THE MACROECONOMIC IMPACT OF REMITTANCES IN GHANA

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Abstract

This paper presents Balance of Payments (BOP) estimates of private unrequited transfers (remittances) for Ghana. It shows that the level of private unrequited transfers increased significantly from US$201.9 million in 1990 to US$1,017.2[*] million in 2003. Total transfers have increased from just over US$410 million to US$1,408.4 million over the same period reflecting mainly the increase in private unrequited transfers. The study also found that private transfers are much bigger and more stable than Official Development Assistance (ODA) and Foreign Direct Investment (FDI) over the period 1990 - 2003. Also remittances have been increasing more than proportionately compared to GDP and exports earnings. A new reporting format introduced in 2004 has led to a significant improvement in the balance of Payments estimation of remittance flows into the Ghanaian economy.

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1.0 Introduction

Recent papers in development economics and finance have began to assign an important role to remittances as key ingredients in the growth prospects of developing nations and having a potentially positive impact as a development tool for developing countries.

Remittances are generally defined as that portion of migrants' 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. Remittances reflect the local labour working in the global economy and have been shown to explain partly the connection between growth and integration with the world economy. Remittances improve the integration of countries into the global economy.

Remittances have for several generations been an important means of support for family members remaining at home. As migration continue to increase, the corresponding growth of remittances has come to constitute a critical flow of foreign currency into many developing countries and Africa in particular. Policy makers in developing countries have started to streamline financial systems, removing controls and creating incentives, with the aim of attracting remittances especially through official channels.

Recent global estimates show that, migrants' remittance flows have assumed a significant prominence. In the developing world, remittances now surpass Official Development Assistance (ODA) receipts (Ratha, 2003). Official development Assistance transfers to developing countries in 2001 stood at about US$52.3 billion (The World Bank, 2004). This figure compares with global remittance flow of about US$77.0 billion the same year, up from US$51.1 billion in 1995 (The World Bank, 2004).

This paper presents Balance of Payments (BOP) estimates of private unrequited transfers (remittance figures) for Ghana and addresses part of the information gaps on the size of remittance flows. It shows that the level of private unrequited transfers increased significantly from US$201.9 million in 1990 to US$1,017.2[*] million in 2003. Total transfers have increased from just over US$410 million to US$1,408.4 million over the same period reflecting mainly an increase in private unrequited transfers. Private unrequited transfers are estimated to be bigger and more stable than ODA[2] and FDI flows into Ghana since 1990. Also positive, though relatively weak, correlation was found between remittances and ODA on one hand, and between remittances and FDI on the

[*] Provisional

[2] ODA in this study is defined as official inflows made up of Grants, project loans and programme loans

other hand, over the period 1990 to 2003. To assess the importance of remittances in the Ghanaian economy, the size of remittances relative to key macroeconomic variables were examined.

The recorded private remittance figures according to some analyst reflects only the "tip of the iceberg" since they do not include remittances sent through informal channels such as hand carriage, families, money couriers or network of informal transfer agents. Based on our estimates the reported figures could represent only about half the actual total. At least as much is transmitted through informal and unrecorded channels which make it impossible to measure the precise amount.

However, despite such glaring evidence on the extent of the flow of remittances, gaps still remain in our understanding of how remittances are or can be used to promote development, especially given that existing policy incentives are not generally considered as having been very effective in channelling remittances towards development (Black, 2003). The appreciation of remittances as a development tool is recent and several questions on how best to capture their development impact remain.

Section two of this paper presents theoretical explanations on remittances focusing on the motives for remittances as well as the macroeconomic determinants of remittances and the link between the theory and statistics. Section three follows with a discussion of measurement and concepts and the difficulties encountered in official estimates. Section four presents the various channels of macroeconomic impact. Section five presents conclusion and policy issues.

Section II

2.0 Why Do Migrants Remit?

The literature on remittances has come up with several theories to explain the motives behind migrants' decisions to send funds (cash and goods) to their relations back home[3]. According to Solimano, 2003, the analytical literature on the motives behind remittances can be summarized in four approaches. These motives include (i) The Altruistic Motive, (ii) The Self-Interest Motive, (iii) Implicit Family Contract I: Loan Repayment and (iv) Implicit Family Contract II: Co-Insurance.

2.1 Altruistic Motive

The *altruism or livelihoods school* of thought considers remitting to be an obligation to the household. Remittances are sent out of affection and responsibility towards the family. It has been argued in the poverty literature that the major reason why people migrate to other countries is due to poverty. According to the altruistic model, sending remittances yields a satisfaction to the migrant out of a concern for the welfare of his family[4].

