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**REMITTANCES AND LABOUR MOBILITY**

**REMITTANCES**

Note by the Bureau of Economic Analysis, United States

*Summary*

Cross-border remittances – household income from foreign economies arising mainly from the temporary or permanent movement of people to those economies – have grown rapidly in recent years. As they have increased in size, remittances also have increased in importance at both individual and national levels. Remittances vary widely in their importance to national economies, which may lead to differences in the emphasis given by national statisticians to measuring and monitoring them. This paper will describe recent efforts to address conceptual, definitional, and measurement challenges with regard to remittances and will discuss the challenges that remain.

## I. INTRODUCTION

1. The Conference of European Statisticians decided at its 2007 plenary session that a Group of Experts on the Impact of Globalisation on National Accounts be created to review the main distortions in the compilation of national accounts caused by the growing globalisation of economies and to develop recommendations on how to deal with these distortions. The election of the Group of Experts was approved by the Executive Committee of the United Nations Economic Commission for Europe (UNECE) at its twentieth session (27 February 2008). The Group of Experts will work in cooperation with Eurostat and the Organisation for Economic Co-operation and Development (OECD). The present document contains an input for the preparation of the Recommendations.

2. Cross-border remittances – household income from foreign economies arising mainly from the temporary or permanent movement of people to those economies – have grown rapidly in recent years<sup>1</sup>. World Bank estimates show their global value in U.S. dollars as more than tripling over the last decade, rising from \$121 billion in 1998 to \$375 billion in 2008, or at an average annual rate of about 12 percent<sup>2</sup>. Some of the increase reflects price change and some may be an artifact of better measurement, but much of it is real, largely the result of increased international migration and declining transfer costs. Although remittances are not necessarily connected to migration, in practice, most remittances are accounted for by funds sent by migrants to relatives in their countries of origin. Because of this, the largest migration corridors—Mexico to the United States and Eastern Europe to Western Europe, for example—also tend to be the most important corridors for remittance transfers.

3. As they have increased in size, remittances also have increased in importance at both individual and national levels. For individual recipients, remittances are often a significant source of household income, providing support for consumption, education, healthcare, and potentially, a path out of poverty. For individual senders, remittances represent an important link with family in the home country. At the national level, in addition to supporting household consumption, remittances may be an important source of foreign exchange for net receiving nations. For net sending nations, the majority of which are more developed, remittances represent resource transfers to developing nations. Remittances can thus be seen as a type of development and humanitarian assistance, which can be considered in conjunction with government aid, private investment, and other resource flows in evaluating needs for aid.

4. Remittances vary widely in their importance to national economies, which may lead to differences in the emphasis given by national statisticians to measuring and monitoring them. For net sending nations, which tend to have the largest and most advanced economies, the amounts transferred may be large in absolute terms, but their importance relative to total economic activity generally is small. For the United States, for example, personal transfers

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<sup>1</sup> This definition is from Appendix 5 of the International Monetary Fund *Balance of Payments and International Investment Position Manual*, sixth edition. As will be discussed later, although most remittance flows arise from the movement of persons, some do not.

However, all remittances and remittance-type flows are intended to benefit households, either directly or indirectly.

<sup>2</sup> These figures cover workers' remittances, compensation of employees, and migrants' transfers, as reported by recipient countries.

abroad were \$37 billion in 2008, but that amount was only a fraction of 1 percent as large as United States gross domestic product (GDP) in that year. For net receiving nations, the situation often is reversed. El Salvador, for example, reported only \$4 billion for 2007 as inflows of workers' remittances, but that amount was nearly one-fifth as large as its total GDP in that year.

5. Although remittances are increasingly important to many economies, accurate measurement of remittances remains difficult. Moreover, there is no single, internationally agreed measure of remittances that serves all purposes. The difficulty in measurement is illustrated by the large discrepancy between global receipts (credits) and payments (debits) of remittances. The above-cited estimate of \$375 billion in remittances for 2008 is based on statistics compiled by recipient countries. Although in reality, and by any definition, the amounts donated and received are the same, estimates based on the statistics of donor countries total only \$248 billion, or about two-thirds as large. Such differences suggest that at least some statistics on remittances lack the minimal level of reliability required for them to serve their intended purposes. They also may result in differences in perceptions about the adequacy of remittances as a source of assistance and of the need for other types of resource flows.

