

## Differences in remittances from US and Spanish migrants in Colombia

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### *Abstract*

Using data collected among exchange institutions in Colombia in 2004, we evidence large differences in the amounts of remittances received from migrants living in the US and from migrants living in Spain. Drawing on quantile decomposition, we show that the gap between the two destination countries is mainly due to differences in the returns to the individual characteristics.

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## 1/ Introduction

Remittances are a very important source of foreign exchange revenue for many countries. Several papers have focused on the determinants of migrants' remittances to their countries of origin from a macroeconomic perspective (El-Sakka and McNabb, 1999). From a microeconomic perspective, economists have focused on the motives behind these transfers.

A first explanation deals with altruism, meaning that migrants care about the other family members still living in the country of origin. A second explanation involves reciprocity between migrants and non-migrants. Another possibility is to invest transfers for the future so as to maintain one's status or to return home with social capital. Several difficulties emerge when evaluating the relevance of these different motives. Remittances are likely to combine different components and different types of migrant population may rely on specific motives. It is also very difficult to find discriminating tests. Hence, empirical evidence is not really conclusive (see Rapoport and Docquier, 2006).

In many empirical studies, the pattern of remittances is investigated through the use of household surveys with, unfortunately, some shortcomings. First, the sample is usually made of both remitters and non-remitters. The difficulty with censoring is to know whether transferring resources is a two-stage sequential process, i.e. the decision to remit and then the amount to remit (Brown, 1997). Second, samples are most often limited to few observations. In Agarwal and Horowitz (2002), the sample comprises 492 migrants, while there are 379 observations in de la Brière *et al.* (2002). Third, empirical studies generally do not account for the characteristics of both senders and recipients, the matched sample of 61 migrants and origin-family pairs used in Osili (2007) being an exception.

In this paper, we draw on a large data set collected in Colombia in 2004 to provide new insights on the determinants of remittances. This survey collected among exchange institutions provides data on around 20,000 recipients. As the transfer amounts received from migrants living in the US and from migrants living in Spain are very different, we study whether the gap is due to differences in individual characteristics between the two groups or to differences in the return to these characteristics. We rely on OLS and quantile regressions and perform quantile decomposition following Machado and Mata (2005).

The remainder of this paper is organized as follows. In Section 2, we present the data and describe the pattern of remittances in Colombia. In Section 3, we study the differences in transfers between migrants in Spain and migrants in the US. Section 4 concludes.

## 2/ Data and descriptive statistics

To study migration remittances in Colombia, we draw on an individual-based data set performed in exchange institutions, entitled Survey to Beneficiaries of Remittances in Exchange Institutions in Colombia (SBREIC hereafter). It was carried out in September 2004 by the Country Alliance, which is a group of several public and private organizations whose aim was to share financial, human, and logistic efforts<sup>1</sup>. This survey is of utmost importance since it was the first one to attempt to simply illustrate the link between people and remittance patterns in Colombia.

The SBREIC survey has a national (urban) coverage. It was made by 483 exchange institutions all over the country, concentrating around 80 percent of the remittance inflow, and its sample includes around 25,000 respondents. The survey comprises 22 questions, divided into two main topics. Firstly, it identifies basic social and demographic features of the

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<sup>1</sup> The main objective of this project was to identify the donors and receivers of migratory remittances and to understand the role of their individual characteristics on the patterns of transfers.

benefactor and beneficiary (sex, age, education, occupation during the month before the survey) and each recipient gives answer to questions regarding the kinship with the donor and the number of people forming the household. The donor's origin, country of residence, and last emigration date form part of the other set of questions. Secondly, the survey characterizes the remittance inflow: amount, frequency, delay since the first transfer, main use, reception channel, beneficiary knowledge about transfer costs.

With respect to previous studies on remittances, several features of the SBREIC survey have to be noticed. First, the size of the sample is very large. Also, as we only focus on individuals receiving remittances, we do not have to account for selection in the transfer equations<sup>2</sup>. A last advantage of these data is that we have some characteristics of both the donor and the recipient. The main shortcoming is that there is no information on the levels of income, which are expected to strongly influence the pattern of remittances. Another problem is that the situation of the donor is described by the recipient, meaning that there may be problems of missing or bad information. Ideally, a matched data with a questionnaire for the donor and one for the recipient would be needed.

