Economic Impact of Out-Migration from South Asia

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Abstract

Background: Labour migration has become a common phenomenon in globalised world. Almost all migrant workers send a portion of their earnings back home. This became a good source of foreign exchange for the home country. Therefore, most governments of South- Asian region promotes out-migration. Thus, it becomes essential to study the impact of migration on economies.The impact of external migration can be analysed on the basis of multiple factors. Available literature suggest, migration is beneficial to labour receiving country as well as labour sending country. Receiving countries encourage labour in flow to reduce shortage in workforce and skill level. On the other hand, incoming labour class retain their attachment with country of origin with a hope to eventually return home. Similarly, labour sending countries welcome remittance as a way to receive foreign exchange. Remittances are often a means to reduce balance of payment deficit.

Remittance through multiplier effect, contributes to the macro-economy of the sending country. The sending nation at macro level is influenced in terms of GDP, Job market, inflation and balance of payment. Remittance sent by migrants, act as an important source for growth in developing nation. There are research studies conducted on use of remittance for long term development. At the same time, a close study at micro level reflects increased demands of consumerism in the family of migrants. Significant changes in terms of expenditure can also be noticed on health care, education and living conditions. In addition to economic well-being, migrants and family members also enjoy higher social status.

Objectives: The primary aim of the paper is to evaluate the relation between migration and remittance on the economies of countries of South Asia.

Methods: The methodology adopted is doctrinal in order to evaluate micro and macro level impact on South Asian Economies. Doctrinal methodology has been adopted since there is published data available in the form of primary and secondary sources. The secondary sources include governmental websites of South Asian countries as well asreports published by international

agencies such as World Bank (WB). The collected data is analysed through a descriptive approach as aim is to describe impact on migrant, dependants of migrants and thereby economy of sending country.

Results: After East Asia, South-Asia is the largest remittance receiving region in the world. (World Bank). In 2016, the region received US$ 110 billion in remittance which increase respective remittance percentage of GDP extremely high for all countries in South-Asia. For example, 31.3 per cent of GDP in Nepal, 8.9 per cent in Sri Lanka, 7.1 per cent in Pakistan and 6.1 per cent in Bangladesh. India being the fore-runner of the region did not rely only on remittance and gained 2.7 per cent of its GDP in the same year. (World Bank). It is true that remittance from North-South migration is higher than South-South migration but small increase in income leads to significant consequences for poor. Following are the few results identified in the study:

- Migrants contribute to fill in the gaps of labour-market by contributing to the need of high and low skill labour. Emigration helps in increasing economic status of the nation by enhancing skills in migrants. Migration benefit are multi-faced like building entrepreneurship, improving market efficiency and many more (ILO 2010).
- Many developing nations have started utilizing migration as a means for curtail unemployment issue. South-Asian region is no exception.
- Out-migration is considered a way to reduce poverty and earn advantage of remittances. South-Asian countries are taking special measures for creation of special unit of remittance in central banks, revisiting licensing process for money transfer, liberalizing exchange rate and encouraging domestic banks to establish partnership with foreign banks where migrants have relocated in high numbers. Governments are also promoting families receiving remittance to invest in small and medium scale businesses to generate income in home countries.
- South-Asian outward migration is dependent on networking (network theory) which results in informal remittance channels. It becomes impossible to trace informally transmitted remittance. Informal means may appear to be lucrative but is also responsible for smuggling, money laundering and other forms of financial abuse. Governments of both receiving as well as sending countries are taking steps to curb informal channels of remittances.

Conclusions: The study demonstrates a positive impact of out-migration on the economies of South- Asia. Unskilled or semi-skilled labour of the region are lacking job opportunities in home country. Migration to foreign lands in search of employment proved to be double win for sending country. On one hand, the home economies are gaining out of remittance send back and on the other

hand, unemployment problem is also reduced. Moreover, migrant workers are coming back with enhanced skill-level thereby proving themselves more productive in future.But informal means of remittance transfer has become responsible for smuggling, money laundering and other forms of financial abuse. Anonymous transfer in hawala system, allow income of illegal activity to enter money market at ease.Addressing the financial risks associated with informal flow of remittances, World Bank (2003) suggested integration of informal channels with formal channels. In other words, it is almost impossible to put an end to the system because of its popularity, but it highly beneficial, if hawala brokers can be registered with central banks. In such scenario, transactions can be tracked and problems associated with the system can be avoided to a great extent.

