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Remittances in the Balance of Payments Framework: Current Problems and Forthcoming Improvements



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INTRODUCTION

This paper outlines the current definitions and practices for the compilation and dissemination of data on remittances in the balance of payments framework.¹ It outlines shortcomings in this framework as well as additional data needs identified by data users. It completes the picture by outlining the development of improved definitions and concepts—a process about to be completed—as well as setting out the plans for improved compilation guidance.

In its first section, this paper provides a brief overview of data and concepts concerning remittances and other private transactions linked to migration. It covers data on remittance flows, their definitions in the context of balance of payments statistics, information about the sources and methods used by countries worldwide to compile these data, and the assistance provided by the IMF to its member countries to improve these statistics. The line items that broadly relate to remittances in the balance of payments framework are reviewed: “compensation of employees” under income, “workers’ remittances” under current transfers, and “migrants’ transfers” under capital transfers.

The primary sources of statistical information on remittances (and other balance of payments items) available from the IMF are also introduced. These comprise the fifth edition of the *Balance of Payments Manual (BPM5)* on recommended data definitions and classifications within the macroeconomic statistical framework, the *Balance of Payments Compilation Guide* and the *Balance of Payments Textbook* for compilation guidance and accessible explanations of data categories, and the *Balance of Payments Statistics Yearbook* for both worldwide data on external flows and metadata from country compilers.

In its second section, the paper discusses the limitations in the current conceptual framework. Conceptual shortcomings often frustrate data users, who find that they cannot easily identify relevant data in official statistics. Compilers are sometimes forced to ignore conceptual complexities, furthering the argument for a clarification and simplification of the definitions of standard components related to remittances. This section then introduces the new and improved definitions for remittances, which were developed by the United Nations Technical Sub-Group with wide consultation of compilers. Most importantly, these new definitions simplify the standard components related to migration and remittances. They also introduce several new supplementary items to the balance of payments framework, addressing specific concerns raised by data users.

The third and final section illustrates weaknesses in global remittance data (including an assessment of global discrepancies in remittance aggregates) and the need for specific practical guidance on data sources and compilation methods. The inadequacy of practical compilation guidance concerns compilers, who, as a result, often produce data that is less credible than other balance of payments components.

¹ Earlier versions of this paper were presented at the first meeting of the Luxembourg Group in Luxembourg on June 26, 2006 and at the 2006 Annual Conference of the International Association for Official Statistics at the Fairmont Chateau Laurier in Ottawa, Ontario, Canada. The paper builds on Reinke and Patterson (2005), International Working Group on Improving Data on Remittances (2005), United Nations Technical Subgroup on the Movement of Natural Persons (2006), and discussions of the Luxembourg Group.

Remittances and the International Working Group

Origin of the International Working Group on Improving Data on Remittances

The importance of the accurate measurement of remittance flows was emphasized by the G8 Heads of State meeting at Sea Island in 2004. There are weaknesses in official data on remittances, however, and G7 Finance Ministers and others called for the establishment of a statistical working group, to be led by the World Bank, for improving remittance data.

In January 2005, the World Bank hosted an international meeting on the issue of statistics on remittances in order to establish the working group, take stock of existing work and initiatives, clarify the needs of data users, and agree a strategy towards improving the availability and accuracy of data. The meeting, jointly organized with the IMF, was attended by almost 60 participants comprising data users and compilers from various countries and international organizations. G7 countries were represented by their balance of payments compilers, plus an official from the US Treasury and an official from the UK Department of International Development. Participants concluded that the key priority for the working group would be to improve remittance data within the balance of payments framework, both concepts and definitions, and data collection and compilation methods. The World Bank and IMF, together with numerous partners, agreed to establish the International Working Group on Improving Data on Remittances (“the international working group”) to coordinate the various parts of the work program.

