

Migration, Remittances, and Economic Development

Dean Yang
University of Michigan

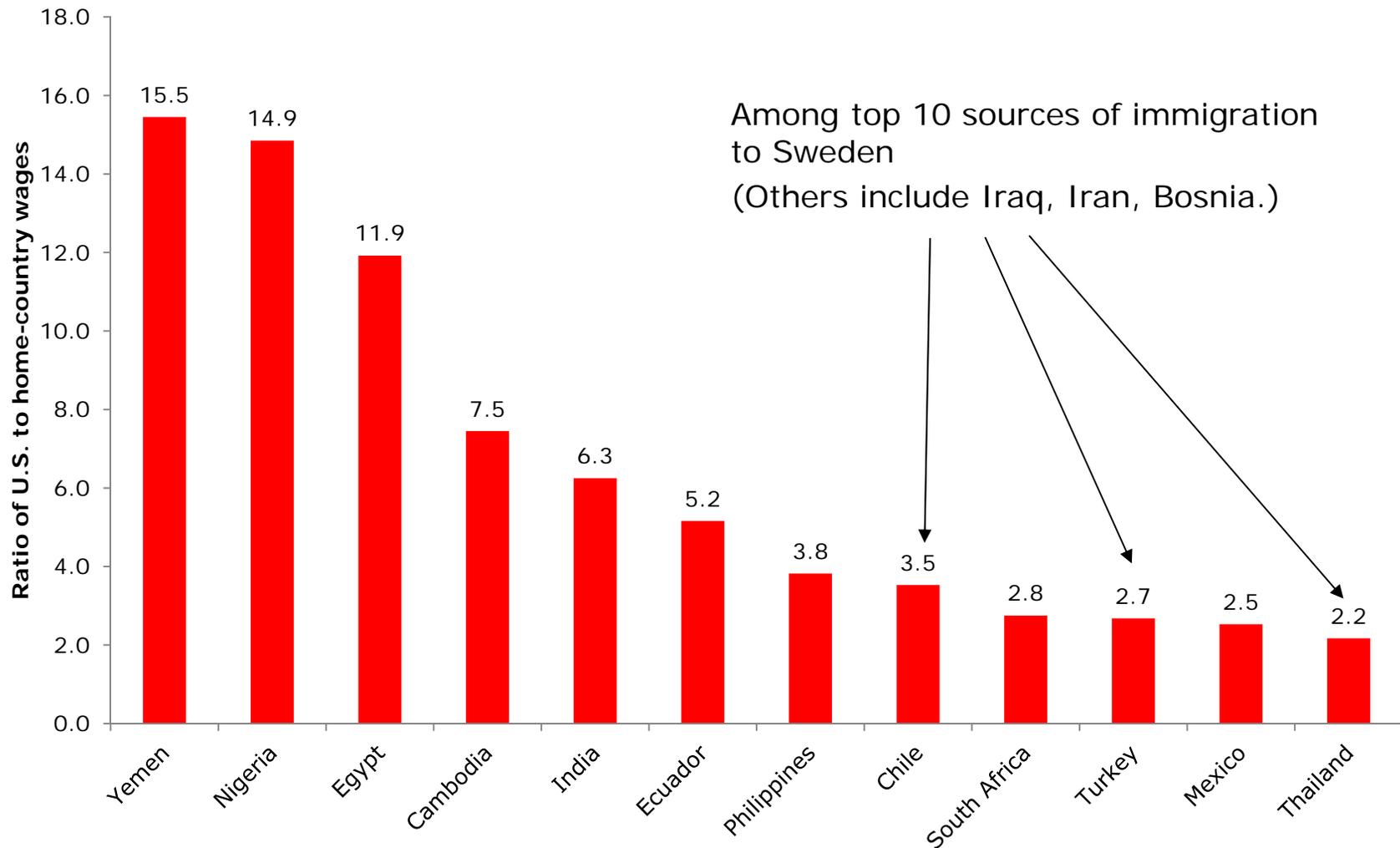
The basic numbers

- Between 1965 and 2010, the fraction of people living outside their countries of birth increased from 2.2% to 3.1% of world population
 - Estimated 247 million migrants in 2013
- These migrants send home huge amounts of remittances, an international financial flow that compares favorably in magnitude with FDI and ODA
 - Estimated US\$436 billion in 2014

