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## DEFINITIONS OF REMITTANCES

United Nations Technical Subgroup On  
Movement of Persons – Mode 4

*United Nations Statistics Division/DESA*

# OUTCOME PAPER

## DEFINITIONS OF REMITTANCES

### UNITED NATIONS TECHNICAL SUBGROUP ON MOVEMENT OF PERSONS – MODE 4

1. The United Nations Technical Subgroup on the Movement of Persons – Mode 4 (TSG) at its meeting in New York (22 -24 February 2006) agreed on the conceptual definition of remittances based on the issue paper *Definitions of Remittances*. The issue paper was prepared with the objective of reconciling the recommendations by IMF Committee on Balance of Payments Statistics (BOPCOM) and the Advisory Expert Group on National Accounts (AEG) at their meetings in June and July 2005 respectively. This version of the outcome paper reflects the views of the TSG and comments received from BOPCOM members as a result of an electronic consultation. It also reflects the conclusion of the BOPCOM meeting in Frankfurt (23-27 October 2006). It will be submitted to the AEG and BOPCOM for information.

2. The proposed definitions on remittances are built on the Balance of Payments (BOP) components in the *Annotated Outline for the Revision of the Balance of Payments Manual*, fifth edition (AO) related to services, primary and secondary distribution of income. Those components are aligned with the 1993 *System of National Accounts* (1993 SNA) transactions. The definitions of remittances presented in this paper are obtained by further disaggregating the relevant Balance of Payments (BOP) standard components by sectors (e.g. households, government and non-profit institutions serving households). Moreover, due consideration is given to practical aspects of data collection, including symmetry of reporting.

3. The TSG recommended presenting the BOP flows related to remittances in a supplementary table reported in Annex I. Annex II presents a fictitious numerical example which illustrates how to calculate the various concepts of remittances from the sending and receiving country. It also illustrates the issue of asymmetry of reporting between the sending and receiving countries that arise in the case of “total remittances” and “total remittance and transfers to non-profit institutions serving households”. The tables and example in Annexes I and II have been revised, as compared to the ones presented in the issue paper discussed at the TSG meeting and at BOPCOM, to take into account the conclusions of the TSG and BOPCOM.

4. The TSG recognized the importance of compiling BOP flows related to remittances by partner countries. It recommended that flows to and from the major partner countries be separately identified, whenever possible. It however noted that for some countries it may be difficult to collect information disaggregated by partner countries or, even if the information is collected, to disseminate it because of issues of confidentiality and data quality.

5. The TSG agreed on the following four definitions of remittances:

- (a) Personal transfers;
- (b) Personal remittances;

- (c) Total remittances;
- (d) Total remittances and transfers to non-profit institutions serving households (NPISHs)

(a) *Personal transfers*

6. The TSG agreed to introduce a new item *personal transfers* as a standard item of the revised *Balance of Payments Manual – Fifth Edition* (BPM5) to bring it in line with the 1993 SNA definition of current transfers between households. “Personal transfers” replaces the BPM5 component *workers’ remittances*, which has been retained as an “of which” item of *personal transfers* to maintain continuity of the time series.

7. *Personal transfers* will be part of the BOP standard presentation and is defined as follows:

*Personal transfers consist of all current transfers in cash or in kind made or received by resident households to or from other non-resident households.*

8. *Personal transfers* thus include all current transfers from resident to non-resident households, independently of (a) the source of income of the sender (be it wages and salaries, social benefits or any other type of transfers, including transfers from a person receiving no income and running down his/her assets); (b) relationship between the households (be it between related or unrelated persons); and (c) purpose for which the transfer is made (be it inheritance, alimony, lottery<sup>1</sup>, etc.).

9. The TSG noted that although *personal transfers* are conceptually current transfers between resident and non-resident households, in practice it may be difficult to separately identify household-to-household capital transfers from the current transfers. In practice, capital transfers tend to be large, infrequent and irregular, whereas current transfers tend to be comparatively small and are often made frequently and regularly. However, while size, frequency and regularity help to distinguish current from capital transfers they do not provide satisfactory criteria for defining the two types of transfer (1993 SNA para 8.32).

