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# THE POLITICAL ECONOMY OF REMITTANCES: THE CASE OF SUB-SAHARAN AFRICA

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*To the memory of Zsuzsánna Biedermann*

# The political economy of remittances: the case of Sub-Saharan Africa

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# The political economy of remittances: the case of Sub-Saharan Africa[1]

Judit Kiss[2]

***Abstract***

The aim of the paper is to introduce and analyse the positive and negative micro- and macroeconomic effects of remittances in its complexity, in the migration-remittances-development context and to draw the overall balance from a political economy perspective in the case of Sub-Saharan Africa. The impact of remittances is mainly determined by the motivation to remit and the determinants of remittances. In the case of Africa, the main motivation is still altruism mixed with self-interest based on endogenous migration-, exchange- and portfolio- approaches with countercyclical and procyclical nature. The size and frequency of fixed and discretionary remittances inflow depend on the stock, type, legal status, personal character, individual behaviour, qualification and educational attainment of migrants, the political and economic situation of the host and the home country, and the transaction costs. The micro- and macroeconomic impacts of the yearly 50 billion remittances inflow is analysed according to remittance-developmental pluralist school of thought where the causes and the use of remittances are also considered. Though the results are not in all cases straightforward, Africa should promote and sustain the inflow of remittances as an alternative, non-debt generating source of financing development and strengthen the positive impact on economic growth, savings and investment, financial and human development, poverty and inequality reduction, and minimize/handle the negative consequences, like corruption, inflation, moral hazard, brain drain, Dutch disease.

***JEL***: F 24, F 64

***Keywords***: Sub-Saharan Africa, remittances, micro and macroeoconomic impacts

## Introduction

Remittances became the most stable external sources of financing development in Sub-Saharan Africa. The volume of cross-border financial transfers was USD 49 billion in 2019, higher than foreign aid or FDI. Apart from being an important external source of finance, remittances contribute to economic growth and development both at national and

[1] This working paper is an introductory study to a research proposal submitted together with Zsuzsánna Biedermann to the OTKA (Hungarian National Research Fund). Without Zsuzsa the nicely planned project will remain incomplete for ever. However, this working paper will be published as a chapter of a book entitled *Farewell to Africa* and dedicated to the memory of Zsuzsánna Biedermann, a young Hungarian Africanist who untimely passed away in May 2022.

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household levels. It might increase savings, investments and consumption, promote education and health care, enhance rural development, support family members, reduce poverty and inequality, meet basic needs, increase living standards, let alone the social implications. However, one should not ignore the negative consequences/side effects of remittances, like the direct costs of transfers, the brain-drain, the "Dutch disease", disintegration of families, conspicuous consumption, demotivation to work. The aim of our paper is to introduce and analyse the positive and negative macro- and microeconomic effects of remittances in its complexity and to draw the balance in the case of Sub-Saharan Africa.

The basic research question: what are the positive and negative impacts of remittances inflow on Sub-Saharan Africa's economic development? Is the overall balance favourable? If yes, will it lead to sustainable growth and less dependent development?

Preliminary hypotheses: a) if the economic development enhancing (positive) effects of remittances are higher than the unwanted (negative) consequences, then the overall balance of remittances is expected to be positive (favourable), b) compared to FDI and development aid, remittances might lead to sustainable growth and less dependent development.

The paper applies an exploratory mixed research methodology where hypotheses are empirically tested by quantitative statistical data and relevant empirical and analytical evidence. Data and our analysis mainly relate to the 45 countries in Sub-Saharan Africa, if it is not indicated otherwise. Due to length limit and the structure of the paper, there is no separate literature review, though individual sections are based on a wide range of relevant and up-to-date theoretical and empirical academic sources. Data have been collected mainly from the database of international organizations such as the IMF, the World Bank/KNOMAD, International Organization for Migration, the UN Economic Commission for Africa, the African Union, and the African Development Bank. While the availability of data is not a constraint with some exceptions, their reliability and coherence are a big challenge for measuring the different phenomena.

Our research strategy is an attempt to avoid the „Blind men and the elephant" syndrome. This famous ancient Indian fable is about six blind men who creates his own version of the elephant based on experiencing the different parts of the animal. Each blind man has a limited perception of the objective truth, believing that this is THE objective truth.

With due respect and acknowledging the scientific merit of the more than a hundred of highly qualified academic sources having been studied and analysed for this paper, we have realized that understandably many reflected only a part of the reality about remittances. Most of the quantitative studies deals with one or some relevant aspects of the impact of remittances (economic growth, education, health care, financial

development, poverty, inequality, living standards, brain drain, Dutch disease etc.) or at national or at household level, in the case of different country samples or sample units, with diverse data and geographic coverage, for different time periods, using unalike definitions for remittances and applying different econometric models, specifications, institutional variables and estimation methods. Consequently, even their scientifically justified research findings are conflicting, inconclusive, reflect only part of the objective truth, and cannot be generalized. However, there are numerous studies (Adenutsi and Ahortor, 2021; Chami et al. 2003; Fayissa and Nsiah, 2010; Ghosh, 2006; Lartey, 2013; Nsiah and Fayissa, 2015; Singh et al. 2010), which have analysed the concept of remittances in its complexity.

Our review-type paper makes a modest attempt to disclose and analyse the *overall* developmental effect of remittances from a political economy perspective both at macro- and micro-level in the migration-remittances-economic development context, that is to link the cause and consequences of remittances in the case of Sub-Saharan Africa, in order to fill the research gap in the literature and enrich the knowledge corpus. Though the wider issues of migration are not taken up, our aim is to deal with the remittances in complexity and provide a balanced picture about the issue.

The paper is constructed as follows: Section 1 provides a brief summary of the recent global and African remittances trends with special regard to the impact of COVID-2019. Section 2 provides the theoretical background for the concept of remittances with special regard to the motivation to remit and the determinants of remittances. Section 3 is dedicated to the (mainly economic) impact of remittances at household and macrolevel with special regard to consumption, investment and human development at household level, and financing development, economic growth, financial development, poverty, inequality, brain drain and Dutch disease at macroeconomic level. Section 4 provides an overall assessment and attempts to draw the balance of the impact of remittances. Apart from confronting our findings with our hypotheses, policy implications are also offered. The paper is closed by a Conclusion.

## Definition, stylized facts and trends

International remittances are cross-border financial or in-kind non-reciprocal transfers by migrants to families/relatives/friends in country of origin. According to the IMF, remittances consist of the following components: a) compensation of employees, that is income earned by temporary migrant workers, staying abroad for less than one year in the host country – recorded under "income sub-category of current account"; b) workers' remittances, that is the income of workers staying abroad for one year or more, employed by embassies, international organisations, and foreign companies – shown under the heading of "current transfers"; c) personal transfers in cash or in kind made by residents to individuals in other countries reported under "capital transfer" (Ghosh, 2006; Plaza

and Ratha, 2017). Though the flow of remittances is closely linked to migration, this is not the only source of it. On the other hand, not all migrants and not always (permanently) do remit.

During the last half century, till the outbreak of the COVID pandemic, remittances at global level have increased dynamically and significantly: from USD 1.9 billion in 1970, to USD 37.0 billion in 1980, to USD 68.4 billion in 1990, to USD 121.6 billion in 2000, to USD 418.7 billion in 2010 and to USD 714.2 billion in 2019 (World Bank, www.migrationdataportal.org). The growth was extremely high after the turn of the century: between 2000 and 2019 remittances increased almost sixfold, and overpassed ODA (Official Development Assistance) flow by 4.6 times, meaning that aid is less capable of financing development than remittances. In the case of low- and middle-income countries remittances overpassed even the inflow of FDI (Foreign Direct Investment) and became the largest foreign source of finance (Maimbo and Ratha, 2005).

The main drive behind this dynamic growth is the increasing number of economic or voluntary migrants, having reached 281 million (3.6% of world population) by mid-2020 compared to 84 million (2.3% of world population) in 1970 (Global Migration Indicators, 2021). 60% of the migration stock (= 169 million people) are migrant workers, that is potential sources of remittances (World Migration Report, 2022). 8.1% of migrant workers are from Africa (Global Migration Indicators, 2021).

The above dynamic growth of remittances was halted by the outbreak of the COVID-pandemic. According to the World Bank report (Recovery. COVID-19 Crisis Through a Migration Lens, 2021) global remittances were estimated to decline to USD 719 billion in 2020 due to pandemic induced unemployment, lockdowns, travel restrictions, limited movement of people, weak new migration flow and large return migration. The international migration stock decreased by 2 million people in 2020. Due to the positive global economic conditions, remittances flows were expected to recover quickly, reaching globally USD 773 billion in 2021 and USD 802 billion in 2022. However, the COVID-crisis is far from over and the direct and indirect effects of war in Ukraine is unforeseen. Albeit, the forecasts are still optimistic: global remittances are expected to increase further and reach USD 842 billion in 2023 (see Table 1). (A war in a pandemic. Implications of the Ukraine crisis war and COVID-19 on global governance of migration and remittance flows, 2022)

**Table 1, Remittances flow**

| Region | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021e | 2022f | 2023f |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | $ billion | | | | |
| **Low- and middle-income countries** | **454** | **447** | **479** | **527** | **553** | **558** | **605** | **630** | **659** |
| East Asia and Pacific | 128 | 128 | 134 | 143 | 148 | 137 | 133 | 133 | 134 |
| *excluding China* | 64 | 67 | 70 | 75 | 80 | 78 | 80 | 83 | 86 |
| Europe and Central Asia | 49 | 48 | 55 | 62 | 68 | 69 | 74 | 73 | 77 |
| Latin America and Caribbean | 68 | 74 | 81 | 89 | 96 | 104 | 131 | 143 | 153 |
| Middle East and North Africa | 50 | 49 | 52 | 52 | 54 | 57 | 61 | 65 | 68 |
| South Asia | 117 | 111 | 116 | 131 | 139 | 147 | 157 | 164 | 172 |
| Sub-Saharan Africa | 42 | 39 | 42 | 49 | 47 | 43 | 49 | 53 | 55 |
| World | 611 | 597 | 631 | 683 | 714 | 719 | 773 | 802 | 842 |

e = estimate  f = forecast

Source: data are based on *A war in a pandemic. Implications of the Ukraine crisis war and COVID-19 on global governance of migration and remittance flows, 2022,* p.15

Africa South of the Sahara is not the major beneficiary of remittances flow as during the last decade (2009-2019) only 6.5-6.8 per cent of global remittances flew to this region. In the years of the COVID-pandemic, the share of SSA decreased further, reaching only 5.9 per cent in 2020, meaning that in this regard SSA was more impacted by the pandemic induced lockdowns and economic crisis than other regions of the globe. However, in 2021 and 2022 SSA's share is expected to increase to 6.3%, and 6.6%, respectively, and fluctuating around 6.5 in 2023 (see Table 1) justifying the altruistic and countercyclical character of sending remittances in the case of the region.

