Eighteenth Meeting of the
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Definition of Personal Remittances in the Balance of Payments Context

Prepared by the United Nations Technical Subgroup on
Movement of Natural Persons

OUTCOME PAPER #1[1]

DEFINITION OF PERSONAL REMITTANCES IN THE BALANCE OF PAYMENTS CONTEXT

UNITED NATIONS TECHNICAL SUBGROUP ON MOVEMENT OF NATURAL PERSONS

1. The United Nations Technical Subgroup on the Movement of Natural Persons (TSG) at its meeting in Paris (31 January – 1 February 2005), discussed, extensively Balance of Payments flows related to remittances based on the issue paper *Definition of Remittances and Relevant BPM5 Flows.* . It deliberately sought to harmonize the Balance of Payments components related to remittances to the 1993 SNA transactions.

2. The TSG recognized the importance of compiling balance of payments flows related to remittances by partner countries. It recommended that, as a minimum, flows to and from the major partner countries be separately identified.

3. The TSG reiterated the need to maintain the difference between compensation of employees and workers remittances. Compensation of employee (COE) and workers remittances are conceptually different. While COE represents labour income, workers remittances represents a transfer without quid pro quo. The TSG recognized that in practice it may be difficult to separately identify the two items given different country practices in the application of the concept of residence.

4. The group agreed on the following issues:

   (a) Introduction of the concept of "personal transfers" to replace "workers remittances" in the BPM5;
   (b) Definition of personal remittances and its introduction in the balance of payments as a memorandum item;
   (c) Change in recording of migrants' transfer.

5. There was not sufficient time for the TSG to discuss additional issues related to an extended definition of remittances, namely institutional remittances. It was decided that deliberations on institutional remittances would be done electronically. An issue paper will be prepared by UNSD for discussion.

6. The above recommendations bring the balance of payments components in line with the 1993 SNA. Table I, in the annex, illustrates all transactions related to personal transfers and personal remittances, in the services accounts, primary and secondary distribution of income accounts. The 1993 SNA classification of distributive transactions (D) is used for ease of reference.

[1] The paper will be submitted to the Balance of Payments Committee (BOPCOM), the Advisory Expert Group on National Accounts (AEG) and the Inter-agency Task Force on Statistics of International Trade in Services.

(a) Personal transfers

7. The group considered the definition of workers remittances in BPM5 too narrow and not precise enough. It expressed the need to expand it and clarify its coverage. It was recommended to change the definition of workers remittances in BPM5 to 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, lottery, etc.).

8. The following definition could be used as the new definition of personal transfers in BPM6. It is in line with the 1993 SNA definition of current transfers between households (1993 SNA para 8.95).

> *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.*

9. It was also suggested to replace workers' remittances with the definition above and to name the new BOP component "personal transfers". Other names were proposed, namely, "household-to-household transfers" and "personal remittances". "Personal transfers" was the preferred choice of the TSG (see (b) below for the considerations).

10. "Personal transfer" would include workers remittances and other household to household transfers, classified as other current transfers in BPM5. Countries found the new definition not difficult to implement. On the contrary, some countries are already calculating the newly proposed component as part of their current practice.

11. The TSG, in balance, did not think that there was a need to further sub-divide the component "personal transfers" into "workers' remittances" and "other personal transfers". It noted, however, that from a trade policy perspective, migrant workers' remittances are of particular interest.

12. It was recommended that personal remittances be recorded as a memorandum item[2] in the standard presentation of the balance of payments.

(b) Personal remittances[3]

13. The TSG agreed to define personal remittances as follows:

> *Personal remittances consist of current and capital transfers in cash or in kind, made or received, by resident households to or from non-resident households and net compensation of employee from persons working abroad for short periods of time (less than one year).*

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[2] In the balance of payments, memorandum items are items that are mandatory to compile as opposed to supplementary items whose compilation is recommended but it is not mandatory.

[3] Although at the TSG meeting "remittances" was considered the preferred term, it was felt that it would be clearer to use the term "personal remittances" to distinguish them from "institutional remittances".

14. Personal remittances would be derived as the sum of (i) "net" compensation of employees; (ii) personal transfers; and (iii) household to household capital transfers. "Net" refers to compensation of employees net of taxes on income, social security contributions, travel and passengers' transportation related to the short-term employment. The component compensation of employees would still be maintained and recorded gross in the balance of payments, but taxes on income, social security contributions, travel and passengers' transportation of persons working abroad for less than one year would be netted out in the memorandum item.

