



# The Economic Impact Of Migration On The Welfare Of Ethiopian Households

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# Overview

- Background and Motivation
- Key questions
- Current literature and evidence
- Survey and data
- Conceptual framework
- Empirical model
- Results
- Conclusion and policy implications

# Background and Motivation

- Migration is a common strategy for moving out of poverty in Ethiopia
- The primary economic benefits of migration accrue through the receipt of remittances

Reliable

Source of Foreign exchange earnings and cushion households income during bad times and income shocks

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Large

More than 3\* official development aid (ODA) and bigger than foreign direct investment flows

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Growing

Showing its resilience to global recessions which other types of capital flows to developing economies sharply respond to

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Stable

Less volatile and more stable than other external flows even during episodes of financial volatility when capital flows fell sharply.

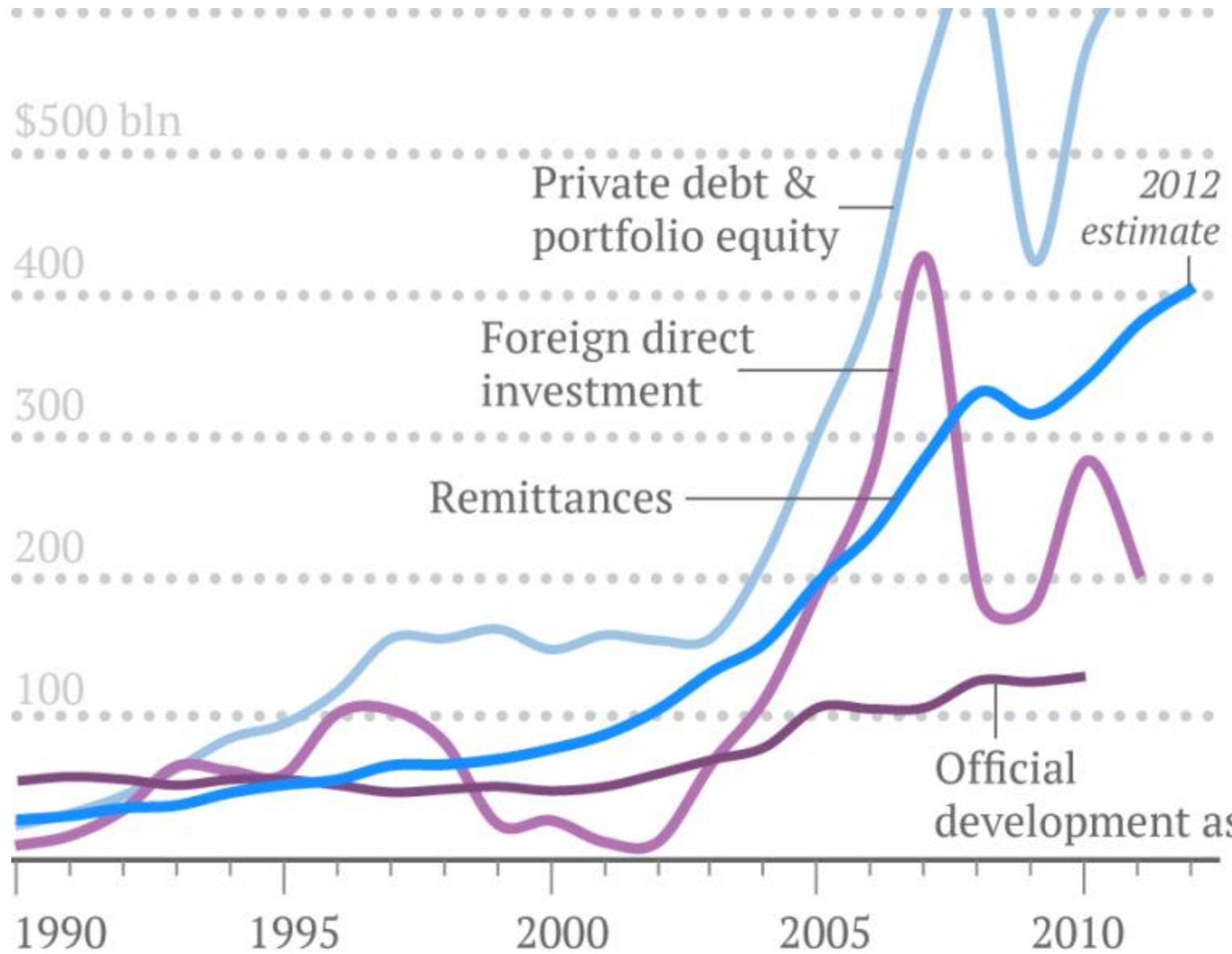
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Overly  
dependent

