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THE CHALLENGES OF MEASURING EMIGRATION AND REMITTANCES

Remittance Flows: Concepts and Measurement Issues*

Submitted by Eurostat

I. INTRODUCTION

1. The importance of remittance flows both in political discussions and in economic and social analyses has increased tremendously over the last few years. As more data become available on cross-border remittances, these financial flows are attracting greater attention from the private sector, governments and development agencies alike.

2. This paper gives an overview of the concepts used for defining remittances and discusses issues related to measurement of remittance flows. Section 2 shows that in a number of developing countries remittances have emerged as a major source of external financing. Section 3 describes the initiatives to intensify work on migrant workers' remittances, including improvement of the data. Section 4 provides an overview of the new concepts and definitions concerning remittances and other private transfers linked to migration. These proposals, if adopted by the IMF Balance of Payments Committee, should substantially improve the accessibility and clarity of data on remittances in the framework of the balance of payments, national accounts and international trade in services. Section 5 presents new initiatives undertaken to improve compilation practices. It illustrates the state of play with the work of the

* This paper has been prepared by Mushtaq Hussain at the invitation of the secretariat.

Luxembourg Group on Remittances, set up to give guidance on collecting and processing statistics on remittances. Such a guide will promote better compilation practices by offering a choice of methodologies. Finally, Section 6 presents the current situation concerning availability of data on remittances in Eurostat.

II. GROWING IMPORTANCE OF REMITTANCES

3. In recent years remittance flows have emerged as a major source of external financing in developing countries. Although there is no universal agreement yet on how to measure international migrants' remittances to developing countries, a comprehensive measure of certain officially recorded flows – workers' remittances, compensation of employees and migrant transfers – by the World Bank (2006, p. 87) produced an estimate of \$167 billion for 2005, up from \$160 billion in 2004. The World Bank added that given measurement uncertainties, notably the unknown extent of unrecorded flows through formal and informal channels, the true size of remittance flows could be much higher – perhaps 50 percent or more. Because of their volume and their potential to reduce poverty, remittances are attracting growing attention from policymakers at the highest levels in both developed and developing countries.

Table 1: Workers' remittances to developing countries, \$ billion

	1990	1995	2000	2005
Developing countries	31.2	57.8	85.6	166.9
Latin America and the Caribbean	5.8	13.4	20.1	42.4
South Asia	5.6	10.0	17.2	32.0
East Asia and the Pacific	3.3	.7	16.7	43.1
Middle East and North Africa	11.4	13.4	13.2	21.3
Europe and Central Asia	3.2	8.1	13.4	19.9
Sub-Saharan Africa	1.9	3.2	4.9	8.1
World (developing and industrial)	68.6	101.6	131.5	232.3

Source: World Bank (2006, p. 88)

4. The growing importance of remittances as a source of foreign exchange is reflected in the fact that remittance growth has outpaced private capital flows and official development aid (ODA) over the last decade. Recorded remittance receipts were equivalent to about 6.7% of developing countries' imports and 7.5% of domestic investment.

Table 2: Flow of recorded remittances and other capital flows to developing countries (\$ bill.)

	1995	2004
Workers' remittances	58	160
Foreign direct investment	107	166
Private debt and portfolio equity	170	136
Official development assistance	59	79

Source: World Bank (2006, p. 88)

5. For some countries remittances constitute the largest single source of foreign currency and often rival foreign direct investment (FDI) in size. Table 3 shows that for selected countries remittances exceed the flows of ODA and FDI and are relatively large compared with exports and gross national income (GNI).

Table 3: Remittances as percentage of various economic indicators for 2003

Country	Remittances as % of trade in goods and services	Remittances as % of ODA	Remittances as % of FDI inflows	Remittances as % of GNI
Brazil	3.4	953.1	27.8	0.6
Colombia	18.3	383.5	176.2	3.8
Dominican Rep.	27.1	3371.5	750.2	12.5
Egypt	16.6	331.3	1247.3	3.2
India	19.2	1847.3	407.7	3.0
Mexico	8.2	14147.9	135.3	2.3
Morocco	25.6	691.3	158.6	9.2
Nigeria	5.9	528.0	139.8	3.5
Philippines	20.2	1068.9	2470.2	9.1
Poland	3.3	194.2	56.1	1.1
World total	1.8	223.5	30.2	0.5

Source: United States Government Accountability Office (2006, p. 7)

III. INITIATIVES TO IMPROVE DATA QUALITY

6. There are, however, weaknesses in the official data on remittances. There is a lack of clarity about what should be included in remittance statistics and there are inconsistencies in methods of collection and reporting. As a result the data currently available are incomplete. They fail to include a significant proportion of remittance flows and are not comparable across countries, regions and time.