Progress on concepts

To accomplish the conceptual part, participants agreed that an existing sub-group of the UN Interagency Task Force on Statistics of International Trade in Services, the Technical Sub-Group on the Movement of Natural Persons (TSG), would review concepts and definitions relating to remittances. The TSG has now completed this task and will report their final recommendations to the IMF Committee on Balance of Payments Statistics and the Advisory Expert Group on National Accounts during 2006. The new concepts and definitions are outlined in section 2 of this paper.

Progress on practical compilation guidance

Practical guidance on data sourcing and compilation is required to achieve the accuracy promised by improved concepts. To address these issues, participants at the international meeting agreed that it would be useful to form a core group of compilers to review methods and, in the medium term, develop more detailed guidance for compiling remittances data in a “city group”. Eurostat, the statistical office of the European Union, offered to host the first meeting in June 2006, thereby creating the “Luxembourg Group”. Terms of reference and membership were developed by Eurostat in consultation with the IMF and the World Bank as well as other stakeholders.

In the meantime the international working group is also coordinating with a recent project being conducted by the Center for Latin America Monetary Studies (CEMLA) to improve central bank remittance reporting and procedures. This project is supported by the Multilateral Investment Fund of the Inter-American Development Bank, with oversight for this work provided by an International Advisory Council, including the IMF and World Bank. Developments on data collection and compilation methods are discussed in section 3.

Since the development of improved guidance has only just begun, the section concludes by outlining the initial steps taken and introduces the Luxembourg Group, a consultative group formed to review and develop approaches to compiling remittances data based on international best practices.²

I. CONCEPTS, DATA, AND GUIDANCE AT PRESENT

Remittances and the definition of components in BPM5

Data users hold different views about the concept of remittances. Research papers (Adams and Page, 2003; Harrison, 2003; Migration Policy Institute, 2003) and subsequent debates treated as remittances certain transactions that are initiated by individuals living or working outside their country of birth or origin and related to their migration. The following components of balance of payments statistics have been specifically mentioned in this context:

- Compensation of employees;
- Workers' remittances; and
- Migrants' transfers.

In the balance of payments framework, compensation of employees is a component of income while workers' remittances are a component of current transfers; both are part of the current account. Migrants' transfers are a component of capital transfers, which is part of the capital account. The definitions of these components, according to the *BPM5*, are:

Compensation of employees comprises wages, salaries, and other benefits earned by individuals—in economies other than those in which they are residents—for work performed for and paid for by residents of those economies.

Workers' remittances cover current transfers by migrants who are employed in new economies and considered residents there. A migrant is a person who comes to an economy and stays there, or is expected to stay, for a year or more. *Workers' remittances often involve related persons.*

Migrants' transfers are contra-entries to the flow of goods and changes in financial items that arise from the migration of individuals from one economy to another.

The concept of residence for households and individuals is based on their center of economic interest. If a resident household member leaves the economic territory where the household is based and returns to the household after a limited period of time (of less than one year), the individual continues to be a resident even if he or she makes frequent journeys outside the economic territory. Individuals leaving their country with the intention of living in a new economy for a year or longer will be considered residents of the new economy (with a few

² A statistical "city group" is a voluntary group of statistics compilers formed for improving statistical practices in a specific area. Such groups are named after the city of their first meeting.

exceptions, notably students, medical patients, diplomats and military personnel). *BPM5* does not specify a definition of migrants.

Transfers are offset entries in the balance of payments to the provision of a resource (such as grants and gifts in kind or financial form) without a quid pro quo. Depending on the nature and use of the resource, transfers are recorded as current transfers in the current account or as capital transfers in the capital account component of the capital and financial account.

Workers' remittances and *migrants' transfers* are transfers, while *compensation of employees* records the remuneration for work. *Workers' remittances* involve a current transfer between residents of different countries, while *migrants' transfers* relate to the capital account changes caused by the change of residence of a household, at the time this takes place. Depending on their specific needs, data users can decide which of these components best represents their notion of remittances.

