

HOUSEHOLDS' REMITTANCES AND WELFARE IMPACT: AN ECONOMETRIC ANALYSIS



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OUT LINE OF PRESENTATION



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OPERATIONAL DEFINITION



- **Remittances can be defined as “the sum of worker’s remittances, compensation of employees and migrant transfer.”**

Source: IMF BOP and Fact Book

Introduction



- The massive growth in population mobility witnessed in this age of globalization with its information technology which have shown 3.2 % of total population are migrants in which developing countries stoke of immigrants are 80.5 million or 1.4 % of population. These migrants send considerable amount in form of cash, goods and luxuries known as remittances.
- Remittances are the most tangible consequence of migration for households coupled with the high increase in growth through remittances, enhances the significance of the research at this burning issue for policy makers, researchers, governments of developing as well as developed countries and international agencies .



- **Remittances have positive effects...**
 - Lower poverty and faster growth
 - Lower output volatility
 - Better education and health indicators
- **but these effects are modest, in part because migration flows have costs...**
 - Broken families
 - VA lost to migrant destination country
 - Brain drain



- ...and pose important policy challenges

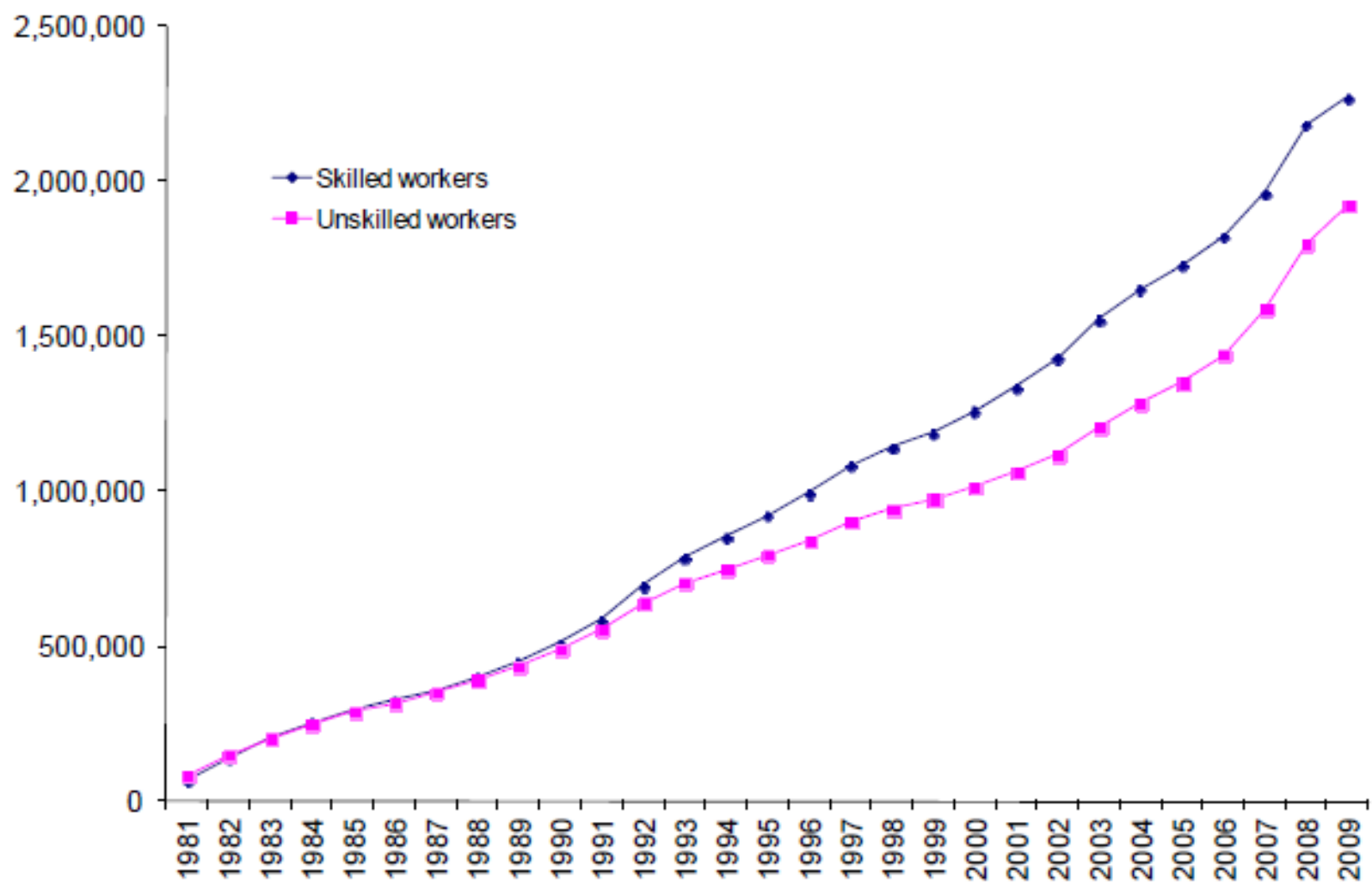
- Reduction in labor supply
- Real exchange rate appreciation
- Need to expand role of the financial sector
- High transaction costs
- Effects vary with complementary policies (macro, governance, education)

