

Discussion

The Impact of Fee Discounts on Remittances:
A Field Experiment with Migrants from Central America

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Some Context

- Most studies find a positive impact of remittances on recipients
- However, need to better understand decision making process of migrants
- In particular, not much is known about the effect of transfer fees
- Elasticity of demand for remittance services has important policy implications

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- Two previous non-experimental studies by Freund and Spatafora (2006) and Gibson, McKenzie and Rohorua (2006) find evidence which suggests that fees have a negative impact on remittances
- A subsequent experimental study by Aycinena, Martinez and Yang (2010) finds evidence that a reduction in fees increases remittances
- However, the above mentioned study has certain limitations, which this paper addresses

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Identification Improvements

- Including only existing customers of the partner financial institution reduces the likelihood of substitution across remittances firms
- Limiting the discount to the existing primary recipient reduces the likelihood of substitution across remittance senders
- Substitution across remittance recipients not addressed, but observable
- Although the above reduce the likelihood of substitution effects, it does not eliminate them; however, endline survey data suggests approach was successful
- Use of administrative data allows to observe medium and long term effects, as well as inter-temporal substitution

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Clever Design

- Use of pre-randomized survey batches allows for on-site consent administration and enrollment of individuals in the study
 - This increases take-up and provides direct match to administrative data via last remittance reference number
 - It also allows for more immediate and reliable screening of participants, and a complete (reduced) baseline
 - Consistent 28% attrition in expanded baseline and endline suggest this was key feature
 - No context randomization, but improvement probably just marginal, and logistically much more complex
 - Financial incentives for remittance firm agents reduced non-compliance

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Interesting Findings

- Very robust evidence of use of the discount and increase in the number of remittances

- Also, some evidence of increase in amounts transferred

• This has significant differences in average growth rates, by individuals who did transfer money (but this does not capture instances in which treatment induced individuals to send a remittance when they would otherwise not have did)

• Overall, the impact of amounts sent probably more evidence of an increase in amounts transferred

• In any case, any impact on amounts sent is at least interesting (increased income, less tax structure) and key to argue for more use of the remittance

- Observed substitution across remittance recipients, towards the one which qualifies for the discount, and only while the discount lasts

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Interesting (And Surprising) Findings

- Lack of observed inter-temporal substitution, and persistent impact beyond duration of discount
 - As argued by the authors, both phenomena could be explained by recipient status quo bias
 - This would imply strong recipient bargaining power
 - Link through number of remittances would imply reference dependent time preferences
 - It would be very interesting to further explore this issue in future research, for example by randomizing the discount duration

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Yet More Interesting (And Surprising) Findings

- Lack of impact on information treatment arm
 - No impact on joint discount-information treatment arm suggests information actually dilutes effect of discount
 - As argued by the authors, potentially due to “mental effect” causing the sender to think more carefully about the use that the recipient would give to the transferred money
 - Similarly, potentially due to sender discussing or renegotiating use of remittances with recipient, causing an equilibrium change
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Concluding Thoughts

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- Its findings suggest that remittance senders and recipients are very sensitive to fee discounts, and that the latter may therefore be a powerful policy instrument
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