6. Two main factors complicate the measurement of remittances—differing definitions and difficulties in capturing the transactions. With regard to definition, there is not common agreement on the types of transactions that should be considered as “remittances.” There is a general understanding that remittances involve flows of funds from residents of one country to those of another, but the goal of translating that understanding into a statistical definition has proved elusive. For example, disagreement exists over whether money brought home by returning migrants, funds sent by migrants back to their countries of origin to purchase real estate, invest in local businesses, or otherwise for the migrant's own account, and money earned by temporary nonresident workers should be considered as remittances. Often, the definition employed has depended on the use of the statistics or on data availability. Economic accountants require a definition that is compatible with the rest of the national accounting framework and thus are concerned with details such as the residency status of the sender and the absence of a quid pro quo. Government aid officials and development professionals are often more concerned with total resource flows between countries, regardless of the residency of the sender or the presence or absence of a quid pro quo, to show the economic impact of these flows on sending and receiving nations.

7. With regard to data capture, because of the small size of individual transactions and the sometimes uncertain status of those who make them, remittances data are difficult to collect using traditional methods. Individual transactions often fall below reporting thresholds for banks and other financial institutions, making them difficult to identify within the reported data. Money transfer operators, the preferred vehicle of transfer for many migrants, may only settle *net* payments through the banking system, making it difficult to identify the underlying gross receipts and payments. In addition, remittance transactions are often effected outside the formal financial system, such as through hand-carry by returning migrants and workers or through unlicensed transfer businesses, both of which usually bypass formal reporting systems. Capturing data via household surveys may also be difficult, especially in nations where large portions of the migrant population lack legal status. Faced with these numerous and varied difficulties in data collection, some countries have chosen to estimate remittances using statistical modeling techniques that do not attempt to capture and sum individual transactions, but rather combine

sample information on, or assumptions about, remittance behavior by various demographic groups with information on the populations belonging to each group.

8. This paper will describe recent efforts to address conceptual, definitional, and measurement challenges with regard to remittances and will discuss challenges that remain. It will proceed as follows. The next section will provide background on the commonly used definitions of remittances and will review the (multiple) definitions suggested in the sixth edition of the International Monetary Fund's *Balance of Payments and International Investment Position Manual* (BPM6), and in the companion guidebook, *International Transactions in Remittances: Guide for Compilers and Users* (Guide). Section III discusses a number of conceptual issues that may arise in defining and measuring remittances. Section IV outlines the practical measurement problems facing compilers, and section V concludes with suggestions for ways to overcome compilation difficulties.

## II BACKGROUND – DEVELOPMENT OF GUIDELINES

9. Because they represent international transactions, remittances have long been addressed in the balance of payments framework. The 4<sup>th</sup> edition of the Balance of Payments Manual, published in 1977, included the item “worker’s remittances”, defined as “unrequited transfers by those migrants (persons who have come to an economy and who stay, or are expected to stay, for a year or more) employed in their new economy.” This item, with the definition slightly altered to state explicitly that the item pertains only to current transfers, remained the single component specifically associated with remittances in the 5<sup>th</sup> edition of the Manual, published in 1993.

10. In the 1990’s, as global migration increased, transfers from migrants became increasingly important to many national economies, prompting government policymakers, development officials, and national compilers to focus increased attention on the size and nature of remittance transfers. The balance of payments item “worker’s remittances” provided some information, but it did not completely cover the wide variety of remittance-type transactions occurring between nations. Worker’s remittances is limited to current transfers by employed permanent migrants and thus excludes current transfers by non-migrants and by unemployed migrants, as well as any household-to-household capital transfers. It also excludes the resource flows to countries of origin that result from temporary employment of their residents in other countries.

11. To construct a broader measure of remittances, analysts have often combined workers’ remittances with two other items from the balance of payments—compensation of nonresident employees and migrants’ transfers<sup>3</sup>. While the resulting measure gives a more complete picture, it does not capture all flows that may be regarded as “remittances,” which may include such items as capital transfers and transfers from non-migrants. The measure may overstate “remittances” to the extent that a portion of the compensation payments does not flow back to home countries but is spent by nonresident workers in host economies. In addition, where data on migrants’ transfers are not separately available, users have sometimes substituted total capital

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<sup>3</sup>As discussed later, under BPM6, migrants’ transfers are no longer regarded as balance-of-payments transactions. However, they are often included in existing remittances estimates and remain of potential relevance in the remittance context.

account transactions resulting in a measure that includes unrelated items such as debt forgiveness.

12. Rather than use balance of payments statistics, public and private agencies and organizations have sometimes compiled their own estimates of remittances, often by surveying migrant or recipient populations. These surveys have employed a variety of definitions of remittances and may sometimes have captured transactions that would not universally be regarded as within the scope of the remittances concept, such as real estate purchases, business investments, and savings, which involve funds sent abroad but are not transfers. One estimate of cross-border giving has reflected the value of time spent by volunteers on international programs, which represents assistance by residents of one country to residents of another but lies outside the scope of standard economic accounts<sup>4</sup>.