7. The importance of remittances, and improved statistics on them, was emphasised by the G8 Heads of State at their meeting at Sea Island in 2004. The G8 leaders issued an action plan in which they gave a commitment to intensify work on migrant workers' remittances, including improvement of the data. This message was reiterated by the G7 Finance Ministers who called for the establishment of an international statistical working group bringing together technical experts from various countries and international organisations, which would be responsible for:

- a) clarifying the concepts and definitions concerning remittances; and
- b) providing better guidance on data collection.

8. In January 2005 the World Bank hosted an international meeting on statistics on remittances in order to establish the statistical working group, take stock of existing work and initiatives, clarify the needs of data users and agree a strategy for improving the availability and

accuracy of data. The meeting, organised jointly with the IMF, concluded that work should be started to improve data on remittance flows and to develop standards for data collection in both sending and receiving countries. The meeting also agreed that as remittance flows were cross-border transactions, the balance of payments statistics were the appropriate framework for collecting, reporting and improving official statistics on remittances. The tasks of clarifying the concepts and definitions concerning remittances and addressing compilation issues were delegated to other groups.

IV. CLARIFYING THE CONCEPTS AND DEFINITIONS CONCERNING REMITTANCES

9. The international statistical working group agreed that the United Nations Technical Subgroup on the Movement of Natural Persons (TSG) should be the forum to discuss improvements in the concepts and definitions concerning remittances.

10. According to the IMF (1993, paragraph 302) “workers’ remittances cover current transfers by migrants who are employed in new economies and considered residents there”. The IMF (1996) added that workers’ remittances are “transfers made by migrants who are employed by entities of economies in which the workers are considered residents” and that transfers by self-employed migrants “are not classified as workers’ remittances but as current transfers” (pp. 90–1).

11. Data compilers and users have pointed out that this distinction is neither analytically desirable nor practically implementable. Households often earn income from different sources, combining wages and entrepreneurial labour income with investment income and transfers. Since money is fungible, it is often impossible to determine whether transfers abroad are made from wage or other income (Reinke, 2006). Also, households are often composed of people with diverse residence status and histories. The IMF (1993) does not define workers or migrants. It may also be difficult in practice to distinguish between migrant and non-migrant residents, making precise application of the IMF (1993) definitions precarious.

12. For these reasons the TSG has developed some new definitions for remittances within the balance of payments framework and has recommended changing the definition of “workers’ remittances” to the broader concepts of “personal transfers”, “personal remittances” and “total remittances”. These changes should substantially improve the accessibility and clarity of data on remittances in the framework of the balance of payments, national accounts and international trade in services (UN, 2006). They also give due consideration to practical aspects of data collection, including symmetry of reporting.

13. The group agreed on the following definitions of remittances:

IV.1 Personal transfers

14. “Personal transfers” would replace the current component “workers’ remittances” and would be defined as follows:

“Personal transfers” means all current transfers in cash or in kind made, or received, by resident households to or from other non-resident households.

15. Personal transfers therefore include all current transfers from resident to non-resident households, independent of the (a) sources of income of the sender (be they 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.). This new component would, therefore, not be based on employment or migration status and would resolve the inconsistency associated with “workers’ remittances.”

IV.2 Personal remittances

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

$$\begin{aligned} \text{Personal remittances} = & \text{personal transfers} \\ & + \text{net compensation of employees} \\ & + \text{capital transfers between households.} \end{aligned}$$

17. Personal remittances are essentially household-to-household transfers, with net compensation of employees approximating an imputed unrequited flow from the household members as employees to the households themselves. The TSG agreed on netting compensation of employees of social contributions, of taxes on income and of travel and passenger transportation related to short-term employment.

