FORUM ON PROMOTING
REMITTANCES FOR DEVELOPMENT FINANCE
18-19 March 2015 • ADB Headquarters, Manila, Philippines

Session 2: Remittances and Household Investments

1. Remittances and Household Finances

Akira Murata

JICA Research Institute, Japan
Email: Murata.Akira@jica.go.jp

“Not straightforward to measure the effect of remittances on consumption/investment” (Murata, 2011)

Remittances are……..

- Fungible and difficult to separate remittances from other sources of income.
- Difficult to be divided into the amount of each expenditure item.

Using HH expenditure surveys would be appropriate to investigate the effect of remittances on changes in HH expenditure patterns.

Findings from Previous Studies based on HH expenditure surveys.

Author(s)	Country	Findings about overseas remittance receiving HHs' consumption and investment patterns
Zarate-Hoyos (2004)	Mexico	have higher budget shares for investment.
Adams (2005)	Guatemala	spend more on education, health and housing, while less on food, consumer goods, and durables.
Taylor & Mora (2006)	Mexico	have higher marginal budget shares for investment, health and durables, while smaller shares for food and housing.
Castaldo & Reilly (2007)	Albania	spend, on average, a lower share of their expenditure on food and a higher share on durables.
Ang, Jha, & Sugiyarto (2009)	Philippines	have higher marginal budget share for food, while no significant influence on education and health care.
Murata (2011)	Philippines	have higher marginal budget share for education.

Migration can affect HH financial decisions through 3 channels (Clemens & Tiongson, 2014):

Migration can……

1. Alleviate borrowing constrains.
   (by receiving remittances)
2. Reduce non-remittance income.
   (by changing the home production technology or by reducing labor supply by non-migrants)
3. Change HH financial decisions.
   (by changing who makes such decisions)

However, the net effect of migration on consumption, savings, and investment is ambiguous.

"Do remittances increase borrowing?" (Ambrosius and Cuecuecha, 2014)

- Using Mexican Family Life Survey in 2002 & 2005
- 7,572 HHs from 149 municipalities
- Concerned selection bias & reverse causality
- Investigated whether the receipt of remittances facilitates taking up loans from formal or informal sources.

Positive & statistically significant effects of remittances on borrowing and on debts.

Remittances facilitates taking up loans through 2 effects (Ambrosius and Cuecuecha, 2014)

- **Demand-driven effect**

HHs have a lower risk-aversion because they may depend on remittances to pay their debts.

- **Supply-driven effect**

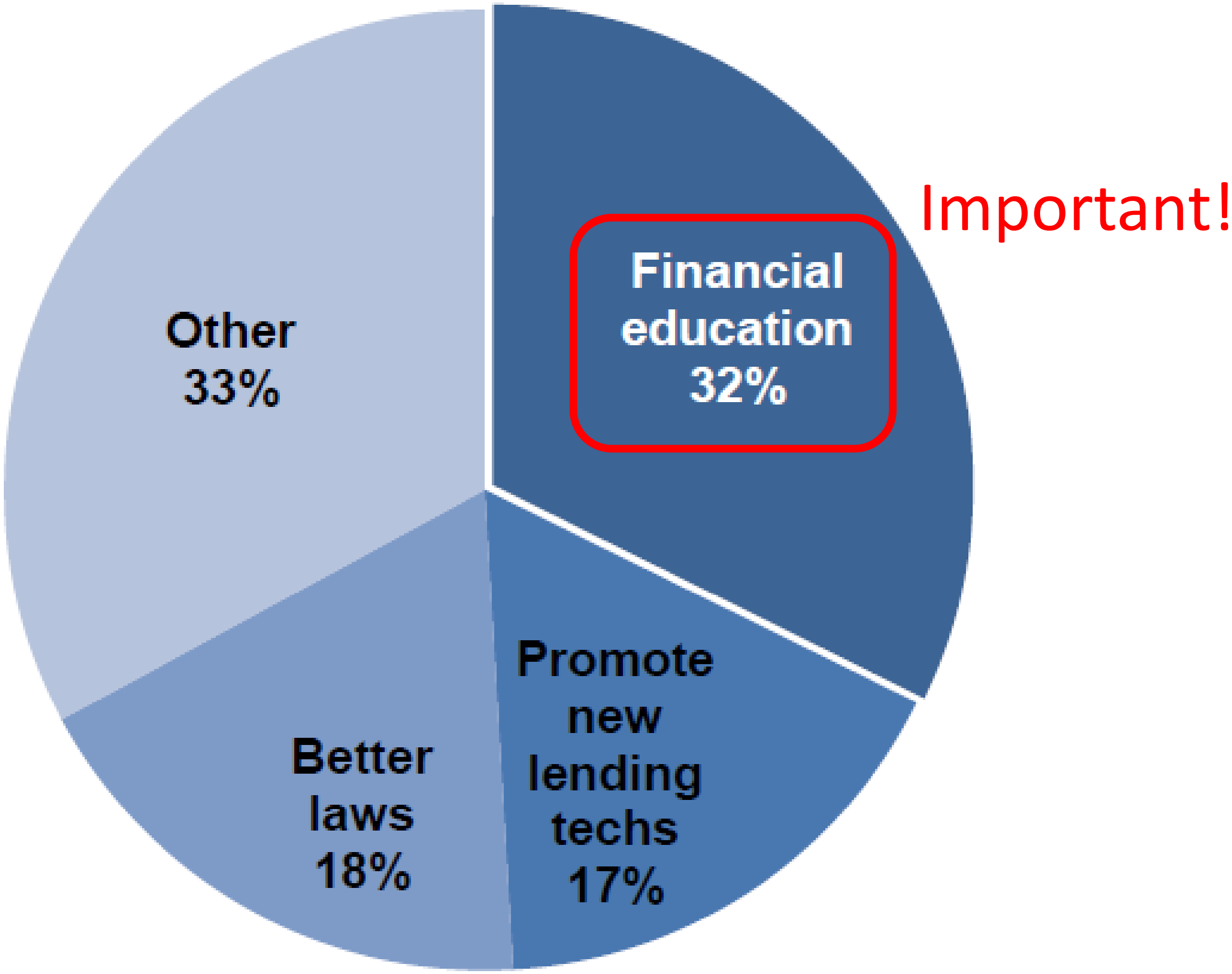
Lenders may accept remittances as collateral for loans or consider HHs to be more creditworthy because they have an additional and relatively stable source of income.

