APPENDIX

5 Remittances

A. Economic Concept of Remittances and Why They Are Important

A5.1 Remittances represent household income from foreign economies arising mainly from the temporary or permanent movement of people to those economies.[1] Remittances include cash and noncash items that flow through formal channels, such as via electronic wire, or through informal channels, such as money or goods carried across borders. They largely consist of funds and noncash items sent or given by individuals who have migrated to a new economy and become residents there, and the net compensation of border, seasonal, or other short-term workers who are employed in an economy in which they are not resident.

A5.2 For many economies, remittances represent a sizable and stable source of funds that sometimes exceed official aid or financial inflows from foreign direct investment. Remittances may have a significant impact on poverty reduction and can finance economic growth in receiving economies.

A5.3 The *Manual* identifies standard components and provides supplementary items to allow compilation of remittance aggregates. No single data item in the balance of payments framework comprehensively captures transactions in remittances. This appendix explains the different items needed to calculate remittance aggregates and the relationships between the different aggregates.

A5.4 Remittances are mainly derived from two items in the balance of payments framework: income earned by workers in economies where they are not resident (or from nonresident employers) and transfers from residents of one economy to residents of another. The definitions of those items, as well as other relevant definitions and concepts, are set out below. The standard components related to remittances are discussed in Section B, and supplementary items are covered in Section C. Section D identifies related data series that are often raised in the context of remittances but are not included in the definitions as such. Section E discusses the application of balance of payments concepts on remittances, and Section F considers data by partner economy. Table A5.1 shows components required for compiling remittance items and their source. Table A5.2 shows the relationship between the different items.

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

Reference:

IMF, 2009, *International Transactions in Remittances: Guide for Compilers and Users.*

A5.5 The two items in the balance of payments framework that substantially relate to remittances are "compensation of employees" and "personal transfers." Both of these standard components are recorded in the current account.

1. Compensation of employees

A5.6 Compensation of employees refers to the income of border, seasonal, and other short-term workers who are employed in an economy where they are not resident and of residents employed by nonresident entities.[2] Compensation of employees represents "remuneration in return for the labor input to the production process contributed by an individual in an employer-

[1]The balance of payments accounts definitions of remittances are somewhat broader than those resulting from movement of persons, because they are not based on the concepts of migration, employment, or family relationships.

[2]Nonresident employers include embassies and international institutions as well as nonresident companies (paragraphs 4.131–4.134). In some economies, income obtained from nonresident employers is significant.

Table A5.1. Components Required for Compiling Remittance Items and Their Source

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

Important relationships are:
"Net" compensation 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.

employee relationship with the enterprise." Compensation of employees is recorded gross, before taxes and other expenses incurred in the economy where the work is performed. Paragraphs 11.10–11.23 provide more details. (However, in the derivation of personal remittances, a net measure of compensation of employees is derived, as discussed in paragraph A5.12.)

2. Personal transfers

A5.7 *Personal transfers consist of all current transfers in cash or in kind made or received by resident households to or from nonresident households. Personal transfers thus include all current transfers between resident and nonresident individuals* (paragraph 12.21). Therefore, personal transfers are a subset of current transfers. They cover all current transfers that are sent by individuals to individuals.[3]

A5.8 "Personal transfers" replaces an item called "workers' remittances" in the standard presentation. According to *BPM5*, workers' remittances are current transfers by migrants who are employed in new economies and considered residents there. To ensure consistency of time series, workers' remittances are continued as a supplementary item. Unlike this previous item, personal transfers are defined independently of the source of income of the sending household, the relationship between the households, and the purpose for which the transfer is made. This simplifies the definition and brings it in line with compilation practices applied in many economies (which did not take account of factors such as source of income and purpose). So, 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.

C. Supplementary Items Related to Remittances

A5.9 There are several supplementary data items in the international accounts including personal remittances, total remittances, and total remittances and transfers to nonprofit institutions serving households (NPISHs). They are cumulative measures, as illustrated

[3]Families may provide financial support to relatives who are located but not resident in another economy, such as families supporting relatives who are students or medical patients abroad. Such transactions involve residents of the same economy and are therefore not included in personal transfers. The spending of the relative abroad will be included in travel.

Table A5.2. Tabular Presentation of the Definitions of Remittances

Total Remittances and Transfers to NPISHs: a+b+c+d+e+f					
Total Remittances: a+b+c+d				e	f
Personal Remittances: a+b+c			d		
a	b	c			
Personal transfers (part of current transfers)	Compensation of employees less taxes, social contributions, transport, and travel	Capital transfers between households	Social benefits	Current transfers to NPISHs	Capital transfers to NPISHs

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

in Table A5.2. As supplementary items, their compilation and dissemination is encouraged but voluntary, depending on the data needs of the compiling economy.

1. Personal remittances

A5.10 Personal remittances are defined as current and capital transfers in cash or in kind between resident households and nonresident households, plus compensation 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 12.27). In short, this item includes all household-to-household transfers and the net earnings of nonresident workers.

