



## MILK Brief #29: Remittances and gifts: how friends and family affect health financing from outside of the province in Kenya<sup>1</sup>

Remittances, from both international and internal migrants, play a substantial and growing role in household finances in Kenya. 5.7% of the Kenyan GDP is made up of international remittances, and roughly 40% of Kenyans receive regular remittances from within Kenya (Ratha et al., 2011), while a recent study shows that 34% of Kenyans report that they sent money domestically (Godoy et al., 2012). The facilitation of these remittances through the introduction of mobile money platforms has propelled Kenya to become the Sub-Saharan African country with the highest percentage of people sending money to friends and family domestically (Godoy et al., 2012). Some 62% of remittance transfers within the country were through mobile money in 2009 (Ratha et al., 2011). By supporting and diversifying income, remittances have potential to be a valuable tool in coping with risk, acting as a form of informal “insurance” for recipients (Powers et al., 2011), but their value in comparison to other risk management tools has not been explored in depth (Clemens & Ogden, 2013). In one critical study, Yang and Choi (2007) demonstrated that roughly 60 percent of exogenous declines in income caused by rainfall shocks in the Philippines are replaced by remittance inflows from overseas.

In the MicroInsurance Centre’s MILK Client Math study of high-cost hospitalization financing in Kenya’s Central Province (forthcoming, January 2014), 39% of all respondents receive remittances<sup>2</sup> on a regular basis; this is consistent with the existing literature on domestic transfers in Kenya cited above. For respondents who receive them, remittances account for an average 10% of overall income. Our study revealed that it is common for community members, friends and family to contribute funds to individuals when they face a health shock. 69% of survey respondents reported receiving gifts of any sort in order to help finance their hospitalization, while 18% received gifts from friends or family living outside of the Central Province, which we refer to as *remittances for the health shock*.



In looking at the *added* value of microinsurance products to clients, we consider Kenya’s high rates of remittance income and the prevalence of contributions from family and community.<sup>3</sup> This leads us to question **how remittance income affects the receipt of gifts when facing a high-cost health shock**. Are people who receive regular remittances less likely to receive additional gifts from faraway friends and family? Or does the existence of a migrant friend or family member create an additional resource to call upon in a time of need? We pose these questions in the context of interest in the expansion of mobile money as a potential vehicle for financing shocks in poor communities.

<sup>1</sup> This MILK Brief was prepared by Danielle Sobol, Laura Budzyna, and Barbara Magnoni (January 2014).

<sup>2</sup> In this study we do not distinguish between cross-border remittances and in-country remittances. It is very common for farmers in the central province to have family members in Nairobi who remit funds to them, and this is likely a major source of the remittance funds cited in this study.

<sup>3</sup> Sometimes referred to as *Harambee* (“all pull together” in Swahili) a Kenyan tradition of community self-help events, e.g. fundraising or development activities.

## Methodology

This brief uses data from a Client Math study conducted in Kenya's Central Province in July 2013. MILK researchers interviewed 144<sup>4</sup> former patients about the cost and financing of recent high-cost hospitalizations,<sup>5</sup> as well as about respondents' financial behaviors and income generating activities.

## Remittances, gifts from outside of the province, and insurance

Those who regularly receive remittances were **more likely to receive remittances specifically aimed at helping to cover the health shock** than those who do not regularly receive remittances. Overall, 24% of respondents who regularly receive remittances were given additional remittances to aid in financing their health

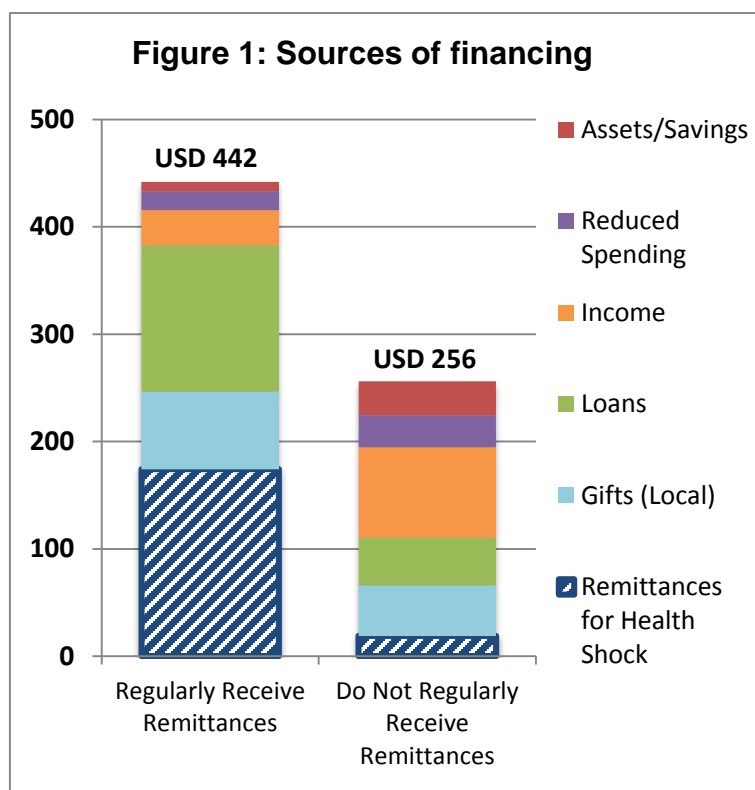
**Table 1. Remittance financing of a health shock for regular remittance recipients vs. non-recipients**

