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Analysis of Migrant Worker Family's Financial Management

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Abstract

Worker migration is an old phenomenon. Many workers from Indonesia had migrated since 1970s, legally and illegally. According data from OECD (September, 2015) there are an estimated 215 million international migrants working in a globalised economy, the majority of whom are remitting money to their home country. Remittances are vital component of household income for families, reducing poverty and creating opportunities for investment in education and enterprise. As we know, high-income countries are the main sources of remittances. Government wants to upgrade the migrant workers financial knowledge to reduce revel tendency. But the one who arrange the remittance is the one in family member, not the migrant worker. This study tend to analyze ability to manage remittance and financial of migrant worker's family using descriptive qualitative method based on worker migration and basic financial management theory.

The results are remittances from abroad generally received 3-4 monthly. Remittances in dollars or others foreign exchange rate (for example developed countries) has huge value in rupiah because of rupiah's exchange rate depreciation tendency. But in East Java, Indonesia, access to increase financial literacy for migrant workers family is very lack. Migrant worker's family may have proper education and internet access but don't improve their financial literacy.

Keywords: remittance, family's financial management, Indonesia migrant worker

1. Introduction

Economy growth relied on natural resources extractive activities, but nowadays, the industrialization gives most contribution to economy growth. Because of demand/ requirement from costumer is increasing as well as population development. Free market competition exist and push the production of goods and services in most effective method in technology and efficiency to reach cheapest productivity cost and highest quality. To get along with all economic trends, customer needs to increase their income. Developed countries also promised higher wage and salary for workers. It pulls Indonesia's workers to migrate and work in developed countries.

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According data from OECD (September, 2015) there are an estimated 215 million international migrants working in a globalised economy, the majority of whom are remitting money to their home country. They seek income abroad to cut off vicious cycle of poverty of their family in home country. They distribute remittance to pay family's debt, provide better education for their children, renovate family house, etc.

Worker migration is old phenomenon. Many workers from Indonesia had migrated since 1970s, legally and illegally. Toughout history people have moved in search of improved resources, security and work to get better income, often crossing borders and oceans in search of new horizons and better standards of living. Migrant workers have so many dreams to achieve but they also have many problems abroad. Unskilled and low educated workers tends to have more problems than the skilled and educated ones. Not only Indonesia, other developing countries also facing the same problem for example India, Banglasdesh, Pakistan, Vietnam and China.

Remittances are vital component of household income for families, reducing poverty and creating opportunities for investment in education and enterprise. As we know, high-income countries are the main sources of remittances. Unsurprisingly, large, relatively high-income countries are the main source of remittances (Figure 1). The United States is by far the largest, with USD 51 billion in recorded outward flows in 2012, followed by the Russian Federation at USD 32 billion. However, smaller countries such as Saudi Arabia, Switzerland and Kuwait are also major sources of remittances.

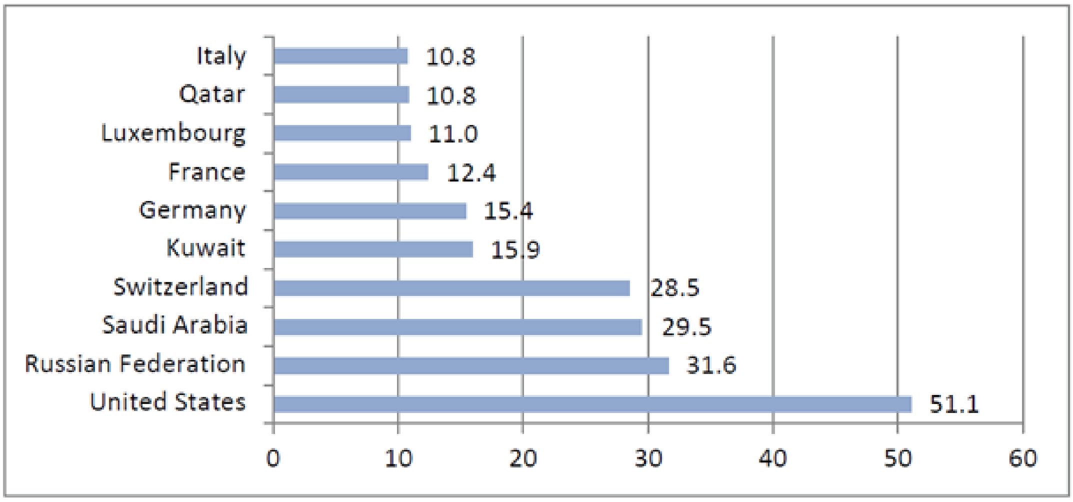

Figure 1: Top 10 remittance Outflows, 2012 (USD billions) (Source: World Bank, 2014).