Demand for migration is high

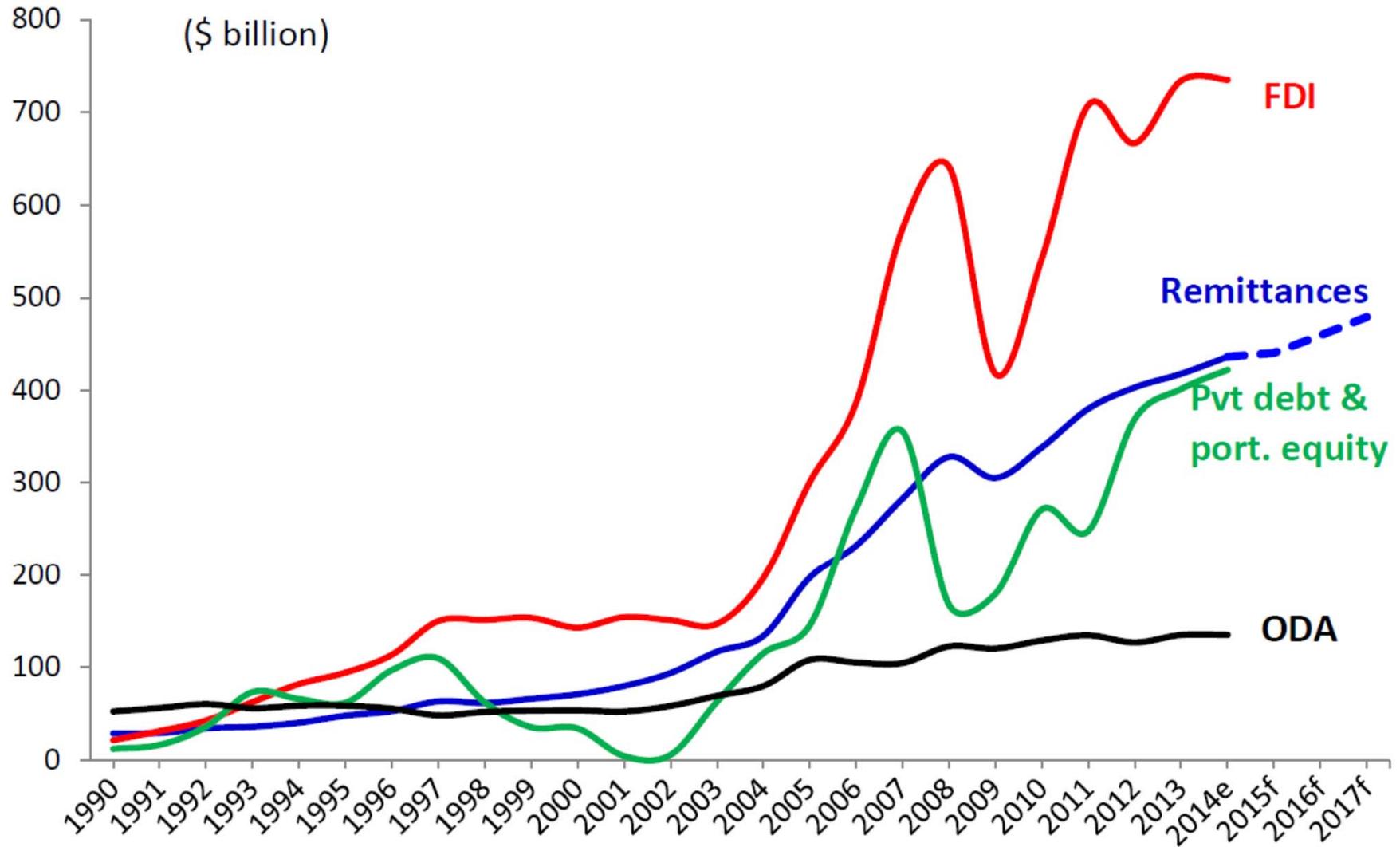
- Vast numbers of people in low-income countries want to emigrate, but cannot
- Gallup World Poll: more than 40 percent of adults in the poorest quartile of countries “would like to move permanently to another country” if they had the opportunity
- In 2010, U.S. Diversity Visa Lottery had 13.6 million applications for 50,000 visas, or 272 applicants per slot
- Main motivation: dramatic increases in wages upon migration

Wage gains from international migration



Notes: Ratios of U.S. to home-country wages for 35-year-old male urban worker with 9 years of education acquired in home country. Comparison is between individuals observed in U.S. data vs. home-country data. Source: Clemens, Montenegro, and Pritchett (2009).

