

What determinants affect remittance trends and patterns in ethiopia



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Migration by its nature has negative impacts to the emigrant countries through “ brain drain” especially to the developing one. (HDR, 2009) states that mobility of skilled human power harms the economy of the origin country especially for small states and poor countries. Apart from the economic point, there are also other associated problems that can’t be measured in terms monetary aspects. People move within their country or cross their borders with the hope of getting better opportunities benefiting the people migrating, their families as well as their areas of origin and destination (HDR, 2009). Though it is not an easy task to come through different challenges, there are many people who combine their efforts and talents to expand their opportunities by moving into other better areas. Successful immigrants keep connected with their home country and send what is usually expected from them. The benefits could be direct remittance sent to family or for other purposes and could also be in other multidimensional effects such as technology transfers, ‘ brain gain’ and help strengthen diplomatic efforts in their destination and international stages. (HDR, 2009) argued that moving generally brings benefits most directly in the form of remittance sent to immediate family members, thereby generating jobs for local workers as multiplier effect and behavioural changes in response to ideas from abroad. The benefits even go beyond this by increasing investment level of their origin. Further, the same report states that at the place of origin, impacts can be seen in income and consumption, education, health and broader cultural and social process. Moreover, the macro impact can be visibly seen in the countries’ foreign currency reserves. This is because foreign currency reserve is one of the most important components for economic growth of developing countries. Murinde, 1993 ac <https://assignbuster.com/what-determinants-affect-remittance-trends-and-patterns-in-ethiopia/>

cited in Elsakka and McNabb (1999) argued that remittances are major sources of foreign exchange for many developing countries where its limited availability acts as a major constraint on economic development programmes and stabilization policy. For countries like Ethiopia which witnessed shortage of foreign reserves for the last three years, it is so crucial to think about how national policy can be made favourable for remittance flow. The increase in remittance not only helps in solving the foreign reserve crunch but also contributes to poverty reduction programmes through the increase of consumption at household level, encouraging investment, creating additional savings to the economy and through other multiplier effects. However, too much remittance could make the economy dependent on it which will affect the diversification of the economy for export and production. McCormick and Wahba (2000) argued that one of the drawbacks of remittance for the receiving country could be "Dutch Disease" as the economy of the home country can weaken as a result of receiving remittance. Further, the dependency on remittance could make the economy susceptible to external shocks that could decline the flow of remittance as happened in 2009 global economic downturn. But still remittance has been less volatile to external shocks than other sources of capital such as export, FDI and foreign aid in the same period when there was decline in capital flows to developing countries in the global financial crises. Remittance could be more stable than private capital flows, and that they might even provide a stabilizing element during periods of financial instability (Buch and Kuckulenz, 2004). In anyway, for countries like Ethiopia which badly needs capital inflows, this shouldn't be a concern as the country is suffering from shortage of foreign currency reserve for importing basic and capital goods. <https://assignbuster.com/what-determinants-affect-remittance-trends-and-patterns-in-ethiopia/>

Further, dependency on remittance wouldn't be a threat as the country is progressing economically by diversifying its exports and attracting more FDI ever. Recipients however should also consider the availability of these funds could develop a continuing trend of migration of working age population (ibid: 2004). Remittance therefore could be incentives for the working age population and for the educated ones to migrate which in turn affects the overall growth of the economy in the long run. The main focus of this study will be on matters associated with remittance and its determinants.

International remittances refer to the money and goods that are transmitted to households by migrant workers outside their origin countries (World Bank). The Remittance industry is one of the multi-billion industries in the world which helps countries get foreign currency from different sources abroad. The volume of remittance flow is increasing in many folds from year to year especially starting from the 1990s. The amount has shown an increase of ___ fold from __ in ____ to 316 billion USD in 2009 (WB, 2009). Globalization, decreasing cost of transfers and the increase in technology usage in the business could contribute for the faster increase in the flow. Remittances have been identified as the third pillar of development as their volume is second to foreign direct investment and higher than overseas development assistance.[1]Remittance enables income redistribution between persons and across sectors, increases consumption in excess of locally generated income and is used as source of additional capital fund (Lucas and Stark, 1985). It is for this big reason that governments have been taking different initiatives for increasing the proportion of capital flows to their account and actually the business has increased tremendously for the

