

CHAPTER 14. SECONDARY INCOME

14.1 The transactions recorded in the secondary income account pertain to those current transfers between residents and nonresidents that directly affect the level of gross national disposable income and thus influence the economy's ability to consume goods and services.

14.2 From an accounting point of view, the entry made in the secondary income account balances the economic value in kind or in cash recorded in the goods, services, or financial account provided to or received from a nonresident entity without *quid pro quo*.

14.3 Transfers should be distinguished as current or capital. Capital transfers, which are part of the balance of payments capital account, are discussed in Chapter 15. Current transfers are all transfers that are not capital (see *BPM6*, paragraphs 12.13-12.15).

14.4 In the balance of payments, the current transfers are classified as those involving the compiling country's general government and those involving other (domestic) sectors. The latter are further split into personal transfers (transfers between resident and nonresident households) and other current transfers.

14.5 Table 14.1 summarizes sources and methods that could be used to compile the specific types of current transfers described in more detail below.

A. Data Sources and Methods

International Transactions Reporting System (ITRS)

14.6 An ITRS can serve as a cost-efficient and comprehensive data source to capture cash transactions throughout the whole balance of payments. However, supplementary collection of information apart from ITRS is necessary to capture all noncash transactions, as well as other complex transactions that are not channeled through the banking sector. For instance, certain technical assistance activities involving technical assistance personnel are often funded directly by donor governments and other nonresident entities and cannot be captured through the ITRS. Also, when using ITRS for personal transfers in cash between households, the compiler needs to be cautious in order to distinguish properly personal transfers from transactions that satisfy other purposes, such as saving, investment, or making private gifts in the form of grants (see Table 14.2). Regarding social contributions paid to nonresident pension funds, data from an ITRS can only capture the compensation of employees net of contributions.

Table 14.1. Compilation of Current Transfer Items

Description	Source and Method of Compilation
<p>General government Current international cooperation: Technical assistance</p> <p>Budgetary grants</p> <p>Contributions (membership fees) payable to international organizations and transfers by the international organizations to governments (as a matter of policy)</p> <p>Taxes on income, wealth, and other taxes including fines, penalties, fees (that are taxes and not a payment for a service), etc. (credits only)</p> <p>Social contributions payable by nonresidents (credits only)</p> <p>Social benefits, e.g., pension and nonpension benefits payable to nonresidents (debits only)</p> <p>Scholarships for education (debits only)</p>	<p>For the donor country (debits), data should be available from official records from the donor entity within the government sector responsible for coordinating technical assistance. For the recipient country (credits), information should be available from official records or the recipient entity within the government sector responsible for coordinating external aid, from donors' records, or from partner country data. Project data should provide the breakdown of the project costs into the relevant components (see main text and examples). Costs incurred in the donor's country should be included in the value of technical assistance. Data on the cash component could be available from an ITRS. Data could also be available from partner country records.</p> <p>For both recipient and donor countries, data should be available from official budget records or from an ITRS. Care should be taken to ensure that investment grants are recorded, in the capital account, as capital transfers rather than as current transfers. Data could also be available from partner country records.</p> <p>Data should be available from official budget records or from the responsible agency, such as the ministry of external affairs.</p> <p>Data should be available from official sources, such as tax records (in the case of taxes on income and wealth, and records of other relevant government agencies (in the case of fees, fines, etc.).</p> <p>Data should be available from official budget records, from the responsible agency (such as the ministry of social security). Includes social contributions paid by both employers and employees.</p> <p>Data should be available from official budget records, from the responsible agency (such as the ministry of social security), or from an ITRS.</p> <p>Data should be available from official budget records or from the responsible agency, such as the ministry of education. It is important that the counterpart to this</p>

