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**Migration, Remittances and Development
Nexus in South Asia**

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Impacts of migration and remittances on the Sri Lankan Economy

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Motivation

- 'temporary migration for work from low-wage to high-wage developed countries is a 'win-win-win' situation'
 - 1- workers benefit from higher wages,
 - 2 - destination countries benefit from more employment and higher GDP,
 - 3 – countries of origin benefit from employment for the un/under employed, remittances and contributions of returnee migrants)
 - World Migration Report, 2008 (IOM)
- 'but, costs and benefits of migrations are shaped by the particular situation of the country, and depends on the size and type of emigration flows, and market conditions in the countries of origin'
 - World Bank, 2006



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This study will ...

- 1 – describe trends in migration and remittance flows
- 2 – examine impact of migration and remittances on the economy
 - Macro level:
 - On macro economic stability
 - On national savings
 - On the labour market
 - Micro level:
 - Household expenditure
 - Household incomes
 - Welfare (i.e., health and education outcomes)
- Caveats
 - Analysis is limited by availability of information
 - Analysis focuses on economic impacts of migration for employment purposes
 - (Social and political impacts are not covered)



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Trends in migration and remittances ...

- Trends in migration for employment
 - Increased in late 1970s. Due to,
 - Economic reforms during 1977/78 which saw relaxation of exchange control
 - Opening up of opportunities in the Middle East due to oil price hike in 1979
 - The outbreak of ethnic conflict, in early 1980s, also led to a large number of political migrations.
 - Trends**
 - Gross annual outflow has increased from 20,000 (mid 1980s) to 200,000 (now)
 - By 2008, estimated 1.8 million Sri Lankan's were working abroad (SLBFE)
 - Outflow of migrants per annum of 200,000 exceed the number entering the labour market annually
- Type of migrants
- Early emigrants were unskilled workers (majority were 'house maids')
 - Some increase in skilled migrants in recent years
 - But, unskilled migrants still account for 80% of the total migrants
 - about 62% of migrants are females

Departures for foreign employment by manpower levels and sex, 2000-2007

	Total	Professional	Middle	Clerical and Related	Skilled/Semi Skilled	Unskilled	House maid
Male							
2000	59,793		1.5	5.6	8.1	40.7	44.1
2004	80,699		2.1	6.7	7.2	42.1	41.9
2007	102,629		1.5	3.2	3.8	45.6	45.9
Female							
2000	122,395		0.0	0.4	0.8	9.9	7.7
2004	134,010		0.1	0.9	0.6	8.9	7.0
2007	114,677		0.1	0.5	0.5	5.4	4.4

1- Departures have steadily increased over time; 2 - Female out migration declined from 70% in 1990s to 55% by 2007; 3- Majority (80%) female emigrants are housemaids; 4 - Significant share of male emigrants are skilled labour

Migrant Profile, 2007 (SLBFE)

	Stock (=1.6 mn)		Departures (= 217,000)	
	Male (38%)	Female (62%)	Male (47%)	Female (53%)
Total	622,300	1,020,155	102,629	114,677
<i>By Age (%)</i>				
20-29	n.a.	n.a.	43.4	32.5
30-39	n.a.	n.a.	29.0	33.6
<i>By skill (%)</i>				
Professional level	2.0	0.2	1.5	0.1
Middle level	5.9	1.0	3.2	0.5
Clerical & related	9.5	1.2	3.8	0.5
Skilled	41.8	10.5	42.5	5.2
Semi skilled	0.5	0.0	3.1	0.2
Unskilled	40.3	7.6	45.9	4.4
Housemaid		79.4		89.1

Geographic spread of migrants

	Migrants ¹	PHI 2006/07 ²	Rate of Unemployment ³ 2007
Sri Lanka		15	6.0
Western	57,719	8	5.6
Central	25,940	22	5.8
Southern	19,092	14	8.5
North Western	16,529	15	5.8
North Central	32,441	14	4.5
Uva	8,210	27	4.8
Sabaragamuwa	15,765	24	6.2
Eastern	24,653	n.a.	n.a.
Northern	7,043	n.a.	n.a.
Other	9,914	n.a.	n.a.