Data on remittance flows

Data on remittances, like on all other components of the balance of payments statement, are compiled by relevant statistical authorities in member countries (typically the central bank or national statistical office). Member countries then report their data to the Statistics Department at the IMF, where global tables are compiled and published in the *Balance of Payments Statistics Yearbook*. Part 2 of the *Yearbook*, which shows world and regional tables by item, is a particularly good place to identify and compare specific items, such as those relating to remittances.

The *Balance of Payments Statistics Yearbook 2006* (Part 2) shows that total receipts of workers' remittances in 2005 were recorded as \$151.4 billion, of which developing countries account for \$139.5 billion. Receipts of compensation of employees are shown as \$71.8 billion, of which \$28.2 billion were reported by developing countries (see the Appendix). Migrants' transfers are not separately listed in the global table.

The data are far from perfect. Aggregate data are subject to the variations of compilation on a national basis. Concepts and methodologies are not applied uniformly across all countries. Data sourcing and compilation is better in some countries than others. Some countries report no data to the Fund, or not on all items. Therefore, data comparison and aggregation have to be approached with caution (see also page 10).

Variations in data compilation procedures occur partially due to different interpretations of definitions and classifications.³ In most cases, however, data weaknesses and omissions are due to the difficulties in obtaining all necessary data. For compiling all remittance-related flows, a

³ For example, some countries consider their nationals working abroad for a year and longer as residents—and their earnings therefore as compensation of employees—because they maintain strong linkages with their home country. Most countries follow the one-year rule.

variety of data sources would have to be used, some of which are difficult to capture, and the data need to be classified appropriately according to standard definitions.⁴

The problems that compilers encounter, and the solutions that they apply, vary between countries. The same is true for the resources available to compilers as well as their institutional capacity. As a result of these factors, data are neither perfectly comparable nor equally comprehensive and reliable across countries.

Metadata

Metadata is a tool for understanding the differences in methodology, data sources, and compilation practices applied by national compiling agencies. The compiling agencies of IMF member countries compile information on their data sources, definitions, classifications, and compiling methods. Reported in a standard template, it is published by the IMF in the *Balance of Payments Statistics Yearbook* (Part 3) and is also available online.

Although these metadata help in understanding different approaches taken by balance of payments compilers, the level of detail they provide is insufficient for a detailed analysis of data systems.⁵ However, some technical assistance projects, such as the GDDS project at the IMF, take the compilation and review of metadata as a starting point to strengthening the capacity and methods of data compilers. In itself, metadata is a resource for cross-country comparison, but not a sufficient one for improvement; yet as a starting point for prioritizing technical assistance, metadata plays an important role.

Compilation guidance and technical assistance

In support of the application of principles set out in the *BPM5*, the IMF published the *Balance of Payments Compilation Guide* and the *Balance of Payments Textbook*. The *Compilation Guide* provides practical guidance on issues such as data sources including surveys, the establishment and use of International Transactions Reporting Systems (ITRS),⁶ compilation of the various accounts in the balance of payments statistics, estimations, database management, and publications. The *Textbook* was written mainly as a reference book for IMF training courses in balance of payments methodology, yet it makes a good resource for self-study by compilers. It provides practical examples and useful explanations of definitions and conventions contained in the *BPM5*.

⁴ For example, hawala transactions are difficult to capture. Once aggregate flows through the hawala system are reported to compilers, they have to classify flows according to their purpose (payment for imports, investment, remittances, etc).

⁵ However, even at a more general level, it is interesting to note that the majority of countries do not describe all migration-related flow items (compensation of employees, workers' remittances, and migrant transfers) in their metadata.

⁶ An ITRS is a system for measuring international transactions. In particular, they measure individual external cash transactions that pass through domestic banks and through enterprise accounts with banks abroad, noncash transactions, and stock positions. Most ITRS evolved as by-products of foreign exchange control systems. Not all countries have an ITRS.

