Migrant Remittances and Economic Development
Lecture 7

SIPA U8159
Tuesdays 4:10 pm – 6:00 pm
IAB 410

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Remittances and development

Development impact - effects at the household, community, sub-national and national levels

Household: higher receiver income, consumption, investment, savings, labor supply *(senders??)*

Community: spillovers, borrowing, collective action

Sub-national government: allocate public resources to health, housing, education, infrastructure, etc.

National government: monetary policy, fiscal policy and external affairs

Remittances and development

Impacts a range of development outcomes

Information and communications technology

Financial Infrastructure

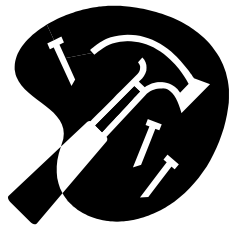
- Small savers
- Lg. institutions

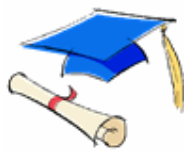
Education

Health

Housing

Small business/ Farming





Remittances and development

Main themes

Poverty reduction – headcount and inequality

Smooth out household consumption

Ease working capital constraints

Spend on areas w/ positive development outcomes

Remittances and development

Some interesting questions

How do impacts differ at national, regional and local levels?

Remittances vs. saving? Connections?

What is the impact of remittances on labor supply?

What is the impact on productivity, esp in rural areas?

What determines saving or investments in businesses, education, health?

Do remittances worsen inequality?

Do transmission mechanisms vary impact?

What are the political economy implications?

Remittances and development

Development impact difficult to track & quantify (informal, in-kind, etc.)

- Lack of data availability
- Importance of in-kind contributions
- Financial savings for various uses
- Analysis of the counterfactual
- Total welfare analysis should include the well-being of the migrant as well

Remittances and development

Family as the unit (Stark and Bloom 1985)

- Altruism - maximize family utility, risk-sharing
- Self-interest with family as agent
- Family as bank

Literature

- Endogenous migration – family economics
- Portfolio – remittance separate from migration, hold home vs. host country assets

Remittances and development

What we DO know from empirical work:

Significant variables

– Demographic variables (number of migrants, stock of migrants, etc.)

– Income variables (income, wages, both sides)

Variables that may or may not be significant

– Financial variables (interest rates, foreign exchange, black market for fx, etc.)

