The Impact and Sustainability of Remittances on Sri Lanka's Economic Development

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Abstract

Workers' remittances consist of goods or financial instruments transferred by migrants living and working abroad to residents of the home of the migrants. There is no doubt that workers' remittances can spur economic development. Evidence abounds that workers' remittances in many nations have helped in no small way in the development of the countries. The impact of remittances on development is both at the macro and micro level. Have remittances impacted on Sri Lanka's economic development? Could the impact be sustained? And, for how long could it be sustained?

The objective of this study is to find out the impact of remittances on economic development in Sri Lanka, and the sustainability or otherwise of the foreign capital inflow into Sri Lanka. Secondary data was collected and used for this study. The study confirmed that remittances have impacted positively on the economic growth and development of Sri Lanka at both macro and micro level, but the study found that sustaining such inflow of foreign capital may be hampered by growing resentment against foreign workers in many countries of the world, macroeconomic instability across nations that is becoming more frequent et cetera.

***Keywords*:** Economic Development, Economic Growth, Impact, Remittance, Sustainability

Introduction

Remittances are the portion of international migrant workers' earnings sent back from the country of employment to the country of origin, and play a central role in the economies of many labour-sending countries. Workers' remittances consist of goods or financial instruments transferred by migrants living and working abroad to residents of the home economies of the migrants. It is limited to transfers made by workers who have stayed in foreign countries for at least one year, while workers who are self-employed are excluded (International Monetary Fund, 1999).

The phenomenal growth of remittances in recent times has caught the attention of governments, particularly in developing countries that are in dire need of foreign exchange for the development of their economies; such that it has become the focal point on the ongoing debate concerning the costs and benefits of international migration for employment. Remittances are important sources of external financing. Worker remittances have outperformed some traditional inflows such as foreign direct investment and portfolio investment in Sri Lanka and several other countries. By its nature, remittances are counter cyclic in nature, voluntary and targeted at improving the welfare of family members in home countries.

The inflow of remittances during periods of economic downturn when compared with other flows further highlights its potential as an economic development tool. Studies have shown that several factors influence the decision to remit money from abroad. One of such factors is the prevailing economic circumstances or economic activity in the country of origin; other factors include exchange rates, wage rates and inflation rates, marital status, level of education of the migrant, whether accompanied or not with dependents, (Russell, 1986; Shivani, 2001). Furthermore, demographic characteristics of migrants, political, economic and legal environment of home countries are all part of the factors worthy of consideration, including strong cultural behavior and emotional links to the migrants' home of origin, which are also critical.

In recent years, remittances have began to receive attention from a number of parties, including academics, policy makers, bankers, non-governmental organizations and activists working on behalf of migrant communities. Researchers however, have not agreed on its role as an economic development tool as some have expressed concern that continued currency appreciation due to high inflows could lead to a Dutch disease phenomenon. On the other hand, there are examples of countries that made deliberate efforts to attract remittances as a source of external financing. It is against this background that this research was undertaken, to examine the impact of remittances on economic development in Sri Lanka and the sustainability of remittance as a means of development.

Concept of Remittance

Remittance is the inflow that results from migration. Migration is the voluntary movement of person(s) from a home country to seek a more prosperous environment and or to ensure the safety of life. When migration is documented it is termed regular, the reverse is termed irregular migration. Human trafficking is not migration because people are forced to move or tricked to move against their will. Fundamentally, the theory of labour migration takes into consideration the various labour market opportunities available to labour in developing countries. The theoretical underpinnings are those individuals who choose employments that maximize their expected gains from migration. The labour force both actual and potential, compare expected incomes for a given horizon in the labour receiving country with the domestic incomes: and migrate if the former exceeds the latter, (Todaro, 1996). The most favourable outcome of migration is remittances. 'Remittances' has been defined severally as monetary and non-monetary items that migrants earn while working abroad and later send back to their families or their accounts in their country. The International Labour Organization (ILO, 2001) defined remittances as the portion of international migrant workers' earnings sent back from the country of employment to the country of origin. Harrison (2003) and the Department for International Development (DFID, 2003) in their analytical studies defined remittances as the sum of workers' earnings and compensation of employees' and migrants' transfer.

