

**FOURTH COORDINATION MEETING ON
INTERNATIONAL MIGRATION**

Population Division
Department of Economic and Social Affairs
United Nations Secretariat
New York, 26-27 October 2005

REMITANCES AND MOVEMENT OF PERSONS

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*The paper represents the views of the author and not those of the United Nations.

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Towards a common framework

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A. Introduction

1. This paper presents the current thinking on defining remittances and on the framework for measuring the economic impacts of movement of persons and, in particular of Mode 4. Most of the work presented in this paper has been undertaken within the Technical Subgroup on the Movement of Persons – Mode 4 (TSG),² which was established by the Statistical Commission at its thirty-fifth session in 2004. The TSG consists of national accountants, balance of payments and international trade specialists, migration and labour statisticians, and other relevant experts from international organizations, national statistical offices or central banks. The United Nations Statistics Division (UNSD) holds the Chair and the Secretariat of the TSG.

2. The TSG reports to the Advisory Expert Group on National Accounts (AEG), the IMF Committee on Balance of Payments Statistics (BOPCOM) and the Inter-agency Task Force on Statistics of International Trade in Services. Its work is undertaken within the context of the accounting principles of the *1993 System of National Accounts* (1993 SNA) and its update, the *Balance of Payments Manual Fifth Edition* (BPM5) and its revision, the *Manual of Statistics on International Trade in Services* (MSITS) and its revision as well as international statistical recommendations on labour and migration statistics.

B. Definitions of remittances

3. Remittances are an important source of income for households, in particular in developing countries. The flow of remittances is the least influenced by economic downturn and remains a stable source of income. Remittances have been identified as the third pillar of development as their volume is second to foreign direct investment and higher than overseas development assistance. Analytical studies have shown that remittances contribute to poverty reduction in home countries. These are some of the reasons why remittances have been receiving increasingly the attention of politicians and analysts. The G7 recently called for improved information of remittances, which still remain weak as compared to other balance of payments components.

¹ The paper represents the views of the author and not those of the United Nations.

² The TSG website contains the agenda, the minutes and all the documents discussed at the TSG meetings as well all the documents submitted to the Advisory Expert Group on National Accounts (AEG) and the IMF Committee on Balance of Payments Statistics (BOPCOM). It is hosted on the UNSD website and its address is: <http://unstats.un.org/unsd/tradeserv/default.htm>

4. “Remittances” has now become a commonly used term, which is however rarely defined. Analytical studies define remittances as the sum of selected balance of payments flows. In some studies, the sum of workers remittances and compensation of employees (Anne Harrison 2003 and DFID 2003), in others the sum of the above balance of payments component plus migrants’ transfer are used as proxy for remittances.

5. The TSG discussed extensively a conceptual definition of remittances. The recommendations of the TSG bring the balance of payments (BOP) transactions in line with the 1993 SNA concepts and definitions. They have further been discussed by IMF Committee on Balance of Payments Statistics (BOPCOM) and the Advisory Expert Group on National Accounts (AEG). The following recommendations for inclusion in the Balance of Payments Manual which is currently under revision reflect the on-going discussion. Final decisions from BOPCOM on the definition of personal and total remittances are still pending.

6. The definitions of remittances include personal transfers, personal remittances and total remittances. The rationale behind the proposed definitions of remittances is to keep these items as much as possible in line with the standard Balance of Payments components, keeping also in mind the feasibility of data collection. Annex I to this paper presents a table, which combines components of the tables presented in the Annotated Outline of the Balance of Payments to highlight the BOP components related to remittances. It also presents the different aggregates discussed above and how they are calculated from the BOP components.

Definition of personal transfers

7. The TSG considered the definition of workers’ remittances too narrow and not precise enough. It recommended changing the existing definition of workers remittances in BPM5 to bring it in line with the 1993 SNA definition of current transfers between households. Personal transfers would then be part of the BOP standard presentation and be 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 sources 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); (c) purpose for which the transfer is made (be it inheritance, alimony, lottery, etc.).

9. It was further agreed that the BPM5 component “workers’ remittances” will be renamed as “remittances of resident employees”. This component will be retained in the BPM6 in order to maintain the continuity of the time series. It will be recorded as an “of which” item of “personal transfers” and will be considered a “supplementary item” that 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.

