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A comprehensive analysis of remittances

Sri Lanka

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Forward

Remittances play an important role in the Sri Lankan economy. In 2018, the contribution of remittances through formal channels to Sri Lanka exceeded US Dollars 7.01 billion accounting for nearly 8 percent of the Gross Domestic Product (GDP). Apart from this, one in every fourteen households in Sri Lanka are in receipt of foreign remittances playing a significant role in lifting them from poverty. However, research on remittances is limited. This report attempts to address the gap in remittance information by providing a body of evidence on the many facets of remittances – accessibility, use, cost, regulatory environment and international best practices.

The Institute of Policy Studies (IPS), was commissioned by the ILO Country Office for Sri Lanka to conduct this study with the aim of contributing to an evidence base on remittances in Sri Lanka particularly focusing on remittances from labour migrants. The study was funded by the National Labour Migration Policy Project (Phase III) which is supported by the Swiss Development Cooperation (SDC).

The findings of the study are most relevant for stakeholders in the foreign employment sector that includes the Ministry of Telecommunications, Foreign Employment and Sports, the Sri Lanka Bureau of Foreign Employment and civil society organizations working on labour migration. Additionally, this study provides valuable insights for the financial sector in informing policy decisions, most notably on reducing the cost of remittances to 3 percent of the remittance amount - a Target under the Sustainable Development Goals that Sri Lanka is committed to meet by 2030.

The ILO Country Office for Sri Lanka and the Maldives wishes to thank the Ministry of Telecommunications, Foreign Employment and Sports for helping to coordinate data gathering from the migrant community in Sri Lanka; the Centre for Human Rights and Community Development (CHRCD) in Kurunegala for facilitating Focus Groups Discussion in Kurunegala; and all respondents and key informants who supported data gathering in Colombo, Batticaloa and Kurunegala. The ILO Country Office also thanks the IPS research team led by Dr. Bilesha Weeraratne for conducting the research so ably. Finally, thanks to Madushika Lansakkara of SDC, and ILO colleagues Swairee Rupasinghe, Namrata Raju and Nayana Godamunne for their valuable inputs in finalizing the report.

Simrin Singh
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Executive summary

The overall goal of this study was to develop an evidence base on remittances to Sri Lanka for the foreign employment and financial sectors. It is intended that this body of evidence would contribute to policy development on reducing the cost of remittances in line with the Sustainable Development Goal (SDG) 10.c to reduce the cost of remittances to 3 percent of the amount remitted. To this effect, the specific objectives of the study are to better understand remittances in the areas of accessibility, use, and cost of remittances. In addition, it hopes to contribute to improving the regulatory environment on remittance receipts in Sri Lanka. The study further explores the merits and demerits of formal and informal channels, and regional initiatives and good practices on remittances sending and receiving.

The study uses a mixed methods approach consisting of both qualitative and quantitative primary data supplemented by secondary information. Quantitative data was collected via a sample survey of 602 migrant households from three purposively selected districts in Sri Lanka, namely Colombo, Kurunegala and Batticaloa. In addition, the study also collected qualitative data via different approaches. In terms of Key Informant Interviews (KIIs), the study involves 28 KIIs in Sri Lanka with stakeholders involved in the migration and/or remittances sectors. Two Focus Group Discussions (FGDs) were also conducted in Sri Lanka with migrant workers and Civil Society Organizations (CSOs).

The migrants in this sample are first-time migrants migrating predominantly to Gulf Cooperation Countries (GCC) with the main occupations being housemaid and driver categories. On average, the amount remitted is LKR 39,550 per month, while the average monthly salary of a migrant is LKR 68,814. The average cost of sending remittances to Sri Lanka is 5.9 percent, while in the banking and Money Transfer Organization (MTO) channels it is 5.4 percent and 3.7 percent, respectively. In the case of mobile money, the remittance cost is 2.9 percent. These findings indicate that Sri Lanka's average cost of remittances is close to the existing estimates for South Asia (5.2 percent) and lower than the global estimate (7 percent). Similarly, the estimates from this study for banking, MTO and mobile money channels are lower than the corresponding global estimates of 10.5 percent, 6 percent, and 3.3 percent, respectively.

For banks, factors that contribute to increasing cost of remittances over MTOs are; the lack of transparency in determining the formula for remittance charges imposed on banks, and MTOs compelling banks to maintain parallel operating systems and exerting a degree of unfair balance of power over banks. In the case of mobile money, regulator restrictions on capping the maximum remittance at LKR, 25,000 per transaction, and the low level of trust associated with mobile money inhibits its growth potential and ability to capitalize on its advantage as a low-cost channel.

The impact of remittances on education and employment outcomes for family members left behind has mixed results. This is possibly due to the higher value that these families place on leisure compared to time spent on employment or on activities related to education. The study indicates that, at the household level there is a high dependence on remittances for daily spending and loan repayment. However, there is minimal planning on remittance management prior to the migrant embarking overseas. As a result, migrants have little control on how beneficiary households chose to spend remittances. It is however important to note that remittance receipts are closely linked to household spending decisions. What this means is, when the migrant is male and the remittance receiver is the wife, decisions on how remittances get spent shift to female members in the household.

The following are recommendations to reduce the cost and improve the management of remittances in Sri Lanka:

- Improve interaction between banks and MTOs
- Adopt FinTech in remittance service delivery
- Promote Mobile Money
- Learn from informal channels to improve remittance services in formal sector
- Factor in gender dimensions in remittance management education
- Improve timing and frequency of remittance education
- Involve existing networks of CSOs and Migration Development Officers for remittance management education
- Educate migrants about impact of exchange rate margin on cost of remittances
- Transition from financial literacy education to remittance management education during pre-departure training
- Inculcate a positive attitude towards remittances
- Reconsider importance of female migrants for remittances
- Promote collective international efforts to reduce cost of remittances
- Produce better, standardized, reliable, and upt-to-date data on migration and remittances to track cost of remittances and develop evidence-based policy decisions to reap the full benefits of migration in Sri Lanka.

List of abbreviations

AD	Authorized Dealer
ADB	Asian Development Bank
ATM	Automatic Teller Machine
ATM	Automated Teller Machine
BOC	Bank of Ceylon
CAD	Canadian Dollars
CBSL	Central Bank of Sri Lanka
COD	Country of Destination
CP	Colombo Process
CSO	Civil Society Organization
CSTFA	Convention on the Suppression of Terrorist Financing Act
DFE	Department of Foreign Exchange
DSD	Divisional Secretariat Division
ECA	Exchange Control Act
EU	European Union
FEA	Foreign Exchange Act
FGD	Focus Group Discussion
FinTech	Financial Technology
FIU	Financial Intelligence Unit
FTRA	Financial Transactions Reporting Act
GCC	Gulf Cooperation Council Country
GCE O/L	General Certificate of Education – Ordinary Level
GDP	Gross Domestic Production
GND	Grama Niladhari Division
HNB	Hatton National Bank

IMF	International Monetary Fund
IOM	International Organization for Migration
KII	Key Informant Interview
KNOMAD	Global Knowledge Partnership on Migration and Development
LC	Licensed Commercial Bank
LKR	Sri Lankan Rupees
LSB	Licensed Specialized Banks
LTTE	Liberation Tigers of Tamil Eelam
ME	Middle East
MFEPW	Ministry of Foreign Employment Promotion and Welfare
ML	Money Laundering
MTO	Money Transfer Operator
NGO	Non-Governmental Organization
OTP	One Time Password
PIN	Personal Identification Number
PMLA	Prevention of Money Laundering Act
PRI	Pakistan's Remittance Initiative
RD	Restricted Dealer
SDG	Sustainable Development Goal
SLBFE	Sri Lanka Bureau of Foreign Employment
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TF	Terrorist Financing
UAE	United Arab Emirates

01 Background

Remittances play an important role in the Sri Lankan economy. In 2018, the contribution of remittances via formal channels to the Sri Lankan economy exceeded US Dollars 7.01 billion, and accounted for nearly 8 percent of the Gross Domestic Product (GDP) and 68 percent of the trade deficit (CBSL, 2018). From a macroeconomic point of view, these remittances were the highest foreign exchange earner ahead of apparel exports and tourism earnings (CBSL, 2018). At the micro level, one in every fourteen households received foreign remittances (Weeraratne B. , 2019). Compared to this significant reliance on remittances, both at the macro and micro level, there is limited understanding about the dynamics of remittances in Sri Lanka. For instance, the flattening of Sri Lanka's formal remittance receipt curve since 2015 is largely attributed to the decline in labour migration under the semi-skilled and unskilled categories, including housemaids (CBSL, 2016). However, there is no clear understanding on how these factors played a role. The current policy focus is to limit female and low skilled migration and promote male and skilled migration leading to higher remittances (MFEPW, 2008). Nonetheless, during the high remittances years, the majority of migrant workers were females and low skilled. Moreover, the literature notes that compared to males, females have a greater involvement with the operation of the household left behind and thus are more reliable remitters. On the other hand, despite being less reliable, when they do remit, males are more likely to remit greater amounts due to their higher wages (Goff, 2016). As such, it is unclear if the higher salaries of males would translate to higher remittances to Sri Lanka. Besides, high skilled migrants often depart as families, leaving no immediate family members behind to receive regular remittances, Skilled worker are also more inclined to migrate permanently. In this context it is unclear if higher salaries of better skilled migrant departures would offset their weaker ties with and related smaller remittances to Sri Lanka. As such, there is no clear understanding about how formal remittances to Sri Lanka would pan out in future. Concurrent to formal channels, remittances are also sent to Sri Lanka via informal channels (MFEPW, 2008), and there is no clarity about the share, cost or other details about remittances channeled informally.

Amidst such limited understanding about remittances, Sri Lanka is committed to reduce cost of remittance to below 3 percent in line with target 10.c. of Sustainable Development Goals (SDGs) of Agenda 2030 of the United Nations, and eliminate remittance corridors with cost higher than 5 per cent. In this context, the overall goal of this study is to develop an evidence base on remittances for the foreign employment and financial sectors to reflect on, when planning policies to reduce cost of remittances in line with the SDG target 10.c to improve the receipt of and thereby the use of remittances. To this effect the specific objectives of the study are to expand the knowledge and understanding about remittances along the areas of use, channels and cost of remittances, the merits and demerits of formal and informal remittance channels, the regulatory environment to receive remittances in Sri Lanka and regional initiatives and good practices on remittances.

To achieve these objectives, initially a literature review of remittance systems used in Sri Lanka is presented in Section 2 followed by the context on remittances in Sri Lanka in Section 3. The introduction of data and methodology used in the empirical analysis is presented in Section 4. Section 5 presents primary and secondary findings based on the study objectives. Section 6 discusses international best practices on reducing remittance cost. Section 7 concludes the study with a summary of the main findings, and recommendations to reduce the cost of remittances.

02 Literature review

Remittances are broadly identified as the transfer of money from migrants to individuals in the country of origin (Ratha, 2005; Weeraratne & Kelegama, 2016; World Bank, 2011.; International Organisation for Migration (IOM), 2006). As noted by World Bank, (2018) an estimated US Dollar 528 billion is expected to be remitted to low and middle-income regions in 2018 (World Bank, 2018). Mainly due to high cost, significant portions of remittances are channeled informally. In early 2019 the global average cost of sending remittances was approximately 7 percent of the value sent (KNOMAD, 2019).

This cost of remittances includes two main components – transfer fees, a charge the sender pays at the initiation point, and in some cases also includes fees and taxes charged to the beneficiary, and exchange rate margin –percentage difference between the foreign currency exchange rate applied to the transaction by the remittance service provider and the interbank exchange rate when payments are made in local currencies (The World Bank, 2015). The literature notes that the cost of remittances increase due to factors such as underdeveloped financial infrastructure, lack of competition, lack of transparency, regulatory obstacles, and lack of access to the banking sector by remitters and beneficiaries (Cirasino, 2015). Formal remittances are those that reach a receiving country through official banking channels, while informal remittances are those channeled outside these official and documented channels. Cheran & Aiken (2005, p. 6) depicts that informal money transfer systems have a long history and have played an important role in remitting money across the global south and global north. The authors note that informal remittances are services operated primarily to facilitate the transfer of money, value or goods to geographically distant locations. Ethnic, clan, village, regional, and kinship ties were an important element in these transfer services. With the intensification of transnational migration in the latter part of the twentieth century, the informal system has spread to the cities of the global north"(Cheran & Aiken, 2005, p. 6).

There are many dimensions to remitting, including but not limited to gender, skill category, socio-economic status, etc. When it comes to the gender dimensions of remitting, the literature tends to show that at the global level, female migrants send approximately the same amount of remittances as male migrants, albeit women send a higher proportion of their income, even though they tend to earn less than men (IOM, 2004). Women also tend to remit smaller sums of money more regularly, which increases their transfer cost relative to men. When it comes to skill level, labour migration and remitting money is better facilitated in skilled sectors of work, whereas it is more restricted for low-skilled employment, especially affecting women who are underrepresented in the former (IOM, 2004). Many migrant women working in low-skilled sectors face barriers to accessing formal remittance channels, "as they are often confined to secluded accommodation and workplaces and might not be in possession of valid documents" (UN – INSTRAW, 2005). In addition, banks may not recognize low-skilled migrant women as important clientele as they tend to send only small amounts.

While the literature on the gender/skill dimensions of remittance systems used by Sri Lankan migrant workers is sparse, the following sections broadly review the literature along the main objectives of this study.

2.1 Accessibility of remittances

Arunathilake, Suwendrani, Jayawardena, Jayaweera, & Weerakoon (2010) note that the formal financial sector in Sri Lanka has been developing at a rapid pace with advanced remittance services being offered by many financial institutions. While the study found informal methods were prevalent in conflict affected areas, this was mainly due to a lack of access of alternatives during conflict periods, rather than migrants' lack of knowledge about these services.

Arunathilake et al (2010) also found that the Sri Lanka Bureau of Foreign Employment (SLFBE) pre-departure orientation course provides ample information to migrants on formal services. In addition, financial institutions offer various incentives for migrant workers to access formal channels, and to save money - including but not limited to provision of housing and self-employment loans at low interest, credit card facilities, over draft facilities, lottery schemes, etc.

When it comes to financial inclusivity of migrants and accessibility of remittances, ADB (2016) notes that there is great potential for mobile banking in Sri Lanka, with the services being offered by players like Dialog Axiata PLC. Dialog is currently working on increasing inbound flows from migrant workers by either transferring funds to local accounts or to a network of merchants and cash points. ADB (ibid) note that Dialog is "likely to introduce more innovative financial products delivered to rural areas if regulatory authorities allow it" (ADB, 2016). The Arunathilake et al (2010) recommends the Central Banks Regional Development Department strategy leverage their unique position and network to include migrants into the program.

2.2 Remittance cost

The literature notes that formal remittance channels in Sri Lanka offer services at very minimal cost, while the cost at the sending country end can be high and serves as a disincentive to use the channel (Arunathilake, Suwendrani, Jayawardena, Jayaweera, & Weerakoon, 2010). For instance, at the time of writing, a migrant remitting from the UK would incur a cost of around 8 percent of amount transferred (Arunathilake, Suwendrani, Jayawardena, Jayaweera, & Weerakoon, 2010).

Remittance costs vary significantly by sending country, institution and amount sent. For instance, Arunathilake, Jayaratne, Jayawardena, Jayaweera, & Weerakoon (2010) find that bank to bank charges from London were around LKR 555[1] for transactions up to UK£ 200. For transactions between UK£ 200-1000, LKR 1847 for UK£ 1000-5000 and LKR 369 for transactions over UK£ 5000. On the other hand, when remitting from a Middle Eastern country such as United Arab Emirates(UAE), bank to bank charges were LKR 469, at the time of writing. However, if it is a bank draft the bank charges are LKR 156. Hence transaction costs vary widely across remitting institutions and channels, and in general, the transaction cost is relatively small for larger remittances, but can be significant and a concern for small remittance amounts.

2.3 Merits and demerits of formal vs. informal remittance channels

As noted by Arunathilake, Suwendrani, Jayawardena, Jayaweera, & Weerakoon (2010), whilst outreach of the financial system in Sri Lanka is advanced, there are certain pull-factors associated with informal remittance systems. For one, the formal sector is unable to provide the 'door-to-door' services that the informal sector offers. In addition, cultural factors such as language barriers, safety for women in commuting to remit money, etc., are found to play a significant role in pushing remitters towards informal channels. A more compelling reason for using informal services is the lack of choice for undocumented migrants. The study further finds that the largest groups using informal remittance channels are first-time migrants and migrants with expired visas. Furthermore, tax evasion and avoidance of exchange control were found to be strong push-factors for migrants to use informal channels. Exchange rate fluctuations are not considered in the informal system, whereas many migrants cite the loss of money through differences in buying/selling rates to

1 Exchange rates used are as of October 2019 and LKR amounts indicated are an approximate.

be a disadvantage (Arunathilake, Suwendrani, Jayawardena, Jayaweera, & Weerakoon, 2010).

