

# Remittances & Corruption

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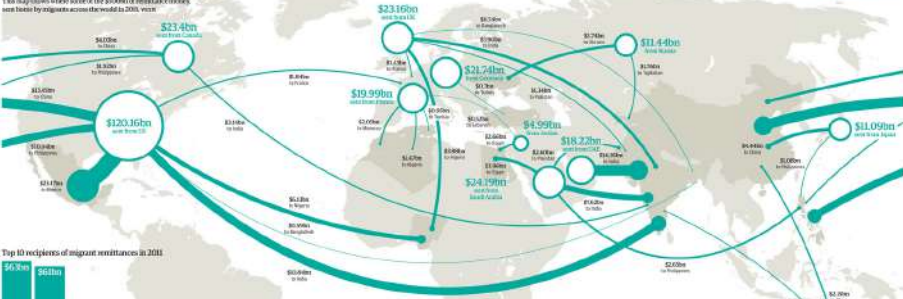
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# Motivation: Importance of Financial Remittances

## Where the money goes

This map shows where some of the \$100bn of remittances sent from the origin points across the world in 2011, via

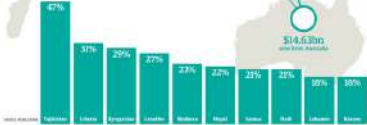
theguardian



Top 10 recipients of migrant remittances in 2011



Top 10 recipients of migrant remittances as a share of GDP



# Political Consequences of Remittances

- Development economists have highlighted the role of remittances in reducing poverty, illiteracy, and improving access to education and public goods & debate on growth.
- Yet, we know much less about the political effects of remittances on the countries or individuals that receive them.
- Existing work mostly at the macro-level, such as accountability, survival of autocratic regimes, government expenditures & citizenship requirements, only handful studies at micro level.
- One of key debates about relationship between remittances & corruption.

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# Remittances & Corruption

- Macro-level evidence has produced conflicting findings:
  - ① *Remittances decrease corruption*: They bolster resources of recipients enabling them to hold governments increasingly accountable, which encourages governments to reduce corruption to harness the extra capital for economic growth (Tyburksi 2012, Pfutze 2014).
  - ② *Remittances increase corruption*: They act as buffers so provide governments (particularly autocratic) with leeway to reduce social spending which they can embezzle or use for patronage (Abdih et al. 2008; Ahmed 2013).
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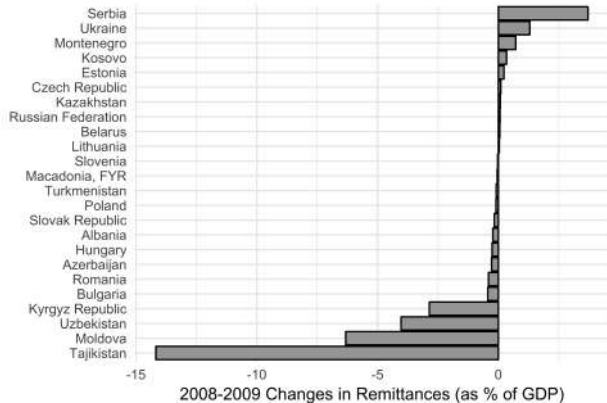
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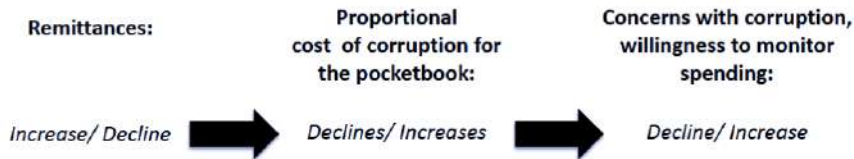
## Our Contribution: Fluctuations in Remittances

Remittances are dynamic, these fluctuations can both in- & decrease corruption concerns among recipients.



# Our Argument

Increasing remittances alleviate fiscal pressure of pocketbook corruption, smaller proportion of disposal income necessary everyday 'greasing the wheels' (*corruption tax*), so corruption concerns & willingness to monitor decrease, and *vice versa*.



# Empirical Approach

- Panel data from Kyrgyzstan (4 waves: 2010-2013) to estimate effect of fluctuations in remittances on changes in corruption concerns & in 2013 willingness to monitor corruption.
- Within-subject design of remittance recipients only in order to address concerns regarding unobserved differences between households receiving remittances vs. not.
- Panel data estimation (with household & year FE) as well as instrumental variable approach & matching analyses as robustness checks.