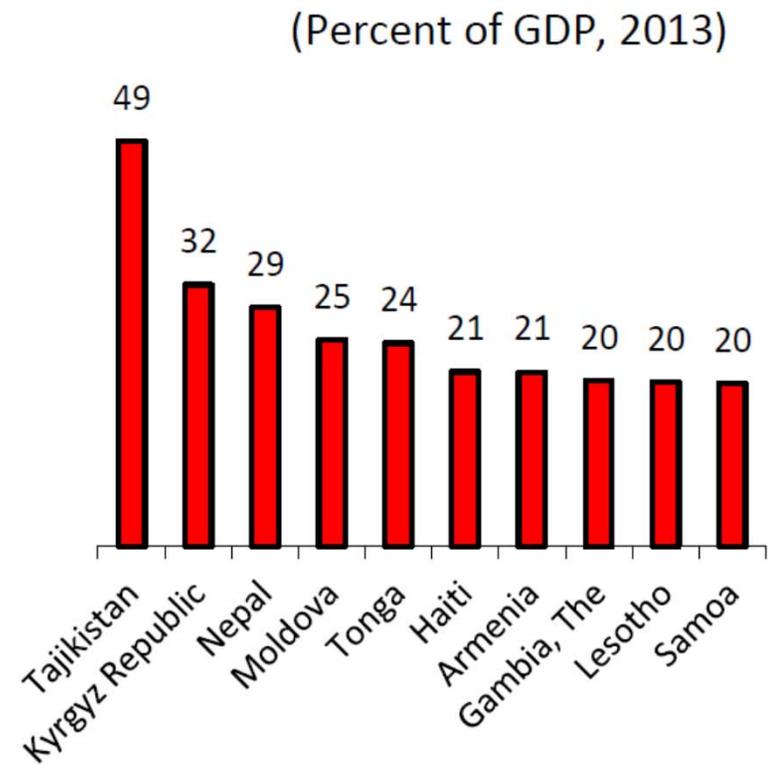
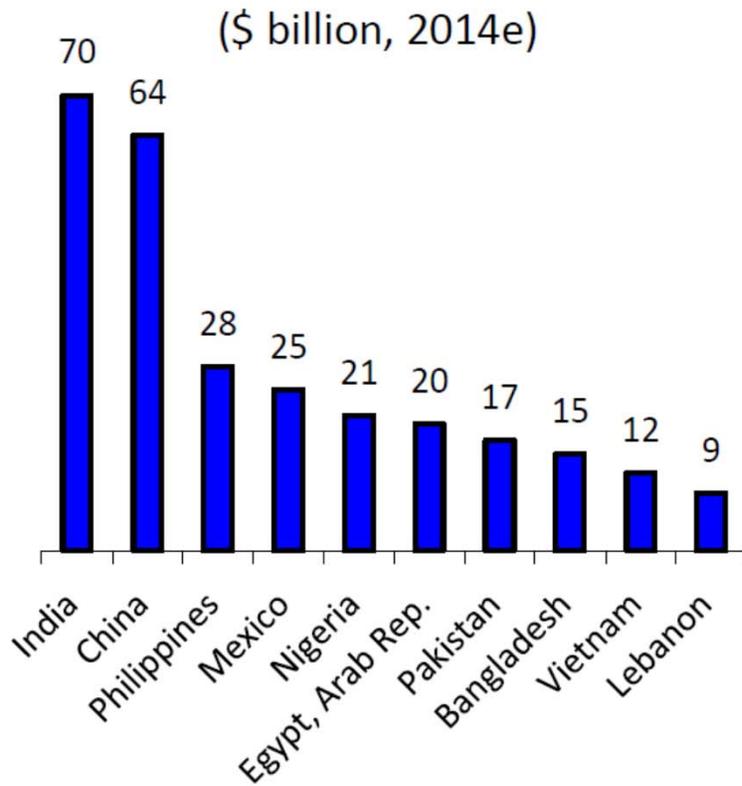
Remittances vs. other international financial flows



Data show international financial flows to developing countries.

Source: World Bank Development Prospects Group, "Migration and Development Brief 24," April 13, 2015.

Top remittance recipient countries



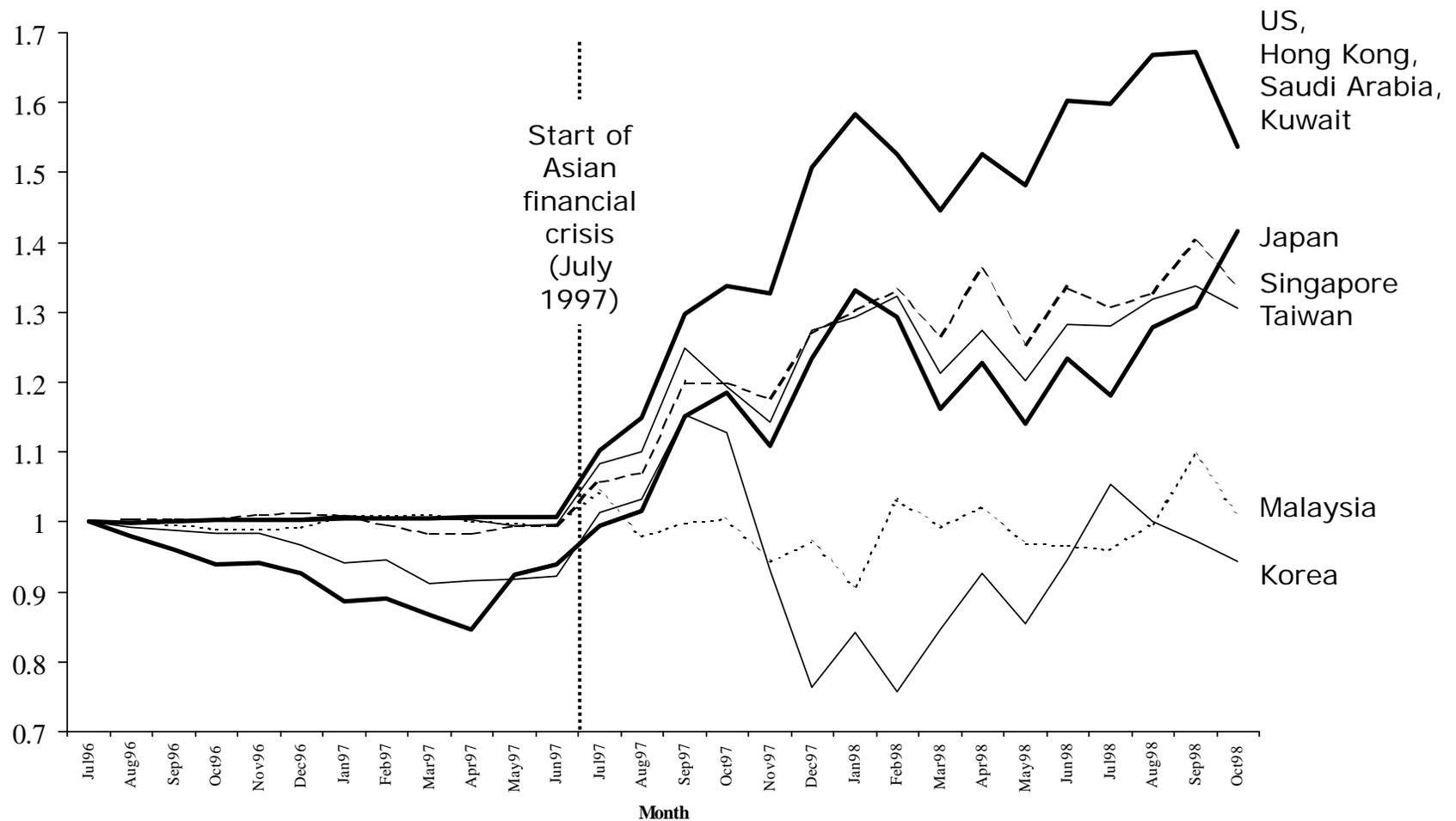
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Remittances and development