Despite certain pull-factors in favour of informal channels, a study by Samaratunga, Jayaweera, & Perera (2012) find that a majority of migrants use formal channels for remitting. However, these findings are limited to the Anuradhapura and Polonnaruwa districts. The study further revealed that banks were found to be more popular than MTOs. Seneviratne (2014) however finds that MTOs have lower remittance costs. He conducts an analysis and evaluation of the choices available to migrant workers in selecting a Sri Lankan bank to remit money to Sri Lanka. Seneviratne (2014, p. 21-22) notes that remitting through MTOs is cheaper than directly remitting through a bank. This is mainly because MTOs collect money from the senders and remit funds in bulk to the receiving agent through a bank, the channel incurs only a one-time bank charge for all the remittances (Cash Tech. , 2007).

In earlier literature, Deshingkar & Aheeyars (2006) underscore the efforts of formal remittance channels such as private banks venturing into migrant-destination countries and opening branches to assist Sri Lankan nationals remit their earnings. Further, they offer personalized services to attract remitters. Nevertheless, in their primary data sample, Deshingkar & Aheeyars (2006) found that "banks are regarded as safer and more convenient than informal channels". The study sample included migrant workers who use informal channels such as carrying money back or sending it through friends or channeling the formal systems such as Western Union and banks. The authors note the low uptake in the use of informal channels by their respondents, and attributes ethnicity as a possible explanation in that the sample was skewered towards Sinhalese or Muslims who are more likely to use informal channels. Specifically, Deshingkar & Aheeyars (2006, p.14) note that "Tamils make greater use of informal methods like hundi[2] /undiyal. Additionally, Deshingkar and Aheeyarsn (2006, p. 14) also note that respondents were afraid to disclose remittances via informal channels due to fear that the "researchers represented a government agency (even though it was explained repeatedly that they did not)". On the contrary, Dias & Jayasundere (2004) notes that informal channels of remittances are popular in sending money to Sri Lanka. These authors note that female domestic workers prefer informal remittance channels mainly due to their easy access and convenience given their nature of work and place of work.

In terms of the literature on the extent of informal channel usage in Sri Lanka, Deshingkar & Aheeyars (2006, p. 15) highlight "that there is no agreement on the extent of informal money remittance mechanisms." The authors note that while Central Bank, states that the hawala system accounts for less than 5 percent of total remittances sent home, Rodrigo and Jayatissa (1989) was of the view that informal remittances were around 13 percent in 1980–85. At the same time the Labour Secretary puts the figure at 30 percent and the National Savings Bank at 40 percent. SLBFE surveys indicate that migrants often carry money personally (in currency notes). This is not surprising given that banks are not easily accessible to the poor, and informal channels are convenient and easy, providing a doorstep service with no complicated forms to fill and no red tape.

The literature review indicates a gap in the research on remittances thus far in that, it lacks information on the regulatory environment governing remittances in Sri Lanka and good practices. In addition, existing literature doesn't have profiles of remitters by gender, occupation, income level and other demographics. Studies that have addressed some aspects of remittances do so with limited samples using linear methodologies. This study attempts to fill these gaps by providing a comprehensive analysis of remittances to Sri Lanka for policymakers as an evidence-base when making decisions relating to remittances.

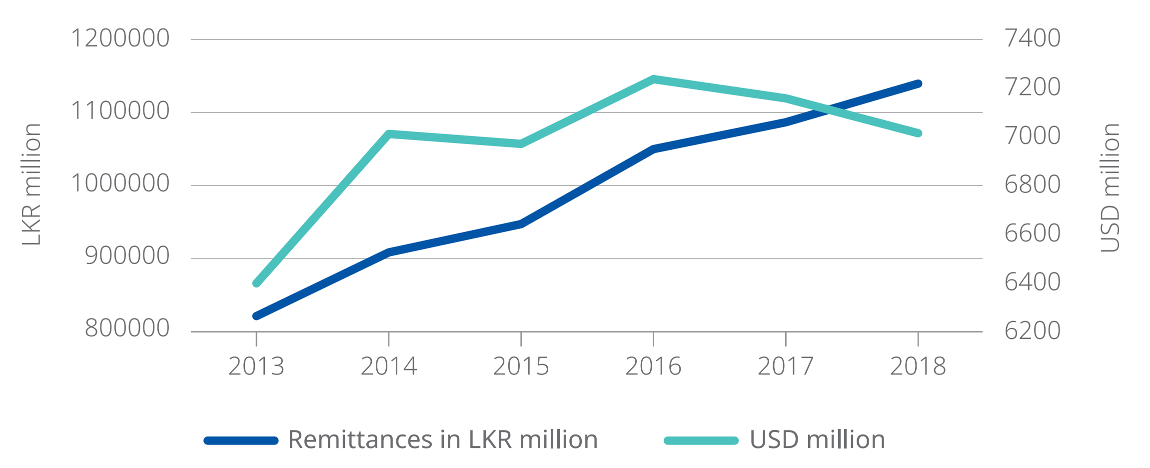
2 Unconditional written order by remitter directing another to pay a given amount of money to the remittance receiver.

03 Context on remittances in Sri Lanka

3.1 Trends

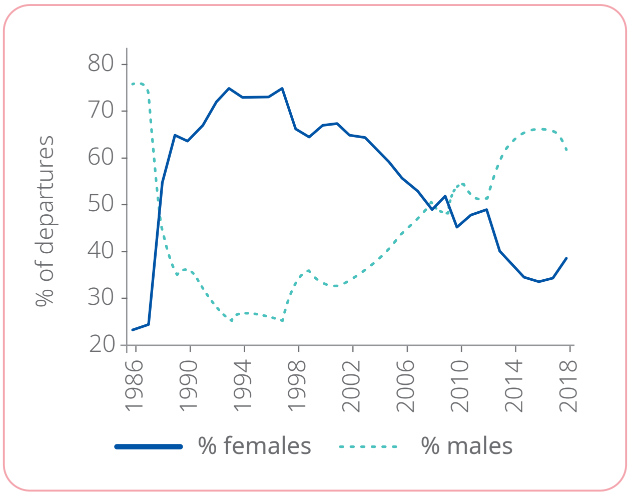
The Sri Lankan economy relies substantially on remittances. From 2010-2018, on average remittances as a share of GDP was 8.3 per cent, while the highest proportion of 8.8 percent was recorded in 2012, 2014 and 2016. Over the years, remittances have consistently been the highest source of foreign exchange income to the economy. In recent years remittances has maintained a continuous upward trend in Sri Lankan Rupee (LKR) terms, despite fluctuations in the amounts of remittances in US Dollar terms (see Figure 1). The continuous upward trend in LKR value may be an indication that remitters are ensuring their families left behind have access to smooth consumption amidst fluctuations in the value of the LKR against the US Dollar. With regards to the fluctuations in US Dollar terms, in 2015, for the first-time receipt of remittances to Sri Lanka declined, while again in 2017 it declined by 0.9 per cent and 2.1 percent in 2018. The fluctuations experienced in US Dollar value of remittances during 2014-2018 are reflective of a number of external and domestic factors affecting foreign employment. One possible reasons is the decline in worker departures. Between 2014 and 2018, departures declined by 30 percent, primarily to geopolitical uncertainties experienced in the Middle East – Sri Lanka's primary foreign employment source region – along with oil price declines that have stagnated income growth in the region (CBSL, 2018). In addition, the Government of Sri Lanka (GOSL) has taken decisive steps to discourage the migration of potential female domestic workers, in order to promote upskilling Sri Lanka's migrant labour force. As a result, the gender composition of foreign employment is gradually shifting away from female dominance

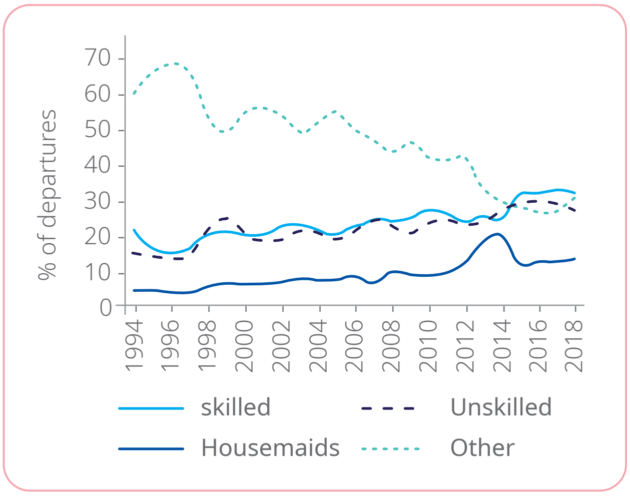
Figure 1: Remittances to Sri Lanka



towards more male participation (Figure 2). These changes in the composition of migrant labour potentially affect remittance income, although it is too early to determine whether these factors will bring about a definite increase or a decline in future remittance income flows (IPS, 2018). Another notable trend is the change in migration patterns in terms of occupational group (Figure 2). The decrease in unskilled workers and housemaids by almost 50 percent could influence the changes in remittances channeled from Middle East countries, which absorbs the larger share of housemaids and unskilled workers from Sri Lanka.

Figure 2: Departures from Sri Lanka for foreign employment by gender and occupational group





Source: SLBFE and CBSL data

Among alternative regional corridors, in 2018, the Middle Eastern remittance corridor brought in US Dollar 3592 million, which experienced an 8 percent decline compared to the US Dollar 3902 million recorded in 2014. Despite this decline, Middle East to Sri Lanka has topped the list of alternative regional remittance corridors over the last decade (see Table 1). At the same time, despite being smaller, remittances from regional corridors of Far East Asia and South East Asia have doubled in share during the same period, to reach US Dollar 849 billion and US Dollar 407 billion, respectively, in 2018.

However, a more accurate picture could be reflected if bilateral remittances data is published in Sri Lanka. Given the significance of remittances in the Sri Lankan economy, the absence of bilateral remittance data is a notable deficit and raises concerns on the validity of the available regional remittance estimates. Ideally, a specific regional remittance estimate would be arrived at by aggregating remittances to Sri Lanka originating from all countries within that region. The availability of regional remittances estimates, and absence of bilateral estimates, is perhaps due to the adoption of an approximation method, rather than aggregating the latter to arrive at the former.

Table 1: Workers remittances by regional corridors (%)

Corridor (US Dollar Million)	2013	2014	2015	2016	2017	2018
Middle East	3562	3902	3769	3889	3711	3592
European Union	1160	1270	1222	1282	1311	1312
Far East Asia	557	611	698	739	824	849
Europe-Other	308	337	307	333	330	309
North America	186	204	209	210	208	182
South East Asia	288	316	391	398	394	407
Australia and New Zealand	147	161	161	174	172	154
South Asia	83	91	98	109	107	154
South and Central America	58	63	63	51	50	35
Other	58	63	63	58	57	21

Source: CBSL, Annual Reports, various years.

3.2 Regulatory environment

The regulatory environment for remitting money to Sri Lanka is embedded within the context of the Banking Act and the Foreign Exchange Act in Sri Lanka. As per the Foreign Exchange Act (FEA), No. 12 of 2017, three broad entities are identified as authorized to deal with foreign exchange in Sri Lanka. They are Authorized Dealers (AD) consisting of licensed commercial banks (LCB), and licensed specialized banks (LSB)[3] carrying on banking business under the Banking Act, No. 30 of 1988; Restricted Dealers (RD), which include money changes and any other persons other than LCBs and LSB that are permitted to deal in foreign exchange within Sri Lanka for the purposes specified in such permission; and persons other than ADs or RDs with special permission prescribed by the Minister by an order published in the Gazette, to deal in foreign exchange as per the FEA.

Compared to the previous Exchange Control Act No 24 of 1953 (ECA), which identified only LCBs as the sole agents permitted to deal in foreign exchange, the new FEA has broadened the number of players, where by the end of 2018, there were 26 LCBs, 2 LSBs, and 83 RDs dealing with foreign currency in Sri Lanka. Of these 83 RDs 21 were permitted to buy, sell and exchange foreign currency, 55 to only buy and exchange foreign currency, while the remaining 7 were only permitted to buy foreign currency (CBSL, 2018).

In order to implement provisions of the FEA by Central Bank of Sri Lanka (CBSL), the Department of Foreign Exchange (DFE) was established in terms of Section 2 of the FEA No. 12 of 2017,

3 which are savings and development banks.

with effect from 20 November 2017. As the agent of the government, the CBSL through the DFE 'facilitates issuance of Regulations, Orders and Directions pertaining to foreign exchange operations with necessary approvals, monitor the compliance with such Regulations, Orders and Directions by respective authorized persons and conduct investigations on non-compliances with the provisions of FEAs (CBSL, 2018, p. 91). Based on their role and capacity in the financial sector, ADs, RDs, and persons with special permission involve in receiving, paying out, or exchanging formal remittances sent to Sri Lanka.

The ADs are often involved in receiving remittances via formal channels and either maintaining such remittances in foreign currency accounts, maintaining such remittances in LKR denominated accounts or paying out in LKR. Remittances are also monitored through the Financial Intelligence Unit (FIU), which is as an independent statutory authority which was established in 2006 under the Financial Transactions Reporting Act, No. 6 of 2006 (FTRA). The main activities of the FIU include collection and receipt of information on financial transactions, to identify possible links to Money Laundering (ML), Terrorist Financing (TF) and other related unlawful activities, analysis of suspicious financial transactions relating to above mentioned unlawful activities and dissemination of information of such analyses to relevant law enforcement authorities for investigation. Moreover, the activities of FIU are also enforced under the Prevention of Money Laundering Act, No. 5 of 2006 (PMLA) and Convention on the Suppression of Terrorist Financing Act, No. 25 of 2005 (CSTFA) (CBSL, 2017).

04 Data and methodology

The overall methodology of the study was mixed methods using both qualitative and quantitative data. As such primary data was collected as was data from administrative databases such as that of the Sri Lanka Bureau of Foreign Employment (SLBFE). Secondary data was extracted by way of a literature review.

Quantitative data was collected via a sample survey of 602 migrant households across three purposively selected districts in Sri Lanka, namely Colombo, Kurunegala and Batticaloa. Colombo and Kurunegala districts were selected for being high departure districts in statistics compiled by the SLBFE in recent years. For instance, in 2017 these two districts accounted for 13 percent and 9 percent of total departures (Sri Lanka Bureau of Foreign Employment, 2017). Moreover, the simultaneous availability of a well-developed financial sector as well as a large informal economy in these districts, provide migrant households the choice of formal as well as informal channels of remittances. Batticaloa district was selected based on its growing importance as a sending district in recent years and its growing financial sector (7 percent of departures in 2017). Moreover, the dominance of Tamil and Muslim communities in Batticaloa were considered to provide an ethnic variation among respondents compared to the other two districts selected which have a Sinhala dominance.

Among the selected districts, the highest migrant sending Divisional Secretary Divisions (DSDs) and Grama Niladhari Divisions (GNDs) were purposively selected. Further, care was taken to ensure Tamil speaking communities were represented.[4] Within selected areas households were selected for the survey based on two screening questions to determine if the household had someone migrate during or after 2015, and if yes, did/does the household receive remittances from this migrant. The year 2015 was selected as the cut off year for information on migration experiences. This was based on the assumption that 2015 was recent enough for respondents not to suffer from recall bias. Survey data was collected from October 04, 2018 to December 30, 2018.

Table 2: Sample details

Migrant type	Freq.	%	District breakdown	Households		Migrants		Individuals	
				Freq.	%	Freq.	%	Freq.	%
Current migrant	457	62	Batticaloa	205	34	223	33	907	36
Returnee migrant	212	35	Colombo	202	33	219	33	857	34
			Kurunegala	195	32	227	34	724	29
Total	**669**			**602**		**669**		**2488**	

4 The list of such high sending GND's are obtained via the Ministry of Digital Infrastructure and Foreign Employment (MDIFE)and its Development Officers (DOs) deployed at the DSD levels.

As seen in Table 2, the survey includes two main types of migrants – current migrants and returnee migrants. Current migrant households are defined as households with migrants employed overseas during data collection, while returnee migrant households are defined as those with migrants who have been employed overseas anytime between 2015 and time of survey, and migrant has returned home. Around 68 percent of the households surveyed had a current migrant and the remaining were returnee migrant households. As indicated in Table 2, the survey covered a total of 669 migrants among the 2488 individuals in the 602 households. Depending on availability in responding, either the migrant or a family member responded to the survey. In case of households with multiple migrants, the responses were from the most representative[5] migrant of the household. The survey captured demographic information on household members, history of migration of current/previous migrants in households, and remittance specific information at household level (remitting channels, remittance receipts, remittance spending, impact on beneficiary households).

In addition to quantitative data, the study also collected qualitative data via different approaches. In terms of Key Person Interviews (KIIs), the study consisted of 24 KIIs in Sri Lanka with stakeholders in the migration and/or remittance sectors (See Annex for KII list). These KIIs were carried out using an interview guide covering questions in the areas of remittance channels, remittance cost, regulatory environment pertaining to remittances and financial literacy of migrant households. Certain KIIs focused more/less on one of these areas depending on the expertise of the key informant.