To avoid the ambiguity surrounding the specific meaning of remittances, countries adopt the definition in the balance of payments statistics manual of the International Monetary Fund (IMF), where 'remittances' is defined as the sum of three components; workers' remittances, compensation to employees, and migrant transfers. Workers' remittances are recorded under the current transfers in the current account of the balance payments. It includes goods and financial instruments transferred by migrants, who reside and work abroad in a given country for more than one year. It could be in cash or in kind from migrant to resident households in the country of origin.

Migrant workers are treated as capital transfers of financial assets as they move from one country to another and stay for more than one year. The assets or liabilities that migrants take with them when they move from one country to another are also regarded as workers' remittances. They are reported under capital transfers in the capital account of the IMF's balance of payments. The manual simply views workers' remittances and migrants' transfers as transfers, while compensation of employees is a record of remuneration for work done. They are part of the unilateral transfer account in the current account section of the balance of payments. In other words, they are credit items in the current account; hence they help to partially offset the deficit in trade on merchandise and services.

Remittances can be sub-classified into financial remittances, social remittances and remittances -in-kind. Financial remittances are the inflow of cash and financial products. Cash includes money sent formally through the banks and network of international Money Transfer Organizations (MTOs), and also conveyed through informal channels. Financial remittance could also be in the form of Diaspora bond receipts that are designed by the home countries to attract funds from the Diaspora. The Diaspora provides social remittances to their local communities in the area of health, education as well as infrastructure through the donations of funds. A social remittance occurs when migrants speak directly to a family member about different types of politics and encourage them to pursue reforms. In cases such as these, ideas are communicated intentionally to a specific recipient or group. People know why and when they change their mind about something and begin to act in a different way. Remittances-in-kind are goods that are sent from abroad to home countries of the migrants. This can take the form of clothing items, electronic equipment, books, automobiles etc.

Review of Literature

There has been a plethora of literatures on all aspects of financial flows to developing countries with few references on remittances. This is possibly because official remittances which are the financial counterpart of migration flows have received less attention by mainstream academics and policy makers. In recent times, there has been increasing changes following the growing recognition of workers' remittances as an important and stable source of financing economies of most countries. As a result, the issue of remittances cannot be treated in isolation of migration as both concepts are commonly linked. The theory of migration, therefore, takes into cognizance the various labour market opportunities available to the labour force in developing economies. Thus, the theoretical underpinning states that every individual chooses the job that maximizes their expected gains from migration as the labour force, both actual and potential, compares their expected incomes for a given horizon in the labour receiving country (the difference between returns and cost of migration) with prevailing average countries' of origin incomes; and migrate, if the former exceeds the latter (Todaro, 1996).

Available statistics show that the size of remittance flows depend partly on the number of emigrants' resident in other countries, and in part relates to their salary levels and cost of living. Therefore, the migrants' propensity to remit from the available resources determines the volume of the remittances sent, which is in turn a function of a combination of factors: the available incentive programmes, the removal of black market premium on exchange rates and the presence of stable or unstable economic and political conditions. Macroeconomic studies by El-Sakka and Mcnabb (1999); Russell (1986) identified determinants such as the level of economic activity in the host and the home countries, the wage rate, inflation, exchange rate, interest rate differentials or the efficiency of the banking sector as contributory factors to remittance flows in countries.

In one of the studies conducted by Wahba (1991), he stressed that the prevailing circumstances in the country of origin coupled with political stability and consistency in government policies and financial intermediation significantly affect the flow of remittances. Faini (1994) finds evidence that the real exchange rate is also a significant determinant of remittances. Real earnings of workers as well as total number of migrants in the host country were consistently found to have a significant and positive effect on the flow of remittances.

