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The Microeconomic Impact of Migrants' Remittances on Household Welfare

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Abstract *This research study investigated that how foreign remittances contributed to household welfare at the micro-level. The results revealed that remittances contributed progressively to household food consumption and wealth status. Remittances recipient families have good wealth status as compared to non-recipient ones. It has been found that migrants' families are having good wealth status and own more assets. Additionally, a significant portion of remittances is used for food expenditures. The remittance recipient households are spending more on food and more food security as compared to others. Thus it is concluded that that foreign remittances have a positive relationship with household welfare.*

Key Words: Remittances, Welfare, Wealth, Food Security

Introduction

Foreign remittances are one of the most important financial sources for developing countries. Pakistan is also one of the top remittances receiving destinations, which received a significant amount of foreign remittances for the last five decades. Remittances inflows contributing well at both the micro and macro level of the economy. Remittances contributing effectively to the welfare of household stabilize the current account deficit and GDP growth rate. Additionally, it also supports the balance of payment position and helps out the economy to come out from the dependency on foreign debt.

It increases the well-being of poor household and also providing a major source for foreign exchange earnings. Foreign remittances play a key role to decrease the current account deficit, stabilize the current account position, supportive of economic growth and welfare (Javid, 2012). The role of foreign remittances is remarkable for the stability and survival of Pakistan's economy. The most important contribution of foreign remittances is to cover the current account gap and supportive to the welfare of the remittances receiving families (Rehman, 2017).

Worldwide migration increased continuously to almost 259 million in 2017 from 173 million in the year 2001, which is contributing the share of 3.4% to the total global population. These migrations are mostly taking place from developing countries to high-income countries with a ratio of 75%. (WB, 2018).

The World Bank latest report described that foreign remittances in the year 2017 reached the highest level of 466 billion US dollar. A decline of remittances flows to less developed countries was recorded in years 2015 and 2016, but in 2017 the ratio of remittances inflow increased again up to 9%. The volume of remittances to developing countries are considerably higher than the FDI. The higher exchange rate played an important role to increase remittances, and the share of remittances through the informal channel is still higher. In the year 2017, India received the highest remittances followed by China the 2nd highest and other countries respectively by Philippines, Mexico and Nigeria. A slightly slow growth rate of foreign remittances to Pakistan is recorded in year 2016 and almost a flatter growth rate for year 2017. This is due to a considerable decrease of inflow from Saudi Arabia which is the main source country. The nationalization policies in the host country related to labor market effect the inflow of remittances (WB, 2018).

The remittances of Pakistan increased rapidly from US\$ 1.2 billion in year 2000 to US\$ 11 billion in 2010 and reached to US\$ 21 billion in 2019. Its contribution to GDP has also increased with respect to time from average of 5% to 7%. The number of overseas migrants has also increased

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sharply. From the year 1975 to 2000, almost 3 million labor worker got registered with the overseas migrant directory, while in 2019, this figure reached to almost 10 million according to the data of Pakistan Bureau of Emigration and Overseas Employment (BEOE). The increase in the number of migrants is the main factor which is contributing positively to the progress of foreign remittances.

According to Mohammad (2010) the incoming foreign remittances have a significant positive relationship with microeconomic variables such as household welfare, life style, social status and children's education. It also creates micro-level business opportunities, increases investment in the agricultural land and investment in real estate. (Rehman 2017) argued that remittances increase the income strength of migrant's families which further lead to eliminate the poverty level at micro level. The big share almost 25% of remittances is used for the consumption of food, education and healthcare facilities.

The support of remittances to GDP was recorded 1% in the 1990s, however, in the last decade, this contribution reached 2%, which is double. The major share of remittances goes to the consumption sector, investment, housing and health sector. Remittances are now the highest external monetary source which is higher than FDI and ODA. The significant inverse relationship is shown by remittances with poverty. The 10% growth in the remittances with respect to per capita will cause 5% reduction in poverty, Pekovik, (2017). Overseas migration and remittance inflows is the important source of foreign exchange earnings, especially for South Asian economies like India, Pakistan and Sri Lanka. Its role is significantly positive with children educational progress and health status of the household. However, the wealth is not shown any clear relationship with incoming remittances. The major contribution of remittances stimulates the income level, which further leads to capital accumulation and human development, K. De and Ratha, (2012).

Being a developing country, Pakistan also faces some economic problems like unemployment, the higher growth rate of population, poverty, foreign debt and lack of capital. Overseas migration plays a considerable role to solve these problems and eliminate the pressure on the whole economy.

