



# Do remittances improve political institutions? Evidence from Sub-Saharan Africa

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## ABSTRACT

Do remittances represent a significant positive determinant of democratic institutions in Sub-Saharan Africa? In this paper, we estimate the effect that remittances have on democratic institutions in Sub-Saharan Africa over the period 1975–2014. Using a 5-year non-overlapping panel sample and controlling for country and time fixed effects, we find that remittances are positively associated with democratic institutions. Our baseline system-GMM estimates indicate that a one standard deviation increase in remittance flows improves democratic institutions by around 0.32 standard deviations. Furthermore, we find that remittances improve democratic institutions by increasing schooling and reducing poverty.

## 1. Introduction

The stable, large, and permanent flow of international remittances have become one of the most important sources of foreign exchange and household income for many developing and emerging economies, including Sub-Saharan Africa (SSA). Total official flows of remittances was US\$592.9 billion in 2014, of which developing and emerging economies received US\$431.1 billion (Ratha et al., 2016). Though SSA countries received the lowest share of global remittances (US\$34.5 billion in 2014) compared to other developing countries, relative to GDP remittances play a central role in SSA economies.

Based on the most recent information available, in 2014 the SSA region remittance inflows as a share of GDP were 2.25%, 0.45% for East Asia and the Pacific, 1.14% for Latin America and the Caribbean, 1.77% for the Middle East and North Africa, and 4.46% for South Asia (World Bank, 2016a, 2006b). Further, in the SSA region, the Gambia, Lesotho, Liberia, and Comoros remittances share of GDP were 20% in 2013 and remittances finance 31% of Nigeria's imports in 2013 (Ratha et al., 2015). Also, real remittance per capita has risen rapidly in SSA (Fig. 1). Fig. 1 also illustrates that democracy<sup>1</sup> has tracked remittance inflows in SSA.

A natural question to consider, therefore, is whether and how remittances affect political institutions in SSA. In this paper, we tackle this question by studying the effect that remittance flows have on democratic institutions in the SSA region. Addressing this question is important because economic performance in SSA has been poor over the past half century (Arezki and Brückner, 2012), though growth has

improved since 2000 (Rodrik, 2014), and democratic institutions can promote economic growth (Acemoglu et al., 2015; Papaioannou and Siourounis, 2008).

Moreover, “Africa has supplied far more than its share of violent political conflict” (Bates et al., 2006). However, democracy can be a force of stabilization for SSA since democracy aggregates the views of contesting parties efficiently. Thus by allowing contesting parties to channel their views and grievances through non-violent means, democracy is less likely to be affected by political shocks associated with non-democracy where dissent and oppositions are not tolerated, for example Syria, Iran and Egypt (Acemoglu and Robinson, 2012). Democracy is also a universal value that all countries should seek to achieve (Sen, 1999). Thus, identifying the causes of democratic institutions in SSA is of key importance both for development agencies whose goal is to consolidate democratic institutions in new democracies and policymakers who aspire to achieve economic prosperity in SSA.

This paper is linked to the emerging literature on the determinants of support for democracy in Africa (Evans and Rose, 2007a; Evans and Rose, 2007b; MacCauley and Gyimah-Boadi, 2009). Closely related to this literature are studies that explore the gender gap in support of democracy in SSA (García-Peñalosa and Konte, 2014; Konte, 2014).

Following Lipset (1959), Evans and Rose (2007a) document in a cross-country analysis that support for democracy in SSA is conditioned by education through its effect on knowledge of politics, even when provided at elementary levels in a non-democratic environment (Evans and Rose, 2007b). MacCauley and Gyimah-Boadi (2009)

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<sup>1</sup> Throughout this paper, we use the words “democracy” and “democratic institutions” interchangeably. Our main measure of democracy is the Polity index score described in detail in Section 3.

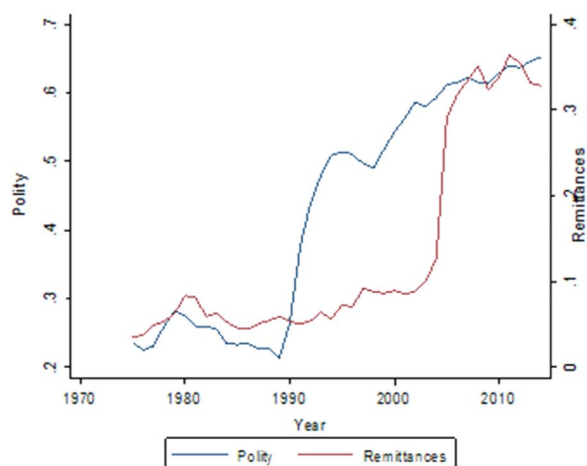


Fig. 1. Evolution of cross-country average of Polity score and of remittances (constant US\$).

explore the relationship between religion and democracy in SSA. These authors find no significant effect from religion to support for democracy. Males are more likely than females to support democracy in SSA; however, in countries with high human development index, political rights, and social institutions that do not discriminate against women, the negative effect of being female on support for democracy is moderated (García-Peñalosa and Konte, 2014; Konte, 2014).