IV.3 Total remittances

18. The TSG proposed to define total remittances as follows:

$$\text{Total remittances} = \text{personal remittances} + \text{social benefits.}$$

19. Total remittances would thus include all transfers 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. It noted that the concept of total remittances entails asymmetry of reporting as social benefits are sent from the government and received by households.

IV.4 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 derive it as follows:

$$\begin{aligned} \text{Total remittances and transfers to NPISHs} &= \text{Total remittances} \\ &+ \text{current transfers to NPISHs} \\ &+ \text{capital transfers to NPISHs.} \end{aligned}$$

21. The TSG found the concept of total remittances and transfers to NPISHs policy-relevant. 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.

V. BETTER GUIDANCE FOR DATA COLLECTION

22. Aggregate flow data published in balance of payments statistics are far from perfect. Data sources and compilation methods are better in some countries than in others. Since the expertise to improve national data collection practices largely resides within countries, the above-mentioned international meeting in 2005 proposed establishment of a “city group” for remittance statistics. This would bring together a core group of compilers to review methods and develop more detailed guidance for compiling remittance data.

23. Given its role in the European Statistical System, Eurostat hosted the first meeting of the city group in June 2006, thereby creating the “Luxembourg Group on Remittances”. The main purpose of the Luxembourg Group is to gather material and good practices, which will lead to drafting a compilation guide for remittance data. Such a guide will promote improved compilation practices while offering countries a choice of methods.

24. The first meeting of the Luxembourg Group was held on 26 and 27 June 2006 on the premises of the European Commission in Luxembourg. 27 experts from 14 countries and 5 international organisations participated. Leading sending and receiving countries are represented in this Group.

25. At its first meeting the Group discussed current experience and assessments of best practices for compiling remittance data (compensation of employees and workers’ remittances plus other transfers identified as related to remittances in the new definitions), the strengths and weaknesses of the approaches, special problems faced and plans or ideas for improvement. The aim was to understand common challenges and evaluate various responses, in particular use of different data sources.

V.1 International transaction reporting systems

26. In a number of countries, information on foreign receipts and payments obtained through the international transaction reporting systems (ITRS) is the main source of data on remittances. ITRS generally generate extensive geographic breakdowns of the reported data. However, the major limitations of this system are:

- In countries that have a reporting threshold or exemption, transactions below the reporting threshold are not included, are reported as a lump sum or are estimated from historical data,

- misclassification of transactions is perhaps more likely than from other data sources (misclassifications are possible in any system), and
- money transfers through informal channels and transactions in kind are not normally covered.

27. A number of countries also use direct reporting (or extensive surveys) by banks and other licensed remittance providers. These data sources sometimes supplement a standard ITRS or are sometimes used instead of an ITRS.

28. In many countries, money transfer organisations (MTOs) play a significant role in transferring the remittances of resident households. In those countries where MTOs settle the net balances of transfer through the resident banking system these transactions can be recorded through an ITRS or direct reporting by banks.

29. In some cases, MTOs settle their international balances via one central location (e.g. in London), which will result in distorted geographical allocation of the recorded remittances. Direct reporting by MTOs can then be a useful additional data source.

V.2 Household surveys

30. Another source of information on remittance flows are household surveys. Such surveys can give information not only on remittance flows and their geographical allocation, but also on socio-economic characteristics of the sending and receiving families. Another advantage is that money transmitted through informal channels can also be covered by such surveys. Problems which household surveys may entail include:

- Remittance senders and recipients (in particular, migrants and their families) may be sparse in samples that are selected with standard methodology; therefore large sample sizes or special sampling schemes may be required to obtain estimates with sufficient accuracy. These may be costly or complex to implement.
- Respondents may not wish to disclose all relevant information, e.g. regarding their remittances, income, residence status or economic activities of relatives working abroad.

31. Some countries use a two-phase approach. In the first phase, a simple question regarding transfers of remittances to or from abroad is included in an extensive household survey. In a second phase, only households who gave a positive answer to this question are surveyed with specific remittance-related questions. However, it should be noted that general household surveys are not conducted regularly in many developing countries.

32. Some countries carry out specific surveys at the borders among migrants and other travellers. Surveys carried out bilaterally in both sending and receiving countries could also be useful.

