SRI LANKA COUNTRY STUDY

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1.0 INTRODUCTION

Over 1.2 million Sri Lankans – an estimated 13 per cent of the labour force - work abroad, and their families and the Sri Lankan economy depend heavily on the money they send home. Between 1991 and 2006 the contribution of formal remittances to GDP increased from 4 to 9.7 per cent. At $2.3 billion, remittances are the country's second largest source of foreign exchange after garment exports, and represent 30 per cent of national savings. Remittances via informal channels, which are not included in national accounts, are estimated to account for between 13 and 45 per cent of private transfers.

In addition to their direct macroeconomic contribution, overseas labour markets are a politically important safety valve for pressures from rural poverty and unemployment. For decades, the domestic economy has been unable to generate sufficient jobs to accommodate the growing labour force, a volatile issue which at various times in the recent past has been associated with violent unrest. Remittances assist the government to address politically sensitive fiscal pressures to reduce welfare expenditure, and offshore jobs have come to occupy a central position in the Sri Lankan labour market, accounting for an estimated 14 per cent of jobs held by Sri Lankans, and a quarter of jobs held by women (Department of Census and Statistics 2004*a*).

Sri Lankan migrant households are highly diverse, ranging from extreme-poor families who are entirely dependent on low-wage remittances from the Middle East, to prosperous entrepreneurial households which combine local business activities with remittances from high-earning skilled and professional workers in the OECD countries. This social and economic heterogeneity must be taken into account in designing policy initiatives. In general, middle and high-income households are well integrated into the financial system and make effective use of remittances to improve their living standards and achieve longer-term financial goals. With generally strong asset bases and savings ability, they are potentially a key resource for local economic growth, and initiatives targeting higher-income remittance recipients should focus on developing financial products which encourage local rather than offshore savings, and broadening access to credit and non-financial business development services for those with entrepreneurial skills and aspirations. Improved macroeconomic and political stability and rural infrastructure and human resource development are needed to strengthen the rural investment climate.

There is a pervasive but overly pessimistic view in Sri Lankan policy circles that the benefits of housemaid migration do not justify the costs. At the household level, the effectiveness of migration as a poverty reduction strategy depends largely on two factors: the quality of the overseas job, and the responsible management of household welfare and finances by recipients, including the ability to supplement remittances with local income sources. Where these conditions are met, migration can and does produce substantial, durable improvements in household well-being, and the challenge facing policy-makers is to create the conditions for successful outcomes by strengthening mechanisms for protecting workers abroad, reducing migration and remittance costs, and assisting migrants and their families to manage, save and invest their money. In female-headed households, and where male relatives at home are unwilling to contribute to the household income pool, housemaid migration produces little if any lasting benefit, and the needs of these households are best-served by the creation of poverty-clearing alternatives to migration.

Chapter 2 of this report describes the characteristics of Sri Lanka's migrant workforce and reviews the role of overseas labour markets in the Sri Lankan economy. Chapter 3 presents the findings of the household survey. It discusses the socioeconomic characteristics of migrant workers, recruitment processes, their jobs overseas, and the role of remittances in the household economy. It argues that gender and socioeconomic disparities are reflected in differences in the countries to which migrants go and the jobs that they do there, remitting behaviour, the uses of remittances by recipients, and ultimately, the outcomes that migration produces in the household economy. Chapter 4 identifies and reviews policy issues of relevance to remittance and remittance usage, including the accessibility, affordability and relevance of remittance-linked financial services to migrant workers and their families, recruitment and employment conditions, the local business environment, and information, financial literacy training and social support services for migrants and their families.

2.0 SRI LANKAN LABOUR MIGRATION: AN OVERVIEW

Sri Lankan migration abroad began on a small scale in the 1960s. Most of the early migrants were professionally trained members of Sri Lanka's English-speaking elite who, alienated by the increasingly chauvinistic policies of successive Sinhalese-dominated governments, left with their families to take up citizenship in the OECD Anglophone countries. The exodus of doctors, engineers and accountants accelerated with a deterioration in political and economic conditions during the 1970s and 1980s. Following the outbreak of civil war in 1982 they were joined by thousands of Tamil refugees, many of whom obtained permanent asylum in the UK, North America and Australia. Permanent expatriates in the Anglophone countries account for about 15 per cent of remittance inflows to Sri Lanka; the remainder comes from short-term contract workers, mostly in the Arab Gulf States (Central Bank Annual Report 2006)[1].

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1. Despite the significant contribution of permanent expatriates to the home economy, remittances research in Sri Lanka tends to focus on temporary contract workers in the Middle

East, and has little to say about the contribution of permanent expatriates (see eg. Gunatilleke 1986, Eelens et al 1992, IOM 2000). This neglect is likely due in part to a methodological bias: as

The migration corridor opened up by the growth of Middle East labour markets has had profound impacts on the Sri Lankan economy and society over the last three decades. The oil shocks of the 1970s generated a massive flow of petro-dollars into the oil-producing countries of the Middle East, providing a powerful stimulus to their domestic economies. With their small populations, the OPEC countries were unable to meet their growing labour demand, and since the mid-1970s have recruited their workforces from the abundant pool of cheap labour to be found in South and Southeast Asia. Since the 1970s India, Pakistan, Sri Lanka, Bangladesh and the Philippines have been the main suppliers of labour to the Middle East.

Official data sources estimate that 1.2 million Sri Lankans, including 800,000 women, are employed offshore on temporary contracts (Table 1). In fact, official statistics understate labour migration as they omit those who do not register with the Sri Lanka Bureau of Foreign Employment (SLBFE) prior to their departures. The Bureau estimates that 27 per cent of departures for foreign employment are unregistered (SLBFE 2004), indicating that up to 1.7 million Sri Lankans are engaged in overseas contract work. Around 40 per cent of the migrants sampled during the course of our survey had not registered, suggesting that the proportion of unregistered migrants may exceed the Bureau's estimate.

Initially, most Asian migrants to the Middle East were men employed in construction and infrastructure building, but from the late 1970s the ability to hire a servant, traditionally restricted to Arab elites, was opened up by newly found oil wealth to the middle classes, generating a vast new market for unskilled female labour. By 1999, 87 per cent of Kuwaiti households employed at least one foreign housemaid, and 43 per cent employed two or more (Shah et al 2002). India, Bangladesh and Pakistan, responding to objections from Muslim religious leaders and concerns regarding employment conditions, moved quickly to prohibit the recruitment of their nationals as housemaids, leaving the market open to women from Sri Lanka, the Philippines and Indonesia.

While Sri Lankan men struggle to compete in a market dominated by the large low-wage South Asian labour exporters, the market for housemaids remains strong and

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field-based research focuses on low-income Sinhalese households and communities (IOM 2000, Gamburd 2000, Mook 1992, Hettige 1992), it does not adequately capture remittances from professional migrants, which flow mainly to well-off Colombo families. Similarly, remittances from the Tamil diaspora flow predominantly to the Tamil-dominated northeast, a region which remains under-researched as the ongoing civil conflict precludes fieldwork. Although little is known about the impact of remittances on northeastern communities, circumstantial and anecdotal evidence suggests that overseas income is a key economic input in a region devastated by more than two decades of war.

stable, leading to the feminization of the Sri Lankan migrant workforce (Table 2). In the Middle East, over 70 per cent of migrants are women, and over 90 per cent of women work as housemaids. Men are spread more evenly across the occupational spectrum: around 40 per cent occupy unskilled jobs as labourers and cleaners; a similar proportion are skilled manual workers in the construction, transport and manufacturing sectors; and around 20 per cent are employed in white-collar and professional occupations. Outside the Middle East the gender distribution is reversed, with official estimates that around two thirds of Sri Lankans working in Asia and Europe are men (SLBFE 2005). The true figure is likely to be higher still, given than many Sri Lankan migrants to Europe are undocumented, and the majority of undocumented Sri Lankans are male.

Table 1: Estimated stock of overseas contract workers by destination country, 2005 ('000)

Country	Stock of overseas contract workers
Middle East	**1,090.0**
Saudi Arabia	380.8
Kuwait	202.1
United Arab Emirates	171.6
Qatar	118.8
Lebanon	93.4
Jordan	50.9
Oman	40.0
Other Middle East	33.2
Europe	**78.8**
Italy	60.2
Cyprus	17.4
Other Europe	1.1
Asia	**49.7**
Maldives	16.9
Singapore	15.9
South Korea	7.9
Other Asia	9.0
Other	**3.4**
Total	**1,221.8**

Source: SLBFE 2005

The Middle East remains the principal destination region for low-income migrants, but low wages and poor working conditions limit its attractiveness to the non-poor who have the financial and social resources to secure higher-earning jobs in Europe and East Asia. Remittance data from the Central Bank indicates the growing importance of non-Middle East destinations, with a decline in the share of Middle East remittances from 63 to 57 per cent between 2000 and 2006 (Central Bank 2006). As most departures for

Europe and Asia are unregistered, SLBFE statistics data sources radically underestimate the number of Sri Lankans working outside the Middle East, an inference supported by evidence from key destination regions. In Italy, for example, the presence of a large number of undocumented Sri Lankans, in addition to the 41,000 who were issued temporary visas in 2003, suggests that the migrant worker population is well over 100,000 (Veikou et al 2000, European Industrial Relations Observatory 2003, d'Alconzo et al 2004).

Table 2: Estimated stock of overseas contract workers 2005 by gender and occupational category ('000)

	Male	Female	Total
Housemaids	-	660.4	660.4
Other unskilled workers	171.5	52.1	223.6
Skilled workers	184.8	72.7	257.5
Professional, management and clerical workers	64.7	15.6	80.3
Total	**420.9**	**800.8**	**1,221.8**

Source: SLBFE 2005

While women continue to dominate the migrant workforce, a notable recent trend has been the dramatic increase in male migration. The increase in departures over the last decade has been driven almost entirely by men, whose numbers have doubled since 1995 (Table 3). The opening up of non-Middle East migration corridors has encouraged men to seek work overseas. At the same time, falling real wages for housemaids in the Middle East, coupled with growing concerns about job quality and the impacts of female migration on family welfare, have contributed to a slowing of female migration growth rates. The shift towards male migration, together with the growing popularity of higher-earning non-Middle East destinations for both men and women, is in many ways a welcome development. The volume of remittances is likely to increase with the growth of relatively high-wage jobs. Although migrant working conditions remain a significant global concern, labour standards in male-dominated jobs and in Europe and East Asia are significantly better than those of Middle East housemaids, who face high risks of exploitation and injury. In addition, where the migration of women with children has been linked with increased rates of family breakdown and children's welfare, the evidence suggests that male migration is more benign in its impacts on families.

