Female Migrant Workers' Contribution to Sri Lanka Growth

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Executive summary

Women represent half of Sri Lankan migrants. Migrant women and men have different behaviours in sending and receiving remittances. Remittances may foster Sri Lanka's growth through an increased accumulation of capital and improved Total Factor Productivity, but they may also hinder it because of the lower labour force participation and increased consumption (in particular, of imported goods). Even if our policy note focuses on the long run, remittance sending is increasingly more urgent in Sri Lanka, due to the pandemic-induced economic crisis. We address our policy note to the Sri Lanka Bureau of Foreign Employment (SLBFE) to better utilize migrant women's potential for Sri Lanka growth. The main policy recommendations include a systematic and sex-disaggregated collection of remittances' expenditures data, an incentive to bundle savings accumulation with remittances sending, and a more productive use of remittances and migrant women's human capital.

Keywords: Remittances, Growth mechanisms, Sri Lanka, Gender, Migration

1 Introduction

On the 8th of February 2022, the Central Bank of Sri Lanka launched "Lanka Remit", an application designed to facilitate remittances' sending: following the sanitary crisis, rating agencies such as Fitch or Standard and Poor's have downgraded Sri Lanka's rating due to difficulties in repaying debt and interests. Tourism and remittances, two essential sources of income for Sri Lanka, have dropped during the crisis: the government is currently trying to reverse the trend by calling expatriates to send higher remittances. Remittances are thus an urgent issue for Sri Lanka's growth.

However, if the positive link between **remittances and growth** is established in Sri Lanka (Siddique et al., 2012), it's not obvious that migration is overall favourable for Sri Lanka's growth. In the short term, increasing remittances can be useful to boost consumption; in the long term, while remittances can contribute to capital accumulation and the growth of Total Factor Productivity, there are some concerns about migration itself as it decreases the number of potential workers in the country.

More precisely, Sri Lankan migration is characterized by a high share of low-skilled **women** who leave their country to perform home services abroad. This kind of migration has some specificities that are rarely taken into account in economic papers studying this subject: women do not send the same amount of remittances to their family as men, and do not migrate for the same reasons. It may therefore be relevant to distinguish between female and male migration when studying its consequences on growth. In this policy note, the focus is on low-skilled women's international migration as it's often the blind spot of political and economic papers on this subject. Is migrant women's potential for their native country's growth being misplaced?

The **goal of this policy note** is to describe Sri Lankan migration's consequences on growth with a specific focus on gender issues. To provide a better allocation of the migrant women's potential, we advise the Sri Lanka Bureau of Foreign Employment (SLBFE) to collect sex-disaggregated data, to ease savings accumulation (in particular through mobile banking) and to incentive a more productive investment of remittances.

1.1 A brief overview of Sri Lanka

The key event in Sri Lanka's recent history is the **civil war** between Tamils and Sinhalese (1983-2009). This war has consequences until today, as it partly explains the large number of Sri Lankan migrant workers. Migrants and especially women migrants leave the country because of lack of job opportunities, and the climate of insecurity exacerbates this process (IMF, 2021).

Economically, Sri Lanka **relies** heavily **on** tourism, tea, textile industries and agriculture. The country is currently in crisis, due to a huge decrease in agricultural products as a result of a policy banning non-organic farming, a fall in tourism revenues and remittances after Covid and security concerns. The debt to GDP ratio is over 100%, the country has big difficulties to repay its debt and interests (in particular to China), the foreign exchange reserves are very small[1].

2 Stylized facts on migration from Sri Lanka

In this policy note, we will focus on international migrants. We will not deal with internal migration from more deprived zones in the Northern and Eastern provinces to the capital city of Colombo.

International migration is massive in Sri Lanka: about 1.7 million migrants work abroad, with an annual outflow of about 200,000 persons (UN, 2020).

Stylized fact 1: More women than men migrate from Sri Lanka

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[1]Future of Sri Lanka's public debt is very uncertain, and debt rescheduling or default are not to exclude. However, a thorough discussion of this issue is outside the scope of the policy note.

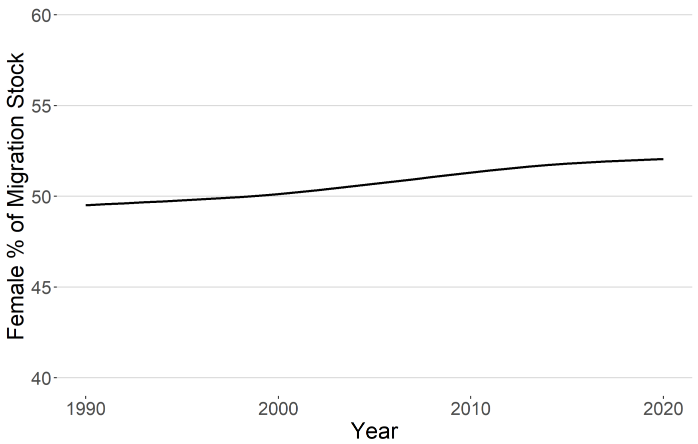

Figure 1: Rate of female migrants as a percentage of total migration stock in Sri Lanka, 1990-2020. Source: UN (2020)

Contrary to the narrative of migration as a man expatriating for working and the family following him, half of all Sri Lankan migrants are women. This figure is in line with South-East Asia (49.6%, UN 2020). According to the World Bank's staff estimates of the 2019 Revision of the United Nations Population Division's World Population Prospects the percentage of female migrants over total migration stock has slightly increased since 1990 (Figure 1) (Piper and Lee, 2013).

