

Migrants' Remittances and Financial Inclusion Opportunities for Republic of Yemen

Mustafa Abdulrab Humaid,

Research Scholar,
Commerce (Financial Management),
Dr. Babasaheb Ambedkar Marthwada
University, Aurangabad, India.

Dr. M. Razaullah Khan,

Associate Professor,
Head Department of Commerce and
Management Science, Maulana Azad College of
Arts, Science & Commerce, Aurangabad, India.

ABSTRACT

Yemen received over US \$7 Billion in migrants' remittances in 2013, the majority of which came from the Kingdom of Saudi Arabia. Individuals and households in the country rely on remittances, along with a variety of other sources of income, to help cover daily expenses such as food, housing, health care, and education. That remittances enable them to cover these important areas is no doubt positive. However, it is also important to consider how remittances can build prosperity, rather than simply sustain survival, in households and communities throughout the country. The answer lies in access to reliable, usable, and affordable financial services, this paper argues. Financial access can magnify and deepen the positive impacts of migrants' remittances at each stage in the remitting process, from access to reliable and affordable migrants' remittance services for the sender, to access to banking services and savings strategies for the recipients. Strategies to increase financial access for senders and recipients can have profound development impacts at both the micro and macro levels, especially given the 20.7% expected growth in remittances for 2017.

Keywords: migrants' remittances, productive investments, micro activities.

INTRODUCTION:

Like any other country in the world, Yemen gets a lot of advantages from migrants' remittances both in the form of money and in the form of goods. As a matter of fact, there are millions of Yemeni migrants all around the world, and those migrants play a vital role in supporting and developing the Yemeni economy as they regularly send money to their families and relatives in foreign currencies. Yemen is a developing country that requires foreign currencies for covering the external obligations of the imported goods. Therefore, the incoming migrants' remittances support the balance of payment and consequently make the process of importing and exporting easier and more effective. The impact of migrants' remittances on the economy of Yemen has not been explored in an academic research. Fund received from migrants who work abroad are perceived to be used for survival purposes such as shelter, consumption, saving, building human capital and etc. The impact of these remittances on the development of the economy of Yemen is the purpose of this paper.

REVIEW OF LITERATURE:

Salama Abdul-Jabbar [10] (2014) compared migrants' remittances through the years. In the study on workers' remittances receipts and its impact on the balance of payments for Yemeni immigrants carried out by the Central Bank of Yemen. The General Authority for immigrants where the study took a comprehensive analysis of the forms of Yemeni migrants' remittances and means used in the Arab Republic of Yemen and places of investment surpluses such transfers.

Oiabh Saleh [11] (2010/2011) in his research entitled "The Impact of the Change in the Exchange Rate on the

Economic Balance - the Case of Algeria". He investigated the effects of exchange rates on the internal balance and external balance of payments while the practical side of fiscal policies were treated in Algeria where he discussed the Algerian economic situation as well as reforms in Algeria also stressed the researcher that the migrants' remittances was a major factor in fixing the exchange rate and plays an important role in achieving economic balance, therefore, must be a real level and thus to maintain the stability of the price of the Algerian Dinar must maintain low inflation and foreign exchange reserves investment rate.

Abbas Saleh [12] (2003), in his thesis entitled "Exchange Rate Policy", has many definitions of the policies of the exchange rates and historical developments of these policies and the extent of its importance. The researcher talked about the balance of payments that was affected by the migrants' remittances.

METHODS:

The paper strategy is the analytical descriptive approach. This method will be suitable for attaining paper objectives because description will help in observation and thus giving remarkable critical evaluation which is the main aim of this paper. Due to the nature of the subject, tables and charts will be included in the coming pages.