2.2 Self- Interest Motive

An opposite motivation is to assume that the migrant is mainly motivated by an economic and financial self-interest, when sending remittances to the home country. The argument behind this theory is that, at every point in time, the successful migrant in the foreign country saves. Then, the need arises on how (in which assets) and where (in which country) to accumulate wealth. An obvious place to invest, at least part of his assets, is in the home country by buying property, land, financial assets, and so on. These assets may earn a higher rate of return than assets in the host country although their risk profile can also be greater. In turn, the family can administer, during the emigration period, those assets for the migrant, thus acting as a trusted agent.

2.3 Implicit Family Contract I: Loan Repayment.

The literature has also considered the discussion on the remittance process from the family perspective rather than the individual. In other words, Economic theory has developed explanations of the remittances process that take the family–rather than the individual– as the main unit of analysis[5]. According to the theory, families tend to develop an implicit contract among those who choose to

[3] This section relies extensively on Solimano, (2003)
[4] The altruistic model predicts that remittances would tend to decrease over time (Stark 1991)
[5] For an in-depth discussion, See Poirine (1997) and Brown (1997) .

live abroad, the migrant, and those who stay at home. The implicit contract has an inter-temporal dimension, which could last for various years or even decades, as a time horizon.

The contract combines elements of investment and repayment. In the loan repayment theory the family invest in the education of the migrant and usually finances the costs of migrating (travel and subsistence costs in the host country). This is the loan (investment) element of the theory. The repayment part comes after the migrant settles in the foreign country and his income profile starts rising over time and is in a condition to start repaying the loan (principal and interests) back to the family in the form of remittances. This implicitly implies that the family invests in a higher yield "asset"(the migrant) who earns a higher income level in the foreign country than other family members that live and work at home. The amount to be remitted will however, depend among other things, on the income profile of the migrant.

2.4 Implicit Family Contract II: Co-Insurance

A variant of the theory of remittances as an implicit family contract between the migrant and those at home relies on the notion of risk diversification. Assuming that economic risks between the sending and foreign country are not positively correlated then it becomes a convenient strategy for the family as a whole, to send some of its members abroad (often the most educated) to diversify economic risks. The migrant, then, can help to support his family in bad times at home. Conversely, for the migrant, having a family in the home country is insurance as bad times can also occur in the foreign country. In this model, migration becomes a co-insurance strategy with remittances playing the role of an insurance claim. As in any contract there is a potential problem of enforcement (e.g. ensuring that the terms of the contract, are respected by the parties). However, we can expect enforcement to be simpler, in principle, due to the fact that these are implicit family contracts, helped by considerations of family trust and altruism (a feature often absent in legally sanctioned contracts).

2.5 Link Between Theory and Statistics

The theories underlying the motives for remittances transfers suggest that it is only in the Altruistic case that there is a no "quid pro quo". Transfers are made purely out of concern for the family and fits into the standard definition of transfers in the BOP sense. The other motives behind transfers suggest that there may be a quid pro quo as in the case of the implicit family contract, although this may not be immediate or binding. It is safe to conclude that theory raises additional difficulties for definition and measurements, which is the subject of the next section.

Section III

3.0 Measurement And Concepts

Remittances belong to the group of items classified as Transfers in the Balance of payments (BOP). Transfers are defined in the fifth edition of the balance of payments manual (BPM5) as offsetting entries for real resources or financial items provided, without a quid pro quo, by one economy to another. In other words, whenever an economy does not receive or provide recompense in the form of real resources or financial items for goods, services or financial items supplied to or received from another economy, it constitutes a transfer for the purposes of balance of payments accounting.

The BPM5 identifies two types of transfers: current transfers and capital transfers. Current transfers are recorded in the current account while capital transfers are recorded in the capital account component of the capital and financial account.

Current Transfers are classified according to the sector of the compiling economy, into two main categories: general government and other sectors. General government transfers comprise international co-operation, which covers current transfers, in cash or in kind between governments and international organizations.

Current transfers between other private sectors of the economy and non-residents comprise those occurring between individuals, between non-governmental institutions or organizations (or between the two groups) or between non-resident government institutions and individuals or non-governmental institutions. In addition, there is the category of workers remittances. Workers remittances covers current transfers by migrants who are employed in other economies and considered resident there. This category of transfers often involves related persons is the aspect of transfers that is the subject of this paper.

