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9 September 2019

Online at https://mpra.ub.uni-muenchen.de/95953/
MPRA Paper No. 95953, posted 12 Sep 2019 16:59 UTC

# The impact of remittancess on poverty : What relations in Sub-saharan Africa and latin America ?

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**Abstract**

This article examines the impact of international remittances on poverty in sub-Saharan Africa and Latin America between 1996-2016. The results of our regressions show that international remittances have a positive effect in reducing poverty in Latin America but not significant in sub-Saharan Africa. This relationship between international remittances and poverty is significantly different between sub-Saharan Africa and Latin America. This result implies that remittances play an important role in increasing household consumption and hence in reducing poverty. This supports our assertion that international remittances have more impact on poverty reduction in rich regions than in poor regions. This study shows that improvements in these attractiveness factors international remittances tend to decrease levels of poverty. It is also supported by the fact that in Sub-Saharan African countries, governments tend to invest in international remittances like other sources of external finance.

**Keywords:** international remittances, poverty, sub-Saharan Africa, Latin America.

## 1. Introduction

According to the International Financial Institutions (IFIs), emigrant remittances are now the second largest source of external development finance for developing countries, after foreign direct investment (FDI). However, we find that over the same period, while ODA stagnates, emigrant remittances have evolved at a growing rate. Even more so, according to the IMF and the WB, this increase in emigrant shipments would have been significantly larger if informal shipments were accounted for.

Several empirical studies have attempted to measure the impact of each external source of financing (official development aid, emigrant remittances, foreign direct investment and external debt) on the economic growth of developing countries, but few studies on the impact of these sources of financing on poverty reduction. Nevertheless, these studies have been criticized because of their limitations in testing the impact of a single external source on reducing poverty in the receiving country from this source, while ignoring the role that other sources could play or mixing. from these sources. On the other hand, the current debate is animated by international institutions on the role of emigration and emigrant funds, as a source of external financing and as a factor of development and poverty reduction, in comparison with aid. public development "ODA".

In this context, we questioned the role of private transfers such as migrant remittances in reducing poverty and income inequality. Remittances are a very important source of capital for developing countries. They are less important than FDI but they are much larger than official development assistance and financial market flows. They are also a very stable source of capital, unlike FDI and portfolio investments, which have dropped dramatically in recent years because of the global recession.

More recently, some empirical studies have highlighted the fact that all host countries are able to fully reap the positive externalities offered by international remittances, and that the positive impact of international remittances on reducing of poverty, includes factors such as the level of human capital, the degree of financial development, the level of economic development, etc. International remittances is known to be one of the leading causes of many countries in poverty reduction and development.

Given the downward trend in funding from Development Assistance (ODA), the question is how to offset this decline through the exploitation of other sources of international development finance, including financial transfers of emigrants. Thus, following the crisis of legitimacy experienced by this aid followed on the one hand by a remarkable decline in its flows and on the other hand, by the emergence of the principle of selectivity of aid, a great debate is mainly on the conditionality of the granting of ODA.

As a result, a call for the investigation of remittances is largely motivated by international institutions, including the World Bank and the IMF. Indeed, these two institutions put forward the hypothesis that emigrant remittances, if efficiently and productively used by developing countries, can be an effective factor in the development and stimulation of economic growth in these countries. during the last twenty years. The government can establish and implement anti-poverty plans. In other words, the ability of international remittances to pursue the goal of reducing poverty.

This study explores the link between international remittances and poverty reduction, through financial development, external financing, and other variables. Our study is based on a sample of countries in sub-Saharan Africa and Latin America. In what follows, we will empirically study the nature, reality and intensity of these links between international remittances and poverty. The econometric method specific to panel data will be used, ie, the static panel data estimated by the Hausman method.

Two questions arise; in the first place, do international remittances reduce poverty in sub-Saharan Africa and Latin America? Second, are there differences between the region of sub-Saharan Africa and Latin America in the role of international remittances on poverty?

In this section, we will present a literature review on the impact of international remittances on poverty. Then, the methodology that will be adopted to estimate the relationship between international remittances and poverty, as well as the results of each estimate and conclusion and policy implications.