The qualitative data collected included two Focus Group Discussions (FGDs) in Sri Lanka. The first FGD was held on 29th November 2018 with a group of 8 migrant worker community members from Kurunegala (henceforth referred to as 'Migrant FGD'). The group composed of 4 returnee migrants and 4 family members of current migrants in the group. As per the recruitment criteria for the FGD, returnee migrants had returned on or after 2015, while the family members had one current migrant in the family, receiving remittances regularly from them, and have sufficient knowledge on receiving remittances. The discussion was carried out on themes similar to that of the survey, as outlined in the previous section. A second FGD was conducted with 11 participants from Civil Society organizations (CSOs) working with migrants (henceforth referred to as 'CSO FDG') on 11th December 2018. This comprised of 8 male and 3 female representatives from 6 NGOs in the districts of Hatton, Amparai, Batticaloa, Kurunegala. Colombo and Gampaha working specifically on migrant issues. The FGD discussion was centered on the same themes, with added focus on CSO perspectives when supporting/educating/training migrant workers.

However, survey enumeration was challenging in some areas. Specifically, due to the confidential nature of information collected, respondents were reluctant to disclose all information required in the survey, while others were reluctant to spend the required period of time for the survey. These issues were most experienced in urban and Sinhala communities in Colombo and Kurunegala, while respondents in Batticaloa were in general more receptive to the survey. To remedy this issue, in Colombo and Kurunegala, Tamil speaking enumerators were deployed, which resulted in

5 Most representative migrant is subjectively decided by the household member based on the importance of migrant in terms of remittances and remitting experience in the household.

the higher representation of Tamil households in the sample. As such, analysis is based on data that was oversampled for Tamil speaking respondents, and thus cannot be generalized to the national scenario in Sri Lanka. Thus, the findings based on this sample has internal validity though not nationally representative to generalize findings to the whole of Sri Lanka. Similarly, in the qualitative data collection, the interviewees from the remittance regulatory body in Sri Lanka did not consent to use the information collected in the KII, in the analysis of this study. This resulted in a significant deficit in primary data collected on the regulatory aspects of remittances in Sri Lanka. As such, as discussed in Section 3.1, only published information on remittance regulations are included in this report.

Nevertheless, the survey and KIIs contain data of 602 consenting households and 24 consenting interviewees. The method of analysis of primary data consisted of a mixed method approach, where the analysis of the regulatory environment and international experience are primarily based on a desk review of secondary data. The profile of remitters in Sri Lanka and data on access, use, cost, channels and beneficiaries of remittances are based on descriptive analysis of survey data triangulated with qualitative data.

05 Findings

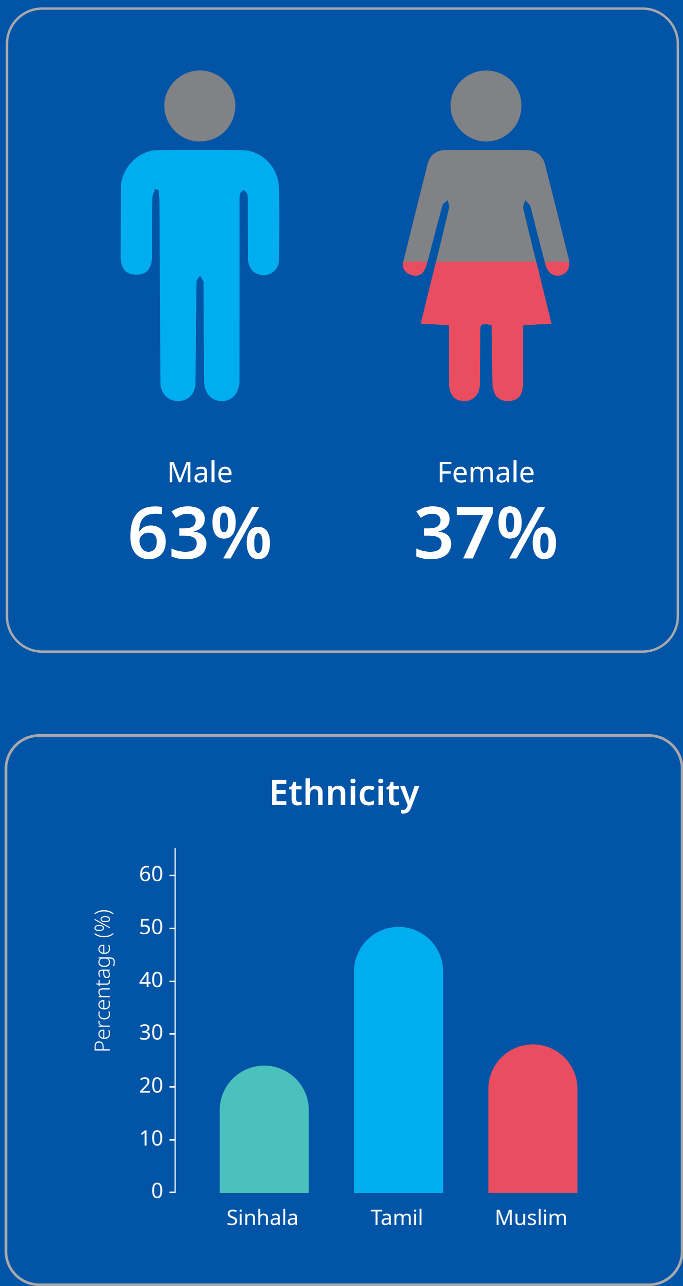
This section provides remitter and remittance profiles, along with data on channels and beneficiaries based on the full survey dataset in the study, covering all three districts.[6]

5.1 Profile of remitters[7]

This profile of remitters is based on 669 migrants falling within the households surveyed. In this sample a majority of remitters were males (63%), married (73%) and GCE O/L qualified, (Figure 3) while in terms of ethnicity majority were Tamil, mainly as a result of field issues discussed in Section 4. The mean age of remitters in the sample is 38 years.

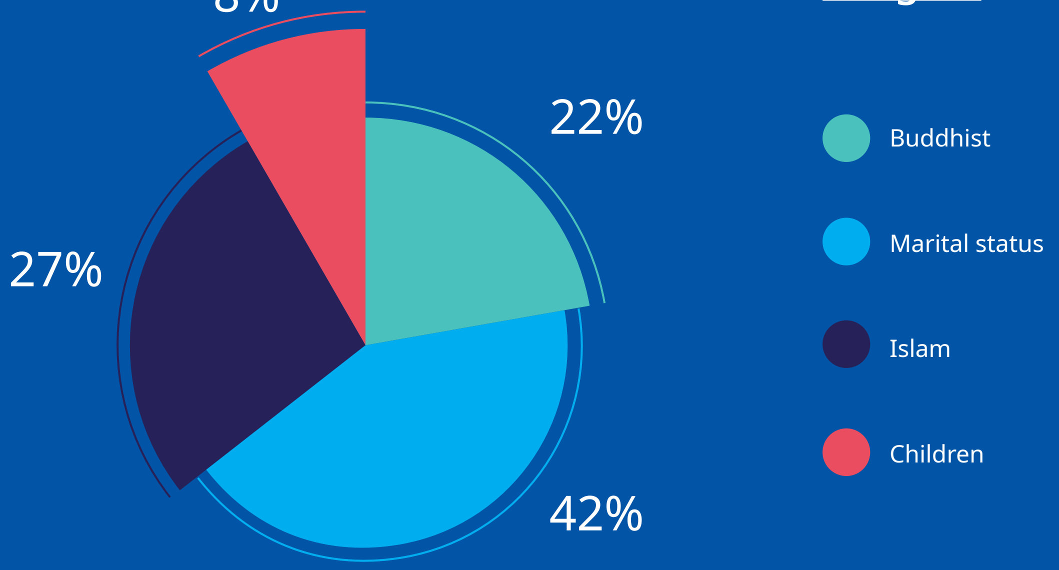
Among the remitters for whom job related information is available (644), the top 3 occupations noted are housemaids (20%), drivers (17%) and unspecified laborer (17%) (Figure 4). A majority of migrants in the sample are first-time migrants, with their first departures taking place between 2015 and 2018, and most (64%) have been employed abroad for 1-3 years (Figure 5). In this sub sample of 644, the top 4 destinations are all Gulf Cooperation Countries (GCC); Qatar, Saudi Arabia, Kuwait and the UAE (Figure 6).

Figure 3: Demographic characteristics of migrant workers

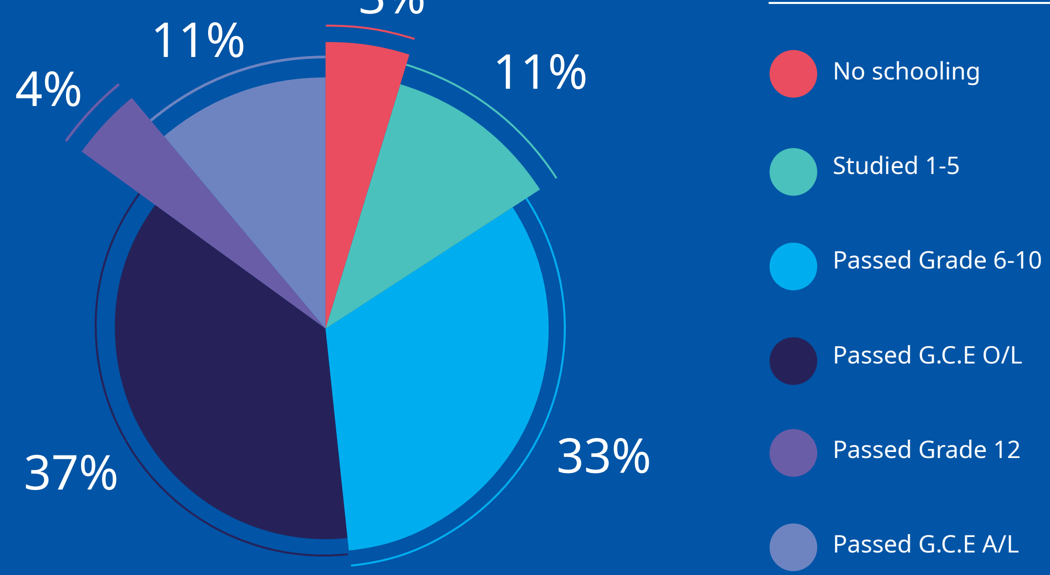


6 In addition to the overall remittance profiles presented in this chapter, individual profiles were compiled by the authors for each district as requested by ILO
7 The terms migrants and remitters are interchangeably in the analysis.

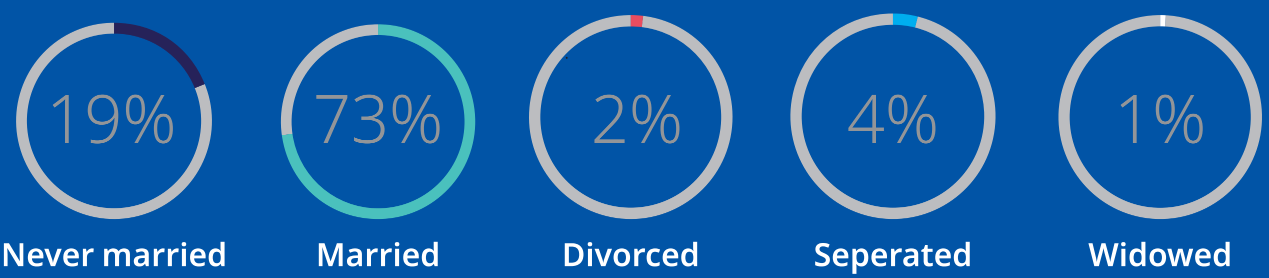
Religion



Level of education

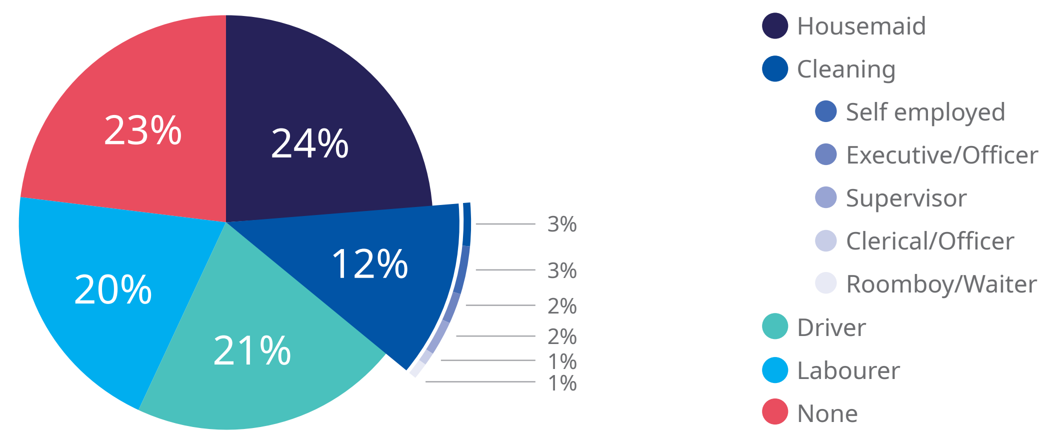


Marital status



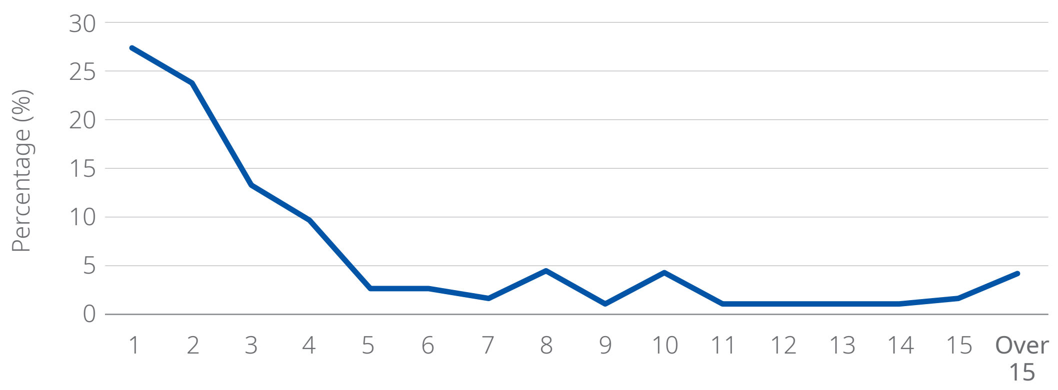
Sample=669

Figure 4: Top 10 occupations of migrant workers (percent of total in sample)



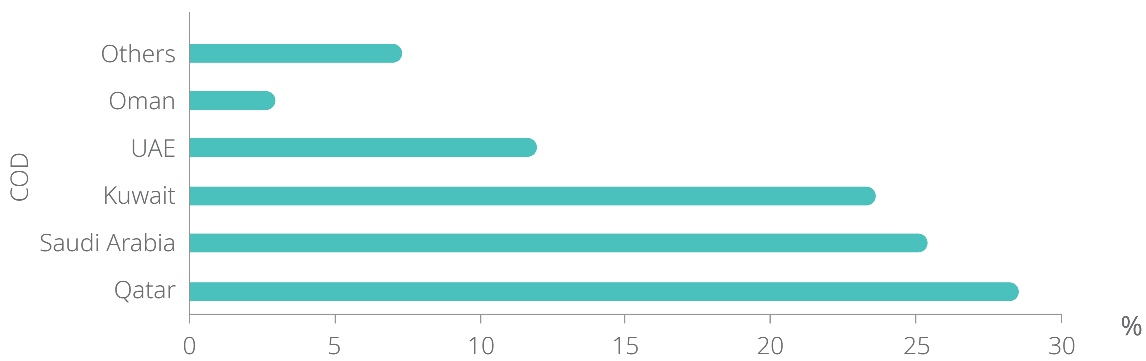
Sample = 669

Figure 5: Number of years worked overseas (percent of total in sample)



Sample=644

Figure 6: Country of destination (percent of total in sample)



Sample=644

5.2 Remittances[8]

Around 50 percent of migrants in the sample earn between LKR 30,000-60,000 monthly from their main occupation at the Country of Destination (COD). Around the same percentage transfer remittances to the household within the same range of monthly income (Figure 7). On average,[9] the amount remitted is LKR 39,550 per month, while the average[10] monthly salary of a migrant is LKR 68,814. The distribution of proportion remitted from main income shows that in this sample over 78 percent of migrants remit more than half of their monthly salary (Figure 8).

As noted in the data at the extreme right in Figure 8, about 3 percent of migrants in this sample reported to have remitted more than 100 percent of their monthly salary. This indicates that in addition to their main occupation, they are engaged in other jobs, which results in income beyond their salary from the main occupation. While the survey did attempt to extract information on secondary occupations of migrants at destination, the response rate for this question was low, rendering it insufficient for analysis. It is likely that respondents were reluctant to reveal information on other (informal) occupations as they are legally required to adhere to the single occupation specified in their job contract, as approved by the SLBFE.

8 This section and the following two sections are based on a second sub-sample of 545 migrants, for which complete remittance information is available.
9 Calculated after eliminating extreme values/outliers.
10 Calculated after eliminating extreme values/outliers.