15. Table I in the Annex illustrates the transfers included in the definition of personal remittances. The 1993 SNA classification of distributive transactions (D) is used for ease of reference.

16. Countries confirmed that it was feasible, from the existing data compilation systems, to separately identify the above-mentioned items.

17. It was recommended that personal remittances be recorded as a memorandum item in the standard presentation of the balance of payments containing the net amount receivable (credit) by resident household and the net amount payable (debit) to non-resident households.

18. The TSG noted that "net" compensation of employees (COE) would constitute a proxy of net amount payable and receivable. The underlying assumption of "net" COE is that all income that is receivable by the person working abroad for less than one year and that is not spent in the host country is sent back to the home country. This is tantamount to the assumption of zero savings in the host country.

19. It was also noted that other sources of income, such as entrepreneurial income and property income receivable by residents holding assets abroad, should be conceptually included in the personal remittances definition. However, because of practical considerations the TSG agreed not to include it.

20. The TSG recommended that household to household capital transfer should be included in the definition of personal remittances. Capital transfers are defined in BPM5 as transfers of funds linked to or conditional upon acquisition or disposal of fixed assets. The TSG noted that, at least conceptually, the distinction between current and capital transfers to households should be maintained. Several countries noted, however, that household to household capital transfers are difficult to identify and are in many cases recorded under current transfers. Including capital transfers in the definition of personal remittances would offset differences in country practices in recording household to household transfers – current and capital.

(c) Migrants' transfers

21. The TSG recommended migrants' transfers not be included in the definition of personal remittances. Conversely, it recommended changing the current recording in BPM5 of migrants' transfers in line with the treatment of the 1993 SNA. It agreed with the proposal of the Annotated Outline, that is migrants' transfers will no longer be recorded as transactions in the balance of payments. Rather, they will be shown in the other changes in financial assets and liabilities account instead of a capital transfer in the

capital account. The rationale behind this proposal is that changes in residence of individuals/households do not involve changes in ownership but rather changes in classification and thus there is no transaction between resident and non-resident households.

Questions for the Committee

(1) Does the Committee agree with the proposal of replacing "workers remittances" as defined in BPM5 with "personal transfers" as defined in para 8?

(2) Does the Committee think it is necessary to separately identify "workers remittances" and "other personal transfers" as sub-components of "personal transfers"?

(3) Does the Committee agree with the definition of "personal remittances" as outlined in para 13? In particular:

(a) Is the Committee in favour of including compensation of employees net of taxes on income, social security contributions travel and passengers' transportation related to short-term employment as part of "personal remittances"?

(b) Is the Committee in favour of including capital household to household transfers in the definition of "personal remittances"?

(c) Does the Committee agree with excluding migrants' transfers in the definition of "personal remittances"?

(4) Does the Committee agree with the proposal of treating "personal remittances" as memorandum item?

ANNEX

TABLE I PERSONAL REMITTANCES

SNA and BOP transactions	Personal transfers	Personal remittances
Services		
Travel (part, COE related)		√
Income		
COE		√
Current transfers		
Current taxes on income, wealth, etc. (D.5) (COE related)[1]		√
Social contributions (D.61) (COE related)[1]		√
Miscellaneous current transfers (D.75)		
Personal transfers[2]	√	√
Workers remittances	√	√
Other household transfers (e.g. gifts)	√	√
Lotteries and gambling	√	√
Compulsory payments (e.g. alimony)	√	√
Capital transfers		
Migrants' transfers		
Other capital transfers (household to household)		√

1. These items are used to calculate net compensation of employees.

2 Both the payment of a service charge and the transfer paid out to winners of lotteries and gambling are considered household to household transfers (1993 SNA para 8.97).

UNITED NATIONS
DEPARTMENT OF ECONOMIC AND SOCIAL AFFAIRS
STATISTICS DIVISION

**Meeting of the Technical Subgroup of the
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ISSUE PAPER #1:

DEFINITION OF REMITTANCES AND RELEVANT BPM5 FLOWS

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[4] The paper represents the views of the authors and not those of the United Nations. The paper was discussed at the TSG meeting.