13. The use of multiple compilation methods, each of them reflecting a different collection of transactions, has produced vastly different estimates of remittances. The wide variety of estimates has created confusion and uncertainty over their importance relative to other flows and their impact on sending and receiving nations.

#### BPM6 guidelines – progress and potential problems

14. The development of a standard balance of payments definition of remittances began at the Sea Island Summit in 2004, where The Group of Eight (G8) participants acknowledged the rapid growth and developmental impact of remittances in the action plan *Applying the Power of Entrepreneurship to the Eradication of Poverty*. The plan highlighted the need for better statistics on remittances and called for the G8 countries to “work with the World Bank, International Monetary Fund (IMF), and other bodies to improve data on remittance flows and to develop standards for data collection in both sending and receiving countries.” This statement led to the creation of the United Nations Technical Sub-group on the Movement of Natural Persons (TSG), which worked in consultation with the IMF Committee on Balance of Payments Statistics and the Advisory Expert Group on National Accounts to clarify the definition of remittances. The TSG’s recommended definitions have been incorporated in BPM6. Following the adoption of these definitions, a working group, which came to be known as the Luxembourg Group, was formed under the auspices of the IMF to develop a compilation guide based on the BPM6 definitions. The resulting Guide provides further detail on the nature of remittances and outlines several compilation methodologies. The Guide’s recommendations will be discussed further in Section 5.

15. BPM6 introduces four increasingly broad categories of remittances<sup>5</sup>:

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<sup>4</sup> See Hudson Institute, *The Index of Global Philanthropy, 2008*. This report gives \$2.2 billion as a lower-bound estimate of the value of such time spent by U.S. volunteers in 2006.

<sup>5</sup> See Appendix 5 of BPM6 for additional information.

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

NPISHs – Non-profit institutions serving households.

Note: “Travel” as used in column b is as defined in BPM6 to include food, lodging, and other goods and services acquired for personal use by seasonal, border, and other short-term workers who are not resident in the economy in which they are employed. Personal transfers is a standard component of the balance of payments framework. Personal remittances, total remittances, and total remittances plus transfers to NPISHs are supplemental items. This structure allows compilers to publish a variety of measures of remittances without altering the central balance-of-payments framework, although they may need to alter their data collection to align with the new guidelines.

16. These concepts provide a broader and more fully articulated framework for the analysis of remittances than was available under the fifth edition of the Balance of Payments Manual (BPM5). The narrowest remittance measure, personal transfers, retains a focus on individual transfers from residents similar to that of the BPM5 concept of workers’ remittances. However, it places the focus on the household-to-household nature of the transactions rather than on the employment status of the sender. Personal transfers include additional types of household-to-household transfers—such as transfers from non-migrants and non-workers—that are excluded from workers’ remittances.

17. The next item, personal remittances, broadens the scope of the concept by adding household-to-household capital transfers and the net compensation of nonresident workers. Personal remittances approximate the commonly used calculation of remittances discussed above, although it does not include migrants’ transfers, which are no longer regarded as transactions in the balance of payments<sup>6</sup>. The final two items incorporate social benefits and transfers to NPISHs. These types of transfers are not commonly thought of as remittances, but they are conceptually similar in that they provide direct support to households abroad. These broadest definitions are of interest to those wanting to determine the total amount of support provided to the households of one nation by those residing or working in another.

<sup>6</sup> BPM5 also recognized that migrants’ transfers are not transactions in the true sense, but it nonetheless recommended recording them as such in order to provide contra-entries to flows of merchandise and other items resulting from migration. BPM6, in contrast, recommends that these items, which do not involve changes in ownership, be excluded from (adjusted out of) merchandise and other accounts, placing both those accounts and the account for transfers (secondary income) on a conceptually more correct basis.

18. While no country currently publishes the full array of new remittance measures, many countries publish remittance-related components, usually including a measure of personal transfers (with many countries still showing workers' remittances as defined under BPM5) and compensation of employees. Available data suggest that, for many countries, personal transfers are the largest component of remittances, reflecting the broad base of potential senders and recipients and the social and economic importance of these transfers. However, in some countries, particularly those with a sizeable population of border workers or a large guest worker program, compensation of employees is the largest component. Social benefits likely tend to be the smallest component, reflecting the relatively small population of long-term employees who return to their country of origin or retire abroad. The relative importance of transfers to NPISHs is determined by the size of the non-profit sector, which varies across countries. For the United States, personal transfer payments were \$37 billion and employee compensation payments were \$10 billion in 2008.

19. In addition to those items included in the definition of remittances, BPM6 also highlights the analytical importance of two additional remittance-related data series: investment by migrants and travel. These items do not provide support directly to households, but they represent additional channels through which national economies interact with their migrant populations. Other potentially important data series are telecommunications and trade in home-goods (goods, such as foods, that migrants import or have shipped from relatives back home).