After deleting missing observations, we get a sample of 19,575 respondents living in Colombia. Out of the several possibilities for the country of residence, the SBREIC survey exhibits two main destinations for Colombian donors, the United States and Spain. Since these two countries account for about 80 percent of the answers, we account for differences by country of residence in what follows. Descriptive statistics for the sample are shown in Table 1.

*Insert Table 1 here*

Let us first focus on the pattern of remittances. As shown in Table 2, migrants send on average US\$ 285.1 to beneficiaries in Colombia. There is a general trend for the amount remitted to increase when the transfer is infrequently given. Colombian migrants send on average US\$174.2 per week (i.e. on the basis of a transfer made weekly), US\$273.9 per month, US\$442.5 per semester, and US\$487.3 per year. The most striking feature is that there are large differences in the amount of remittances between countries. On average, a migrant living in the US sends 217.5 US\$, while the mean amount of transfer is equal to 379.2 US\$ when the migrant lives in Spain. In the sequel, we further investigate these differences in the behavior of the Colombian migrant population living in these two countries.

Very briefly, we note that 76% of the beneficiaries and around 50% of the benefactors are women. Remittances are mainly received by siblings (23.6%) and by parents (21.2%), with differences between countries. While there are more recipient siblings getting transfers from the US (24.4%) and other countries (23.4%), there are more parents receiving from their children in Spain (25.4%). Recipients of US remittances have more often a high level of education. Only 7.4% of recipients are without education or with incomplete primary one, whereas there are 30.7% and 31.9% of recipients with complete high school education and superior one<sup>3</sup>. When considering transfers coming from Spain, the first ones to receive them are those who have finished high school education (30.1%), followed by incomplete high school education (22.1%) and by superior education (19.9%). Finally, remittances are mostly received by those who stay home to do chores, then by those who work.

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<sup>2</sup> If we assume that the determinants of the probability of transfers and those of the amount transferred are not the same, finding appropriate exclusion restrictions is clearly not an easy task.

<sup>3</sup> Recall that we have a sample of individuals receiving all remittances. We thus work on a selected sample, in that it comprises more educated individuals than in the Colombian population, but there is by definition no way to control for the selection bias with the data at hand.

Concerning the donor's occupation, almost all migrants work in the country of residence, respectively 92.4% and 94.3% of US and Spanish migrants. While the mean duration of the last migration is of five years for all the countries, the US has the highest length with almost seven years and Spain the least one (around three years). Colombians emigrate for the most part (say between 40 and 50%) once they have achieved their high school education, followed by those who have superior studies. A difference concerns the weight of superior studies in the Spanish case. It accounts for only 17.3% of the donors, while in the US and other countries it is of 32.4% and of 30.6%.

### **3/ Econometric analysis of US and Spanish inflows of remittances**

As around 80% of the transfers recorded in the survey come from the US and Spain, we restrict our attention to the inflows of remittances from migrants living in these two countries. We begin by estimating both OLS and quantile regressions (at the 50<sup>th</sup> percentile of the distribution) for remittances on the pooled US-Spanish sample, observations related to other destination countries being deleted<sup>4</sup>. We introduce characteristics of the donor and the recipient into the regressions along with a dummy variable which is equal to one when the donor currently lives in the United States. Results are reported in Table 2.

*Insert Table 2 here*

Our main finding is that the amount of remittances is significantly lower when the migrant lives in the United States. The marginal effect associated to the US location is large. At the mean of the whole sample, the estimated amount of remittances is equal to US\$275 and it is reduced by around US\$140 for a transfer from the United States. When estimating the quantile regression at the median value of the transfer, the remittance is decreased by around US\$68 (for a mean value equal to US\$148).

When estimating the pooled regression, the underlying assumption is that the returns to individual characteristics of both recipients and donors are the same when the remittances come from the US or from Spain. This hypothesis is undoubtedly questionable. For instance, the returns to education for a paid job may be different for a migrant in both countries. We choose to test the equality of rewards to individual characteristics for both types of remittances (i.e. from the US or from Spain) by adding in the regression a set of crossed variables, resulting from multiplying the US location dummy by the different covariates. If the different crossed terms are jointly significant, this means that we cannot accept the hypothesis of equal coefficients to individuals characteristics.

