Remittances

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Remittances are funds and goods sent by internal or international migrants to their origin families and communities. According to World Bank estimates, remittances to developing countries have reached 325 billion U.S. dollars in 2010, constituting the largest source of external finance, and more than 10 percent of the gross domestic product, in many countries. Remittances relax budget constraints in receiving households and create investment opportunities in receiving communities. These flows also provide a potential pathway to reduce poverty and inequality in the most deprived regions of the world.

Research on remittances has grown dramatically in recent years both in economics and sociology. A branch of this research has investigated the underlying motivations for migrants' remittances to origin households. Based on evidence from household surveys and qualitative fieldwork, migrants may remit altruistically, or in exchange for favors from household members, such as childcare, past loans or future inheritances. Migrants may also remit to insure against the risks to their earnings in the destination, or to maintain ties to their family and community in the origin. Migrants often combine multiple motives, which are hard to distinguish with survey or qualitative data. These motives also vary between male and female migrants, over time, and across settings.

Another branch of research has focused on the consequences of remittances for receiving households and communities. Remittances contribute to earnings in receiving households, and also help diversify risks to those earnings. Because migrants often work in different geographical regions and different economic sectors from other members of the household, their earnings, and subsequent remittances, provide a hedge to household earnings in the origin. By increasing and diversifying household budgets, remittances also create the potential for investment and economic growth in receiving communities. To evaluate this potential, researchers studied how receiving households use remittances. Evidence from household surveys suggested that households spend remittances mostly on recurring household expenses, such as food, education or health, retaining only a small share for productive investments, such as acquiring land for farming or establishing a business. This pattern has led some researchers to discard the potential of remittances for long-term economic development in the receiving community, especially given that these funds often decline over time as migrants settle in their new destinations. Other researchers, by contrast, have shown the multiplier effects of remittance flows in receiving regions even when they are spent entirely on consumption, and pointed to the resilience of these flows through economic downturns in destination.

Weighing in on this debate, evidence from macro-level economic data suggests that remittances reduce poverty in many developing countries. Research also finds that these funds may reduce income or wealth inequality in receiving regions, although evidence from different settings remains mixed. To reconcile these conflicting findings, in their seminal work, Stark et al. (1986) suggested that the effect of remittances on inequality depends on the prevalence of migration in a community. Remittances increase inequality in the early stages of migration, due to positive selectivity of initial migrants by income or wealth, but eventually reduce inequality as migration becomes more prevalent and less selective. Empirical evidence from various setting supports this pattern.

While remittance flows are mostly directed toward migrant households, a small share also reaches migrant communities. Community remittances are often collected by migrant organizations, referred to as Hometown Associations, for specific projects, such as building infrastructure or providing social services. These funds reinforce migrants' membership and political involvement in their origin communities, and are often encouraged by local and national governments through matching grants.

Recent scholarship has extended the definition of remittances to include non-economic transfers. Levitt (1998), for example, uses the term *social remittances* to describe the diffusion of ideas, values, and practices from migrants to origin households or communities. Researchers also emphasize the social determinants of remittances, and study the interpersonal trust networks that sustain these flows.

In addition to these new directions, future research needs to address the methodological issues in studying remittances. Aggregate remittance figures, computed based on country-level balance of payments data, do not capture informal flows. Representative data collected from both migrants and receiving households, and regularly over time, can lead to more reliable remittance estimates. The longitudinal aspect of these data can also help design discriminative empirical tests for the various theories of remittance motivations. In assessing the impact of remittances on receiving households or regions, researchers often treat these funds as an exogenous source of income. Few recent studies, instead, consider remittances as a substitute for migrants' potential contributions to the household had they stayed in the origin. These studies reach dramatically different conclusions about how remittances affect poverty and inequality in origin communities. The empirical conclusions about remittances also seem sensitive to whether researchers consider the selectivity of migrants. Future work can build on these recent directions and findings in research to enhance our understanding of the determinants and consequences of remittance flows.

SEE ALSO: Immigration; Immigrant Families; Migration: International; Transnational Movements; Transnationalism; Transnationals

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