THE IMPACT OF REMITTANCES ON ENTREPRENEURIAL BEHAVIOR IN THE PLACE OF ORIGIN

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Abstract

This research is mainly about remittances and the impact of remittances on building entrepreneurship. Remittances (money sent by migrants to their households in their place of origin) can play a significant role not only on household finances but also on the stimulus to local entrepreneurship in the places of origin. Still, the success of these entrepreneurial initiatives depends on the circumstances of different households and key socioeconomic conditions of the places in question. In this article, we aim to investigate which conditions of the households and the places of origin are likely to motivate the investment of remittances in entrepreneur activities. Our main methodology is the literature review, and here we examine various case studies addressing remittances investments in entrepreneurship, aiming to identify common key elements enabling and stimulating entrepreneurship in the cases examined. With this analysis, we aim to learn from the lessons of these case studies and then indicate ways to stimulate a sustainable investment of remittances in entrepreneurship in other contexts. Our main finding is several factors can contribute to setting up the entrepreneurship, namely, business environment; local policies; economic
development in the host country; the mindset of remittance receivers and senders; the household’s income; the household’s culture, and kinship relations.

Keywords
Remittances, Investments, Migration, Entrepreneurship

1. Introduction

Remittances can have both positive and negative impacts depending on the context and scale observed. At a national level, they can act as an economic buffer during hard times in the countries of origin, but they can also increase the value of the currency at a macro level; displace local incomes and increase local inequalities. It can also inflate prices and create a ‘migrant syndrome’ as if the only pathway for success would be to live abroad. At the household level, remittances can be helpful during crisis periods and improve income, as well as fulfill the daily needs of the family and reduce risks and vulnerability. On the other hand, it may also generate dependencies and exacerbate inequalities. In this paper we will indicate the main research issues of remittances studies, then do a brief literature review pointing out how key authors in the area have addressed these issues, followed by our analysis to identify the specific factors related to entrepreneurial activities more directly, and subsequently, we conclude summing up our main findings while analyzing these studies.

2. Impacts of Remittances on the Places of Origin, and How Core Authors have Addressed it

This part focuses on the literature review and their summaries. We tried to figure out how can remittances sent back to the host country influence the country’s society and economy. Then we analyzed the role government plays in transferring remittances. We also took individual factors into consideration, namely, the characteristic of migrants can influence the number of remittances transferred.

2.1 Impact on Cultural and Behavioral Terms

In cultural and behavioral terms, remittances impact the social status of the sender and its household, as it is commonly associated with the migrant’s value and relevance in the place of origin, and as it builds relations between migrants and non-migrants (Cohen, 2011). As remittances also impact the human capital of the sender and its household, it often influences the way individuals think about themselves. Remittances also tend to stimulate an interest to explore new possibilities globally, opening up households to new cultures and practices. Migrants send not only money to their place of origin, but also new ideas that influence local behaviors. Enhancing connections and bringing new
ideas, remittances can improve the household’s social capital - which in turn can facilitate the improvement of socioeconomic conditions. Still in this cultural and symbolic dimension, remittances often bring significant changes to core values, tastes, and social norms of the community of origin. It brings new aspirations and consumption interests among young people, who are often unlikely to invest in their places of origin, which might seem unattractive or back warded according to these new values and expectations.

2.2 Impact on the Market and Infrastructure

For the market and infrastructure of the places of origin, an effect of remittances can be to help to develop financial services; improve infrastructure (when invested in local schools, clinics, etc.) and create jobs for the local society, as well as being a catalyst for financial inclusion, when combined with the appropriate structure for that. Remittances showed correlations with productivity in studies such as Zhu, Yu, et al. (2014) in southeastern China. They identified that most villages receiving more remittances had lower ratios of working-aged men in employment and that villages receiving fewer remittances have more exports and better infrastructure for basic services like schools, as well as enough local production for village consumption. This might not indicate a causal relation as if remittances were causing this harmful effect on productivity, employment, and infrastructure. Instead, it could suggest that the places of origin with less employed men would be more likely to be dependent on remittances precisely because it would lack such internal income. In a similar line, places with better productivity and infrastructure would be likely to depend less on remittances.

In the local market dimension more precisely, remittances have a direct influence on household incomes, which enables the members to consume more products and services in their local market and community. Vacaflores (2018) pointed out that remittances can affect the labor market participation of the household members, increasing the opportunities they can pursue and consequently their behavior in the market (for instance, being less restricted to indecent low-paid jobs and thus having a bit more autonomy about their labor choices). Furthermore, households with better economic conditions might invest this money in a new local business, generating some job opportunities for local people and stimulating consumption. Moreover, sending and receiving remittances encourage people to open and manage bank accounts, which can also stimulate the management of personal finances and plans for investments. Such financial literacy and financial inclusion can be particularly important in places facing instability, as it facilitates more long-term planning for unforeseen circumstances. Nevertheless, some bank taxes and bureaucracies seem unattractive or inaccessible for many migrants and households, who then prefer to send the money through informal networks.
2.3 The Influence of Government on the Remittances