"Can you help someone become financially capable?
A Meta-Analysis of the Literature"
(Miller, Reichelstein, Salas, & Zia, 2014)

- Reviewed 188 papers on financial education interventions, designed to increase consumers' financial knowledge (i.e. financial literacy) or skills, attitudes, and behaviors (i.e. financial capability).

Financial education can have a positive impact on savings and record keeping.

“What is the most effective policy to improve access to finance among low-income borrowers?”



Responses from the 2012 Survey of the Financial Development Barometer
Source: 2014 Global Financial Development Report

“Savings by and for the poor: a research review and agenda” (Karlan, Ratan, & Zinman, 2014)

- Savings help HHs smooth consumption and finance productive investments in human and business capital.
- However, the following five categories of barriers to saving exist for many, particularly the world’s poor:

(1) Transaction costs (e.g. account opening fees)

(2) Lack of trust and regulatory barriers (e.g. identity registries)

(3) Information and knowledge gaps (e.g. low financial literacy)

(4) Social constraints (e.g. intra/inter-HH bargaining and sharing)

(5) Behavioral biases (e.g. live for today, commitment, inertia)

Despite these barriers, the poor have substantial (latent) demand for savings .

- HHs surveys indicate that the poor do have some surplus that they use for non-essential expenditures (Banerjee and Duflo, 2007).
- Similarly, detailed financial diary studies document complexity in poor HHs' financial portfolios and highlight the demand for small irregular flows to be aggregated into lump sums for HH or business investment (Rutherford, 2000; Collins et al., 2009).

- Without available or affordable formal savings, the poor often save under mattresses, in informal groups, and/or in livestock (Karlan, Ratan, & Zinman, 2014).
- MFIs are broadening their initial focus on microcredit to now include microsavings. There are 72 million microsavings clients to date, while 94 million microcredit clients (Microfinance Information Exchange, 2012).

Way forward:

- First, need a sufficiently deep understanding of remitters and HHs’ finances and their decision-making, local market functioning, and potential barriers to saving/investment.

- Then, develop and test predictions around heterogeneous responses to interventions, particularly about gender, intra-HH bargaining power, risk preferences, and behavioral factors.

Some ideas for developing innovative financial products to leverage HH and community remittance investments

(1) Reducing transaction costs

•Subsidizing the costs of opening formal savings accounts (Dupas and Robinson, 2013a in rural Kenya; Prina, 2013 in Nepal).

•A deposit collection service to micro-savers of a rural bank (Ashraf et al., 2006b in PH).

(2) Removing regulatory barriers

•Providing assistance and a fee waiver to obtain a formal ID card (Chin et al., 2011 in Mexico).

(3) Narrowing information and knowledge gaps

•Using RCTs to measure the effect of financial literacy trainings, e.g. a video-based financial education program (Carpena et al., 2011 in India).

Some ideas for developing innovative financial products (continued)

(4) Understanding social constraints

•Taking into consideration gender preferences, e.g. female participation in ROSCA (Anderson and Baland, 2002 in Kenya).

(5) Incorporating behavioral biases

•Offering a commitment savings account (Ashraf et al., 2010 in PH).

• Customizing new products and features, e.g. an option to pay for next season's fertilizer input at harvest time (Duflo et al., 2011) and delaying CCT payment until school fees are due (Barrera-Osorio et al., 2011).

•Using messaging to encourage savings, e.g. reminders to save (Karlan et al., 2012 in Bolivia, Peru, and PH).