

**EXTERNAL MIGRANT REMITTANCES AND HOUSEHOLD
EXPENDITURE PATTERNS IN GHANA**

BY

SAANI MOHAMMED RIDWAN

(10053502)

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DECLARATION

I hereby declare that “External Migrant Remittances and Household Expenditure Patterns in Ghana” is the result of my own work which has not been presented by anyone for any academic award in this or any other University. Scholarly works that have been cited or quoted have been duly acknowledged by way of referencing.

I bear sole responsibility for any shortcomings.

.....
SAANI MOHAMMED RIDWAN
(STUDENT) DATE

.....
DR. YAW ASANTE
SUPERVISOR DATE

.....
DR.CHARLES ACKAH
CO-SUPERVISOR DATE

ABSTRACT

Research into expenditure patterns of households using external remittances for consumption or investment purpose has gained prominent attention in academic and policy circles recently. This study joins the debate to analyze the relationship between external migrant remittances and household expenditure patterns in Ghana. The study looks at key consumption and investment variables namely food, utilities, education, health, agriculture and housing to assess the expenditure behavior of households with remittance income. The study applies the Tobit Model technique. Using the Ghana Living Standard Survey data (GLSS 5), it finds that households who receive external remittances decrease their budgetshares on consumption and some investment goods but increase their budget share on particularly housing than households without remittance income. The study lends to the view that remittances cannot support to build the level of human capital and entrepreneurial investment in remittance –receiving nations; and point to the non-productive use of remittances in Ghana. To achieve economic growth and development with remittance income some actions should be taken. This would be possible within an enhanced government policy framework with the active participation of the financial sector in the country. This study recommends suitable policies such as reduction in leakages in transfers through informal channels, reducing cost of transfers, enabling the financial sector to innovate profitable instruments to attract remittances into savings and to boost financial deepening, and above all creating a sound macro-economic environment by Government.

Key Words: External migrant remittance, Human Capital, Private Investment, Consumption, Tobit technique, Censoring, Maximum Likelihood estimation, Budget Shares, Expenditure.

DEDICATION

This work is in honor of my Mum, AzaraAbukari, my wife, Suad Ibrahim, and my children; Na-eemaRidwan and FadlanRidwan. It is also dedicated to my late Father and all my Siblings.



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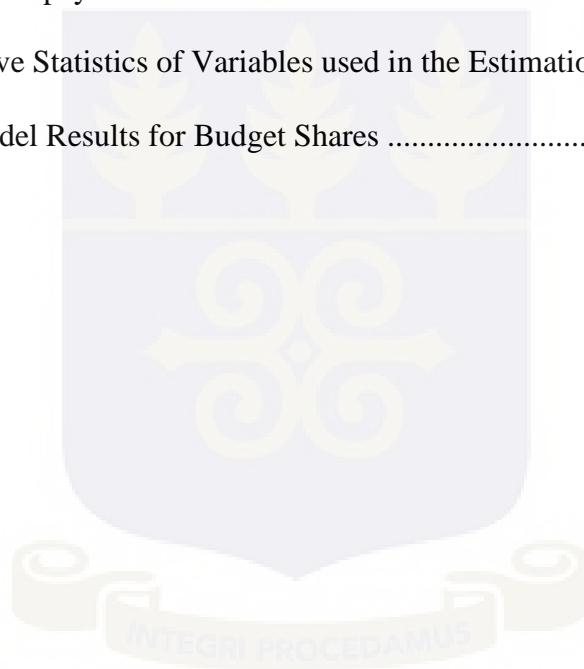
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LIST OF ABBREVIATIONS

Acronym	Meaning
E A P	East African Pacific
ECA	Europe and Central Asia
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GLSS	Ghana Living Standard Survey
IMF	International Monetary Fund
LAC	Latin America and Caribbean
MDG's	Millennium Development Goals
NELM	New Economics of Labor Migration
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
PRSP's	Poverty Reduction Strategy Programmes
SAP's	Structural Adjustment Programmes



CHAPTER ONE

INTRODUCTION

1.0 Background to the study.

Developing countries including Ghana have experienced a tremendous surge in the inflow of external migrant remittances in the past decades. Migrant remittances have gained recognition as an alternative source of development finance in recipient countries because of the positive welfare implications of such transfers at household, community and national levels at large. The phenomenon has gained increasing importance as a major source of foreign exchange earnings exceeding private capital flows, official development assistance, in the wake of many emerging markets with weakening balance of payments. The World Bank's projected remittance flows is to the tune of \$540 billion in developing countries and over \$700 billion worldwide by 2016 at an annual average growth rate of over 8% between 2013 to 2016.

Remittances is about three times the size of official development assistance, and more than private debt and portfolio equity to developing countries and are equivalent to half of the level of reserves in more than 26 developing countries (Ratha et al. 2013). Remittances may be defined as that portion of migrant earnings sent from the migration destination to the place of origin. Although they can also be sent in kind, the term remittances is usually limited to refer to monetary and other cash transfers transmitted by migrant workers to their families and communities back home (Adams and Page, 2003). Remittances often flow from migrants to relatives residing in migrant's country or place of origin. This is especially characteristic of remittances sent by international migrants (Boakye-Yiadom, 2008). It is worth noting however that the term remittance is broad which include transfers sent from non-migrants to migrants, or non-

relatives of migrants could be beneficiaries of remittances from migrants or non-migrants and vice versa. Migrant remittances thus, involve the private monetary transfers from external migrants to people of their origin to achieve improved welfare conditions. The economic impact of remittance flows to developing countries has emerged as an important topic of study. The major goal of economic development has been poverty alleviation through development finance. The significance of international remittances is explicit in developing countries because of the strong link with economic growth and development.

Research into the use of migrant remittances for productive investments has become the common subject of the migration, remittances and development debate. It has been argued in the literature by migration pessimists that remittances were mainly spent on conspicuous consumption and consumptive investments such as houses, and rarely invested in productive enterprises. To them, apart from the fact that migration weakens local economies and leads to dependency, increased consumption and land purchases by migrants are also responsible for inflationary pressures and soaring land prices in migrant sending countries (Russell et al. 1990). Beyond this, there is a more pressing issue of whether remittances have a long –term effect on economic performance and in particular hastening the economic development of beneficiary countries if households channel such resources into human capital development and private investment.

1.1 Statement of the Problem

Available research findings on the welfare implications of remittances to Ghana and other developing nations are positive, but much of the studies focus on the short-term effect of using it to meet basic consumption needs such as food, clothing, medicine, etc.

In a study conducted by Quartey and Blankson (2003), it was found that the economic impact of remittances has been considered beneficial at both the micro and macro levels at least in the short term and there is increasing evidence that remittances from abroad are crucial to the survival of communities in many developing countries. According to Ratha (2003), remittances are associated with increased household investment in education, health, and entrepreneurship; all of which have a high social return in most circumstances.

Studies based on household surveys in El Salvador and Sri Lanka found that children of remittance recipient households have a lower school dropout rate and that these households spend more on private tuition for their children. In Sri Lanka, the children in remittance receiving households have higher birth weight, reflecting that remittances enable households to afford better health care. Some studies also show that, remittances provide capital to small entrepreneurs, reduce credit constraints and increase entrepreneurship (Ratha, 2003). This provide evidence that households receiving remittances are able to invest more in local entrepreneurial activities because they no longer faced the credit constraints that had previously hindered such investments. The fact that households tend to invest their remittance earnings in education, housing and entrepreneurial activities points to a long-term dimension of the impact of remittance on development.

However, most of the studies reviewed have focused on the first-round effects of international remittances and have neglected the second- and third-round effects of these transfers on development. For example, an inflow of international remittances into a local economy may lead to a surge in expenditures in housing, which will, in turn, create new income and employment opportunities for non-migrant households. Increased

demand for housing will create new employment opportunities in construction for the poor and unskilled, as well as new business opportunities for merchants selling bricks, wood and other materials. To date, very few studies have tried to evaluate the long term use of remittances besides consumption in Ghana. . Therefore this study attempts to investigate the relationship between external migrant remittances and household spending patterns with a central focus on investment and education.

1.2 Objectives of the Study

The study aims at estimating empirically the relationship between external remittances and expenditure patterns among households in Ghana. Specifically the study seeks to:

- Investigate the link between remittances and human capital development among households.
- Examine the relationship between remittances and private investment among households.

1.3 Statement of the Hypothesis

The study is intended to test and validate the following hypotheses:

H_0 : Remittances do not significantly influence human capital development in Ghana.

H_0 : Remittances do not significantly influence private investment in Ghana.

1.4 Justification of the Study

In examining the impact of international remittances on development, the basic question is simple: How are remittances spent or used? Do households receiving remittances channel these earnings into human and physical capital investments or do they merely use these funds to purchase new status-oriented consumer goods? In the past, researchers have often taken a rather pessimistic view of how remittances are spent or used and the impact of these incomes on development. In Ghana while there is a growing body of research conducted to investigate the use of remittance flows on the welfare of households their focus has been on the impact in the short –term. Azam and Gubert (2006) argue that remittances must be seen as a contingent flow from a joint family decision to send its young ones abroad in exchange for financial flows from the emigrant to smoothen the family’s consumption. To this extent international remittances help households stay out of poverty, and such funds improve the living standards of Ghanaian households in the short –run. If such remittances support recipient households to acquire higher levels of human or physical capital or some form of business investment, then it may also decrease poverty of recipient households in the long –run (Asiedu and Gyimah-Brempong, 2009).

This study therefore will add to the literature on the welfare implications of remittances on Ghanaian households as they channel such resources to human capital development and private investment spending in small businesses for future socio-economic gains to households, communities and the nation at large. Policy recommendations will be made to guide decision makers on the flow and use of remittances in Ghana for sound economic development.

1.5 Outline of the Study

This study is organized into six chapters. Chapter one discusses the research problem, objectives and significance of the study. This is followed by stylized facts on Ghana's international remittance flows and migration in chapter two. Chapter three presents relevant theories on remittance and migration, the motivation and use of remittances in Ghana. Chapter four discusses the methodology, measurement issues and the type of data used in the study. Chapter five covers empirical estimations, analysis and discussion of results. The summary of empirical findings, conclusion and policy recommendations drawn from the findings are outlined in chapter six.



CHAPTER TWO

STYLIZED FACTS: MIGRATION AND REMITTANCES IN GHANA

2.0 Introduction

Migration and remittances in Ghana is a historical phenomenon. This chapter presents both historical and descriptive overview of Ghana's external migration and remittance flows.

2.1 History of Ghana's International migration and Remittance Flows

Recent studies on migration in Ghana have focused more attention on international migration than the movement within the country, even though the latter remains significant, and is almost certainly more important for equitable development (Anarfi, 1989). As a result of this orientation, policy formulation in response to migration is overwhelmingly skewed towards international migration, with a large emphasis on the benefit of remittances for the economy (Billsborrow, 1992; Anarfi et al. 2001). Although Ghana has a long history of emigration, the flow of emigrants seems to have intensified in the last two decades in response to economic decline in the country (Anarfi, 1999).

The migration of Ghanaians abroad has been dynamic and complex. Before the colonial era, movement of people was a way of life in Ghana, West Africa and Africa at large. This was intra-regional movements dominated by traders, nomadic farmers, and fishermen. Trans-Saharan trade routes linked the region to other parts of Africa and permitted the inter-regional movement of traders, scholars, and religious clerics.

