

DOWNLOAD PDF EFFECTS OF INTERNATIONAL REMITTANCES ON POVERTY, INEQUALITY, AND DEVELOPMENT IN RURAL EGYPT

Chapter 1 : The effects of international remittances on poverty, inequality, and development in rural Egypt:

Adams uses income data from households with and without migrants to determine the effects of remittances on poverty, income distribution, and rural development. The study is based on a survey of 1, households conducted in 1 /87 in three villages in Minya Governorate, a province about kilometers south of Cairo.

While a number of studies have done so for several Latin American and Asian Top Recipients Countries Empirical Evidence from Nigeria William M. However, any errors or omissions are solely the responsibilities of the authors and not of the IDRC. Abstract The contribution of remittances income in mitigating poverty and income inequality in Nigeria has attracted very little attention in general. Very few studies have looked at the quantitative relationship between remittance inflows, poverty and income inequality in Nigeria even though it is now believed that total remittance inflows into Nigeria; exceed Foreign Direct Investments FDI and Overseas Development Assistant ODA. Using poverty and Gini decomposable techniques, the study finds that household poverty declines across all the geopolitical zones, by sex and locality as a result of remittance inflows. For example, with remittances, household poverty falls from 0. Poverty also declines from 0. Similarly, in the Gini decomposition; the study finds that increase in remittances reduce income inequality more in urban areas 0. Remittance income, household welfare, Nigeria 1. Introduction Remittance is one of the most important outcomes of migration. The importance of these inflows into Nigeria is evidenced by the proliferation of money transfer institutions both formal and informal and the rapid growth in the volume of migrant remittances. However, understanding the poverty and income dynamics of these large inflows into Nigeria is central to any attempt to minimize the negative effects of migration, while optimizing its development potentials in the country as a whole. While a number of studies have done so for several Latin American and Asian countries Acosta et al. Relatively, very few studies have tried to evaluate the impacts of remittances and the remittance environment in Nigeria, where poverty rates are relatively high compared to other countries in the world. Thus, the aim of this study is to help fill this knowledge gap by providing new policy insights on the impacts of international remittance inflows on national development in Nigeria. Remittances, Poverty and Inequality: Although, their findings were limited by small sample size, the insights from these studies provided the basis for subsequent analysis in the area of migrant remittances and household welfare. Among the first stream of researchers who attempted to rigorously shed more light on the impact of remittances on household welfare was Adams who examined the distributional implications of workers remittances in rural Egypt, and found out that income inequality declined with increasing remittance inflows. Still at the country specific level, Adams , also found out that remittances reduce the severity of poverty in Guatemala and also that Guatemalan families who report remittances, tend to spend a lower share of total income on food and other non-durable goods, and more on durable goods, housing education and health. For rural Mexico, Taylor et al. For Somalia, Lidley also found out that remittances received by a substantial minority of Somalian city dwellers improve their economic status and access to education. Recent studies by Quartey , Adams et al. The authors also observed that a 10 per cent increase in per capita official international remittances in a developing country will lead to a 3. Still at the cross-national level, examining the impacts of international remittances on national development for developing countries, Adams found out that international remittances increases the level of household income and reduces the level and depth of poverty in the developing world. The author further found out that remittance-receiving households consume and invest their remittance earnings and that households receiving international remittances spend less at the margin on consumption goods “ like food ” and more on investment items - like education and housing. Also, households receiving remittances have a higher likelihood of investing in entrepreneurial activities. In Latin America, Acosta et al. Also, the authors found out that remittances seem to contribute to higher growth and investment rates and lower output volatility. To the best of our knowledge, there have been very little efforts in Nigeria to quantitatively estimate the impacts of remittance income on poverty and inequality. The aim of

