Annex 4

Remittances

A. Economic Concept of Remittances and Why They Are Important

A4.1 Remittances represent household income and other resources from non-resident institutional units arising mainly from the temporary or permanent relocation of people from their home economy to other economies.[1] They largely consist of funds and noncash items sent or given by individuals who have migrated to a new economy and become residents there, as well as the net remuneration of nonresident workers (border, seasonal, other short-term or remote workers who are employed in an economy in which they are not resident and local staff employed by embassies, consulates, and military bases, etc.). Remittances include cash and noncash items and can be sent through electronic or digital means (e.g., wire transfer, electronic funds transfers, mobile money wallets, digital wallets, and other applications), as well as through other channels, such as money or goods carried across borders.

A4.2 For many economies, remittances represent a sizable and stable source of funds that sometimes exceed official aid or financial inflows from direct investment. Remittances may have a significant impact on poverty reduction and can finance economic activity in recipient economies.

A4.3 The *Manual,* as well as the *International Transactions in Remittances Guide for Compilers and Users*, identify three main aggregates to measure remittances, which are compiled using BOP standard components and supplementary items. No single data item in the balance of payments (BOP) framework comprehensively

[1] The concept of remittances is broadly aligned with the balance of payments framework. However, the coverage of concepts related to remittances in the BOP is somewhat broader than transfer of funds and noncash items arising from relocation of persons, because they are not based on the concepts of migration, employment, or family relationships.

captures transactions in remittances. This annex explains the different items needed to calculate remittance aggregates and the relationships between the different aggregates.

A4.4 The concepts and related measurement of the remittances aggregates are presented in Section B. Section C discusses the BOP standard components related to remittances (remuneration of employees and personal transfers), while Section D identifies other transactions related to remittances. Section E discusses the application of BOP concepts of residence, valuation and time of recording to remittances. Table A4.1 shows various measures of remittances and the components required to compile them. Table A4.2 presents the components required for compiling remittance items and their sources.

B. Measures of Remittances

A4.5 There are various measures and levels of aggregation of remittances. They include personal remittances, total remittances, and total remittances plus transfers to nonprofit institutions serving households (NPISHs). These are cumulative measures and the components in the external accounts needed to compile them are as illustrated in Table A4.1. As supplementary items, compilation and dissemination of remittances is encouraged but voluntary, depending on the data needs of the compiling economy.

Table A4.1. Tabular Presentation of the Definitions of Remittances

<table>
<tr><td colspan="6">Total Remittances plus Transfers to NPISHs: a+b+c+d+e+f</td></tr>
<tr><td colspan="4">Total Remittances: a+b+c+d</td><td>e</td><td>f</td></tr>
<tr><td colspan="3">Personal Remittances: a+b+c</td><td>d</td><td rowspan="3">Current transfers to NPISHs</td><td rowspan="3">Capital transfers to NPISHs</td></tr>
<tr><td>a</td><td>b</td><td>c</td><td rowspan="2">Social benefits</td></tr>
<tr><td>Personal transfers (part of current transfers)</td><td>Remuneration of employees less taxes, social contributions, transport, and travel</td><td>Capital transfers between households</td></tr>
</table>

Note: Personal transfers is a standard item; other items are supplementary.

1. Personal remittances

A4.6 Personal remittances are defined as current and capital transfers in cash or in kind between resident households and nonresident households, plus remuneration of employees, less taxes and social contributions paid by nonresident workers in the economy of employment, less transport and travel expenditures related to working abroad (paragraph 13.2(a)). In short, this item includes all household-to-household transfers and the net remuneration of nonresident workers.

A4.7 Household-to-household transfers are included within current or capital transfers, as appropriate, in the BOP accounts. Compilers in both economies are required to be aware of the sector of the transacting party on both sides. Personal transfers are a standard item in the transfer income account, while capital transfers between households are a supplementary item in the capital account. Capital transfers included in personal remittances are household-to-household transfers of funds or in kind, which are linked to, or conditional on, the acquisition or disposal of fixed assets.