Standard measures on remittances are based on three items in BOP reports (as contained in IMF Balance of Payments Statistical Yearbooks). The manual are normally captured in the form:
"Workers remittances" (money sent by workers residing abroad for more than one year);
"Compensations of employees" (gross earnings of foreigners residing abroad for less than a year; and
"Migrant transfer"(net worth of migrants moving from one country to another).

3.1 Methodological Issues in Accounting for Transfers in Ghana' B.O.P

Estimates on transfers in the B.O.P were based on statistics compiled on Exchange Control Forms in Ghana. Prior to the liberalization of the Ghanaian economy, transfers through official channels were easily monitored and data on which portion constituted private transfers was disaggregated fairly accurately. The distortions in the economy with inappropriate exchange rates, however, meant that very little of actual transfers into the Ghanaian economy went through official channels. As the economy became more liberalized, certain reporting requirements were relaxed, leading to the gradual loss of information on this variable for the accounts.

Despite the difficulties in reporting, General Government transfers continue to be measurable, especially when they are related to the budget, and when they are effected through the Bank of Ghana. Private sector transfers on the other hand were not easy to measure, and for some time the Bank of Ghana resorted to making estimates of private sector transfers on the basis of some observed relationships to the Gross Domestic Product (GDP).

After the liberalization of the financial sector in 1987/90, reporting requirements were put into place that required financial institutions to report on inward transfers into Ghana. Initially these survey reports were directed at the banks. There has been a proliferation in the number of financial agents involved in remittances (See Table 4 in Appendix 2 for list of reporting institutions). However increases in the value of transfers and increases in the number of institutions licensed to carry out transfers made it necessary to widen the survey to include non-bank financial institutions. The Bank of Ghana therefore, put in place a reporting format for the banks, and other licensed non-bank financial institutions to report the quantum of transfers as part of their prudential reports to the Banking Supervision Department of the Bank of Ghana.

Further refinements have been carried out since January 2004 on the reporting format to offer a breakdown and identify sources of the transfers. Statistics are provided on a monthly basis, and the aggregation of such flows from all the institutions provides an estimate of inward unrequited transfers. It is important to note that for the purpose of compiling the BOP, all flows recognised as transfers must be unrequited; the flows must be without a ***quid pro quo*** in economic value. Some of the difficulties associated with the BOP estimates on remittances include the difficulty of disaggregating inflows to separate those flows that are for economic value from those that are unrequited e.g. export proceeds.

The main source of data for this item in the BOP was derived from the banks and non-bank financial institutions, which operate money transfer schemes, and level is the aggregate as reported. On receipt of the submitted data, the staff examines the plausibility of the estimates and where there is a need, the staff follows up with the reporting institution to validate the reported numbers.

3.2 Size of Remittance Flows

In principle, there are three ways of measuring remittance inflows in countries. The first approach is the balance of payments estimates, which has been presented in the earlier sections. Other methodologies include micro or household surveys of recipients of such flows e.g. inference from the Ghana Living Standard Survey (GLSS). The third method is through banks or financial institutions in origin countries i.e. focusing on resource transfer institutions. The size of the remittance flows presented here is based on BOP estimates made by Bank of Ghana.

The fact that remittances are transmitted through different channels makes it difficult to capture the full amount in the balance of payments statistics of the recipient country, which tends to underestimate the actual flow of remittances.
The problem makes it difficult to come up with strong conclusions on the role remittances play in the economy.

Table 1. Private, Official and Total Unrequited Transfers (US$ million) 1983 - 2003

Year	Official	Private	Total
1990	208.6	201.9	410.5
1991	202.4	219.5	421.9
1992	215.3	254.9	470.2
1993	256.2	261.2	517.4
1994	200.8	271.0	471.8
1995	260.0	263.2	523.2
1996	215.6	283.2	497.9
1997	169.7	406.8	576.5
1998	290.5	460.5	751.0
1999	158.0	479.0	637.9
2000	143.1	506.2	649.3
2001	216.1	717.3	978.5
2002	232.4	680.0	912.4
2003	391.2	1,017.2	1,408.4*

Source: *Bank of Ghana BOP office*
* Provisional

According to the balance of payments data, total transfers to the Ghanaian economy ranged between US$400 million in 1990 and US$900 million in 2002. Of the total transfers, private unrequited transfers increased from US$201.9 million to almost US$680 million in 2002. Recent estimates based on improved reporting by the financial houses engaged in money transfer suggest that private transfers have increased to about US$1.0 billion. Total transfers at end 2003 were estimated at US$1.4 billion according to the balance of payment estimates.