Keywords:Labour Migration, Remittance, Impact, South-Asia, semi-skilled

1. Introduction

Labour migration has become a common phenomenon in globalised world. Almost all migrant workers send a portion of their earnings back home. This became a good source of foreign exchange for the home country. Therefore, most governments of South- Asian region promotes out-migration. International Monetary Fund (IMF) lays down the meaning of remittances as, "remittances include cash and noncash items that flow through formal channels, such as via electronic wire, or through informal channels", and can be sent by permanent or temporary migrant. (IMF, 2009). Available literature suggest, migration is beneficial to labour receiving country as well as labour sending country. Receiving countries encourage labour in flow to reduce shortage in workforce and skill level. On the other hand, incoming labour class retain their attachment with country of origin with a hope to eventually return home[i]. Similarly, labour sending countries welcome remittance as a way to receive foreign exchange. Remittances are often a means to reduce balance of payment deficit. Migrants remit through banking systems, friends or relatives or brings the money home personally. Countries not receiving remittance face problems related to increase labour costs. Shortage of labour can lead to reliance on imports and therefore worsening trade balance.

Remittance through multiplier effect, contributes to the macro-economy of the sending country. In spite of multiplier effect, impact of migration is both supported by positive as well as negative reports/studies. Empirical studies conducted by Orozco and Fedewa (2005), Siddiqui, Rizwana and Kemal (2002) show positive impact. On the contrary, Bohra and Massey (2009), Thieme and Wyss (2005) emphasized on negative effect at micro level. Migration is not only about remittance, it also impacts various other areas like expenditure, income etc. A close study at micro level reflects increased demands of consumerism in the family of migrants. Significant changes in terms of expenditure can also be noticed on health care, education and living conditions.[ii] In addition to economic well-being, migrants and family members also enjoy higher social status. Such families can enjoy consumer goods which are not affordable for other families in the area. Similarly, a returned migrant is considered a prestigious person as he has spent significant period in developed nation. Villagers and other members of the community look forward to such migrant for fresh ideas to improve standard of living in the community for others.

Similarly, migration also affect the sending nation at macro level by influencing GDP, Job market, inflation and balance of payment. Remittance act as an important source for growth in developing nation. There are research studies conducted on use of remittance for long term development. For example, Russell and Teitelbaum (1992) shows remittance exceeded total reserves during period of study for Bangladesh, Pakistan, Sudan, Egypt and India.

Remittances also impact on creating inflation. When returned migrants or family members decides to invest in items that are limited in supply, price for such item goes up. Same is evident in countries like India and Nepal. Arnold and Shah (1984) suggested in their studies that land prices have increased in State of Kerala because of migrant bringing remittance from middle east. Similarly, Jones and Basenett (2013) have conducted a study for Nepal with similar results. Remittance from migration also affects overall income distribution in the country of origin. Low-skilled and semi-skilled workers belonging to low- or middle-income family group, can decrease inequality in the sending nation. On the contrary, if the country is witnessing brain drain from wealthier families, the impact of remittance can take an inverted U shape thereby increasing inequality in income (Rahman 2000). A study undertaken by Adams and Page (2003) examined the relation between remittance and poverty elimination. The study is focused on 74 low- and middle-income developing nations where it was found that every 10 per cent rise in international migration from a country leads to 1.9 per cent reduction in share of people living below poverty margins.

Sometimes, remittances are used for community welfare which reduces burden on sending countries. There are instances of informally organized groups responsible for pooling migrants fund for humanitarian causes. Zacatecan clubs in United States transfer funds to uplift infrastructure like roads, schools and other public structures in country of origin, Mexico. Important point to be kept in mind, Moya (2005) suggests these kinds of migrant organizations are not uniform. They vary in size, form and scope. Members of these organizations are focused on various interests like religion, sports club, political groups and other categories of community in the origin-country. Only a handful of migrant organizations aim at development work in country of origin (de Haas 2006).

