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Issues in the compilation and analysis of remittances in BPM6[1]

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Issues in the Compilation and Analysis of Remittances in BPM6

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Abstract

Global remittance flows have increased rapidly in recent years and are considered by many governments as being of high policy interest particularly in analysing their impact on economic development and security. Remittances are defined as representing household income from foreign economies arising mainly from the temporary or permanent movement of people to those economies. Compilation of remittance aggregates can be a very tricky job because no single data item in the balance of payments framework comprehensively captures transactions in remittances. This note intends to take a critical look at some of the issues in compilation and analysis of remittances in BPM6. Issues that arise from compilation and analysis of remittances include, difficulty in obtaining migration and other statistics, identification of transaction channels, and lack of coordination between regulatory authorities.

Keywords: International Economics, Balance of Payments, Compilation, BPM6

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Contents

1. Introduction

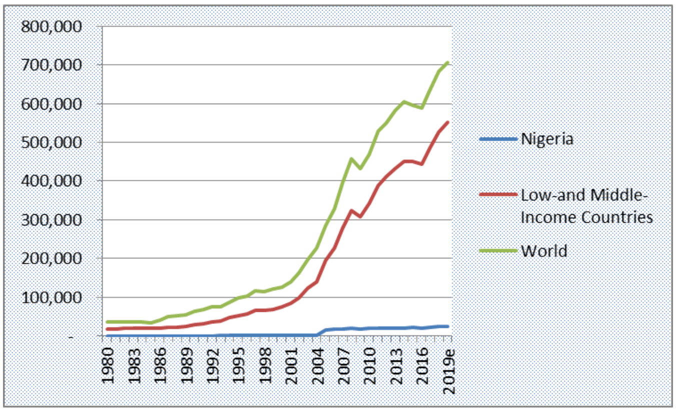
Remittances are a rapidly growing and stable source of foreign exchange inflow to several economies across the world. Remittances through official sources far exceed the size of official development assistance (ODA) and are more stable than foreign private flows such as portfolio investments which are characterised by high volatility and distortionary tendencies due to their short life cycle.

The World Bank records that in 2018, global remittance flows grew by 9.0 per cent to US$689.00 billion while remittances to low and middle income countries grew by 9.6 per cent to $529.00 billion dollars, making it the largest source of foreign exchange earnings in low and middle income countries except China. Of this amount, East Asia and Pacific received US$143.00 billion; Europe and Central Asia, US$59.00 billion; Latin America and the Caribbean received US$88.00 billion; Middle East and North Africa , US$62.00 billion; South Asia, US$131.00 billion; and Sub-Saharan Africa, US$46.00 billion. Of the total remittances going to SSA, two-thirds was remitted to Nigeria, making Nigeria the highest recipient of remittances in SSA. Nigeria is the 6th remittance receiving country globally after India, China, Mexico, the Philippines, and Egypt (World Bank, 2019). The importance of remittances from Nigerians in Diaspora can therefore not be overestimated.

The size of remittances is driven largely by migration and therefore by the size of the migrant stock. Also, the economic condition of both the host and recipient country will determine the size and flow of remittances. The benefits of remittances to the remitter's family, community and country of origin cannot be discounted. At the household level, remittances serve as an additional disposable income which then translates into funding education, providing healthcare and feeding, assisting families to invest in lands, farms, livestock, and businesses. Remittances are a significant source of reducing extreme poverty and improving human development. They could also be used as collateral for assessing loans at the micro level. From a macroeconomic perspective, remittances could bridge the inequality gap and lower the Gini coefficient particularly if they flow to the rural areas. Remittances also improve the overall productivity of the receiving economy when used for better nutrition and healthcare. They are also a key source of foreign exchange earnings which help to bridge the domestic savings gap (Freund and Spatafora, 2005). In some countries like Tonga, Haiti, Tajikistan, Krygz Republic, remittances makes up nearly 30 per cent of the GDP thus helping to build resilience to shocks by absorbing the impact of external economic shocks and acting as a major counterbalance when capital flows weaken (World Bank, 2019). This underscores the importance of remittances as a catalyst to development and welfare of the individual's family, community and country of origin.

On the flip side, some studies such as Amuedo-Dorantes (2014) have shown that remittances can influence the recipients to remain dependent and unproductive thus inhibiting economic growth, decreasing exports and reducing the country's competitiveness in world markets. In other words, remittances can discourage youths from engaging in productive employment due to the cheap funds received from their relatives outside the country. In some developing countries such as Nigeria, remittances have been mismanaged and partly responsible for youth involvement in drugs and narcotics. The notion that relatives in diaspora are wealthy and that they would always be available to support their lifestyles fuels irresponsible behaviour.