However, during the 15th century when the Europeans arrived there was a change in the traditional patterns of trade and seasonal movement due to slave trade (Anarfi and Kwankye et al. 2003). Between the 15th and 18th century the slave trade grew

tremendously during which an estimated 12 million Africans were transported across the Atlantic to the Western Hemisphere from 1450 to 1850. From the 1931 census figures 289,217 migrants were found living in Gold coast at that time with majority of migrants coming from French colonies notably Burkina Faso. Nigerians were dominant from the British colonies and accounted for over 95% of that category of migrants. Until the late 1960s, Ghana was a net immigration destination but economic downturns between 1969 and early 1970 led to the expulsion from Ghana 250,000 migrants mainly of West African origins by the then military regime. Ghanaian emigration began after 1965 which was sustained by a continued economic decay throughout the 1970s until mid -1980s.

This resulted in a phenomenal mass emigration that created a diaspora which spans Europe, North America, the Middle East and Asia. Regional migration also intensified particularly to Nigeria and Ivory Coast. A broader category of laboremigrated. This began from skilled workers and professionals and by early 1980s they were joined by many unskilled and semi-skilled workers (Anarfi and Kwankye et al.2003). This is thought to have had negative effect on Ghana, because the migrants took capital away with them. Their absence destroyed the trading nexus that migrants had established in Ghana (Brydon, 1985).

However, during the first half of the 1980s there was a mass expulsion of Ghanaian migrants out of Nigeria which altered significantly the West African migration order. This motivated most Ghanaians who did not want to return to their origin to migrate to other regions of Africa, Europe and North America.

By the mid-1990s, it was estimated that between two and four million Ghanaians or 10 to 20% of Ghana's approximately 20 million people were living abroad (Akyeampong, 2000). Migration outside West Africa has been sustained due to the lack of economic

opportunities and growing disparities among developing countries in the region. It must be stated that Ghanaian migrants in Africa represent an important source of remittances. But the majority of external remittances are sent to Ghana from outside Africa. As a result of established diaspora outside Africa, Ghanaians have contacts and social ties with them. Further emigration and remittance sending by Ghanaians is facilitated by the existence of migrant networks. It has been observed that due to established networks between Ghanaians in the diaspora and relations at home, emigration is persistent regardless of Ghana's economic recovery (Peil, 1995).

Bretton Wood institutions such as the World Bank and International Monetary Fund (IMF), set up to manage financial framework of economies after the Second World War did impact migration trends in Africa through their programs and policies (Ansell, 2005; Ennew, 2005). These policy directives from the Bretton Wood institutions such as the withdrawal of government subsidies on social services have had drastic effects on developing economies in Africa. This has subsequently impacted on the demographic patterns of their population through migration (Fafchamps and Shilpi, 2013).

For instance, from the 1980s, economic policies known as Structural Adjustment Programmes (SAPs) were introduced in Ghana. This served as a condition for accessing loans from the World Bank and IMF (Ansell, 2005; Smeekens et al. 2012). SAPs are conditions implemented to reduce government's public expenditure and to ensure that, countries receiving loans spend it according to the goals for which the loans were granted (Anarfi and Kwankye, 2009).

SAPs brought with them consequences such as redeployment and the withdrawal of subsidies for social services such as health care, education and retrenchment of public sector workers (Ansell, 2005; Ennew, 2005; Abebe, 2007). Many authors (Akokpari, 2000; Ansell, 2005; Smeekens et al. 2012) are of the view that these policies and

programs have compounded the existing inequalities that exist between African countries and those in the developed world. In many instances, some of the economic gains previously made by some countries have been reversed through the implementation of some of these policies and programs (Akokpari, 2000).

Apart from the number of migrants and their country of residence remittances are influenced by the characteristics of migrants and their motivation to migrate. Peil (1995) found that the majority of Ghanaian migrants do not intend to migrate permanently, and few seek citizenship in the countries they migrate to. This suggests an intention of return which makes remittances more likely. Studies by the Sussex Centre for Migration Research point to the importance of return migration and find a positive correlation between return and the frequency and volume of remittances sent by migrants (Ammassari and Black, 2001; Tiemoko, 2004).

But Akyeampong (2000) contests Peil's findings on the temporary nature of Ghanaians stay in the USA, indicating that many Ghanaian professionals in the USA have acquired permanent residency or citizenship. The literature therefore points towards a variety of migration strategies and outcomes among Ghanaian migrants which are likely to affect sending remittances including the method used to remit. Therefore international remittance flows to Ghana is traceable to series of economic and social factors with historical antecedents.

2.2 Features of Ghana's International Migration and Remittance Flows

In the 1960s and 1970s, the theses underlying African emigration, especially of professionals and the best educated was outrageous deprivation of human resources very much needed by the newly independent countries. Concurrently, there was unskilled

labor migration or circular migration in East Africa (Elkan, 1967; Oucho, 1990). This is also known as “circulation of labor” in present day Zambia and Zimbabwe (Mitchell, 1985; Oucho, 1990) or “circulatory migration” (Garbett, 1975; Oucho, 1990) which took place but seemed more localized. From the 1980s, African international migration has been viewed as an important resource for development in African countries in terms of the Diaspora and remittances. Yet, there is no unanimity on evidence and conclusions drawn from the existing previous literature, and more work is still required on the Diaspora -migration- development linkages (Oucho, 2008).

There were some interventions in terms of Poverty Reduction Strategy Programmes (PRSPs) in the 1990s and the Millennium Development Goals (MDGs) from 2000. This led to some interest in growth with focus on the linkages between Diaspora as a distinctive aspect of migration, remittances, and poverty reduction in Africa. Prothero (1985) made a prophetic statement that migration in Africa is rarely a permanent phenomenon. African international migration has become an important form of circulation currently interpreted in terms of either circulation or transnationalism. The two terms underly the inevitability of diaspora’s involvement in and the flow of remittances to African countries mediated by international events and local factors (Oucho, 2008).

International migration and remittance flows in Ghana are a complex phenomenon and the general features derive from the various movements migrants make. The kind of migration undertaken has influence on the magnitude and the purpose of remittance flows to the country of origin. Migration can be of South –North, South-South, permanent or temporary and circulatory (cyclical). Although the mainstream literature is limited to South-North remittances, there are a lot of South-South remittances given a

substantial South-South migration, much of it intra-regional. It is estimated that South-South remittances range from 9 to 30 percent. This could be higher if informal channels are taken into account. It is found that the cost of South-South remittances is higher than that of South-North remittances (Rather and Shaw, 2007).

Transfers of remittances from migrants for family support or savings may differ according to whether migration is considered as temporary or permanent. Thus if temporary migrants have more of their extended family in the country of origin they might remit more. Remittances may also be sent to fulfill family expectation and meet social commitments which represent a price to be paid for the option to return back home at a later stage, or as an insurance to be welcomed home after returning. This would motivate a migrant to remit more. A positive probability of return by a migrant might affect flow of remittance either by inducing a preference to holding assets and savings in the home country by motivating them to defer more consumption from the present to the future or otherwise. Ghanaian migration has increasingly become extra-regional, since the decline of Nigeria as a major destination for Ghanaian migrants in the 1980s. Although the majority of Ghanaian emigrants (71%) still stay within the region of West Africa, a growing proportion is migrating to a diverse range of countries outside the region (DRC, 2007).

According to 2008 Ministry of Foreign Affairs estimates; Ghanaian migrants can be found in more than 33 countries around the world. After West African countries, the most important countries of destination for Ghanaian emigrants are the US (7.3%) and the UK (5.9%) (DRC, 2007). Estimates of the Ghanaian emigrant population range from 1.5 million (Twum Baah, 2005) to 3 million (Black et al. 2003). Classified according to skill level, Ghanaian emigrants ranged from highly skilled, medium skilled, low-skilled,

and unskilled workers. According to the EU (2006), 33.8 per cent of emigrants from Ghana had medium skill, while 27.6 percent possessed high skill. Ghana had a skilled expatriate rate of 46 per cent. This represented the highest skilled emigration rate in the world after Haiti, for countries with a population higher than 5 million people. On the other hand, while 24.2 per cent of Ghanaian emigrants were low-skilled, a small fraction (3.6%) did not have any recognizable skills (Quartey, 2006; Docquier and Marfouk, (2005); and OECD, 2005).

The medical professions are particularly affected by emigration. It is estimated that more than 56 per cent of doctors and 24 per cent of nurses trained in Ghana are working abroad (Clemens and Pettersson, 2006). While many Ghanaians leave for more farreaching destinations, many of them also return either temporarily or permanently to Ghana. The proportion of Ghanaians among the persons who arrived in Ghana steadily increased from 18.6 per cent in 2000 to 34.6 per cent in 2007. Of the 1,090,972 Ghanaians who left Ghana from 2000 to 2007, only 153,632 did not return within that Period. Departure statistics show that the majority of resident Ghanaians leave for commercial activities, followed by spouses and child dependents (Quartey, 2006).

2.3 Pattern of Ghana's International Migration and Remittance Flows

There is a long tradition of movement of people within the region of Western Africa and beyond. Thus, historical and cultural ties have been the predominant factors determining the regional migration flows between Ghana and its West African neighboring states (Bump, 2006). Temporary and permanent migration opportunities have been expanded by the formation of the Economic Community of West African States (ECOWAS) in 1975. Studies show that the majority of the migrants from Ghana to neighboring states

migrated from an urban centers as their last place of residence (Bump, 2006). Recent studies on migration from Ghana to non-African destinations show that intercontinental migrants come almost exclusively from Southern Ghana, especially the Ashanti, Eastern and Central Region (Asiedu, 2005).

The United Kingdom, due to colonial ties, houses the largest and longest-standing Ghanaian community in Europe. Available statistics shows that, in 2004 a sizeable population of 20,600 was also found in Germany and 18,000 in Netherlands in 2003. Researchers also identified another 32,800 in 2003 in Italy. With the presence and settlement of Ghanaian communities in these countries and their contacts with Ghana, networks are developed that are also used for the movement of people. In Germany, most of them arrived between late 1970s and early 1990s. This was because Germany had a relatively liberal asylum procedure. In the Netherlands and Italy, Ghanaians began to settle in the 1980s to escape the turmoil in Ghana. Also in Canada, 9,600 were accepted for permanent residence in the period of 1995-2004. In 2000 the United States (US), accommodated 65,600 people in sizeable Ghanaian communities. This number in the US has grown rapidly between 1990 and 2000 (Bump, 2006).

The Ghanaian Government is concerned about the brain drain, but also became aware of the importance of the diaspora. Remittances are the second most important source of foreign exchange after exports in Ghana (Bump, 2006). The Central Bank of Ghana estimated that in 2004, \$1.2 billion of remittances flew into the country. This is only half of the total flows according to analysts, because of remittances through informal channels. As Martin and Taylor (1996), argue that a temporary increase in migration that may be termed migration hump has been a usual part of the process of economic development. The Government has developed policies to keep its citizens abroad

engaged foreexample by the Ghana Dual Citizenship Regulation Act of 2002 (Bump, 2006).

Ghana shifted from a country of immigration during the colonial era and up to the late 1960s to a substantial source of emigrants as economic troubles deepened in the 1970s and 1980s. With the return of economic progress from the mid1990s however, immigration to Ghana has increased significantly from 4.6 percent of the population in 1990 to 7.5 percent in 2005. Ghana does not provide data on the composition of its immigrant population, so the only data available on Ghanaian migration is from partner countries. Emigration from Ghana is largely to other West African countries particularly Cote d'Ivoire and Nigeria, which account for two-thirds of total emigrants. Emigration from Ghana is largely dominated by men, with the exception of the substantial flows to Cote d'Ivoire (Anarfi et al. 2003). This often takes place without appropriate exit documents (Adepoju, 2005). Forced migration has occurred both to and from Ghana. It is one of several countries of asylum for fleeing civil wars in Liberia, Sierra Leone and Cote d'Ivoire (Anarfi et al.2003).Ghana expelled foreigners in 1969, and Ghanaians were expelled from Nigeria in 1983, although many returned in the late 1980s (Higazi, 2005).