Other miscellaneous current transfers of general government	transfer be recorded in the travel credits item if the scholarship relates to study in the donor country. Data could be available from official records or, for cash transfers, from an ITRS.
<i>Other sectors</i>	
Personal transfers (including workers' remittances)	Data could be available from an ITRS, surveys of money transfer operators, employers and recruitment organizations, or household surveys (such as income and expenditure surveys). Data could also be available from partner country records.
Other current transfers: Taxes on income, wealth, etc. (debits only)	Data could be available from an ITRS or from enterprise surveys. Care should be taken that these transactions are recorded as transfers and not netted against other related transactions, such as income payments.
Social contributions, social benefits	Data could be available from an ITRS, from the records of a local payments agent (if such an agent exists), from surveys of households, or from partner country information.
Net premiums and claims on nonlife insurance, life insurance, and reinsurance	An ITRS or enterprise surveys could be used to obtain underlying data on premiums and claims; such data could be used to calculate these entries. However, as explained in Appendix 2, the compiler must manipulate these data to derive estimates of transfers associated with nonlife insurance and reinsurance.
Current international cooperation	Data on transactions of fiscal entities could be collected from the government administrative records (in country of residence of government) or through enterprise survey (in country of residence of fiscal entity). Data could also be available from partner country records.
Scholarships for education	Data could come from the local agency responsible for distributing the grants (if such an agency exists), from scholarship foundations, education institutions, or from partner country records. It is important that the offset to the transfer be recorded in the travel debits item if the scholarship relates to study outside the recipient country.
Other miscellaneous current transfers	Data could come from an ITRS or from surveys of enterprises and households.

Other Data Sources

14.7 Surveys of domestic insurance companies and pension funds, are possible data source that enable compilers to capture information on a conceptually sound basis, including information necessary for imputing cross-border insurance components, and adjusting for accrual accounting.

14.8 The same comprehensive approach will not be feasible when entities are nonresident to the compiler's economy. In that case, and for other items – in the absence of data - estimates may be developed via data models by using ratios and secondary data sources, such as partner country data.

14.9 Official data sources, such as government accounts, could be used to measure current international cooperation, taxes on income and wealth, or social security transactions.

B. Personal Transfers

14.10 Personal transfers consist of all *current* transfers in cash or in kind made or received by resident households to or from nonresident households. They often consist of regular transfers in cash or in kind between members of the same families that are resident in different countries, when family members with the intent to work abroad for a year or longer send home resources to support their relatives.

14.11 Personal transfers include workers' remittances, but are not confined to transfers within families and income from employment (see *BPM6*, paragraph 12.21). For countries with diasporas abroad, personal transfers constitute an important source of income, sometimes even exceeding receipts from exporting goods and services.

14.12 Several institutions are involved in providing international remittances services to households: (i) international money transfers operators (MTOs) licensed to provide cross-border money-transferring services; (ii) commercial banks; and (iii) in some cases government-owned enterprises, which are allowed to engage in remittance services through their branches overseas.

14.13 Not all transactions channeled through MTOs or commercial banks from individuals and households abroad, and between households, represent personal transfers. The compiler needs to distinguish personal transfers from transactions that satisfy other purposes, such as transferring funds between accounts for saving (pure financial account transaction), putting up housing units (real estate), or making private gifts in the form of grants (which may be capital transfers). Importers may sometimes use MTOs to pay for their goods.

Table 14.2. Borderline Cases for Account-to-account Transfers

Examples	Classification in the balance of payments of the reporting economy A
Individual employed short-term in economy B transfers most of his salary to his account in home economy A; he spends the residual part for accommodation, transport, and food in economy B.	Primary income - compensation of employees – credit (the gross amount of his salary); Services - travel – debit (the amount spent in economy B).
Individual employed long-term in economy B transfers part of his salary to his mother's account in economy A.	Secondary income account - personal transfers - <i>workers' remittances</i> – credit (the amount transferred to his mother's account).
Individual employed long-term in economy B transfers part of his salary and income revenue to his account in home country (economy A), to which his fiancée has access directly or through an ATM.	Secondary income account - personal transfers – <i>workers' remittances</i> – credit (the amount transferred to his account). Recorded when transfer takes place as opposed to when fiancée withdraws funds from the account.
Individual employed long-term in economy B transfers funds to his savings account in home country (economy A).	Financial account - other investment - currency and deposits – net incurrence of liabilities [increase] (the amount transferred to the savings account).
Individual employed long-term in economy B transfers funds to economy A and acquires real estate.	Financial account - direct investment - liabilities – equity and investment fund shares - net incurrence of liabilities [increase] (the amount transferred to economy A).
Individual employed long-term in economy B transfers funds to the account of his brother in economy A for buying real estate for the brother's family.	Capital account - capital transfers (<i>of which: between households</i>) – credit (the amount transferred to economy A).
Individual resident of economy A is attending a two-year Masters' program at an university in economy B, where he regularly receives financial support from his family resident in economy A.	Services account - travel (<i>personal travel - education-related</i>) – debit (the amount transferred by the family and any additional amounts spent by the student in the economy of study).

