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Are Remittances a ‘Catalyst‘ for Financial Access? Evidence from Mexico

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Research Question

Most research on remittances — the money migrants send home to their families — has looked at the direct effects of remittances on households. However, focusing on the use of these funds only ignores important aspects of how remittances influence receiving countries. This paper draws attention to some of the **indirect effects** of remittances on receiving countries via **financial intermediation**.

Why is the question relevant?

Linking remittances with financial services can have important positive effects for receiving countries:

- Access to financial services enables households to follow **more efficient asset building strategies**
- Savings from remittances can be **matched with the demand for credit** elsewhere

The Mexican Context

Mexico is one of the main receivers of remittances worldwide. They were about the same size as foreign direct investment to Mexico in 2008 and contributed to 2.4 percent of Mexican GDP. Ca. 6% of Mexican households receive remittances, but only few of them use formal financial services: Remittance-receivers come to a large degree from low-income groups which are often excluded from the commercial banking sector.

Share of Households with Access to Savings Accounts and Borrowing Options, for Remittance-Receiving and Non-Receiving Households (2005)

	receivers	non receivers
savings account with a financial institution *(a commercial bank)*	0.18 *(0.10)*	0.15 *(0.11)*
borrowing options with a financial institution *(a commercial bank)*	0.38 *(0.19)*	0.35 *(0.23)*

Source: Own calculation based on MxFLS 2005

State of the Art

A policy-driven research field

The debate on remittances and financial access has been dominated by policy discussions and ‘best practices‘ of financial institutions providing financial services to remittance-receivers. Among others, it has been claimed that, through remittances, financial institutions and unbanked remittance-receivers ‘get to know each other’. Moreover, financial institutions might reach out to receivers because they have an interest in capturing liquidity from remittances. Other authors have pointed to cases, where remittances have been accepted as a substitute for the lack of formal incomes (*Orozco and Fedewa* **2006**).

Pioneering research

As a newly emerging research field, pioneering work on the impact of remittances on the financial sector has been done by *Aggarwal et al. (2010)* who found a positive correation between remittances and financial depth in a cross country panel data set; and *Demirgüç-Kunt et al. (2011),* who found a positive correlation between remittances and commercial banking in a cross-section of Mexican municipalities.

Going beyond previous studies

- Avoid bias of time series Central Bank data
- More detailed analysis through household level data
- Take into account microfinance institutions and credit unions, which are more relevant for low-income households than traditional banks
- Control for time-invariant unobservables in panel data and reduce concerns of selection bias

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Data and Method

The data

The nationally representative **Mexican Familiy Life Survey (MxFLS) Panel** from 2002 and 2005 covers ca. 8,400 households. It‘s multi-thematic design provides an opportunity to combine information on migration history and monetary transfers with financial service usage and other socioeconomic and geographic indicators.

The model

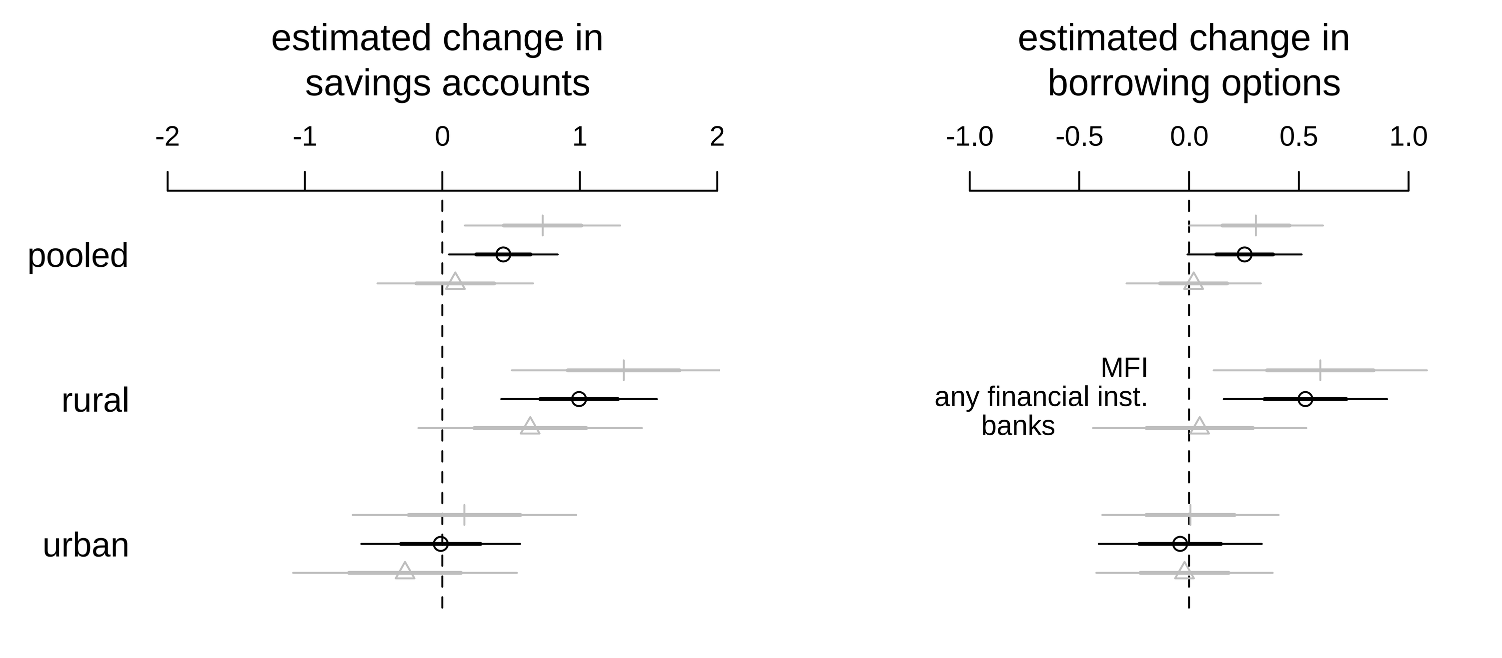
I choose a **treatment-effect setting** where I run a cross-sectional logit regression on the differences of a categorical outcome variable: *How does a change in remittance status affect a change in financial access of households?* Financial access is measured alternatively as ownership of savings accounts or the availabilty of borrowing options.

Taking into account pre-treatment differences across groups

In order to take into account bias resulting from self-selection into treatment conditions, I include pre-treatment differences across groups, that are correlated with both treatment and outcome. Balance and overlap of treatment and control groups are of less concern in the Mexican context, because the socioeconomic profile of migrant households differs little from the Mexican average.

Results

Estimated Effects of a Change in Remittance Status on a Change in Financial Access for Different Indicators and Subgroups



Graph 1 plots the treatment coefficients from the logit model with 95/50% confidence intervals, for different model specifications and subsets. Two findings can be highlighted:

- The treatment effect of remittances on financial access is important and statistically significant for **rural households**: Their probability of improving their access status is seven percentage points higher compared to the control group.
- The estimated effect is significant for **microfinance institutions**, but not for commercial banks. Institutions from the microfinance sector are often ‘closer’ to remittance receivers both socially and geographically and therefore seem to be better positioned to link remittances with further financial services.