A growing share of the poor emigrated from Ghana over the 1990s, owing to declining employment opportunities in the urban sector and declines in the terms of trade of cash crops (Litchfield and Waddington, 2003). The probability of migration was positively related to the level of education, previous migration experience, access to irrigation, household size, and the availability of networks, and negatively related to the household dependency ratio and the potential for off-farm employment (Tsegai, 2004).

Table 2.1 Migration and Remittances over Time in Ghana

Year	1970	1975	1980	1985	1990	1995	2000	2005
Immigrants(million persons)	352	385	421	494	717	1038	1505	1669
% of population	3.9	3.8	3.7	3.7	4.6	5.9	7.6	7.5
Remittances (Million US\$)	-----	-----	1	4	6	17	32	99
% of GDP	-----	-----	0.0	0.1	0.1	0.3	0.6	0.9

Sources: United Nations Population Division, World Bank Remittances and Migration

Despite sharp increases in remittances since 1990, they remain less than 1% of Ghana's GDP. Remittances from outside Africa are estimated at 37% of the total including internal remittances, while emigrants outside Africa are only 12% sending remittances (Mazuccato et al. 2005). It can be difficult to distinguish between internal and external remittances, as transfers from an internal source may have been financed by transfers from abroad. Ghanaians who worked while abroad had better jobs, stayed abroad longer, and maintained contact with their families are more likely to send money home and send larger amounts (Black et al. 2003a).

Returned migrants also benefited from their experience; less-skilled emigrants showed a significant improvement in occupational level, with those who left when they were younger showing the most improvement.

Table 2.2 **Remittances from Abroad in GLSS 5**

RelationshipwithHead of Household	Observation	% of Total
Child	950	31.13
Parent	213	6.98
Sibling	738	24.18
Spouse	225	7.37
Relative	603	19.76
Non-Relative	323	10.58
Sex of Sender :		
Male	2033	66.79
Female	1011	33.21
Total	3,044	100.00

Source: Author's Computation from GLSS 5(2005/2006)

From Table 2.2 the largest foreign remittances are sent by children of household heads who represent 31.13%. While the largest number of senders is males who constitute 66.79%. This supports the notion that migration is dominated by males (Anarfi et.al, 2003). The group with the lowest of remitters are parents representing 6.98%. The second highest transfer of remittances occurs between siblings.

On the basis of an analysis of the First Indonesian Family Survey data, Park concluded that amongst three main types of transfers (that is, parent-to-child, child-to-parent, and inter-sibling), remittances between siblings are most consistent with the altruistic motive.

Table 2.3 Characteristics of Remittances based on Data of Migrants (2003/2004)

Sent for :	
Own Housing	16
Own Business	28
Funerals, other ceremonies, church and development projects	
12	
Sent to :	
Urban	49
Rural	32
Unknown	18
Rest of World	1
Sent Unregistered :	
Share sent through people traveling	
64	

Note: Data are preliminary and subject to change

Source: Ghana Transnational Network, monthly transactions data 2003-2004.

Data from the Ghana Transnet programme indicates that remittances sent for a migrant's own house construction and own business investment amount to 16% and 28% respectively of total remittances sent (Table 2.3). This result also concurs with more qualitative data collected in Accra with regards to migrants investment (Smith and Mazzucato, 2003). The data from the Transnet program indicate that, the GLSS data on remittances may under report total remittances from overseas since 64% were sent through individuals travelling which might not be recorded officially.

Remittances sent for other category of expenses such as funerals, and other ceremonies, church and development projects constituted 12% of total remittances. Urban households also received a higher share of remittances of 49% relative to rural households of 32%. Quartey (2006b) in an empirical analysis of the impact of remittances on welfare found his results corroborated with (Mazzucato, 2004), where it was observed from a

transnational survey that remittances affect Ghana through investment and also the spin-off effects on a large number of businesses that are involved in funeralceremonies and other social functions.

Table 2.4 Regularity of Remittances Sent toGhana in GLSS 5

Remittance Flow	Observations	% of Total
Weekly	14	2.01
Monthly	136	19.57
Quarterly	104	14.96
Annually	119	17.12
No	295	42.45
Other	27	3.88
Totals	695	100

Source: Author’s Computation from GLSS5 (2005/2006)

From table 2.4 it is realized that the proportion of migrants who perhaps could not recall how often they sent remittances was 42.45% which is the highest. Those who sent it weekly was the lowest (2.01%). Migrants who remit monthly were higher than those who sent it quarterly by4.61%. However those who also sent remittances daily and periods outside any of the above mentioned was 3.88%. In addition those migrants who remitted annually were lower than those that sent remittances monthly but higher than those who remitted quarterly. It is reasonable to argue that migrants were enticed to remit

daily and much more weekly because of commission paid on remittance which is purported to be expensive. The vast majority of migrants resort to remitting monthly, quarterly or annually because of the associated high cost of these transfers.

Table 2.5 Use of Migrant Remittances in GLSS 5

Uses	Observations	% of Total
Daily Consumption	3792	86.61
Funerals	17	0.39
Other Ceremonies	57	1.30
Education	82	1.87
Health	180	4.11
Business	95	2.17
Housing	57	1.30
Savings	4	0.09
Other	94	2.15
Total	4378	100

Source: Author's Computation from GLSS 5 (2005/2006)

From Table 2.5, about 88.3% of remittances to households are used for consumption or living expenses (daily consumption, funerals and other ceremonies). With as low as about 3.56% of remittances channeled to investment while 5.98% is for human capital development (health and education expenses). This confirms the earlier reports from GLSS 3 and 4, and other studies by (Quartey, 2006; Muzzacato, 2004) that a bulk of remittances are often used for consumption or living expenses. However, usually a relatively lesser proportion of remittances are put into investment. Despite this report, it

is argued that the welfare effect is felt through other related business or investment activities in living expenditure during funerals, marriages, daily spending on restaurants which have a spin-off effect on welfare and long-term development.

In the case of funeral ceremonies migrants spend the money on the purchase of a coffin, hospital and morgue fees, transport costs, musical entertainment and food offered at the ceremony, video productions, material for funeral clothing, printing services and the like (Mazzucato et al. 2004). The distinction between consumption and productive investments in the literature however, is superficial. Expenditure on housing, education, health, and even food and medicines, which are often referred to as consumption expenditures should be seen as developmental. Not only do they enhance individual wellbeing, but they also have positive multiplier effects including creation of employment opportunities, as pointed out by (Sumata, 2002; De Haas, 2010).

Scholars with neoclassical perspective therefore assert that even if remittances are spent on consumption, they promote local production of goods and services and contribute to economic growth through multiplier effects by augmenting the demand for goods and services, leading to more production, higher employment and ultimately increased national income (Taylor et. al; 1996, Durand et. al; 1996, and Itzigsohn, 1995). Furthermore, expenditures on healthcare and education are investments on human capital and could be considered a form of productive investment. Therefore, irrespective of whether remittances are spent on consumption or productive investments, they are likely to have some positive effects on the economy of migrant-sending areas.

2.4 Profile of Ghana's International migrant Remittances

Remittances have been noted to play an important role in national development. Several studies (GSS, 2006; Addison, 2005; Muzzacato, 2004; and Quartey, 2006) have highlighted the transfer of remittances and its role in improving livelihoods in migrant households and in the decision-making process. In 2005, the Bank of Ghana estimated the level of remittances at \$1.5 billion, compared to \$479 million in 1999. This amount is more than the FDI and Official Development Assistance to Ghana, and more than a third of Ghana's GDP. Remittances to Ghana by professional skilled migrants in the UK were estimated at between \$1,000 and \$14,000 per annum (Nuro, 1999). Total remittances in 2007 were \$6.89 billion, compared to \$5.78 billion in 2006. Private inward remittances to individuals and NGOs increased from \$1.74 billion in 2006 to \$3.7 billion in 2007 (Bank of Ghana data, 2008).

According to the World Bank, remittances account for just 0.8 percent of Ghana's GDP with a total inflow of \$117 million in 2007 and \$128 million in 2008. Therefore, although increasing over the years, remittances remain fundamentally marginal to the overall economy. Private inward remittances sent through banks accounted for 92% in 2006. A significant proportion of remittances are sent through informal means, but this is difficult to capture. Page and Plaza (2006) estimate that unrecorded remittances account for 73% of total remittances in Sub-Saharan Africa compared to 45-60% in Latin American and Caribbean (LAC), East Asia and Pacific (EAP), a Europe and Central Asia (ECA) regions. Large flows through informal channels reduce development impact in terms of financial sector deepening, credit multiplier, savings, and investment. Flows outside the formal system raise issues of money laundering and other financial crimes.

Also, it is estimated in the fourth Ghana Living Standards Survey (GLSS, 1999) that remittances in cash accounted for 20% of total private inward remittances (Quartey, 2006).

Table 2.6 Means of Transfer of Remittances to Ghana

Means	Percentage (%)
Friend	64
Bring Cash During Visit	13
Cash (Driver)	11
Money Transfer Company	6
Other	6
Total	100

Source: Orozco et al. 2005. Based on a survey of 315 remittance senders

From Table 2.6, about 88% of remittances are transferred through unofficial channels which are unrecorded (friend, bring cash during visit, cash (driver). Only about 6% of the total remittances pass through official sources (money transfer companies). This undermines the development impact of remittances in Ghana

Table 2.7 Means of Transfer of Remittance to Ghana in GLSS 5

Means	Observation	% of Total
Friend /Messenger	1610	36.32
Sender on visit	2167	48.88
Bank Account	90	2.03
Money Transfer Agency	489	11.03
Other	77	1.74
Total	4433	100

Source: Author's Computation from GLSS 5 (2005/2006)

From Table 2.7, about 85.2% of remittances are sent through unofficial means while 13.06% pass through official sources which are recorded, with 1.74% sent through other means. This is an indication of the fact that, remittances received are not accurately captured and the welfare effect not well accounted for. This lends support to the report from the Transnet program data to the effect that, as much as 64% of remittances data are compromised because they are sent through informal channels and unaccounted.

Table 2.8 Remittances payable in future or not in GLSS 5

Payable	Observation	% of Total
Yes	166	2.59
No	6253	97.41
Total	6,419	100

Source: Author's Computation from GLSS 5 (2005/2006)

From Table 2.8 it is reported that about 97.41% of remittances are not payable by beneficiaries while about 2.59% are payable or sent in the form of loan to the beneficiaries. This explains remittance behavior of migrants or their motivation to remit to their origins. The 97.41% seeks to explain the pure altruism motive predominantly as

the migrant motive for sending remittances which remain an expression of the care or utility he derives from enhancing wellbeing of recipients. The 2.59% also serve as a testimonial that the self-interest exchange based motive plays a critical role in shaping the migrants decision to remit. Some migrants may send remittances with the hope of getting inheritance or acquiring any property, or with the aim of gaining some insurance from the family when they return in future or any other plausible kind of exchange as a motivation.