1. Background

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 remain 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 explores alternative definitions for remittances and thereby alternative presentations within the BOP framework, to measure the economic impact from (i) short-term employment; (ii) transactions between resident and non-resident households; (iii) transfers from/to government units and non-profit institutions servicing households (NPISHs) to/from non-resident households; and (iv) current transfers from other institutional units to non-resident NPISHs. It also analyzes the impact on important macro-aggregates of classifying transactions under the primary distribution of income account (i.e. compensation of employees) or the secondary distribution of income account (e.g. workers' remittances).

2. Relationship between transactions and the concept of remittances in the BOP framework

4. This paper takes the position that the concept of remittances in the BOP framework should be designed to measure the net receivable of households from employment-related flows on the primary distribution of income account and relevant current transfers on the secondary distribution of income account. Consequently, it excludes from the remittances concept the exports and imports of goods and services produced under employment contracts, investment income from external assets and liabilities held by households as well as related taxes.

5. The concept of residence is fundamental for identifying the BOP flows that are relevant for the study of remittances. The concept of residence in BOP is broadly consistent with the concept of residence (long-term migrant) in migration statistics (except for a few exceptions, such as students and patients , who are considered resident of the home countries even if they change their usual residence for more than one year)

and ships' crew. Broadly speaking, both economic and migration statistics apply the one year rule. A worker who is employed abroad for less than a year (for example a border worker, a seasonal worker or a short term employee) is classified as a nonresident of the host country in economic statistics.

Narrow definition of remittances

6. In the narrow definition, remittances aim at measuring the economic impact of migration mostly on the home economy. The unit under consideration is the migrant (including also short-term migrant), independent of the status (e.g. employed or not, legal or illegal, etc.). The aim is to capture the net receivable of transactions without quid pro quo between the migrant and the related household in the home country, independently from the source of income (be it wages and salaries, social benefits or any other current transfer) and the use this money is put to in the home country (e.g. alimony, inheritance, lottery[5], etc.).

7. Neither migration nor economic statistics recommendations provide any indication of when a resident "migrant " ceases to be such and becomes a resident "non-migrant". This has implications on the classification of cross border transactions in the BOP framework.

8. In this context, the following BPM5 flows are particularly relevant for the study of remittances. They encompass both income from labour (i.e. compensation of employees) as well as various types of current transfers.

(a) Compensation of employees of a nonresident worker employed by a nonresident employer operating in a foreign country (not BOP flow);
(b) Compensation of employees of a nonresident worker employed by a resident company;
(c) Workers' remittances from a resident migrant worker;
(d) Other current transfers from a resident household;
(e) Migrants' transfers.

9. They reflect an increasing degree of involvement of the "migrant" in the host economy, with (a) having virtually no involvement in the host country as the remuneration is paid by the non-resident employer (this is not considered a transaction in the balance of payments), (b) being a short term migrant; (c) being a long-term migrant; and (d) ceasing to be a migrant. (e) is a special category and occurs when a person moves from the home to the host country with the intention to stay for at least one year. It represents a shift in the ownership of the migrants' assets from the home to the host economy. The table below shows the various categories of workers in order of degree of involvement in the host economy and the relevant BOP components.

[5] Both the payment of a service charge and the transfer paid out to winners of lotteries and gambling are considered household to household transfers (1993 SNA para 8.97).

Degree of involvement in the host economy →

	Nonresident worker		Resident worker	
	Nonresident employer	Resident employer		
Compensation of employees	(a) Compensation of employees (1993 SNA)	(b) Compensation of employees (BPM5)		
Current transfers			(c) Workers' remittances	(d) Other transfers
Capital transfers		(e) Migrants' transfers		

(a) Compensation of employees of a nonresident worker employed by a nonresident employer operating in a foreign country (not a BOP flow)

10. The compensation of a nonresident employee by his nonresident employer while delivering a service or good in a host country is not recorded in the balance of payment as it is a domestic flow. The value of the services provided by the non-resident company will instead be recorded in the balance of payments. However, the workers' expenses in the host country, such as transportation, accommodation, food, etc. are recorded as travel.

(b) Compensation of employees of a nonresident worker employed by a resident company

11. Compensation of employees is defined in the BPM5 as:

> *"Comprising wages, salaries and other benefits (in cash or in kind) earned by individuals- in economies other than those in which they are residents-for work performed for and paid by residents of those economies. Included are contributions paid by employers, on behalf of employees, to social security schemes or private insurance or pension funds to secure benefits for employees. Employees, in this context, include seasonal or other short-term workers, (less than one year) and border workers who have centers of economic interest in their own economies. Because embassies and consulate are considered extraterritorial to the economies in which they are located, the compensation received by local (host country) staff of these institutional entities is classified as paid to resident entities by nonresident entities"* (BPM5 para 269).

