

Improving transfer of migrant remittances

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Millions of people work abroad as maids, construction workers and other low-wage laborers. The money they send back home is essential to their families, helping them start businesses, send children to school and buy homes.

The impact of the cash—or remittances—is well understood. But little is known about how to make the funds work better.

This led Dean Yang, an associate professor of [public policy](#) and economics at the University of Michigan, to survey Filipino migrants about how they want their remittances to be used back home.

The findings surprised Yang and colleagues. They showed that including a simple label instructing [family members](#) on how to use the money—on education, for example—can have a big impact on the remittance behavior of the migrants. The results are significant as several companies are launching products in South Asia and Latin America for migrants to remit directly to schools.

For the study, Yang worked with the Bank of the Philippine Islands to design a product called EduPay. It was designed with a grant from the U.S. Agency for International Development and allows the migrants to send their money directly to schools in the Philippines.

Yang then tested the product with Filipino migrants in Italy, who remit about \$500 million to the Philippines each year. The Philippines is one of the top recipients of remittances, behind China and India, with Filipinos sending about \$26 billion back home in 2013.



A Filipino migrant completes an interview in Italy. Credit: Majlinda Joxhe

"Nearly half of these remittances are for educational purposes," said Yang, whose research was published in *Journal of Economic Behavior & Organization*.

Yang and colleagues told the migrants that their choices would be shared with their families in Philippines. The researchers explored the options with the migrants in two ways.

First, they tested giving migrants control over how their remittances are

used. The migrants were able to specify how much was to be spent for education. When the money was sent back home, it would arrive with a document with instructions on how much to allocate for school expenses.

Second, Edupay was offered to the [migrants](#), who were asked if they were interested in signing up. Edupay enables workers to directly pay the schools in the Philippines.

The findings defied expectations, the researchers said. They found that when money was sent home with instructions on how to use it, there was a 15 percent increase in the remittances. But those who signed up for EduPay to pay the schools directly only increased the amount they spent on education by 2.2 percent.

Why did a label work over a product? Cultural attitudes and respect for family could be one reason, the researchers say.

Yang says that recipients might not want to be told what to do with the funds, or might be offended by an implication that they wouldn't put the funds to good use or couldn't decide for themselves how to best use the money.

"Labeling done through our research project offloads some of the awkwardness. It is also much easier to do than set up a whole new mechanism which might be more expensive," Yang said.

Another reason could be that the schools are slow to provide payment details for remittances, he says.

Yang and colleagues say the challenge for policymakers is to identify how to implement these simple interventions most effectively.

More information: "Directing remittances to education with soft and

hard commitments: Evidence from a lab-in-the-field experiment and new product take-up among Filipino migrants in Rome," *Journal of Economic Behavior & Organization*, Volume 111, March 2015, Pages 197-208, ISSN 0167-2681, [dx.doi.org/10.1016/j.jebo.2014.12.025](https://doi.org/10.1016/j.jebo.2014.12.025)

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