Another factor that affects remittances of migrants is socio-demographic characteristics of migrants, in situations where a migrant is married and has her/his families with them in the host country; these will greatly impact on what to send home, (Swamy, 1981; Straubhaar, 1986; Elbadawi & Rocha 1992). Social factor by way of strong cultural behavior and emotional links to the migrants' home of origin is also critical in the decision making process for remittances.

What could be the reason for remitting money home? Among many reasons, Rapoport and Docquier (2005) provide an excellent overview of theoretical reasons for remitting money home. They state that remittances are sent home due to altruistic and self interest motives. It has been widely acknowledged that altruism towards family members at home has become an important motivation for remitting (Lucas & Stark, 1985). This implies that remittances are simply due to utility functions in which the migrant cares about the consumption of the other members of the households. In this respect, migrants send remittances in order to reimburse the household for past expenditures such as schooling or costs directly related to migration or investment for the future, either out of concern for inheritance or as a way of maintaining status or to return home with dignity. Lucas and Stark (1985) view remittances as result of an inter-generational contract between migrants and their parents in the home country.

The most notable effect of migration is in remittances. It has great potential to generate a positive impact in the migrant's home country. Maimbo and Ratha (2003) posit that remittances to developing countries have doubled the Official Development Assistance (ODA) from developed countries. Ratha (2003) also observes that remittances have proved to be the most stable flow compared to ODA and private capital flows.

Unequivocally, remittances are not only used as a mechanism for the survival of the poor in the developing countries, but also in risk sharing mechanism, a stable source of investment and for stable source of funding economies of these countries. In addition, remittance flows could be planned for consumption (by recipient households) as they are less volatile than those for investment. Migrants are however implored to strive to increase remittances during the time of economic problems, especially in low-income countries where their families depend significantly on remittances as a source of income and live close to subsistence levels. Even when the purpose behind remittances is investment, remittances are less likely to suffer the sharp withdrawal that characterizes portfolio flows to other countries. Numerous cases of evidence have proved that remittances are increasingly used for investment purposes in developing countries, especially in low income countries.

The Impact of Remittances on Development

Different definitions of economic development are widely used, but the most notable and universally acceptable definitions are the ones that consider the enhancement of productive capacity of a country. The impact of remittance however can be viewed at the macro and micro levels and have varied over the years.

The consensus view on the impact of remittance on economic development had been subject to cycles of pessimism and optimism, (Harrison 2003; Carrasco & Ro, 2007). In recent times, governments have embraced and promoted the inflow due to greater understanding and magnitude of inflow (Russell, 1986). The potential benefits identified over the years are: it serves as a potential source of external finance, a potential source of capital formation through savings and investments, promotes human capital development and reduces inequality and poverty. There is evidence that shows that remittances are increasingly used for investment purposes in developing countries, especially in low income countries. Migrants are more likely to continue to invest in their home countries despite economic adversity than foreign investors, an effect that is similar to the home bias in investment (World Bank; Carrasco & Ro, 2007).

At the macro level, remittances are incorporated into the national accounts of the receiving countries as transfers from abroad. Hence they go directly into the expenditure pattern of the economy, savings or investments. Long-run output growth could be accelerated as a result of the additional investments in physical and human capital, especially where well developed financial systems and institutions allow remittances to be well intermediated and used.

Large remittance flows improve a country's creditworthiness for external borrowing. This is because the inflow will effectively reduce the country's debt/exports ratio, thereby improving the country's credit ratings and access to international capital markets. Moreover, some financial institutions in developing countries have been able to tap into international market under relatively favourable conditions through securitization of the future flows.

Remittances increase the resources at the disposal of recipients resulting in increased demand for goods and services. The growth in the consumption of social amenities such as health, shelter and education produces a positive impact on human development. Remittances, if invested or consumed, contribute to output growth and generate positive multiplier effects, where there are sound economic policies and flexible foreign exchange rates in place.

