

Session 7 Notes

Part II: Impact and Significance for Development: Local and Community Development

Course Lecturer: Lenora Suki

Guest Lecturers: Jeronimo Cortina and Rodolfo De La Garza

Course lecture

Remittances and Development

1. Up to this point in the course we have looked at characteristics of senders and receivers. Now, we will begin to look at the effects of the funds being received.
2. Development impact can be examined from many perspectives.
3. Critics tend to say that there is very little effect beyond that at the household level.
4. Among the four levels of impact – household, community, local government and national government – we will first focus on the household and community level.
 - a. Households
 - i. Remittances affect consumption, saving, investment, and labor decisions.
 - ii. All have multiplier effects.
 - iii. At household level, remittances may allow investment in small businesses.
 - b. Community
 - i. HTAs invest in communities but in very small amounts.
5. Development Outcomes Overview
 - a. Main Themes:
 - i. Impacts on Poverty. We are not only interested in impacts on poverty headcounts, but also income inequality.
 - ii. Consumption smoothing effects of remittances.
 - iii. Effects on working capital constraints.
 - iv. Impacts on health and nutrition. These are harder to link directly to remittances from a measurement perspective, but there are undoubtedly effects.
 - b. Main Questions:
 - i. Are there connections between remittances and savings?
 - ii. How do remittances affect labor supply at home?
 - iii. What is the effect of remittances on productivity?
 - iv. Do remittances worsen income inequality?
 - v. Do transmission mechanisms vary impacts that remittances can have?
 - c. We tend to think of development in terms of impacts on more traditional indicators such as nutrition, education or health. Consumption can also have an important development outcome.
 - d. Availability and access to financial services may be signs of development. Financial development has been strongly connected with growth.

- e. Development impacts of remittances face quantification challenges. Among other shortcomings, there is a lack of time-series data and missing measures from in-kind transfers.
 - i. Purchasing a television or computer may contribute to better education outcomes of young children, as can purchasing books.
 - ii. Allowing mothers to stay home with children may improve health, security and nutrition .
 - iii. Other outcomes: increased savings, home ownership, better nutrition, etc.
 - f. Measurement of development impacts of remittances is a challenge for econometrics.
 - i. Meaningful analysis would examine the counter-factual of migrants not leaving but staying home and working.
6. Do remittances behave like other capital flows?
- a. Short answer is no. If remittances are like other forms of capital, they should reward growth, but remittances don't show these patterns – they tend to be countercyclical (see Chami 2005¹) and behave more like insurance or welfare.
 - b. The implicit contracts between senders and receivers present moral hazards created by asymmetries of information: senders don't really know how receivers spend their money. According to Chami (2005), if working less is the condition that guarantees remittance receipts, receivers may adjust their own labor supply downwards to ensure remittance receipts.
 - c. Are there ways to correct the information problems or create incentives for the use of the remittance funds so that they reward activity rather than inactivity? Financial products or structures may help.
7. Status of local infrastructure is another factor in the use of received funds. Local investment is less likely when local infrastructure is weak. Local/national governments should create more encouraging investment environment first.

¹ Chami, Ralph, Connel Fullenkamp and Samir Jahjah. (September 2005). "Are Immigrant Remittance Flows a Source of Capital for Development?" *IMF Working Paper WP/03/189*.

Guest Lecturers: Jeronimo Cortina and Rodolfo De La Garza

Rodolfo De La Garza

1. Questions relating to how remittances impact development are addressed through a typology of expenditures:
 - a. Consumption
 - b. Communal Investment – Such as establishment of clinics, purchase of fire engines, or building a water well. These are very well publicized, but generally have little effect because of shortages in maintenance funds.
 - c. Economic Investment - this typically means job creation.
2. Further, almost all the money goes to consumption. Most Latin American and Caribbean countries are poor. Some get a significant portion of their GDP from remittances, but receipts come in small amounts spread out over a very large number of receivers. Remittances don't come in one big check for *governments* to use. This has very different economic implications.
 - a. The idea that remittances come in the form of other types of development money is common but incorrect. Ironically, the more developed a country, the more likely remittances are to lead to productive development, because of fertile investment climate.
 - b. The problem is that there is very little productive possibility in countries that are very poor.
3. A central question is how to make remittances reward the migrants themselves without rewarding incompetent or corrupt states?
 - a. Poor governments have begun to rely on remittances to support their populations. For example, El Salvador's economy relies heavily on people emigrating to the US to support the poor.
4. Most immigrants that come to the US do not return home.
 - a. In this case, it may make more sense for these people to invest here in the US rather than investing in Mexico. Is it possible that this sort of investment might be more beneficial to the family back home by creating a successful capital generating base in the US? This is an empirical question.
 - b. There is the Cuban example: when Cubans first came to the US from Cuba, migrants were not allowed to send remittances back to Cuba. They may have used this money to invest in their new communities in the US. The Cuban community here in the US is now significantly well off and politically powerful.

Jeronimo Cortina

1. Importance of remittances needs to be analyzed on the individual and national level. Most of the evidence suggests that the largest impact is on the family level.
 - a. Overall, the biggest determinants in sending remittances are,
 - i. having family at home, and
 - ii. the intention to return home.

2. From a national perspective, it is supposed that one significant factor affecting remittance flows is the immigration policy here in the US.
 - a. For example, amnesties could dramatically decrease remittances by allowing families to reunite and decreasing demand for remittances in the home country. Additionally, this might increase interest in returning home because there would no longer be the fear of re-entering the US once the migrant has left.
3. Where is the money going?
 - a. The largest percentages of receivers are not necessarily the most poor. Often, it is higher GDP areas that receive higher remittances.
 - i. Approximately 75% of households receiving remittances are not in extreme poverty.
 - b. Depending on poverty definitions, remittance have a very different effect on poverty reduction.
 - c. Approximately 80% of remittances are used for consumption purposes, broadly speaking.
 - d. The proper question we should be asking is: How do expenditures differ between households that receive remittances and those that do not? At this point, their paper does not address this question.

Questions

Do we look at money spent on health or education as investment or consumption?

There is a lively debate in academic literature on this subject, but most people would agree that these two expenditures meet certain limited investment definitions. However, we should also ask: what is the purpose of the investment, what are the returns? If you live in a place with poor opportunity structures, then these expenditures begin to look less like investments.

Professor De la Garza posed the following question to the class: **Why study remittances?**

Responses from the class:

- New field – interested in seeing what, if any, impact remittances have on development.
- Get new ideas on how to look at remittances, aside from just seeing them as small money transfers. See what others are doing and what can be done to increase productive use.
- What effects are does “consumption” have on development? Is some consumption akin to investment? Children can watch Sesame Street on TVs or use computers for educational purposes. Washing machines/dishwashers may save mothers time and work that can be devoted to child-rearing, make families happier, improve standard of living, etc.

- Where is the remainder of the money going? Even if the amount going to saving/investment and other so-called “productive” uses is 20%, this is still a substantial amount of money, especially for microfinance institutions.
- What are the social and political consequences of remittances?
- Remittances offer a new window into studying migration patterns. Lack of data on migration makes it difficult to study actual migration patterns. Verify predictions of other migratory patterns.
- Roles in small savings or development purposes. Interest in microfinance institutions.
- Almost everyone in the class has a personal experience with migration or remittances. About half the class is interested in senders and almost everyone is interested in receivers.