Session 8
Part II: Impact and Significance for Development: Poverty, Inequality, Human Development
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Guest Lecturer: Dilip Ritha

Course Lecture

Challenges of Research

Given the relative youth of this subject of study, much of the research is still in its preliminary stages. With every new set of large surveys, researchers and practitioners must be prepared to reevaluate previously "settled" questions. Additionally, it is worth bearing in mind that there are problems with data and measurement, as well as evaluation of counter-factuals that have yet to be fully worked out.

To help you be a more informed reader:

1. What are the questions being addressed by the research?
    a. This will have a large impact on the direction the research will take. Looking at poverty reduction, inequality, use of funds or motivation for remittance will often imply differing analytic approaches.
2. What are the assumptions?
    a. Positing certain factors as exogenous or random can have an important impact on conclusions or limit the usefulness or accuracy of the research model.
    b. It is important to look at assumptions and evaluate their validity. Is it realistic to designate certain variables as exogenous? If the model does so in the interest of simplifying the analysis, what effect does this simplification have on the conclusions?
    c. For example, positing that remittances are a substitute for earned income is not at all an established fact. Likewise, assuming that migration is randomly determined is not consonant with reality. Positing these points in research may imply conclusions that are biased or unclear.
3. What are the data sources?
    a. How does the data source impact the analysis?
    b. For example, looking at macro trends may yield very different results from household surveys.
4. Is there important missing data?
    a. One of the chronic problems in remittance research is poor data collection. Household surveys may contain significant errors in underreporting or subjective answers that may not reflect facts.
    b. There may also be missing variables that would impact analysis which has been left out of surveys all together. Some characteristics may be very difficult to quantify.

    c. Also, remittances represent a two-sided relationship. Asking questions to only senders or only receivers may have implications for areas such as evaluating incomes or spending patterns.
5. What is the context of the study?
    a. It is important to understand if the population being studied is representative or represents a particular sub-sector.
    b. Studying urban vs. rural areas may yield very different outcomes in research. These differences impact how questions are framed.
    c. Other possibilities: Respondents contacted at home or in a money transfer office. Respondents associated with certain institutions, like credit unions or banks.
    d. Some surveys are conducted only at the border.
6. Does the model take into account feedback effects?
    a. For example, in studying labor force participation: Receiving remittances will impact other decisions, such as sending a child to school or determining whether to work in the formal sector or pursue self-employment or whether to send an additional migrant abroad. These decisions will have additional follow-on effects that may impact the level of remittances over time.
    b. Because of the difficulty of evaluating a counter-factual, it is difficult to determine what remittance receivers' decisions would be in the absence of remittances or, more realistically, in the absence of remittances but *with* the labor income from the household member who decides not to migrate.
    c. Also, if household members who might otherwise migrate decide instead to stay in the country, there will be labor market effects, i.e. on wages.
    d. Effects may also vary substantially depending on the time horizon.
7. Do the results fit common sense?
    a. Do the conclusions in these articles make sense to you?
    b. There are many examples of contradictory conclusions. For this reason, the reader should interpret results with some subtlety, recognizing that it may not be possible to map every motivation or determinant.
8. Generalizations
    a. How much can one generalize from the limited data and conclusions of the analysis? Do the authors over-generalize?
    b. Remittance studies are often very specific in terms of demographics, cultural variables, geography and economics.
    c. It may be possible to extrapolate that a study conducted in one type of environment (e.g. port city, population in extreme and serious poverty, generally low levels of literacy, etc.) will have implications for similar environments and similarities with other settings. However, we should be hesitant to over-generalize.