2.5 Summary

The chapter delved into specific issues relating to international migrants and remittance flows with copious reference to the history, features, profile and use of remittances in Ghana. The historical aspect reveals that international migration and the outcomes are traceable to the period before colonization as movement of people existed as a way of life. The pattern of international migration and remittance flows has not been homogenous. Ghana's migration process has changed over the years as a net immigration to net emigration state from the colonial period to current period shaped by cultural, social, economic and historical antecedents.

The emigration process was also characterized by intra –regional movement which later saw inter-continental movement and a combination of both which resulted in the diaspora and remittance flows to Ghana. On the use of remittances in Ghana a lot of evidence point to the fact that a bulk of such funds go into consumption even from the GLSS 5 data. However, a relatively reasonable proportion are used in some cases for investment coupled with the logic that in the spending of households on consumption

there is a spill –over effect on certain economic activities which affect welfare in the long-term.



CHAPTER THREE

LITERATURE REVIEW

3.0 Introduction

There are several theories relating to migration, remittance and development as well as the motivation to remit and use of remittances. In development economics, several approaches have also been adapted to measure or assess the implications of migration and remittances on welfare among households due to its multidimensional nature. This chapter presents a review of theories and empirical studies on areas relevant to this study.

3.1 Theoretical Literature Review

The theories on remittances have been historically based on pessimistic and optimistic views. There have been significant increase in the study of remittance transfers and migration since the 1950s. Although there is a strong link between remittances and migration, it is worth noting that remittance transfers may occur not in the context of migration, and sometimes migrants are recipients not necessarily non-migrants. Some studies adopt a limited approach given that remittance transfers are made by migrants and attributable to the intertwined nature of the concepts of migration and remittances (Lucas and Stark, 1985; Liu and Reilly, 2004; Brown, 1997). In this light, in discussing the subject of migrant remittances it is fair to draw from the theories of migration which explain the migration-remittances and development nexus. It is therefore expedient to review some critical theoretical advances which explain these concepts.

There are three distinguished theories based on the post-second world war thinking on migration, remittances and development. The optimist theories which were dominant in the 1950s and 1960s, the historical-structuralist views of the pessimist in the 1970s and

1980s, and the pluralist perspective which is the NELM; new economics of labor migration in the 1980s and 1990s (de Haas, 2007).

3.1.1. Reasons for Migration

The optimist theories of the 1950s and 1960s constituted the developmentalist and neo-classical views. To the optimist, poor countries could achieve the desired rapid economic development and modernization through large scale transfer of capital resources and industrialization. During this period, a policy of large scale transfer of labor from developing to developed nations also gained momentum. According to Papadimitriou (1985), labor in many developing countries such as the Mediterranean got involved in the migration process in expectation of positive developmental returns. Governments of developing countries were attracted to actively encourage emigration as a major tool to promote national development (de Haas, 2007).

Developmentalist tend to think that migration leads to a South-North transfer of investment capital and accelerates the exposure of traditional communities to liberal, rational and democratic ideas, modern knowledge and education. From this perspective, return migrants are perceived as important agents of change, innovators and investors (de Haas, 2007). The neo-classical optimist also views migration in a positive light which is built on the balanced growth theoretical model. To them countries can attain optimal allocation of factors of production through migration process for the benefit of all.

This is possible with factor price equalization as wages become equal in both the sending and receiving countries of migrant workers and in the process migration ceases to occur. In this vain, the reallocation of labor from rural agricultural to urban areas and across national borders to industrial destinations is an essential pre-requisite for economic

growth and an integral component of the whole development process (Todaro, 1969). In an unconstrained labor market, the free movement of labor from the migrant sending areas will result in increasing scarcity of labor which translate into higher marginal productivity and increasing wage levels to them.

Migration pessimist expressed their views on migration, remittances and development through the historical- structuralist or dependency theory. Migration was seen as responsible for causing movement of valuable labor from their originally stable and traditional communities thereby breaking down such economies. This inevitably results in the development of passive, non-productive and remittance-dependent countries. Brain drain ; the massive departure of young, able-bodied men and women from rural areas is typically blamed for causing a critical shortage of agricultural and other labor, depriving these areas of their most valuable work force. Because it is generally not the poorest that migrate the most, migration and remittances were also believed to increase inequality in communities of origin (Lipton, 1980; Adams, 1969; Penninx, 1982; Lewis, 1986).

Contrary to the views of the developmentalist and the structuralist, the new economics of labour migration (NELM) theory emerged which offered a more subtle approach to explaining the migration-remittance subject. The NELM adopts a pluralist method by combining and acknowledging both the positive and negative developmental outcomes of migration and remittances rather than the rigid and deterministic views espoused by the earlier theories.

This revitalized the thinking on migration by considering not the individual but the household as the main decision -making unit and modeling migration as the risk-sharing behavior of the household. This is because it is believed that households seem capable than individuals in diversifying labor resources in order to minimize their income risk

(Stark, 1978; Taylor, 1999; Stark and Levhari, 1982). This approach integrates motives other than individual income maximization that play a role in migration decision making. Migration is perceived as a household response to income risk since migrant remittances serve as income insurance for households of origin (Lucas and Stark, 1985).NELM scholars argue that migration is a livelihood strategy by households in their bid to overcome various market constraints, so as to invest in productive activities and improve their welfare.(Taylor et al. 1996).

3.1.2. The Use of Remittance in theory

The developmentalist believed that the flow of remittances as well as the experience, skills and knowledge that migrants would acquire abroad before returning would greatly help developing countries in their economic take-off. Return migrants were expected to invest large sums of money in enterprises in their country of origin. Interestingly, this optimistic view has recently experienced a renaissance, although it is now linked to neo-liberal, rather than the state-centrist visions of development policy that predominated in the 1950s and 1960s (de Haas, 2007).

However, it is important to note that neo-classical migration theory has no place for remittances (Taylor, 1999). Until recently, the developmental role of migration and remittances was viewed strictly in terms of factor price equalization based on the neo-classical perspective. A World Bank report (2002) saw the benefits of migration uniquely in terms of factor price equalization to receiving countries but did not mention remittances.

This is in contrast with Ratha's (2003) chapter entitled "Workers remittances: "An important and stable source of external development finance" in the World Bank's

Global Development Finance only one year later, which played a major role in the sudden resurgence in the interest for remittances(de Haas, 2007).

New economics of labor migration proponents argue that migration is said to play a crucial role in providing a potential source of investment capital in developing countries where there exist imperfect capital and risk markets which are not accessible to most non-elite groups or some households (Taylor et al. 1996).The structuralist also argues that remittances were used for conspicuous consumption and were hardly spent on productive investment. Besides weakening local economies and increasing dependency, increased consumption and land purchases by migrants were also reported to provoke inflationary pressures and soaring land prices (Appleyard, 1989; Rubenstein, 1992; Russell, 1992).The increase in income or wealth of recipients through remittances was also believed to shift taste from domestic to imported or foreign goods and food often demanded by migrants which reinforces the cycle of dependency.

In particular, the dependency school of development thinking viewed capitalist penetration and its concomitant phenomena such as migration not only as detrimental to the economies of underdeveloped countries, but also as the very causes of the “development of underdevelopment”(Frank, 1966). In neo-Marxist terms, migration and remittances is viewed detrimental which is believed to reproduce and reinforce the capitalist system based on inequality (Solimano Forthcoming).What is fundamental is not ascertaining whether migration and remittance transfers have either positive or negative developmental outcomes but accounting for why this has contributed to development in some communities and much less, or even detrimentally in others and the factors attributable to them.

Again the impact of migration and remittances changes in communities with time and at different stages of the process. Hence, we need to better understand the geographically differentiated and socially disparate nature of migration and remittance impacts as well as how these impacts change over time (Ghosh, 1992; Taylor, 1999; Jones 1998b; Lucas, 1987).

3.2 Empirical Literature Review

Empirical studies revealed quite mixed results regarding the effects of remittances on development. Besides protecting against income shocks, a range of empirical studies have indicated the often positive contribution of international remittances to household welfare, nutrition, food, health and living conditions in places and regions of origin. For instance, half of the households surveyed by Lindley (2006) in Hargeisa were entirely reliant on remittances.

In the Moroccan Todgha valley, 40% of all surveyed households received international remittances which doubled their income in comparison to other households. Internal and international remittances accounted for 10% and 33%, respectively, of the cash income of all surveyed households and 53 to 59% of the income of households involved in international migration (De Haas, 2006). A study in South East Nigeria concluded that the contribution of those who migrate outside of the African continent may be up to 50% of household expenditure (Nwajiuba, 2005). The optimistic view refers to empirical findings which show that an essential part of remittances is spent on savings and investments (de Haas, 2005).

The pessimistic view emphasizes such negative effects as lack of incentive to work (Ratha, 2003), appreciation of national currency, (Amuedo-Dorantez and Pozo, 2004). In the past, researchers have often taken a rather pessimistic view of how remittances are spent or used and the impact of these monies on development. For example, a recent review of the literature by (Chami et al. 2003) reported three stylized facts: first, that a significant proportion, and often the majority of remittances are spent on consumption; second; that a smaller part of remittance funds goes into saving or investment, and third; the ways in which remittances are typically saved or invested in housing, land and jewelry are not necessarily productive to the economy as a whole.

This belief which also formed the cornerstone of structuralist and dependency-inspired visions that claimed that migration and remittances do not lead to, or can even undermine development is remarkably persistent, particularly in the policy literature. A recent report commissioned by the European Investment Bank concluded that remittances remain primarily used for daily expenses and therefore do not have large developmental impact (European Investment Bank/Facility for Euro- Mediterranean Investment and Partnership, 2006). Such views usually underpin ideas that governments should develop policies to channel remittances into productive investment (Zarate-Hoyos, 2004; European Commission, 2005).

Since the 1990s, an increasing number of studies have emerged that challenge the dim views that migrants would fritter away their remittance earnings on personal consumption (Adams, 1991). Most studies seem to suggest that households receiving international remittances have a higher propensity to invest than non-migrant households when controlling for income and other relevant household variables. Rapport and Docquier (2005) cited several studies indicating that there is considerable evidence that

remittances promote access to self-employment and increase investment in small businesses.

Many researchers and economists in their studies reflect the idea that remittances should be directed towards investment such as small businesses to improve countries production and level of wealth. It may also help to reduce the unemployment level. Ratha and Sanket (2007) described the influence of remittances on poverty, growth, real wages and external competitiveness. They emphasized that in countries with a good investment climate remittances are often used as an investment fund for small businesses.

In line with NELM theory most recent empirical findings are consistent with the view that labor migration is a livelihood strategy used by households to overcome relative deprivation (Hampshire, 2002). For instance, recent studies conducted in Burkina Faso (Hampshire, 2002; Wouterse, 2006) and in Morocco (de Haas, 2006) suggested that internal and international migration within the African continent should primarily be seen as a means to enhance livelihood security through income diversification because the welfare gains, if any, are relatively small. In both countries, it was mainly migration to Europe that allowed households to accumulate substantially more wealth.

Analyzing survey data on Mexico–United States remittances, Amuedo-Dorantes and Pozo (2006) concluded that income increases in migrant receiving countries significantly raises both the propensity and the proportion of labor earnings sent home for family provided insurance as well as for self-insurance. A growing number of studies indicated that economic and currency crises in origin countries tend to increase remittance transfers (Blue, 2004). Such evidence corroborates the NELM hypothesis that remittances function as income insurance and protect people from income shocks caused by economic downturns, political conflicts or climatic vagaries (Lindley, 2006).