Figure 2 shows that total legal migrant workers from Indonesia are decreasing after 2008. In 2008 Indonesia experience economy crisis which held to decrease Rupiah's exchange rate at the lowest. It made US dollar remittance became very large in rupiah and significantly increase migrant worker family standard of living in Indonesia. At that

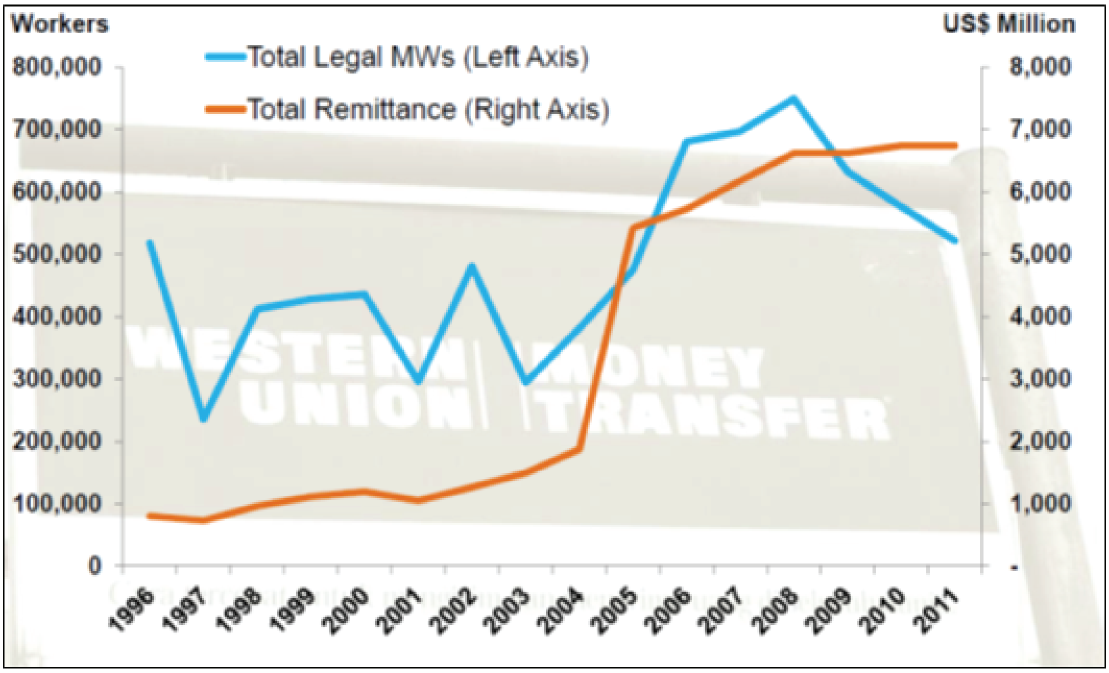

Figure 2: Size of Indonesia Migrant Workers Compared to Total Remittance (Source: World Bank, 2014).

time, many migrant workers decided to go home. In 2005, value of remittance start to increase because of development in human resources in Indonesia support the availability of skilled and educated migrant workers.

This study tend to analys financial management of migrant worker family whose receive the remittance. With case study qualitative methodology, we are trying to describe the implementation of family financial management. Respondents are 27 persons from Lamongan district, 5 from Blitar, 4 from Tulungagung and 5 from....

2. Literature Review

1. Workers Migration.

Workers are able to move between our two countries. Workers will move from Home to Foreign. This movement will reduce the Home labor force and thus raise the real wage in Home, while increasing the labor force and reducing the real wage in Foreign. If there are no obstacles to labor movement, this process will continue until the marginal product of labor is the same in the two countries.

Three points should be noted about this redistribution of the world's labor force.

1. It leads to a convergence of real wage rates. Real wages rise in Home, fall in Foreign.

2. It increases the world's output as a whole. Foreign's output rises by the area under its marginal product curve, while Home's falls by the corresponding area under its marginal product curve. Foreign's gain is larger than Home's loss.

3. Despite this gain, some people are hurt by the change. Those who would originally have worked in Home receive higher real wages, but those who would originally have worked in Foreign receive lower real wages. Landowners in Foreign benefit from the larger labor supply, but landowners in Home are made worse off. As in the case of the gains from international trade, then, international labor mobility, while allowing everyone to be made better off in principle, leaves some groups worse off in practice.

2. Financial Management

   Economics deals with questions connected to the optimization of 'prosperity': how can the supply of products and services be optimized, i.e. using minimum resources? Economics studies the relationship between consumers and companies and these companies' mutual interactions. A distinction can be made between micro and macroeconomics. Microeconomics comprises among others, the theory of markets: how does the price mechanism work in a particular market, for example the market for holiday travel? Determining for this, are among others, the number of suppliers and customers in that particular market.

   Business economics focuses on economic behavior in a production organization. 'Production' should be interpreted broadly: it not only concerns the production of physical goods but also trade and services. For example in economic terms, a production organization is not only an auto plant but also an auto dealer and a mechanic. The level of profit depends on efficiency on the one hand and effectiveness of the business process on the other.

   Efficiency relates to the cost-effectiveness of the production process and effectiveness to meeting the target objectives of the production process, or the level at which the end product meets the customer requirements. A production process is efficient if a given quantity is produced at minimum costs. A production process is effective if the end product is appreciated by customers and customers are willing to pay for it.

