Migrant Remittances

Dominik Elsner and Katrin Oesingmann[1]

Migrant remittances are usually defined as monetary transfers between migrants and family members in their countries of origin. Remittances play a fundamental role in the financing of developing countries. Compared to Foreign Direct Investment (FDI), they represent the second biggest source of assets and liquidity in those countries (Ambrosius and Cuecuecha 2016, Giuliano and Ruiz-Arranz 2009). Bettin, Presbitero and Spatafora (2015) quantify remittances for 2017 to be 500 billion USD and thus three times the amount spent on official development assistance to developing countries. Furthermore, "[..][u]nlike other financial flows, remittances go directly into family incomes, and thus have an immediate and direct impact on the livelihoods of receiving households" (HPG 2007, 1). In terms of development policy goals, the advantages of remittances – relative to official aid – are the possibility of bypassing corrupt government officials and directly supporting the targeted households (The Economist 2016).

The significant importance of remittances to many developing countries is illustrated in Table 1. The table lists countries with a share of migrant remittance inflows relative to GDP of five percent or more. For example, remittances inflows represented 36.6, 30.3 and 29.2 percent of GDP in Tajikistan, Kyrgyz Republic and Nepal in 2014. 53 out of 176 countries reported in the World Bank Migration and Remittances Data on annual remittances (Inflows) (World Bank 2016) report a share of the remittances on GDP of over five percent. In other words, remittances are considerably important for about 27.5 percent or one third of all 193 UN-nations worldwide. On average, remittances to the 53 countries listed in the table amount to 13.3 percent of GDP.

Figure 1 shows total remittance outflows from countries considered in the Ifo DICE Database[2] to the rest of the world[3]. The amount of remittances sent rose constantly from 1,053 million USD in 1970 to around 267,700 million USD in 2014. The financial crisis only led to a downturn in remittances from 2008 to 2010, but by 2011 the latter had returned to their pre-crisis level (OECD 2016). The amount (in USD) of remittances received is a commonly-used indicator for remittances, although there are some limitations due to existing informal remittances. Remittance flows are expected to be underestimated in the official statistics, as informal remittances are estimated to be around 10 to 50 percent of recorded remittances (Giuliano and Ruiz-Arranz 2009;

[1] Ifo Institute (both).

[2] The DICE Database considers most OECD States, the EU Member States, as well as Serbia, Montenegro and Macedonia and Brazil, China, India and the Russian Federation.

[3] In this context remittance flows among well developed countries are possible and are thus not restricted to developing or emerging economies in the calculation of the graph. Included into the calculus may for example be remittances from migrants from Poland or Romania working in Germany to their respective home-countries.

