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Les transferts de fonds des migrants détériorent-ils la qualité des institutions dans les pays récepteurs? Les enseignements de l'Afrique subsaharienne.

Do migrant remittances deteriorate institutional quality in receiving countries? Evidence from Sub-Saharan Africa

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Résumé

Les transferts de fonds des migrants, qui représentent des sommes d'argent que les travailleurs migrants envoient dans leur pays d'origine, constituent la deuxième source de flux financiers internationaux dans les pays en développement. En tant que flux de ressources financières externes, ces transferts sont susceptibles d'influencer le comportement des gouvernements dans les pays bénéficiaires et ainsi affecter la qualité des institutions nationales. L'objectif de cette étude est d'analyser l'effet des transferts de fonds des migrants sur la qualité institutionnelle dans les pays d'Afrique subsaharienne sur la période 2004-2019 en utilisant différents indicateurs de la qualité des institutions. Les estimations faites avec la méthode des doubles moindres carrés DMC montrent que les transferts de fonds des migrants ont un effet positif sur le contrôle de la corruption tout en détériorant la stabilité politique dans ces pays. Cependant, il ressort que ces flux financiers n'ont pas d'effet significatif sur l'efficacité des pouvoirs publics, l'état de droit, la voix citoyenne et responsabilité, et la qualité de la règlementation dans les pays d'ASS sur la période d'étude. Il est donc nécessaire de mettre en place des politiques économiques et de gouvernance qui soutiennent un bon climat d'investissement, la sécurité du secteur financier et la qualité des services publics, permettant une utilisation productive de ces flux financiers.

Mots clés : Transferts de fonds des migrants, qualité des institutions, ASS

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Abstract

Remittances, which represent money migrant workers send back home, are the second largest source of international financial flows in developing countries. As flows of external financial resources, these transfers are likely to influence the behavior of governments in recipient countries, and thus affect the quality of national institutions. The objective of this study is to analyze the effect of migrant remittances on institutional quality in SSA countries over the period 2004-2019 using different indicators of institutional quality. Estimates using double least squares 2SLS method show that migrant remittances have a positive effect on corruption control while deteriorating political stability in these countries. However, it appears that these financial flows have no significant effect on the government effectiveness, the rule of law, citizen voice and accountability, and the regulatory quality in SSA countries over the period of study. It is therefore necessary to establish economic and governance policies that support a good investment climate, financial sector security and the quality of public services, enabling a productive use of these financial flows.

Keywords : Migrants remittances, institutional quality, SSA

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Introduction

Remittances from migrant workers are one of the sources of external financing that have seen remarkable growth worldwide in recent decades. These remittances, which are funds sent by migrants to their relatives in their home countries, reached 601 billion US dollars in 2015, a large part of these remittances was sent for developing countries. According to the World Bank, remittances are now the second largest source of external financing for developing countries, after foreign direct investment. They are also more stable and resilient than other financial flows. It is not surprising, then, that these financial flows have attracted the interest of researchers seeking to determine the impact of these resources on the recipient economies.

At household level, remittances enable recipients to cope with shocks, to invest in physical and human capital (education and health), and to reduce poverty and inequality (Acosta, Calderón, Fajnzylber, & Lopez, 2008; Bansak & Chezum, 2009; Cox Edwards & Ureta, 2003; Yang, 2008; Gupta, Pattillo, & Wagh, 2009). At a macroeconomic level, these flows improve investment levels, financial sector development, and hence economic growth (Aggarwal, Demirguc-Kunt, & Martinez Peria, 2006; Bugamelli & Paternò, 2005; Fayissa & Nsiah, 2008; Hakura, Chami, & Montiel, 2014; Pelletier & Rocher, 2008). However, for some authors, remittances sent by migrants to their countries of origin are a brake on their development. They can cause exchange rate appreciation, Dutch disease, and a reduction in the labor supply of recipient households (Acosta, Lartey, & Mandelman, 2009; Acosta, Rae Baerg, & Mandelman, 2009; Gapen, Chami, Montiel, Barajas, & Fullenkamp, 2009b), all of which are detrimental to economic growth in these countries.

