THE FINANCIAL PLANNING AND FINANCIAL LITERACY OF EX-MALAYSIA INDONESIAN MIGRANT WORKERS[1]

DOI 10.18267/j.aop.557

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Abstract

Indonesian migrant workers (IMW) face life difficulties after returning back to Indonesia. This is a contrary condition considering their contribution to their home family in Indonesia while working abroad. Literature mentions that their financial planning is the root of the poverty of ex-IMW. Therefore, this research adopts literacy theory to explain this phenomenon. This research conducted a survey among 548 ex-IMW and measures their financial literacy and financial planning. This research also maps their asset ownership to examine the relationship between financial literacy and asset ownership. Overall, this research documents that financial literacy contributes statistically significantly and positively to financial planning. Furthermore, this research shows that asset ownership is closely related to financial literacy. In a nutshell, this research concludes that it is important for migrant workers to have good knowledge of financial issues, because having good financial literacy helps the migrant workers to plan their finance and budget much better, thereby helping them to avoid the poverty trap. Therefore, policymakers such as migrant worker authorities and/or Indonesian embassies abroad have to institute financial education programmes for migrant workers before they return to Indonesia.

Keywords: Financial literacy, financial planning, migrant workers, Indonesia
JEL Classification: D91, D80, G11

Introduction

There are about 2 million Indonesian migrant workers (hereafter, IMW) working in Malaysia currently; the biggest among the migrant workers' destination countries. The national authority for migrant worker placement and protection of Indonesians (hereafter, the migrant bureau) reported that the remittances from those workers to Indonesia reached USD 7.4 billion in 2013; the largest among the migrant workers' destination countries. This implies that IMW are important for Indonesia's economy.

The main reason for IMWs' work in Malaysia is indeed for having a better life. The migrant bureau reports that one IMW might save five of his/her relatives in their home village. Nevertheless, the life after returning to Indonesia is a different story for most migrant workers, where most of ex-IMW face their lives in poverty again. This leads to intriguing questions: What have they done with their money? What has happened to their remittances?

1 Authors acknowledge the financial support from the University Malaysia Sarawak for Small Grant Scheme F01(s144)/1174/2014(09).

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The major contributor to this unchanged income status for most IMWs is their financial planning. The migrant bureau reports that IMW tend to transfer a large portion of their money to Indonesia, and afterwards spend the rest in Malaysia. This is consistent with the findings of Raharto [2007], who found that female IMW had transferred their money back significantly in the hope that the family will either use it or save it, while they spend the rest.

To explain this phenomenon, this study uses literacy theory. Literacy theory describes how people learn about the world and how people can participate in society [McEneaney, 2006]. This theory was then adopted and reintroduced by Mitchell et al. [2000] in constructing another postulate called financial literacy theory, describing that a financially illiterate person tends to make poor economic decisions. There are many research papers in developed markets that have confirmed the link between financial literacy and decision making, such as Hastings and Tejeda-Ashton [2008], Servon and Kaestner [2008], Lusardi et al. [2010], Fornero and Moticone [2011], and van Rooij et al. [2012].

Prior studies show that financial planning is closely related to well-being [Lusardi & Mitchell, 2007a, 2007b; Hana & Lindamood, 2010; van Rooij et al., 2011]. This implies that those who have good management in their financial planning would lead a better resulting life. Yet little is known about why people fail to plan for retirement after being a migrant worker, and how planning as well as information shape retirement saving decisions.

Relating it back to the Indonesian context, those financial literacy research papers are tally with prior studies. For instance, Turner et al. [2009] address the fact that the Indonesian government has not optimized their HRM system, which would lead to decreasing human development index and inefficient governance. Lipsey and Sjoholm [2004] address the fact that education is one of the main sources of low-pay labour in Indonesian manufacturing companies. There are also findings of Booth [1999], who argues that the Indonesian government has not renovated their educational system, leading to retarded economic growth.

This paper explores the hypothesis that poor planning may be a primary result of financial illiteracy. That is, the Malaysian IMW who still live in poor conditions do so mostly due to their unawareness of fundamental economic concepts driving economic well-being during their working period. This study addresses the question of how IMW earn their money but yet fail in their economic life. There are few studies on migrant workers' understanding of financial planning [Dustmann, 1997; Zarate-Hoyos, 2004; De Haas, 2005], but far fewer on the Indonesian context, especially those who have just come back to their home country. While there are numerous formal economic theories for financial planning and well-being [e.g., Hamilton & Moses, 1973; Kumar, 1984; Carino & Ziemba, 1998], this paper embodies social economic research on explaining this phenomenon. This implies that this research aims to enrich the body of knowledge on financial planning and poverty from the point of view of sociology.

This study may help the Indonesian government in core-issue mapping of the ex-IMW's poverty. Our results surmise the importance of financial literacy for IMW's financial planning, and this may lead the Indonesian government to develop communication and education programmes related to financial literacy for them. Furthermore, the findings might help the Indonesian government to impose a new policy that might help the well-being of IMWs.