Table 3: Departures for foreign employment 1995-2005 ('000)

Year	Male	Female	Total
1995	46.0	126.5	172.5
2000	59.8	122.4	182.2
2005	94.0	137.0	231.0

Source: SLBFE 2005

3.0 MIGRATION AND REMITTANCES IN THE HOUSEHOLD ECONOMY

3.1 Fieldwork methodology

The fieldwork was conducted in March 2006 in the Kuliyapitiya West local government division in the Kurunegala district, about 70 kilometers northeast of Colombo. Kuliyapitiya West is predominantly agrarian, with a mix of smallholder paddy cultivation and coconut estates, but includes the town of Kuliyapitiya (population 6,500) which serves as a regional commercial and administrative hub. Kurunegala district was selected for the survey because it is representative of rural Sri Lanka on most key human development and socioeconomic indicators, with levels of poverty, employment, and literacy close to the rural average (Table 4).

Trained fieldworkers administered a structured questionnaire to 153 adults who were receiving remittances from a migrant who had been abroad for six months or more. Respondents were drawn from a cross-section of locations (Table 5). Most were identified via a snowball sampling technique centered around an initial group of 35 respondents, who were recruited as they entered banks in the Kuliyapitiya town centre to conduct remittance transactions. The initial respondents identified other remittance-receiving households in their neighbourhoods, from which the remaining 118 respondents were drawn.

Table 4: Kurunegala district and rural Sri Lanka: key indicators

Indicator	Kurunegala District	Rural Sri Lanka
Average household size	3.9	4.3
Housing congestion (rooms per person)	1.1	1.1
Poverty incidence	24.4	24.3
Female literacy rate	90.6	91.1
Labour force participation rate*	45.4	47.5
Houses connected to electricity grid	50.7	71.6
Houses with water-seal latrines	69.2	79.3

* Population aged 10 years and over

Sources: Central Bank 2005*a*, Department of Census and Statistics 2003*a*, 2003*b*

A mix of quantitative and qualitative research methods was used. The structured questionnaire which sought information on pre-and post-migration living standards, livelihood activities, expenditure and savings and use of financial services. It was supplemented by unstructured in-depth interviews with 18 respondents which sought qualitative data on the household's migration history and experience, and 30 respondents participated in focus groups to discuss their use of financial services. Additional interviews were conducted with returned migrants, bank executives and managers in Kuliyapitiya and Colombo, senior managers in the Sri Lankan Bureau of Foreign Employment (SLBFE) and staff from the Migrant Services Centre, an NGO specialising in advocacy and support services for migrant workers.

Table 5: The Kuliyapitiya sample: household location

Location	Per cent
Urban (less than 1 km from the Kuliyapitiya town centre)	16.3
Peri-urban (1 - 5 km from the town centre)	42.5
Rural (more than 5 km from the town centre)	41.2
Total	**100.0**

3.2 Demographic and socioeconomic characteristics of migrant-sending households

Among the respondent households from the Kuliyapitiya sample, 97 had sent female migrants and 56 male migrants. Male and female migrants have similar age profiles, with median ages of 34 and 35 for men and women respectively at the time of departure. Nearly 60 per cent of migrants were in the 25-39 age group. Just under two thirds of respondent households contained children under 16, and 27 per cent contained elderly or disabled adults. Male migrant households (MMHs) were more likely than female migrant households (FMHs) to contain dependent members, and 80 and 71 per cent respectively.

Migrant households are drawn from all sections of rural society except the very poorest. Approximately a quarter of rural households in Sri Lanka, including many migrant households prior to the migrant's departure, are below the poverty line. However, the near-destitute extreme-poor, who constitute the poorest 5-10 per cent of Sri Lankans, tend not to migrate as they are unable to produce birth certificates and other documents required for passport applications, cannot raise the finance necessary to cover pre-departure expenses, and typically do not meet basic literacy and health qualifications.

Table 6: Migrant-sending households: pre-departure ownership of selected household assets (per cent)*

	Rural population	Female migrant-sending households	Male migrant-sending households
Television set	69.6	40.8	64.3
Sewing machine	43.2	25.6	41.1
Refrigerator	27.2	10.2	28.6

Source: Central Bank 2005a

FMHs tend to be poorer than MMHs, a finding consistent with numerous other studies showing that male migrants tend to come from the middle and upper economic layers, and women from the lower layers, of rural Sri Lankan society (Hettige 1992, Mook 1992, International Organisation for Migration 2000). Data obtained from a sub-sample of respondents who were able to provide reliable information on their pre-departure household incomes suggests that the majority of MMHs were non-poor, but around half of the FMHs were near or below the poverty line. Asset ownership and educational attainment indicators confirm socioeconomic disparities between male and female migrants: where ownership of key household assets in MMHs corresponds closely to that of the rural population at large, FMHs were significantly less likely than other rural households to own TV sets, sewing machines or refrigerators at the time of the migrant's departure (Table 6). Similarly, male migrants are better educated than females, with secondary school completion rates of 32 and 18 per cent respectively, and 14 per cent of males had post-secondary qualifications, in comparison with only 4 per cent of women.

FMHs tend to be poorer than MMHs because gendered labour markets at home and abroad encourage low-income, unskilled women to migrate while discouraging non-poor women and low-income men. Increasing numbers of non-poor women are entering the growing market for high-wage housemaids in Southern Europe, but otherwise, the supply of offshore jobs for middle-class women remains very limited. The domestic service sector in the Middle East, which remains by far the largest source of offshore female employment, is viewed as an unattractive option by the non-poor. Highly unfavourable labour markets at home create an additional push factor for low-income women. Most of the female Kuliyapitiya migrants were unemployed prior to their departures, reflecting the extreme scarcity of poverty-clearing local jobs for women. Unskilled men on the other hand can usually find intermittent local employment as casual labourers. Weak overseas demand for unskilled men and higher recruitment costs for male migrants are additional deterrents. Therefore, many poor households opt to maximize their resources by sending women overseas and leaving men at home to work in the local economy.

3.3 Migrant occupations and destinations

Sixty-five per cent of the Kuliyapitiya migrants were female (Table 7), consistent with national data indicating that two thirds of migrant workers are women (see Table 2 above). The Kuliyapitiya occupational profile is slightly less skilled than average, a finding which may be explained by the rural location of the sample. Eighty-seven per cent of women are employed as housemaids, compared with the SLBFE's estimate of 82 per cent nationally, and 51 per cent of the Kuliyapitiya men were unskilled workers, in comparison with the national estimate of 41 per cent.

However, the Kuliyapitiya destination profile differs in important respects from the national profile suggested by official data sources. According to SLBFE estimates, 89 per cent of migrants are working in the Middle East, whereas in Kuliyapitiya, 30 per cent of migrants have opted for other destinations. Much of the discrepancy can be explained by the exclusion of unregistered departures from official statistics. As migrants to Europe and Asia are less likely than Middle East migrants to register with the SLBFE, their omission leads to an under-estimation of the importance of non-Middle East destinations.

Table 7: The Kuliyapitiya migrants: gender, destination and occupation

Destination region and occupation	Male	Female	Total	Pay range ($US per month)*
Middle East	**30**	**77**	**107**	
Domestic service	-	70	70	100-150
Other unskilled	18	4	22	200-500
Skilled, clerical and professional	12	3	18	300-1500
Other regions	**23**	**23**	**46**	
Domestic service	-	17	17	200-1,000
Other unskilled	9	1	10	500-1,500
Skilled, clerical and professional	14	5	19	1,000-7,000
Total	**53**	**100**	**153**	

* Pay ranges reported by respondents

Nationally and in Kuliyapitiya, the Middle East remains the principal destination region because migration channels are well-established, formalized, accessible and relatively cheap and demand, particularly for housemaids, remains strong. However, preferences are shifting in response to the increasing accessibility of higher-wage destinations. Men are more likely than women to select non-Middle East destinations, partly in response to growing demand in East Asia for male workers. In addition, the fact that a considerable proportion of migrations to Southern Europe are extra-legal tends to favour males. However, women too are opting for jobs outside the Middle East, and anecdotal evidence (not yet confirmed by SLBFE data) suggests a notable increase in housemaid migration to Southern Europe. The Kuliyapitiya data provides further evidence of this trend, with Cyprus, Italy and Greece accounting for 20 per cent of housemaid migrations.

3.4 Recruitment and pre-departure costs

Migration agents play a significant role in recruiting the Middle East workforce, while most migrations to Asia and Europe are arranged independently. A small number of agents have begun recruiting migrants to Cyprus in response to the growing market in that country for Sri Lankan workers, but in general, few Sri Lankan migration agents have networks in Asia and Europe and concentrate instead on the high-volume Middle East market. Two thirds of departures from Kuliyapitiya to the Middle East were arranged by registered agents (Table 8). Households with previous experience abroad are more likely than first-time migrants to arrange their migrations through informal networks, suggesting that the use of migration agents diminishes as migrant workers and their families become more closely integrated with overseas labour markets. As many agents fail to conduct reliable pre-recruitment screening of overseas jobs, housemaid migration is a high-risk undertaking for those without prior knowledge of their prospective employers. Thus, in addition to reducing the financial costs of migration, informal networks of friends, relatives and previous employers provide valuable first-hand information, thereby greatly increasing the likelihood of a successful placement.