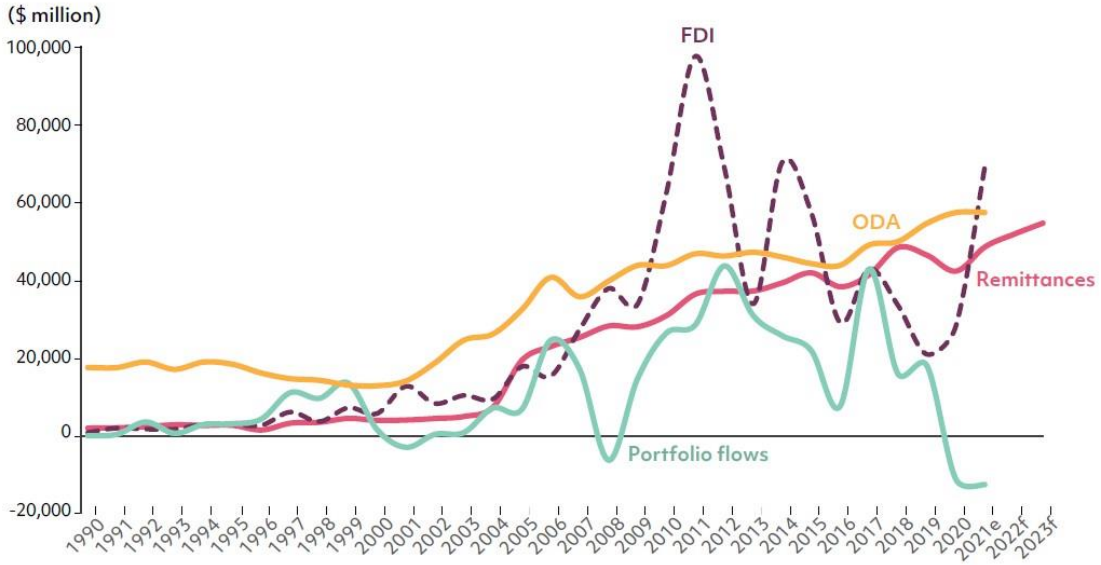
Despite its modest share in global remittances flow, international financial transfers to SSA grew significantly from USD 1.4 billion in 1980, USD 2.36 bn in 1990, USD 4.80 bn in 2000 to USD 20.12 bn in 2005, USD 29 billion in 2009, USD 30 billion in 2010, USD 34.1 billion in 2015 and USD 48 billion in 2019 overpassing both FDI and portfolio investments, and approaching aid-inflow (see Graph 1). "Migradollars" inflow prove to be more stable than any other external source of finance as they are private transfers where individuals are the main actors. The importance of remittances is shown by the fact that in 2019, prior to the COVID pandemic, these international transfers accounted for 2.8% of Africa's GDP, while it was only 0.9% in 1995, 1.6% in 2006 and 2.1% in 2016 (Kiss,2022).

The growth is partly due to the increasing number of migrants, having reached more than 40 million in 2020 in the case of the whole African continent, that is 3% of the continent's total population. Africa is accounted for 14.5% of the global migrant population that is the continent is not over-represented, proportionally not more people are migrating from Africa than from other parts of the world. In addition, in the case of Africa more people (2020 = 51.6%) are migrating within Africa than outside of the

continent. In the case of Sub-Saharan Africa the share of intra-African migrant flow is significantly higher, around 2/3 (Ratha, 2011) or 70% (Adenutsi, 2014), which is a special feature of African migration and dispels some of the concerns of the highly developed host countries. The number of intra-African migrants increased from 18 million to 21 million between 2015 and 2020: labour migration is the highest in Eastern and Southern Africa with an increasing number from and within the subregion. The number of international migrants from Africa increased from 17 to 19.5 million between 2015 and 2020 (World Migration Report, 2022).

The main destination of international migrants is Europe with a 56% share, followed by Asia, especially the oil-rich countries of the Middle East (25%) and North America (15%) (World Migration Report, 2022). Consequently, 70% of remittances derives from highly developed countries (France, Italy, UK, USA), their economic situation and immigration policy matter a lot, as around 80% of African migrants are driven by the search for better economic prospects.

**Graph 1, Resource flows to Sub-Saharan Africa, 1990-2023**




e = estimate f = forecast

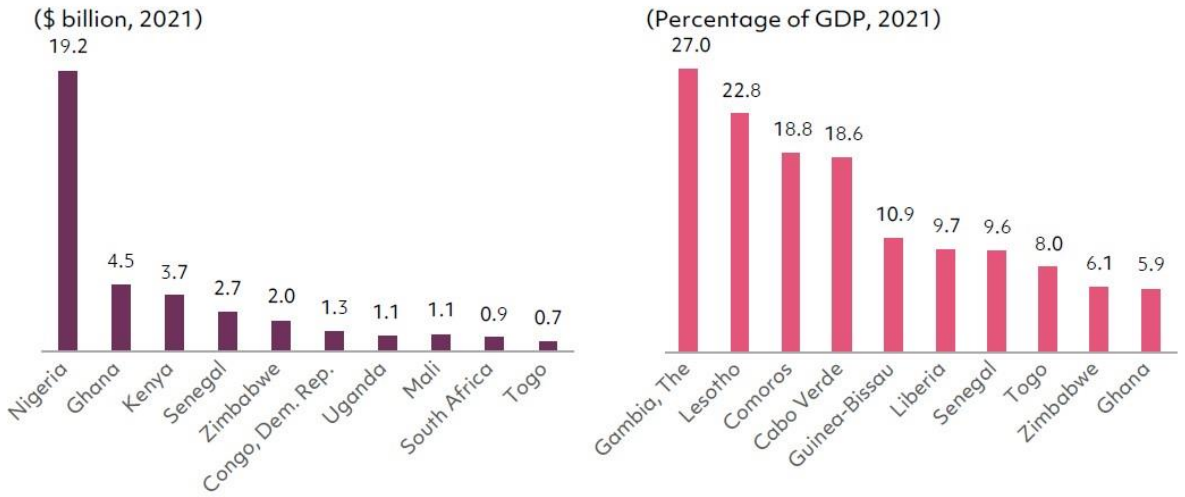
Source: *A war in a pandemic. Implications of the Ukraine crisis war and COVID-19 on global governance of migration and remittance flows, 2022,* p. 58.

In 2020 remittances to SSA decreased by 8.1 per cent to USD 43 billion due to pandemic induced global downturn, lockdowns, travel bans and a USD 6.6 billion falloff in official remittances flow to Nigeria, the biggest beneficiary in SSA, caused by the increased use of informal channels during the pandemic. The good news is that remittances were estimated to increase by 14.1 per cent to USD 49 billion in 2021 and to reach the pre-

COVID level. A further increase is forecasted for 2022 (USD 53 billion) and for 2023 (USD 55 billion) (see Table 1) due to the counter-cyclical financial programs and economic recovery in the host countries and the increasing altruistic commitment of African migrants to help households with increasing poverty and food shortage. A shift from cash to digital payment and from informal to formal channels also contributed to the rebound as it has happened in the case of Nigeria in 2021.

Remittance inflow is unequally distributed among African countries. The top remittance receiving country is Nigeria with 800 000 migrants and with around 40% of flows to SSA (= USD 19.2 bn in 2021), followed by Ghana (10% = USD 4.5 bn) and Kenya (8% = USD 3.7 bn). Countries mostly dependent on migrants' transfers are Gambia, Lesotho and some small island countries with around or above 20% remittances/GDP ratio. In the case of SSA it is only 2.8%, as it has been indicated above.

**Graph 2, Top recipients in SSA, 2021**

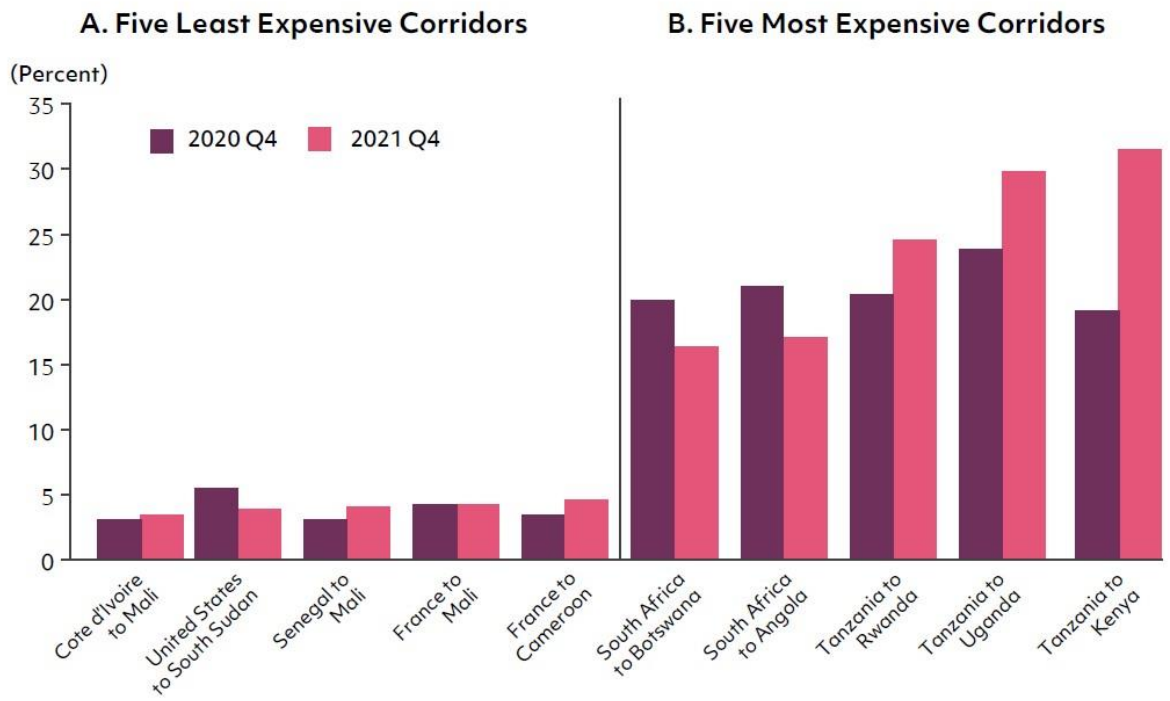



Source: *A war in a pandemic. Implications of the Ukraine crisis war and COVID-19 on global governance of migration and remittance flows, 2022,* p. 59.

Evaluating remittances data of Africa, we should take into account that remittances data are incomplete: official statistical data do include remittances arriving through formal channels, only, transfers through informal channels are not counted, let alone unrecorded flows which are extremely volatile, depending on the actual and anticipated political and economic situation (for example, exchange rate changes). Consequently, the real size of remittances is notably larger than indicated by official statistical data. According to Gupta (2009) unrecorded flows through informal channels are 45-65% of formal flows. Freund and Stapafora (2008) state that unrecorded remittances equal 50-250% of official flows. Ghosh (2006) estimation is 73%. It is probable that these estimates are going to decrease due to increasing financial inclusion and technological development.

The other issue which matters is the cost of recruitment and remittances transfer which is the highest in the case of Africa. While the cost of sending money across international borders was 6.4 per cent globally in 2021, in the case of Sub-Saharan Africa it was as high as 8 per cent. Not only intercontinental transfer costs are extremely high but intracontinental, too. The most expensive corridor is between Tanzania and Kenya: sending 200 dollars from Tanzania to the neighbouring Kenya would cost 31.5 per cent. This figure is even so worrisome as 70% of Sub-Saharan African migrants are internal (=intra-African) migrants. (Recovery. COVID-19 Crisis Through a Migration Lens (2021), p. 63.)

**Graph 3, Cost of Sending Remittances to Sub-Saharan Africa Countries**




Source: *A war in a pandemic. Implications of the Ukraine crisis war and COVID-19 on global governance of migration and remittance flows, 2022,* p. 60.