A4.8 The gross remuneration of nonresident workers is recorded under "remuneration of employees," a standard component. To derive the relevant component for the calculation of personal remittances, remuneration is adjusted by deducting taxes and social contributions of nonresident employees payable to the economy of the employer and transport and travel expenses of border, seasonal, and other short-term workers. The three items that are deducted are all supplementary items in the BOP framework. Social contributions are defined as "the actual or imputed contributions made by households to social insurance schemes to make provision for social benefits to be paid" (paragraph 13.32).

A4.9 It should be noted that "personal remittances include personal and capital transfers originating from individuals who are not migrant workers. On the other hand, the earnings of individuals from the provision of services to another economy are not included. Paragraph 12.13 provides the definition of an employer-employee relationship, which clarifies the difference between "remuneration of employees" and payments for services.

2. Total remittances

A4.10 Total remittances are the sum of personal remittances and social benefits. Social benefits include benefits payable under social security and pension schemes. They may be in cash or in kind (paragraph 13.40). Total remittances include transfers from individuals residing abroad, income from nonresident employers, and social benefits from abroad. Social benefits is a supplementary item in the BOP framework within transfer income.

3. Total remittances plus transfers to NPISHs

A4.11 This item includes total remittances and both current and capital transfers to NPISHs from any institutional sector of the sending economy. Therefore, it has a very wide definition. In fact, much private and official aid, as well as cross-border sponsorship of educational and cultural activities (including scholarships), will be included in this item. Current transfers received by NPISHs and to NPISHs are supplementary items under transfer income, whereas capital transfers received by NPISHs and to NPISHs are supplementary items under the capital account.[2]

A4.12 The identification of NPISHs is not without problems. Although compilers will be able to appropriately identify the NPISHs resident in their economy, they will find it more problematic to identify NPISHs in partner economies. This makes the compilation of debit transactions of "total remittances plus transfers to NPISHs" particularly challenging because the definition is partially based on identifying the sector of the transacting party in the partner economy. "Total remittances plus transfers to NPISHs" is a supplementary item in the BOP statement.

[2]Of the supplementary remittance aggregates in the external accounts, some data users consider "total remittances plus transfers to NPISHs" to most closely match the economic concept of remittances (see Section A above). Unlike the other supplementary remittance aggregates, this measure includes funds and noncash items that flow indirectly to households, through nonprofit institutions.

Table A4.2. Components Required for Compiling Remittance Items and Their Source

Item	Source and description
1. Remuneration of employees	Earned income account, standard component
2. Personal transfers	Transfer income account, standard component
3. Travel and transport related to employment of border, seasonal, and other short-term workers	Services account, supplementary items
4. Taxes and social contributions related to remuneration of employees	Transfer income account, supplementary items
5. Remuneration of employees less related travel and transport expenses and taxes and social contributions	Earned income account (for remuneration of employees), standard component Services account (for travel and transport expenses) and transfer income account (for taxes and social contributions), supplementary items
6. Capital transfers between households	Capital account, supplementary item
7. Social benefits	Transfer income account, supplementary item
8. Current transfers to NPISHs	Transfer income account, supplementary item
9. Capital transfers to NPISHs	Capital account, supplementary item

Important relationships are:

"Net" remuneration of employees (#5) = #1 minus the sum of #3 and #4

Personal remittances = #2 plus #5 plus #6

Total remittances = #2 plus #5 plus #6 plus #7

Total remittances plus transfers to NPISHs = #2 plus #5 plus #6 plus #7 plus #8 plus #9.

C. Standard Components in the Balance of Payments Framework Related to Remittances

A4.13 The two items in the balance of payments framework that substantially relate to remittances are "remuneration of employees" and "personal transfers." Both of these standard components are recorded in the current account.