12. Compensation of employee is a gross concept. "Personal expenses made by non-resident seasonal workers in the economies in which they are employed are recorded under travel. Taxes paid, contribution made to pension funds, etc. in those economies are recorded as current transfers" (BPM5 para 271). The actual flows sent by a nonresident worker from the host country to his home country (country of residence) are therefore not recorded as such in the BOP. The recordings are based on rerouting and imputations.

13. This treatment of compensation of employees impacts macro-aggregates in the home and host countries of the workers. It increases the gross national income (GNI) of the worker's country of residence by the amount of compensation of employees and it increases gross national disposable income (GNDI) by the compensation of employees to the home country net of current transfers back to the host country. This could be reworded by saying that GNDI increases by the sum of actual (net) remittances (flows that actually reach the home country) by the worker, if we assume no other flows and no saving. This is further illustrated in Figure 1 below.

(c) Workers' remittances from a resident migrant worker

14. Workers remittances are defined in BPM5 as:

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

15. In the case of a migrant worker, compensation of employees is not recorded in the balance of payments, his expenses in the host country are treated as household final consumption expenditure of the host country, and taxes and social security contributions are treated as domestic flows within the host country. The GNI of the worker's country of origin is not affected by this recording, while GNDI will increase by the amount of the workers' remittances. The effect on GNI therefore differs from a situation where the worker is classified as nonresident.

(d) Other current transfers

16. BPM5 defines other current transfers as:

> *"those transfers for distribution to relieve hardships caused by famine, other natural disasters, war, etc. and regular contributions to charitable, religious, scientific and cultural organizations. Also covered are gifts, dowries, and inheritances; alimony and other support remittances; ticket sold by, and prizes won from, lotteries; and payments from unfunded pension plans by non-governmental organizations "* (BPM5 para 304). ''…*social security contributions and …social benefits* (BPM5 para 305).

17. The category other current transfer of the standard presentation of the BOP in BPM5 includes an assortment of transfers. However, the Annotated Outline of the Revision of Balance of Payments Manual, Fifth Edition (April 2004) reflects the additional detail of the standard components of the BPM5 as part of the standard components of the BPM6, albeit in a different presentation: current taxes on income, wealth, etc., social contributions, social benefits, other current transfers (excluding workers remittances).

18. The 1993 SNA is even more explicit in defining other current transfers. It includes "current transfers to NPISHs (donations in cash or in kind, para 8.94), "current transfers

between households" (i.e. gifts, dowries, inheritance, etc., para 8.95), "fines and penalties" (i.e. compulsory payments, para 8.96), lotteries and gambling (para 8.97) and payments of compensation (alimony, compulsory payments for personal injury or damage to property, para 8.98).

(e) Migrants' transfers

19. BPM5 defines migrants' transfers:

> *"They are contra-entries to flows of goods and changes in financial items that arise from migration (change of residence for at least a year) of individuals from one economy to another. The transfers to be recorded are thus equal to the net worth of the migrants".*

20. Migrants' transfers is an imputed one time flow recorded at the time of migration as capital transfer in the capital account which reflects the net value of assets and liabilities of a household that changes status from nonresident to resident. There are no actual transfers that take place. Migrants' transfer should not be mixed with the concept of remittances, which is based on actual transactions between residents and non-residents.

21. The macro effects of migration on economic aggregates are illustrated in Figures 1 and 2, which provide two fictitious examples that show the different treatments according to the residence status of the worker (category (b) and (c) above). We assume that the compensation of employees from employment is 100, taxes paid to the host country are 10, social security contribution paid to the host country is 5, social benefit as pension is 5, and the workers' expenses in the host country are 45. The actual amount that flows to the migrants' (short or long-term) home country is 40. We assume no saving[6].