A remittance contributes to national savings which, in turn increases investment in the economy. Remittances as a source of external financing also help to smooth fluctuations in economic growth in migrants' countries of origin, as remittance flow continues at a normal rate or even increases during periods of economic hardship (WEO 2005).

Looking ahead, remittance flows could also be used to accelerate financial development in recipient countries depending on the extent to which financial products and institutions can be developed to persuade recipients to turn their remittances into deposits with financial development generating positive effects on growth and development.

At the micro level, remittance studies by Newland and Patrick (2004) showed that millions of poor people in countries that have access to technology benefit from the multiplier effect of Diaspora investment. This is in spite of the fact that their countries are not positioned for international investments. Furthermore, remittances have a direct impact on poverty reduction since they flow to the household directly. Remittances help to loosen budget constraints on recipients allowing them to increase the consumption of durables and non-durable goods. Hence, a sizeable amount of remittance flows are utilized to maintain family and provide social security as there is no national welfare system operating in most developing countries. Various studies have shown that remittance receiving households tend to be better than non-receiving households in terms of higher average incomes and asset bases (Sander 2003; Rajan & Subramanian 2005).

Economic impact studies in Mexico showed that remittances mostly or sometimes completely cover general consumption and housing. One estimate indicates that 80 percent of the money goes for food, clothing, health care, transportation, education and housing expenses. Remittances are also for financing new business venture or used to sustain an existing business which in turn contributes to the development of the economy.

Countries that have promoted the use of the formal financial sector for remittances have increased their banking population, an indication of economic development. Thus, highly stable and predictable remittances can be used as collateral and leveraged to provide access to commercial credit and the capital markets by individuals, which, if judiciously disbursed will impact positively on the economy of the recipient country.

Methodology

Secondary data was used for these studies- mostly obtained from Central Bank of Sri Lanka Annual Reports.

Impacts of Remittances on Development in Sri Lanka-Findings

The Sri Lankan Ministry of Foreign Employment Promotion and Welfare (MFEPW) recognized the significant contribution of all Sri Lankan migrant workers to the national economy through foreign exchange remittances and other mechanisms, such that, a national policy on labour migration was developed in 2008. The policy has the goals of developing a long term vision for the role of labour migration in the economy, enhancing the benefits of labour migration on the economy, society, the migrant workers and their families, minimizing its negative impacts and, finally, working towards the fulfillment and protection of all human and labour rights of migrant workers (MFEPW 2008). The final and third section of the national policy relates to the linking of development and migration processes in recognition of the contribution of labour migration to employment, economic growth, development and the generation of income.

Sri Lanka has seen tenfold increase in migrant labour remittances which are quite significant and are rising (MFEPW 2008). At the end of 2004, officially recorded remittances had increased to US$1.3 billion. Then it boomeranged to US$4.1 in 2010 and is still on the increase (see Table 1). Private remittances as a percentage of total exports have over the years been on the increase. In 1990, private remittance stood at Rs.16.054 which is about 20 percent of total exports, ten years later (year 2000), private remittances have increased to Rs. 87.697 which was about 24 percent of total exports, and by year 2007, private remittance stood at Rs. 276.814 which was about 34 percent of total exports (MFEPW 2008). The increase in private remittances was as a result of increase in migrant workforce, which by 2008 estimates suggest that over one million Sri Lankans are working abroad, with an annual outflow of about 220,000 (MFEPW 2008). Departures for foreign employment in 1986 stood at 16,458, it increased to 184,007 in 2001 and thereafter, it was on average over 200,000. Sri Lanka was among the 20 largest recipients of remittances, collectively making the South Asia region the second largest regional recipient of remittances in the world after Latin America and the Caribbean (Asian Development Bank, 2006).