Owing to the significant role remittances played in poverty reduction in many contexts, the governments of some places of origin encourage migrants to transfer remittances. Some governments collect fees from households and pay them to the migrant as a subsidy, to stimulate this migrant to send transfers. The receiving and sending fees have a significant impact on the number of remittances. Increasing the receiving fee can harm the migrants and the household, but benefit the paying agents in the home country. Reducing the sending fee might have conflicting impacts on the sending agents in the host country, as underlined by Akira (2010). The host country and sending country could cooperate to create fair and decent conditions for migrants to send their money with safety and efficiency. This includes cheaper, secure, and more convenient financial services. It also presumes better financial literacy among receiving families, which could be stimulated by the local government and relevant NGOs in the place of origin. There could also be special channels and conditions for remittances sending to hometown associations assisting local development. For contexts such as Tajikistan and Nepal, which receive large amounts in remittances, some local governments cooperate with associations to manage the money professionally and use it wisely to stimulate local development (Chalise, 2014).

2.4 The Migrant’s Characteristic Matters the Amount and Frequency of remittances

Finally, it is core to remind that the migrant’s characteristics such as gender, age, educational level, and work experiences influence the amount and frequency of remittances the migrant can send. Gender has been one of the most examined variables in the migration & development field, playing a significant role both in the sending and in the receiving practices. Recent studies such as UN-INSTRAW (2019) indicate that women tend to send a larger part of their salary than men and to sustain their remittances over a longer period. However, women tend to have more difficulties and barriers to leave their household of origin to migrate. Still, women are increasingly migrating on their own as main economic providers and heads of households, while fewer are migrating as ‘dependents’ of their husbands or male relatives (UN-INSTRAW, 2019). Women play a crucial role in the different sides and stages of the migration process, both in the place of origin and in the new place to which they migrate. In the place of origin, they tend to be the main caregivers for the household members who stayed. In the new host place, they tend to be the main managers of remittances transfers, as well as emotional supporters. Further characteristics such as age might influence remittances volume especially when the migrant has a highly demanded age in the host country, and would therefore be more likely to remain employed there. The migrant’s educational level and work experiences also play a role in remittances, as migrants with preparations strongly requested in the host country will
be likely to remain employed, and would eventually be in a position to choose better work conditions (therefore more able to send larger remittances if needed).

All in all, the impacts of remittances in the place of origin will also largely depend on how household members would use it. Some would spend it on education and more long-term investments, while others might need to use it for more urgent and short-term necessities. This depends not only on individual preferences but also on the conditions of the household and of the place of origin (which might be too unstable to invest, or which might lack basic support for households to pursue better education or start new economic activities). We have identified core elements influencing households’ use of remittances in different contexts, focusing on the particular characteristics which encourage entrepreneurial activities.

3. Methodology and Analysis: An Examination of the Main Factors stimulating the Use of Remittances in Entrepreneurial Activity

Our method was mainly a literature review of key case studies on remittances in the last decade to identify the main factors stimulating the receiving household to invest in entrepreneurial activities. After analyzing dozens of studies strongly cited in the literature, the most prominent factors we found were divided into three parts: the economic environment of the host country, the receiving household’s condition, and the mindset of migrants. The relationship is described in Figure 1.

**Figure 1**: Framework of Main Factors Influencing the Usage of Remittances
3.1 The Policy and Business Environment Matters

Zheng and Musteen (2018) found that higher state taxation rates, lack of bank loans, and venture capital can increase the risk and reduce the willingness of setting up a business. They pointed out that the average amount of remittances that was transmitted is between $150 to $250, which is far too small to start a business. They also noticed that households were more likely to start businesses that require smaller amounts of capital and funds to start and remain, such as self-employed businesses. Among the 50 middle-upper class families that we interviewed in Tianjin, China, 80 percent of them expressed their worries about the risk a large business can bring and expressed preferences on small, self-employed businesses if they have to use the remittance to start a business. Additionally, adopting appropriate policy and creating a better business environment play an important role in the use of remittances in the place of origin. In low-income countries, controlling corruption and improving accountability have been the main elements fostering investments of remittances in human capital, while in higher-income countries key factors like government effectiveness and political stability have played the strongest role in this direction (Azam & Raza, 2016). In-middle income countries, regulatory quality on the development of human capital has played the strongest role (idem). Another aspect strongly influencing entrepreneurship by households receiving remittances is the economic development in the host country. Chalise (2014) shows that places experiencing unemployment and sub-employment problems, such as the rural area of developing countries, tended to experience increasing brain drain and encouragement to work abroad instead of investing remittances for starting local businesses.

