Remittances: implications for development

Remittances are the most measurable outcome of international migration. South and South-West Asia is one of the world’s largest subregions in terms of population and from a global perspective, it ranks number one among subregions in terms of remittance receipts and dependence on remittances. Of the total remittances transferred to the Asia-Pacific region in 2010, some 40 per cent were sent to destinations in the subregion. Remittances have notably taken a greater role in the development agenda during the past decade in line with a large increase in receipts. The Monterrey Consensus of the International Conference on Financing for Development, held in 2002, recognized remittances as a tool for Financing for Development in the Monterrey Consensus, while the Doha Declaration on Financing for Development stated that remittances have become “significant private financial resources for households in countries of origin of migration”.

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Remittances: levels and trends

Remittances are transferred through various channels, ranging from official bank transfers to being physically carried by hand to the receiving location. Due to the multitude of transfer channels, they are often difficult to track. The following section relies on data from official sources, which, for the most part, do not cover large portions of remittance flows, namely those that are either unreported or reported under other types of capital flows.

Defying expectations, the impact of the global financial crisis in 2008 on remittance flows to South and South-West Asia was limited. In fact, remittance receipts in United States dollars increased in 2009 to Bangladesh, Maldives, Nepal, Pakistan and Sri Lanka compared to the previous year and continued to increase in 2010. Even the growth in remittances remained high in most countries. Only Bangladesh experienced a drop in remittance growth, which rose 18 per cent in 2009 as compared to a 36 per cent increase in the previous year. India experienced a slight drop of 1 per cent in remittance receipts in United States dollars in 2009, but remittances in Indian rupees increased (India MOIA 2011). In 2010, the country’s remittance receipts picked up again in dollar terms. One explanation for the resilience of remittance flows during this period is that a predominate amount of them came from countries of the Gulf Cooperation Council (GCC).\footnote{The member States of the GCC are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates.}

With the exception of Dubai, one of the emirates that make up the United Arab Emirates, locations in the GCC countries were only slightly affected by the global financial crisis. Job losses in Dubai were, however, cushioned by increased demand from the United Arab Emirates and Qatar (ESCAP 2009).

India leads the subregion in terms of remittance receipts, recording inflows totaling almost $54 billion in 2010. However, large portions of these remittances did not necessarily originate from migrant workers abroad. Other sources of these remittances may have included the following:

- Employees’ compensations, which have been increasing in line with the rise in Indian foreign direct investment (FDI) worldwide.
• Funds from the diaspora populations.

• Property investments by the Indian diaspora, which are actually more similar to foreign direct investment (FDI) than remittances. Notably, in many cases, there is considerable statistical overlap between FDI and remittances (Kapur 2004).

Trailing far behind India were Bangladesh and Pakistan, ranked second and third in the subregion, respectively, with remittance receipts of $10.8 billion and $9.7 billion (figure 1).

During the 1980s, remittance levels remained relatively stable in the subregion, not exceeding $5 billion in any country. The dynamics, however, shifted significantly in the 1990s. For example, remittances to India increased sharply during that decade and then again after 2002 in line with increased temporary labour migrant outflows. Similarly, remittances to Bangladesh, Pakistan and Sri Lanka have grown at a steady pace since 2002 (figure 2). With regards to Pakistan, in addition to increased labour outflows, the increase in official remittances may be attributed to tighter controls placed on informal money changers. Also, of note, in recent years, many Pakistanis with savings in offshore accounts have repatriated their funds, fearful of being caught in investigations into terrorist financing (Kapur 2004).

Although remittance receipts in Bhutan and Maldives are small in absolute and relative terms, amounting to $4.8 million and $4.0 million, respectively, they have notably been increasing steadily in the past few years.