## 2. A review of the literature

There is very limited empirical literature on the macroeconomic impact on poverty. However, recent studies of funds find more evidence of the positive impact of remittances on poverty reduction. A World Bank study, Adams and Page (2005) have shown that a 10% increase in official international remittances will, on average, lead to a 3.5% decline in the share of people living in poverty . Similarly, the IMF (2007) study found that, on average, a 10% increase in the share of remittances in a country's GDP is associated with about a 1.5% decline in the share of remittances. poverty and a 1.1% decline in the poverty gap.

Anyanwu and Erhijakpor (2007) examined the effect of international remittances on poverty in Africa, showing that international remittances reduce poverty. According to Mansoor and Quillin (2007) international remittances, more impact on the wealthier households than the poorest households. The African Development Bank (AfDB (2007)) pointed out that international remittances, more impacts on the poorest categories of the population. Gubert et al (2010) studied the impact of international remittances on poverty. The study showed that international remittances reduce poverty.

Rodriguez (1998) examined the impact of international remittances on Filipino income. The study showed that remittances is a problem that has a negative impact and increases income inequality. International remittances reduce poverty in sub-Saharan Africa. (Gupta et al (2007)). Lopez and Cordovas (2006) examined the impact of remittances on poverty. Their results show that remittances have no effect on poverty. Adams (1991) studied the effects of remittances on poverty in Egypt, showing that remittances reduce poverty but increase income inequality.

According to OECD (2009) international remittances have a positive impact on poverty reduction in middle-income countries. Yang and Martinez (2006) examined the effects of international remittances on poverty. Their results show that migrant remittances reduce poverty. Barham and Boucher (1998) and Brown and Jemenez (2007) have shown the positive effect of international remittances on improving well-being. According to Ahlburg (1996) remittances have a positive impact on the distribution of income. International remittances have a positive and positive effect on economic growth (Chami et al (2003)).

Cox et al (1996) examined the crucial relationship between international remittances and improved household consumption. So remittances played an important role in reducing poverty. Many studies have examined the relationship between international remittances and poverty. Among them, Docquier Rapoport (2003) studied the effect of migrant remittances on poverty. The authors indicated that remittances are a necessary condition for reducing poverty.

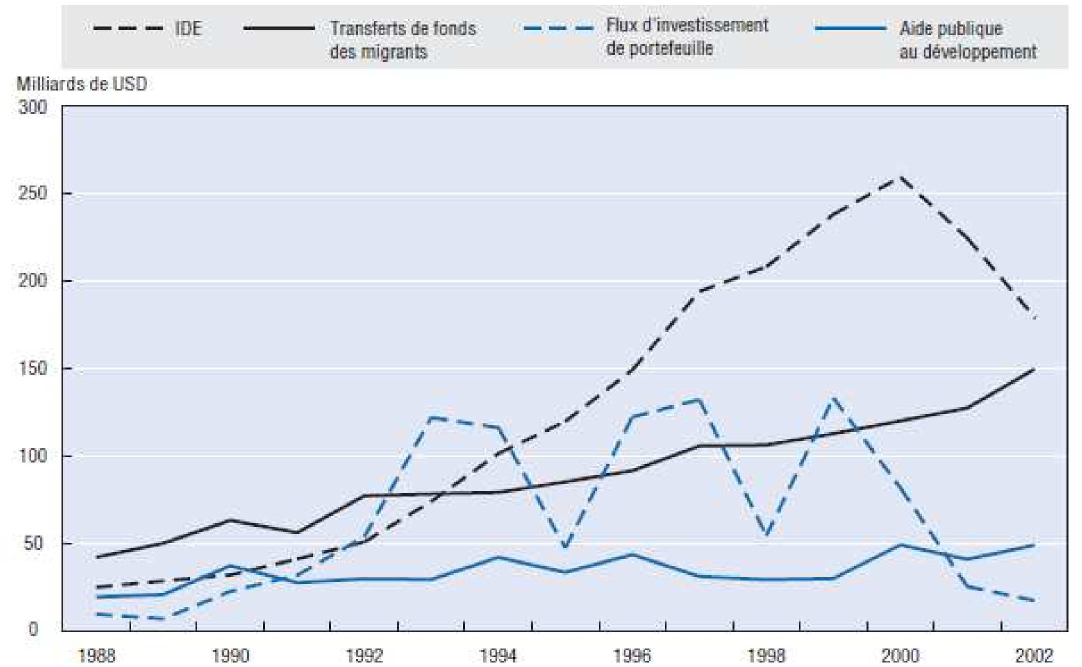
Adams (1998) has shown that an increase in international remittances is associated with an improvement in the income of the poor in Pakistan. Ratha (2003) examined the effects of international remittances on welfare in developing countries. This study aims to examine the importance of remittances to increase household income. Therefore, improving economic development. Quibria (1997) indicated that international remittances have a negative effect on welfare if labor capital decreases.