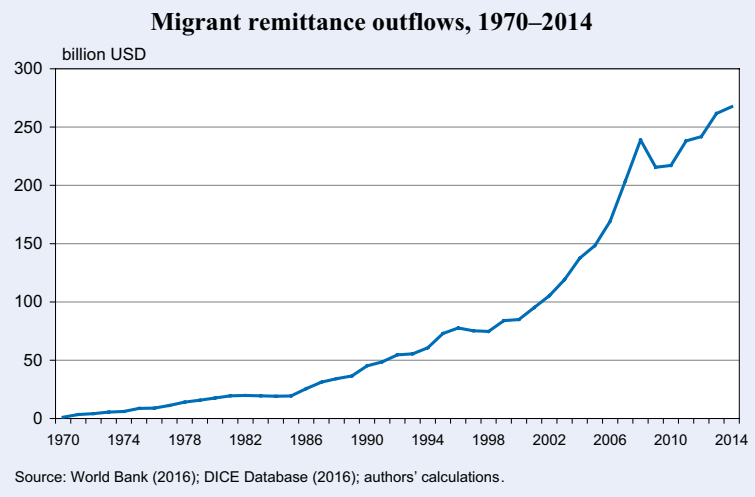
Table 1

Migrant remittance inflows (share of GDP in percent), 2014

Tajikistan	36.6%	Marshall Islands	14.0%	Serbia	8.4%
Kyrgyz Republic	30.3%	Georgia	12.0%	Sao Tome and Principe	8.0%
Nepal	29.2%	Bosnia and Herzegovina	11.3%	Dominican Republic	7.5%
Tonga	27.1%	Tuvalu	10.7%	Mali	7.4%
Moldova	26.2%	Guyana	10.6%	Micronesia, Fed. Sts.	7.3%
Liberia	24.6%	Cabo Verde	10.5%	Pakistan	7.0%
Bermuda	23.1%	Jordan	10.4%	Egypt, Arab Rep.	6.5%
Haiti	22.7%	Senegal	10.3%	Vietnam	6.4%
Gambia, The	21.2%	Guatemala	9.9%	Morocco	6.3%
Comoros	20.2%	Nicaragua	9.7%	Guinea-Bissau	6.2%
Armenia	17.9%	Kiribati	9.6%	Faeroe Islands	6.1%
Samoa	17.6%	Philippines	9.6%	St. Kitts and Nevis	6.1%
Lesotho	17.4%	Montenegro	9.4%	Latvia	5.7%
Honduras	17.4%	Yemen, Rep.	9.3%	Ukraine	5.6%
West Bank and Gaza	17.1%	Uzbekistan	9.3%	Ghana	5.2%
El Salvador	16.8%	Sri Lanka	8.9%		
Jamaica	16.3%	Togo	8.8%		
Lebanon	16.2%	Bangladesh	8.7%		
Kosovo	16.1%	Albania	8.6%	***Average***	***13.3%***

Source: World Bank (2016), authors' calculations.

Figure 1



OECD 2006). The informality of remittance flows is defined by the OECD as "[…]transfers through informal channels, such as hand-carries by friends or family members, or in-kind remittances of jewellery, clothes and other consumer goods, or through hawala" (OECD 2006). According to Posso (2015) about 45 to 60 percent of remittances to sub-Saharan Africa are informal.

As far as the incentives for sending remittances are concerned, typically altruistic motives are assumed (Posso 2015), where migrants send money to support their relatives back at home. An altruistic sender is expected to send more remittances in times of recession in the receiving country in order to help smooth consumption and compensate for crisis-induced unemployment or other shocks (Sayan 2006, Economist 2016, Bettin, Presbitero and Spatafora 2015). Thus, altruism as a sole reason for remittance-sending thus seems improbable as the behaviour of remittance-sending observed in the literature does not clearly confirm this assumption (Sayan 2006, Bettin, Presbitero and Spatafora 2015). Crises in the remittance sending countries do have strong effects on sending behaviour. For example, the Russian economic downturn during the year 2015 led to a decrease in remittances to Tajikistan by 44 percent, compared to 2014 (Economist 2016). Remittances therefore can either act as a "countercyclical shock absorber" (Bettin, Presbitero and Spatafora 2015, 1); or they can even lead to a worsening in the economic situation by reducing remittances in times of output drops (Sayan 2006).

Apart from the potential benefits of remittances for the receiving countries like higher growth, as well as an increase in health and education and poverty alleviation (Posso 2015), recent literature on remittances focuses on the linkage between remittances and the development of financial markets in developing countries. In the absence of formal financial institutions, remittances make it possible to grant credit to the poor, who consequently show higher saving rates after receiving remittances (Posso 2015). Moreover, remittances can reduce credit constraints by substituting for formal forms of credit (Ambrosius and Cuecuecha (2016). Secondly, remittances are also seen as 'catalysts' for financial development. Remittances provide incentives for improvements in the financial system by making it easier to access credit or open bank accounts. Remittance-receiving households are targeted by financial institutions because the remittances can serve as collateral for loans in some cases and offer investment incentives at least for receiving households (Ambrosius and Cuecuecha 2016). As far as the direction of causality from financial development to remittances is concerned, well-functioning financial markets have lower transaction costs in this case and attract more remittances.