Turkey was one of the subregion’s largest remittance recipients in the 1980s and 1990s but this inflow plummeted in 2000. The decline was attributed to a number of factors, including among others, increasing unemployment in Germany—the main country of destination for Turkish labour migrants—decreasing links between second generation migrants and their country of origin, and the ageing diaspora populations. At the same time, the financial infrastructure in Turkey improved significantly and specifically designed products that targeted the diaspora population. Research conducted in the 1980s indicated that attempts by the Government of Turkey to attract higher levels of remittances were largely unsuccessful. Instead, the main determinants of remittances to Turkey were employment prospects in Germany as well as the political situation in the country—remittances increased with the perception that the funds would be utilized effectively (Straubhaar 1986). A more recent study confirmed that the level of remittance flows was dependent on the economic situation in the country of destination, Germany, but indicated that the economic situation in Turkey only had limited influence (Akkoyunlu and Kholodilintantin 2006).

Bhutan and Maldives are the only countries in the subregion with larger remittance outflows than inflows. In Bhutan, $82 million of worker’s remittances were sent from the country in 2010 while in Maldives, remittance outflows rose steadily over an extended period of time, peaking at $125 million in 2008 and easing to $110 million in 2010 (World Bank 2011).

Regarding Afghanistan, where reliable data on remittances are not available, the role of remittances can only be roughly estimated. A large number of Afghans live abroad, a majority of whom are refugees in the Islamic Republic of Iran or Pakistan, with limited ability to earn money and thus remit funds.
However, some of them have obtained refugee status in Europe and North America, putting them in a financial position to make remittances. According to household surveys, remittances play a large role in many Afghan households and most likely make a significant contribution to the economy (Jayawardhana and Jayaweera forthcoming). Thus, harnessing diaspora investment for the country’s development could be of increasing importance for the country.

Dependency on remittances is mostly measured as remittances to gross domestic product (GDP). However, it is also worthwhile to examine remittances in comparison to other sources of foreign income, such as FDI, official development assistance (ODA) and exports. Even though a country’s ratio of remittances to GDP may be relatively low, it can still depend on remittances as a source of foreign income in cases in which a large proportion of GDP is domestically generated.

In 2010, Nepal, with remittances amounting to 22.1 per cent of GDP, was the most remittance-dependent country in South and South-West Asia, followed by Bangladesh, with remittances amounting to 10.8 per cent of GDP. At the opposite end, countries in the subregion least dependent on remittances in 2010 were Bhutan (0.32 per cent of GDP), Maldives (0.28 per cent of GDP) and Turkey (0.12 per cent of GDP) (figure 3).

The degree of remittance dependence has fluctuated in the subregion and varies among countries. The most dynamic change occurred in Nepal. During the 1990s, remittances only made up between 1 and 2 per cent of GDP. This figure increased dramatically after 2002, and by 2009, it had risen to almost 24 per cent. In another example, Pakistan was the largest remittance-recipient economy as a proportion to GDP in the subregion during the 1980s, peaking at 10.3 per cent in 1983. The importance of remittances then decreased to between 1 and 3 per cent of GDP during the 1990s, but picked up again after 2001, mainly due to the rapid increase of nominal remittance receipts. Turkey was the subregion’s third largest remittance-receiver in proportion to GDP in the early 1980s, but the proportion decreased to only 0.16 per cent of GDP in 2009 (figure 4).

Nepal’s dependence on remittances is also reflected in other indicators. It is the only country in subregion where remittances exceed export revenues. In 2010, remittances were almost twice as high as the country’s export revenues and the country received 39 times more in remittances than FDI inflows. In 2009, the country received 3.8 times more remittances than ODA receipts (World Bank 2011).

For many countries in the subregion, remittances serve as an important source of foreign exchange. This was especially true during the global financial crisis as remittances proved to be a more stable source of foreign exchange than other potential sources. In 2009, remittances were higher than FDI inflows in Bangladesh, India, Nepal, Pakistan and Sri Lanka, and higher than ODA flows in all countries of the subregion, with the exception of Maldives and Turkey (World Bank 2011).
Figure 1.
Remittances received by South and South-West Asian countries, 2007–2010

Note: Data are not available for Afghanistan.
Figure 2.
Remittance receipts by South and South-West Asian countries, 1980–2009 (5-year averages)

Note: Data are not available for Afghanistan. Data for Bhutan is only available from 2005.
Figure 3.
Remittances as a percentage of GDP in South and South-West Asia, 2009 and 2010