Significantly, remittances are larger and more stable than foreign direct investment and on a per capita basis; workers' remittances to Sri Lanka are the highest in South Asia. In recent times, remittances to Sri Lanka have exceeded foreign direct investment inflows by 2 to 3 times; more than doubled net receipts of foreign assistance, and reached close to 25 percent of export earnings, second only to the garment industry, and ahead of tourism and tea- the island's traditional export industry. At the microeconomic level, about 10 percent of households are recipients of overseas and domestic remittances. Overseas and domestic remittances constitute as much as 20.7 percent and 9.1 percent, respectively of total income of recipient households according to the 2001/2002 household survey. The trend could be the same (though there is no available data to support that) but we can deduce from the number of departures and the over 1 million migrant workers abroad that overseas and domestic remittances could be much higher than the 2001/2002 household survey. According to MFEPW (2008) foreign employment has over the years generated substantial inflows of remittances, and relieved local unemployment pressures and provided employment opportunities, especially for women who were hitherto unemployed.

Table 1: Remittances in Sri Lanka for Selected Years

Year	Amount (in Millions of US dollars)
2004	1300
2007	2502
2008	2918
2009	3330
2010	4116

Source: Annual Report Central Bank of Sri Lanka Various Editions

Remittance flows are set to continue increasing as skilled and unskilled workers continue to migrate to the Middle East and other regions of the world. For the unskilled worker, temporary migration to the Middle East brings in earnings that are 8 times greater than what could be expected at home. The Sri Lankan Bureau for Foreign Employment (SLBFE) estimates that 49 percent and 21 percent of Sri Lankans departing to work overseas in 2003 were housemaids or unskilled, respectively. By the year 2007 housemaids and unskilled workers constitute 69.36 of departures to work overseas (1,139,290 out 1,642,455) (MFEPW 2008). This trend has not significantly changed as the majority of migrants are housemaids and unskilled to date.

Notably, nearly 70 percent of Sri Lankan temporary migrants are female, most of them working as housemaids. The percentage though has changed over the years to slightly above 50 percent. For example, the percentage was 59, 55 and 53 for the years 2005, 2006 and 2007 respectively. Just over one percent of all migrant workers are classified as skilled. The Sri Lankan household survey of 2001/2002 indicates that about 28 percent of remittance recipient households stand within the top income quintile and around 27 percent stand within the lowest two income quintiles. These ratios, however, change considerably in the pre-remittance scenario. When remittances are deducted from total household expenditure, nearly 45 percent of recipient households stand within the lowest two income quintiles. Although information on how Sri Lankan recipient households use remittances is not yet conclusive, the above findings suggest that remittances can have an important impact on recipient households. A broader study by International Monetary Fund (IMF 2005) on remittances concluded that remittances can help improve a country's development prospect, maintain macroeconomic stability, mitigate the impact of adverse shocks and reduce poverty. Remittances allow families to maintain or increase expenditure on basic consumption, housing, education and small business formation; they can also promote financial development in cash based developing economies (IMF 2005). The Sri Lankan MFEPW (2008) in its national policy aptly stated that the role of migrant remittances in development must be better understood and recognized, particularly in its role in human capital formation through education and healthcare for children, added to savings and investments that are other means by which migrant remittances may contribute directly or indirectly to development.

But there must be means by which remittances are facilitated to the home country of the migrants. Speaking on the role of the financial sector in facilitating remittances, the IMF study also concluded that the long run output growth resulting from additional investments in physical and human capital financed by remittances might be especially likely, where a well developed financial system and institutions allow remittances to be effectively intermediated and efficiently used (IMF 2005).

Table 2: Remittances as a Percentage of Gross Domestic Product (GDP)

Year	Percentage (Per Capita US $)
1989	6.8
2000	7.1
2001	7.5
2002	7.9
2003	7.1
2004	7.1

Source: World Bank Working Papers No3789 December, 2005

From all these statistics (Table 2) we can categorically state that remittances have impacted positively on Sri Lanka's development through the provision of income to households, resulting in increased consumption, savings and investments, human capital development, source of foreign exchange, provision of employment etc. In an attempt to discuss the impact of remittances on economic development in Sri Lanka, one is tempted to state that the larger the resources of the Diaspora saved or invested for economic expansion, the better for the country, particularly, if official remittances derived from recipient countries are properly harnessed. This is expected to enhance the chances of moving the economy on the path of sustainable growth.