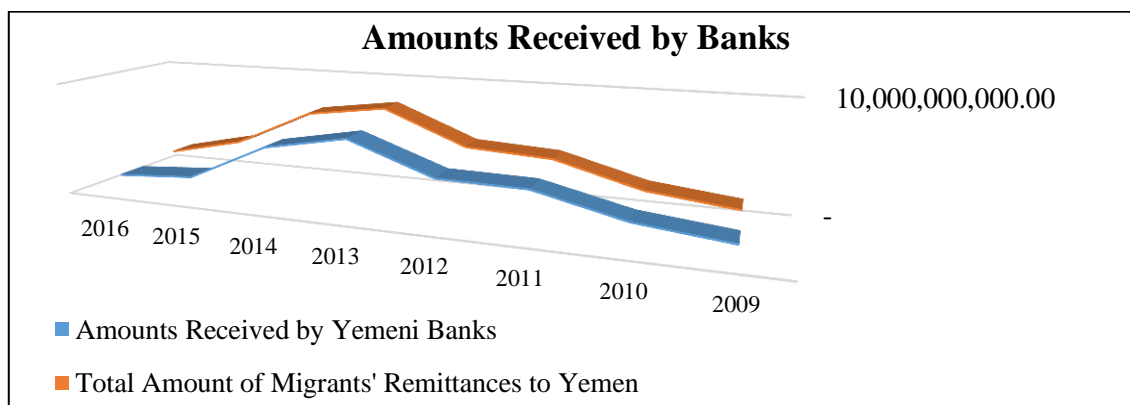
Trends in Migrants' Remittances:

Migrants' remittances to the Republic of Yemen have grown at least 80% in 2013, marking the first significant growth since 2010. Yemen banking sector have had especially high growth in migrants' remittances from 2013-2014. Political, economic, as well as social issues may be impacting these flows. Saudi Arabia as a very positive growth country is a direction to Yemeni migrants. Saudi Arabia considered to be as a linked to higher migration and migrants' remittances flows to Yemen. It probably benefiting from increasing migration, improvement in labor, and economic growth in Yemen.

Table No 1: Migrants' Remittances Flows to Yemen 2009-2016. (In US \$)

Amounts received by Banks			
Year	Amounts Received by Yemeni Banks	Total Amount of Migrants' Remittances to Yemen	Percentage%
2009	1,361,369,503.00	1,614,884,719.35	84.30
2010	2,150,684,264.00	2,451,624,328.76	87.72
2011	3,910,335,024.00	4,460,252,578.42	87.67
2012	4,046,945,096.30	4,861,764,606.37	83.24
2013	6,656,784,844.00	7,774,938,725.31	85.62
2014	5,311,645,424.00	6,775,679,177.34	78.39
2015	1,978,775,612.00	3,486,224,868.20	56.76
2016	1,465,219,024.00	1,910,992,226.10	76.67

Source:- Compiled by the resources from Collected from Central Bank of Yemen.



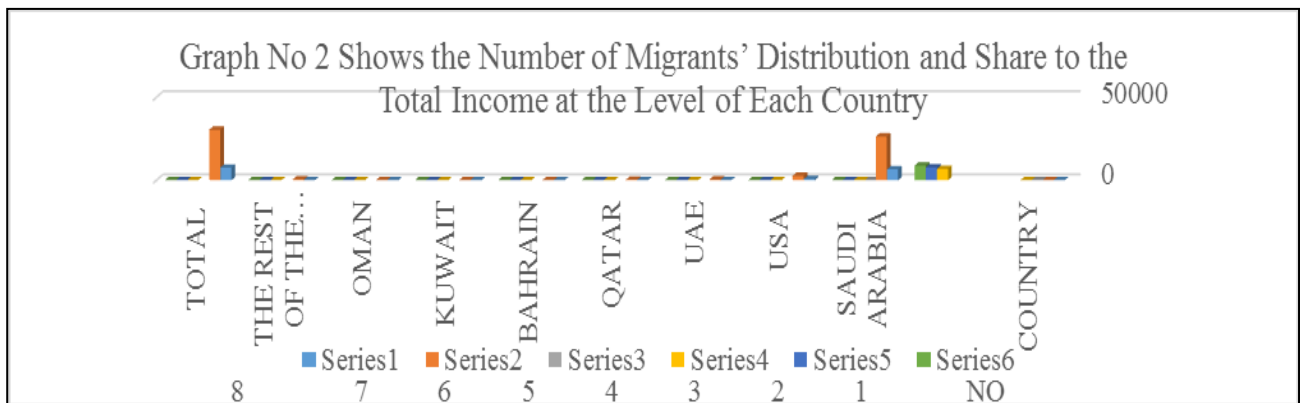
The above table shows the role of banking sector in receiving migrants' remittances. The majority of systematic remittances were send via banks. Banks considered to be the number one remittances bridge between migrants and their families. Many countries made limits for migrants to make remittances. Migrants cannot exceed the limits that put to them. This process made upon the wages rolls and statements

to avoid anti-money laundering. Down below the researcher made some assumptions that if the migrant remit 25% only from his income to Yemen. The table shows the three assumptions of income in USD. The data arranged in order according on the importance and the country that has more migrants.