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this study is to help bridge this gap by providing new empirical evidence on remittance inflows and household welfare in Nigeria. Our specific research objectives with an overriding aim of providing policy-relevant evidence are; to analyze the distributional and poverty effects of remittance income in Nigeria using poverty decomposable techniques Foster et al. The Analytical Frameworks To analyse the poverty redistributive effects of workers remittances on household welfare in Nigeria, three variants of the Foster-Greer-Thorbecke Foster et al. We however, opted for the later approach in our poverty simulation of the impact of remittances income on poverty in Nigeria. In the second experiment estimating the impact of international remittances on income inequality, the Gini coefficient decomposition technique was used. Following Stark et al. Equation 2 therefore allows us to decompose the influence of any income component, in our case remittances income, upon total income inequality, as a product of three easily interpreted terms, namely: In order words, what is the extent to which the income source does or does not favour the poor? This effect is given by: The data is further divided into the six geopolitical zones in Nigeria and 19, households were interviewed with 92, individuals captured in the data. The data contains information on household incomes from various sources including remittances and where the recipients of remittances live. Remittances have three components in the data namely value of cash remittance, value of food remittance and value of remittance of other items sent to the household. In the data, there are over households that received money and other goods from household members living outside the household and over households that receive money and other goods from non-household members. The files containing the remittance variables were merged with the files containing the household roster variables and other socioeconomic variables used for the analysis. Altogether, five files were merged. After the merging, a total of 15, households were used for the analysis. The population weight was used as the weighing variable while the household size was used as the size variable. The decompositions are done by zone, sex and location of the household head classified by those that received remittances and those that did not received. As indicated, without remittances, the poverty rate measured by the head count index is about 0. The results also showed that male-headed households have higher poverty compared to female-headed households and rural poverty is higher than poverty in the urban areas. Based on the assumption that remittances add exogenously to household income, the results further showed that with remittances, household poverty declines across all the geopolitical zones and also by sex and locality. For example, with remittances, household poverty fell from 0. Poverty also fell from 0. Overall, remittances impact more on poverty in the South-West and North-Central Regions than other geopolitical zones where the impact is almost similar. The results further suggest that remittances have larger impact when the education level of the household head is lower than at higher levels of education. This might be due to the fact that remittances are just a small proportion of total income or spending of household for which the head has higher level of education than the households with lower level of education. Therefore a little addition to the income of households at the lower end of income distribution will have larger effect on poverty reduction. Furthermore, we decomposed the poverty indices by the level of educational attainment by household heads see table 2. As expected, poverty is lower as the level of education increases. For example, household heads with no education have a poverty rate of 69 percent, while those with primary education have a poverty rate of 48 percent. The poverty rate among those with tertiary education is about 43 percent and surprisingly, it is the same as those with secondary education. When remittances are introduced, the impact on poverty reduction becomes more pronounced at higher levels of education. For example, if the head of the household has no education and receives remittances, poverty decreases from 0. On the other hand, if the head of the household has attained tertiary education level and receives remittances, poverty rate declines from 0. It does appear that remittances become a more effective tool of poverty reduction with increasing level of education of the head of the household. Table 3 further shows that while poverty is lower among the households that received remittances, the share of households that received remittances in national poverty is about 94 percent and those that did not receive has only 5 percent share in national poverty. This suggests that remittances will be very effective in poverty reduction if its inflow increase in the future. The first column, labelled S k ,

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represents the share of each income source i . As observed, the principal sources of household income for urban Nigeria are wages and profit incomes 43 per cent and 27 per cent, respectively. This is not surprising since majority of the sampled household head was either engaged in wage employment, farming or commerce in both urban and rural. The contribution from remittances stood marginally at 0. Moving to the next or second column of Table 4 labelled G_k , reporting the Gini coefficients for each income source by urban and rural categories. As observed, the lowest source Gini coefficient comes from agricultural income with a Gini coefficient of about 0. Implying, agricultural income has a very high equalizing income effect in Nigeria after wage and profit incomes. This can easily be verified from the fourth column in the same table labeled G_T the share of total income inequality attributed to each income source. As indicated, the share of total income inequality attributed to agriculture, wage and profit incomes are 0. Implying that, these three income sources contribute the largest shares to total income inequality in the area. This is largely due to the fact that incomes from these three sources made up high shares of aggregate household income as shown in the column labeled S_k . Results of column 3 i . This implies that sources of income with Gini correlation or concentration ratios R_k with values lower than 0. Results in column 4 indicate that, all else being equal, an increased share of income from agriculture, subsidy, total loan, contributions, property, dowry, remittances and other income sources lowers income inequality in both urban and rural Nigeria; while increased income shares from wages, profit, fees, rents, dividends and pensions are associated with higher income inequality. However, generally; the income equalizing effects of these income sources are different between the urban and rural areas respectively. For example, while income derived from fees reduces income inequality by as much as 0. Also, while income derived from rents increases inequality in the urban areas by 0. The same could be said about dividend income, while it is associated with inequality increase of about 0. One good thing about remittances is that they have equalizing effect on household income both in the urban and rural areas. It is therefore expected that as remittances increase in the future and become a more significant component of household income, it will have a substantial impact in equalizing income among households. Conclusion The summary message of the above findings is that remittances income can have an important role in mitigating poverty and income inequality in Nigeria. However, the impacts are unevenly distributed across the different regions, by sex and by educational attainment. Similarly, the impact of remittance inflows on poverty reduction becomes more pronounced when received by household heads with higher levels of education. For example, if the head of the household has no education and receives remittances, poverty decreases by 0. On the other hand, if the head of the household has attained tertiary education level and receives remittances, poverty rate declines by over 0. Furthermore, the study finds remittance income to be more income equalizing in the urban areas 0. All these call for more intervention measures by the three tiers of the government in planning migration policies and the remittances regulatory framework in the country. This may include policies that promote and encourage the growth of informal social institutions that accelerate regular movement and migration leverage, reduction in remittance transaction costs as well as, instituting legal frameworks, laws and policies that encourage remittance inflows. Remittances and Development in Latin America. Workers Remittances and Inequality in Rural Egypt. Economic Development and Cultural Change,

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