Note: Data are not available for Afghanistan and not available for Islamic Republic of Iran for 2010.
Figure 4.
Remittances as a percentage of GDP in South and South-West Asia, 1980–2009 (5-year averages)

Note: Data are not available for Afghanistan and Bhutan.
As outlined above, remittances are an important source of capital flows in most countries in South and South-West Asia, and help stabilize the macroeconomic situation. Indeed, in several countries in South Asia, remittances have been instrumental in keeping current account deficits under control in spite of a chronically negative trade balance. Research supports that remittances have the potential to be a balance-of-payments stabilizer (Bugamelli and Paterno 2005). This has especially been the case in Bangladesh and Nepal. Research also suggests that remittances can increase debt sustainability by reducing country risk. Moreover, in addition to increasing household and government income, they also boost the government’s revenue base and reduce the marginal cost of raising revenues (Chami and others 2008).

However, research on Sri Lanka indicates that the potential of remittances to buffer adverse macroeconomic shocks is rather limited. Remittances to the country tended to increase as the economic situation improved and declined during times of economic crises, which were often correlated with a deteriorating political situation. Remittances also climbed in tandem with rising oil prices, which can be attributed to increased job opportunities in the main destination countries, predominately oil-producing countries (Lueth and Ruiz-Arranz 2008).

Notably, much research has been conducted on the positive contribution of remittances to household income and poverty reduction but until recently, only a limited amount has been completed on the potential negative macroeconomic impacts of remittances.

Research on different countries of origin of migrants worldwide found the following negative macroeconomic impacts:

- **Reduced fiscal discipline**: Remittances may reduce governments’ incentive to maintain fiscal discipline. Empirical evidence suggests that governments may take advantage of the fiscal space afforded by remittances by consuming and borrowing more (Chami and others 2008).

- **Dutch-disease effects** (decreasing competitiveness of tradable goods due to exchange rate appreciation): Although remittances constitute a source of financing in the balance of payments, empirical evidence suggests that remittances are positively correlated with real exchange rate appreciation. Some evidence of Dutch-disease-effects, such as an increase in the prices of non-tradable goods in remittance-receiving countries has been shown. Also, evidence suggests that Dutch-disease effects are stronger in fixed exchange rate regimes (Lartey and others 2009).

- **Reducing political will for policy reform**: Remittances can pose a moral hazard problem by reducing the political will to enact policy reform. Compensatory remittances insure the public against adverse economic shocks and reduce households’ incentives to impress upon the government to implement reforms to facilitate policies for pro-poor economic growth (Chami and others 2008).

- **Weaker institutions**: Remittances are also associated with a weaker institutional environment. Regressions have shown that higher remittance receipts are associated with less control of corruption, lower quality of government and lower rule of law indicators. This may be linked to the moral hazard problem of reducing political well or pressure to enact governance reforms (Abdih and others 2008).
Thus far, there is no proof that remittances have a positive impact on economic growth. It is even argued that remittances may delay growth-enhancing policies, reduce labour force participation and lead to riskier investments (Chami and others 2009).

However, a significant drop in remittances would severely affect countries that are highly dependent on these inflows to sustain their economies. Research indicates that a slowdown or drop in remittances would likely increase the volatility of GDP output of the country and have adverse effects on its overall welfare (Chami and others 2009).

The bulk of remittances received by countries in South and South-West Asia comes from temporary labour migrants. One obvious reason for this is that temporary labour migrants now outnumber those who have migrated permanently to settle in Australia, Europe or North America. Another factor is that most temporary labour migrants move overseas without their families with the aim to remit their earnings back home, while permanent emigrants leave their country of origin for a number of different reasons and tend to take their families with them and, as a matter of course, spend more money in the country of destination. Notably, some of the temporary labour migrants in GCC countries remain in the host country for an extended period but are not usually given the opportunity to permanently settle there.

There are a number of driving forces behind remittances, including among others, pure altruism, insurance motives, strategic motives, such as expecting non-monetary returns from the remittance-receiving family, and investment motives. Research has shown that for temporary labour migrants, insurance or strategic motives seem to be the main drivers to remit, while for permanent emigrants investment motives have a greater importance (Rapoport and Docquier 2005, Akkoyunlu and Kholodilin 2006).