1. Remuneration of employees

A4.14 *Remuneration of employees presents total remuneration, in cash or in kind, payable by an enterprise to an employee in return for work done by the latter during the accounting period.* In the external accounts, remuneration of employees refers to the income of border, seasonal, and other short-term workers and of other residents (including remote workers) employed by nonresident entities.[3] Remuneration of employees is recorded gross before taxes and other expenses. Paragraphs 12.10–12.23 provide more details. However, in the derivation of personal remittances, a net measure of remuneration of employees is used, as discussed in paragraph A4.8.

2. Personal transfers

A4.15 *Personal transfers consist of all current transfers, in cash or in kind, made or received by resident households to or from nonresident households* (paragraph 13.21)[4]. Therefore, personal transfers are a subset of current transfers.

A4.16 Personal transfers[5] are defined independently of the source of income of the sending household and the relationship between the households. Although it is recognized that personal transfers will often originate from migrants sending resources to support their relatives in their economy of origin, personal transfers, as defined in this *Manual,* are not limited to such activity.

D. Related Transactions

[3]Nonresident employers include embassies and international institutions as well as nonresident companies (paragraphs 5.276–5.279). In some economies, income obtained from nonresident employers is significant.

[4]In some cases, however, households might send funds or non-cash items to an individual located in another economy, but no current transfer transaction occurs because the individual is a resident of the same economy as the household (e.g., students and patients abroad). Such transactions are between residents of the same economy and therefore are not included in personal transfers.

[5] The term "personal transfers" replaced workers' remittances in BPM6. Worker's remittances are current transfers by migrants who are employed in new economies and considered residents there. Workers' remittances are a supplementary item in the BOP.

1. Investment by migrants

A4.17 Migrants[6] frequently invest in their economy of origin, whether they intend to return or have left permanently. Such investments can take numerous forms, but financial investments (notably bank deposits and portfolio investments) and investments in real estate are probably the most common. Small enterprises, located in the economy of origin and sometimes managed by relatives, can also benefit from investments by migrants. These transactions are considered cross-border investments and are therefore included in the financial account. Although these investment flows are of analytical interest in the context of the economic effects of migration, they are not remittances in the BOP framework.

A4.18 However, in some cases, investment transactions by migrants may be vehicles for the provision of remittances. When a migrant deposits funds in an account in the economy of origin, and relatives have access to these funds, this can be a personal transfer. For joint accounts, a transfer can be recorded when the funds move across borders rather than when they are withdrawn (paragraph 5.290). When a migrant purchases real estate and relatives occupy it without paying market rents, or when a migrant sets up an enterprise and relatives are employed and paid above-market incomes by this enterprise, personal transfers could be imputed. In the individual case, the value of the transfers would be calculated as the difference between actual transactions and market equivalent values. In practice, it is difficult to identify such transfers and calculate their value. If larger patterns are known to compilers—if, for example, there are large numbers of migrants buying real estate for use by their relatives in the home economy—estimates can be made on the basis of aggregate transaction data and benchmarks.

2. Travel

A4.19 Travel refers to the acquisition of goods and services in an economy by visiting individuals who are not residents in that economy. Acquisitions of goods and services by border, seasonal, and other short-term workers in their economy of employment are also included in travel (paragraph 11.89). However, travel excludes the acquisition of valuables, consumer durables, and other consumer purchases that are included in

[6] In this annex, the term "migrant" refers to a person who emigrates from an economy of origin and becomes a resident in another economy.

general merchandise (paragraph 11.90). The compilation of the supplementary definitions of remittances requires that the travel expenses of border, seasonal, and other short-term workers are subtracted from remuneration of employees. In practice, it may be difficult to separate travel related to employment from all other travel.

E. Concepts of Residence, Valuation and Time of Recording

1. Residence

A4.20 The balance of payments and national accounts frameworks rest on the identification of residents and nonresidents respective to each reporting economy. Because the concepts of personal transfers and remittances are based on the concept of residence rather than migration status, the concept of migration is not defined in the balance of payments. This is consistent with the use of residence criteria elsewhere in the BOP and national accounts frameworks.