10. The TSG further noted that some cash transfers may be regarded as capital by one party to the transaction and as current by the other. In an integrated system of accounts such as the 1993 SNA and BPM5, however, it is not feasible to have the same transaction classified differently in different parts of the system. To distinguish current transfers from capital transfers, it is preferable to focus on the special characteristics of capital transfers. A transfer in cash is a capital transfer when it consists of the transfer of ownership of a fixed asset and non-produced non-financial assets. A transfer of cash is a capital transfer when it is linked to, or conditional on, the acquisition or disposal of a fixed asset by one or both parties to the transaction. A capital transfer should result in a commensurate change in the stocks of assets of both parties to the transaction (based on 1993 SNA, para 10.132). When in doubt, the TSG recommended classifying the transfer as current.

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<sup>1</sup> Although lotteries could also be considered as transfers from any sectors to households, in this context, lotteries are considered household-to-household transfers by convention. This is in line with the recommendations of the 1993 SNA: “the net transfers paid out to winners of lotteries and gambling, that is the residual transfers excluding service charges, are considered household to household transfers” (1993 SNA, para 8.97)

11. The TSG recommended separately identifying capital household-to-household transfers as a supplementary item<sup>2</sup> in the table on remittances presented in Annex I but not to include them in the definition of *personal transfers*.

(b) *Personal remittances*

12. The TSG agreed to define *personal remittances*, taking the perspective of the receiving country, as follows:

*Personal remittances = personal transfers + compensation of employees (excluding social contributions, taxes on income and wealth, travel expenditure and passenger transportation related to employment of non-residents) + capital transfers between households.*

13. Annex II presents a numerical example which illustrates how to calculate *personal remittances*. *Personal remittances* include *personal transfers*, compensation of employees of non-resident persons less social contributions<sup>3</sup>, taxes on income and wealth<sup>4</sup>, travel and passenger transportation related to employment of non-residents and capital transfers between households. Investment income is not included for practical reasons as it is difficult to identify that part related to the movement of persons.

14. *Personal remittances* reflect the inflows to a household either from another household or from a member of a household working abroad.

15. The TSG recommended that capital household-to-household transfer should be included in the definition of *personal remittances*. Including capital transfers in the definition of *personal remittances* would offset differences in country practices in recording household to household transfers – current versus capital transfers.

16. *Personal remittances* will be a supplementary item in the revised BPM5 as its calculation involves the sum of several supplementary items, namely taxes on income and travel and passenger transportation related to employment of non-residents and capital transfers between households. The components of *personal remittances* are shown in the supplementary table in Annex I.

(c) *Total remittances*

17. The TSG agreed to define total remittances taking the perspective of the receiving country, using a formula instead of lengthy text, as follows:

*Total remittances = personal remittances + social benefits<sup>5</sup>*

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<sup>2</sup> A supplementary item is an item that should be considered by countries in circumstances that the information would, in their particular cases, be of interest to analysts and policymakers.

<sup>3</sup> Social contributions are actual or imputed payments to social insurance schemes to make provision for social insurance benefits to be paid (1993 SNA para 8.8).

<sup>4</sup> Current taxes on income, wealth, etc consist of taxes on the incomes of households or profits of corporations and taxes on wealth that are payable regularly every accounting period (as distinct from capital taxes levied infrequently) (1993 SNA, para 8.6).

<sup>5</sup> Social benefits include social insurance benefits and social assistance benefits. They are current transfers received by households intended to provide for the needs that arise from certain events or circumstances, for example, sickness, unemployment, retirement, housing, education or family

18. *Total remittances* includes *personal remittances* and social benefits directly to households from other institutional sectors, namely corporations, government and non-profit institutions serving households (NPISHs). The TSG considered this concept as policy relevant and agreed to include it in the supplementary table on remittances in Annex I. It noted that the concept of *total remittances* entails asymmetry of reporting as social benefits are sent from corporations, the government and NPISHs and received by households.