Last but not the least, other related industries also provide revenue to governments of sending countries. There are various companies and organizations dealing with the process of migration-passport agencies, job recruiters, airlines, training agencies etc. Revenues paid by them are related to indirect impact on the sending country.

2. Objectives

One of the principal features of globalization is international migration. The world is witnessing international migration at an unprecedented rate which calls for continuous study of its impact on migrants, dependents of migrants and on countries as a whole. South- Asian region looks at migration as a promising mechanism to ensure economic growth. Relocation from native place helps migrating population to raise standard of living. International migration is an irreplaceable part of Global Development Agenda. The two primary agendas, Addis Ababa Action Agenda, 2015 and Agenda of Sustainable Development, 2030, elaborate on positive contribution of migrants in home country, host country as well as transit country. It also ensures global level cooperation to regulate migration for all stakeholders. Sustainable Development Goals have incorporated special reference for protecting women migrant workers, to reduce remittance transfer cost and well drafted migration policies. The paper is aimed to analyze impact of migration on the countries of origin (sending countries) in South Asia.

3. Methods

The methodology adopted is doctrinal in nature in order to evaluate micro and macro level impact on South Asian Economies. Doctrinal methodology has been adopted since there is published data available in the form of primary and secondary sources. The secondary sources include governmental websites of South Asian countries as well as reports published by international agencies such as World Bank (WB). The collected data is analysed through a descriptive approach as aim is to describe impact on migrant, dependants of migrants and thereby economy of sending country.

3.1 Limitation of study:

a. Migration can be international as well as internal. Internal migration denotes movement within a country (from villages to cities). International migration can be outside the region (inter- regional migration) as well as migration to other countries within the region (intra-regional migration). The research does not deal with internal migration but includes both inter-regional migration and intra-regional migration.
b. South Asia has been defined in UN Statistics as a cluster of countries: Afghanistan, Bhutan, Bangladesh, India, the Islamic Republic of Iran, Maldives, Nepal, Pakistan and Sri Lanka. This research work does not include Iran among the South Asian countries. Similarly, the research will not cover Maldives and Bhutan due to scarcity of data.

c. The theme of the research will be trans- national movement of unskilled or semi- skilled labour force. The issue related to labour movement has to be distinguished from brain- drain problems. Brain – drain denotes migration of high skilled professionals from the home country whereas migration of labour from one country to other denotes loss of semi- skilled or unskilled workers. States often spent money in training skilled professionals and loss of skilled professionals lead to brain- drain.

4. Results

The Human Development Report (UNDP) suggests migrants usually get integrated in their adoptive homeland. Migrants make host country more diverse by introducing complementary cultural traits. Contrary to usual trend, many a times migration raises various types of concerns like regionalism, encroachment on 'foreign sovereign-space' (Behra 2011). Another myth about international migration is movement from South to North. The data suggest, almost 80 per cent of South-South migration happens between developing countries having adjoining borders. (Ratha and Shaw 2007). International migration touches countries in different terms. When properly managed migration can be used to benefit economy of the receiving country whereas poor management can result in various economic, social and health problems. Thieme (2006) suggest migrants are prone to risks but at the same time reduces vulnerability of low skilled labour by securing source of livelihood.

Migrants also contribute to fill in the gaps of labour-market by contributing to the need of high and low skill labour. Emigration helps in increasing economic status of the nation by enhancing skills in migrants. Migration benefit are multi-faced like building entrepreneurship, improving market efficiency and many more (ILO 2010). Many developing nations have started utilizing migration as a means for curtail unemployment issue. South-Asian region is no exception. Out-migration is considered a way to reduce poverty and earn advantage of remittances. In 2005, remittances from South-South migration ranged from 9 to 30 per cent of developing countries' remittance receipt. After East Asia, South-Asia is the largest remittance receiving region in the world. (World Bank). In 2016, the region received US$ 110 billion in remittance which increase respective remittance percentage of GDP extremely high for all countries in South-Asia. For example, 31.3 per cent of GDP in Nepal, 8.9 per cent in Sri Lanka, 7.1 per cent in Pakistan and 6.1 per cent in Bangladesh. India being the fore-runner of the region did not rely only on remittance and gained 2.7 per cent of its GDP in the same year. (World Bank). It is true that remittance from North-South migration is higher than South-South migration but small increase in income leads to significant consequences for poor (Ratha and Shaw 2007).

