Round Table on Sustainable Development

HOUSEHOLD ASSISTANCE FROM ABROAD - IMPROVING THE DATA SOURCES

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Household Assistance From Abroad – Improving The Data Sources

Report of the OECD Round Table on Sustainable Development

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Introduction

The earlier Round Table paper, Working abroad – the benefits flowing from nationals working in other economies, contained estimates of the flows of remittances between households in different regions in the world. This was the first, and so far the only, attempt to give a bi-directional dimension to such flows. The usual assumption is that the majority of remittances represent flows from developed to developing countries. The paper demonstrated that this assumption is too simplistic. Only about one third of the flows in 2000 were from OECD countries to the rest of the world. More than one fifth represented flows within OECD countries and almost one half represented flows within the developing world, in many cases from oil producing countries to others in the developing world.

The report has been very widely quoted and described as seminal in an area of continuing political attention. Requests for further information and elaboration on the study continue to arrive on an almost weekly basis. There have been repeated requests for updates to the data to show the changes which may have taken place since 2000. Some experimental work showed that the overall picture was little changed by distributing the remittance data for later years according to the migration patterns derived for 2000. More extensive work could be undertaken updating the demographic data in the light of the round of population censuses conducted round about 2000, the detailed results of which are increasingly available. This, however, would require a similar amount of resources as the original study and these were not available. Nor was this necessarily be the best way to carry the message of the earlier work forward.

Although the initial paper contains many pages of detailed figures, it also makes clear that the results are indicative rather than absolute because of the quality of the data available for the exercise. Since that time, and in a number of international fora in many of which I have been fortunate enough to contribute, significant progress has been made on the mechanisms for improving data on remittances in the medium term. The purpose of the present paper is to describe these developments.

Grasping the situation

The importance of having reliable estimates of the value of remittances world-wide and their contribution to development has reached the highest political levels. The G8 Heads of State meeting at Sea island in 2004 emphasized the importance of the topic and the G7 Finance Ministers called for the establishment of a statistical working group to be led by the World Bank to improve remittance data. In January 2005 an international meeting hosted by the World Bank and organised jointly with the IMF met to pursue the issue. Participants represented not only data compilers and users but officials from the US Treasury and the UK Department of International Development. The meeting took stock of existing data sources and explored modalities for bringing resources to bear on the means of improving these. A further large-scale

1 I should like to acknowledge the helpful comments on this paper made by Bill Cave of the OECD Statistics Directorate
meeting was organised by the UN in New York in July 2005 under the auspices of the Deputy Secretary General for Economic and Social Affairs to examine the subsequent flurry of activity and point towards convergence on specific activities.

The primary source of remittance data is that provided within the context of the Balance of Payments (BOP) statistics, collected by the IMF in accordance with a manual published by the same organisation. The BOP in turn is part of a larger statistical data system covering economic statistics at the centre of which lies the System of National Accounts (SNA). The SNA is the internationally agreed accord under which data on GDP and related macro-economic aggregates are compiled.

By good chance, it happens that the SNA and BOP were just beginning a periodic review and update when the remittance issue rose to prominence. As a result, considerable attention was given to the conceptual weaknesses in the guidance for assembling remittance data and revised and improved suggestions have been made. These are for ratification in October 2006 for BOP and in March 2007 for the SNA. The degree of widespread support for the proposals suggests that there will be no problem with these ratifications. While full-scale implementation will follow somewhat later, clarification about what is presently covered and what should be covered is already leading to improvements in practice.

In addition to the critical review of exactly what is required from a conceptual basis to study assistance provided to households abroad, other more practically focussed meetings have been called to look at the mechanisms in place to collect data. By examining and comparing practices in different countries, recommendations for best practice are being developed. One project, organised mainly on behalf of the recipients of remittances, is being led by the Center for Latin America Monetary Studies (CEMLA). Another, consisting of practitioners in both developed and developing countries started work in June 2006. Because the first meeting was organised by the statistical office of he EU, Eurostat, in Luxembourg, it is called the Luxembourg group. (Membership of this group is not confined to EU member countries but includes other countries as well as international agencies.)

Subsequent sections of this paper review the improvements in conceptual coverage proposed, give an indication of some of the developments in current practice and a closing section describes the means for following the development of this important work.

**Conceptual issues**

*Present situation*

The main items used until now for remittance data are two or sometimes three of the items in the BOP. These are:

- Compensation of employees
- Workers’ remittances, and
- Migrants’ transfers

*Compensation of employees* covers the wages, salaries and other benefits received by an individual resident in one economy but who works as an employee in another economy. It does not cover the earnings of self-employed people who work abroad even if this is on a regular basis.

*Workers’ remittances* cover transfers by migrants who are resident in and employed in a country other than their home country. To qualify as resident, the person has to have been, or intend to be, in the host country for at least a year. No precision is given to the term “migrant”. There is thus some ambiguity about
whether this means non-nationals, non-nationals not born in the host county, all persons not born in the host country or something else. It is clearly intended, though, that payments by these people, however defined, made from resources other than compensation from employment should be excluded and that payments by nationals, whether or not from compensation from employment should also be excluded. Whether such exclusions are made in practice is an open question. It is very often assumed that only remittances to near relatives should be included under this terms with other items excluded. Gifts in kind, however, including gifts that the overseas worker may personally carry on a visit home, should be included in the total value of workers’ remittances. A transfer of resources does not have to be in financial terms to qualify as a remittance.