Over the years, private unrequited transfer has gained significant importance in total unrequited transfers. It has actually recorded a persistent growth and clearly represents the main driving force behind the growth of total unrequited transfers. As portrayed in figure 1, while private unrequited transfer jumped up strongly between 2000 and 2003, official transfer rather followed a relatively downward pattern until it reversed to a sluggish upward trend between 2000 and 2003.

Figure 1. Plot of Private (PUT), Official (OUT) and Total Unrequited Transfers (TUT): 1983-2003

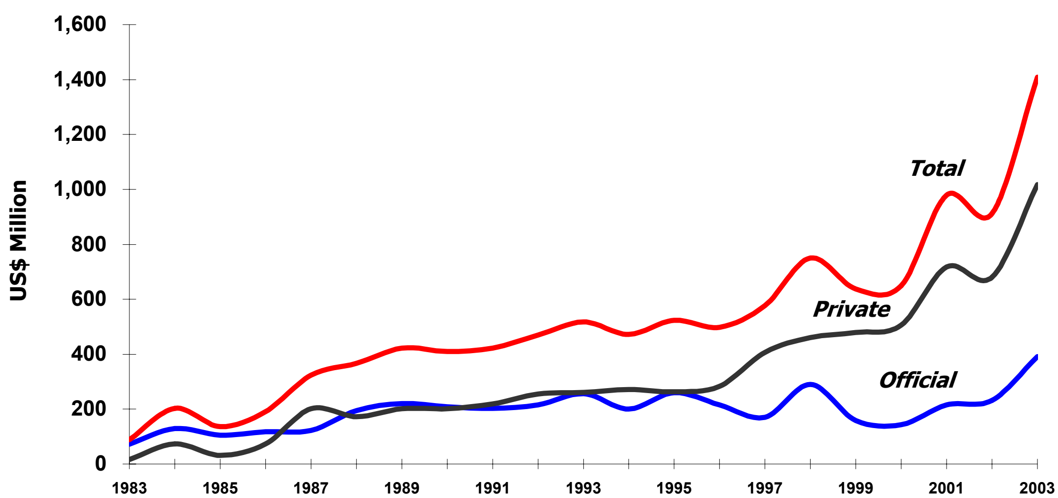
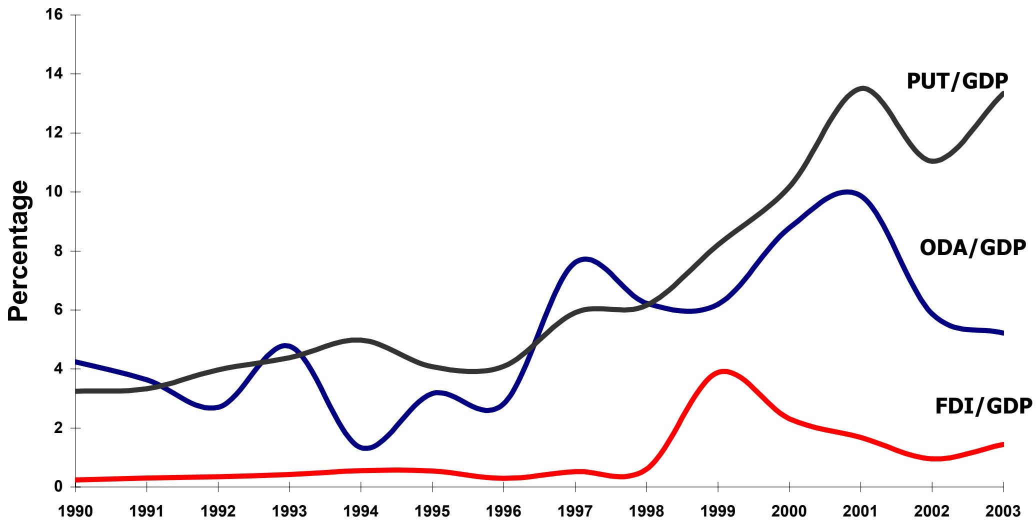
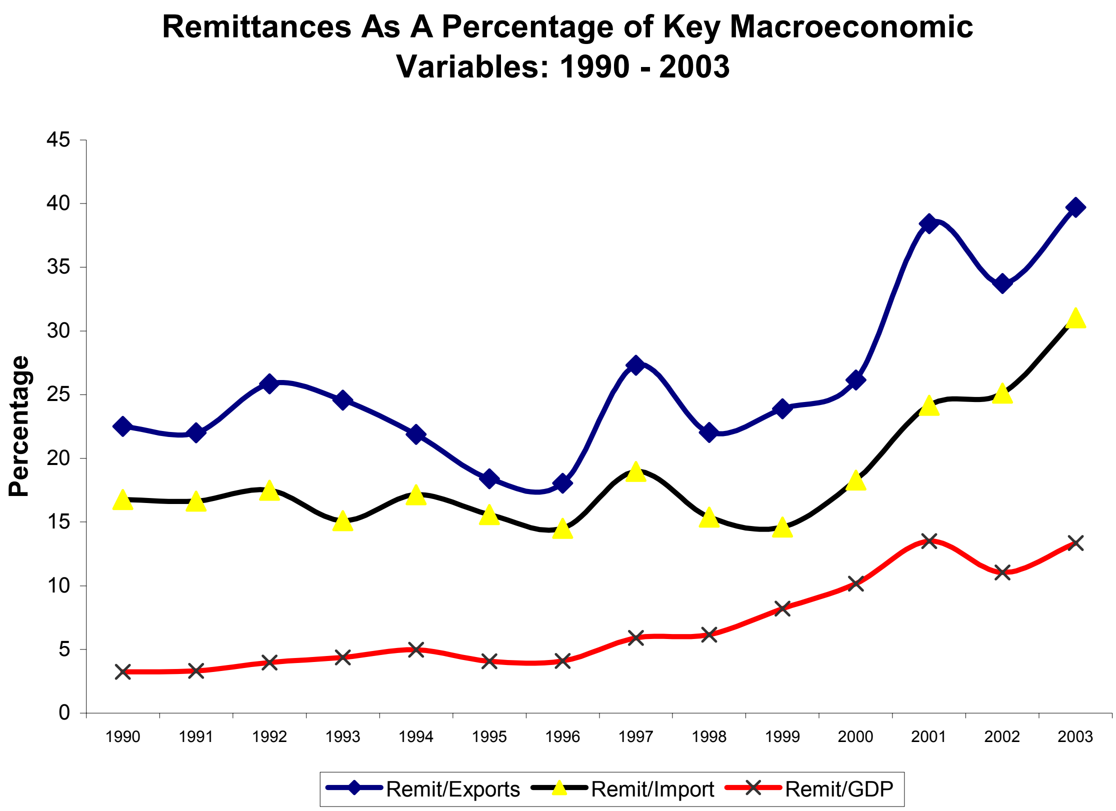


