Motives and Giving Norms Behind Remittances: The Case of Filipino Overseas Workers and their Recipient Households

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Globalization has generated an increasing number of international migrants—estimated to be between 150 and 170 million in 2000. As a result, remittances to developing countries have climbed from $17.7 billion in 1980 to $301.0 billion in 2006.¹

The Philippines has been one of the largest sources of international migrants since the 1980s and has benefited from massive remittance inflows. The country’s remittance receipts more than doubled between 2000 and 2008, rising from $6.1 billion to $16.4 billion. In 2008, transfers from abroad accounted for 9.7% of gross domestic product, 13.8% of personal consumption expenditure, and 25.7% of total exports. In 2003, 22% of Filipino households received remittance income.²

Despite its economic importance, remittance behavior is not yet well understood. The literature has so far focused on personal motives to explain remittance behavior. But as non-anonymous transactions, a team of Filipino researchers posit that remittances may be constrained by social norms on giving in a community as well.

The researchers find that overseas workers who are primary breadwinners (the household head or spouse) for their recipient households are likely impelled by altruistic and exchange motives.³ Indeed, they are more likely to send remittances as the number of 15-24 year old household members, and their own income, increase. Conversely, secondary breadwinners have more strategic behavior. The likelihood of remittance rises as the recipient household’s income falls and as migrant worker’s income increases, consistent with altruism. It also rises with the number of adult members in the recipient household as this raises the opportunity costs of contracted services rendered by the recipient household for the migrant. It declines with the transaction costs of remittances. More importantly, efforts by recipient households to increase their income are rewarded by a higher likelihood of receiving remittances. This means that migrant workers and recipient households have an incentive-compatible arrangement. Finally, secondary breadwinners adhere to the Filipino practice of giving in modest amounts.

The findings indicate that a negative domestic income shock will lead to an increase in remittance flows to the Philippines. Policies that reduce transaction costs will also encourage remittances from abroad. Governments might also consider ways to encourage changes in Filipino giving norms toward large remittance amounts.

¹Estimates from Kapur, Devesh, and John McHale. 2003; IFAD. 2007; World Bank. 2006. ²Based on data from Bangko Sentral ng Pilipinas and 2003 Family Income and Expenditures Survey. ³Remittances are payments provided in exchange for services (e.g. care for migrant’s children, management of migrant’s asset) rendered by the recipient household for the migrant worker. Services are a disutility for recipient households and so remittances depend on recipient household’s opportunity costs and bargaining power.