

Chapter 2

Literature Review and Theoretical Background

2.1 Theories of Remittance

Behavior with regard to international remittances has been the subject of much debate in the previous literature. A number of studies on the determinants of migrant remittance argue that most theories of remittance play an important role in determining remittance behavior. However, some studies argue that no theories can reflect all the migrants' remittance behavior. Also, some studies point out that several characteristics of household relations may be linked to an individual's remittance behavior. In this study, the approach is derived through the theories of remittance behavior to understand the migrants' behavior, as discussed below.

2.1.1 The Altruistic Motive

Altruistic motives are concerned with providing for family income and for the relatives of the migrant, those who are left behind in the home country. First, “the length of a migrants stay abroad and the attachment to family and/or relatives”, can also be an important factor in a migrant's remittance behavior. Migrants generally want to contribute something to their family and/or origin community.

However, attachment can decline after long periods of separation between the migrant worker and the family (Bouhga-Hagbe, 2006). Also, migrants care about the poverty situation of the family in their home country. Thus, the amount of a migrant's income and the amount of the origin household's income are negatively

related. In other words, if the migrants are altruistic, they will respond to a fall in their home income, by increasing their remittances. Thus, one impact of a change in the migrant's income is associated with a larger flow of remittances. Moreover, higher earnings in the host country allow migrants to reunite with their close family, to whom they then tend to remit relatively more (Lucasa & Stark, 1985; Faini, 2006).

2.1.2 The Self-Interest Motive

The models on self-interest motivation basically state that migrants send money back home to exchange services, and to secure land inheritance or other wealth from their parents or relatives in their home area (Adams, 2004). In this case, it is reasonable to assume that the migrant has close ties with the home country, and a strong intention to return home for investment purposes. One way to invest in the home country is through buying property and housing, and then to ask the family to look after the investment as a trusted agent. Thus, the ownership of assets in their home country may motivate migrants to remit money to their families. For example, if a migrant wants to invest at home during the emigration period, their family can be a trustworthy and well-informed agent.

2.1.3 Family Contract (Loan Repayment)

This model states that remittances may be used to repay loans that were taken out for investment in human capital and/or to support migration costs. In this case, if the migrant is able later on to find a better-paid job abroad due to the education acquired through use of the loan, he or she will send remittances to repay the family for the initial investment. Thus, the remittance amount is positively related with the migrant's education.

In addition, migrants repay loans made by family members or relatives,

to improve their skills, and based on informal agreements. In these cases, migrants may also become a lender by providing finance to other migrant family members in their home country (Poririne, 1997; Siegel et al., 2007).

2.1.4 Family Contract (Risk and Income Diversification)

This model is based on the New Economics of Labour Migration (NELM) model, which views remittances as components of a self-enforcing, cooperative contract between the migrant and their family and/or relatives. In this case, the migration and remittance decisions are not made by migrants individually, but with the cooperation of their families, though much international migration is motivated by political causes and market failures in the home country. Most migrants are from rural areas. Migrants make co-insurance agreements with the family left behind, to insure the remaining members of the family against loss of income and unemployment. Thus, remittances are sent home when the origin household experiences a fall in income. By receiving these remittances, the migrant's family has the opportunity to increase its consumption, or to undertake an investment with reduced risk. In this context, remittances become a strategy to minimize the risk and hardship of the household left behind. The variable length of stay can also be used to measure the risk level of the migrant as after a longer stay the migrant generally knows the destination country better, has a steadier job, etc. Thus, length of stay generally has positive effect on remittances (so more insurance) (Hagen-Zankera & Siegel, 2007).

2.2 Literature Review

According to the exiting literature, evidence shows that whether or not remittances flow to a migrant's home country depends on that migrant's personal

characteristics, on the migration characteristics, family characteristics and the status of employment. In this situation, the results and empirical variables may vary according to the ethnicity, culture, economic, social and political contexts of the host country and destination country.

2.2.1 Characteristics of the Individual Migrant

The individual characteristics of the migrant, such as age, gender, marital status and education level, are related to their remittance behavior. Crăciun (2006) found that age was another individual variable that strongly influenced the amounts remitted and the propensity to remit. Regarding the migrant education, empirical estimations from Botswana showed that the migrant's years of schooling, and the years of schooling of their own children, were positively and significantly correlated to remittances, giving support to the loan agreement hypothesis (Lucas & Stark, 1985). Niimi, Pham and Reilly (2008) found that the education level of Vietnamese migrants had a well defined positive effect on remittances. For instance, if the migrant had a primary education, the amount of remittances sent home increased by one million dong, when compared to a migrant who was illiterate. However, in the case of Serbian migrants in Switzerland, the educational level did not have a statistically significant impact on the propensity to remit and the amount remitted. But among male respondents, the lowest skilled were the least likely to send remittances to Serbia compared with those who held at least a secondary diploma (Lerch et al., 2006). Further, Özden (2006) found that educated immigrants from Latin America and Eastern Europe performed poorly, especially when compared with immigrants from developing countries in Asia and developed countries. This means that migrants with a better education had less responsibility to support the family left behind through

remittances, in Latin America and Eastern European countries.

In the relation to gender and remittances, the results differ among the existing literatures. Crăciun (2006) showed that there was no statistically significant difference by gender; female migrant's economic contributions to their origin households were substantially equal to male migrants. In contrast, in the case of Nicaragua, being a female above 30 years old and living in a developed country had a positive effect on remittances (Naufal, 2008).

