Comments on The Impact of Remittances Fees on Remittance Flows: Evidence from a Field Experiment among Salvadoran Migrants

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Survey of Remittance Costs
(Ratha, 2006)

Fee and foreign exchange commission ($) for sending $200, August 2006

<table>
<thead>
<tr>
<th>Location</th>
<th>North-South corridor</th>
<th>South-South corridor</th>
</tr>
</thead>
<tbody>
<tr>
<td>London-Lagos</td>
<td>$28.8</td>
<td>$34.7</td>
</tr>
<tr>
<td>Conakry-Lagos</td>
<td>$10.2</td>
<td>$12.1</td>
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<tr>
<td>Singapore-Jakarta</td>
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<tr>
<td>Kuala Lumpur-Jakarta</td>
<td>$13.0</td>
<td>$22.5</td>
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<tr>
<td>Jakarta-Kuala Lumpur</td>
<td>$13.0</td>
<td>$24.4</td>
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<tr>
<td>Los Angeles-Mexico City</td>
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<td>$19.5</td>
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<td>Mexico City-Guatemala City</td>
<td>$14.8</td>
<td>$31.2</td>
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<tr>
<td>New York-Managua</td>
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<td>$18.8</td>
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<tr>
<td>San Jose-Managua**</td>
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<td>$8.6</td>
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<td>Havana-San Jose**</td>
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<td>Kiev-Moscow</td>
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<td>Moscow-Kiev</td>
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</tbody>
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Key Contributions

- Unique field experiment: Migrants from El Salvador in Washington D.C.

- By randomizing the allocation of remittance fees, authors isolate causal impact of fees on remittance behavior

- A $1 reduction in fees induced migrants to send $25 more in remittances per month
Context: Remittance Flows and Fees

- Reduced form approach: \( R_t = D_t(p, Y, \theta) \)

- Opportunities:
  - Summarized by the budget constraint
    - What can migrants afford?
  - Availability of formal and informal substitutes?

- Preferences:
  - How much do migrants value services of provider?
  - Summarized by the utility function
Theoretical Concerns

• Main emphasis: Lower prices – more frequent transfers, higher amounts through formal channels.

BUT
• The role of informal channels

• Temporary vs. Permanent Changes in Price

• Is the migrant/origin family better off?

• Behavioral Effects:
  ▫ Do lower prices increase frequency by targeting high-use households (a screening effect), or by stimulating use psychologically.
Empirical Specification

- Strengths – flexible, non linear specification
  - indicators of separate price points
    - Study threshold effects
- Consider interaction terms
- Need careful attention to the impact of the savings intervention
Data Limitations

- Sample includes only remitters, large transfers are not eligible for discount
- Cash remittances only (in kind transfers can be significant)
- Timing of savings intervention may affect findings
- Market environment: Role of location, information and networks.
- Policy discussion -- focused on (poor migrants), legal status, access to financial services -- but no discussion of subgroups in paper
Some additional questions

• Lower prices – more frequent transfers but higher amounts.

Is the migrant/origin family better off? Partner Institution?

• Behavioral Effects:
  ▫ Will lower prices increase frequency by targeting distribution to high-use households (a screening effect), or by stimulating use psychologically.
Other additional issues

- Remittances as insurance: Do remittance fees affect timing of transfers?

- Intertemporal substitution:
  - Why is there no impact of fees on savings, or time shifting?

- Long-term effects?
Beyond Experimental Setting

Remittances to El Salvador are relatively low

• Why do remittance fees vary across settings?
  ▫ Competition
  ▫ Payments systems
  ▫ Policy coordination
  ▫ Regulations and compliance
  ▫ Other transaction costs

• Other issues: *lower charges*, business locations, community outreach, technology, quality