Stylized fact 2: Most migrants return to Sri Lanka after a period of work abroad

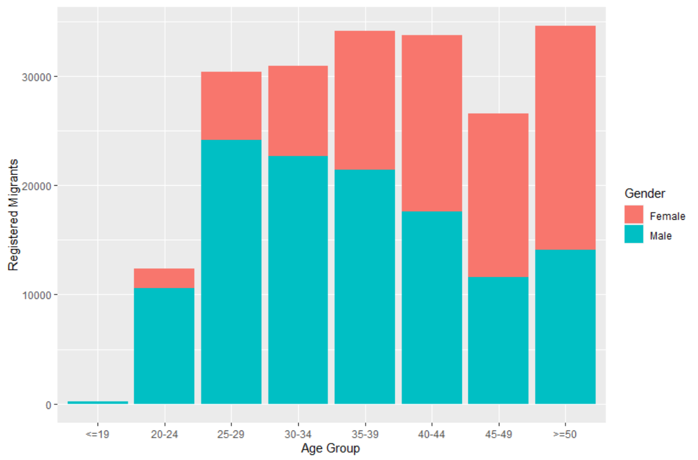

Figure 2: Number of migrants from Sri Lanka in 2019 disaggregated by sex and age groups. Source: Sri Lanka Bureau of Foreign Employment (SLBFE, 2021a)

In Sri Lanka, most families do not reconnect with the member of the family who first moved abroad. Labour migration laws in Asian countries are designed to make sure that the unskilled migrant worker returns to her country of origin (Shah, 2004): for example, family members are not allowed to accompany or visit the worker and there is an age restriction for women migrants, who cannot work abroad as domestic workers if they are under 21 (Rakkee and Sasikumar, 2012).

This is confirmed by age trends: most female migrants are within older age groups, so they do not tend to move to another country to build a future there (Piper and Lee, 2013). As Figure 2 shows, younger age groups tend to have more male migrants than female migrants; however, that trend gradually flips as the age group gets higher.

The growth-increasing potential of remittances is thus particularly relevant in the Asian temporary labour migration context since workers return to the country with monetary and social remittances (Mizanur Rahman, 2013).

Stylized fact 3: Most migrants from Sri Lanka emigrate to Gulf countries

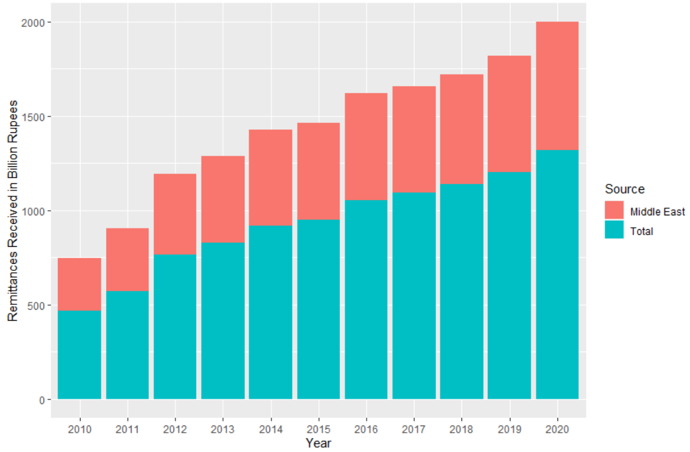

Figure 3: Total remittances received in Sri Lanka and remittances received exclusively from the Middle East (in billion Rupees), 2010-2020. Source: SLBFE (2021a)

Migration to Gulf countries (Saudi Arabia, the UAE, Kuwait, and Qatar) make up more than 80% of Sri Lanka's migrants. Since 2010, remittances received by Sri Lanka from the Middle East have constituted almost half of their total remittances. Those countries impose restrictions on the length of stay, strict regulations about changing jobs, the inability to own land and businesses, the near-impossibility of obtaining citizenship so that migrants' stays remain temporary and informal (Lian et al., 2004).

Stylized fact 4: Female migrants mostly work as domestic workers

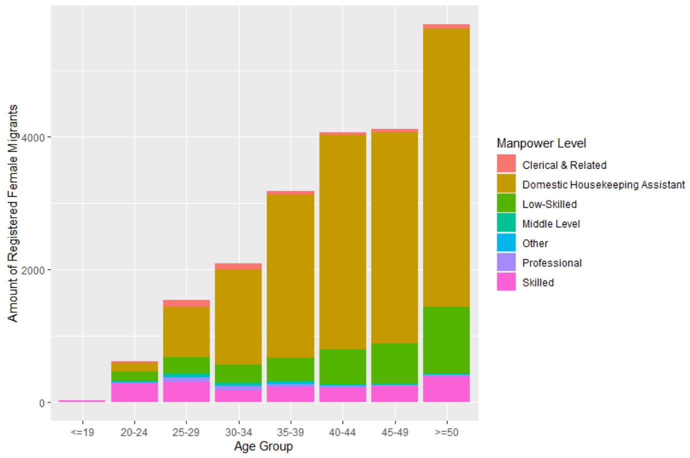

Figure 4: Jobs of female migrant workers from Sri Lanka in 2020. Source: SLBFE (2021a)

An increase in female labour participation in other developing countries has resulted in a **care deficit**. Therefore, this care is outsourced to women migrant workers, Sri Lankan women being among them. The majority of female Sri Lankan migrants aged 25 years old and more work in domestic housekeeping and assistance, as Figure 4 demonstrates. These migrant workers partake in reproductive labour, in other words, domestic and care work which includes nursing, child and elderly care, cleaning and other similar housework. This type of labour is typically seen as a "natural" extension of women's traditional gender roles. It also underpays and is undervalued (UNW, 2017).

Older women tend to work more in domestic housekeeping assistance (Figure 4). The only age bracket for which that isn't the case is that of women 24 years old and younger. The majority of these young women emigrate for educational purposes, mainly for undergraduate and postgraduate studies. For this reason, they are classified as skilled (WB, 2021a).

In this policy note, we mainly focus on female low-skilled and domestic worker migrants.