- **Pros:**

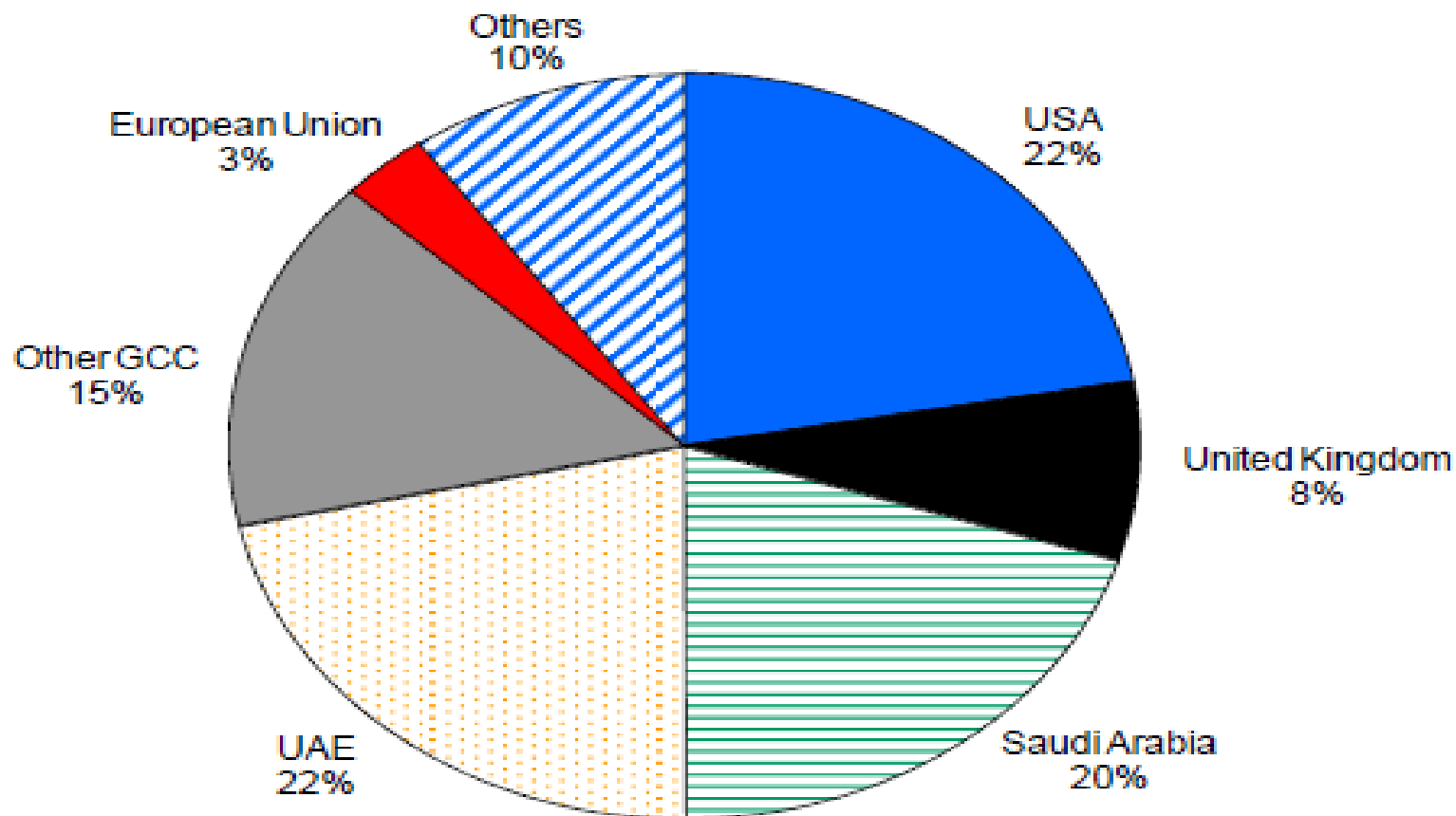
- important source of foreign exchange
- Finance imports
- Increases household income and improves standard of living of recipients
- Multiplier effect in local economy

