

## THE SOCIO-ECONOMIC IMPACT OF FOREIGN REMITTANCES ON RECIPIENT FAMILIES: A CASE STUDY OF DISTRICT CHARSADDA

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ARTICLE INFO	ABSTRACT
<p><i>Article History:</i> Received: 30 Aug 2019 Revised: 18 Sep 2019 Accepted: 10 Dec 2019 Available Online: 02 Mar 2020</p>	<p>The main objective of the study is to examine the socio-economic impact of foreign remittances on household left behind in District Charsadda Khyber Pakhtunkhwa, Pakistan. A sample of 115 respondents selected through a survey questionnaire from those families having at least one of their family members migrated abroad. The model used for the study is regression models. The results of the study show that socio-economics conditions of the migrant's households became better as compared to the condition before migration in terms of migrant's children's education, housing conditions, living expenses, annual income, and status in the society. R-Square value of 0.7946 shows 79.46% total variation in dependent variable (Remittances impact on the migrant family) is explained by the independent variables. Major destinations of the migrants were the Middle East and Europe. Most of the migrants were matriculated having farming as a source of income before migration. The government should adopt such policies which encourage the households to further invest these remittances, such as starting small businesses and establishment of small industrial units.</p>
<p><i>Keywords:</i> Foreign remittances, socio-economic impact, recipient families</p>	
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### 1. INTRODUCTION

People migrate to improve their living conditions and well being of their left-behind families and to provide better opportunities for their children in the long run. International migration produces a large amount of valuable remittance for the home countries and to the recipient families. The policymaker in the developing countries encourages international migration to acquire foreign exchange to stimulate economic growth. Over the recent decade, the number of international migrants has continued to increase, reaching almost to 244 million, there were 222 million international migrants in 2010, while in 2000 the number of international migrants was 173 million. The annual growth rate accelerated with an average of 2 percent per year during the period 2000 and 2010; from 2005 to 2010 the annual growth rate is 3 percent. However, It has slowed to 1.9 percent during the period of 2010 to 2015 documented by (International Migration report, 2015). International remittances to the developing countries are approximately reached \$436 billion in the year 2014 increases with 4.4 percent from the preceding year 2013 reported by (World Bank, 2013). According to the report of World Bank Remittances and Migration Fact book 2016, more than 250 million people around the world, which is approximately 3.4 percent of the whole population of the world, live outside their home countries. World Bank report published shows that Pakistan stands on 8th positions among the top ten recipient countries receiving the highest foreign remittance for the year 2015. Major contributors to remittance in Pakistan according to State Bank of Pakistan (SBP) on the full year basis, in FY-2016 lion share of almost 30% remittances of the total remittances came from Saudi Arabia amounting to \$ 6 billion, remittances received from UAE are 4.36 billion and from UK \$2.57 billion amount received and from US the amount of remittances are \$2.52 billion.

According to the Bureau of Emigration & Overseas Employment (BEOE), the total number of Pakistani migrants registered for overseas employment is 9336018 in the year 2016. The top emigration countries showing number of Pakistani workers in Saudi Arabia (4771729), UAE (3059209), Oman (680383), Kuwait (181863) and Qatar (130393) in 2016. According to the report of State Bank of Pakistan (SBP), international Migration Pakistani workers remitted \$ 19.915 billion in 2015-16 showing an increasing rate of 6.38 % (\$1.2billion) as compared to \$18.720billion received during 2014-15. In Pakistan, International remittance as share of GDP was 6% in 2015-16. The present study explores the socio-economic impact of foreign remittance on recipient families and variation in household expenditure on durables, consumption and investment due to remittances. The organization of the paper consists of different sections such as after introduction section two provide brief introduction of literature review. Section three present theoretical models, data and estimation methodology while, section four represent result discussion. The last section consists of conclusion and future research direction.