Technical assistance is available from the IMF for member countries to support the continued improvement of balance of payments statistics. Technical assistance missions frequently assess statistical systems, provide recommendations for improvement, help with implementing methodological changes, and engage in general capacity building and on-the-job training. Regular training courses on balance of payments statistics are held at the IMF headquarters and regional training centers for the benefit of all member countries.

Compilation guidance through publications, technical assistance, and training courses address all parts of the balance of payments framework, including the categories discussed in this paper. However, member countries decide what emphasis they want to give to any one area, such as remittances.

II. CONCEPTUAL PROBLEMS AND IMPROVEMENTS IN PROGRESS

This section outlines the limitations of existing concepts and data and the improved new definitions for remittances that are currently being finalized. It also discusses how the new definitions simplify the standard components and address the concerns of data users, particularly by creating new, supplementary data definitions derived mostly from standard components.

Conceptual limitations of remittance definitions in BPM5

The *Balance of Payments Manual* does not define workers or migrants.⁷ According to the *Balance of Payments Textbook*, “workers’ remittances consist of goods or financial instruments transferred by migrants living and working in new economies to residents of the economies in which the migrants formerly resided” (p. 90). It further states 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 of self-employed migrants “are not classified as workers’ remittances but as current transfers” (p. 90–1). This distinction is necessary since “workers’ remittances, according to the balance of payments convention, arise from labor and not from entrepreneurial income” (p. 91).

Data compilers as well as 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 labor 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.

Also, households are often comprised of people with diverse residence status and histories. The *BPM5* states that “it is often difficult to make the distinction between persons whose earnings are classified as *compensation of employees*, even though they are not residents of the economies in

⁷ In fact, the *BPM5* is not too concerned about the identification of migrants amongst residents. “The activities of an individual—whether he or she is regarded as a resident or a migrant—do not affect the aggregate transactions of the compiling economy with the rest of the world. Therefore, difficulties on this score will not, in principle, be a source of net errors and omissions in the balance of payments. Even so, efforts should be made to observe the distinction between nonresident workers and migrants” (*BPM5*, paragraph 272).

which they work, and migrants who have become residents of the economies by virtue of being expected to live there for a year or more” (*BPM5*, paragraph 272). One may add that it may also be difficult in practice to make the distinction between migrant residents and non-migrant residents, making the precise application of *BPM5* definitions precarious.

Bilateral data of remittance flows are a key interest of some data users. Although classification of flows by partner country is possible within the framework, it is not a standard feature and attempts to compile it may face practical limitations. Voluntary country classification as a supplemental item is outlined in *BPM5* and could be further encouraged, so that interested countries record remittances by partner country.

Data users are interested in the net income a country earns from seasonal and border workers abroad. Balance of payment statistics show under compensation of employees the remuneration paid by resident companies to nonresident employees and remuneration received by residents from nonresident employers. However, a part of these earnings will likely be spent in the host economy and will therefore not accrue to the home economy as net income. “Personal expenditures made by nonresident seasonal and border workers in the economies in which they are employed [...] are recorded under *travel*” (*BPM5*, paragraph 271). However, data reported under travel also includes the personal expenditures made by other business and personal travelers, while taxes paid in the host economy include those paid by residents and other travelers. It is therefore difficult, at best, to identify the offset items needed to calculate the net income relating to compensation of employees.