Figure 7: Salary from main occupation and remittance from country of destination

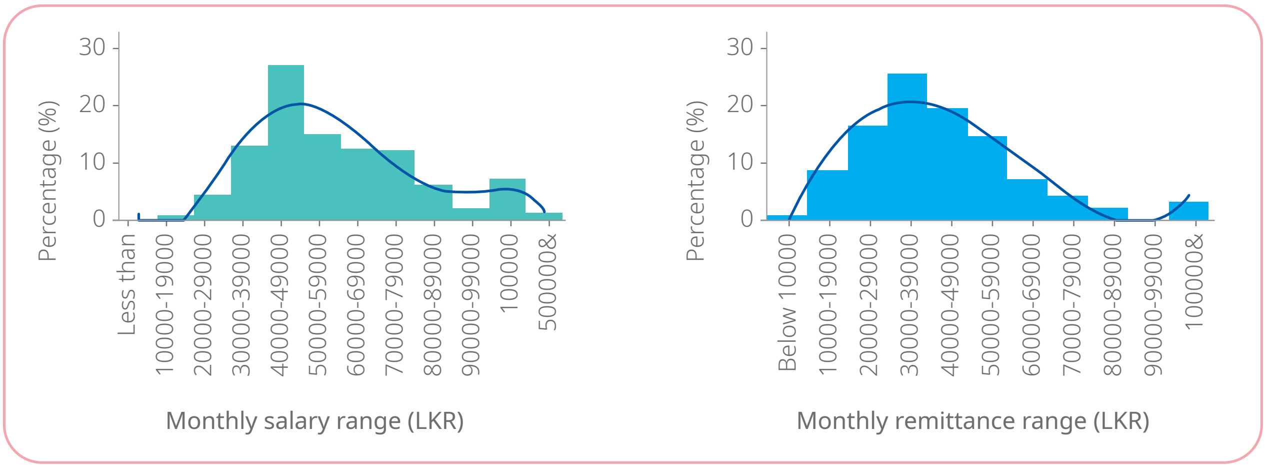
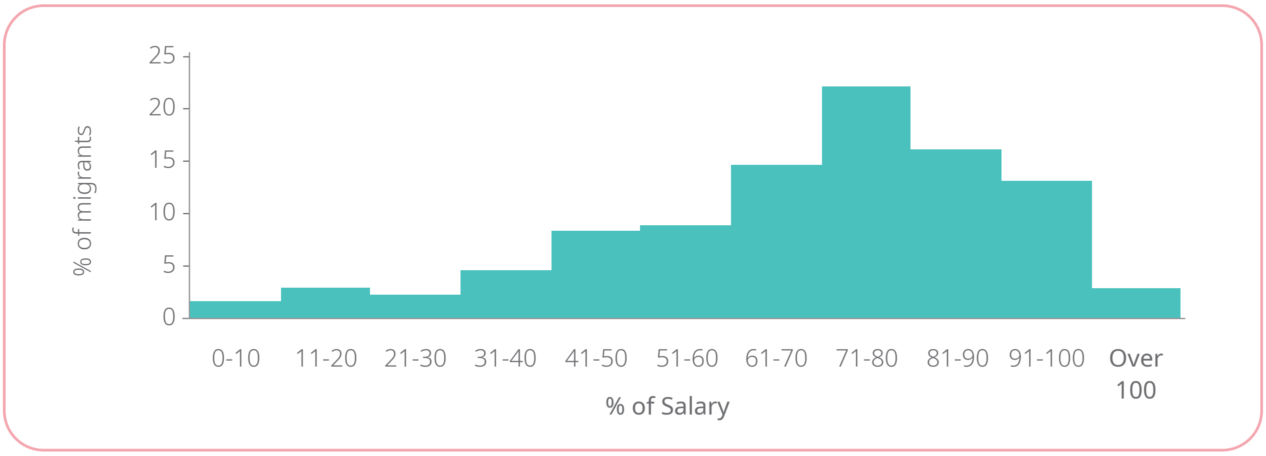


Figure 8: Proportion of main salary remitted per month (%)

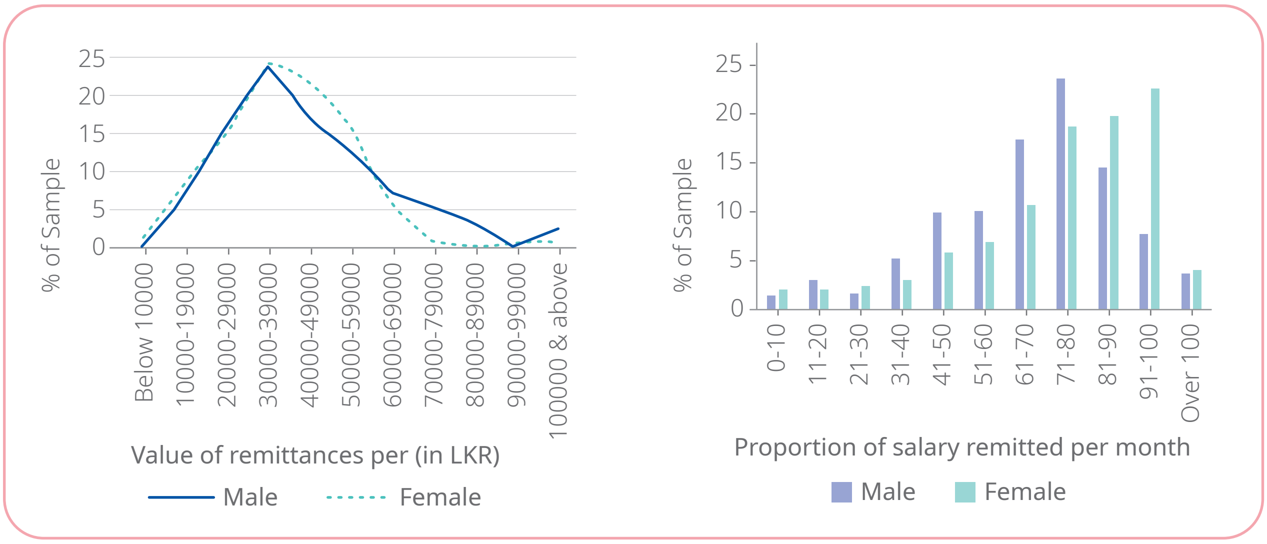


Sample =545.

In terms of monthly remittance amount sent there was some notable variation in remitting by gender, albeit little variation across other socio-demographic variables. Similar percentages of both men and women in the sample remit up to LKR 40,000, but there are more women remitting in the LKR 40,000-60,000 bracket than men (Figure 9). Conversely, more men were remitting in the LKR 60,000-100,000 range than women. This implies that men remit higher amounts than females on the average remittance amount in the sample, which corroborates with the international literature. In order to test the hypothesis that women remit more regularly, the frequency of remittances by gender was plotted, but no difference was seen across males and females in this sample.

When it comes to variation by district, a majority of remitters in the Batticaloa and Colombo samples (30%) remit LKR 30,000-40,000 on average per month to Sri Lanka. However, some variation is seen in Kurunegala where over 22 percent of the sample remits within a relatively higher block of LKR 50,000-59,000, with another 22 percent remitting in the block of LKR 40,000-49,000. There are various characteristics in Kurunegala that can possibly contribute to such higher value remittances.[11] In terms of channels, more remitters to Kurunegala have used banks; and possibly the speed and privacy, which ranked higher in remitters priorities (discussed later) associated with banks, would have made remitting larger amounts to Kurunegala more conducive. At the same time, Kurunegala accounts for the largest

Figure 9: Monthly remittance and proportion of salary remitted, by gender



Sample =517

Interestingly, the findings corroborate with the literature that women tend to remit a higher proportion of their income than men. Figure 9 shows that the distribution of the proportion of salary remitted is more right skewed for women than for men. That is, in the region of remittances up to 80 percent of income, the share of men account for more than women, while in the region of remittances from 81-100 percent women account for more than men.

share of remitters using informal channels (10 percent as opposed to 2 percent in other districts). Given that the most popular informal channel was sending through a friend which did not have an associated cost, this also may have played a part in enabling remitters to send larger amounts. In terms of characteristics

11 Refer annexure for demographic characteristics by district

of remitters, those remitting to Kurunegala consists of a less-educated but more experienced sample of migrants than the rest. This could have contributed to the higher use of informal channels (than rest), as well as being able to send higher value remittances due to their experience and higher wages earned. This is reflected where the average monthly wage of migrants from Kurunegala was LKR 76,051, compared to LKR 56,497 for Batticaloa and LKR 54,074 for Colombo. Moreover, Kurunegala was better off in terms of transaction cost[12] and cost at collection and in terms of control for the remitter over remittances sent, than the other two districts. These factors also can be attributed to the higher amounts remitted to Kurunegala.

5.3 Transfer cost

In terms of financial cost of remittances, survey data reveals that close to 50 percent of migrants in the sample spend between LKR 500-1000 to transfer funds at the COD (Figure 10). That is, 90 percent of the sample spend up to 5 percent of average monthly remittance as remittance transfer cost (Figure 11). This amounts to an average transfer cost of 5 percent of amount remitted. When disaggregated by sending channel, the data suggests that the transfer cost as a percentage of amount remitted averages

Table 3: Average monthly remittances sent (from current migration cycle) by district

Average monthly remittances	Batticaloa	Kurunegala	Colombo
Below 10,000	0.9	3.35	9.6
10,000-19,999	3.6	2.23	8.47
20,000-29,999	18.5	12.86	18.05
30,000-39,999	32.4	8.94	31.05
40,000-49,999	20.3	21.79	15.24
50,000-59,999	12.2	22.35	6.77
60,000-69,999	3.6	11.74	5.07
70,000-79,999	1.8	9.5	1.12
80,000-89,999	3.6	2.79	1.13
90,000-99,999	0	1.12	0
100,000 & above	3.2	3.35	3.38
Total	**100**	**100**	**100**

Sample=545

12 Direct and indirect cost of remitting – i.e. transport cost, wages lost due to time spent, etc.

at 4.5 percent for the banking channel, and 2.8 percent for the MTO channel. It is important to note that this estimate is based on cost borne by the remitter and does not consider any cost borne by beneficiary at time of withdrawal, or any exchange rate margin. Corresponding to this, the qualitative data from KIIs also suggest that the remittance cost per transaction is around US$5.

When disaggregated by district, for a majority of remitters, the transfer cost fall below LKR 1000 per transaction across all districts. However, remitters in the Batticaloa sample (30%) reported higher transfer cost (LKR 1000-2000). A possible explanation is that there are more first-time migrants in the Batticaloa sample, and that initial cost could be higher due to lack of experience in choosing a cost effective channel. At the same time over 12 percent in Batticaloa indicated no transfer cost in remitting. This might be due to using hidden informal methods such as hand-carrying (through friends) which don't involve a cost.

Figure 10: Absolute transfer cost of remittances

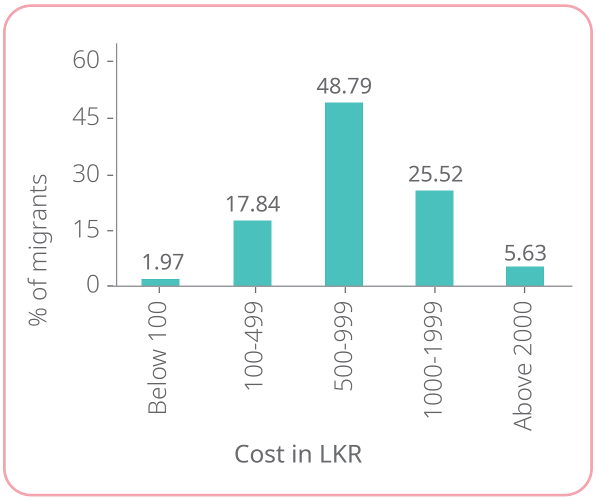
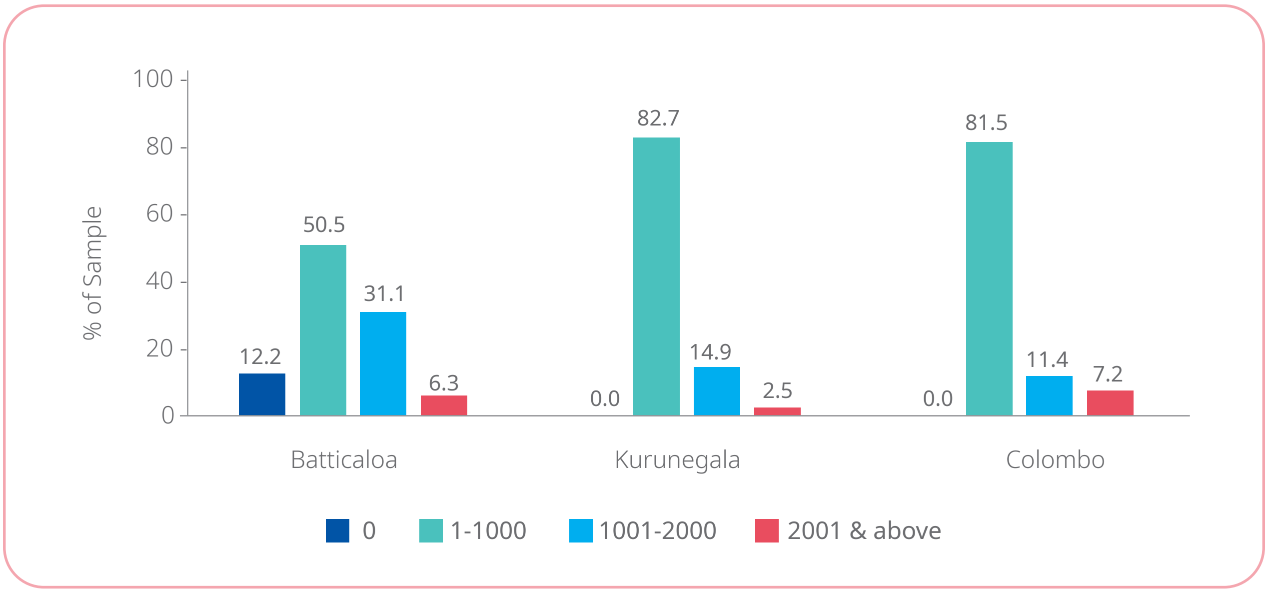


Figure 11: Relative transfer cost of remittances

Sample =545.

Figure 12: Transfer costs incurred for remitting average monthly amount by district (in LKR)



KIIs with government stakeholders indicates that transfer cost are a deciding factor in favour of utilizing informal channels. However, views from the Migrant FGD were mixed. While relatively young FGD participants who had utilized informal channels complained of remittance transaction cost as a key factor in staying away from banks, more experienced/ elderly respondents felt that while remittance transfer cost were high, they still preferred the formal bank mechanism due to benefits such as reliability. Interestingly, the survey data revealed that the highest priority for migrants is speed and privacy of remittances, with transaction cost ranked low in 6th place (See Table 5). This could explain why migrants continue to use formal channels despite the high transaction cost.

Box 1: Remittance cost–secondary data analysis

The findings on transfer cost of remittances (5 percent on average) based on primary data are consistent with transfer cost estimates in the secondary data. Specifically, using 137 data points available for Sri Lanka in the Remittance Prices Worldwide database (World Bank , 2019) for the period comparable to primary data collection (4th quarter in 2018), we estimate the transfer cost for remitting US Dollar 200 to Sri Lanka as 4.08 percent.

Using the same data, we also estimate the average exchange rate margin for Sri Lanka as 0.90 (see bottom row in Table 4). This shows that exchange rate margin accounts for 18 percent of total remittance cost. In the absence of primary data on exchange rate margin, adopting the above estimated exchange rate margin we estimate the average cost of remittances to Sri Lanka as 5.90 percent. Similarly, we estimate the cost of remittances in the banking channel 5.40 percent, and 3.70 percent in the MTO channel. These estimates are consistent with the estimates for first quarter of 2019 by KNOMAD (2019) and World Bank (2019).

Superficially, for the South Asian region KNOMAD (2019) estimates a remittance cost of 5 percent and 7 percent as the global average. Similarly, based on available data for corridors in 2nd Quarter of 2019, the World Bank estimates that cost of sending remittances to Sri Lanka ranges between 2.4 percent to 6.15 percent of the amount remitted (seeTable 4). In the case of the remittances corridor from UAE, the cost is 2.94 percent, while from Qatar it is 3 percent, Oman it is 3.93 percent and 3.99 percent from Saudi Arabia. As per available data the highest of 6.15 percent cost of remittances is for remitting from Australia. This indicates that from available secondary data, the cost of remitting to Sri Lanka is lower than the global average of 6.9 percent estimated by KNOMAD (2019) for Q1 of 2019. In the case of Middle Eastern countries, where a majority of Sri Lankan labour migrants head to, and where a majority of Sri Lanka’s remittances originate from, the cost of remittances is close to the SDG 10.C target of 3 percent.