1 - 25% plus from WP; 2- Some poor prov. have large nos of migrants (CP, EP)

Source of Remittance Inflows to Sri Lanka

	1987	1999	2008
Middle East	45.5	61.7	59.8
North America	20.5	7.3	3.9
European Union	16.1	13.6	18.0
Europe Other	5.0	5.6	4.4
South Asia	1.8	0.8	1.1
South East Asia	4.2	1.9	3.1
Far East Asia	4.1	6.1	6.0
Australia	1.5	1.0	1.9
Other	1.2	2.0	1.8
Total	100.0	100.0	100.0

1 -ME – major source; 2- NA and Eu also important '87, 3- Eu still important source of remittance flows.

Migration Policy Framework

- Policy Objectives (National Labour Migration Policy) (2009)
 - promote skilled and safe migration,
 - ensure worker freedom and rights
 - (strengthen institutions and regulation, protection of workers and their families, linking development to migration)
- First Act : Sri Lanka Bureau of Foreign Employment Act, 1985
 - Lead agency for oversea employment administration
- Ratification of international convention on the protection of the rights of all migrant workers and their families (1996)

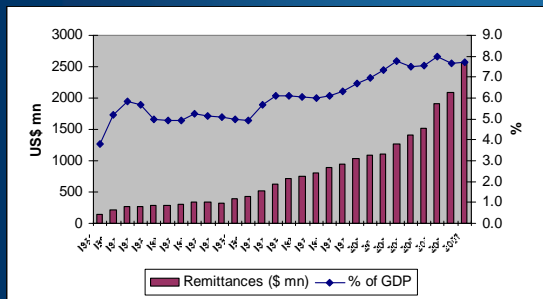
Migration Policy Framework

- Creation of a separate ministry – Ministry of Foreign Employment Promotion and Welfare (MFEPW) (2007)
 - Sri Lanka Bureau of Foreign Employment (established in 1985)
 - Manage emigrations, data collection, standards for emp. Contracts, workers welfare
 - Sri Lankan Foreign Employment Agency (pvt) Ltd. (established in 1996)
 - Established for sourcing foreign emp. For youth
 - Secure emp. Abroad, ensuring worker welfare
- The MFEPW is responsible for
 - Formulation and implementation of foreign employment programmes
 - Promotion of foreign employment
 - Career guidance on foreign employment
 - Training for foreign employment
 - Welfare of migrant workers.
 - Housing development programs for migrant workers.
 - Wages, terms and conditions of foreign employment
 - Regulation of fee levying of employment agencies

Macro Impacts

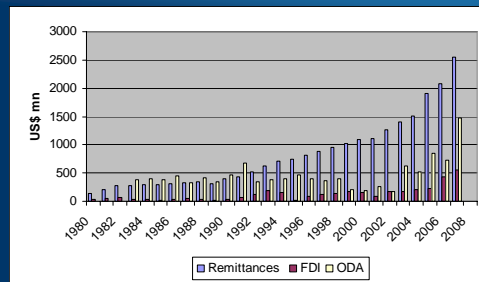
- Remittance flows are
 - An important source of external financing for developing countries
 - Steady source of funds
 - Are often Large (in excess of Official Development Assistance (ODA), Foreign Direct Investment (FDI), and portfolio flows
 - Stabilize economic downturns during external shocks – such as natural disasters, financial crisis, political conflict, etc.

Trends in Remittance Inflows



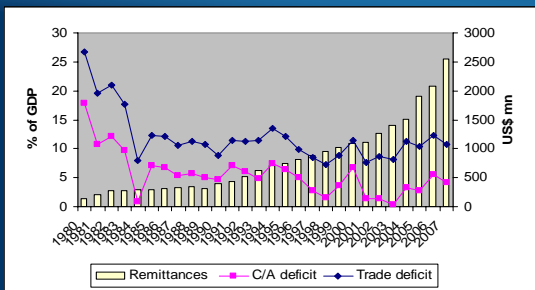
- Remittance flows to Sri Lanka have risen steadily over time
 - In 2008, they amounted to US\$ 3 billion (8% of GDP)

Comparative Sources of Foreign Capital Inflows



1- Stable source of foreign capital flows; 2- Nearly twice that of ODA in 2007;
 3- Far exceed FDI; 4- Less volatile

Remittances and BOP Support



1 - R provide significant BOP support, cushion impact of weak merchandise trade a/c;
 2 - 2004-2008 oil price shock: increase in remittances;
 3 - impact on real exchange appreciation in SL low - due to steady flow over a long period

Contribution of Remittances to Savings and Investment

% of GDP	1980-84	1985-89	1990-94	1995-99	2000-04	2005-07
Domestic savings	13.7	12.2	14.7	17.3	16.0	17.5
National savings	16.5	14.6	17.8	21.4	21.3	23.1
Investment	29.4	23.1	24.4	25.4	23.8	27.6

SL domestic savings are low compared to national savings - indicating that remittances have contributed to boosting the investment rate.

