

Moving from Informal to Formal In the Provision of Remittances

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(1) Magnitudes

- Worker remittances is a significant component in foreign inflows and balance of payment in developing countries
- World-wide remittances during 2005 have been estimated at USD 232 bn. and is likely to increase further
- In 2005, developing countries have received USD 167 bn. from about 175 mn. migrants
- Around 500 mn. of world population is dependent on remittances

(2) Formal Institutional Mechanism/Channels

- Traditionally, banks collected and disbursed remittances. Now there are many more agencies, but banks continue to play a lead role
- Institutional mechanism has begun to use technological innovations to speed up delivery of remittances at reduced prices
- Governments as well as the formal institutions are keen to ensure effective and prudent use of remittances
- Remittance transfers are in large value (cross border) as well as small magnitudes (individual low value)
- Capturing as well as disbursing of remittances are important

(3) Technological Advances & Regulatory Environment

- Technological advances, partnerships, improvements in the payment structure have significantly contributed to enhance remittances
- Technology should be used to facilitate automation, further reduction of costs and provide additional delivery channels
- Several banks and money transfer systems (Eurogiro, Western Union) have taken initiative to target both blue and white collar workers at reduced transfer prices and with greater access

Technological Advances & Regulatory Environment

(Cont'd...)

- An enabling regulatory environment is necessary to enhance remittance transfers but laws should not be discriminatory to remitters or receivers
- Agencies which recruit migrant workers should be monitored and regulated

(4) Remittances through Informal Channels

- Still 30% - 40% of remittances are transferred through informal institutional networks and private channels
- In some instances, the informal systems do not transfer foreign currency from host country to the home country. Arrangements are made to provide funds in local currency at receiver's end
- It is difficult to institutionalize remittances of illegal immigrants. *Hawala and Undial* systems are popular among them

Remittances through Informal Channels *(Cont'd...)*

- Informal transfers largely take the form of cash
- Exchange controls, banking and anti-money laundering legislations, reluctance or inability of financial intermediaries to contact money transferors and high cost of conversion of foreign currency discourage the use of formal channels
- Absence of an efficient financial infrastructure at remitter's end as well as receiver's end

(5) Importance of Remittances in Sri Lanka's Economy

- Worker remittances is the single largest inflow of foreign exchange after exports in Sri Lanka and foreign direct investments
- Remittances have played a significant role in financing the widening trade deficit and maintaining balance of payment surpluses. During 2005, over 75% of the trade deficit was financed by worker remittances

Major Sources of Foreign Receipts and Significance of Workers' Remittances

(in USD Mn)

	1980	1985	1990	1995	2000	2005(a)
Export Earnings (Goods)	1,065	1,315	1,984	3,807	5,522	6,347
Textile and Garments	110	293	628	1,853	2,982	2,895
Tea	373	442	495	481	701	810
All Other Exports	582	581	862	1,474	1,839	2,642
Export Earnings (Services)	279	329	531	821	953	1,540
Worker Remittances	152	292	401	790	1,160	1,968
Foreign Direct Investment	43	24	34	28	175	272
Foreign Loans and Grants	307	517	526	847	422	972
Worker Remittances, as a % of Total current account						
Inflows	9	14	13	21	15	19
Trade balance	15	40	57	53	65	76
Loans and grants	50	56	76	93	275	197
Total imports	7	14	15	15	16	22
GDP	4	5	5	6	7	8
(a) Provisional						

Importance of Remittances in Sri Lanka's Economy

(Cont'd...)

- Worker remittances have become increasingly significant over the last few years
 - In 2005, remittances increased to USD 1,968 mn. (22.6%) compared to 2004 and further to USD 2,361 by August 2006
 - An increase of 20% is expected in 2006
 - Banks invest remittances in foreign currency bonds issued by the Government
 - Remittances provide income support to families and opportunities for unskilled workers to travel, improve skills, earn foreign exchange and self-employment

Importance of Remittances in Sri Lanka's Economy

(Cont'd...)

- The key players are: the Sri Lanka Foreign Employment Bureau, Association of Licensed Foreign Employment Agencies, Commercial Banks, Specialized Banks, Money Changers

- Geographical distribution of remittances in 2005:
 - 57% from Middle Eastern region
 - 18.5% from European Union
 - 6.5% from other European countries
 - 6.5% from North America
 - 4.5% from Far East-Asian countries

(6) Government Policy

- Allowed NRFC account holders to obtain low interest housing loans
- Introduced Sri Lanka Nation Building Bonds to attract remittances from expatriates
- Holds awareness programs to educate remitters to channel funds through formal institutions
- The Central Bank has permitted banks and financial institutions to establish exchange houses in several countries to enhance accessibility by remitters

(7) Issues relating to Remittance Transfers

- Lack of awareness of facilities available through formal channels
- Absence of links between banks/financial institutions and migrant workers prior to their departure
- Lack of transparency or full knowledge of the pricing or delivery of remittance service
- Distant work sites in some Middle Eastern countries with no banking facilities
- Delays and paper work involved in transactions through the formal financial sector
- Unnecessary expenditure made on savings

(8) Possible Solutions

Macro Level –

- Need for transparency and consumer protection guidelines on a world-wide basis
- Improvements to payments system infrastructure in both host and home countries
- Remittance services to be supported by non-discriminatory legal and regulatory framework
- Establish easy access to domestic infrastructure.
- Remittance service industry to adopt appropriate governance and risk management practices

- Governments in home countries to recognize remittance service as part of public policy
- Regional and international bodies to play an active role to solve issues
- International money transfer services to offer services at reduced costs (Eurogiro and Western Union)
- Under the provisions of the General Agreement on Trade for Services (GATS), a mode for movements of natural persons has been recognized for delivery of services. Sri Lanka expects to re-orient its policies to encourage skill migration

Micro Level –

- Formal financial institutions to enhance accessibility to remitters and receivers
- Formal financial institutions to establish agency links with *Hawala and Undial* type remittance collectors
- Moneychanger system to be streamlined, monitored and geared to attract remittances
- Extend facilities from outstation bank branches and use village level post office services to disburse funds

- Formal banking and financial institutions to deliver services at door step
- Banks and financial institutions to provide a package of facilities to workers prior to departure i.e. opening bank accounts and granting housing loans etc.
- Use telephone networks and smart cards to connect remittances receivers and their bankers
- Government to educate migrant workers prior to departure

Thank You