Figure 1. Trends in Remittances



Source: World Bank Migration and Remittances Data Portal

This paper looks at the issues in compilation of remittances particularly with respect to Balance of Payments Manual sixth edition (BPM6). To this end, the paper is structured into 5 sections with section 1 as the introduction, section 2 discusses conceptual issues and Section 3 looks at the treatment of remittances in BPM6 and compares this with BPM5. Section 4 identifies a few issues in the analysis of remittances data while section 5 concludes the paper.

2. Conceptual Issues

2.1 The Balance of Payments

Remittances are an integral part of one of the major macroeconomic accounts called the Balance of Payment (BOP). The BOP is an account that records transactions between residents of a country with residents of other countries. The main factor that determines if a transaction is captured in the BOP is the issue of residency. If it is established that the transaction is between a resident and a non-resident, then the transaction is recorded in the BOP. The BOP is divided into three different accounts namely the current, capital and financial accounts. The current account records import and export of goods and services between residents and non-residents. It also consists of a primary income account which records the returns that accrues to institutional units for their contribution to the production process or for the provision of financial assets and renting natural resources to other institutional units. The primary income could arise as proceeds of the production process or compensation of employees, and could also be associated with the ownership of financial and other non-produced assets such as property income, dividends, reinvested earnings and interest. The secondary income account is also a part of the current account, and captures further redistribution of income through current transfers such as governments or charitable organisations.

The capital account is defined in section 13.1 of the BOP manual as the capital transfers receivable and payable between residents and non- residents and the acquisition and disposal of non-produced, nonfinancial assets between residents and non-residents. Non-produced, non-financial assets include natural resources; contracts, leases and licenses; and marketing assets such as trademarks, brand names, logos and domain heads. Capital transfers are transfers in which ownership of an asset changes from one party to another; or which obliges one party or the other to acquire or dispose of an asset; or where a liability is forgiven by the creditor. Transfers generally infer the provision of goods, services, financial assets, or other non-produced assets from one unit to another without the corresponding return of an asset of economic value. This differentiates it from an exchange which is a transaction that requires the corresponding return of an asset of economic value. Household to household capital transfers may be included in the capital account as personal remittances if they are significant.

The financial account records the transactions that have to do with financial assets and liabilities between residents and non-residents. Entries in the financial account may be corresponding to entries in the goods and services, income, capital account or other financial account entries.

2.2 Balance of Payments and International Investment Position Manual

The Balance of Payments and International Investment Position Manual, 6th edition (BPM6), provides guidance to IMF member countries on the compilation of BOP and IIP statistics. The Manual also aims to enhance comparability of data across countries through the promotion of standards adopted internationally. The BPM6 manual was released in 2009 as an update to BPM5 to reflect changes that had taken place in the international economic and financial environment and to coincide with the update of the System of National Account SNA from SNA 1993 to SNA 2008. The BPM6 has a high degree of continuity with BPM5 but provides more clarifications on issues that were identified with BPM5. It also identifies stronger theoretical foundations and linkages to other macroeconomic statistics particularly SNA and the Monetary and Financial Statistics (MFS)

2.3 Remittances

International remittances are cross-border earnings, goods, or funds transferred by migrants to their relatives, friends or acquaintances in their home countries. They represent household income from foreign economies arising mainly from the temporary or permanent movement of people to those economies (IMF, 2009). The remitter is usually an individual who has migrated to a country other than his country of origin as a resident, seasonal or short-term worker. By definition therefore, the question of residency where residence of each institutional unit is the economic territory with which it has the strongest connection, expressed as its center of predominant economic interest, does not apply to the issue of remittances. Indeed as noted, BOP account definition of remittances are somewhat broader than those resulting from movement of persons because they are not based on the concepts of migration, employment or family relationships. They consist of funds and non-cash items sent by individuals who have migrated to a new economy and become residents there as well as the net compensation of border, seasonal or other short-term workers who are employed in an economy in which they are not resident. Remittances could also be compensation of workers employed by non-resident employers in the home country of origin. According to Levitt (1998), remittances are not only money but ideas, identities, practices, and social capital that flow from receiving to sending countries. They make up a significant part of international capital flows in a country and could be a life wire to the beneficiaries who often need it for their sustenance. Global remittance flows have increased rapidly in recent years and are considered by many governments as being of high policy interest particularly in analysing their impact on economic development and security.