### III. CONCEPTUAL ISSUES

20. The release of BPM6 and the Guide represent major advances in defining remittances and in providing statistical guidelines, both of which should result in higher quality, better understood, and more internationally comparable statistics. Nonetheless, the fact that it has proved necessary to suggest several alternative measures, made up of components that are treated quite differently in economic accounts, raises questions about the coherence of the remittances concept and the comparability of figures that are differently composed. The table below shows the components required for compiling the different remittance measures and the different accounts from which they are built up.

#### **Components Required for Compiling Remittance Items and Their Source: Item and Description**

<b>Item</b>	<b>Source and description</b>
1. Compensation of employees	Primary income account, standard component
2. Personal transfers	Secondary income account, standard component
3. Travel and transport related to employment of border, seasonal, and other short-term workers	Goods and services account, supplementary item
4. Taxes and social contributions related to employment of border, seasonal, and other short-term workers	Secondary income account, supplementary item

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

Source: Table A.5.1 in Appendix 5 of BPM6.

21. Taken together, the various remittances concepts draw upon items from four different balance of payments accounts: (1) goods and services, (2) primary income, (3) secondary income, and (4) capital account. As noted in BPM6 (paragraph 2.13), “[t]he different accounts within the balance of payments are distinguished according to the nature of the economic resources provided and received.” One must ask, then, in what sense it is meaningful to construct aggregates that are so heterogeneously composed. Does it matter, for example, whether a nation’s remittance receipts come in the form of transfers from its emigrant population residing in other countries, from the labors of its residents who are temporarily working abroad, or from pensions received by native- or foreign-born retirees following careers in other countries?

22. The answer—like that to many others—is “it depends.” From some perspectives, such as the generation of foreign exchange earnings, it may make little or no difference. However, from other perspectives, the differences in the economic nature of the components used in constructing the measures seem fundamental. One of the most significant is in the inclusion of compensation of employees alongside the various items of transfers, since it alone represents income generated by productive activities of residents of the recipient countries. Opportunities to work abroad may expand the consumption possibilities of these residents and their households, but their earnings abroad are returns to their own production, and their inclusion could be seen as calling into question the applicability of the donor/recipient and household-to-household paradigms to the remittances total. Something might be said for an additional remittance measure that groups together all the items of transfers—capital as well as current and to NPISHs as well as to households—thus allowing remittance transfers to be viewed and evaluated separately and apart from transactions involving employment<sup>7</sup>.

23. Compensation also differs from the other remittances concepts in terms of the resource augmentation provided to recipient economies. If a migrant residing in one country sends, for

<sup>7</sup> In terms of the schematic in paragraph 14, this would be measured as a+c+d+e+f.

example, one euro to relatives residing in his or her country of origin, then the consumption (or investment) possibilities in that country will rise by that same amount. In contrast, if a nonresident worker earns a euro in a foreign country (after taxes, travel, and transportation costs), but at the opportunity cost of at least some foregone earnings in the home country, then the home-country consumption possibilities would have risen by a euro less the value of those foregone earnings. Furthermore, additional consumption requirements may arise in connection with the separation of families, and non-economic costs may arise as well. Finally, one could call into question the subtraction from compensation of workers' outlays for living expenses in host countries, since the workers would have incurred some living expenses even if they had remained at home. Thus, a concern with remittance measures including compensation is that they are comprised of components that may, and likely do, differ significantly from one another in their net per-unit effects on economic and non-economic well-being.

24. Questions could also be raised about several items that are excluded from total remittances. Transfers to NPISHs are treated separately from total remittances, yet these transfers may differ from household-to-household transfers only in the sense that intermediary institutions are involved in mediating funds that are donated by households in one country with the intent of benefitting households in another country.

25. Volunteer time spent on international programs represents benefits provided by residents of one country to residents of another, but its value lies outside the scope of conventional economic accounts. Even if one tried to quantify and include its value, one would be faced with the fact that some volunteer efforts are motivated by a desire to promote a cause or may otherwise be undertaken, at least in part, for the volunteer's own benefit. In these cases, a wedge may be driven between the value of the time from the donor's perspective and the value from the recipient's perspective, and any statistics compiled from one perspective would appear distorted when viewed from the other perspective.

26. Investment by migrants in their countries of origin is recognized by BPM6 as a "related concept," but it is excluded from all of the remittances measures suggested in it and in the Guide<sup>8</sup>. The presence of a quid pro quo or the fact that such investment is included in the financial account could be argued as justifying the exclusion, although a quid pro quo (namely, the labor services provided in the host country) is present in the case of compensation of employees, and several accounts within the balance of payments already are used in deriving remittances measures. Furthermore, migrants' investments may be in businesses that provide relatives or others in their countries of origin with employment opportunities and thus may be seen as benefitting home-country households as well as the emigrant investors residing abroad. Thus, regardless of one's view on whether migrants' investments should be included in, or excluded from, the remittances measures, it must be acknowledged that they may have much in common with the components that are included.

