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Full Length Research Paper

International remittances and well-being in Sub-saharan Africa

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This paper examines the impact of international remittances on well-being in sub-Saharan Africa, using a set of cross-country data drawn from 38 countries and a multiple regression analysis. The result obtained from the analysis indicates that international remittances have to some extent contributed to the improvement of well-being in sub-Saharan Africa. However, for international remittances to continue to be relevant to the well-being of the people of sub-Saharan Africa, measures such as sound macroeconomic policy, flexible financial sector infrastructure and low transaction cost of fund transfers, conducive investment climate with stable political environment, adequate checks on the incidence of money laundering, greater transparency in the transfer of fund between the sender, the disbursing agent and the receiver, adequate protection of the customers, financial security and risk management practices were suggested.

Key words: Remittances, well-being, Africa.

INTRODUCTION

International remittances are financial assistance from relatives living in other countries that are hardly noticed and discussed as important components for poverty reduction and economic development, especially in less developed countries. For instance, in 2006 alone the total international remittances to less developed countries was about $55.9 billion which accounted for about 3.6% of the Gross Domestic Product (GDP) of these countries and the largest sources of domestic finances after direct foreign investment (Ratha, 2005; id21 Insight 2006; World Bank, 2008a; World Bank, 2008b). In sub-Saharan Africa, the total amount of international remittances was $10.8 billion in 2007 which was 1.6% of the GDP (World Bank, 2008a).

In effect, international remittances are known to have argument the recipient country's income and consumption and increase the county's foreign exchange reserve, impacted positively on saving and investment, lift people out of poverty and had an equalizing effect on the distribution of income among socio-economic groups (Chimhowu et al., 2005; Ratha, 2005; Sander and Maimbo, 2005). However, this significant importance of international remittances could not be authenticated in Sub-saharan Africa, especially when linked to the well-being of the people without testing the validity of the claim. As an effort in doing this, a number of questions that are critical to the understanding of the impact of international remittances on well-being in particular and economic development in general were raised. One of such question is: Do international remittances have any significant impact on well-being in sub-Saharan Africa? This question is what this paper sought answer for, using a set of cross-country data drawn from 38 countries in sub-Saharan Africa and a multiple regression analysis.

Conceptual Clarification: International Remittances and Well-being

International Remittances

This section reviews the various conceptual issues that are relevant to the paper. Existing literature on international remittances and well-being are centered on the de-

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terminants, the consequences and the trend of international remittances and the indicators of well-being. Drawn from some of the literature, international remittances are generally referred to as portions of the earning an immigrant sends to relatives back home, often referred to as the recipient country (id21 Insight, 2006; Biller, 2007; Wikipedia, 2008). They are also said to be stable and least volatile sources of foreign exchange earning for developing countries, especially when compared to capital flows that tend to rise during favorable economic cycles and fall in bad times.

International remittances are usually determined by the following factors in the recipient countries;

(i) Sound economic policies with flexible foreign exchange controls.
(ii) Flexible financial sector infrastructure and low transaction cost of fund transfers.
(iii) Greater international labour mobility.
(iv) High level of debt relative to GDP.
(v) Conductive investment climate with stable political environment free from corruption.
(vi) Trade openness
(vii) High level of inequality.
(viii) When migrant workers are forced to return to their home country (Chami et al., 2003; Gupta, 2005; Ratha, 2005; Sander and Maimbo, 2005; Karpowicz, 2006; Nery-Saca and Caceres, 2006; Roache and Gradzka, 2007; Niimi and Ozden, 2008; Lopez et al., 2008).

Several studies have also shown that international remittances argument the recipients' income and increase their countries' foreign exchange resources. If international remittances are invested, they contribute to output growth. If they are consumed, they generated positive multiplier effects. International remittances are also believed to have a positive impact on saving and investment, which on the other hand provide the hard currency required for important scare inputs that are not available domestically.

