

Remittances from Abroad: The Ghanaian Household Perspective

Gabriel Ahinful Sam

Kwame Nkrumah University of Science and Technology, Finance Office
Private Mail Bag, UST, Kumasi, Ghana.

Felix Obeng Boateng

Kwame Nkrumah University of Science and Technology, Finance Office
Private Mail Bag, UST, Kumasi, Ghana.

Paul Kofi Oppong –Boakye

Kwame Nkrumah University of Science and Technology, School of Business
Private Mail Bag, UST, Kumasi, Ghana.

Abstract

With increasing number of Africans migrating to Europe and the Americas to seek greener pastures, the expectation is that the level of remittances from them to their families back home will increase. Amid the global financial crisis since 2008, remittance to developing countries has increased by 8% from the year 2010 to US\$346bn in 2011 (World Bank Report, 2010). The study looks at the contributions of foreign remittances to households in Ghana. Data were obtained from the recipients of foreign remittances selected suburbs in Kumasi metropolis through self administered questionnaire. The study reveals that the main channels of foreign remittances to Ghana are banks, private companies and individuals. Also, foreign remittances are mainly spent on food, education, church activities and funerals.

Key Words: Remittances, Abroad, Ghanaian Households, Perspective, Channels

1.0 Introduction

Many Africans migrate to countries outside the content of Africa. These migrants normally provide economic support to considerable number of persons either related or unrelated to them through remittances. According to World Bank Report (2010), remittance to developing countries has increased by 8% from the year 2010 to US\$346bn in 2011. More specifically, there is a growing number of Ghanaians residing outside Ghana, whose regular contribution to the economy and individual households cannot be over-emphasized. Indeed, it is of expectation that remittances to the economy and individual households would continue to increase in the wake of continuous depreciation of the Ghana Cedis to major foreign trading currencies. This expectation is supported by the fact that within the last 6-months to May, 2012, the local currency, Ghana Cedi has witnessed a significant decline in value to major foreign trading currencies. For instance, the Ghanaian Cedi has recorded approximately 36% depreciation to the US dollar within the past six-month (December, 2011- April, 2012). It can therefore be envisaged that Ghanaian migrants in the attempt to take advantage of the continuous depreciation of the local currency, would increase remittances to Ghana. This would surely have a significant economic and social impact on beneficiaries and Ghanaian economy as a whole. In 2005, remittance receipts to Ghana was USS4.5bn out of which US\$1.5bn approximately 33% came from individuals with the rest (3.0US\$bn) emanating from religious and non-governmental organizations. Within the same year, 2005, about 125 million migrant workers remitted over 500 million family members in their home countries (Sophism, 2006). Remittances therefore play great role both at individual and national levels. It is also reported that 10% increase in foreign remittance as a share of GDP is estimated to result in 3% decline in people living in poverty (Anyanwu and Erhijakpor, 2008).

This work was supported (fund) by Diaspora Forum for Development (DFD), Binckhorstlaan, Netherlands.

From the foregoing, it is clear that remittances from abroad could constitute a significant percentage of foreign inflows to various countries of destination within Africa. Therefore, the socio-economic impact on household and the dynamics of channels need to be examined in the advent of modern technology. In this light the following objectives are examined:

- To identify the channels of remittance and the associated challenges
- To examine the socio-economic impact of remittance
- To determine the use of remittances,
- To examine future expectation of recipients of remittance receipts