Although remittances are more often associated with labour migration, all migrants, including refugees and asylum-seekers, have the potential to remit. This potential largely depends on the conditions the migrants face in the host country. Remittances made by temporary migrant workers or permanent emigrants are usually welcome, while those sent by refugees are sometimes considered controversial as they may be sent with the intention to help perpetuate existing conflicts or strengthen oppositional political movements (Kapur 2004). In some countries, diasporas have provided support to warring parties while in the post-conflict era, large diasporas have the potential to be sizeable sources of investment funds in the rebuilding period (Van Hear 2003).

The central banks of most countries of the subregion publish remittance data by country of origin. According to data from the Central Bank of Bangladesh, between 60 and 70 per cent of remittances received by the country in the past decade originated from GCC countries (IOM 2009). Among these countries, most remittances came from Saudi Arabia, the United Arab Emirates and Kuwait. Apart from GCC countries, the United States of America (about 15 per cent) and the United Kingdom of Great Britain and Northern Ireland (about 10 per cent)
were important countries of origin of remittances. Similarly, about 60 per cent of remittances to Sri Lanka during a 5-year period up to 2009 originated from GCC countries plus Jordan and Lebanon, 18 per cent from countries in the European Union and only 4–6 per cent from countries in North America (Sri Lanka Bureau of Foreign Employment 2009). Similar shares were also reported from Pakistan in 2010, with 60 per cent of the remittances from GCC countries, 20 per cent from the United States of America, and 10 per cent from the United Kingdom of Great Britain and Northern Ireland (State Bank of Pakistan 2010).

Despite the country’s strong reliance on remittances, the Central Bank of Nepal does not publish data on remittance inflows. However, according to the Nepal Living Standards Survey conducted during 2003 and 2004, a total of 27 per cent of remittances came from GCC countries and 23 per cent originated from India (Nepal 2004). The inflows and proportion from GCC countries are expected to rise in line with the increased number of Nepalese migrants to these countries.

**Methods of transfer**

Remittances can be in the form of cash or in kind. Remittances in kind also play an important role and are often physically brought in during family visits and especially when migrants return to their home countries. According to a study on the Indian state Kerala, the majority of goods brought back were clothes (56 per cent), followed by gold ornaments and electrical goods (each 17 per cent) (Rajan and Zachariah 2007).

Remittances in cash are transferred through a number of ways. Among them are bank transfers, being hand-carried during home visits or by friends or relatives and the *hundi* system, in which money is transferred through non-banking sources, such as informal money changers or other businesses operating in the destination countries (Arif 2010, Siddiqui 2004). Officially reported remittances are those made through bank transfers and are, therefore, easy to track. To get the full scope of remittances in a country, data must be obtained on the flows that come in through informal channels and the most common way to obtain this data is through household or other types of surveys.

Surveys have revealed contradicting trends regarding the use of remittance channels. A representative household survey from Bangladesh reports that the majority of remittances (73 per cent) were sent through bank transfers. However, the authors of this survey also consider the plausibility that respondents had under-reported the use of informal channels given the sensitivity surrounding these types of money transfers (IOM 2009). Other surveys on Bangladesh (Siddiqui 2004, Afsar 2009), as well as surveys on Nepal and Pakistan, indicate that the majority of cash remittances are not transmitted through bank transfers. In a 2009 survey conducted on migrants in Pakistan, 60 per cent of the respondents stated that they use the *hundi* system (Arif 2010) while, according to the Nepal Living Standards Survey 2003–2004, some 78 per cent of remittances were transferred by persons, 2 per cent through *hundi* and only 6 per cent through banks (Nepal Central Bureau of Statistics 2004). Many migrants prefer to use non-bank transfer methods because they are often cheaper and faster than bank transfers. In addition, migrants as well as remittance-receivers often

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perceive banking procedures as being complex or explain that it was difficult for them to visit the banks during opening hours.

The majority of remittances to Turkey are transferred through banks due to the large presence of Turkish banks in the main destination country, Germany. Bank transfers between the two countries are quick and economical. Moreover, the Central Bank of Turkey offers incentives to migrant workers by allowing them to hold special foreign currency deposit accounts. Due to the large proportion of remittances sent through banks, Turkish financial institutions have been able to issue large amounts of remittances-backed bonds, which account for a good portion of the global security-backed bond market (European Investment Bank 2006).