5. Discussion

Out- migration is not a sudden decision. There are multiple pull-push factors are responsible forcing an individual or group to emigrate. In the early 1990s, there were very few research conducted to establish nexus between remittance and development. Remittance flow was not significant for development assistance and export earnings. (Hugo, 2003; Acosta, Lartey &Mandelmanh, 2007). But globalization of world resulted in improved labour mobility. It is often argued that migration is a case of ‘triple win’ as migrants get higher wages, filling the gaps in job market of receiving country and extending remittances to home country (Martin, 2016). Therefore, it is essential to undertake objective study on the role played by remittance in developing a home country. Although there is no significant increase in migrant population around the world, but the remittance data amplified as definition of ‘remittance’ has been made wider.[iii] Cash transfer by migrants to home country was considered remittance until 1980s, but according to IMF in 1999, the scope was extended to goods as well. (Boccagni& Decimo, 2013). Thus, the portion of remittance increased significantly. At the same time, it is important to note that impact is directly related to kind of remittance. For example, remittance in the form of cash has direct impact on the economy of the home country whereas remittance in no-cash may change the living status of family members left by the migrants, thereby indirectly influencing the economic status of the nation. The second type of remitting is one of the most instinctual motivations for remitting (Basu& Bang, 2013). According to Ratha (2013), altruism model of remittance involves derivation of satisfaction from the welfare of relatives left back. Migrants sacrifice their own well-being for providing better life to their family members. It is interesting to note that there are plenty of research to highlight encouraging effect of remittance on development. Most of the empirical studies conducted concentrate on asset holdings, household purchase capacity and consumption pattern. Detailed understanding of the nexus is possible in the context of developing nation through three questions: who transfer? Why? How much?[iv] To answer these questions, it is important to identify unique features of these economies. It is often seen that wealth distribution in developing nations are uneven which results in huge gap in income capacities of individuals. Income volatility makes it difficult to access necessities like insurance and other facilities to ensure social security. Altruism directly has an impact on each of these concerns and therefore improves quality of life.

But analysing impact of remittance on a developing country is not free from challenges. Study of remittances is based on data collection and investigation. Often remittances are received though informal channel which does not get reported thereby reducing quality of data. This problem is at macro-economic level whereas at micro-economic level, it becomes difficult to relate with various theories of remittances. Each theory relies upon different variables to predict impact between remittance and development. Conventional economic theory focuses on foreign remittances and migration flow. The economic growth is said to be proportionate with migration rate of home and host country. The neoclassical theory attempts to rationalize the reasons behind migration and remittances (Massey, 1993). Utility theory connects expected utility with action taken by individuals (migration). In other words, this theory of remittance believes that individuals weight pros and cons of migration before they decide to migrate. If pros outweigh cons, then an individual migrates to a foreign nation. Prospect theory as developed by Kahneman and Tversky, based on choices made at the time of crisis. The theory is based on psychological basis of decision making by an individual. De Haas (2008) further elaborates the theory saying capitalism penetrates poor economies and create a mobile population which then migrates from their place of origin.

Another significant process to assess impact is based on household surveys. In this process, stress is on the portion of remittances received by a house. Such study shows remittance is a key of survival. Impact of remittances on an economy is based on three main assumptions: the quantum of remittance and size of economy receiving the same, the likelihood that this flow will continue at same or higher pace in future.[v]

The following table shows per centage of GDP received by various South Asian countries as remittance in the year 2020.

Country	**Remittance per centage**
Afghanistan	3.9
Bangladesh	6.7
Bhutan	3.6
India	3.1
Maldives	0.1
Nepal	24.1
Pakistan	9.9
Sri Lanka	8.9

Personal Remittances received (% GDP) in South Asia (2020)

Source: World Bank

The above table shows that even in pandemic period, South -Asian region continued to get significant portion of their GDP from Remittance. The quantum of remittance to the region is continuously increasing over the past few decades. As the quantum is high, remittance undoubtedly have impacted economies at macro level thereby influencing market conditions, policies and financial intermediaries. The governments of various states took efforts to improve growth prospects associated with migration. Several policies have been undertaken to liberalize economies for utilizing outcomes of remittances.

