



Remittances Statistics: First Meeting of the Luxembourg Group

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MEXICO

BALANCE OF PAYMENTS INFLOWS FROM MIGRANT LABOR ABROAD

(WORKERS' REMITTANCES AND COMPENSATION OF EMPLOYEES)

WORKERS' REMITTANCES

A) DEFINITION: The item of Workers' Remittances in the balance of payments of Mexico comprises the resources transferred from an individual resident abroad (remittent) to be delivered to another individual (beneficiary) in Mexico, through firms and/or financial institutions. This item also covers the direct delivery (from one person to another with no intermediaries) of economic value in those cases when the remittent visits the beneficiary. In general, remittances flows are directed to relatives of individuals who live in the United States and are native Mexican or of Mexican origin.

B) CLASSIFICATION: Banco de México is responsible for the compilation, production and release of the Workers' Remittances figures, as a part of the balance of payments statistics. Data are produced on a monthly basis and they are classified into three categories according to the channel used to transfer the resources;

- Money Orders
- Electronic transfers
- Direct delivery

Additionally, a quarterly breakdown of remittances by recipient Mexican state is released.

C) INFORMATION SOURCES

1) Money Orders and electronic transfers: On October 29-2002, a set of rules was issued to establish a legal mandate for credit institutions and firms professionally involved in funds transfer services, to deliver monthly information to Banco de México. This means that in Mexico, unlike in other countries, remittances data are based almost entirely on the accounting records provided by the transaction intermediaries.

The enforcement of the rules, resulted in a significant data capture improvement. However, it must be noted that even before the rules were issued, an important effort to increase the statistical coverage was made. Therefore, in recent years, the figures have been steadily growing, not only as a consequence of the remittances' expansion per se, but also due to the improvements already mentioned.

2) Direct delivery: The Monthly Survey of International Travelers (SIT) conducted by Banco de México.

D) CALCULATION METHOD

1) Money Orders: The reporting firms provide data on their purchases of Money Orders classified by the Mexican state where they have been acquired, these Money Orders are then sent to be cashed to a financial institution abroad.

2) Electronic transfers: In one of the formats established by the rules, the firms report the amounts paid in every Mexican state, whether by themselves or through other firms. Another format of the rules requires each firm to report the origin of the payments it makes; on the one hand, they specify the amounts related to payment instructions received from entities abroad (direct recipients of the resources of Mexicans working abroad), and on the other, they detail payments made on request of other firms residing in Mexico (these firms have to be explicitly identified). Thus, remittances statistics capture not only the payments made by the reporting firms, but they also cover payments made by request of non-reporting firms. By cross-checking the results of the two formats, the methodology makes sure that those transactions in which two reporting firms are involved, do not get duplicated.

3) Direct delivery: As a complement to the information originated from the enforcement of the rules, an estimate is made for those resources that are directly delivered by residents of Mexican origin in the United States during their visits to their relatives in Mexico. This estimate is made through the SIT that Banco de México conducts continuously. The procedure states that when the respondent traveler is a resident of the United States and indicates that he is entering Mexico with the purpose of visiting relatives, some additional questions have to be applied about the cash and/or presents to be delivered. Considering that these interviews are only applied to a sample of such individuals, the total figures result from an inference process that follows the criteria used by the SIT.

E) ADDITIONAL ASPECTS

The quality of Workers' Remittances information has also been enhanced by market developments out of the realm of statistical practices. The continuing cost reductions in the use of various transfer instruments has promoted an increasing use of formal channels, the ones whose data are reported by means of the rules. Also, the growing competition in the transfer business, has forced the intermediaries to aim for a greater knowledge of the potential size of the market, of the business opportunities involved, of the instruments they have to offer in order to increase their market share, and of the ways they need to improve the transaction process. They also apply cross-information systems to prevent irregular operations.

COMPENSATION OF EMPLOYEES

A) DEFINITION: Comprises the net income earned by those Mexican nationals who live in Mexico but cross the border on a regular basis (daily in most cases) in order to perform a working activity in the United States.

B) INFORMATION SOURCE: Banco de México conducts a survey in six cities bordering with the United States. The survey is applied on a continuous basis but its design only allows for reliable results on a quarterly frequency. The individuals are interviewed when they enter Mexico, and only if they state that they are residents of Mexico and that the main purpose of their visit to the United States was to perform a working activity.