In addition, remittance behavior may also be related to the migrant's current employment status and income level. Cerrutti (2008) showed that there was a positive relationship between migrant incomes and the proportion of active remitters among Paraguayan migrants.

2.2.2 Migration Characteristics

Among the existing literature, migration patterns are seen one of the most influential factors on determining remittance behavior, that is, whether the migrants are permanent migrants or temporary migrants. Obviously, most of the studies agree that temporary migrant workers (who have an intention to return home) are more likely to remit and remit higher amounts. Cerrutti (2008) showed that the pattern of migration among Paraguayans to Argentina was temporary, and that they maintained strong ties with Paraguay, going back and forth, and that many wished to return despite the fact that this return was uncertain. Therefore, these migrant workers eventually sent home the money they earned. According to the survey of Amuedo-dorantes (2004), the findings showed that the propensity to remit seemed to be greater among immigrants who were undocumented, when compared with permanent migrants.

As mentioned earlier, the length of a migrant's stay abroad is also an important factor in determining a migrant's remittance behavior. Barcaglioni (2008) found that Mexican migrants in South Carolina with longer length of stay, were 0.91 times less likely to remit, than those with a shorter length of stay, but that there was no relationship with the amount remitted.

2.2.3 Family Characteristics

Family characteristic variables are also related to the structure of migrant remittances. One would expect married migrants, whose spouses are left behind in the home country, to be more likely to send remittances home, and to send greater sums, due to altruistic feelings. Several studies have confirmed this marriage variable, and with a significant level of relationship have found a positive effect with respect to the amount of the remittances and the likelihood to remit. Lucas and Strak (1985) also stated that the number of children at home has a positive effect on both the propensity to remit and the amount of remittances.

According to the altruism model, being the household head means a migrant has a greater attachment to the family left behind, and has more responsibility to provide for them. Niimi, Pham and Reilly (2008) showed a positive effect between remittances and the head of the household variable. However, Barcaglioni (2008) argued that there is no significant relationship between remittance behavior and being the head of the household, although the migrants who had parents, children, and/or a spouse in Mexico were 17.48 times more likely to remit than those who had not.

According to the altruism model, there are negative impacts on remittances if a migrant has been abroad for a long time and has visited their home country less frequently. Lerch et al. (2006) proved that the number of visits to the

home country within the last three years, seemed to positively influence remittance behavior, when compared to those migrants who rarely visited their country of origin, who had a lower probability to send remittances home. Moreover, the number of phone calls was significant when predicting the decision to remit, indicating that these variables do capture a certain level of emotional connection and ties to the country of origin, for the migrants who made phone calls to the household in Mexico during the month prior to the questionnaire, were 1.22 times more likely to remit than those who did not (Barcaglioni, 2008). In addition, there was no negative impact on remittances in the case of Tonga where there were more migrants in the households, due to lower income earnings from local farming and business activities in the home country. This showed that remittances from migrants are important for reducing risk and for providing insurance for farming families, or for business activities (Brown & Leeves, 2007). Moreover, the number of other migrants belonging to the same household seems to have played a crucial role in determining the remittance behavior of the migrants from Nicaragua (Naufal, 2008). On the other hand, Barcaglioni (2008) argued that the number of migrants from the household was not significant and had no effect on the likelihood of remitting.

2.2.4 The Use and Impact of Remittances on Household Expenditure

International migrants' remittance flows through official channels to developing countries, reached US\$305 billion in 2008 (see Table 1.1). But the challenging question is: how are remittances spent or used? Much of the literature in this area tends to be anecdotal, rather than empirical. According to the World Bank's Policy Research Paper in February 2008, "there are at least three views on how remittances are spent and used. In the first, remittances are fungible and are spent at

the margin, like income from any other source. The second argument says that the receipt of remittances can cause behavioral changes at the household level that may lower their development impact relative to the receipt of income from other sources. A third and more recent view mentioned that remittances actually increase investment in human and physical capital at the margin, relative to other forms of household income". Moreover, several studies have shown that remittances are used primarily for basic consumption and that only a small number are used for productive investment in the countries of origin, and may also generate a dependency ratio. Thus, they concluded that the flow of remittances contribute little to the economic growth of the origin households. In contrast, some studies have argued that although remittances are used on non-productive consumption goods, they have positive impacts due to the multiplier effect of this expenditure, such as improving in human capital. It has also been stated that whether remittances contribute to development and decrease income inequality, is tightly linked to the socio-economic and political context.

Khine (2007) found that large a number of remittances flowed into unproductive uses in her study village in Mon State, Myanmar. In this village, the percentage of houses with migrants in Thailand was 62 percent of the total number of houses in the village. Most of them relied on remittances, either partly or completely. Her study showed that migration was significantly improving the living standards of the recipients, through the use of remittances. She found that most of the remittance flowed into basic consumption, to clear the debt of the migration costs and to clear debt from the pre-migration period. Only a small percentage was used on productive income generating activities. The weak potential of starting new businesses in the local community was one reason why the remittances stream was pushed into

unproductive uses. Turnell et al. (2008) proved that the intention of about 96 percent of Burmese migrant-workers working in Thailand was to meet the basic survival requirements of their families as a first priority. Only few funds were left over for investment in other productive purposes.

Taylor (2006) examined that remittance contributes not only increases standard of living, but also have positive multiplier effects on the origin household's economy. Adams (1991) also argued that in the case of Egypt, the price of land and housing increased annually since the rate of inflation was rising as well. Thus, the rate of return from investments in housing and land clearly exceeded other categories of investment. By means of comparison with investments in housing and land, the average annual real rate of return from small-farm crops had, on the other hand, been negative.