## Theoretical underpinning: motivations to remit and determinants of remittances

Remittances are closely related to migration as outmigration is the precondition and main source of this type of cross-border interpersonal transfer, as (economic) migrants are those who are in position to remit. Theory of migration has a long and overarching history starting with Ravenstein (1885) more than a hundred years ago. Since then a huge body of research and analysis has been accumulated about the economic, social, political, cultural, demographic, geographical factors determining the motivation, the pattern, the type, the causes and consequences of outmigration. Some of the most widely applied and discussed theories are: the standard *neoclassical theory* of migration, including the "push-

pull" theory, where migration is a function of geographical differences in the relative scarcity of labour and income differential (Todaro, 1969; Harris and Todaro, 1970; Todaro, 1989); the *historical-structural* approach and world system theory of Portes and Walton (1981); the *new economics of labour migration* theory (Lucas and Stark, 1985; Stark and Bloom, 1985) which is interpreted as a third way between the above mentioned two schools of thought (Abreu, 2012); and the *social network* theory of Boyd (1989)[3]. In the part below we will come back with more details in the case of migration theories with relevance to the concept of remittances.

a) *Microeconomic theories about the motivation to remit*

In connection with the concept of remittances, the first theoretical issue: why do migrant remit? What are their motivations for remitting? Approaching this issue is important as the motivation will determine the size of remittances and their micro- and macroeconomic impact.

At the initial phase of the migration process the most obvious motivation to remit is *pure altruism* (Lucas and Stark, 1985) or *unselfish* concern for the socio-economic welfare of others (Carling, 2008; Lartey, 2013) as migrant would like to take care of families/relatives/friends left behind as a compensation for supporting him/her to migrate, to cover the migration cost and/or for losing a skilled/educated member of the family. Altruism is an intrafamilial mutual care, where motives to remit are based a) on the *endogenous* migration approach, where decisions to migrate and motives to remit are connected and done in the family (Chami et al., 2003), at the household level (Carling, 2008) and b) on the so-called *exchange* approach to remittance behaviour, which "suggest that remittances are effectively paying back the family or relatives for investments made in connection with the migrant's education or travel abroad" (Ghosh, 2006, p. 36).

There are additional reasons for altruistic motives, like repayment of pre-migration loans or costs of education, risk sharing (co-insurance) in the case of unforeseen events (crop failure, price fluctuation, livestock disease), provision of parent and childcare services, protection of property. These intermediate motives are called *tempered altruism* (or enlightened self-interest/enlightened selfishness) by Lucas and Stark (1985) or "*impure altruism*" by Adreoni (1989) (cited by Nsiah and Fayissa, 2015). According to these theories, remittances are regarded as part of an intertemporal, mutually beneficial, contractual arrangement between the migrant and family at home (Carling, 2008). In this context, remittances are the repayment of migration costs or the educational costs covered by the family according to the repayment hypothesis. In

[3] For a comprehensive critical review of the different migration theories see Abreu, 2012.

addition, they are part of risk-reducing strategy at the household level during droughts[4], crop failure, price fluctuations, livestock diseases (co-insurance strategy).

Remittances motivated by the above considerations are called "*fixed remittances*" which go directly to the family (Ghosh, 2006; Chami et al., 2003). They are *countercyclical*, meaning that remittances are rising if migrants' income is increasing, the home economic situation is deteriorating and need for help is at increase (as it has happened during the COVID pandemic or in the case of any adverse shock). At the same time remittances decrease if home situation is improving and recipients' income is rising (Niimi and Özdan, 2008; Fayissa and Nsiah, 2010; Singh et al, 2009).

The other motive of remittances is *self-interest* when a) the migrant intends to take advantage of the home country's profitable investment opportunities (Giuliano and Ruiz-Arranz, 2006) through investing in real estate, land, livestock, financial markets, business at home in order to generate income from the remittances in the long run b) to make preparation for returning home and earning respect in the sending community, c) to express his aspiration to inherit through sending remittances proportionately to the potential inheritance (Lucas and Stark, 1985)[5].

This type of remittances is consistent with the *portfolio* approach to remittance behaviour, where decision to remit is isolated from the decision to migrate and made solely by the migrant without involving the family. As the migrants earns the income it is his *discretion* to allocate the resources between the host and the home country assets (Chami et. al., 2003). His main concern is the profit of the investment, that is, in this case remittances function as any other capital.

These self-interest motivated "*discretionary remittances*" (Ghosh, 2006) may increase with migrant's proximity to family at home, migrant's intention to return, and may vary depending on financial risks and returns on saving and investment in the home and host country, the development of financial services in the home country and the size of transaction costs. These investment-driven remittances are *procyclical* (Nsiah and Fayissa, 2015; Freund and Spatafora, 2005), that is increasing with the improving economic conditions at home.

Between the above mentioned two schools of motivations to remit, two further new theories have risen, the New Economics of Labour Migration (NELM) and the Social Network (SN) theories.

The *New Economics of Labour Migration* theory is a neo-classical, micro-level theory according to which migration occurs through household rather than individual

[4] As it has happaned in Botswana in 1978-79 , where „the more severe the drought, the greater are remittances" (Lucas and Stark, 1985, p. 13).
[5] Lucas and Stark (1985) evidenced that in Botswana, where cattle are the dominant form of inheritable wealth, sons – who are more likely to inherit - do remit more to families with larger herds.

decisions. The main determinant of migration is relative deprivation and migration occurs as a risk sharing strategy of families, where individual families/households try to diversify their resources, including labour in order to maximize their lifetime earnings and minimize their risks (Lucas and Stark, 1985). Decision about remittances is closely linked to the decision about migration, and both decisions are taken at household level. Hereby, an implicit co-insurance agreement is concluded between the family members against temporary income loss due to, for instance, crop failure, dropping prices, unemployment. This way "migration is regarded as a rational way of hedging against risk in a world characterized by incompleteness of information and incomplete markets" (Abreu, 2012, p. 10). A mutually beneficial, often informal contractual arrangement (Ghosh, 2006) is concluded between the potential receivers and potential emitters (Carling, 2008) to finance the migrant who in exchange will reimburse the cost through sending regular remittances or helping them in need, in case of economic misfortune, crisis situation.

According to the *Social Network (SN) theory* remittances are regarded as a transfer based on explicit or implicit exchange arrangement between the migrant and the members of the network/family. Migrants remit in exchange for some services rendered by the network/family (like parent and childcare, protection of assets) (Nsiah and Fayissa, 2015), that is for migrants not only economic consideration do matter but social relations, moral values, social visibility (Tolcha and Rao, 2016).

Looking through the different theories about the motivation to remit and contrast them with the African reality, none of the motives seems exclusive, each of the theories works under different conditions depending on: the income, the personal behaviour and the location of the migrants; the socio-economic situation of the households, the welfare of the families back home, the attachment of the migrant to the family/family members; the economic situation in the home and the host countries; the recruitment, migration and transfer costs, future plans of the migrant etc.

For instance, if the ties between the migrant and the family is very close, then altruistic motive might dominate the transfer, as it happens in the case of intra-African migration (Fonta, 2015). With time and geographical distance bonds with extended families lessen, remittance transfer is going to be dominated by purely selfish motives. It happens in the case of overseas migration (Fonta, 2015). With assimilation of highly qualified migrants in the host country, these well-paid and high-skilled workers start to prefer investing in the host country, consequently not only altruistic but self-interest motivation to remit is going to vanish. Return migration also contribute to remittance decay though new migrant generations might emerge due to the age structure of the African population and the permanent unemployment issue.

We do agree with Nsiah and Fayissa (2015): "…variety of non-mutually exclusive motives may determine the propensity and magnitude of remittances by African

migrants" (p. 4.). It is safe to say that *mixed motives* do determine the propensity of migrants to remit. However, some evidence from households (see later) and macroeconomic studies (Adenutsi and Ahorot, 2021) suggests that altruism precedes self-interest motive and still this is the dominant motive in Sub-Saharan Africa.

**Table 2, The migration-remittance-development nexus according to the motivation to remit**

| Motives | Pure altruism | Pure self-interest |
|---|---|---|
| Approach | Endogenous migration | Portfolio |
| Decision about migration and use of remittances | Family/household | Migrant/individual |
| Type of remittances | Fixed remittances | Discretionary remittances |
| Remittance function | Non-wage income | Capital |
| Use of remittances | Mainly consumption | Investment |
| Impact level of remittances | Household/community | Beyond household |

Source: own compilation

This leads us to the other theoretical issue: what determines the size of remittances?

b) *Macroeconomic determinants of remittances*

i) Apparently, there is a positive relationship between the *size of migrants* and the amount of remittances (Fayissa and Nsiah, 2010; Freund and Spatafora, 2005[6]; Singh et. al., 2011), provided that the whole migration population could get access to paid job and all are motivated to remit. The other important factors are: the *duration* of migration and the *type, legal status, personal character, individual behaviour, qualification* and *educational attainment* of the migrants.

According to Adekunle (2021), Adenutsi (2014) and Carling (2008) at the initial stage of migration and in the case of *temporary* migrants, altruistic motivations prevails, so these migrants remit relatively more, though after a while even their remittances will fade away. On the other hand, *permanent* migrants, that is those who has spent more than 12 months in the host country, are less altruistic to remit (Adenutsi, 2014) due to the diminishing attachment to the sending family and the home country. This is especially true if the male migrant is accompanied/reunited with his spouse and child(ren)[7]. In Sub-Saharan Africa international migrants are mainly permanent migrants, while temporary

[6] According to these authors a 100% rise in stock of migrants causes a 75% rise in remittance inflows.
[7] „…migrants who are accompanied by their spouse are much less likely to remit than those who have a spouse in the country" (Carling, 2008, p. 7.).

migrants are more common in the case of intra-African migration (Adenusti, 2014). As around 70% of African migrants are moving within Africa, it is safe to say that more than half of African migrants are temporary migrants with altruistic motivation to remit. However, the bulk of remittances (around 90%, Adenutsi, 2014, p. 17) was transferred by permanent migrants between 1980-2009.

Remittances also tend to be positively associated with *household size* at the origin and negatively associated with household size at the destination (Carling, 2008): bigger families at home might enjoy higher remittances while smaller family units in the host country remit less. Location of sending families also matters "as households in rural communities are more likely to receive remittances than similar households in towns and cities" (Carling, 2008, p. 11). Contact with sending family is also important: "Migrants who visit (or receive visitors from) their community of origin are also more likely to remit" (Carling, 2008, p. 9.)

In addition, *future migration plans* influence remittance behaviour: migrants intending to return are generally more likely to remit, and remit larger amounts; migrants' ownership of assets in the community of origin could also positively related with remittances which are needed for covering maintenance costs; migrants intending to inherit the same assets would compete with each other and remit more in order to maintain favour with their parents (Carling, 2008).

*Time* factor is extremely important in determining the size of remittances. According to Ghosh (2006) longer the migrant stays, lower the remittances are, that is remittances decay with time (Nsiah, 2015, p.5): this phenomenon is called *remittances decay hypothesis*. One of the causes might be that the motivation to remit has vanished: the loan has been repayed, costs of migration have been reimbursed. The other is the diminishing ties with the family, community, home country. Third is considering not to return: recently 90% of migrants are permanent, and most of them would like to stay and acquire a permanent resident status, consequently the prospects are not promising about the future trend of remittances and the remittances decay hypothesis can be easily justified. However, with due regard to the African age structure and the employment situation, new waves of migrants are expected with prospective additional remittances inflow, though we disagree with Adekunle and Tella (2021) about the drying up of remittances.

In principle, *highly qualified* migrants earn and save more than unskilled, and in the case of Sub-Saharan Africa the share of this stratum is high[8], however, high incomes do not result in high remittances automatically. One of the rare statistical evidence is from Botswana where a positive correlation between rise in migrant's earnings and an increase

[8] More than half of the migrants (55.37% in 2006) from SSA have tertiary education (Niimi et al., 2008). In Ethiopia, between 1980-1991 75% of skilled workers migrated to other countries (Tolcha and Rao, 2016).

in remittances was revealed: a 1 per cent increase in the migrant's wage was associated with increases of remittances between 0.23 per cent and 0.73 per cent (Lucas and Stark, 1985).