Another significant feature of remittance transfer is it differs from other kind of cash flow. Thus, impact of remittance on economy is also different. Government aid and remittance are different categories of international cash flow. Aid is government to government transfers whereas later consists of numerous small transfers between private individuals. Remittance is usually driven by family relations between transferer and transferee. The transfer is characterized in two forms: altruism where remittances is sent to improve economic conditions of relatives left behind or remitter sends money in exchange of non-pecuniary services.

In order to understand the effect of out-migration on remittance, one needs to look into pull factors of migration. Difference in average skill level and skill price paid by the receiving country lurks a worker to foreign land. Skill price is also dependent on various factors like natural endowments, level of development, labour laws and average skill in the general population. Difference in skill price thus is the motivation for international migration and not average wage differences across countries.[vi] Rosenzweig says it is possible to calculate skill prices of different countries by comparing purchasing power of workers with same skill sets located in different countries. He relies upon pre-migration wages of migrants and then compares the same in contrast to increase in wages in host country thereby predicting skill price for sending countries.

In terms of above discursion, it is also possible to argue that the effect of out-migration is not always good for sending country. Emigration from a country affects skill price and level of skill. The initial effect is called 'general-equilibrium effect' where out-migration makes labour scarce and thus increasing skill price (Hamilton and Whalley, 1984). In other words, skilled emigration is directly proportional to increase in higher skill price. The second effect of migration is compositional effect. According to compositional effect, if migrating population is skilled at the same level as remaining residents then average skill of the nation will remain unchanged. On the other hand, if average migrating population is higher in skill level, in such case average wage will decline. 'However, all remaining residents still benefit from the rise in the skill price. The average wage effect of out-migration can thus be a misleading indicator ofhome-country welfare effects of migration due to compositional effects'[vii]. Both models are interconnected. Skilled migration from sending country reduces average skill in sending country and increases in receiving country (compositional effect). At the same time, skill migration also reduces skill price gap thereby lowering skill price in receiving country as suggested by general-equilibrium model consequently dipping motivations of migration. The drawback of this theory is assumption that skill level of residents remains constant in sending country. In the long term, skill level of sending country will reduce significantly thus increasing price of skill which again will motivate residents to increase skill. Increase in skill level needs to be analyzed in terms of money spent to achieve the skill. For example, learning English language became a popular skill after liberation in 1990s in India. Studies conducted by Munshi and Rosenzweig (2004) shows a sudden shift from economical local language schools to costlier schools where English was the primary language of instruction.

Home country also gainsfrom return migrants. Migrants return back to home country under many conditions. Such migrants bring back increased skills and trade know-how to home country from host nation. Gained knowledge helps in uplifting skill level for the sending country (Stark et al.1997). Migration, temporary as well as permanent, put an impact on the economic status of both sending and receiving country. The remittance receive need not impact all sending countries or all receiving countries similarly. Same quantum or type of remittance can affect countries differently depending upon level of financial set of the nation. Similarly, host country can face significantly different outcome from receiving extra man-power.

Now applying the facts to the theories, it is seen that South Asian region is high in labour and scarce in capital. Thus, labour migration is considered a boon. The region witnesses three types of migrants- permanent migrants moving to North America and Australia, contract labourers to Middle Eastern Countries and South-East Asia and lastly, seasonal migrants within South-Asia (Skeldon, 2003).According to World Bank, economic development is 'quantitative change and reformation of an economy in terms of social as well as technological level.' Economic growth is reflected in terms of GDP but rests upon various elements like life expectancy, access to treatment, purchase power, education standards etc. Impact of remittances on development is region specific and not uniform in every aspect. Multiple factors like economic and political status, environmental factors, relative wealth, access to resources for leading a wholesome life, affect growth rate of nation. Generic study on impact of remittance on development of receiving country, is in positive terms (Meyer & Shera, 2016). South Asian region is no exception. None of the seven countries of the region can be categorised as high-income country thus remittance is considered as a good source for promoting economic development.

