



Role of Remittances in Fighting Poverty

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	ABSTRACT
<p><i>Research Leap/Inovatus Services Ltd. All rights reserved.</i></p> <p>DOI: 10.18775/jibrm.1849-8558.2015.52.3002</p> <p>URL: http://dx.doi.org/10.18775/jibrm.1849-8558.2015.52.3002</p>	<p>The paper addresses the subject of remittances globally, but also regionally. Undertaking her research, the author tried to map the flows of remittances to the African country of Uganda. The empirical part of the work employed the quantitative method and the technique of questionnaires. Considering results and comparing them with those of other relevant researches, the author attaches importance to the impact that remittances have on the receiver families. The remittances, their roles and consequences, are thus tackled in view of the research results.</p>
<p><i>Keywords:</i> Economic problem, Poverty, Remittances, Uganda</p>	

1. Introduction

The issue of remittances has recently been given an ever increasing attention, especially as a topic of studies dealing with migration and development. The remittances, i.e. the transfers of money and/or goods directed by migrants back to their home countries, can be regarded as a very complex subject of interdisciplinary character treated by economists, sociologists, geographers and many other specialists. Remittances are believed to be a major and stable source of funding provided to poor developing countries from abroad. The recent decades have seen the absolute and relative volumes of remittances grow - their relative growth was measured against financial aid extended to developing countries by foreign governments and international organizations.

International migration emerges as one of a multitude of factors affecting economic relations between the developed and the developing countries. Remittances sent back home by gainfully employed emigrants are making a substantial difference in the developing countries of Asia, Africa, Latin America and the Near East. As currently estimated, the overall volume of remittances directed to the developing countries twice exceeds the Official Development Assistance (ODA) and almost amounts to the value of Foreign Direct Investments (FDI) and

other capital revenues. Obviously, the poor countries of the world greatly benefit from remittances.

The top recipients of remittances have recently been China, India, Mexico and Philippines. The payments have been coming mostly from the high-income economies, the top source of remittances being traditionally USA, followed by Saudi Arabia, Switzerland, Russia and Germany. Money earned by foreign immigrants in rich countries are conveyed to their home states through a range of different channels that can be split into two groups: (1) official / formal and (2) unofficial / informal. The official channels of sending money encompass transfers effected by banks, postal services and companies specialized in international transfer of finance. The unofficial ways that migrants employ to send their earnings home cover a wide array of diverse channels impossible to be statistically recorded. Consequently, with the informal channels included in the picture, the actual volume of international remittances will be sizably greater than what the statistics tell us.

A good many developing countries, their economies and population, rely heavily on remittances, but their effects cannot be unambiguously identified as beneficial or detrimental in each poor country. That is why the impact of remittances on a specific developing country should be assessed separately.

The situation is exemplified by the Republic of Uganda where the author works as an executive officer of a healthcare & social NGO. In her quantitative research, the author builds on assumptions that Uganda is a poor country and that the substantial sums of incoming remittances are factors of considerable importance for its households.

1.1 Empirical Section

The money remitted to developing countries is used primarily to satisfy personal needs; to pay for accommodation; and to purchase land and consumer goods. Still, empirical evidence indicates that in some cases households getting money from migrants have developed a pattern of consumption similar to households which enjoy no such support. This observation would justify a conclusion that the remittances are not necessarily spent, but they are saved to accumulate sufficient financial reserves for, e.g. the old age. In contrast, consumption exceeding investments has been observed, for example, in Bangladesh (Mamunn, Nath, 2010), Ghana (Quartey, 2000) and Columbia Medina, (Cardona2010)

1.2 Remittances in Practice - Uganda

The empirical research, under way from September 2017 to October 2018, covered several Ugandan villages scattered around a district neighboring the Republic of Rwanda. Three hundred and sixty seven (367) senders of remittances were asked to respond to a questionnaire. Each questionnaire was subject to a validation check, once again in the form of questionnaire, but this time given to the kinfolks of the senders. The research was preceded by a preliminary research completed in May 2017.