The way that remittances are being sent has changed in recent years. Nowadays, remittances are also being sent via telecommunication providers thanks to the rapid proliferation of mobile telecommunication. This kind of service is attractive as, for example, in Latin America the share of adults without a bank account ranges from 35 percent in Brazil, Jamaica and Costa Rica to 80 percent in Haiti and Nicaragua. By contrast, around 60 percent of the population in Latin America is expected to have a mobile phone subscription by 2020. The number of mobile telephone subscriptions in the poorest countries – Bolivia, Guatemala, El Salvador, Honduras, Paraguay and Nicaragua in particular – is nearly twice as high as the number of bank accounts held at a formal financial institution expressed as a percentage of adult population (57 to 33 percent, respectively) (Almazán and Frydrych 2015). Mobile money services in the region are attractive, as classic banking, particularly in rural areas, is often not cost effective (Almazán and Frydrych 2015). Generally this kind of transfer system is seen as the most promising instrument with regard to high percentages of unbanked populations (World Bank 2012). Mobile telephone usage, for example, consider-

ably lowered transaction costs and led to higher and more frequent remittances compared to non-subscribers to mobile telephone contracts in rural Uganda. Mobile telephone users also experienced increases in per capita consumption of food, higher expenditure in health, education and more participation in social, cultural and religious functions (Munyegera and Matsumoto 2016).

Concluding remarks

Remittances have a significant importance to many developing countries, as they represent the second biggest source of asset and liquidity inflows to these countries. Moreover, the amount of remittances sent rose constantly from 1970 to 2014. Remittances' cyclical behaviour is not exclusively countercyclical and altruistic motives do not seem to be the only motives for sending remittances. Potential investment motives, which behave pro-cyclically, are present. It is nevertheless remarkable that, in crises, remittances are a crucial factor in helping to alleviate subsequent hardships. Remittance-sending via mobile money represents a new opportunity to improve access to finance in remote areas. Remittances also play a role as a substitute for formal financial institutions and have been shown to be a factor furthering financial development in remittance-receiving countries. Although remittances are a useful boost to development aid, however, they cannot be seen as a substitute for such aid.

Literature

Almazán, M. and J. Frydrych (2015), *Mobile Financial Services in Latin America & the Caribbean: State of Play, Commercial Models, and Regulatory Approaches*, GSMA Mobile Money for the Unbanked, London.

Ambrosius, C. and A. Cuecuecha (2016), "Remittances and the Use of Formal and Informal Financial Services", *World Development* 77, 80–98.

Bettin, G., Presbitero, A. F. and Spatafora, N. L. (2015), "Remittances and Vulnerability in Developing Countries *World Bank Economic Review*, 1–29, doi: 10.1093/wber/lhv053.

DICE Database (2016), "Migrant remittances, 1970 - 2015", Ifo Institute, Munich, online available at www.ifo.de/w/wSjsPMAh.

Giuliano P. and M. Ruiz-Arranz (2009), "Remittances, Financial Development, and Growth", *Journal of Development Economics* 90 (1), 144–52.

HPG (Humanitarian Policy Group) (2007), *Remittances During Crises. Implications for Humaniatrian Response*, HPG Report, Overseas Development Institute, London.

Munyegera G. K. and T. Matsumoto (2016), "Mobile Money, Remittances, and Household Welfare: Panel Evidence from Rural Uganda", *World Development* 79, 127–37.

OECD (2016), *International Migration Outlook. Part III – International Migrant Remittances and Their Role in Development*, OECD Publishing, Paris.

Posso, A. (2015), "Remittances and Financial Institutions: Is There a Causal Linkage?", *B.E. Journal of Macroeconomics* 15 (2), 769–89.

Sayan, S. (2006), "Business Cycles and Workers' Remittances: How Do Migrant Workers Respond to Cyclical Movements of GDP at Home?", *IMF Working Paper* 06/52.

The Economist (2016), "Remittances in Central Asia. From Russia With Love", *The Economist,* 16 January 2016, p. 73.

World Bank (2012), *From Remittances to M-Payments. Understanding "Alternative" Means of Payment within the Common Framework of Retail Payments System Regulation,* Financial Infrastructure Series. Payment Systems Policy and Research, Washington, D.C..

World Bank (2016), Migration and Remittances Data. Annual Remittance Data, http://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data (Accessed 02 May 2016).