Figure 2: Graph of Official Development Assistance (ODA), Foreign Direct Investment (FDI) and Private Unrequited Transfers (PUT) as percentage of GDP.



Another line of analysis, which is worth outlining, is the relationship between private inward unrequited transfers, Overseas Development Assistant (ODA), and Foreign Direct Investment (FDI). These variables are considered in terms of their importance in Gross Domestic Product (GDP). Figure 2 outlines the graphical representation of private unrequited transfers, ODA and FDI each as a percent of GDP. The changing pattern of ODA as a percentage of GDP and the increasing pattern of private unrequited transfers could clearly be observed. Whereas private unrequited transfers maintained a relatively stable upward trend, ODA exhibited a rather unstable trend. Another interesting observation is that private unrequited transfers have over the years stayed above FDI as a percent of GDP.

Figure3



As a percentage of key macroeconomic variables, remittances have gained economic importance over the years. As depicted in Figure 3 (see also Table 3 in the Appendix 2), remittances as a percentage of GDP increased from 2.24 percent in 1990 to almost 13.4 per cent by 2003. As a percentage of total exports, remittances rose from 22.0 per cent to 39.7 per cent over the same period. This observation suggests that over the period remittances have been increasing more than proportionately compared to GDP, exports and imports. The BOP estimates of private unrequited transfers have significant implications for Gross National Income (GNP) estimates.

3.2.1 Volatility and correlation Analysis

Foreign inward remittances have been observed to be one of the least volatile sources of foreign exchange earnings for developing countries. While foreign capital flows tend to rise during favourable economic cycles and fall in bad times, remittances appear to react less violently and as such tend to exhibit remarkable stability over time. For example, remittances to developing countries rose steadily between 1998-2001 when private capital flows declined in the wake of the Asian financial crisis. Even the more stable component of capital flow-FDI and Official Flows-declined in 2000-01 while remittances have continued to rise.