C) CALCULATION METHOD: The survey is aimed at obtaining information for both, the number of crossings for working reasons and the average income (after taxes) earned abroad. The methodology prescribes two kinds of exercises to be implemented. One, an intensive counting carried out during one week a year (census), and the other, a continuous survey (a sampling exercise).

In the case of the one-week a year exercise, the number of entrance border crossings are counted during 16 hours every day in order to obtain an estimate for the whole week, which can then be inferred for a quarter. Also, by asking a sample of individuals if they are residents of Mexico who work in the United States or not, the share of workers in the total number of border crossings is estimated.

As for the continuous survey, the initial questions help to determine if the individual is a border worker or not. However, despite of their response and in order to establish the ratio of workers to non-workers, all of them are taken into account. This new ratio is then combined with the one resulting from the annual one-week counting to find the ratio to be applied to the total number of border crossings.

In the case of income (after taxes) earned abroad, during the continuous survey, interviews are conducted on randomly selected individuals. The interviews are practiced only to those persons who respond that they work in the United States and are residents of Mexico.

Generally speaking, the total figure for Compensation of Employees is a product of the number of border crossings of workers residing in Mexico, and the average income they earn in the United States. Additionally, it must be noted that, as the survey is applied in six border cities, a new expansion is needed to estimate the flows of the remaining cities. This is done by assuming that the weight of the six surveyed cities corresponds to the one that results from the border module of the SIT.

THE BORDERLINE BETWEEN WORKERS' REMITTANCES AND COMPENSATION OF EMPLOYEES

According to the Balance of Payments Manual of the IMF (BPM), Workers' Remittances are "current transfers carried out by emigrants who work in another economy where they are regarded as residents". In order to determine the residence of an economic agent, the BPM sets the one year rule and the main center of economic interest of the agent as the ruling criteria. Under the first criterion, those individuals who perform a remunerated working activity in a country different from their place of birth, but who remain in the foreign country for less than a year, ought to be regarded as residents of their original country. Therefore, the money they send to the latter must be recorded as Compensation of Employees. However, some flexibility is allowed when the center of economic interest is considered.

Due to practical restrictions (the reporting firms engaged in providing funds transfer services are not able to separate the remitters according to the length of their residence in the United States), the flows that Banco de México registers under Workers' Remittances include an indistinguishable component that, under the one year rule criterion, should be regarded as Compensation of Employees. However, the inclusion of such flows as remittances seems justified once the center of economic interest criterion enters into the picture. This is so, because those individuals who work in the United States for less than a year and send money back to Mexico make most, if not all of their income, in the United States, which means that their center of economic interest lies in that country.

The recommendation of the Subgroup of Experts on Statistics on the Movement of Natural Persons to add Workers' Remittances and Compensation of Employees under Personal Transfers, looks reasonable. This in consideration of the practical difficulties to identify one from the other, as well as the restrictions associated with the lack of a clear-cut residence concept for migrant workers. Notwithstanding, it remains advisable that all international methodological guidelines on the subject, keep encouraging countries to try to make the distinction.

FUTURE DEVELOPMENTS

As inflows originated in Mexican labor abroad have been growing rapidly in recent years, becoming a substantial source of foreign exchange, the importance of accurate and more detailed statistical information has increased. Therefore, Banco de México is considering new developments to contribute to a better understanding of this phenomenon.

In terms of statistical improvements, the rules, that conform the main information source of remittances figures, may undergo some changes. The changes that are being considered would request from the reporting firms, a breakdown by country of origin and by the Mexican county (municipios) where the payment is made.

Additionally, some current practices and some others to be implemented in the near future are, and will be aimed, at finding out more about the main features of this phenomenon. In the first place, for three years in a row (2003 -2005), inquiries have been conducted in the main border cities for one week during December, a time when many migrants return to Mexico to spend their Christmas vacations. Even though these exercises have not been practiced on a scientifically specified sample and therefore no inference is possible, the results show some interesting findings related to the profile of the remitters (age, years of residence, income, occupation, gender, education, etc.), of the recipients (main use of the money, family ties, etc.) and about the sending process itself (average remittance, frequency, instruments used, etc.). In the second place, in coordination with the largest banks and fund transfer firms, there are plans for a new survey to be applied in the places where payments are made. This exercise will also try to obtain more information about the main characteristics of the beneficiaries and the intended use of the resources.