Table No 2: An Explanatory Table of the Number of Migrants’ Distribution and Share to the Total Income at the Level of Each Country

No	Country	Yemeni migrants' remittances(in Million US Dollar)	Total migrants' income on the assumption that each migrant transfers 25% of his income to Yemen	Migrants number in the case of average annual income in Dollars	Migrants number in the case of average annual income in Dollars		
					6,800	7,800	8,800
1	Saudi Arabia	6,583	26,330	Number of migrants in Million	3.87	3.38	2.99
2	Usa	660	2,640		0.39	0.34	0.3
3	Uae	99	396		0.06	0.05	0.05
4	Qatar	66	264		0.04	0.03	0.03
5	Bahrain	36	143		0.02	0.02	0.02
6	Kuwait	22	88		0.01	0.01	0.01
7	Oman	14	55		0.01	0.01	0.01
8	The Rest of The World	121	484		0.07	0.06	0.06
	TOTAL	7,600	30,400		4.47	3.9	3.45

Source:- Compiled by the resources from Collected from Central Bank of Yemen.



As it is very clear that, the majority of Yemeni workers are in Saudi Arabia. There is nearly 3.3 Million Yemeni migrants in The Kingdom of Saudi Arabia. This number means more than 88% of Yemeni workers are working there. The geographic location, religion, and habits of Yemen and Saudi Arabia shared by the two countries. The big boundaries between the two countries is one of the reasons that encourage Yemeni workers leave to Saudi Arabia. The majority of the Yemeni workers are from the north of the country. If we assume that Yemeni workers are sending 25% of their earnings to their families in Yemen, and if the average amount of their earning is 7800 US Dollar that will equal 6,584,000,000 US Dollar can be received from Saudi Arabia only. Secondly, Yemen received also remittances from migrants from the USA. As shown in the above table in order comes the United States of America. There are many Yemenis there especially from the middle governorates of Yemen like Ibb, Dhale, Taiz and Radda’a. The number of Yemenis there does not exceed 400,000 Yemeni migrant. The majority of them are not Yemenis any more. They became American Citizens accompanied with their families and the do send remittances rarely to their relatives. They have the American Citizenship and many of them got the American passports along with their families. The relationship between the migrants in the USA and his family in Yemen became so weak. Because the near family to the migrant joined the migrant and got the passports too. What is remaining from the family in Yemen is not the responsibility of the migrants to spend his money for. Therefore, economically the Yemeni migrants in USA will vanish from the count within 20 years approximately.

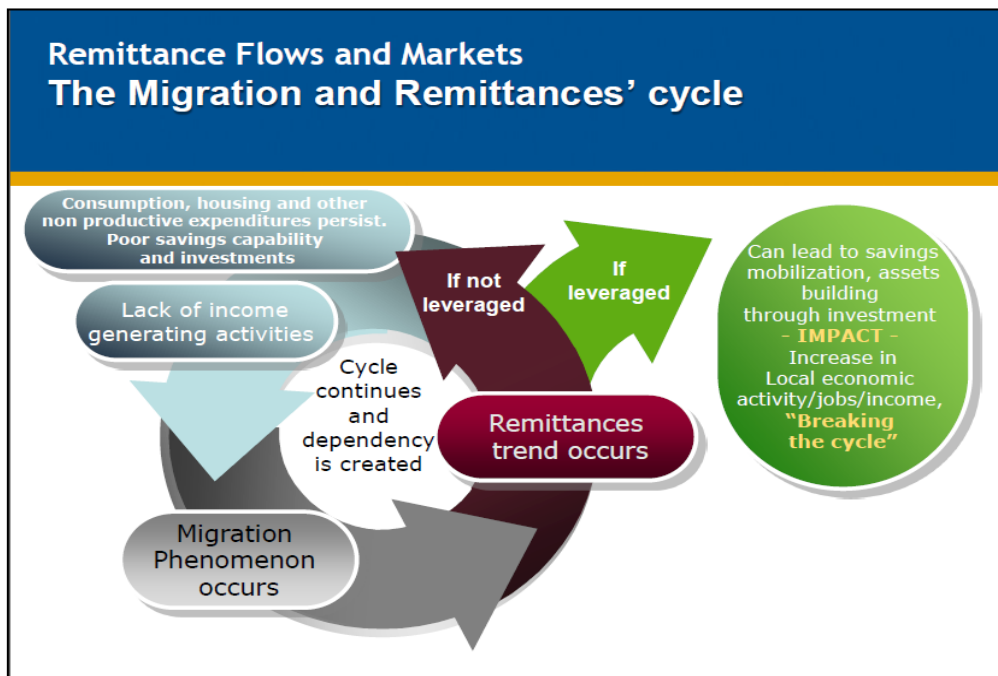
Leveraging Migrants' Remittances for Development:

The important linkages between migrants' remittances and development have the potential to transform the material well-being of migrants, their families, and their societies, especially when excellent policies are in place. Migrants' remittances help receiving households to live more comfortably, increasing their expenditures on housing, nutrition, education and healthcare. As aggregate flows, migrants' remittances influence national reserves, foreign currency exchange rates, credit ratios and saving. From a policy perspective, migrants' remittance flows have an unparalleled effect on development, poverty reduction and, especially when properly leveraged, on economic growth. The point of departure in remittances and development is their effect on income. Remittances are typically pooled with other sources of income (salaries, rents, social support). Out of all income earned, remittances included, savings are set aside and built. Because remittances have the effect of increasing disposable income, they also increase the household's capacity to save. Thus, at the level of the household, remittances fulfill the function of contributing to build liquid and fixed assets. However, it is very important to differentiate between formal and informal savings. Migrants' Remittance recipient households can and do save, but without access to financial institutions and services, much of their savings are kept informally. They do save their remittances in cash status at home. There is a need to convince those households with the privileges offered by the banking sector in order to direct their earning there.

The Role of Financial Access:

The development impact of migrants' remittances depends on a number of banking and financial mechanisms. Down below is the Cycle of Migrants in general. It details the ways in which banking and financial access can magnify and deepen the positive impacts of migrants' remittances on development at the different stages in the process. The cycle starts in need or lack of money and ends in consumption. Redirection of such funds is the priority of this work.

Slide No 1: Shows Migration and Remittances' Cycle.



Source: Slide no:5 International Fund for Agricultural Development, 2014, IFAD Rome.

The researcher finds that economic activities, government policies, social conflicts and services are directly linked with politics. Thus, political instability in the Republic of Yemen is the main reason for both internal and international migration of Yemen. First, migrant remitters rely on access to remittance service providers in order to send money to household in the country of origin. After that, the funds will move from the sender banks via US-based bank if the remittance was in US \$ then from account to the account of a partner bank in the recipient country. The bank in Yemen will pay the money directly, deposit the money in an account, or transfer it to a non-banking correspondent, such as exchange company or account with another bank in the country. Store for payout or credit At this stage in the process, the remittance has an important impact for the receivers of the remittance, enabling a more comfortable standard of living, at least in the short term. When the recipient receives his or her

remittance, a second banking and financial mechanism comes into play. With this additional source of income, the recipient has an increased chance and capacity to save. However, whether they save formally or informally will depend on their access to banking services. Informal savings have many benefits, but they do not have the security or value - added of formal banking financial services. In this sense, financial access can substantially expand the impact of the migrants' remittance transfer by enabling the recipient household to start building assets and improve their quality of life in the longer-term. Finally, financial strategies to promote formal savings and investment can help recipient households build the new assets they need to significantly improve their economic wellbeing. To sum up, it is not enough for the household to have access to formal banking and financial services; they also need to feel empowered to use them in an informed, purposeful way. At the same time, increased savings and investment can strengthen banking financial institutions and facilitate access to credit on a larger scale. This, in turn, has profoundly positive impacts on the overall economic development of the society as a whole.