Stylized fact 5: Female labor force participation is low in Sri Lanka

To understand the reasons for their migration, we may consider the labour force participation of women in Sri Lanka. Only one-third of the working-age women in Sri Lanka participate in the labour market (Samarakoon and Mayadunne, 2018). Moreover, the ILO's records of labour force participation in Sri Lanka, demonstrated in Figure 5, shows a decline in labour force participation of women since 1990, despite the increase in GDP per capita.

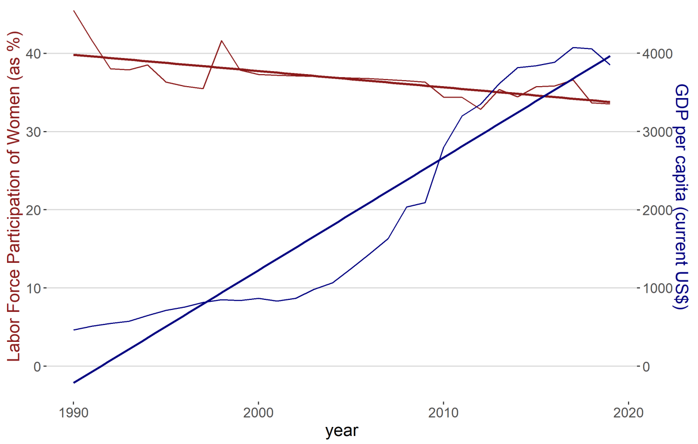

Figure 5: Evolution of labor force participation of women as a percentage of total labor force participation and GDP per capita in Sri Lanka, 1990-2020. Source: UN (2020)

3 Gender-differentiated patterns of remittances

Gender is a factor that determines the power relations at play throughout the migratory process. **Before** the migration takes place, families expect that women will continue to maintain the family, as an extension of their socially assigned caregiving duties. For this reason, families encourage women's migration. **During** the period abroad, women usually work as cleaners and housemaids: domestic work is often not protected by labour laws, due to the isolated nature of domestic work itself and gendered stereotypes of the low value attached to care work (see the prevalence of women complaints related to labour exploitation in SLBFE 2021a).

The focus of this section is to understand the different behaviours of women as remittances **senders and receivers** in Sri Lanka. When sex-disaggregated data for Sri Lanka is missing, we integrate our analysis with worldwide evidence of trends (Petrozziello, 2013) and with studies in countries culturally and geographically close to Sri Lanka, as Bangladesh (Mizanur Rahman, 2013), Philippines (Semyonov and Gorodzeisky, 2005), Indonesia (Rahman and Fee, 2009; Tacoli, 1999).

3.1 Sending remittances

The gender of the migrant has an impact on the volume, frequency, and persistence of remittances over time.

Globally, women tend to send amounts **equal or higher** than men (Petrozziello, 2013). Data from more than a decade ago from the Sri Lanka Bureau of Foreign Employment show that women have contributed more than 62% of the remittances delivered, while the proportion of migrant women was around half of the migrant population (SLBFE, 2021a).

Given salary discrimination in destination countries and gender-segregated labour markets, women tend to earn lower wages than men. Thus, women send a **larger proportion** of their earnings as remittances. In this way, gender inequality in the global economy has important consequences in the local receiving economy.

This pattern may be explained by the different **occupations** of migrant women and men. Construction workers, agricultural workers, drivers are among the most common Sri Lankan men's jobs abroad (SLBFE, 2021a). Thus, their employment is more likely to entail additional expenses for transport, food, accommodation, but also for socialising with other migrants in a way that women domestic workers generally cannot do. Women mostly work as cleaners and housekeepers, thus most of their day-to-day expenses were included in the terms of their contract and opportunities to socialise and spend money are limited (Withers, 2019).

However, women may tend to sacrifice personal expenses to send more money home, thus reinforcing **gender roles** which assign women the responsibility of guarantors of family well-being (Petrozziello, 2013). The same social expectation leads women to send **small** amounts of money, regularly and over a **long period** of time to be invested in reproductive necessities - food, school fees and housing (Kunz and Maisenbacher, 2021).

In terms of **number of receivers**, evidence from South Asia shows that men tend to send money to a more concentrated number of family members, while women support a broader array of extended family members (Rahman et al., 2014), for example, to support distant relatives for emergencies and education purposes. This responsibility may lead to the extension of their stay abroad (Petrozziello, 2013). It is estimated that each Sri Lankan migrant woman on average supports a family of five members: in total, female migrant workers support more than 20 per cent of Sri Lanka's total population of 4 million people (Rakkee and Sasikumar, 2012).

3.2 Receiving remittances

Worldwide, women make up a **large majority** of remittance recipients, regardless of whether the sender is a man or a woman (Rahman and Fee, 2009). Migrant men tend to remit to their wives and/or mothers, while migrant women send money to the woman in their family who is taking care of their children left in Sri Lanka (Petrozziello, 2013).

In fact, husbands of migrant women are reluctant in taking up the socially assigned women's role of childcare, cooking and other household activities, and they often arrange to have **female relatives** perform the reproductive work. On the one hand, his reliance on extended families has the risk to turn typical care recipients – elderly women and young girls – into caregivers (Withers and Piper, 2018). On the other hand, women who take care of the migrant's household receive remittances and have a certain degree of power in the decision of how to spend it.

In Indonesia, management of this income lies in the hands of the mothers, but migrant daughters' preferences are taken into account (Elmhirst, 2002; Rahman and Fee, 2009). The converse is true in Bangladesh, where most remittance receivers are males (Rahman et al., 2014).

We currently have no data on the receivers' gender in Sri Lanka. Moreover, it is important to highlight that not necessarily the person who receives the remittance is also the one who decides how to spend it. However, evidence from the Philippines suggests that women recipients are more likely to have control of how the remittance, with positive implications for their household decision-making power (UNDP, 2010). Data collection with regards to these issues is thus recommended.