Development is often measured in terms of social, cultural, economic and technological advancement in a nation. Illich (2010) says education, jobs, nutrition level, access to health care facilities determine human development and quantum of wealth determines economic development in comparative terms. Remittance flows boost wealth source of a nation but GDP is the process to measure output of a country. How remittances have been used by recipients, determines the impact on GDP.

AKM Ahsan Ullah (2017) highlighted several financial factors involved in supporting migrants for movement. Ullah says migration cost, loan and opportunity costs are other financial factors influencing a worker before he finalizes his departure. Similarly, other emotional factors like physiological factors, health risks, separation anxiety, etc. also keep the worker disturbed. Although these factors may not always impact a migrant on financial font but they impact his decision to migrate and remain in foreign state. Therefore, research studies focused on impact of migration on uplifting economic status of sending nation, must take above mentioned factors into account.

Cross border migration has acted as a boon to South-Asia. For almost, two decades, the region witnessed steady growth. The arrow went downwards during financial crisis of 2008 but gained momentum after a brief period. Most of the South Asian nations have stressed on policy reform to implement good governance, better education, improved business environment and lastly, to attract investment in infrastructure[viii]. Rapid growth in the area has overlapped with a surge in remittances. One cannot overlook quantum of domestic remittance, but remittance from nationals working abroad, made a substantial impact on all economies of South Asia. Remittance flow in the region helped in poverty reduction, reduce balance of payment crisis, to improve income distribution and other economic factors[ix].

ILO website estimated worldwide remittance flow exceeding $ 601 billion. ILO data further suggest, developing countries across the world became receiver of $ 441 billion.[x] Country-wise analysis show India, China, Philippines, France and Mexico are the highest remittance receiving country. Another South Asian country to enjoy high rate of remittance is Nepal. Thus, it is understood, developing countries are remittance receiving countries. On the other hand, developed countries where income is high, become source of remittances. For example, United States has the largest remittance outflow followed by Saudi Arabia. Migrants from South- Asian continent migrate to United States as well as Saudi Arabia. The six Gulf nations also contribute high in terms of paying remittance.[xi]

It is important to pay attention to types of remittances for analysing impact of the same in South Asia. Remittances are divided into two broad categories: family remittances and collective remittances (Rahman and Hossain 2015). It is common understanding that family remittances are related to micro level and collective remittance to macro level. Scholars like Stark (1991) says 'exogenous transfer' and 'potential substitute' are two approaches to study remittances. The later approach allows nexus between household activities and income from remittance. 'Collective remittances' is an informal term to refer to collective transfer of money for building infrastructure in sending nation. Collective remittances are different from 'family remittances' as the latter is sent for only one family whereas the first one is sent for community welfare. Thus, collective remittance becomes a useful tool to increase development. ILO also formulated a right-based approach to labour migration (2005) and its correlation with economic development. This approach is more inclusive in nature, therefore, gained momentum at global level. ILO also came up with a Guide named *Extending Social Protection to Migrant Workers, Refugees and their Families: Guide for Policymakers and Practitioners*. The main objective of the guide is to extend practical guidance to stakeholders of migrants for extending social protection and inclusiveness to all migrants, refugees and their families.

The next important factor to understand impact of remittance in the economy of South Asia is to analyze trends of remittance. It is established that the region is a high receiver of remittance which resulted in benefit. South Asian Countries have taken various measures to ensure smooth inward flow of remittance. Remittances send via informal sources are likely not to accounted for. Common measures taken in the region include creation of special unit of remittance in central banks, revisiting licensing process for money transfer, liberalizing exchange rate and encouraging domestic banks to establish partnership with foreign banks where migrants have relocated in high numbers. Governments are also promoting families receiving remittance to invest in small and medium scale businesses to generate income in home countries[xii]. For instance, Bangladesh has taken national strategy of promoting Bangladeshi Banks to launch branches abroad or develop measures with exchange houses for free flow of remittance. Moreover, Bangladesh allows Bangladeshi migrants to open 'Non-Resident Foreign Currency' (NFCD)[xiii]. NFCD can be opened in any bank operating in the country for short durations like one-month, six-months or a year. These accounts also enjoy tax-exemptions on interests accumulated on deposits which acts as an encouraging factor to open this facility by migrants. Migrants can repatriate money freely or convert the same in Bangladeshi currency at prevailing exchange rate. Similarly, US Dollar Premium Bonds are also issued against remittances. The bond-holder can withdraw interest once in six months. The annual interest rates for such bonds are usually fixed. Wage Earners Development Bond is another important policy taken by the same nation. This maturity period of this bond is five years with higher interest rates than US Dollar Premium Bonds.