In the literature there is a hot debate whether *skilled* migrants remit more than unskilled (Bredtmann et al., 2018; Faini, 2007; Ghosh, 2006; Niime et al., 2008). They might remit more, especially at the initial stage of migration, if the (extended) family has covered the costs of education and remittances serve for repaying the loan. However, there are many reasons why highly educated and better paid migrant remit less: most of them comes from well-off urban families with less family obligations and need (Bredtmann et al., 2018; Ghosh, 2006); they are generally in position to migrate with his family, so motivation to support family at home is not so pressing; they largely opt for investing in the host country instead of remitting as they are well informed about the investment opportunities; they have a low propensity to return.

According to the findings of Faini (2007), Ghosh (2006) and Niimi et al. (2008) the impact of migrants' education on remittances is negative or neutral (Bredtmann et al., 2018, 15-16), that is high skilled migrants earn more but remit less. Niimi et al. (2008) in the case of 82 countries for the year 2000 find that migrants' income tends to increase with their education level, however, "as migrants' level of education increases, remittance flows—whether measured as total remittances or remittance per capita – decline" (Niimi et al. 2008, p. 17), especially for migrants with tertiary education. The policy implication of this evidence is controversial: while host countries welcome highly educated, highly skilled migrants, sending them is a loss for the home country (brain drain), all the more as the remuneration (= remittances) is not promising. Consequently, the source country should opt for sending unskilled or low-skilled migrants, however their job market position is rather weak. However, low-skilled workers earn and save less, higher share of the income is remitted according to Ghosh (2006)

ii) The impact of *home country's* economic and political situation on the size of remittances is inconclusive, depending on the motivation to remit. If economic situation is deteriorating, remittances transferred due to altruistic reasons might increase in order to ease domestic hardship and to play a countercyclical role. On the contrary, if domestic economic situation is improving then remittances with altruistic reasons tend to decrease, while remittances motivated by self-interest might increase thanks to conducive investment environment and high expected return on investments. This is the previously already mentioned procyclical role of discretionary remittances. However, political and economic instability, low levels of law, weak institutions, underdeveloped financial system, corruption, risks of expropriation, high inflation, exchange rate volatility might deter or reduce remittances (Singh et al., 2009). According to Adenutsi and Ahortor (2021, p. 22) in that case "the appropriate policy framework to attract optimal remittances from its nationals working abroad is lacking".

Political and economic situation in the *host country (*access to the labour market, the immigration policy, host-country versus home-country income gap, exchange rate fluctuations, deposit interest rates; political risk, access to international money transfer facilities etc.) also determines the volume and frequency of remittances through the amount of disposable income, however, there is no positive relationship between the two, as we have seen above. Improving economic situation in the host country provides only the potential for higher remittances. In the case of self-interest motivated remittances, the migrant might decide to invest in the host or the home country depending on the profitability of the two options. This practice is based on the so-called *portfolio* theory.

Apart from the actual political and economic situation of the home and the host country, longer run wage, exchange rate and interest rate differences also do play a role in determining remittances flows (Adenutsi, 2021; Singh et al., 2009). Let alone, distance between the host and the home countries which has a negative impact on both migration and remittances, because long distances make it expensive and unattractive to maintain strong economic ties (Nsiah, 2015).

iii) A further determining factor is the *transactions costs* of remittances which are very high in the case of Sub-Saharan Africa (8% of the principal compared to 6.4% world average, see Section 1) and especially high (might be around 20-25%, see Graph 3) in the case of intra-African transfers and/or of small amounts. As 70% of Sub-Saharan Africa migrants move within Africa, these high costs decrease and/or deter remittances and/or channel them through informal avenues. Many remitters find informal channels cheaper, faster and more easy-going and less risky as many traditional informal channels (like the *Hawala* in South Asia) are based on long standing mutual trust. However, the wide use of informal channel entails global danger, namely misusing/abusing inflowing financial resources through money laundering for funding criminal, terrorist and underground activities (drug trade), civil wars and ethnic conflicts (Ghosh, 2006; Adenutsi and Ahortor, 2021). However, remittances are private flows, it is up to the remitters to decide how to transfer and use their savings.

The main reason of high transaction costs and informal sector preference is financial sector underdevelopment, lack of transparency, weak competition, poor regulatory framework, exclusive contracts, low operation efficiency, existence of dual exchange rate etc. Freund and Spatafora (2008) found that remittance fees are negatively related with total remittance flows and remittances are transmitted through formal channels in countries with well-developed financial systems, and through the informal sector in countries with less developed financial sector

In order to achieve the 10.c.1 indicator of Sustainable Development Goals, that is to reduce transaction costs to 3% by 2030, the African financial sector should be developed,

cash transfer should be gradually replaced by electronic transfer[9], regulatory measures and incentive mechanism should be launched to encourage the use of formal channel instead of informal ones.

These developments would lead to increased propensity to remit and remittances might be used for financial development (see later) fuelling further remittances. According to Fayissa and Nsiah (2012) and Adenutsi and Ahortor (2021) financial sector development has a positive and statistically significant effect on remittances. Freund and Spatafora (2005) found that "if transaction costs were reduced to 2-5 per cent and dual exchange rates eliminated, remittances through formal channels can go up by 50 per cent or more" (cited by Ghosh, 2006, p. 45).

iv) There are very few studies providing *empirical evidence* about the home and host country determinants of remittances in their complexity covering SSA countries for a longer time period.

Singh et al. (2009) found that in the case of 36 SSA countries for the period 1990-2005 the stock of migrants and income level in the host countries, and the quality of institutions in the home countries have a positive impact on remittances, while home country income and interest rate differences impeded remittance inflows. Furthermore, they confirmed the shock-absorbing (counter-cyclical) role of remittances: "… when adverse economic shocks decrease incomes in their home country, migrants would remit more to protect their family from those shocks" (Singh et al., 2009, p. 14).

Adenutsi et al. (2011) in their comprehensive study in the case of 36 SSA countries over the period 1980-2009 found that home-country income, host-country income, rate of inflation, real exchange rate, bank credit to private sector, real deposit interest rate, institutional quality were the main determining factors for remittances flow: home-country income and bank credit to private sector had positive effects on migrants' remittance flows to SSA, while the impact of real deposit interest rate was statistically zero (Adenutsi and Ahortor, 2021).

Adenutsi (2014) examined the macroeconomic determinants of remittances in the case of permanent and temporary migrants, separately, in the case of 36 SSA countries for the period, 1980-2009. While the home-country and host-country macroeconomic conditions are crucial determinants of migrant remittances irrespective of duration of stay, macroeconomic conditions have a different impact on the two categories of migrants: temporary migrants feel pressed to remit more and at all costs due to their obligations towards the sending family (repaying cost of travel etc.) irrespective of economic changes in the host country. Concerning home-country economic conditions, whereas permanent migrants are likely to remit more only when income levels at home

[9] A recent visit of the author to some West African counries, especially Ghana and Senegal was rather convincing about the wide use of electronic transfer instruments, both in urban and rural areas.

improve as consistent with the self-interest portfolio motive, temporary migrants are likely to remit more when economic conditions at home deteriorate in consistency with the altruistic motive to remit.[10]

One of the latest comprehensive studies was done by Adenutsi and Ahortor (2021) who analyse the long-run macroeconomic factors (remittances received, real bilateral exchange rate depreciation, home-country income, host-country income, private sector credit, institutional quality, inflation rate in the home country, and real deposit interest rate differential between the home country and the host) and business cycle differentials that determine the official flow of migrant remittances to 38 Sub-Saharan Africa countries in the period of 2000-2009. Their findings are rather surprising when stating that "… a percentage rise in migrant-host country income raises migrant remittances received by about 3.9% in a typical SSA country" (Adenutsi and Ahortor, 2021, p. 30) which is in sharp contrast with the negative results of Freund and Spatafora (2005). According to Adenutsi and Ahortor (2021) this contradiction is due to the many data adjustments, differences in sample units, sample size and explanatory variables. It might be true, however, we have the opinion that findings of Adenutsi and Ahortor (2021) is rather a further justification for altruism as a key, perhaps dominating motivating factor behind remittance flow to African countries. This statement is confirmed by the authors' additional research findings concerning the impact of access to credit in the migrant's home country on remittances inflow. However, income and deposit interest rate differentials, real exchange rate depreciation[11], rate of inflation, improved institutional quality and high inflation proved to be statistically significant and have a positive determinant of remittance inflow.

## Micro- and macroeconomic impact of remittances

In the case of Africa, it is extremely difficult to reveal the impact of remittances. One of the problems is the lack of data, especially in the case of households, as there are no permanent, systemic and coherent surveys, only some sporadic. The other problem is the reliability of data both in the case of surveys and at macroeconomic level. As we have seen, only a part of remittances is transferred through formal channels, so a significant part does not appear in official balance-of-payments statistics, consequently their impact is unknown. Furthermore, even in the case of official transfers, the measurability of the impact is an issue. That is why various econometrical methods and estimation means have been used in academic literature to reveal the existent impact of remittances. Moreover, due to high transaction costs, only a part of officially inflowing remittances can be utilized.

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[10] „A percentage rise in home-country income levels induces permanent migrants to increase amounts remitted by 1.1605 percent only at 10 percent level of statistical significance. However, temporary migrants are inclined to increase amounts remitted by 4.5076 percent should home-country income decrease by one percent." (Adenutsi, 2014, p. 16)

[11] A 1% depreciation of an SSA migrant's home-country currency against US dollar reduces the inflow of remittances into the sub-region by about 1.31% (Adenutsi and Ahortor, 2021, p.32).

So, the real impact of remittances is elavated by the informal inflow of remittances and decreased by the transaction costs.

As far as the development impact of remittances is concerned, there are two conflicting perspectives in academic literature (Adenutsi, 2010; de Haas, 2007): a) the *developmental optimistic school* - based on the neoclassical migration theory - states that remittances might promote economic growth through savings and investments in both physical and human capital in labour exporting countries, and smooth consumption and alleviate poverty in receiving households (Nsiah and Fayissa, 2015); b) the *developmental pessimistic school* - based on structuralist dependency theory – have the opinion that remittances do not promote economic growth, even retard the economy and increase dependency, reinforce underdevelopment, cause exchange rate volatility, inflation or overheating of the economy, and lead to the Dutch disease (Nsiah and Fayissa, 2015).

Recently, a third school of thought has emerged, the *development pluralistic school,* as a compromise between the two traditional schools (Abreu, 2010). Remittance-developmental pluralists consider the position of the remittance-developmental optimists and remittance-developmental pessimists as too static to deal with the complexity of the issue. Instead they make attempt to analyse both the positive and negative development impact of remittances in the migration-remittances-development nexus. In our analysis we will take the standpoint of remittance-developmental pluralists.

As the main senders of migrants and receivers of remittances are the households, the extended family, we start our impact analysis at microeconomic level.