2.4 Channels and Types of Remittances

Remittance transactions involve a sender, a recipient, intermediaries in both countries, and the payment interface used by the intermediaries. These comprise the remittance channel and range from the formal to the informal. Formal channels are those officially authorised to operate in the money transfer business and may include commercial banks, post offices, non-bank financial institutions, bureaux de change and money transfer operators like Western Union and MoneyGram (Freund and Spatafora, 2005). Formal remittances are eased by a well-developed financial infrastructure and the availability of financial products and incentives. However, the informal remittances are transferred through channels other than the formal one, usually through human couriers such as friends and family members or other carriers (IMF, 2008). Money or goods taken by the migrant on seasonal visits to their homeland and funds sent via unlicensed money transfer operators using traditional networks such as hawala are also classified as informal remittances. The informal channel is more popular as it is cheaper and requires little documentation. According to World Bank (2011), more than 50.0 per cent of the remittances to Sub-Saharan Africa is through the informal channel. In between the formal and informal channels, semi-formal channels also exist. These include formal institutions that provide money transfer services outside the purview of the regulatory authority. The choice of channel to be used depends on a number of factors which include the institutional infrastructure available in the sending and receiving economies, ease of access to formal financial institutions, cost associated with the use of the channels and the demographic characteristics of the sender and receiver.

Remittances are categorized as cash or in-kind. Cash remittances are usually in foreign currency and are sent through the formal or the informal channels while in-kind remittances are items sent by the diaspora other than cash, which may include clothing, food items, jewelleries, electronics, books, etcetera. There is also social remittance, which are voluntary services rendered by the diaspora to home countries.

3. Treatment of Remittances

Compilation of remittance aggregates can be a very tricky job because no single data item in the balance of payments framework comprehensively captures transactions in remittances. BPM6 revises the treatment of remittances in BPM5. The following outlines the differences in treatment of remittances.

3.1 Remittances in BPM5

Under BPM5, the line items that relate to remittances are compensation of employees, workers remittances, and migrants transfers (Reinke, 2007).

Compensation of employees is a component of income in the BPM5 framework while workers remittances are a component of current transfers. Both income and current transfers are a part of the current account. Migrants transfers are a part of capital transfers which is found in the capital account. It is related to all the financial and non-financial assets that migrants take to the host country when visiting or when they finally return to their home country (Balance of Payments Manual, 5th Edition). Under BPM6, they are no longer considered as Balance of Payments transactions. Compensation of employees records the reward for work done while workers remittances and migrants transfers are transfers which are provisions of a resource, whether cash or in kind, without a quid pro quo. The Balance of Payments textbook makes a clear distinction between workers remittances and current transfers. "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"(IMF, 1996). Workers remittances arise form paid employment while transfers of self-employed migrants are current transfers.

3.2 Treatment Remittances in BPM6

Remittances are mainly derived from two items in the BOP framework: income earned by workers in economies where they are not resident (compensation of employees) and personal transfers from residents of one economy to residents of another (IMF, 2008). These are the standard items in the BOP framework. All other definitions are supplementary items which compiling countries are not required to compile but are encouraged to do. These supplementary items include personal remittances, total remittances, and total remittances and transfers to non-profit institutions serving households.

3.2.1 Standard Component

Section 11.10 of the BPM6, defines compensation of employees as remuneration given in exchange for labour input to the production process contributed by an individual in an employer-employee relationship with the enterprise when the employer and employee are resident in different economies. This implies that if the producing unit or the employer is resident, then compensation of employees is the total remuneration, either in cash or in kind, paid to an employee that is residing in another economy. The status of a worker has important implications for the international accounts. Section 11.11 further clarifies that an employer-employee relationship exists when there is a voluntary agreement, either formal or informal, whereby an individual works for an entity in return for remuneration in cash or kind. The remuneration could be based on either time spent at work or some other indicator such as the production of a desired output, especially in the case of a service contract. This definition may however pose difficulties in interpretation particularly where services are concerned. When an entity decides to purchase a service from a self-employed worker rather than hire an employee, the payment would then constitute a purchase of services rather than compensation of employees. Purchase of services is well treated in chapter 10 and does not constitute part of remittances. Criteria for defining employer-employee relationships include:

The right to control or to direct what should be done and how it should be done is vested in the employer (however, this may also apply to the purchase of services albeit in a limited sense).

If the individual is solely responsible for social contributions, this indicates he is a self-employed service provider. Payment by the employer shows that an employer-employee relationship exists.

Payment of taxes on the provision of services by the individual is an indication that the individual is a self-employed service provider.

Personal transfers is a new standard component in the BPM6 and replaces workers remittances in BPM5. However, workers remittances are included as a supplementary item in BPM6. Personal transfers are included in the computation of remittances and consists of all current transfers in cash or in kind, made or received from a resident household to a non-resident household. This is independent of the source of income, and the relationship between the households. It usually originates from migrants sending resources back to their country of origin to support their relatives back home. The concept is not based on either migration or employment status, is simpler and avoids some of the problems and inconsistencies of the previous concept in BPM5 (Oputa, 2019).