Similarly, Sri Lanka regulates remittance through Exchange Control Act,2001. The Act permits foreign exchange only through licensed commercial banks or authorized agents by Central Banks. Sri Lanka allows non-resident workers to open non-resident accounts in foreign currencies or local currencies. Non-residents are eligible to obtain loans which are payable only in their foreign currency earnings. Migrants are also eligible for investing in share market through Share Investment

External Rupee Accounts. However, Sri Lanka is facing foreign exchange crisis which pushed the government to reduce imports[xiv]. The Governor, Central Bank of Sri Lanka said there is a drop of $300 million drop in remittance in just one month in the end of December, 2021. The country is looking forward to get rid of informal channels of remittance. Thus, the Central Bank of Sri Lanka declared recently those migrant workers will be paid an incentive of ₹8 per US Dollar in addition to existing ₹2 incentive under *Incentive Scheme on Inward Workers' Remittance*. The benefit can be availed only when remittances are sent through authorized channel. The incentive is expected to attract more workers to remit through formal channel thus reducing the deficit.

Compared to Sri Lanka, Government of India is less proactive in promoting migration. But drastic reforms are visible in last few years. The most significant change is replacement of Foreign Exchange Regulation Act (FERA) with Foreign Exchange Management Act (FEMA), 2000. The new Act enabled a new regime of foreign exchange management in terms with WTO. In line with FEMA, Prevention of Money Laundering Act was passed in 2002 which finally came into effect in 2005. Government is also promoting for NRI deposit accounts for attracting foreign capital. Migrants can exercise their choice for currency in NRI accounts.

Unlike India, Government of Nepal prioritize migration and remittance. Nepal being one of the least developed nation, steps have been taken by the government of the country to utilize benefits of remittances. Nepal Rastra Bank (NRB) issues license to private money transfer companies for remittance-transfer business. Similar to other economies of the region, Nepal also allows Non-resident Nepalese accounts and maintain in foreign as well as local currency. In addition, 'Foreign Employment Bonds' are also available for raising funds for infrastructural development. Nepali migrant workers were allowed to buy such bonds from licensed money transfer companies but migrant workers working in India were not allowed to purchase such bonds. Another significant drawback of the scheme is related to the commission received by money transfer companies. The companies were not allowed to charge fees for transfer. The exchange rate was determined at the time of subscription. Thus, overall, the system is not very popular.

Pakistan ranks fifth in the world as receiver of remittance. The country receives most of its remittances from Gulf region. According to Pew Research Center, the leading source is Saudi Arabia with $5.8 billion received in 2016. The State Bank of Pakistan devised multiple ways to increase remittance inflow. State Bank of Pakistan, Ministry of Overseas Pakistanis and Ministry of Finance launched a join action plan known as Pakistan Remittance Initiative (PRI). Primary objective of the initiative is to facilitate flow of remittance. The process will be made inexpensive, effectual, expedient and efficient. Inter Bank Fund Transfer (IBFT) has also gained significance with reduced time to complete the transaction. Another popular mechanism for remittance is Cash

Over the Counter (COC). PRI introduced COC in all major banks. This mechanism provides instant service and thus gained immediate popularity. Ministry of Finance introduced Foreign Exchange Remittance Card (FERC) in 2001. The card acts as an incentive to remit in terms of US dollars. There are five categories for this card based on the amount remitted. The card comes with advantages like free renewal of passport on urgent basis, duty free credit, special lounges at international airports in Pakistan.