Housemaids typically pay $500-700 in recruitment and registration fees, which are usually deducted from their pay once they start work. Return airfares are nominally the responsibility of employers, although in practice many avoid this obligation. Men going to the Middle East face recruitment fees of up to $1,000, and usually required to pay in full prior to their departure. The upfront costs of male migration amount to around twelve months' income for the poorest households in the sample, and were cited by some as a factor in their decision to send a woman rather than a man overseas. Migration agents argue that the higher fees and upfront payment requirements reflect the higher costs and risks of placing male workers. Although demand for housemaids remains strong and stable, finding placements for male workers is more difficult, with falling vacancy rates for unskilled males (SLBFE 2004), and men are considered more likely to abandon their employment contract after a few weeks for some other job. Thus the higher fees charged to male migrants incorporate a security deposit against early termination of contract.

Table 8: How the migration was arranged

	Migration agent	Informal	Other*	Total
Middle East	71	35	-	106
Previous migration experience within household	28	26	-	54
No previous migration experience within household	43	9	-	52
Other regions	15	27	5	47
Total	**86**	**62**	**5**	**153**

* Migration arranged through foreign embassy in Colombo

Migration to Europe, Asia and the Anglophone countries requires considerable social and financial resources, and is beyond the reach of low-income families. In the Middle East, high labour demand ensures that there are relatively few restrictions on Sri Lankan migration, but elsewhere, official labour flows are minute and tightly controlled, and the procurement of a coveted work visa usually requires political connections. Agency-arranged migrations to Cyprus, the most accessible non-Middle East destination, cost around $1,000 for females and $3,000 for males. With its relatively liberal immigration laws, most Sri Lankans migrating to Cyprus are able to go there legally. However, a considerable proportion of Sri Lankan migrations to Europe are extra-legal. Migrations arranged through criminal networks are both hazardous and expensive: undocumented migrants transported to Western Europe by criminal organisations pay up to $5,000 for each attempt, and may make two or three unsuccessful attempts before succeeding.

3.5 Remitting behaviour

Over three quarters of households receive regular cash remittances, usually on a monthly basis, through a variety of transfer mechanisms which are discussed at length in chapter 4. In addition, goods sent home or brought back by visiting or returning migrants are estimated by the Central Bank to account for around 10 per cent of total remittances (Sirisena 2006). Returning migrants often save the last few months of their salary rather than sending it home, using the savings to buy duty-free goods on their return. Most households make use of the duty-free allowance for returning migrants to purchase TV sets, refrigerators and other consumer durables, and in some cases, to import capital goods, and 20 per cent of the Kuliyapitiya respondents had received in-kind remittances of $1,000 or more.

Table 9: Remittances by migrant occupation and destination region

Destination region and occupation	Mean monthly remittance ($US)*
Middle East	**128**
Domestic service	111
Other unskilled	152
Skilled, clerical and professional	164
Other regions	**285**
Domestic service	237
Other unskilled	257
Skilled, clerical and professional	343
Total	**176**

* A monthly equivalent value was calculated for respondents who received remittances less than once a month.

Men remit an average $226 and women $150 per month. Although men send more money home in absolute terms, they tend to remit a smaller share of their earnings than women, who typically remit 80-100 per cent of their pay. Several factors contribute to the male propensity to retain a higher share of earnings. As women usually work in private houses, their food and accommodation costs are borne by their employers, whereas men need to retain money for daily living expenses. In addition, men are more likely than women to work in the formal sector and to have their wages paid into overseas bank accounts, and may choose to keep a portion of their savings offshore rather than in Sri Lankan banks. As the bulk of offshore savings are repatriated on the migrant's return, they represent a deferral rather than a loss of remittance income. Discussions with returnees and respondents indicated that skilled and white-collar workers commonly keep savings offshore, although few respondents knew the account balances. Finally, the tendency of the Kuliyapitiya men to remit a smaller share is consistent with findings elsewhere in Sri Lanka that remitting behaviour is conditioned by social norms which allow men to keep a share of their wages for personal use, but expect women to contribute all of their earnings directly to the household (Kottegoda 2004, Gamburd 2000).

3.6 Remittances in the household economy

Although the Kuliyapitiya households were concentrated in the middle and lower income categories prior to the migrant's departure (see Table 6 above), the addition of remittances to the household income pool places them well within the upper half of the national rural income distribution. Table 10, which compares the quintile income distribution of the Kuliyapitiya respondents with that of all rural households, shows that more than 80 per cent of migrant households received incomes above the rural median of $117. Only five respondent households were below the poverty line, giving a poverty incidence of 3.2 per cent, in comparison with a national rural poverty incidence of 24.7 per cent[2] (DCS 2004*b*). It is clear that remittances support a marked improvement in living standards, at least during the migration period. However, the analysis which follows suggests that the poorest remittance recipients find it difficult to achieve sustained poverty exit.

Table 10: Respondent households and all rural households: comparative quintile income distribution ($US per month)

Income quintile	Income range: Kuliyapitiya respondents*	Income range: all rural households
1	Less than 129	Less than 62
2	129-168	62-94
3	169-205	95-138
4	206-313	139-220
5	More than 313	More than 220
Median household income	187	117

* Reported household income from all sources, March 2006
Source: Central Bank 2005*a*

Expenditure patterns vary according to income: consumption is by far the largest budget item for households in the lowest quintile, who spend nearly three times more of their income on survival needs than those in the highest quintile (Table 11). By contrast, the shares allocated to savings, housing and asset-building decrease with household income, and those in the lowest quintile are far less likely than others to report significant recent asset accumulation. Substantial allocations to business investment are largely restricted to high-income households. Thus, while remittances support

2. The 2002 Household Income and Expenditure Survey set the poverty line at Rs.1,423 per person per month (Department of Census and Statistics 2003*a*). An approximation of the 2006 household poverty line was calculated by adjusting for movements in the Sri Lanka Consumer Price Index between 2002 and 2005 and multiplying by the mean rural household size of 4.28, giving a household poverty line of Rs.7,656 ($US77).

consumption at survival-level or better in nearly all households, the poorest have difficulty financing asset accumulation and housing improvements, and investments which generate sustained improvements in income generating capacity are limited to a well-off minority.

Table 11: Household expenditure (March 2006) by household income quintile (per cent)

	Income quintile					
	1	**2**	**3**	**4**	**5**	**All**
Consumption	66.9	50.2	44.9	35.2	23.1	44.5
Housing and household assets	10.0	15.0	11.7	11.3	27.1	14.8
Business investment	2.2	4.9	4.9	12.0	15.0	7.6
Savings	10.2	18.0	29.0	33.1	29.2	23.9
Other n.e.s	10.6	12.0	9.5	8.3	5.8	9.3
Total	**99.9**	**100.1**	**100.0**	**99.8**	**100.2**	**100.1**
Per cent reporting substantial or moderate improvements in housing or asset ownership	55.6	75.8	73.3	93.1	93.1	80.1

The transformative impact of migration on living standards is apparent in housing and household asset expenditures, where remittances have visibly altered the village landscape. The one- and two-roomed clay huts which were characteristic of Kuliyapitiya villages in the early 1990s are progressively disappearing, to be replaced by brick dwellings with four rooms or more, with refrigerators and other consumer durables. Although the asset-building process commonly takes several years and two or three migrations, it is clear that remittances have generated significant, durable improvements in well-being for many migrant families. However, a key finding emerging from the study is that housemaid remittances alone are insufficient to finance substantial asset accumulation and savings. In low-income households without supplementary local income sources, migration produces little long-term improvement in living standards. Housemaid remittances support recipients above the poverty line while they last, but many households to relapse into poverty soon after the migrant's return, leading women to return again and again to the Middle East without breaking out of the 'poverty trap'.

As Table 12 shows, there are important differences between income groups in the composition of the household economy and the relative importance of remittances. The lowest two quintiles are the most remittance-dependent, with remittances contributing on average more than three quarters of household income. Q1 and Q2 households are also far more likely than higher income groups to report a decline in local income following the migrant's departure, indicating that remittances replace rather than supplement local income sources. Q1 and Q2 households are distinguished by low remittances and lack of income diversification. Most receive housemaid remittances from the Middle East, although this group also includes elderly parents receiving irregular remittances from a son overseas. Female-headed households, in which a housemaid supports children or elderly parents at home, represented 10 per cent of the sample. Although the migrants typically remits all of her pay, her earnings are barely sufficient to clear the household poverty line of $77 (see note 4). As they are entirely dependent on remittances, female-headed households were the poorest in the sample.

Table 12: Composition of household economy by household income quintile: key indicators

Quintile	Mean remittances ($US per month)	Remittances as a percentage of household income	Households reporting decline in local income sources (per cent)	Mean number of household income sources
1	84	81.2	32.1	1.6
2	112	74.7	33.3	2.0
3	109	58.5	22.6	2.1
4	162	62.6	17.2	2.2
5	428	70.7	13.8	2.0
All	**178**	**69.5**	**23.8**	**2.0**

A second low-income group, accounting for about 15 per cent of the sample, consists of households in which able-bodied men remain at home but are under-employed. Several observers have identified housemaid remittances with a culture of dependency, in which family members stop working or trying to find work, relying instead on their monthly ‘petro-dollar cheques’ (Mook 1992, Patrick 1997, Gamburd 2000, International Organisation for Migration 2000, Kottegoda 2004). There is a pervasive stereotype which represents the husbands of migrant workers as idlers who neglect their children and waste their wives’ remittances on alcohol and gambling. While the displacement of pre-existing income sources is by no means universal, a third of low-income respondents reported reducing their participation in the local economy. Marginal projects such as poultry-rearing were often abandoned, particularly where the enterprise was previously operated by the migrant. Casual labouring work was also likely to be cut back, although few households abandoned it altogether; thus, incomes in labour-reducing households are somewhat higher than in households where there is no able-bodied man. The displacement of male breadwinners may outlast the migration itself, with findings that 25 per cent of female returnees continue to be the main household providers after their return because their husbands have either left home or abandoned or lost their jobs (International Organisation for Migration 2000).

Middle-income households have the most balanced distribution of local and overseas income sources, Like their lower income counterparts, most Q3 households receive housemaid remittances from the Middle East, but they are more likely to maintain wage employment and household microenterprises at pre-departure levels. As Table 13 shows, remittances are in fact slightly lower in Q3 than in Q2, indicating that the higher incomes of Q3 households are due entirely to higher participation in the local economy.