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<sup>8</sup> BPM6 does acknowledge that investment may be a 'vehicle' for remittances in cases where relatives live rent-free in migrant-owned real estate, or are paid above market wages by migrant-owned businesses. In cases where these trends are known to compilers, estimates may be made to account for the remittance portion of these transactions.

27. Financial and nonfinancial assets of returning migrants are likewise excluded from all of the remittances measures, on the grounds that they lie outside the current balance of payments framework. However, from the perspective of some of the uses of the data, including the earnings of workers who stay abroad for less than a year and excluding the accumulated assets of workers who stay for a year or more before returning home may seem to some like a somewhat arbitrary distinction, especially when only small differences in length of stay are involved.

28. Corporate giving raises equally perplexing questions. A pharmaceutical firm's donation of medicines to a foreign relief organization could be included in current transfers to NPISHs (which are not limited to transfers made by households). However, what would be the treatment if the firm sold the drug in developing countries at discounted prices, or even below-cost? Economic accounting guidelines recommend recording transactions at market prices, so one might argue that the transaction should be adjusted up to market price and the discount shown as a type of transfer, relevant to remittances. However, the price received may be only a partial measure of the value of the sale to the firm, which may be rewarded for its benevolence through the accumulation of goodwill or the avoidance of regulations or price controls. In some cases, discounting may simply represent the profit-maximizing actions of a price discriminating monopolist exploiting demand differences in distinct markets.

29. Different sorts of questions about corporate giving arise when the giving is done, not across the border, but rather through affiliates located in recipient countries. Because foreign affiliates are treated in economic accounts as resident in their countries of location rather than in the countries of their owners, their donations in host countries are treated as between residents and thus outside the balance of payments framework. Yet to the extent that the giving raises the foreign affiliate's costs and lowers its profits, the income received by the home-country parent firm would fall, making the cost to it of the donation much the same as if it had made the donation directly.

30. From these examples, it is clear that the remittances concept is among the more difficult economic constructs to define and interpret. Remittances measures may combine unlike items while excluding others that, at least in some respects, are equivalent or very similar. While the new guidelines have done much to clarify and expand remittances concepts, it is clear that significant conceptual difficulties remain.

#### **IV. DIFFICULT TO CAPTURE**

31. Layered atop these rather daunting conceptual issues is an array of equally formidable measurement challenges, most of them relating to the personal transfers component. Personal transfers are typically small, household-based on both the sending and receiving end, and capable of being sent through a wide variety of channels, making them difficult to capture using traditional methods of collection. Additional factors such as the legal status of the remitting population, the financial infrastructure of the nation, and residence of the sender also complicate the capture of personal transfers data.

32. In most countries, individuals have many options, both formal and informal, for sending personal transfers<sup>9</sup>. Widely used formal methods of sending monetary transfers include banks, credit unions or licensed money transfer operators (MTOs). Funds sent through these channels enter the formal financial system and can be captured along with other types of financial flows. However, entry into the financial system does not completely eliminate the collection difficulty. Remaining issues include identifying gross flows (many institutions net their international transactions), determining the primary source and destination of the transfers, and distinguishing between personal transfers and other small financial transactions.

33. Informal methods of monetary transfer include hand-carry, either by the senders themselves or through family members or friends, transfers through unlicensed MTOs, and hawala or similar area-specific informal systems<sup>10</sup>. When sent through these channels, the transferred funds do not enter the formal financial system and bypass most established data collection points: money carried across a border often does not have to be declared below a certain threshold, unlicensed MTOs may operate outside of the banking system, and hawala does not involve actual cross-border payments between households. Collecting data on transfers made through informal channels requires targeted methods, such as surveys of the sending or receiving populations. Statistical modeling may also help to overcome these difficulties.

34. In-kind transfers may also flow through formal or informal channels, although it is generally believed that most in-kind transfers travel through informal channels. Formal methods of transfer include declared shipment via post or with a registered exporter. Informal methods include hand-carry and undeclared shipment via cross-border passenger or transport vehicles. Compared to money transfers, data collection for in-kind transfers faces an additional complication: determining the value of the remitted items. Formal shipments should have a declared value; however, because of their small size, they may fall below reporting thresholds. It may also be difficult to distinguish in-kind transfers from other small shipments. Informal shipments are not only difficult to track; they face the additional problem of valuation.

