³ workers' remittances,⁴ and migrants' transfers.⁵ Data users decide which of these components meets their specific needs. The approach taken by the World Bank in recent publications is to use the sum of all three to estimate a total remittance flow.

Detailed data on remittances are usually obtained from surveys. When they are conducted, nationally-representative household surveys of income usually include remittances, although they are not always identified separately. Specialized surveys on remittances and migration are also conducted on an ad-hoc basis, for example to study remittance "corridors" and sending and receiving practices. There is no international framework for collecting data on remittances from household surveys.

International meeting on remittance data, January 2005

¹ Source: *2005 World Development Indicators*, World Bank

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³ *Compensation of employees* comprises wages, salaries, and other benefits earned by individuals – in economies other than those in which they are residents – for work performed for and paid by residents of those economies.

⁴ *Workers' remittances* cover current transfers by migrants who are employed in new economies and considered residents there. A migrant is a person who comes to an economy and stays there, or is expected to stay there, for a year or more.

⁵ *Migrants' transfers* are contra-entries to the flow of goods and changes in financial items that arise from the migration of individuals from one economy to another.

In January 2005, in response to the request of G7 Finance Ministers, the World Bank hosted an international meeting on the issue of statistics on remittances in order to establish the working group, take stock of existing work and initiatives, clarify the needs of data users, and agree a strategy towards improving the availability and accuracy of data. The meeting, jointly organized with the IMF, was attended by almost 60 participants comprising data users and compilers from various countries and international organizations. G7 countries were represented by their balance of payments compilers, plus an official from the US Treasury and an official from the UK Department of International Development.⁶

Measurement issues: aggregate flows

Aggregate flow data published in balance of payments statistics are far from perfect.⁷ Concepts and methodologies are not applied uniformly across all countries, and data sources and compilation methods are better in some countries than in others. Some countries report no data, or not on all items. Data comparisons and aggregations are therefore difficult, and data users often need to make imputations or estimates for missing values.

Some problems are due to different interpretations by countries of definitions and classifications. For example, most countries follow a one year cut-off for determining residency, but some use a longer period. This results in inconsistencies between workers' remittances and compensation of employees between countries.

Most problems, however, occur because of difficulties in obtaining all the necessary data. For instance, some countries use data from commercial banks, which may not include remittances made through informal channels or through money transfer operators. In some countries, it is difficult to collect data on small remittance transactions. Banks in countries in the European Union, for instance, do not have to report transfers below €12,500 per transaction. Some countries use models, but parameters are difficult to estimate on a regular basis in a cost-effective manner, and models may lack sufficient data checks. Other countries use "counterpart" data (e.g. data on outflows are estimated by aggregating inflows recorded by other countries). Overall, there is room for improvement in data sources and compilation methods employed in measuring remittances for the balance of payments.

Resource constraints and institutional capacity also play a significant role in the quality of data compiled by statistical authorities. The largest outflows take place from countries where remittances are often a relatively small item in balance of payments statistics. As a result, data collections and improvements are often given lower priority than other items. Countries with relatively large inflows are often those with relatively weak capacity and

⁶ Further information on the meeting, including all papers and presentations, is available at <http://www.worldbank.org/data/remittances.html>.

⁷ See *Remittances in the Balance of Payments Framework*, Reinke and Patterson, January 2005

limited resources, even though remittances are a larger item in the balance of payments statistics.

To illustrate the possible extent of these gaps and the extent of inaccuracies and misclassification, the World Bank estimate of \$116 billion for remittances to developing countries in 2003 (using balance of payments data supplemented by imputations, staff estimates and data from other official national sources) compares with \$85 billion reported for 2003 in the IMF *Balance of Payments Yearbook*, 2004. A further illustration is given by comparing global inflows with global outflows, for the two key balance of payments items of interest (workers' remittances and compensation of employees). The discrepancy is rather large: 8.2% of inflows for 2003.