Yang (2004) used four linked household surveys from the Philippines to analyze how exchange rate shocks during the 1997 Asian financial crisis affected the expenditure patterns of 1,646 Philippine households receiving international remittances. Panel data from before and after the 1997 crisis was used to study how different types of exchange rate shocks, positive and negative, affected changes in the expenditure patterns of remittance-receiving households. This represents a type of natural experiment because; the size and direction of exchange rate shocks are probably uncorrelated with other household-level shocks. The study found that positive exchange rate shocks had no statistical effect on the level of expenditures by remittance-receiving households on food. In other words, households receiving more remittance income as a result of favorable exchange rate shocks are not wasting such income on increased food consumption. Rather, positive exchange rate shocks led to a statistically significant rise in household-remittance expenditures on education and a reduction in total hours worked by male and female children.

For example, a 1-standard deviation increase in the size of the exchange rate shock led to a 0.4% increase in household remittance expenditures on education in the Philippines. The analysis also finds that favorable exchange rate shocks were associated with increased investment by remittance-receiving households in entrepreneurial activities, especially transportation, communication and manufacturing enterprises. In all likelihood, households receiving more remittances as a result of positive exchange rate shocks were able to invest more in these relatively capital-intensive enterprises because they no longer faced the credit constraints that had previously hindered such investments. Edwards and Ureta (2003) used a 1997 household survey of 14,286 people (aged 6–24) to examine the impact of international remittances on school retention rates in El Salvador.

International remittances represent a key source of household income in El Salvador. In 1997, about 15% of all households received international remittances. The standard economic theory suggests that the source of income should not affect how money is spent. The study analyses how two different types of income; income from other sources and remittance income, affect the household choice of schooling levels for children. The results suggest that the source of income does matter for investment in schooling. Income from remittances has a much larger impact on school retention rates than income from other sources.

In urban areas in El Salvador, international remittances have 10 times the size of the effect of other income on the hazard of dropping out of school. For example, in urban areas, the average level of remittances lowers the hazard that a child will drop out of elementary school (grades 1–6) by 54%. In rural areas in El Salvador average level of remittances in rural areas lowers the hazard rate that a child will drop out of elementary school by 14%. According to the study, one possible reason why remittance income has a greater impact on school retention rates than income from other sources is that households may have a higher propensity to spend on education out of remittance earnings.

A survey conducted by the Sussex Centre for Migration Research in Ghana, particularly in the Ashanti Region in March 2003; identified three main uses of the remittances. First; remittances are used to satisfy individual needs such as smoothing consumption needs, organizing funerals and meeting other pressing social needs. The second motive is to support social projects in migrant's origin communities. The third motive; less common but perhaps the most important for the promotion of economic development, is for

productive investments. Under this third category, the most common objective is for migrants to invest in businesses of their relatives in their home country.

A study by Litchfield and Waddington (2003) on Ghana also examined the welfare outcomes of migrants and non-migrants in Ghana using GLSS data. They found that migrant households have statistically significant higher living standards than non-migrants households. Although there appears to have been a slight decline in the extent of migration over the decade.

In conclusion, despite the conflicting results of the impacts of remittance flows, an overwhelming amount of the empirical literature suggests that remittances make a powerful contribution to reducing vulnerability at least at the household and local community levels. It is important to emphasize that much of the effect is seen at the household level, suggesting that remittances underpin the welfare of households (Quartey, 2006b).

3.2.1 Motivation for Remittance

In the remittance literature another issue of importance relates to the often raised question about; why do people remit? Theoretically this has been attributable to two main reasons which are altruism motive and self-interest or exchange motive. Rapport and Docquier (2005) have observed that until recently, altruism was more frequently assumed than tested against competing theories. Current thinking on remittance motivations, however, gives considerable importance to self-interest-based exchange. The altruism motive is based on the fact that the sender of the remittance cares about the welfare of the recipient and his utility consequently increases as the wellbeing of the recipient improves. In other words, there is altruism motive when the utility function of

the sender of remittance partly and positively depends on that of the recipient (Boakye-Yiadom, 2008). Other studies that espouse altruism include Ishikawa (1975) and Adams (1980).

A key prediction of the altruistic model is that, *ceteris paribus*, there will be a negative relation between a recipient's pre-transfer income and the amount of remittance received (Cox and Jimenez, 1990). Garry Becker was one of the first to provide a theoretical framework for the altruistic motive. In his seminal contribution, Becker (1974) developed an economic model of social interactions within which the implications of self-interest and exchange are treated as separate motives. But as suggested by Cox and Jimenez (1990), there is a sense in which each of the two labels can broadly represent the same motive. The fundamental principle of the exchange motive is the issue of reciprocity. It is believed that people remit because they expected some payment or something in return. A migrant may send remittances back home to relatives because of their earlier investment in his or her education. In the reverse case, parents can invest in their child with the expectation of receiving remittance in return (Bates, 2000).

Remittances might be motivated by the interest of a migrant to acquire or inherit property back home. In the remittance literature; there are several models of the exchange hypothesis. Bernheim et al. (1985) developed a model of bequests, in which the testator intentionally influences the behavior of beneficiaries via his choice of a bequest-sharing rule. Even though this particular model deals with bequests, it provides support for the notion that remittance behavior is often motivated by self-serving exchange considerations. From his model of the exchange motive for sending remittances, Cox (1987) concluded that contrary to what pertains under altruism; remittances do not necessarily decrease with increases in the recipient's income if

remittances are motivated by exchange. One way of rationalizing this result is to reckon that by enhancing the recipient's bargaining power, the increased income can result in a higher amount of remittance receipt (Boakye-Yiadom, 2008).

The third school sees both altruism and self-interest as playing a role in the motivation to migrate and remit (Ballard et al. 2001). Despite the fact that the pure altruistic and pure self-interest motives play a vital role in shaping the decision to remit, it is fair to state that a more plausible explanation of the motivation to remit can be in some scenarios by incorporating both altruism and exchange principles. (Lucas and Stark, 1985; Stark and Lucas, 1988), have formulated a model that exhibit elements of altruism and self-interest in explaining the motivation for remittance flows. Cast in the context of the interactions between migrants and relatives back home, they employ a game theoretic framework to advance a model of tempered altruism or enlightened self-interest. In this model, remittances are seen as one element in a self-enforcing arrangement between migrant and home.

The model, thus, treats remittances as part of a co-insurance arrangement between the donor and the recipient, insuring both parties against shocks, such as liquidity constraints, unemployment, and poor harvest. Even though the model emphasizes the crucial role of self-interest as a motivation for remitting, it highlights the importance of altruism in reducing any inclination on the part of the contractual parties to renege on their obligations. This is further echoed by Bates (2000) who notes that the pleasure gained by parents from the success of their children helps to sustain the informal contractual arrangements. Additionally, the threat of social sanctions is usually enough to deter the migrant from breaking his or her promise.

There are empirical studies which demonstrate that the various motivations to remit are inevitably crucial in understanding why people remit. The evidence from U.S.-Nigeria migration study by (Osili, 2006) suggested that transfers to origin family are motivated by altruistic considerations, with poorer origin-family members in Nigeria receiving larger transfers.

The migrant is simply part of a spatially extended household that is reducing the risk of impoverishment by diversifying across a number of activities (de Haas, 1998; Agrawal and Horowitz, 2002). On the basis of survey data on Tongan and Western Samoan migrants also found evidence to the effect that migrant's remittance transfers to their countries of origin are motivated by non-altruistic factors such as asset accumulation and investment back home (Sydney and Brown, 1997). Some empirical evidence consistent with the exchange motive can also be found in studies that utilize data on typical developing countries (Hoddinott, 1992;

Cox and Jimenez, 1998; Gubert, 2002). In the study by Lucas and Stark (1985), remittance patterns among individual migrants in Botswana were found to be consistent with the model of tempered altruism or enlightened self-interest. What is clear from the analysis is that the motivation to remit lies within the continuum of altruism-exchange motives and the issue about which motive is dominant largely depends on the relationship between the donor and the recipient (Park, 2003b).

3.2.2 The Use of Remittance

The relationship between remittance and household spending can be explained theoretically by viewing remittance as a source of income. The traditional consumption models such as the permanent income and life cycle theories of consumption postulate

that the source of income does not matter in consumption behavior as households tend to smooth their consumption. This implies that we should expect households receiving remittances to behave the same like any other household with other things being equal. However, other studies using behavioral approach show increasing tendency of household receiving remittances to be influenced by the source and size of remittance to be consumed or invested.

Moreover, because of the fungibility of remittances household spending remittances on consumption could devote other incomes to investment or vice versa (Tabuga, 2007). Examining the impact of remittance receipts and migration has been the subject of several studies. This is because the magnitude of such transfers has attracted the attention of Governments, policy makers, international organizations and the academia. A growing body of literature has been devoted to measuring its impact on aggregate economic measures such as poverty, growth, and development in several nations. However, it is strongly noticed that such transfers directly benefits the household and that their decisions or spending behavior determine whether it has short or long –term impact on welfare. In this vain, a huge body of studies has focused on the use or spending behavior of household receiving remittance income. The body of literature on this has been divided into two views.

The earlier view was pessimistic arguing that households receiving remittances do not spend it on productive investment which negatively affected local production and encouraged conspicuous consumption. However, some studies recently have challenged this view (Tabuga, 2007). Yang (2005), using bigger samples found that remittances induce households to invest in human capital such as education. Remittance income in times of positive exchange rate shocks also influence households to engage in

entrepreneurial activities. Infact, even without investing these remittances, they can still contribute to the local economy by way of the multiplier effect of consumption done by the households receiving the remittances income (Taylor et al. 1996). These benefits have not been recognized in past research. Taylor & Mora (2006), attributed these pessimistic results to narrow definition of productive investment, inadequate samples and more importantly, to poorly-designed research approaches.

3.3 Remittances and Human Capital

Exploring the impact of remittance on human capital is important since it reflects the long-term welfare effect on households. First, one could see the impact of remittances on the health and educational outcomes of recipient households as complementing the analysis of the monetary dimensions of poverty. Second through its impact on human capital remittances can have lagged effects on household income and consequently on monetary defined poverty indexes. For example, if children in recipient households accumulate more or better human capital than otherwise similar kids, then remittances can also be expected to positively affect long run growth and hence long run poverty levels. (Acosta et al. 2008).

The impact of remittances on health and education in developing countries is mixed. Most studies reveal that remittances improve infant mortality and child health through rising household incomes and increasing the health knowledge of mothers. While some studies prove that remittances raises school retention rates others find it to have a negative effect on school attendance rates for teenage boys and girls because of the absence of their parents due to migration. In a study using nationally representative data, Hildebrandt and McKenzie (2005) found that remittances reduce infant mortality in rural

areas in Mexico. Using a large rural data set from Mexico, and employing an instrumental variables approach based on historic state level rates of migration in Mexico; they found that international migration has positive effects on both infant mortality and child weight. For example, children born in international migrant households are 3 per cent less likely to die in their first year than children in non-migrant households. Similarly, children born in an international migrant household are estimated to weigh 364 grams more on average, than children in non-migrant households.

McKenzie and Rapport (2006) used a nationally-representative data set from Mexico and an instrumental variables approach focusing on historic state-level rates of migration to analyze the effect of international migration on education. Their findings are similar to those of Lopez-Cordova (2005) that Mexico-to-United States migration has a significant negative effect on schooling attendance and attainment for 12 to 18 year-old boys and 16 to 18 year-old girls. Probit results show that living in an international migrant household in Mexico lowers the chances of boys completing junior high school by 22 per cent and of girls completing high school by 15 per cent. One reason for these lower rates of school attendance is that boys and girls from migrant households are more likely to become international migrants themselves, and rates of return to education are lower in Mexico than in the United States.