35. A number of factors including geography, financial infrastructure, cost, and history often contribute to the choice of one transfer channel over others. Transfers between nations with a shared geographic border, especially a relatively open border, are more likely to be transmitted by hand or through established informal travel and trade routes. Financial infrastructure, such as the prevalence of banks in both nations and the ease of opening an account affects the use of bank transfers. The cost of sending a transfer is also a consideration, although so too is the convenience for both sender and recipient. International efforts made in recent years to decrease the cost of transferring through formal channels have led to an increase in the use of these channels. Finally, the familiarity and trust that the sender and recipient have in a transfer company or method is also an important factor; remitters are often highly loyal to their chosen transfer method.

36. The combined effects of all of these factors are reflected in the choice of transfer channel. In some nations, this may result in a single channel dominating the market, potentially

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<sup>9</sup> For a more comprehensive discussion of remittance channels, see the *Guide*.

<sup>10</sup> Hawala is a method of transfer, well established in Islamic communities, where instruction on payment, rather than the money itself, is sent across borders.

simplifying data collection as efforts can be focused on a single market segment. In nations where a variety of easily accessible transfer methods are available and no single channel dominates, data must be collected from multiple market segments or through other methods, such as surveys of senders or recipients.

37. Factors other than the transfer channel also complicate measurement. The legal status of the migrant population is one factor; illegal residents may be more likely to use informal channels and are often difficult to contact or survey. Nations that are international banking centers are more prone to having funds sent from third countries transit through their banks, creating noise in the financial-flows data. Finally, no matter the channel, it is difficult to determine length of residency of the sender, a key factor in distinguishing between personal transfers and compensation of employees.

38. Measuring transactions in the broader remittance categories is also difficult. Although there may be official data associated with visa or tax records, the question of residence complicates the collection of data on compensation of employees. Additional complications arise if there is a large non-legal migrant workforce, or in nations with open guest worker programs. Social benefits and transfers to NPISHs are likely to flow exclusively through formal channels; however, identifying these flows may be difficult. Data on social benefits, largely issued by the government, may be available through official records, although identifying and collecting data from all potential sources could be complicated. The difficulty of collecting data on transfers to NPISHs depends on the source of the transfer. As with personal transfers, small transfers from households will be difficult to identify, whereas large transfers from well-known charities or foundations will be more easily captured.

## V. PROPOSALS FOR OPERATIONAL TREATMENT

39. The Guide outlines four principal methods for compiling data on remittances: extracting the data from international transactions reporting systems (ITRS), direct reporting by MTOs, household surveys, and model-based methods<sup>11</sup>. Each of these approaches focuses on data capture from different segments of the remittance market, and each has strengths and weaknesses in terms of coverage, cost, and feasibility. Data compilers can use these methods singly or in combination; as the collection issues outlined above illustrate, remittances can take many forms, and more than one method is often needed to construct comprehensive estimates.

40. An ITRS regularly collects data from banks and enterprises on transactions with non-residents. These systems often grew out of foreign exchange control systems and today are commonly used to collect data on international financial transactions. ITRS systems vary in their degree of coverage, ranging from those that attempt to capture all transactions individually regardless of size to those that collect detailed data from only the major transactors and allow aggregated reporting for small transactions. They also vary in timeliness; data may be reported electronically, at the time of transaction, or manually at less frequent intervals. For collecting

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<sup>11</sup> The Latin American Center for Monetary Studies (CEMLA) has also written a guide, *Best Practices for the Compilation of International Remittances*, 2006. This guide is primarily intended for Latin American countries, but a number of its recommendations can be applied more broadly.

remittance data, more detailed, timely reporting is, of course, preferable. However, collecting data on remittances is not the primary purpose of ITRS systems, and the systems often cannot be altered to fit the needs of remittance data compilers.

41. Where they exist, ITRS can be an important source of data on remittances sent through formal channels, including licensed MTOs whose international transactions are often conducted through the banking system. Because the ITRS system is already in place and legally enforced, this method of data collection usually is highly cost-effective and accurate. ITRS data are also comprehensive in that they cover all categories of remittances sent through formal channels, including social benefits and transfers to NPISHs.

42. ITRS, however, often cannot provide the level of detail required by compilers. In systems with reporting thresholds, a significant portion of the data on remittance flows may not be collected. Within the data that are captured, it may be impossible to distinguish remittances from other small transactions, or to distinguish among the different categories of remittances, especially in systems that allow for the aggregation of transactions. Because ITRS only captures those transactions actually settled through the financial system, the data will not reflect the gross flow of remittances if institutions net their transactions prior to settlement. In addition, in nations that are international banking centers, ITRS may over-report remittances to the extent that these transactions transit through the nation's financial system. Finally, by nature, ITRS does not capture informal or in-kind transfers, both of which are substantial in many nations.

