Session 4
Part I: Remittances: Origins, Trends, Drivers and Determinants
Course Lecturer: Lenora Suki
Guest Lecturer: Dean Yang

Course Lecture

Profiles of Senders and Receivers

Getting a good sense of the profiles of senders and receivers is a critical component of the study of remittances from both a public and private sector perspective.

Private Sector

Private sector interest is driven by the need for market research to determine demand for possible services for a lesser known demographic.

1. Large financial institutions are getting more interested in remittances, but are at a loss in terms of marketing.
2. Despite large aggregate financial flows in this demographic in the form of remittances, the demographic is not familiar with the formal financial sector.
3. Large financial institutions' infrastructure was developed for large cross-border financial transfers rather than small interpersonal cash transfers.
4. Increasing demand for accurate profiles of senders by the private sector so appropriate financial instruments and services can be designed and deployed.

Public Sector

The public sector is responsible for allocating scarce resources for investment in public goods. As a result, defining the demographic is critical for crafting effective policy.

1. Knowing demographic and socioeconomic profiles helps determine challenges, opportunities and policy shortcomings.
2. Can also help identify contributions to their host and home societies.
3. Varying motivations for public sector interest in socioeconomic profiles (sometimes depending on political affiliation):
    a. right/conservative: may use data to target low-income migrant communities benefiting from housing subsidies or other social services; using precision data to profile migrant groups for security purposes;
    b. left/progressive: use data to determine investments in social services, e.g. health and education, to take account of increasing migration and changing make-up of immigrant communities.

Significance of Profiles

1. Family and Community Social Dynamics

2. Economic Situations and Standards of Living
3. Geographic and Spatial Characteristics
4. Education and Financial Literacy
5. Strength of Transnational Networks

1. Family and Community Social Dynamics
    a. Senders: The typical new migrant is young and tends to place high priority on remitting to family. Often remitters are male, but there is a growing number of female migrants and remitters (now about half of the total worldwide).
    b. Receivers: The New Economics of Labor Migration, views the family as the unit of analysis in examining migration decisions and impacts. Family use of remittance funds has multiplier effects throughout communities.
    c. Potential adverse effects: dislocation of nuclear family dynamic; friction with non-receiving families.
        i. Some studies show the inter-generational effects of a migration culture showing up as increased interest in children forgoing schooling in favor of migration or beginning work at younger ages in preparation for a future in migration.

2. Economic Situation and Standards of Living
    a. Senders: Preference of informal pay when undocumented. Often employed in substandard working conditions (risk to health and life, workplace abuses, etc.), but still better than home country opportunities.
    b. Receivers: With low income per capita and high remittances, flows can substitute for earned income in the home country. Impact may skew income distributions. E.g.: Mexico national remittances only 3% of GDP but can be up to 50% of incomes in high migration areas.
        i. Some research shows higher percentages of non-productive members of society in remittance-receiving households vs. non-receiving households. BUT rural remittance-receiving households tend to report higher levels of self-employed.

3. Geographic and Spatial Characteristics
    a. Senders: Generally, migrant communities are thought of as tightly-knit ethnic neighborhoods. While this is certainly true in large metropolitan centers like New York and Los Angeles where shared language and transnational networks exist, it is becoming less true as migrants are beginning to move out of these already saturated labor markets.
        i. There are also significant differences between migrants who move to urban or rural areas in the host country. Connections to communities and access to communication with the home country are more limited in rural settings. Clearly in some US states, migrant labor is in demand in rural industries.
    b. Receivers: Whether one is in a rural or urban setting has a large effect on impact, use of money, institutional access, additional costs. Some research

is beginning to suggest that returning migrants are predominantly relocating to urban parts of their home countries.

4. Education and Financial Literacy
    a. Education. This is a particularly relevant determinant in socioeconomic status when people migrate. Migrants may evaluate the decision to migrate or to pursue education with an expected value estimation of the two activities. They may place a high discount rate on education feeling the returns to education are very low.
        i. This is a controversial topic – there are, in fact, wide disparities in educational levels of different migrant groups.
    b. Financial Literacy. Generally, remitters are in a cash economy. Check cashing operations and MTOs receive more business from the migrant community than do formal banks, even when the formal institutions can offer better pricing. Evasion and distrust of the formal financial sector – and lack of credit and other financial services - constrains economic activity for migrants.

