Remittance Inflows and Economic Development in Rwanda
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THESIS SUMMARY

This thesis examines the effects of remittances (remittances are both cash and in-kind transfers sent by migrants living out of their country of origin) in development and the intermediate role of institutional and development factors. The study examines the development impact of remittances in Sub-Saharan African (SSA) countries for the period between 1980 and 2014, with a particular focus on Rwanda. It addresses the following overlooked aspects in the theoretical and empirical narratives about remittances and development: (1) the lack of a comprehensive theoretical and conceptual framework explaining the development impact of remittances; (2) the theoretical and empirical gap regarding the causal mechanisms of remittances inflows, policy and institutional framework, and the remittance-development outcomes; (3) the methodological issues affecting the empirical analysis of remittances and development, especially the methodological problem of endogeneity and selection bias which affect empirical results. So far, the empirical analysis related to remittances and development has suffered from the lack of a conclusive empirical approach that addresses these issues, which is complicated by the lack of reliable statistical data in many developing countries.

In effect, the scholarship of remittances and development is full of empirical debates without the foundation of a conclusive theoretical framework. The underlying question is whether remittance inflows contribute to development outcomes and under what conditions. Concrete country cases permit us to hypothesize about the contribution of remittances to the socio-welfare of recipient households. For instance, the observations from Rwanda (discussed in Chapter Four of this thesis) demonstrate possible mechanisms through which remittance inflows contribute to development outcomes (such as welfare, investments and human capital development) and point to how the local policy and institutional framework influences the overall contributions of these inflows in the country. These practical experiences allow for a comprehensive examination of the development impact of remittances and the conditions mediating remittance-development outcomes in SSA countries.

This thesis contributes to this field by conducting a cross-country and country-level in-depth empirical analysis about the development impact of remittances. It answers the following research questions: What is the contribution of remittance inflows to development outcomes in SSA countries (and Rwanda in particular) and how might we best measure and explain the development effects of remittance inflows? Under what conditions do remittances affect
development outcomes?. These research questions are divided into the following sub-questions: 1) What is the effect of remittance inflows on economic growth in SSA countries (and Rwanda in particular) for the period from 1980 to 2014 and what factors condition the intensity of these effects in SSA countries and Rwanda? 2) Through what channels do remittance inflows affect poverty and other development outcomes in Rwanda? 3) How do the development effects of remittance inflows play out among different socio-economic layers of recipient households in Rwanda?

The thesis is structured as follows: Chapter One presents the general overview of the thesis. Chapter Two provides a comprehensive review of literature about the development impact of remittances. The chapter distills the main lines of arguments found in the theoretical and empirical narratives. This thesis is embedded in the three dominant theories about remittances and development: the national account model, the endogenous growth theory and the New Economics of Labor Migration theory. It discusses existing empirical debates about the mediating effects of institutions on the remittance-development impact. The various schools of thought examined in the literature review are critically important and have shaped the evolution of remittances and development scholarship over time. The theories examined in the literature are compatible and complementary, rather than mutually exclusive in explaining the development impact of remittances. They all lead to the conclusion that remittances are a determinant factor for economic development, but insufficient for the overall improvement of development outcomes in the recipient countries.

Chapter Three discusses the novel and conceptual framework of this thesis. The conceptual framework provides an empirical understanding of the systematic causal relationship between remittances and development. It establishes a causal empirical link between the macro- and micro-economic implications of remittances and the mediating effects of institutional and development factors. It provides a comprehensive causal and nested analytical framework that informs the empirical analysis of this study – that is, how remittances inflows affect growth and development in SSA countries and Rwanda in particular.

Chapter Four provides the global, SSA country level and Rwandan trends of remittance inflows and other external financial inflows, respectively. The chapter discusses factors motivated the selection of Rwanda as a case study for this thesis. The evident positive trends of remittance inflows in Rwanda compared to in other SSA countries, the observed positive improvements in
institutional and development factors, and practical insights from anecdotes propelled the researcher to examine the remittance-growth effect in SSA countries overall and to carry out an in-depth comprehensive analysis about the remittance-development outcomes in Rwanda in particular.

Chapter Five answers the first specific research question of this study, the remittance-growth effect in SSA countries and Rwanda for the period from 1980 to 2014 and factors conditioning the intensity of these effects in SSA countries and Rwanda. The empirical findings related to the remittance-growth effect in SSA countries support the national account model and the endogenous growth theories. The cross-sectional analysis of the SSA region finds no significant effect of remittances on economic growth in the region. This seems to imply that the remittance-growth effect plays out differently within the region. Impressively, similar findings reveal that on average, the remittance-growth impact is positively influenced by a country’s level of development, financial development and education. This implies that remittances affect economic growth by positively contributing to financial sector development and human capital development in the recipient economy, which is in line with the theoretical claims of the endogenous growth theory. However, the latter effect is undermined by the quality of institutional variables in the region, such as political instabilities and strict regulations in the region. In the case of Rwanda, however, the remittance-growth effect holds. The findings reveal a positive and significant remittance-growth impact in Rwanda. Similar empirical evidence reveals a long-run relationship between remittances and GDP per capita in Rwanda. The long-run causality runs from remittances to GDP per capita, but not vice versa.

Chapter Six and Seven answer the last two research questions, regarding channels through which remittance inflows affect consumption expenditure per adult equivalent (as a measure of poverty) and other development outcomes in Rwanda and how development effects of remittance inflows play out among the different socio-economic layers of recipient households in Rwanda. The main empirical findings from an application of the ordinary least square estimation technique reveal that on average, international remittances significantly affect poverty and contribute to development outcomes (physical investments, savings, and business and human capital development indicators) by increasing the income available to spend on these development outcomes. This creates an overall multiplier effect on the improved welfare of remittance-recipient households more than that of non-recipients. This positive and significant
effect is reinforced by the empirical findings from the use of the PSM estimation technique in Chapter Seven. Chapter Seven explicitly conducts an in-depth analysis about the effect of international remittances on development outcomes in Rwanda. Evidence from both statistical analyses suggests that the pro-development impact of international remittances is greater among poor recipient households. This implies that international remittances not only increase capacity to spend on development outcomes, but also provide an avenue for graduating out of poverty, as well as reducing income inequality. The two chapters argue that the positive and significant remittance-development outcomes are causally conditioned by the prevailing institutional and policy framework.

Chapter Eight presents the conclusions and the policy implications to further improve the development impact of remittances in SSA countries and Rwanda in particular. In this chapter, research areas are suggested for further research that could contribute to the development of the remittance and development discourse.

Overall, the findings of this thesis increase our understanding of the development impact of remittances. It sheds light on the crucial role of remittances in development, suggesting that remittances are potentially complementing factors for broad-based development endeavors, but not a panacea. Their development effects depend on the underlying institutional and policy environment factors in the recipient economy. The thesis shows that the development impact of remittances is not unidirectional. Instead, there is an important causal interplay of institutional and development factors that conditions the overall remittance-development outcomes. As such, developing countries that rely on remittance inflows to improve their development outcomes need to pay attention to the effect of political and economic institutional factors influencing remittance-development outcomes.