2.0 Literature Review

Foreign Remittances can simply be described as sending of money and non-monetary items to someone back home whilst living and working outside the one's home country to cater for various class of expenditure ranging from consumption to investments. Notably, it is not only households that benefit from remittances but the national economy. For instance, Pakistani economy benefited \$8bn from foreign remittance in 2008 and further had a hopeful anticipation that the remittances for fiscal year 2010-11 to cross \$10bn as remittances contribute 4% to the country's GDP (Tirmazi, 2011). Remittance receipts in developing countries is also considered as an important and stable source of income for many households, as analytical studies have indicated that, the flow of remittances is the least influenced by an economic downturn. United Nations (2002), study has identified that remittances contribute to poverty reduction in home countries as it commands heavy cash flows and as such receiving increasingly the attention of politicians and analysts. In the past decade whiles Official Development Assistance (ODA) and Foreign Direct Investment (FDI) are fluctuating in Africa, remittance inflows have been growing consistently (World Bank, 2008). Foreign exchange from remittances helps in reducing the current account deficit as well as external debt of some developing countries (Igbal and Satter, 2005). Thus remittances have strong correlation with economic growth. Remittances have inverse relationship with poverty reduction. Thus the higher the remittances that one receives, the higher improvement in one's standard of living. This is particularly true in the rural and peri-urban areas where the main occupation is agriculture.

Again, remittances are important source of livelihood for many poor households in Ghana and several Africa countries. According to ADB (2008), 80% of remittance beneficiaries in Morocco, Senegal, Mali and Cameroun are poor households from remote areas. The remittances are mainly used to meet basic needs like food, education and healthcare. These households usually do not benefit from development assistance. To these households, the major concern is to meet daily and life's basic needs than to save towards capital accumulation. However, these notwithstanding, some investments are made in the areas of real estate, industry, and import/export through remittances from migrants.

Moreover, besides the influence on local currency, remittance receipts also boost businesses in various communities in home countries through trading of second hands goods and technologies. These second-hand goods and technologies are cheaper on the market than most of the brand new ones thereby increasing sales and usage. Besides, migrants more often than not remit family members during funeral celebrations and ill health period besides assisting their family members to set up businesses (Kabki et al, 2003). Remittance receipts from migrants are also invested in housing projects for personal or family use as well as for income generating purposes by setting up small scale businesses in various towns and cities. The remittances over the years have played a key role during periods of natural disaster and economic down town in the various countries of origin of the migrant workers (Vargas-Lundius et al., 2008). It has also served as source of external capital in many developing countries (ADB, 2008).

2.1 Channels of Remittance Receipts

Migrant workers use various channels to remit family and friends back home. These channels can be formal or informal. The formal channels include; Financial Institutions and Money Transfer Operators. The informal channels on the other hand include; person to person, informal intermediary financial operations, self-carry/family/friends etc. and cross-border consumer goods. Most of the data on the amount of remittances received over a period of time in a particular country or continent is believed to have been channeled through these institutions (ADB, 2009).

It must however, be noted that the use of the informal channels apart from self-carry, the other methods of remittances through the informal channels are more risky because they are based on trust. Thus, in event of non-delivery of the remittance to the recipient, the migrant's opportunity to seek legal redress is non-existing or a chance of success is very limited due to lack of sufficient or documentary evidence.

2.2 Uses of Remittance

Remittances are used for payment of various expenditures. These expenditures include; immediate consumption (Lipton, 1980, Russel, 1992), acquisition of land and buildings (Taylor, 1992) and as a main source of funding education (Edwards and Ureta, 2003). However, according to Maldonado and Perez (2008), 75% of remittance beneficiaries spent very little proportion of the remittance receipts on education. According to Mazzucato et al., (2008), 16% of remittance received in Ghana between 2003-2004 was spent on housing, 33% for businesses, and 10% for funerals, churches, other ceremonies and developmental projects.

2.3 Future Prospects of Remittances

According to MPI (2012), World Bank projects that with the improved economic prospects, remittance flows to developing countries will grow by 7%-8% a year. Moreover, the Bank further forecasts remittances to developing countries to reach \$404bn by 2013. MPI (2012) further continues that due to currency appreciation and inflation migrants from many developing countries might have to send more remittance to equal the amount they sent in the past.

