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Remittances to Latin America
Moving towards More Precise Data Collection

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I. Introduction: Migrant Remittances are gaining public attention

The Multilateral Investment Fund (MIF) of the Inter-American Development Bank (IDB) announced that in 2005 remittances flows into Latin America and the Caribbean amounted to US$ 53.6 billions (Table 1). Remittances to this region doubled between 2001 and 2005, and in recent years exceeded the combined total of foreign direct investment (FDI) and official development assistance (ODA) for the entire region. Latin America and the Caribbean is now the largest remittance-receiving region in the world, followed by South Asia, South East Asia/Pacific, and the Middle East/North Africa.

In spite of this huge monetary flow, little attention has been paid to remittances by policymakers and researchers until recently. "One unfortunate consequence of this lack of attention is an almost total absence of harmonized or standardized data on the subject." (Pozo, 2005). Considering that in some countries remittance inflows are equal to more than 10% of their GDP, accurate data is indispensable in order to align this new trend of monetary flows with each country's development policies.

The purpose of this article is to examine contemporary remittance-related issues and to review current international discussion toward remittance data improvement. The structure of this article is the following: In Section II, two phenomena of globalization will be discussed: international migration and remittances. In Section III, positive and possible negative economic impacts of remittances will be introduced. In Section IV, the current remittance market structure will be reviewed briefly and difficulties in data collection will be described. In Section V, ongoing international discussions toward data improvement will be summarized, and in Section VI, concluding remarks will be made.

Table 1. Remittance inflows into Latin American countries US$ millions

	2001	2002	2003	2004	2005	
	(24,000)	(32,000)	(38,000)	(45,000)	(53,600)	% of GDP
Mexico	8,895	10,502	13,266	16,613	20,034	2.79[a]
Brazil	2,600	4,600	5,200	5,624	6,411	1.06[a]
Colombia	1,756	2,431	3,067	3,857	4,126	4.09[a]
Guatemala	584	1,690	2,106	2,681	2,993	9.35[b]
El Salvador	1,911	2,206	2,316	2,548	2,830	17.13[a]
Dominican Republic	1,807	2,112	2,217	2,438	2,682	9.14[b]
Peru	930	1,265	1,295	1,360	2,495	3.18[b]
Ecuador	1,430	1,575	1,657	1,740	2,005	6.39[a]
Honduras	460	770	862	1,134	1,763	21.24[b]
Jamaica	968	1,229	1,426	1,497	1,651	18.97[a]
Haiti	810	932	978	1,026	1,077	20.75[a]
Bolivia	103	104	340	422	860	8.55[a]
Nicaragua	660	759	788	810	850	16.90[a]
Argentina	100	184	225	270	780	0.43[a]
Paraguay				506	550	7.16[b]
Costa Rica	80	135	306	320	362	1.83[a]
Venezuela	136	225	247	259	272	0.23[a]
Guyana	90	119	137	143	270	34.35[b]
Panama			220	231	254	1.65[a]
Uruguay			42	105	110	0.65[a]
Trinidad & Tobago	41	59	88	93	97	0.71[a]
Belize			73	77	81	8.92[a]
Suriname				50	55	3.96[a]

Note: The numbers in parentheses are corresponding year's total remittance flow. These totals include other countries data which don't appear in the table.

a) Calculated based on the 2005 GDP estimated by CIA, *The World Fact Book 2006* (http://www.cia.gov/cia/publications/factbook/).

b) Calculated based on the 2005 GDP found at each country's central bank website (accessed on Mar 2).

Source: Inter-American Development Bank - Multilateral Investment Fund;

II. International migration and remittances

Remittances and international migration are the two sides of the same coin. "People move 'North' by the millions, and money moves 'South' by the billions" (Terry and Wilson, 2005). "International migration entails the physical movement of people form one country to the other. The financial counterpart of this is the remittances that the migrant send to his parents, spouse, children residing in the home country. This creates a correspondence between the physical outflow of people and the financial inflows of resources and money (remittances) sent back home by migrants" (Solimano, 2003).

It is estimated that around 25 million people from Latin America have left their home country to work abroad, 20 million of which have headed for "North" countries (Table 2), and the remaining 5 million are classified as intraregional migrants. Besides these "official" immigrants, there are millions of others who remain undocumented. According to Orozco (2005), those undocumented could represent more than 30% of the officially recorded migrant statistics. Moreover, seasonal cross-border laborers between neighboring countries make precise estimation more complicated.