Policy Recommendation 1: **Enhance data collection**
Addressed to: **SLBFE**

There is a need to extend the scope of these studies to examine the impact of remittances on economic development by using larger, nationally representative **surveys**. Household surveys that interview more than one family member represent the best possible source of information about how remittances are spent (Withers and Piper, 2018). Firstly, they should be based on large, representative household samples. Secondly, the way questions are asked should enable SLBFE to understand the full impact of remittances. For example, remittances that are not being spent directly on investment may well have freed other resources for expenditures on investment (Withers, 2019).
Other analytical challenges are the distinction between management of remittances and decision-making power over their usage and the ambiguity in the category "head of household".
In terms of sex-disaggregated data, it is necessary to use survey data to understand the intrahousehold dynamics, but **census** data on the sex of remitters and receivers is key information to design gender-aware and effective policies.
Moreover, data collection on province, social class, ethnicity and household structure may shed light on the **intersection** between these determinants and gender.

In this way, a decomposition of the mean differences between migrant men and migrant women in earnings, remittances and household income would be possible to understand the Sri Lankan context, as already done in other countries, for example, the Philippines (Semyonov and Gorodzeisky, 2005).

4 GDP Growth and Remittances

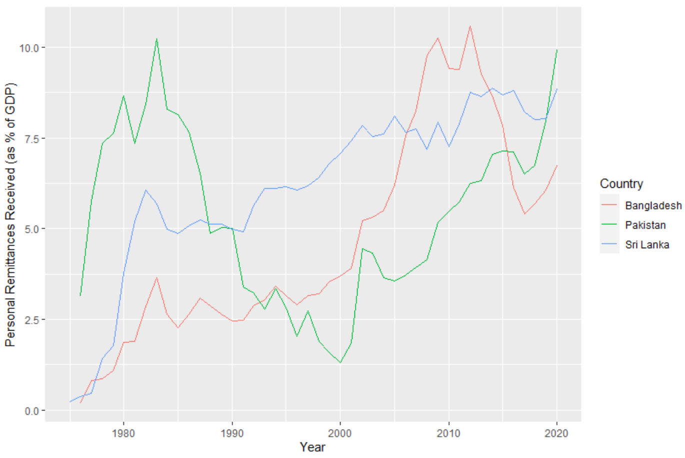

Figure 6: Remittances received as a percentage of GDP in Sri Lanka, Bangladesh and Pakistan, 1990-2020. Source: World Bank estimates based on IMF balance of payments data and World Bank and OECD GDP estimates. WB (2021b)

Despite the increase of GDP per capita (see Figure 5), Sri Lanka's **remittances as a percentage of GDP** has increased. Remittances constituted 7-8% of GDP in Sri Lanka throughout the last decade, placing it amongst the top five remittance recipients in South and South-East Asia (CBSL, 2020). This percentage has increased throughout the last 20 years, entailing a larger reliance on remittances for growth, with a trend similar to the one of Pakistan and Bangladesh, countries close to Sri Lanka geographically and culturally.

The first approach to understand the impact of remittances on growth are simple **correlations** between these two variables. In Table 1 we selected some papers focusing on South Asia from the extensive literature on the impact of remittances of growth using yearly macroeconomic indicators retrieved from the World Bank database. This approach is however not only inconclusive but **insufficient** in providing policy recommendations, as we detailed in the technical note.

Technical note: Remittances-growth regressions

There are however some problems in translating results from the literature (Table 1) in policy recommendations:

- **Measurement errors** in the recording of remittances, as informal remittances are not accounted for. Even if in Sri Lanka than 87% of remittances are transmitted through official channels (Withers, 2019), it may lead to a downward bias in the estimation of the effect.

- The **level of data collection**: we do not have data disaggregated per region or per quarter. This particularly problematic in the case of Sri Lanka, where there are is a stark inequality between the capital Colombo and its region and the rest of the country. In fact, 44.7% of all industries and 38.0% of the country's nominal GDP are concentrated in the Western region of Colombo (SLBFE, 2021b). A more granular collection of data would allow us to study more precisely the effects and provide useful policy recommendations for specific areas. Moreover, the number of observations is low when the data points are country-per-year observations, so causal inference is imprecise.

- **Reverse causality**. Economic growth may have a causal effect on the level of remittances, and not the other way around. For example, when a country's economy is not performing well, this may lead to a high level of unemployment and people will begin to look for jobs outside their country and hence an increase in home country remittances. Siddique et al. (2012) employ the Granger Causality Framework (Granger, 1988) to investigate the directional linkage between economic growth and remittances[a]. In the case of Sri Lanka, they found a two-way directional causality: there is a virtuous circle so that growth fosters remittances, which foster growth in return.

[a]In general, in the literature different tools are employed to mitigate endogeneity problems: instrumental variables (for example: lagged right-hand-side variables, the distance between the migrants' home country and their main destination country, a dummy for the same language in the receiving and sending countries), the choice of conditioning variables, and the estimation technique (for example, GMM techniques).

The inconclusive results from the literature may also be explained by the different **definitions of remittances**. Chami et

Table 1: Comparison of literature on the remittances - GDP growth link

Authors	**Countries**	**Dependent variable**	**Main regressor**	**Controls for**	**N**	**Results for Sri Lanka**
Sutradhar (2020)	Bangladesh, Pakistan, Sri Lanka	GDP growth	Remittances	FDI, OT, exchange rate, gross capital formation (all in log)	160	Positive but close to 0, significant
Azam (2015)	Bangladesh, India, Pakistan, Sri Lanka.	GDP growth	Remittances	FDI, OT, telephone lines (proxy infrastructure)	144	Positive, significant
Jawaid and Raza (2016)	Bangladesh, India, Nepal, Pakistan, Sri Lanka	GDP growth	Volatility of remittances	Population, capital (all in log)	175	Negative, significant
Abbas (2019)	Bangladesh, India, Pakistan, Sri Lanka	Domestic investment	Personal remittance inflow	GPD p.c., FDI, net external debt inflow, ODA	148	Positive effect in long-(lagged model) and short-run (error correction model), significant

Notes: "Significant" means at least at 10% level. FDI = Foreign direct investments, OT = Openness to trade, ODA = official development assistance.

al. (2008) make a distinction between 3 categories of remittances flows: employee compensation (mostly related to seasonal labour) and migrant transfers (one-time movements in funds associated with changes in residence) are conceptually different from workers' remittances.

