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Remittances and Household Wealth after Conflict: A Case Study on Urban Burundi

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Summary. — Few studies have researched the use of remittances in conflict-affected contexts. This study analyzes unique data from Burundi, testing three hypotheses: relative deprivation, investment, and insurance, derived from New Economics of Labor Migration studies, employing propensity score matching. Results show that remittances are common among wealthier households, rejecting the relative deprivation hypothesis. Remittances have strong effects on non-productive assets, such as living conditions and food security, and weak effects on productive assets, such as asset ownership. Poorer households invest mostly in non-productive assets, suggesting that remittances are insurance for the poor, whereas wealthier households seem largely unaffected by remittances.

Key words — remittances, post-conflict development, household wealth, African Great Lakes region, Burundi

1. INTRODUCTION

Both conflict and post-conflict settings have received scant attention in the literature on remittances, mainly due to limitations related to data availability and quality in unstable settings (Ahmed, 2000; Fagen & Bump, 2006; Koser & Van Hear, 2003; Lucas, 2006). Although some studies have been conducted on remittances after conflict, most were small scale and based on qualitative research (see, e.g., Fagen & Bump, 2006; Van Hear, 2002), yielding limited knowledge on the role of remittances for households after conflict. In addition, the extent to which current theoretical perspectives on remittances are applicable to post-conflict settings remains unclear. People forced to migrate due to conflict primarily do so to seek safety and security, not to diversify income (Lindley, 2008, 2010). To what extent do these objectives of safety and security lead to different remittance usage, than when migration is primarily a means of income diversification, as posited by the New Economics of Labor Migration (NELM) literature?

Existing studies on post-conflict remittances focus on how remittances support households that are "recovering from" violent conflict (see, e.g., Fagen & Bump, 2006). These studies argue that remittances provide a safety net for poorer households, insure them against shocks, and reduce poverty. In the face of failing states that are unable to provide members of society with basic needs, households are salvaged by family or friends who live abroad. Yet quantitative evidence for these claims is missing and consequently several unanswered questions remain concerning remittances after conflict. First, it is unclear whether remittances are a common resource for households recovering from conflict. Second, there is a lack of information regarding who the main beneficiaries of remittances after conflict are, and third, the effects of remittances on households' living conditions after conflict remain underexplored.

This paper analyses the extent and effects of remittances for households in a post-conflict setting using data from Burundi, a small country in the African Great Lakes region. The data include a nationally representative dataset of 1,500 households and an urban dataset of 810 households living in Burundi's capital, Bujumbura. The analyses for this study are based on the latter dataset. The data were collected in 2011, slightly more than 5 years after the official end of conflict in the country, and contained information on each household's economic situation in 2011 and 5 years prior to the survey. Additional information was collected on households' international migration and remittance-receiving histories. The data thus offer a unique insight into the role of remittances for receiving households and allow a quantitative study of the characteristics of receiving households, the extent to which they rely on remittances, and the way they allocate this financial resource from abroad.

The study of remittances in a post-conflict context provides insights into the livelihood strategies of households after conflict. It also provides an opportunity to test specific tenets of NELM studies of labor migration, to a post-conflict setting. This study therefore adopts an explorative approach guided by the three hypotheses about the destination and use of remittances derived from NELM studies: relative deprivation, insurance, and investment, to research the extent to which these hold for remittances to households in Burundi. A multidimensional perspective on household wealth is taken to analyze the effects of remittances on several indicators, such as asset ownership, living conditions, and education. In doing so, we explore the various ways households might allocate remittances in this setting. Remittance allocation is also compared among poorer and wealthier households to analyze how remittances affect different household types, shedding light on the impacts of remittances on different household types after conflict.

2. THEORETICAL PERSPECTIVES ON REMITTANCES AFTER CONFLICT

The majority of micro-level studies on remittances of the past decades are based on the NELM approach (Stark, 1980; Stark & Bloom, 1985). In NELM studies, migration is

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conceptualized as a household-level strategy to generate income through remittances with which a household can invest, diversify income, and insure itself against financial shocks.

The assumptions of NELM yield three hypotheses regarding migration motivations: (1) the relative deprivation hypothesis, (2) the investment hypothesis, and (3) the insurance hypothesis. The relative deprivation hypothesis posits that households attempt to better their economic position in their community or country through migration. Households that are relatively deprived are more likely to use migration as a household strategy (Stark & Taylor, 1989). The investment hypothesis posits that remittances are invested in income-generating activities, such as businesses and agriculture. Remittances thus stimulate development in poor countries by relaxing households' liquidity constraints in failing markets (Taylor, 1999). Following this reasoning, the marginal effect of remittances is highest for remittance-receiving households that face the largest financial constraints (Taylor, 1999; Taylor & Wyatt, 1996). The insurance or smoothing hypothesis states that households use migration to insure themselves against financial risks, such as food insecurity, failing crops, or unemployment. Remittances thus smooth consumption by providing a form of insurance during difficult times (see, e.g., Lucas & Stark, 1985).