- **Cons:**

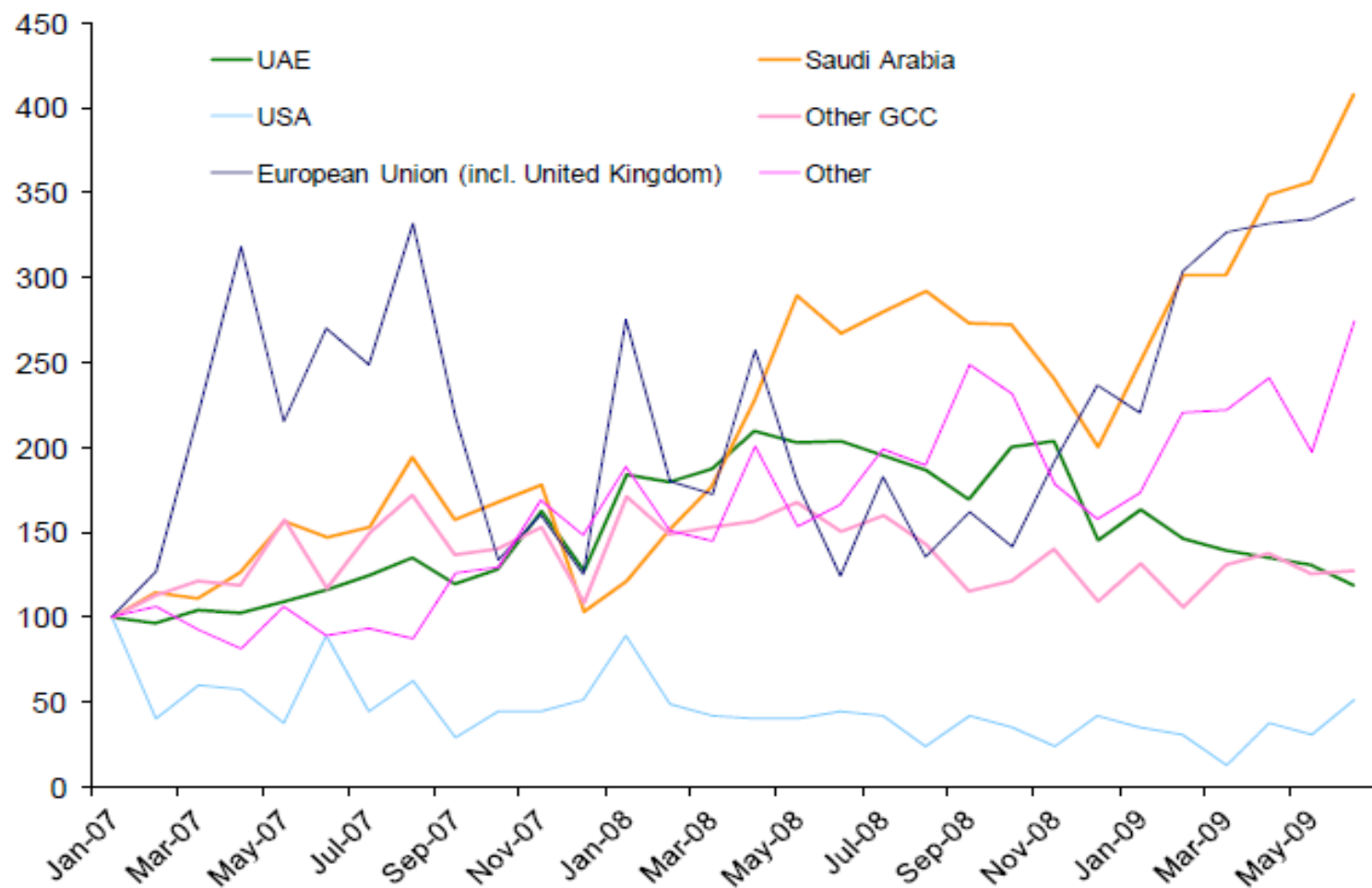
- Reduce incentive to invest
- Encourage migration
- Growth of inequity (recipients vs. non-recipients)
- Used for consumption purposes
- Creates dependency