Table 2. Immigrants from Latin America and the Caribbean (LAC)

		receiving countries/regions			
		United States	Canada	Japan	Europa
sending countries/regions	the Caribbean	2,953,066	294,055		(60,000 Dominicans in Spain)
	Central America	2,026,150	71,865		
	South America	1,930,271	300,000	350,000 (Brazilian & Peruvian)	(400,000Eduadorians in Spain)
	Mexico	9,177,487	36,225		
	LAC Total	16,086,974	702,145	350,000	2,000,000

Source: Orozco (2005).

According to the traditional migration theories, wage differential between urban (industrial) and rural (agricultural) sectors is the major cause of migration. Moreover, the Harris-Todalo model hypothesizes a two-step migration process from rural agricultural activity to formal urban employment: from rural to urban informal sector, and then from informal to formal sector.

With the progress of globalization, however, the migration patterns have drastically changed. A great majority of migrants are crossing borders directly from rural areas to find a better job in more developed countries. Many of them are from relatively low income rural areas, but they don't take the mentioned two-step decision, and as a result transnational families have become the center of migration issue[1].

The economic view on migration also has diversified. As mentioned above, the classical arguments were centered on wage differential between the origin and the targeted sector and on the probability of being able to find formal employment after his or her migration to the urban informal sector. Current studies pay much more attention to households' risk-coping strategies in the decision making process of migration (Pozo, 2005). Previous economic theories of migration presumed that the decision making unit was the individual economic man. The family left behind did not appear explicitly. But, if "transnational families" enter into the scope of analysis, remittances, the economic flow opposite the migration flow, appears on the stage.

Economic motivations to remit have become a central issue for researchers along with motivations to migrate. Lucas and Stark (1985) have led the attempts to explain the principal factor on deciding to remit, although they refer to Botswana's domestic migration case[2]. Rosenzweig and Stark (1989) discuss migration and marriage issues combined with consumption smoothing (ex-post risk-coping strategy). In their study of rural India, they find that the families arrange marriages between the villages where economic risks correlate as small as possible.

While the former literature addressed domestic migration, recent studies apply the same ideas to transnational migration in order to explain the motivation to remit. Solimano (2003), for example, invokes Lucas and Stara (1985) and categorizes the motivation into four groups: altruistic motive, self-interest motive, implicit family contract I – loan repayment, and implicit family contract II – coinsurance.

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[1] Globalization not only foments international migration, but also mitigates (psychological) burdens of transnational families through the "5 Ts" of migration: remittance transfers, tourism, transportation, telecommunication, and nostalgic trade (Orozco and Wilson, 2005).

[2] They assume that the migrant neither works harder nor accepts worse working conditions with higher pay in order to remit, and no "moral hazard" is involved in the side of those left behind in the home country. The latter issue will be addressed later.

It seems that neither the altruism model nor the self-interest model have been supported, but a compromise between those two extremes, "intra-family mutual risk-coping arrangement," has been accepted intuitively and empirically. Decisions made by migrants to send money back to their country of origin are greatly influenced by expectations of eventual repatriation, the financial capacity of the senders, the needs of receivers, tacit agreements between the two, and macroeconomic factors, particularly the foreign exchange rate, interest rates in home and host countries, and the inflation rate in the home country (Glytsos, 2001). However, when we recognize migrants' hard-work, thrift and sacrifice as well as the nature of transnational families, and consider the fact that the remittance flows are very resilient against economic recessions in the host country, we cannot underestimate the altruistic aspect of remittance-sending[3].

III. Economic impact and potential problems of remittances

Whatever the principal motives to remit, the microeconomic and macroeconomic impacts that remittance inflows generate are huge. On the micro (household) level, remittances directly enable recipient family members to satisfy their daily consumption needs, which in turn can improve their well-being. Various household surveys carried out in Latin America have found that more than 80% of incoming remittances are spent on consumption. The remaining portion (around 15%) is invested in physical assets, human capital, or microenterprises. Because of this, critics say that the current level of productive use is very limited and the potential of remittances is overestimated.