International remittances may also serve as insurance policies against risk associated with new production activities. They are also known to have reduced income inequality and lift people out of poverty. For instance, for every dollar Mexico received from migrants working abroad, it Gross National Product (GNP) increased by between US$ 2.69 and US$ 3.17. Household survey in Pakistan also indicated that in the late 1980s and early 1990s, the marginal propensity to save was higher for income from international remittances than for domestic urban-to-rural remittances. Moreover, in Mexico international remittances have led to an equalizing effect on the distribution of income among social economic groups (Giuliano and Ruiz-Arranz, 2005; Ratha, 2005; Browne and Mineshima, 2007; Calderon et al., 2008; Fajnzylber and Lopez, 2008; Acosta et al., 2008a; Peria et al., 2008).

Sander and Maimbo (2005) saw the consequences of international remittances from three prospective; macroeconomics, microeconomics and communal. From macroeconomic angle, international remittances constitute a major source of foreign exchange, influence the national balance of payment, and represent a substantial share of the gross domestic product in many countries. From microeconomic angle, international remittances are income transfer from relatively richer to relatively poor individual and constitute a family welfare system that smoothening consumption, alleviates liquidity constraint and provides a form of mutual insurance. International remittances are mostly used primarily for consumption and investment in human capital (education, health and better nutrition). Investment in land, livestock and housing is also relatively common but secondary to satisfying daily needs and meeting expenses related to human capital. At the communal level, it is understood that some migrants do participate in diasporas, community or religious group in the host country and send collective remittances to the home communities. Often, these international remittances are collected through fund raising events and are applied to a range of investment, including building or renovating schools or health centers (Neawland and Partrick, 2004; Adams, 2006; Abdih et al., 2008; Acosta et al., 2008b; Acosta et al., 2008c).

Chimhowu et al. (2005) reiterates that at household level, international remittances have contributed to increase in income, consumption smoothing, saving and asset accumulation (liquid and non-liquid assets), collateral for loans, liquidity in terms of crisis, improved access to health care services and better nutrition that is potential for improved productivities, create easy access to better education and reduced child labor, increased social capital and ability to participate in social groups and activities, saving clubs and money rounds, and improved access to information. At the community level, international remittances have improved local physical infrastructure, growth of local commodity markets, development of local capital markets, availability of new services (e.g. housing, retails trade, travel and construction), development of new development institutions, changes to cultural practices, especially attitude towards girl education, generation of local employment opportunities, reduction of inequality between households, particularly poor households. At the national level, international remittances has reduced inequality among countries as it exceed official aid transfers in some regions (Bouhga-Hagbe, 2004; Gupta et al., 2007; Acosta et al., 2008a; Acosta et al., 2008b; Acosto et al., 2008c; Bracking and Sachikonye, 2008).

On the contrary, dependence on international remittances will leave households vulnerable to changes in migration cycles, spent on unproductive investment and short-term consumption gains, adopt innovation not suitable for the local environment, increase inequality between households with access to international remittances and those without, transit negative cultural practices that reduce local quality of life, reduce GDP when there are fluctuations in exchange rates, increase the growth of the parallel foreign exchange markets and money laundering (Chimhowu et al., 2005).

Data on the trend of international remittances in Sub-saharan Africa are hard to come by because official international remittances data for the region do not show a rapid and proportional rise in international remittances. The disparity is probably reflected in growth of unrecorded international remittances–composed of un-captured formal flows and flows through informal transfer channels (Sander and Maimbo, 2005).

Inspite of these difficulties, a number of studies had made effort in providing the trend of international remittances in sub-saharan Africa. As indicated in Table 1 countries like Malawi and Sao Tome and Principe had the lowest inflow of international remittances in 2007 (about $1million). This rate could be said to be in consonance with the rate of emigrants recorded that year in the countries. The country with the highest inflow of international remittances in 2007 was Nigeria with about $3329 million, followed by Sudan with $1157. At the sub-regional levels, sub-Saharan Africa received a relatively small share of international remittances ($ 10.8 billion) from migrants living outside the region. Reasons that might have accounted for this include; relative high level of domestic and intra-regional migration to international migration, the poor state of the regions' economy that have made formulation of sound economic policies difficult, poor state of the regions' financial sector infrastructure, high transaction cost of fund transfer, high rate of corruption and political instability (Sander and Maimbo, 2005).