Q4 and Q5 households can be classified into three groups of roughly equal size. The first group consists of households which draw more than three quarters of their income from overseas. The majority in this category are women receiving remittances from husbands in Europe or Asia. Like their lower income counterparts, these households are heavily remittance-dependent, but their overseas income is sufficient to finance savings and asset-building while enabling recipients to live comfortably with minimal participation in the local economy. A second group consists of middle-class households with stable local income sources, in which younger, single men and women are working overseas, remitting most of their savings to personal bank accounts. The third and highest-income group, which comprises about 15 per cent of the sample, consists of established 'business families' which use remittances to finance local enterprises. These entrepreneurial households were far more likely than others to report having increased their incomes from local sources following the migrant's departure.

The vast majority of the Kuliyapitiya migrants were employed on short-term contracts of two years for housemaids and up to five years for skilled and professional workers. Increasingly, however, poor and some non-poor households view overseas employment as a long-term income stream. Middle- and high-income households which maintain a stake in the local economy were more likely than others to view migration as a short-term strategy aimed at a specific goal such as a new house, children's education, a daughter's dowry or a post-return business venture. There is usually a clear sense of cooperation and unity of purpose between the migrant and the family, and the migrant typically returns home after two years, perhaps making one or two repeat journeys. By contrast, low-income housemaids frequently extend their contracts or return home briefly after two years, taking up another overseas job within a few months. In many low-income families women are the principal household providers, returning again and again to the Middle East, with daughters following their mothers into overseas employment; and there is a widespread expectation that women will spend a large part of their adult lives overseas. Similarly, in high-income remittance-dependent households migration is often a long-term undertaking. In particular, male migrations to OECD countries tend to be semi-permanent, with the migrant returning home on retirement or, where feasible, reuniting his family overseas.

4.0 DEVELOPMENT POLICY ISSUES

The Kuliyapitiya findings lend support to a policy emphasis on high-end migration. As remittance flows are linked to migrant income, high earners send more money home and have a higher propensity to save and invest. There is a growing view in Sri Lankan policy circles that promoting skilled and male migration to high-wage destinations can effectively generate high remittance returns with few of the risks associated with Middle East housemaid migration. Recent government pronouncements and policy initiatives indicate a shift in emphasis towards skills development and diversification of destination regions: for example, the 2006 budget introduced initiatives aimed at developing exportable skills, including the establishment of an English-language institute for nurse training and training programs in nursing, shipping and computer science, and recruitment initiatives sponsored by the Ministry of Labour contributed to an increase in skilled male migration to Malaysia and South Korea from 1,212 in 2004 to 6,736 in 2005 (SLBFE 2005, Asian Tribune 2007, Central Bank Annual Reports 2005, 2006).

Housemaid migration to the Middle East is a high-risk undertaking which is fraught with financial and personal costs for the migrant and her family. However, most housemaids earn far more overseas than they could expect to earn at home, and public migration aspirations remain high because for many rural families, housemaid migration as the only route out of poverty. Restricting access to low-wage overseas labour markets closes off a source of opportunity without providing an alternative, and is not a practical policy option, as the government found early in 2007 when it announced an intention to ban mothers of young children from working in the Middle East (Sunday Times 2007). The proposal was withdrawn after meeting strong opposition from human rights groups and the public. A more realistic, humane and sustainable approach recognizes the aspirations of low-income women for a better life, and policies should focus on increasing the benefits of migration, mitigating the risks and reducing the costs, while at the same time creating alternatives to migration through local economic growth.

By assisting migrant workers and their families to save and to manage their income streams, financial institutions can support asset accumulation, encourage sound financial habits and improve creditworthiness, thereby promoting sustainable post-return poverty reduction. Financial services which reduce pre-departure costs and remittance transfer charges increase disposable income, and the strengthening of financial intermediation mechanisms, including microfinance, assists in channeling remittance savings into local business development. Civil society organizations have an important role to play in informing migrants about risks and opportunities, empowering women to control their income and providing support services for migrant families.

By reducing inflation and improving the investment climate, the GoSL can encourage migrants to send their money home rather than keeping it offshore, and to invest remittances in productive activities. Sri Lankan workers abroad, and particularly housemaids, are at considerable risk of exploitation and abuse, which not only jeopardizes their personal safety but also reduces the economic value of migration by denying them their legitimate pay entitlements and prompting early returns. While the direct regulation of working conditions abroad is of course beyond the reach of origin country governments, the GoSL should take a stronger stance in bilateral negations with receiving countries and improve the regulation of recruitment practices and the quality of consular support and advocacy facilities.

4.1 Remittance transfer services

The Kuliyapitiya migrants use a variety of paper-based and electronic transfer services, which vary in cost and speed depending on the type of transfer, point of origin and sending institution (Table 13). Through strong rural outreach, regulatory restrictions on competition and innovative partnership arrangements with money transfer organizations (MTOs) and exchange agents in the Middle East, commercial banks have come to dominate the remittance transfer market (Lasagabaster et al 2005), and over 85 per cent of the Kuliyapitiya respondents received their remittances via the banking system.

Table 13: Kuliyapitiya: usage of remittance transfer services

Institution	Respondents reporting regular usage (per cent)	Fees (sender)	Fees (recipient)	Duration (maximum)
Bank: MTO transfer	36.6	Middle East: $8-10 plus currency conversion charge of up to 6% Asia and Europe: $20-75 plus currency conversion charge	No fee	24 hours
Bank: bundled transfer	37.9	$1.50	No fee	24 hours
Bank: draft	-	$15-20	$5 -15	28 days
Bank: SWIFT telegraphic transfer	11.8	Up to $25 plus currency conversion charge of up to 6%	$35-40	48 hours
Postal service	3.3	$3-5	-	21 days
Informal (hawala or courier)	10.5	$1.50	$3-5	24 hours

Total	**100.0**			

Sources: Sirisena 2006, Central Bank 2005*b*, Central Bank 2006

Bank-based services

Sri Lankan banks have devised low-cost bundling systems with correspondents in the Gulf states and other high-density migrant destinations such as Cyprus and Italy. The overseas exchange agent maintains a rupee account with a Sri Lankan bank, and on receiving cash from the sender, debits a corresponding rupee value from its Sri Lankan account to the credit of an account nominated by the sender. At the end of the day the agent tops up the balance on its rupee account, thereby covering all of its daily transactions, amounting to 500 or more for the larger exchange houses, with a single electronic transfer. Exchange agents maintain accounts for regular senders, and recipient details, currency conversion rates and commissions appear automatically when the sender's account number is entered, to promote transparency and reduce processing time at the sender's end. The sender can view the status of the transaction at the receiving end, to confirm receipt of funds. Non-account holders at both ends can use the system on production of identification.

Under the Foreign Exchange Control Act, foreign exchange transactions are restricted to 22 financial institutions, including the commercial banks, Sri Lanka Post (SLP), and two specialized banks. While not authorized to handle foreign exchange transactions directly, MTOs such as Western Union engage indirectly in the remittance market by partnering with banks. Next to transfer bundling, electronic transfers from overseas MTOs to Sri Lankan banks are the most popular method for Middle East remittances, but are considerably more expensive, with an average transaction cost which represents around 15 per cent of a standard housemaid remittance of $100. Due to their high costs, MTOs are a default option which is used by senders who lack access to correspondent exchange houses.

Transfer costs are considerably higher in low-volume corridors, with a cost range between $25 and $100 for MTO-to-bank transfers from East Asia, northern Europe and the Anglophone countries (Table 13). Interbank telegraphic transfers via the SWIFT network are a high-cost option which is used primarily for infrequent transfers from Europe and by a handful of Middle East migrants who lack ready access to a correspondent MTO or exchange house, particularly in rural areas of Lebanon and Saudi Arabia. Paper-based bank transfers are costly and subject to long delays, taking up to 21 days via the mail and an additional 5-7 days to clear, and are rarely used for remittances. Intra-bank transfers are a relatively cheap and popular method in Latin America where banks maintain transnational branch networks, but are not widely used in Sri Lanka due to the very limited number of overseas branches operated by Sri Lankan banks (a total of 11 in 2005). Visa restrictions which prohibit Sri Lankan banks from operating in some host countries need to be resolved.

Three quarters of the Kuliyapitiya respondents receive transfers electronically via bank partnerships with MTOs or exchange houses. As migrant families select the bank which has a correspondent located most conveniently to the sender, the breadth of a bank's correspondent networks is a key factor in its ability to attract remittance customers. Of the six major commercial banks, the Bank of Ceylon and the People's Bank have the most extensive correspondent networks (including, in the case of the People's Bank, an exclusive partnership with the global remittance market leader, Western Union), and between them accounted for more than 60 per cent of bank-based transfers in Kuliyapitiya. Banks should be encouraged to expand their exchange house correspondent networks, particularly in low-density areas which are poorly served by existing arrangements. Increased competition in lower-volume corridors is likely to reduce costs, given the very high profit margins of MTOs (estimated in one case to be between $8-9 per remittance transaction) which indicate considerable latitude for fee reductions (World Bank 2006).

Post-office based services

Sri Lanka Post (SLP) maintains extensive rural outreach with over 4,700 rural branches, but accounts for less than 1 per cent of the remittance market. International money orders paid by SLP) are cost-competitive, but like bank drafts are subject to long delays and risk being lost in transit. SLP suffers from weak management information systems, outmoded technology, and widespread negative publicity including stories of insufficient cash on hand. A recent agreement between SLP and the United Emirates postal service to exchange postal money orders electronically, incorporating technical assistance from United Emirates Posts in training and software installation, may serve as a prototype for similar agreements with other major destination countries (Lasagabaster et al 2005). In addition, the GoSL should examine the feasibility of linking Sri Lanka with the Eurogiro international payments network, a coalition of banks and postal services which provides reliable transfers between 60 countries in Europe, Africa and Asia for a fixed cost of $5-8. While its membership includes significant destination countries such as South Korea, Italy, Greece and the Anglophone countries, neither Sri Lanka nor the Middle East countries are members.