Lowering the Cost of Sending Migrants' Remittances:

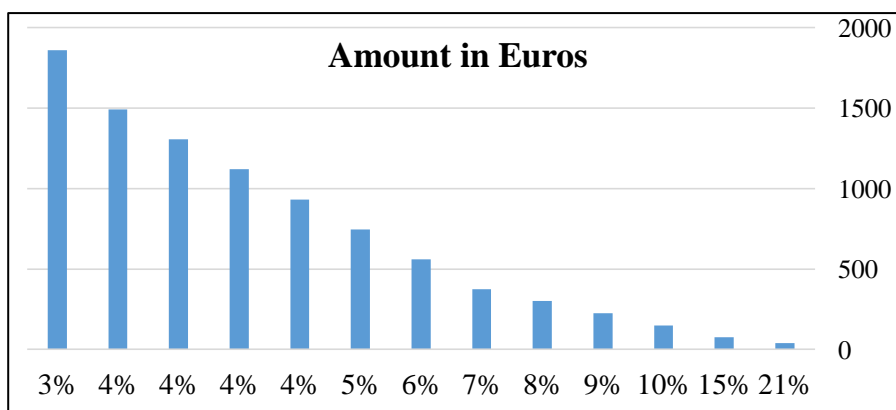
Among institutions and according to the method of transfer, the cost transferring money varies greatly from country to county. Most studies indicate that non-systematic/informal channels are cheaper than systematic/formal ones and the cheapest transfer methods being self-hand –carriers and ordinarily post but of course involve the risks of being stolen or lost. This study estimates the costs of a Hawala transaction to be on average between two and five percent and Orozco (2003) estimates are even lower at less than two percent. The World Bank (2005) estimates the charges to send money through money transfer exchange company or agents to be 13 percent to 20 percent on average. Table (3) and Figure (3) show that the cost is high for those who send small amount which implies that the poor are the most affected in such costs. For example, the total remittance cost to send 150 euros per month for a period of six month is 90 euros at 10 percent compared to 4 percent or less than 40 euros if the entire 900 euros is sent in one transcription.

Table No 3: Remittances costs

Amount in Euros	Cost percent
40	21%
75	15%
150	10%
225	9%
300	8%
375	7%
560	6%
745	5%
930	4%
1120	4%
1305	4%
1490	4%
1860	3%

Source: The World Bank (2005)

Figure 2: Remittance costs as percentage of principal amount (in euros)



The study by Orozco (2003) gives a global picture for the costs of informal remittances and provides the average informal services charge at about three to five percent, although they can sometimes be higher or even free of charge. Sander also argues that as studies estimating transaction costs only look at the direct costs which include commissions/fees and foreign exchange losses, they actually are still not full of transaction costs reflection costs. The other important costs are hidden or indirect costs including: getting to or from a point of sale. Such as an exchange company, agent, bank branch; phone calls; lower or unfavorable forex rates often used by banks or money transfer operators compared to either the black market or forex bureaus and maintaining a minimum balance or account fees (in the case of account-based transfers). Those migrants who are not eager for risk, they prefer systematic/formal transfers. These channels are considered to have lower transfer risks, but are also costly if compared to informal transfers. It is estimated that approximately 13 percent of the remittances value is charged for remitting money across borders using official channels. A study by Orozco (2003) made a comparison involving the costs of formal money transfers for sending of small amounts of money (US\$200) from four EU countries, United States and Saudi Arabia to 14 countries in Southern Europe, Africa, South Asia, and Latin America. The findings indicated that the mean value to transfer the money was 6 percent through ethnic stores, 7 percent through banks and 12 percent through the money transfer companies operators like western union, Money Gram, Ria or Thomas Cook. According to Orozco (2003) the costs of transferring money from United States to other countries are relatively high and few foreign banks were found to be offering money transfer. He noted that, the State bank of India and the Bank of Philippine Islands were the only banks offering a range of options to transfer remittances, such as the direct deposit in an account in the country at a cost below 5 percent. Table 3 shows the cost of sending US\$200 from the United States to nine different countries are significantly lower when using banks than money transfers companies, and somewhat lower compared to sending from ethnic stores.