3.4. Remittances and Investment

The question of whether remittances are spent on consumption or invested in entrepreneurial activities is an issue lively debated in the literature. Some studies find that households receiving remittances spend on consumer goods and hence patterns of expenditure have little positive or no impact on the local economy. However, other studies find that, remittances are often spent on investment goods such as housing,

education for example, with the patterns of expenditure having a positive impact on building human and physical capital in developing countries. However, Chami et al. (2003) reports that the ways in which remittances are invested are not productive to the economy as a whole. These pessimistic findings are challenged by Adams and Cuecuecha (2010b), using nationally representative household data from Guatemala. They used a two-stage Heckman model and employing an instrumental variables approach focusing on rainfall shocks and historic distance to the railroad.

The authors found that households receiving international remittances spend less at the margin on one key consumption good like food. They spend more at the margin on two investment goods such as education and housing than what they would have spent on these goods without remittances. At the mean, Adams and Cuecuecha (2010b), found that households receiving international remittances spend 194% more at the margin on education than what they would have spent without the receipt of remittances. According to the authors, households receiving international remittances tend to spend more at the margin on investment goods because they treat their remittance earnings as transitory rather than permanent income, and the marginal propensity to invest out of transitory income is higher than that for other sources of income.

3.5 Summary

The review of theoretical literature on remittances reveals four theories highly relating to and originating from the theories of migration because of their inextricable nature. These include the developmentalist, neo-classical, structuralist and the new economics of labor migration theories (de Haas, 2007). These theories present optimistic, pessimistic and a combination of both pessimism and optimism in conceptualizing and analyzing the mixed impact of remittances on welfare and development. The review of previous

literature on remittances and its welfare implication reveal both micro and macro level significance of the use of remittances by households, communities and nations in the short and long-term as well as the motivation for remittance. In Ghana however, few studies have been conducted to find out the impact of remittances on household spending or use of remittances for investment especially in the long-run. This study attempts to fill the gap by analyzing the use of remittance income on human capital and private investment by households to ascertain the long-run implications or otherwise.



CHAPTER FOUR

METHODOLOGY

4.0 Introduction

This chapter presents the methods and procedures used in this study. Specifically, the chapter broadly outlines the theoretical framework, the empirical model for estimation and the source and type of data used.

4.1 Theoretical Framework

The relationship between remittance and household spending can be theoretically discussed and understood by treating remittance as a source of income to households receiving them. This study adopts the Working –Leser model (Working, 1943, Leser, 1963) which states that the budget share of a given item is a function of the logarithm of total expenditures. This means if we increase total expenditure by a percentage, we should expect the budget share for a commodity to change in some proportion. The choice of this theory is largely based on theoretical plausibility. This model conforms to the additivity criterion. That means the sum of the marginal propensities for all goods should equal unity. In other words when the budget share of one commodity increases, another share must be reduced to maintain the budget constraint of the household. The use of this model enables us to determine which commodity groups in the household basket of expenditures are relatively important. The choice of such a functional form is significant since it does several things.

Firstly, it offers us a good wide range of commodities such as food, housing, savings, and education among others. Secondly, the mathematical form provides for rising, falling or constant marginal propensities over a broader range of goods and expenditure levels.

This is a model which does not impose the same slope or marginal budget shares at all levels of expenditure.

In appreciating the spending behavior of households receiving remittances it is prudent to consider the reasons behind remittances. Remittance is one of the direct outcomes of labor migration. The proponents of New Economics of Labor Migration view migration as a risk minimization strategy of the family by diversifying sources of income saying that remittances are motivated by altruism or concern of the remitter for their families receiving the remittances (Lucas and Stark, 1985). The social network theory in contrast argue that there is a social role that remittance play since the exchange happens between members of a social network (Portes, 1995). It may be that, senders are accumulating social obligations from the receivers or that those receiving them may reciprocate remittances through say services to their family members. Remitters may be conforming to social norms where they are made to believe sending remittance is what they are supposed to do. There is also the view that remittances are a repayment to non -migrant members for their support in the migrant's education (Lucas and Stark, 1985).

Understanding these motivations to remit is crucial in our studies on how households spend their remittance income. The reason is either economic or seen as part of social norm. If the remitter expect something in return especially when he returns back home, then there is some reason to believe that remittance may be productively invested. On the contrary where the motivation is part of a social norm it is most likely to be more of conspicuous consumption than productive.

4.2 Model for Empirical Estimation

From the theoretical frame work we consider remittances as a source of income to remittance receiving households. Following Tabuga A. D. (2007), studying the relationship between remittance and household expenditure is done by estimating the Engel function. The Engel function can be defined as a Marshallian demand curve that describes how a consumer's expenditures on some goods and services relates to its total resources holding prices of all goods constant (Lewbel, 2006). In simple terms the quantity of any commodity consumed by a household is determined by resources such as income, wealth or total expenditures. The variable remittance is therefore introduced into the Engel function whose effect is estimated statistically.

The Working-Leser (Working, 1943, Leser, 1963) model is chosen because of its sound theoretical basis. For two households with similar expenditure and characteristics we seek to analyse whether the receipt of remittance by one of the households affects their spending behavior. The functional form to be estimated is as follows:

$$\frac{q_i}{Y} = \alpha_i + \beta_1 \log(Y) + \beta_2 REM \times \log(Y) + \sum \gamma(W) + \varepsilon_i \text{-----(4.2.1)}$$

Where the variables are defined as below:

q_i = Household's per capita expenditure on commodity group i

Y = Total expenditure per capita

$\log Y$ = Logarithm of Y

REM = Remittance which is a dummy variable (equal to 1 if household receive remittance, and 0 otherwise).

W = A vector of the individual, household and community characteristics such as age, gender, marital status, educational qualification of household head, household size, proportion of children, and geographical location of household.

β_1 = The original slope of the Engel's curve without remittance. This is the amount of change in the commodity's budget share in percentage points given a percentage change in total expenditure per capita.

β_2 = A measure of the influence of remittance to the Engel's curve or coefficient of the interaction term of remittance and expenditure.

For households receiving remittance where $REM = 1$, the slope of the Engel's curve becomes $\beta_1 + \beta_2$

ε_i = The error term.

4.3 Model Estimation Procedure

The main consideration of this study is to measure β_2 which gives an insight into how remittance affect household expenditure for the commodities in question such as food, education etc. The regression analysis seeks to test the null hypothesis that β_2 equal zero or otherwise based on which inference is made about remittance and household expenditure. The Tobit technique is used to do the analysis. The use of Tobit regression addresses some issues associated with large scale data unlike Ordinary Least Squares (OLS).

This enables us to avoid problems of heteroskedasticity and susceptibility to outliers.

When dealing with large survey data OLS is no longer the best linear unbiased estimator

(BLUE). This is so because the conditional mean estimator will not be at the 50th percentile or median. OLS gives a generalized picture but Tobit regression provides more specific, meaningful and policy relevant results. The OLS and Quantile regression is used for data that do not contain zero values. However most expenditure data contain zero values which apply to Ghana Living Standard Survey. The reason could be attributable to household habit, preference, or health concerns for some commodities against others. eg. Some households may not spend on alcoholic beverages and tobacco. Again the survey period could be very brief say a week such that some households report no spending.

In a study of this nature where GLSS data is used, the econometric analysis dealing with such zero observations is the Tobit model. Tobit model was first propounded by Tobit in 1958 and was named as such because of its resemblance with the probit model. The Tobit model is usually used to analyse relationship between non-negative dependent variable and a set of explanatory variables. It has to do with censored regression. Censoring is done because observations with values below a certain value say zero are not observed.

The functional form for the Tobit model is expressed below:

$$Y_i^* = \beta X_i + \varepsilon_i \text{ --- (4.2.2.)}$$

Where:

Y_i^* = Latent variable (unobservable) which reflect a household's desire to spend on a certain commodity. What is observable in the data set however, is Y_i which is say the budget share of food, education etc.

X_i = A set of explanatory variables

ε_i =Normally distributed random error term

With our latent variable being above zero and zero otherwise we have:

$$Y_i = \max(0, Y_i^*) \text{ --- (4.2.3.)}$$

From equation (4), the Tobit model will use maximum likelihood estimation (MLE) to estimate the β which gives the effect of X_i on Y_i^* . The β coefficient is estimated such that it maximizes the probability or likelihood of seeing the observed data. β estimates the effect of X_i on Y_i^* and not Y_i in the analysis. The Tobit model is used to study the effect of remittance on dependent variables containing zero values. The functional form to be used is similar to the equation for every commodity as specified in OLS and Quantile regression.

The econometric software used in doing the estimations is STATA 13. Another important focus of the study is to identify the set of explanatory variables which include individual, household and community attributes that can influence the expenditure patterns of household on health, education, private investment and other use of remittance income. These explanatory variables that would be used in this case are informed by literature and they are as follows:

Age (Continuous: Measured in years)

Gender (Dummies: Male=1, Female =0)

Education (Dummies: basic education=1, secondary education=2, professional=3 and tertiary education=4).

Marital Status (Dummies: Married =1, Not Married =0)

Household Size (Continuous: Measured by the number of people living in the household)

Proportion of Children (Continuous: Measured by the number of children as a ratio of the household size)

Proportion of elderly (Continuous: Measured by the number of elderly as a ratio of Size of household)

Occupation of household head (Dummies: wage employee = 1, non-agric self-employment=2, agric self-employment =3)

Rural or Urban (Dummies: rural = 0, Urban =1)

Ecological Zones (Dummies: Coastal, =0, Forest=1, and Savannah=2).

Region of residence (Dummies: Greater Accra = 0, Western=1, Central=2, Volta=3, Eastern=4, Ashanti=5, Northern=6, Upper East=7, Upper West=8, Brong Ahafo=9).

4.4 Data Source and Type

This study will use data from the fifth round of the Ghana Living Standards Survey (GLSS5) conducted in 2005/06 by the Ghana Statistical Service with the support of the World Bank since it is the most recent survey data. Five rounds of the GLSS have been completed up to date, (1987/88, 1988/89, 1991/92, 1998/99 and 2005/06) with each round covering a nationally representative sample of households spread over a period of 12 months. The fifth round of the Ghana Living Standards Survey (GLSS5) survey covers a sample of 8,687 urban and rural households in 580 enumeration areas that contain 37,128 household members.

The data contains a wide range of sectors or issues, such as education, health, employment, migration, housing, agriculture, remittance etc. The data set is nationally representative and probably the most widely used for micro-level analysis of welfare in Ghana. The remittance section covers data on households who receive remittance or not, the amount, frequency of receipt, use of remittance income, household and individual characteristics of recipient households and other relevant information for the purpose of this study.



CHAPTER FIVE

ESTIMATIONS, ANALYSIS AND DISCUSSION OF RESULTS

5.0 Introduction

This chapter provides insight on results of the study. More specifically, the chapter focuses on the descriptive statistics and the empirical results obtained from executing the necessary estimations.

5.1 Descriptive Statistics of Regression Variables

This sub-section is devoted to throwing some light on descriptive statistics of some of the variables that are used in the empirical analysis of the study which are covered in Table 5.1 below. The study's pooled sample constitutes 8687 observations. Out of this number, there were 697 households who received external remittances (8.02) %; while households without remittance income were 7990 representing 91.98% of the population. This shows that households who did not receive remittances were more than those that received by 83.96% during the survey. However, for the purpose of this study, relevant use is made of both categories to achieve meaningful results to bring to light the household spending behavior in Ghana with respect to external remittances.