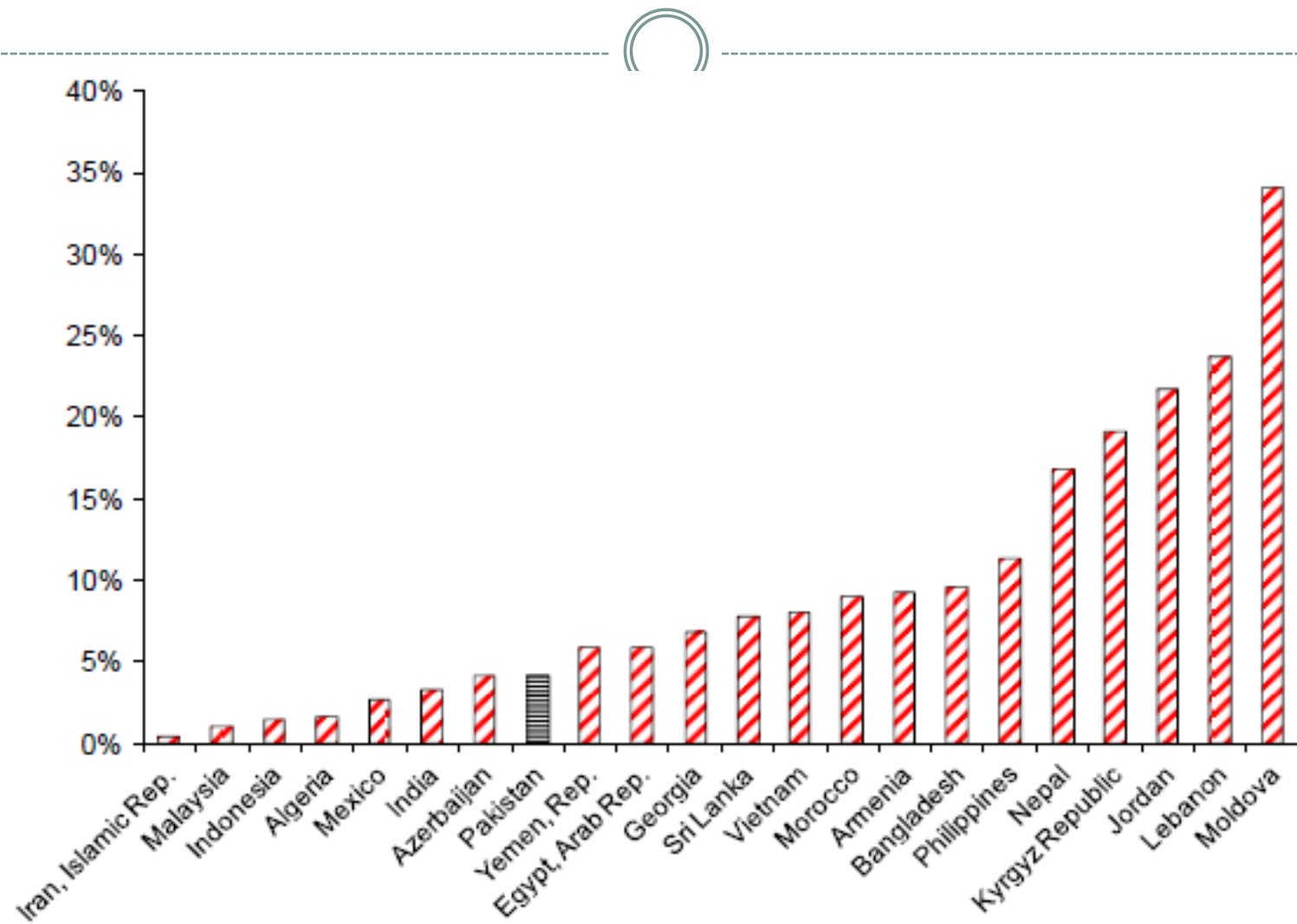
Sources: Pakistan Bureau of Overseas Employment and IMF staff calculations.