The fact that a higher percentage of remittances is used for consumption, enabling family members left behind in the home country to meet daily needs, is meaningful in its own way. Additionally, if one considers the total annual remittance flow which amounted to

[3] "The millions of decisions to go abroad and send money home are driven by both altruism and a mix of harder-nosed objectives described as 'insurance motives.' Yet the commitment to family remains at the core of these flows. In this sense, remittances can be truly characterized as the human face of globalization." (Terry and Wilson, 2005).

US$ 53.6 billions in 2005 as mentioned above, 15% of that quantity (US$ 8 billions in total) is a huge external funding source. There also may be an underestimation of the productive uses of remittances. In those household surveys, some households might have categorized their investment expenditures as consumption. School expenses might have been classified as daily consumption in spite of the fact that those expenditures are directly related to human capital investment. Moreover, although the purchase of some durable goods and the improvement of housing sometimes have a double function (consumption and investment), especially in the case of microenterprise households, they tend to be defined only as consumption.

Remittances also have a huge macroeconomic impact in receiving countries. "For many developing economies, remittances constitute the single largest source of foreign exchange, exceeding export revenues, foreign direct investment (FDI), and other private capital inflows. Moreover, remittances have proved remarkably resilient in the face of economic downturns" (Spatafora, 2005). In many countries, remittances compensate for the current deficits of Balance of Payment. Moreover, this is achieved without deteriorating fiscal discipline, because remittance money is non-reimbursable unlike other financial sources.

From a macroeconomic perspective, remittances can generate financial sector development in recipient countries, if the governments correctly encourage financial intermediation and promote financial literacy of recipient households – "banking the unbanked" (Orozco and Wilson, 2005; Spatafora, 2005). By mainstreaming remittances into sound financial institutions, these financial intermediaries can accumulate a necessary fund to launch new services such as microfinance and mortgage loans targeted to relatively low income households[4].

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[4] In addition, some Latin American commercial banks which intermediate remittances have issued remittance-backed bonds securitizing those monetary flows (Ketkar and Ratha, 2001). "Such securitization has been an attractive way for some developing country banks to achieve investment-grade ratings, significantly reducing their borrowing costs" (Spatafora, 2005).

On the other hand, some probable negative impacts have also been discussed. First of all, remittances have been equated with so-called "Dutch Disease." The influx of remittances might cause a real exchange rate appreciation, which in turn will hurt recipient countries' export industries[5].

Second, a "Moral Hazard" issue on the part of the family members left behind in home country has been hypothesized. If they receive a sufficiently large quantity of remittances compared to the home country's average wage rate, they might lose incentive to work and depend more and more on the migrant's remittances. In this regard, while Spatafora (2005) rejects this moral hazard hypothesis, Chami, Fullenkamp, and Jahjah (2003) equate a negative impact of remittances with it. The latter concludes that remittance recipients can decrease labor force participation and/or reduce labor effort.

Third, "Brain Drain," which is more related to migration than remittances, might weaken the economic development base of labor-exporting countries (Özden and Schiff, 2006). Not only lower-skilled laborers but also highly-educated skilled workers emigrate, and the ratio of the latter group to the former is relatively high especially in the Caribbean countries, where economic opportunities are limited for professionals. Mishra (2005) calculates the welfare loss incurred by brain drain of those Caribbean countries, and suggests that the costs of brain drain might outweigh the positive impacts generated by incoming remittances.

These three probable negative aspects related to migration-remittance behavior need to be measured more accurately in the future, but the point here is that the remittance money generated as a result of international migration are not necessarily harmful for labor-exporting countries. On the contrary, that money can be used effectively in order to not only improve households' welfare, but also enhance its macroeconomic impact on

[5] It should be kept in mind that in Latin America many countries are highly dollarized. In Ecuador, El Salvador, and Panama exchange fluctuation practically doesn't exist.

receiving countries. For this purpose, the role of governments in facilitating remittance markets is very important, but to do so, more precise data on remittances is required[6].

IV. Remittance markets: difficulties in data estimation

While remittance inflows have various macroeconomic impacts on labor-exporting countries, lack of data for some money-sending channels makes effective policy-making difficult. Actually, the majority of incoming remittances enter Latin America not through commercial banks but through specialized money transfer companies and informal money-sending methods (through couriers, persons traveling to their home country, etc.)[7].