3.0 Methodology

3.1 Population, Sample and Sampling Technique

This study was purposely undertaken to ascertain the recipients' view of remittances flow in Ghana using selected suburbs in Kumasi metropolis. It is therefore, obvious that the population for this study was the remittance receivers/recipients within the Kumasi metropolis. Individual households within the study area who have received remittances in the form of cash, goods or both were chosen from Kotei, Suame, Bantama, Asafo/Amakom, Santasi, Ayeduase, New Site(Ayeduase), Bomso and Tech Area. These residential areas were selected in consultation with the offices of Immigration and town and country planning of Ashanti region. Migration service was consulted to provide the areas in Kumasi Metropolis where migrate returnees usually reside in order to help chose the most relevant areas to conduct this study. Moreover, the town and country planning helped with the demarcation of these recommended areas from the immigration service. In each of the selected areas some informants were identified and contacted to ascertain a household with a member who resides abroad. The contacted informant was used to identify the first household and subsequent households (individual) were identified and interviewed through the use of convenience, snowball and networking techniques. For a household to qualify to participate in the study, the following criteria were used;

- a) The household remitter should have lived abroad for not less than 3 years. This criterion was used because according to Arif (1999) it normally takes a minimum of 2 years for migrants to be socially and economically well-positioned to commerce remitting to their household in the home countries.
 - b) The member living abroad should have remitted at least once within the last twelve months of stay. This was to prevent household with members outside Ghana but with no remittances from participating in the study.
- In all 360 individual households participated in the study.

3.2 Data Collection and Analysis

Primary data was used for the study. The data gathering technique used was self-administered questionnaires. The questionnaires were used to collect data from the individual household. A structured questionnaire was administered to a respondent in each of the selected household. The questionnaire had sections covering the household recipient's relationship with the remitter, uses of the remittances, social implication of the remittances as well as their future expectation regarding remittances. Some respondents were reluctant to talk about their family members abroad due to the typical Ashanti believe of not talking too much about a relative abroad to avoid jealous witches hunting the person. However, upon realizing that the information was for academic purpose they opened up. The gathered data was analyzed using Microsoft excels for charts and frequencies. The qualitative data was interpreted and presented using narrations whiles the frequencies were presented using figures and percentages.

4.0 Analysis and Presentation of Result

4.1 Relationship between Beneficiaries and Remitters

The study examined the relationships that normally exist between the beneficiaries and remitters. Out of the 360 respondents, 181(50.3%) were parents to the beneficiaries whilst 79(22%) respondents were nieces and nephews to beneficiaries. Moreover, 65(18%) respondents were spouses to the remitters and finally 35(9.7%) were classified as 'others'. The others here is made up of parents, friends, fiancés etc. The high remittances from parents may be attributed to the fact that, the remitters have school children who need the required financial support. Notably, considerable number of remitters was recorded for both uncles and others. The possible reason could be the result of the extended family system in Ghana.

4.2. Years of Residence in Abroad

The relationship between remittances and duration of stay in abroad was ascertained. It was evidenced that majority (46.1%) of the remitters had lived in abroad between 6 – 8 years. They were the ones who had the highest frequency of remitting to relations. This was followed by those who have lived for 9 years and above (30%). The least group of remitters were those who have lived in abroad for not more than 5 years (23.9%). The reason could be that between 3 – 5 years the member of diaspora had not well-settled and as such do not remit as much. However, between 6 – 8 years they are more likely to have settled in terms of job security but with less financial responsibilities in the foreign country. Therefore they can remit with less financial difficulty. However, after 9 years they are likely to have taken on more financial commitments via marriage and managing homes. Hence, few are likely to remit to their relatives in Ghana.

4.3. Continent of Residence

The import was to ascertain the final destination of migrants from Ghana. It was found that 36.94%, 28.90%, 16.94%, 11.11% and 6.11% of Ghanaian migrants reside in America, Europe, Africa, Asia and Australia respectively. America and Europe taking the first two spots was not surprising as many Ghanaians consider these two continents as land of opportunities and prosperity. Moreover, they are likely to have relations in these two continents. Also it was not surprising to have very few Ghanaian remitting from other African countries. This could be due to the poor economic performance of many African countries in general. It is also notable that very few Ghanaian reside in Asia who remits. This could be due to the language barrier. Thus many Ghanaians will find it difficult to live and work in Asia due to the language.