[6] The question of saving may be important for the analysis of poverty, however, assuming that saving is 0 does not have an impact on the analysis above

Figure 1. Transactions of non-resident worker abroad and host economy (category (b))

		<u>As a nonresident</u>			
“Home country”/ ”country of origin”	←	**Compensation of employees**	**100**		**“Host country”**
	→	**Travel**	**45**	→	
	→	**Taxes on income**	**10**	→	
	→	**Social security contribution**	**5**	→	**GDP = 100**
GDP = 0 **GNI = + 100** **GNDI = + 85** **Current account = +40**		**Workers’ remittances (not recorded)**	**40**		**GNI = 0** **GNDI = + 15** **Current account = -40**

Figure 2. Transactions between resident worker abroad and non-resident household (category (c))

		<u>As a resident</u>		**“Host country”**
“Home country”/ ”country of origin”		**Compensation of employees 100**	→	
	←	**Workers remittances 40**	→	
		Household fin. cons. exp. 45	→	**GDP = 100**
GDP = 0 **GNI = + 0** **GNDI = + 40** **Current account = +40**		**Taxes on income 10**	→	**GNI = +100** **GNDI = +60** **Current account = -40**
		Social security contributions 5		

22. Although both situations – that of a worker going abroad for less than one year and that of a migrant worker (going abroad for more than a year) – may appear similar, the effects on the GNIs and the GNDIs are different. This is due to the fact that compensation of employees is income from labour and thus affects GNI of the home country. Workers’ remittances is recorded as a transfer from residents to non-residents and it only impacts GNDI of the home and host countries. The effects on the current account are the same.

23. There are several issues with the definition of workers remittances in BPM5 that it is worth discussing. The definition:

(a) is linked to employment income, thus it excludes all other transfers that are made from other sources of income received by resident migrants (e.g. social security and assistance benefits (pension, unemployment benefits, family allowances etc.);

(b) is linked to the definition of migrant. When a migrant ceases to be such (when and how this is not clearly defined – see issue paper on universe), the transfers that he or she makes to households in the home countries are classified as other current transfers;

(c) mentions that transfers often involve related persons. It is very difficult to assess whether the receiving household is or not related to the workers who is sending money;

(d) excludes resident to non-resident household transfers other than working migrants. It excludes dowries, gifts, inheritance, alimony and other support remittances, which are included in other current transfers.

Alternative broad definitions

24. Given that our objective is to measure transfers, which are received by the household in the home country, the definition of remittances would have to be broadened to include any transactions to the non-resident household. The following two alternative presentations of BOP flows could be proposed.

> *Alternative 1:* Add all resident household-to-nonresident household transfers independently of the purpose, source of income, whether they are from resident "migrants" or " non-migrants". In this case, the alternative presentation would involve adding workers remittances with all transfers between resident and non-resident households recorded in other current transfers. This new aggregate could be named "personal remittances".
>
> *Alternative 2:* Introduce a concept of "total remittances" to non-resident households as the net receivable of the sum of compensation of employees, all household to household transfers (alternative 1 "personal remittances"), lotteries and gambling, social security benefits and social assistance benefits (in cash and in kind related to health treatment, pension and unemployment, family allowances, reduction in income, housing and education) from government units, NPISHs and social security schemes minus the sum of social contributions, current taxes on income and travel expenses of non-resident workers.

3. Points for discussion

25. The issues on the definition of remittances in the context of the BOP framework raised in the paper are listed below in the form of questions for discussion during the TSG meeting;

1) Does the TSG agree with the broad definition of "total remittances" as the net receivable of the sum of compensation of employees, all household-to-household transfers (alternative 1 "personal remittances"), lotteries and gambling, social security benefits and social assistance benefits (in cash and in kind related to health treatment, pension and unemployment, family allowances, reduction in income, housing and education) from government units, NPISHs and social security schemes minus the sum of social contributions, current taxes on income and travel expenses of non-resident workers?
2) Does the TSG agree with the narrow definition of "personal remittances", as an all inclusive concept of resident household to non-resident household transfers defined as the sum of workers' remittances and all other household-to-household transfers recorded in other current transfers?
3) Does the TSG agree that the present definition of workers' remittances should be maintained, or should it:
    (a) be clarified by providing a clear guidance of when a migrant changes its status;
    (b) be clarified to clearly delineate the boundary between workers' remittances and other transfers of workers resident abroad?

4) Does the TSG agree that the concept of "net" compensation of employees from/to abroad – defined by deducting taxes on income, social contributions and travel) is useful in the context of defining remittances?
5) Does the TSG agree that "migrants' transfers as defined in the BOP framework should not be included in the narrow and broad definition of remittances?
6) Does the TSG agree that transfers to non-resident NPISHs from any institutional unit should be clearly identifiable in the standard or supplementary presentation of the BOP to allow for a more complete assessment of "remittances?