As a result, most studies attempting to analyze the impact of remittances have focused on how they affect economic growth, the financial sector, poverty, inequality, and, consequently, household welfare. A more recent literature is increasingly interested in the impact that migrant remittances are likely to have on government behavior, economic policies, and political or economic governance in receiving countries. The literature is divided on this issue. For some authors, remittances deteriorate institutional quality, by reducing households' incentives to political participation and to hold governments accountable (Abdih, Chami, Dagher, & Montiel, 2008; Ahmed, 2010; Ebeke, 2012; etc.). Authors such as Dionne, Inman, & Montinola (2014), Pfutze (2007) and Tusalem (2018) believe, on the other hand, that these resources improve government efficiency and the functioning of political institutions by removing obstacles to citizen participation.

Regarding institutional quality indicators from the Word Bank's World Governance Indicators (WGI), data shows that the state of governance in sub-Saharan Africa is not brilliant. Over the

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period 2004-2019, the six governance indicators show negative averages on a scale ranging from -2.5 to 2.5 for all the countries studied with the lowest scores of -0.71 for government efficiency and -0.62 for corruption control.

This state of weak institutional quality and increasing migrant remittances in SSA countries raises the following question: What is the effect of migrant remittances on institutional quality in SSA countries? The aim of this study is to determine the effect of migrant remittances on governance in SSA countries. Using the double least squares (2SLS) method, this article analyzes the effect of migrant remittances on institutional quality in SSA countries. This research contributes to the literature on the link between migrant remittances and institutional quality in developing countries by focusing SSA. The main hypothesis of this research is that migrant remittances, through the income effect, reduces institutional quality of SSA countries.

The rest of this article is organized as follows. First, we present a summary of the literature, then the methodology, followed by the results and their interpretation, and finally the conclusion.

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1. Literature review on remittances and institutional quality

Studies analyzing the impact of migrant remittances on governance focus mainly on corruption, democracy and citizen participation. Opinions remain divided. Some believe that remittances help improve the quality of governance, while for others, it is the opposite effect that is prioritized.

Through a theoretical formalization, Abdih et al. (2008) show that access to remittances makes government corruption less costly for households, and therefore tends to increase government corruption. The link between remittances and corruption is channeled through the reduction of social goods such as healthcare and social spending. The influx of remittances empowers the government to engage in corruption by substituting funds for the provision of public goods to finance government patronage. Consequently, household access to remittances can negatively influence public spending on education and health in developing countries. In addition, access to remittance income reduces the cost to households of reducing government subsidies, which bad governments may use to divert resources. To test their theory, Abdih et al. (2008) use cross-sectional data for 111 countries over the period 1990-2000. Instrumental and the OLS method are used to address the endogeneity of remittances. The empirical results also confirm that remittances have a positive effect on the level of corruption. Remittances entail a moral hazard problem between government and households.

In line with Abdih et al. (2008), Ahmed (2012) finds that transfers empower the government to engage in corruption by substituting funds for the provision of public goods in the design of financing government patronage. He empirically tests this hypothesis with data from 16 non-oil-producing Muslim countries. To address the endogeneity issue, he uses oil price crossed with distance to Mecca as the instrument for remittances. The empirical results confirm that remittances favor corruption. However, Tyburski (2014) argues that the effect of remittances on corruption depends on the type of political regime. In authoritarian regimes, remittances tend to favor corruption, as governments perceive them as a means of increasing political patronage. The opposite effect is observed in democratic regimes, which require broad coalitions while reducing participation costs. Empirical analyses of panel data from 127 developing countries between 2000 and 2010 confirm this hypothesis.