- Remittances bring substantial benefits at the household level
 - Higher consumption, lower poverty
 - Increased investments in human capital, small enterprises
- In addition, remittances serve as insurance, rising when origin areas experience negative economic shocks
- Most evidence is correlational, but some natural experiments confirm impacts are causal

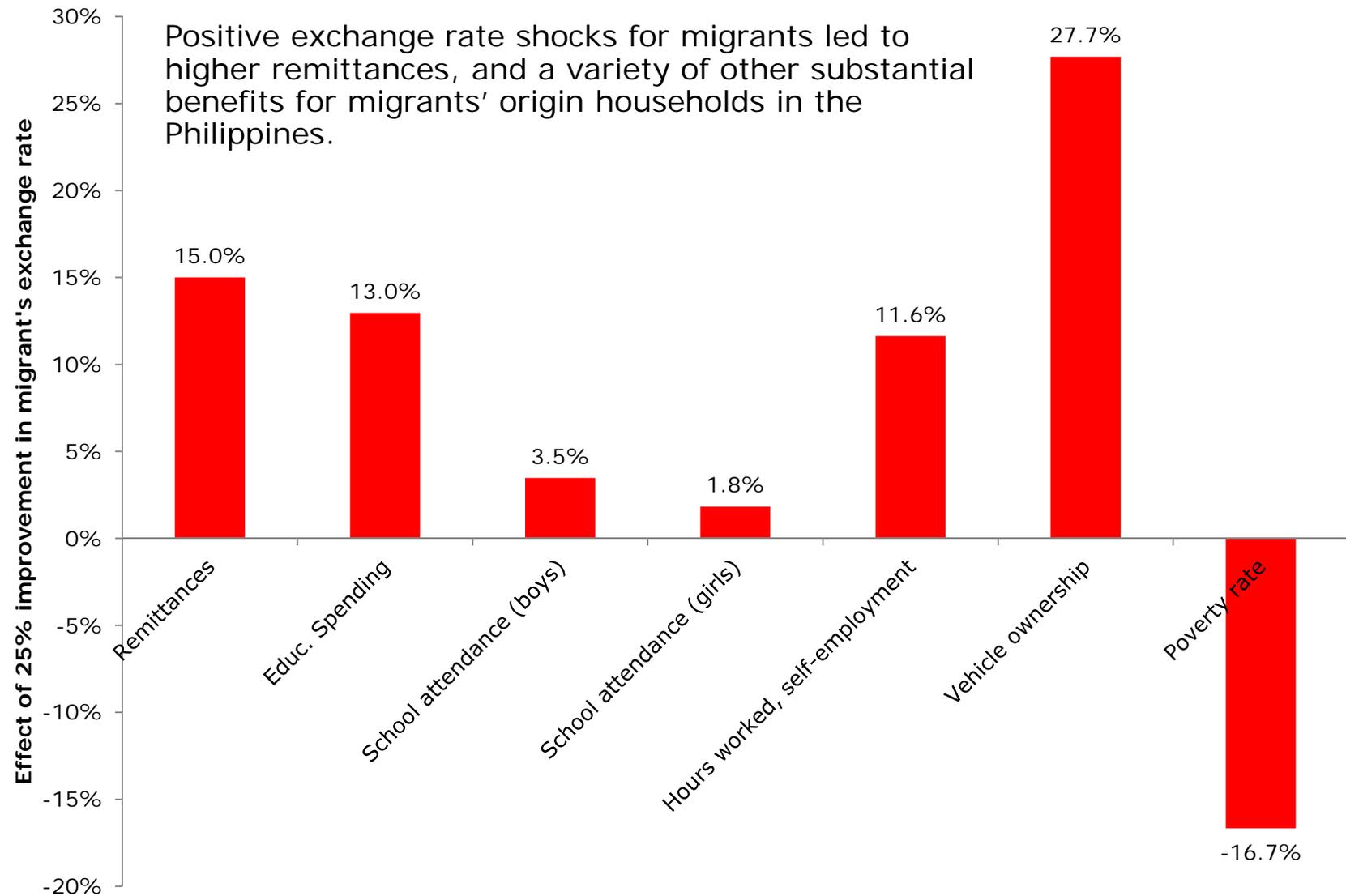
A natural experiment among Filipino migrants

Exchange Rates in Selected Locations of Overseas Filipinos (Jul 1996 - Oct 1998)



Source: Yang (2008).

Impact of positive migrant exchange rate shocks



Source: Yang (2008).