MFIs in the funds transfer market

Microfinance institutions (MFIs) in Africa and Latin America have developed successful money transfer services through partnerships with banks, MTOs and postal networks, but are prevented by foreign exchange licensing restrictions from entering the money transfer market in Sri Lanka. The Central Bank is cautious about the extra supervision and monitoring responsibilities that would result from issuing forex licences to small MFIs, few of which possess the expertise, overseas networks, liquidity reserves and technological infrastructure required for successful foreign exchange operations. There is however a case for broadening outreach and increasing competition in the transfer market by expanding the licensing regime to include large, well-established MFIs which possess the capability to handle money transfers, and the GoSL should work with selected MFIs to examine the feasibility of MFI-based money transfer services. If the issuing of full forex licence to MFIs is deemed inappropriate, consideration could be given to licensing MFIs to operate as sub-agents for banks.

Informal funds transfers

Around 10 per cent of respondents used informal funds transfer (IFT) arrangements. Two jeweler businesses in the town centre act as hawala agents with correspondents in Saudi Arabia and the Gulf states[3]. Other households receive irregular payments of foreign currency brought home by a relative or friend acting as an informal courier, collecting cash from a number of senders. In most cases the senders were undocumented migrants: some had initially arrived legitimately but left their original jobs, thereby invalidating their visas; others were extra-legal migrants to Italy and other OECD countries. Undocumented senders are excluded from formal transfer systems by 'know your customer' provisions in sending countries and also by Sri Lanka Banking Act and the Exchange Control Act, which stipulate that the overseas correspondents of licensed foreign exchange dealers must collect personal identification and visa particulars from the sender's passport. At the other end, similar particulars are recorded from recipients. Receiving foreign exchange dealers are required to report the particulars of senders and receivers within 24 hours for transactions above $5,000, and within a week for smaller transactions.

IFTs are estimated to account for between 13 and 45 per cent of total remittances to Sri Lanka (Lasagabaster et al 2005, Puri et al 1999). Anecdotal evidence suggest that the northeast, where formal financial infrastructure is limited by the civil conflict, probably accounts for the largest share of IFTs, while in the southwest most IFT senders are undocumented migrants (Sirisena 2006). Thus, it appears that IFTs are a default option: where bank-based transfer channels are available, people use them.

Where satisfactory identification can be produced, there is no policy basis for exclusion from FFT systems on the basis of irregular immigration status. The Consular Identification Card (CIC), issued by the US government to Mexican nationals, is a reliable means of identification which can be used to open US bank accounts without disclosure of migration status (World Bank 2003). A similar arrangement for expatriate Sri Lankans would encourage undocumented migrants to use formal channels, but requires bilateral support and is likely to meet opposition from governments in host countries. A more feasible option is to improve the quality of jobs through regulation of recruitment practices and working conditions abroad, thereby reducing the incentive for workers to breach visa conditions.

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3. The hawala system is a fast, low-cost informal cross-border funds transfer method based on extensive transnational networks and relationships of trust between small business operators. It widely used throughout the Islamic world and in South and East Asia. The sender hands cash to a hawala agent, typically a shopkeeper or other small business owner, who contacts a

correspondent agent in the recipient's village. The correspondent pays the recipient, and the two agents settle accounts later.

4.2 Encouraging savings

The significant advantage of formal funds transfers (FFTs) is that unlike informal channels, where transactions are restricted to transfers of cash or goods, money transferred through banks can usually be linked to deposit facilities, with important benefits for migrant families and communities. For migrant families, a bank account reduces the safety risks of holding cash and enables the accumulation of savings, thereby reducing vulnerability to shocks, supporting asset-building and building creditworthiness. In addition, remittance savings which are mobilised for investment can generate local economic growth. The developmental advantage of FFTs depends on the extent to which remittance flows are captured as savings. If remittances are collected entirely in cash, the difference between formal and informal transfer methods from a developmental perspective is reduced to a question of their relative costs and risks.

The financial inclusion of migrant families, in the sense of providing broad-based access to basic banking services, is a necessary precondition for channeling remittance flows into savings, but by itself it is not sufficient. Most of the Kuliyapitiya respondents are 'banked' in the minimal sense of possessing savings accounts, but vary widely in their use of financial services. Financial sophistication is closely correlated with income. Q4 and Q5 respondents typically possess strong planning and management skills and use a variety of financial products based on informed choices. By contrast, many Q1 and Q2 households are weakly integrated into the formal financial sector and have minimal engagement with savings and cash management services. Remittances are typically the only significant component of income which is channeled through the banking system, as the local income sources available to the poor are usually cash-in-hand and are spent rather than banked. Many had little or no contact with banks prior to the migrant's departure, and used their bank accounts solely to receive miniscule transfers from the state-run *Samurdhi* welfare scheme, which pays between $3 and $6 per month to eligible households.

Savings rates are generally low: fewer than 20 per cent of respondents save more than $100 per month; and 37 per cent, including 21 per cent of those who use bank-based transfer services, convert their remittances immediately into cash and do not save at all. Not surprisingly, the propensity to save is closely linked with income, with Q1 and Q2 households comprising over 80 per cent of the non-savers. In Kuliyapitiya, existing transfer-plus services respond well to the needs of middle- and high-income migrant families, but there is a need for product research, development and marketing to address barriers of access, affordability and information faced by low-income rural clients. Financial education and counseling is a priority, as many low-income respondents have limited financial management skills and a poor understanding of available financial services and their potential benefits.

Promoting access to banking services

With the exception of the northeast, where access to banks is limited by the longstanding civil conflict, Sri Lanka has largely overcome the financial exclusion of low-income remittance recipients, a persistent problem in Africa and elsewhere in South Asia. The southern and western regions of Sri Lanka, which contain 86 per cent of the population, are generally well-supplied with formal financial infrastructure. The national bank account-to-per-capita ratio of 1:6 is high in comparison with other developing countries (Lasagabaster et al 2005), a result of efforts by Sri Lankan banks over the last 15 years to broaden their rural client base by overcoming geographic, administrative and cultural barriers which have traditionally restricted outreach to low-income rural populations. With low minimum balance requirements and limited paperwork, the opening of an account is now a simple matter. Over 3,500 bank branches are spread across the country, and most households are within 15 kilometers of a bank.

Convenient at-call facilities which enable migrant families to keep their excess cash in the bank, making small withdrawals as needed, are among the most important transfer-plus services. For those with limited capacity to save, bank accounts are a means of storing money to be called upon when needed. Low-income families who rely heavily on remittances for day-to-day consumption require services which assist them to manage their money effectively. While the developmental benefits of using banks as storage rather than savings facilities are relatively modest, they reduce the risks and potential for wastage associated with unnecessary handling of cash, and encourage the habit of saving. Fewer than half of the Kuliyapitiya respondents visit the bank more than once a month (Table 14). Limited access discourages sound financial management, as those who rarely visit the bank are more likely to collect their remittances entirely in cash.

Table 14: Frequency of visits to bank or ATM, January 2006

Number of visits	Per cent
None	8.3
One	52.8
2-5	33.3
More than 5	5.6
Total	**100.0**

The Kuliyapitiya town center is well-served with branches of the six major commercial banks, but problems of physical access were reported by respondents from outlying villages who found it difficult to go into town during banking hours. Public transport services are limited and for those located some distance from a bus route, the trip into town takes up to two hours each way. Sri Lanka has over 1,100 ATMs which are capable of handling deposits and withdrawals, and ATMs are located outside the branch offices of the Kuliyapitiya banks; however, public information campaigns have not kept pace with the introduction of ATM-based technology. Well-educated urban dwellers are regular users of ATMs, but they are regarded with suspicion by older, poorer, more conservative rural clients, who prefer to conduct their transactions in person. Some feared that they would lose their savings if they forgot their PIN, made a mistake while operating the machine or lost their debit card. In addition, many pointed out that the machines were frequently out of order, a significant disincentive for those who make the long bus trip into town. Concerns were also expressed about suspicious characters reported to loiter around bank entrances after-hours. Strategies to encourage the use of ATMs should include information campaigns targeting rural, less educated clients, improved security arrangements where necessary during non-banking hours, and the improvement of physical infrastructure to reduce the frequency and duration of breakdowns.

Savings and cash management services

Sri Lankan banks offer a standardized range of savings products, including regular savings accounts, investment accounts and term deposits, business at-call accounts and foreign currency accounts. Regular savings accounts are widely accessible, with a minimum balance between $5 and $20, and are linked with discounted medical insurance, life insurance and children's scholarship schemes. Most banks offer a small interest premium to registered migrants over and above the standard annual rate of around 5 per cent. Nearly all of the banked respondent households held joint savings accounts in the name of the migrant and the chief recipient. Three quarters had regular savings accounts only, while the remaining 25 per cent used a combination of regular savings, investment and foreign currency accounts. Q4 and Q5 households demonstrated greater financial sophistication than lower-income respondents, with a higher propensity to use electronic banking facilities, distribute remittances between a joint account and a separate account held by the migrant, and hold offshore accounts.

Since 2004 Sri Lanka's inflation rate has climbed sharply and in 2007 stands at over 17 per cent, underscoring the advantages of holding savings in a foreign currency. Non-resident foreign currency (NRFC) accounts are available to expatriate Sri Lankans and returnees, and in addition to providing a hedge against inflation, are exempt from a 10 per cent withholding tax which applies to interest on rupee accounts, and offer interest rates which vary with currency denomination but are significantly higher than the rates offered on rupee accounts. Minimum balance requirements vary between banks, ranging from $25 to $500. NRFC accounts were popular with Q4 and Q5 households but are rarely used by lower-income respondents, due to their high minimum balance requirements, restrictions on withdrawals and a generally poor understanding of the benefits of foreign currency holdings. With term-dependent interest rates varying between 13 and 19 per cent, rupee investment accounts and term deposits struggle to keep pace with current inflation rates, and with initial deposit requirements equivalent to $1,000, are not attractive to most migrant households.

As inflation creates a disincentive to remit among high-income households and erodes the savings of low-income households which have limited ability to protect their financial assets. control of inflation is clearly a paramount policy priority. Consideration should be given to removing the 10 per cent withholding tax on rupee accounts in which remittances are deposited. Financial institutions seeking to encourage low-income migrant families to save could consider offering premium rates for foreign exchange conversions to clients who meet predetermined savings targets, linking remittance savings with loan eligibility, or introducing adaptations such as reduced minimum deposit requirements which broaden the attractiveness of NRFC accounts.