Well-being

Well-being is synonymous with good quality of life which include material well-being often expressed as having enough bodily well-being which includes being strong, being in the right frame of mind and looking good; social well-being which includes caring for and settling children; having self-respect, peace, and good relations in the family and the community; having security, which include civil peace, a safe and secure environment, personal and physical security, and confidence in the future; and having freedom of choice and action, which include being able to help other people in the community (Narayan et al., 2000a, 2000b).

Some of the key indicators of wellbeing are: rate of poverty; life expectancy at birth (years); adult illiteracy; access to health care services; access to safe water; access to sanitation; infant mortality rate; maternal mortality rate; prevalence of malnutrition, population estimates; Gross National Product (GNP) per capita (ADB, 2007a, 2007b; World Bank, 2008b).

i) Rate of Poverty: Apart from the use of GNP per capita income in determining the rate of poverty in a particular country, the percentage of people living on less than $1 (US dollar) a day (PPP) at 1995 international (purchasing power parity) prices is also used. That is, a person is said to be poor if he or she lives in a household whose total income or consumption per capita is less than $1 (US dollar) that is, he/she lives below poverty line.

ii) Life expectancy at birth (years): This is the number of years a newborn infant would live if prevailing patterns of mortality at the time of its birth were to be the same throughout his life.

iii) Adult illiteracy: This is the proportion of adults age 15 and above who cannot read and write a short simple statement on their everyday life.

iv) Access to health care services: This is measured by the share of the population for whom treatment of common diseases and injuries including essential drugs on the national list is available within one-hour walk or travel.

v) Access to safe water: This shows the percentage of the population with reasonable access to adequate amounts of safe water (including treated surface waters or untreated but uncontaminated water from sources such as springs, sanitary wells, protected bore-holes and taps. In urban and rural areas a source must not be more than 200 meters away and members of the household do not have to spend a disproportionate part of the day fetching water.

vi) Infant mortality rate: This is the number of deaths of infant under 1 year of age per thousand live births in a given year.

vii) Maternal mortality rate: This is the number of female deaths that occur in pregnancy and immediately after childbirth per 100,000 live births.

viii) Gross National Product (GNP) Per Capita: It is the ratio of the country's total population to the total national income, converted to US dollar using the World Bank's Atlas method.

DATA SOURCE AND METHODOLOGY

A cross-country data drawn from 38 countries in Sub-saharan Africa for the period 2007 were used. The variables considered for the study were well-being proxied by life expectancy at birth (years), international remittances, rate of migration and the rate of inequality. The data were obtained from the African Development Bank Selected Statistics on African Countries for 2007, African Development Bank Gender, Poverty and Environmental Indicators on African Countries also for 2007, Population Reference Bureau World Population Data Sheet for 2007, World Bank World Migration and Remittances Fact Book 2008 and World Bank Development Indicators for the year 2008.

In the course of determining the impact of international remittances on well-being in Sub-saharan Africa, a linear regression analysis of the Ordinary Least Square (OLS) was used.

The first step in the use of OLS method is to specify the model. Following Adams and Page (2005) method of estimating the impact of migration and remittances on poverty, with some modification, the model for this study was stated as follows:

$$WB_i = f\ (IREM_i\ MIG_i,\ INEQ_i) \qquad (1)$$

When transformed into a linear equation, the model thus becomes:

$$\ln WB_i = \beta_0 + \beta_1 IREM_i + \beta_2 MIG_i + \beta_3 INEQ_i + U \qquad (2)$$

Table 1. International Remittances in Sub-Saharan Africa and other Regions 2007.