The Middle East is where the majority of Sri Lankans are engaged as foreign employees, though the majorities are unskilled women who are employed as housemaids. According to the *Daily News* (Accessed 26/10/2011 and Sri Lankan Central Bank) the Middle East is still the traditional market that dominates foreign employment (Over 90 percent). Remittances constitute on average about 7 percent of Sri Lanka's GDP (see Table 2). At the micro level, once basic needs are met, remittances are used for savings, debt repayment, consumer durables, land and housing purchases, small enterprise development and agriculture, and investment in education and healthcare (World Bank, 2005). This is one reason policy makers are enthusiastic about remittances in Sri Lanka. It is believed that about 10 percent of households received remittances in Sri Lanka. A positive effect of remittances to these households is its potential to augment individual incomes (the enhanced incomes have also helped the migrants to improve their social status within the community) and increase the recipient country's foreign exchange reserves. An access to foreign exchange earnings provides valuable support to balance of payments account. According to Sri Lanka's Central Bank Annual Report 2010, a considerable increase on inward workers' remittances to US$ 4.1 billion has helped offset the trade deficit to a great extent in 2010. The story has been the same all through the years as regards the effect of remittances on trade in Sri Lanka.

The marginal propensity to save generates higher income multiplier effect from international remittances than for domestic urban – rural migration remittances. Ranasinghe (1989 as quoted by Shivani, 2001) estimated the consumption functions of both remittance-receiving and non-remittance receiving households in Sri Lanka from survey data and found out that there was no significant difference in the overall consumption pattern between the two groups. In some instances micro-level research yielded evidence to the contrary, namely that remittance receiving households saved more. Reporting on the findings of ILO study of remittances, Amjad (1986b as quoted by Shivani, (2001) noted that total savings out of remittances were estimated at 44.5 percent for Sri Lanka. A major reason is that Asian workers are predominantly target savers who go abroad on limited period contracts, thus, given the feature it is quite possible that migrant families consider remittances only as a transitory income and tend to save as much as possible. Added to the beneficial effects of remittances is the fact that return migration and circulation are key opportunities for skill transfers, productive employment and conflict free social integration (MFEPW, 2008).

From these we can see that remittances support investment in Sri Lanka. Economic theory states that; that which is saved is invested and thus the multiplier effect. But according to Ilene (2011: 02) these achievements must be placed into a broader context. It is widely known that the formal banking system and the state in developing countries have long underserved the poor mainly in two ways; first, most banks are located in the urban areas with few, if any, in the rural areas where the poor live; second is in the area of the provision of credit to agriculture and small business that belong to the poor. The granting of credit to the poor is most times never possible, because the poor cannot meet the stringent conditions consequent upon granting of credit. According to Ilene (2011: 02) the problem has become more severe in the neo-liberal era as states have dismantled long standing programmes that provided some assistance through the provision of working capital at subsidized rates. She concluded that "and so it may be that remittances now patch over the gaps in public funding and bank financing that have grown ever larger thanks to neo-liberal policy".

The increase of personnel in overseas employment has provided for the economy a useful safety valve. Migration has been a major factor behind the decline in the rate of unemployment from over 18 percent at the end of the 80s to around 8 percent in 2002 and by 2010 considerably much lower. The unemployment rate decreased to 4.9 percent in 2010 from 5.8 percent in 2009 due to broad based growth in all key sectors of the economy (foreign employment being one of the key sectors) (Sri Lanka's Central Bank Annual Report, 2010).