Several countries in the subregion have made efforts to further promote remittances through official bank transfers. For example, the State Bank of Pakistan, the Ministry of Overseas Pakistanis and the Ministry of Finance launched a joint initiative in 2009 entitled ‘Pakistan Remittance Initiative’. This initiative aims to facilitate remittances and take “all necessary steps and actions to enhance the flow of remittances”.6

Bangladesh recently launched the Expatriates’ Welfare Bank with the primary objective of facilitating the migration process, bringing the cost of migration down and encouraging that remittances be sent through formal channels. The Bank is tasked with acting as an effective credit facility for migrant workers and providing soft loans to them and financial assistance to return migrants for smooth reintegration.

India also offers special bank accounts for non-resident Indians and persons of Indian origin. Deposits can be held in foreign currency as well as Indian rupees. Non-resident Indians and persons of Indian origin can also secure loans from Indian banks and purchase government bonds and securities.7

The use of official channels to remit funds to South and South-West Asia needs to be promoted further. To encourage using official bank transfers, it is necessary to further facilitate banking procedures and reduce costs as well as improve the financial literacy of migrants and remittance-receiving households. There is also scope for South-South cooperation within the subregion, as other countries could learn from each other’s experiences.

\[\text{Development impact of remittances}\]

\[\text{Remittances and direct impact on households}\]

The impact of remittances on development is still an area open for debate and further analysis but most experts agree that remittance flows in the form of direct transfers to households raise household incomes and have the potential to contribute to overall poverty reduction.

However, it also must be noted that due to high costs, most labour migrants are from lower middle-income groups, instead of the poorest levels of society (Kapur 2004). Several surveys have shown that many migrant households already owned

\[\text{\footnotesize\textsuperscript{6}}\] See www.pri.gov.pk/about/.

\[\text{\footnotesize\textsuperscript{7}}\] See www.rbi.org.in/scripts/FAQView.aspx?Id=52.
a house before one of its members migrated (Arif 2010, IOM 2009, Siddiqui 2004). Nevertheless, unemployment and perceived poverty seem to be the main drivers to migrate. In contrast, migrants from urban areas often cite unemployment as the main reason to migrate, while those from rural areas tend to migrate to achieve a specific purpose, such as to build a house (Arif 2010).

A significant portion of remittances is used to repay loans taken to cover the cost of recruitment. During the first period of migration, which can last from four months to two years, a migrant’s entire income often goes to repay loans. Consequently, research on development impacts of remittances must extend beyond the initial payback period in order to draw accurate results. Moreover, the cost of migration also determines whether and how soon there will be development impacts of remittances.

Surveys from a number of locations in South Asia (Bangladesh, Pakistan, Sri Lanka and the Indian state Kerala) reveal that migration improves the economic status of migrant households. Depending on the method used, some surveys found that migrant households are generally better off than non-migrant households, while others indicated after comparing households before and after migration, that the majority of them improved their economic status after migration. The gains in economic status were even greater for households with professional or educated workers abroad (Arif 2010).

Studies indicate that in most cases, households use remittances to establish new income sources, which sustainably improve their income. As an example, a representative household survey taken in Bangladesh not only found that the majority of migrant households used remittances to establish new income sources (IOM 2009) but that they were confident about being able to sustain the increase in household income after remittances ceased to come in. A survey from Sri Lanka, meanwhile, revealed that migrant households tended to have more income sources than non-migrant households. The authors concluded that this was because they were able to invest remittances in income-generating activities (Arunatilake, Jayawardena and Weerakoon forthcoming).

Surveys from Pakistan and Bangladesh showed that households with a long-term migrant abroad (10 to 15 years) received higher yearly remittances than households with a short-term migrant (Arif 2010, IOM 2009). This can be attributed to higher salaries for migrants with more experience abroad and reduced costs of migration for repeat-migrants. At the same time surveys revealed that households with long-term migrants abroad were less able to create alternative income sources. One possible explanation for this might be that many of the migrants abroad were forced to become repeat migrants due to the failure the households to generate other income sources.