Neither migrants nor those left behind in the home country have full access to a banking account, and if they exist, the money transfer services offered by formal financial institutions usually don't reflect the needs of the transnational families. Some migrants have legal status problems in the host country, which hinders them from enjoying any financial services. That is why specialized money transfer companies (e.g. Western Union, MoneyGram) hold an important position in the remittance market, in spite of higher transaction costs imposed by them.

It is calculated that on average each money transfer made by Latin American migrants varies between US$ 100 and US$ 300. The money transfer companies are generally under no obligation to report such small transactions to the relevant authorities, which makes a precise estimation of remittance flows difficult. Remittances through informal

[6] "Much of the microeconomic data available today to study the remitting habits of immigrants result from the opportune placement of one or two question in a survey instrument that was designed to study other economic phenomena and hence only imprecisely measures remitting behavior. Similarly, the macroeconomic data reported by central banks on international remittances vary in their theoretical definition and in the ability of the central banks to obtain a comprehensive and accurate measure of those flows" (Pozo, 2005).

[7] Bolivian case, for example, shows that only 32% of remittance inflows are received through formal financial institutions, while 29% is through specialized money transfer companies, 22% through couriers, and 17% through traveling persons to Bolivia (Bendixen, 2005).

channels are much harder to capture, because in these channels the existence of "in-kind" remittances is quite significant.

Such data coverage problems as mentioned above are intensified in the case of so-called "south-south remittances" – remittances between neighboring countries [8]. "While intraregional migrants may not be the very poorest members of the population, those crossing borders for work are likely to be significantly poorer on the average than those going to the United States or Spain. Members of this demographic group are clearly less sophisticated with respect to financial transactions and are largely unfamiliar with what may be called a 'banking culture'" (Fagen and Bump, 2005).

In many countries, however, besides ordinary procedures for composing the balance of payment, additional surveys have been introduced in an effort to capture remittance inflows that don't pass through the formal financial institutions. The authorities concerned (e.g. National Statistical Institution and/or Central Bank) ask money transfer companies for more detailed information about their transactions. As to informal channels, they put some additional questions about remittances into the existing format of household survey in order to estimate such flows including those of in-kind. These methods have helped improve data quality to some extent, but not sufficiently [9]. International organizations are supposed to support this trend indirectly through redefinition and reorganization of some components of balance of payment statistics.

V. Ongoing discussion

In accordance with the increase of public interests in remittances, at the Sea Island Summit (July, 2004), the importance of data improvement on this issue was discussed

[8] For example, Haitians in Dominican Republic, Nicaraguans in Costa Rica, Bolivians in Argentina, and Peruvians in Chile.

[9] "It is important to note that, apparently the reporting of remittances has improved and this could be also behind the increase in figures of remittances" (Solimano, 2003).

and incorporated into the action plan (see Appendix A). Then, the IMF and the World Bank organized the International Technical Meeting on Measuring Remittances in January 2005, for the purpose of deepening the discussion on the revision of Balance of Payments framework.

Under the current Balance of Payments framework, total remittances are generally calculated as the sum of following three items: “Compensation of Employees” (part of the income component of the current account), “Workers’ Remittances” (part of current transfer in the current account), and “Migrants’ Transfers” (part of the capital account) (for the definition of these items, see Appendix B). However, it has been pointed out that the concepts of the current Balance of Payments framework aren’t consistent with the prevailing international remittance phenomena. It is expected that redefinition and reorganization of the relevant components of the Balance of Payments will promote more comprehensive data processing and make economic impact measurement studies more straightforward.

For example, under the current definitions, when migrants’ accounts in their home country are accessible by family members in the country of origin through ATM cards, the migrants’ deposits in these accounts are not seen as remittances, but recorded in the financial account (Spatafora, 2005; IMF, Balance of Payments Textbook, paragraph 430). Another example is the case of self-employed migrants. While money “transfers made by migrants who are employed by entities of economics in which the workers are considered residents” are classified as remittances, similar transfers carried out by self-employed migrants are not remittances but current transfers (IMF, Balance of Payments Textbook, paragraph 432). These examples demonstrate that the current definitions of the Balance of Payments statistics have failed to respond to the technological advance and the dynamic international labor market structure change.