Small developing economies tend to show remittance dependency and need to update their human capital to insulate themselves from external turbulence.

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# Figure 1: Foreign money flowing into developing countries



The World Bank estimates that the **money migrant workers from developing countries send home** is currently at least three times as much as the **foreign aid those countries receive.**

# Key research question

- Would households with migrants have been better/worse off had the migrant stayed at home? By how much?
- What determines which households are winners or losers from migration?
- Interesting because
  - a) job opportunities have opened up for many Ethiopians so it is important to understand which types of HHs are more likely to gain/lose.
  - b) International remittances to Ethiopia have increased by more than 10 folds from 53 Million in 2000 to 624 Million USD in 2012.

# Current literature

## Optimists

- Developmentalist
- Neoclassical views

## Pessimists

- Historical structural and dependency views

## Pluralist

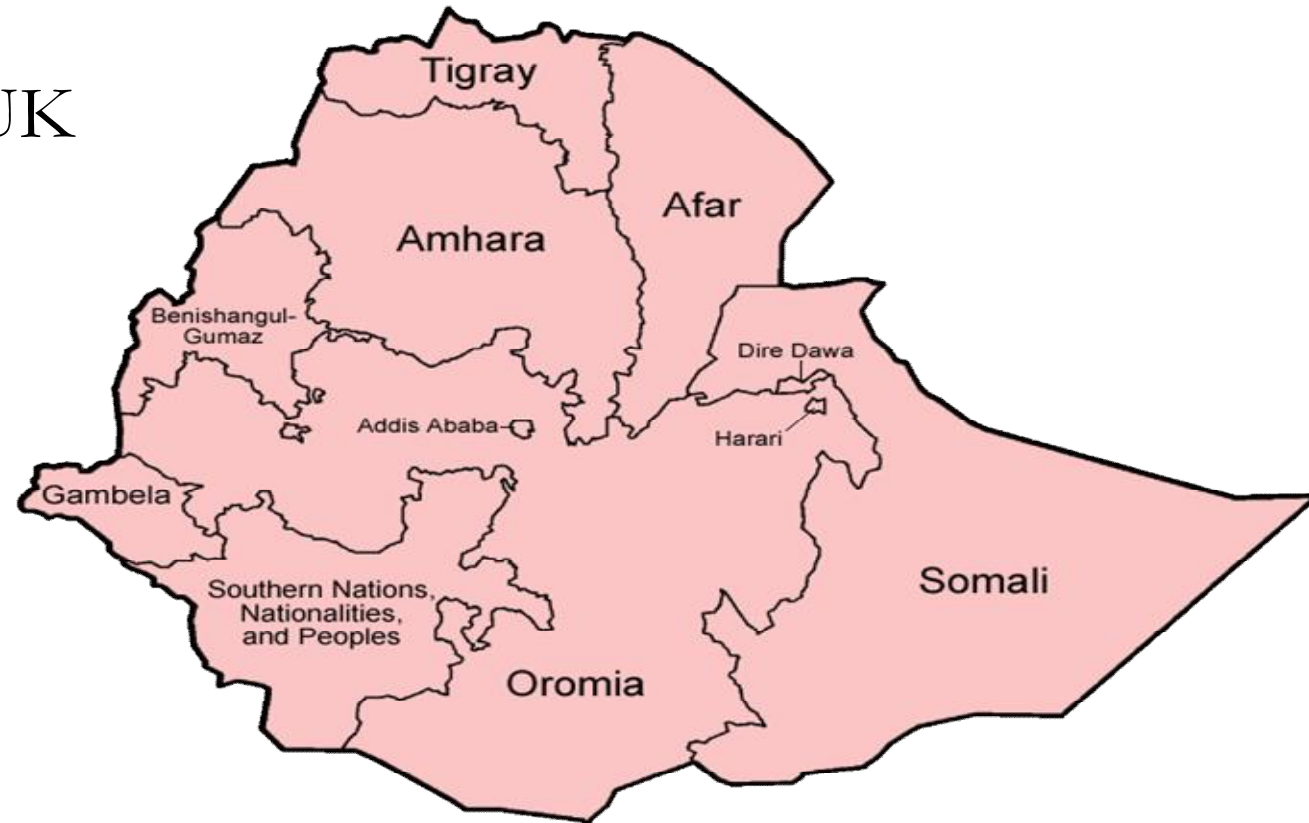
- New Economics of Labour Migration



# Migrating out of Poverty

RESEARCH PROGRAMME CONSORTIUM

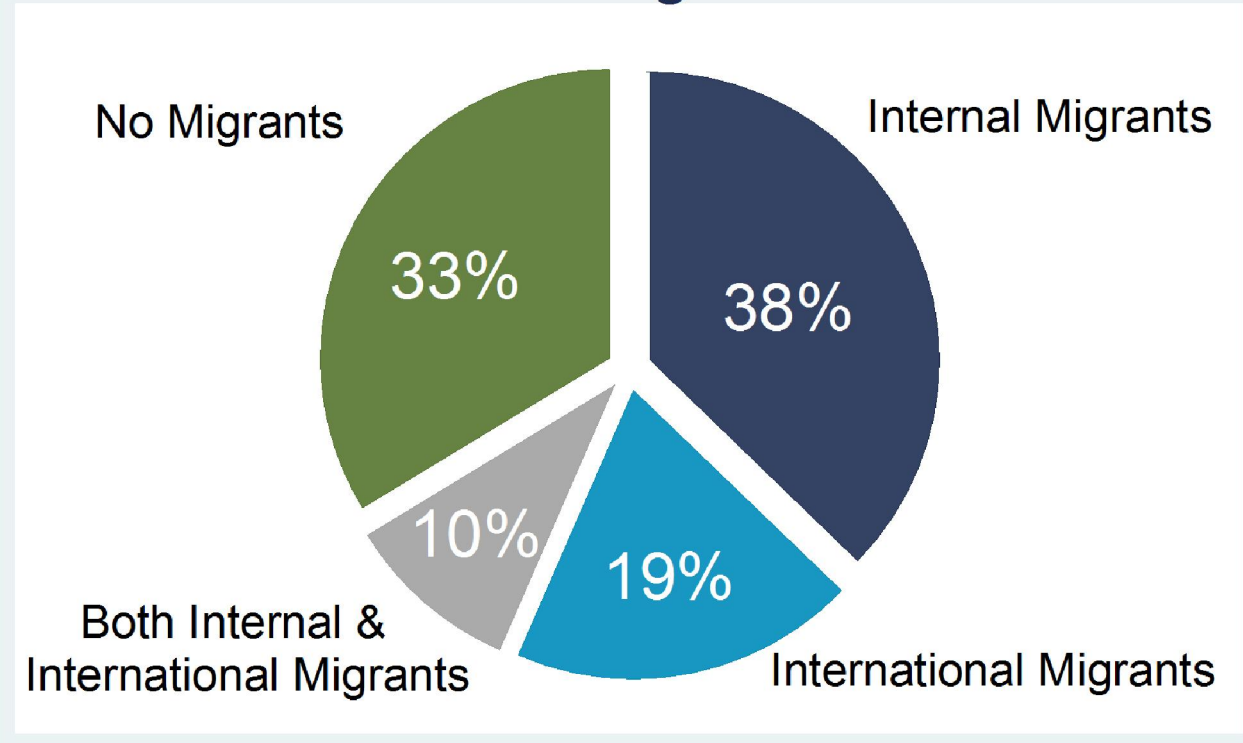
- Funded by the Department for International Development (DfID), UK
- Used 2014 cross-sectional household survey data
- Covers 7,876 individuals from 1,200 households from four regions in Ethiopia