In general, there are **multiple paths** through which remittances can affect long-run economic activity. Even when in the past countries might not yet have had the institutions and infrastructure to channel remittances into growth-enhancing activities, this does not mean that policymakers, and in particular the SLBFE and the government of Sri Lanka, cannot act on the transmission channels of this mechanism.

5 Macroeconomic transmission channels of the remittances-growth link

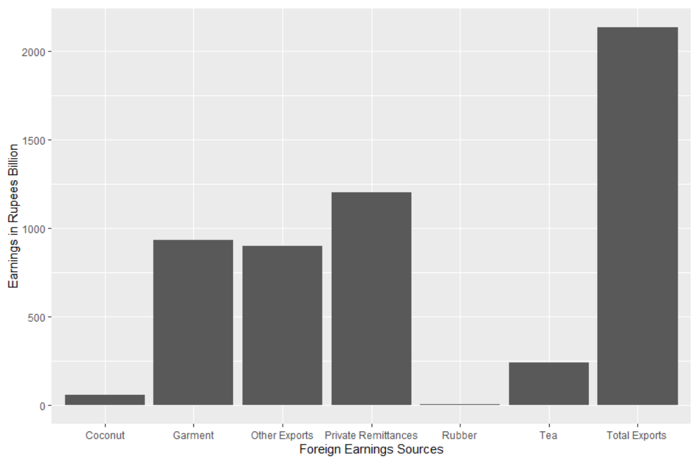

Figure 7: Comparison between the sources of foreign earnings (remittances and exports inflow of money), 2019. Source: SLBFE (2021a)

The percentage of remittances compared to total exports has been persistently high in the last 30 years in Sri Lanka. From 2012 to nowadays, remittances constitute **more than half** of the sources of foreign earnings for Sri Lanka (SLBFE, 2021a).

The presence of substantial remittances relative to exports indicates that temporary labour migration has already become a macroeconomic pillar in Sri Lanka (Withers, 2019). This is why we decided to focus on a **medium-long run** view, after an overview of the short-term consequences of remittances for the receiving country, namely on consumption.

5.1 Short Run[2]

5.1.1 Consumption

Remittances spent for consumption may have a Keynesian **multiplicative effect** on GDP. However, we need to make a distinction between the level of GDP, for which consumption may be favourable, from the growth of it. Moreover, the effect of remittances may be to increase spending on the consumption of imported items, with scarce local **spillover** effects (Jawaid and Raza, 2016). In the case of Sri Lanka, Withers (2019) estimates that Sri Lankan migrants spend as much as 35 per cent of their total remitted income on direct consumption of goods imported from abroad or produced in the wealthiest area of Colombo.

However, consumption can also hinder growth, as there is a **trade-off** between consuming and saving ("golden rule of savings", Solow 1956).

In modelling the behaviour of migrants and their families, should we consider them as Ricardian agents, who can smooth consumption through financial markets, or as non-Ricardian ones, who do not hold any assets and therefore just consume their disposable income? Even if there is no specific literature on Sri Lanka, Giorgioni and Holden (2003) include data from Sri Lanka in their empirical assessment of the Ricardian equivalence: theoretically, the assumption of the lack of liquidity and credit constrained **hinders** the validity of the **Ricardian** equivalence in developing countries, but empirically the evidence is mixed, since microcredit[3] is widely spread in Sri Lanka (Hewa-

[2]In the short run, remittances are an important part of **foreign-exchange earnings**: their impact is an increasingly urgent issue in today's post-pandemic context, as we mentioned in the Introduction. However, studying the impact of remittances on Sri Lanka's trade deficit and debt is outside the scope of our policy note.

[3]Microcredit is widely spread in Sri Lanka since the 1990s and it has now a considerable outreach. However, a thorough discussion of the opportunities and the downsides of microcredit in Sri Lanka is outside our scope.

manne, 2020).

We advise the SLBFE to collect data on how remittances are spent (Policy Recommendation 1), as this is key to understanding their growth potential. On the one hand, there are reasons why remittances tend to finance consumption:

- Remittances are received by poor households with a **high marginal propensity to consume**. Remitted money is necessary to finance a range of culturally determined and economically necessary expenses, for example, jewellery, clothing, dowry payments and consumer durables. Housing is the first expense covered by remittances in 35% of households (see figure 8). Housing is also often a key component in dowry payments and can be used to increase the social status of the family by securing a good marriage (Withers, 2019). Women remitters in particular need to live up to the expectations as caregivers for the family.

- Remittances for their nature are **small and regular** amounts, in particular those sent by women (Paragraph 3.1). This is a feature that disincentivizes saving and incentivize consumption, compared for example to an unexpected big sum of money (Shaw, 2010).

However, migrants from Sri Lanka differ from those from Pakistan and Bangladesh since most come from families **above the poverty line** (Sriskandarajah, 2003). As the money received from remittances is not spent for survival (see Figure 8), Sri Lankan households can choose to use the funds for acquiring physical or human capital.