Those conceptual issues were left to the discussion at the Technical Sub-Group on the Movement of Persons (TSG) of the United Nations, which in turn is supposed to report its recommendations on remittance statistics to the elaboration of 6th Balance of

Payments Manual. So far, following new concepts have been introduced by the TSG (IMF, 2005):

- "Personal Transfers," which will include all current transfers in cash or in-kind made or received by resident households to or from other non-resident households. This item will replace the "Workers' Remittance."
- "Personal Remittances," which will be reported in the standard Balance of Payments presentations as a memorandum item. This item will include current and capital transfers in cash or in-kind, made of received, by resident households to or from non-resident households, and 'net' compensation of employees from persons working abroad for short periods of time (less than one year).
- "Institutional Remittances"
- "Total Remittances"

The first two items are key concepts on the TSG's recommendation, and it is observed that the focus is clearly on the residence status rather than migration status or type of migrants' income source. Besides these new concepts, the TSG has proposed that each country makes efforts as much as possible to compile bilateral remittance flows data for future tabulation of international remittance matrix.

VI. Concluding remarks

As a result of increasing awareness about importance of remittances, the efforts have been making to establish new international standard framework in search for a more accurate estimation of remittances. Once the new framework has been made, the point will shift to practical issues in each country: how do the governments align their existing data collection methods with the internationally recommended framework, and complement remittance data compiled by the newly defined Balance of Payments statistics with additional surveys which take into account each country's socio-economic situations[10]?

However, as IMF (2005) indicates, "a common and important issue is that many countries are unable to devote significant additional resources to collecting data on remittances or to improving compilation methodology. For many compilers, remittances data have less priority than other BOP (Balance of Payments) components" (also see Orozco, 2005). The private sector has reacted little by little to the new economic opportunities and is entering into remittance market. The public sector is supposed to help this movement indirectly offering a more accurate data, which in turn will be very useful for more efficient policy-making. More awareness raising by researchers and international organizations will be needed in order to enhance the public sector's participation in this issue.

[10] One useful platform will be the CEMLA (Centre for Latin American Monetary Studies / Centro de Estudios Monetarios Latinoamericanos) project on Improving Central Bank Reporting and Procedures on Remittances, supported by the Multilateral Investment Fund (MIF) of the Inter-American Development Bank (IDB).

Appendix A.

Sea Island Summit 2004

G8 Action Plan: Applying the Power of Entrepreneurship to the Eradication of Poverty

<u>Facilitating Remittances to Help Families and Small Business</u>

[…] This money is the fruit of the work of immigrants and plays an increasing role in the financing of development in the workers' home countries. Remittances can therefore play a key role in private-sector development efforts, enabling families to receive needed capital for, for example, education, housing and small business start-ups and expansion. […] Attracting remittance flows into formal channels can strengthen financial systems in developing countries […]. G8 countries will work with the World Bank, IMF, and other bodies to improve data on remittance flows and to develop standards for data collection in both sending and receiving countries. G8 countries will also lead an international effort to help reduce the cost of sending remittances. The development impact of these flows may be fostered by increasing financial options for the recipients of these flows.

The G8 programs […] will:

1. Make it easier for people in sending and receiving countries to engage in financial transactions through formal financial systems, including by providing access to financial literacy programs, where appropriate, and by working with the private sector to extend the range and reach of these services.
2. Reduce the cost of remittance services through the promotion of competition, the use of innovative payment instruments, and by enhancing access to formal financial system in sending and receiving countries. In some cases, remittance costs between sending and receiving countries have been reduced by up to 50 percent or more. G8 countries believe that similar reductions of high costs could be realized in the case of other countries.

3. Promote better coherence and coordination of international organizations that are working to enhance remittance services and heighten the development impact of remittance receipts in developing countries.
4. Encourage cooperation between remittance service providers and local financial institutions, including microfinance entities and credit unions, in way that strengthen local financial markets and improve access by recipients to financial services.
5. Encourage the creation, where appropriate, of market-oriented local development funds and credit unions that give remittance-receiving families more options and incentives for productively investing remittance flows.
6. Support dialogue with governments, civil society, and the private sector to address specific infrastructure and regulatory impediments. For example, governments should ensure non-discriminatory access to payment systems for the private sector, consistent with strong supervisory standards, and work together to modernize overall financial infrastructure.

