

Increasing the Development Impact of Migrant Remittances

A Field Experiment among Kenyan Migrants in the USA



In brief

- A very large source of capital for the developing world are remittances, totaling over \$300 billion in 2009.
- This research asks whether giving migrants more control over how remittances were spent in their origin country would have a positive effect on economic development.

Key policy implications:

- Asymmetric information may lead to migrants sending less than they would otherwise would, as if migrants don't have control over how their money is spent, they must trust that the recipient will spend it in an appropriate way.
- Giving migrants more control over how the money that they send is spent could have a positive effect on economic development in their origin country. Increased control to migrants over how the money is spent may lead to money being spent in a way that is more conducive to long term economic growth.

Implementation

- Financial institutions should consider designing products that allow migrants to direct how the money they send is spent.
- More control over spending may be particularly conducive to development when the products allow migrants to direct money into things like paying for children's schooling. In a survey of Kenyan migrants in Dallas, 74% of respondents had some interest in a product that would allow them to pay directly for school fees.

Policy Motivation

The policy question we asked was whether giving migrants more control over how remittances were spent in their origin country would have a positive effect on economic development. This is of particular interest because remittances are a very large source of capital for the developing world, totaling over \$300 billion in 2009 according to the World Bank.

Policy Impact

“If it is the case that migrants who have more control over how remittances are spent will be willing to send more... it is important that systems be put into place that can allow for this to happen”

If it is the case that migrants who have more control over how remittances are spent will be willing to send more, and direct those funds into areas such as child schooling with high long-term returns, it is important that systems be put into place that can allow for this to happen. This would suggest the possible need for financial systems and products that would allow migrants to make direct payments for education and other investments as a way to boost the developmental impact of remittances.

Audience

The audience targeted by this brief is those within financial institutions who can begin to offer products giving migrants sending remittances more control over how the money is spent. Products that do this may contribute to furthering development in the receiving country by making sure that money is spent on things that have long term returns, as well as increasing the amount that is sent if the migrants no longer have to worry that money will be spent in ways they do not wish to be sending money for. Policy makers in Ministries of Finance and Central Banks may also be targeted to the extent that new regulatory frameworks are necessary to support the creating of such financial products.

Policy Implications

Asymmetric information may lead to migrants sending less money than they otherwise would

If migrants do not have control over how the money they send will be spent, they have to trust the recipient will spend it in a way that is appropriate. Migrants who send money may expect that the remittances will be spent on things like child education that have long-run returns to spending, and not just short term consumption. They may also believe that the person asking for money is inflating prices. If they do not trust the recipients they may actually send less money than they otherwise would.

Giving migrants more control over how the money that they send is spent could have a positive effect on economic development in their origin country

Giving them more control over how the money is sent is one way to solve the

problem of asymmetric information that is mentioned above. As discussed above this could increase the amount of money that they send as remittances. Increased control given to the migrants may also lead to the money being spent in a way that is more conducive to long term economic growth for the receiving household. This would be the case if as mentioned above migrants are more likely to desire that money be spent on things that have long run returns to the household. If this is the case the migrant who sends the remittances would direct it into those areas that have high returns for the receiving family. For the family this would act as a sort of forced savings or investment, money that they wouldn't be tempted to spend on short term consumption instead.

Implementation

“Some of the constraints that may arise in designing such a product include the capabilities of the financial institutions and systems within a country”

Financial institutions should consider designing products that allow migrants to direct how the money they send is spent. This can be particularly conducive to development when the products allow migrants to direct money into things like directly paying for children's schooling. In a survey we conducted among Kenyan migrants in the Dallas area we found that 74% of respondents had some interest in a product that would allow them to pay directly for school fees. Having products like this allows migrants to give more money to things that are most important to them and that have a positive effect on long term growth and human capital accumulation. Some of the constraints that may arise in designing such a product include the capabilities of the financial institutions and systems within a country. This may make replicating programs across different countries particularly difficult. It may also be the case that different migrant populations will have demand for different areas of spending that they can direct their money to.

Further Reading

Yang, Dean. “Migrant Remittances”. *Journal of Economic Perspectives*. Vol 25, No 3. (2011) Pp 129-152

Ashraf, Nava; Aycinena, Diego; Martinez, Claudia; Yang, Dean. “Remittances and the Problem of Control: A Field Experiment from Migrants in El Salvador”. (2011) Working Paper.

About the authors

Dean Yang's research is on the economics of development in the world's poor countries. He has have ongoing research projects on financial decision-making among the poor, behavioral biases in economic decision-making, international migration, and migrant remittances. In the past he has also worked on health, disasters and risk, international trade, and crime and corruption.

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