International transactions in remittances

14.14 The international concept of “remittances” is broader than that of personal transfers, as it also encompasses the net income generated by short-term workers abroad, i.e., compensation of employees; however, it is measured net of the expenses incurred abroad for travel, transport, taxes and social contributions. Three main measures of remittances are (a) personal remittances; (b) total remittances; and (c) total remittances and transfers to NPISHs (see *BPM6* Appendix 5).

14.15 The high international interest in analyzing remittances data and their impact on economic development led to the publication of the *2009 International Transaction in Remittances: Guide for Compilers and Users*.¹ It summarizes the definitions and concepts related to remittances in the balance of payments framework, and it includes guidance on data sources and compilation, as well as several case studies of countries.

14.16 The remittances categories are included as supplementary items in balance of payments statement; they are cumulative measures that are compiled by combining components that are included / identified in different standard components of the balance of payments. For instance, personal remittances are compiled by adding to two standard components - personal transfers and compensation of employees net of taxes, social contributions, and other expenses made by the short-term workers in host economies - the capital transfers between households. Or, total remittances are calculated by adding to personal remittances the amount of social benefits received by resident households/paid to nonresident households.

14.17 Data sources for collecting data on components used in compiling remittances measures are described in chapters or paragraphs that cover the standard balance of payments components to which they pertain (e.g., see travel for expenses in host economy, other current transfers for social contributions, social benefits, and taxes; and capital transfers for capital transfers between households).

C. Other Current Transfers

Taxes on Income, Wealth, etc.

14.18 Cross-border current taxes on income, wealth, etc. consist mainly of taxes on incomes, capital gains, and financial transactions (*BPM6*, paragraph 12.28). In principle, taxes on income are deducted at source and should be attributed to the period in which the income is earned. In practice, however, taxes may sometimes be recorded in the periods in which they are paid; some flexibility may be needed because the liability to pay income taxes can only be determined in a later accounting period than that in which the income accrues.

14.19 For taxes receivable on employment income, the local or national government usually withholds part of the employee's compensation based on the employee's estimated tax liability (withholding tax); only the net compensation is paid to the employee abroad.² The compiler should keep in mind that the compensation of employees should be recorded on a gross basis, including taxes on income. Although, the tax payment to the local government is paid by a domestic employer, it does not constitute a domestic transaction; the compiler needs to include the income tax receivable in the employee's gross compensation and regard the tax as being paid by the nonresident employee (see *BPM6*, paragraph 11.23). Tax refunds from the government where the employee is working abroad to the nonresident employees

¹ It can be downloaded from the IMF website at <http://www.imf.org/external/np/sta/bop/remitt.htm>.

² Only taxes payable by nonresident workers in the reporting economy are recorded in the balance of payments.

are deducted from taxes received, i.e., as negative taxes (see *BPM6*, paragraph 12.28). Withholding taxes on interest and dividends are often calculated by the compiler as a fixed percentage of gross transactions.

14.20 Many countries have joined multilateral taxation arrangements. According to these arrangements, employees may either pay taxes in their country of residence and are exempted from income taxes in the country of employment; or the taxation is deducted at source, and thus employees are exempted from taxation by the government of their country of residence.

14.21 In any case, the compiler may approach tax authorities to request aggregate information on tax records and on any existing withholding tax arrangements with third countries in order to make the necessary adjustments to compensation of employees and corresponding taxes in the secondary income account. The compiler needs to increase the net amounts for compensation of employees reported in the ITRS by the percentages that relate to income tax withheld by the host economy's government; or use the information from government entities on numbers of cross-border employees, short-term workers, and local staff hired by foreign embassies, international organizations, and nonresident donor governments, to estimate average income and average tax rates thereon. Countries with tax arrangements may agree to exchange information in order to pursue tax evasion, and such information may be useful in compiling the balance of payments accounts.

14.22 Alternatively to collecting data directly from tax authorities, the compiler could estimate taxes by applying implicit tax rates to compensation of employees and make adjustments for tax refunds from the government to the nonresident employee.