Appendix B.

IMF, *Balance of Payments Manual*, 5th Edition.

"Compensation of Emplyees"

269. *Compensation of employees* comprises wages, salaries, and other benefits (in cash or in kind) 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. Included are contributions paid by employers, on behalf of employees, to social security schemes or to private insurance or pension funds (whether funded or unfunded) to secure benefits for employees. Employees, in this context, include seasonal or other short-term workers (less than one year) and border workers who have centers of economic interest in their own economies. Because embassies and consulates are considered extraterritorial to the economies in which they are located, the compensation received by local (host country) staff of these institutional entities is classified as that paid to resident entities by nonresident entities.

270. Compensation paid to employees by international organizations, which are treated as extraterritorial entities, represents payments to residents from nonresident entities if the employees are residents of the economies of location. Also, if the employees are from other economies but are employed for one year or more, they are treated as residents of the economies of location, and their compensation is classified in the same manner. Thus, in the case of employees from other economies who are employed for less than one year, no payments to residents are involved.

271. Personal expenditures made by nonresident seasonal and border workers in the economies in which they are employed and personal expenditures made by those working on installation projects are recorded under *travel*. Taxes paid, contributions made to pension funds, etc. in those economies are recorded as current transfer payments. Gross recording of compensation and expenditures is recommended in this Manual, although recording may, on practical grounds, be limited to estimates of net income in some instances.

272. In practice, 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 which they work, and migrants who have become residents of economies by virtue of being expected to live there for a year or more. 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. Otherwise, the comparability of balance of payments statements for the two compiling economies will suffer from dissimilar statistical treatment of the same individuals.

"Workers' Remittances"

302. Workers' remittances covers ***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, or is expected to stay, for a year or more.) Workers' remittances often involve related persons. Persons who work for and stay in new economies for less than a year are considered nonresidents; their transactions are appropriate mainly to the component for compensation of employees.

"Migrants' Transfers"

352. In the strictest sense, these transfers are not transactions between two parties but contra-entries to flows of goods and changes in financial items that arise from the migration (change of residence for at least a year) of individuals from one economy to another. The transfers to be recorded are thus equal to the net worth of the migrants.

353. All the household and personal effects of migrants, together with any movable capital goods actually transferred from the old to the new economy, are included under ***goods****-general merchandise*. Those flows of goods and corresponding offsets should, in principle, be recorded at the time of migration. If the flows are not derived from the trade returns, no timing correction of the figures is suggested, but offsets are recorded in the same period in which exports and imports are recorded.

354. Enterprises (including those that utilize land, structures, and movable capital goods not actually transferred) in which migrants retain ownership after departure become foreign claims of the migrants and, consequently, of the economies to which they have migrated. Migrants' claims on or liabilities to other residents of their former economies or claims on or liabilities to residents of a third economy also become foreign claims or liabilities of the economies to which they have migrated. Migrants' claims on or liabilities to the latter economies become claims between residents of these economies. Changes in the net financial assets of the relevant economies and the offsets thereto are recorded at the times of migration.

355. In practice, it is recognized that few countries are in a position to record all assets (other than possessions and funds accompanying migrants upon entry to new economies) in the balance of payments. Also, some countries treat those possessions and funds as transfers and record the remaining net worth of migrants as changes in the stock of claims in the international investment position. In such cases, the changes should be separately identified in reports made to the IMF.

IMF, *Balance of Payments Textbook*

"Workers' Remittances"

430. 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. However, 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, which is recorded in the ***financial account***, rather than a transfer.

431. Workers' remittances include only those transfers made by workers who stay in foreign economies for at least one year (that is, migrants). If workers remain in foreign economies less than one year, they are not regarded as residents of those economies and remittances to their home countries represent distributions of labor income earned from nonresident employers.

432. Workers' remittances are transfers made by migrants who are employed by entities of economies in which the workers are considered residents. If a migrant operates her or his own business in the new country—that is, if she or he is self-employed—her or his transfers abroad are not classified as workers' remittances but as ***current transfers***-*other sectors*-other transfers. This distinction is made because workers' remittances, according to the BOP convention, arise from labor and not from entrepreneurial income.

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