Table 5.1 indicate that remittances reduce average budget shares of recipient households on consumption and investment goods as compared to their none remittance recipient counterparts. In general, there exist significant mean difference among the outcome and independent variables used in the analysis. This difference is notable and highly significant for consumption in terms of food while that of utilities is not significant. In terms of investment commodities, the mean difference in expenditure between household

with remittance and their counterpart groups are also higher with education than agriculture, followed by housing and lastly health which are all statistically significant. Households with remittance income have older heads than their counterparts without remittance income. The mean difference is positive with an increase in total expenditure for households with remittance than their counterparts. Households with remittances have lesser married household heads but with more male household heads than those without remittances. It is found that, remittance recipient households have lesser heads with no education than those with remittances while for basic, secondary, professional and tertiary it is the reverse which are all highly significant.

Remittance recipient households also have smaller proportion of children and smaller household size than their counterparts without remittances which are all highly significant. On the contrary household with remittances have higher proportion of the elderly than those without remittance. In terms of geographical location there are more households who receive remittances in Greater Accra, Ashanti, Coastal, Savannah and Forest zone than those without remittances. On the other hand, remittance recipient households are lower in Western, Eastern, Northern, Upper East, and Upper West than their counterpart households receiving no remittance. The results further show that the case of Central, Volta and Brong Ahafo are not significant.

Table 5.1 Descriptive Statistics of Variables used in the Estimation

Household Receive Remittances			Household without Remittances			
Variable	Mean	Standard Deviation	Mean	Standard Deviation	Mean Difference	P>t
Outcome & Independent						
Budget Share of Food	0.4875	0.0060	0.5712	0.0180	-0.5645***	0.000
Budget Share of Utilities	0.0482	0.1285	0.0454	0.8820	0.0282	0.533
Budget Share of Education	0.0734	0.1018	0.0484	0.0797	0.0250***	0.000
Budget Share of Health	0.0046	0.0088	0.0053	0.0138	-0.0006*	0.197
Budget Share of Agriculture	0.0268	0.1160	0.0405	0.1677	-0.0136**	0.035
Budget Share of Housing	0.0137	0.0302	0.0336	0.0343	-0.0018*	0.159
Log of Total Expenditure per-capita(Log Y)	16.076	0.7298	15.435	0.8291	0.6396***	0.000
Interaction Term(REM *Log Y)	16.075	0.7298	0.0000	0.0000	16.0756***	0.000
Household Head Variables:						
Age	48.40	16.81	45.07	15.49	3.33***	0.000
Age Square	2625	1756	2271	1574	1.4299***	0.000
Gender(Male)	1.410	0.4922	1.267	0.4425	0.1429***	0.000
Marital Status(Married)	0.5882	0.4925	0.6862	0.4640	-0.0979***	0.000
No education	0.3558	0.4791	0.5724	0.4947	-0.2166***	0.000
Basic Education	0.3515	0.4777	0.2929	0.4551	0.2976***	0.001
Secondary Education	0.1047	0.3064	0.0553	0.2286	0.0494***	0.000
Professional Education	0.1262	0.2407	0.0679	0.1430	0.0679***	0.000
Tertiary Education	0.0616	0.2407	0.0209	0.1430	0.0241***	0.000
House Hold Variables:						
House Hold size	3.6958	2.4328	4.3244	2.8998	-0.6285***	0.000
Proportion of children	0.2156	0.2314	0.2732	0.2395	-0.0576***	0.000
Proportion of Elderly	0.0996	0.2382	0.0594	0.1926	0.0401***	0.000
House Hold Location:						
Western Region	0.0717	0.2582	0.0981	0.2974	-0.0263**	0.023
Central Region	0.0875	0.2827	0.0785	0.2691	0.0089	0.403
Greater Accra	0.2152	0.4112	0.1385	0.3454	0.0766***	0.000
Volta Region	0.0688	0.2534	0.0841	0.2775	-0.0152	0.161
Eastern Region	0.0846	0.0105	0.1070	0.3091	-0.0223*	0.065
Brong Ahafo	0.0946	0.2929	0.0032	0.2879	0.0034	0.761
Ashanti Region	0.3371	0.4730	0.1675	0.3735	0.1695***	0.000
Northern Region	0.0215	0.1452	0.0976	0.2968	-0.0761***	0.000
Upper East Region	0.0129	0.1129	0.0739	0.2617	-0.0690***	0.000
Upper West Region	0.0057	0.0755	0.0632	0.0578	-0.0574**	0.000
Forest zone	0.5222	0.4998	0.3983	0.4895	0.1238***	0.000
Coastal Zone	0.3945	0.4891	0.2879	0.4528	0.1065***	0.000
Savannah	0.0832	0.2764	0.3136	0.4640	0.2304***	0.000

Household expenditure is in new Ghana Cedis (Gh¢), ***Denotes significance at 1%, **Denotes significance at 5%, *Denotes significance at 10%. N=8687.

Source: Author's Computation from GLSS 5 (2005/2006).

5.2 Empirical Results

This section presents the analysis of international remittances and expenditure patterns among households in Ghana obtained from the empirical estimations. The results from the estimations using Tobit regression is found in Table 5.2.

Table 5.2 Tobit Model Results for Budget Shares

Variable	Food Utility	Education	Health	Agric	Housing
Outcome and Independent Variables:					
Log of Total Expenditure (Log Y)	-0.0127***	0.0644***	0.0437***	0.0000	0.0228*** -0.0286***
Interaction Term (Rem*Log Y)	-0.0011***	-0.0017	-0.0002	-0.0001	-0.0001 0.0001
Age	-0.0021***	0.0057	0.0063***	0.0020***	0.0042*** 0.0004***
Age Square	0.0000***	0.0000	0.0000***	-2.20e-06***	0.0000*** -3.65e-06***
Marital Status (married)	-0.0124***	-0.0227	0.0181***	0.0031***	0.0421*** -0.0009
Gender (male)	0.0089**	-0.0929***	-0.0364***	0.0000	0.0384*** 0.0019***
Basic Education	-0.0402***	0.1236***	0.0134***	0.0008*	0.0008 0.0026***
Secondary Education	-0.0805***	0.1214**	0.0370***	0.0010	-0.0089 0.0049***
Professional Education	-0.1048***	0.1384***	0.4409***	0.0024***	-0.0176 0.0103***
Tertiary Education	-0.1676***	0.1089	0.0394***	0.0021*	-0.0553* 0.0167***
Wage Employment	0.0081	-0.0126	-0.0041**	0.0002	-0.0084 -0.0072***
Non-Agric Self Employment	-0.0045	0.0209	-0.0110	-0.0003	0.0097 -0.0064***
Agric Self Employment	0.0494***	-0.1577***	-0.0129***	0.0000	0.1083*** 0.0081***

Table 5.2 Cont. Tobit Model Results for Budget Shares

Variable	Food	Utility	Education	Health	Agric	Housing	
Urban	-0.0480***	0.3883***	0.0154***	-0.0012*	-0.1193***	0.0172***	
Forest Zone	-0.0190***	-0.0602	0.0102**	0.00000	0.0689***	-0.0043***	
Savanna	-0.0140*	-0.0799	-0.0091	-0.00040	0.0668***	-0.0053***	
Western Region	0.0455***	0.0239	-0.0110*	0.0002	0.2092***	-0.0327***	
Central Region	0.0458***	0.0620	-0.0233***	-0.0018**	0.2090***	0.0338***	
Volta Region	0.0531***	0.0012	-0.2097***	0.0017*	0.1989***	-0.0357***	
Eastern Region	0.0668***	-0.1605***	-0.0172***	0.00110	0.1787***	-0.0336***	
Ashanti Region		-0.0018***	0.1894***	-0.0128*	0.0016*	0.1626***	-0.0317***
Brong Ahafo Region	0.0636***	0.0659	-0.00040	0.0039***	0.2417***	-0.0358***	
Northern Region	0.0764***	-0.2529	-0.0373	-0.0020***	0.2077***	-0.0313***	
Upper East	0.0699***	-0.4746***	-0.0087	-0.00060	0.2248***	-0.0354***	
Upper West Region	0.0442***	-0.6315***	0.0172	-0.0011*	0.1809***	-0.0275***	
Proportion of Children	-0.0031	-0.1950***	0.1628	0.0071***	-0.0120	-0.0015	
Proportion of Elderly	0.0275*		-0.0637	-0.1529	-0.0030**	-0.01510	0.0066***
Constant	0.8239***	-1.5168***	-0.9246***	0.0069	-0.8546***	0.5215***	
Pseudo R^2	-0.43870	0.0521	-1.9039	-0.01220	0.5618	-0.1939	
N	8687	8687	8687	8687	8687	8687	
Censored at 0	56	3363	3625	2087	3903	0	
Uncensored	863	15324	5062	6546	4784	8687	

Household expenditure is in new Ghana Cedis (Gh¢), *Denotes significance at 1%, **Denotes significance at 5%, *Denotes significance at 10%. N=8687.**

Source : Author's Computation from GLSS 5 (2005/2006)

5.3 Discussion of Empirical Results

A quick look at the descriptive statistics in Table 5.1 clearly shows a significant mean difference in most of the explanatory variables. Moreover, from the Tobit regression estimation most of the variables used show the expected sign that they significantly influence the probability that households budget shares change which underscores the relevance of the quantitative model selected. These variables are chosen based on economic theory and earlier empirical findings which include individual attributes, household attributes and community characteristics.

Table 5.1 shows that out of 27 explanatory variables; 24 are significant with age, age square, gender, marital status, and household head educational levels, size of household, proportion of both children and the elderly being extremely significant at 1%. In addition it is obvious that the inclusion of Greater Accra, Ashanti, and the three Northern Regions as well as the three ecological zones are justifiable because their significance at 1%. This is similar for the log of total expenditure and the interaction term for remittance and log of total expenditure in the study.

The result in Table 5.2 There is a negative coefficient between total expenditure of household with or without remittance and the budget share on food. This means there is the greatest likelihood for households to decrease their budget share on food as their expenditure increase due to remittance. This is consistent with findings by Adams (2005), Castaldo and Reilly (2007). The effect of remittance income on food in this study supports the Engel's Law which states that as income rises, the share of budget to food declines. This finding that households devote less or decrease their budget share to consumption is congruent with that of Taylor and Mora (2006), and Zarate Hoyos (2004).

Again the fact that international remittances tend to reduce expenditure of households on food consumption is consistent with that of Acosta et al. (2008). It is interesting to note that in the absence of remittance income there exist a positive probability that households will increase their budget shares on utility, education, health, agriculture and housing. However, the results show no significant relationship between remittance income and utilities, education, health, agriculture and housing.

Nevertheless there is a negative relationship between the interactive term and the budget shares for utility, education, health and agriculture. In the same vain there is a positive relationship between housing and the interactive term. Households most likely decrease their budget share on utilities with an increase in their remittance income. This may be attributable to the fact that utility represent re-current expenditure and so is viewed as a necessity. There is also the likelihood that households will reduce their budget share on education as their expenditure increase due to remittance income.

Unlike Gyimah Brempong K. and Asiedu. (2009) who found that remittance income increases the number of children in a family who attend school in Ghana.. This also contradicts finding by Acosta et al. (2008), Tabuga (2007), Kifle (2007), Cardona Sosa and Medina (2006), Adams (2005) and Guzman et al. (2008) that household's receiving international remittances tend to increase expenditure on education than those without remittances. Remittances have again a negative effect on health and as such the likelihood that household will reduce their budget share on health or medical care in Ghana. The negative impact of external remittances on health in Ghana is inconsistent and contradicts with that of Adams (2005), Ameudo-Dorantes et al. (2007), Ameudo-Dorantes and Pozo (2009), Cardona Sosa and Medina (2006), Guzman et al. (2008) which points to positive impact on health expenditure of households.

