

# Moving out of Poverty: The role of remittances

*This article is the sixth in a series of articles by the Centre for Poverty Analysis (CEPA) exploring various dimensions of poverty in Sri Lanka.*

## Remittances

A remittance is defined as any form of earnings coming into the household from a migrant worker outside the community, located elsewhere in the country or overseas. Money sent home by migrants constitutes the second largest financial inflow to many developing countries, exceeding international aid. Latest World Bank estimates are that some US\$250 billion was remitted globally in 2006 and these figures are increasing by almost 30% year on year. Remittances contribute to economic growth and to the livelihoods of needy people worldwide.

## An Overview of Remittance Sector in Sri Lanka

Sri Lanka is a middle income country overall, which nevertheless produces very large numbers of migrants for its population of approx 20 million. In addition to the migration for higher education and professional opportunities, in recent times the trend shows a higher migration for labour because of the ethnic conflict.

At the end of 2004, recorded remittances had increased to US\$ 1.3 billion (Table 1). Together with Bangladesh (US\$ 3.4 billion), India (US\$ 23.0 billion), and Pakistan (US\$ 2 billion), 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.

**Table 1**  
Estimates of Workers' Remittances Channeled through the Formal Financial Infrastructure (US\$ Billion)

	1999	2000	2001	2002	2003	2004	2003 (Per capita US\$)
Bangladesh	1.8	2.0	2.1	2.8	3.2	3.4	23.2
India	11.1	11.7	11.1	13.7	17.4	23	15.8
Pakistan	0.1	1.1	1.5	3.6	0	2	27.0
Sri Lanka	1.0	1.2	1.3	1.3	1.3	1.3	67.7
Sri Lanka: as percent GDP	6.8	7.1	7.5	7.9	7.1	7.1	

(Source: World Bank 2005)

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The Table shows a comparison on a per capita basis, workers' remittances to Sri Lanka and it indicates how important the remittances are in the economy of Sri Lanka. Some 4 percent of the Sri Lankan population work abroad, mostly in the oil rich Gulf states, making Sri Lanka one of the leading recipients of remittances as a share of GDP.

In 2005, workers' remittances amounted to 8.3 percent of GDP. At the microeconomic level, about 10 percent of households are recipient 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.

## Moving out of poverty studies

The moving out of poverty (MOP) research in conflict affected areas was conducted in 9 communities including 4 districts from the North and 2 districts from the south of the country. The estates study was conducted in 10 tea estates and 10 rubber estates in 6 districts. MOP studies were conducted during 2005-2006 for the World Bank.

The objective of this article is to explore how remittances, along with other contributory factors, helped the society to move out of poverty and maintain their wealth and social status in conflict affected communities and in the estates.

These MOP studies highlight remittances as one of the key characteristics in improving standards of living of the households both in estates and conflict affected areas, even though there are other contributory factors such as social networks and education. Remittances proved to be the cash flow into the village or conflict affected areas where

opportunities for earning are constricted. These remittances represent not only the cash flows but also the skills earned by these individuals which could be transferred to a

useful income generating activity once the individuals return home.

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## Why do people migrate?

These migrants have many expectations which they find difficult to fulfil with what is available within their own places. The employment opportunities are limited in their communities and they are paid with a low wage. So they migrate with an aim of finding a new way for survival. They are attracted towards the areas where their skills utilized and the work done are highly valued and rewarded.

Some people stay outside the village and work as masons. This is due to a lack of employment opportunities in the village. Most of them do not learn work in a structured way; rather they join as helpers with experienced masons and learn by doing. (Matara, FGD, M)

Migration overseas was seen less often as a coping strategy in the estates sector compared to the conflict affected areas. However, few households sought overseas employment as a response to a specific problem faced by the household.

*I fell ill often so she decided to go abroad and work. Can't exactly say we have moved up but it has helped. If we go up one month we are down for two months, we have no hope for a definite future. Now that my wife is abroad, I hope it will be better in the future*  
(Kegalle, HH, M)

Physical movement takes place also due to the insecure conditions of the conflict affected areas. The people are fear of their future or and are reluctant to invest their money in their own place due to the prevailing insecurities since there is no guarantee for their inputs and are exposed to many risks. Sometimes the fear for their lives in the areas makes them decide on migration.

After the 1990's parents are very keen to send their children abroad due to the fear of LTTE. Some people sell their property and go abroad and sometimes they were cheated by the companies and come back to the village without anything (Ampara, FGD, F)

It is interesting that the conflict, which removed certain economic and livelihood opportunities,

also created alternatives through migration. Even though migration is viewed as one of the negative outcomes of the war, it provides an opportunity for the migrants to search and build an alternative way of establishing a new economic avenue. Conflict in the North and East has created a large migration within the country and outside as well.