19. Although in principle other current transfers to households (e.g. direct transfers other than social benefits to households from the government or NPISHs) could be included in the definitions of total remittances, the TSG agreed to omit them for ease of compilation and because they are likely to be small in size and/or infrequent. *Total remittances* also exclude net non-life insurance premiums and nonlife insurance claims<sup>6</sup> paid or received by resident households.

(d) *Total remittances and transfers to non-profit institutions serving households*

20. The TSG agreed to adopt the concept of *total remittances and transfers to NPISHs* and to define it, using a formula instead of a lengthy text, taking the perspective of the receiving country as follows:

$$\textit{Total remittances and transfers to NPISHs} = \textit{Total remittances} + \textit{Current transfers to NPISHs} + \textit{Capital transfers to NPISHs}$$

21. The TSG found the concept of *total remittances and transfers to NPISHs* policy relevant. As credit entries, *total remittances and transfers to NPISHs* would thus cover all flows from abroad which are either receivable by households directly or indirectly through NPISHs in the home countries for the benefit of households.

22. Similarly to *total remittances*, the TSG noted that the concept of *total remittances and transfers to NPISHs* entails asymmetry of reporting as transfers received by NPISHs can originate from any sector of the economy. The example provided in Annex II shows how *total remittances and transfers to NPISHs* are calculated.

23. As in the case of household-to-household transfers, distinguishing capital transfers from current transfers to NPISHs may be difficult in practice. The same arguments presented in paras 9 to 11 of this paper hold also in this case.

24. The TSG agreed to separately identify, as supplementary items, in the supplementary table presenting information on remittances shown in Annex I, current and capital transfers to NPISHs.

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circumstances (1993 SNA, para 8.7). They include pensions received by households. For more details, refer to 1993 SNA paras 8.75 to 8.83.

<sup>6</sup> Net nonlife insurance premiums and non-life insurance claims could conceptually be included in the definition of personal remittances since they are essentially redistributive flows between households. However, because it may be difficult to collect data separately for the transfers received by households, they have been left out of the definition.

ANNEX I

TABLE A1. SUPPLEMENTARY TABLE FOR REMITTANCES AND TRANSFERS TO NPISHs

Based on the tables in the Annotated Outline (AO)

	Credit	Debit
Services (AO Table 9.1)		
1. Travel		
<i>Of which:</i>		
1a. Related to employment of non-residents		
2. Transportation		
<i>Of which:</i>		
2a. Related to employment of non-residents		
Primary distribution of income (AO Table 10.1)		
3. Compensation of employees		
Secondary distribution of income (AO Table 11.1)		
4. Current taxes on income and wealth		
<i>Of which:</i>		
Related to employment of non-residents		
4a. General government		
4b. Households		
5. Social contributions		
5a. General government (Related to employment of non-residents)		
5b. Households		
5c. Other (Related to employment of non-residents)		
6. Social benefits		
6a. General government		
6b. Households		
6c. Other		
7. Personal transfers		
<i>Of which:</i>		
7a. Workers' remittances		
8. Other current transfers <sup>(i)</sup>		
8a. General government		
8b. Non-profit institutions serving households		
9. Capital transfers (AO Table 12.1)		
9a. General government [Refers only to transfers to NPISHS]		
9b. Households [Refers to Personal Remittances]		
9c. Non-profit institutions serving households		
9d. Other [Refers only to transfers to NPISHS]		

Definitions of remittances	Credit/Receivable	Debit/Payable
Personal transfers	7.	7.
Personal remittances	Personal transfers + 3. - 1a.(debits) - 2a.(debits) - 4b.(debits) - 5b.(debits) + 9b.	Personal transfers + 3. - 1a.(credits) - 2a.(credits) - 4a.(credits) - 5a.(credits) - 5c.(credits) + 9b.
Total remittances	Personal remittances + 6b.	Personal remittances + 6a. + 6c.
Total remittance and transfers to NPISHs	Total remittances + 8b. + 9c.	Total remittances + 8a. + 8c. + 9a. + 9c. + 9d.

Notes:

(i) Other Other current transfers is negligible and therefore is not included in the table.

Shaded items are not presented in the Annotated Outline. It is recommended that they be included as supplementary items.

