The Luxembourg Group on Remittances

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The International Working Group

- G8 Heads of State in 2004 meeting emphasize role of remittances in economic development.

- G7 Finance Ministers request formation of working group under World Bank leadership to improve data.

- They also request an "International Working Group" to oversee various activities related to improving data.

International Meeting in 2005

- Meeting with over 60 compilers and data users held in January 2005.
- Helps to define data needs.
- Official formation of the working group, constituted by the World Bank, IMF, and country compiling agencies.
- Working group will coordinate twin objectives of the remittances project.

Two Main Objectives

- New definitions for remittances, to be incorporated in the forthcoming sixth edition of the *Balance of Payments Manual* (*BPM6*);

- Compilation guidance for help with data sources and estimation methods.

Definitions of Remittances

- UN Interagency Task Force on Statistics of International Trade in Services, the Technical Sub-Group on the Movement of Natural Persons (TSG) developed new definitions in consultation with compilers.
- Other changes related to migration and remittances are adopted by the IMF Balance of Payments Committee.
- All changes are within the balance of payments framework, but harmonized with revision of the System of National Accounts.

New Definitions of Remittances

- "Personal transfers": New standard component to replace "workers' remittances";
- Three new supplementary items to capture components of income and transfers; and
- Removal of "migrants transfers" and the concept of migrant from the BOP framework.

Personal Transfers

- "Personal transfers" will cover all current transfers between resident and nonresident households.
- The concept is based neither on migration nor employment status.
- It is simpler and avoids the problems and inconsistencies of the previous concept.

Personal Remittances

- Personal remittances are the sum of personal transfers and compensation of employees less taxes, travel expenses etc (CoE-).
- CoE- refers to the compensation of nonresident workers less the costs associated with working abroad.
- Conceptually appealing, but possible only as supplementary item.

Total Remittances

- "Total remittances" includes personal remittances plus social benefits.
- "Total remittances and transfers to NPISHs" includes total remittances plus all transfers to NPISHs.
- Data users are not unanimous about their usefulness.
- Possible only as supplementary items.

Supplementary Items

- Supplementary items are not part of the standard presentation.
- They are not necessarily identified in all relevant publications (e.g., *IFS*).
- They may be calculated from standard components but can conflict with the BOP structure.

Migrants' Transfers

- IMF proposed and BOPCOM agreed to abolish the concept of migrants' transfers (in 2005).
- Migrants' transfers are confusing and often misinterpreted.
- Changes in the assets and liabilities of countries due to individuals changing residence will be recorded as "other changes".
- Migrants' effects will be excluded from trade data.

Bilateral Data

- Many data users express a need for bilateral data.
- Although desirable, complete global bilateral data is not realistic.
- Bilateral data on major "corridors" should be encouraged.

The Need for Better Compilation Guidance

◆ Many countries do not report compensation of employees or workers' remittances;

◆ Data coverage and accuracy is often lower than for other types of transactions;

◆ Data sources are difficult to develop; and

◆ Global discrepancies are large and growing.

Table – Global Flows and Discrepancies

	2002	2003	2004	2005
Credit	142,788	172,950	197,023	223,161
Debit	133,966	147,593	166,240	179,633
Global discrepancy	8,821	25,357	30,783	43,528

Source: *Balance of Payments Statistics Yearbook 2006, Part 2.*
Note: Data refer to the sum of "compensation of employees" and "workers' remittances"".
All data are in millions of US$.

The Luxembourg Group

- Luxembourg Group set up as voluntary group of compilers.

- Forum for collecting information and developing ideas for better compilation.

- Inventory of relatively successful compilation approaches at first stage.

- Then identification of constraints and findings solutions.

First Luxembourg Meeting

First meeting in June 2006:

- There is no single best data source on remittances.

- Combination of sources offers best perspective.

- Approach must be country-specific. New data initiatives are underway in many countries.

Second Luxembourg Meeting

Main outcomes in December 2006:

- ◆ Inventory of approaches,
- ◆ Agreement on outline of compilation guide,
- ◆ Identification of material and agreement on redrafting schedule,
- ◆ Completion of first draft by June 2007.

Third Luxembourg Meeting

Main outcomes in June 2007:

- ◆ Review of the first complete draft of the Remittances Compilation Guide,
- ◆ Agreement on further changes and additions,
- ◆ Preparing draft for public review between September and November 2007,
- ◆ Aiming for completion of the draft Remittances Compilation Guide by early 2008.

Transactions Reporting

- Many countries use transactions reporting (ITRS) by banks and foreign exchange bureaus as a source.
- Some countries have a highly developed ITRS available.
- Low cost, up-to-date data source (if ITRS already exists).
- Mostly does not cover informal and in-kind transfers.
- Depends on changing policy environment.

Direct Reporting

- Different from ITRS since focused only on remittances.
- Reporting by "money transfer operators' (MTOs).
- Does not rely on settlement data.
- Successful in Europe, Mexico etc.

Household Surveys

- Obtain data on remittances from senders and recipients.
- Methodologically difficult, often expensive and long time lags.
- Results not proven (underreporting).
- Perhaps the most desirable source of 'actual' data, if problems can be solved.

Data Models

- Some use estimates of migrant population and "propensity to remit" to estimate flows.
- Others use macroeconomic models to calculate remittances as a residual.
- Easy approach, but lacks validating checks.
- Fast and cheap!

Related Data Sources

- Demographic data (migration)
- Administrative records (social security, work permits etc)
- Used to fill gaps, check estimates, and supplement transactions data
- Also underlies (some) data models

Combining Data Sources

- Most countries combine multiple approaches to capture all relevant transactions.
- It is problematic to combine diverse data sources.
- Compilers need to avoid inconsistencies, overlaps etc.

The Compilation Guide

- Summary of definitions and resulting data needs;
- A four-step approach to developing a country-specific data development plan;
- An inventory with possible data sources and compilation approaches, together with an assessment of their strengths and weaknesses;
- Additional advice on dissemination formats etc.;
- 14 countries are contributing material;
- IMF and World Bank will collate and edit the compilation guide;
- Completion by early 2008.