Due to this significant importance of foreign remittances, we conducted a research study to analyze the impact of remittances on household welfare at the micro-level. District Lower Dir has been selected for micro-level study due to its significant importance regarding foreign migration. District Lower Dir is one of the highest migrant producing districts of Pakistan, which is contributing almost 378000 migrants with a share of almost 3.5% to the total country migrant's directory according to the data of (BEOE 2019).

Literature Review

Migration is a well-known phenomenon, where individuals move from one country to another for the purpose of better job facilities. The aim is to earn more income and give better financial support to their families. Several research studies are found in the literature which is related to foreign remittances, migration and their effect on household welfare. Most of the researcher agreed that remittance has a positive and significant relationship with welfare. Micro-level research studies investigated the effect of remittances on welfare, with the help of welfare factors such as health, wealth, education, income, poverty and food. Though, macro-level research studies investigated the effect on macro variables such as GDP growth rate, saving, investment, unemployment and inflation.

Mohammad (2010) examined that foreign remittances contributing considerably to the social status of the migrants' families. The study suggested that foreign migration progressively helped to improve the lifestyle of migrants' families, educational improvement for the youngsters, also change the attitude and behavior of relatives and friends. It increases the investment in the agricultural land and promotes the opportunities of micro-level businesses.

Faulkner (2011) argued that remittances contributing significantly to welfare to both remittances recipient and non-recipient household. It also eliminates income inequalities and poverty in the whole economy. The study revealed that remittances also shows a positive relationship with the educational level of below 30 years family members.

A research study carried out by Chowdhury et al. (2012) to investigate migration and its association with socioeconomic development. It is argued that the basic motive of migration is to improve the well-being of his family. It is concluded that after migration, most of the families moved to an economically good position. Before migration, they were living below the poverty line, but after migration, they improved their life standard. The social status in the community also improved after migration due to good housing facility, sanitation and water facility.

Ranathunga (2012) examined that migrant remittances are having a positive relationship with income, accumulation of assets and construction of new houses. It is also added that remittances are not used only for consumption patterns but also used for meaningful investment purposes.

Especially those migrants who are having some agricultural land in their home towns are sending more remittances for investment.

Iqbal (2013) argued that estimated average remittances enlarged the 64% per capita income of the non-recipient urban household and 45% for rural household. It is concluded that remittances decreasing 30% chances of poverty in urban household and 36% for rural household. The study suggests that the role of remittances is very significant and important for the whole economy.

Akay (2014) opined that internal migration the movement within the country from rural to urban sectors promoting welfare. Furthermore, it is added that the effect of remittances is significant if the migrated worker come back to their home town at the end. The study suggests that the role of remittances is important and vital for the whole economy.

Chakraborty (2015) examine a research study to investigate the outcomes of migration to Russia from Kyrgyzstan. In less developed countries, the rural household trying various widespread strategies that how to come out from the poor living standard. Migration is one of the most effective strategies to overcome this problem. It is concluded that migration provides better employment opportunities and decent income earnings for migrants in their host countries.

Another research study is carried out by Baas et al. (2016) to investigate the impact of migration on the migrant host country. Germany is one of the highest migrant host countries in the world. During the last 20 years, migration to Germany increased rapidly due to government policy regarding refugees. Normally it is common phenomena that rapid growth in migration might be harmful for host country. The fear is that outflow of remittances is basically the outflows of purchasing power. This fear of loss of purchasing power is not fully rejected for the whole economy it may create some problems in labor markets and service sectors. But still the migration has some positive contribution to host country to balance the population, supportive to export industry and contributing positively to GDP.

The role of foreign remittances is important and significant during natural disaster in the developing countries. It is concluded that during natural disasters the inflow of remittances increases. This increase of remittances played very important role to fulfill the rehabilitation and reconstruction process. Foreign remittances provided the risk protection shield to migrants' families before and after a natural disaster. The result for that country is more significant, which have more natural disasters experience recently. Furthermore, remittance played a key role to improve the poor financial structures of developing countries, Betting, (2016).

Barajas (2016) argued that the flows of remittances are now officially registered globally that this flow is permanent, stable and growing continuously in developing and emerging economies. The incoming ratio of remittances exceeded official aid and private capital. Remittances are contributing positively to poverty reduction and household welfare. But at the same time, it also creates some macroeconomic problems. Due to real exchange rate appreciation, it creates pressure on the exchange rate or creates the problem of Dutch disease, which further creates problems for the long-run economic growth. When remittances increase, then free monetary policy will be ineffective, and due to this point, remittances receiving economies mostly prefer a fixed exchange rate over a floating exchange rate.