ALTRUISM MOTIVATES REMITTANCES AS OPPOSED TO SELF-INTEREST

Remittances and development

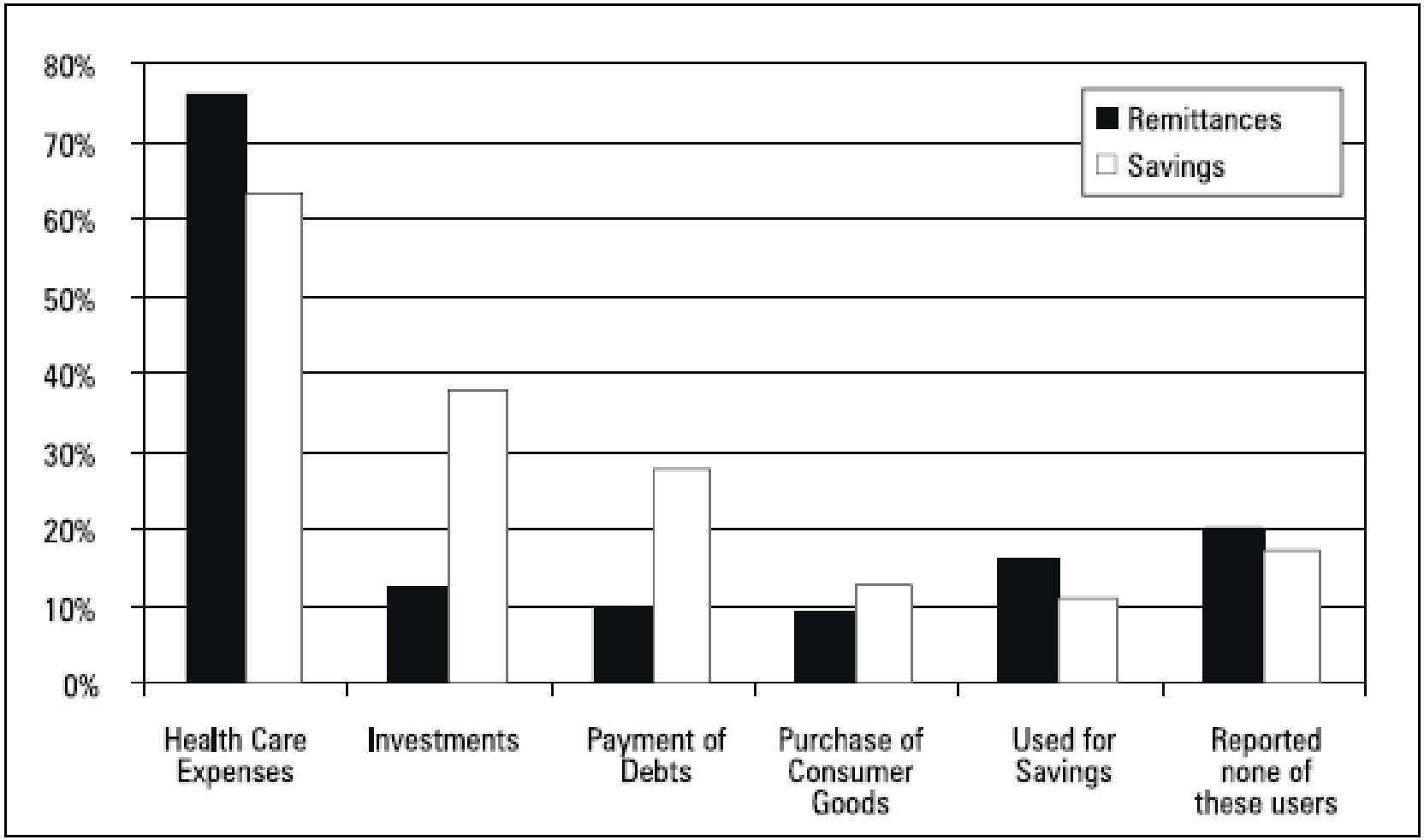
Do remittances act like capital flows? NO (Chami et al 2005)

- Moral hazard problem
  - Immigrant can't directly observe behavior of relatives and their effort level
- Risk to incomes
  - Income in host country uncertain
  - Income in recipient country uncertain (risk, inefficiencies), i.e. the reason for migrating
- Remittances a substitute for wages, i.e. increase remittances => reduce labor effort
- Transfers through an income effect lower labor effort
- Raising the benefits of high output or lowering the benefits of low output increase effort, but lower the *need* for remittances

Factors that lead to productive investment (Durand et al 1996)

Uses of remittances

Figure 6. Use of Remittanes or Savings Repatriated to Mexico, Percent of Households Expending.



* Respondents can report multiple uses of remittances, so the total will not add to 100 percent.
Source: Mexican Migration Project Data in DeSipio 2000.