New concepts and definitions

At its meeting in Frankfurt in October 2006, the IMF Committee on Balance of Payments Statistics adopted the conceptual definitions on remittances proposed by the TSG after a one year period of extensive international consultation. Separately, the meetings of the IMF Committee on Balance of Payments Statistics and the Advisory Expert Group on National Accounts in 2005 adopted proposals for simplifying the treatment of migration-related issues. The resulting enhancements will be included into the revision of the fifth edition of the *Balance of Payments Manual (BPM5)* and the update to the *System of National Accounts, 1993 (1993 SNA)*, scheduled to be completed in 2008.⁸

These changes should substantially improve accessibility and clarity of data on remittances in the balance of payments, national accounts and international trade in services frameworks. They would bring the balance of payments flows in line with the *1993 SNA* concepts and definitions. They include the introduction of four categories related to remittances, a conceptual change in the use of migration and residence status, the elimination of the concept of “migrants’ transfers”, and reporting of bilateral flows:

“Personal Transfers” to replace “Workers’ Remittances”. Personal transfers will replace the existing workers’ remittances item in the balance of payments, and will include all current transfers in cash or in kind between resident households and non-resident households. Unlike

⁸ Final details are tentative, subject to further comments from compilers and data users.

workers' remittances, the new concept is based neither on employment nor migration status and thus resolves inconsistencies associated with the previous concept.

Creation of a new item, “Personal Remittances”. Personal remittances will be defined as current and capital transfers in cash or in kind between resident households and non-resident households, and “take-home” compensation of employees earned by persons working in economies where they are not resident.⁹

Creation of a new item, “Total Remittances”. This will include “Personal Remittances” and social benefits. Intuitively, it includes all household income obtained from working abroad.

Creation of a new item, “Total Remittances and Transfers to Nonprofit Institutions serving Households”. This will include all components of “Total Remittances” as well as both current and capital transfers to nonprofit institutions serving households (NPISHs).

Removal of the concept of “migrants’ transfers” from the balance of payments framework. Instead of recording changes of assets and liabilities resulting from individuals moving their residence from one economy to another in the capital account, they will be recorded as “other changes of assets and liabilities”. The movement of personal effects that accompany a migrant will be excluded from import and export data.

Abolition of the concept of “migrant” in the balance of payments framework. Since the concepts of personal transfers and remittances are based on the concept of residence rather than migration status, the concept of migrant is no longer relevant. This is consistent with the use of residence criteria elsewhere in the balance of payments and national accounts frameworks.

Reporting of remittance flows to and from major partner countries in balance of payments data. This is a lower priority request of data users compared to accurate reporting of aggregate remittance flows, but reporting of bilateral flows will be encouraged.

Personal transfers is expected to be a standard item in the revised balance of payments framework. All new definitions—i.e., personal remittances, total remittances, and total remittances and transfers to nonprofit institutions serving households—are expected to be supplementary items that compiling countries are encouraged but not required to compile. It should be noted that they cut across standard categories (income and transfers) and may entail asymmetries between transacting countries due to sector allocation.

⁹ This concept refers to “compensation of employees” net of, i.e. less, taxes on income, social security contributions, and travel and passengers transportation related to the short-term employment and paid to resident entities in the host economy. Depending on policy interests, some countries may choose to compile the above components to obtain “compensation of employees less associated travel, transportation, taxes etc”, however, these components may not be included as part of the balance of payments standard presentation for reasons of simplicity and collectability.

III. PRACTICAL PROBLEMS AND COMPILATION GUIDANCE

In this final part, this paper draws attention to some of the difficulties in compiling data on remittances and to the need for improved compilation guidance. The background and rationale for the formation of the Luxembourg Group is also outlined.

Problems in extracting data from the balance of payments framework

Not all funds remitted by migrants will be recorded as remittances in the balance of payments framework.¹⁰ This sometimes contributes to the data users' problems in identifying the data that corresponds to their analytical needs. Hence, the *Balance of Payments Textbook* states that "money remitted by a migrant for the purpose of making a deposit in his or her own account with a bank located abroad represents a financial investment [...] rather than a transfer" (p. 90) and is therefore not a remittance (but is instead recorded as an investment asset of the sending economy). It involves a quid pro quo since the sending party acquires a claim against the deposit-taking bank abroad. Similarly, money remitted to purchase real estate or acquire control of a business would be treated as a form of investment, even if family members in the country of origin live in the house or work in the business.