Remittances are more stable and predictable relative to other and larger financial flows. They are countercyclical against economic shocks. Remittances can boost economic growth, improving countries of origin, solvency and expanding their access to international capital markets. Remittances represent one of the largest sources of external private finance for developing countries. However, the impact of transfers on poverty has led to considerable debate. The contribution of migration to development and the achievement of the Millennium Development Goals has become so important that the flow and stock of migrants around the world continues to increase. Migration contributes to economic growth and development, serving as a channel for remittances, skills transfer and ideas, and the creation of commercial and cultural networks. Migrants contribute to the development of countries of origin in a number of ways.

**3. The evolution of international remittances and poverty**

**3.1. International remittances**

**Figure 1: Migrant remittances and other capital flows to developing countries, 1988-2002.**




Note : Les « Transferts de fonds des migrants » renvoient à la somme des « rémunérations des salariés », des « transferts des travailleurs », et d'autres « transferts courants dans d'autres secteurs »; les « flux officiels » incluent les transferts gouvernementaux généraux, aussi bien courants que de capitaux.

Source : FMI, *Annuaire statistique de la balance des paiements*, différentes éditions.

Statlink : http://dx.doi.org/10.1787/600364675513

Figure (1) shows the evolution of four international sources of financing between 1988 and 2002. In the early 1988s, an increase in remittances was more important than other sources of funding. But in the years 1994, FDI is more important. In 2002, remittances to developing countries operated by emigrants increased by 17.3 per cent to $ 149.4 billion. Compared with other capital movements, remittances from these migrants were less than FDI (83.7%) but also higher than portfolio investment flows (more than eight times that amount) , and triple the official development aid. remittances are a very valuable source for developing countries.