Apergis (2018) examined that remittances inflow to developing countries played a vital role in economic development and poverty alleviation. These flows provided support to developing economies to stabilize foreign exchange earnings, current account deficit and debt services. Exchange rate and foreign remittances have a stronger association, that is, the depreciation of exchange rate contributing positively to remittances. The exchange rate depreciation increases remittances which further leads to an increase in micro-level business, real estate investment, investment in other assets and reduce poverty. The exchange rate is one of the most important policy tools for emerging economies, and proper management of the exchange rate will have more effective economic outcomes.

Chami (2018) argued that foreign remittances are one of the leading monetary flows globally. Now remittances are considered a major GDP contributor for several developing countries. Almost 30 countries of the world received a huge amount of remittances which contributed about 5% to their GDP in the year 2015. Foreign migration has a stronger impact on the labor market in both migrant host country and migrant home country. Higher remittance reduces income inequalities, promoting the business of real estate, construction and transportation. At the same time, labor migration reduces the average productivity and wage rate in migrant host counties.

A study carried out by Bhattacharya (2018) to analyze the relationship between remittances and financial development. In the last 30 years, the flow of remittances increased extensively, and the world economy joined the stage of financial globalization. Developing and emerging economies

are now more associated with the global financial network due to higher capital inflows. The concept of financial globalization played an important role in the development of financial infrastructures.

Abadi (2018) opined that remittances are having a statistically significant relationship with food security. It is added that remittances play a very important role in poverty reduction in the rural regions of less developing countries.

Methodology

District Dir Lower is carefully chosen for this study which is part of twenty-seven districts of Khyber Pakhtunkhwa and placed in the northwest of Pakistan. To get appropriate information, the household has been interviewed with the help of a questionnaire. A random and stratified random sample technique of sampling collection procedure was adopted for a sample collection from 35 different villages. The total sample size for analysis is 404 households, where half of the sample data was collected from remittance recipient and half from non-recipient families for the year 2013-14. The method of (Lemeshow 1990) has been used for the overall estimation of sample size. Almost 6% of the additional household were interviewed from the estimated sample size according to equation 3.1.

$$n = \frac{z^2 = z_{1-\frac{\alpha}{2}}^2 p(1 - P)N}{d^2(N - 1) + z_{1-\frac{\alpha}{2}}^2 p(1 - P)} \tag{3.1}$$

This research study analyses the effect of foreign remittances on the welfare of the household. To investigate welfare, we have used two main determinants of welfare that is wealth and food consumption of the household. The household data are analyzed by using descriptive analysis. Household wealth status is investigated with the help of Principal Component Analysis to measure the wealth score for each family. This technique is used globally by the well-known organization's WB and IMF for different household surveys. According to this method, a common set of different assets have been used, which are in the ownership of the household. The presence of these items reflects the wealth score of the household. We have collected the data of major 16 items that are heavy vehicle, vehicle, bike, generator/UPS, fridge, cell phone, computer/television, washing machine, fans, iron, juicer, sewing machine, cooking stove, animal shelter, house quality and rooms available in the house. To estimate household food consumption, data of 8 standard food categories are collected. These categories are based on cereals, meat, pulses/dhal, fruits, vegetables, oil, sugar and milk. Last week consumption is multiplied with the standard weight of the food items for food consumption score (UN, FAO, 2013).

Descriptive Analysis

The descriptive analysis gives detail descriptive statistics to analyze the difference between both types of families that is remittance recipient and non-recipient. The detailed information and discussion are given in this section related to household wealth and food consumption for both types of families.

Table 1. List of Total Sample Size

Tehsil	Remittances recipient	Remittances non-recipient	Total sample size
	HH	HH	
Adanzai	26	32	58
Balambat	40	35	75
Timargara	27	35	62
Samarbagh	29	25	54
Munda	31	20	51
Khaal	20	34	54
Lal Qila	30	20	50
Total sample size	203	201	404

Table 1 displays the total size of the sample and its distribution according to tehsils along with the share of remittances recipient and non-recipient families. The detailed information are provided in the above table regarding the share of each tehsil, at least fifty samples are collected from each of the seven tehsils. Tehsil Balambat contributed the highest numbers 75 to the total sample size, while Lal Qila contributed the lowest contribution of 50 samples. Both types of household remittances recipient and non-recipient have almost the same share of 50% in the total sample size.