*a) Microeconomic impact of remittances*

Impact of incoming private flows mainly depends on the motivation to remit, on how remittances are spent/utilized and what are the spill-over effects of the spending. Decision about the use of these individual savings is made by the migrant jointly with the extended family according to the motivation of the migrant. Altruistically motivated remittances – which are mainly flowing in at the initial stages - are primarily spent on the socio-economic welfare of the sending family, that is on *consumption,* on buying consumer goods and durables, financing social events (marriage, funeral, cultural, religious events/ceremonies), schooling, health care etc. in order to improve living standards, decrease poverty, ease hardship, earn respect. Miotti et al. (2010) (cited by Adenutsi and Ahortor, 2021) find that in Africa between 67% and 88% of remittances received are spent instantaneously on basic needs especially food, including imported tinned and processed foods, beverages and tobacco[12]. Other non-food consumables include clothes,

[12] According to the World Bank calculation, in Ethiopia 80 to 90% of remittances went towards consumption, while 10 to 20 % were used for formal or informal savings and investment. As stated by household surveys, 57% of the money was used for daily expenses, 29% for university education, 9% for small business, 4% for saving account and 1% for housing purposes. (Tolcha, 2016, p. 6.)

telephones, household electronic appliances such as televisions, sound and video systems, simple tools and equipment, housing and construction materials.

Apart from increasing consumption, remittances – due to their countercyclical nature – do play a significant role in smoothing, stabilizing household consumption in time of hard economic conditions (Azam and Gubert, 2005).

It is beyond doubt that spending remittances on consumption directly contribute to increasing living standards, reducing poverty, ensuring food security, building physical infrastructure (roads, fresh water wells, small irrigation projects, clinics, schools, community facilities), contributing to human development and indirectly to improving productivity (Ghosh, 2006). However, there are some *concerns*. One of them is related to the *structure of consumption.* If the inflow of financial resources is spent on domestically produced goods than it might encourage the local production through increasing the purchasing power, if expansion of production is not constrained, otherwise might increase prices and result in inflation. If domestic production expansion is realized, then in this way inflowing remittances might contribute to economic growth, per capita GDP growth and job creation via spill-over effects. However, multiplier effects highly depend on the nature of linkages between the households, rural areas and the national economy (Ghosh, 2006). If remittances are spent on imported goods then it might have a detrimental impact on foreign trade balance, though balance-of-payments has been improved by the inflow of foreign exchange. Shift towards imported (luxury) goods might lead to *conspicuous consumption* and strengthening demonstration effect and increasing inequality. Third issue relates to the recipients' behaviour. As remittances are un-earned, non-wage disposable income, that is "hot money", it is convenient to spend it ("easy money goes easily") and reduce labour supply, lower work effort and labour market participation, substitute labour with leisure, stop working or search for work, abandon agricultural cultivation etc. This is called *moral hazard* which might turn productive household into unproductive ones (Tolcha, 2016). Consequently, over-reliance on and abuse of remittances should be avoided.

In tandem with financing consumption, remittances at the household level are used for the reimbursement of migration costs, paying back *loans* taken prior to migration and covering costs of education (Akobeng, 2016).

Over time and in the case of self-interest motivated remittances, the use of remittances is shifting from consumption to *investment* – in physical capital (housing, real estate), land and agriculture[13], rural development, property, entrepreneurial ventures, productive activities and in human capital, mainly education (schooling, vocation) and health care. Remittances could become a source of capital for small and home-based

[13] Gubert (2000) (cited by Adenutsi and Ahortor, 2021) finds that in the Kayes Region of Mali remittances were used for buying mechanized farming techniques and sophisticated farm implements.

businesses or serve as seed money for start-ups (Gupta, 2009). In contrast to consumption, the spill-over and macroeconomic effects are more significant in this case. Investment might contribute in the short run to economic growth, and productivity increase, technological development, job creation and human capital development in the long run. That is why channelling remittances towards longer-term productive investments through providing direct and indirect incentives for individual migrants is essential.

The above two options (to consume and/or to invest) also show a cyclical nature at macroeconomic level. During recession and natural calamities, bad times remittances are mainly used to stabilize consumption and to counterbalance production decline, unemployment, shortages, draught, crop failures, while when the recipient country is booming remittances are more likely to be spent on investments (Azam and Gubert 2005).

After having studied the literature about the use of remittances (Adenutsi and Ahortor, 2021), it became evident that consumption is still the major form of spending remittances in remittance receiving-households of Africa, so the positive microeconomic welfare impact is justified. As far as the macroeconomic implications are concerned, even if consumption remains the main usage of remittances, it might contribute to economic growth through the multiplier effect, while minor investments might contribute directly to economic growth and human development (education, health care).

Studies analysing the macroeconomic impact of remittances highly differs not only according to their topic coverage, the econometrical models and methods used, countries and time periods covered, but according to their outcomes. There are three main schools of thought, as we have already indicated: according to optimistic views remittances have a positive impact on the home country's economy; according to pessimistic views the impact is negative and/or detrimental, while the pluralistic views say that both the positive and negative development impact of remittances should be taken into consideration.

In the parts below we will go through the key growth and development impact areas (financing development, economic growth, financial development, human development, health, education, poverty reduction, inequality, brain drain, Dutch disease). Based on the findings of the available academic literature, we attempt to make conclusion about the overall, short and long-term macroeconomic impact in the migration-remittances-development nexus.

**Table 3, Balance of microeconomic impacts of remittances**

| Positive/Gains/+ | Negative/Losses/- |
|---|---|
| smooth consumption → basic needs, food security, living standards, poverty reduction | conspicuous consumption, demand for imported goods, demonstration effect |
| decrease inequality within the households | increase income inequality between the households, social stratification |
| investment → physical infrastructure + human development (education, health care) + small business | moral hazard, reduced labour supply, |
| loan repayment, credit supply | over-reliance on remittances, |
| countercyclicality | few productive investments |
| strengthen family ties, empowerment of women | disintegration of families |
| indirect macroeconomic impact, spill-over effect | mainly short-term impact |

Source: own compilation

*b) Macroeconomic impact of remittances*

*i) Financing development*

As the saving-investment gap still prevails in Africa South of the Sahara (Adekunle, 2021) and significant amount is flowing out of the region in the framework of illicit financial flows (Kiss, 2022), the region should rely on external sources of financing development. Compared to inflow of FDI and ODA which is highly fluctuating depending on the investors' and the donors' strategies, remittances seem to be more stable as indicated by the relative resilience of remittances during the global financial crisis of 2008 and its associated economic slowdown in migrant host countries (Nsiah and Fayissa, 2015) or in the years of COVID-pandemic when remittances dropped only in year 2020 and recovered very quickly (see Table 1).

Considering population growth in Africa, the age structure of the population, the significant migration potential and the insufficient economic growth rate, there is a need and an opportunity to sustain the present level of remittances inflow: around 60% of Africa's population is currently younger than 25 years; economic growth runs behind demographic growth; migration growth is below population growth (Amega, 2018); while 18 million new jobs would be needed annually to absorb new entries in the labour market,

only 3 million are currently being created; by 2030, 30 million youth are expected to enter the African labour market; However, the sustainability of remittances inflow greatly depends on the world political and economic situation, let alone the openness of the potential host countries.

In the literature there is a debate whether remittances can substitute or supplement other external sources of finance (FDI, ODA, portfolio investments etc.). With due regard to high financial needs of Africa, the relatively low interest from the side of potential investors towards Africa (with the exception of natural resources sector), the aid fatigue of donors, the increasing indebtedness of the region and the unsolved issue of illicit financial flow, substitution is out of question. Not to speak of the impact, the consequences of the different types of external financial resources. Due to length limit we cannot elaborate on the above issue in details, however we should emphasize the special feature of remittances compared to other financial resources: a) its non-debt generating, less volatile, countercyclical and/or procyclical, less dependent, sustainable character and, b) developmental impact through closing two/dual gaps (the saving-investment gap and foreign exchange gap), financing investments, creating jobs, increasing technological level, improving balance-of-payments situation and stimulating long-run growth.

Alike any financial resource inflow, remittances also can be misused and/or abused for financing terrorism, civil wars, internal conflicts and might lead to money-laundering, corruption and capital flight (Salisu, 2005) depending on the quality of institutions and law enforcement. Berdiev et al. (2012) examined the effect of remittances on corruption using panel data for 111 countries over the period of 1986–2010 and they found that remittances increased corruption, especially in non-OECD countries. The explanation is that remittance-receiving households better tolerate the rent-seeking behaviour of the governments as they buy public goods and services thanks to remittances, however, as remittances -compared to aid – are handled by individuals/families in contrast to aid managed by the government, the likelihood of corruption is smaller. A further threat is moral hazard, but in this regard, from the side of the governments with irresponsible behaviour: over-relying on inflowing remittances, they might postpone socio-economic reforms and structural transformations.

*ii) Economic growth*

The impact of remittances on economic growth is rather mixed. If the inflowing financial resources are going to be invested, then it might increase output via relaxing credit constraints and closing the savings-investment gap. Even if remittances are consumed, they might have a stability enhancing impact at macroeconomic level and might improve development indicators (access to education, health care) which promote economic growth. That is, the increase of aggregate demand might spur economic growth. However, remittances might lead to currency appreciation and/or adverse labour market developments (Singh et al., 2009) or moral hazard at government level, which hamper

GDP growth. Impact of remittances on growth at the macro-level highly depends on the nature of the market links between remittance-receiving local areas and other parts of the country (Ghosh, 2006) and the existence of backward and forward linkages: the higher the degree of market integration, the greater is the spread effect of the growth multipliers on the economy as a whole. Furthermore, countries with well-functioning domestic institutions are more capable to unlock the potential for remittances to contribute to faster economic growth (Singh et al., 2009).

Looking through the vast literature on remittances-development nexus, most of the quantitative research has been done in connection with the impact on economic growth, though the results are rather controversial. There are sources adequately supporting both the optimistic and pessimistic views.

Fayissa and Nsiah represent the optimistic view. Their paper (Fayissa and Nsiah, 2010) examined the impact of remittances on economic growth within the conventional neoclassical growth framework using panel data for the period of 1980-2004 for 36 African countries. They found that "a 10 percent increase in the remittances of a typical African economy would result in about 0.4 percent increase in the average per capita income" (Fayissa and Nsiah, 2010, p. 6). Their main findings suggest that remittances have a positive impact on economic growth as they provide alternative source for financing investment and overcoming liquidity constraints.

Lartey (2013) also found a positive relationship between remittances and economic growth in the case of 36 SSA countries for the period 1990-2008: a 1% increase in the share of remittances to GDP leads to an increase in per capita growth in the range of 1.5%–2.7% (Lartey, 2013, p. 17) through capital accumulation and investments (1% increase in the ratio of remittances to GDP leads to an increase in investment by between 0.03% and 0.04, Lartey, 2013, p. 17). The effect increases with the level of financial development.

Tolcha (2016) empirically examining the impact of remittances on Ethiopian economic growth over the period 1981-2012 finds that there is a short run significant impact of remittances on economic growth while it affects the economy negatively in the long run (a one percent increase in remittances leads to approximately 0.057 percent decrease in GDP in long-run) due to the moral hazard from the side of the government which incline to postpone reform and structural transformation in the hope to receive remittances continuously in the future.

Olayungbo and Quadri (2019) also found a positive relationship between remittances and economic growth in the case of 20 sub-Saharan African countries over the period of 2000 and 2015 both in the short and the long run. Usman et al. (2022) in the case of 10 selected Sub-Saharan Africa countries for the period 2006-2020 proved that

remittances and trade positively affect economic growth, however, human capital flight, poverty, corruption, and inequality negatively affect economic growth.

In contrast to the representatives of the positive views, Chami et al. (2003) examined the impact of remittances on economic growth in the case 113 countries over the period 1970-1998. They found a negative relationship between the growth rate of remittances and per capita GDP growth. According to their explanation remittances lead to a fall in labour force participation (moral hazard), which negatively affects economic activity and causes output decline. They even question the view that remittances can be an important source of capital for financing development. Their suggestion is to convert remittances to development capital.