Impact of migrants on the labour market - theory

- - Migration of low skilled workers are seen as beneficial
 - Higher proportion of income is sent by low skilled workers (due to migration alone and for short-term)¹⁷
 - Can ease labour market conditions at home
 - Reduce un/under employment
 - Improve wages
 - Improve labour force participation
 - Help hh out of poverty
- Impact of migration on high skilled workers mixed, depend on size and structure of the home economy and its performance
 - Loses external social benefits of high skilled workers
 - Loses the administrative capacity of high skilled workers
 - Loose demand created by high skilled workers
 - Loose investments in public education
- But high skilled migrant workers
 - Contribute to remittance flows
 - Costs are less if home country economies are unable to provide employment
 - Small countries may lack capacity to higher large numbers of high skilled workers

Impacts on the labour market ...

- The stock of SL workers abroad are significant
 - 1.6 million in 2007, equivalent to 22% of domestic workforce
- Labour emigration has contributed to the slowing down of LF growth (and contraction in some years)
 - From 2006 to 2007 the Sri Lankan LF shrunk by 110,000
 - But, the stock of workers abroad increased by 195,000
- Foreign employment is a major source of employment
 - Number employed from 2006 to 2007 decreased by 63,000
 - But, the stock of workers abroad increased by 195,000

Impacts on the labour market

- **Unemployment rate** in Sri Lanka has steadily come down since early 1990s
 - Part of this decline can be attributed to foreign employment
- Effects of migration on Labour Force Participation (**LFP**) is less pronounced
 - LFP has remained around 48% from 1998 to 2007
 - (housewives who emigrate does not change LFP)
- Effect on **wages**
 - Difficult to directly relate without detailed data
 - Labour shortages have increased wages in some occupations (e.g., construction sector workers)
- Emigration rate (ER) of tertiary educated workers are high in Sri Lanka
 - ER in SL is 20 out of 103 countries for which data is available
 - ER rate of doctors (37 out of 157) and ER nurses (66th out of 157) high
 - Indicates high levels of brain drain (country is facing a shortage of specialist doctors and nurses)

Expatriates in OECD countries by country of origin (Selected countries)

Country of birth	Emigrant population (000)	Education		Emigration rate	
		Primary (%)	Tertiary (%)	Total (%)	Tertiary educated (%)
Sri Lanka	316.9	35.0	28.2	2.1	19.4
India	1,957.2	26.6	53.1	0.3	3.5
Pakistan	672.9	45.6	31.8	0.8	9.8
Nepal	23.9	22.8	41.9	0.2	3.0
Bangladesh	285.7	48.3	28.4	0.4	3.2
Afghanistan	141.2	48.1	20.9	1.1	6.4
Maldives	0.4	26.8	31.1	0.3	..
Bhutan	0.7	41.9	25.4	0.1	..
Philippines	1,932.8	17.7	46.7	3.9	7.4
Malaysia	214.3	19.4	50.2	1.4	11.3
Indonesia	344.5	25.9	34.9	0.2	20 1.8
Thailand	272.6	37.1	29.1	0.6	1.5

Expatriation rates for nurses and doctors, Circa 2000 (Selected Countries)

Country of Birth	Nurses		Doctors	
	Number of persons working in OECD countries	Expatriation rate	Number of persons working in OECD countries	Expatriation rate
Sri Lanka	2,032	8.1	4,668	30.8
India	22,786	2.6	55,794	8.0
Pakistan	1,803	3.6	10,505	8.3
Nepal	205	3.5	288	5.1
Bangladesh	651	3.1	2,127	5.2
Afghanistan	613	13.0
Maldives	6	1.9
Philippines	110,774	46.5	15,859	26.4
Malaysia	7,569	19.6	4,679	22.5
Indonesia	3,449	2.7	2,773	8.6
Thailand	3,050	1.7	1,390	5.8