Table 4: Cost of remitting to Sri Lanka

Data period	Sending country	Cost calculated for (US Dollar200=)	Total average			
			Fee (in sending country currency)	Exchange rate margin (%)	Total cost (in sending country currency)	Total cost (%)
2019 Q2	Singapore	260 SGD	5.05	0.82	7.18	2.76
2019 Q2	UAE	735 AED	16.64	0.68	21.61	2.94
2019 Q2	India	13300 INR	318.75	0	318.54	2.40
2019 Q2	Saudi	750 SAR	16.38	1.8	29.91	3.99
2019 Q2	Oman	75 OMR	2.03	1.23	2.95	3.93
2019 Q2	Australia	200 AUD	8.06	2.12	12.30	6.15
2019 Q2	Canada	200 CAD	8.20	1.78	11.76	5.88
2019 Q2	Italy	140 EUR	5.34	1.18	6.99	4.99
2019 Q2	Qatar	730 QAR	16.67	0.72	21.91	3.00
2018 Q4	**AVERAGE 1**			**0.90**		**4.08**

Note : Average exchange rate margin and total cost % are calculated based on 137 observations for 2018 Q4

Source : The World Bank, Remittance Prices Worldwide.

5.4 Remittance channels

The empirical evidence based on field data collected shows that, respondents chose speed of remittances, privacy of remittances, and location of service provider as the top three priorities in selecting a remittance channel and service provider (Table 5).

In the household sample, about 90 percent relied on the formal sector. The use of individuals and retail stores etc as channels. by 6 percent of the respondents, is an indication of resorting to semi-formal and informal channels for remitting money to Sri Lanka. The formal sector is largely dominated by LCBs (81 percent of households) followed by MTOs such as Western Union and MoneyGram (10 percent of sample) (see Figure 13). At the same time negligible numbers of this sample used mobile money and postal services for remitting (<1 percent each). Nevertheless, nearly 94 percent of the sample felt that remitting money to Sri Lanka was not difficult.

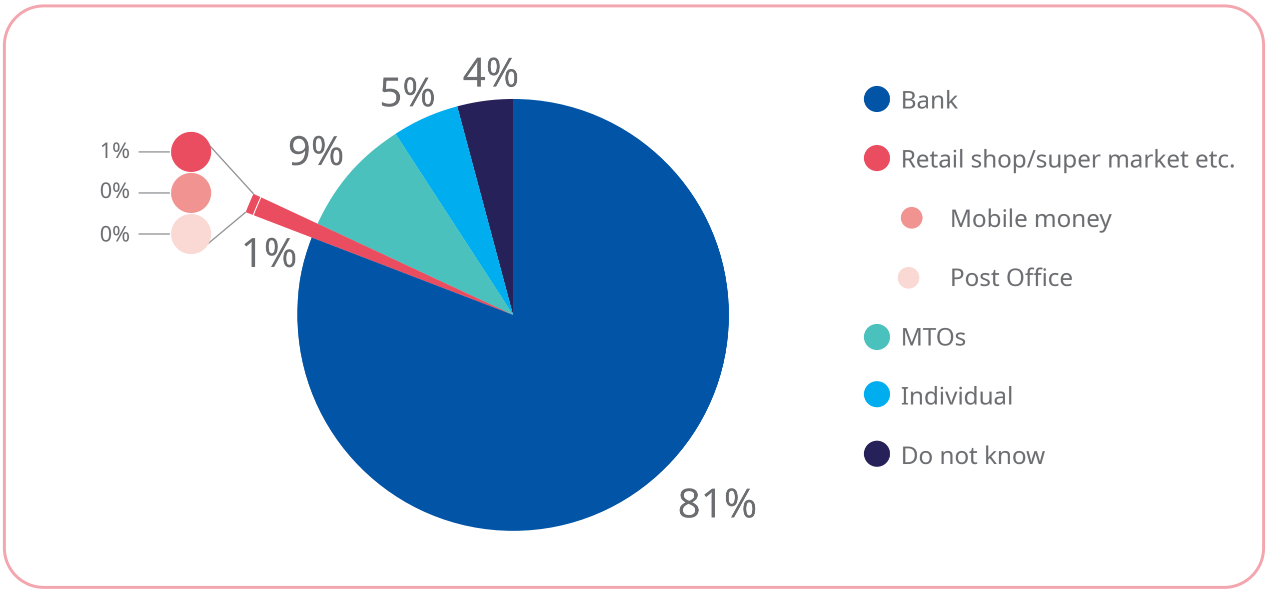
Majority of respondents were introduced to the channel by their social network of friends, family, and relatives. At the same time a large proportion of remitters were introduced to these channels by the employers in the COD (see Figure 14). In this sample of 602 households two thirds of remitters had personally visited/ met the remittance service provider in the COD. Another 30 reported that someone else on behalf of the migrant visited/met the service provider. Among those who had someone else send remittances, 64 percent relied on the employer, while another 33 percent relied on a friend, and others relied on a friend or a third party.

This shows that efforts by agencies and regulators to educate migrants on best ways to remit money are overshadowed by peer effects and 'herd-instinct'. This point was well noted in KIIs and FGDs conducted with NGOs in the migration sector as well. Other reasons for someone else remitting for migrants could be, restrictions on mobility of female workers and, due to the uptake of door-step collection services for migrant workers by representatives of local banks at destination. The reported time burden of remitting money in the COD (regardless of channel) is approximately one hour or less.

Table 5: Top priorities in choice of remittance service provider

Rank	Characteristic
1	Speed
2	Privacy of remittances
3	Location of service provider
4	Risk involved
5	Door step services
6	Financial transaction cost of remittances
7	Simplicity in documentation
8	Operating hours of remittance service provider
9	Flexibility to send any amount of remittances

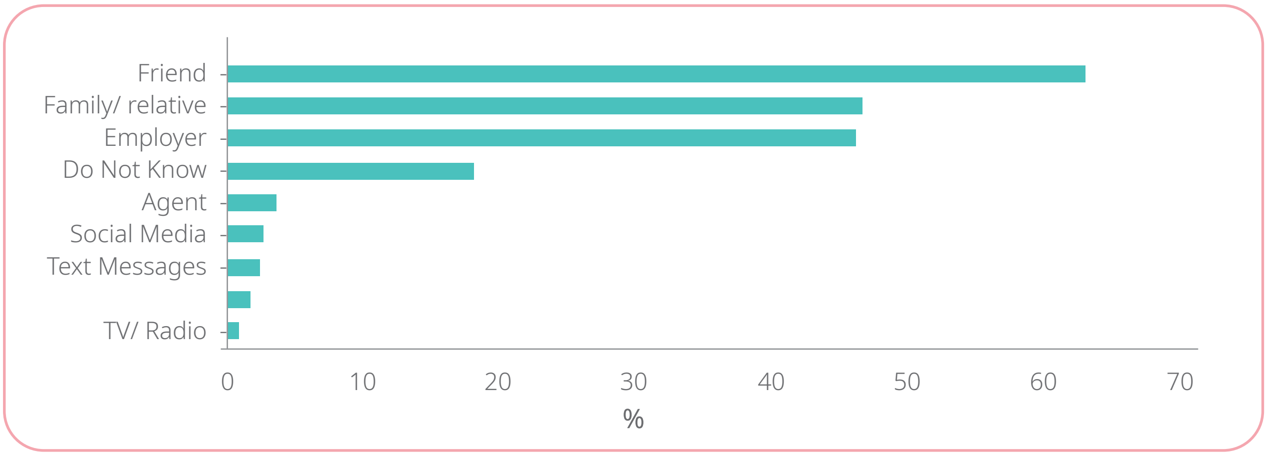
Figure 13: Sending remittances from counry of desinaionm to Sri Lanka



Sample =602

In terms of the migrant's introduction to a said remittance channel, recommendations given by friends are the highest in the sample (63%), while recommendations by family and employers are also fairly significant (46%).

Figure 14: Introduction to remittance channel



Note: Responses based on multiple answers, thus total>100%.

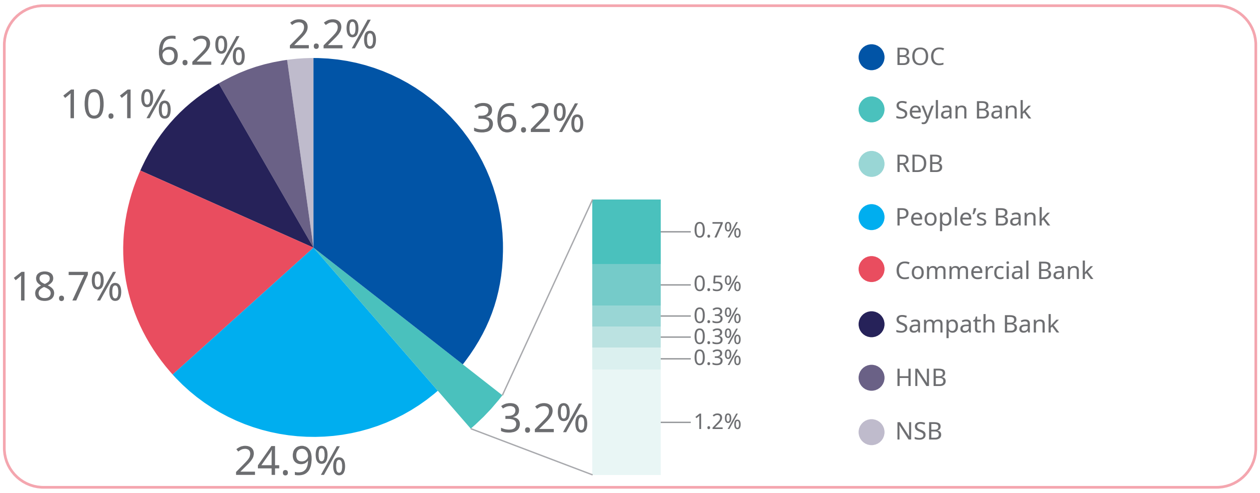
5.4.1 Banking

As per data collected, banks are the most popular channel for migrant workers to remit to family back in Sri Lanka. This is possibly due to wide spread use of banking in Sri Lanka, as well as pre-departure training emphasis on opening a bank account to remit funds and related training. Moreover, criteria for registration with the SLBFE is opening a Non Resident Foreign Currency (NRFC) account with a bank, and branches of many banks are located within the SLBFE Office premises at the Head Office and district offices.

Field data revealed that bank transfers are used by nearly 73 percent of respondents, while other methods included debit cards and direct deposits, and cheques (to a lesser extent). The main documents required to remit money at COD are the ID card (issued at COD) and bank book. As revealed by KIIs conducted with banks, first-time remitters have to invest some time/effort to do an initial registration, but in subsequent occasions they only need to present identification. Hence, the need for passports/forms is minimal. A KII with a bank official indicated that the particular bank has door-step funds collection facility in Middle Eastern countries. This is because the reliability of other informal delivery mechanisms (i.e., another male Sri Lankan employee at female migrant's place of work remitting on her behalf) is poor.

In this sample, the use of commercial banks by households for remittance collection is as depicted in Figure 15. Over 36 percent of households rely on Bank of Ceylon (BOC) for their remittance collection, while 25 percent rely on People's Bank. These figures are consistent with the national averages in Sri Lanka as reported in the literature as well as those self-reported by LCBs in their annual reports as depicted in Table 6. For instance, Guichard (2016) notes that People's Bank and BOC control over 50 percent of remittances inflows.

Figure 15: Banks used for collecting remittances



The qualitative data indicates that remitting via banks starts with the remitter physically or virtually visiting the bank in COD. Sender's identification documentation together with identification and contact information of beneficiary are then shared when funds are remitted. In return, the remitter is given a receipt of acknowledgement and a password or a Personal Identification Number (PIN), which has to be submitted by the beneficiary to access remittances at the point of collection in Sri Lanka. To effect remittances, the bank in COD would use a corresponding bank if that bank does not have a physical presence in Sri Lanka. When the transaction is complete, the bank in Sri Lanka receives the US Dollar denominated funds, which would be converted into LKR and deposited to the local accounts of the recipients or paid out in cash. For such remittance transactions normally, a per-transaction fee is charged from the sender. At the same time some international banks send money to a single bank in Sri Lanka and that bank in Sri Lanka would distribute to other recipient banks. In paying out remittances the bank in Sri Lanka normally charges another per-transaction fee from the beneficiary. In such cases, this amounts to two separate transaction fees being charged for the single remittance transaction.

For banks engaging in remittance transactions, profit is generated partly from transaction fees charged and partly from gains from foreign exchange conversion rate differences or exchange rate margin. In this way, banks are able to maneuver profits by shifting around these two components. For example, KIIs revealed that the competitive nature of Sri Lankan banks operating in Italy results in the foreign exchange rate for LKR being about LKR 4 above the interbank rate, with banks offering the best deal to exchange houses to attract their business. It is important to note here that this unhealthy competition among banks to attract exchange houses or MTOs leads to better profits for MTOs and not necessarily trickles down to remitters.

5.4.2 Money transfer operaor

As per the survey, MTOs are the second most popular remittance channel, albeit lagging far behind bank in usage. In this channel the remitter hands over the remittances to an MTO instead of directly to a bank and the MTO deposits the funds in their local bank account. Thereafter, the local bank is advised to transfer consolidated net amount of all MTOs remittance transactions to the account of the MTO agent in the receiving country (Finacle, n.d.). This ability to accumulate a large value of remittances into a single cross border transaction enables MTOs to pay only a one-time bank charge for all the remittances involved in this transaction and benefit from economies of scale to keep cost low and save on transaction cost incurred by them. On the contrary, banking channel process individual transactions, which lead to a higher cost than for MTOs. Often the sending and receiving agents have an agreement in place to effect remittance payouts. Often for MTOs the receiving agent is a bank.

It was discerned through KIIs that Sri Lankan banks which have contractual arrangements with MTOs, such as Western Union and MoneyGram feel that these large players are dictating terms to the banks. Specifically, in processing remittances, Western Union requires Sri Lankan banks to log into Western Unions' unified resource locator (url)[13] based operating system while in the case of MoneyGram, Sri Lankan banks are required to log on to MoneyGram's software-based operating system, and look for their payment. This results in the remittance operation within the Sri Lankan bank not being integrated with the rest of their operation. Moreover, one KII revealed that MoneyGram and Western Union in Sri Lanka are predominantly operating cash transactions, and their formula for charges from banks in Sri Lanka is not transparent to the banks involved. Specifically, a representative of one bank mentioned that the bank she worked for is not aware of how Western Union and MoneyGram calculate fees for the banks despite being informed by these MTOs that the bank's fee is calculated as a percentage of what is charged from the sender. As such, depending on what is calculated by the MTO, the bank disbursing remittances to the beneficiary may or may not collect a transaction fee. Reiterating this concern (World Bank , 2019) notes some service providers do not disclose the exchange rate applied to the transaction and (Finacle, n.d.) notes that MTOs pay fees to banks, for bank's involvement in buying and selling numerous foreign currencies on behalf of the MTO and MTOs with large transactions could negotiate lower fees. On the contrary, this KII revealed that other MTOs such as Ria and Express Money charge a fixed cost per remittance from banks which is more transparent. Nevertheless, in their operation all MTOs bear a currency risk, as the actual international transaction of funds often takes place with a time lag of about three days after funds are made available to the beneficiary.

13 Url is a unique internet-based address.

5.4.3 Mobile money

Mobile money introduced in Sri Lankan in 2013 is a recent development in remittance market in Sri Lanka, which initially started with domestic remittances. Currently there are two operators (Dialog eZ cash and Mobitel MCash) providing mobile money transfers within Sri Lanka, and one operator (Dialog eZ cash) facilitating international remittances. This channel is still gaining traction as there are transfer limit constraints and mobile money is still a relatively new tool in Sri Lanka.

Despite high mobile penetration in Sri Lanka and near 100 percent mobile usage among migrant workers, the uptake of mobile money is slow. In KIIs conducted with mobile money licensee's it was noted that a maximum cap of Rs 25,000 per day is imposed on remittance transfers via mobile money, as per Central Bank regulations. In the case of international remittances, this cap is a deterrent. Field data revealed, that this channel is used mainly for small emergency transfers due to its speed and low cost. Although attempts have been made to increase this cap, there are concerns by the key regulator that raising the cap could result in the use of the channel to remit illegal funds to Sri Lanka.

At the time of writing, eZ cash does not charge a fee for sending remittances to Sri Lanka, while at the point of withdrawal, the maximum amount is capped at LKR 5000. Withdrawal fees are charged in blocks. For LKR 3000-5000 the fee is LKR 100, with fund withdrawal possible from 16,000 eZ Cash outlets across the island (eZcash, 2019). As such, a LKR 25,000 remittance has to be withdrawn in minimum five transactions at a cost of LKR 500, which amounts to 2 percent of the amount sent.

As per KIIs, mobile money has become an attractive method for Sri Lankan remitters offering cross border services to foreign entities to collect fees. Nevertheless, due to its relative new entry to the remittance market in Sri Lanka the level of trust has not sufficiently matured to capture a significant market share. At the same time, caps on maximum transaction and withdrawal amounts set at much lower than the average size of remittances to Sri Lanka further limits its popularity.