Sources: IMF, State Bank of Pakistan, and IMF staff calculations.



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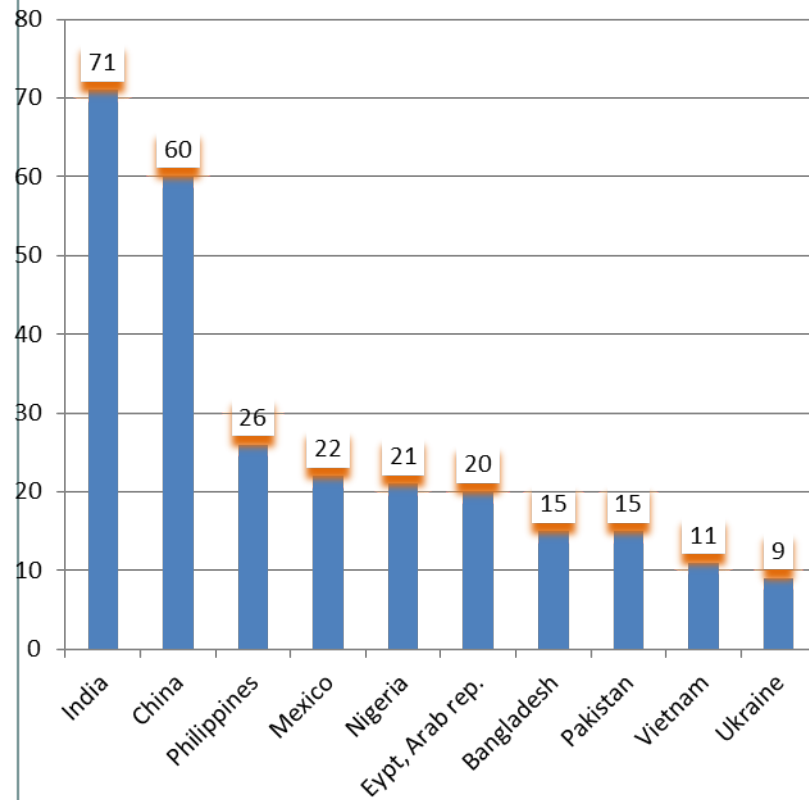
Source: World Bank.

