

OVERVIEW OF REMITTANCE IN ETHIOPIA

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Abstract

The migration and development issue has expanded to include the potential of remittances. This paper describes the effects of remittance, the flows of remittance to Ethiopia and measures taken by government of Ethiopia to increase remittance. Given the lack of accurate information on the informal flows and the pattern of remittance to Ethiopia the study found a high potential of flow of remittances that can be remitted to the country. Following that, some measures that can help to realize the potential in the near future are recommended.

1. Introduction

There is a growing recognition of the development potential of migration for both countries of origin and countries of destination. The migration and development issue has expanded to include the challenges posed by brain drain and the potential of remittances.

When migrants send home part of their earnings in the form of either cash or goods to support their families, these transfers are known as workers' or migrants remittances. They have been growing rapidly in the past few years and now represent the largest source of foreign income in many developing countries (Ratha, 2005).

The effect of remittance is noticed at macro and micro levels. It also has effects on local investment and employment. Besides, knowledge transfer takes place through migrants with professional skills and by associations formed by them.

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Ethiopia is one of the developing countries that benefit from the effect of remittance. Of course, it is not simple to clearly state the benefits from remittance on the Ethiopian economy, because of lack of accurate information on the total amount flows to the country.

The government of Ethiopia has taken some measures to encourage the Diaspora community to participate in its effort to bring abroad development in the country. These measures include among others opening bank accounts in selected foreign currency with commercial banks at home. These measures are not sufficient enough to utilize the Diaspora resources. Hence, further measures should be introduced if the Diaspora resources have to be tapped for better utilization. So, this paper attempts to assess the profile of remittance in Ethiopia and suggests supplementary measures to be introduced and initiatives to be taken by the government and other stakeholders. The rest of the paper is structured as follows. Part 2 discusses the economic impact of remittances. Part 3 describes the global migrant remittance. Part 4 examines the flow of remittance in Ethiopia and tries to give picture about the potential remittance to Ethiopia. Part 5 and 6 discuss the measures taken by the government of Ethiopia and other countries' experience. At the end of this short study part 7 concludes by recommending certain initiatives and measures.

2. The Economic Impact of Remittance

Debates have resulted in various understandings of the economic impacts of remittance. Robert Burgess and Vikram Haskar have tried to summarize them in the following way.

Firstly, remittances can be seen as a financial counterpart to migration, which can offset some of the output and other losses that may be associated with the loss of skilled workers. The networks established by emigrants can also enhance resource transfers in other ways, by reducing information asymmetries that can hinder investment flows. Secondly, the economic impact of remittances is likely to depend in part on the propensity of recipient households to consume or invest. Remittances that are invested in productive activities will contribute directly to output growth. But even remittances that are consumed will generate positive multiplier effects. If remittances are used primarily to purchase non-tradable goods, this could lead to an appreciation of the exchange rate and a deterioration of competitiveness, in effect remittance-

driven "Dutch Disease". Thirdly, the causes of remittances may also have an effect on their impact. If they are motivated by altruism they will tend to have a counter cyclical impact as family members receive increased remittances during economic downturns. To the extent that remittance income reduces the recipients' need to work, this may have a negative impact on overall economic activity. It is possible that remittance flows may generate similar problems at a national level by supporting the overall balance of payments position and thereby reducing incentives to implement reforms (Burgess and Haskar, 2005:6-7).

Thus, it is safe to say that remittances have significant economic impact on a macro and micro levels in a country.

2.1. Macro Effects

At the macro level remittances have effects and can help development especially in countries where remittances are an important source of foreign exchange and an important addition to Gross Domestic Product (Gosh, 2006) and improve the investment climate of a country. Besides, remittances benefit the whole community through constructing schools, health centers etc using the money sent by the diaspora to Home Town Associations (HTA). Additionally, migrants form associations that operate actively in their countries of origin. These associations work on areas that increase the welfare of the society at large.

Large migrants even play an important role in increasing higher demand for air travel and tourism and telephone calls between migrants and their families at home which increase revenue in airline travel and telecommunication (Orozco, 2003). Migrants also contribute to the development through boosting demand for local goods and services (Guarnizo, 2003), with positive impact on international trade relations.