A4.21 The residence of households is determined according to the center of predominant economic interest of its members. The general guideline for applying this principle—being present for one year or more in a territory or intending to do so—is sufficient to qualify as being a resident of that economy (paragraph 5.263). Short trips to other economies—for recreation or work—do not lead to a change of residence, but going abroad with the intention of staying one year or longer does. "If a member of an existing household ceases to reside in the territory where this household is resident, the individual ceases to be a member of that household" (paragraph 5.264). Migrants going abroad to work thus become residents of the host economy (assuming they plan to stay for a year or longer), but they can join their original household on return. In addition, there are guidelines for the residence of specific cases of students, medical patients, and ships crews, as well as diplomats, military personnel, and civil servants employed abroad in government enclaves. Regardless of the length of stay in a host economy, these groups are considered residents of the originating economy (paragraphs 5.266–5.269).

A4.22 Residence is important for remittance data because transactions are recorded differently depending on the residence status of the individual in his or her host economy. Border, seasonal, and other short-term workers are not resident in the economy where they work, and their gross income is recorded as "remuneration of employees."[7] There are no entries in the BOP for the wages of migrant workers who stay for at least a year and thus are residents of the same economy as their employer (assuming that their employer is a resident entity). However, when they send remittances to a household in another economy, these are recorded as "personal transfers."

A4.23 In many cases, it is assumed that the entities employing workers are resident in the economy where the work is performed. However, nonresident employers can have a substantial impact on remittance data. Nonresident employers include embassies and other diplomatic missions, international organizations, and numerous enterprises, including employers of cross-border remote workers (paragraphs 5.276–5.289, 14.14a). When resident workers work for nonresident employers, their wages and other benefits are recorded as "remuneration of employees."

A4.24 In addition to current and capital transfers, some other resource flows may be of analytical interest. While migrant workers reside in a host economy, their remittances will be recorded as current or capital transfers. These include gifts in cash and kind to their household of origin. When returning home to reside, many migrants bring goods or own assets that will, on return, be owned by their household of origin. However, assets that migrants bring with them on return are excluded from balance of payments transactions, and so are not transfers. Rather, because the residence of the owner changes but not the ownership, the change in assets (such as bank balances and real estate ownership) between economies is recorded as a reclassification in the IIP not a transaction.

A4.25 Although the distinction between a transaction and a reclassification of residence is important for the structure of the system, the effect on the asset position of households and economies is much the same whether the resources come through remittances or through migrants returning home. Data users who are interested in understanding all contributions that migrant workers may make to their households and economies of origin should note this potential misalignment of their data needs and BOP definitions and should seek to make appropriate additional estimations.

A4.26 Further, no special residency treatment is adopted for refugees (paragraph 5.273). Therefore, their residence will change from their home territory to the territory of refuge if they have stayed or intend to stay in

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[7] Similarly, cross-border remote workers are not resident in the economy of their employer.

their place of refuge for one year or more. If they are considered residents in the country of refuge, then the funds they receive from nonresidents will be included in remittances, as will any funds they send to nonresident households.

2. Valuation

A4.27 All valuations in the balance of payments framework are based on market values (paragraph 4.142).

A4.28 Remuneration of employees comprises wages and salaries in cash and in kind, and employers' social contributions. Also included are all forms of bonuses and allowances (paragraphs 12.18–12.19). All transactions in kind should be valued at current market prices, that is, the current exchange value.

A4.29 Transfers in kind should be valued at the market value of the goods or services provided to the recipient (paragraphs 4.146–4.147). The valuation of cash transfers is clear, while transfers of other financial assets should be recorded at market value.

3. Timing

A4.30 Remuneration of employees is recorded on an accrual basis (paragraph 12.16). Transfers are also recorded on an accrual basis (discussed in paragraph 4.216). In the case of voluntary transfers, accrual and settlement are often identical (paragraph 4.218 provides details on the time of recording of transfers). However, this is not the case with involuntary transfers (such as taxes or alimony) and they should, in principle, be recorded when accrued, although this can be difficult in practice. Remittances are mostly voluntary transfers.