Though the above studies shed light on factors driving democracy in SSA, they surprisingly overlooked one potentially important dimension: the impact of remittances. Our first contribution in this article is an empirical analysis of the previously overlooked effect that remittances have on democratic institutions in SSA. In our second contribution, we explore the channels through which remittances affect democracy.

Remittances can affect democratic institutions in recipient countries in many ways. Recipients of remittances who depend on these foreign transfers to satisfy their daily needs have an incentive to “exit” domestic politics because their foreign incomes can offset the welfare loss associated with government corruption (Goodman and Hiskey, 2008). Consistent with this view, Abdi et al. (2012) and Berdiev et al. (2013) using a large cross-section of countries report that remittances increase corruption and thus weaken democratic institutions in recipient countries.

Conversely, because remittances are migrant-to-household transfers that cannot directly be expropriated by government, they reduce the link between the welfare of recipients and government support and by doing so reduce the utility of government patronage (Pfütze, 2012), which is often a strategy for maintaining power in developing countries, which in turn elevates “voice” in demanding greater accountability in government performance. Using information from Mexico, Tyburski (2012) shows that states that received larger remittance flows had less corruption and thus better quality democratic institutions. The evidence also points to a change in the relative strength of the state-society relationship in favour of society in Senegal as the economy becomes more dependent on migrant remittances (Dahou and Foucher, 2009).

Furthermore, given that remittances are an important feature of developing and emerging economies that governments use to finance their economic goals, theoretically, migrants and remittance recipients can use their foreign incomes to pressure governments to pursue political reforms through threats of withdrawals.<sup>2</sup> This strategy is also

used by development agencies to force developing countries to implement economic and political reforms. Additionally, to the extent remittance recipients and migrants invest in education (World Bank, 2016a, 2006b) and that education is a pre-requisite for support of democratic institutions (Lipset, 1959), through their effect on education, remittances can enhance democratic institutions in recipient countries.

Our paper is most closely related to Dionne et al. (2014). They use cross-country survey data for 20 SSA countries to investigate political participation of remittance recipients. They provide evidence that remittance recipients are less likely to participate in elections but more likely to engage in protests and to contact government officials. Our approach differs from that of Dionne et al. (2014) in several ways. First, we examine the impact of remittances on democratic institutions.<sup>3</sup> Second we construct a panel of 45 SSA countries over 1975–2014 and employ rigorous panel data techniques to address endogeneity between remittances and democratic institutions. Third, we use both cross-country and within-country variations to identify the effect that remittances have on democratic institutions. Finally, we also explore potential mechanisms mediating the relationship between remittances and democratic institutions. Our approach therefore allows us to systematically study the relationship between remittances and democratic institutions in SSA.

The rest of the paper is organized as follows. The next section discusses two strands of the literature that are related to our paper: the political consequences of remittances and the economic effects of remittances. Section 3 describes the econometric model and presents the data and descriptive statistics for the main variables used in our analysis. Section 4 presents the empirical results. Section 5 presents robustness checks. Section 6 explores potential mechanisms mediating the relationship between remittances and democratic institutions. Section 7 concludes.

## 2. Related literature

The relationship between remittances and democratic institutions is the subject of a growing literature in economics and political science. The literature identifies several channels through which remittances can potentially impact democratic institutions in countries of origin. Through the income channel, one group of studies argue that the additional resources from remittances bolster the income of recipient households and thus enable them to be less receptive to political influences. Empowered by higher income, remittance recipients are therefore able to allocate more time to monitor government performances and demand political reforms in order to improve democratic institutions. In Mexico, for example, remittances improve the ability of recipients to make government more accountable and more responsive to political pressure (Tyburski, 2012), leading to better governance institutions.

Party-based dictatorships rely on the distribution of patronage to maintain their hold on power. Remittances can break this clientelistic relationship between poor households and government support (Pfütze, 2014). This is possible since remittances allow recipients access to public goods through private markets and in turn enable them to express their political preferences. Based on an empirical model of 137 autocratic regimes for the years 1975–2009, Escribà-Folch et al. (2015) show that remittances increase the transition from dominant-party-regimes to democratization. Counterbalancing this finding, Ahmed (2012) argues that remittances along with foreign aid

(footnote continued)

the government) used to finance community development projects, illustrate that migrants used their foreign incomes to influence political reforms at home (Orozco and Lapointe, 2004).

<sup>3</sup> Dionne et al. (2014) is probably best understood as potential channels through which remittances affect democracy.

<sup>2</sup> Countries in SSA, for example Kenya, Nigeria, Rwanda, and Zimbabwe issued diaspora bonds to attract migrant remittances for development projects. In Mexico, Transnational Migrant Associations (TMA), a form of collective remittances (matched by

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