Box 2: Banks, MTOs and mobile money: secondary data analysis

The above findings for banks, MTOs, and mobile money based on primary data are consistent with findings based on secondary data. Specifically, available secondary data show that the largest shares of remittance receipts are accounted for by Bank of Ceylon and People's Bank, with the former accounting for nearly half of all remittance receipts (see Table 6). Both these also have the widest coverage of destination countries, except for Hatton National Bank (HNB), which covers an impressive 85 countries.

Table 6: Remittances handled by commercial banks in Sri Lanka 2017

Bank	Description	Remittance market share	Value of inward remittances (LKR '000)	Coverage (CODs)	Links with corresponding banks and exchange houses
Bank of Ceylon	Operational since 1939, as a state bank with a current branch network of 626.	41.14	449200000	14 countries (Australia, Bahrain, Cyprus, France, Greece, Hong Kong, Japan, Jordan, Qatar, Singapore, Switzerland, UAE, UK, USA)	3 foreign branches, 1 subsidiary branch in UK and 700 linked to correspondent banks. Linked with 75 exchange houses.
Commercial Bank	Incorporated in 1969, while the origins of the bank can be traced back to 1920. Currently there is a branch network of 280.	18*	N/A	10 countries	Linked with 55 correspondent banks and 104 exchange houses.
National Savings Bank	Operational since 1972 as a State Bank, and current branch network is 253.	2.38	26000000	8 countries (Saudi Arabia, Singapore, UK, USA, Australia, Japan, Canada, New Zealand)	Linked with 14 correspondent banks and 33 exchange houses.

People's Bank	Operational since 1961 as a State bank, with a current branch network of 737.	N/A	N/A	108 countries	Linked with 46 correspondent banks and 72 exchange houses.
Hatton National Bank	At present 251 branches are in operation and HNB was formed in 1970, while the origins of the bank dates back to 1929.	N/A	N/A	85 countries	Linked with 900 correspondent banks and 4 exchange houses.
Sampath Bank	Sampath Bank PLC was incorporated in 1986, and currently there are 229 branches.	N/A	N/A	18 countries	Linked with 218 correspondent banks and 99 exchange houses.
Seylan Bank	Began in 1987, and as of 2017 there were 166 banking centres and 98 Student Savings Centres	1.28	14000000	Lebanon, Saudi Arabia, UAE	Linked with 320 correspondent banks.

Note: Market Share calculated as a percentage of total worker remittances to Sri Lanka in 2017, except for starred(*) cases – for these, value is unavailable, so market share is given as reported in Annual Report of respective bank.

Source: Annual Reports (2017) of the respective banks.

Moreover, as per the The World Bank, Remittance Prices Worldwide (2019) database, remitting to Sri Lanka involves a variety of channels including commercial banks and MTOs. It further shows that payment for remittances at the sending country is mainly through visiting a bank branch, an agent, an internet platform, or a call center, or via mobile money, and funds for remittances is made available either through cash, bank account transfers or via using credit/debit cards. The same database shows that remittances in Sri Lanka are collected by the beneficiary as cash, transfers to a bank account or transfer to a mobile wallet. This largely corresponds with the findings based onprimary datacollected for this study.

When comparing secondary data with findings from this study's survey data, for both bank and MTO channels, this study's survey data based findings are lower than estimates based Remittance Prices Worldwide (Table 7). As per both primary and secondary data, the cost of remitting via MTO is found to be lower than through banks. This indicates the potential for expanding the MTO channel in Sri Lanka as a low cost remittance channel, which is relatively lower in usage.

Table 7: Cost of remitting US Dollar 200 to Sri Lanka (as percent of amount sent)

Source	Bank	MTO
Primary data from survey for the current study	5.40	3.70
World Bank Remittance Prices Worldwide	6.30	4.30

Note: Primary data MTO usage accounts for only 10 percent of sample, while banks account to 83%. For primary data based findings, it is the average cost as percent of remittance amount sent, where the average amount sent is approximately US Dollar 200 for the sample.

Source: Banks based on 15 relevant observations and MTOs based on 127 observations for Sri Lanka via The World Bank, Remittance Prices Worldwide (World Bank, 2019) database

5.4.4 Informal channels

The majority of household (92 percent) claimed an institution is used to remit money. The question was phrased in such a way as to identify the usage of both formal and informal channels. Hence 'individual' was used as a proxy for informal channels while 'institution' was proxy for formal channels. While there is sufficient evidence in the literature to suggest that informal channels are being used in Sri Lanka, findings from this study suggest that it is a quantitatively low share. As noted in the literature review, a study by Deshingkar & Aheeyars (2006), also found a surprisingly low share of informal channel users in Sri Lanka, and they attribute this to the reluctance of migrants to reveal informal channel usage. During primary data collection for this study, resistance to revealing the use of informal channels for remittance was noted. This was despite the field teams taking steps to convince respondents that the survey was purely for research purposes.

KIIs with stakeholders in the industry indicate the existence and use of informal channels in remittances to Sri Lanka. The main drawbacks of using informal channels for the country are; the loss of foreign exchange, the loss of tax revenue to the government and the of greater likelihood of financial flows funding illegal activities (Arunatilake et al, 2010). Estimates suggest that unrecorded flows through informal channels may conservatively add as much as to 50 percent or more to recorded remittances worldwide (World Bank, 2006).

In the FGD conducted with participants from CSOs, it was noted that informal channels are used for remitting due to lack of knowledge, low financial competency and peer pressure (following the herd instinct). They claimed that Hawala[14] type systems seem less predominant – but migrants prefer to remit through friends in order to bridge the trust deficit. This was further confirmed during the FGD conducted with migrant workers based in Kurunegala. They also claimed that there is no commission when remitting through a friend network, rather than through an unknown individual/ informal agent.

In the CSO FGD it was further noted that the exchange rate is a key factor which pushes migrants towards informal channels, and is at the same time, a source for defrauding migrants due to their lack of knowledge. While participants

14 Hawala is a system that operates outside of, or parallel to, traditional banking, financial channels, and remittance systems, and predominantly function on the basis of trust and does not involve (physical or electronic) money regularly moving across, but only a settlement of net positions, where the agents balance the transfers over time, across Hawala operators in the sending and receiving country and a third country, if applicable (Kagan, 2019; Jost & Sandhu, n.d.).

recognized the merit of efforts made by the SLFBE with regards to pre-departure training for migrants, they opined that people tend to stick to their old ways and habits. Also, there was general consensus during the discussion that banks need to be more receptive to migrant workers both in terms of assistance when they are approached as well as when it comes to commissions, rates, etc. Another push factor towards informal remittance channel usage is that of irregular migration; those who migrate outside the formal mechanism and do not have work permits ("Ikama") are more likely to use informal channels. Some evidence of migrants working on student visas was also revealed. For example, KIIs revealed that "for housemaids earning 90-100 Singapore dollars there was no value using formal remittance channels due to high transaction cost. Instead they use "people who transfer money" referring to the use of informal methods such as Hawala and Hundi.

All organizations participating in the FGD guesstimated that around 90 percent of migrants use formal methods to remit money. This guesstimate is in line with what the survey results also reveal.

The mismatch between quantitative findings with migrant households and KIIs with stakeholders, reveal that there might be some use of informal channels, which is not revealed due to possible fear or reluctance to disclose use of informal channels. If migrant households used informal channels and didn't disclose, this indicates that migrant households are aware that informal channels are illegal.

Taking stock of channels discussed thus far, the matrix below summarizes the advantages and disadvantages of formal versus informal remittance systems as indicated by the primary data collected.

Table 8: Matrix of advantages and disadvantages in formal and informal remittance systems in Sri Lanka

Type of channel	Advantages to customer	Disadvantages to customer
Formal		
MTO	▶ high speed of remittances, where beneficiary can access funds within seconds of remitting. ▶ Safe as the services are legally bound ▶ wide coverage to remit in COD and collect in SL ▶ no need of a bank account to effect remittances.	▶ Charges a per transaction fee, so not economical for small amounts.

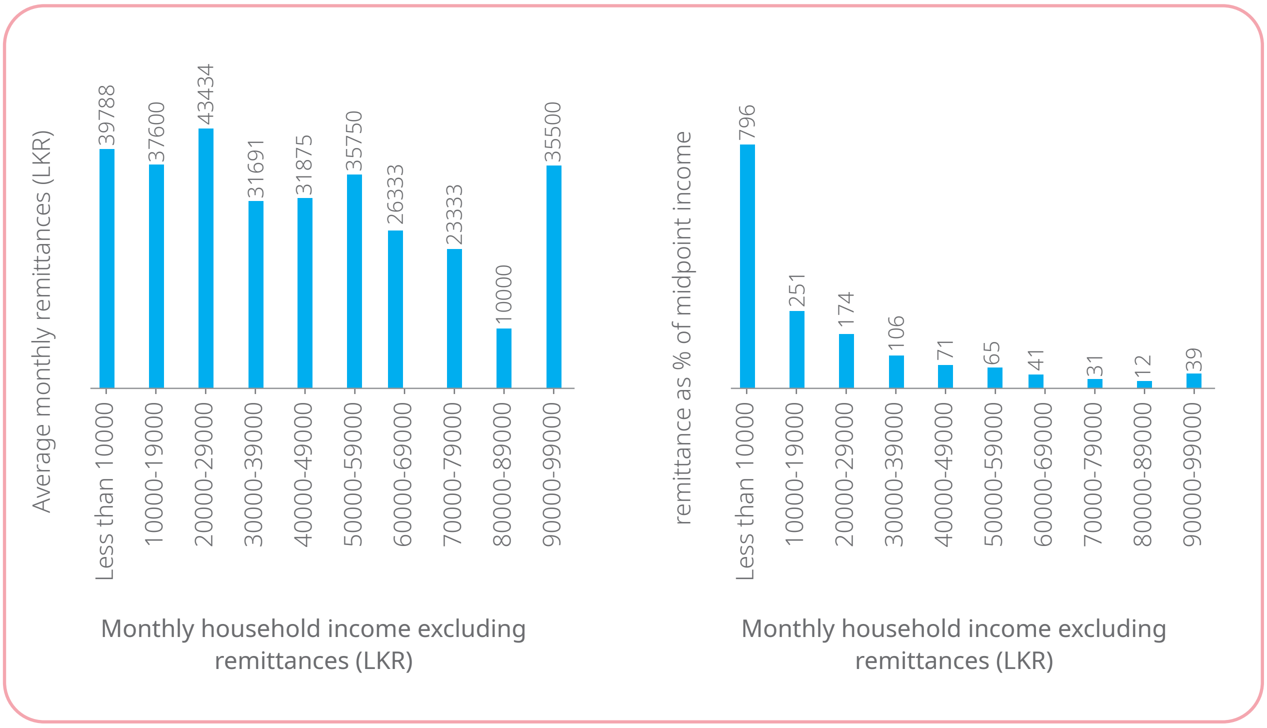
Commercial Banks	▶ Safe as the services are legally bound ▶ Migrant families are forced to save money ▶ Trustworthiness ▶ Improves financial literacy	▶ Not all commercial banks cover all rural areas in Sri Lanka ▶ Very low foreign exchange rate is adopted for converting to LKR. ▶ Limited Operating hours ▶ Many stakeholders involved in the process, which drives cost of remittances ▶ Exchange rate controls (Maximum amount of transactions imposed in some countries). ▶ Technological advances could be not user-friendly for some people ▶ Cost margin could be high in some areas ▶ Commercial banks still unaware of how the MTOs involved in the process arrive at their fees. This inhibits the banks from working towards bringing transaction cost down. Discourages remittance of informal income/remittance from informal migrants.
International Money orders	Safe	▶ Limited time of operation in COD and COO, accessibility issues. ▶ Slow ▶ Need to go to location to send/ collect
Mobile Wallet : Dialog eZ Cash, Mobile M Cash	▶ Speed ▶ Accessibility – can obtain money in SL from widespread network of agents and collection points ▶ Customer friendly operating hours ▶ A pathway for those based in Sri Lanka to receive money for their telecommuting/ free lancing work across the borders	▶ Maximum of LKR 25000 per transaction ▶ In remitting from COD, still goes through a MTO (like Western Union), therefore many stakeholders involved.

Online markets/ stores	▶ Delivers in kind remittances on behalf of remitter ▶ Speed ▶ Accessibility ▶ Delivery	▶ Limited geographic coverage ▶ Limited product /service coverage
Informal		
Through friends, In-kind	▶ Trust ▶ Cost effective ▶ Speed ▶ Convenience and Accessibility ▶ Anonymous towards regulators ▶ Non-bureaucratic	▶ Difficulties in regulation and monitoring for authorities ▶ Loss of foreign exchange to recipient country ▶ Tax evasion ▶ Complicated in the settlement process ▶ Widens illegal activities due to undocumented transaction process
Hawala, Hundi, Informal money transfer agents, courier services	▶ Cost effective (but unlike friend networks, unknown agents will take a commission) ▶ Speed ▶ Convenience and Accessibility ▶ Anonymity towards regulators ▶ Non-bureaucratic	▶ Low reliability - could lead to exploitation of migrant ▶ Difficulties in regulation and monitoring for authorities ▶ Loss of foreign exchange to recipient country ▶ Tax evasion ▶ Complicated in the settlement process ▶ Widens illegal activities due to undocumented transaction process

5.5 Beneficiary households

In the survey sample, 60 percent of households receive an average monthly income (excluding remittances) below Rs. 20,000. Similarly, 80 percent of the sample has an income below Rs. 30,000. Less than 2 percent of the households receive income more than LKR 60,000 per month excluding remittances. To supplement these modest incomes, most households (70 percent) receive a monthly average remittance income between Rs. 20,000 and 60,000. The combination of remittances and other income reported in this study are consistent with latest (2016) national level mean monthly household income in Sri Lanka reported at LKR 62,237. Subsequent to eliminating outliers in remittances, the highest amount of average remittance (LKR 43,434) is received by households with non-remittance income in the region of 20,000 to 29,000 LKR per month, while the lowest is received by households in the income range of 80,000-90,000 (see left panel in Figure 16). When remittances are viewed as percentage of midpoint income for each income bracket, the highest number (769) is received by those in the lowest bracket of non-remittance income (see right panel in Figure 16). The overall negative slope in the remittance share to income plot in the right panel in Figure 16 indicates that those in the lowest income brackets are those most relying on remittances to supplement their household income. However, association between low income households and high remittances does not necessarily indicate that remittances improved their income. On the contrary it also may be the case that the receipt of remittances discouraged members in such households to sustain their other income sources. Nevertheless, this negative relationship underscores the well targeted nature of remittances to the lower income households in the sample.

Figure 16: Remittances and household income



In terms of frequency of receiving remittances, in this sample 83 percent of households receive remittances once a month, while over another 11 percent receive remittances once in two months (See Table 9). Only 10 percent of households in the sample request for additional remittances; of which 67 percent do so to finance irregular expenses, 33 percent due to sudden illness of household member, 20 percent to finance weddings 20 percent for educational events, and around 15 percent each for religious ceremonies and other functions. Around 10 percent of the sample stated that there have been instances where the migrant stopped sending remittances, of which the top reason quoted (75 percent) was migrant not receiving salary regularly or having higher than normal expenses (30 percent).

Table 9: Frequency of remittance receipts

Frequency	Freq.	Percent
1. Once a month	504	83.72
2. Once in 2 months	67	11.13
3. Once in 3 months	26	4.32
4. Once in 6 months	5	0.83
Total	**602**	**100.00**

The survey collected information on the composition of household remittance spending and on decision making pertaining to remittance spending. When asked for the percentage of remittance income spent on different items, the top average expenditures were reported for daily expenses (29 percent), loans (25 percent), education (13 percent), and health (13 percent). In the FGD with migrants, the unanimous response from all migrants was that remittance income is mostly channeled towards loan repayments. If remittance inflow stopped, day to day expenses can still be managed, since remittance dependency is mainly to pay for loans. Nevertheless, this implies remittances are critical for migrant households to come out of indebtedness.

Close to 30 percent of households stated that there is an understanding between the family and the migrant (before migration takes place) on who will be collecting remittances. The amount, frequency and channel of remittances however were only decided prior to migration by 10-15 percent of households (see Table 10). This is a crucial statistic as it reflects that remittance spending and savings decisions are not discussed prior to migration. This indicates that most migrant households have not viewed long term financial management as a priority. This is of concern, given that 60 percent of households reported that they are very/fully dependent on remittance income for their daily expenses. The CSO FGD also corroborates these findings which revealed that families have very poor levels of financial management. On a positive note, the grass root organizations that participated in the CSO FGD claimed they use innovative methods to improve financial management of migrant households. They conduct small group trainings/tea-time discussions for migrants and families left behind using manuals, storytelling techniques, pictures and sometimes get banks and other parties in the migration process involved to build trust, etc. These CSOs also encourage families to save and invest, for which they provide diaries/ledgers for households to track expenses. FGD participants noted that inculcating a sense of consciousness and mindfulness among left behind families about how they spend remittances is a crucial habit, since most families, viewed remittances as a bonus over and above the regular household income, and it was more likely to be wasted or channeled towards day to day expenses. At the same time migrant's level of awareness on how remittances sent to households are spent is relatively strong. 84 percent of respondents are aware of how they are spent. However, when it comes to the migrant's level of control over spending, 34 percent claimed that they had no say at all, while 27 percent claimed that they had substantial say or full control.