### 3.2. Poverty

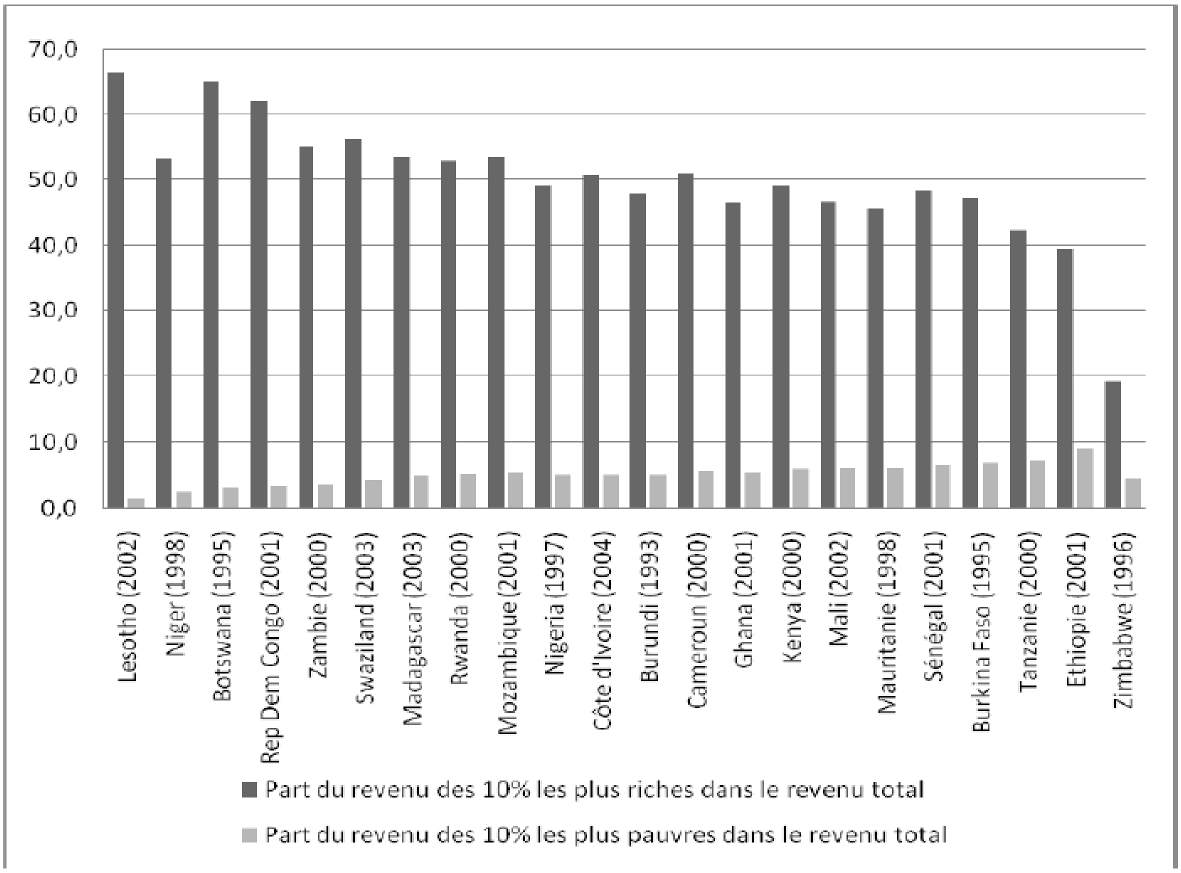
**Table 1: Regional Share in Extreme World Poverty (1980-2005)**

| | 1981 (%) | 1993 (%) | 2001 (%) | 2005 (%) |
|---|---|---|---|---|
| Asie de l'Est & Pacifique | 57,11 | 47,66 | 33,43 | 24,07 |
| dont Chine | 43,85 | 35,40 | 22,32 | 14,84 |
| Europe & Asie Centrale | 0,35 | 1,00 | 1,64 | 1,71 |
| Amérique Latines & Caraïbes | 2,36 | 2,78 | 3,30 | 3,22 |
| Moyen Orient & Afrique du Nord | 0,78 | 0,71 | 0,83 | 1,00 |
| Asie du Sud | 28,79 | 30,75 | 37,87 | 42,55 |
| dont Inde | 22,08 | 24,86 | 28,30 | 32,57 |
| Afrique Subsaharienne | 10,61 | 17,12 | 22,94 | 27,45 |
| Total | 100,00 | 100,00 | 100,00 | 100,00 |

*Source : Chen et Ravaillon (2008)*

Extreme poverty is predominantly in East Asia and South Asia. In 2005, these two regions accounted for about 68% of the world's poor, which is more proportional than their share of the world's population (52%). However, this level is well below that of the early 1980s, about 85% of the world's extreme poverty. On the other hand, sub-Saharan Africa's share of world extreme poverty has steadily increased since 1981. By that time, it accounted for only 10.61% of the total, while in 2005, it reached the level of 27.45%, more than the share of East Asia (Table 16). These rates are extremely high, compared to what currently represents sub-Saharan Africa in the world population (only 6%).

**Figure 2: Income share of the richest 10% and the poorest 10% of total income**




*Source : World Development Indicators (2007)*

In the first situation we observe an increase in the share of income of the rich in total income. In countries characterized by this situation, the share of income of the poor in total income has declined. Thus, the increase in inequality is due to the deterioration of the monetary situation of the poor. In the second situation, we observe a decline in the share of income of the rich in total income. In countries characterized by this situation, the share of the incomes of the poor in total income has increased. Thus, the decline in inequality has meant that the monetary situation of the poor is improving to the detriment of the rich.