Spatafora (2005) reveals no statistically significant direct link between real per capita output growth and remittances. The analysis however recognized the measurement difficulties: a negative correlation between remittances and growth may well be due to the fact that remittances may rise when growth is weak. Baldé's (2006) econometric results show that remittances do not have direct positive impact on economic growth in the case of 28 SSA countries in the period 1980-2004. However, remittances may have indirect positive impact on growth through several channels such as savings, investment, financial development or education.

Giuliano and Ruiz-Arranz (2006) think that as workers' remittances are mainly spent on consumption, they have only a minimal impact on productive investments and long-run economic growth. One of our counterarguments is that not always and all the remittances are spent on consumption. The second is that even in that case, consumption might have a positive impact on economic growth through multiplier effect (for instance through increasing the productivity of households). It is worth to note that consumption led growth is also a viable growth model as has been practiced recently by many East-Asian countries. (Kiss, 2018)

Alike Chami et al. (2003), Singh et al. (2009) also question the growth enhancing role of remittances: they found in the case of 36 countries in SSA for 1990 through 2005 that a "1 percent rise in the remittances-to-GDP ratio would reduce the per capita GDP growth rate by about 0.03 percentage point" (Singh, et al., 2009, p. 16), however there are differences among the countries analysed depending on the quality of institutions: "countries with well-functioning domestic institutions seem to be better at unlocking the potential for remittances to contribute to faster economic growth" (Singh et al., 2009, p. 18).

Looking through some research findings concerning the impact of remittances on economic growth, our supposition is inconclusive: we could find results supporting both the optimistic and pessimistic views. Apart from our dissatisfaction with economic

growth as a credible indicator of economic development, it is beyond doubt that higher economic growth might have a positive spill-over effect on development at large.

However, the growth-enhancing and the growth-non-enhancing outcomes differently affect prospective remittance inflow. In the case of increasing economic growth rates remittances, motivated by altruistic motives, might decrease as the economic situation of family/community might improve, while the inflow of self-interest motivated remittances inflow might increase with due regard to the portfolio approach. In the event of decreasing economic growth rates the reaction might be the opposite: altruistic remittances might increase, while remittances with any investment motive would decrease. So, in principle the final impact of any economic growth variants depends on the reaction of remitters and the composition of migrant stock.

To sum up, remittances can contribute to economic growth through investment and human development, but this is not automatic, and should not be taken for granted. Much depends on the migrants' remittance behaviour and the way in which the funds are actually utilized. Remittances can have a positive impact on output growth and overall economic performance under two general conditions. First, the economy should be sufficiently integrated with backward and forward linkages, with a flexible labour force and adaptable productive structure, making it capable of responding positively to the stimuli of remittances from abroad. Second, the country should have sound macro-economic policies, political stability, good governance and an investment-friendly environment, including an efficient public administration and financial system (Ghosh, 2006). This leads us to the impact of remittances of financial development.

*iii) Financial development*

One of the most widely debated and researched issue about the impact of remittances is *financial development*[14]. As we have seen previously, Africa is burdened with the highest transaction costs in the world which result in the high share of remittances (50-250% according to Adekunle, 2021) transferred through informal channels with all its negative consequences. Main causes of the above phenomenon are the underdevelopment of the financial sector, weak competition, lack of reliable, easily accessible and efficient banking sector or other money transfer services, especially in remote rural areas.

Following the remittances-financial development discourse in the literature (Adekunle, 2021; Bettin and Zazzaro, 2012; Karikari et al., 2016), it is clear there is a bidirectional relationship between remittances and financial development, though the latter term is interpreted differently by the authors. As remittances are used to loosen liquidity constraints, increase credit availability, serve as collateral and finance small-

[14] By financial development we mean a set of institutions, financial markets, instruments and financial regulatory means, which provide the key functions of the financial sector in the economy (Bare et al., 2022, p. 11).

scale investment projects, these facts justify remittances-led financial services sector growth (RLG) hypothesis where remittances lead to financial deepening in the recipient countries and to stimulating growth and reducing poverty (Agarwal et al., 2011; Olayungbo and Quadri, 2019). Countries with better developed financial systems experience on average higher investments, output growth rates and more rapid technological advancements. However, according to Bettin and Zazzaro (2012) remittances promote growth only in countries whose banks function at high efficiency.

The RLG hypothesis is justified by empirical evidences. Gupta et al. (2009) using a sample of 44 SSA countries for the period 1975–2004 found that remittances have a positive effect on bank deposits. Agarwal et al. (2011) examined the relationship between remittances and the aggregate level of deposits and credit intermediated by the local banking sector in 109 developing countries during 1975–2007 and found robust link between remittances and financial development: "a one percentage point increase in the share of remittances to GDP is associated with a 0.35–0.37 percentage point increase in the ratio of deposits to GDP,.... and a 0.29 percentage point rise in the share of credit to GDP" (Agarwal et al.,2011, p. 6).

Lartey (2013) emphasized that well-functioning financial intermediaries mobilize savings and facilitate transactions, allowing the transfer of funds from savers to investors at lower costs, and hence may serve to channel remittances into high-return projects, thereby enhancing economic growth.

Karikari et al. (2016) examined the causality between remittances and financial developments (availability of credit to private sector, bank deposits and money supply) in 50 African countries from 1990 to 2011. They found that remittances promote certain aspects of financial development, such as bank deposits and money supply, however they do not promote financial development in the long-term as remittances are basically used for survival purposes.

Olayungbo and Quadri (2019) examined the relationship between remittances, financial development and economic growth in 20 Sub-Saharan Africa countries from 2000 to 2015 and found that remittances and financial development have positive impacts on economic growth both in the short and the long-run. However, no causality was revealed between remittances and financial development, meaning that very few remittance receivers have access to financial services in SSA countries compared to the volume of remittance inflow.

Adekunle (2021) in the case of 30 African countries over the period 1986-2013 proved that a percentage increase in remittances inflow has a short-run, positive relationship with financial development in Africa, while exchange rate negatively influences financial development in Africa. Akobeng (2016) states that a well-functioning financial sector enhances remittances effectiveness in Sub-Saharan Africa. Williams

(2016) examined the effect of remittances on financial development in 45 countries in the period 1970 to 2013 and found that remittances are significantly positively associated with financial development: the baseline estimates indicate that a 10 percent increase in remittances increases domestic private credit by 0.43 percent and the cumulative effect is around 1.84 percent.

The other side of the bidirectional causality between financial development and remittances is that well-developed, trustworthy and technologically advanced financial services and institutions (for instance the use of mobile banking, internet banking, ATM, rural banking) might attract more remittances and transfer a higher share through official channels as transactions costs are expected to decrease (Adekunle, 2021; Agarwal et al., 2011; Karikari, et al., 2016; Kemegue et al. 2011; Singh et al., 2009) and the remittance receivers disposable income will increase. However, it does not mean that financial development should automatically lead to higher inflows of migrant remittances (Nsiah and Fayissa, 2015, p. 9.) because it depends – as we have seen above – on the motivation to remit and on the determinants of remittances. Financial sector development might have a positive impact on the inflow of self-interest motivated and portfolio-approach-based transfers as financial development encourages investments and finally growth.

*iv) Poverty, human development, inequality*

At microlevel the impact of remittances highly depends on how remittances are used and/or which households are the main beneficiaries. As in Africa still majority of remittances is spent at household level for consumption, including basic needs (food), education and health care[15] in this case remittances directly and in the short run contribute to *poverty* alleviation and human development, if poverty is measured by household consumption expenditure. At macrolevel remittances indirectly, through stimulating economic growth, enhancing financial development might contribute to poverty reduction according to the trickle-down theory.

In Africa one of the most pressing issues is poverty which has three measures. i) the *poverty incidence* (headcount poverty), which measures the percentage of the population living on less than x PPP dollar a day: in 2016 the poverty rate was 50%, meaning that half of the population lived on less than 1.25 USD/day (Akobeng, 2016), while in 2018 40% of the population was living below the USD 1.90 a day (Acheampong, 2021, p. 1367) and in 2019 43.7% (Human Development Report, 2021/2022, p. 297); ii) *poverty depth* (poverty gap), which is the mean distance below the poverty line as a proportion of the poverty line (how poor the poor are): in 2016 the mean of the poverty gap was 23%, indicating that 23% of the population have an income within the mean shortfall from the poverty as a percentage of the poverty line (Akobeng, 2016); iii) *poverty severity* (squared poverty gap), which is the mean of the squared distance below the

[15] In 2011 in Senegal

poverty line as a proportion of the poverty line and was 14% in 2016 meaning that 14% of the population is trapped in severe poverty. In 2019 in Sub-Saharan 556 351 people lived in poverty (Human Development Report, 2021/2022, p. 297).

There are a great number of empirical evidences suggesting the positive impact of remittances on poverty reduction, however, the studies investigating the remittance-poverty relationship highly vary according to the sample used, methodology applied and how poverty is defined.

For example, one study covering more than 70 low and middle-income countries indicated a positive relationship between remittances and poverty alleviation. According to its findings, a 10 per cent increase in the share of remittances in country's GDP would lead to a 1.2 per cent decrease in the percentage of persons living on less than US$ 1 a day; and it would also reduce by 2.0 per cent the depth or severity of poverty (Adams and Page, 2003).

A cross-country IMF study confirms a strong link between poverty and remittances. The study showed that on average a 2.5 percentage point increase in the remittances/GDP ratio is associated with less than a 0.5 percentage point decrease in the share of people living in poverty (Spatafora, 2005).

Anyanwu and Erhijakpor (2010) examined the impact of international remittances on poverty reduction in 33 African countries over the period 1990–2005. They found that international remittances reduce the level, depth, and severity of poverty in Africa, but the size of the poverty reduction depends on how poverty is being measured: "a 10 percent increase in official international remittances as a share of GDP leads to a 2.7 percent decline in the poverty headcount or the share of people living in poverty and to a 2.9 percent decline in poverty depth and severity of poverty, respectively" (Anyanwu and Erhijakpor, 2010, p. 75).

Gyimah-Brempong and Asiedu (2011) found that international remittances decrease the probability of a family being poor, or chronically poor. Contrarily, Louise and Clovis (2012) argued that migrant remittances do not significantly lead to a reduction in poverty (cited by Nsiah ad Fayissa, 2015).

Akobeng (2016) using a dataset of 41 Sub-Saharan African countries found that there is negative relationship between remittances and poverty: "10% increase in the share of international remittances of GDP will lead to a 1.2% decline in the share of people living on less than US$1.25 per person per day (poverty rate), a 2.4% decline in poverty depth (poverty gap) and a 3.1% decline in poverty severity (squared poverty gap)" (Akobeng, 2016, p. 11).

In contrast to the above research findings, Acheampong et. al (2021) came to an opposing conclusion, when investigating the effect of international remittances on poverty alleviation in 44 SSA countries from 2010 to 2019. According to their findings

remittances increased poverty rate in Africa, while financial development reduced poverty through getting access to financial services, using savings, borrow money.

The positive impact of remittances on *human development* is rather obvious as financing education and health care are among the priorities in the migrants' utility function[16]. Amakom and Iheoma (2014) investigated the impact of international migrant remittances on health and education using the sample of 18 Sub-Saharan African countries. Their findings reveal that remittances impact positively and significantly health and education outcomes: for every 10 per cent increase in remittances, primary education outcome increases on the average by 4.2 per cent, secondary education outcomes by 8.8 per cent, and health outcome by 1.2 per cent. However, the impact depends on the size of remittances: higher the income of the households, higher the propensity to finance education (Amakom and Iheoma, 201, p. 7)

Baré et al. (2022) also found a positive relationship between remittances and human capital development in a sample of 40 Sub-Saharan Africa countries from 1996–2016, emphasizing the mediating role of financial development: more developed financial system could attract more remittances which could be invested into human development, leading to poverty reduction and more equality. Mohamed (2021) examined the impact of remittances on human development in 30 SSA countries for the period 2004-2018. He also found a positive relationship between remittance inflows and human development, evidencing the contribution of remittance flows to improving education and health in SSA.