A F-test indicates that the assumption of equal returns is rejected. We obtain a statistic of 5.81, with 30 degrees of freedom, which is significant at the one percent level. So, to properly evaluate the gap between transfers from the US and from Spain, we have to estimate separate regressions for both origin countries. According to the augmented regression, the crossed terms related to gender, age, occupation and link with the donor are significant, meaning that the impact of these explanatory variables are different when the transfers is received from a migrant living either in Spain or in the US. Concerning the migrant, differences in returns to observable characteristics mainly stem from age and to a lesser extent education, while there is no significant difference for the duration of migration.

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<sup>4</sup> The quantile regressions give the marginal effect of any covariate on the log amount of transfer at various points of the distribution (Koenker and Bassett, 1978). Let us briefly describe the econometric model. They provide robust estimates, particularly for misspecification errors related to non-normality and heteroskedasticity. We have also estimated quantile regressions at the various percentiles of the transfer distribution. These additional results are available upon request.

We then reestimate the OLS and the quantile (at the median value) regressions on the separate samples of remittances by location. When remittances come from the US, the mean amount is lower when the recipient is a woman, unemployed or student, and higher when the donor is the spouse of the respondent. Concerning the donor's covariates, being a woman, age and higher levels of education are negatively related to the mean amount of remittances. When taking into account Spanish transfers, we observe that their amount is lower when the donor is the spouse, a sibling or a child of the respondent. Finally, the characteristics of the donor do not really matter when explaining the transfer, having a paid job being an exception.

Differences in the transfer decisions from the US and from Spain may be explained by the following decomposition. On the one hand, the gap in the amount of remittances may be due to differences in the individual characteristics between recipients and donors concerned by each type of inflows. For instance, remittances from Spain would be higher if Colombian migrants living in that country are more educated than those living in the US, assuming that the transfer function increases with donor's education. On the other hand, the transfer disparity may be due to differences in the returns to these characteristics, i.e. differences in coefficients for each subpopulation. At the mean of the sample, this is the Oaxaca-Blinder type of decomposition (Oaxaca and Ransom, 1994).

Let  $\beta^{US}$  and  $\beta^{SP}$  denote respectively the coefficients of both donor and recipient's characteristics from the United States and Spain, and  $X^{US}$  and  $X^{SP}$  stand for inflows from these two countries. The difference in the mean amount is  $\beta^{US}X^{US} - \beta^{SP}X^{SP}$ , which can be decomposed as:

$$\beta^{US}X^{US} - \beta^{SP}X^{SP} = X^{US}(\beta^{US} - \beta^{SP}) + \beta^{SP}(X^{US} - X^{SP}) \quad (1)$$

The first term on the right-hand-side of (1) picks up the effect of differences in coefficients between the migrants living in the US and in Spain, while the second term measures the role of differences in individual characteristics between the two populations.

Note that in (1), we define as the counterfactual distribution the situation of individuals having the characteristics of those concerned by inflows from the US, but with the behavior of those concerned with Spanish inflows. As discussed in Oaxaca and Ransom (1994), one can rely on other non-discriminatory structures to perform the decomposition. A first possibility is to account for the current Spanish structure. A second possibility is to choose a weighting matrix with a weight given by the fraction of the sample made up by the US group (Cotton, 1988). When turning to the data, we perform the decomposition with various non-discriminatory structures.

We also implement a quantile decomposition following the method described in Machado and Mata (2005). Let  $\theta$  be a specific quantile of the log transfer distribution. We now estimate:

$$\beta^{US}(\theta)X^{US} - \beta^{SP}(\theta)X^{SP} = X^{US}(\beta^{US}(\theta) - \beta^{SP}(\theta)) + \beta^{SP}(\theta)(X^{US} - X^{SP}) \quad (2)$$

where  $\beta^{SP}(\theta)(X^{US} - X^{SP})$  stands for the part of the remittances gap due to differences in individual characteristics between the two groups at the  $\theta$ -quantile of the distribution, while the term  $X^{US}(\beta^{US}(\theta) - \beta^{SP}(\theta))$  is the fraction of the gap attributable to differences in the coefficients associated to these characteristics.

