



## LITERATURE REVIEW ON MIGRANTS' REMITTANCES IN YEMEN

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### Abstract

*In the worldwide economy, remittances play a major role in the financial system. This paper aims to review the impacts of remittances in Yemen standing on annual data from 2009-2013. It will also attempt to find out evidence of long run relationship between remittances and economic growth. During the period of this study, the Republic of Yemen has experienced a major increase in remittance inflows. Hence, it is worth noting that while some countries are net-providers of remittances, for example the Gulf Cooperation Council Countries, others such as Yemen, which is known to receive large amounts of migrants' remittances. In other words, this paper will focus on the receiving Yemen country of migrants' remittances. The present paper indicates that remittances inflows may not be only important for economic growth but also for the development of banking sectors. It is thus, important for policymakers to ensure that remittances flow through formal channels.*

### 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. In 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. So, the inflows of migrants' remittances support the balance of payment and consequently make the process of importing and exporting easier and more effective.

Yemen is one of the third world countries in which people of low incomes, poverty, and unemployment are compelled to migrate to different countries to work and send their earning back home. Migrants' remittances to Yemen in a constant increase and this makes the country depend upon these cash inflows sent by the Yemeni migrants who work abroad. There is no doubt that the incoming remittances in foreign currencies play an important and major role in raising the economic level in any country in the world. Hence, Yemen is one of the Arab developing countries, which get high benefits from remittances of hard currencies. In this study, the researcher focuses on reviewing the literature on migrants' remittances and highlight the number of the incoming remittances considering the number of countries wherein Yemeni migrants are working. The researcher also focuses on the currencies that the migrants are usually dealing with in their motherland, Yemen. The researcher analyzes the data and classify it by the country to know which country has a greater impact on Yemen economy regarding the migrants' remittances.

Peoples' expectations of better life have increased due to popular political changes in 1990 which introduced multi-party democracy Migrants'. Yemeni migrants in Saudi Arabia are estimated to be one million and two hundred thousand by some official accounts and even as high as three million by others unofficial agencies, although the current population census states that less than seven hundred thousand Yemenis reside in Gulf countries other than Saudi Arabia which are Oman, Kuwait, UAE, Qatar and Bahrain. Nevertheless, there is an absence of reliable data on the number of Yemeni migrants overseas as government data and census reports seem to grossly underestimate the actual numbers reported in research studies (Salama 2014).

Remittance, as an old phenomenon, has assumed a great importance over the last decade in developing studies. With increasing international and internal migration, remittance is considered to be an 'important and stable source of external development finance' for households in source regions (Ratha 2003), reducing transient poverty and at times even structural poverty. At the same time, remittances can also lead to financial dependency, divert attention from productive investments and due to the self-selection nature of migration, increase inequality in source regions. Remittances defined in this thesis as "transfers, either in cash or in kind, to the households by their former members who had migrated out. Both formal and informal channels were considered and many questions were asked on the mode of money transfer by the out-migrant in both ways.

Migration creates challenges and opportunities for sending and receiving countries. For many net emigration countries in Middle-east countries, household income and national output are strongly tied to the incomes of migrants living and working outside Yemen. For many countries, studies and researches show that remittances have a positive impact on long-term



economic growth. Migration can always allow migrants to learn new skills and can facilitate cross-border trade and investment linkages. Moreover, labor importing to their relative to those economies and the neighboring gulf countries rely on migrant labor from the region to maintain rates of economic growth and standards of living.

Yet, working in the gulf area can for sure expose migrants to risks of abuse or trafficking, particularly those who work in the Kingdom of Saudi Arabia illegally and do not have recourse to legal channels. Yemen as a sending migrant's country could not closely coordinate with the Kingdom of Saudi Arabia in making a migration policy. The supply of migrant labor cannot better meet demand through legal channels that respect the rights of migrants and are politically and socially acceptable to migrant-receiving countries.

As a result of this unarranged situation, there is no promising route for enhancing the gain of migration in this region. Migration in Yemen can also create social dislocation by separating families for long periods. For the sending countries, large-scale migration can deprive the economy of needed skills. For the receiving country, migration can create social friction and possibly security risks. But for the case of Yemeni migrants, such friction is rare to happen because Yemen belongs to the same area that the gulf area belongs to. Yemeni workers share the same traditions, habits, language and religion with the gulf area in the middle-east.

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.

Remittances have been attributed to the impact of the incoming transfers on exchange rates. On one hand, remittances have contributed to the macro-economic stability of receiving countries because remittances are less volatile than other private capital flows. They tend to stabilize the exchange rates and may sustain current account deficits. The researcher believes that remittances to the Yemeni banking sector are the results of strangled economic and social development rather than a tool of growth and well-being. It helps sustain the fragile socioeconomic situation of migrants' country Yemen.

There is a clear support of migrants' remittances on the stability of exchange rate of Yemeni Riyal. As the local currency is facing unstable exchange rates in the Yemeni market because of regional, political, and local conflicts. The researcher focuses more on the Saudi Riyal because of the large number of Yemeni workers who work in Saudi Arabia and used to send large amounts of money to their homeland.

## **Data Sources and Econometric Methodology**

### **Data Sources**

The data for the study is annual figures covering period of 2009-2013 was obtained from the Central Bank of Yemen. Banking sector development is measured as ratio of domestic credit to private sector as percent of GDP. Commercial banks, Islamic banks and international banks working in the Republic of Yemen will help us in getting data in this study. This study will also make use of a number of related sources including indicators and financial books, journals, conference proceedings, and research web sites.