Remittance policies for development

- Decentralized nature of remittances poses challenges for policy
 - How to encourage individual migrants to send more?
 - How to channel remittances to particular ends without choking off the flow?
- We still are still learning about policies that can:
 - Encourage migrants to send more remittances
 - Channel remittances towards uses with more long-term development impacts

Enhancing remittance impacts on development

- Enhance migrant control over financial decisions at home
 - Savings experiments
 - Banco Agricola study
 - *Matricula consular* study in Texas
 - *Eduremesa* study with Viamericas
 - *Edupay* study with Bank of the Philippine Islands
- Provide financial education
 - Educating migrant families in Indonesia
 - Motivating migrants in Qatar
- Reduce remittance transaction fees

DC-area Salvadorans on remittance uses

"I have many uncles and they get drunk, so I just send money when needed, or I send to someone like my sister who I trust."

Male, 34 years old, 8 months in the U.S., works as a roofer

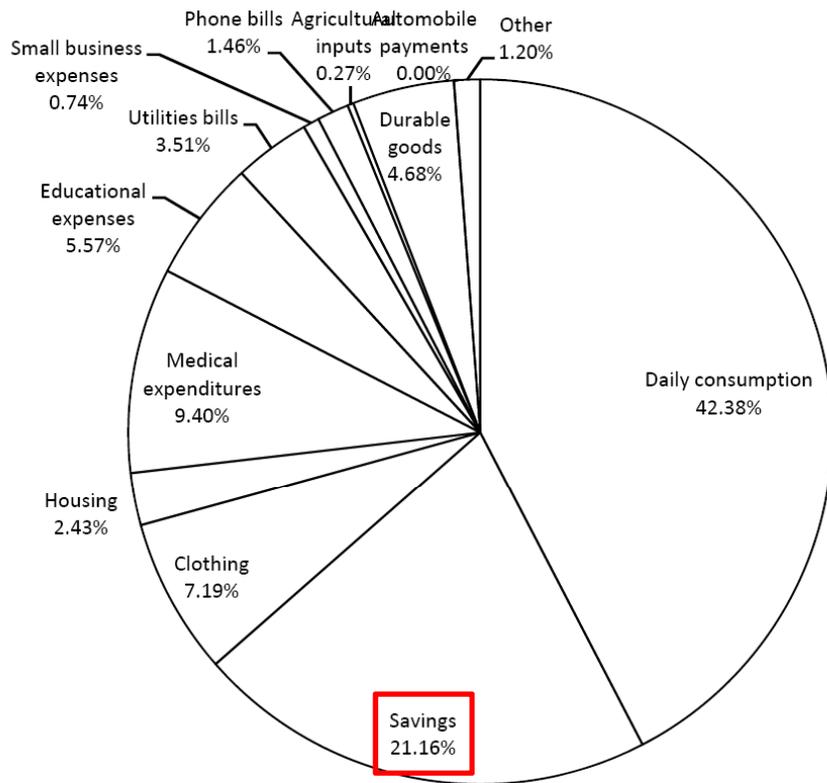
"The brother of my boss sent around \$50,000 to his mother over the years. When he thought he had enough money to build a house, he asked his mom for the money. She said she didn't have it. She had lent it to an uncle. When he asked for the money back, the uncle threatened to kill him if he came back to El Salvador for the money."

Male, 30 years old, 1 year in the U.S., works as a carpenter

Enhancing migrant control at home

- Migrants currently have limited ability to monitor or control how remittances are used by recipients
- Migrants and recipients have different preferences as to how remittances should be used
- In particular, compared to remittance recipients back home, migrants often have stronger preferences that remittances be saved rather than spent immediately
- If migrants are given more control over remittance uses...
 - Remittance flows might be affected
 - And a higher fraction of remittances may be channeled to uses that have long-term development impacts

Migrant vs. recipient remittance allocation (US\$)



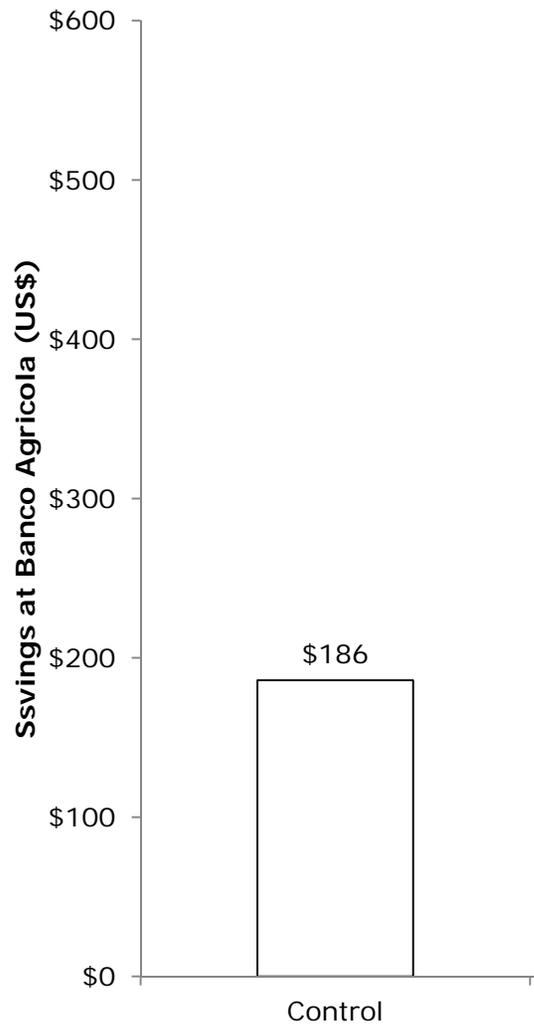
Migrant

Source: El Salvador Study of Migrant Families (ESSMF), Ashraf et al (2015)

Savings intervention among Salvadorans in DC

- We offered Salvadoran migrants in metro Washington, DC the ability to directly channel remittances into savings accounts in El Salvador (Ashraf et al, 2015)
 - Facilities developed for project in partnership with a Salvadoran bank, Banco Agricola
- Implemented as a randomized controlled trial (RCT)
 - We randomly assigned migrants to a control group or to one of three treatment groups
 - Treatments involved offering different types of Banco Agricola bank accounts
 - Control group that was surveyed but did not receive the savings intervention

Impact on savings at Banco Agricola



Note: Savings is average balance in total across all Banco Agricola accounts, over 12 months post-treatment.