Definition of personal remittances

10. The definition of personal remittances is still under discussion by BOPCOM. Personal remittances are constructed from the standard components of the Balance of Payments. Table A.1 in the annex, combines the components of the standard presentation of the BOP relevant to defining remittances. It is derived by selecting the components from the various chapters in the Annotated Outline of the Revision of the Balance of Payments Manual, Fifth Edition. The shaded components represent the components on which there is not a final decision from BOPCOM.

11. Personal remittances are calculated, taking the perspective of the receiving country, as follows:

$$\text{Personal remittances} = \text{compensation of employees} - \text{social contributions} + \text{personal transfers} + \text{social benefits} + \text{capital transfers}$$

Personal remittances thus include all current transfers, except for net non-life insurance premiums and nonlife insurance claims³, paid or received by resident households, capital transfers received by households⁴ and compensation of employees from persons working abroad for short periods of time. Part of the gross compensation of employees (COE) receivable by households is sent back to the country where the short term employment took place. The part of COE which goes back to the country of employment includes social contributions, taxes on income and travel and passengers transportation related to short term employment. While social contribution is part of the BOP standard presentation, the other components - taxes on income and travel and passengers transportation related to short term employment - are not.

12. Personal remittances defined netting compensation of employees only of social contribution would thus be part of the BOP standard presentation. Personal remittances defined in the broad sense that is by netting compensation of employees not only of social contribution but also of taxes on income and travel and passengers transportation related to short term employment would require additional calculations.

13. BOPCOM has not yet deliberated of whether the disaggregation needed to calculate the net compensation of employee in the broad sense should be considered as part of the standard presentation or should be considered as supplementary items that is items that should be considered by countries in circumstances that the information would be in their particular cases be of interest to analysts and policy makers. Our opinion is

³ Net nonlife insurance premiums and non-life insurance claim could conceptually be included in the definition of personal remittances. However, because it may be difficult to collect data separately for the transfers received by households, they have been left out of the definition.

⁴ Although capital transfers received by households are currently not part of the standard presentation, we are suggesting that they be included.

that the personal remittances obtained netting compensation of employees in the broad sense is a more policy relevant indicators and therefore BPM should recommend countries to compile taxes on income and travel and passengers transportation related to short term employment as part of the standard presentation.

14. Table I below provides an overview of the two different definitions of remittances discussed above.

Table I Personal remittances –alternative definitions

| Definition of remittances | Comments |
|--|---|
| (Gross compensation of employees – social contributions) + personal transfers + social benefits + capital transfers to households | All components are part of the standard presentation of BOP. Personal remittances would be part of the BOP standard presentation |
| (Gross compensation of employees – social contributions – <i>taxes on income – travel – passengers transportation</i>) + personal transfers + social benefits | <i>Taxes on income and travel and passengers transportation</i> related to short term employment are supplementary items. . Considering the item as part of the standard presentation will be an issue for discussion at the next BOPCOM. |

Total remittances

15. Total remittances is defined as personal remittances and current transfers to non-profit institutions serving households (NPISHs) from any sector. It would thus be calculated as:

$$\text{Total remittances} = \text{personal remittances} + \text{current transfers to NPISHs}$$

16. We suggest that current transfers to NPISHs become part of the standard presentation. In this case, total remittances would either considered standard presentation or supplementary item, depending on the choice of the definition of personal remittances – narrow or broad netting of compensation of employees.

C. Statistical framework for the movement of persons – Mode 4

17. The TSG has developed a statistical framework for measuring the impact of the movement of persons and in particular on Mode 4⁵. The framework proposed is firmly grounded in the 1993 System of National Accounts and its update and the Balance of

⁵ See the paper *Statistical Framework for the Measurement of Movement of Persons – A Proposal* prepared by UNSD and the paper *Background Note on GATS Mode 4 and its information needs* prepared by the World Trade Organisation (WTO) and Organisation for Economic Co-operation and Development (OECD). The papers are available on the TSG website <http://unstats.un.org/unsd/tradeserv/reIDocs.asp>.

Payments Manual and its revision. The TSG reached an agreement on the universe for the statistical framework. It decided that the universe⁶ for the framework should include all resident persons in a country augmented by non-resident persons working in the country for less than one year.