Remittances negatively influences the probability that household will spend on agriculture. This spending behaviour by households with regards to agriculture could also be explained in terms of the returns from investing into it coupled with low yield, lack of access to market, no irrigation facilities, poor road networks, huge post-harvest losses and low incomes to farmers among other hostile factors. On the contrary households will most likely increase their budget share on housing as they have remittance income. This is consistent with the results that the influence of remittance on housing is positive as asserted by D. Tabuga A. (2007).

In Ghana the age of household head has a negative effect on the budget share of food. Again age has a positive likelihood that households will increase their budget share on education, health, agriculture and housing. This means older household heads tend to spend less on food and more of their budget devoted to education, health, agriculture and housing. This can be explained by the assumption that older household heads may view an increase in their income as transitory and not permanent. So, they spend less on consumption and more on investment than their younger counterparts.

Married household heads have a negative probability that households will reduce their expenditure share on food but increasing tendency to spend more on education, health, and agriculture. This may be explained interms of the increase in the number of dependance as people marry and give birth their priorities change as their needs increase. Male household heads have a positive influence on the likelihood of spending more on food agriculture and housing and less on utility and education than their female counterparts. This contradict the finding by Guzman et al. (2008), that in Ghana households that are headed by women tend to spend more on education than their male counterparts.

Heads of household with basic education have a higher tendency to reduce their spending on food and to increase budget shares on utility, education, health, and housing. Where household heads have secondary education there is a tendency for them to have more budget share on utility education and housing whiles spending less on food. When a household head has professional education it results in the likelihood that they spend more on utility, education, health and housing whiles spending less on food. Household heads with tertiary education have a positive likelihood to spend more on education, health, and housing but they spend less on food and agriculture. On occupation of household head, it is noted that a wage employee have the likelihood to decrease his budget on education and housing. For non-agric self employees there is the negative influence on food and housing. Household heads in agric self-employment have a positive likelihood to spend more on food, agriculture and housing but spend less on utilities and education.

With geographical location it is realized that there is a positive tendency for households in urban areas to allocate higher budget shares to utility, education and housing whiles spending less on food, health and agriculture. This may be attributable to the notion that households in urban centers turn to have demands for other social amenities than consumption goods. In addition in these areas more focus is on industrialization other than peasant agricultural activities. Households in forest zone have more budget share for education and agriculture but they spend less on food and housing. Households in Savannah devote larger budget share to agriculture whiles they decrease spending on food and housing. Interns of all regions in Ghana. In the Western region households have more budget shares to food and agriculture and less expenditure on education and housing.

In the Central region there is higher propensity for households to spend more on food, agriculture and housing while devoting less to education and health. Households in the Volta region are more likely to have more budget shares for food, health, and agriculture while spending less on education and housing. Households in the Eastern region have a higher likelihood to spend more on food and agriculture but spend less on utility, education and housing. In the Ashanti region households are more likely to have more budget shares for utility, health and agriculture and spend less on food, education, and housing. Households in Brong Ahafo are likely to have more budget allocation to food, health and agriculture while spending less on housing. In the Northern region there is the likelihood for households to have more budget shares for food and agriculture but spend less on health and housing. Households in the Upper East region have the tendency to spend more on food and agriculture and devote less to utility and housing.

In the Upper West region households are likely to have higher budget shares for food and agriculture while devoting less to utility, health, and housing. This stems from the fact that the three Northern Regions are largely rural and agrarian without employment opportunities. With a higher proportion of children there is the likelihood that households devote more budget share to health and less to utilities. This may be so because of the vulnerability of children to diseases. For households with larger proportion of elderly there exist the probabilities that they have more budget shares to food and housing but spend less on health. This may be attributable to the use of health insurance scheme which reduces medical bills. The estimation results, in particular, on the negative effect of remittances to education, health, agriculture and housing tend to support the growing view in the literature that private transfers can have a negative impact on economic development in Ghana. It is only housing that remittance has a positive effect on.

Again it reveals that remittance income goes to reduce budget shares on food and utility. Households therefore are sensitive to their spending on consumer goods but not to investment goods. Household spending does not increase the level of human capital through investment in education and health. This finding is not consistent with the permanent income hypothesis which postulates that the marginal propensity to save or invest out of transitory income like remittances is higher than that for permanent income such as wages and salaries. This also supports the notion that households in Ghana view remittance as a source of income to smoothen consumption and as such it is used for short-term consumption without long- term developmental effect on the economy.

Obviously from these results one can conclude that the Tobit results for all the outcome variables are jointly significant at 1%. The t- test for the equality of means is also overwhelming since the results for the descriptive statistics is reliable. The Pseudo R^2 value is statistically significant and satisfactory for us to make reliable inference from the results to inform policy and decision making.

5.4 Summary

This chapter discusses the descriptive statistics of some relevant outcome variables of interest, individual, household and community variables used in the empirical estimations. It is noticed that, with the use of the t test it is convincing that the chosen outcome and explanatory variables are significant since they influence household spending behavior. However, in dealing with data set which contain zero values the Tobit model is used for the empirical estimation which censored the data at zero. Therefore the estimation was made on only expenditure values above zero and eliminating negative expenditure values. Generally, the results seem to be in line with the

pessimistic view and provide evidence of the non-productive use of remittances as households decrease their budget shares on education, health, agriculture, health and above all reduce their budget shares on food. The result on housing is rather positive as households in Ghana increase their budget share on medical care.



CHAPTER SIX

SUMMARY, RECOMMENDATIONS AND CONCLUSION

6.0 Introduction

The objective of this study is to address the growing concern currently in research on migration and remittances in determining whether international remittance flows to Ghana are used for consumption or investment in human capital and private investment by households.

In the light of this the Working -Leser theoretical frame wok is adopted as it offers a comprehensive approach in the analysis of migration and remittance determinants and their outcomes in the economic literature. The Working –Leser model (Working, 1943, Leser, 1963), states that the budget share of a given item is a function of the logarithm of total expenditures..Within this framework, the study has empirically analyzed the use of remittances focusing on consumer goods such as food, utilities and investment goods which include education, health, housing, and agriculture .The data set used in this study is the 2005/2006 Ghana Living Standard Survey. Using the Tobit regression technique, estimations are made which reveal the predictors of the spending of remittances on either short term consumption or for long term investment in Ghana.

The fundamental reason of the study is to address the following research questions:

- i. What is the relationship between remittances and human capital development among households in Ghana?
- ii. What is the relationship between remittances and private investment among households in Ghana?

The first three chapters are used to throw light on the theoretical and empirical evidence on views and opinions as expressed by various authors on migration and remittance literature focusing on how the flow of remittances to countries across the World have been treated and used in their bid to grow and develop their economies. The discussion therefore continues by highlighting the study's major findings in the Ghanaian context.

6.1 Main Findings

The results provide evidence that remittances have a negative influence on investment in particular on budget shares on human capital and investment in Ghana. The findings simply suggest the non-productive use of remittances on education, health, and agriculture expenditure by households in Ghana because they decrease their spending on these investment commodities with the use of remittance income. Another key finding is the fact that remittances have a negative impact on consumption expenditure of households on food, and utilities. The decrease on consumption is generally found to be statistically significant while the decrease in investment commodities is less significant. Again, the positive correlation between remittances and budget shares on housing is also of significance.

It is worth noting that, these findings provide mixed evidence on the use or spending pattern of households as they can be viewed as being not entirely pessimistic. This is because households do not view remittances as incomes meant for investment in general although it is clear that it is meant for consumption as a short term coping strategy. This negative effect of remittances on consumption does lend support to that of Adams (2007) who argues that the impact of remittances on the structure of households is often viewed

pessimistically. The negative impact of remittances on health is consistent with findings by (Guzman et al. 2007).

In the same vein, the negative correlation between remittances and agriculture also corroborates evidence by Adams (1998) and that of housing obviously consistent with findings of Adams and Cuecuecha (2010). Again there is growing evidence in empirical literature on the positive use of remittances on education and savings. This is confirmed by the findings of (Adams et al. 2008b) that remittance receiving households in Ghana invested more in education than other households. There is also evidence in support of that of savings by (Ashraf et al. 2010; Agrawal et al. 2006; and Gupta et al. 2009). The negative impact of remittances on health however is consistent with findings by (Guzman et al. 2007). The main findings suggest that this study is largely in line with the pessimistic view which provide evidence of the non-productive use of external remittances as households do not invest for financial capital accumulation and human capital formation particularly education, health, and agriculture coupled with a significant reduction in consumption expenditure in Ghana.

6.2 Policy Recommendations

External remittances have gained the recognition as a potential resource for development financing of economies. To achieve this, policy makers need to fashion out reforms targeting at tapping such funds and reducing the leakages in transfers through informal channels. This is possible by encouraging migrants to send remittances through formal means such as banks, and other non-bank financial institutions. Policies should aim at reducing bureaucracy and transfer cost such as excessive bank charges to attract more remittance income. Given that remittance recipients invest in housing, it is recommended

that policy makers should work on improving the housing sector by encouraging the use of local building materials and perhaps working towards a reduction in the cost of imported building materials as well by Government.

Policy makers should also direct the use of remittance income into investment in housing by reviewing the transfer cost especially since most migrants and beneficiaries of remittances are assumed to invest often in housing in particular. The financial sector should be supported and encouraged to develop products aimed at mobilizing remittance flows meant for education. It is possible with innovative and attractive long-term educational investment products through regular savings by both recipients and senders of remittances. Furthermore, the reduction in spending on consumption is an impetus for investment by both migrants and recipients of transfers back home. This can be complemented with the creation of a profitable and attractive investment climate for the extra incomes to be saved and invested in lucrative business opportunities to generate income and create jobs for the citizens at large.

The returns to agriculture should be improved by provision of irrigation schemes, subsidies on farm inputs, better road network or feeder roads and guaranteed market with better prices for farm produce. These could create more employment, generate income and improve the overall livelihood of citizens. It is obvious therefore that, remittance income can promote economic growth and long-term development with sound macro-economic management and a fertile financial sector which foster financial sector deepening and credit multiplier effect in the country. However, in Ghana this can only be achieved by long –term planning and direction so as to turn around the obvious use of remittance for basic consumption into productive use.

6.3 Recommendations for future Research

This study has made some relevant contribution to literature on international migration and remittance literature by throwing light on the use of remittances on health, education, housing, agriculture and household consumption. More research needs to be done however, on the impact of external remittances on savings to actually find out if such funds translate directly or indirectly to investment in Ghana. This is because most remittance transfers are not sent through formal financial institutions. Another extension of the research could be to evaluate remittance income in the context of returns to agricultural investment and cost of housing.

6.4 Conclusion

The study has shed light on how remittance income can be leveraged to development goals in Ghana. Firstly, there is an indication that households do not channel remittances into long-term investment needs such as education, health, and agriculture for human capital development or investment. Secondly, these recipients of external remittances do spend on basic or conspicuous consumption which is unproductive. This means that, given the right economic environment with regulatory framework and incentives in place remittance income is not a potential resource to economic growth and development in Ghana. The use of the Tobit model in this analysis represents a contribution to the literature. Hence, this study hopefully will contribute to knowledge and facilitate understanding on the debate or discussion on whether external remittances are used for short-term or long term development needs in Ghana.

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