Takeaways from Banco Agricola study

- No identifiable impact on savings when channeling remittances only to bank accounts for remittance recipients
- Substantial positive impacts of offering suite of options that allow migrants monitoring and control over home country savings
- *Matricula consular* study in Texas provides complementary findings (Chin et al, 2011)
 - Increased bank account opening and savings in U.S.
 - Migrants appear to value control over savings in the U.S. as well

Control over other uses of remittances

- Funding for education
 - *Eduremesa* study with Viamericas (Ambler et al, 2015)
 - Migrants direct remittances to education when offered matching funds, but not otherwise
 - Positive impacts on student outcomes in El Salvador
 - *Edupay* study with Bank of the Philippine Islands (De Arcangelis et al 2015)
 - Filipino migrants send more remittances when “labeled” for education
 - Not much additional impact of directing funds to schools
- Control over grocery expenditures (Torero and Viceisza 2013)
 - No apparent demand for control in this domain

Financial innovations for transnational households

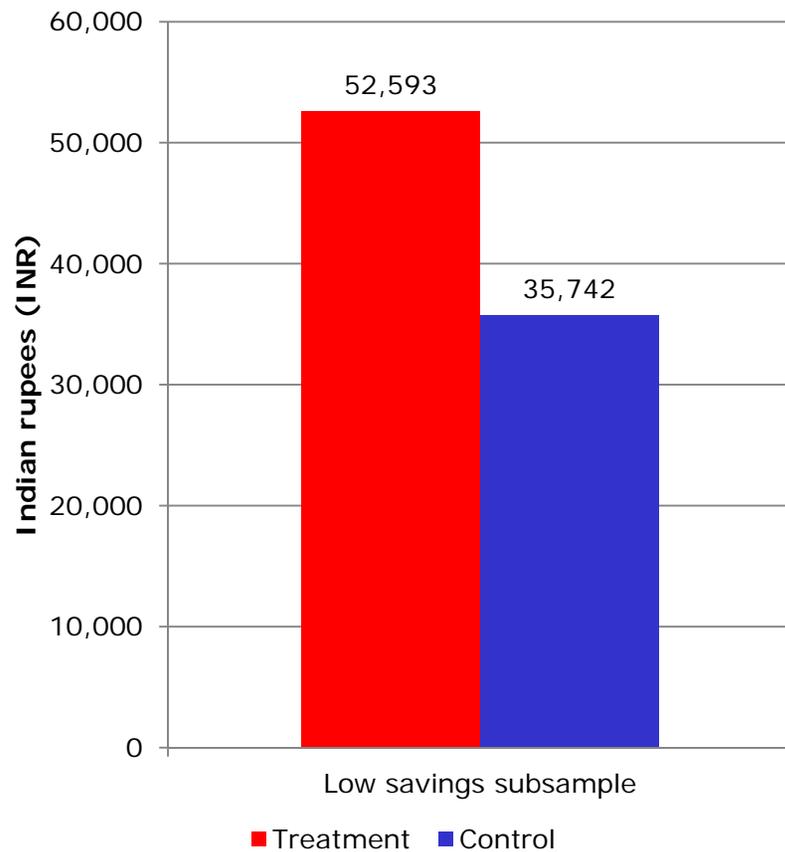
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Financial training for transnational households