Country/Sub-Region	Population (Million)	GNI ($ (Million)	GNI Per Capita ($)	Remittances ($ Million)	Emigrants ('000)
Angola	16	39	1980	-	522964
Benin	8.7	4.7	540	173	508640
Botswana	1.8	9.7	5900	118	37840
Burkina Faso	14	6.2	460	50	1121758
Burundi	7.8	785	100	-	315477
Cameroon	17	18	1080	103	231169
Cape Verde	.518	1.1	2130	143	181193
Central African Republic	4.1	1.5	360	-	146557
Chad	10	5.2	480	-	181442
Comoros	.614	401	660	12	38433
Congo Democratic Republic	59	8.1	130	-	571625
Congo	4.1	4.5	950	11	194079
Cote d'Ivoire	18	16	870	176	1517625
Djibouti	806	838	1060	28	13031
Equatorial Guinea	.515	5.3	8250	-	92893
Eritrea	4.5	1.1	200	-	848815
Ethiopia	73	13	180	169	445925
Gabon	1.4	7.5	5000	-	27330
Gambia	1.6	499	310	64	56762
Ghana	23	13	520	105	906698
Guinea	9.2	3.3	410	42	520835
Guinea Bissau	1.6	295	190	29	116124
Kenya	35	21	580	570	427324
Lesotho	1.8	1.8	1030	371	258589
Liberia	3.4	494	140	-	89075
Madagascar	19	5.4	280	11	151364
Malawi	13	2.2	170	1	93223
Mali	14	6.1	440	192	1213042
Mauritania	3.2	2.8	740	2	105315
Mauritius	1.3	6.5	5450	215	119424
Mozambique	20	6.9	340	80	803261
Namibia	2.1	6.3	3230	17	15101
Niger	14	3.6	260	67	437844
Nigeria	145	103	640	3329	836832
Rwanda	9.2	2.5	250	21	196104
Sao Tome & Principe	0.160	120	780	1	21264
Senegal	1.2	8.9	750	874	463403
Seychelles	0.86	711	8650	15	11841
Sierra Leone	5.6	1.4	240	38	78516
Somalia	8.5	-	-	-	441417
South Africa	47	250	5390	735	713104
Sudan	37	34	810	1157	587120
Swaziland	1.1	2.7	2430	98	95608
Tanzania	39	13	350	14	188789
Togo	6.3	2.2	350	192	222008
Uganda	30	9.2	300	856	154747
Zambia	12	10	630	58	150281
Zimbabwe	13	3.2	340	-	761226
Sub- Saharan Africa	770	668	842	10.8	15.9
East Asia and Pacific	1900	3647	1863	58.0	19.3

Table 1. Cont

European and Central Asia	460	2421	4796	38.6	47.6
Latin American and Caribbean	556	286.0	4767	59.9	28.3
Middle East and North Africa	311	811	2481	28.5	12.9
South Asia	1493	1138	766	43.8	22.1

Source: World Bank 2008a.

Where;

WB_i = Well-being proxied by life expectancy at birth (years) in each $country_i$.
$IREM_i$ = International remittances proxied by the ratio of international remittances to GDP in each $country_i$.
MIG_i = International migration proxied by international labour mobility in each $country_i$
$INEQ_i$ = Rate of inequality proxied by the Gini index in each $country_i$.
$_{b0}$ = the intercept
$\beta 1$ ..... $\beta 3$ and not $\beta 3$=The estimation parameters associated with the influence of the independent variables ($IREM_i$ MIG_i, $INEQ_i$) on the dependent variable (WB_i).
U = the error term.

To estimate the model, a multiple regression analysis was used in order to reflect the explanatory nature of the variables. To verify the validity of the model, two major evaluation criteria were used:

(i) The a–priori expectation criteria which is based on the signs and magnitudes of the coefficients of the variables under investigation.
(ii) Statistical criteria which is based on statistical theory, which in other words is referred to as the First Order Least Square (OLS), consisting of R-square (R^2), F–statistic and t–test.

The R-square (R^2) is concerned with the overall explanatory power of the regression analysis, the F-statistic is used to test the overall significance of the regression analysis and the t-test is used to test the significant contribution of each of the independent variables on the dependent (Oyeniyi, 1997; Greene, 2003).

Drawing from the model, our a-priori expectations or the expected pattern of behaviour of the independent variables ($IREM_i$, MIG_i, $INEQ_i$) on the dependent variable (WB_i) were $IREM_i > 0$, $MIG_i > 0$, $INEQ_i < 0$, an indication that the more the flow of international remittances and migration the more the well-being in sub-saharan Africa, while the more the rate of inequality, the less the well-being in sub-saharan Africa.