ER rate of doctors (37 out of 157) and ER nurses (66th out of 157) high

Micro Impacts

- Impact of remittances on HH incomes and expenditures
 - Can reduce poverty
 - Improve hhs capacity to cope with shock (e.g., health shocks, crop failure)
- Incidence
 - 11% of hhs receive remittances
 - A higher percent of urban hhs receive remittances
 - On average hh receive RS. 8,177 a month from remittances (or half of mean hh income per month) (2003/2004)

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Households Receiving Foreign Remittances

By Income Quintile	No. of migrant hhs	Sample size	% hhs receiving remittances	Remittances as a % of hh income ¹ in the last six months		Level of Remittances (Rs.) in the last six months ¹	
				Mean	Mean	Mean	Mean
1	129	2,217	5.8	36.1	9,597		
2	180	2,165	8.3	32.2	14,709		
3	210	2,133	9.8	38.2	25,436		
4	270	2,074	13.0	36.1	36,669		
5	387	1,957	19.8	37.3	99,661		
Total	1,176	10,546	11.2	37.3	49,062		
By sector							
urban	245	1,477	16.6	34.6	58,103		
rural	902	9,650	9.3	37.0	47,593		
estate	29	595	4.9	30.0	18,369		
Total	1,176	11,722	10.0	36.3	49,062		

Source: Own calculations using Central Bank, Consumer Finance Survey Data 2003/2004.

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Impact of remittances on income and expenditure

- Note on analysis
 - Only cross sectional data available in SL – not possible to compare pre post conditions
 - Comparisons are for migrant-households (households with at least one migrant workers) to matched-migrant-households (households that are similar in characteristics to migrant households)
 - Matching is done using propensity-score matching techniques
- Impact on expenditure
 - In total migrant-hhs spent more compared to matched-migrant-households
 - Expenditures on food, non-food, health and education are higher for migrant households
 - However, expenditure on durable goods are lower
 - Differences are significant (at 1 % level, except for durable goods (5% level))

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Comparison of expenditure and income by migrant and non-migrant households, with controls for selection bias using propensity score matching techniques

Variable	Method ¹	Migrant households	Non migrant households	Difference	S.E.	T-stat
Expenditure (year prior to the survey)						
total expenditure	un matched	248,432	198,157	50,275	4,216	12
	matched	247,664	208,396	38,268	12,110	3
food expenditure	un matched	95,110	82,805	12,305	791	16
	matched	95,136	82,103	13,033	2,036	6
non food expenditure	un matched	117,411	89,231	28,180	2,780	10
	matched	116,566	87,522	29,044	5,756	5
expenditure on durable goods	un matched	19,850	13,935	5,916	1,763	3
	matched	19,908	28,890	(8,982)	7,993	(1)
health expenditure	un matched	8,915	7,138	1,777	559	3
	matched	8,901	6,607	2,294	1,007	2
education expenditure	un matched	7,145	5,048	2,098	447	5
	matched	7,152	4,273	2,879	878	3

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- Impact of remittances on income and expenditure**
- Impact on incomes
 - Incomes are higher for migrant-households
 - They also receive a higher level of income from properties, financial and physical assets
 - Migrant-households receive income from a more diverse set of sources (more stable)
 - Differences are significant at 1% level.
 - Economically, migrant-households are better off compared to non-migrant households
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Comparison of expenditure and income by migrant and non-migrant households, with controls for selection bias using propensity score matching techniques

Variable	Method ¹	Migrant households	Non migrant households	Difference	S.E.	T-stat
Income (six months prior to the survey)						
income from properties ²	un matched	16,835	12,692	4,144	710	6
	matched	16,642	12,091	4,551	1,382	3
Income from household financial assets ³	un matched	7,345	4,001	3,344	1,354	2
	matched	7,361	3,652	3,708	2,226	2
Income from household physical assets ⁴	un matched	107,524	25,645	81,879	19,438	4
	matched	107,835	9,220	98,616	31,418	3
Number of income sources per hh	un matched	5.5	5.4	0.1	0.0	3.0
	matched	5.5	5.1	0.4	0.1	4.3

