

Financial Development and Remittances

Effects of Migrants' Remittances on the Use of Formal and Informal Financial Services



Foto: Christian Ambrosius. Wall painting in the state of Oaxaca, Mexico.

Foto: Ursula Stiegler

Summary and Research Question

This research addresses the question **how remittances - the money sent by migrants to their families back home - relate to incomplete or rudimentary financial markets in the migrants' countries of origin**. Because migration and financial services can both be understood as asset-building and risk-management tools, remittances and financial services may, in some cases, **substitute** for each other – for example, when family members in the US function as a source of capital from outside the regular household to cover emergency spending, similarly to credit or insurance from financial institutions. In other cases remittances and financial services **complement** each other because financial institutions offer a way of saving remittances or because financial institutions may accept remittances as collateral for loans. These topics are addressed through case studies on Mexico, El Salvador and the Dominican Republic.

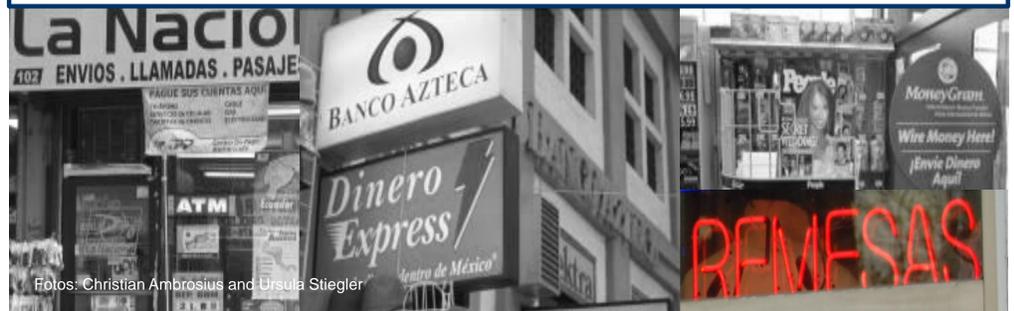
Research Methods

- In order to study the effects of remittances on the use of formal and informal financial services, both quantitative and qualitative techniques are employed:
- We use **Treatment-Effect Models** (Ambrosius/Cuecuecha 2013) to study the effect of health shocks (serious diseases or accidents) on household debt and compare effects in national vs. transnational households
 - We use exogenous variation in labor market conditions of US states where Mexican migrants reside as **strong instruments** that allow us to address the endogeneity of remittances and estimate causal effects of remittances on the use of financial services (Ambrosius/Cuecuecha 2015)
 - We use **household fixed effects** to control for unobservable time-constant differences between households (Ambrosius 2015, Ambrosius/Cuecuecha 2015)
 - We use **comparative case studies** in order to identify institutional preconditions for the success of microfinance institutions in remittances markets (Ambrosius/Fritz/Stiegler 2014)

Findings

Depending on specific situations, remittances are both a substitute and a complement for financial services. Several key findings emerge from our research:

- Access to remittances **prevents households from over-indebtedness in the case of negative events**, such as health shocks: On average, households reported a doubling of their debt burden, but transnational households did not. Instead, they reported an increase of remittances that helped them cover emergency spendings (Ambrosius/Cuecuecha 2013)
- At the same time, we identify a **causal effect of remittances on the probability of owning savings accounts** (Ambrosius/Cuecuecha 2015). This indicates that remittances may also function as a „catalyst“ for financial access, (Ambrosius 2015).
- Remittances also **facilitate borrowing – but only from informal financial institutions** at high costs (Ambrosius/Cuecuecha 2015). Other than traditional banks, informal lenders seem to be more willing to accept remittances as collateral for loans
- Compared to traditional banks, microfinance institutions are closer to receivers of remittances both socially and geographically. At the same time, they face more obstacles in entering remittances markets, due to their local focus. Whether microfinance institutions are able to compete with money transfer operators and traditional banks depends on **specific market structures and institutional settings** that may differ from country to country (Ambrosius/Fritz/Stiegler 2014)



Fotos: Christian Ambrosius and Ursula Stiegler

Publications

- Ambrosius, Christian/Cuecuecha, Alfredo (2015): Remittances and the Use of Formal and Informal Financial Services. Under Review. Previous Version as Discussion Paper 2014/19, School of Business and Economics, Freie Universität Berlin
- Ambrosius, Christian (2015): Remittances and Financial Development: Is there Really a Link and for Whom? Forthcoming in: *The World Economy*. Previous Version as Discussion Paper 2012/8, School of Business and Economics, Freie Universität Berlin
- Ambrosius, Christian/Fritz, Barbara/Stiegler, Ursula (2014): Remittances for Financial Access: Lessons from Latin American Microfinance. *Development Policy Review* 32(6)
- Ambrosius, Christian/Cuecuecha, Alfredo (2013): Are Remittances a Substitute for Credit? Carrying the Financial Burden of Health Shocks in National and Transnational Households. *World Development*, Vol. 46, June 2013, pp.143-152 (with Alfredo Cuecuecha). Previous version as Discussion Paper 2012/9, School of Business and Economics, Freie Universität Berlin

Acknowledgement

Part of the Research was financed by the German Research Foundation DFG as part of the Research Cluster SFB700 www.sfb-governance.de, Project D6 under the head of Prof. Barbara Fritz. Christian Ambrosius also received a DFG-scholarship as member of the Research Training Group „Between Spaces. Movements, Actors and Representations of Globalisation“ (www.entre-espacios.de)