Top-10 remittance recipients in the world

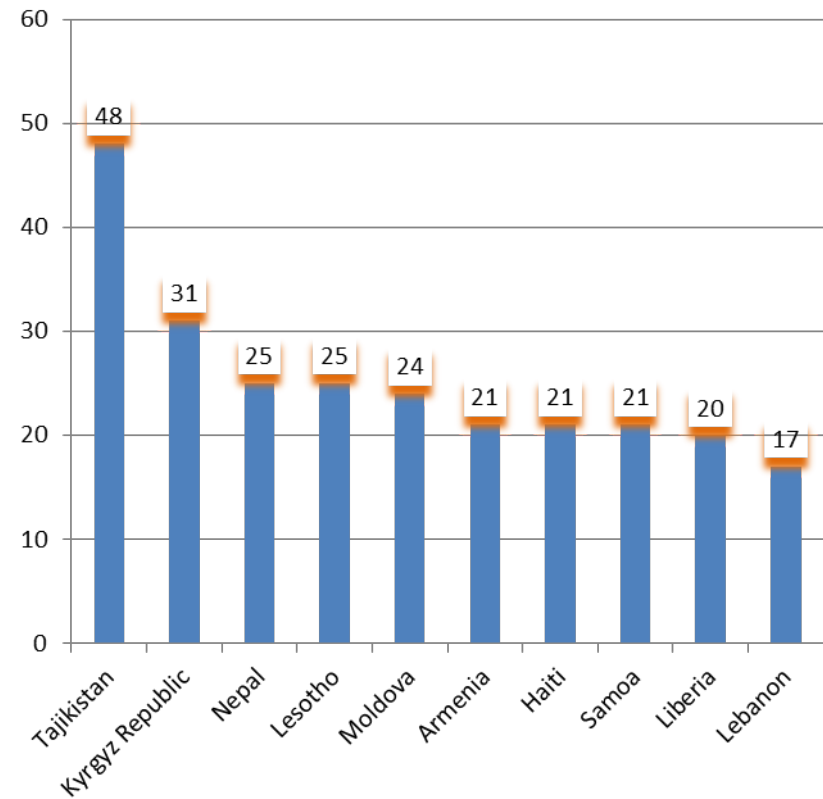


The World Bank

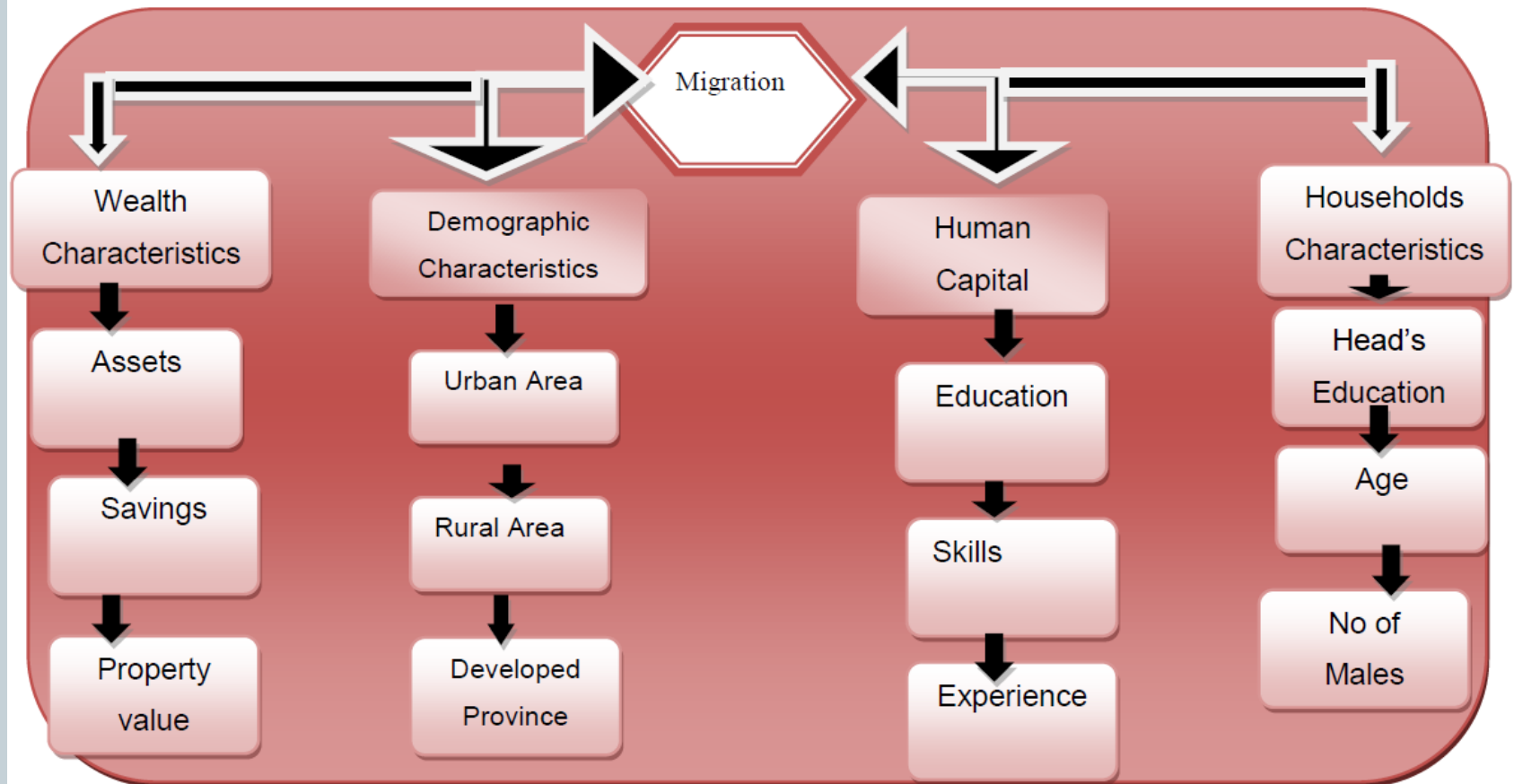
Top 10 recipients of remittances. US\$ billion, 2013e



Top 10 recipients of remittances. % of GDP, 2012



Factors Influencing Migration Decision



Source: Diagrammatic Review of model using in this Study by Author

Objectives



To identify how remittances affect poverty



To study the factors behind international migration.