While in the case of poverty and human development, the impact of remittances is almost straightforward, its impact on *inequality* is inconclusive. The issue is even more pressing, as in Africa the income distribution is greatly unequal, the mean of Gini index was 46.5% in 2016. If remittances contribute to poverty alleviation, as they do, then it might decrease inequality as has been proved by Akobeng (2016): "a 10% increase in remittances will lead, on average, to a 1.5% decline in inequality measured with the Gini index" (Akobeng, 2016, p. 11.) So, remittances might play an income equalizing role through poverty reduction, however, inequality fuels poverty in African countries (Anyanwu and Erhijakpor, 2010, p. 81).

In contrast to Akobeng (2016), Anyanwu (2011) came to the conclusion that remittances increase income inequality: a 10% increase in remittance flows is associated with a 0.013% increase in income inequality in Africa.

As many, and especially highly skilled migrants originate from better-off families, it might happen that their higher remittances might increase inequality in favour of the less poor and urban households and could lead to increase the rural-urban gap (Ghosh, 2006). A further unequalizing factor could be that remittance receiving households enjoy

[16] In 2009 in Nigeria 22.1% of international remittances was spent on education, in Uganda 12.7% and in Burkina Fasso 12.4%. The share of health expenditure was 11.3% in Burkina Fasso (Amega, 2018, p. 11).

higher incomes than non-remittance receivers, consequently, they could spend more on education than non-remittance receiving households which imply prospective inequality.

Impact of remittances on poverty, human development and equality has a multiplier effect on outmigration and the future inflow of remittances.

> If poverty decreases then one of the causes (push effect) of outmigration decreases, however, more people will be in position to leave, will be able to cover migration (travel, recruitment etc.) costs.
>
> Higher human development might lead to more educated and more healthy population who have more opportunities to find job abroad.
>
> If inequality decreases more people can afford to cover the cost of travel and migrate, while in case of unchanged income distribution more people would be motivated to emigrate.

All the three variants might lead to further remittance inflow which might result in further poverty reduction and human development.

**Table 4, Magnitude of skilled migrants from Sub-Saharan Africa**

| Period | Number (in thousands) | % of total migrants |
|---|---|---|
| 1990–1999 | 486.3 | 52.2 |
| 2000–2009 | 895.8 | 57.4 |
| 2010–2018 | 1879.9 | 60.4 |
| 2019–2020 | 2300.3 | 62.8 |

Source: based on Usman et al., 2022, p. 6.

*iii) Brain drain, brain gain, brain circulation*

One of the most hotly debated migration/remittance-related issue is brain drain, that is the outmigration of high-skilled, highly educated persons. All the more, as in the case of Sub-Saharan Africa the share of highly qualified persons is very high among migrants (55.37 % in 2006[17]) according to Niimi et al. (2008, p.12-13) compared to other source countries, while the share of people with tertiary education in the population is the lowest

[17] 30% according to Faini (2007, p. 4); 38% and 36% in Kenya and Uganda, respectively (Nyarko, 2015, p. 5), 63% in South Africa, 65% in Nigeria in 2000 (Esterley, 2008, p. 11).

in the world (3.48% in 2006, Niimi et al., p.12-13).[18] According to data in Table 4 both the number and the share of high skilled migrants have increased in the last 30 years.

The country that suffers the most is Somalia, which accounted for an annual outflow of more than 1300 highly qualified migrants, followed by Mali with 1300, Ghana with 1200, Kenya with1200, Cote d'Ivoire with 1150, and Nigeria with 1100, approximately (Usman et al., 2022, p. 5). So, Africa's brain drain is exceptionally large relative to both total emigration and to the remaining stock. Consequently, Africa loses a significant portion of its scarce, highly educated talented labour force through migration.

Some theoreticians (Esterley and Nyarko, 2008) say that this loss is not so significant quantitatively as brain drain from Africa is relatively smaller than from other part of the world as only 13 percent of African skilled workers residing outside of Africa (Esterley and Nyarko, 2008, p. 9)[19]. The cost of outmigration, including the cost of education is largely compensated by remittances and other benefits: there are more gains than losses without any adverse effect on the stock of human capital remaining in the country, or on the country's economic growth (Esterley and Nyarko, 2008). Albeit others (Faini, 2007; Adams, 2009; and Niimi et al. (2008)) think that the accumulated adverse impact of skilled migration cannot be mitigated through remittances because migrant remittances are lower in countries with a high share of high-skilled among emigrants, and brain drain results in a smaller flow of remittances (Faini, 2007, p. 3). However, brain drain phenomenon cannot be narrowed down to a financial transfer issue.

Though, it is true that highly educated migrants earn more or have the opportunity to get higher wages, however, it is unambiguous whether they remit more. According to the findings of Niimi et al. (2008), they do not remit more as remittances decrease with the share of migrants with tertiary education. Bredtmann et al. (2018) analysing 2000 household surveys from five Sub-Saharan countries (Burkina Faso, Kenya, Nigeria, Senegal and Uganda) share the view that migrants' education has no significant impact on the likelihood of sending remittances, however higher educated migrants remit more, the difference is sizeable: migrants with a university degree remit around 30% or 275 USD more than migrants without a university degree (Bredtmann et al., 2018, p. 25). The reasons of high skilled migrants' propensity to remit less are that they originate from better-off families with less need for remittances[20], they are reunited with their close family and they generally spend longer time abroad with low propensity to return. The higher amount of remittances could be explained by higher earnings, altruistic motives

[18] One-third of Africa's most educated nationals are believed to live outside the continent, primarily in Western Europe and North America (Usman et al., 2022, p. 2.
[19] This figure has already been outnumbered as it is indicated in Table 4.
[20] "Highly educated migrants come from households with a higher income level (13,182 USD) than migrants with lower levels of education (4,616 USD)" (Bredtmann et al., 2018, p. 11).

and that higher shares are transferred through formal channels due to easier access to banking services.

Irrespective of the propensity to remit and the actual size of remittances, we may say that the emigration of highly educated, skilled human capital in the short run is a direct loss, a *brain waste* to the source country[21]. The increasing scarcity negatively impacts economic growth, technological change, human development, income situation, care for family members. Furthermore, brain drain has a detrimental effect on financing education with due regard to tertiary education (Nyarko, 2015, p. 5.). If the "beneficiaries" of investing in education are leaving the country, then the expenditures on education is lost and the returns are enjoyed outside the country: the main beneficiaries are the host, mainly highly developed countries who can get access to highly – but very costly - educated labour force without any investment! In addition, human capital flight and brain drain – together with corruption, income inequality and poverty – do have negative and statistically significant effects on the economic growth performance of the countries concerned (Usman et al., 2022, p. 13.) Consequently, this type of human capital flight should be moderated and/or reversed or internationally compensated. Governments should encourage the return and circulation of brain drainers (including students having studied abroad) via providing incentives (attractive jobs, appropriate remuneration, better working conditions etc.) and strengthen the cooperation between the home and host countries for the benefits of both parties in terms of information sharing regarding potential needs and the destination countries' labour market. It is not exceptional that many brain drainers maintain residences in both countries and besides having a residence in the host country, they return home regularly (Esterley and Nyarko, 2008, p. 29). However, administratively restricting human capital outflow would not close the skill gap[22] and would be counterproductive under the conditions of globalization as most of the African countries cannot renounce remittances and deprive highly educated people of opportunities.

Apart from remittances, there are some other *benefits* of brain drain, that is *brain gain*.

It is beyond doubt that brain drain is beneficial for the *individual* who has a job, earns more than in the home country, works under satisfactory conditions, gains knowledge and expertise, lives at a higher standard, the situation of the accompanying

[21] African continent loses $4.6 billion in training medical doctors who are eventually recruited by advanced countries such as the United Kingdom, the United States, Australia, and Canada. On average the UK saves $2.7 billion while the US, Australia, and Canada save $486 million, $621 million, and $384 million, respectively in training costs for recruiting African physicians (Mo Ibrahim Foundation 2018 cited by Mohammed, 2021, p. 2).

[22] According to Esterley and Nyarko (2008, p. 19), "even if all the African skilled emigrants had stayed at home, …the very low share of tertiary educated people in the population would increase only from 2.8 percent to 3.2 percent".

family is also better and their prospects are also promising. This is the so-called private return (Nyarko, 2015, p. 9). Furthermore, brain drain is beneficial for the sending family/household who can enjoy the *direct positive impact* of remittances sent by brain drainers. Apart from contributing to the sending families/households' welfare, in most cases remittances prove to be sufficient to cover the costs of pre-migration education and other related costs. Furthermore, it is probable that while utilizing remittances, higher share will be used for investing in education, that is to raise brain drainers for the future.

Education could also be an *indirect* beneficiary of brain drain: knowing that migrants with skills and higher education can more easily get job and earn higher incomes, it functions as an incentive to invest in education, and not only from the part of remittance receivers but from non-remittance receiving households and the national economy, too. This might lead to a higher number of educated persons, higher than without the impact of migration and remittances. One part of the newly created human capital also will leave for better life and send remittances and return after a while with skills. The other part will not be able to migrate, to find a job abroad, to become a brain drainer. Staying at home they might contribute to increasing the stock of highly skilled and educated people, to diminish human capital loss due to brain drain and to enhance the country's human development. So, brain drain via investing remittances and other sources into education might lead to more "brain" than lost by brain drain, might result in real brain circulation.

A further benefit of *brain gain* is conveyed by *return* and *circulation of brain drainers.* Their skill acquisition, expertise, trading/business network and diffusion of knowledge certainly have a positive impact on the economy, let alone the innovative ideas, dynamism, values, attitudes, behaviours, new activities (internet café, private schools) etc. leading to more openness, social mobility, democratization and modernization.

*iv) Dutch disease*

The last concern to be mentioned in connection with the impact of remittances is the risk of remittances causing "Dutch disease" in the recipient African nations. According to the *resource curse theory* the massive inflow of foreign exchange, let it be in the form of export revenues, aid, FDI or remittances, might lead to the appreciation of the local currency making the export goods more expensive and the import goods cheaper causing problems for the country's current account. However, an appreciated exchange rate is only an indicative but not a proof for the presence of the Dutch disease as two further characteristics should be there: the spending effect and the resource movement effect.

*Spending effect* means that aggregate demand – fuelled by higher disposable income - increases for non-tradeable sector (production for domestic consumption, services) goods relative to tradable sector or the traditional sector (industry and

agriculture) goods. This shift results in price increase in the non-tradable sector as the prices for tradeable goods are exogenously (internationally) given; that corresponds to real exchange rate appreciation.

*Resource movement effect* means that due to the above price changes, resources (capital and labour) move from tradable sector to non-tradable sector, increasing the production costs and the prices of tradeable sector goods and making exportable goods less competitive internationally. Though remittances are household/microlevel flows, however, they create significant macroeconomic impacts through consumption and labour channels (Guha, 2019, p. 3).

While there are many studies about the remittance-exchange rate nexus, there are only very few about the existence of remittances fuelled Dutch disease, especially in the case of Africa.

Acosta et al. (2009) analysed the effects of both altruism and self-interest motivated remittances in the case of El Salvador, which highly depends on remittances (18.4% of GDP in 2007). Their main finding is that mainly altruistically motivated remittances leads to labour supply decline and an increase in consumption demand that is biased toward non-tradeables, resulting in higher non-tradable prices and the reallocation of labour away from the tradable sector to the more labour intensive non-tradeable sector. It has been proved that remittance inflow leads to the Dutch disease phenomenon.