**Figure 2: Map of Administrative Regions within Ethiopia**

# Descriptive Statistics

67% of Sampled Households Have a Migrant



**Figure 3: Migrant status of sampled households**

	Frequency	Percent
In different kebele with in the woreda	175	11.4
In other woreda with in the zone	199	13.0
In other woreda with in the regions	306	20.0
In other region	275	18.0
International: Middle East / Arab country	403	26.3
International: Other African country	32	2.1
International: Outside Africa and Middle East	9	0.6
Addis Ababa	131	8.6
Total	1530	100

**Table 1: Current destination of migrant**

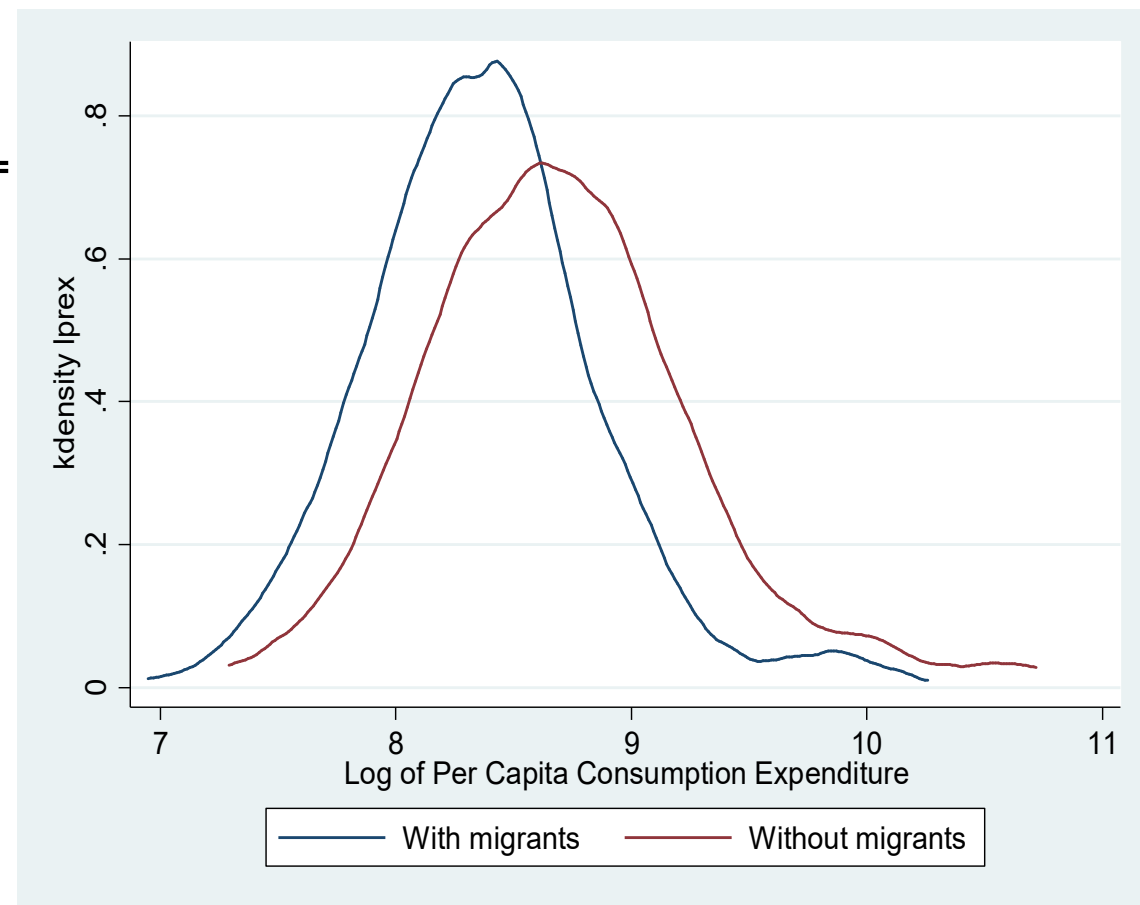


**Table 2: Summary of consumption for households with and without migrants**

	Households with migrants	Households without migrants	All Households
Total	2,781	2,802	2,788
Monthly consumption (in Birr)	(1,746)	(2,134)	(1,884)
Monthly consumption Per Capita (in Birr)	413 (269)	606 (482)	478 (366)

Notes: Standard deviations given in brackets. The conversion rate of 1 US Dollar in terms of Ethiopian Birr is 20.20 Birr as at 31st December 2014.

**Figure 4: Comparison of distribution of Migrant and Non-migrant Households**



# Conceptual Framework

- Compare HHs with and without migrants
- Selection bias
- Construct a counterfactual scenario
- Estimated the consumption expenditure of migrant HH had the migrant stayed at home and compared this with the observed consumption expenditure of HHs with no migrants

# Methodology

## Step 1: Model consumption of households with no migrants

- Independent variables:
- **Household characteristics**
  - Household size, gender ratio, dependency ratio, land ownership and remittance receipt
- **Household head characteristics**
  - Gender, marital status, religion and age
- **Human Capital characteristics**
  - Maximum education
- **Regional characteristics**
- **Household dwelling characteristics**
  - Home ownership, number of rooms pp, electricity, fuel, public well...etc.

**Step 2: Used the coefficients estimated to predict what consumption might have been for households with migrants had the migrant stayed at home, adjusting for their household characteristics to those prior migration**