4.4. Kind of remittance, Preference and Frequency of remittance

From the study it was clear that remittances were received in various forms. These were cash (38.61%), goods only (14.17%) and both goods and cash combined (47.22%). Majority of the respondents (42.2%) prefer remittances in the cash, goods only (12%) and both cash and goods (45.8%). Notably the Ghanaian perception that goods from outside Ghana are of high quality did not come to play on this occasion. It was ascertained that 37.8%, 36.4% and 25.8% of respondents do receive remittances 1 -3 times, 4 – 6 times and 7 or more times respectively. This could be attributed to the fact that since majority of Ghanaian migrants reside in Europe and America which were seem to have affected by global economic crisis, their income level did not permit sending huge money at an instance, thereby resorting to remitting in bits.

4.5. Channels of remittance

The study also identified the most commonly used channel of remittance to beneficiaries in Ghana. It was found that respondents received remittances through banks (41.4%), private institutions (28.9%), individuals (25.6%) and others (4.1%). The others included, hiding the cash in remitted goods and letters. The private institutions recorded remarkable usage probably due to improvement in accessibility and coverage in the Kumasi Metropolis. Moreover, the private institutions network with their foreign counterparts could also be the good course.

Preferred channel of receiving remittances were banks (42.2%), private institution (32.2%), individuals (24.4%) and others (1.2%). Majority preferred the banks and private institutions due to the high credibility, increased supervision from the regulator (Central bank-Bank of Ghana) and better customer services. Notwithstanding, significant remittances were also sent through individuals probably due to familiarization, trust and low transaction cost. The 'others' recorded the lowest because it may be illegal and too risky to use as a channel due to advancement in technology of late.

4.6. Challenges associated with the channels of remittances

Even though majority of respondents found it convenient to receive remittance through the banking system, a follow up question indicated that majority (46.4%) of respondents agreed that long queues are normally experienced when remittances are received through the banking systems. However, 34.7% of respondents 'disagree' that the long queues at the banks makes receiving remittances through the bank non-preferable. This is due to the established trust they have in the banking system. Moreover, 18.9% respondents remained indifference to the question on long queues at the banking halls. This can be attributed to the fact that their remittances were not received quite often through the banks.

Again 50% of respondents agreed that, strict adherence to personal identification procedures makes receiving remittances through the banking system not desirable even though it is a "necessary evil" from the view point of the respondents. The respondents perceive the identification procedures as invasion of their privacy. On the contrary, 30.8% of respondents disagreed. This can be explained by the proliferation of different identification cards like Driver's License, NHIS cards, passport, Voter ID cards etc. Moreover, 19.2% of respondents remained "indifferent". Majority (52.8%) of respondents agreed that receiving remittance through individuals is not desirable due to untimely delivery. Again 28.8% respondents disagreed, probably due to the fact that they have been receiving remittances through individuals without problems. However, 18.4% respondents remain "indifferent". This could be probably due to the fact that they received goods instead of cash, which is highly susceptible to fraud.

53.6% of respondents agreed that receiving remittances through individuals increase the risk of being attacked by criminals. This is probably due to their past experiences or that of close relations and colleagues. But 27.2% of respondents disagreed and 19.2% of respondents remained indifference. The reason for those who disagreed and those who remained indifferent could be explained by lack of experience of any attack. 141 respondents agreed to the assertion that receiving remittances from private institutions are fraught with long waiting times and delays. This may be due to lack of adequate distribution outlets of these private institutions within the region. Moreover 101 respondents disagreed and 118 respondents remained indifferent probably due to the fact that they do not receive remittances on a regular basis. 98 respondents agreed that receiving remittances through private institutions pose accessibility challenges. However, 147 respondents disagreed and 105 respondents remained indifferent.

