BOX 4

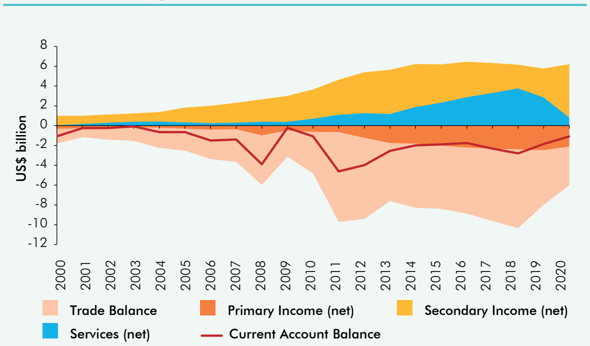
Workers' Remittances: Trends, Issues and Way Forward

Workers' remittances have been the largest single source of foreign exchange inflow in Sri Lanka's balance of payments (BOP) over the past decade. Contrary to the global expectation of a possible slowdown in workers' remittances in the face of the COVID-19 pandemic, Sri Lanka and a few other countries in South Asia stood out as exceptions, recording healthy remittance flows in 2020, demonstrating a sharp recovery from a dip recorded during the first half of the year. In this backdrop, it is imperative to recognise the importance of workers' remittances as a non-debt creating external financing source and the socio-economic challenges related to labour migration that need to be resolved in enhancing remittances to be a sustainable foreign exchange inflow to the country. Accordingly, this article discusses the historical trends and economic benefits of workers' remittances as well as social considerations related to labour migration while highlighting the challenges in enhancing remittances and measures to improve remittances.

Historical Trends in Workers' Remittances

Workers' remittances have long been a cushion against the current account shortfall, which emanated from the deficits in the trade and primary income accounts. Workers' remittances constitute almost 100 per cent of the inflows to the secondary income account of the external current account. Over the past two decades, annual remittances have represented nearly one fourth of the total credits to the external current account, on average, and exceptionally, this share exceeded more than one third (35 per cent) in 2020, reiterating the significance of remittances in mitigating external sector vulnerabilities and in maintaining macroeconomic stability. Being a major source of financing the trade deficit, workers' remittances have covered around 80 per cent of the annual trade deficit on average over the past two decades and remittance inflow has exceeded the trade deficit in 2020 accounting for around 118 per cent of the trade deficit. In 2020, the increase in workers' remittances helped abate the impact of the sharp decline in tourist earnings.

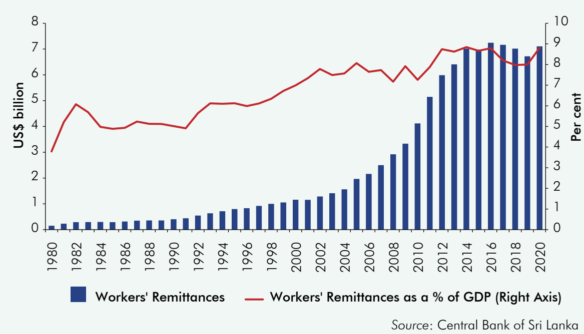
Figure B 4.1
Composition of the Current Account



Source: Central Bank of Sri Lanka

Workers' remittances as a percentage of GDP, which averaged around 5.7 per cent during 1981-2000 period, increased to around 8.0 per cent of GDP during the period from 2001-2020, reflecting the increased importance of workers' remittances in relation to Sri Lanka's GDP. Nevertheless, remittances have shown a declining trend during the past six years, except for 2016 and 2020. In the second half of 2020, workers' remittances increased significantly and recorded the highest monthly remittances in the history in December 2020. Accordingly, during 2020, workers' remittances increased by 5.8 per cent, year-on-year, to US dollars 7.1 billion. Sri Lanka's regional peers, i.e. Bangladesh and Pakistan have also started to demonstrate a partial recovery in remittances since the third quarter of 2020.