**Step 3: Compared the counterfactual and actual outcomes**

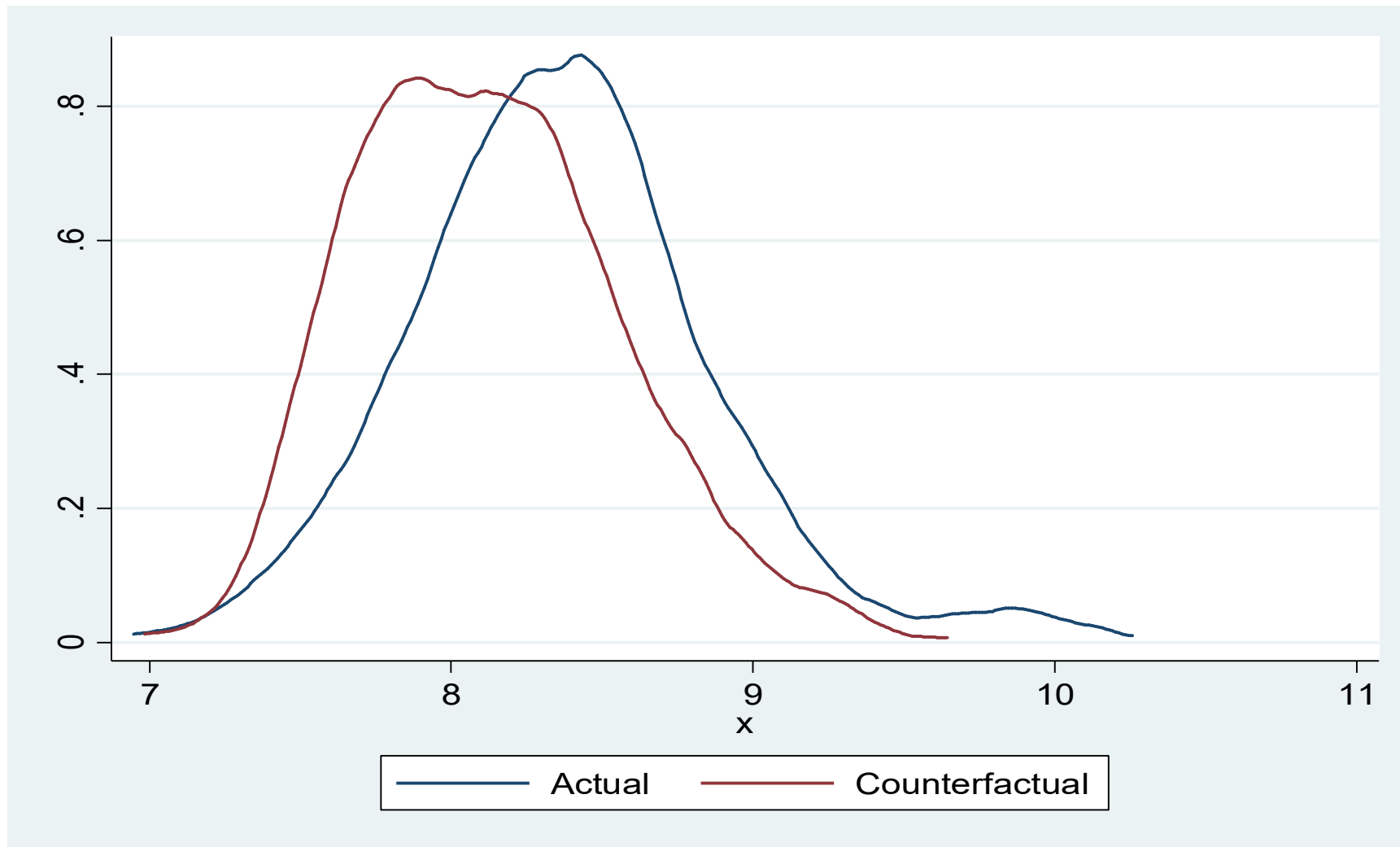
**Step 4: Regressed the difference against the explanatory variables**

	Probability of being made worse off by migration
<b>HH characteristics</b>	
Gender Ratio	-
Remittance receipt	-

# Summary of findings

**Table 3: Comparison of actual and counterfactual consumption expenditure and the distribution characteristics:**

	Migrant Households		Difference between counterfactual and actual ( $\widehat{lprex} - lprex$ )
	Actual	Counterfactual	
Mean	413	395.2	-17.8**
1% Percentile	124.2	204.2	80.0
25% Percentile	261.2	292.0	30.8
Median	352.4	361.5	9.1
75% Percentile	467.3	461.5	-5.8
99% Percentile	1621.0	909.6	-711.4
# Observations	793	793	793



**Figure 5: Simulated distribution of per capita household expenditure in the scenarios of the actual and of no migration counterfactual for households with migrants**

# Conclusion

- On average, had the migrant member stayed at home, household consumption expenditure would have been 31% lower than the current household consumption expenditure
- Migrants improve the average household consumption expenditure
- Poorer households are made worse off by migration
- Migration has improved the welfare of households along the middle and upper distribution of consumption expenditure



# Policy implications

- Facilitate the transfer of money
- Enhance competition in remittance market
- Make option of staying at home more attractive:
  - Improve agricultural techniques
  - Offer employment
  - Urban development
- Pre-departure training on HH management and negotiation skills
- Regulate migration by introducing employment standards



**MIGRATION HAS BEEN  
POLITICIZED BEFORE IT  
HAS BEEN ANALYZED**

PAUL COLLIER

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