Measurement issues: household survey data

Estimating remittance outflows from surveys requires samples that include sufficiently large numbers of migrants. There are methodological difficulties – migrants are not uniformly distributed in the population, finding households containing migrants is a relatively rare event, and information on remittances may be considered sensitive by respondents. As a result, the incorporation of questions in regular surveys may not yield data of sufficient reliability without additional cost.

Data on remittance inflows can also be obtained from household surveys; problems are often related to the lack of capacity and resources in developed countries to routinely conduct nationally representative surveys, and the sensitive nature of the data being collected.

Priorities and program for working group

Participants concluded that the key priority for the working group would be to improve remittance data within the balance of payments framework, both concepts and definitions, and data collection and compilation methods. Improving the measurement of remittances through the use of household surveys would also be useful, and might help improve compilation of remittance flows for the balance of payments. To accomplish this, participants agreed a strategy to utilize existing international mechanisms. In particular:

- An existing sub-group of the UN Interagency Task Force on Statistics of International Trade in Services, the Technical Sub-Group on the Movement of Natural Persons (TSG), has reviewed concepts and definitions relating to remittances and reported their recommendations to the IMF Committee on Balance of Payments Statistics and the Advisory Expert Group on National Accounts.

- Improvements to data collection and compilation methodology should take place in a “city group” of countries.⁸
- The International Household Survey Network⁹ should be used for improving access to data and metadata of household surveys which include remittance information, and to methodology guidelines.

New concepts and definitions

The TSG met in February 2005 in OECD, Paris, to consider revisions to the concepts and definitions of remittances. Broad recommendations were agreed during the meeting, and finalized through correspondence with a broad range of compilers and international organizations. These recommendations were discussed by the IMF Committee on Balance of Payments Statistics in June 2005 and by the Advisory Expert Group on National Accounts in July 2005. The following enhancements will be included into the revision of the fifth edition of the *Balance of Payments Manual (BPM5)* and the update to the *System of National Accounts, 1993 (1993 SNA)*, scheduled to be completed in 2008.¹⁰

These changes should substantially improve accessibility and clarity of data on remittances in the balance of payments, national accounts and international trade in services frameworks. They would bring the balance of payments flows in line with the 1993 SNA concepts and definitions. They include the introduction of three categories related to remittances, a conceptual change in the use of migration and residence status, the elimination of the concept of “migrants’ transfers”, and reporting of bilateral flows:

“Personal Transfers” to replace “Workers’ Remittances”. Personal transfers will replace the existing workers’ remittances item in the balance of payments, and will include all current transfers in cash or in kind received by resident households from non-resident households. Unlike workers’ remittances, the new concept is based neither on employment nor migration status and thus resolves inconsistencies associated with the previous concept.

Creation of a new item, “Personal Remittances”. Personal remittances will be defined as current transfers in cash or in kind receivable by resident households from any sector abroad, and “net” compensation of employees earned by persons working in economies where they are not resident.¹¹

⁸ A statistical “city group” is a voluntary group of statistics compilers formed for improving statistical practices in a specific area. They are named after the city of their first meeting.

⁹ See <http://www.surveynetwork.org>.

¹⁰ Final details are tentative, subject to the harmonization of a few remaining conceptual points by the Committee and the Advisory Expert Group.

¹¹ This concept refers to “compensation of employees” net of, i.e. less, taxes on income, social security contributions, and travel and passengers transportation related to the short-term employment and paid to resident entities in the host economy. Depending on policy interests, some countries may choose to compile the above components to obtain net compensation of employees, however, these components may not be included as part of the balance of payments standard presentation for reasons of simplicity and

Creation of a new item, “Total Remittances”. This will include all current transfers in cash or in kind receivable by households and non-profit institutions serving households (NPISHs) from any sector abroad and “net” compensation of employees earned by persons working in economies where they are not resident.¹²

Removal of the concept of “migrants’ transfers” from the balance of payments framework. Instead of recording changes of assets and liabilities resulting from individuals moving their residence from one economy to another in the capital account, they will be recorded as “other changes of assets and liabilities”. The movement of personal effects that accompany a migrant will be excluded from import and export data.