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- Impact on health and education**
- Theory
 - Mixed effects on health and education
 - Expenditure on health and education more for migrant hhs
 - But, lack of parental guidance and additional household responsibilities may
 - Increase school absenteeism or dropouts
 - Reduce nutrition and health care for children (younger children)
 - Increase substance abuse (older children)
 - Results from impact study
 - Expenditures on health and education are higher
 - But no significant effect on health and education outcomes
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Comparison of expenditure and income by migrant and non-migrant households, with controls for selection bias using propensity score matching techniques

Variable	Method ¹	Migrant households	Non migrant households	Difference	S.E.	T-stat
Education and health outcomes						
	unmatched	0.12	0.14	-0.02	0.01	-1.8
Morbidity rate age <=14	matched	0.12	0.11	0.01	0.02	0.3
School enrolment age>=5 & <=14	Unmatched	0.92	0.93	-0.02	0.01	-1.4
	matched	0.92	0.94	-0.02	0.02	-1.1

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- Conclusions and Policy Implications**
- Sri Lanka has experienced a steady increase in emigrations and remittance flows over the last couple of decades
 - Majority of Sri Lankan migrants are housemaids and unskilled migrants
 - But, number of skilled migrants have increased over time
 - The expatriation rate of tertiary educated (to OECD countries) are high in Sri Lanka
 - The expatriation of health sector workers are also high
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- Conclusions and Policy Implications**
- Evidence suggests that remittances are beneficial at the macro level
 - Remittances are a more significant and stable source of foreign capital
 - Remittances have provided significant BOP support
 - Remittances have helped to offset adverse impacts of external shocks
 - Remittances have improved national savings
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- Conclusions and Policy Implications**
- Foreign employment (FE) is a main source of employment
 - FE has reduced UE and improved wages in some sectors
 - But,
 - FE has contributed to reducing LF growth
 - And, labour shortages (especially high skilled) could affect growth adversely
 - Micro Level
 - A significant proportion of households receive remittances
 - Remittances have helped to increase expenditures and incomes and provided security to households from external shocks
 - However, effect of remittances on health and education outcomes are not significant
 - This could partly be due to the adverse social and political consequences of migration
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Policy Implications

- Recent policy on labour migrations seems to assume that migration of all types of workers abroad is beneficial (as long as worker rights and freedom is ensured)
- However, over reliance on foreign employment can hold back essential domestic reforms to improve investment climate and create jobs
- Promotion of high skilled labour should be done keeping in mind domestic requirements
- Need to match education and training to domestic and emigrant requirements
- promotion of labour in sectors with labour shortages should be streamlined, until more workers are trained,
- More information is needed to better assess the development impacts of migrants and remittances

Thank you

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Creating the Propensity Score:

- Dependent Variable
Household with a migrant member
- Independent Variables
 - Location – district
 - Economic status of the head of the household (regular, contract, unemployed, etc)
 - Ethnicity
 - Extended family
 - Community unemployment rate
 - Community migrant rate

Sample Comparison:

Variable	Before matching			After matching		
	Treated	Control	p>t	Treated	Control	p>t
Economic status of head of the household						
regular	0.06	0.17	0.0	0.06	0.07	0.6
casual	0.24	0.29	0.0	0.24	0.25	0.3
self employed	0.32	0.37	0.0	0.32	0.34	0.3
unemployed	0.01	0.01	0.1	0.01	0.01	0.3
not in LF	0.37	0.16	0.0	0.37	0.34	0.0
Extended family	0.23	0.14	0.0	0.23	0.23	0.7
Sinhalese	0.63	0.78	0.0	0.63	0.65	0.1
District						
Colombo MC	0.04	0.03	0.0	0.04	0.02	0.0
Colombo other	0.07	0.08	0.1	0.07	0.08	0.1
Gampaha	0.12	0.11	0.0	0.12	0.12	0.8
Kalutara	0.07	0.06	0.1	0.07	0.07	0.3
Kandy	0.06	0.07	0.1	0.06	0.05	0.1
.....
Community unemp rate	9.27	8.66	0.0	9.30	9.60	0.2
Community migrant rate	5.10	1.19	0.0	5.07	5.32	0.5