Examples of Empirical Research on Remittances and Development

Barnham, Boucher (1998[1])

Bradford Barnham and Stephen Boucher wrote a paper with a major conclusion that migration and remittances increase income inequality when compared with the counterfactual of household members choosing not to migrate and staying in the home country to work. This case presents some of the difficulties discussed above:

1. Study attempts to address the counterfactual. Posits a comparative scenario in which incomes with remittances are contrasted with incomes if migrants stay home and work. This requires estimating incomes for migrants who stay home.
2. Feedback effects – Study also aims to address feedback effects of the counterfactual. Estimating wages for migrants choosing to stay home requires evaluation of labor market effects of people not leaving. It also has an impact on labor market decision of other household members, e.g. if men normally migrate and additional incomes from remittances lowers womens' labor market participation.
3. Selection problem – Study assumes random selection of migrants. Assuming comparability of characteristics of families with migrants and those without is probably not realistic.
4. Unobservable factors also influence outcomes and decisions.

Durand Et Al. (1996[2])

Jorge Durand led a study that investigated, among other things, correlations between migration, remittances and economic development of hometowns. The authors assert that remittances are used for savings and investment generally where the level of economic development in their area is higher and there are more opportunities. Low rates of investment in receiving towns are, therefore, not the result of dependency on remittances, but rather the same factors that may drive the decision to migrate – poor infrastructure, unproductive agriculture, lack of access to land or credit.

1. The authors generate probabilities that illustrate propensity to remit or save, size of remittance and spending destination (saving, investment or consumption).
2. Investment decisions are more likely when there is appropriate infrastructure or a dynamic community.
3. Savings decisions take place in the context of land ownership or business ownership. People with access to capital or financial resources behave differently.
4. A number of the results seem contradictory:
    a. Results suggest migrants who are very settled in the US are less likely to remit or return home with savings. On the other hand, migrants in jobs where taxes are withheld are more likely to remit.
    b. Other surveys suggest this may be a result of the time horizon being examined but one says stability increases remittances, the other says the opposite.

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[1] Barnham, Bradford and Stephen Boucher. (1998). "Migration, Remittances, and Inequality: Estimating the Net Effects of Migration on Income Distribution." Journal of Development Economics 55: 307-31.

[2] Durand, Jorge, William Kandel, Emilio Parrado, Douglas S. Massey. (May 1996). "International Migration and Development in Mexican Communities." Demography 33 (2), 249-65.

c. Authors determine that differentiating remittances and savings is difficult because the two are intertwined.

Uses of remittances

It is difficult to draw generalizations about the use of remittances by receivers.

a. De La Garza (2000[3]) show that large percentages of remittances repatriated to Mexico are used for health care expenditures. This distinction shows up in very few studies.
b. Most studies show that the majority of remittances are used for basic necessities.
c. Despite the common suggestion that remittances fund only consumption, research also shows that some percentage of funds is almost always used for investment purposes.

[3] De la Garza, Rodolfo O. and B. Lindsay Lowell. (June 2000). "The Developmental Role of Remittances in U.S. Latino Communities and in Latin American Countries." A Final Project Report of the Inter-American Dialogue and the Tomas Rivera Policy Institute.

Guest Lecturer: Dilip Ratha, World Bank

1. Most indicators suggest both migration and remittances are going to increase in the future.
    a. Transaction costs and travel costs are decreasing, which is resulting in increases in both migration and remittances.
    b. North populations are aging and south populations experience growing labor forces.
    c. At least half of all migrants move been between south/south regions, meaning the remittances are also flowing south/south.
2. Remittances are the most tangible link between migration and development.
    a. There appear to be massive welfare gains, and remittances also reduce headcount poverty rates.
    b. There is much to be done to increase the ability of people to send.
    c. Last year, China revised it remittance numbers from $4 billion to $21 billion.
    d. Remittances are now the largest source of financing for developing countries.
    e. Compared to capital flows, remittances are significantly more stable and may be counter-cyclical.
    f. One of the surges in numbers is explained by the redirection of informal flows towards formal flows. Also, the weakening dollar has an increasing effect.
3. Compared to 1999 – the US/Mexico remittance cost has decreased by 56%.
    a. An important discovery has been the appearance that remittances are extremely cost-sensitive: if costs decrease, remittances will increase, and *vice versa*.
4. Gains for the poor
    a. Even though large countries receive largest absolute amounts, it is the small countries, where remittances account for large percentages of GDP, that they make the biggest differences – Tonga and Nepal, for example.
    b. Remittances tend to reduce poverty headcount ratios (PHR). This has been confirmed by several household surveys.
        i. Nepal, for example, despite it worsening political and economic climate, has managed to reduce its PHR by almost 10%. This is believed to be a result of migration to India.
        ii. Also interesting because it is a South/South migration/remittance flow.
5. Difficulties with analysis.
    a. A big reason that remittance impact on growth is difficult to measure is because the flows are counter-cyclical. It is difficult to see what the positive effects of remittances are when so many other indicators are going poorly.
        i. For example, we expect to see a surge in remittances once the Tsunami data becomes available. It will be difficult to evaluate the