To generate the counterfactual density, we proceed in the following way (Machado and Mata, 2005). We begin by drawing 200 numbers at random over the closed interval [0;1], denoted by  $\theta_1, \theta_2, \dots, \theta_{200}$ . Then, using the group of transfers from Spain, we estimate the quantile regression vectors of coefficients  $\beta^{SP}(\theta_i)$ , with  $i=1, \dots, 200$ . Finally, we make 200 draws at random with replacement from the US group of transfers. The counterfactual density

is generated as  $\beta^{SP}(\theta_i) X^{US}$ , for  $i=1,\dots,200$ . In so doing, we get the log amount of remittances sent by migrants living in Spain, who would behave as US migrants<sup>5</sup>.

Results from the different decompositions are described in Table 3. Let us first focus on the results obtained at the mean transfer value. With the characteristics of the US group as the non-discriminatory structure, the gap in log remittances amount is highly significant and is equal to 47.4%. As shown by the data, the gap between the two groups of transfers is mainly due to differences in coefficients, as the corresponding weight is equal to 43.6 points of percentage. Conversely, the impact of differences in individual characteristics is very low, around 3.8 points of percentage. Changing the non-discriminatory structure does not affect the conclusion that the divergence between remittances from the US and from Spain is due to differences in the returns of individual characteristics between the two subpopulations.

*Insert Table 3 here*

We have also performed a detailed analysis (not reported) to estimate the weights given to the various explanatory variables for the decomposition. Concerning the part of the gap explained by differences in characteristics, we find that respondent's gender, age, link with the donor, and number of family members in the household have the highest weights. When turning to differences in coefficients, the data shows again that variables dealing with donor's age and link with the respondent are the most influential ones. The donor's education also plays a significant role, while the weights associated to the frequency of receipt remain very low and not really significant.

Finally, we assess the robustness of our findings by looking at the impact of both differences in characteristics and differences in coefficients along the log transfer distribution. The main results from the quantile decomposition are twofold. First, we evidence a growing gap as one moves up along the distribution of remittances. For instance, transfers from Spain are about 25.9% higher than transfers from the US at the first decile, 38.2% at the first quartile, and nearly 60% at the median. Nevertheless, above the 50 percentile, the gap between US and Spain remains nearly constant and below a difference of 60%. Second, along the whole distribution, the gap is essentially explained by differences in the returns to covariates. In the upper part of the distribution, where the gap is above 50%, the contribution to the gap due to differences in characteristics is at most around 6%.

## 5/ Conclusion

Drawing on a large data set on remittances recently sent to Colombian households, we have attempted to bring insights on the remittances literature by studying differences in transfer amounts received by Colombian households from migrants living in the US and in Spain. Our main result is that differences among community groups are not really related to differences in observable characteristics of both groups, but instead to differences in the returns to these characteristics. With similar fictitious endowments, migrants from Spain and migrants from the U.S. behave in a fundamentally different way when sending back money to their family members still living in Colombia.

A shortcoming of our analysis is the lack of information on economic resources of both the donor and the recipient, which prevents us from implementing tests on the transfer

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<sup>5</sup> For the various elements of the decomposition, we get standard errors by replicating 30 times the decomposition. In a similar way, we can easily get the second counterfactual density which involves the characteristics of individuals concerned by transfers from Spain, but behaving as if these transfers were from the United States. We do not report here these results as the two decompositions lead to very similar findings.

motives. Since these data have been collected among exchange institutions, it would be worthwhile to further investigate the pattern of remittances in Colombia using household data. Our data evidence substantial amounts of remittances and it is thus likely that these transfers will play a very important role in the pattern of current expenditures of Colombian households. Remittances may also have long-term beneficial consequences with respect to children's education or health for instance, which is expected to impact growth at a macroeconomic level. We leave this measurement of the expected positive consequences involved by the receipt of remittances for future research.