Savings accounts enable access to additional products with considerable potential value for low-income households, and financial institutions should be proactive in researching, developing and marketing pro-poor cash management services. Direct debit arrangements which enable the payment of bills in monthly installments assist in smoothing income. Electronic cash management services save time and minimize risk by reducing unnecessary handling of cash, and in addition enable migrants to pay bills directly by debiting their domestic accounts, thereby increasing their control of their income. Sri Lankan banks have introduced a variety of cashless technologies, including phone and internet banking, credit cards, EFTPOS services and bill-paying services. By the end of 2005 nearly 9,000 Sri Lankan businesses offered EFTPOS facilities; however, they remain largely restricted to Colombo and the major tourist resorts, and electronic bill-paying services are offered only by the major public utilities. The concept of cashless payments has yet to gain widespread acceptance from businesses and the general public outside Colombo and was poorly understood by most of the Kuliyapitiya respondents, indicating a need for more intensive marketing.

Promoting financial literacy and sound financial behaviour

An understanding of available financial options and their relative merits assists in overcoming common misperceptions and social conditioning which may restrict use of formal financial services, stimulates competition by enabling clients to select the most appropriate products, and reduces vulnerability to fraudulent or exploitative practices. There is a need for financial education to assist low-income migrant families to make informed choices about remittance transfers, savings and cash management services, and to manage household budgets. Poor financial management by recipients, many of whom are unaccustomed to large amounts of cash-in-hand, was cited as a significant problem by respondents and returnees. Men in particular are often unfamiliar with the management of routine household expenses, traditionally a woman’s task. Most low-income recipients felt that their household finances could be better managed, and that they lacked important information and skills in this regard. All returnees and many recipients expressed strong support for pre-departure financial advice to promote household consensus on financial goals and strategies for achieving them, and to assist families in preparing savings and spending plans.

In a context of unequal power relations between female senders and male recipients, the limitations of education and product improvement strategies need to be acknowledged. It is not uncommon for a migrant to find upon her return that the money she sent home has disappeared or been used for a purpose that she had not been told about or did not support. This may occur as a result of poor money management by recipients. In other cases, however, where migrants and recipients disagree on how the money should be spent, the migrant overseas has little control over household spending decisions, especially if she is a woman sending money home to a husband or son. Women are socialized to regard their earnings as household rather than personal property; and those who transgress accepted norms face ostracism from their relatives upon their return and not uncommonly, beatings or abandonment by their husbands. Some women reserve a portion of their remittances to deposit in personal savings accounts, but face considerable cultural pressures against it, and tend to do so only with the support of their families. By themselves, financial education and improving access to banking services will not address the culture of dependency of remittances and wilful mismanagement of funds that prevails in some low-income households. Such strategies need to be part of a broader program aimed at empowering women and strengthening their control of their incomes.

4.3 Creating an enabling environment for business development

A strong local economy increases the opportunities for productive investment of remittances, creating opportunities for business development which enable low-income migrant households to generate a surplus over and above their consumption needs, and reducing the risks of remittance dependence[4]. In addition, improved employment opportunities at home provide the poorest households with a viable alternative to migration. With the concentration of manufacturing and service industries around Colombo, and the declining role of the public sector as a rural employer, the small business sector is key to rural job creation.

The flow of remittances into rural areas has created a vast new pool of potential investment capital and strengthened demand for locally produced goods and services.

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4. Communities with high remittance dependence are at risk of compromising long-term sustainability through under-investment in local productive sectors and by increasing local consumption faster than production. In addition, remittance dependence increases the risks to households and the local economy from economic shocks or changes in immigration policy in destination countries. Sri Lankans face significant destination risk from regional instability in the Middle East. In a recent example, several thousand Sri Lankan workers were repatriated from Lebanon during the conflict with Israel in 2006. Most were repatriated to Sri Lanka. An additional source of risk arises from the extra-legal status of many Sri Lankan migrants in EU countries such as Italy. In the current political climate it is conceivable that public anti-

immigration sentiment and security concerns could lead to a tightening of immigration policy and more strongly enforced border protection, which in turn could lead to forced repatriations.

However, there has not been a commensurate expansion in local business activity, due in large part to a poor investment environment. Kuliyapitiya migrant families with funds to invest tend to prefer real estate to business investment, supporting findings elsewhere that business investment takes a low priority in most migrant-sending households (see for example Shaw 2005, Gamburd 2003, Brochman 1992). The first savings priority for most respondents is to improve their existing family house or build a new one; once that is complete, many higher income families build second and third houses as wedding gifts for their children. These may remain unoccupied for many years until their children marry. With very limited rental markets and land tenure systems which impede freehold transfers, rural real estate is an unprofitable investment. Thus, the tying up of resources in housing reflects a lack of confidence in the business environment.

Poor transport and power infrastructure, credit constraints and skills deficiencies discourage rural business activity, and inflation and ongoing political instability discourage local enterprise. The encouragement of remittance investment should be part of an integrated policy response aimed at accelerating rural economic growth through the control of inflation, investment in infrastructure and human capital, institutional support for rural small business development and encouraging the regionalisation of larger-scale manufacturing industries. Improving the quality of governance is of paramount importance. The government's mishandling of relations with the Tamil northeast in the wake of the devastating tsunami of 2004 is largely responsible for the resumption of the civil conflict after a three-year ceasefire, compromising political stability and diverting much-needed resources from development. Endemic corruption, a high crime rate and weak rule of law, and political interference in administrative processes contribute to uncertainty and are a powerful deterrent on investment.

The proportion of Kuliyapitiya respondents engaged in microenterprise activities is similar to that of the wider Kurunegala population, at 34 and 37 per cent respectively. However, there were significant differences in the socioeconomic distribution of microenterprise-owning households. Sri Lankan microenterprises are typically low-value activities, and microenterprise ownership is concentrated at the low end of the income spectrum (Shaw 2004, Tilakaratna et al 2005), but in Kuliyapitiya the distribution was reversed: more than half of the microenterprises were operated by the richest 40 per cent (Table 15). Moreover, among households which were not operating a business at the time of the survey, plans to start or reopen a business following the migrant's return were positively correlated with income; and poor households were more likely than others to close or scale back business activities following the migrant's departure. The evidence thus suggests that remittances may support increased microenterprise activity in high-income households by providing funds for investment, but have the opposite effect in low-income households through the displacement of pre-existing income sources.

Table 15: Microenterprise income

Income quintile	Per cent of households operating microenterprises	Mean net microenterprise income ($US per month)
1	24.1	32
2	16.7	52
3	35.5	77
4	44.8	108
5	51.7	187
Total	**34.4**	**108**

Several middle-income women reported scaling back their businesses due to difficulties encountered while their husbands were away. Due to social norms which restrict their mobility and interactions with men outside the family circle, they are unable to conduct many routine economic transactions or to enforce contracts and recover debts without assistance from male relatives. Women continue to run low-value semi-subsistence enterprises such as poultry-rearing while their husbands are away, but higher-level business activity tends to be confined to households where an adult male is present. Some women expressed frustration at having to close down successful microenterprises: although they would have preferred to put remittances to work in their businesses, they felt that they had no option but to deposit the money in savings accounts to await their husbands' return.

About 20 per cent of the Kuliyapitiya households operate well-established businesses with net earnings of $100 or more. Many of these activities employ non-family labour. They are concentrated in high-income urban and peri-urban households endowed with good access to infrastructure and markets, risk tolerance, skills, and a keen interest in developing their businesses. The microenterprises operated by the poor, by contrast, are usually marginal semi-subsistence operations such as backyard poultry rearing, with low earnings, limited growth prospects and little capacity to absorb additional investment. They contribute little to employment as they typically self-employment activities which operate on a part-time or seasonal basis. While there is scope for interventions aimed at adding value to survival-level enterprises, and at addressing gender inequities in business opportunities, it should be recognized that for the many low-income families which lack the means, inclination or aptitude for successful entrepreneurship, the principal benefits of business development programs may lie in the jobs created by higher-level businesses.

The remittance economy generates growing demand for non-traditional goods and services, creating opportunities in emerging areas such as the small but growing repair and maintenance industry for imported consumer durables. As people are reluctant to invest in untried activities that they know little about, most microenterprises continue to operate in traditional occupations such as petty trade and plantation agriculture, highlighting the importance of business assistance targeting new and potentially higher-earning activities. Some respondents were interested in investing their remittance savings in business but had little previous experience and felt that they lacked the necessary skills and information. Training in vocational and entrepreneurial skills, and assistance in identifying new technologies, markets and product niches can expand the horizons of prospective microentrepreneurs and enable them to make informed choices, thereby reducing the risks of investing in untried activities.

4.4 Supporting remittance investment in business development

Sri Lankan banks have developed several lending products, such as overdraft facilities linked to NRFC accounts, which target high-end remittance customers. In addition, the government subsidises a number of lending products targeting migrant families and administered by the state-owned banks. These include a pre-departure loans scheme backed by the state insurance corporation (see section 4.5 below), and low-interest loans administered by the state-owned banks for self-employment (up to $3,000) and household items (up to $500). In practice, most migrant families find it exceedingly difficult to obtain bank credit due to highly restrictive loan eligibility requirements, which typically include the production of two guarantors 'of good standing' in regular salaried employment with incomes above a specified level, an NRFC account balance of $500 or more maintained for twelve months prior to the loan issue, and immovable collateral, usually in the form of a land title. Few respondents can produce freehold land titles, in part because much of the land around Kuliyapitiya, as in other areas of rural Sri Lanka, is held under customary communal tenure or long-term government leases.

There is a significant gap in the market for bank credit to migrant families. Local bank managers estimate that between 10 and 15 per cent of remittance customers in the Kuliyapitiya area are acceptable credit risks, an estimate supported by the Kuliyapitiya data: only 14 respondents (9 per cent of the sample) have ever taken a bank loan. Low-income households typically borrow small sums for routine necessities such as education and medical expenses and to support consumption. Pre-departure costs are a significant outlay, and many expressed a preference for bank loans for this purpose, but otherwise showed little interest in bank credit, as they felt that their regular requirements for small, short-term sums are adequately met by their existing sources of credit in the form of pawn-shops, moneylenders and informal village-based savings and credit groups known as *seethus*. The mismatch between credit demand and supply is most pronounced among middle and high income respondents, who seek loans of $5,000-$20,000 to finance land purchases, housing improvements and business investments. Neither banks nor informal credit providers meet their needs, as most of them do not meet the eligibility criteria imposed by the former and their borrowing requirements usually exceed the maximum loans provided by the latter.