In some cases, migrants' accounts may be accessible by family members in the country of origin (e.g., through ATM cards). Therefore, withdrawals from such an account constitute a remittance when the withdrawal is made, yet it would seem very unlikely that such transactions are accurately recorded. Similar caveats apply to money transfers to non-residents in the receiving country (students, medical patients, tourists, etc), which do not constitute remittances because by definition no change of ownership between residents and nonresidents occurs. Such flows may interest data users, yet they are not identifiable as migration-related flows in balance of payments statistics unless recorded mistakenly, e.g., by recording Western Union transfers between household members as remittances.

A similar situation exists concerning some physical movements of goods across borders. Migrants visiting their home countries are considered visitors there. When they take personal effects (or cash) with them on home country visits, these are not classified as exports in their country of residence nor imports in their country of origin. However, personal effects are then often given as gifts to relatives living in the country of origin, at which point they constitute exports and imports, and therefore remittances. It is unlikely that such transactions are sufficiently covered by customs data, and they could be substantial where large migrant flows occur, and especially where migrants can travel overland between their countries of origin and residence.

Data accuracy and global discrepancies

It is evident from metadata, data accuracy checks, and the review of individual country data that the coverage, classification, and compilation of migration-related and household-based transactions are often much less than desirable. Another measure to look at data accuracy, on a

¹⁰ The balance of payments concept is based on residence and ownership and remittance flows, as a form of transfers, are further defined as a transaction without a quid pro quo.

global level, is to compare inflows and outflows worldwide. In principle, the combined credits (inflows) and debits (outflows) for all countries should equal zero, as the credits of one country or international organization are the debits of another. In practice, however, the data do not offset each other. Statistical discrepancies may reflect the incomplete coverage of transactions, the inaccurate and inconsistent recording of transactions resulting from differences in classification and practices, and the difference in the time of recording transactions. The table below displays aggregate global data for compensation of employees and workers' remittances.

Compensation of Employees and Workers' Remittances, 1999 to 2005
(In millions of U.S. dollars)

	1999	2000	2001	2002	2003	2004	2005
Compensation of employees							
Credit	40850	39986	42119	48048	58081	66370	71770
Debit	46889	47000	50054	56495	66465	75522	82217
Global discrepancy	-6039	-7015	-7935	-8446	-8384	-9152	-10447
Workers' remittances							
Credit	67308	73301	82570	94739	114869	130653	151390
Debit	59194	62012	67370	77472	81128	90717	97416
Global discrepancy	8114	11290	15200	17268	33741	39935	53975
Sum of compensation of employees and workers' remittances							
Credit	108157	113287	124689	142788	172950	197023	223161
Debit	106083	109012	117424	133966	147593	166240	179633
Global discrepancy	2074	4275	7265	8821	25357	30783	43528

Source: *Balance of Payments Statistics Yearbook 2006, Part 2*.

The table shows that, for all years from 1999 to 2005, discrepancies for compensation of employees and workers' remittances are larger than those for the sum of these categories. Presentation of the sum removes discrepancies that are due only to different interpretations of the one-year rule. Therefore, the last line is most meaningful as a residual error term. It is rather large in some years, representing 17 percent of recorded global inflows in 2005. Many observers assume that underreporting is common, although overreporting (through misclassification and inadequate estimation) has also been found. The large discrepancy indicates substantial room for improvement.

It should also be noted that the total discrepancy has been growing rapidly in recent years because recorded workers' remittance credits more than doubled in the last five years while recorded debits grew much more slowly. This may suggest that compilers from net remittance

receiving countries have recently put more effort into improving data than their colleagues from net sending countries.¹¹

Measurement issues and the need for improved compilation guidance

Aggregate flow data published in balance of payments statistics are, therefore, far from perfect.¹² Concepts and methodologies are not applied uniformly across all countries, and data sources and compilation methods are better in some countries than in others. Some countries report no data, or not on all items. Data comparisons and aggregations are therefore difficult, and data users often need to make imputations or estimates for missing values. Some problems are due to different interpretations by countries of definitions and classifications, but overall the paucity of source data is seen as the biggest constraint to improving remittance data.