To inquire how remittances affect income of households.

Literature Review

No	Author Name	Major Findings
01	Fajnzylber (2007) ,Yang (2007) , and Adams et al (2008)	International remittances becomes the major cause of high inequality and also impose larger impact to reduce poverty.
02	Brown (2006), Alleyne (2009) and Taylor et all (2005)	People in rural areas have low consumption levels than people in urban areas.
03	Brown, and Eliana Jimenez (2006) , jongwinish (2007)	international migration and remittances showed positive effect of remittances on poverty alleviation and income distribution.
04	Uzagalievia (2008) and Cuong (2009)	remittances increase consumption expenditures, welfare, income, saving and investment trends of households but this affect is larger in urban areas as compare to rural areas.
05	Mecleod Cuecuecha (2009)	remittances can be used productively to enhance human capital.

No	Author Name	Major Findings
06	Bettin and Alberto (2011),	Remittances eliminate liquidity constraint and helps to enhance investment.
07	Castaldo Barry (2007)	positive affect of durable expenditures due to remittances but no effect on food consumption.
08	Zhu <i>et al</i> (2001)	high positive effect of marginal propensity to spend on investment goods due to receiving of remittances.
09	Nishat Billgrami (1991)	In education sector remittances is widely supporting but no affect on consumption, investment, health expenditures and savings due to remittances

No	Author Name	Major Findings
10	Anderson (2001), Viet (2008) and Coung (2004)	positive relation of remittances with high education investment and consumption expenditures.
08	Malik and Sarwar Mughal (2010) and Kalim and Shahbaz 2008	international migration become the cause of reduction in marginal propensity to spend on consumer goods in which MPC of rural sector is lower than urban sector.
09	Ali 2009	Foreign inflows are positively related to poverty and infant mortality because through indirect channels.
10	Rehman(2000), Nasir .M et al (2011), Arif M. G. (1986)	remittances are positively related to total income and education but reduced saving and investment.

No	Author Name	Methodology	Major Findings
11	Gubert <i>et al.</i> , (2006)	standard Heckman two-step estimation	remittances reduce poverty by 5% to 11%.
12	Talyor <i>et al.</i> (2005)	decomposition techniques	International migration had positive effect on inequality and negative effect on poverty by a greater amount than remittances.
13	Mcleod and Juan 2005	GMM	remittances had positive affect on human capital and income growth in high inequality-child labor economies.
14	Viet N and Cuong (2004)	applied average treatment effect on the treated	international remittances increase per capita food consumption expenditures, per capita household education, and other non-food consumption expenditures.



DATA SOURCE



**“PAKISTAN SOCIAL AND LIVING
STANDARD MEASUREMENT SURVEY”
(PSLM- 2015-16).**

Estimation Technique

✓ **OLS**

✓ **Logit probit**

Logit Probit model has been used for econometric analysis because this method allows us the flexibility of various choices simultaneously and it is widely used in literature for micro analysis.

Model Specification

✓ *The methodology of the econometric analysis is based upon the variables that have been described in literature review.*

✓ *In this study, we have used three models including*

1.poverty model 2.migration model

3.income model

1. Poverty MODEL (Probit Model)

$$P_i(Pov = 1 / Y) = \phi(Y'\theta)$$

$$POV^* = Y'\theta + \mu$$

$$\mu \approx N(0,1)$$

$$POV = \begin{cases} 1 \\ 0 \end{cases} \quad \text{D= 1 if poor, 0 otherwise}$$

Y' is the vector of all explanatory variables.