Figure B 4.2
Workers' Remittances



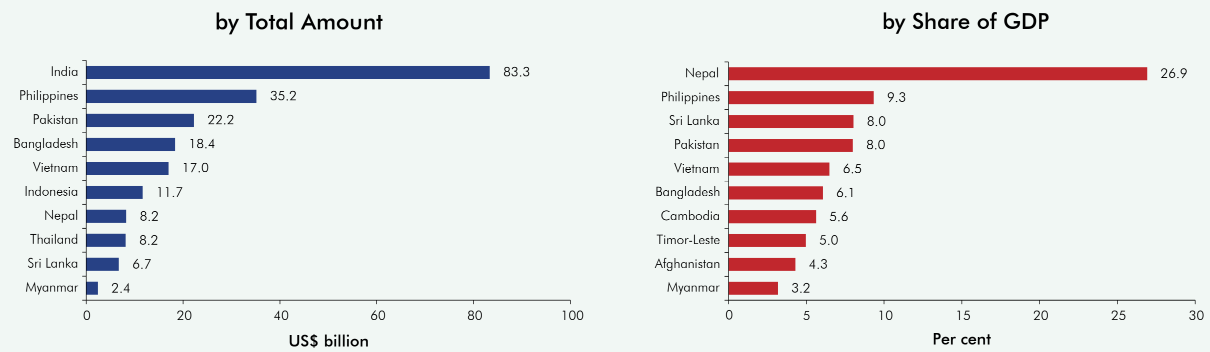
Source: Central Bank of Sri Lanka

In the global context, several Asian countries take the lead as top remittance recipients. While India is the highest remittance recipient in the world with US dollars 83 billion recorded in 2019, China, Philippines, Pakistan, Bangladesh and Vietnam are also amongst the top ten nations receiving remittances (World Bank, 2019). Although Sri Lanka is behind its regional peers in South and South East Asia in terms of nominal inward remittances, Sri Lanka's performance of workers' remittances in relation to GDP places it amongst the top five remittance recipients in the two regions.

Economic Benefits of Workers' Remittances and Social Considerations Related to Labour Migration

Workers' remittances deliver clearly visible and tangible benefits particularly to low- and middle-income countries like Sri Lanka. Remittances augment the recipients' incomes and generate positive multiplier effects while increasing their country's foreign exchange reserves (Ratha and Maimbo, 2005). Further, in contrast to capital flows which tend to be cyclical, remittances are relatively stable and often consumption smoothing, acting as an

Figure B 4.3
Top Remittance Recipients in South and South East Asia-2019



Source: World Bank

insurance during economic crises or after natural disasters (Bettin and Zazzaro, 2016 and De et al., 2016, cited in World Bank, 2019). Remittances have also become a way of sharing prosperity in various aspects such as its ability to reduce poverty and improve the standard of living of the beneficiary households.

Migration for foreign employment is often associated with social and financial costs which hinder the realisation of maximum benefits to the country. The foremost cost of labour migration is the social cost emanating from the impact on the wellbeing of the family members, especially the children who are left behind in the country. Most of the time, the health, nutrition and security of children are compromised in the families of migrant employees, especially with maternal migration. Moreover, lack of financial literacy of some migrant workers as well as their family members often leads to poor management of remittances for productive purposes making it difficult to attain the expected improvement in the standard of living of their households. In some households, remittances are spent on consumption of alcohol or drugs by the family members rather than on education of the children or for investment purposes. These issues are more prominent in the families of women who migrate for housemaid jobs.

Barriers to Enhance Remittances and Policy Prescriptions

Apart from social issues, several other factors act as impediments to improving the earning capacity of migrant employees and thus affecting remittances. In terms of the skills profile of migrant employees, Sri Lanka is heavily dependent on housemaids. However, the housemaids category, which accounted for the largest share of annual migrations of over 50 per cent two decades ago, has declined drastically to a share of below 30 per cent by 2020. In contrast, the share of labour migration under professional and skilled employee categories combined has almost doubled from 21 per cent to 37 per cent during the same period. Even though an upward trend in skilled labour migration can be witnessed, there exists a large mismatch between the international demand for jobs and Sri Lanka's supply capabilities. A higher demand is generated in advanced economies for specialised services such as nursing and elderly care with the changes in demographics including population ageing and increased female labour force participation rates. These jobs have a relatively high earning potential than in the case of housemaids. However, Sri Lanka has limited training institutions with international accreditation, recognised by foreign employers, to provide job-oriented training to bridge the skills gap and increase the readiness of Sri Lankan migrant employees to international markets.

Despite being a relatively stable source of foreign exchange, workers' remittances to Sri Lanka are highly vulnerable to economic and political volatilities in source countries due to over reliance on the Middle Eastern region as a destination for labour migration. The Middle Eastern region remains the primary market for Sri Lankan migrant workers, accounting for 80-90 per cent of annual departures for foreign employment from the country and more than half of the total remittance receipts. As such, the declining trend in remittances observed since 2015 may be partly attributed to the fall in the income of oil exporting countries in the Middle East. Unavailability of social security programmes for migrant employees also discourages employees from searching for employment opportunities abroad. Moreover, COVID-19 has also adversely impacted migrant workers as some employers have terminated employment of migrant workers during the first round of the pandemic. These workers faced many hardships due to COVID-19 related travel restrictions. Sri Lanka currently does not operate any contributory job loss insurance scheme for migrants that would ensure a minimum income to migrant workers even if they lose employment due to various factors, including a pandemic or a retirement benefit scheme that would ensure a continuous income stream for these workers in the latter stages of their lives.