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**Table 1. Descriptive statistics of the sample**

Variables	US	Spain	Other countries	All
<i>Dependent variable</i>				
Transfer amount (in US dollars)	217.5	379.2	326.0	285.1
Standard deviation (in US dollars)	393.9	601.3	741.6	546.0
<i>Recipient's characteristics</i>				
Female	0.759	0.773	0.753	0.762
Age	41.938	40.297	39.619	41.007
Link with donor				
Spouse	0.158	0.149	0.170	0.158
Parent	0.191	0.254	0.206	0.212
Child	0.092	0.058	0.086	0.081
Siblings	0.244	0.225	0.234	0.236
Other family	0.194	0.172	0.154	0.180
Other	0.120	0.141	0.150	0.132
Education				
Incomplete primary or less	0.074	0.124	0.087	0.091
Complete primary	0.108	0.155	0.122	0.124
Incomplete high school	0.192	0.221	0.194	0.201
Complete high school	0.307	0.301	0.304	0.305
Occupation				
Superior	0.319	0.199	0.293	0.280
Working	0.408	0.384	0.402	0.400
Job searching	0.050	0.038	0.048	0.046
Studying	0.120	0.103	0.135	0.118
Inactive	0.423	0.475	0.414	0.436
Number of persons in the household	3.952	4.210	4.227	4.081
<i>Donor's characteristics</i>				
Female	0.476	0.571	0.553	0.518
Age	41.652	35.350	37.325	38.995
Duration of migration	6.818	3.275	4.448	5.337
Education				
Incomplete primary or less	0.032	0.037	0.035	0.034
Complete primary	0.072	0.089	0.065	0.075
Incomplete high school	0.148	0.228	0.180	0.177
Complete high school	0.425	0.473	0.414	0.436
Superior	0.324	0.173	0.306	0.277
Working	0.924	0.943	0.914	0.927
Number of observations	10091	5554	3930	19575

Source: SBREIC, Colombia 2004.