In determining whether a personal transfer is involved, the connection to the residence status of the person concerned is important. There are also some personal transfers which might be financial and are excluded from the computation of remittances. Investment in real estate for instance is treated as a direct investment in the country of origin and not as a remittance. If however, some relatives of the remitter live in the property, and do not pay rent or pay less than the market value, then the estimated market price of the lease or the difference between the paid amount and the market prices are recorded as remittances, while the amount paid by relatives for the rent is recorded as income from direct investment.

3.2.2 Personal Remittances

Personal remittances are the net compensation of employees working in economies in which they are not resident, current and capital transfers in cash or kind between resident and non-resident households.

3.2.3 Total Remittances

Total remittances includes personal remittances and social benefits. By implication, it includes all household income obtained from working abroad. Now in the computation of what constitutes total remittances, compensation of employees less expenses related to border, seasonal, and other short term workers is taken from the primary account. Added to this is a personal transfer which is taken from the secondary account. Capital transfers between households and social benefits are also included in the computation of remittances. Social benefits include benefits payable under social security funds and pension funds either in cash or kind.

Total Remittances is therefore captured as TR=NCE +PT+KT+SB.....(1)

NCE = CE – TT-TSC..........(2)

Where TR is total remittances

NCE is net compensation of employees

CE is compensation of employees

TT is travel and transportation related to temporary employment

TSC is taxes and social contributions related to temporary employment

PT is personal transfers

KT is capital transfers between households

SB is social benefits

3.2.4 Total Remittances and Transfers to Non-Profit Institutions Serving Households

This includes Total Remittances and all current and capital transfers to Non-profit Institutions Serving Households (NPISHs) from any sector of the sending economy i.e households, corporations, governments, and non-profit institutions. According to the Remittances Compilation Guide (RCG), "it includes all transfers benefitting households directly or indirectly through NPISHs as well as the earnings of short term workers abroad". It could thus include donations, private and official aid, scholarships. This is the broadest definition of remittances, but is very challenging due to the identification of NPISHs from the sending economy (IMF, 2009)

3.3 Some Identified Differences between BPM5 and BPM6

Table 1 below highlights the major differences between BPM5 and BPM6 as far as compilation of remittances is concerned.

Differences in Treatment of Remittances in BPM5 and BPM6 Table 1

	Description	BPM6 Treatment	BPM5 Treatment
1	Migrants personal effects	Are not classified as transactions and so are no longer included in goods, nor elsewhere in the international accounts; see BPM6 10.22 (b).	Classified as transactions under goods
2	General merchandise	Goods bought abroad for own use or to give away that exceed customs thresholds are included in general merchandise; see BPM6 10.19.	In BPM5, these goods are recorded in travel; see BPM5 212 and 250
3	Transport services	Referred to as transport services BPM6 10.61	Referred to as transportation
4	Transport (Passenger) air, sea, other modes of transport	Amount payable by border, seasonal, and other short-term workers clearly delineated because it is needed as a supplementary item in the compilation of personal remittances BPM6 12.51 and appendix 5	"payable by border, seasonal, and other short-term workers" Captured as a block amount under passenger
5	Travel (business)	Acquisition of goods and services by border, seasonal, and other short-term workers clearly delineated because it is needed as a supplementary item in the compilation of personal remittances BPM6 12.51 and appendix 5	"acquisition of goods and services by border, seasonal, and other short-term workers" captured as a block amount under travel (business)
6	Services	Several reclassifications introduced in BPM6	Several reclassifications
7	Primary income	Renamed from income to be consistent with SNA 2008 BPM6 11.1	Referred to as income
8	Primary income	Rent and taxes/subsidies on products and production are included in primary income BPM6 tables 11.1, 11.2, 11.3	Rent and taxes/subsidies on products and production are not explicitly captured as primary income
9	Compensation of Employees	The employer-employee relationship is clarified to distinguish between compensation of employees and payment for services in BPM6 11.12.	A clarification to BPM5 and in accordance with its general principles.
10	Investment income	direct investment income is broken down by type of FDI relationships; see BPM6 6.37.	Direct investment is not broken down
12	Investment income	in bpm6, dividends on direct investment are recorded when the shares go ex-dividend; see BPM6 11.31;	Dividends on direct investment are recorded when payable; see BPM5 282, 284.
13	Investment income	BPM6 describes super-dividends, which should be recorded as withdrawals of equity, direct investor in direct investment enterprises not primary income; see BPM6, 11.27.	The term 'super-dividends' is not discussed in BPM5, but the treatment in bpm6 is in line with the general principals of BPM5 (notably direct investment enterprises in direct investor (reverse investment) liquidating dividends; see BPM5 290).
14	Taxes and subsidies on products and production	Classified as primary income BPM6 11.90-11.93	Classified as secondary income (current transfers)
15	Secondary income	The term secondary income is introduced to be consistent with the SNA and is clarified in BPM6 12.1 - 12.4. More detailed types of current transfers are introduced on a supplementary balance on secondary income (+ surplus; - deficit) basis; see BPM6 12.21 - 12.24.	Called current transfers
16	Refunds of taxes to taxpayers	Refunds of taxes to taxpayers are treated as negative taxes, i.e., the amount of taxes is reduced by tax refunds; see BPM6 12.21.	In BPM5, tax refunds are recorded under government transfers; see BPM5 299.
17	Current taxes on income, wealth etc	Of which payable by border, seasonal, and other short-term workers clearly delineated as a supplementary data used in the compilation of personal remittances BPM6 12.51 and appendix 5	"payable by border, seasonal, and other short-term workers" Captured as a block amount under current taxes on income, wealth, etc