2. Results - analysis & comments

Since 2013 to the present the number of Ugandans leaving their country to look for a job elsewhere has considerably grown. The growth can be ascribed to digitization, easier availability of social networks and, first and foremost, to more job opportunities offered by the United Arab Emirates, whose increased crude oil production fueled economic boom.

The employment contracts of emigrants involved in our research were typically time limited (91%) to approximately 1 to 3 years. The people have recently been exposed to competition from workers coming, for example, from Nepal, Cambodia and Vietnam (Mamunn, Nath, 2010), all countries with an abundant supply of cheap labor.

2.1 The Greater Part of Our Respondents Emigrated to the United Arab Emirates, Kuwait, Oman and Kenya

The international migrants involved in our research can be divided into several groups according to their education. Highly qualified migrants, i.e. professionals like physicians, engineers, etc., represented mere 1% of the total number. Thirty two percent (32%) were qualified migrants like teachers, IT

specialists and trained nurses. Unqualified migrants created 67% of those included in the research.

Year by year the migrants support their families by remitting money to Uganda. A.K. Azad (2005, p. 126) estimates that typical migrants thus remit 55.6% of their foreign earnings and the remittances cover 55.12% of the total income of their households. As follows from our research, Uganda belongs to the recipient countries of remittances and Ugandan migrants send 61% of their earnings.

Our Ugandan research has also yielded these results: 51% of the money is transferred through banks; 5% is delivered by friends and acquaintances; and the rest is mostly handed over by the migrants themselves when they visit their homes. Other comparable studies put the percentage of funds passing through the informal channels at 59% of the total number or at 54% (Barua, Majumder, Akhtaruzzaman, 2007): As is obvious, multiple sources confirm that the unregistered transfers prevail by 54 to 59 percent - a substantial share of the total sum. The choice of way through which the money is remitted greatly affects the economic development since the beneficial effect of remittances is heavily dependent on whether the money travel through the formal channels or the informal ones.

When opting for an unofficial channel of transfer, the migrants see two reasons as decisive: first comes the cost of the transfer (a fact confirmed by also our research). Then comes the speed of the transfer - the official process takes up to 2 weeks. The families we have researched have given these figures on how often they received the remittances: 5% more often than five times a year; 82% four times a year; 8% three times a year; and 5% twice a year.

The rapid growth of funds being remitted can be put down not only to the increased numbers of international migrants but also to the larger-scale exploitation of the formal transfer channels. The former fact is probably encouraged by the improvements in banking and postal services.

2.2 Microeconomic Consequences

As follows from the relevant literature, the greater portion of remittances is used to fulfill personal needs. Such needs have consumed 80 to 90 percent of the funds, and only a tiny share was channeled into education and healthcare. The most common investments (and relatively productive ones) were made to buy land. Land purchases may translate into economic gains through growing plants or through other ways of the land commercial exploitation. (Mamunn, Nath, 2010) The same author also observes that the locals employ the funds so as to make their lives more dignified and free from privation.

Our empirical research in Uganda confirmed the pattern of preferences indicated above. The households took advantage of the money they received from migrants to make particularly

three personal investments, namely (1) to buy a piece of real property (a house, land, field) and/or agricultural machinery (20%); (2) to cover the expenses of a wedding (19%); and (3) to save the money (14%). The purchase of foodstuffs for the family depleted the remittance by 19% on average, while the poorer families spent on food more than a half of the funds. Education and healthcare shared 7% between themselves. Consumer goods represented 8% in the emigrant family spending and 6% were used to repay loans.

Obviously, only a small portion of the remittances have been used for productive investments. This fact can be explained by the generally low income level of the families, but also by their ignorance about investments and by limited investment opportunities, as true especially of the rural regions covered by the research. The research results returned by the respondents confirmed that the remitted funds represented 72% of average monthly income of the surveyed households. Besides, they showed that the major benefit that the remittances could bring lied in their alleviating the poverty of certain families.

Our research effort exerted in Uganda leads us to believe that the most profound microeconomic consequence for the individual inhabitants and households in the developing countries rests primarily in raising their standard of living. That is exactly what the research indicates. Remittances sent by international migrants affect all their recipients, but mainly the poor people of the developing countries whose lives are made more dignified by them being able to pay for their basic material comforts - food, clothing and accommodation.