### **Methodology**

This research is aimed at reviewing the issues and key concepts regarding the migrants' remittances and based on that insight attempts to address the research problem. The research question is as follows: *What is literature review is available on Migrants' Remittances in Yemen, and what are Policy Options for Increasing Formal Remittance Effectiveness?*

Due to the paper constraint, it is difficult to access up to date and reliable data on migrants' remittances in order to be able to undertake empirical analysis on this topic. Therefore, the current study is based on a thorough review of existing literature. The literature used is mostly found from banks financial reports, research, textbooks, journals based reports, publications, articles and documentations from various concerned organizations such as, International Organization for Migration, The World Bank, Organization for Economic Co-operation and Development, International Monetary Fund, International Labor Organization and also web based information.

The steps that would be taken would include a series of data analysis to identify the components of migrants' remittances that we have to prove during my study. This section will provide the details of the research strategy adopted to address the



research issues presented in the research objectives section, together with the means of collecting data for analysis and the framework within which these data will be analyzed. The limitations and potential problems getting access to my chosen strategy will be mentioned.

### **Research Strategy**

The overall research strategy of the paper is the analytical descriptive approach. This method will be suitable for attaining research objectives because description will help in observation and thus giving remarkable critical evaluation, which is the main aim of this paper.

### **Data Collection**

Priority in collecting data will be given to the data available in the Central Bank of Yemen. Besides to the information and reports collected from the Central Bank of Yemen and the Commercial Banks in the market. By doing so, this is expected to enrich the subject from all different angles since the nature of the contents of my coming papers are denser and concentric. This paper will also make use of a number of related numbers sources including indicators and financial books, journals, conference proceedings, and research web sites.

### **Framework for Data Analysis**

Having been collected, the data will be sorted according to their relevance to the contents of this paper. One remarkable note to be mentioned here is that the banking and financial review will be distributed among this study. The data will be prioritized according to the logical sequence of the key issues of the topic.

### **Literature Review in the Context of Yemen**

The main reason behind the Yemeni migrations is the living standard of the household and the debts inside the homeland such as buying land or house, fulfilling the current expenses, financing education of children. Not only are the economic reasons, but there are social attributes which encourage the migration of the young people. Migration is institutionalized in rural north Yemen and the young people have no incentive to work in agriculture inside their country.

Regarding the choice of destination, the migrant has, in fact, limited choices. The majority of migrants are going to work in Saudi Arabia. Yemeni migration is male-dominant on the workload and status of females left at their homes in their homelands. The main findings in this review include the method of transferring remittance, uses of the transfer by the households and contribution of these remittances on the banking sector in the Republic of Yemen. It is the migrant's remittances that contribute to sustainable livelihood by increasing financial capital, education of children, social capital and lowers the investment cost and poverty reduction (Salama 2014).

To address the remittances issue effectively, we need a modern data to make better understanding of migrants and their needs, their situation, the needs of recipient families, the banking sector, the Yemeni banking system and there must be a good understanding of the financial products remitters need.

The study area is a review of the economy of Yemen represented by the balance of payment as well as the banking sector. Migrants' remittances in different currencies to Yemen either in cash status or remittances stands as an important topic for researchers as it is regarded to be one of the most important factors affecting the economies of all countries. For this research, we could not find enough previous studies that focus on the research topic to regard specifically, Yemeni expatriates' migrants' remittances in foreign currencies, so it was back to one of the specialized study that approach the subject of the study as follows:

Salama (2013) 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. The table down shows the remittances inflows from different countries to Yemen.

<b>Country</b>	<b>Average of Remittances in US. Dollars to Yemen for the Period 2009-2013</b>
Saudi ARABIA	6582
United States Of America	660
UnitedArab Emirates	99
Qatar	66
Bahrain	36



Kwuit	22
Oman	14
Other Countries	121

### Concluding Remarks

This paper has examined the relationship between remittances and its impact on economy. It shows clear the huge amounts flows from Saudi Arabia to Yemen and how it develop the economy. It reveals that there is short run causality from economic growth and remittance to banking sector development. This study provides some preliminary but consistent evidence that there is causal impact of remittance flow on Yemen economy. It is clear the evidence to suggest that remittances inflow could possibly facilitate overall performance of the Yemen economy. In other words, remittances play an important role in banking sector development in Yemen.

As noted by Bin Awad. (2014), given high transaction costs involved in sending remittances through banking and formal channels in Yemen, and the result from this study is to facilitate the migrants transactions to reduce fees and review policies and other charges on inward remittances. In addition, since significant remittances are sent through informal channels, re-looking at interest rates on remittances could well assist in increasing flow of remittances through formal channels and thus promote financial investments.

I find the effects of Migrants' remittance income to be not very big. I posit that this is because of the way that remittances are spent. The non-systematic way in transferring migrants' remittances also reduce the actual number of the money sent. The migrant remittances in the regions analyzed never enter the formal financial sector and are likely not used to increase permanent income. According to the permanent income hypothesis, income which does not impact permanent income will have smaller effects on consumption.

Remittance flows to the republic of Yemen are crucial policy concern since they are large in size, relatively stable and provide direct benefit to banking sector. However, for the development of the economy remittance do not automatically contribute to national development because of the bad consumption habits and the absence of the investment chances. It is recommended to the coming researchers to 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.

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