Example 1: Taxes on income and wealth

14.23 Mr. A is resident of country A and lives at the border of country B. He works at company B in country B, and earns \$3,000 net after tax. The governments of country A and B concluded a bilateral taxation agreement based on which nonresident employees pay 10 percent taxes on their taxable income earned in the host economy. The compiler needs to increase the net earnings (\$3,000) that constitute 90 percent of total earnings to arrive at the gross income (\$3,333), and reroute the 10 percent tax payment payable (\$333) to government B through Mr. A's employment compensation. The following entries would appear in the balance of payments of country A:

	Credit	Debit
<u>Current account</u>		
Primary income		
Compensation of employees	3333	
Secondary income		
Financial corporations, nonfinancial		
Other current transfers		333
Current taxes on income, wealth, etc.		333
	Net acquisition of financial assets	Net incurrence of liabilities
<u>Financial account</u>		
Other investment		
Currency and deposits		
Deposit-taking corporations, except the central bank	3000	

14.24 Conceptually, the compiler needs to also make the distinction between taxes levied and fees charged by government entities in return for services provided to nonresidents. The distinction is made based on the amount of work involved on the part of government, e.g., whether there is any regulatory function exercised; this is not always clear cut in practice. But as a convention, amounts payable by households for licenses to own or use vehicles, boats, or aircraft, as well as licenses for recreational hunting, or fishing are treated as taxes, whereas amounts payable by households for all other kinds of licenses, permits, certificates, passports, and so forth, are treated as purchases of services (see *BPM6*, paragraphs 10.180-10.181 and 12.30).

Social contributions and social benefits

14.25 Estimations for pension transactions is relevant for countries with high percentages of border workers and guest workers in the domestic economy or abroad, and for countries with international organizations that employ a significant number of residents of the compiling economy.

14.26 Social contributions to and benefits from pension funds are recorded in the secondary income account. The *2008 SNA* and *BPM6* distinguish between social security schemes and employment-related schemes other than social security, partly based on the provider of the social insurance or pension. The part provided by general government is called social security (assuming it provides social benefits to members of the community as a whole, or of particular sections of the community) and the part provided by employers is called employment-related schemes other than social security, see *2008 SNA*, paragraph 17.118.

14.27 Employment-related schemes other than social security are further classified as defined benefit or defined contribution schemes according to how the benefits are determined, i.e., by who is bearing the risk of the scheme to provide an adequate income in retirement (see *BPM6*, paragraph 7.65). Conceptually, these two schemes trigger transactions

in accounts similar to the ones in insurance accounting (see Appendix 2, Part I); namely, the derivation of an output of the pension fund is recorded in the services account; the net³ contributions made to the pension fund are recorded in the secondary income account, as well as the benefits received; the change in pension entitlements due to transactions is recorded in the financial account; and the investment income earned on existing entitlements is recorded in the primary income account. However, the different features with regard to the benefits payable upon retirement result in differences in the accounting concepts of these pension schemes, and consequently, in how the compiler will have to design the reporting forms to obtain the relevant information.

14.28 Appendix 2 provides an overview of the characteristics of accounting in both schemes, followed by how the pension fund accounting data need to be manipulated in order to derive balance of payments and IIP components according to *BPM6*. The underlying methodology is explained by using numerical examples.

14.29 The last part of Appendix 2 concludes with a short description of social security systems. Accounting for social security funds is less complex, because current workers' contributions are used by the government entity operating the scheme to pay out current benefits.

14.30 Information on cross-border workers or “resident aliens” can be sought from government agencies issuing work permits and visas, or from tax authorities. The latter may also be relevant for pension benefits paid to or received for retirees as they may be subject to domestic taxation, or double tax treaties. Pension funds should likely be able to provide either aggregate information on actual contributions received from the respective companies on behalf of their nonresident employees, or on average contribution rates relative to gross wages; information should also be available on the benefits that are being paid to retirees abroad. Through surveying domestic pension funds, the compiler is able to request information on a conceptually correct basis as explained in Appendix 2. In general, the compiler will need to inquire about the pension plans' breakdown into its cross-border components. Form 13 in Appendix 8 is an example of a pension fund survey form.