The past decades of remittance research have provided varying levels of support for these hypotheses. With regard to the relative deprivation hypothesis, research has shown that remittances generally do *not* reach those who "need" them the most or those who are most deprived in the context of developing countries (Ratha, Mohapatra, Ozden, Plaza, Shaw, & Shimeles, 2011). This result is due to the "selection effect" of migration; because costs are associated with migration, wealthier households generally have more means to send someone abroad and are consequently more likely to receive remittances (Adams, 2011). In Ghana, for example, international remittances were found to be received by households that were in the top two percent of richest households (Mazzucato, Van den Boom, & Nsowah-Nuamah, 2008) although another study showed that poorer households benefited more from international remittances than richer households (Adams, 2006). In Pakistan, households with more income were also more likely to receive remittances (Adams, 1998).

The investment hypothesis has been supported by meta-analyses that showed that remittances spur development and reduce poverty in developing countries (Adams, 2011; Page & Plaza, 2006; Ratha *et al.*, 2011). Ratha *et al.* (2011), for example, conclude that remittances are generally invested in human capital, physical capital such as large assets (land or housing), businesses, or agricultural investments. Other studies have highlighted the insurance or consumption smoothing function of remittances by showing that remittances are invested in daily needs (Kabki, Mazzucato, & Appiah, 2004; Mazzucato, 2009) or food expenditures (Rosenzweig & Stark, 1989).

(a) *Remittances after conflict*

Each of the three hypotheses may be applicable to explaining remittances in post-conflict settings. There are however reasons why the applicability of NELM to these settings is debated. Many emigrants from post-conflict settings moved because of security reasons, which are different from the economic reasons posited in NELM studies (Lindley, 2008). Yet a growing body of literature has shown that refugees often support family or friends living back home (Ahmed, 2000; Carling, Erdal, & Horst, 2012; Diaz-Briquets & Perez-Lopez, 1997; Horst, 2004, 2008; Lindley, 2009), and authors have argued that motivations to remit do not differ substantially between refugees and economic migrants (e.g., Horst, 2004). Remittance sending may be more of a "post hoc strategy" (Lindley, 2009, p. 1331), but migration motives are often multidimensional, and priorities may change over time depending on the circumstances of the migrant or the household in the home country (Lindley, 2008). In addition, not all emigrants from a post-conflict context are necessarily refugees (see, e.g., Ahmed, 2000). The NELM hypotheses of relative deprivation, investment, and insurance can therefore be tested in a post-conflict context.

Based on the existing literature, we can generate some expectations for remittances in a post-conflict context. First, the relative deprivation hypothesis is not likely to hold. Most people flee within the borders of their own country or to neighboring countries, where there are few resources to remit (Nyberg-Sørensen, Van Hear, & Engberg-Pedersen, 2002). Only some people have the means to travel far and to generate income that is sufficient to engage in remittance sending (Van Hear, 2004). This situation also holds for labor migrants from post-conflict contexts (Ahmed, 2000). These studies, in combination with remittance literature that finds that remittances do not accrue to the poorest of the poor (Adams, 2006, 2011; Mazzucato *et al.*, 2008) make us expect that remittances will not reach the most disadvantaged households because they generally do not have the resources to send an individual abroad.

Second, the limited available evidence suggests that remittances are more likely to "sustain" livelihoods after conflict through income smoothing rather than to "transform" them through investments (Van Hear, 2002). This evidence provides support for the insurance hypothesis rather than the investment hypothesis. Households in post-conflict settings might have limited investment opportunities due to damaged economic infrastructures and political and economic instability. In addition, remittances may function as insurance in areas where formal insurance mechanisms are deficient. Qualitative studies have shown that refugees most often remit to support daily needs rather than business investments (Fagen & Bump, 2006; Van Hear, 2002). For example, Ahmed (2000) found that only 15% of households in Somaliland used remittances for business or asset investments. Especially in rural areas, remittances were used to smooth consumption and to cope with shocks. Similarly, Horst and Van Hear (2002) describe how Somali refugees in Kenyan refugee camps smooth consumption by relying on remittances during difficult times.

In the following sections, the relative deprivation, investment, and insurance hypothesis are tested for the Burundi case. The relative deprivation hypothesis is tested by examining the prevalence of remittance receiving across relatively poorer and wealthier households. The investment and insurance hypotheses are tested by analyzing the effect of remittances on different household indicators. The hypotheses are not necessarily mutually exclusive; households might use remittances both for smoothing and investment purposes, and the uses might differ for households with different levels of deprivation. A multidimensional view of household wealth is therefore adopted to explore how households allocate remittances. Most previous studies have explored remittance effects on one or a few economic indicators, such as income or expenditures. Because this is one of the few quantitative studies in a post-conflict context, we take a broad, exploratory perspective.

The indicators that were chosen to test the investment and insurance hypotheses have all been subject of empirical