last few years. Its importance is inevitable especially for those developing countries which often suffer due to short of hard currency. Since 2008, developing countries have experienced foreign currency crises which in some of them resulted in shutting down businesses, high inflation, increasing the poverty level which in turn led to clashes between government and ordinary people. The World Bank's official data shows that remittance flows to developing countries reached \$316 billion in 2009, down 6% from \$336 billion in 2008 but is expected to increase by 6.2% to \$335 billion in 2010 (World Bank, 2010). Unofficial remittances are believed to be large enough to underestimate the figure of the total remittance flow. However, Official Development Assistance was three times less than the above figure at the same period. This is not to underestimate the volume of ODA given to developing countries, but to show how much attention is given to ODA than to remittances as sources of capital flows. The same data sources (WB and ODA figures) reveal similar trends for Africa. Some studies on this issue show that remittances have direct implications for the development of developing countries both in household and national level. However, some countries are not giving that much emphasis for changing and increasing remittance flow to their country; if taken, the initiatives are not enough to bring change.

Ethiopia like any other developing country needs remittance flow to its account so as to help the country's overall development. It is one of the countries which passed critical times since 2008 due to hard currency crunch. Still there is no guarantee for this problem. For passing these hard times, the country has been dependent on foreign aid from the IMF to stabilize its economy.[2]Further the country has also been one of the main

recipients of foreign aid from other sources. Ethiopia stands third next to Iraq and Afghanistan on the list of ODA recipient by taking 3% of the total Official Development Assistance given to developing countries in 2008 (ODA, 2010). This doesn't include the capital flow from China and India which they are becoming another source of capital for Ethiopia and other African countries. However, capital flows to Ethiopia through remittances is very low when compared with the ODA and other unofficial foreign assistance. Official data from the WB shows that remittance flow was 387 and 383 million USD in 2008 and 2009 respectively. And this flow accounts 1.5% of the GDP as of 2008.[3] Even with simple comparison, the remittance flow is four times as low as the amount Kenya receives from the same business. The flow of remittance to Kenya was 1692 and 1572 billion USD in 2008 and 2009 respectively.[4] This comparison only shows the gross flow of remittance to Ethiopia and Kenya as my main intention is to look how low the flow to Ethiopia is. To the contrary, in 2005, Ethiopian stock of emigrants was 445,926 and that of Kenya was 427,324 (WB factbook, 2008) which makes Ethiopia advantageous over the number of people living abroad. There can be other factors that determine remittance flow; however, Ethiopia at least should have benefited more from the gross remittance flow than Kenya depending on the stock of emigrants which the actual trend is the reverse. Even without comparison with any country, the remittance flow to Ethiopia is very small.

What triggered me to deal with this issue is that; first, the flow of remittance to Ethiopia is much lower than from what I expected. Second, as can be seen from the above comparison with Kenya which they lay in the same

geographical, social, economical and political standard in many aspects, Kenya suppressed its East African competitor by four fold in the gross remittance flow and actually Ethiopia should have been benefited more.

Third, what is the reason behind this? Where the difference does lays, from the Ethiopian Diaspora or from the national policy? My aim in this study is to look into what are the determinants that made remittance to Ethiopia so low by mainly focusing on the Ethiopian Diasporas' patterns of remitting.

Research questions:

The research problem is already explained above. To deal with the research problem, this study will focuses on the following research questions:

What are the determinants that affect remittance trends and patterns of the Ethiopian immigrants in Sweden?

What are the factors that affect remittance flows to Ethiopia?

What makes remittance flows to Ethiopia very small? Is it in the national policy related to remittance and capital flows or it is in Ethiopian immigrants?

How can this business work better for Ethiopia as source of hard currency?

Methodology:

The study will apply qualitative method for investigating the research questions. This method is selected based on the appropriateness to the research issues considering the effectiveness of the method to investigate research questions in depth and suitability to the phenomenon.