2.2. Micro Effects

Remittances can have an important impact on the standard of living of households receiving them. Remittances are spent on education, health and other household consumption and thus are invested on human capital. Other private investments by individuals or the family are also impacts of remittance.

3. Global Migrant Remittance

International remittances received by developing countries are expected to reach USD 167 billion in 2005 and have doubled in the last five years (World Bank, 2005). Migrant remittances constitute an important source of foreign exchange, enabling countries to acquire vital imports or pay off external debts. Remittances also play an important role in reducing poverty. There is a growing awareness and evidence of the potential that remittances have to contribute to economic development in migrant-sending countries at the local, national and regional levels.

Remittances are one of the developmental effects of migration. And such effects are felt most distinctly at the individual or household level but also at the community or national levels. As African migration is generally on the rise, remittances are bound to remain a substantial and important flow. In fact one would expect remittances to have grown with migration although such growth has not been observed in official remittances data; probably because growth may have occurred in informal or unrecorded formal remittances. Typically, migration and remittance patterns do not mirror each other readily, nor do their respective flows correlate statistically. Rankings among the top remittance receiving and sending countries in Africa are only partially explained by migration patterns as levels of remittances differ by migrant groups and emigrational intent as well as duration, among other factors. A fairly common pattern is for temporary migrants to send larger shares of their income home, often up to half, whereas longer-term migrants and follow-on generations tend to send less.

In Africa as in other regions, remittances constitute a major source of foreign exchange and impact significantly on the national balance of payments. They also make up a fair proportion of gross domestic product (GDP) in many countries and may outstrip other financial flows. For example, remittances to Cape Verde were 51% of exports and 12% of GDP in 1999, Comoros was 24% and 6%, Egypt 26% and 4%, Morocco 18% and 5% respectively (Rapoport et al 2001). For the beneficiaries of remittances, these funds are a vital source of income and have an important income-smoothing effect

However, it is hard to estimate the exact size of remittance flows because many transfers take place through unofficial channels. Worldwide, officially recorded international migrant remittances are projected to exceed \$232 billion in 2005, with \$167 billion flowing to developing countries (Ratha, 2005).

Regionally, Latin America and the Caribbean (LAC) receive the largest share of remittance about 31 % of the total flows, with South Asia in second position with 20%, followed by the Middle East and North Africa with 18%, East Asia and the Pacific 14%, Europe and Central Asia 13% and Sub-Saharan Africa 5% (Ninna, 2004).

East Asia and the Pacific and Sub-Saharan Africa record much smaller remittance receipts. Especially for Africa, underreporting skews this picture or missing data i.e. close to two-thirds of Sub-Saharan African countries lack data (AMAP, 2004).

4. Flow of Remittances in Ethiopia

Flows of remittances are taking place either formally through the official means like the banks and money transferring offices or informally through individuals. Remittances are also sent in kind.

4.1. Monetary Remittance through Formal Means

Formally remittances were transferred through financial institutions like commercial banks and money transfer operators. In Ethiopia the most active money transfer operators are Western Union and Money Gram. It is possible to know the amount transferred through these formal means as it is recorded officially.

Data from the National Bank of Ethiopia show the increasing flow of remittances from 1997/98 – 2004/05. The table below shows the amount of individual transfers and its percentage share in GDP and Private transfers.

Table 1: Amount Remitted (*In Mill. Birr*)

year	Amount of individual transfer (In mill. Eth. Br)	% Share in GDP	% Share in private transfer
1998/1999	658.20	1.23	31.65
1999/2000	958.50	1.61	30.91
2000/2001	928.50	1.53	29.40
2001/2002	875.10	1.52	29.39
2002/2003	1,411.50	2.25	33.24
2003/2004	2,012.30	2.65	34.78
2004/2005	3,207.40	3.65	45.72

Source: National Bank of Ethiopia

In 1998/99 the share in GDP was 1.23% and in 2004/05 the share increased to 3.65%. Even when we see the share of individual transfers in all private transfers it has grown from 31.65% in 1998/99 to 45% in 2004/2005.