Remittances are likely to have an impact on democratic institutions through citizen participation. Pfutze (2007) attests that international migration, through remittances sent by migrants to their relatives, played an important role in the democratization process in Mexico in the 2000s. He developed a theoretical model showing that remittances, as additional tax-free income, are likely to prevent government authorities from distributing public funds in exchange

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for votes during elections in order to retain power. Using data from Mexican municipal elections in 2000, the author confirms this theory.

According to Germano (2013), remittance recipients generally have fewer economic grievances and tend to be more optimistic about their financial situation and the state of the national economy. Remittances act as a buffer between the households that receive them and the economic conditions in their countries. They thus reduce the link between government performance and household well-being, diminishing incentives for political participation. For Abdih et al. (2008) access to these resources also reduces households' incentives to hold governments accountable.

Dionne et al. (2014) explain that the effect of remittances on citizen participation can be ambiguous. This is because citizen participation can manifest itself in several ways: voting, participating in demonstrations and making contact with government officials. Remittances may therefore have a different effect on each of these forms of participation, depending on households' cost-benefit calculations, making the overall effect uncertain. However, the income effect suggests that these additional resources encourage participation. The authors use data from Series 4 of the Afrobarometer, a cross-national opinion survey. This series, comprising data from 27,713 people in twenty (20)[1] African countries, was conducted between 2008 and 2009. The results show that remittances have a negative influence on the probability of voting. Households receiving remittances are 17% less likely to vote than non-recipient households. When it comes to contacting government representatives to discuss problems or share views, these financial flows have a positive effect on this form of participation. They increase the probability of political contact by 15%. Remittances recipients are more likely to take part in protest demonstrations than non-recipients.

Attila, Bangaké, Eggoh, & Semedo (2018) also examined the effect of migrant remittances on institutional quality using different institutional quality variables on a large panel of 102 countries over the period 1990-2015. The results obtained using fixed-effects regressions and the instrumental variables method suggest that remittances deteriorate the quality of institutions in recipient countries. In particular, non-compliance with laws and procedures, government instability, poor perception of investor profile, and increased political risk are negatively associated with migrant remittances.

Regarding Sub-Saharan Africa, Williams (2017) analyzed the effect of remittances on democratic institutions in 45 SSA countries over the period 1975-2014. Using a 5-year panel

[1] Benin, Botswana, Burkina Faso, Cape Verde, Ghana, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mozambique, Namibia, Nigeria, Senegal, Tanzania, Uganda, Zambia and Zimbabwe.

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data and GMM method, the author found that remittances are positively associated with democratic institutions. Furthermore, remittances improve democratic institutions by increasing schooling and reducing poverty.

Empirical literature on the effects of remittances on institutional quality is not conclusive, showing country specificities. Unfortunately, few studies have been undertaken on the case of African countries. The present research attempts to address this shortcoming.

2. Methodology

This section presents the econometric model specification, variables and data description and estimation method.

2.1. Empirical model specification

The theoretical basis of our empirical strategy derives from the new institutional economics developed by Coase (1960), North (1981), (Williamson, 2000), etc., who consider that institutions emerge when the social benefits they generate are greater than the costs they incur. To assess the effect of migrant remittances on the quality of institutions in SSA countries, the model used was inspired by the work of Abdih et al. (2008) and Ahmed (2012). Thus, the theoretical analysis function is defined as follows:

$$Inst = f(Rem, X) \quad (1)$$

Equation (1) shows that institutional quality (Inst) is a function of migrant remittances (Rem) and a set of control variables (X).

Specifying the theoretical model described above as a panel, the empirical equation to be estimated is as follows:

$$Inst_{it} = \alpha_0 + \alpha_1 Rem_{it} + \alpha_2 GDPC_{it} + \alpha_3 ODAx_{it} + \alpha_4 Debtx_{it} + \alpha_5 HC_{it} + \varepsilon_{it} \quad (2)$$

with $Inst_{it}$ the institutional quality indicators, Rem_{it} migrant remittances, $GDPC_{it}$ gross domestic product per capita, ODA_{it} official development assistance, $Debt_{it}$ debt service, HC_{it} human capital. α_0 the constant; α , α_{12} , α_3 , α_4 , α_5 the respective coefficients of the equation's explanatory variables; ε_{it} , the error terms.