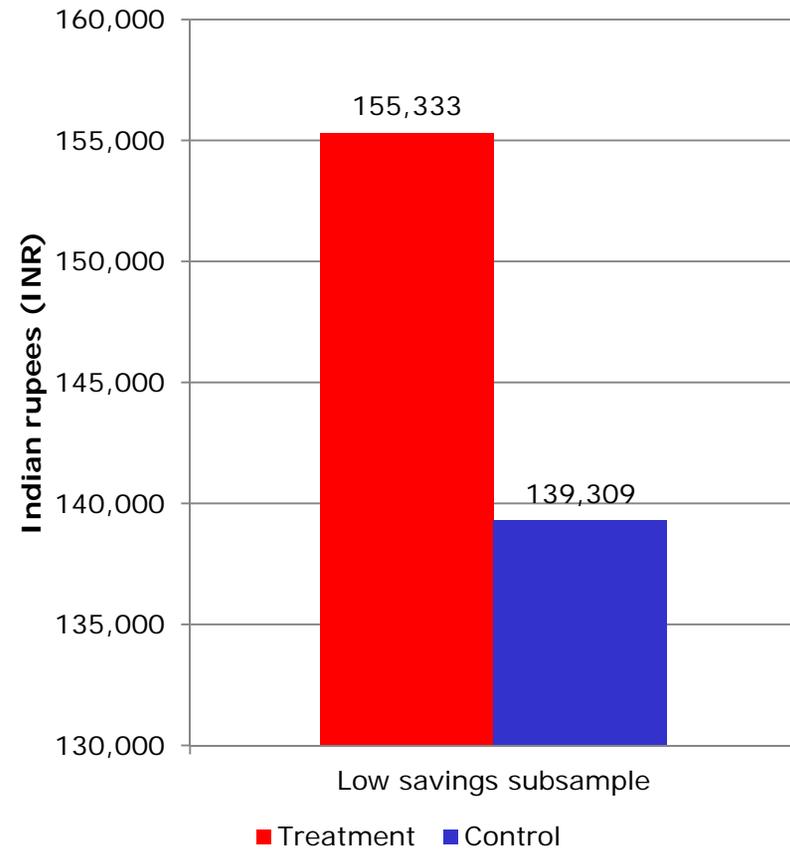
- Financial literacy training for migrants before departure, and their families (Doi et al. 2014)
 - Indonesian female migrants, departing to work as maids
 - Training both the migrant and family led to increases in savings in the origin household
 - No similar impact of training migrant only or family only
 - Key takeaway: complementarity from training both migrants and family members
- Motivational session for married male migrants in Qatar from Kerala, India (Seshan and Yang 2014)
 - Treatment was a one-time motivational session on personal finance
 - Among migrants with lower savings at baseline (prior to treatment) treatment led to higher total (Qatar plus India) household savings and higher remittances sent by migrants to wives

Impact on migrant savings, remittances

Savings



Remittances



Financial innovations for transnational households

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Experiment with money transmitter Viamericas

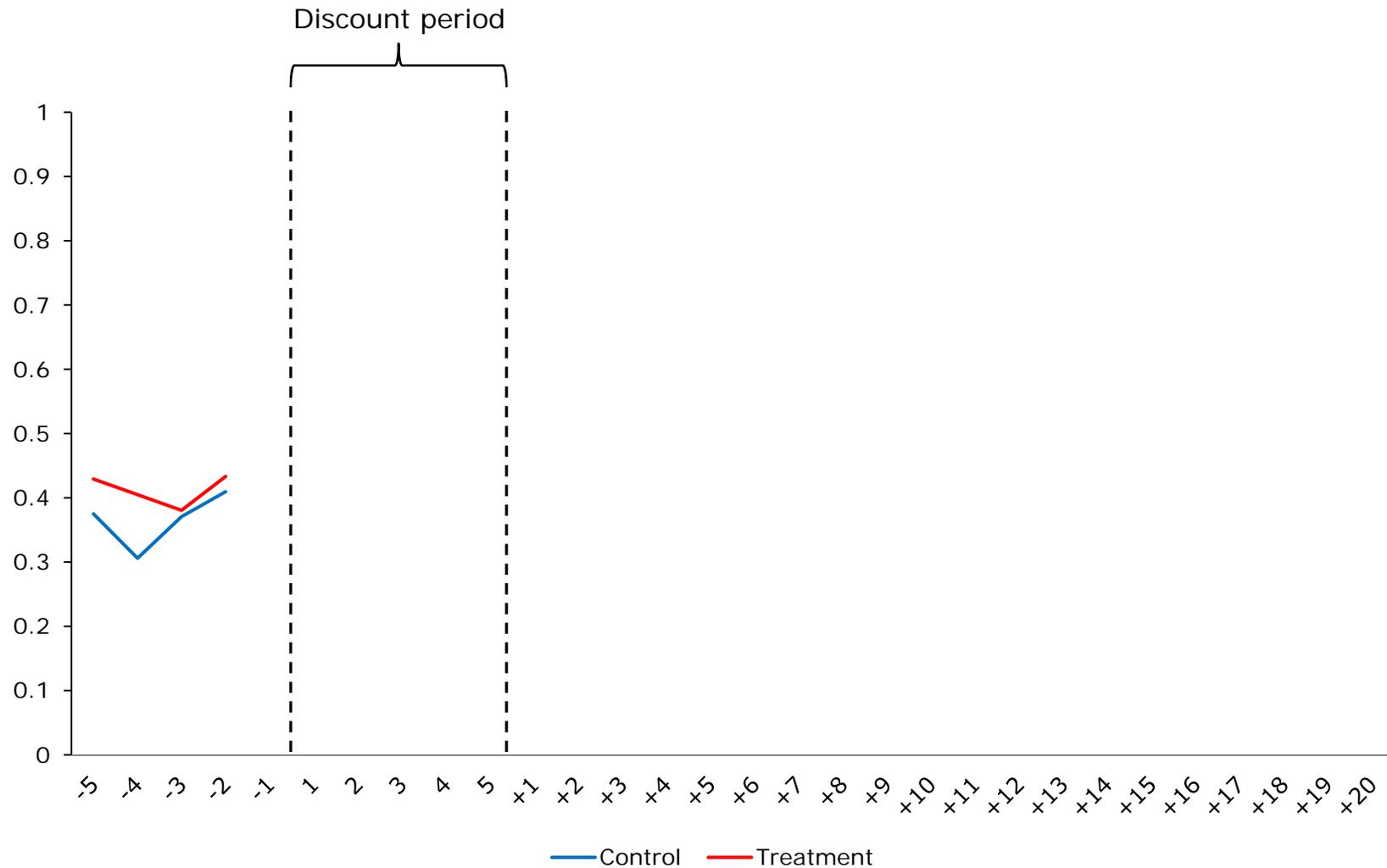


- On-the-spot survey of remitters
- Randomized discount on Viamericas transactions to "primary remittance recipient" (PRR)