A problem that may likely crop up is that of "moral hazard" on the part of the government. Thousand are sent abroad or encouraged to find employment abroad, as a strategy to curb unemployment instead of the government tackling the menace of unemployment head on- and that is moral hazard on the part of the government. Thus, in a sense, the government is partially resolving important bottlenecks by filling the void through foreign employment.

Remittances sustain consumption and household investments in human capital by providing critical support to families, especially in times of economic, financial and political crises and natural disasters. This is true of Sri Lanka and any other country where remittances are received. According to Ilene (ibid) the material support provided by remittances to the vulnerable during crises is an achievement that cannot be dismissed. Thus, remittances function as a private mechanism that displaces the burden of adjustments to shocks as a result of, either economic, financial and economic crises and natural disasters- a lot of the cycles of these shocks abound everywhere. An added impetus to the shocks is neo-liberalism that creates an environment where shocks become more frequent and more severe, especially as we are told in no unmistaken terms that the world is a global village. Thus, a crisis that emanates from another country is felt in no time in other countries.

Ilene (2011: 02) however, cautioned that the destabilizing role of remittances should not be ignored; there are few cases where remittances are actually an independent channel of destabilization. The Liberation Tigers of Tamil Eelam (it was alleged) got a lot of remittances that were used to execute the war with the Sri Lankan Government that lasted for over 30 years- that is a clear case of the destabilizing act of remittances. In fact it was alleged that the Tamils in the Diaspora were the lifeline of rebels during the war.

Similarly, it is important to note the contagion effects of remittances. Ilene (2011: 02) stated that remittances link economies of nations so closely that remittances could be seen as another channel of contagion that can transmit economic instability or contraction from one country to another. As a result of the world economic recession that became more serious in 2008/2009 there was a downturn in remittance flow but later picked up in 2010, in Sri Lanka.

Could remittances be sustained?

Ilene (2011: 03) cautions that "we should also not be surprised to learn that conventional wisdom on the developmental role of remittances may change dramatically as a consequence of the current global financial crisis". In the context of the crisis, it appears that remittances are behaving pro-cyclically, making them more like other international private capital flows. Thus, the sustainability of remittance flows in the face of macroeconomic instability is greatly questioned. During the Asian financial crisis of 1997/1998, migrant workers were expelled from countries, thus, also calling to question the sustainability of remittances. The political crisis in part of the Middle East/North Africa saw in its wake foreign workers being humiliated; all confirming the non-sustainability of remittances, especially as the region employs over 90 percent of Sri Lankan migrant workers.

The growing resentment against foreign workers in the more advanced nations and strict issuance of visas to these countries also call to question the sustainability of remittances as a stable source of foreign exchange for development. There is also the growing campaign by activists against sending women as housemaids from Sri Lanka to other countries as a result of abuse suffered by the women in foreign countries. As this continues the government may likely succumb to these campaigns and stop/discourage sending women for foreign employment, which will in turn dry up remittances.

MFEPW (MFEPW, 2008) clearly confirmed that despite the initiatives by the Sri Lankan government, its migrant workers continue to face a number of challenges in the field of foreign employment, such as the vulnerability of workers who migrate under risky and unsafe conditions and the predominance of low remittance, low skilled jobs mainly for women with heavy social cost for families. These challenges are still a serious problem to labour migration, despite the fact, that the national policy on labour migration is meant to strike a balance between the promotion of labour migration and the protection of national workers abroad. Thus, these challenges call to question the sustainability of remittances as a stable source of finance for development, because even the news of the challenges could deter or discourage people from seeking employment abroad.

Recommendation and Conclusion

The impact of remittances on economic development hinges on the sustainability of the inflow as well as the development of the appropriate structures to channel the inflows into areas that would be beneficial to the economy as a whole. Here lies the importance of the channel through which remittances is sent, sending through the formal sector helps in ensuring that funds are channeled to the areas that are beneficial to the economy as a whole. Thus, encouraging the use of formal channels as a means of inward transfer is a sine qua non for remittances to serve as an effective medium for the development of the economy.