2.2. Variables and data sources

Institutional quality (Inst)**:** We successively use the six governance indicators from the World Bank's WGI database (2021) constructed by Kraay et al. (2010). These are: (i) corruption control (contcor), (ii) government effectiveness (goveff); (iii) regulatory quality (regqual); (iv) citizen voice and accountability (voicaccount); (v) rule of law (rulelaw) and; (vi) political stability and absence of violence (polstab).

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Migrant Remittances (Rem): measured by the logarithm of per capita migrant remittances received in current US dollars.

Per capita income (GDPC): represented by the logarithm of Gross Domestic Product per capita. This variable is introduced to control the effect of the level of development on governance. It is assumed to have a positive link with governance, as it is based on the idea that rich countries tend to demand better institutions (Alonso, Garcimartin et Kvedaras, 2020).

Official Development Assistance (ODA): expressed as percentage of GDP and represented by disbursements of loans on concessional terms (excluding capital repayments) and grants from official agencies in Development Assistance Committee (DAC) member countries, by multilateral institutions and by non-DAC member countries. Aid may promote institutional quality through greater availability of financial resources and technical assistance from official creditors (Knack, 2001).

Debt service (Debt): government funding constraints are assumed to have a negative effect on governance (Ali & Isse, 2003).

Human capital (HC): represented by the logarithm of Penn World Trade's Human Capital Index 9.1. This index is based on the average number of years of education and an estimated rate of return to education. Human capital is assumed to have a positive effect on governance as better educated population tends to be more demanding regarding the quality of the institutional framework (Alonso, Garcimartin et Kvedaras, 2020).

The data used to analyze the effect of remittances on governance are annual panel data covering the period 2004-2019 and concern twenty-eight (28) SSA The choice of this period is justified by the availability of data on governance and human capital index. Data on governance comes from The World Bank World Governance Indicators (Word Governance Indicators, 2021). The human capital index comes from Penn World Trade 9.1. The rest of the data comes from the World Bank's World Development Indicators database.

2.3. Estimation method

As the data time horizon is 16 years, less than 20, it is not necessary to perform stationarity tests (Hurlin & Mignon, 2006). In the presence of endogeneity, OLS and GLS estimators may be biased. The literature review confirms the potential endogeneity of migrant remittances.

Indeed, remittances can be endogenous to the quality of institutions in migrants' countries of origin. This endogeneity between remittances and institutional quality can be explained at three (3) levels. Firstly, there may be an inverse causality between institutional quality and remittances. An individual's decision to migrate and subsequently send remittances may be motivated by dysfunctional institutions in the country of origin. Conversely, remittances affect

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the quality of institutions by relaxing budgetary constraints, and making households less committed to controlling the quality of institutions. Secondly, measurement error is another source of endogeneity. Official figures on remittances only take into account transfers made through formal channels. Remittances in kind, unofficial transfers by relatives or informal means, friends and family members are not recorded. Finally, the existence of common factors affecting both remittances and institutional quality is a source of endogeneity.

Estimation using the instrumental variables method is therefore more appropriate for correcting this endogeneity. We use the 2SLS method, which consists in finding variables that are highly correlated with the endogenous explanatory variables, but independent of the error terms. We take the lagged values of remittances as instruments. Instruments should be correlated with the endogenous regressors, and they should be orthogonal to any other omitted characteristics and not correlated with the error terms in the equation. The Kleibergen-Paap rk LM is significant at 1%. For this reason, the null hypothesis that the first stage is under-identified can be rejected, so the instruments are correct (see table 2).

3. Empirical results

This section presents the summary statistics and stylized facts and results of estimations.

3.1. Summary Statistics

Table 1 below summarizes some descriptive statistics of the variables used in the model. All governance indicators are negative in average, meaning that SSA countries does not perform well on institutional quality, especially on government efficiency, corruption control and rule of law.

