

# International Remittances of Sri Lankan Labour Migrants: Channels of Transfer and It's Contribution to their Household Income

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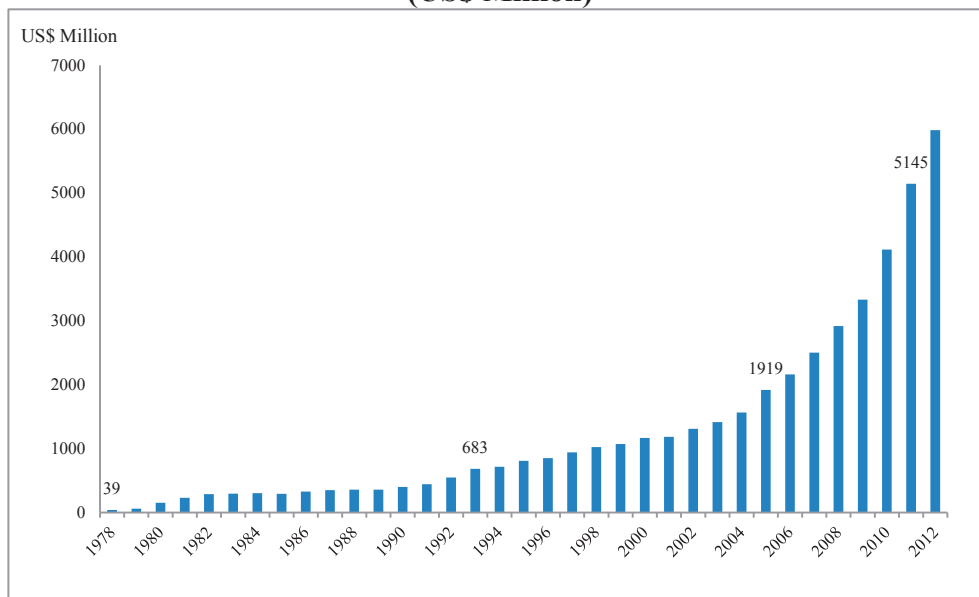
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## Introduction

During the past decades migration for labour and their remittance receipts have been increasing significantly. Currently, remittances have become a more stable source of foreign exchange to Sri Lanka. In 2012 the country received more than 5000 million US dollars as remittances (Figure I). It is significantly larger than the foreign direct investments and the foreign aids received by the country.

**Figure 1: International Worker Remittances to Sri Lanka 1980-2011  
(US\$ Million)**



Source: Central Bank Reports

However World Bank (2011) shows the possibility of the remittance flows to be underestimated due to the use of informal remittance channels and irregular migration. Hence, the real figures of the remittances can be higher than these recorded values. Informal transfers limit the contribution of the

remittances to the financial development of the receiving country. On the other hand, those transfers are not presented in the GNP calculations that represent the level of development of a country.

### **Research Problem**

Maximization of the development potential of remittances needs policies diverting the remittance transfers towards formal channels. However, lack of statistics and the poor literature prevent the policy makers in designing appropriate policies related to the remittance transferring. Even though there is rich literature on the labour migration, only a slight attempt has been made to explore the remittance transferring process in Sri Lanka. This study attempts to fill this gap by answering three research questions: what are the channels used to remit funds by the labour migrants to their household members left behind? What are the reasons behind the selection of those channels? And what are the perceptions of the remittance receivers about the role of remittances at the household level?

### **Objectives of the Study**

The main objective of the study is to explore the remittance transferring process and the role of the remittances at the household level. Specific objectives in this study are to elucidate the remittance transferring process and channels, explore the preferences of the remittance receivers and the reasons behind their preferences on remittance channels and examine the perceptions of the households about the remittances as a source of household income.

### **Theoretical Considerations and Empirical Evidence**

Studies of the remittances are limited to basic understanding and the implications of the remittances. Theory of New Economics of Labour Migration explores the motives behind remittances which are based on the socio-economic characteristics and the financial development in both home and host countries. Lucas and Stark (1985), Funkhouser (1995), Rapoport and Docquier (2005), and Stark (1991) show the altruistic, insurance and self interest motives of the remittance senders that decide the amount of money remit to the households left behind. These studies show that the socio-economic characteristics and the financial development of the home and host countries affect the remittance behavior of the migrants. Giuliano and Ruiz-