## 2. LITERATURE REVIEW

The review of literature is mainly focusing on the studies written on remittances and its global perspective in order to develop the present research. Remittance can be defined as the money in the form of cash and other monetary value of in-kind advantage received the household or family from people live outside the household. Remittance increases household income and are therefore a powerful antipoverty force in developing countries (Mahmud, 2003). Khan, Rahim, Shah, Alam, Naeem, & Zeb (2008), studied that worker remittances have highly strong and everlasting impact on the socio-economic development of district DIR. The number of migrants increasing continuously and their remittances are utilized productively. Increasing outflow of migrant also curbs local job pressure in the market. The paper also highlighted the initial expenses involving during the migration process, i.e. Purchase of visa, work permit and air ticket etc. the study suggested that some formal credit institution in this regard must allocate some funds to the intending migrant so that they may be facilitated and not face financial problem. Rashida and Anwaar (2015) explored the socio economic impact of remittances in the rural areas of Potohar, Pakistan. The data were collected through qualitative techniques. The study concluded that remittances have contributed significantly to an average monthly income of the household. Remittances enhance daily consumption and also satisfied the standard of life through the construction of luxurious houses which not only represent comfort but is also a modern trend of life styles. Remittance results in boosting the capacity to grow more yields by adding uncultivable land under cultivation, adding fertilizers, upgrade seeds and storage of water through tube wells. Moreover, participation of female in the agrarian sector is lessened due increase in remittances by transforming labor intensive work to capital one.

Javed, Awan, and Waqas (2017), examined household survey to investigate the characteristics of migrants, sources through which migration is financed. The pre and post condition of migrant were examined through PSM technique the result shows that the condition of the migrant has far better after migration in case of household wellbeing, consumption of food and non food expenditures, expenditure on cloths vehicles and also savings. The study found significant and positive impact of migration on household welfare. The study also points out that the average earnings of migrant were less due to low level of skill and lack of technical expertise. The study suggested that technical institution may establish in order to give skill so that the migrants get benefit and make them for wider opportunities abroad. Fatima and Qayyum (2016) investigated the impact of remittances on rural household in Pakistan. According to them rural household is more weak to uncertain situation. For this reason they diversify their resources and income in three ways labour income, internal remittances income and external remittances income. They used the data of PSLM in order to check the impact of remittances on accumulation of assets. Because remittances utilize as transitory income. Their result suggests that external remittances significantly affect the asset accumulation of household. Kangmennaang, Bezner-Kerr, & Luginaah, (2017) studied that in most of the developing countries, migration is the major contributor to the rural household's livelihood strategy in order to mitigate the effects of poor economic conditions, food insecurity and climate variability. The study examines remittances effect on food security and wealth level using primary data of 1000 rural households in Northern and Central Malawi. Results show that households having a migrant member abroad were ( $\beta = -0.157$ ,  $p = 0.01$ ) are not likely to be food insecure and average treatment on household asset levels of ( $\beta = 0.151$ ,  $p = 0.01$ ) indicates positive effects on asset accumulation of households. Similar effect of remittances on household welfare. However, the remittance effect on food security was found greater the remittance effect on wealth.

## 3. DATA AND METHODOLOGY

The data were collected from district Charsadda from where a considerable number of migrants migrate on a yearly basis. The target populations were all those families from district Charsadda from where at least one person migrates and living abroad and regularly sending remittances.

### 3.1 Data collection method

The study was based on primary data and survey method was used for the data collection. The acquisition of primary data was through a structure questionnaire in the light of research objectives. The nature of the study is both quantitative and qualitative by involving the respondent in a series of questions like household members, age and educational status. Investment nature, i.e. in which sector these remittances are invested i.e. in the agricultural sector, industrial sector livestock, reason of migration, consumption of remittance in last one year, benefit and disadvantage.

### 3.2 Target population

The data were collected from district Charsadda from where a considerable number of migrants migrate on a yearly basis. The target population was all those families from district Charsadda from where at least one person migrates and living abroad and regularly sending remittances.