As mentioned above the amount of flow of official remittance in Ethiopia has increased over a period of time. However, if we compare the increment of remittance sent to Ethiopia with other countries it is one of the lowest.

Table 2: Countries compared

Countries	% Share in GDP (\$)	Per Capita distribution (\$)	% Share in GDP (\$)	Per Capita distribution (\$)
	1997		2003	
Egypt	4.9	58.2	4.4	41.5
Ethiopia	0.2	0.1	0.7	0.6
Ghana	0.4	1.4	N.A	N.A
India	2.7	10.6	3.6	20.2
Morocco	5.8	27.9	7.6	118.2
Nigeria	2.9	17.6	2.0	8.4
Pakistan	3.1	12.9	4.7	26.1
Sudan	5.0	15.0	N.A	N.A

Source: International Finance Statistics and Balance of Payment Statistics, International Monetary Fund, 2005

If we compare the growth in the share in GDP and per capita remittance of Ethiopia with other countries for the year 1997 and 2003, it is among the lowest. For instance the share in GDP and per capita remittance of Ethiopia in 1997 was 0.2% and \$0.1 and increased only to 0.7 % and \$0.6 in the year 2003, respectively.

4.2. Monetary Remittance through Informal Means

Informal remittance flows are all types of money transfers that do not involve any formal channels and are not recorded in the national accounts of a country. It flows through informal money transfer agents and migrants themselves who carry money while coming to their home countries.

There are various reasons why migrants prefer to use informal means to send money. Among others are:

- Lack of access of the formal remittance channels in the senders home country;
- There could be well developed informal system that is very competitive with the formal ones;
- Because of high taxation in the home country, migrants may prefer to keep remittances out of government's reach; and
- Some illegal migrants may prefer to send money informally.

Hence, as a result, it would only be possible to have a rough estimate of the amount informally remitted to any country. However, observers suspect that informal flows may range from 50 to 250% of the formal remittances transferred to all developing countries (Celent 2002 and AITE 2005).

For instance, if we assume that the average of the above estimation of remittances transferred informally to developing countries also applies for Ethiopia, it would be 175 % of the official remittance. And if we apply this average percentage to estimate Ethiopia's informal remittance by using the data of the National Bank of Ethiopia for the year 2004/05 then, it would make about Birr 5,612.95 millions.

If we further assume that AMAP's 2005 figure that, individual migrants typically send home \$100 to \$200 per month i.e. \$1200 to \$2400 per annum applies to Ethiopia, and if we multiply these by the one million Ethiopians living abroad then it would make up to \$1.2 to \$2.4 billion or Birr 10.8 to 21.6 billion per annum.

A study commissioned by IOM Ethiopia estimated that the amount of informal remittances that flow to the country in 2004 could be 3,326.8 millions Birr. The same study estimated the potential remittances, which could flow to the country to be Birr 18 billion per annum.

It is possible that one can argue that these figures could not hold accuracy. But, they can be used as a pointer towards the potential remittance the country has with possible suggestion for further research.

4.3. Remittance in-kind

Remittances are also sent in-kind. Migrants mainly send consumption goods for their family members in their home country. Remittances in Kind shared 41.3%, and were

dominated by clothes and shoes, which accounted for as much as 80% of the total in-kind inflows (Dejene 2005).

5. Measures Taken by the Government

There are initiatives taken by the government of Ethiopia to facilitate and increase the flow of remittance to the country. Such initiatives include:

Provision of Identity Cards: It is issuing identity cards Ethiopian-born foreigners and Ethiopians living abroad, if they want to construct residential houses etc. in Ethiopia. This easily facilitates remittance to the country.

Opening Bank Account in foreign currency: The other initiative taken by the government of Ethiopia is to allow Ethiopians living abroad and Ethiopian-born foreigners to open a fixed and current account in Ethiopian commercial banks in selected foreign currencies i.e. U.S Dollars, Pound Sterling, Japanese Yen and Euro.