Banks take the view that without strict collateral and guarantor requirements, loans which rely on remittance installments incur high risks from irregular payment of wages, early returns, and difficulties in recovering loans from overseas borrowers. Although there is scope for increased flexibility in lending procedures which would enable loans to some remittance customers with minimal additional risk, it must be acknowledged that the effects of such reforms as the banks may be willing to introduce will be limited to the high end of the market. Banks could broaden their standard eligibility requirements to allow remittance streams to be considered in credit evaluations where a customer has a substantial savings balance and a history of stable remittance flows. Where customers satisfy other eligibility criteria, the onerous guarantor requirement could be replaced with character references from community leaders. With evidence that migrants demonstrate better repayment rates than recipients (Rhyne 2004), banks could consider issuing loans directly to migrants and deducting installments from remittances. Evidence of legality and adequacy of overseas employment could be taken into account, for example, the production of valid travel documents and employment contracts arranged by reputable migration agents known to the bank.

In Kuliyapitiya, the high cost of informal credit has contributed to problems of chronic indebtedness in some low-income households, while at the upper end of the income spectrum, the small, short-term loans offered by informal credit providers do not meet the borrowing requirements of those who are unable to obtain bank loans. Revised lending policies which take remittance streams into account may broaden access to bank loans at the high end; however, in the absence of affordable microfinance, most migrant families will continue to rely on high-cost informal lenders. In Latin America, Eastern Europe and South East Asia, microfinance institutions (MFIs) have begun to target migrant families, introducing money transfer services and mobilising remittance savings (Fernando 2003). Although most Sri Lankan MFIs include migrant households in their client bases, they have been slow to enter the remittance market, however, due in part to regulatory restrictions which prohibit them from mobilising deposits and handling foreign exchange transactions.

In promoting remittances for development, MFIs have two advantages. First, they possess a demonstrated ability to reach poor, remote clients with useful, accessible and cost-effective financial services provided by village-level branch networks. Many Sri Lankan MFIs offer a variety of credit products which are suitable both for low-income families seeking an alternative to high-cost informal lenders, and for middle- and high-income clients seeking finance for land purchases or business investment. Second, unlike commercial banks, which are driven by market imperatives to re-route rural household savings towards more profitable urban and large-scale investments, the local and pro-poor mandates of most MFIs encourage the reinvestment of savings in the rural migrant-sending communities which produce them.

While financial institutions can and should offer remittance investment products aimed specifically at migrant households, recipients and returnees are not necessarily the best entrepreneurs. A supportive framework for financial intermediation will increase the economic impacts of remittances by channeling remittance deposits to the most promising local entrepreneurs, who may or may not be migrants themselves. In the interests of transparency and certainty, regulatory ambiguities relating to deposit-taking and deposit mobilisation by non-bank institutions must be resolved. Although Sri Lankan MFIs have extensive outreach, with around 3,500 branches in total, and provide savings and loan services to over a million households, their legal status with respect to financial intermediation is ambiguous (Sirisena 2006). The Microfinance Institutions bill, due to be enacted in 2007, is a welcome development as it will codify a framework for the regulation and supervision of MFIs, with differential degrees of supervision according to size. Close monitoring and regulation of deposit-taking activities is appropriate for small NGO-led MFIs, many of which have limited capacity for financial intermediation. On the other hand, Sri Lanka has several large, well-established MFIs which have been successfully mobilising members' deposits for nearly two decades, and the removal of restrictions on deposit-taking by successful national organisations will provide a legal basis for a *de facto* reality.

4.5 Financing pre-departure costs

Households finance the migration by borrowing from various sources, pawning assets, accepting advances from migration agents or with their own savings (Table 16). The Sri Lanka Export Credit and Insurance Corporation (SLECIC) administers a government guaranteed low-interest pre-departure loans scheme to cover migration agency fees and other pre-departure expenses up to $500. The loans are issued by the state-owned commercial banks. Take-up rates are low, as most migrant families are unable to meet loan eligibility requirements which include two guarantors approved by SLECIC, one of whom must be a family member. The low outreach of the SLECIC scheme is indicative of the broader failure of formal credit markets to reach most migrant families. Between 1997 and 2001 only 798 SLECIC-backed pre-departure loans were issued (Dias et al 2004). There is strong demand for pre-departure bank loans, with nearly all respondents indicating that they would use them if available, but only six of the sample households were successful in obtaining a SLECIC loan.

Non-poor households tend to use their own savings or take interest-free loans from friends or relatives, while poorer households use higher-cost funding sources. Women departing for the Middle East commonly take advances from migration agents, which are repaid via wage deductions paid directly by the employer to the agent. This method came in for strong criticism from returned housemaids, who complained that they were not shown payment records and were unable to keep track of repayments. Several returnees claimed that their employers had continued to withhold part of their pay long after the agent's debt had been cleared. Migration agents who issue cash advances to workers should provide a certified loan agreement signed by the agent, employer and employee stating the amount loaned, interest rate and repayment schedule.

Traditional sources of finance for the poor, such as bank-based pawning facilities and informal savings and credit groups (known as *seethus*) are sometimes used as supplementary sources of pre-departure finance, but are not sufficient on their own to cover the full costs of migration. Moneylenders, while highly accessible, charge very high interest rates (6-15 per cent monthly), and are therefore used principally for small, short-term loans rather than the larger sums required to cover migration costs. One microfinance agency operates in the region but has limited rural outreach, and only three respondents reported financing the departure with microcredit.

Table 16: How households finance migration

Major source of finance	**Households (per cent)**
Loan from friends/relatives	28.8
Advance from migration agent	21.6
Savings	20.9
Loan from moneylender	13.1
Bank loan	3.9
Other n.e.s*	11.8
Total	**100.1**

* Microfinance loans, pawning assets, loans from *seethus*

The repayment of loans or advances typically absorbs more than half of a housemaid's pay for the first twelve months, offsetting the positive impacts of migration until the debt is repaid, and where the migrant returns early, can result in a net loss from the migration. Currently, the options of poorer households are limited to high-interest informal sector loans or reliance on non-transparent 'advances' from migration agents. As the settlement of migration-related debt significantly reduces the economic value of migration in low-income migrant households, the provision of accessible, affordable pre-departure finance is a policy priority.

4.6 Registration and migrant incentive schemes

Remittances are tax-free, a policy consistent with Sri Lanka's narrow income tax base which excludes most of the domestic workforce. In addition, the government offers a duty-free allowance of $5,000 for returning Sri Lankan citizens, receivable each time they enter the country. In-kind remittances are more likely than cash remittances to promote asset-building, especially when they are used to purchase capital goods, and the GoSL should consider broadening the duty-free provision to include all imports of capital equipment by returning migrants. The tax exemption and duty-free allowance are available to all migrants regardless of their registration status; other migration incentive schemes, discussed below, are restricted to registered migrant workers.

Sri Lankans departing for employment abroad are required to register with the SLBFE prior to departure. Workers recruited by licensed migration agents are automatically registered, while those who arrange their departures independently are required to produce their travel documents and pay the registration fee at an SLBFE office. Although non-registration curtails access to assistance programs and dispute settlement processes, 39 per cent of the Kuliyapitiya migrants opted not to register. The most commonly cited reason for non-registration was the fee charged by the SLBFE, which varies between $90 and $130 according to the expected overseas salary. Many respondents also cited the cost and difficulty of traveling to an SLBFE branch office in order to lodge their registration applications. Respondents were justifiably skeptical about the benefits of many of the government programs designed as incentives for migration, and there is a widespread perception that the benefits of registration do not justify the costs.

Additional incentive programs which are nominally available to registered migrants include free medical treatment for their families, cash and in-kind grants to support children's education, life insurance and a government guaranteed pre-departure loans scheme. In practice, these programs are poorly publicized, poorly funded and impose restrictive conditions, severely limiting their utility. Nationally, take-up rates are low, with fewer than 8,000 children receiving education assistance in 2004 (SLBFE 2004). None of the Kuliyapitiya respondents had accessed the medical or education assistance schemes, and the majority were unaware of their existence.

The insurance scheme is administered by the state-owned Sri Lanka Insurance Corporation (SLIC) and funded by the SLBFE, which allocates $5 from each registration fee. It covers death, illness and disabilities incurred overseas, but does not cover loss of earnings due to breach of contract or malfeasance on the part of employers or migration agents. In 2004, 5,000 insurance payments were issued, with an average value of $100. The program is widely criticised by advocacy groups, who report that claimants face long delays and onerous proof requirements, including the production of a report from the overseas doctor who treated the initial condition. Other criticisms include limited coverage, as the policy expires after 24 months, thereby excluding those who have been overseas for longer periods; and claims that the stipulated maximum payments (of up to $2,000 for total disability and $3,000 for death) are too low to cover repatriation costs, medical treatment and loss of earnings. The scheme appears to be unsustainable in its present form, with claims in the first quarter of 2007 amounting to $457,000, exceeding premiums of $264,000 collected over the same period.

On paper, SLBFE-linked educational and medical assistance schemes are universally available to the families of registered migrants, but low-take-up rates indicate a combination of weak public information dissemination, practical barriers to access and limited relevance to their target group. In their present form, they represent a waste of resources as their outreach is extremely limited and they do little to encourage migration. Existing schemes should be rationalized. The resultant savings could be reallocated to the insurance scheme. The insurance scheme should be urgently reviewed with a view to restoring its financial viability, improving its accessibility to claimants, and establishing a payments schedule which reflects the financial costs of accidents, death and illness to migrant families.