17	Social contributions	Of which payable by border, seasonal, and other short-term workers clearly delineated as a supplementary data used in the compilation of personal remittances BPM6 12.51 and appendix 5	"payable by border, seasonal, and other short-term workers" captured as a block amount under social contributions
18	Personal transfers	BPM6 introduces the concept of personal transfers, which is broader than workers' remittances (in both BPM5 and BPM6) because it includes all transfers between individuals, not just those of migrants who are employed in new economies and considered residents there; see BPM6 12.47 - 12.51 and appendix	Workers remittances used rather than personal transfers
19	Miscellaneous current transfers (D545)	Of which current transfers to NPISHS (D545) is introduced as a supplementary data related to current transfers of NPISHs used to compile personal remittances BPM6 12.51	Included as part of "other current transfers of other sectors" in BPM5
20	Migrants transfers	The personal effects, financial assets, and liabilities of persons changing residences are no longer recorded as capital transfers BPM6 13.3, 9.19-9.20and 10.22b	Recorded under capital transfers BPM5 352-353
21	Capital transfers	Supplementary data on capital transfers between households is needed to compile personal remittances BPM6 12.48 and appendix 5	No personal remittances in BPM5
22	Capital transfers	Supplementary data on capital transfers between households is needed to compile personal remittances BPM6 12.48 and appendix 5	No personal remittances in BPM5

Source: Extracted From IMF Statistics Department, BPM5 to BPM6 Conversion Matrix (2008)

4. Issues in the Compilation and Analysis of Remittances

Several issues have been identified as being inimical to the compilation of remittances. These are discussed as interpretation of concepts, Migration statistics, digital currencies, identification of transaction channels, Lack of Coordination Between Regulatory Authorities, Lack of Appropriate Framework for Harnessing Remittances and Low Capacity in BOP Compilation Especially in Developing Countries.

4.1 Interpretation of Concepts

Some clauses in BPM6 are not very clear. This includes the treatment of social contributions in remittances compilation and the question of residence. This definition creates some ambiguity in practice. For instance, if an employee (resident of the host economy) of the US embassy in Nigeria (non-resident of the host economy) is paid compensation, the transaction is easily captured as a BOP item under compensation of employees. Now if this same employee sends part of the compensation to his wife's account, should it be captured as a remittance or not? Section 11.14 states that because embassies, consulates, military bases and so on are considered extra-terrestrial to the economies to which they are located, the compensation receivable by local staff of these institutional entities is classified as payable to resident entities by non-resident entities. Compensation receivable by employees from international organisations which are extraterritorial entities, represents receipts from non-resident entities.

Again if I work in the US but am not resident there (by reason of the definition of residency, I am a seasonal or short term worker) so I get compensation of employees which is recorded as a BOP item. Suppose I send part of my income home, does this mean it is recorded as a BOP item twice? The point I am trying to make here is that if it is recorded in the BOP as compensation of employees then it cannot still be recorded as personal transfers. This would amount to double counting of the transaction.

Social contributions are deducted in computing remittances. Section 11.22 of BPM6 defines employer's social contributions as payable by employers to social security funds or other employment related social insurance schemes to secure social benefits for their employers. These include pension contributions, life insurance, health insurance, education allowance, medicals and so on. These are to be deducted from the total remittances on the assumption, so to speak, of it being paid in the country of residence of the institutional unit but in reality this may not be the case. In practice therefore the social contributions is actually a remittance where the employer is non-resident, and should be recorded as such, not deducted from the compensation of employees.