Another recent initiative to attract the Diaspora is also taken by the government of Ethiopia. That is establishing “Ethiopian Expatriate Affairs” under a director within the Ministry of Foreign Affairs. It prepared a booklet that has information about the services given by the Federal Investment Agency, Ministry of Trade and Industry and Addis Ababa City Government. Besides, it has established links with the Federal Ministry Offices and the Regional Governments. It has also assigned a diplomat solely handling the community issues in every Ethiopian Embassy throughout the world (www.mfa.gov.et).

6. Good Practices from other Countries

There are other countries’ experiences that could be seen as good practices.

Armenia: The government of Armenia created a website that provides information to the approximately ten million Armenians living abroad. The website includes a database listing professionals living abroad, as well as a mailing list through which the government can contact their expatriate nationals.

Mexico: In Mexico, the “3+1” program involves state, local authorities and migrant associations for the development of micro enterprises in social, economic and community development projects.

Philippines: The Philippines Overseas Employment Administration offers services to Philippine workers abroad, but it also compiles statistical information, e.g., on remittances. Its primary objective is to promote “decent and Productive” working conditions for Philippine workers abroad. But the agency maintains contact with its nationals working in other countries and provides exchanges or assistance through repatriation and reintegration programmes.

India: The Indian Government introduced an initiative in January 2003 granting dual citizenship to Indians living abroad. About 20 million people of Indian origin are living overseas and the dual citizenship agreement was negotiated. The aim is to remove the obstacles for Indians abroad to engage in commercial activities in India. Dual citizenship is expected to reinforce the ties between India and its large Diaspora and leads to further investments through remittance (‘Diaspora Division’ www.indiaday.org).

There are also other initiatives towards the Non-Resident Indians in opening an account in terms of any convertible foreign currency in any bank in India.

Morocco: During 1990 a Ministry of Moroccan Community Abroad was created to defend the interests of emigrants in their countries of residence. The same year, the Hassan II Foundation for Moroccan Residents Abroad was founded to manage and expand cultural and educational activities principally aimed at second and third-generation emigrants (Ninna, 2004).

Migration for the Development in Africa, MIDA: The International Organization for Migration(IOM) Migration for the Development in Africa (MIDA) programme is an example of the possible contribution to be made by a Diaspora to the development of the countries of origin. MIDA aims at the transfer of vital skills and resources present in the African Diaspora to priority sectors back home. It is an institutional capacity building programme in Africa that aims at matching the profiles of migrants with the demand from African countries and the development of useful synergies. The exchange and matching of data gathered both in the countries of origin and in the

host countries forms the basis on which the available skills, financial and other resources of Diaspora can be channeled to support development projects (MIDA, IOM 2002).

7. Conclusion

It is quite clear that the initiatives and measures taken are not sufficient enough. The moves taken by the Ministry of Foreign Affairs are positive. Hence, to tap the potential remittance and other resources of the Ethiopia diaspora like other countries certain measures should be initiated. And these measures and initiatives would not only be taken by the government, but also by other stakeholders like NGOs and civil societies. Measures and initiatives that could be realized in the very near future can include the following:

I) *Measures to enable remittances towards official channel:* In order to formalize the informal flow of remittance to the country it would be logical to expand the infrastructure of the financial systems. This could result in getting the large amount of informal remittances flow to the formal channel. One of the most suitable ways could be to enable post offices and micro finance institutions to operate in money transferring business, as they have expanded with many branches in rural Ethiopia.

II) *Initiating an Observatory Net Work:* Establishing an observatory network with an objective to conduct research and disseminate information on Ethiopians abroad should be initiated. The Ethiopian Expatriate Affairs of the Ministry of Foreign Affairs should increase its scope in this direction as well. This would help to assess and guide the actual potential of Ethiopian Diaspora.

III) *Other initiatives like* attracting interested qualified Ethiopians and Foreign Nationals of Ethiopian Origin to get involved in the developmental efforts of the nation. A shortage of skilled manpower in Ethiopia is visible. Therefore, a link should be created to fill the gap between qualified Ethiopian Diasporas and the local manpower needs for various developmental activities. These activities include utilizing the skilled Diaspora for short-term services in different areas where the country faces severe shortage of qualified persons.

In this regard Migration for the Development in Africa (MIDA) can be of great help in the efforts to bring skilled Ethiopian Diaspora and build institutional capacity.

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