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# Case Selection





# Why Kyrgyzstan?

- Kyrgyzstan is third most remittance-dependent economy in the world & no government policies in place to control inflow.
- Unique panel data allowing us to track how changes in remittances, as a proportion of household income, affect corruption attitudes. To the best of our knowledge, first study to do this.
- Case selection broadens geographical scope of existing research concerned with the political effects of remittances, beyond Latin America.
- Kyrgyz case less likely that effect of financial remittances is confounded by the receipt of social remittances as 95 per cent of migrants go to Russia, also authoritarian regime with high levels of petty corruption.

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# Measuring Fluctuations in Remittances

We rely on three different measures:

- ① Changes in the amount of remitted income received between survey waves
- ② Changes in a Remittance Index that combines information about both the amount and regularity of remittances
- ③ Changes in the amount of remitted income received between survey waves conditional on the overall household income

# Remittance Fluctuations & Change Pocketbook Concerns

DV: how worried respondents are about household financial situation [0 not worried; 10 very worried],  $t-(t-1)$

	Change in Pocketbook Concerns $t-(t-1)$		
	Model (1)	Model (2)	Model (3)
Change in Amount of Remittances $t-(t-1)$	-0.196*** (0.046)		
Change in Remittances Index $t-(t-1)$		-0.187*** (0.053)	
Change in Remittances Ratio $t-(t-1)$			-0.250*** (0.063)
Constant	-3.407 (2.553)	-3.328 (2.560)	-3.417 (2.562)
Fixed Effects			
<i>Household</i>	✓	✓	✓
<i>Survey Wave</i>	✓	✓	✓
Observations (Individuals	1,333	1,320	1,320
Groups)	886	884	884
R2 Between	0.65	0.64	0.65

# Remittance Fluctuations & Change Corruption Concerns

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	Change in Corruption Concerns $t-(t-1)$		
	Model (1)	Model (2)	Model (3)
Change in Amount of Remittances $t-(t-1)$	-0.117* (0.070)		
Change in Remittances Index $t-(t-1)$		-0.110** (0.057)	
Change in Remittances Ratio $t-(t-1)$			-0.263*** (0.096)
Constant	-2.478 (2.485)	-2.460 (2.484)	-2.483 (2.443)
Fixed Effects			
<i>Household</i>	✓	✓	✓
<i>Survey Wave</i>	✓	✓	✓
Observations (Individuals	1,214	1,214	1,204
Groups)	815	815	813
R2 Between	0.75	0.75	0.75

# Remittance Fluctuations & Willingness to Monitor

DVs: 1) degree people care about how local officials spend their tax money; 2) degree to which people are informed about local budget.

	Interest in Local Spending			Local Budget Information		
	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)	Model (6)
Change in Amount of Remittances $_{t-(t-1)}$	-1.579* (0.905)			-1.517** (0.691)		
Change in Remittances Index $_{t-(t-1)}$		-0.408* (0.234)			-0.392** (0.179)	
Change in Remittances Ratio $_{t-(t-1)}$			-1.332* (0.732)			-1.247** (0.571)
Constant	-0.930 (2.360)	2.298* (1.312)	1.162 (2.376)	-2.350 (1.800)	0.757 (1.001)	-2.452 (1.856)
Fixed Effects						
<i>Household</i>	✓	✓	✓	✓	✓	✓
<i>Survey Wave</i>	✓	✓	✓	✓	✓	✓
Observations	381	381	381	371	381	371
R2	0.67	0.69	0.67	0.70	0.70	0.70



# Why Is This Important?

- Contribution to ongoing scholarship on remittances & relationship with corruption:
  - 1 Present a novel micro-level mechanism connecting remittances & corruption that is rooted in pocketbook evaluations among remittance recipients.
  - 2 Taking into account dynamics of remittance flows, we can understand why remittances may be associated with both in- & decreases in corruption.

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- Contribution to corruption literature:

- 1 Add to existing work on corruption attitudes among voters that stresses importance of pocketbook concerns. We highlight role of money received from abroad.
- 2 Given the fact that remittances have now become major source of capital for many developing world economies & we show they shape corruption attitudes, fluctuations might have serious implications for electoral outcomes in recipient countries & freedom that politicians have to pursue nefarious income, thereby further entrenching corrupt behavior (corruption trap).

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