Abolition of the concept of “migrant” in the balance of payments framework. Since the concepts of personal transfers and remittances are based on the concept of residence rather than migration status, the concept of migrant is no longer relevant. This is consistent with the use of residence criteria elsewhere in the balance of payments and national accounts frameworks.

Reporting of remittance flows to and from major partner countries in balance of payments data. This is a lower priority request of data users compared to accurate reporting of aggregate remittance flows, but reporting of bilateral flows will be encouraged.

Compilation guidance

To address these issues, participants at the January meeting agreed that it would be useful to form a core group of compilers to review methods and, in the medium term, develop more detailed guidance for compiling remittances data in a “city group”. Eurostat, the statistical office of the European Communities, has offered to host the first meeting in mid-2006, thereby creating the “Luxembourg Group”. Terms of reference and membership are being developed by Eurostat in consultation with the IMF and the World Bank.

In the meantime the international working group will coordinate with a recent project being conducted by the Center for Latin America Monetary Studies (CEMLA) to improve central bank remittance reporting and procedures. This project is supported by the Multilateral Investment Fund of the Inter-American Development Bank, with technical advice and oversight for this work provided by an International Advisory Council, including the IMF and World Bank.

collectability. Consideration is being given to an alternative definition of personal remittances also including all capital transfers received by resident households.

¹² Similar to the case of personal remittances, consideration is being given to an alternative concept of total remittances also including capital transfers received by resident households and NPISHs.

Surveys of remittances

Data on remittances collected through household surveys are useful in their own right for research purposes but may also complement and help to improve data reported within the balance of payments framework. Improving methodology in this area therefore represents an important part of the work program; the Luxembourg Group will review, among other things, the extent to which household survey data can be used to improve balance of payments statistics.

Recent work at the World Bank has included the development of a standard survey questionnaire and data processing software for collecting survey data from remittance-sending households, and field testing of the instruments with Nigerian, Senegalese and Congolese communities in Belgium.¹³ The World Bank has also commissioned work to improve guidance and methodology for obtaining representative samples of remittance-senders in surveys designed to obtain information on remittances.

Under the Knowledge for Change Program, the World Bank is also conducting studies and household surveys in Morocco (which will include information on remittances received by households and characteristics of senders), Brazil (collecting information on the Japan – Brazil remittance corridor) and New Zealand (studying the Tonga and Samoa corridor). Principal objectives of these surveys include: (a) measuring the importance of both formal and informal remittance flows, (b) identifying constraints and transaction costs faced by remittance senders and receivers, (c) understanding household level determinants of the size and frequency of remittance flows to inform and improve methodologies for estimating overall flows, (d) to assess the welfare impact and importance of remittances, and (e) improve survey design and sampling techniques to collect reliable and representative household survey based data on remittances.

The Department for International Development of the United Kingdom has also sponsored and piloted a survey of the Bangladeshi community in the United Kingdom which will be useful to improve methodology. Likewise, the Asian Development Bank has sponsored a number of household surveys in East Asia, including in the Philippines.

Work Plan

Since the conceptual component of the work program has been completed, the international working group will now focus on improving compilation guidance within the balance of payments framework, and household survey methodologies. Compilation guidance will be the focus of the Luxembourg Group, which will meet mid-year in 2006, and progress will be reviewed by the IMF Committee on Balance of Payments Statistics. The final report of the working group will be presented by the end of September 2006, so that initial work of the Luxembourg Group can be incorporated. The report will also detail improvements and recommendations for household survey design methodology.

¹³ Copies of these questionnaires are available from <http://www.worldbank.org/data/remittances.html>.