14.31 In case of social benefits received by retirees from nonresident pension funds, the collection of data could be more difficult considering that the nonresident providers of benefits are not available for survey in country of residence of retirees. An ITRS could capture the benefits received if the amounts are transferred through the banking system. Pensions from abroad could also be transferred through the postal service, specifically in countries with bilateral postal agreements. If the postal administration is reporting data on cross-border transactions for the balance of payments purpose, the compiler should request the identification in the reported data of transactions related to pensions. In case the postal administration does not report such data, the compiler should consider establish the collection of data from the postal administration, including on transfers of pensions. Also, the

³ “Net” implies that the service charge has been deducted; see Appendix 2 for further details.

household survey could provide valuable inputs for estimating the benefits received from abroad by retired household members.

14.32 Data from an ITRS will be on a cash basis and only capture the compensation of employees net of contributions. For residents paying contributions to defined benefit pension funds abroad, the net salary received on the domestic bank account would serve as a basis for estimating both the employee and employer contributions; information on average contribution rates for employees and for employers could be used for this purpose. Secondly, a small percentage thereof should be derived as pension service payable to pension funds abroad. The ITRS provides information on countries to which salaries and wages are paid to and from where they are received. The compiler could contact the authorities in these countries respectively, to obtain appropriate ratios for their contribution rates and services estimates.

Net nonlife insurance premiums and claims and calls under standardized guarantees

14.33 Nonlife insurance premiums⁴ and nonlife insurance claims are recorded in the secondary income account. The chief function of nonlife insurers lies in the proper redistribution of premiums earned and other income to individuals of homogeneous groups that have incurred losses. Furthermore, funds at the disposal of the insurance unit, called (nonlife) insurance technical reserves, are invested in financial and other assets to generate income. The insurance technical reserves and the corresponding income from their investment, called premium supplements, are assets of the policyholders and liabilities of the insurance companies.

14.34 *BPM6* is based on and in strong accordance with the accounting terminologies that insurance companies use to set up their accounts. Nevertheless, the compiler needs to make certain adjustments before data can be used to derive relevant balance of payments entries according to *BPM6*. These adjustments are necessary, for instance, to determine and differentiate the amounts of premiums related to direct business with policyholders, and the amounts related to reinsurance (see Appendix 2, Part A).

14.35 There are differences between nonlife and life policies leading to different types of entries in the international accounts. For life insurance, the pre-benefits period generally extends throughout the entire life of the contract and there is little or no uncertainty about the payment. The payments made over the years are regarded as a financial investment (or saving), which will be returned to the policyholder in later years. Thus the recording of premiums (net of services) and benefits is made in the financial account.

14.36 The compiler can obtain most comprehensive data for exports of insurance services from surveying resident insurance companies. To enable an appropriate coverage of the domestic insurance sector, a survey frame should be available including a list of insurance companies, which may be provided by the authority issuing the licenses for insurance

⁴ Insurance premiums are recorded net of the service charge; see Appendix 2 for further details.

business. Through surveying domestic insurance companies, the compiler is able to request information on a conceptually correct basis—that is, premiums earned and claims due—as well as insurance technical reserves and the income earned on those reserves.

14.37 Resident insurance enterprises should report details of premiums and claims in respect of business obtained from abroad and in respect of international reinsurance flows. In addition, these enterprises may be asked to report details of premiums and claims in respect of insurance written by them on imports. Insurance terms may differ due to different accounting practices that are being applied in worldwide insurance accounting.

14.38 For estimating the import of insurance services (debit), the compiler could apply the ratio of domestic service charge to premiums to premiums paid to nonresident insurance companies.

Current international cooperation

Forms of technical assistance and their data source

14.39 Current international cooperation consists of current transfers in cash or in kind between the governments of different countries or between governments and international organizations (see *BPM6*, paragraph 12.47). External aid provided by governments through a nonresident entity created to undertake fiscal functions is also considered to be current international cooperation (see *BPM6*, paragraphs 12.48). These can include cash transfers for the purpose of financing current expenditures by the recipient government, or shipped aid items like food and medication. Especially for cash transfers, the compiler needs information from the government on the purpose of the cash grants provided to or received from abroad in order to distinguish current from capital transfers.