Controversies have raged over the appropriateness of research methods in

the social science as whether to use qualitative or other methods (Mikkelsen, 2004: 141). Flick, (2009: 15) discussed that in scientific discipline; methods become the point of reference for checking the suitability of ideas and issues for empirical investigation and should be appropriately selected and applied. Moreover, the method helps in exploring the actual explanation of facts behind the research problem. However, making generalization based on the findings is difficult as the samples taken for the study are limited in proportion for the intended generalization. (Flick, 2009: 122) asserted that generalization is not in every case the goal of qualitative study. Qualitative study typically focuses on compiling a selection of micro-level case studies which are investigated using a combination of informal interviews, participant observation (Dessai and Potter, 2006: 118). It could also include exploring policy documents and other material for complementary purposes. In order to facilitate these all, a case study will be used. This is because case study helps the study to be more specific on the key aspects and focus on the issue. Thus, the research will use Ethiopian immigrants in Stockholm, Sweden as a case study. The target group will be Ethiopians living in Sweden as the writer is also living in Sweden and at the same time Sweden is one of the top favorable destinations of Ethiopian immigrants (Sweden is within top 10 as a stock to Ethiopian immigrants). Interview with selected Ethiopian immigrants in Stockholm will be used for collecting data along with other secondary materials. Semi-structured and open ended questions will be prepared for the interviews so as to use the advantage of high degree of flexibility during the interview. Different themes will be created while preparing the interviews so as to structure the different issues and aspects on the remittance trends of the specific interviewee.

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Sampling

Different sampling methods are combined depending on the particular dimension of the issue being considered: different purposive sampling techniques, identification of key informants who possess the particular knowledge sought and also 'random encounters' to cross-check information or highlight yet more differing perspectives on the same problem (Dessai and Potter, 2006: 118). By doing so, the researcher will select the appropriate people or target group which will enable the study in getting reliable information. The study will use purposive sampling and key informant selection for interview. The sample will include both male and female interviewees; it will also consider taking those who have investment in Ethiopia and those who don't have, this is because investment is one factor that could affect money flow. In addition to this, the sample will consist people of different backgrounds. Apart from these interviewees, one interview will be held with the head of the economic affairs of Ethiopian embassy official if the embassy allows. This will give another perspective to the study.

Theoretical framework

Theory increases our awareness of interconnections and of the broader significance of data. Without making theory explicit, it is easy to fall into the trap of hazy thinking, faulty logic, and imprecise concepts (Mikkelsen, 2004: 156). Indeed, theory helps us to have better understanding of the study prior to the start of the project and connect the findings of the research with the existing knowledge of the issue. It is also sound to link the theory with the

empirics of the study throughout the research process. For this big reason the research will use a theoretical framework which suits with the study.

The literature available on the subject, determinants of remittance flows from emigrants has almost developed into two thoughts viz. the micro-economic and the macro-economic factors which it meant that most studies have been made on micro-level and macro-level. (Lucas and Stark, 1985; Lucas and Stark, 1988 ; Agarwal and Horowitz, 2002; Adams, 2008; Dustmann and Mestres, 2008; Gupta and Hedge, 2009) could be studies that support the micro-economic thought and (El-sakka and McNabb, 1999; Buch and Kuckulenz 2004; Higgins et al, 2004 and Ratha, 2003) could be in support of the macro-economic factors. These two theories give their own explanations on what affects the migrants' behavior in remitting. For instance, (Lucas and Stark, 1985) in giving the initial model for the micro-economic theory of remittance argued that emigrants are motivated for remitting due to many reasons ranging from pure altruism to self interest including mutual agreements between migrants and family. Moreover, the models did show that migrants are said to be altruistic if the flow of remittance increased with a decline in family income back home; whilst, if remittance flows are directly related with the family income back home, then they are said to be self-motivated (ibid, 1985). Beyond these two pure factors of altruism and self-interest, (Lucas and Stark, 1985) have also discussed " tempered altruism" and " enlightened self-interest" to refer to the remittance motivated by a combination of altruism and self-interest. The combination is meant to show the possibility of remitting based on contractual agreements made between the migrant and the family back

home so as to get mutual benefits. Independently after almost two decades of the above theory of Lucas and Stark, (Agarwal and Horowitz, 2002) pointed out that the two primary incentives explored in the remittance literature are altruism and risk sharing (some sort of self interest according to Lucas and Stark, 1985) which is similar concepts to other literatures but slightly different. In the same theoretical explanation, however, (Quinn, 2005 as cited in Niimi et al, 2009) in contrast, suggested another model of remittance behavior whereby remittance are treated as both consumption transfer to households and as alternative saving mechanism for migrants. Many immigrants use the alternative saving mechanism when they think that they will be back to their country of origin some day in the future. Under such circumstances, immigrants want to own fixed assets that will help them live without any problem upon return. Though it is not usual to see immigrants returning to their country of origin; this increases the flow of remittance. (Dustmann and Mestres, 2008) contended that immigrants' return policy increases the probability of remitting more motivated by holding assets and savings in home country for future purposes. Similarly, remittances are also attached with household consumption especially in the altruism concept so as to take care of family in origin country. Depending on these theoretical arguments, it can be said that income of both the household back home and the migrant determines how the remittance flow could be. Income of the migrants has many factors that could affect which otherwise would contribute the lion share in determining how to remit. Buch and Kuckulenz (2004) claimed that microeconomic factors such as education and income level of the migrant and his family are the main determinants of remittance. Briere et al (2002) and Agarwal, Buch and Kuckulenz (2004) also <https://assignbuster.com/what-determinants-affect-remittance-trends-and-patterns-in-ethiopia/>