4.7 Regulation of recruitment practices

Migration agents play a key role in recruiting and placing workers and bear a large share of the responsibility for unsatisfactory placements, and there is a need for improved regulation of recruitment practices and improved access to information for prospective migrants, including measures to support migrations arranged through informal networks. Sri Lankan migration agents operate as the representatives of foreign recruitment firms, matching local job applicants with vacancies obtained from their overseas principals. Historically, they derived their income from commissions paid by overseas recruiting firms, but competition from other Asian labour exporters has reduced their bargaining power, and they now supply most categories of unskilled labour without charging any fee to their overseas principals, instead recovering their costs directly from the migrant. They receive an additional commission from the SLBFE, which returns 70 per cent of the migrant registration fee to the recruiting agent. Margins in the industry are tight and turnover is high: 20 per cent of licenses each year are granted to new and inexperienced agencies, with adverse effects on professional standards.

Malpractices by migration agents and employers impact directly on remittances by depriving workers of their pay entitlements and contributing to early returns. Although migration agents are required to observe blacklists of employers and overseas recruiting firms compiled by the SLBFE, the inadequate screening of prospective employers remains a significant problem. Of particular concern are reports that some overseas agents engage in trafficking, shuttling housemaids between employers for 3-4 month periods without pay and 'selling' them to other agencies. Other reported malpractices include the charging of excessive recruitment fees, double-charging the migrant for costs already paid by the overseas employer, theft of wages, misrepresentations to prospective migrants regarding pay and work conditions, and refusal to assist in mediation and repatriation (International Organisation for Migration 2000, Kottegoda 2004, Dias et al 2004).

Migration agents are nominally subject to rigorous licensing requirements, including police checks, production of bank guarantees and annual licence reviews, but in practice the effectiveness of screening processes is compromised by corruption on the part of some SLBFE officials (Sunday Observer 2005) and a supply-driven culture within the Bureau. With only four legal officers, the Bureau's enforcement division lacks the resources needed to monitor and regulate the industry. Moreover, a loophole in the licensing regulations allows licensed agencies to employ sub-agents who are not themselves licensed and therefore not subject to the SLBFE's screening processes. Licensed agents are not liable for misrepresentations made by the sub-agents they employ (Navaratnam 2006). It is estimated that up to 10,000 sub-agents operate in rural Sri Lanka (Mughul et al 2005). Finally, an unspecified number of illegal agents operate entirely outside the licensing system, often presenting themselves as legitimate operators to uneducated prospective migrants, who may not become aware of their unregistered status until they apply to the SLBFE for assistance.

Registration with the SLBFE confers access to the Bureau's dispute settlement process for complaints regarding migration agents and employers. SLBFE statistics indicate that over 8,000 complaints were lodged in 2004 (SLBFE 2004). However, many incidents go unreported, as the dispute settlement process does not cover complaints relating to misrepresentations made by sub-agents. In addition, a requirement that complaints must be lodged in Sri Lanka imposes a practical obstacle as complaints lodged after the migrant's return are difficult to investigate and prosecute retrospectively, particularly when the agent concerned has gone out of business. Where an agent refuses to settle, losses sustained by a migrant are only recoverable where malfeasance is proved in a court of law, a complex, costly and time-consuming undertaking which is beyond the means of most families. The SLBFE has the power to deregister agents who refuse to settle complaints or are the subject of repeated complaints, but rarely uses it in practice: in 2005 there was not a single case of licence non-renewal.

The SLBFE's regulation, monitoring and enforcement functions need to be adequately resourced, and sub-agents employed by licensed migration agents should be subject to mandatory licensing requirements. Other policy options include spot audits of agency operations, the public identification of those who have engaged in fraudulent activities or placed workers with abusive employers, and an upper limit on the fees that migration agencies can charge their clients. Reputable migration agencies should be rewarded with positive incentives such as tax incentives, the extension of licensing periods and inclusion in a public list of recommended agencies. The SLBFE should review dispute settlement processes with a view to making them more accessible, and the requirement for complaints to be lodged within Sri Lanka should be removed. By providing information about prospective employers, informal networks greatly reduce the costs and risks of migration. The SLBFE should encourage independently-arranged migrations by simplifying registration processes.

4.8 Labour protection and welfare

The available research indicates that violations of labour rights are significant risks for Sri Lankan workers abroad. While abuses occur in all job categories and destination countries (see for example Human Rights Watch 2004, Young 2004, d'Alconzo et al 2004, Amnesty International 2007), the available evidence indicates that housemaids in the Middle East are more at risk than other workers. Men are typically employed in factories or on construction sites, and although their working and living conditions are often dirty and dangerous, they are afforded some protection by local labour codes and their membership of a group. Female domestic workers are particularly vulnerable to exploitation because they work in a completely unregulated environment and in isolated conditions without access to information and social support networks.

The SLBFE received over 8,000 complaints relating to employment conditions in 2004. Over 98 per cent of complaints originate from the Middle East. Saudi Arabian employers were widely perceived to be the worst offenders by the Kuliyapitiya respondents, a perception supported by SLBFE data showing that Saudi Arabia accounts for 46 per cent of complaints, followed by Kuwait (16 per cent) and Lebanon (12 per cent). Women were over three times more likely than men to lodge complaints, and over 70 per cent of complaints came from housemaids. Other research indicates that SLBFE statistics significantly understate the incidence of abuse, with findings that between 6 and 10 per cent of female migrant workers experience sexual violence, and over 20 per cent experience work-related injuries (Suroor 2003, Samath 2003). Other commonly reported complaints include the withholding of pay, excessive working hours, confiscation of passports, refusal to provide the fare home on completion of a contract, and limitations on social contacts and mobility outside the workplace (Kottegoda 2004, IOM 2000, SLBFE 2004, Jureidini 2002). These findings are consistent with data obtained from the Kuliyapitiya sample, which indicated that between 20 and 30 per cent of housemaids are not paid their full entitlements, and around 10 per cent experience physical abuses ranging from excessive working hours to work-related injuries, assaults and rape. Nearly all who reported problems stated that the economic value of the migration was adversely affected, either through non-payment of wages or the premature termination of contracts. Where a migrant returns early, the settlement of pre-departure debt may result in a net financial loss from the migration.

In negotiations with labour-receiving countries, the Sri Lankan government has been extremely cautious in its approach to worker protection, arguing that that insistence on enforceable minimum standards will weaken Sri Lanka's position in a fiercely competitive market. The GoSL has been strongly criticized for paying insufficient attention to the welfare of its citizens abroad and failing to investigate abuses, and faces pressure from an active and vocal media and migrant advocacy network to address concerns regarding the treatment of migrant workers (see for example Peiris 2007, Smith 2006, Wijesekara 2006, Waldman 2005, Fernando et al 2004).

Legislative and institutional frameworks in Middle East countries provide little protection for non-nationals, particularly for domestic workers, who are specifically excluded from national labour codes (Waddington 2003). Model employment contracts developed by the SLBFE specify minimum pay and conditions and are mandatory for use by Sri Lankan migration agents, but have been found to be virtually unenforceable abroad. Sri Lankan embassies are charged with the protection and welfare of migrant workers, including instituting legal action to obtain wages or compensation; however, consular services are difficult to access, particularly from outside capital cities, and consular officials have limited investigatory powers and are reported to be unsympathetic and unhelpful (Suroor 2003, Waldman 2005). The secondment of labour attaches to Sri Lankan missions in the Middle East has proved effective in providing services to some abused and runaway workers; however, due to financial and practical constraints, much of their assistance is confined to those who are able to establish contact with embassies (Dias et al 2004).

The GoSL has negotiated memoranda of understanding with the main destination countries, which provide a broad framework to address issues of common concern such as repatriation, but unlike formal bilateral agreements they are not binding, and they lack clear specifications for minimum labour standards and procedures for enforcement and dispute settlement (Dias et al 2004, Wickramasekara 2006, Waddington 2003). Since 2005 the GoSL has secured the agreement of most Middle East governments to increase the housemaid minimum wage from $100 to $150 per month, although Saudi Arabia, the largest single employer of Sri Lankans abroad, has consistently refused to sign. Moreover, the fact that unskilled Sri Lankans are still paid considerably less than comparable workers of other nationalities suggests scope for the GoSL to be more forceful in bilateral discussions (Jureidini 2002, International Labour Organisation 2004, Chammartin 2005).

4.9 Social support services for migrant families

Civil society organizations which support and protect migrants and their families can promote the development impacts of remittances through community development, information and advocacy services. The participatory practices and grassroots links of community-based NGOs are more effective than the top-down approaches of government agencies in communicating information, building social capital and promoting behaviour change. NGOs can reduce employment risks by communicating information to prospective migrants on job opportunities and reputable migration agents, remittance transfer options, their rights as workers and migrants, and avenues for seeking assistance; and provide support and advocacy for migrants in their dealings with the SLBFE and resolution of complaints against employers and migration agents.

NGOs can promote responsible and productive remittance usage through business development services for recipients and returnees, including skills training, business advice, marketing assistance and other; and are well-positioned to provide financial education and planning assistance for migrants an their families. Importantly, Sri Lankan NGOs have demonstrated an ability to empower women in their homes and communities (see for example Jeris et al 2006). Community-based organizations can assist in countering social norms that limit women’s control of their incomes by mobilizing peer pressure on wasteful or negligent remittance recipients, and building networks of female suppliers and customers to support women who seek to continue their business activities while their husbands are overseas.

For women, concerns regarding the welfare of family members left behind are a major disincentive to migration and cause of early returns. Children bear a disproportionate share of the costs of female migration, with above average rates of under-nutrition and weaker educational performance (Department of Census and Statistics 1995, Centre for Women’s Research 2005). High family breakdown and divorce rates are also a concern. A survey conducted by a local NGO found that 27 per cent of housemaid returnees reported negative impacts on family members including marital breakdown, alcohol abuse and depression (Samath 2003). There is some evidence that the cause-and-effect relationship is reciprocal, with some women migrating after a separation or to escape an unsatisfactory marriage (Patrick 1997). Families are, however, more likely to break up during the twelve months after return than at any other time, suggesting that many break-ups are in part a consequence of the migration itself (de Brujn et al 1992), a finding strongly supported by anecdotal evidence from respondents. Respondents and returnees expressed strong support for the establishment of community-based family support and child welfare services, and more than two thirds of respondents stated that they would use such services if available.

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