14.40 Capital transfers are transfers in which the ownership of an asset⁵ changes from one party to another; or that oblige one or both parties to acquire or dispose of an asset; or where a liability is forgiven by the creditor. Cash transfers involving disposals of noncash assets (other than inventories) or acquisition of noncash assets (other than inventories) are also capital transfers (see *BPM6*, paragraph 12.13). Some information may be readily available on individual projects that are being monitored and supervised by government entities such as the Ministry of Finance or the Ministry for Development.

14.41 Current transfers related to transactions of fiscal entities owned or controlled by the general government that are residents of another territory occur if the fiscal entity provides borrowed funds to a third party (not to the general government that established or controls it). In this case, a current or capital transfer between the government and the fiscal entity is imputed with an offset entry in the reduction of government's equity in the fiscal entity (see *BPM6*, paragraphs 8.24-8.25). Data on transactions of fiscal entities could be collected from

⁵ Assets in this paragraph generally refer to fixed assets and other assets that are capital in nature, see *BPM6*, paragraph 12.13.

the government administrative records (in country of residence of government) or through enterprise surveys (in country of residence of fiscal entity).

14.42 For aid in kind the customs authorities generally can provide information on the recipient sector (government or non-governmental organization), as well as on the purpose (e.g., emergency aid, material for construction), as these goods are exempted from taxes and duties. This information should be cross-checked with project data from government entities. In some cases, depending on the funding arrangements with donors, goods can be imported within the context of a technical assistance project, but the funds to pay for the goods may have been separately provided by the donors to the government's accounts. In other words, those goods methodologically constitute a regular import paid with donor money (see Example 3).

Technical assistance

14.43 Technical assistance in the form of staffed missions sent to countries for undertaking project work is another form of international cooperation that needs to be captured in the balance of payments accounts. Such projects include a number of components that are relevant for the balance of payments. The total cost of projects should be registered as a transfer as a counter entry for transactions that reflect the goods, services, or funds provided by the donor within the technical assistance project. The costs include administrative expenses incurred in the donor country, costs incurred in the recipient country (e.g. for transport, administrative arrangements), and the salaries paid to short-term technical assistance personnel as well as long-term personnel and local staff. Furthermore, while on mission in the recipient country, staff spends part of their salaries⁶ for accommodation and for consumption; long-term staff also often transfer part of their salary to their home countries (see examples below).

14.44 Technical assistance activities of such kind cannot be captured through ITRS data except for the cases when funds within the technical assistance project are transferred to the government or to the project implementation units' accounts established in recipient country. As is often the case, donor governments transfer funds directly to the accounts of the contractors, who in turn send personnel to the recipient countries. Compensation of employees' receivable for staff hired in the context of technical assistance is recorded in the balance of payments if it concerns local staff or other residents in the recipient economy that are being employed or paid for directly by the donor government or international organizations. If, on the other hand, the staff is resident in the recipient economy and considered employed by the recipient authorities, but paid through funds of the donor government, a current transfer receivable is recorded in the recipient economy's balance of payments, whereas the compensation of employees is only recorded in the domestic accounts. Should the recipient authorities, however, hire short-term technical assistance staff themselves (for instance, from third countries), this would again incur compensation of employees debits.

⁶ The salaries are often transferred to local bank accounts (increase in liabilities of the local commercial bank vis-à-vis the nonresident staff, and at the same time increase in banks' foreign currency assets).

14.45 Data source for the noncash transfers within the technical assistance projects is the donor or recipient entity within the government sector responsible for coordinating external aid. Project data should provide the breakdown of the project costs into the relevant components (see examples below). Travel expenditures of short-term staff can be approximated by using ratios applied on salaries. The cash component of the projects could be captured through an ITRS or through the same entities as for noncash transfers.

14.46 For valuing certain services provided in kind, such as health-related or emergency relief-related services, which are provided pro-bono or at a salary that significantly understates the value of the service provided, the compiler needs to approximate the value of these services with prices that would have been paid if the services were sold in the market (see *BPM6*, paragraph 3.72).

Examples of technical assistance reporting in the balance of payments

14.47 The following examples differentiate the way technical assistance is funded, and by whom technical assistance personnel are employed. Example 2, 3, and 4 explain the balance of payments entries from the viewpoint of the recipient economy; Example 5 switches to the recordings in the balance of payments of the donor economy. Appendix 8 provides model forms for official sources (e.g., ministries).