High remittance costs are one of the major concerns of migrant employees across the globe. The 2030 Sustainable Development Goals (SDGs) set forth by the United Nations also include a target for reducing remittance costs to 3 per cent by 2030 to achieve the SDG of reducing inequality within and among countries. However, remittance costs still remain higher than the target where globally, sending remittances costs an average of 6.51 per cent and South Asia remains the lowest cost receiving region, with an average cost of 4.88 per cent (World Bank, 2020).

In view of enhancing remittance inflows to the country by overcoming the existing challenges related to foreign employment, the Government introduced several policy initiatives in Budget 2021. These measures included proposals to implement an integrated programme with the participation of all stakeholders to direct skilled workers for foreign employment and diversify the foreign employment market, establishing a contributory pension scheme for migrant employees and to pay Rs. 2 per dollar above the normal exchange rate for the foreign exchange remittances converted at licensed banks. Further, the Government, in consultation with the Monetary Board of the Central Bank, introduced a Special Deposit Account scheme to attract more inward remittances to the country in 2020. The Government together with the cooperation of other relevant stakeholders has established a Task Force to propose recommendations aiming at improving remittances.

Way Forward

The importance of remittance inflows as a non-debt creating source of foreign exchange has increased in the face of the pandemic and calls for immediate actions to keep remittances flowing. Promoting financial inclusion to improve access to the banking sector, strengthening competition and developing financial infrastructure could substantially reduce remittance costs and increase remittances while shifting a larger share of remittances from informal to formal financial channels. Incentivising digital money transfers such as online remittance channels, mobile money and transfers through Fintech would also contribute to reduce transaction costs.

There is a dire necessity to find alternative destinations for migrant workers rather than relying upon the Middle Eastern region, which is often subjected to economic crises driven by the swings in oil prices and geopolitical tensions. In this regard, exploring new labour markets and entering into bilateral agreements with other advanced economies, including Singapore, Japan and European countries are imperative to reduce the exposure of Sri Lankan foreign remittances being sourced largely from one single region. Progressive up-skilling of migrant workers through investments in competency development through vocational training and by providing high quality training on par with international standards, is beneficial in securing employment opportunities with higher and stable earnings. In addition, attention should also be drawn to improving the language proficiency, financial literacy and cultural preparation of migrant employees at the pre-departure training programmes. Raising awareness of family members of migrant employees in Sri Lanka on remittance management is also imperative to ensure the proper utilisation of remittances for the betterment of the households. Most importantly, continuous monitoring systems and other measures to support families left behind, such as childcare and education support for children are required at the grass root level. With the support of other relevant authorities, the regional offices of Sri Lanka Bureau of Foreign Employment could help establish a continuous monitoring programme and provide counselling services for family members of migrant employees.

The economic crisis that originated from the pandemic has exposed significant data gaps that restricted real time monitoring of remittance flows as well as movements of migrants. Hence, there is a pressing need to improve the data collection systems on remittances. In this regard, the Central Bank is in the process of implementing an International Transactions Reporting System (ITRS), which is a comprehensive cross border and foreign currency transactions monitoring system that will be executed through licensed banks. This will help improve BOP statistics including but not limited to a wide range of data on workers' remittances while also supporting to reconcile any statistical discrepancies. The ITRS will provide disaggregated workers' remittances data based on the country of origin, currency, remittance receiving districts, demographics of remitters and recipient banks which will enable to better estimate the distribution of remittances and identify emerging trends that would be of use in devising policies to enhance remittances.

The Government envisions achieving a robust economic growth while enhancing non-debt sources of foreign exchange earnings and inflows to fill the resource gap of the country. In this regard, workers' remittances play a vital role by contributing to offset BOP deficits, improved liquidity conditions in the domestic foreign exchange market, augment the international reserve levels and thereby improve the country's credit worthiness, poverty reduction and promotion of savings and investments. In order to maximise the positive effects of remittances on economic growth and development, the role of the Government and the policy makers should be focused on making remittances and labour migration cheaper, safer and more productive with the collective effort of all the relevant stakeholders.

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