4.2 Migration Statistics

Problems of obtaining remittance data can arise in neighbouring countries particularly where the number of seasonal or illegal workers is large. Illegal workers tend to shy away from censuses or from the formal modes of bank transfers because of "know your customer" requirements and also the fear of apprehension by security personnel. It thus becomes hard to track these remittances or even estimate remittances through informal channels. When migrant or short term workers visit home frequently, they may decide to take the money or goods themselves or send them through a friend. In addition, poor data base of migrants makes it difficult to conduct survey on informal remittances.

4.3 Identifying Transaction Channels

Remittance transaction channels are wide and varied and the choice of channel depends on a number of factors including cost of sending money abroad, speed of delivery, information technology infrastructure at the senders and recievers locations, hidden costs in foreign exchange transactions, safety of the funds and so on. Compilers of remittance statistics may however find it difficult to know all sources especially the informal sources through which remittances are sent. Remittance service providers are also quite innovative and new transaction channels are being developed consistently. There are some money transfer businesses in all parts of the world that are often not registered or licensed and are not subject to any form of regulation. Reliable data and information on these channels are often lacking making it hard to track remittances through these channels.

In addition, as noted by the RCG 3.24, identifying NPISHs from partner economies may prove problematic particularly because the definition is "partially based on identifying the sector of the transacting party in the partner economy".

4.4 Lack of Coordination between Regulatory Authorities

Different channels pose different challenges to compilers and the ease with which data may be obtained from these various channels depends on the institutional and legal environment governing remittance transactions and data compilation. A poor legal and communication technology infrastructure hinders the regulation of some entities and by extension reporting of remittances data. Still there is sometimes overlap of responsibilities between government institutions with poor coordination thus data reported are divergent leaving the compiler and analyst confused. In addition, a clear assignment of responsibility is necessary to know which agency is to generate remittance statistics whether the Central Bank or the Bureau for Statistics.

4.5 Lack of Appropriate Framework for Harnessing Remittances

Lack of attention to remittance statistics could emanate from the inability of most developing countries to develop appropriate framework for tapping the potentials of remittances for growth and development. In addition, most of the IMTOs don't have their own outlets for remitting monies but rather use the platforms of banks. This adds to the cost of remittances thus discouraging remitters from using formal channels and preferring to go through informal channels.

4.6 Low Capacity in BOP Compilation especially in Developing Countries

Due to the complications in compiling BOP numbers, several developing countries are yet to fully migrate to the use of BPM6. Nigeria, for instance is still using BPM6 alongside BPM5 in carry out its analysis. The use of different approaches to compilation renders it hard to compare remittances across countries. This problem will be accentuated with the move to BPM7 when several countries are still struggling to migrate fully to BPM6.

4.7 Digital Currencies

The growing need for safer, secure and quicker international money transfers has increased the need for digital payments and receipts globally. Digital currencies offer an obvious advantage for remittances as an alternative to the expensive and burdensome money transfer system currently available. However, the low level of financial inclusion and the cyber security threats digital currencies are exposed to invigorate the reluctance with which regulatory authorities are willing to accept the use of digital currencies within their ambit.

5. Conclusion

Remittances remain a stable and sustainable source of foreign exchange earnings too huge to be ignored. Its benefits far outweigh the few disadvantages that have been pointed out. On the whole, remittances could salvage a whole family, community, or economy if used for the right purposes. Being able to correctly identify the channels through which remittances flow and converting them to productive uses through formalisation of remittances and proper financial literacy could boost the economy and must therefore be pursued vigorously. This implies that regulatory agencies must also work together to achieve harmonisation in recording remittances. It is my hope that this paper would have contributed to that in a small way.