## 4. Methodology

### 4.1. variables

The main variables that we use to explain the effect of international remittances on poverty are international remittances and household consumption expenditure (the poverty rate indicator). We also use a number of control variables.

**. International Remittances (TRANSF):** As a percentage of GDP, they include current transfers by migrant workers and wages and salaries earned by non-resident workers. They are also defined as private current transfers of migrant workers who reside in the host country for more than one year, to beneficiaries in their countries of origin.

**Poverty (P):** It is measured by household per capita consumption expenditure and calculated by the World Bank. This measure is in line with the definition proposed by the World Bank (1990) which defines poverty as "the inability to reach the minimum standard of living" measured in terms of basic consumption needs.

**Control variables**

**. FDI:** is the flow of foreign direct investment as a percentage of GDP, defined as the flow of capital by which an enterprise in one country creates or develops a subsidiary in another country.

**. Total debt (Debt / GDP):** It is measured by total debt to GDP.

**. Official Development Assistance (ODA):** as a percentage of GDP, it represents disbursements of loans and grants on concessional terms and grants by public bodies.

**. Degree of openness (OUV):** it is measured by total exports and imports as a ratio of GDP.

**. Financial development:** It is measured by total credit by private sector financial intermediaries in relation to GDP.

**. GDP per capita:** It is measured by the annual growth rate of GDP per capita.

**. Education (EDUCATION):** It is measured by the percentage of secondary schooling.

**4.2. Sample**

Our study covers the period from 1996 to 2016 in the countries of sub-Saharan Africa and Latin America.

**Sub-Saharan Africa :**

Angola, Burundi, Cameron, République de l'Afrique centrale, Tchad, République du Congo, République Démocratique du Congo, Guinée Equatoriale, Gabon, Sao Tomé et Principe, Rwanda, Benin, Burkina Faso, Cap Vert, cote d'Ivoire, Gambie, Ghana, Guinée, Guinée-Bissau, Liberia, Mali, Niger, Nigeria, Sénégal, Sierra Leone, Togo, Djibouti, Erythrée, Ethiopie, Kenya, Somalie, Soudan, Soudan du Sud, Ouganda, Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzanie, Zambie, Zimbabwe, Namibie, Afrique du Sud, Maurice, Madagascar, Seychelles.

**Latin America :**

Antigua et Barbuda, Argentine, Bahamas, Barbade, Belize, Bolivie, Brésil, Chili, Colombie, Costa Rica, Dominique, Equateur, Salvador, Grenade, Guatemala, Guyana, Haïti, Honduras, Jamaïque, Mexique, Nicaragua, Panama, Paraguay, Pérou, Saint Kits et Nevis, Sainte Lucie, Saint Vincent et les Grenadines, Suriname, Trinité et Tobago, Uruguay et Venezuela.

**4.3. Regression model**

$$P_{it} = \beta_0 + \beta_1 TRANSF_{it} + \beta_2 FDI_{it} + \beta_3 Debt_{it} + \beta_4 ODA_{it} + \beta_5 Openness_{it} + \beta_6 Cred_{it} + \beta_7 GDP_{it} + \beta_8 HK_{it} + \varepsilon_{it}$$

**4. Analysis of the results**

**Table 2: Robustness analysis of the relationship between international remittances and poverty: Sub-Saharan African countries**

| The variables | Coefficient | P(t) |
|---|---|---|
| **Transf** | **-0.015** | **-0.12** |
| **GDP** | -0.150 | -2.33** |
| **FDI** | **-0.006** | **-0.17** |
| **HK** | -0.101 | -2.21** |
| **Openn** | 0.039 | 2.23** |
| **Cred** | -0.023 | -0.41 |
| **Debt** | **-0.013** | **-2.92*** ** |
| **ODA** | **-0.007** | **-2.75*** ** |
| **Constant** | 78.024 | 28.86*** |
| **Nb Observation** | 714 | |
| **$R^2$** | 0.04 | |