Example 2: Technical assistance personnel employed by donors

14.48 In Example 2, technical assistance is funded through the representative office of an international organization⁷ or a foreign donor government. The personnel are employed by the international organization/donor government, which transfers the salaries to a local bank account. The overall project in this example comprises consulting services for government accounting, cash grants to finance current expenditures, and the shipping of donated office supplies.

14.49 From the government entity in the recipient economy, the compiler is able to obtain the following breakdown of the project costs during the accounting period:

Total cost of technical assistance for providing consulting⁸ services: 155

of which:

salaries paid to short-term⁹ technical assistance personnel: 70

salaries paid to long-term¹⁰ technical assistance personnel, or locals: 35

administrative costs incurred in donor country: 5

⁷ Branches of international organizations are considered nonresidents.

⁸ Technical assistance covers a wide range of different services, and should be classified according to the nature of services (*BPM6*, Box 10.6).

⁹ Short-term refers to personnel that remain in the recipient country for less than one year.

¹⁰ Long-term refers to personnel that remain in the recipient country for one year or longer.

other expenses in recipient country with regard to consulting services: 45

Additionally, donors agreed to provide the following aid:

Cash grants paid by donors to finance other current expenditures: 200

Office supplies shipped from donor country: worth 100

14.50 As mentioned above, short-term staff is assumed to spend a portion of their salaries for accommodation and consumption in the recipient economy while on duty. The compiler should try to estimate an average ratio for travel expenses to salaries, and preferably base it on a small and recurring sample of short-term technical assistance personnel in the country. Information could also be obtained from payments made by nonresidents from their local bank accounts or by credit cards. Long-term staff might transfer a proportion of their salary to bank accounts in their home countries. This could be captured from the ITRS. As explained above, the compiler needs to distinguish personal transfers from transactions that satisfy other purposes, such as transferring funds between accounts for saving (pure financial account transaction), acquiring housing units (real estate), or making private gifts in form of grants (capital transfers).

14.51 In Example 2, the total technical assistance project costs (155) are recorded as an import of consulting services counterbalanced by a transfer receivable under current international cooperation in the secondary income account. During the period, expenses (45) for other business services are incurred by the donors in connection with the project and paid with foreign currency to the local banks. The salaries for short-term (70), and long-term and local (35) personnel are transferred from abroad in foreign currency to the local banks, where staff have local bank accounts. Local bank accounts of short-term staff are external liabilities of the local banking sector (70). The assumed ratio of travel expenses that short-term staff incur during duty is about 30 percent of their average salary. Expenses that short-term staff have for food and accommodation (21) are paid from their accounts. Long-term staff are assumed to have transferred part (15) of their compensation of employees receivable to their bank accounts abroad. The additional cash grant for other current expenditures (200) is transferred by the donor to the local central bank.

14.52 This leads to the following entries in the balance of payments of the recipient economy:

	Credit	Debit
<u>Current account</u>		
Goods		100
Services		
Travel		
<i>Business</i>	21	
Other business services		
<i>Professional and management consulting</i>	45	155
Primary income		
Compensation of employees	35	
Secondary income		
General government		
<i>Current international corporation</i>	155+100+200	
	Net acquisition of financial assets	Net incurrence of liabilities
<u>Financial account</u>		
Other investment		
Currency and deposits		
Deposit-taking corporations, except the central bank	+70	+70
		-21
	+35	
	+45	
	-15	
Other sectors		
<i>Non-financial corporations, households and</i>	+15	
Reserve assets		
Other reserve assets		
<i>Currency and deposits</i>	+200	

Example 3: Technical assistance personnel employed by recipient government

14.53 In Example 3, technical assistance is funded by an international organization or a foreign donor government; however, the local recipient government receives the funds in full and uses them to cover the salaries of the long-term and short-term technical assistance personnel, as well as all other expenses, including imports from third countries.