4.7. Average Value of Remittances

The study attempts to estimate the magnitude of annuals remittance flow to the households. 32.7% of respondents received remittance worth between GH¢1000- GH¢2000 in a year whilst 44.5% of respondents and 22.8% of respondents received between GH¢4000- GH¢7000, GH¢7000 and above respectively. The key spending areas of the remittances received was ascertained and ranked in the order of spending frequency based on responses;

- i. Food (consumption) – 1st
- ii. Education – 2nd
- iii. Church contribution- 3rd
- iv. Funerals – 4th
- v. Start-up capitals for business- 5th
- vi. Building- 6th
- vii. Accommodation- 7th
- viii. Clothing- 8th
- ix. Health- 9th
- x. Community development-10th
- xi. Agriculture -11th

From the ranking it is clear that food, education, church contribution and funerals occupied the top four positions. The position of food and education is not surprising since majority of recipients (72.3%) were either parents, nephews or nieces to the remitter. The implications are that they may use the remittances received to buy food and pay for school fees. The third position of the church contribution may be attributed to the high level of Christianity in Ghana and the belief that 10% of any money earned must be offered as tithes to God. Funerals are part and parcel of Ashanti culture and at every funeral one is likely to make cash donation called "Nsowa".

Since funerals are organized at almost every Saturday it is likely to take a bit of the respondents' money. Agriculture been ranked last is also not too surprising because the study area is metropolitan and dominated by trading. Remittance been used as start-up capitals for business ranked 5th. It was ascertained that only 29 (8.1%) out of the 360 respondents received remittances for the purpose of business start-ups. Many businesses were identified but among the most common were: hair dressing, Supermarket, Bookshops and Second hand clothing shops (small boutiques).

4.8. Social participation, status and savings culture

The study also sought the relationship between remittance flow and social participation, social status and savings culture. This was to ascertain whether remittance flow to beneficiaries have any relationship to participation in social activities. It was found that, 32% of respondents agreed that their participation in social activities has increased due to remittance, whilst 38% of respondents disagree, with 30% of respondents remaining indifferent. From the responses it is clear that remittances receipt has little influence on beneficiaries' participation in social events like funeral rites, child naming ceremony, festivals etc. Again 31% of respondents believed that remittance have improved their social status within the community they reside. However, 35% and 34% of respondents disagree and remained indifferent respectively. These responses (35% and 34%) may be attributed to the emergence of many working class citizens within the communities in the Ashanti region and the fact that majority of beneficiaries spend the remittance on basic needs . On the issue of savings, 66% of respondents claimed to have cultivated saving culture. However, this savings is at personal level and for contingencies. The remaining 34% of respondents had otherwise. The 34% responses is in line with the study by ADB (2008) that households' major concern is to meet daily and life's basic needs than to save towards capital accumulation.

4.9. Adequacy of Remittances and Future Expectation

The study further probed respondents as to the adequacy and their future expectation of remittances. It was noted that 63% of respondents claimed that the remittances they received are not adequate for the intended purposes, whilst the remaining 37% of respondents claimed otherwise. The majority obviously find the remittance received not to be adequate for intended purpose. The reasons given were general price increases, depreciation of the local currency, Ghana Cedis to the major foreign trading currencies and increased family size. Again the future expectation of foreign remittance from the perspective of recipients in the mist of the global financial crisis revealed an interesting picture. 84% of the respondents expected the future remittance to increase by an average of 45%. This is with the hope that the economies of the remitters will improve. 5% of respondents expected a decrease and 11% expected it to remain the same.