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ISSUES IN THE COMPILATION AND ANALYSIS OF REMITTANCES IN BPM6

- BLESSING ADADA GAIYA
- CENTRAL BANK OF NIGERIA

- **EXTERNAL STATISTICS CONFERENCE ON BRIDGING MEASUREMENT CHALLENGES AND ANALYTICAL NEEDS OF EXTERNAL STATISTICS: EVOLUTION OR REVOLUTION**?
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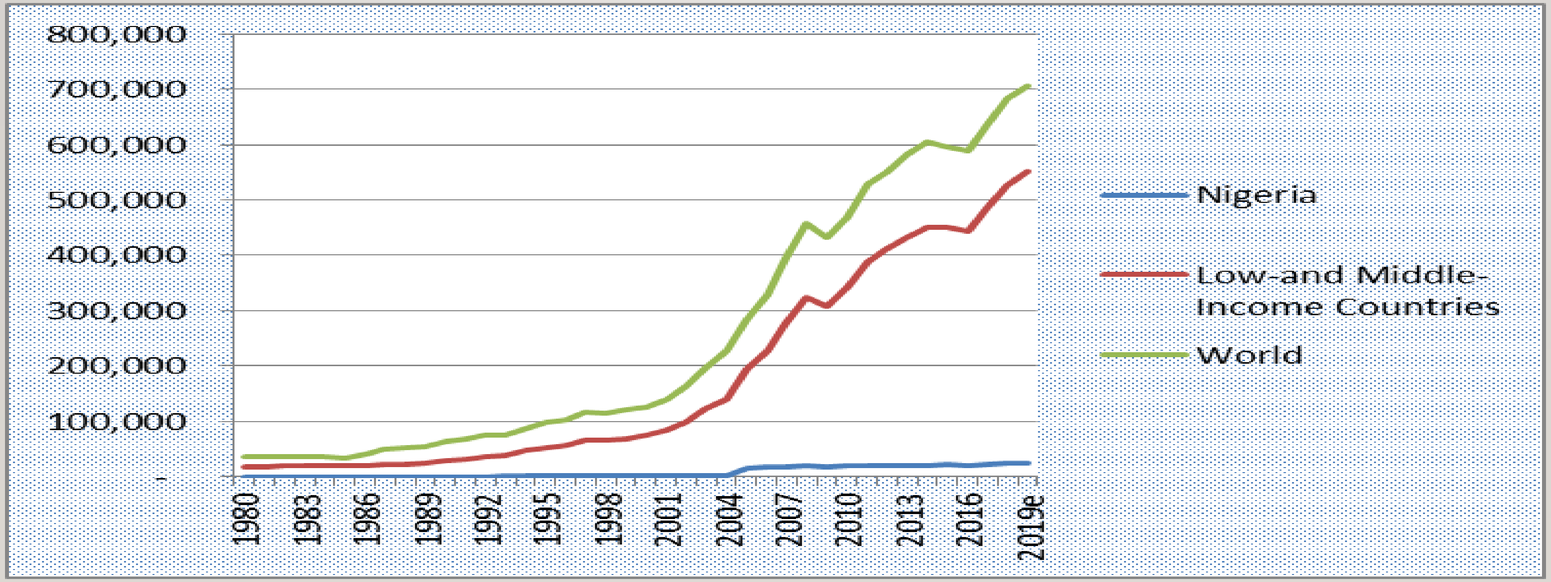
INTRODUCTION

- Remittances are a rapidly growing and stable source of foreign exchange inflow.
- The World Bank records that in 2018, global remittances flow grew by 9.0 per cent to US$689.00 billion while remittances to low and middle income countries grew by 9.6 per cent to $529.00 billion dollars, making it the largest source of foreign exchange earnings in low and middle income countries except China.
- Nigeria is the 6th remittance receiving country globally after India, China, Mexico, the Philippines, and Egypt. The importance of remittances from Nigerians in Diaspora can therefore not be overstated.

INTRODUCTION

Figure 1. Trends in Remittances



Source: World Bank Migration and Remittances Data Portal

INTRODUCTION

- Remittances are beneficial in so many ways
- serve as an additional disposable income
- a significant source of reducing extreme poverty and improving human development.
- could be used as collateral for assessing loans at the micro level.
- From a macroeconomic perspective, remittances could bridge the inequality gap and lower the Gini coefficient particularly if they flow to the rural areas.
- improve the overall productivity of the receiving economy when used for better nutrition and healthcare.
- are a key source of foreign exchange earnings which help to bridge the domestic savings gap.
- On the flip side, some studies such as Amuedo-Dorantes (2014)   have shown that remittances can influence the recipients to remain dependent and unproductive thus inhibiting economic growth, decreasing exports and reducing the country’s competitiveness in world markets.

BALANCE OF PAYMENTS

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- Remittances are an integral part of one of the major macroeconomic accounts called the Balance of Payment (BOP).
- The BOP is an account that records transactions between residents of a country with residents of other countries.
- The main factor that determines if a transaction is captured in the BOP is the issue of residency
- The BOP is made up of three accounts: current, capital and financial account

BALANCE OF PAYMENTS AND INTERNATIONAL INVESTMENT POSITION MANUAL

- The Balance of Payments and International Investment Position Manual, 6th edition (BPM6), provides guidance to IMF member countries on the compilation of BOP and IIP statistics.

- The Manual also aims to enhance comparability of data across countries through the promotion of standards adopted internationally.

- The BPM6 manual was released in 2009 as an update to BPM5 to reflect changes that had taken place in the international economic and financial environment and to coincide with the update of the System of National Account SNA from SNA 1993 to SNA 2008.