3. Condition of underdeveloped financial services industry and financial consumer protection in East Java, Indonesia

   (a) Lack of a financial services industry in the home country, especially in village

(b) Lack of infrastructure

(c) Lack of appropriate products for migrants in their host country or town

(d) Unsatisfactory product design and terms and conditions

(e) Onerous documentation requirements designed to prevent money laundering and terrorism funding, including proof of residency, may make access impossible regardless of legal status

(f) Lack of a transparent, accessible complaints handling procedures

4. Cultural and social attitudes, trust and confidence

(a) Lack of familiarity with the system: Financial systems vary across countries (and even within countries to some extent), and unfamiliar financial services providers can make migrants lack confidence in seeking advice or buying suitable products and make it difficult to know where to go for help (such situations are described by organisations working with Latin American migrants in the US for example).

(b) Cultural or religious differences as well as prejudice or the fear of prejudice can also create obstacles for migrants trying to purchase financial products. Social relationships and commitments with informal providers have also been shown to have an impact on formal financial inclusion.

(c) Mistrust of financial services: Individuals may be dissuaded from using formal financial services if they do not believe that the financial services sector is reliable and well regulated. Such mistrust may come from first-hand experience in the home or host country or may develop from hearing stories from other migrants and their families.

(d) Misunderstanding or mistrust about the role of the banking sector in identifying illegal immigration: Undocumented migrants or those remaining in their host country once their visa has expired may be concerned that if they identify themselves to formal institutions they will risk being punished or deported.

(e) Visibility/transparency of transactions: The extent to which money can be traced may also create additional barriers for households who do not want to let others know how much money they are sending or receiving. This could be for a number of reasons including not wanting to put the family at risk from robbery, tax avoidance/evasion or illegal activity.

5. Knowledge, skills and access to services, including education

(a) Limited language skills or low levels of literacy and numeracy

(b) Lack of confidence, experience or ability to access telecommunications and internet technology

(c) Low levels of financial literacy

(d) Inadequate provision of financial education: financial education programmes may not be sufficiently tailored to the needs of migrant workers and their families to improve their financial literacy and increase their access to appropriate financial products

3. Discussion

Legal migrant workers must do several trainings and education to increase their working skill and attitude to meet the employer's requirement abroad. For their own concern, they also trained how to manage their income (remittance) and has knowledge about financial instrument. Training materials for migrant workers including economy literacy to manage their income and spending with saving for the future and investment to increase asset. Migrant workers also trains to be able to describe their own financial position before going abroad and their financial goals in the future. Government wants to upgrade the migrant workers financial knowledge to reduce revel tendency.

Remittances from abroad generally received 3-4 monthly. Remittances in dollars or others foreign exchange rate (for example developed countries) has huge value in rupiah because of rupiah's exchange rate depreciation tendency. Sometimes the one who arrange the remittance is the one in family member, not the migrant worker. Family members who often manage to arrange the remittance are wife, parents, and parents in law. So the member of migrant worker family should get financial literacy education as well as migrant workers, because migrant worker's family have to arrange the remittance consistently and strictly to achieve family's financial goals in the future. But in Indonesia, access to increase financial literacy for migrant workers family is very lack. Migrant workers family may have proper education and internet access but don't improve their financial literacy.

According to data from World Bank, Indonesian Migrant Worker have less access to bank than nationwide, but they are saving more than nationwide. Because their remittance is in big amount, bigger than their family's needs. It is a good news because migrant workers better to save the remittance and the amount of remittance are bigger in rupiah than in dollar. So migrant workers tend to seek job abroad over and over again because they always compare the salary in Indonesia with the remittance from abroad.

Before migrant workers sent abroad, Government and related institution already give adequate training and education about economy but the realization is far from hope. Because maintaining income needs discipline and support from entire family. Nowadays so many financial instrument for investment which provided by banks and financial institution.

According to focus group discussion, reveal that migrant worker's family are facing difficulties to get knowledge and use financial instrument. They also needs help to interpret and understand the terms and condition in financial instrument.

Sometimes migrant workers and their family only using limited financial instrument such as ATM card and sms banking. Common investment instrument used by the migrant worker's family are only limited to saving, time deposite, and simple peer to peer lending (to neighbor/communities). They already save money traditionally by hiding money in the house and its surroundings, which is very risky and doesn't have interest rate benefit.

Migrat worker's family prefer investment in agricultural and farming such as buying rice farming land, expanding cattle stock breed, bird farming, etc. Because migrant worker's family are often farmers and breeders. The risk of agricultural investments are unpredictable climate change, livestock epidemic, lack of livestock vaccination, organic manure scarcity, natural disaster (flood, storm, long dry season), etc.

4. Conclusion

Well designed, low-cost remittance products can help to maximise the benefit of money sent abroad whilst also providing a valuable stepping stone towards increased financial inclusion in both the home and host country. Financial instrument for migrant worker's family should be sufficiently culturally sensitive, with simple vocabulary which easily understood by the family. Frequent education and socialization are needed with training/simulation how to apply and using financial instrument to give experience running financial management for the family member.

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