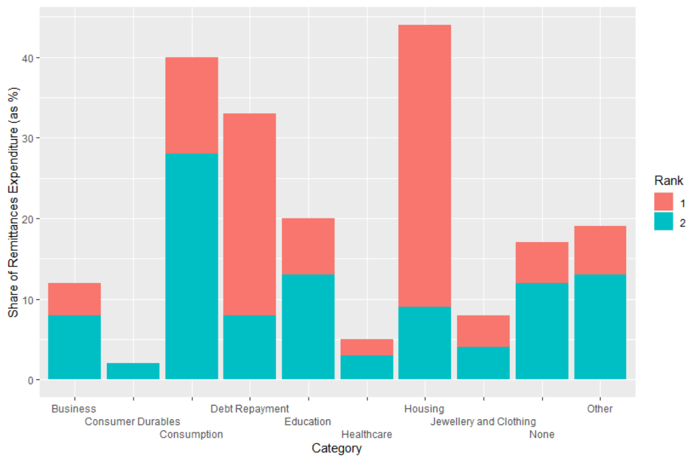

Figure 8: First and second largest share of remittance expenditures. Source: survey by Withers (2019)

5.2 Medium Run

In the medium term, two[4] transmission channels are useful for the catch-up of Sri Lanka, which is still classified as a lower-middle-income country by the World Bank (WB, 2021a).

5.2.1 Capital accumulation

Let's first consider the potential impact of remittances according to the neoclassical theory of growth through capital accumulation (Solow, 1956; Harrod, 1972; Domar, 1946).

- **Ease financial constraints**. If the migrant's household faces financial constraints, the remittance inflows may directly allow an increase in the recipient households' rate of accumulation of physical and human capital. In the latter case, money sent by migrants can finance the cost of the **educational investment** directly or by reducing the need for younger members of the household to abandon formal schooling to work. The education of family members, particularly young men, is one of the largest shares of expenses funded by remittances in the sample surveyed by Withers (2019) (see Figure 8). Women migrants tend to send money specifically to support the human capital acquisition not only of their nuclear family but also of relatives (See Paragraph 3.1). Investing in child education and welfare will increase labour productivity in the long term which in turn impacts positively growth (Chimhowu et al., 2005).

  These mechanisms apply to a household level, but have a **macroeconomic** impact on the whole economy: Bjuggren and Dzansi (2008) employs both static and dynamic models and find evidence for a significant positive effect of remittances on investment, which varies with the level of institutional and financial development.

- **Lower the cost of capital**. On a household level, access to remittance inflows improves the creditworthiness of domestic investors, as remittances may augment household collateral. Aggarwal et al. (2011) find that banks become more willing to **extend credit** to remittance recipients because the transfers they receive from abroad are perceived as significant and stable. Moreover, they are countercyclical, as migrants strive to send more in case of economic downturns and natural disasters. The idea of women as more reliable remitters is rooted in gender norms, but families who receive remittances from women migrants are in a favourable position from the point of view of financial and microcredit institutions (Withers, 2019).

  At a **macro level**, large remittance inflows may lower the cost of capital in the domestic economy. This, combined with a broader possible positive effect of remittances on the volatility of the domestic economy, would tend to reduce the **risk premium** that firms demand to undertake investment, and thus make domestic investment more attractive.

5.2.2 Labor Force Participation

Still from a medium-term point of view, remittances can be detrimental for labour force participation, given that they can be perceived as **substitute** for the recipient's labour market effort. In addition, remittance transfers may be plagued by **moral hazard** problems (Chami et al., 2003): monitoring and enforcement are extremely difficult because of the distance separating remitter and recipient. In this way, moral hazard problems may induce recipients to divert resources to the consumption of leisure: for example, a negative effect of remittances on male labour force participation is found in Pakistan by Kozel and Alderman (1990) and in Mexico by Amuedo-Dorantes and Pozo (2006). We still have no data on this matter for Sri Lanka, thus the importance of a specific data collection effort (Policy Recommendation 1). We have evidence that in Sri Lanka men are reluctant to substitute their wives in housework and childcare (Withers and Piper, 2018), but we do not know how this relates to their labour market efforts.

[4] We decided not to delve deeper into political economy effects of remittances: for example, Abdih et al. (2008) find evidence that since remittances expand the tax base, they enable the government to appropriate more resources.

5.3 Long Run

In the long run, growth can be secured through total factor productivity (TFP) growth[5].

5.3.1 Total factor productivity (TFP)

Coherently with Romer (1986)'s theory of external effects, remittances seem to have a social return to capital that is higher than the private return: remittances have a positive impact on the development of the financial system of the home country. Remittances are likely to expand the quantity of money flowing through the banking system, making **economies of scale** possible in financial intermediation (a sector with high fixed costs and low marginal cost).

- On one hand, Aggarwal et al. (2011) find a significant **positive** influence of remittances on financial development in developing countries. Financial intermediation services allow migrants to send remittances and in this way may reach out to previously unbanked recipients.
- On the other hand, Bjuggren and Dzansi (2008) find that financial development has a **substitution and not complementary** effect on the use of remittances for investment. This result could however be due to their sample, which does not focus only on Sri Lanka or South Asia, or to the use of quantity (amount of credit granted to the private sector by the bank sector) rather than quality (cost to income ratio) measures for financial development.

Once established the impact of remittances on financial development, there is consensus in the literature on the positive effect of financial institutions for economic growth (Zakaria and Bibi, 2019).

Another mechanism through which migrants' remittances foster TFP is the so-called **non-monetary remittances** (Levitt, 1998): migrants accumulate new skills, ideas, and practices during their stay. In Sri Lanka, there is an increasing number of civil society organisations established by returned migrants, especially former domestic workers with the purpose of rights advocacy, livelihood projects and skills training - for example, computer skill courses (Withers, 2019). The latter has a direct effect on returned workers' productivity.

6 From theory to practice

The world described by macroeconomic theory clashes with the reality observed in Sri Lanka.

6.1 Remittance costs

Remittances are partly dissipated because of the high remittance costs.

For this reason, the 2030 Sustainable Development Goals by the United Nations include a target for reducing remittance costs to 3% by 2030. Even if **South Asia** is the lowest-cost receiving region in the world, the average cost is still at **4.88%** (WB, 2020). This issue has partly been tackled by the Central Bank of Sri Lanka (CBSL) with the "Incentive Scheme on Inward Workers' Remittances": until April 2022, each dollar remitted through official channels is converted into Sri Lankan rupees with a favourable exchange rate, and 1000 rupees (3.13€ according to 26/03/2022 exchange rate) are given to cover the transaction cost. However, it is too early to assess the impact of this policy.