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Table N°1 : Summary Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
contcor	448	-0.6293904	0.5627821	-1.546055	1.160793
polstab	448	-0.5862858	0.8822122	-2.665278	1.111055
rulelaw	448	-0.6197889	0.5631474	-1.798251	1.023956
voicaccount	448	-0.4780067	0.6850713	-1.851002	0.9396508
goveff	448	-0.7110922	0.5583704	-1.734748	1.150494
regqual	448	-0.5553196	0.5490677	-1.66968	1.196947
Rem	440	2.620648	1.782016	-6.503711	5.77373
Debt	445	6.00627	8.210229	0.2539377	134.722
GDPC	448	7.031849	0.9561537	4.856228	9.3625
ODA	448	3.768927	0.6769494	-0.4302996	5.961348
HC	448	0.5368669	0.2474678	0.1017613	1.078007

Source: Authors based on WDI, WGI and Penn World Trade

Table 3 in annex below shows the correlation matrix of the variables. The table shows that remittances are significantly correlated with all of the governance indicators. The correlation is negative for government efficiency and regulatory quality while positive for control of corruption, political stability and absence of violence, rule of law and voice and accountability.

3.2. Results and discussion

The results of estimates are shown in Table 2. In this model, we estimated the effect of remittances on governance indicators using 2SLS method. Before interpreting the results of the empirical analysis, it is important to verify the adequacy of the model. The Fisher test is used to assess the adequacy of the model by testing the hypothesis that the estimated coefficients are simultaneously null. The results of these tests show, as the tables indicate, that the p-values associated with their statistics are less than 1% for most of the estimations, less than 5% for all of them. The null hypothesis of joint nullity of the coefficients is rejected, indicating that the parameters are not jointly null. Therefore, the estimates can be interpreted.

The results show that among the six indicators of institutional quality, only corruption control, and political stability and absence of violence are significantly influenced by migrant remittances. Remittances have a positive effect on corruption control, rejecting our hypothesis of enhancing corruption. This result corroborates the work of Tyburski (2012) who found that

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corruption followed a downward trend in recipient states, using data from Mexico over the period 2001-2007. The author argued that remittances reduce corruption by increasing government accountability and enabling recipients to put pressure on the government to undertake reforms. This result is contradictory with those of Abdih et al. (2008) who reached the same conclusion by studying the effect of remittances on corruption using cross-sectional data from 111 developing countries. Ahmed (2012) also found a similar result for non-oil-producing Muslim countries. They also contrast with the findings of Attila et al.., (2018) who showed that remittances contribute to the deterioration of institutional quality, notably through increased corruption. Political Stability and Absence of Violence index which measures perceptions of the likelihood of political instability and/or politically- motivated violence, is negatively influenced by remittances, meaning that increased remittances flows increase political instability. For Dionne et al. (2014), remittances recipients are more likely to take part in protest demonstrations than non-recipients.

Regarding control variables, the coefficient associated with GDP per capita is positive and significant in almost all equations, suggesting an improvement in institutional quality as GDP per capita increases (Treisman, 2007). Official development assistance has a positive effect on institutional quality. Human capital has a positive effect on institutional quality, which is in line with expectations while debt has a negative one.

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Table N°2: Estimations results