Another line of argument is that since remittances are part of current transfers, which is a function of income, it is likely to be less volatile compared to capital flows. Essentially, foreign investors base their investment decisions on pure profit motives, which are generally dictated by the business environment while migrants make their remittances on the basis of pure family ties and other economic commitments between family members. Using a simple historical volatility measure[6] in the case of Ghana, remittance with an annual historical volatility coefficient of 0.21 appears less volatile compared to ODA with a volatility coefficient of 0.60 and FDI with a volatility coefficient of 0.61 over the period 1990-2003.

The literature on remittances has also identified the extent to which remittances correlate with other key macroeconomic variables. The correlation between worker remittances and other capital flows have been found to vary across countries. In this study, a positive correlation coefficient of 0.62 was observed between remittances and ODA and a coefficient of 0.53 was observed between remittances and FDI.

3.2.2 Regional Distribution of Receipts

In terms of the regional flows of remittances, the USA and Canada appears to be the most important source. Between March and June 2004, a total of about US$100.6m of inward remittances came from USA and Canada. This was followed by the United Kingdom which recorded about US$50.6m, the European Union US$25m, others US$9.2m ECOWAS US$5.8m, and the rest of Africa US$2.8m (See Table 3 and Figure 3).

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[6] The volatility equation adopted for the study is specified as follows:

$$\sigma = \sqrt{1/(n-1)\sum_{y-1}^{n}(\ln y_i / y_{i-1} - \mu)^2}$$

Where $\mu = 1/n\sum_{y-1}^{n}(\ln y_i / y_{i-1})$

σ = Standard deviation, i.e. volatility, μ = Mean of sample of measurements, $=n$ Number of time periods in a year, $= y_i$ variable of instrument at time I

Table 2: Sources of Private Inward Remittances Receipts (US$' million): March-June 2004

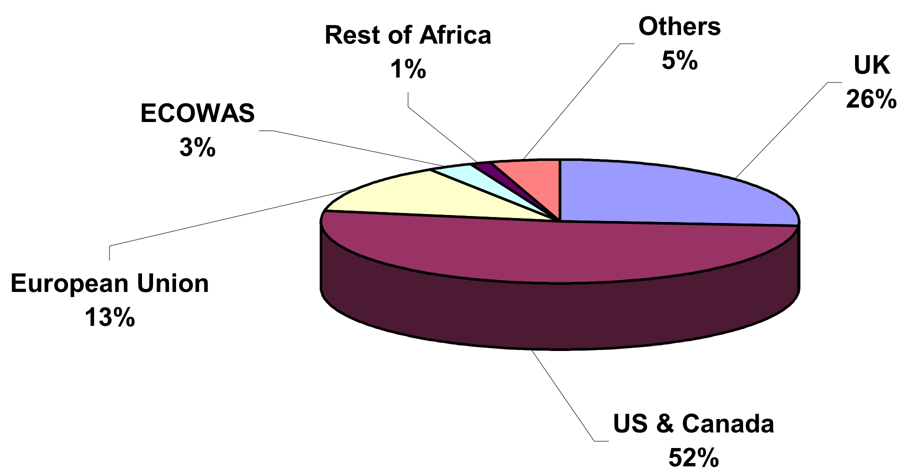
	March	April	May	June*	**Total**
United Kingdom	11.3	4.7	11.8	22.7	50.5
USA and Canada	29.7	23.5	24.0	23.5	100.7
European Union	7.2	6.1	4.7	7.4	25.4
ECOWAS	0.8	0.5	3.8	0.7	5.8
Rest of Africa	1.1	0.7	0.5	0.5	2.8
Others	4.3	1.6	1.5	1.7	9.1
Total	54.4	37.1	46.3	56.5	194.3

Source: Bank of Ghana, BSD

Note: *As at June 2004, some of the banks were still reporting their returns without indicating the sources.

Figure 4.

Sources of Private Inward Remittances: March - June 2004



Within the formal financial set up, banks constitute the dominant channel through which inward transfers are effected. As represented in Table 4, the banks accounted for about 92 percent of private inward transfers between April and June 2004. This figure however compares with a figure of just about 8 percent representing the share of the non-bank financial institutions in the remittance business. One should, however, be careful in concluding that the banks channel is preferred to the non-bank channel. The share of the non-bank financial institutions could be higher if information about transfers through informal channels were available.