Sri Lanka has an 87% rate of **formal transfers**, the higher figure in the South-East region (Withers, 2019). Formal transfers are those mediated by financial institutions licensed by the Exchange Control Department of the CBSL and include money and postal orders, bank transfers and transactions conducted by money transfer businesses. Among **informal** transfers, the traditional Hawala system is prominent: it is backed only by family connections or regional relationships, so that transactions between hawala brokers are made without promissory notes (Rahman et al., 2014).

6.2 Savings and capital accumulation

In low-income economies with limited social safety nets, households need high levels of savings as self-insurance, but this does not necessarily require a developed financial system as savings can be invested in land, cash or gold.

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 benefits scheme that would ensure a continuous income stream for these workers in the latter stages of their lives.

Policy Recommendation 2: **Promote access to formal financial services**
Addressed to: CBSL, SLBFE

Our first-best advice, over the long run, would be to develop safe ways to send remittances that at the same time help migrants to have a better **control** on how the money is invested.
As capital accumulation may foster growth when it is productive, the service of transferring money can be integrated with access to **diversified** savings instruments, such as health insurance or retirement plans. In this way, migrants can decide to save part of the money in an account and use it when they will come back, for example for starting a business or for buying assets.

In the short run, this could be set up through online and **mobile** systems, as over half of Sri Lankan migrants own a mobile phone (Withers, 2019). This would overcome the unequal distribution of bank branches, mainly concentrated in the capital city Colombo (Shah, 2004). In particular, the Central Bank of Sri Lanka (CBSL) has recently launched the mobile application "SL-Remit", through which the migrant can choose to send remittances through several officially licensed Sri Lankan banks. This is the perfect occasion for the Sri Lanka Bureau of Foreign Labor (SLBFE) to cooperate with the CBSL to set out clear guidelines and build the trust of migrant workers.

As underlined by Aluthge and Piyananda (2021), Sri Lanka can easily learn from foreign experiences. The authors show by studying the case of M-Pesa, a Kenyan mobile money transfer service that is today the leader of the sector in developing countries, that the way Kenya has developed mobile money for everyone is quite transposable to Sri Lanka: reduce costs as

[5] There is another long-term effect of remittances on growth, the so-called Dutch disease. Remittance inflows may result in real exchange rate appreciation, at the expenses of the exporting sectors. Moreover, receiving households spend an important share of remittances for imported durable goods, aggravating Sri Lanka's current account deficit. However, this topic is beyond the scope of our policy note.

much as possible, promote a very simple and user-friendly product and update the legal framework to support the development of mobile money. This means in particular removing the caps on maximum transactions (25 000 Roupies per day on remittances sent and 5000 for withdrawals).

Specifically for female remittances senders and receivers

Mobile money is already more used by women than by men (20.46% vs. 13.99%, UNCDF 2017), conversely, there is a gender gap in bank account ownership (Suri and Jack, 2016). It has several distinctive characteristics that make it particularly appealing to women:

- It is **cheaper** since intermediaries do not pay fixed costs for running local branches. This feature is compelling for low-value remittances, thus for women who tend to send small amounts more often (Kunz and Maisenbacher, 2021).
- In terms of **productive** savings, women who receive remittances on a mobile money account have the option to store the received funds safely on their mobile money account.
- There is no need to **travel** to a bank branch. Due to their responsibilities in the house, women recipients are more time-poor and less mobile than men. Women in the Mekong region cite the time to reach the bank and to queue as a reason why they prefer informal remittance channels (UNCDF, 2017): mobile banking may further increase the percentage of formal remittances in Sri Lanka.
- In terms of **bargaining** power:
  - Receiving money directly on her phone allows more privacy, thus less need to inform their husbands of the frequency and amounts of their transactions.
  - Mobile banking apps may allow for a digital identity system, which may help to close the gender gap in formal banking: women are less likely to have the official documents required to open bank accounts (AFI, 2018).

6.3 Productive investment of remittances

Studies that look at the productivity of different investments such as Kumari and Tang (2019) shows that the main growth drivers are **industry and services**, especially in **tradable** areas (tourism, healthcare and education). On the contrary, agriculture has one of the lowest returns on investment, and informal businesses are by far not the best way either to contribute to Sri Lanka's growth, due to tax evasion. So even though most remittances are used for status goods, the small part that is presently reserved for investment is unproductively allocated. High productivity gains are likely if remittances for investment purposes are better used.

It should be noted, however, that the **context for investment** is currently highly unfavourable in Sri Lanka, due to structural factors such as weak financial intermediation, underinvestment in infrastructure and lack of investments in human capital in the rural areas where three-quarters of the population live[6].

Even if remittances are saved rather than consumed, the management of remittances for productive purposes is not easy. 66.3% of Sri Lankan migrants interviewed by Withers (2019) **aspired to pursue self-employment** but were unable to do so with the money they sent home. In comparison, status goods are more affordable and confer immediate social benefits, the value of which might be greater than the pursuit of entrepreneurship and the risk entailed. In Withers (2019) sample, no migrants were observed to have made formal-sector business investments but rather invested in **informal** businesses, such as the ownership of a kade (corner shop), the purchase of a trishaw taxi, services such as repairs and tailoring. Only a few migrants invest in land (ILO, 2013), which is probably the most lasting form of investment they may do.

Policy Recommendation 3: Increase productive investment of remittances
Addressed to: SLBFE

In the **long run**, the first-best recommendation is to foster productive investment in both **industry and services** sectors (for example, tourism) and to reduce the importance of the **informal** sector.
One of the main difficulties comes from the fact that formal businesses need access to **initial credit**. Migrants from Sri Lanka usually have to repay the debt they contracted to emigrate in the first place (Withers, 2019), so amassing the initial capital needed for productive investment is not easy. Remittances may be considered an uncertain source of income by some formal investment intermediaries. Here, Sri Lanka can learn from foreign experiences. For instance, households receiving remittances in Tajikistan have easier access to microfinance to start a business (Mughal, 2007): remittances serve as collateral even if they often come from informal channels.