_Migrants’ transfers_ is a misleading term. It sounds like an obvious candidate for inclusion in remittances but in fact is intended to cover the household effects and financial capital of persons moving their residence from one country to another. Although these goods and finance become available in the new home country, they are clearly of a different nature to goods and finance made available by one household to another for the latter’s use.

**Future situation**

It is proposed that four items relevant to remittances should in future appear in the BOP. These are:

- Compensation of employees
- Personal transfers
- Personal remittance,
- Total remittances, and
- Total remittances plus transfers to NPISHs.

*Compensation of employees* will be defined as at present but it will be helpful to measure this on both a gross and net basis. When a worker goes to work abroad for a period less than one year but continuously for that time (maybe a few days, maybe several months), he necessarily incurs some local costs for lodging, food, transport and so on. The cost of these items represents a deduction from total earnings not capable of being remitted to a household (family) in the home country. In strict BOP accounting, the gross amount of earnings are shown as compensation of employees (an inflow from the host country to the home country) and the expenses abroad are shown as “travel”. (This items also has a title which may mislead some. It actually refers to expenditure by travellers.) Travel (in this case) is an outflow from the home country and an inflow to the host country as recompense for the services provided to the worker. At present, though, no distinction is made in the BOP between travel expenses incurred by leisure tourists, business visitors or temporary workers. It is the last only that is relevant to the question of the amount of remittances capable of being sent or taken home by the worker.

Workers in the host economy are usually subject to social security payments and may be subject to tax in the host economy also. These are shown as part of compensation of employees on a gross basis and then as a payable to the host country from the home country.

It may be the case that not all the earnings capable of being sent home are actually so remitted; the worker may keep some in a bank account in the host country, for example. Within the BOP, the full amount is shown as being remitted and the amount kept in a bank abroad is shown as an outflow of funds in the financial account from the home country to the host country.
Border workers are those who cross the border every day. Their local expenses may be considerably less than those of a seasonal worker if they do not require lodging abroad but there may be all sorts of expenditures, not just food consumed while at work but perhaps groceries or other regular shopping for the household. All these also should be treated as “travel” expenditure. If transportation is provided by the home country it does not feature in the BOP; if it provided by carriers of the host country this is another item entering the BOP as an outflow from the home country to the host country.

Almost the only group of cross-border workers where the total compensation of employees is likely to be remitted to the host country are those working in international institutions. For some countries, these figures are significant. For example, the fact that the United Nations headquarters is in New York and the headquarters of the IMF and World Bank are in Washington is one reason why the receipts of compensation of employees from abroad in the US is as high as it is.

**Personal transfers** will be a new item. It will include the previous content of workers’ remittances, now to be referred to as “remittances of resident employees”, in order to provide continuity with the earlier data series. Personal transfers will be wider in scope and will be defined as all current transfers in cash or in kind made, or received by, resident households to or from non-resident households. It will thus cover all transfers by individuals whether or not they are migrants, whether or not the source of funds is employment income and whether or not the transfer goes to a relative. It would thus cover remittances by the self-employed, those from nationals made to those who were not immediate family, for example the extended family of a spouse or distant relative, gifts to friends, payments under an “adopt a child” scheme and so on. It would also cover payments of alimony. By a quirk of national accounting practice, any stakes and winnings in lotteries (other than the fee charged by the operator) would also be recorded here in principle, though this might be negligible in practice in most circumstances. In short, any payments from a household resident in one economy to a household resident in another economy would be covered.

**Personal remittances** would be a more embracing item. It would include compensation of employees net of any travel, or transportation costs as explained above and also excluding any social security or tax payments made to the host country. It would include personal transfers as just described. In addition it would include capital transfers between households, for example if the individual working abroad sent a significant amount of money home to permit house purchase or construction or the setting up of a small business.

**Total remittances** will cover all remittances received directly by households, including those which do not originate in households, that is any social benefits payable from a unit in another country. One example is pensions which may be payable in respect of work previously undertaken for an employer in another country. Another is the receipt of old age or social security benefits, for example when someone emigrates after retirement but is still eligible for these benefits wherever the person resides. If a person安排s a personal pension with an overseas company (whether or not this is or was associated with working abroad), the premiums to the company and benefits from the company will also be recorded here.