Use of remittances

The development impacts of remittances also depend on how remittances are used. Many experts claim that these impacts are limited as remittance flows are mostly used for consumption. But, research shows that although the majority of remittances are indeed used for consumption, this consumption improves the fundamental well-being of households by providing added income to afford better housing or more nutritious food. Research from Bangladesh also indicates
that remittances were spent more productively in the 1990s than in the previous decade when migration was a relatively new phenomenon (Siddiqui 2004). This suggests that the experience of households in handling remittances, as well as government policies to encourage productive investment of remittances, can lead to more positive development impacts.

Surveys conducted in Bangladesh and Pakistan show similar patterns in the use of remittances, although it is difficult to compare these survey results due to the application of different methods and categorization. In the survey taken in Pakistan, about 22 per cent of remittances were spent on real estate and agricultural machinery, 18 per cent on food and about 17 per cent on costs related to marriage.\(^8\) Of note, in that survey, the use of remittances to pay for marriage was significant even though only 0.6 per cent of the respondents mentioned “earning money for marriage” as the main reason to migrate. In a survey taken in Kerala, 50 per cent of the cash remittances were used for “subsistence”, such as food, 24 per cent for education and 8 per cent to repay debt (Rajan and Zachariah 2007).

A survey in Bangladesh conducted in 2004 (Siddiqui 2004) showed similar spending patterns of remittances to a study on Pakistan conducted by Arif (2009). However, significant differences did appear with regard to savings. In Bangladesh, respondents saved only 3.4 per cent of the remittances, compared to 21 per cent in the Pakistan sample.

It also must be noted that according to the survey in Bangladesh, a significant portion (7 per cent) of the remittances was spent to finance the migration of other family members, which respondents considered as an investment for further enhancing family income. However, while the families see this as an investment, it in fact entails additional spending on recruitment costs. Taking into account the point noted earlier that the first months of migrant workers’ income usually are spent on repaying loans taken to cover recruitment costs, using remittances to cover the recruitment cost of another family member further increases the proportion of remittances spent on the cost of migration and reduces the potential development impact.

A comprehensive household survey undertaken in Bangladesh did not assess the percentage of overall remittances spent on each item, but instead determined how many households spend remittances for each item. According to that survey, 81.2 per cent of remittance-receiving households used the funds to pay family expenses, 39.1 per cent to repay debts, 38.2 for celebrations of religious festivities, 22.3 per cent for medical treatment and 21.3 per cent for the education of children (IOM 2009).\(^9\)

In Turkey, remittances are more commonly used for investment purposes instead of being sent directly to households. Research often attributes this to weakening family ties of the Turkish population abroad as in most cases overseas migrants left the country with their families and many of them are now second and third generation migrant families (Sayan and Tekin-Koru 2004). The improvement of financial products targeting migrants may have also played an important

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\(^8\) In a Muslim cultural context, this mainly consists of the dowry (to be paid to the wife), cost for housing, clothing for the bride and cost of various celebrations.

\(^9\) Percentages add to more than 100 per cent due to multiple answers provided by respondents.
role in channelling remittances into investments instead of direct transfers to households.

Impact of remittances on health, education and housing

Remittances help improve health and education outcomes through direct spending. Moreover, they provide households with a stable source of income and thus social protection, which, in turn, reduces vulnerability to income shocks. With this kind of social protection, households are more willing to invest in education, especially for girls (Kapur 2004).

The studies of Bangladesh and Pakistan show that relatively small proportions of remittances are spent on education (between 3 and 5 per cent) and health (between 3 and 4 per cent) (Arif 2010, Siddiqui 2004). However, other research conducted in these countries, as well in Sri Lanka, indicate that remittance-receiving households generally spend more on health and education than non-remittance-receiving households, with the higher expenditure often used to pay for higher-quality services (Arif 2010, Siddiqui 2004, Arunatilake, Jayawardena and Weerakoon forthcoming). For example in the survey conducted in Pakistan, 79 per cent of the migrant children between 5 and 15 years in the sample were enrolled in school, a figure that exceeded the national average school enrolment rate. In addition, many households used remittances to pay for a better quality of education, which is reflected in increased enrolment in private schools (Arif 2010).

