

WORKERS' REMITTANCES AND COMPENSATION OF EMPLOYEES

1. INDICATOR

- (a) **Name:** Workers' remittances and compensation of employees.
- (b) **Brief Definition:** Total annual current workers' remittances received by residents in a country plus compensation of employees earned by nonresident workers and migrants' transfers.
- (c) **Unit of Measurement:** US dollars.

2. POLICY RELEVANCE

- (a) **Purpose:** This indicator shows the extent of financial benefit for a country from temporary and permanent movements of its residents who are able to work abroad.
- (b) **Relevance to Sustainable/Unsustainable Development (theme/sub-theme):** For many developing countries, remittances are a major and stable source of external financing and thereby provide important means of implementation of sustainable development goals. As a result of increased globalization the importance of remittances has been rapidly increasing in the last decade.
- (c) **International Conventions and Agreements:** None.
- (d) **International Targets/Recommended Standards:** None
- (e) **Linkages to Other Indicators:** This indicator is closely linked to current account, reserves, measures of migration, and other measures of international economic development. It is the numerator in other indicators such as remittances as a percentage of GNI or GDP.

3. METHODOLOGICAL DESCRIPTION

- (a) **Underlying Definitions and Concepts:** Workers' remittances are defined in the Balance of Payments Manual. In the current, 5th edition, workers' remittances are defined as current transfers by migrants considered as residents (they are expected to stay and work for more than a year in the new economy) to residents in their country of origin. However, due to difficulty in classifying residents, the World Bank uses an extended definition of remittances which includes, in addition to worker's remittances, compensation of employees (net wages and salaries of nonresident migrants) and migrant's capital transfers. For the upcoming revision of the Balance of Payments Manual, total remittances are defined as the sum of personal transfers, net compensation of employees, capital transfers between households, and social benefits.
- (b) **Measurement Methods:** The indicator is derived by adding up workers' remittances, compensation of employees, migrants' transfers. The Bank practice differs from the Fund definition of remittances.
- (c) **Limitations of the Indicator:** It is difficult to measure the exact amount of remittances sent and received both in developed and developing economies due to money transfers through unofficial channels. Furthermore, the indicator does not provide information on the impact of temporary or

permanent migration on human capital of a country, which can be negative (temporary or permanent loss of human capital in the form of “brain drain”) or positive (skill upgrading of temporary migrants in the form of “brain gain”).

- (d) **Status of Methodology:** The methodology is generally well developed. The change for the 6th edition of the Balance of Payments Manual increases the alignment with the 1993 system of the national accounts.

4. ASSESSMENT OF DATA

- (a) **Data Needed to Compile the Indicator:** Balance of Payments data for workers’ remittances, compensation of employees, and migrants’ transfers.
- (b) **National and International Data Availability and Sources:** In most countries, national statistical offices, central banks or ministries collect balance of payments statistics and report them to the International Monetary Fund (IMF). However, in many countries data are incomplete and may not be comparable. The World Bank collects data on remittances based on the Balance of Payments Statistics Yearbook of the IMF, resorting to estimates in case Balance of Payments statistics are incomplete.
- (c) **Data References:** Information on remittances is included in the *World Development Indicators* and the *Global Development Finance*.

5. AGENCIES INVOLVED IN THE DEVELOPMENT OF THE INDICATOR

- (a) **Lead Agency:** World Bank. The contact points are Dilip Ratha (202-458-0558, Dratha@worldbank.org) and K. M. Vijayalakshmi (202-473-3827, Kvijayalakshmi@worldbank.org).
- (b) **Other Contributing Organizations:** IMF

6. REFERENCES

- (a) **Readings:**

IMF. 1993. *Balance of Payments Manual (5th edition)*.

_____. Various years. *Committee on Balance of Payments Statistics - Annual Reports*.

_____. Various years. *Balance of Payments Statistics Yearbook*.

World Bank. Various years. *World Development Indicators*.

_____. 2005. *Global Economic Prospects 2006: Economic Implications of Remittances and Migration*.

- (b) **Internet sites:**

World Bank: www.worldbank.org/data

IMF: www.imf.org/external/np/sta/bop/remitt.htm