### 3.3 Sample size

The study documented by Sudman (1976) argued that statistical equations cannot be applied for the estimation of sample size because the information required is not available to be applied. He stated that the second method more widely used is a rule of thumb commonly accepted technique of sample size. It is widely used because it applies the sample size closer to that of statistical method. Sample increase from 50 to 100 reduce errors from 7.1 to 2.1% but increase in the sample size from 1000 to 2000 only would reduce errors from 1.6 to 1.1% Sudman (1976). In order to follow the principle of sampling for the present study sample of 115 respondents have taken.

### 3.4 Theoretical framework

The variables are divided into three categories in order to explore the research objectives.

*Background variables:* comprises of migrants age, education of the migrant, job nature, reason of migration. These variables play an important role in determining the effect of intermediate variables on migration impact on left behind families. These background variables affect the dependent variables directly.

*Independent variable:* remittance received annually, expenditures on durables after remittances, expenditure on investment after the remittances and expenditure on consumption due to remittances.

*Dependent variables:* dependent variable in the current study is the socio-economic impact on the migrant's family like improvement in education of children's, enhancement and improvement of housing, improvement of household status in the community and change in lifestyle of the household and social relationship and other.

### 3.5 Construction of index variable

The remittance impact (Dependent variable) was explored in a set of four statements that is improvement in education of children's, enhancement and improvement of housing, improvement of household status in the community and improvement in lifestyle of the household. The answers of the respondents were recorded in four predefined categories, i.e. to a great extent, up to a reasonable extent, to some extent and no change. These categories were then ranked from higher to lower order and then coded in chronological order. A lower chronological score represents a strong remittance impact and a high score indicates a strong remittances impact. However, before the construction of index variable, consistency among all the items in the question matrix must be ensured. For that purpose, reliability check of the statement is carried out through Cronbach's alpha (0.806) which shows that there is consistency among all the statements. The scores of all the statements can be combined in order to construct a single statement showing the acquisition of benefit after migration

### 3.6 Model Specification and variables

Econometric design of the model is:

$$Y = \beta_0 + \sum \beta_i X_i + \mu_i \dots\dots\dots [1]$$

In equation 1 dependent variable is Y which represent socio economic impact on migrant's family, intercept is  $\beta_0$ , slope of coefficient is represent as  $\beta_i$  and independent variables is represented as  $X_i$  that includes remittances received yearly, expenditures on durable goods after receiving remittances, expenditures on annual consumptions due to remittances and expenditures on investment due to received remittances and  $\mu_i$  represents the error term and  $i$  represent 1, 2, 3 ....

## 4. RESULT AND DISCUSSION

The section comprises findings from analysis of data. All the analysis is done on mean values of the data sets of variables involved.

**Table 1.** Cronbach's Alpha (Reliability of Questionnaire)

		N	%	Cronbach's Alpha	N of Items
Cases	Valid	45	100.0	.806	136
	Excluded <sup>a</sup>	0	0.0		
	Total	45	100.0		

a. List wise deletion based on all variables in the procedure.

Table 1 shows results for reliability analysis of the questionnaire used. It can be seen from the table that value for Cronbach's alpha is 0.806 i.e. 80.6% hence, declaring the questionnaire used to be reliable for further study and analysis.

**Table 2.** Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Total amount of remittances for use in last twelve months available?	115	.00	5960000.00	861921.7391	994505.90878
Total amount of durable items after migration?	115	11000.00	7511500.00	705728.6870	1037240.55485
Total Monthly consumption expenditure after migration	115	9000.00	265000.00	39748.6087	35400.88845
Overall Total of Commercial, Agricultural and Livestock sectors' Purchases?	115	.00	7080000.00	950676.5217	1512321.96855
Valid N (list wise)	115				

The table 2 shows socio-economic characteristics regarding the independent variables used in the regression model below. Table shows that total amount of remittances for use in last year has a minimum value of Rs: 0.00 and maximum value of Rs: 5960000.00 while minimum amount spent on durable items after migration is 11000 and maximum amount spent is Rs: 7511500.00. Furthermore, total monthly consumption expenditure after migration ranges from a minimum amount of Rs: 9000 to maximum amount of Rs: 265000 whereas expenditure done on commercial, agricultural and livestock sector ranges from minimum of 0.00 to maximum of Rs: 708000. Means and standard deviations for all are also given in the table.