In spite of these aspects, remittances seem to be a more important positive impact of conflict which helps the migrants to survive and by creating new livelihood options (SLE 2001). One of the key features of conflict created migration in Sri Lanka was that people in these areas were able to access European and other western countries because of special considerations for conflict affected people. It is possible that people in the conflict areas in the North and East had networks in place in European countries made up of people who had migrated before, who later helped facilitate the migration processes of others.

### The cost of migration

Earlier studies posit that migration was likely to increase rural inequality because only relatively better-off households were able to finance a member's search for better employment in urban areas or abroad (Stahl, 1982; Lipton, 1980). It was evident that people in the conflict affected areas migrate to other countries whenever they find an opportunity. But not everyone who faced the conflict threat was able to access these opportunities as the cost of migration was not affordable for many. Some of them were not afraid to sell their sole assets, for instance people sold their land and met the cost of migration with a hope to settle them as they earned money. Large loans were often taken to cover this initial cost, with the salaries of first few months used to repay them. Apart from the monetary cost, there is social upheaval - they have to leave their family and relatives and work in an alien environment. The opportunity cost of leaving locally available earning options seems to be less in this conflicting context. It is mainly due to expected gains in other countries and for some security reasons as well.

### Impacts of Remittances in Household Level

In a broad macro perspective, remittances play a significant role on the country's development since the magnitude of it is large in comparing with other foreign financing. The International Monetary Fund (IMF) has concluded that

remittances can help to improve a country's development prospects, maintain macroeconomic stability, mitigate the impact of adverse shocks and reduce poverty (IMF 2005). It is also important to address how these remittances are used at the household level. Remittances allow families to maintain or increase their expenditure on basic consumption, housing, education and small-business formation (Deshingkar and Aheeyar 2006)

That remittances have a very positive impact on moving out of poverty, is evident from the research. But for remittances to be effective it has to be utilised in a sustainable manner. In the areas where the research was conducted people spend the money they earn in various ways, some expecting long term benefits which will make life better whereas some others utilize their earned wealth with narrow targets.

The money earned through remittances is used in many ways. It is sometimes sent to the family members to spend it for household necessities. In some other cases it might be brought with the person and is used to improve housing and as investments in income generating assets, which would increase future potential as well as ensure sustainability. Many people often think that having a house of their own is their primary need of the time and this is set as a milestone by the migrants to reach after returning home. Many go to Middle East, invest their money on assets such as buying houses and other form of household assets. Many households use the injection of income for immediate and short-term improvements in consumption, household asset accumulation as well as meeting life-cycle obligations. The long-term sustainability of this money is not considered to be important for many of them.

*We could extend our house, buy furniture, she helped us with our sisters wedding. We get good clothes, good food because my mother went abroad.*

(Kegalle, M, HH)

On the other hand they are vulnerable to fall back into poverty since the remittance brought in is not planned and invested in a sustainable manner. The income earned through the migration does not help them to get the sold asset back since the pay is low. Of course in this case migration could put people in vulnerable situations.

Even after working for few years in abroad only build their house, after they fall back to wage labour.  
(Hambantota, FGD, M)

In rubber estates, very few households have slipped back to their previous position following overseas employment irrespective of whether the extra income was used for housing or tiding over the low periods of the household life cycle, or whether livelihood investments have been made. In the estates the existence of secure employment that is easily accessible on the estate to the returned migrant, as well as other members of the household, enables the household at the very minimum, to maintain the achieved higher level of well-being.

*"Compared to 'line room' people we have better income, lands are given free. Both are working. Problems are reduced as we have the land and the house. Was able to save some money by going abroad and we also work in the rubber lands in the village"*  
(Kegalle, HH, F)

Whereas in conflict affected areas this is slightly different due to the presence of volatile external environment. People often do not expect the previous income generating activity to exist when they return. Rather they look for other alternative sources in order to replace the previous one.

### Concluding Remarks

The remittances from migrant workers are increasingly important and are a steady source of external finance for countries like Sri Lanka. The statistics show that remittances hold a significance share of the GDP in the macro economy which is major source of foreign financing.

The *Moving out of poverty studies* reveals that remittances that were sent back by the migrants helped their households cope with conflict related economic shocks and in some instances combined with other factors such as networks and relationships allowed them to move out of poverty. In the estates remittances helped them in coping with lack of economic opportunities to earn within the communities.

Remittances helped in building temporary assets where there is less external assistance especially in the conflict affected areas. It acts as a cushioning factor for the people affected by the war where there are only limited options are available. Remittance is an importance coping strategy for many of the conflict affected communities since it helps them to earn while they are away from the volatile context.

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