	Regularly receive remittances	Do not regularly receive remittances	p*
% Received remittances for health shock	24%	13%	.095
Average remittance amount	USD 174	USD 19	.093

\*These differences are statistically significant at the 10% level

shock, while 13% of those who do not receive remittances were given remittances to help finance their shock (see Table 1). The average amount of this transfer was much larger for regular remittance recipients, at USD 174, compared to just USD 19 for those who don't regularly receive remittances.

As such, remittances for the health shock accounted for a **greater percentage of overall financing** for those who receive regular remittances than for those who do not. Patients who receive remittances financed 39% of the total amount that they financed with remittances for the health shock, while patients who do not



receive regular remittances financed only 7% of their total financed amount with this type of transfer (see Figure 1). This finding suggests that receiving regular remittances does not negatively affect a person's ability to fundraise from friends and family who have migrated; if anything, **these migrants were able to offer "surplus" support in a time of need.** We do not know, however, where the additional funds come from, whether they are from personal savings, surplus income, or borrowing on the part of the migrant. **In contrast, respondents who do not receive regular remittances do not appear to have access to as much "surplus" support from migrant friends and family who live far away.** They will typically be more vulnerable in the event of a large financial shock.

Though remittances for the health shock represent a significant resource to those who have access to them, **this resource was still not enough to cover the full cost of the shock,** and

<sup>4</sup> 144 respondents participated in the survey; however, for the purposes of this analysis 15 respondents have been excluded due to incomplete responses regarding remittance receipt.

<sup>5</sup> High-cost hospitalizations were considered to be hospitalizations that cost USD 92 or more to someone paying out of pocket.

they needed to rely heavily on other financing mechanisms, including insurance (covered as a cashless benefit for some of the respondents in the study),<sup>6</sup> local gifts from friends and family, loans and own income were among the more common financing mechanisms used to cover the remainder of the cost.

## Conclusion

**Neither remittances nor insurance are enough alone to cover the range of costs related to hospitalization; insurance appears to complement – rather than crowd out – remittances for this purpose.** Our MILK studies suggest that no financing tool, when considered alone, is sufficient to cover the total cost of a large health shock. Even “comprehensive” health insurance cannot cover all of the direct and indirect costs of a health shock,<sup>7</sup> leaving room for informal coping mechanisms such as friends and family to step in, even when they are far away. However, 61% of respondents in our sample do not have access to regular remittances at all, suggesting that these groups may be especially vulnerable to large financial shocks and would benefit even more greatly from insurance.

These findings about remittances and their role in financing health shocks in Kenya are of particular interest in light of the prevalence of mobile money (31% of respondents use M-Pesa), which presumably reduces the transaction costs of money transfers, making them more efficient and available. As the Kenyan economy grows and as more Kenyans gain access to remittances through mobile money and similar technologies, we may see more people with access to gifts from outside of the province in the event of a shock. However, those gifts are unlikely to be sufficient to cover the majority of costs of a large shock. In our study, only 24% of those with access to regular remittances received additional remittances to finance their health shock, and even then, these covered on average just 39% (USD 174) of their total costs.

## References

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Microinsurance Learning and Knowledge (MILK) is a project of the MicroInsurance Centre that is working collaboratively to understand client value and business case in microinsurance. Barbara Magnoni leads the client value effort and Rick Koven leads the effort on the business case. Contact Michael J. McCord ([mjmccord@microinsurancecentre.org](mailto:mjmccord@microinsurancecentre.org)), who directs the project, for more information.

<sup>6</sup> Insurance coverage, in the form of a reduced direct medical expenses are not included in Figure 1, as specific data was not available for this value.

<sup>7</sup> Average inpatient costs in the MILK Kenya study were USD 177 for insured patients and USD 396 for uninsured patients. The MILK studies in [Maharashtra](#) and [Karnataka](#), India, looked at inpatient health shock costs as well and found that insured patients paid USD 144 on average, while the uninsured paid USD 193, on average.