Resource constraints and institutional capacity also play a significant role in limiting the availability, timeliness, coverage and accuracy of data compiled by statistical authorities. The largest outflows take place from countries where remittances are often a relatively small item in balance of payments statistics. As a result, data collections and improvements are often given lower priority than other items. Countries with relatively large inflows are often those with relatively weak capacity and limited resources, even though remittances are a larger item in the balance of payments statistics.

Most problems occur because of difficulties in obtaining all the necessary data. For instance, some countries use international transactions data from the banking sector, which may not include remittances made through informal channels or through money transfer operators. Some countries use models, but parameters are difficult to estimate on a regular basis in a cost-effective manner, and models may lack sufficient data checks. Other countries use counterpart data (e.g. data on outflows are estimated by aggregating inflows recorded by other countries). Overall, there is room for improvement in data sources and compilation methods employed in measuring remittances for the balance of payments.

Recently, household surveys were proposed as a more appropriate data source for remittances, but such surveys create new problems. Estimating remittance flows from surveys requires samples that include sufficiently large numbers of households related to or containing migrants. There are practical difficulties—migrants are not uniformly distributed in the population, finding households containing migrants is a relatively rare event, and information on remittances may be considered sensitive by respondents. As a result, the incorporation of questions in regular surveys may not yield data of sufficient reliability without additional cost. On the other hand, conducting household surveys specifically for balance of payments purposes is costly and time

¹¹ The increase in credits is largely due to the contributions of Africa, Asia and especially Latin America. Numerous countries reported at least a doubling of receipts of workers' remittances within the last five years, including Bangladesh, China, Ethiopia, India, Morocco, Nigeria, Pakistan, Sudan, Tunisia, and a number of Western Hemisphere countries including Mexico. The Philippines show a step increase in 2003 due to a change in classifications.

¹² See Reinke and Patterson (2005).

consuming. Many developing and transition countries lack the capacity to implement additional surveys.

The Luxembourg Group and the remittance data compilation guide

The Luxembourg Group held its second meeting on December 4–5, 2006. The Group, formed as a cooperative effort of interested parties in June 2006, is now collecting the material that will allow the publication of a compilation guide for remittance data. The IMF, together with the World Bank, has offered to edit and publish the guide. At its first meeting, the Luxembourg Group reviewed the inventory of more successful compilation methods with a view towards developing a menu of promising approaches. The second meeting successfully launched the drafting of the compilation guide by reviewing early drafts for substantive chapters and agreeing on a broad outline of the guide.

The Group identified as the main compilation methods those that are based on general transactions data (ITRS), direct reporting, household surveys, and various approaches using models. These approaches have different advantages and drawbacks which will be explored in greater detail during the upcoming work of the Group. The availability of sources, and the relative merits of using them, varies from country to country, but the guide will outline general principles for assessing the suitability of alternative data sources and estimation methods. The guide will also emphasize the requirement that compilers understand the nature of remittance transactions in their country, and it will provide a four step approach to developing a data improvement strategy.

Most countries represented in the Group use a combination of different data sources, including administrative registers and files in addition to the four main sources outlined above. The participants agreed that no single source is likely to yield sufficient data for the improvement of remittance data in the longer term. Instead, innovative combinations of sources hold the promise of more significant improvements in remittance data. Compilers therefore have to decide which data sources to use in the circumstances of their country, depending on institutional, legal and practical considerations. Further, they need to establish compilation methods that result in complete and consistent estimates of remittances data drawn from sometimes inconsistent or overlapping data sources. These issues will be important to address in the compilation guide.