**Table 3.** Multiple regression

Variables	Coefficients	Std. Error	T-value	Significance
Constant	2.074652	.1170917	17.72	0.000
Remittances received annually	0.125	0.0265	4.73	0.000
Expenditures on durables after receiving remittances	0.179	0.0319	5.60	0.000
Expenditures on consumptions annually after receiving remittances	0.171	0.0824	2.08	0.040
Expenditures on household investments due to remittances	0.434	0.159	2.73	0.007
R-Squared 0.7946				Adjusted R-Squared 0.7880
F (4, 22) 120.90				

*Dependent variable: Index Variable (Remittances impact on migrant's family)*

The table 3 shows the results of regression. Dependent variable here, is an index variable (Remittances impact on migrant's family). This index variable is made of the combined effect of four questions based on ordinal scales (Likert Scale) i.e. Improvement of children's education, Improvement in housing, central position in family/community, Improvement in lifestyle and Improvement in Asset conditions. Results clearly show that "Remittances received annually" has a positive and significant impact on the Remittances impact on migrants' families (index variable) as the P-value (0.000) is less than 0.05. This means that by increasing the remittances received annually by one unit, the remittances impact on migrant's family (index variable) increases by 0.125. Moreover, it can also be observed from the results that "Expenditures on durables after receiving remittances" has also a significant impact on the dependent variable (Index variable) as the P-value (0.000) is less than 0.05 and is positive as well and it can also be observed from the table that with a unit increase in it, the remittances impact on migrant family increases by 0.179 unit. Furthermore, "Expenditures on consumptions annually after receiving remittances" and "Expenditures on household investments due to remittances" have also significant and positive impact on remittances impact on migrant family (index variable) with P-values of 0.040 and 0.007 respectively. Furthermore, with a unit increase in Expenditures on consumptions annually after receiving remittances" and "Expenditures on household investments due to remittances", the remittances impact on migrant family (index variable) increases by 0.171 and 0.434 respectively.

Lastly, the table clearly shows that the value of R-Square is 0.7946 or 79.46%, which means that 79.46% of the total variation in Index variable that is dependent variable (Remittances impact on migrant family) is explained by the independent variables (foreign remittances) included in the study.

**Table 4.** Correlation of Index Variable with independent variables

Predictive Variables	Correlation coefficient values with Remittances impact on (Index)	Significance of the Correlation
Remittances received annually	0.8420	0.000
Expenditures on durables after receiving remittances	0.7628	0.000
Expenditures on household investments due to remittances	0.8063	0.000
Expenditures on consumptions annually after receiving remittances	0.7878	0.000

Correlations of the independent variables used in regression with remittances impact on migrants' family (Index variable) are shown in the table 4. It clearly shows that all the independent variables' correlation with the index variable (Remittances impact on migrant's family) is strongly positive as values of correlation coefficients are all greater than 0.7, with strongest positive correlation observed with Remittances received annually (correlation coefficient 0.8420) and Expenditures on household investments due to remittances (correlation coefficient 0.8063). Furthermore, the table shows that significance values for all the correlations are 0.000 which are less than 0.05 and hence indicate significant correlations. This also provides concrete evidence to support the linear regression.

## 5. CONCLUSION

The pre and post data of overseas migration show that economic conditions and expenditure of households significantly improved. Remittances help in escaping the poverty and increase the overall economic conditions of the migrant's households, and also improved the ability of the households to increase expenditures. Moreover, the regression results show that impact of all the independent variables (Remittances received annually, Expenditure on durable goods after remittances, expenditure on consumption goods after migration, expenditure on household investments after migration) is positive and significant on the remittances impact on migrants' families i.e. with increase in all of these variables, remittances impact on migrants' families increases.

## 6. FUTURE RESEARCH DIRECTIONS

- Scope of the study can be further expanded by including other Districts rather than District Charsadda
- Further variables can include for the socio-economic impact of foreign remittances on recipient families.
- Number of respondents can increase or decrease according to nature of the study.

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