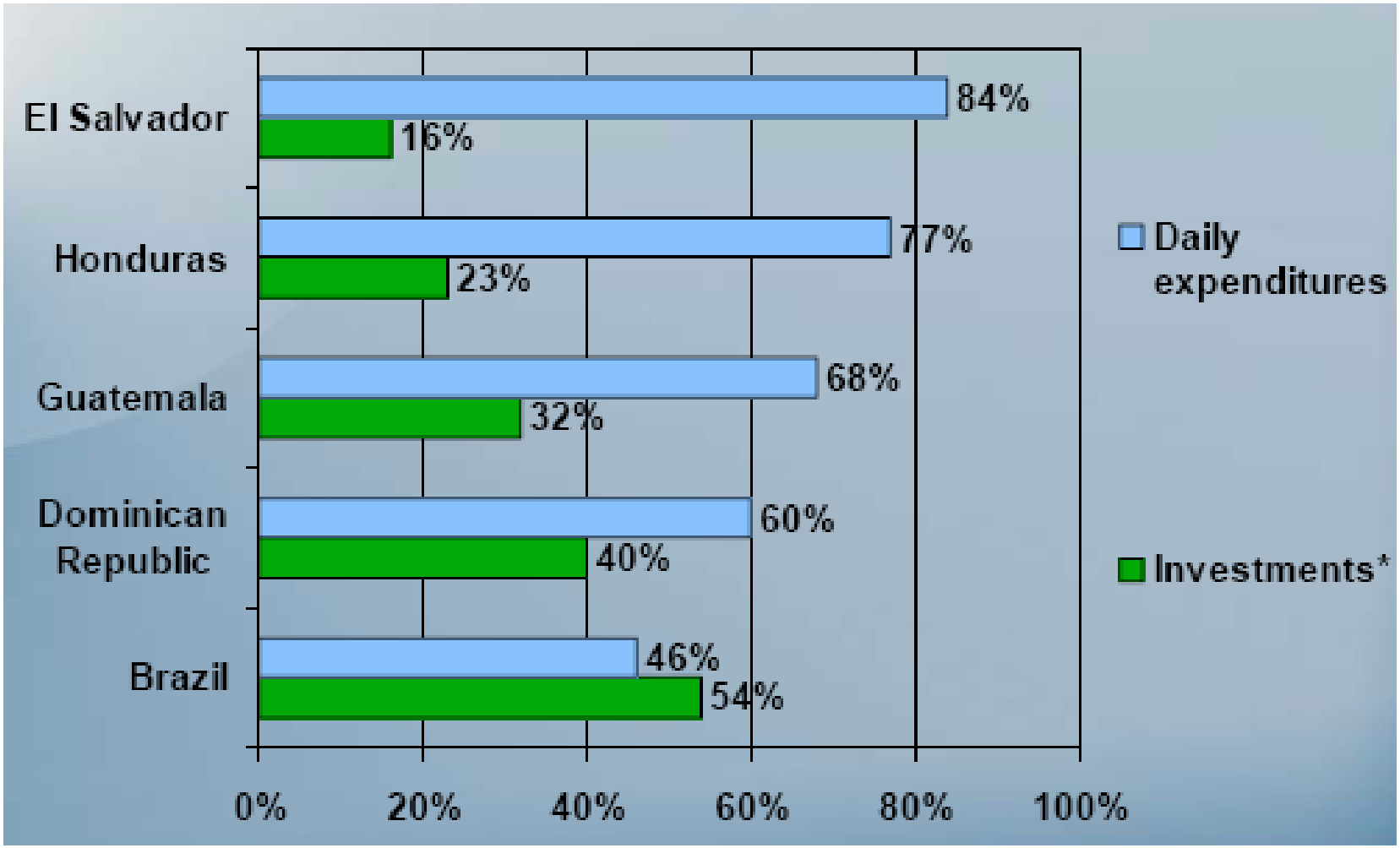
Source: De La Garza, Lowell 2000.

Remittances and development

REMITTANCES			
	Colombia	Ecuador	Mexico
Uses of Remittances:			
Basic Necessities	62%	70%	78%
Health or Medicine	50%	51%	65%
Education	45%	54%	43%
Debt Repayment	15%	16%	13%
Housing	11%	10%	9%
Investment	6%	7%	7%

Source: ***Making Remittances Work for Development: Levering Remittances to the Housing Market.*** Final powerpoint presentation of SIPA MPA Workshop Spring 2006.

Remittances and development



Source: Bendixen and Associates. *Sending Money to Latin America: The Human Face Of Remittances.* Presented at the *Global Forum on Remittances, IDB June 2005*.

Remittances and development

- Compensatory transfers – countercyclical – to make up for economic weakness, bad luck, etc. (Chami et al 2005)
- Capital for development follows growth
- Do remittances behave like other forms of capital for development?
- So do NOT behave as capital for development, which should vary *with* growth