

The Impact of International Remittances on Household Expenditure Patterns: Where Does the Money Go?

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Introduction

Remittances play an increasingly important role in developing countries, particularly in the economies of South Asia. Sri Lanka is one of the economies that receive a high value of international remittances in the Asian region. There is a growing interest on studying how remittances are spent and to find out whether its usage affects economic development. The inflow of remittances to Sri Lanka is increasingly contributing to the rapid growth of the country's GDP which was 9% (CBSL, 2015). The exchange rate was also depreciating significantly in the past couple of years increasing the domestic monetary value of remittances. There are three main arguments on the use of international remittances in household expenditure. Randazzo and Piracha (2014) state that the remittance receiving households may perceive the international remittances as transitory income, compensatory income or as just another source of income, and as a result the expenditure pattern may depend on the nature of perception.

Remittances are a key element in identifying the net impact of international migration on the country of origin. In Sri Lanka's national accounts, workers remittances are treated as a component of national savings. There is a growing interest on how remittances are spent and whether the use of remittances may have an impact on the economic development of the country. Although there are several studies on remittance to Sri Lanka from international migration such as Samaratunge et al, (2012) and Prabal and

Ratha (2012), little is known of the impact of international remittances on household expenditure patterns in the recent past.

The existing literature provides contradictory arguments on the way remittances are perceived by the remittance receiving households. For example, Samaratunge et al, (2012) and Chami et al. (2005) consider it as compensatory income whilst Mahapatro et al. (2015) and Tabuga (2008) suggest it is transitory income, and Randazzo and Piracha (2014), as well as Adams, Jr. (2005) argue that it is just another source of income. Hence, the objective of this research is to analyze the impact of international remittances on household expenditure patterns in Sri Lanka and thereby generate policies for effective use of international remittances in Sri Lanka.

Objectives

International migration in Sri Lanka is in an increasing trend over the past two decades and international remittances follow the same. Sri Lanka is one of the leading economies in the South Asian region with a rapid growth in foreign workers' remittances. The existing literature argues that international remittance significantly affects the expenditure patterns of the households. In this context, this paper examines the impacts of international remittance on the household expenditure patterns in Sri Lanka and investigates how remittances are utilized by the remittance receiving households. The main objective of the study is to analyze the relationship between the international remittances and the total household expenditure disaggregated by food, non-food, and liquor, drugs and tobacco expenditure.

Methodology

The study was conducted using secondary data collected from the Household Income Expenditure Survey (HIES, 2012/13). The HIES data is collected as a year-long sample survey conducted in 12 consecutive monthly rounds, covering all 25 Districts. The study uses Ordinary Least Squares (OLS) as one of the main analytical techniques, while the Propensity Score Matching (PSM) method is applied to overcome the possible selection bias due to the endogeneity in the household receipt of remittances generated by OLS. This problem was highlighted in Yang (2005). To deal with this issue, expenditure behavior of households receiving remittances should be

compared with that of similar households without migrants while controlling for the endogeneity of migration choices and thereby, remittances. Therefore, the study employs the PSM method as an alternative approach. International remittance to the household was the dependent variable and age of the household head, highest education in the family, household size, land size, employment status, and wage income were the major independent variables included. Working-Lesser Model was taken as the major theoretical model for the analysis.

Results and Discussion

The inflow of international remittances is increasing over the years. In 2013, the remittances received from international migration by the households was Rs.6.4 billion or 8.64% of the country's GDP and in 2015 it was Rs.6.98 billion, amounting to 9% of the GDP (CBSL,2015). Therefore, it is important to explore what changes this increasing amount of remittances makes on the consumption pattern of the households. Average consumption of a household in Sri Lanka in the survey year was Rs. 41,587 while average consumption of a remittance receiving household and non-remittance receiving household was Rs. 45,738 and 41,322 respectively. This shows that on average a remittance receiving household spends more than the amount spent by the non-remittance receiving receiving household.

The analysis in the paper is mainly based on OLS regression and Propensity Score Matching (PSM) method. After controlling for the other variables, OLS estimates suggested that compared to a non-remittance receiving household, a remittance receiving household spends more than Rs. 7000 which was statistically significant at 99 %. Further, it showed that remittance receiving households spend more on non food expenditure. OLS analysis also suggested that education and household size has a positive statistically significant effect on household consumption.

PSM analysis showed that the coefficient of the average treatment effect of the treated is 8287.69. This implies that the households who are receiving international remittances spend approximately Rs. 8288 more than households who do not receive international remittances. Furthermore, the analysis found that the households who receive international remittance spend more than Rs. 1212.47 on food, compared to households that do not

receive international remittances. Importantly the results generated by using PSM analysis confirmed that, compared to the households not receiving remittances, households which receive international remittances spend more on non-food items such as durable goods, healthcare, education and investments and they spend less on food, and liquor, drugs and tobacco. The coefficient of the expenditure on non-food was Rs. 4442.6 which is strongly supported by Mahapatro et al. (2015), Adams, Jr (2006) and Tabuga (2008) which found that households who received remittances spend on investment activities and less on consumption. The households with similar characteristics of receiving remittances are compared using PSM technique. The study used the nearest neighbor matching method to estimate the average treatment effect on the dependent variable. However, the study suggests that there is no relationship between international remittance and household expenditure on liquor, drugs and tobacco. This could be due to migration of male (male household's heads) member(s) of the family.

Table 1: Estimated coefficients using PSM and OLS analysis

Variable	PSM	OLS
Total household expenditure	8287.6***	7904.7***
expenditure on food	1212.4***	1087.1***
expenditure on liquor, drugs and tobacco	87.9***	-17.5***
expenditure on non-food	4442.6***	7380.7***

Source: Authors' estimations using HIES 2012/13 data

Conclusion

International remittance has become an important foreign currency earning source in Sri Lanka and can potentially play a significant role. The analysis showed that international remittances have a stronger impact on household expenditure; especially the expenditure on non-food items (durables). But, receiving remittance does not have any statistically significant impact on expenditure on liquor and tobacco. The OLS and PSM estimates generated similar results. Therefore, the study confirmed that the international remittance receiving households tend to spend more on investment goods while spending less on food items and alcohol. As the international

remittances increase the expenditure on non food and non alcohol items, the study recommended that entrepreneurs should be given more opportunities to attract investment from the families with international remittances.

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