Table 3

United States to	Bank	Bank as MTO	Ethnic store / Exchange house	Major MTO	Total
Philippines	8.00%	6.20%	10.10%	10.30%	6.60%
Greece				13.80%	13.80%
India	7.00%		8.30%	12.20%	10.10%
Pakistan	0.20%		16.80%	14.00%	11.80%
Portugal				13.80%	9.50%
Turkey				13.10%	13.10%
Zimbabwe				11.90%	11.90%
Bangladesh	8.00%		9.20%		15.10%
Ghana			7.50%		7.50%
Total		6.20%	7.70%	14.20%	9.40%

Source: Orozco, (2003)2

The policy and regulatory aspects of the sending country have tremendous effects on remittances flows and channels used. Orozco (2003) argues that foreign banks offer limited transactions to transfer remittances if compared to other channels in United States due to the stiff regulations restricting foreign banks from opening branches in the country. He gives an example of Germany and France which have been able to put in place successful policies that allow foreign banks transactions, remitting to Greece, Turkey and Portugal and in this way the larger part of remittances to these countries is transferred through the banking system. Orozco noted that the higher fees charged by the transfer agents are mainly due to the lack of competition and market imperfection coupled with inefficiency. He argues that restrictive regulatory framework, including high collateral requirements; deter potential competitors from entering the remittance market. Orozco argues that the measures focusing on detecting and prevent the misuse of the world financial system for money laundering or terrorism have made many banks to be very cautious before entering into remittances transfer business due to the burden of compliance and associated costs. This has introduced additional hurdles or barriers for migrants and MTOs in accessing banking services. The studies regarding the remittance channels and sending costs are instrumental in raising the awareness of remittances issues and in this way creates the

demand for various Stakeholders, especially the financial institutions, researchers, Diaspora and policy makers to be engaged in finding the better ways of improving money transfer services. It is argued in the literature that remittances which are transferred through informal means are less effectively used because they do not contribute to the receiving country's foreign reserves and also are not included in the development initiatives and priorities which could benefit the individual receivers and the nation at large. In the developing countries where few remittance receiving households possess bank accounts, formalization of remittance flows would not only reduce the risks and costs of remittances, it would also help them to save and in this way raise the national savings rate. Another critical issue regarding the informal remittance channels is that, they provide a convenient way for money laundering and funding criminal and terrorist activities. Understanding the operations of informal and underground remittance channels could help countries to put in place well coordinated measures for monitoring and information sharing to prevent money laundering and financing of terrorist activities. Improving remittance transfers would require studies on remittances behavior on how they respond to social, political and economic changes of receiving and sending countries. That information could help policy makers in these countries to design policies aimed at improving the banking and financial services. However, the biggest challenge is how these financial institutions would prevent illegal transactions, ensure safety and efficiency of transfers and at the same time be able to reduce transactions costs of remittances.

Accessing Banking Services:

Another approach of promoting formal remittances consists of improving access to banking services. This entails connecting migrants and remittance recipients to formal financial services that they can use to plan for the future, manage their income, build assets, and mitigate risk. Such services must be usable, open to all members of society, secure and regulated and meet the needs of the households.

Promoting Savings:

Migrants' remittances recipients by nature have the ability to save money at home. It is the duty of the financial authorities to promote saving program for the working banks in Yemen. This program will have a greater capacity for them to save even if they are in low income. What is important from such savings, however, is that on a fraction of these savings are kept formally. On a household level, formal savings in banks ensures that a family's stock of savings remains safe and secure. The natural disasters, crimes, or any other unexpected events. Formal savings will bring and include earning interest and gaining access to many other banking and financial services. Such services like credit card, build a credit history that will eventually enable households to receive banking loans. By saving in banks, the financial market will enhance because savings promotion is one of the most effective means of leveraging migrants remittances for development.

Building Human Capital: Children, Youth and Development

It is very important to target the schooling among the children in Yemen as a labor sending migration community. School retention program should be established. Total banking culture must be included in the curriculum. There must be a school program that would be based on existing experiences and lessons learned of strategies that encourage them to have banks accounts in the future. By targeting and addressing child migration, within 5 up to 10 years many remittances will be received to banks' accounts by those students.