REMITTANCES

- International remittances are cross-border earnings, goods, or funds transferred by migrants to their relatives, friends or acquaintances in their home countries. They represent household income from foreign economies arising mainly from the temporary or permanent movement of people to those economies (IMF, 2009).

- They consist of funds and non-cash items sent by individuals who have migrated to a new economy and become residents there as well as the net compensation of border, seasonal or other short term workers who are employed in an economy in which they are not resident. Remittances could also be compensation of workers employed by non-resident employers in the home country of origin.

- According to Levitt (1996), remittances are not only money but ideas, identities, practices, and social capital that flow from receiving to sending countries.

TREATMENT OF REMITTANCES

- Under BPM5, the line items that relate to remittances are compensation of employees, workers remittances, and migrants transfers (Reinke, 2007).
- Under BPM6 standard treatment, Remittances are mainly derived from two items in the BOP framework: income earned by workers in economies where they are not resident (compensation of employees) and personal transfers from residents of one economy to residents of another (IMF, 2008).
- Personal remittances are the net compensation of employees working in economies in which they are not resident, current and capital transfers in cash or kind between resident and non-resident households.
- Total remittances includes personal remittances and social benefits. By implication, it includes all household income obtained from working abroad.
- Total Remittances and Transfers to Non-Profit Institutions Serving Households

includes " all transfers benefitting households directly or indirectly through NPISHs as well as the earnings of short term workers abroad" (Remittances Compilation Guide).

DIFFERENCES BETWEEN TREATMENT OF REMITTANCES IN BPM5 AND BPM6

	Description	BPM6 Treatment	BPM5 Treatment	
1	Migrants personal effects	Are not classified as transactions and so are no longer included in goods, nor elsewhere in the international accounts; see BPM6 10.22 (b).	Classified as transactions under goods	
2	Travel (business)	Acquisition of goods and services by border, seasonal, and other short term workers clearly delineated because it is needed as a supplementary item in the compilation of personal remittances BPM6 12.51 and appendix 5	"acquisition of goods and services by border, seasonal, and other short term workers" captured as a block amount under travel (business)	
3	Compensation of Employees	The employer-employee relationship is clarified to distinguish between compensation of employees and payment for services in BPM6 11.12.	A clarification to BPM5 and in accordance with its general principles.	
4	Social contributions	Of which payable by border, seasonal, and other short term workers clearly delineated as a supplementary data used in the compilation of personal remittances BPM6 12.51 and appendix 5	"payable by border, seasonal, and other short term workers" captured as a block amount under social contributions	
5	Personal transfers	BPM6 introduces the concept of personal transfers, which is broader than workers' remittances (in both BPM5 and BPM6) because it includes all transfers between individuals, not just those of migrants who are employed in new economies and considered residents there; see BPM6 12.47 - 12.51 and appendi	Workers remittances used rather than personal transfers	
6	Miscellaneous current transfers (D545)	Of which current transfers to NPISHS (D545) is introduced as a supplementary data related to current transfers of NPISHs used to compile personal remittances BPM6 12.51	Included as part of "other current transfers of other sectors" in BPM5	
7	Migrants transfers	The personal effects, financial assets, and liabilities of persons changing residences are no longer recorded as capital transfers BPM6 13.3, 9.19-9.20and 10.22b	Recorded under capital transfers BPM5 352-353	
8	Capital transfers	Supplementary data on capital transfers between households is needed to compile personal remittances BPM6 12.48 and appendix 5	No personal remittances in BPM5	
9	Capital transfers	Supplementary data on capital transfers between households is needed to compile personal remittances BPM6 12.48 and appendix 5	No personal remittances in BPM5	

[1] TableNote

Source: IMF BPM5 to BPM6 Conversion Matrix

ISSUES IN THE COMPILATION AND ANALYSIS OF REMITTANCES

- Interpretation of Concepts
- Migration Statistics
- Identifying Transaction Channels
- Lack of Coordination between Regulatory Authorities
- Lack of Appropriate Framework for Harnessing Remittances

CONCLUSION

- Remittances remain a stable and sustainable source of foreign exchange earnings too huge to be ignored.
- Its benefits far outweigh the few disadvantages that have been pointed out. On the whole, remittances could salvage a whole family, community, or economy if used for the right purposes.
- Being able to correctly identify the channels through which remittances flow and converting them to productive uses through formalisation of remittances and proper financial literacy could boost the economy and must therefore be pursued vigorously. This implies that regulatory agencies must also work together to achieve harmonisation in recording remittances.
- It is my hope that this paper would have contributed to that in a small way.


Thank You!