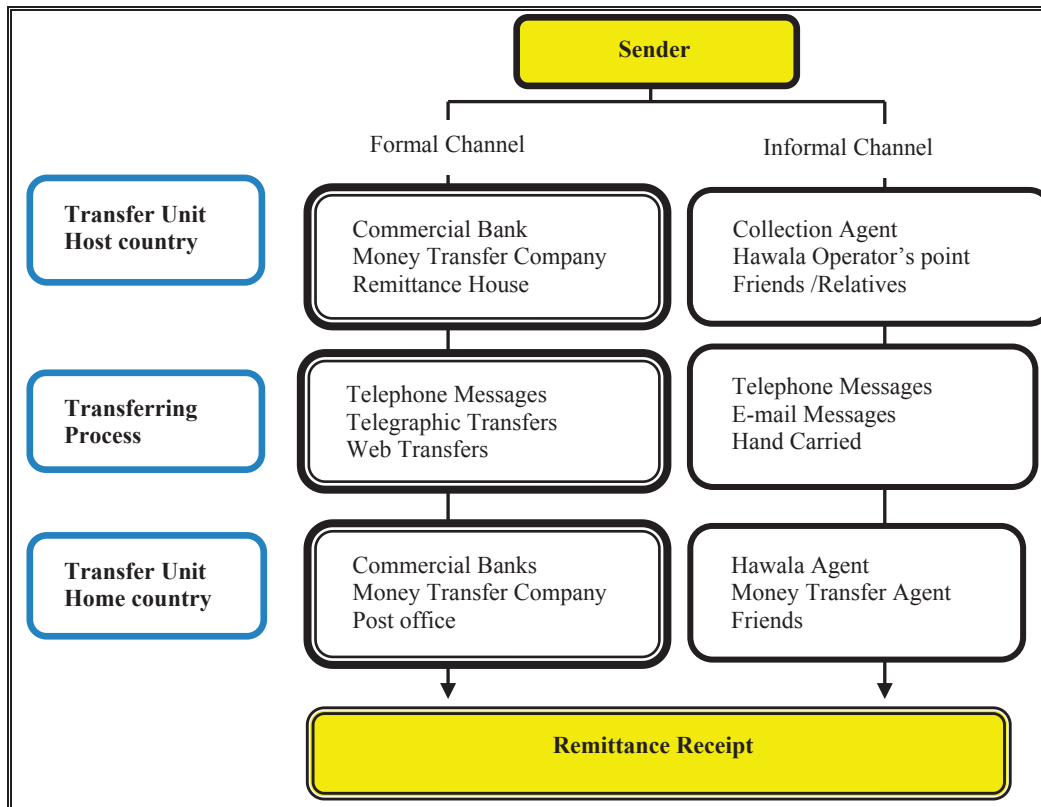
Arranz (2005) show that financial development of a remittance receiving country affects the development impact of remittances. Amuedo-Dorantes and Pozo (2005) examine the choice between formal and informal remittance channels. Choice between the official and unofficial channels is compared in this study. They show that the education, wider family network and the place of residence affect the preference of the remittance senders on the transferring channel. Lasagabaste et al. (2005) emphasise that the informal money transferring channels are also popular among the Sri Lankans that are most challenging competitors for the banks (Lasagabaste et al, 2005). They show different conditions motivate the remittance senders to use the informal channels. Arunatilake et al. (2010) show that the cost effectiveness, efficiency, cultural factors and safety are the reasons to use the informal channels by the Sri Lankan migrants.

### **Methodology of the Study**

Our study is an explorative study in nature. It mainly uses primary data collected through three focus group discussions held in the Kalutara district with the household members of international labour migrants and from the key informant interviews. Seven key informant interviews were held with three bank managers of leading banks who are directly involving with the management of remittance transferring activities, three managers of manpower agencies who are recruiting employees for foreign employments and with a government official. Study is mainly a qualitative study which uses the expressions, perceptions and preferences of the people on the transferring and role of remittances.

### **Key Findings**

#### **Figure 2: Remittance Transferring Process**



Source: Developed by Authors based on the information collected from the Focus Group Discussions and key informant interviews

Sri Lankan labour migrants are using different channels to transfer the remittances to households in their home country. Extended capacity of the financial institutions of Sri Lanka facilitates the transfers of international remittance (Lasagabaste, Maimbo, & Hulugalle, 2005). Interviews of the key informants and the focus group discussions revealed the money transferring process related to the remittance transfers from other countries to Sri Lanka (Figure 2).

According to the FGD majority of the households receive the remittances through authorized agencies in Sri Lanka. Authorization is given for the commercial banks, Sri Lanka Post, some selected specialized banks and financial companies under the Exchange Control Act No.24 of 1953. Male labour migrants who have pre migration experience are more likely to use quick money transferring methods. FGDs reveal that informal money transferring channels are also popular among the Sri Lankan labour migrants. More than 90 percent of the remittance receivers who participated in the focus group discussions did not have proper knowledge on the Hawala money transferring method. A popular informal channel among them was the hand carried method through friends or relatives or at the time of their return.

Remittance receivers who participated in the FDGs revealed that two main reasons behind the household's preference of formal remittance channels are the trustworthiness and the processing time. However, household members who have experience of migration emphasized on the cost of money transferring. Informal money transferring methods such as Hawala were used by the undocumented migrants or those migrants having problems with visas. As per point of view of bank managers, cost of the money transfers and the speed of the transactions are main concerns of the remittance senders. Receivers are also concerned on the transferring time and the flexibility. These reasons have motivated the banks to introduce more flexible and quick money transferring methods. However, the implications of these methods on the savings should not be neglected.

Contribution of the remittances at the household level was examined using the perceptions of the migrant households on the role of remittances as a source of household income. Three types of income that the households receive were identified in the discussions: regular income, irregular income and remittances. Majority of the households receive only the remittances and in a regular manner. Remittance as the only income plays a vital role in those households. For some households, remittance is one of the sources of income which is greater or less than other incomes. Amount and the pattern of the remittance receipts depend on the characteristics of the labour migrant and the household. There was a significant tendency towards a female centered remittance receiving network.

## **Conclusions**

International remittances are transferred to Sri Lankan households through formal and informal channels. Remittance receivers prefer formal channels of transfers due to the trustworthiness and the time saving factor. However the labour migrants with pre migration experience prefer more quick money transferring methods. Only a few participants of the FDGs were aware about the informal channels such as Hawala. For most of the remittance receiving households, remittance is the only income. Hence it plays a vital role in income enhancement, at the household level.

**Keywords:** Remittances; Remittance practices; Sri Lanka;

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