found that migrants' destination, gender and household composition are the other factors that affect the flow of remittances. Adams, Gupta.....

On the other hand, at the macro-level, factors operating in both the host and the country of origin will affect the flow of remittance (El-sakka and McNabb, 1999). However, for countries who would like to maximize the capital inflow it looks difficult to frame policies based on the different factors of the host country as it is out of their control. Indeed, the factors in the host country are important components behind the motivation of the remitter as these factors affect the remitters income status. These are related with economics nature of the host country which have direct impact upon wages earned by the migrants and this in turn will determine their won consumption and saving behavior and thus the potential amount to be remitted. This type of experience can be easily found from the 2009 global financial crises which affected the income of migrants and eventually decreased the capital inflow to developing countries. The decrease in remittance to developing countries in this period has bitterly affected those countries which depend on remittance for their national foreign currency reserve. This gave these countries a message to review their remittance related policies and diversify their source of capital funds. El-sakka and McNabb, (1999) suggested that macro-economic factors such as interest rates, exchange rates and political instability of the country of origin affects the behavior of remitters. Accordingly, they argue that macro-economic factors should be suitable enough so as to encourage remittance flows to the country of origin. For these reasons countries would like to make exchange rates competitive by depreciating their own currencies with the intention of attracting more

capital inflows, but sometimes it is associated with risk of bringing high inflation rate for the country. El-sakka and McNabb, (1999) on their part argued that higher inflation could discourage the flow of remittance as higher inflation rate could be a sign of economic and political instability. To curb such associated problems, therefore, different variables should be taken into consideration while framing remittance related policy. On the other hand, empirical analysis using data from Egypt shows that remittance flows are responsive to interest rate and exchange rate differentials (ibid, 1985). Attractive interest and exchange rates would eventually lead immigrants to think of investing their money in their home country. Ratha (2003) also suggested that macroeconomic policies of the country of origin matter a lot whether remittances are to be invested or not. If remittances are encouraged to be invested, there is better chance for the economy to get more than two benefits from the same source. Interest rate differential between country of origin and host country, government domestic policies, wages, political risk factors and the rate of inflation determines remittance flows (Buch and Kuckulenz 2004).

Since the aim of the study is to find out the factors that determine the patterns and trends of remittance flow; the two approaches can contribute some from different perspectives in framing the better solution for the research question. Off course, both the micro and macro level factors focus on the individual behavior of the remitter from personal experience and from national policy perspective. The personal experiences are those factors that affect at the micro-level: whilst, the national policy factors are those at macro-level factors that contribute in determining the individual's behavior

in remitting. However, in most literatures the advocates of each approach neither discussed nor ruled out the counter ideas. For instance, the micro-economic theorists didn't discuss the possibility of macro-economic factors and the same goes for the macro-level theorists. This makes difficult to uncover the exact relationship of each theory and what they actually think of each other. For instance, Buch and Kuckulenz (200) argued that the main problem of microeconomic case studies is that they tend to undervalue the macroeconomic impact of remittance by focusing on isolated communities. (reference for combined studies). Thus, this study will have the chance to investigate this problem by looking into both approaches at the same time and adding up other perspectives beyond the economic theorization. The two theories focuses on the economic determinants of remittance, however, this study will go beyond this and touches other aspects that affects the patterns and trends of remittance flow. The study will also add another perspective to the remittance literature by going deep using qualitative method of studies. This is because most studies on this business have been made using quantitative method. This means, this theoretical framework adds other variables such as cultural, social and political factors that affect the flow of remittance.

In a different perspective, Elbadawi and Rocha (1992) discussed concerning motivations to remit as two broad approaches viz. the endogenous which is based on the social and human aspects that cause remittance and the exogenous which is based on only the economic aspects.