18. The TSG found it difficult to define the universe for non-permanent workers in a clear way. Although the 1993 SNA and BPM5 use the concept of migrant, a migrant is not clearly defined. Several proposals have been advanced trying to provide a criterion for defining when a migrant changes its status to a non-migrant as well as when a person should be considered “temporarily” or more “permanently” residing in the host country. These criteria include: (i) citizenship; (ii) foreign birth; and (iii) a time bound criterion (e.g. after, for example, 15 years of residence in the host country a person ceases to be a migrant; after 10 years he is no longer “temporary”).

19. All the above options were dismissed as it was not possible to agree on a single criterion. One of the above criteria or a combination of those could be relevant according to specific country situations.

20. The TSG further discussed at length the identification of GATS – Mode 4 workers within the Balance of Payments/SNA frameworks. It concluded that definition of Mode 4 workers is not clear-cut as it depends on the type of employment contracts held by the worker, the residence of the employer, whether the employer is the government or a private corporation and the activity of employer (e.g. manufacturing or services). The length of time the worker is expected to stay in the host country is not usually included in GATS commitments. Moreover, GATS commitments are applied differently in different countries.

21. Because of the above considerations, the TSG did not consider feasible to measure the impact of non-permanent workers in the host and home economies in the standard SNA and BOP frameworks. Instead, it recommended dividing the universe of residents and non-residents working in the country for less than one year, into sub-universes covering the different categories of people of interest for measuring the impacts of Mode 4. These include foreign natural persons employed by a host country service supplier, foreign self employed natural persons (contractual service suppliers as independent service suppliers), foreign natural persons employed by a foreign service supplier such as employees of a contractual service supplier, intra-corporate transferees and business visitors as well as foreign natural persons employed by a host country service supplier.

D. Future work

22. In order to complete its mandate, the TSG needs to agree on a set of variables to measure the impact of the movement of persons and Mode 4. An expert group meeting, in conjunction with the meeting of the Sub-group will be organized in New York by

⁶ See Issue paper and Outcome paper #2 *Definition of the Universe for the Framework on the Movement of Persons*. The paper is available on the TSG website <http://unstats.un.org/unsd/tradeserv/relDocs.asp>.

UNSD, tentatively in February 2005. After the meeting, it is expected that the Subgroup will reach an agreement on the framework to measure the impact of movement of persons and Mode 4 and will have completed its mandate.

23. Upon recommendation by several countries, a city group called Luxembourg Group moderated by Eurostat will be established. The Group will build on the conceptual work being done by the Subgroup on the Movement of Persons and develop practical guidelines on measuring remittances.

ANNEX I

TABLE A1. STANDARD COMPONENTS OF PERSONAL AND TOTAL REMITTANCES

Based on the tables in the Annotated Outline (AO)

| | Credits | Debits |
|---|---------|--------|
| Services (AO Table 9.1) | | |
| Travel ⁽¹⁾ | | |
| Transportation ⁽²⁾ | | |
| Primary distribution of income (AO Table 10.1) | | |
| Compensation of employees | | |
| Secondary distribution of income (AO Table 11.1) | | |
| Current taxes on incom ⁽³⁾ and wealth | | |
| Social contributions | | |
| General government | | |
| Other | | |
| Social benefits | | |
| General government | | |
| Other | | |
| Net nonlife insurance premiums | | |
| Nonlife insurance claims | | |
| Current international cooperation | | |
| Personal transfers ⁽⁴⁾ | | |
| Other current transfers | | |
| General government | | |
| Non-profit institutions serving households | | |
| Other | | |
| Capital transfers (AO Table 12.1) | | |
| General government | | |
| Household | | |
| Non-profit institutions serving households | | |
| Other | | |

Notes:

- (1) of which: travel costs related to short term employment (e.g. seasonal and border workers and other non-resident workers)
- (2) of which: transportation costs related to short term employment
- (3) of which: taxes on income related to short term employment
- (4) of which:

Remittances of resident employees

Other current transfers

Of which items above (1-4) should be considered as supplementary item.

Shaded items are still under discussion by BOPCOM and it is recommended that they be included in the standard presentation.