Developing the Labor Force:

The more skilled workers were more likely to remit than the low skilled workers. The more educated migrants were less likely to remit than those who are less educated. Older migrants are more likely to send their remittances than those younger workers. Yemeni Migrants see a decline in remittance behavior with longer periods of residence in the host country. Regarding Orozco study, migrants with close relatives in the country of origin were more likely to remit to their relatives. We need skillful, trained migrants to receive good amounts. The ministry of Labor and Migrants' affair must recommend expanding the number of trades offered by technical schools. There must be local increasing knowledge on global market and bringing vocational schools into the local villages. The Ministry of planning must identify the gaps in the demand for high skill labor between the local and global economy to avoid brain drain. The Ministry of Education must start teaching of English Language from the basic levels and computer skills to target the foreign markets. All these facilities will encourage migrants' to build their own assets and mobilize savings into depository institutions. By focusing on rural areas that the recipients are low income people living there and start banking microfinance. We will notice reduce of crime and migration.

Facilitating Investment and Entrepreneurship:

Yemeni migrants have a very strong interest in investing back home, and important resources savings for them is the recipients informal savings. Many migrants invest randomly by trusting the recipient that he can credit to small businesses. Accessing to this communities will increase substantially: the lack of access to credit in

communities where violence and migration occurs is strong. Recycling those funds in local communities will be an integral part of bank's partnerships. Banks must remove barriers and enter amount migrants. Sure, there is one in ten is willing to invest in a small business or open his own investment in those communities. There will be some risk but some of the investment can go into entrepreneurial activities that for sure will add value in the productive base of the Yemen economy.

CONCLUSION AND RECOMMENDATIONS:

How can we make those migrants direct their remittances to be used in productive investments, micro activities because very little of that money is saved and most of it is consumed. For the case of Yemen, we need to suggest and recommend some experienced countries that used to receive remittances. Turkey, which is one of the most remittance receiving countries in the world. The banks there monopoly in migrants' remittances and the banking authority represented by the central bank of Turk provides special incentives only to migrants and Turkish citizens residing abroad to open banking accounts and the banking authorities offer them higher interest rates than the other Turkish commercial banks. There are many experienced countries in this regards like India, Nepal and Pakistan. These countries have enough experience in this regard. They can manage their economy well.

As many studies confirm that 90% of migrants belongs to low skill category average of their income is 200-250 US\$ per month that means the ultimate majority is not skilled labor. One of the recommendations is that there must be managed-migration programs between Yemen as a sending labor and the other countries as receiving countries to the Yemeni labor. Such programs might combine short-term migration with incentives for return for the skilled labor or circular migration. The majority of Yemeni migrants are not skilled. It is by circulation migration may have the potential to facilitate development in Yemen as a labor sender by increasing migrants' human and financial capital, facilitating the local labor skills by transferring their skills to them . It is argued that in this case remittances allow both senders and receivers to secure livelihood in invent of external shocks and in this regard remittances are seen as a mutually beneficial and enforceable contract between both parties. It is also recommended that the remittance-receiving households must spend less proportion of their remittance income for the consumption purpose and more on investment purpose.

Finally, different factors contribute to growth and development in any country, but their importance alters over time. Migration and remittance is not the panacea for low-income countries but neither should we underestimate its importance. Remittance is playing significant and positive role in improving Yemen's overall economic level. Inclusive policy can decrease inequality. Some return migrants are practicing entrepreneurship and creating jobs in the local community. Government should support their work. This helps to reduce non-systematic remittances in the long-run. Yemen must create jobs in its territory. Every Yemeni should work hard to build the nation. Impact of migrants' remittance on household health and education sector will be a suitable research area in Yemen for future study. Improving migrants' remittances would require studies on remittances behavior on how they respond to social, political and economic changes of receiving and sending countries. That information could help policy makers in Yemen to design policies aimed at improving the banking and financial services. However, the biggest challenge is how these financial institutions would prevent illegal transactions, ensure safety and efficiency of transfers and at the same time be able to reduce transactions costs of migrants' remittances.

The future studies that the researcher had already recommended must focus to:

- To help migrants move in dignity and safety by adopting good policies
- Remittances must reach the once who need them
- We need fresh thinking to direct remittances to development impact
- How to reduce the cost of transferring money from one country to another

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