Remittances reaching the greater part of developing countries are spent primarily to meet personal needs instead of being invested so that they would come to fruition in the future - this conclusion has been also vindicated by our research. The manner in which the money is used is closely related to the economic and social conditions of the emigrant families: whereas the poorest persons utilize the remittances to alleviate their poverty, the richer classes tend to invest into human capital (i.e. education and healthcare) and, later on, to also more productive pursuits (establishing trades & businesses).

3. Discussion

The quantitative research completed in the households of Ugandan migrants suggests that international migration and the ensuing remittances exert contradictory effects on both the economies and inhabitants of developing countries. On the one hand, they spur investments to health care and education, and stimulate business activities. On the other hand, they may dampen development by encouraging what is known as the brain drain. For this reason (and some others) migration is often perceived as something undesirable despite the fact that migrant communities may become a spring of capital, investments, innovations, commerce and knowledge. Dependence on remittances is also sometimes accused of being a potential

stumbling block to healthy development. What matters, however, is their beneficial role in reducing poverty, because they are a major, and often even a sole source of income for the inhabitants of the least developed countries of the world.

All the findings and observations described above show us that the foreign aid can be more effective in countries with favorable political environment. Supportive investment climate, a well developed financial system and incorruptible institutions, for instance, can be factors encouraging people to use a greater share of the remittances to invest and to start businesses. Supported by her practical experience gained in Uganda, Zimbabwe and Malawi, the author maintains that a good many African countries lack these desirable characteristics.

Stronger developmental effects of remittances are also eroded by restrictive migration policy and by the excessive cost of money transfers. Favorable conditions, therefore, can make remittances a tool boosting economical development and raising the standard of living. Their overall effect, however, lies in the hands of governments and population of the developing countries, because their attitudes and political & legislative provisions can accelerate or suppress the growth of economy (and the related increase or decline of inequalities).

4. Conclusion

The effects that remittances exert on the developing countries is mixed or at least very problematic since many positive consequences are wedded to also negative impacts. For one thing the remittances help reduce the income inequalities experienced within a country, but for another they tend to create them. Similar antagonisms can be observed in also other aspects (the brain drain / gain) - this fact follows from the multilateral conditionality and diversity of the individual cases. Most authors assert that remittances fight poverty, improve the standard of living and fuel economic growth in the developing countries. They even believe that remittances are a more stable and more effective source of finance for poor countries than ODA. (World Bank, 2018) In justifying the opinion, they stress that remittances are not significantly diminished by administrative costs and are not threatened by ending up in the pockets of venal African officials. Remittances go straight to the people who need them most. Moreover, the migrants are not just passive recipients of the aid - the money they earn through their own effort is considered a more efficient developmental tool than ODA and/or other programs, often burdened with a good deal of red tape and now rather stagnating or dwindling. (OECD, 2019):

The role that remittances play in alleviating poverty is beyond any doubt - this fact has been confirmed by also other empirical studies. Remittances reaching the greater part of developing countries are spent primarily to meet personal needs, and they are only minimally invested in a productive manner into education and future business activities. This situation is related to the level of development, or rather underdevelopment of each

country. In the poorest countries of the world the funds are utilized to make life more dignified and to satisfy the basic material needs (food, clothing, accommodation). Only when a certain standard of living is reached, the remittances can be invested either to material possessions (establishing businesses) or human capital (education, health). The prevailing personal consumption of remittances does not necessarily mean that the finance does not stimulate economic growth - the growth is fostered by a multitude of multiplication effects.

The question of whether remittances combat poverty of individuals and families has to be answered in the affirmative, but any farther-reaching impacts on growth may only be expected after a longer period of time. In fact, any development driven by the growth will not depend so much on the volume of remittances as it will be facilitated by international cooperation; emigration & immigration policy; and by economic reforms. The development potential of remittances can be enhanced by more effective data collection; by reduced transfer fees; and by improved political, economic and entrepreneurial environment of the developing countries.

Still, remittances cannot be regarded as anything more than a short-term alternative that will only assist the economic development of poor countries by, for example, providing the start-up capital not available from the domestic resources.

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