Total remittances covers all remittances received directly by households, whether from other households or from foreign enterprises or foreign government. A further type of payment may be important in some circumstances. This is when services are rendered to households abroad are made under the auspices of a charity or other non-profit organisation. (In the SNA and BOP these are known as non-profit institutions serving households, NPISHs.) Examples are distress relief after a natural disaster, support for education and health services through international agencies such as Red Cross or religious groups, or payments made by trusts operated on behalf of a diaspora. Such payments may not in themselves lead to the establishment of new enterprises but certainly help to build human capital and increase the welfare of the home country population. A special category, know (rather cumbersomely) as **total remittances plus transfers to NPISHs** includes, in addition to total transfers, all payments to channelled to households
through these non-profit institutions. Households may receive cash from these institutions, but it is much more common that they receive either goods (food, clothing, blankets) or services (provision of health and education services). The NPISHs that provide these goods and services are organisations set up in the same country as the households that benefit from their activities. They may receive funds either from other units in the same economy or from any sort of unit abroad, enterprise, government, household or even another NPISH. For some purposes, it is useful to consider the whole range of facilities provided to households by NPISHs, but in this context it is only those funded from abroad that are relevant.

The hierarchy of remittances may be portrayed as follows:

*Compensation of employees* abroad

*Less* expenditure abroad by these employees

*Equals net compensation of employees abroad*

*Plus personal transfers*

*Equals personal remittances*

*Plus social benefits and private pensions*

*Equals total remittances*

*Plus* funds and resources provided to local non-profit institutions serving households (NPISHs) from abroad.

*Equals total remittances plus transfers to NPISHs*

**Data quality and improvement**

*Common assumptions*

It is frequently observed that remittances as recorded in the balance of payments only include transactions passing through banks and that none of the informal channels by which goods and money passes across borders from one family member to another are counted. This may be the situation in a number of countries but it is not what the international statistical gathering agencies prescribe. It is clear in guidelines issued on the balance of payments, for example, that efforts should be made to make reasonable estimates of all the remittances meeting the current definitions regardless of how the payments are actually made. Issuing these guidelines is clearly an easier task than implementing them but some of the perceived shortfall in measured remittances may be due as much to the limitations in what is currently captured by workers’ remittances as in the techniques of estimating informal transmission mechanisms. This is why current efforts are directed at both improving the definitions of what should be measured as well as the data collection and estimation methods used.

One anecdote provides a salutary reminder that estimates may be too high as well as too low. A country in Southern Europe is widely supposed to benefit from clandestine activities, smuggling both people and goods across the Mediterranean. These activities provide large sums of disposable resources to the inhabitants and so the level of household spending is far greater than would be expected from the size of the rather small formal economy. Asked to explain how this is possible, instead of attributing the excess revenue to informal activities, the country ascribes all the income to remittances from abroad, leading to a contribution of remittances to GDP of the order of one quarter. While there are undoubtedly significant
remittances received from nationals abroad, these are nowhere near this level. In this case remittances are overstated and GDP understated by not recognising informal (and illegal) activity as giving rise to many transactions within the economy as well as some with foreign residents.

Current situation

Two other, more reputable, examples show remittances may be estimated independently of the channel used to make the remittances.

One technique which is employed in the USA, for example, is to estimate remittances on the basis of household survey information combined with demographic statistics. Essentially the surveys are used to estimate the “propensity to remit” of different classes of household. These classes may be determined by original nationality, length of time in US, income levels and so on. These propensities are then applied to nation-wide demographic statistics to derive the total amount of remittances payable.

Another model is that used by the Philippines. There a register is kept of Overseas Filipino Workers (OFW) and again average remittances are determined and applied to the total population.

Developments

With the growing interest in data on remittances, there have been a number of conferences held to consider how to improve the available estimates. Presentation of methods, such as those quoted above have been given and studies have been made of the possible degree of under-recording. Several studies suggest that the actual figures for some countries may be as much as twenty to thirty per cent higher than currently recorded. This is high but nothing like as high as the two hundred to three hundred per cent sometimes claimed. While there are a few countries where remittances represent ten percent or more of GDP, these are typically very small countries with large expatriate communities. Under recording on the receiving end also implies under-recording on the sending end, and the scope for finding such very large under-recording here is more limited, since typically the remittances are earned in countries with fairly robust statistical systems.

However, there is no sense of complacency about the quality of the existing data. The need for more accurate, more detailed and better specified data is well recognised and actively being pursued. One of the means of doing so is via a group of statisticians (called the Luxembourg group after the first meeting held at Eurostat but not confined to EU countries.) trying to build a guide to best practice in the compilation of remittance data. Considerable attention is being given to the better monitoring the money transfer organisation such as Western Union and Moneygram.

Keeping abreast of developments

As mentioned in the introduction, the proposals to formally change the coverage of remittances in the balance of payments and national accounts are due to be ratified in October 2006 and March 2007 respectively. The work of the Luxembourg group will continue as will a number of other initiatives trying both to identify the state of play in different regions of the world at present and to initiate developments leading to their improvement.

It is now commonplace for all these activities to be documented on the world wide web. Three such sites provide excellent documentation and access to papers prepared for several international meetings. The first of these refers to the meeting sponsored by the World Bank and IMF in January 2005. This can be found at:
The task force on measuring the impact of the movement of persons under Mode 4 of the GATS agreement is run by the UN and details of the work in hand can be found at:


The proceedings and papers from the meeting of the Luxembourg Group can be found on the IMF web site at:

http://unstats.un.org/unsd/tradeserv/TSG3-Feb06/tsg0602-5.pdf

Later developments are most likely to be signalled on either or both of the last two named sites.