43. Another method of data collection is a direct survey of MTOs<sup>12</sup>. This method is similar to ITRS in that the data are reported by a financial intermediary rather than by the sender or recipient. Unlike ITRS, the direct survey method gives compilers control over the level of detail collected, allowing them to overcome some of the problems encountered when using ITRS. Specifically, compilers can request that MTOs report gross rather than net transactions and can set thresholds low enough to capture the majority of remittance transactions. In nations where MTOs are required to collect information on the purpose of transactions, compilers may be able to collect data on remittances separately from other small transactions<sup>13</sup>. Compilers may also be able to collect information on the cost, number and frequency of transfers, which is useful in understanding the nature and impact of remittances. If MTOs are the dominant transfer vehicle, a direct survey may allow compilers to collect the majority of transfer data in an accurate, timely and cost-effective manner.

44. Despite these advantages, data collected from MTOs are unlikely to capture the full range of remittance-type transactions. MTOs are primarily a vehicle for personal transfers and cannot serve as a source of data on the other components of remittances. Short-term workers may remit some of their compensation through MTOs prior to their return home; however, these transfers are considered part of compensation of employees, and it is unlikely that MTOs will be able to distinguish between transfers made by short- and long-term migrants. A survey of MTOs will not capture informal and in-kind transfers. Finally, where information on the purpose of the transfer

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<sup>12</sup> The *Guide* notes that this method can also be applied to other remittance intermediaries, such as banks and hawala operations.

<sup>13</sup> National regulations, particularly those focused on anti-money-laundering and combating the financing of terrorism, often determine what information MTOs are required to collect from their customers.

is not collected, MTOs will be unable to distinguish personal transfers from other small financial transactions. To overcome this final complication, compilers may conduct periodic sample surveys of MTO users to determine what percentage of transactions are transfers<sup>14</sup>.

45. Moving from surveys of financial intermediaries to surveys of senders and recipients leads to the method that may have the potential to produce the most comprehensive and detailed remittance statistics—a household survey. Focused on the units whose support is at the heart of the remittances concept, a well-designed household survey can collect data on all transfer channels and all remittance categories, although some categories can only be collected from recipients. Household surveys can collect receipts and payments of personal transfers, net compensation of employees (provided the worker, or some member of his or her household, is present in the economy when the survey is conducted), and transfers to NPISHs. However, information on social benefits is only available from recipient households, and surveys of households will not cover institutional payments to NPISHs<sup>15</sup>. Household surveys can also collect supplemental data on the demographic profile of senders and recipients and on the use and impact of remittances.

46. There are, however, significant difficulties in implementing household surveys. One of the most important is cost, which increases with the sample size. In most countries migration is a relatively rare event, necessitating a large sample size to ensure that the survey captures a representative group. One way of mitigating this cost is to build a focused sample frame by including a test question on an existing survey to identify households engaged in remitting. Another is to limit the scope of the survey to only those aspects of remittances that cannot be collected via other methods.

47. Surveys are also particularly vulnerable to reporter error. Such errors may be unintentional, resulting from a lapse in memory or misunderstanding of the survey questions. Carefully constructed survey questions that clearly explain the types of transactions and time period for which data are being collected can help diminish these errors, although additional questions will also increase costs. Reporter errors may also be intentional, especially when the questions concern finances. Remittance senders may overstate the amount of transfers sent in an attempt to make themselves appear more generous, while recipients may understate their receipts to prevent additional taxation or for security reasons.

48. Other disadvantages include the lack of timeliness, and difficulty in surveying unauthorized, transitory, or seasonal populations. The difficulty in surveying the migrant population may make household surveys a less useful tool in destination countries than in sending countries.

49. Despite their potential power, until recently only limited work was done to develop household surveys as a tool for collecting remittance data. In an effort to address this knowledge gap, in January 2008, the United Nations Economic Commission for Europe, World Bank, and

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<sup>14</sup> Another option is to assume that all transactions below a certain dollar amount are personal transfers, although this usually can be expected to overstate remittances.

<sup>15</sup> Transfers from domestic NPISHs to foreign NPISHs or foreign households may be collected on a survey of NPISHs.

United States (U.S.) Census Bureau sponsored an Expert Group Meeting on the Contribution of Household Surveys to Measuring Remittances. Among the topics highlighted for further discussion and development were: question design, particularly translating the BPM6 definition of remittances into survey questions and designing questions that elicit complete and accurate responses<sup>16</sup>, methods of identifying the remitting or receiving population, methods for surveying hard to reach populations, identifying best practices, and developing a database of sample surveys. Meeting participants have since formed the Suitland Working Group to further examine these issues as well as the broader topic of using household surveys to measure migration.

50. The final method of data compilation, the model-based approach, moves away from collecting data on actual transfers and instead uses information on other economic and demographic factors to estimate remittance flows. Models offer a cost-effective way to compile comprehensive data. Although they are most commonly used to compile data on personal transfers, models also can be designed to cover other remittance categories, making them particularly useful in nations where remittances flow through many channels.