RESULTS AND DISCUSSION

The results of the multiple regression analysis conducted at 5% level of significance are presented in Table 2.

A look at the model shows that the R^2 is 0.59, which in other words means that variation in the dependent variable is explained by the explanatory variables, while the error term take care of the remaining 41% which are variables in the study that can not be included in the model because of certain qualitative features. At 5% level of significance, the F-statistic show that the model is useful in determining if the explanatory variables have any significant influence on the dependent variable as the computer F-statistic which is 16.7 is greater than the tabulated F-statistic valued at 2.61.

Table 2. Regression results of International Remittances and well-being in Sub-Saharan Africa.

Variable	Co-efficient estimates and t-values
Intercept (t)	59.8 (27.0)
$IREM_i$ (t)	4.53 (1.71)**
MIG_i (t)	0.22 (0.62)
$INEQ_i$ (t)	-0.1(-6.98)*
R^2	0.59
F	16.7
No. of Observations	38

* Significant at 5% level. ** Significant at 10% level.

Holding migration and inequality constant, the co-efficient and the associated t-value of international remittances is directly related to well-being in Sub-Saharan Africa, thus fulfilling our a-priori expectation. Statistically, international remittances are significant at 10% level of significance. The positive signs is an indication that international remittances have relatively contributed to the improvement of well-being in the sub-region, which is in conformity with the studies by Giuliano and Ruiz-Arranz (2005), Ratha (2005), Sander and Maimbo (2005), Kireyev (2006), Nery-Saca and Caceres (2006), Biller (2007), Gupta et al. (2007), and Acosta et al. (2008b).

For instance, the outcome of the study by Sander and Maimbo (2005) indicates that a high proportion of funds in some countries are congruent with the idea of migration and remittances as part of migrants' strategies for reducing poverty and improving the quality of life of the migrants and their families. Consumption supported by remittances contributes to improved standards of living and educational opportunities. In Zimbabwe, it was observed that households with migrants were found to have less cultivated land than households without migrants, but slightly higher education levels. In Burkina Faso, it was estimated that international remittances reduced the headcount of rural households in poverty by about 7% and of urban households in poverty by about 3%.

Using micro and macroeconomic data and techniques, Acosta et al. (2008b) established that international remittances in some countries in Latin America led to large reduction in poverty levels, especially in those countries where migrants come from the lower quintiles of the income distribution. Notable among these countries are Mexico, El-Salvador and the Dominican Republic where extreme poverty was estimated to fall by more than 35%

and moderate poverty by an average of 19% in 2007.

Conclusion

An empirical study on the impact of international remittances on well-being in sub-Saharan Africa was carried out using a cross–country data and a multiple regression analysis. The result obtained indicates that international remittances have a positive impact on well-being in the sub-region. This outcome notwithstanding, individuals, governments and policy makers in the sub-region still need to take into consideration the following measures that would likely improve the flow and effective utilization of the international remittances, which in turn would improve the well-being of the people in the Sub-region:

(i) The governments in the countries in sub-Saharan Africa should guarantee sound macroeconomic policies with flexible exchange rate regime, low rates of inflation and long-term planning that would allow for effective development of both national and individual resources used mostly by the recipients of international remittances.
(ii) The governments and the formal financial institutions, especially the banks in the sub-region should make available more flexible financial sector infrastructure and low transaction cost of fund transfers in order to encourage easy flow of international remittances to the Recipients that are usually family members of the emigrants.
(iii) The governments should also make available conducive investment climate with stable political environment that is free of corruption, conflicts and wars as experienced in countries like Nigeria, Sudan-Darfur and Somalia. Adequate measures should also be taking in check mating the incidence of money laundering that has become rampart in countries like Nigeria, Guinea Bissau, Congo Democratic Republic and Gabon.
(iv) Individuals and governments should ensure greater transparency in the transfer of fund between the sender, the disbursing agent and the receiver (who probably do not have a bank account), ensure adequate protection of the customers, financial security and risk management practices.

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