Table 2. Estimates of the log amount of remittances from US and Spain

Variables	OLS			Quantile (50 <sup>th</sup> percentile)		
	All	US	Spain	All	US	Spain
Constant	5.271*** (48.02)	4.844*** (36.97)	5.254*** (26.11)	5.060*** (37.94)	4.482*** (27.56)	5.464*** (22.52)
<i>Recipient's characteristics</i>						
Female	-0.121*** (6.21)	-0.088*** (3.83)	-0.162*** (4.54)	-0.126*** (5.31)	-0.096*** (3.34)	-0.183*** (4.21)
Age	-0.001 (0.91)	0.001 (0.90)	-0.005*** (3.30)	-0.001 (0.83)	0.002 (1.32)	-0.009*** (4.95)
Link with donor						
Spouse	0.056* (1.80)	0.175*** (4.65)	-0.133** (2.39)	0.122*** (3.21)	0.259*** (5.53)	-0.138** (2.06)
Parents	-0.063** (1.96)	0.017 (0.43)	-0.144*** (2.65)	-0.021 (0.53)	0.076 (1.54)	-0.191*** (2.91)
Children	-0.123*** (3.15)	0.007 (0.15)	-0.350*** (4.54)	-0.032 (0.68)	0.097* (1.72)	-0.350*** (3.76)
Siblings	-0.061** (2.22)	0.043 (1.30)	-0.225*** (4.67)	-0.012 (0.36)	0.087** (2.11)	-0.284*** (4.86)
Other family	0.088*** (3.11)	0.125*** (3.64)	0.074 (1.50)	0.116*** (3.37)	0.156*** (3.67)	0.044 (0.74)
Education						
Complete primary	-0.034 (0.99)	-0.067 (1.50)	-0.012 (0.24)	-0.046 (1.11)	-0.035 (0.64)	-0.048 (0.76)
Incomplete high school	-0.010 (0.30)	-0.023 (0.55)	-0.026 (0.49)	-0.040 (1.01)	-0.012 (0.23)	-0.122* (1.94)
Complete high school	0.006 (0.18)	-0.004 (0.08)	-0.023 (0.42)	0.005 (0.12)	0.023 (0.44)	-0.115* (1.75)
Superior	0.061* (1.70)	0.070 (1.59)	0.007 (0.12)	0.074* (1.69)	0.112** (2.03)	-0.099 (1.32)
Occupation						
Working	0.009 (0.44)	-0.021 (0.89)	0.063* (1.78)	0.001 (0.06)	-0.021 (0.73)	0.023 (0.54)
Job searching	-0.144*** (3.63)	-0.173*** (3.77)	-0.102 (1.35)	-0.141*** (2.92)	-0.136** (2.38)	-0.136 (1.48)
Studying	-0.038 (1.19)	-0.098*** (2.61)	0.053 (0.91)	-0.058 (1.49)	-0.082* (1.76)	-0.002 (0.03)
Number of persons in the household	0.024*** (5.15)	0.026*** (4.64)	0.021*** (2.58)	0.022*** (3.91)	0.026*** (3.70)	0.019** (1.97)
<i>Donor's characteristics</i>						
Female	-0.104*** (6.24)	-0.119*** (5.99)	-0.064** (2.15)	-0.086*** (4.24)	-0.082*** (3.34)	-0.056 (1.55)
Age	-0.003*** (3.14)	-0.004*** (4.13)	0.001 (0.63)	-0.002* (1.93)	-0.003*** (2.75)	0.003 (1.40)
Duration of migration	-0.002 (1.64)	-0.002 (1.59)	0.001 (0.15)	-0.001 (0.89)	-0.001 (0.75)	-0.004 (0.69)
Education						
Complete primary	-0.016 (0.31)	-0.071 (1.13)	0.059 (0.70)	-0.001 (0.02)	-0.036 (0.46)	0.005 (0.05)
Incomplete high school	-0.061 (1.31)	-0.111* (1.91)	0.024 (0.31)	0.026 (0.46)	-0.034 (0.47)	0.094 (1.00)
Complete high school	-0.074 (1.64)	-0.154*** (2.78)	0.053 (0.69)	-0.012 (0.22)	-0.090 (1.31)	0.129 (1.39)
Superior	-0.058 (1.23)	-0.124** (2.17)	0.040 (0.49)	0.009 (0.16)	-0.041 (0.58)	0.125 (1.24)
Working	0.185*** (6.00)	0.168*** (4.69)	0.196*** (3.29)	0.158*** (4.21)	0.121*** (2.73)	0.186*** (2.60)
Location: United States	-0.428*** (24.14)			-0.466*** (21.58)		
Number of observations	15645	10091	5554	15645	10091	5554

Source: SBREIC, Colombia 2004.

Note: OLS and quantile (50<sup>th</sup> percentile) regressions, with absolute value of t statistics in parentheses. Significance levels are respectively 1% (\*\*\*), 5% (\*\*) and 10% (\*). The different regressions also include a set of dummies related to the frequency of receipt.

**Table 3. Decomposition of the US-Spain log remittances gap**

Decomposition	Difference in characteristics	Difference in coefficients	Total difference US – Spain
<i>Blinder-Oaxaca decomposition</i>			
Non-discriminatory structure: US	-0.0381 (0.0214)	-0.4362 (0.0266)	-0.4744 (0.0171)
Non-discriminatory structure: Spain	-0.0471 (0.0088)	-0.4272 (0.0187)	-0.4744 (0.0171)
Non-discriminatory structure: pooled	-0.0426 (0.0118)	-0.4317 (0.0200)	-0.4744 (0.0171)
<i>Machado-Mata quantile decomposition</i>			
Percentile 10	0.0245 (0.0064)	-0.2835 (0.0124)	-0.2589 (0.0167)
Percentile 25	-0.0284 (0.0064)	-0.3531 (0.0152)	-0.3816 (0.0102)
Percentile 50	-0.0649 (0.0127)	-0.5289 (0.0120)	-0.5939 (0.0135)
Percentile 75	-0.0612 (0.0087)	-0.5086 (0.0209)	-0.5217 (0.0186)
Percentile 90	-0.0221 (0.0244)	-0.4995 (0.0258)	-0.5699 (0.0090)

Source: SBREIC, Colombia 2004.

Note: Bootstrapped standard errors are in parentheses, with 30 replications.