5.0. Conclusion and Recommendations

The study revealed that majority (46.1%) of the remitters had lived in abroad between 6 – 8 years. They were the ones who had the highest frequency of remitting to relations. It also came out that the most commonly used channel of remittance is the formal one which is basically the banking system. 41.4% preferred receiving remittances through the banking system due to the high level of credibility of the banking system, even though, the banking system is also associated with long queues and waiting times. Again majority of individual households received between GH¢4000 to GH¢7000 per annum. The primary spending areas of the remittances receipts were food (consumption) and education. It was ascertained that only few respondents received remittances for the purpose of business start-ups. Moreover, majority of respondents do not strongly believe that remittances have major influence on their participation in social events as well as their social status. It was revealed that the remittances received were not adequate for the intended purposes. From the perspective of majority of recipients, in the mist of the global financial crisis future remittance is expected to increase.

From the study it is clear that, greater portion of individual remittances are for daily consumption rather than business. Hence there is the need for NGOs such as the NBSSI to help educate remittance recipients in developing the culture of savings and entrepreneurship. BoG should motivate private institutions to set up more outlets to compete with the banks to help reduce the queuing and waiting times and increase effective customer service. Regulatory authorities to allow cash foreign remittance straight into the remitters' own local bank accounts as this could significantly increase the inflow of cash remittances from abroad.

References

- ADB, (2009). The Bank's approach to Africa migrant remittances: The migration and development initiative , OIVP
- ADB, (2008). Migrant remittances, a development challenge. World Bank News Release No. 2005/201 Nov.
- Arif, G.M. (1999). Remittances and investments at the household level in Pakistan Islamabad, Pakistan Institute of Development Economics Volume 166,p37
- Anyanwu, J. and Evhijakpoi A. E. O. (2008) "Do international remittances affect poverty in Africa?" ADB, Nov. 2008
- Edwards, A.C. and Ureta, M. (2003). "International Migration, Remittances, and Schooling:Evidence from El Salvador." *Journal of Development Economics*, 2,429–461
- Iqbal, Z. and Satter, A. (2008). "The contribution of workers remittance to economic Growth in Pakistani" Research Report No. 187, Pakistani institute of Development Economics, pp 25
- Kabki M., Mazzucato V and Appiah E. (2003). "Wobenanea eye bebre"; the economic impact of remittance of Netherlands – Based Ghanaians migrants on rural Ashanti.population, space and place10, 85-97
- Lipton, M., (1980). Migration from rural areas of poor countries: The impact on rural productivity and income distribution. *World Development* 8, 1-24. 1988
- Mazzucato, V. van den Boom, B, and Nsowah-Nuamah, N.N.N (2008). *Remittances in Ghana:Origin, Destination and Issues of measurement*, Blackwell Publishing Ltd. Oxford
- Maldonado, R and Perez I. (2008) *International remittances in Honduras*. Available at: (<http://www.cemla-remesas.org/informes/report-honduras.pdf>) (Accessed on 13/2/12)
- MPI, (2012) .*The Global Remittances Guide*. Available at: (<http://www.migrationinformation.org/datahub/remittances.cfm>). (Accessed on 1/1/12)
- Russell, S. S. (1992). "Remittances from International Migration: A Review in Perspective." *World Development* 14me distribution. *World Dev.* 8 (1), 1-24.
- Tirmazi, N. (2011). *Remittance and Pakistani Economy*. Available at (<http://www.tradingeconomics.com/pakistan/net-migration>). (Accessed on 1/5/12)
- United Nations (2002), *International Migration Report 2002*. New York. Available at (<http://www.un.org/esa/population/publications/ittmig>) (Accessed on 15/1/12).
- Vargas-Lundius, R., Lanly, G., Villarreal, M. and Osorio, M. (2008), *International migration, remittances and rural development*. IFAD (<http://www.ifad.org/pub/remittances/migration>) (Accessed on 9/3/12)
- World Bank, (2008). *Migration and remittances fact book 2008*, ECON (FDI and ODI)
- World Bank, (2008): *Remittances to Developing Countries Resilient in the Recent Crisis: Press Release No: 2011/168/DEC*