Variables	(1) corruption control	(2) political stability	(3) rule of law	(4) voice accountability	(5) government effectiveness	(6) regulatory quality
Rem	0.0340**	-0.066***	0.0117	-0.00389	-0.0596	-0.0747*
	(0.0140)	(0.0254)	(0.0166)	(0.0189)	(0.0386)	(0.0411)
Debt	-0.00187	-0.00606	0.00423	-0.0113**	-0.0277**	-0.0232
	(0.00412)	(0.00822)	(0.00363)	(0.00486)	(0.0134)	(0.0154)
GDPC	0.242***	0.290***	0.229***	0.119**	0.0998	0.173***
	(0.0332)	(0.0547)	(0.0354)	(0.0483)	(0.0610)	(0.0665)
ODA	0.282***	0.456***	0.265***	0.205***	0.137**	0.107
	(0.0417)	(0.0727)	(0.0417)	(0.0496)	(0.0647)	(0.0685)
HC	0.339***	0.818***	0.591***	0.850***	0.00406	-0.324
	(0.120)	(0.205)	(0.108)	(0.159)	(0.189)	(0.210)
Constant	-3.674***	-4.611***	-3.61***	-2.471***	-1.740***	-1.833***
	(0.283)	(0.460)	(0.305)	(0.398)	(0.559)	(0.597)
Observations	383	383	383	383	175	175
Number of countries	28	28	28	28	28	28
R-squared	0.374	0.297	0.412	0.237	0.094	0.087
F-statistic	37.47***	43.05***	44.41***	26.72***	3.27***	2.99**
Kleibergen-paap rk LM Statistic p-value	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

*Notes: Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1.*

Source: Authors based on regression results

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Conclusion

Remittances, which represent money migrant workers send back home, have grown considerably over the past decades. They are the second largest source of international financial flows in developing countries. As flows of external financial resources, these transfers are likely to influence the behavior of governments in recipient countries, and thus affect the quality of national institutions. In this study, we examined the effect of migrant remittances on institutional quality in developing countries; more specifically in 28 SSA countries during the period, 2004-2019.The Two Stage Least Squares (2SLS) method is used to address the endogeneity of migrant remittances. The main hypothesis of this research is that migrant remittances, through the income effect, reduces institutional quality of SSA countries.

The results show that remittances have a positive effect on corruption control but increase political instability. It also appears that remittances have no significant effect on the government effectiveness, the rule of law, citizen voice and accountability, and the regulatory quality. Regarding the negative effect of remittances on political stability in SSA, it is important that these countries make sound use of the foreign currency received by their populations as part of these financial flows, so that they contribute to economic growth. Sound governance policies determine the impact of remittances on growth (Catrinescu et al., 2009). A healthy institutional environment is the best way to benefit from remittances. This means establishing economic and governance policies that support a good investment climate, financial sector security and the quality of public services.

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ANNEXES

Annex N°1: List of countries

Angola
Benin
Botswana
Burkina Faso
Burundi
Cameroon
Congo, Dem. Rep.
Congo, Rep.
Cote d'Ivoire
Eswatini
Ethiopia
Gambia, The
Ghana
Kenya
Lesotho
Madagascar
Mali
Mauritius
Mozambique
Niger
Nigeria
Senegal
Sierra Leone
South Africa
Sudan
Togo
Uganda
Zambia

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Annex N°2: Correlation matrix

Table N°3: Correlation between variables

	contcor	polstab	rulelaw	voicaccount	goveff	regqual	Rem	Debt	GDPC	ODA	HC
contcor	1.00***										
polstab	0.70***	1.00***									
rulelaw	0.88***	0.73***	1.00***								
voicaccount	0.73***	0.66***	0.80***	1.00***							
goveff	0.12*	0.24***	0.26***	0.03	1.00***						
regqual	0.06	0.19***	0.16**	-0.01	0.92***	1.00***					
Rem	0.25***	0.07	0.21***	0.14***	-0.13**	-0.14**	1.00***				
Debt	-0.16***	-0.17***	-0.16***	-0.17***	-0.19***	-0.15**	-0.35***	1.00***			
GDPC	0.44***	0.38***	0.47***	0.33***	0.10	0.11	0.20***	-0.22***	1.00***		
ODA	0.25***	0.24***	0.23***	0.17***	0.13**	0.13*	0.15***	-0.09*	-0.18***	1.00***	
HC	0.42***	0.37***	0.49***	0.41***	0.09	0.02	0.19***	-0.17***	0.65***	-0.05	1.00***

*** *and* * *mean significant correlation at 1% and 10 % level respectively.*

Source: Authors based on data