Apart from encouraging the use of formal channels for transfer, Sri Lanka's government should look into the possibility of opening domestic bank branches in countries that have high migrant populations such as the Gulf States. This is likely to increase remittance flows as migrants may prefer to deal with domestic institutions and staff. This could likely affect the cost and increase the efficiency of remittance delivery – especially if bank branch networks are found everywhere and easily accessible to recipients.

The Sri Lankan national policy on migration should be strengthened and implemented especially in the area of encouraging the migration of professionals and skilled workers, and in the scouting for markets for such groups of would be migrants. In other words, the regulatory framework should be strengthened and made to work.

The need to leverage remittances for Small and Medium Enterprise development and Microfinance is important. An entrepreneurship development scheme for returning migrants should be fostered. The grass root institutions that serve the poor in providing efficient remittance services linked to the tailored financial products (deposits, savings, investment and insurance) should be adequately empowered as well as linked to entrepreneurship programmes. Therefore, creating an enabling environment is central to a remittance institutional strengthening programme. That is why the national policy on migration in Sri Lanka is a step in the right direction.

It is also important that domestic banks should encourage savings by offering financial instruments that could motivate savings by migrants and recipients of remittances; such as opening of bank accounts by recipients and credit services that are securitized by future remittance inflow to recipients. This could likely encourage saving of parts of funds that can be channeled into economic activities for the development of the nation. Bonds could also be offered to the Diaspora to raise money for investments in Sri Lanka with an attractive premium. This could be made possible if the government tries to sell its programmes to the Diaspora through appropriate propaganda machinery.

Another asset is that most banks in the rural areas in Sri Lanka are Cooperative Banks or Micro-Finance Banks. These banks can be permitted to operate as channels through which remittance could be sent; this is likely to make informal flow of remittance to be formalized. Optimization should focus more on improving formal channels to both senders and receivers so that the market share of an alternative remittance system is brought down through market forces. A measure that could complement these is to implement a practical agenda that would reflect the needs of the migrants and the recipients in Sri Lanka. And for any development agenda for remittances to be realistic, it is imperative to encourage Development Banks to play a major catalytic role in optimizing the remittance markets. Optimization of remittances should go beyond merely inducing reduced cost of transaction, but involve the enhancement of factors such as convenience, safety, regulatory compliance and positive development impact to attract larger flows of financial resources than would otherwise be the case.

The promotion of skilled worker migration is seen as key to linking development and migration processes. In particular, it is seen as imperative to ensure the development of a higher mix of skills and to increase opportunities for prospective migrant workers to become skilled. This must be pursued with all vigor. For a skilled migrant workforce will reduce abuse and earn much higher incomes.

Lastly, a strong and stable macroeconomic environment is required to assure migrants of the safety of their inflow, which should be enthroned, especially a stable currency. Remittances are being regarded as one of the stable and predictable sources of finance for economic development, especially if properly invested. The effect of remittances varies from country to country, in relation to their efficiency in channeling remittances to productive uses.

Although remittances affect economic behavior, it is not the omnibus solution to the problems of underdevelopment. Thus, the Sri Lankan government must, as a matter of urgency and necessity, start looking inwards for a more comprehensive strategy to provide a source for foreign exchange, as well as provide employment to its citizens. Sending women for foreign employment has repercussions (social, political and economic) for the economy which when it accumulates, can burst forth and affect the nation in no small way. Thus, caution should be the watchword.

In conclusion, the use of remittances as a resource for development remains highly debatable even though examples abound where it has been used to transform economies to some extent. Further empirical studies however may bring to light more information on its role as an economic development tool. Sri Lanka requires better data management on its inflow, usage pattern, transfer mechanism, and good practice to channel savings into investment schemes for economic development. Based on this premise, we say more research needs to be conducted on labor migration in Sri Lanka and the effect of remittance on development.

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