V.3 Data models

33. In some countries economic models are applied to estimate remittance flows. Information about numbers of migrants, their family situation, duration of stay, average income, propensity to remit and other similar properties can be used to build specific models. Other countries base their

models on observable macroeconomic data, including other balance of payments items, or partially estimate remittances as a residual from current account imbalances.

34. Attention should be paid to identification of the main determining factors, correct specification of the model used and to appropriate procedures to estimate the model parameters. All models, their assumptions and parameters should be regularly verified and updated.

V.4 Issues for compilation guidance

35. Almost all countries use a combination of sources of information. They include the sources mentioned above, plus such sources as administrative registers, information from different ministries and tax returns. The availability of sources, and the relative merits of using them, vary from country to country. Participants agreed that no single source is likely to yield sufficient information for compilation of remittance data. Instead, a combination of sources needs to be used. Moreover, different methods may be more appropriate for measuring remittance inflows and outflows.

36. Compilers therefore have to decide which data sources to use in the circumstances of their country – depending on institutional, legal and practical considerations. Beyond that, they need to establish compilation methods that produce complete and consistent estimates of remittance data drawn from sometimes inconsistent or overlapping data sources. These issues will be addressed in the compilation guide.

V.5 The way forward

37. It was agreed that, while this first meeting had aimed at discussing national practices, the second (scheduled for December 2006) should focus on more general and generic description of data collection methods. The advantages and drawbacks of various collection systems, the preconditions for making these methods effective, the best way of combining different sources and similar issues should be addressed at the second meeting.

38. The compilation guide should promote improved compilation practices while offering countries a choice of methods. Choice is important due to the countries' economic and demographic structures, statistical infrastructure, resources and data requirements.

VI. DATA AVAILABILITY AT EUROPEAN COMMISSION LEVEL

VI.1 Surveys carried out by DG ECFIN

39. In order to enhance the knowledge base about workers' remittances from the European Union (EU), in April 2004 the European Commission (DG ECFIN) conducted an ad-hoc survey of Member States. DG ECFIN sent Member States a second questionnaire on workers' remittances from the EU to non-EU countries in May 2005. Built on the first survey, the second extended its scope by requesting a geographical breakdown of flows to Eastern Europe, the Mediterranean, Latin America and the Caribbean countries. The questionnaire was designed to gather information from EU Member States about the:

- Total annual remittances to non-EU countries;
- Source of data (and any changes compared with the previous year);
- Annual remittances (breakdown by region and country of the non-resident counterpart);
- Average amount of money remitted;
- Main channels in use for remittance transfers;
- Transfer costs;
- Existing bilateral cooperation on facilitation of migrant remittances.

40. The results of this survey were distorted by problems with underreporting and misreporting, both compared with other sources and compared with the previous survey. These problems stemmed from three main reasons: (1) lack of reporting by many Member States, especially by Member States accounting for high levels of immigration; (2) heterogeneous concepts and methods of collection and estimation; and (3) the difficulty of gathering data on certain flows, especially through informal channels. As a result, the figures reported provide no conclusive evidence of the current volumes, channels or costs of remittances and should therefore be treated with extreme caution.

VI.2 Eurostat

41. In 2005 Eurostat started to ask for data on remittances, in addition to data on compensation of employees and other private transfers, within the framework of the quarterly balance of payments statistics. While data on compensation of employees are published regularly by Eurostat, the other two items are not published (Eurostat, 2006).

42. An analysis of the availability of data shows that all Member States sent data on compensation of employees and most of them sent data on other private transfers too. However, the situation is worse in the case of remittances – only 17 Member States sent the required information. As a result Eurostat is not in a position to calculate EU aggregates for remittances.

43. Due to the increasing demand for data on remittances Eurostat is going to launch a special survey early next year where, in addition to total remittance flows, information on major corridors will also be sought. This will allow Eurostat to calculate the EU aggregates vis-à-vis the rest of the world. It will also make it possible to identify and quantify the principal corridors for remittance flows between some Member States and other parts of the world. With this information Eurostat would be able to serve the needs of the Commission, policymakers in the Member States and others interested in remittance flows better.

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