Table 3. Market Share of Banks and Non-Bank Financial Houses in Remittances: (US$'million): March-June 2004

	April	May	June	Total Q2
Bank	86.00	101.20	116.80	303.90
Non-Banks	8.50	8.80	8.50	25.90
Total	94.50	110.00	125.30	329.80

Souse: Bank of Ghana BSD

3.3. Payment systems, Costs and Distribution Mechanism

3.3.1. Payment systems

Migrants utilize a wide array of mechanisms to send remittances: banks, credit unions, small and large money transfer companies such as MoneyGram and Western Union, hand delivery by the actual sender or by a third party and other lesser regulated mechanisms. Clearly the choice of which method to use for transmission depends on a number of factors such as the legal status of the migrant, the cost of sending money through the official channel, government regulations and so on. In Ghana for example, the unofficial channel used to be the dominant channel. It should be noted, however, that the number of Money Transfer Operators (MTOs) transmitting remittances to Ghana continue to increase following the opening and liberalization of the Ghanaian economy[7]. Migrants try to balance higher transactions costs with costs with less risk and greater speed to lower transactions with higher risk.

3.3.2. Costs and Distribution Mechanisms

Transmitting Operators involved in the transmission of migrant's remittances into Ghana include licensed businesses such as banks and national transfer companies, as well as large international businesses like Western union. The costs of transmitting money actually vary from country to country and also among type of institutions. They reflect the level of involvement of the banking industry and other businesses and the extent to which government involvement facilitated less expensive transfers.

[7] See Appendix D for the list of MTOs transmitting money to Ghana as at August 2004.

The costs of sending money to recipient countries from the origin country of emigration reflect fees and the commission charged to convert the remittance into local currency. According to information obtained from domestic financial institutions representing the foreign MTOs these costs have decreased over time as remittance flows into Ghana increased. Transmissions by smaller (national) transfer companies currently cost between US$1.50 and US$3.00 for each US$100.00. The same service, however, attracts charges ranging between 1.5 - 2.5 per cent of the value in the case of banks and between 2.0 - 3.5 per cent in the case of major MTOs such as Western Union Financial. The banks and the smaller transfer companies are therefore more competitive than the major companies such as Western Union based on the fee structure done.

Ghanaian banks involved in the remittance business also impose charges for paying inward transfers to recipient. Whereas most banks surveyed[8] do not charge for inward remittances paid out in cedis, those paid in foreign currencies attract high fees. Only two banks among the six banks surveyed charge for foreign transfer payments in cedis (Table 5).

Table 4: Foreign Transfers Charges, June 2003 - Jan 2004

Bank		GCB	**SCB**	**BBG**	**SSB**	**ADB**	**ECO**
Inward transfers:							
Pmt in Cedis	Jan-04	Free	$20 - $500	Free	Free	Free	$10
	Jun-03	Free	2.75%	Free	1%	Free	$10
Pmt in foreign currency	Jan-04	3.25%	$20 - $500[2]	$50	$10	3%[1]	2.75%
	Jun-03	1%	2.75%	$50	1.50%	3%	2.75%

Source: *Survey Data and Banking Supervision Dept. BIOG*

1. Free if the foreign currency is credited to customers accounts

2. Pmt in forex attracts additional 0.5 % on face value s. t. a min:$20/£15/E20-Max $500/£350/E500

Remittance receipts payments in foreign currency as at June 2004 attract charges ranging between 2.75 – 3.25 per cent of the face value. Some banks charge scaling fees that ranged between US$10 – US$500. In 2003, however, the charges were between 1 – 3 per cent (of face value) or a flat fee of US$50. Payments in local currency in 2004 attract a minimum fee of US$10 and a maximum US$500 but vary across banks. These charges are considered rather high given the fact that transaction fees have already been paid by the remitting customer. Financial houses on the other hand do not charge for these services. This according to the banks is occasioned by the high cost of importing foreign currency, among other factors.

[8] Ghana Commercial Bank (GCB), Standard Chartered Bank (SCB), Barclays Bank Ghana Ltd. (BBG), SG-SSB, Agricultural Development Bank (ADB), and ECOBANK Ghana Ltd.

It should be noted, however, that for most banks if not all, inward transfer proceeds, credited to customers' accounts (Foreign) do not attract any charge. Whereas banks use interbank foreign exchange rate for the conversion of remittance proceeds other financial houses use Forex bureau exchange rates, which are higher thus making them the preferred channel for remittance transfers for some market participants (e.g. for small transaction).