51. There are two main modeling approaches, econometric and demographic<sup>17</sup>. Econometric models construct a mathematical relationship between remittance flows and various explanatory variables, such as GDP, per capita income, the exchange rate, interest rate, and size of the migrant population. Demographic models take demographic data collected in censuses or other surveys and apply either an average amount remitted or a percentage of income remitted to the relevant population. In order to construct the model, both types require some information about the size and characteristics of remittance transfers; however, this information can come from a one-time or infrequent survey, partner country data, or academic studies, greatly reducing the burden of data collection.

52. As with the other methods, there are weaknesses in the model-based approach. Because models are built around the assumption of fixed relationships among variables, they are especially vulnerable to changes in patterns of remitting behavior. Models are also highly reliant on good source data. This is a particular concern for demographic models in nations where there is a large unauthorized population for which it may be difficult to obtain accurate data. Finally, because the resulting estimates are not based on actual flows, model outputs are difficult to verify.

53. In addition to these four compilation methods, remittance-related data, especially for the broader components, may also be available from other sources. Government agencies managing visa and social security programs often have administrative data on visa holders, employers, or social security payments abroad that compilers can use to construct compensation and social benefit estimates. Data on social benefit payments may also be available from public financial or tax filings of firms or pension companies. In some nations, private firms or non-profits conduct

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<sup>16</sup> Recommendations for question design include asking for transfers received over the past year to ensure that major giving occasions like holidays are included, and asking about multiple transfer channels and methods to ensure that the respondent includes information covering all of them.

<sup>17</sup> A third method, the residual model, assumes that remittances account for the majority of imbalances in financial flows.

research into migrant populations, private giving or other aspect of remittances that may be available to compilers.

54. Nations may also be able to set up data exchanges with major remitting partners to collect data they are not able to collect themselves. The adoption of BPM6 guidelines should increase the opportunities in this area. The BPM6 guidelines provide a set framework for organizing remittance estimates, allowing nations to check their remittance figures against those of their major partners.

55. To determine which method, or combination of methods, is most appropriate for a nation, data compilers must be knowledgeable about their remittance market, including the prominent transfer channels and the characteristics of the involved population. In nations where significant amounts of remittances travel through informal channels, a survey of MTOs will not provide a complete measure of personal transfers. Nations with a substantial unauthorized population will have difficulty using household surveys. To a large extent, knowing the market determines the collection method. Mexico, for example, combines direct reporting from MTOs and financial institutions with estimates of hand-carried transfers based on a monthly survey of international travelers. This method captures data on the two major transaction channels for transfers to Mexico<sup>18</sup>.

56. Different methods are also often needed to collect data on different remittance categories. Although some nations may be able to collect the majority of personal transfers data from MTOs, other methods will need to be employed to collect compensation of employees. As an example, the United States uses demographic models to calculate personal transfers<sup>19</sup> and compensation of employees, administrative data from the United States government for social benefit payments, and a survey of non-profit organizations along with data from a private company to calculate payments by NPISHs.

57. Regardless of the methods employed, compilers need to stay abreast of new developments in the transfer market. Financial and technological innovations are continually expanding the transfer options available to remitters. Mobile banking—and with it mobile transfers—is increasingly popular in many countries, as are linked bank accounts, debit cards, and Internet-based transfers. Current compilation methods may fail to capture transfers sent through these new channels. Changes in the demographic profile of the remitting population, such as age, origin and legal status, may also affect the ability of a collection method to produce accurate estimates, as can changes in national financial regulations.

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<sup>18</sup> See the website of the first meeting of the Luxembourg Group for detailed information about collection methods in other countries. <http://www.imf.org/external/np/sta/bop/2006/luxgrp/060106.htm>

<sup>19</sup> The U.S. Census Bureau recently conducted a survey of remitting behavior as a one-time module attached to a monthly survey. The Bureau of Economic Analysis will explore the potential for the results of this survey to be used to refine the demographic model that it uses to estimate personal transfers.

## **VI. QUESTIONS AND ISSUES**

- (a) Is there one measure of remittances that should be preferred over others?
- (b) Is there a problem in remittance measures that combine transfers with compensation of employees?
- (c) Is there agreement with the exclusion from remittances of the various forms of corporate giving discussed in the paper? With the exclusion of the value of volunteer time? With the exclusion of migrants' investments and savings in their home countries?
- (d) Does the diversity of sources and methods used to compile remittances statistics significantly hamper international comparisons of remittances statistics?
- (e) Would participants like to comment upon compilation methods for remittances that have proved particularly successful or particularly troublesome in their own countries?

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