## ANNEX II

### EXAMPLE

#### Calculation of personal transfers, personal remittances, total remittances and transfers to NPISHs

Suppose a resident of country A sends to a household in country B a transfer of \$100. During the same period he/she sends a transfer of \$30 to a family member resident in country B to help in the purchase of a house in country B.

Suppose that another individual, resident of country B, works for three months in country A and earns \$600 in cash before tax. Income tax of \$120 is paid to the government of country A. Social contributions of \$50 is paid by the individual to the government of country A. The individual has travel expenditures of \$300 (including \$175 for food and \$125 for accommodation) related to their short term employment.

Suppose that a resident of country B receives a pension of \$200 from country A.

Suppose also that an organized diaspora group (NPISH) in country B receives \$1,000 from a charity organization in country A. The diaspora group also receives \$10,000 from the charity organization to buy a plot of land.

The following entries would appear in the BOP of country A and in the BOP of country B.

Country A			Country B		
	Credit	Debit		Credit	Debit
1. Travel	300		1. Travel		300
1a. Food	175	...	1a. Food	...	175
1b. Accommodation	125	...	1b. Accommodation	...	125
3. Gross compensation of employees		600	3. Gross compensation of employees	600	
4. Current taxes on income	120 <sup>7</sup>		4. Current taxes on income		120
4a. General government	120	...	4a. General government	...	...
4b. Households	...	...	4b. Households	...	120
5. Social contributions	50 <sup>8</sup>		5. Social contributions		50
5a. General government	50	...	5a. General government	...	...
5b. Households	...	...	5b. Households	...	50
6. Social benefits	...	200	6. Social benefits	200	
6a. General government	...	200	6a. General government	...	...
6b. Household	...	...	6b. Households	200	...
7. Personal transfers	...	100	7. Personal transfers	100	
8. Other current transfers	...	1,000	8. Other current transfers	1,000	
8b. NPISHs	...	1,000	8b. NPISHs	1,000	...
9. Capital transfers	...	10,030	9. Capital transfers	10,030	
9b. Households	...	30	9b. Households	30	...
9c. NPISHs	...	10,000	9c. NPISHs	10,000	...
Total remittances and transfers to NPISHs	11,460	...	Total remittances and transfers to NPISHs	...	11,460

<sup>7</sup> Income tax payable to government of country A.

<sup>8</sup> Social contribution payable to government of country A.

Country A/ payable	Country B/receivable
Personal transfers -100	Personal transfers 100
Personal remittances -260	Personal remittances 260
<i>Personal remittances = Personal transfers + compensation of employees - social contributions - taxes on income and wealth - travel related to employment of non-residents - passenger transportation related to employment of non-residents + capital transfers between household. = - Personal transfers - (3. - 1a. - 1b. - 4a. - 5a.) + 9b. = - 100 - (600-300-120 - 50) - 30 = - 260</i>	<i>Personal remittances = Personal transfers + compensation of employees - social contributions - taxes on income and wealth - travel related to employment of non-residents - passenger transportation related to employment of non-residents + capital transfers between household. = Personal transfers + (3. - 1a. - 1b - 4b. - 5a. -5c.) + 9b. = 100 + (600-300-120 - 50) + 30 = 260</i>
Total remittances -460	Total remittances 460
<i>Total remittances = Personal remittances + social benefits = - Personal remittances - 6a. = - 260 - 200 = - 460</i>	<i>Total remittances = Personal remittances + social benefits = Personal remittances + 6b. = 260 + 300 = 460</i>
Total remittances and transfers to NPISHs -11,460	Total remittances and transfers to NPISHs 11,460
<i>Total remittances and transfers to NPISHs = Total remittances + current transfers to NPISHs + capital transfers to NPISHs = - Total remittances - 8b. - 9c. = -460 - 1,000 - 10,000 = -11,460</i>	<i>Total remittances and transfers to NPISHs = Total remittances + current transfers to NPISHs + capital transfers to NPISHs = Total remittances + 8b. + 9c. = 460 + 1,000 + 10,000 = 11,460</i>