5. Transnational Networks
    a. An established, visible community within the destination country reduces many costs associated with migration. E.g.: Chinatown in NYC is an extensive network of people and resources on which Chinese migrants draw to help assimilate into the local economy and social networks.
    b. Enclaves often create environments in which residents do not face the need to assimilate into the formal sectors of their host country, finding expression in preference of MTOs to large impersonal banks.
    c. Result can be dynamism - Roosevelt Avenue in Queens or Chinatown, for example. Or economic isolation and stagnation, the Arab suburbs of Paris, for example.
    d. Migrant political involvement is increasing in both the host and home countries.
        i. Seats sometimes reserved in legislatures for represent diasporas.
        ii. Increasingly representatives of migrant communities in home countries as well
        iii. New York, for example, has several migrant assemblymen, representing the various migrant communities of the city.

Guest Lecturer: Dean Yang
University of Michigan

Professor Yang has been conducting research on how people use migration and remittances as strategies for improving their well-being over both the short and long term. Specifically, he is interested in exploring how it is people use remittances for investment that can potentially benefit them in the long term, as opposed to the conventional view that remittances are predominantly used for immediate consumption purposes. He is also interested in examining remittances as a form of informal insurance; specifically, the informal strategy of sending family members overseas who can then make resources available if conditions in home countries change. With regards to this research, Prof. Yang has been studying the Philippines.

1. There are two intersecting factors that compel this research:
    a. As has been repeated a number of times, remittances account for a relatively large sum of money; and
    b. Much of this money flows into developing countries where risk is substantial and uninsurable, in the formal sense.
2. Migrants' earnings impact origin households in developing countries in several ways, in particular:
    a. Household income
    b. Poverty rates
    c. Investments in children, enterprises
3. Key questions:
    a. How does migration help households cope with risk?
    b. Do remittances from overseas migrants serve as insurance for relatives back home?
    c. Do households without migrants send members overseas in response to severe financial shocks?
4. Philippines' Migration System
    a. The Philippines is a major labor exporter.
        i. Migration officially conducted
        ii. Usually temporary and legal – most migrants are away for a maximum of four years.
        iii. Initiated by the Philippine government in the 1970's when the Philippines faced a significant economic shock
        iv. Now largely run by private recruitment agencies with the government's supervision.
5. Experimental Situation
    a. If we wanted to study the impact of remittances on households in a laboratory setting, one could imagine an experiment whereby households with one or more members were migrants working overseas were tracked over time and each of these households would be assigned a random financial shock, and then track the impacts and responses of the households with respect to remittances and migration.

b. The 1997 Asian financial crisis in the Philippines created the sort of experimental setting described above. Prof. Yang examined households to determine the differential impact and responses with respect to migration.
c. By tracking the foreign exchange rates of host countries, which varied widely with respect to the Philippines peso during the Asian crisis, Prof. Yang analyzed the differential impacts of remittances on respective households.
d. Prof. Yang separated three control groups to look at:
    i. Migrants in developed countries which were unaffected by the crisis saw the values of their remittances surge, and as a result the receivers saw significant currency windfalls.
    ii. Migrants in countries that were somewhat affected by the crisis saw moderate increases in their remittance values, and consequently receivers saw moderate windfalls.
    iii. Migrants in Malaysia and other countries hit hard by the crisis saw no improvement in the conversion rates to the Philippine peso, and as a result saw no surge in their remittance values.
e. As might be expected, Prof. Yang discovered an increase in remittance amounts from migrants living in countries that experienced positive currency covertability changes as a result of the Asian crisis – migrants living the US, for example, increased the amount of remittances during the 1997-1998 time frame.

6. Insurance Findings
    a. There is a building set of research in development economics looking at informal insurance measures taken by those in developing countries to cope with the common shocks they experience. Aggregate and systemic shocks are very difficult to insure against in more typical settings. This makes the remittances seem like much more serious insurance.