In the context where the current policy on labour migration in Sri Lanka underscores that "remittances are a key link between labour migration and development" (MFEPW, 2008, p. 32), the overall low level of agreement between the migrant and family on remittance management prior to departure, is a concern and calls for further interventions to ensure that full benefits of remittances are reaped by migrants and their families.

Table 10: Understanding, dependency, awareness & control of remittance spending

Understanding between migrant and family before migration about	**Freq.**	**Percent**
1 Amount of remittances	81	13.46
2 Frequency of remittances	92	15.28
3 Person in charge of collecting remittances	175	29.07
4 Person in charge of spending remittances	45	7.48
5 Channel of remittances	74	12.29
6 Spending/savings of remittances	24	3.99
8. Do not know	203	33.72
Total	**602**	**115.28**

Dependency of HH on remittances for daily expenses		
1. Not dependent	33	5.48
2. Little dependent	109	18.11
3. Moderate	99	16.45
4. Very dependent	106	17.61
5. Fully dependent	255	42.36
Total	**602**	**100**

Migrant's level of awareness on HH remittance spending		
1. Not aware	19	3.16
2. Little aware	79	13.14
3. Moderately aware	175	29.12
4. Very aware	83	13.81
5. Fully aware	245	40.77
Total	**601**	**100**

Migrants level of control over spending remittances		
1. No say at all	202	33.84
2. Little say	101	16.92
3. Moderate say	131	21.94
4. Substantial say	82	13.74
5. Full control	81	13.57
Total	**597**	**100**

The data also reveals that there is a clear gender shift in who makes the household income spending decisions, before and after a household receives remittances (seeTable 11). The decision shifts from males to females – potentially due to this sample comprising largely of married male migrants - leaving behind a wife to manage household finances. Moreover, as discussed in Section 3.1, nationally, the share of male migrants exceeds females. At the same time among female migrants, the FBR policy often results in transferring the female migrant's responsibility in the household to another female, rather than a male (ILO, 2015). As such, the findings of this study and the national situation, implies that migration results in more females becoming decision makers in terms of household spending. As such, any interventions to improve remittance management ought to have an overemphasis on females in the left behind household.

The survey also asked households to rate[15] the impact of remittance receipts on different welfare outcomes. It is noteworthy that across all outcomes, namely, financial stability, financial literacy, employment, health, social mobility and education, the highest share of households self-reported perception was 'no effect' (see Figure 17). Under 3 percent of households reported very positive impact across all outcomes. However, it is somewhat reassuring that between 29-34 percent of households reported 'positively affected' across all outcomes. Financial stability and literacy are the most well ranked outcomes with over 35 percent claiming that remittance receipts positively affected their financial positions.

Table 11: Household income spending decision (values as percentage)

	Household income		Remittance income
	Before remittances	After remittances	After remittances
Gender			
Male	64.88	34.73	34.95
Female	35.12	65.27	65.05
Relationship to migrant			
Self	55.35	17.62	17.39
Wife	10.2	37.58	37.29

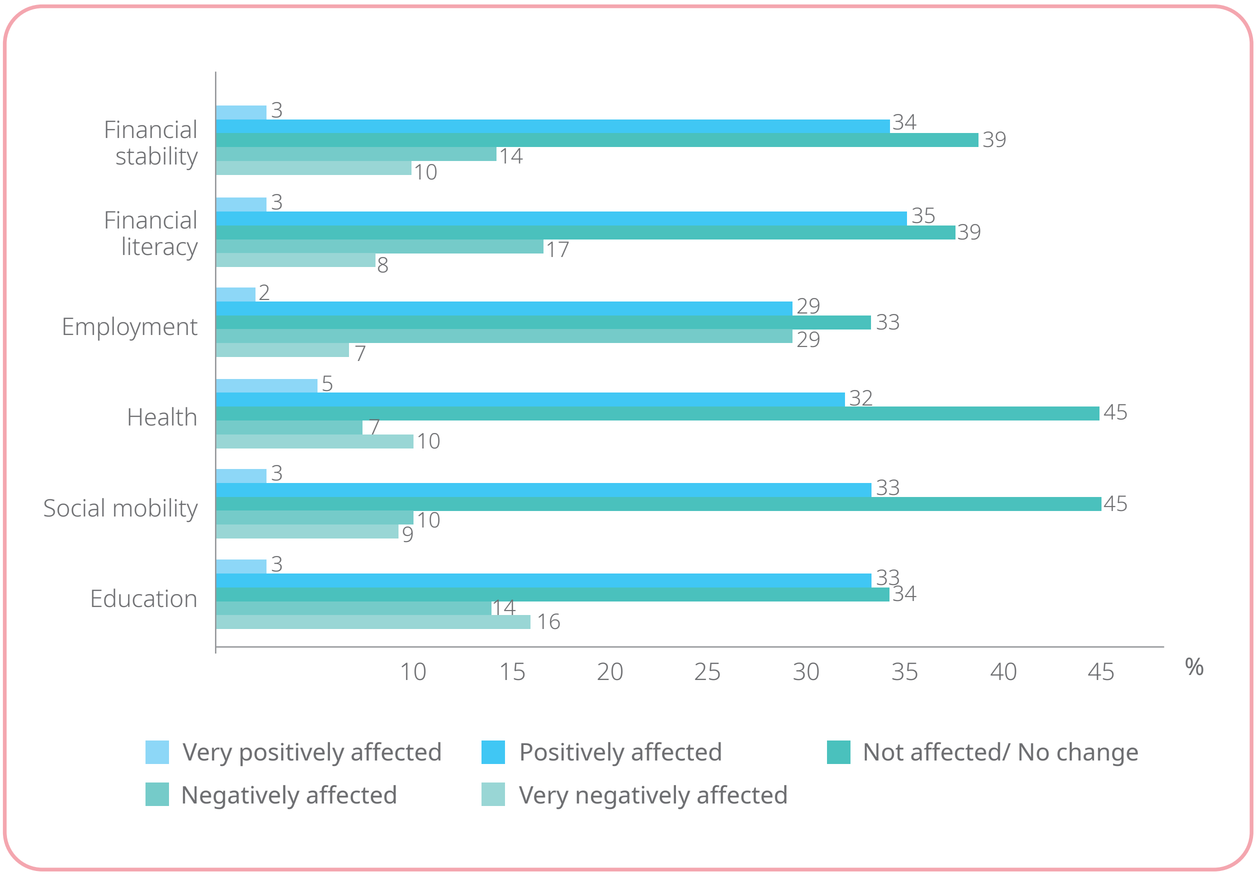
Interestingly among these households over 28 percent have reported that remittances have negatively affected the employment situation in the household. This resonates the common criticism leveled against remittances, where receipt of remittances leads to high value for leisure and left behind family members become less interested in regular employment (Weeraratne B. , Forthcoming). Moreover, reflecting mixed effects in terms of brain gain due to remittances (Weeraratne B. , 2018), over a third of the sample indicated remittances having a positive impact on education, while at the same time another 16 percent self-reported a negative impact. The effect on education could be due to multiple reasons. One the one hand, migration encourages those in Sri Lanka to improve their human capital accumulation

15 Rating was based on a Lichert scale from 1-5, where = very negatively affected 2=negatively affected 3=not affected/no change 4=positively affected and 5=very positively affected.

for the purpose of securing better quality foreign employment opportunities. At the same time, the elevation of household income with remittances, makes better quality education more accessible - for instance capacity to pay for supplementary tuition for school children, better nutrition - also contributes to better educational outcomes. On the other hand, as discussed before, remittances have an adverse influence on discouraging employment due to higher value for leisure. Similarly, education can be discouraged due to the higher value placed for leisure. Specifically, when those left behind view remittances as a free flow of income, because they do not see the economic contribution made to earn the income that is remitted.

Mirroring the mixed effects of impact of remittances on various outcomes based on survey data, the qualitative data too revealed both positive and negative impacts. In the migrant FGD, two migrants to Japan stated that their career progression has improved far more than it would have if they had remained in Sri Lanka. Simultaneously they are better able to support their families. Other migrants stated that while they have been able to successfully educate their children, they have not been able to make adequate savings. This could explain why collectively 30 percent of the survey sample stated that remittances had a negative impact on household education.

Figure 17: Self-reported impact of remittances on welfare (values in percentage)



Note: Percentage of total sample choosing between 1-5 for each welfare item

06 International good practices on reducing remittance cost

Within the broad theme of remittances, the cost of remittances is an important concern among migrants and policy makers alike, both locally and internationally. As such, cost of remittances is in the Sustainable Development Goals (SDGs) as well as the Global Compact on Migration (GCM). Nevertheless, reducing the cost of remittances is a challenging feat, and is less likely to be achieved by a single country working in isolation. In order to achieve this SDG target, countries must work across multiple avenues. Most efforts in terms of SDGs are currently limited to either grappling with the data limitations or tracking remittance cost indicators to assess, evaluate and chart a course of action to reduce cost. For instance, in its Progress Report on SDGs for 2019, the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP, 2019) limits itself to very broadly indicating that the region would need accelerated progress to achieve target 10.c by 2030, and highlights that all sub regions suffer from insufficient data to measure this indicator.

Similarly, objective 20 of GCM is to promote faster, safer and cheaper transfer of remittances and foster financial inclusion of migrants. To this effect the GCM has identified important actions to reduce the cost of remittances. As shown by Camacho and Lauber (2018), one action is the harmonization of remittance market regulations and increasing the inter-operability of remittance infrastructure along corridors, while another is to establish conducive policy and regulatory frameworks that promote a competitive and innovative remittance market. Others include removing unwarranted obstacles, promoting market access to diverse service providers, and incentivizing the private sector to expand remittance services. The GCM also aims to develop innovative technological solutions for remittance transfers to reduce cost, improve speed, enhance security, increase transfer through regular channels and open gender-responsive distribution channels, as well as increase the transparency and competition on the remittance transfer market. However, it is too soon to evaluate GCM related international efforts to reduce the cost of remittances.

In addition to above global level initiatives, there are also regional efforts to reduce cost of remittances. For instance, Colombo Process (CP) is a regional initiative launched in 2003 among countries of origin in Asia, has fostered policy dialogues to reduce the cost of remittances. For instance, Pakistan's Remittance Initiative (PRI), was launched in 2009 under the auspices of the CP with the objective to create efficiency and support faster, cheaper, and convenient flow of remittances through formal channels. To this end, PRI has targeted to beat informal remittance operators by achieving similar level of efficiency in the formal sector and by providing a more secure and credible payment mechanism(PRI, 2015; PRI, n.d). At the same time PRI has taken action to include many other players such as micro finance banks, telecommunication companies, National Database & Registration Authority (NADRA), and post offices to expand distribution of formal channels of remittances, while also making remitters more aware of formal channels. Similarly, to protect and encourage remitters to use banking channels, the PRI has introduced a mechanism where banks are required to pay a monetary penalty for delays associated with their remittance services (PRI, 2015).

At a global level, the World Bank supports efforts to reduce cost of remittances through its regular tracking and dissemination of cost of remittances through its comprehensive database Remittance Prices Worldwide (World Bank , 2019). Additionally, the World Bank (2019) underscores that cost of remittances can be decreased when remitters are savvy and have access to sufficiently complete information to shop around for lower cost options. Reflecting that competition contributes to lower cost of remittances, the World Bank has introduced the Smart Remitter Target (SmarRT) since 2016, which calculates the simple average of the three cheapest services for remitting the equivalent of $200. Based on data for second quarter for 2019 World Bank (2019) shows that global average SmarRT remittance cost was only 4.44 percent, which is 2.4 percentage points lower than the global average remittance cost calculated as simple average of the total cost charged by each remittance service provider included in the Remittance Prices Worldwide database. This proves that better informed remitters, choosing among lower cost remittance service providers in competitive markets, lead to lower the cost of remittances. The literature also shows that corridors with more migrants and more competition are associated with lower cost. For instance, the remittance cost in India-Nepal corridor is only 3 percent due to the above factors (KNOMAD, 2019). Echoing this, the general principles for international remittance services set out by the Bank for International Settlement (BIS, 2007, p. 19) is based on the premise that the 'best way to reduce the price of remittance services is to encourage a competitive market for remittances' as markets that are competitive and open to new entrants translate to improve the services to customers, ensure transparency, provide clear information on price and services to customers, and ensure easy access and protection of customers. As such, the general principles focus on transparency and consumer protection, payment system infrastructure, legal and regulatory environment, market structure and competition, and governance and risk management to cut cost of remittances (BIS, 2007). To this effect some countries have improved information about senders and receivers of remittances by facilitating surveys and including related questions in national censuses, while others have expanded access to financial infrastructure – especially improvements in electronic payments system infrastructure, and ensuring a fair and non-discriminatory legal and regulatory framework for remittances (Suki, 2007).

An example of a good practices in legal and regulatory environment for remittances is the ban of exclusive arrangements between banks and MTOs across many countries. As such, exclusive partnerships between banks and international money-transfer agencies are discouraged and instead competition among them promoted so that the presence of competition between banks and international money-transfer agencies do not leave room for the MTOs to raise remittance fees (ADB and World Bank, 2018). For instance, in 2003, Russia legally and effectively banned "exclusivity agreements – clauses which prohibited banks from offering cash-to-cash remittance services of companies other than Western Union", because they restricted market access and limited competition (IFAD, 2015, p. 41). Similarly, other countries such as India (in 2010), Nigeria (in 2008), Morocco (In 2011), Liberia (in 2011), Rwanda (in 2012), and Tunisia (in 2013) have taken measures to eliminate exclusivity in the contracts that banks sign with MTOs (IFAD, 2015).

Another initiative towards reducing cost of remittances is Project Greenback 2.0, launched in 2011 by the World Bank, which offers financial education workshops and awareness raising initiatives in selected cities.

The project monitored behavioral changes among remittance senders and recipients as well as changes in the market through constant dialogue with experts, local authorities, and market players (The World Bank, 2015). For example, In Johor Baru, in Malaysia, Project Greenback's activities on increasing awareness and promoting the use of formal remittance services through more than 40 education and outreach programmes during a span of two years resulted in dropping the average cost of remittance to around two per cent from the previously recorded which was above three per cent (NST Business, 2017).

Adoption of technology is another important strategy for reducing cost of remittances, For instance, in the India-Nepal corridor, in addition to high volumes and competitive markets, the adoption of technology has played an important role to lower cost of remittances (KNOMAD, 2019). As such, MTOs and other remittance service providers who adopt Financial Technology (FinTech) are capable of offering services at significantly lower cost than traditional over-the-counter remittance services. As noted by (Merler, 2018) some promising technologies that can contribute to drastically cutting down the cost of remittances and improve speed and traceability of transactions are mobile phone technology, mobile money, digital currencies and cryptocurrencies, block chain and distributed ledger technology, electronic identification and verification, and cloud technology. The experience in Philippines in adopting FinTech for remittances shows some good practices such as adopting regulations conducive to mobile money, coordination with other service provider, and effective product design and campaign (Ozaki, 2013). Similarly, the Bank Negara Indonesia and the Philippine National Bank encourage the use of ATMs by charging fewer fees for remittances transfers done with ATM cards. Moreover, GSMA, (2017) highlights that mobile money has potential to reduce cost of remittances, as on average cost of remittances via mobile money is about 50 percent lower than traditional channels and already lower than the SDG targeted 3 percent. Some good practices in terms of mobile money as identified by (GSMA, 2017) include the high standards of security in the data exchanged and adoption of clearly documented settlement parameters and decision-making processes, to ensure that reconciliation and settlement of mobile money is fast and effective. In the context of customer identity management in mobile money, a good practice adopted by Vodafone is their policy to conduct effective and systematic transaction monitoring for suspicious activity on all international remittance transactions in all their markets (GSMA, 2017). The associated lower risk for terrorism financing and money laundering activities translate into lower remittance cost for their customers. Nevertheless, it is important to note that adoption of FinTech does not always lead to reduction in cost of remittances, as the initial cost of adopting some FinTech might drive remittance cost up in the short run.

07 Concluding remarks

7.1 Main findings

This study adopted a mixed methods approach using qualitative and quantitative data and techniques in an attempt to expand the knowledge base and to better understand remittances in Sri Lanka. An additional objective of the study is to identify strategies to reduce the cost of remittances. The study collected primary quantitative through a survey of 669 migrants in 602 households as well as qualitative data collected via 28 KIIs and two FGDs. As per quantitative data, the average size of remittances to Sri Lanka is LKR 39,550. The most common frequency of remitting is once a month. On average 71 percent of monthly income from a migrant's main occupation is remitted to Sri Lanka. The study also finds that men remit upto 80 percent of income, whilst women from 81-100 percent of their income. This indicates that women transfer all their savings as remittances to the family left behind. The study further finds that a similar percentage of men and women remit up to LKR 40,000. In the LKR 40,000-60,000 remittance bracket more women than men send money home. While in the LKR 60,000-100,000 bracket there are more men than women remitting funds. This finding corroborates with the international literature which indicates that men remit higher amounts than females, possibly due to higher skills leading to better jobs and related higher wages.

