

Remittance: Means of Income for Developing Countries

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Abstract

Developing countries' economies mainly dependent upon remittances. Every year a large number of migrants leave their native countries and move to different destinations far and wide. This research paper highlights the relationship between the economy of developing countries and flow of remittances. Through this research an attempt has been made to prove an overview over the flow of remittances which is very important tool to enhance the finance and economy of low- income and middle income countries. It has also discussed the mechanism of remittances, innovations in the system and the impact of remittances on the economies.

Introduction:

Over the decades, remittance flow has become a significant source of income and finance for developing economies. A number of experts have also described the various impacts at the national, regional and local levels. The research finds out whether appropriate policies can enhance remittance's volume and be more successfully channelled as development finance. The research highlights different aspects of remittance flow including : main trends of remittance flow, who sends remittance, channels of remittance, main destination of remittance flow, motivation behind sending remittance, and significance of remittance as source of income and finance .

Main trends and characteristics of remittance flows

In developing countries, international remittance flow have been estimated at \$ 351 billion in 2011 and reached up to \$ 414 billion in 2014. These figure represents the seventy percent (70) remittance flow over the world including developed countries. It observed that unstable exchange rate and uncertainty in oil prices also cast shadow on the prospects of remittance flow (Mohapatra et al. 2011). It has been found that main source of worldwide remittance is United States which had \$ 53 billion remittance flow in 2011 , and secondly Saudi Arabia which estimated remittance flow \$ 28 billion. It is surprising that low-income countries' remittances mainly originate in middle-income countries. In the same way, as per research, in African countries the remittance primarily originate somewhere in Africa rather than in other countries and remittances from Europe and Asia are mainly sent to North Africa (Agunias, 2006).

Who send remittances?

According to the literature, remittance mostly generate from low-skilled immigrants for African, Latin America and Caribbean region (Fajnzylber and Lopez 2008, Orozco 2004, Mohapatra et al. 2011, Ratha et al. 2011). It is also suggested that correlation between the share of skilled worker and remittance is negative (Faini ,2007). In the same manner, literature finds that around seventy one (71) developing countries that contribute large share of skilled-migrants receive less per capita remittance than countries that export comparatively large proportion of low-skilled migrants (Adams ,2008).

There is much possibility that either high-skilled migrants come from upper class families that might expect remittances or those may join high-skilled migrants at their destinations. Contrary to that, for low-skilled immigrants, many of them may be coming from low class background, since sending remittances may be a better option for having better standard of living and more stable purchasing power. However, study finds that high-skilled migrant are more likely to send remittances when immigration laws are restrictive (Docquier et al. 2011). This shows that low-skilled workers are more sensitive to restrictive immigration laws. They would either return home or they would spend more of their earnings at destinations, especially when they are not properly documented. It is also noteworthy that restrictive immigration might create high rate of unemployment and lower wages for low-skilled workers.

Channels for transmitting remittances

There are formal and informal remittances flow channels. Formal channels include namely: banks, micro-finance organization, money transfer organization (MTOs) and Postal houses. Variations occur in using these channels due to total transfer cost, security, speed and access. It has been observed that the immigrants sending remittances from United States and Latin America mostly using MTOs. The average an MTO charge is 5 to 7 percent (Terry and Wilson 2005). However, it is observed that South Asian countries such as India, Bangladesh

and Pakistan receive 60 percent of remittances through formal channels i.e banks and rest is received through informal channels.

Generally speaking, there are three main ways for informal remittance system: courier, in-kind remittance and hawala. Courier is the way in which the migrant worker carries cash with him or asks any friend or relative to carry the money on behalf of migrant worker. For in-kind remittance system, the migrant worker can buy some goods such as refrigerator and television to the families or sell off in to local market. Apart from these two ways of informal remittance system, hawala is also used very often and also considered the much sophisticated informal remittance system. In hawala system, the migrant who is willing to send the money, approach to hawala broker and make settlement on the amount and type of currency to be sent, the charges of the service and the amount to be received by the recipient at other end. In South Asia, the informal system of remittance is used at large scale on account of its prominent features that formal institutions of remittance do not maintain. Generally, the hawala system is faster than the remittance through banks. It has got more accelerated due to the development of telecommunications technologies.

Main destinations of remittance flows

It is very interesting to note that the economies of some least developed countries (LDCs) and Small Island developing state (SIDS) are dependent mainly on remittances flow. It has been found that remittances flows are much concentrated in few countries in terms of remittances flows such as China, India, Mexico, Pakistan, Phillipine and Bangladesh; they receive over half of the remittances flow to developing countries, however, India and china combined have about one-third of total remittances flows (Mohapatra et al. 2011).

Motivations are behind sending remittances

Generally, remittances sent are mostly used for food, clothing, and education, while purchasing of land and starting of small business are also very important. However, utilization of remittances flow vary from region to region and country to country. The study found that in Mexico, El Salvador, Nicaragua no less than 75 percent of remittances are spent in food item Orozco (2003). The research also indicates that in case of Kenya, around 50 percent of remittances flows are used for land purchase, business, improving the farm, and in Nigeria 20 percent of remittances are spent for purchasing land (Ratha et al. 2011). It has also been indicated in the study that Indonesian immigrants in China and Japan remittances are mainly sent for education and savings and the same occur to Malysing immigrants in Japan (Asian Development Bank 2006).

Conclusion

The various researches have proven the remittances as source of income and finances for developing; least developing, low- income and middle- income countries. The remittances flow to all income level have gone on rise since 1980. For example, according to World Bank growth of remittances increased five times after 2000 for low-income countries and LDCs have also shown significant growth. In the eyes of experts, remittances are as important ODA (Official Development Assistance) for low-income countries and as important as FDI (Foreign Direct investment) for middle- level countries. Due to having significant positive impact on ODA and FDI for developing and middle-income countries, it has enhanced the ratio of GDP, which ultimately lead towards the stable economies for the respective countries. Above all, international remittances are considered the last-finance-resort for developing countries and diversified portfolio of finance for middle- income countries.

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