positive effect of remittances because the economic infrastructure of the affected areas has been decimated.

b. Another difficulty is presented by the definition of the household. In Sri Lanka, for example, many people receiving remittance do not have a family member abroad. This may the result of a very different understanding of the "household."

6. Other aspects of remittance tendencies.
    a. World Bank research on African diasporas in Belgium showed that much of these populations were unaffected by remittance decay – the prediction that remittances will decrease as migrants' ties with their host country increase. The same surveys showed that senders were sending money to several households rather than a 1-to-1 model that is often imagined.
    b. From a macro level – remittances should improve a country's access to capital markets.
        i. Lenders look at debt/export ratios to determine credit worthiness of borrower nations. If we included remittances in debt/export ratio, we might see significantly better ratios for many smaller countries. For example, Lebanon was expected to default on its debt, but did not, and this may in large part be as a result of its remittances.
        ii. If remittances were included in the debt/export ratios, there may be a number of countries that could access capital markets that presently can not.
        iii. Looking at new innovative financing mechanisms could truly leverage remittances. To date, $10 billion have been raised through "remittance bonds." Brazil, Turkey, El Salvador, Egypt, Guatemala and Jamaica.
7. Making remitting easier:
    a. Reducing costs through increased competition and increasing access to banking. For example, last year Banc of America reduced remittance costs to Mexico to zero.
    b. Account-to-account transactions are better than cash to cash.
        i. There will likely be reduced costs in transfers.
        ii. There may be a stronger incentive to save.
        iii. There may be increased access to credit.
    c. Harmonize regulations.
        i. Many nations are over-regulated in the area of money transfers. In France, for example, MTOs are required to have a full banking license even though these organizations take on none of the sorts of risks banking regulations are meant to address.
        ii. Exclusivity arrangements with local postal services have led to monopoly-power prices.
    d. Big banks are never going to be interested in remittances, but smaller banks might be able to better attract remitters.

Questions

Why is France among the top 5 remittance receivers?

France, as a member of EU and a host country for remitters, is both receiving remittances from French working elsewhere in EU, which is increasingly common, and sending remittances out from North African and West African residents. There is a big problem of data collection and reporting by central banks which use very different definitions. Canada and Denmark, for example, reports no receipts or senders. China reports much of their remittances as FDI. Informal flows are also a problem.

What are the differences between poverty and growth impacts of remittances?

Clearly, any receipt of money reduces poverty. However, there is a counterfactual problem: how much money would the migrant have if s/he had not migrated? Some of Mr. Ratha's research shows that remittances have little effect when controlled for non-migration possibility.

With respect to growth, results are very inconclusive. Most research on the subject is flawed, partially because of the counter-cyclicality of the flows. The Chami (2005[4]) article is a good example of this. Chami and Fullenkamp (the authors) had to backtrack on their conclusions that remittances were bad for growth. Now they are saying that they wished to point out that countries which receive large inflows of remittances may become dependent.

[4] 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.*