Y_1 = Age of the head of households

Y_2 = Education of the head of households

Y_3 = Per capita food expenditures

Y_4 = Urban Dummy

Y_5 = No of Males above 15 years of age

Y_6 = Size of the households

Y_7 = Dummy (Households with members abroad and Receiving Remittances)

Table 1: Probit Results: Impact of Remittances on Poverty

Variable	Coefficient	Marginal Rate of Change
Constant	5.197 (3.649)	1725
Age HH	0.0715 (0.053)	0.200
Education HH	-0.042 (0.017)	-0.030
food / capita expenditure	0.005 (0.006)	0.421
Urban Dummy	-0.030 (0.038)	-0.437
Males >15 years	-0.209 (0.880)	-0.014
Size HH	0.000 (0.003)	0.031
Members abroad HH receiving remittances	0.001 (0.01)	-0.188
S.E. of regression	0.771	

D= 1 if poor, 0 otherwise, Source: Authors estimation from Probit model

Values in parenthesis are standard error values. Poverty line : 944.48 Rs per Adult per month. Eco Survey 2007-08

2. Migration MODEL (Logit Model)

$$Mi = \ln(Pi / 1 - Pi)$$

$$= \alpha_0 + \alpha_1 X_i + \mu_i$$

$$\alpha_0 + \alpha_1 X_1 + \alpha_2 X_2 + \alpha_3 X_4 + \dots + \mu_i$$

X_1 = No of Households with Primary education

X_2 = No of Households with lower secondary education

X_3 = No of Households with upper secondary education

X_4 = No of Households with university education

X_5 = No of Males over 15 years old

X_6 = Age of the head of household

X_7 = Households size

X_8 = Urban Dummy

X_9 = Dummy (Households belongs to Punjab and Sindh)

Estimated Results Table 2: Logit Specification Migration Model

Variables	Coefficient	Odd Ratios	IOR	Z Statics
Constant	108.958 (69.610)	2.089	-	-1.565
Human Capital				
households edu 1	0.280 (1.6236)	1.323	-	2.0202
households edu 2	0.321 (0.059)	1.378	-	5.697
households edu 3	0.267 (1.640)	1.306	-	2.240
households edu 4	-0.369 (0.006)	-1.446	0.730	-2.708
Households Characteristics				
males > 15	-0.005 (0.001)	-1.005	0.99	-4.11
Age HH	0.001 (0.001)	1.001	-	0.510
HHsize	0.020 (0.0297)	1.0206	-	0.686
Demographic Characteristics				
urban area HH	0.112 (0.0689)	1.1187	-	1.627
Punjab and Sindh HH	-0.0898(0.20822)	-1.093	0.9148	0.472
Standard Error of Regression	0.2 48188			
R square Reliability Test	67.3659			

Table 3: Values in parenthesis are standard error values. Dependent variable is migration dummy. D=1 if households takes Migration Decision and 0 otherwise

Conclusion

- ❖ The study has investigated impact of remittances on households' welfare in case of Pakistan by using micro data "Pakistan Social and Living Standard Measurement Survey" (PSLM) for the period 2015-16.
- ❖ The results of this study envisaged that families whose members are working abroad having 18.8 % reduction in the probability of being poor.
- ❖ This study indicates that highly educated people do not prefer to migrate. size of the households increases chances of migration in some extent.
- ❖ Findings shows that migration from urban area is high as compare to rural areas of Punjab and sindh.
- ❖ The empirical finding indicates that even without receiving remittances per capita income of household's increases as their number of males over age 15 upper secondary and university education increases. In second category with remittances receiving households are mostly use to enhance human capital and rural sector households relatively depends more on remittances as compare to urban sector households.
- ❖ In third non-migrant households category results shows that non-migrants per capita income increase due to increase in human capital and urban region residence.

Conclusion



- It shows that migrant's income did not waste on conspicuous food consumption.
- Poor spend more on food.
- Remittances improve status oriented consumer goods consumption. Remittances receiving households spend more on education, housing, transport and tourism and have no direct affect on health, clothing tobacco and other households operations.

Policy Recommendation

- ❖ First, it is suggested that investment friendly policies should be announced for return migrants so they can start their small or medium scale issuance of all business easily.
- ❖ Secondly, a special saving accounts scheme should offer to migrants with particular exchange rate to increase remittances inflow by domestic financial institutions.
- ❖ Thirdly, formal way of remittances transaction should permute. Banks should make transaction system more convenient and certain with launching of beneficial policies so it will be more helpful to enhance transaction through formal channels and increase balance of payments. With the betterment in this system, saving would be efficiently channeled towards more productive investment.
- ❖ Fourthly, skilled development program should introduce because skilled migrants earn more in European and other countries.