3.2 The Mindset Matters

Furthermore, the mindset of remittances receivers and senders is another core factor influencing entrepreneurship in the place of origin. Zheng and Musteen (2018) point out that career goals play an important part in entrepreneurs, as people who start it are often the ones who were already intending to do so but were lacking support for it, or were in a too risky economic condition to start it. In a similar dimension, knowledge affects the investment of remittances in entrepreneurial activities - both knowledge in the form of formal education and the form of know-how and human capital. Marks, Dawa & Kanyemba (2020) show that the acquisition of new knowledge can affect the investment in entrepreneurial activities, indicating that individuals with higher levels of education often showed more ability and human capital to start businesses. Abilities for adaptability also proved to be crucial after the business was set up, as it helps to adapt to the changing business climate and to ensure the stability of the business. Pratikto, Yazid & Dewi (2020) also showed that households with strong and wide-ranging social capital tend to use the extra income from remittances especially for investments in new activities.
3.3 The Conditions of Households Matters

The socio-economic conditions of the households deeply impact their ability and possibility to be entrepreneurs. Chalise (2014) found that higher incomes may foster households to engage in entrepreneurship, as higher incomes would present less risk. Households in a decent and comfortable situation normally have their basic needs met, they can send remittances in more long-term investments, such as education progression and entrepreneurship initiatives. Since families in poorer conditions do not have their basic needs met, they tend to use remittances for these daily urgent needs. In this dimension, remittances can exacerbate inequalities in a country and within a community. For instance, remittances that flow into the urban area will have a small influence on the countryside households, which often face more poverty - and therefore these urban-rural inequalities would be exacerbated. Wang (2010) highlights a common tendency in some remittance contexts where richer families receive more money than poorer families, as the migrants from these poorer families are often working in worse conditions and being able to remit lower amounts of money. In such contexts, remittances might reinforce this local inequality too. Poorer rural families are normally the ones most needing investments, and remittances have played an important role in rural poverty reduction (UN-INSTRAW, 2019). Still, these families are often the ones receiving lower amounts from their relatives abroad.

3.4 Culture Matters

Besides, cultural aspects play a vital role in entrepreneurial investments too. In the Islamic communities examined by Erdal (2012), there was a significant expectation for remittances to be spent not only for the benefit of the direct household but also for poorer families in the community and non-close relatives and acquaintances who might be in need. He also shows how remittances from close relatives may often have specific purposes related to social rituals such as births, weddings, and funerals - instead of business-related purposes.

The use of remittances is also influenced by characteristics of the household member managing it, such as gender, religion, and house ownership. In some contexts, remittances might reinforce women's gendered roles as mothers supporting their children instead of starting up a business and building financial autonomy (Wong, 2006). In other contexts, religious and familial participation were correlated with remittances investments in entrepreneurship initiatives. House ownership status has the most significant impact on increases in investment, which probably indicates that the household has enough money for loans. Erdal (2012) also found women to be more likely to view remittances as gifts and therefore not to invest them in an entrepreneurship activity, but to pass it to someone else. Still, very often these people for whom the remittance is distributed might use it for starting small businesses.
3.5 Recent Studies and Arguments

Finally, studies like Wong (2006) indicate that remittances are increasingly going towards new organizations and new development projects, especially to more durable investments including land, housing, and self-sustaining business ventures. Still, this and the other studies indicate that the number of remittances consumed tends to be higher than those saved or invested (Turnell, Vicary and Bradford, 2008). Mukherjee (2017) adds that remittances in many contexts are mostly used to expand and improve ongoing business rather than starting a new business from zero.

4. Conclusion – Key Factors, Limitations, and Expectations

This part includes key common factors we found that can stimulate entrepreneurship by receiving remittances, the limitations of our research, and some suggestions as well as scope on the future research. We hope that our paper can make it more convenient for researchers of future authors.

4.1 Conclusions on Key Factors

We aimed to find in the studies examined key common factors stimulating entrepreneurial activities by households receiving remittances. Among the core elements identified, one can underline a stable local economy and a decent infrastructure as contributing to this entrepreneurship. Other factors such as the mindset of remittance receivers and senders and the household’s income showed a significant impact in this direction in most studies. The educational level and human capital of the receiving families also played a noticeable role. Cultural elements such as the household’s kinship seemed to have some impact in certain contexts, although a minor one when compared to the socioeconomic variables.

After examining these factors stimulating entrepreneurship activities among receiving households, it is possible to indicate measures to positively influence this entrepreneurial dimension and to amplify its impact on local development. Some measures we can suggest in this direction are: to support transfer systems with reduced risks and prices; to improve financial literacy in the communities of origin to make wise and sustainable use of the received money; to promote collaborative research and dialogue on remittances and migration among countries of origin and destination; to encourage migrants’ households to be agents of local change and progress in the communities of origin, and to provide an appropriate structure for this change (enabling more long term investments in local services and education through local associations).

4.2 Research Limitations

The present paper had the limitation of not having the technical means, institutional structure, and human capital for collecting its own data. Still, it was possible to produce relevant knowledge
based on the fieldwork developed by the authors addressed here, which also allows a fruitful analysis of more diverse contexts.

4.3 Scope of Future Research

We are looking forward to the supplement of statistical support as well as further analysis basing on varied contexts. Due to the constraint of time and energy, we did not fully explore the situation and the impact of remittances of all the countries. The subject should be explored in-depth and precisely.

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