Lartey et al. (2012) revealed that increasing remittances in emerging countries have important spending effect that would lead to real exchange rate appreciation and a resource movement effect that favours the non-tradable sector at the expense of tradable sector. These results confirmed the Dutch disease effect in the selected countries which operates stronger in the fixed exchange rate regimes.

Guha (2013) in his paper applies the Dutch disease theory to explain the micro- and macroeconomic effects of remittances in the case of Bangladesh. It is evidenced that remittances, by altering the household budget constraint, have a direct impact on the micro level household decision with respect to consumption and labour supply which at the macrolevel leads to a decline in the output of the trading sector and has an adverse impact on the external sector of the economy. His policy advice is to encourage a more 'productive usage' of remittances.

Polat and Andrés (2019) examined the effects of inflows of workers' remittances on the movements of real exchange rates from 1995 to 2014 in the case of 41 developing countries. Their main conclusion is that real exchange rate is negatively correlated with remittance inflows but positively correlated with the lagged value of remittance inflows. Remittances first depreciate real exchange rate if repatriated earnings are mainly devoted to tradable goods. As this option reduces the real value of domestic households' income,

migrants feel obliged to remit more in coming years. Thus, expectations of larger remittance flows in coming years are likely to lead recipients to use the rest of the previous years' remittances inflow for consumption, in both the non-traded and traded goods sectors in the current year. This response creates a 'Dutch disease' impact in the market.

Olenipekun (2022) in the case of 26 Sub-Saharan Africa countries in the period of 1981-2018 empirically investigated the effects of remittances on actual exchange rates and on resource movement from tradable to non-tradeable sector at aggregate level, both in the CFA franc and non-CFA zones, separately. The study found that at aggregate level remittances did not lead to exchange rate appreciation, however, they led to resource movement from the tradable to the non-tradeable sector in the long-run.

In the CFA zone remittances inflow led to real exchange rate appreciation: a percentage increase in remittances led to about 3.9% real exchange rate appreciation; this implies that remittances caused high spending and resulted in export competitiveness loss. Apart from revealing the spending effect, the resource movement effect was also confirmed in the case of CFA-zone: 10 percent increase in remittances led to 0.5 percent increase in resource movement towards the non-tradeable sector, supporting the Dutch disease hypothesis. However, in the non-CFA zone the effect of remittances on the real exchange rate and on resource movement were not statistically significant. The difference in impacts of remittances in the two zones is due to the differing exchange rate regimes: while in the CFA zone exchange rate is more fixed, in the non-CFA zone it is relatively flexible. In order to reduce the negative impact of remittances, in the CFA zone remittances should be channelled towards investment in agriculture and industry (tradable sector) in order to support production of tradable goods and reduce the negative impact of remittances in the tradable sector.

There is no sufficient amount of evidence about the existence of the Dutch disease in Africa. However, under certain conditions large inflows of workers' remittances:

a) might allocate capital and labour resources from tradable production to non-tradable production,

b) might cause real exchange rate appreciation, reducing the competitiveness of tradable goods while most of the African countries highly depend on the export revenues,

c) the degree of exchange rate appreciation depends on the consumption pattern of the remittance receivers: higher the share of tradeable goods, lower the effects of appreciation,

d) the risk of remittances causing "Dutch disease" is low compared to the resource-rich countries or to other type of financial inflows (Ratha et al. 2011 cited by Nsiah and Fayissa, 2015, p. 13).

A further issue which might be considered and researched is the following: if the exchange rate appreciates with capital inflow and depreciates with capital outflows in a floating regime, then in the case of Africa the massive outflow of financial resources can work against any potential appreciation due to remittances inflow. As we have calculated while in 2019 the inflow of remittances equalled 2.8% of the GDP of Sub-Saharan Africa, the outflow in the form of capital flight and illicit financial flow accounted for to 5% of the GDP (Kiss, 2022).

**Overall assessment and policy implications**

Our findings about the micro- and macroeconomic impacts of remittances have been summarized in the tables 3 and 5.

The main positive impacts of remittances at the level of *households* and individuals are as follows:

- as the majority of remittances in Africa are still spent on consumption, so they contribute to smoothing consumptions through their countercyclical nature, meet basic needs, ensure food security, increase living standards, reduce poverty and inequality, it functions as a safety net and an insurance
- contribute to investment in physical infrastructure, human development, mainly education and health care and small businesses
- ease budget and credit constraints, increase credit supply, functions as a bank
- strengthen family ties and empowerment of women
- they have an indirect macroeconomic impact through spill-over effects on financial development, economic growth, human development.

However, we have revealed some negative consequences, namely:

- conspicuous consumption, increasing demand for imported goods, demonstration effect, few productive investments
- moral hazard, reduced labour supply, over-reliance on remittances
- increasing income inequality between the households, social stratification, disintegration of families

As the *macroeconomic impacts* are concerned (see Table 5) the main revealed positive impacts are:

- financing development, increasing international reserves, improving balance-of-payments
- stimulate economic growth, enhance investment
- promotes financial development

- contribute to human capital development, reduce inequality and poverty
- causes brain gain.

The main negative consequences at macroeconomic level are:

- misuse and/or abuse of financial resources for financing terrorism, civil wars, conflicts
- money-laundering, corruption, capital flight
- increasing inequality
- brain drain, human capital flight
- Dutch disease

**Table 5, Balance of macroeconomic impacts of remittances**

| Positive/Gains | Negative/Losses |
|---|---|
| financing development | financing terrorism, civil wars, conflicts |
| forex inflow → improve balance-of-payments, increase reserves | money-laundering, corruption, capital flight |
| stimulate economic growth, enhance investment, smooth consumption | no economic growth stimulation |
| promotes financial development | |
| human capital development | |
| reduce inequality | increase inequality |
| poverty reduction | |
| brain gain, brain circulation | brain drain, human capital flight |
| | Dutch disease |

Source: own compilation

Looking through the short and long-run, direct and indirect microeconomic and macroeconomic impacts of remittances we may conclude that the overall balance is *positive*, as we have found more gains than losses, more pluses than minuses. Our *first hypothesis* has been justified, declaring that the economic development enhancing (positive) effects of remittances proved to be higher than the negative consequences, especially at the level of households and individuals, so the overall balance of remittances is positive (favourable).

As remittances became the most important external source of financing economic growth and development (Kiss, 2017), the future of Africa's development highly depends

on the sustainability of remittance inflow and on harnessing the development potential of remittances. This statement is the basis of our *second hypothesis*, that is, remittances might lead to sustainable growth and less dependent development, provided that a great number of prerequisites are met.

a) As the main source of remittances is migration, the governments should have a clear-cut *policy* framework and *strategies on migration*, embedded in international socio-economic-political context, in co-operation with the potential destination countries. Continued, sustained and managed migration is a prerequisite for sustaining the inflow of remittances.

b) As remittances seem unique, relatively stable and resilience, non-debt generating, un-conditional, alternative external sources of financing development, and their overall impact on growth and development is positive, their volume should be increased as suggested by Sustainable Development Goals (SDG indicator 17.3.2). One of the ways is through directing higher and higher share of earned remittances from *informal towards formal* channels by enhancing financial development leading to the decreasing of *transaction costs* (SDG indicator 10.c.1). The other way is to better position African migrants in the international labour market. However, over-reliance on remittances – both at household and national levels – should be avoided, remittances are not substitute for export revenues, or aid, or FDI, only supplement to these resources. They neither are a substitute for a sustained, organic development.

c) In order to increase the amount of remittances inflow, higher earnings of the increasing number of migrants will not automatically lead to increasing remittances, till their *propensity and motivation to remit* remain unchanged. With time and improving living conditions the altruistic motive going to decay and/or vanish. For the self-interest motive to work, conducive socio-economic-political conditions, basic physical infrastructure, stable macroeconomic environment, improved market integration, strong institutions are needed which can be facilitated by the governments' pro-active, pro-growth and pro-poor macroeconomic policies. These would ensure rapid economic growth, equitable distribution of income, reduced poverty, higher standard of living, leading to greater propensity to remit for not only altruism but also self-interest purposes.

d) The pattern and effectiveness of remittances *usage* also should be changed in order to increase the developmental impact of remittances. First, the misuse/abuse of inflowing resources should be decreased by fighting against money-laundering, corruption and capital flight through promoting political stability, transparent legal system, good governance and rule of law. Secondly, the share of consumption should be decreased in favour of investments, remittances need to be channelled into *productive* investments. It presupposes increasing

living standards on the one hand, and conducive, investment friendly environment and attractive investment opportunities, on the other. Furthermore, the issue of moral hazard, especially reducing labour supply leading to Dutch disease, should be handled at household level.

e) *Financial development* is the focal point in the migration-remittances-development nexus through harnessing these transfers into more developmental outcomes. It facilitates the transfer of remittances from informal, unrecorded towards formal channels resulting in decreasing transaction costs and from consumption towards savings and productive investments leading to economic growth. Financial policies should be focused towards improving the financial sector performance, to make domestic currency internationally competitive, to eliminate parallel exchange rates, to ensure exchange rate stability, to introduce more flexible exchange rate regimes instead of fixed exchange rate regimes in order to avoid exchange rate appreciation and implementing sound financial reforms to deepen the financial sector and increase financial inclusion.

f) Enhancing *human development* with special regard to education, including tertiary education should be prioritized by the African governments, even if it leads to further brain drain. Instead of discouraging the outflow of highly skilled and qualified Africans, brain gain and return migration, brain circulation should be promoted. Having an effective brain management might convert brain into a development source.

g) As the African migration pattern is unique in the sense that majority of African migrants, at least 70 percent, migrate to other SSA countries, ensuring gradually increasing remittances inflow is a common responsibility and highly depends on the growth, development and political and economic stability of the *whole Sub-Sahara African region*.

## Conclusion

The aim of the paper was to introduce and analyse the positive and negative micro- and macroeconomic effects of remittances in its complexity, in the migration-remittances-development context and to draw the overall balance from a political economy perspective in the case of Sub-Saharan Africa. After having introduced the basic facts about African migration and remittances flow, we came to conclusion that remittances became unique, relatively stable and resilience, non-debt generating, alternative external source of financing development.

The impact of remittances is mainly determined by the motivation to remit and the determinants of remittances. In the case of Africa, the main motivation is still altruism

mixed with self-interest based on endogenous migration, exchange and portfolio approaches with countercyclical and procyclical nature. The size and frequency of fixed and discretionary remittance inflow depend on the stock, type, legal status, personal character, individual behaviour, qualification and educational attainment of migrants, the political and economic situation of the host and the home countries, and the transaction costs.

Based on remittance-developmental pluralist school of thought and on relevant academic sources, we managed to justify our first hypothesis, that is the economic development enhancing (positive) effects of remittances proved to be higher than the negative consequences, especially at the level of households and individuals, so the overall balance of remittances is positive (favourable), though the results are not in all cases straightforward.

As remittances became the most important external source of financing economic growth and development, the future of Africa's development highly depends on the sustainability of remittance inflow and on harnessing the development potential of remittances. Africa should promote and sustain the inflow of remittances and strengthen the positive impact on economic growth, savings and investment, financial and human development, poverty and inequality reduction, and minimize/handle the negative consequences, like corruption, capital flight, inflation, moral hazard, brain drain, Dutch disease.

The research results are expected to draw the attention to the vital importance of remittances in financing and enhancing development in Africa, especially these days when coronavirus pandemic and other calamities - leading to economic recession and limiting mobility - might endanger the sustainability of remittances inflow.

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