Table 2. List of the Migrant Host Country

Host country of migrants	Count	Share in Percentage
Saudi Arabia	314	91%
United Arab Emirate	20	6 %
Qatar	4	1%
Oman	3	1%
United Kingdom	2	0.6%
France	2	0.6%
Total number of migrants	345	100.0

Table 2 provided details about the migrant host country in which foreign country migrants are working. In total sample size, we found that six migrant host countries where migrants of Lower Dir are migrated. The top of the list is Saudi Arabia which hosting almost 91% of the total migrants, the United Arab Emirates contributing 6% share and the other four countries Oman, Qatar, United Kingdom and France, contributing almost 1% share. The highest outflow to Saudi Arabia has some historical background of almost 50 years. In 1972, some individuals from Dir Lower started migrating to Saudi Arabia for better job opportunity and returns. After that, they supported their other family members, friends, relatives and other local community members. They also helped them with the initial cost of the migration and to find a job. This procedure facilitates further migration and motivate the younger generation to avail better opportunities.

Table 1.3 explain the wealth status of both family's remittances recipient and non-recipient. Household wealth divided into five different categories from lowest to highest wealth category. The results clarify that that household who receive remittances have a greater presence in the highest wealth group categories. On the other hand, non-recipient families show greater presence in the lowest wealth group categories. We conclude that remittances recipient families own more assets and good wealth status than other ones.

Table 3. Wealth Position for Both Type of Household

Wealth position		Remittances recipient HH	Remittances non-recipient HH
1	Lowes	10%	30%
2	Lower	16%	24%
3	Medium	24%	14%
4	Higher	17%	17%
5	Highest	33%	15%
Total		100%	100%

Table 3 displays the details related to the house quality, which are in the ownership of both types of families. The standard of housing facility is also one of the most important components of welfare. House quality divided into four categories from better housing facility to poor housing facility. These four groups are cement made house, mixed made from cement & mud, made from iron sheets and house-made from mud. The details of average room availability in the house are also given. Average room availability per house for remittance recipient families are 5.71 and 4.10 for others. It is concluded that remittance recipient families are having better housing facility with as compared to non-recipient families who have poor housing facility with respect to other.

Table 4. House Quality for Both Types of Household

Quality of House	Remittance recipient HH	Remittance non-recipient HH
Cement made/Lanter	62%	31%
Mixed	22%	21%
Iron sheet roof house	3%	4%
Mud made house	13%	44%
Total available rooms	5.71	4.10

Table 4 describes the average food consumption score of the family and the average consumption of food items during last week. The separate details are given for both type of household to determine and compare that which type of family is more food secure. The data of eight major

food categories are calculated, which are consumed by a household. Then we estimated the average food consumption score by multiplying the consumption days with standard weight of the food items. All these measurements and calculation are based on standard international weightage, which is used for all categories. Many other researchers used the same technique to analyze food security.

Table 5. Household Average Food Consumption and Food Consumption Score

Major food categories	Average food consumption per week	
	Remittance recipient HH	Non-recipient HH
Cereals: rice, wheat, maize	7	7
Dhal: nuts, beans, peas, lentils	3	3
Meat, poultry, fish, Eggs	3	2
Vegetables	5	4
Fruits	4	3
Sugar, honey	7	7
Milk, cheese, yogurt	6	5
Oil, ghee, butter	7	7
Household average food consumption score per week	75	63

This is a good way to calculate the household food strength through the actual consumption they have. If a household used a considerable quantity of food items, then that household will be considered more food secure. The result shows that the consumption score of three categories, sugar, oil and cereals, are same for both type of household. While in other five categories remittance recipient household shows dominance over non-recipient families and consume more food items with respect to other. It is concluded that remittance recipient families are more food secure than others.

Conclusion

The results concluded that foreign remittances have a significant positive effect on the wealth status of the household. It has been found that remittance recipient families are having more assets and a good wealth position than non-recipient families. The most significant determining factor of wealth is the income level of the family. Income has a significant positive relationship with wealth. If the income of the household increases, the wealth status will be also improved, and the income also directly proportional with foreign remittances. The result also revealed that remittances have a significant positive relationship with food consumption. Remittance recipient families spend more on food items with respect to non-recipient families. A big portion of foreign remittance is utilized for food consumption. It is also concluded that incoming foreign remittances are contributing well to both the quantity and quality of food consumption. It is noted that remittance recipient families are more food secure than non-recipient families. Finally, we conclude that foreign remittance is the important source of the welfare of poor household, and remittances are contributing significantly to household welfare.

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