A5.11 Household-to-household transfers are included within current or capital transfers, as appropriate, in the balance of payments 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 under current transfers, while capital transfers between households are a supplementary item in the capital account.

A5.12 The gross earnings of nonresident workers are recorded under "compensation of employees," a standard component. To derive the relevant component for the calculation of personal remittances, compensation is adjusted by deducting taxes, social contributions, and transport and travel of border, seasonal, and other short-term workers outside their economy of residence. The three items that are deducted are all supplementary items in the balance of payments 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 12.32). Compensation of employees is considered part of personal remittances because it refers to the earnings of geographically mobile workers and benefits households in a territory other than that where the work is performed. Data users are not always concerned with the length of stay of a migrant worker (which defines residence), but instead with all earnings of migrant workers that benefit their economies of origin, regardless of their residence status in the host economy.

A5.13 It should be noted that "personal remittances" also include 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 11.13 provides the definition of an employer-employee relationship which clarifies the difference between "compensation of employees" and payments for services.

2. Total remittances

A5.14 Total remittances are the sum of personal remittances and social benefits. Social benefits include "benefits payable under social security funds and pension funds. They may be in cash or in kind" (paragraph 12.40). Total remittances include income from individuals working abroad for short periods, from individuals residing abroad and sending transfers, and social benefits from abroad. Social benefits is a supplementary item in the balance of payments framework within secondary income. Total remittances are a supplementary item in the balance of payments statement.

3. Total remittances and transfers to NPISHs

A5.15 This item includes total remittances and both current and capital transfers to NPISHs from any sector of the sending economy. It therefore includes donations, in cash or kind, from government and enterprise sectors to charitable organizations in another economy. Therefore it has a very wide definition that is not closely linked to migration. 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 secondary income, whereas capital transfers received by NPISHs and to NPISHs are supplementary items under the capital account.[4]

A5.16 The identification of NPISHs is not without problems. Whereas NPISHs are part of the wider household sector, nonprofit institutions serving other sectors are not. 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 and 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 and transfers to NPISHs" is a supplementary item in the balance of payments statement.

D. Related Data Series

1. Investment by migrants

A5.17 Migrants frequently invest in their economy of origin, whether they intend to return or have left permanently.[5] Sometimes the attachment to the economy of origin, and the willingness to invest there, carries over to subsequent generations of the migrants. Such investments can take numerous forms, but financial investments (notably bank deposits and portfolio investment) and investments in real estate are probably 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 balance of payments framework.

A5.18 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 (see paragraph 4.145). 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 transactions data and benchmarks.

2. Travel

A5.19 Travel refers to the acquisition of goods and services in an economy by individuals who are visiting but not resident 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 10.89). But travel excludes the acquisition of valuables, consumer durables, and other consumer purchases that are included in general merchandise (paragraph 10.90). The compilation of the supplementary definitions of remittances requires that the travel expenses of border, seasonal, and other short-term workers are subtracted from compensation of employees. In practice, it may be difficult to separate travel related to employment from all other travel.

E. Concepts

1. Residence

A5.20 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

[4] Of the new supplementary remittance aggregates in the international accounts, some data users consider "total remittances and transfers to NPISHs" to most closely match the economic concept of remittances (see Section A). This measure is broader than the other remittance aggregates, because it includes current and capital transfers to NPISHs from any sector of the sending economy (households, corporations, governments, and nonprofit institutions). Thus, unlike the other supplementary remittance aggregates, it includes funds and noncash items that flow indirectly to households, through nonprofit institutions.

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

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 balance of payments and national accounts frameworks.

A5.21 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 4.117). 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 4.118). 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 (see paragraphs 4.120–4.123).

A5.22 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 "compensation of employees." There are no entries in the balance of payments 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."

A5.23 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 (see paragraphs 4.131–4.144). When resident workers work for nonresident employers, their wages and other benefits are recorded as "compensation of employees."

A5.24 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 change, not a transaction.

A5.25 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 balance of payments definitions, and should seek to make appropriate additional estimations.

2. Valuation

A5.26 All valuations in the balance of payments framework are based on market values (paragraph 3.68).

A5.27 Compensation of employees comprises wages and salaries in cash, wages and salaries in kind, and employers' social contributions. Also included are all forms of bonuses and allowances (paragraphs 11.18–11.19). All transactions in kind should be valued at current market prices, that is, the current exchange value.

A5.28 Transfers in kind should be valued at the market value of the goods or services provided to the recipient (see paragraphs 3.71–3.72). The valuation of cash transfers is clear while transfers of other financial assets should be recorded at market value.

3. Timing

A5.29 Compensation of employees is recorded on an accrual basis (paragraph 11.16). Transfers are also recorded on an accrual basis (discussed in paragraph 3.50). In the case of voluntary transfers, accrual and settlement are often identical (paragraph 3.52 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.

F. Data by Partner Economy

A5.30 Reporting of remittance flows to and from major partner economies in balance of payments data may be provided on a supplementary basis, especially for major “corridors.”