14.54 From the government entity in the recipient economy, the compiler is able to obtain the following breakdown of the funds received for covering the project costs:

Cash grants received to finance current expenditures: 450

of which:

to pay salaries to short-term technical assistance personnel: 70

to pay salaries to long-term technical assistance personnel, or locals: 35

to pay for other expenses in recipient country with regard to consulting project: 45

to pay for imports of office supplies: 100

resident-to-resident transactions of the recipient of the grant: 200

14.55 In this example, the total cash grant (450) is recorded as transfer receivable under current international cooperation in the secondary income account and as foreign currency received in the central bank reserve assets. The recipient government transfers salaries to the local bank accounts of the short-term personnel (70). Local bank accounts of short-term staff are external liabilities of the local banking sector (70). The assumed ratio of travel expenses short-term staff incur during duty is again about 30 percent of their average salary. Expenses that short-term staff have for food and accommodation (21) are paid from their accounts. Long-term staff are assumed to have transferred part (15) of their compensation of employees to support their relatives abroad, which is recorded as personal transfers in the secondary income account. The office supplies (100) are imported by the recipient government and paid from the grant funds.

14.56 This leads to the following entries in the balance of payments of the recipient economy:

	Credit	Debit
<u>Current account</u>		
Goods		100
Services		
Travel		
<i>Business</i>	21	
Primary income		
Compensation of employees		70
Secondary income		
General government		
<i>Current international corporation</i>	450	
Financial corporations, nonfinancial corporations,		
Personal transfers		15
	Net acquisition of financial assets	Net incurrence of liabilities
<u>Financial account</u>		
Other investment		
Currency and deposits		
Deposit-taking corporations, except the central bank	-15	+70
Reserve assets		-21
Other reserve assets		

<i>Currency and deposits</i>	450	
	-100	

Example 4: Grants and donations are sent to local NPISHs in the recipient economy

14.57 In Example 4, local NPISHs (or also called NGOs – non-governmental organizations) receive from their headquarters abroad collected donations for consumption (e.g., paper, office supplies) and cash grants to finance teachers' salaries in the current period.

14.58 From the customs authorities and the banking data, the compiler is able to obtain the following breakdown of donations received during the accounting period:

Donations received to finance current teachers' salaries: 200

Paper and office supplies received to equip schools: 140

14.59 This leads to the following entries in the balance of payments of the recipient economy:

	Credit	Debit
<u>Current account</u>		
Goods		140
Secondary income		
Financial corporations, nonfinancial corporations,		
Other current transfers		
Miscellaneous current transfers		
<i>Of which: Current transfers to NPISHs</i>	140	
	200	
	Net acquisition of financial assets	Net incurrence of liabilities
<u>Financial account</u>		
Other investment		
Currency and deposits		
Deposit-taking corporations, except the central bank	+200	

Example 5: The donor government finances long-term technical assistance missions in several countries; all technical assistance personnel are resident in the recipient economies and receive salaries from the donor government. The example presents the treatment in the balance of payments of the donor country.

14.60 From the government entity in the donor economy, the compiler is able to obtain the following information on sponsored technical assistance missions to recipient countries.

Total cost of technical assistance missions: 185

of which:

salaries paid to long-term technical assistance personnel: 50

salaries paid to locals: 40
 administrative costs incurred in the donor's own economy: 10
 salaries paid to short-term technical assistance personnel – residents of donor's economy: 85

14.61 In this example, a breakdown of the services provided to beneficiary countries abroad is not available. The compiler in the donor economy, therefore, classifies the technical assistance as government services.

	Credit	Debit
<u>Current account</u>		
Services		
Government goods and services n.i.e.	185	
Primary income		
Compensation of employees		50
		40
Secondary income		
General government		
<i>Current international corporation</i>		185
	Net acquisition of financial assets	Net incurrence of liabilities
<u>Financial account</u>		
Reserve assets		
Other reserve assets		
<i>Currency and deposits</i>	-50	
	-40	

Miscellaneous current transfers

14.62 Non-profit institutions serving households (NPISHs) have a center of predominant economic interest in the economy in which they were legally created, and are often financed largely or entirely by current or capital transfers from abroad to support their functions as charity, relief or aid organization (see *BPM6*, paragraph 4.101). Aid in cash from NPISHs headquarters institutions and other donors may be captured through ITRS, if available, or through undertaking of surveys of NPISHs. Central Registers for NPISHs can be a good initial source for defining a valid sample. Aid in kind could be captured through customs data; data on the recipient sector as well as the purpose may be also available in customs data. Furthermore, administrative data from government agencies responsible for handling international disaster and other relief efforts can also be a good source for identifying and compiling current and capital transfers by NPISHs.