In the **medium run**, the priority is to make **a better use** of remittances that are used today for investment in **informal sectors or agriculture**. An important part of remittances is currently spent for access to better housing, education or for consumption that provides social benefits (ILO, 2013): it seems difficult to reduce this part in the current economic crisis. However, if the remaining remittances are invested in profitable businesses, households would have a better standard of living and afford to invest more in productive sectors.

In the **short run**, our second-best recommendation is an inexpensive, easily implementable policy. In the case of migrant domestic workers, SLBFE conducts compulsory 15-day pre-departure programmes for those migrating for domestic work. In such courses, it would be easy to include some notions of **personal finance** management and practical workshops on **how to** set up **small businesses**.
The majority of Sri Lankan women entrepreneurs interviewed by Ranasinghe (2008) affirmed that informal learning was the most important form of learning. Thus, the pre-departure course should aim at being as concrete as possible.
Since these courses are mainly offered in the capital city of Colombo (Withers and Piper, 2018), opening new

[6] Even if our policy note focuses on the long-run, it is worth mentioning contingent factors due to the pandemic emergency such as high inflation (the headline inflation measured by the Colombo Consumer Price Index was at 14.2% in December 2021, the last official figure from CBSL)

avenues in other regions of Sri Lanka would make the attendance of these courses easier.

The second-best recommendation is based on evidence from internal female migrants who worked in free-trade zones (**FTZ**, industrial zones not subject to customs duty). In FTZ, there are high degrees of attendance to free **workshops** for women about how to develop income-generating activities once they return to their villages (Hewamanne, 2020). Most NGO workshops include sessions on entrepreneurship, how to set up subcontracting workshops in villages and how to get orders from large FTZ companies. Some other involves **self-employment** training, such as bag- and shoemaking, and bridal dressing. Some of them also train workers in personal finance management. SLBFE can draw from this experience and cooperate with local NGOs to provide training useful for women migrants.

6.3.1 Productive opportunities for migrant women who return to Sri Lanka

As we mentioned in the Introduction, Sri Lankan women represent in 2020 only 32.5% of the labour force (DCS, 2020). It is necessary to recognize the double duty women have to perform, since they have to be extra-diligent in household chores to perform conformally to norms (to gain the approval of in-laws and neighbours) if they want to work part-time (Hewamanne, 2020).

Migration tends to be cyclical, i.e. migrant women tend to return to their birthplaces after some years of working abroad. There are still no studies on the impact on local development of the "social remittances" (i.e. ideas, practices, social capital, and identities) (Levitt, 1998) brought back in Sri Lanka.

Manufacturing

We can however exploit studies of the impact of the return of female national migrants, women returning to their villages after having worked in Sri Lanka's free-trade zones. Women who stop working and get married are given significant severance pay, which endows them with a lump sum of money, partly used as a dowry, and partly saved and used to start small businesses (Hewamanne, 2020).

In particular, their main activity is **subcontracting**, i.e. producing items outsourced by independent contractors. For example, they may be able to buy one or two sewing machines, hire some other workers and sell their items to the garment industry, one of the most important industries in Sri Lanka. These outsourced subcontracts are unpredictable and unstable, yet provide opportunities for non-traditional workers, for example women who work part-time and from the home.

Former FTZ-workers were able to achieve monetary success by combining monetary capital with astute **local cultural knowledge** to manipulate social and symbolic capital. For example, a woman interviewed by Hewamanne (2020) reported the strategies put in place to gain the fundamental support of her mother-in-law and the chief monk of the village to the economic business.

Specifically for international migrant women

May domestic worker migrants who return from international migrations be drivers of innovation too? The main difference between domestic workers and former FTZ workers is that they do not have **links to subcontractors**. However, they possess knowledge of the forms of capital available **locally**, and how to construct a business that integrates the social norms in place. The key difference on which the SLBFE should act is that former FTZ workers have a **lump sum of money** which they can use to start a business. Were international migrants provided with the opportunity to save money through for example mobile banking (see Policy Recommendation 2), their experiences acquired abroad and their knowledge of local norms would enable them to create productive small businesses.

Tourism

Women play an important role in Sri Lanka's tourism industry (Yasoda et al., 2020). Hettiarachchi (2022) conduct a descriptive survey of women-led tourism business in different touristic spots in Sri Lanka (two historic cities, one touristic service city, a national park): some women-run businesses which conform to traditional roles as cookers (takeaway restaurants) and housemaids (guest houses), but the majority of women-led businesses are wayside business stalls and retails shops (Hettiarachchi, 2022).

Specifically for international migrant women

Domestic workers who return from international migrations are in a special position to open tourist businesses, since along with in general experience in **dealing with clients** and people outside of their family, their experience as domestic workers may be spendable in accommodation and restoration industries. Moreover, they may know **foreign languages** better than people who never migrated. Women working in tourism in Sri Lanka interviewed by Hettiarachchi (2022) report that experience in customer service and language incompetency are indeed among perceived common constraints.

7 Conclusion

We begin this policy note by providing evidence of different behaviours of remittances sending and receiving for men and women, and highlighting the need to enhance data collection on this to fully understand the phenomenon in Sri Lanka. Then, after a literature review on the growth-remittance relationship for Sri Lanka, we detail the transmission channels of such a relationship. In the short run, remittances increase consumption, which hinders capital accumulation in the medium run. Migration and remittances may have a detrimental effect on employment, but in the long run, they increase Total Factor Productivity. To fully exploit their potential, we advise the SLBFE to make access to financial services easier for remitters - through mobile banking - and to enhance the productivity of remittances-led investments.

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