After considering the steps taken by various government of the region, it is crucial to note that inflow of remittance in South-Asia is high but actual figures are far greater than official recorded data. South-Asian outward migration is dependent on networking which results in informal remittance channels. There are many disadvantages of such informal means. First concern is regarding trust worthiness of such system. Even if the person carrying remittance for family of migrant worker is trustworthy, he may get robbed or may face with an accident. Chances of losing money is quite high. Moreover, such transfer becomes unaccounted thus are not acceptable form in most of the home countries of migrants. It is difficult to calculate true percentage of informal remittance. However, in South Asia, it can go up to 40 per cent of total remittance[xv]. For instance, a survey conducted in Bangladesh in year 2001, shows 54 per cent of total remittance have been sent through informal channels like friends, family members or hundis[xvi].

Informal remittance is a primitive practice which can be traced back to the times of traditional bills of exchange. Currently, there are three primary forms of sending informal remittance: hawala[xvii], hand-carry and in-kind remittances. The most ancient and common form is hand-carry system where the migrant worker himself or friend or family member carry the cash home. The second category is in-kind remittance where the migrant may purchase consumer goods and carry them back for resale or for his family. Sometimes, migrants also engage in contracts with construction houses to build house and payment is done directly from foreign soil. Among the three types, the most complex type is hawala system. In hawala system, money is transferred from the migrant to family members without physical transfer of money. The migrant worker approaches a hawala broker in host country with a request to send money in his home country. The broker in host country will agree with the migrant on the amount to be transferred, charges for providing services and type of currency. The broker in host country will instruct the broker in home country to make payment to designated recipient. A pass key is provided by the hawala broker at host country to migrant sending the money. The same pass key is given to broker in home country as means to identify recipient in home country. At the same time, the migrant worker sending money, passes the same pass key to recipient for receiving money. Upon identification, money is provided to the designated person by the broker in home country. By this point, hawala broker at host country is indebted to hawala broker in home country. The settlement between the two brokers is done by various means like cash deliveries or cheques or direct transfer to account. The system is more complex in real situation than it appears on paper. Often, the transaction happens through multiple third parties which increases chance of losses. Informal mechanisms are preferred by semi-skilled or unskilled workers for various reasons. First, many a times, this section lacks bank accounts or fear getting involved in bank transaction. Moreover, migrants sometimes lack useful documents to open bank accounts. Secondly, bank transactions take longer time than hawala system. In a study conducted in Bangladesh[xviii], it has been observed that a hawala transaction took only three days whereas bank transaction required thirteen days to complete. Thirdly, hawala transfer are cheaper than transfer through formal means. The cost of hawala transaction is based on multiple factors like relationship between remitter and broker, negotiation skills of the involved parties, amount to be remitted etc. The hawala broker can offer a discount on cost of transaction as they are virtually exempted from taxation regime of countries involved. Lastly, hawala transactions do not require any identification except for remittance pass key. No records are available for audit or third-party access which make the transaction attractive for migrants who have migrated through illegal means.

Conclusion: Remittances received and skilled earned through labour migration is resulting in positive impact on the region but the informal remittances largely used by the semi-skilled or unskilled workers are also problematic. Informal means may appear to be lucrative but is also responsible for smuggling, money laundering and other forms of financial abuse. Governments of both receiving as well as sending countries are taking steps to curb informal channels of remittances. For instance, host countries like UAE and other Middle East Countries either prohibit hawala transactions or allow such transactions through registered agents of central banks. The brokers are required to provide information of remitter and beneficiaries to the central banks. Another significant problem related to hawala system is related to settlement process. Each time a hawala broker sends an instruction to its counterpart in home country, hawala broker at the host country creates an informal debt on himself. The settlement between these two brokers is a concern as the debt is not formal in nature. The debt is not secure and at the same time involves multiple parties, thus black market plays a huge role in settlement process[xix]. Murshid, Kazi and Meherun (2001) conducted a study in Bangladesh where it has been observed hundi (hawala) is significantly higher in Chittagong which is a port city. Chittagong is also infamous for illicit trade. Anonymous transfer in hawala system, allow income of illicit trade to enter money market at ease.

Addressing the financial risks associated with informal flow of remittances, World Bank (2003) suggested integration of informal channels with formal channels[xx]. In other words, it is almost impossible to put an end to the system because of its popularity, but it highly beneficial, if hawala brokers can be registered with central banks. In such scenario, transactions can be tracked and problems associated with the system can be avoided to a great extent.

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