Studies on impact of fee reductions

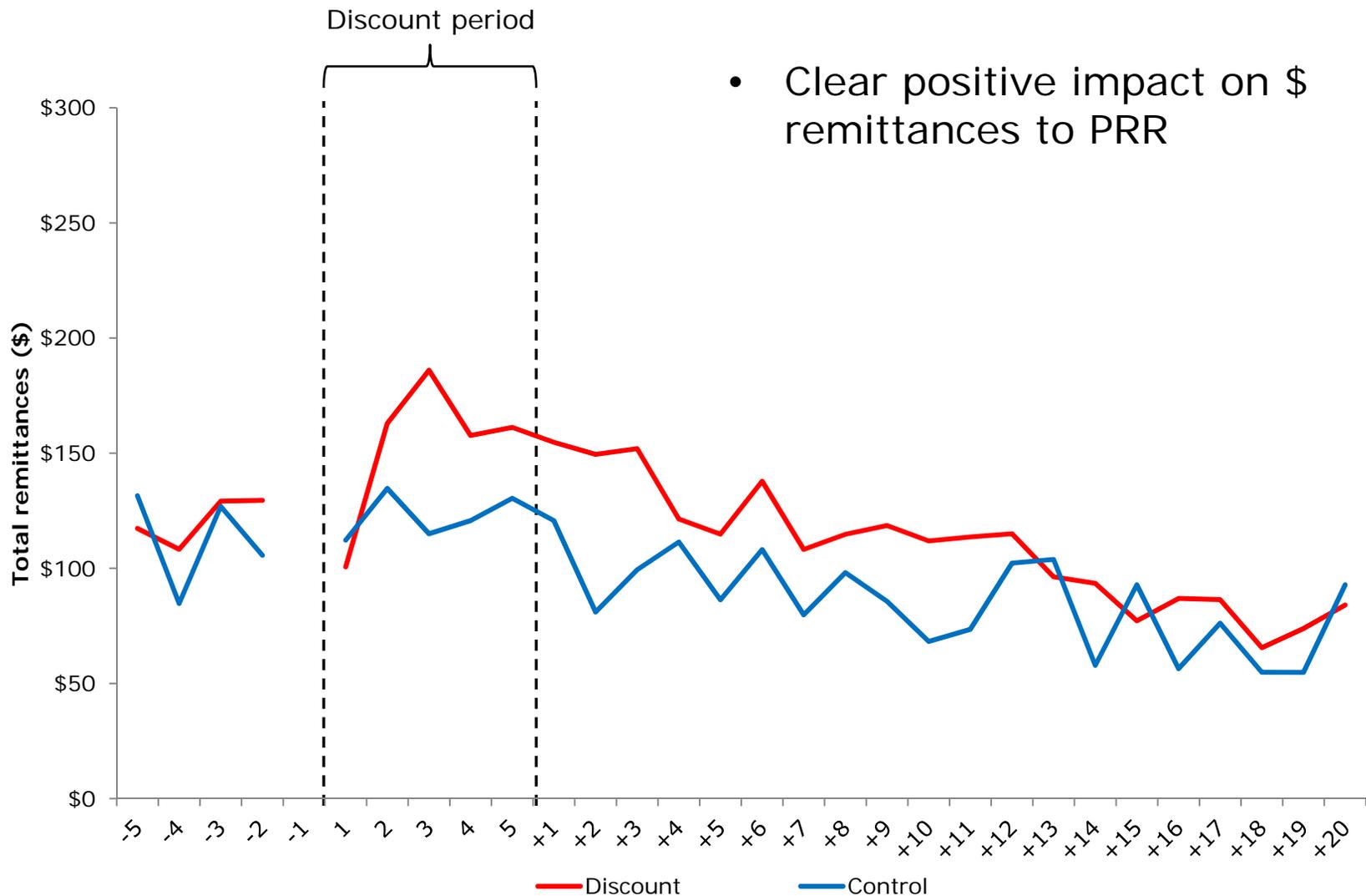
- Two studies
 - With Banagricola among Salvadorans (Aycinena et al 2010)
 - Provided discounts in increments of \$1 to \$5 (off base of \$9), valid for 12 months
 - With Viamericas among Salvadorans and Guatemalans (Ambler et al 2014)
 - Provided discount of \$3 (off base of \$8), valid for 10 weeks
- Both studies find large, positive impacts on transactions and total dollars remitted

Remittance transactions to PRR



Time periods are 2-week intervals to reduce noise. Graph shows total number of remittances sent during the 2-week interval.

Remittances in \$ to PRR



Time periods are 2-week intervals to reduce noise. Remittances are total \$ sent during the 2-week interval.

In sum

- Recent experimental findings point the way towards promising policies to promote financial inclusion of migrants and their families
 - Bank account offers to migrants raise savings – in host and origin countries – but only when migrants have control over accounts
 - Migrants also seek to direct remittances to education
 - Financial education can increase transnational household savings
 - Price discounts stimulate remittances, at least in the short run

Open questions

- What is impact of simply **labeling** remittances for specific purposes, such as education?
- Would migrants **guarantee microloans** for borrowers in the home country?
- Can we facilitate **remittances-as-insurance**?
 - Provide discounts on remittance fees when natural disasters occur in home country?

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