In this sample of remitters, a majority were secondary educated, married and employed overseas for 1-3 years. The most common form of remitting to Sri Lanka is via formal channels. The two main formal channels used for remittances are banks and MTOs, which are popular due to their widespread coverage. Based on primary data, the average transfer cost of remitting via banks is 4.5 percent, 2.8 percent via MTOs, and 5 percent across all channels. Using secondary data, the study finds that the average exchange rate margin associated with remittances to Sri Lanka is 0.90 percent. Factoring this exchange rate margin into transfer cost estimates, this study shows that the average cost of sending remittances to Sri Lanka is 5.9 percent, while in the banking and MTO channels it is 5.4 percent and 3.7 percent, respectively. In the case of mobile money, the transfer cost is 2 percent of the amount sent, while remittance cost via mobile money comes to 2.9 percent. These findings indicate that Sri Lanka's average cost of remittances is close to the KNOMAD (2019) estimates for South Asia (5.2percent) and lower than the global estimate (7 percent). Similarly, the estimates from this study for banking, MTOs and mobile money channels are lower than the corresponding global[16] estimates of 10.5 percent, 6 percent, and 3.3 percent, respectively, by the World Bank (2019).

Despite being comparable to regional and lower than the global estimates, there is scope to further reduce the cost of remittances to Sri Lanka to better perform against the SDG target. For banks, some factors that contribute to elevate their cost of remittances over MTOs is the lack of transparency by leading MTOs in determining the formula for remittance charges they impose on banks, and MTOs compelling banks to maintain parallel operating systems and exerting a degree of unfair balance of power over banks. Additionally, the banks perform multiple individual transactions to effect remittances. While MTOs benefit from economies of scale through bulk transactions,

16 Based on 2019 second quarter data.

paying a one-time bank charge, allowing MTOs to maintain cost lower than banks. In the case of mobile money, the regulator cap at LKR 25,000 per transaction inhibits potential to capitalize on its low-cost advantage. Similarly, low level of trust associated with mobile money due to its relatively new entry to the market also limits its popularity in Sri Lanka. The use of informal remittance channels is associated with less-educated migrants. In this context, more knowledge and awareness, apart from accessibility is required to shift remittances from informal to formal channels

The link between remittances and education and employment outcomes for family members left behind indicated mixed results. This is possibly due to the high value placed on leisure by families left behind at the expense of time spent on employment or activities related to education. Such high value for leisure is at the cost of the seeming invisibility of the economic contributions made by migrants to earn the amount remitted. Correspondingly, those left behind view remittances as a free flow of income. In terms of remittance spending, the highest share of 29 percent on average is spent on daily expenses, while a notable 25 percent is spent on loan repayments. These quantitative findings are further supported by qualitative data, with the FGD with migrants indicating that loan repayment is an important component of remittance spending. Despite such high dependence on remittances at the household level for daily spending and loan repayments, at the pre-departure stage, planning, discussing and reaching a consensus on who is responsible for remittance management in the household, is poor. This absence of discussion on remittance spending and savings decisions prior to migration, further indicates that most migrant households have failed to realize the importance of long-term financial management of remittances as a priority. The findings also indicate that women are more likely to remit nearly 100 percent of their income, and the full onus of prudent financial management of remittances lies with the family left behind underscoring the importance of remittance management by those left behind. The study also finds that migration leads to the household income spending decision shifting largely from males to females, particularly in households where the male is the migrant worker. Together these findings converge on the importance of pre-departure education on remittance management that involves appropriate gender dimensions, to ensure that both migrants and families left behind can fully benefit from remittances.

7.2 Recommendations

The findings of this study bring out two main facets of remittances in the context of Sri Lanka, they are; reducing the cost and improving the management of remittances. Better management of remittances at the regulatory level would foster healthy competition and attract new service providers leading to lower cost of remittances. At the same time, improving remittance management at the micro level – both from the perspective of the remitter and beneficiary, would lead to a demand for better remittance services, promote competition and lead to lower cost. Similarly, better management of remittances at the micro level would maximize the benefit of remittances, leading to better socioeconomic outcomes for migrants and their families. Given this overlap between efforts to reduce cost of remittances and improve its management, the following are some recommendations to reach both these goals.

Improve interaction between banks and MTOs

In order to reduce the cost of remittances better collaboration ought to be fostered between banks and MTOs - the two main groups that interact for remittance service delivery in Sri

Lanka. Specifically, the regulatory mechanisms in Sri Lanka should be modified to ensure that MTOs are transparent in their formula for remittance fees charged to banks. At the same time, regulators ought to explore fee structures of banks and MTOs serving Sri Lanka to eliminate the possible double transaction fee charged by some service providers for a single remittance. Similarly, banks ought to learn from MTOs to reduce cost by exploiting economies of scale through combined lump sum transactions instead of multiple small size transactions.

Adopt FinTech

Given the promise of FinTech to reduce the cost of remittances, it is important to encourage the use of FinTech for remittance transactions to Sri Lanka. Such adoption of FinTech could also contribute to the much-needed diversification in the formal channels of remittances and thereby decrease the cost of remitting to Sri Lanka. To this effect, the government of Sri Lanka can provide incentives to remittance service providers to adopt modern technology, such as block chain. Moreover, the State and the regulators can provide the necessary regulatory and technological infrastructure to foster adoption of technology in remittance service delivery.

Promote mobile money

Mobile money is one of the lowest cost remittance channels. In order to promote use of mobile money in Sri Lanka, the current regulatory barrier of LKR 25,000 as the maximum transaction amount needs to be revised to at least LKR 40,000, to be in line with the current average amount remitted. At the same time, it is important for mobile money service providers to improve awareness on mobile money and build public trust to towards this very cost effective and widespread channel.

Learn from informal channels

Banks and MTOs, as well as regulators can learn immensely from informal channels to improve services and thereby attract more customers to the latter. First, it is important to note that excessive regulation drive remitters to informal channels. For instance, the absence of stringent Know Your Customer (KYC) requirements, and less complicated processes to the remitter in using informal channels work to attract more customers to these channels. As such, formal sector service providers and regulators ought to have a dialog to understand the cost and benefits associated with their processes and KYC requirements, and simplify them as much as possible. Similarly, banks and MTOs can learn from informal channels and expand their services, i.e. times of operation, and offer door stop delivery options, to serve customers better. At the same time, incentives should be provided for migrants to access formal channels. These could be in the form of higher yield rates for savings and lower interest rates for loans for customers who regularly receive remittances in banks.

Gender dimensions in remittance management education

Given that the findings showed that there are fewer women in the upper bracket of absolute remittance; more women in the upper bracket of remittances as a share of income; and more women are becoming financial decision makers as recipients of remittances, gender dynamics need to be factored in to remittance management education in Sri Lanka. As such, it is important to educate migrating females about striking a balance between retaining a proportion of income/savings and remitting balance to the family in country of origin. Specifically, female migrant workers need to be adequately informed about the importance of remittance management by left behind household members in order to achieve the financial objectives of migration. As such, female migrants ought to be sufficiently educated to ensure an agreed consensus with family members about management of remittances and understanding goals and objectives of migration and remittances. Similarly, female members in the left behind family also need to be educated, informed and trained to pursue prudent remittance management while the migrant is overseas. Similarly, male migrants, especially those in the lower income brackets, ought to be encouraged to remit more. Such combined education/training of remitters and beneficiaries, across both genders would help migrants and their families to achieve better outcomes from migration and remittances.

Reconsider importance of female migrants for remittances

Despite the reducing share of females migrating for overseas employment in recent years, during the last two years there has been an incipient upward trend in the share of female migrants. As such, the government ought to encourage migration of females for higher skilled and higher paying jobs as females' higher income earning capacity can be translated to higher remittances to Sri Lanka. As such, the current policy emphasis of upskilling migrant workers i.e. training female domestic workers to become care givers, should be continued with more rigor. At the same time, the restrictive nature of the Family Background Report for female labour migration requires re-assessment.

Improve timing of remittance education

Currently, potential migrants receive remittance education via pre-departure training, long after the migration decision has been made. The pre-departure stage is too late for a potential migrant to understand the content of the remittance management module and instill lasting change within the family left behind. Further, the involvement of migrant family members in this training is a one-off half a day session during the last day of training, which is too brief. It would be more useful to both the potential migrants and their family members if information on remittance management, is disseminated earlier in the pre-departure stage to ensure sufficient time for discussion and agreement.

Improve frequency of remittance education

Currently, education on remittance management is provided only once – during the last day of pre-departure training, and only to a single member of the migrant's family. Such a one-off training session to a single person in the left behind family is inadequate to lead to effective improvement in remittance management at the household. As such, it is important to provide continuous support and refreshment of content learnt to all adult members in the left behind family.

Involve existing networks for remittance management education

The CSOs in Sri Lanka are well positioned at the grass-root level to provide such continuous support on remittance management education to migrant families. Similarly, the network of Development Officers (DOs) of the Ministry of Telecommunications, Foreign Employment and Sports are well positioned to provide such continuous support to migrant families on remittance and financial management. To this extent, the Ministry ought to engage in capacity building efforts for these CSO and MDO personnel to make them competent in providing continuous grass root level remittance management guidance.

Educate migrants on impact of exchange rate margin on cost of remittances

Given that exchange rate margin accounts for 18 percent of the total remittance cost, migrants should be better educated about how exchange rates affect their remittance cost, and how remittance service providers maintain a spread between the interbank foreign exchange rate and the exchange rate offered to remitter. Better understanding on exchange rates would enable remitters to understand the interplay and trade-off between transfer fees and exchange rate margins, and resort to more cost effective remittance service providers.

Transition from financial literacy education to remittance management education

The existing content in pre-departure training for migrants and family members has a component on financial literacy. However, the popularity of formal channels among those surveyed indicate that more than financial literacy, what migrants and their families are in need of is education on remittance management. As such, the content of pre-departure training provided by SLBFE ought to focus more on remittance management to ensure that remittances can be aptly channeled for development.

Inculcate a positive attitude towards remittances

Tied to remittance management is the attitude towards remittances by families left behind. The study notes that remittances are viewed as a free flow of income. The value of it thus becomes under-appreciated leading to undue preference for leisure over other productive activities. As such, support and guidance should be provided to left behind families to inculcate appropriate attitudes towards remittances, productive activities and leisure in order to ensure full potential of remittances is achieved.

Collective international efforts

Foster greater dialog and action amongst sending countries and in regional processes such as the CP and Abu Dhabi Dialogue to encourage countries of destination to support efforts to reduce the cost of remittances. Specifically, regulators in the remittance sending countries could ensure a better regulatory structure that does not drive remitters away from the formal sector and better financial infrastructure to lower remittance cost. At the same time, employers and other stakeholders in the countries of destination of Sri Lankan migrant workers can contribute to lower the indirect cost of remittances, such as opportunity cost. Moreover, countries of origin and destination of migrant workers should cooperate to develop a framework that actively and effectively contributes to lower remittances.

Produce better data on remittances

Finally, disaggregated, standardized, reliable, and more up to data on migration and remittances is needed to track cost of remittances and to develop evidence based policies to reap the full benefits of migration and remittances in Sri Lanka. To this effect the Department of Census and Statistics ought to include more questions related to remittances and migration in surveys such as the Household Income and Expenditure Survey and decennial census, to name a few.

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Annexure

Table 1: DSD Divisional breakdown of survey sample collection

District	DSD	Freq.	Percent
Batticaloa	Arayampathi	74	12.2
	Batticaloa	17	2.8
	Kaluwanchikudy	117	19.3
	District Total	**208**	**34.3**
Colombo	Kolonnawa	69	11.4
	Rajagiriya	16	2.6
	Thimbirigasyaya	117	19.3
	District Total	**202**	**33.3**
Kurunegala	Ganewatta	17	2.8
	Kurunegala	32	5.3
	Maho	94	15.5
	Mallawapitiya	7	1.2
	Nikawaratiya	22	3.6
	Ibbagamuwa	18	3.0
	Kotawehera	6	1.0
	District Total	**196**	**32.3**
	Total	**606**	**100.0**

Table 2: KII list

	Organization	Date	Consent Form	Recording
1	Ministry of Digital Infrastructure and Foreign Employment - Interviewee 1	5/10/2018	Available	Available
2	University of Colombo	7/11/2018	Available	Available
3	IoM Sri Lanka- Interviewee 1	1/11/2018	Available	Available
4	Dialog	31/10/2018	Available	Available
5	Community Development Services	31/10/2018	Available	Available
6	SLBFE - Interviewee 1	31/10/2018	Available	Not Available
7	SLBFE - Interviewee 2	31/10/2018	Available	Available
8	Ministry of Digital Infrastructure and Foreign Employment- Interviewee 2	25/10/2018	Available	Not Available
9	Nations Trust Bank	18/10/2018	Available	Available

10	Ministry of Digital Infrastructure and Foreign Employment -Interviewee 3	18/10/2018	Available	Available
11	IoM Sri Lanka - Interviewee 2	15/10/2017	Available	Not Available
12	IoM Sri Lanka Interviewee 3	15/10/2018	Available	Not Available
13	Helvetas Sri Lanka	16/10/2018	Available	Available
14	Women and Media Collective	16/10/2018	Available	Available
15	ESCO - Interviewee 1	8/10/2018	Available	Available
16	ESCO- Interviewee 2	8/10/2018	Available	Available
17	Mobitel	28/11/2018	Available	Available
18	CHRCD Kurunegala	29/11/2018	Available	Available
19	Seylan Bank - Interviewee 1	8/1/2019	Available	Available
20	Seylan Bank - Interviewee 2	8/1/2019	Not Available	Available
21	NSB - Interviewee 1	22/1/2019	Available	Available
22	NSB- Interviewee 2	22/1/2019	Available	Available
23	SDC - Interviewee 1	23/01/2019	Available	Available
24	SDC- Interviewee 2	23/01/2020	Available	Available
25	BOC	24/01/2019	Available	Available
26	CBSL- Interviewee 1	25/01/2019	Not Available	Not Available
27	CBSL- Interviewee 2	25/01/2020	Not Available	Not Available
28	CBSL- Interviewee 3	25/01/2021	Not Available	Not Available

Note: Those indicating consent form N/A are for those where KII was conducted but formal consent to incorporate content in report was denied. Recording is N/A if respondents did not consent to recording the KII. In such cases, KII notes have been taken real-time.

Table 3. Demographic characteristics of sample of migrants by district

Household type	Batticaloa		Kurunegala		Colombo	
	Freq.	Percent	Freq.	Percent	Freq.	Percent
Current Migrant on vacation	26	11.7	15	6.6	11	5.0
Household of Current Migrant	159	71.3	138	60.8	108	49.3
Returnee Migrant	38	17.0	74	32.6	100	45.7
Total	**223**	**100.0**	**227**	**100.0**	**219**	**100.0**
Gender						
Male	193	86.6	128	56.4	103	47.0
Female	30	13.5	99	43.6	116	53.0
Total	**223**	**100.0**	**227**	**100.0**	**219**	**100.0**

Religion						
Buddhist	0.0	0.0	91	40.1	58	26.5
Hindu	213	95.5	10	4.4	59	26.9
Islam	0.0	0.0	118	52.0	62	28.3
Christian	10	4.5	5	2.2	40	18.3
Other			3	1.3		
Total	**223**	**100.0**	**227**	**100.0**	**219**	**100.0**
Ethnicity						
Sinhala			97	42.7	59	26.9
Tamil	223	100.0	12	5.3	97	44.3
Muslim			116	51.1	63	28.8
Burgher			2	0.9		
Total	**223**	**100.0**	**227**	**100.0**	**219**	**100.0**
Marital Status						
Never Married	60	26.9	31	13.7	36	16.4
Married	156	70.0	188	82.8	147	67.1
Widowed	0.0	0.0	1	0.4	6	2.7
Divorced	4	1.8	6	2.6	6	2.7
Separated	3	1.4	1	0.4	24	11.0
Total	**223**	**100.0**	**227**	**100.0**	**219**	**100.0**
Level of Education						
No Schooling	2	0.9	2	0.9	18	8.2
Currently in/Passed post Graduate		6	2.6	2	0.9	
Studying/Studied 1-5	41	18.4	75	33.0	26	11.9
Currently in /Passed Grade 6-10	65	29.2	90	39.7	79	36.1
Currently in /passed G.C.E O/L	89	39.9	16	7.1	67	30.6
Currently in /Passed Grade 12	10	4.5	36	15.9	4	1.8
Currently in /Passed G.C.E A/ Level	16	7.2	2	0.9	22	10.1
Currently in /Passed Degree					1	0.5
Total	**223**	**100.0**	**227**	**100.0**	**219**	**100.0**

Source: Author

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