*** Significant at 10%; ** Significant at 5%; *** Significant at 1%**

**Table 3: Robustness analysis of the relationship between international remittances and poverty: Latin American countries**

| The variables | Coefficient | P(t) |
|---|---|---|
| **Transf** | **0.606** | **4.71*** ** |
| **GDP** | -0.057 | -0.70 |
| **FDI** | **0.640** | **7.77*** ** |
| **HK** | 0.090 | 2.51* |

| | | |
|---|---|---|
| **Openn** | -0.179 | -7.41*** |
| **Cred** | -0.076 | -2.31** |
| **Debt** | **-0.002** | **-0.23** |
| **ODA** | **-0.000** | **-0.88** |
| **Constant**<br>**Nb Observation**<br>**$R^2$** | 73.541<br>472<br>0.22 | 20.98*** |

*** Significant at 10%; ** Significant at 5%; *** Significant at 1%**

First, as shown in Table (2 and 3), the international funds transfer coefficient, we note that this coefficient appears to be negative and insignificant in sub-Saharan Africa but has a positive and significant effect at the 1% threshold. in Latin America. Indeed, an increase in international remittances in Latin America by one percentage unit increases the household consumption level by 0.606 points. This result is in line with the results found by Anyanwu and Erhijakpor (2007) who examined the impact of remittance flows on poverty in Africa, their results showing that remittances from international migrants reduce the level of poverty. According to Mansoor and Quillin (2007) international remittances, more impact on the wealthier households than the poorest households.

The effect of FDI on poverty is significant and positive in Latin America at the 1% level, but it is not significant in sub-Saharan Africa. On the other hand, external debt has a negative and significant impact at the 1% level on poverty reduction in sub-Saharan Africa, but it is not significant in Latin America. This result is very strong and shows that an increase in the level of the debt by 1 point, decreases the rate of the level of household consumption by 0.013, that is to say the increase in poverty. As we have said before, the higher the debt of a country, the more likely it is to suffer financial distress because of its debt, and therefore it will be less easy for its government to access resources. for social expenditure. Thus, the estimate in sub-Saharan Africa shows a negative impact of the development aid coefficient, it is significant at the 1% threshold on the decline in household consumption expenditure, but it is not significant in Latin America. Thus, an increase in the level of aid increases the poverty rate. Indeed, an increase in development aid of 1 point translates into a decrease in the level of household consumption of 0.007 points.

The estimation results in sub-Saharan Africa and Latin America show that the financial flow variable (international remittances) has a positive and highly significant impact on household consumption expenditure and more impacts than households. other sources of international funding.

The GDP coefficient is negative and significant in sub-Saharan African countries, but it is not significant for the Latin American region. In addition, human capital is statistically significant at the 5% level and has a negative effect in Africa but is positive and significant in Latin America. This is consistent with findings from the majority of empirical work on the openness-poverty relationship.

The degree of expansion of the sample countries at the opening was also tested in our model. The coefficient on trade openness appears to be positive and significant in sub-Saharan Africa, confirming the theoretical predictions thus providing for the beneficial effects of the policy of openness to international trade on the reduction of poverty. Indeed, an increase in the opening rate of one percentage unit increases the level of household consumption by 0.090 points. Financial development appears with a negative sign for the sample of Latin America but not significant in sub-Saharan Africa. The various econometric studies conducted to test the impact of financial development on poverty reduction have resulted in generally positive results. This reinforces the theoretical predictions thus providing beneficial effects of financial development on the reduction of poverty.

## Conclusion and policy implications

The regression result in Latin American countries indicates that international remittances are positive and significantly correlated with poverty reduction but in sub-Saharan African countries not significant. However, the other source of external financing, such as foreign direct investment, is positively related to poverty in Latin America and external debt, and development aid is negatively related to poverty in sub-Saharan Africa. This result implies that remittances play an important role in increasing household consumption and hence in reducing poverty.

It is also supported by the fact that in Sub-Saharan African countries, governments tend to invest in international remittances like other sources of external finance.

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