The Group has quickly moved beyond a review of existing methods to identifying potential routes to the development of future best practice. The compilation guide will promote improved compilation practices while offering countries a choice of methodologies. Choice in approaches is important due to the variance in countries' economic and demographic structure, statistical infrastructure and resource establishment, and data requirements. Therefore, the members of the Group are preparing topical contributions, focusing on areas of their specific experience, as draft chapters of the guide. Based on these contributions, the IMF will prepare a draft compilation guide for the Group's next meeting in June 2007.¹³

¹³ More information on the Luxembourg Group and other activities related to remittance data is available from <http://www.imf.org/external/np/sta/bop/remitt.htm>.

Despite all efforts, it is also important to recognize that compiling accurate and regular data on remittances in a timely fashion is a major challenge. Even with improved concepts and compilation methods, the nature of remittances—frequent, small flows in cash and kind, through a multitude of channels, mostly by related individuals—will continue to challenge compilers and data users around the world.

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Excerpts from the *Balance of Payments Statistics Yearbook, Part 2*
Remittance-related Flows, 1999 to 2005
(In millions of U.S. dollars)

		1999	2000	2001	2002	2003	2004	2005
Compensation of employees								
Credit								
	Industrial countries	29378	27662	29032	32936	38383	43162	43538
	Developing countries	11472	12324	13087	15113	19698	23208	28232
	International Organizations	0	0	0	0	0	0	0
	Total	40850	39986	42119	48048	58081	66370	71770
Debit								
	Industrial countries	31854	31356	33559	38782	45285	50279	52624
	Developing countries	8194	9104	9359	9631	11614	14934	18787
	International Organizations	6842	6540	7137	8082	9566	10309	10806
	Total	46889	47000	50054	56495	66465	75522	82217
Global discrepancy								
	Industrial countries	-2476	-3694	-4526	-5846	-6902	-7117	-9086
	Developing countries	3278	3219	3728	5482	8085	8274	9445
	International Organizations	-6842	-6540	-7137	-8082	-9566	-10309	-10806
	Total	-6039	-7015	-7935	-8446	-8384	-9152	-10447
Workers' remittances								
Credit								
	Industrial countries	10497	10713	11575	10813	11275	11943	11889
	Developing countries	56811	62588	70995	83926	103594	118709	139501
	International Organizations	0	0	0	0	0	0	0
	Total	67308	73301	82570	94739	114869	130653	151390
Debit								
	Industrial countries	36651	37044	41113	43747	46563	52535	55129
	Developing countries	22543	24968	26257	33725	34565	38183	42286
	International Organizations	0	0	0	0	0	0	0
	Total	59194	62012	67370	77472	81128	90717	97416
Global discrepancy								
	Industrial countries	-26155	-26331	-29539	-32934	-35287	-40591	-43240
	Developing countries	34268	37620	44739	50201	69029	80527	97215
	International Organizations	0	0	0	0	0	0	0
	Total	8114	11290	15200	17268	33741	39935	53975

	1999	2000	2001	2002	2003	2004	2005
Sum of compensation of employees and workers' remittances							
Credit							
Industrial countries	39874	38375	40607	43749	49658	55106	55427
Developing countries	68283	74912	84082	99039	123292	141917	167733
International organizations	0	0	0	0	0	0	0
Total	108157	113287	124689	142788	172950	197023	223161
Debit							
Industrial countries	68505	68400	74672	82529	91848	102814	107753
Developing countries	30736	34072	35615	43355	46179	53117	61074
International organizations	6842	6540	7137	8082	9566	10309	10806
Total	106083	109012	117424	133966	147593	166240	179633
Global discrepancy							
Industrial countries	-28630	-30025	-34065	-38780	-42190	-47708	-52326
Developing countries	37547	40840	48467	55683	77113	88800	106660
International organizations	-6842	-6540	-7137	-8082	-9566	-10309	-10806
Total	2074	4275	7265	8821	25357	30783	43528

Source: *Balance of Payments Statistics Yearbook 2006, Part 2.*