The study from Kerala, the state where the majority of migrants from India originate, did not find a significant difference between remittance-receiving and non-remittance receiving households in terms of elementary and secondary school enrolment. But, it did show that remittance-receiving households were more often able to afford private self-funded colleges. An explanation for this may be that the public school system in Kerala is relatively good and basic educational needs are already met. Therefore, households would rather invest remittances in tertiary education, which can also explain the higher use of remittances for education in the Kerala sample than in the studies from Bangladesh and Pakistan (Rajan and Zachariah 2007).

Remittance-receiving households are more likely to be able to afford better quality health services as supported by research on Bangladesh, Pakistan, Sri Lanka and the Indian state Kerala (Arif 2010, Rajan and Zachariah 2007, Siddiqui 2004). Research on Sri Lanka even observes higher concentrations of private health services in areas with larger concentrations of migrant households (Arunatilake, Jayawardena and Weerakoon forthcoming).

Remittances can also help improve the quality of housing. Surveys reveal that, for example, in Pakistan, house ownership and the quality of housing was already relatively good before migration, but it improved after migration. Before migration, 59 per cent of the migrants owned a house made from cement and other concrete materials, while after the migrant returned home, 74 per cent of the households owned such a house. The Pakistan survey also indicates that 15 per cent of the migrant households owned a house with five or more rooms before migration.

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10 According to the ESCAP Statistical Yearbook for Asia and the Pacific 2009, primary net enrolment in primary education in Pakistan was 67.2 per cent.
with the percentage increasing to 37 per cent after migration (Arif 2010). In household surveys undertaken in the Indian state Kerala, remittance-receiving households had significantly better housing than non-remittance receiving households; a total of 58 per cent of the remittance-receiving households owned a house made of concrete that had at least two bedrooms, attached bathrooms and tiled floors, while only 17 per cent of the non-remittance receiving households could afford housing of that quality (Rajan and Zachariah 2007).

Remittances can contribute to changing gender dynamics depending on whether women themselves migrate or stay behind. Studies have also shown that the effects of remittances differ based on the gender of the person administering the funds.

Earning salaries and remitting may benefit women financially and provide the basis of changing gender relationships. Women migrants often report that by becoming the main breadwinner in the family, their decision-making power and respect from their parents-in-law increased. A study on the impact of remittances from migrant women from Nepal even showed that violence against women decreased after women had migrated and earned their own income. The majority of women also reported that the migratory experience had improved their knowledge and self-esteem (Bhadra 2007).

The empowerment effect of remittances on women seems to be stronger than direct financial impacts. In purely financial terms, women seem to benefit less than men through migration. Studies have shown that women remit a higher proportion of their salaries, but the total amount is usually less in absolute terms due to lower salaries. A study on Bangladesh revealed that in 22 per cent of the households with migrating men, household income had increased after migration. The opposite held true in the case of female migrants, whose incomes even declined in 33 per cent of the cases, mainly due to the high cost of migration combined with low salaries that women typically receive. Similarly, a lower percentage of women than men were able to use their remittances to invest in land or housing (Afsar 2009).

When women migrate, their remittances are usually administered by their husbands or other family members. According to a study on women’s remittances in Nepal, 25 per cent of the remittances were used for education—a high percentage compared to the studies on Bangladesh and Pakistan with the samples consisting mainly of men. This shows that, women accord high priority to children’s education. The study also indicated that family members administrating remittances sent home by women seem to use it mainly in line with the priorities of the remittance-senders. Only in some cases, women had expressed dissatisfaction with the way their “hard-earned money” was spent by the family, who they felt perceived it as “easy money” (Bhadra 2007).

When men migrate, it is often assumed that remittances by married men would be administered by their wives, which could increase women’s decision-making power. However, a study from Pakistan showed that in reality, only about 20 per cent of the wives of men who had migrated hold the family’s bank account. Instead, the survey showed that 50 per cent of these households’ bank accounts
were administered by the migrant’s father. Interestingly, wives are more likely to be the holder of the bank account in cases in which migrants have only a primary or no formal education, and are less likely to be the holder of the bank account when the migrant has a post-secondary education. The same applies in a rural-urban comparison. Women in rural areas are more likely to be the holders of bank accounts. Nevertheless, migration has increased the decision-making power of women in some areas, such as making decisions on the family’s daily needs, but has not appreciably changed their decision-making role in areas pertaining to the education or marriage of their children. Also of note, the survey found that the change in decision-making capacity was often temporary and reverted to the husband when he returned from working abroad (Arif 2010).

More research is needed on the differences in spending behaviour between women and men as recipients of remittances. It is often stated that women as recipients of remittances use the income to finance the needs of the family, such as school fees, while men are more likely to use the income for personal purposes (Niimi and Ozden 2006).

Various studies have indicated that remittances have some empowering effects on women, but that these effects are not automatic and in some cases only temporary. To enable women to reap more benefits from remittances, specific policy interventions targeting women, such as increasing women’s financial literacy, should be taken. Women migrants need to have access to more investment opportunities and channels that would ensure the proper use of their remittances. In some cases, this might also include the need to address legal barriers on women owning property.

Remittances have become an important element of several economies in the subregion, and in some countries, they are a key source of foreign income that help keep current account deficits under control in spite of chronic trade deficits. However, they may also have adverse effects on an economy from a macroeconomic perspective, and these factors must be studied in more depth. One negative impact is that remittances may reduce the incentive to introduce economic reforms which could lead to improving a country’s trade balance.

The bulk of remittances to the key countries of origin of migrants in the subregion seem to come from temporary labour migrants working in GCC countries. There are two groups that remit the most funds, highly skilled migrants and migrants who have worked in these countries for an extended period (through repeated temporary contracts). The highly skilled migrants earn relatively high wages while the long-term migrants benefit from higher pay scales that come with more experience and decreasing migrant costs.

By serving as a direct source of income to households, remittances have the potential to contribute to the alleviation of poverty. The majority of remittances received by households are used to pay for daily consumption needs.

The high costs associated with migration hampers the ability of migrants to use remittances to support their families and invest. In fact, in the first months abroad, the entire income of migrants often is used to pay debts. These high costs limit the potential development impacts of remittances and steps should
be taken to reduce them. Also remittance flows used to finance the migration of other family members adversely affects the development impacts of remittances.

Although the bulk of remittances is used for daily consumption, a significant amount is spent on education and health. Research has shown that remittance-receiving households can afford more nutritious food and better quality health services.

As noted earlier, remittances from migrants who remain abroad for longer periods of time tend to be greater due to higher salaries in tandem with more experience. Long-term migration of one family member is more economical than using remittances to finance the migration of another family member. However, long-term migration tends not to be the preferred option of many migrants due to the social costs associated with it, difficult working conditions in the countries of destination and the cost of separation from their families.

A large proportion of remittances are transferred through informal channels. To promote the use of formal channels, banking procedures need to be simplified and the bank transfers must be more efficient and cost less. In addition, improving the financial literacy of migrants as well as remittance recipients would make them more familiar with banking procedures and reduce obstacles to remit through official channels.

In many countries of the subregion, investment opportunities and incentives must be made available to migrant workers. Currently, only a small proportion of remittances are used for investment purposes. The percentage could be increased by offering more investment products catering to migrants. These types of remittance flows would ultimately generate long-term income as well as enable the offering of remittance-backed bonds.

From a financial perspective, male migrants generally receive higher wages than women migrants, putting them in a better position to gain from remittances. Meanwhile, women left behind by migrant men are often not the holders of the family's bank accounts or the actual remittance-receivers. In many cases, remittances are sent to the father of the migrant. Improving financial literacy of women would help them reap more benefits from migration. However, notably, despite receiving lower wages, reports show that women migrants have gained socially by sending remittances and thus becoming the main breadwinners of the family.

The countries of South and South-West Asia have varying experiences in handling remittances. This, consequently, has created large scope for subregional cooperation and sharing of experiences. One example would be in the area of sharing of experiences pertaining to designing specific products targeting migrant workers and in issuing remittances-backed bonds.
References


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