Section IV

4.0 Macroeconomic Impact Of Remittances

The economics literature has generally considered foreign exchange resources as critical in increasing a country's capital output ratio. Foreign capital inflows from sources such as Foreign Direct Investment (FDI), Official Development Assistance (ODA), Foreign Trade, Transfer of Technology and, most recently, remittances have gained prominence in these analyses. The broader macroeconomic dynamics of migrants' long run transaction ties and their impact have of recent been given some attention.

Generally, remittances can create a positive impact on the economy through various channels. The general understanding among various economic thinkers is that remittances can impact on the economy through savings, investment, growth, consumption, and poverty and income distribution. The importance of remittance flows become critical in economies with credit market imperfections as is the case in most developing countries.

One major impact of remittances is its effect on the current account of the BOP. Remittances help in raising national income by providing foreign exchange and raising national savings and investment as well as by providing hard currency to finance essential imports thereby curtailing any BOP crisis (Adelman and Taylor, 1990, Durand et al 1996a and 1996b, Claudia M. Buch et al 2002). Bank of Ghana's estimates of the balance of payments suggest that remittances place second after exports in terms of resource inflow in 2003.

Essentially, the growth effect of remittances in receiving economies is likely to lead to an increase in savings and subsequently investment. Migrant workers' remittances come in as a component of foreign savings and as such complements national savings by increasing the total pool of resources available for investment.

Remittances also carry some positive effect on investment in developing countries in particular. The difficulty involved in raising enough and cheap capital to finance investment activities implies that remittance can serve this purpose. Remittances are used to finance several social projects including school buildings, clinics and other infrastructure. In addition, return-migrants bring fresh capital that can help finance investment projects. In Ghana, migrants also send money down for the purpose of setting up small-scale business on their behalf. Aside from the income it generates, employment opportunities are created for the youth in the respective localities.

Another important macroeconomic impact of remittances is its *poverty reducing and income distribution effect*. This argument generally rests on the fact that the recipients of remittances are often low-income families whose offspring left the country to work abroad. In this case, migration is perceived as a response to escape poverty at home[9] and improve the income-earning capacity of the migrant by attempting to enter foreign labour markets in richer countries. At the same time, remittances serve to alleviate poverty of the family of migrants in the home country by supporting their income through transfers. The negative side of this is that remittances may create a certain "culture of dependence" on remittance incomes. This, in turn, can impair efforts to escape from poverty through education and work by the recipients of remittances.

The distributive effect of remittances is an important dimension of the development effects of remittances[10]. Essentially, remittances may augment the income levels of the poor and eventually lift them out of poverty. There is a view that remittances flows have been responsible for reduction in rural poverty in Ghana based on data from the GLSS.

4.1. Productive uses of Remittances

In Ghana currently, remittances for investment purposes are mostly channelled into small-scale businesses/enterprise (IEA in 2003). The opportunity to promote self-employment and small business formation amongst returning migrants and their relations back home has been recognized by some governments and international organizations, which have targeted schemes to assist investment in business activities. In order to promote the investment of remittances in business enterprises therefore, there is an increasing need for the government of the day to provide enough incentives for migrant workers to invest in productive activities here in Ghana.

It is significant to emphasise that while the contributions of remittances can be huge with positive growth effects, the very act of the citizens migrating can also create some negative growth effects. This negative growth effect will however depend to a large extent on the type of migrant that left home, the state of labour markets and the productivity of the migrant. It can be argued that, if the migrant was an unskilled worker of low productivity, or an unemployed person, reflecting slack or excess supply in the labour market, then the effect of migration on output in the home country is bound to be small. In contrast, if the emigrant is a highly skilled worker as is the case of general exodus of medical

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[9] However, extreme poverty may also impede emigration, as the very poor may not be able to finance the costs of migrating to a foreign country.

[10] For a detailed discussion on the distributive effects of remittances in the home country see Barham and Boucher, 1998.

professionals in Ghana, an information technology expert or an entrepreneur with a high direct and indirect contribution to output for example, then the adverse growth effect of emigration is bound to be large. The permanency of remittance flows as well as the macroeconomic importance would mean, however, that the adverse effects of migration might only be a short-term phenomenon.

It is significant to note that the positive macroeconomic or developmental effects of remittances could become more prominent if migrants form associations and their commitment to their home country becomes "institutionalised". A typical example of such migrant associations is the Home Town Associations (HTAs) in the United States, where organised migrants from various Latin American countries such as El Salvador, Guatemala, Honduras, Mexico and the Dominican Republic come together and regularly send donations to finance investment for community projects in their home countries (See Ellerman, 2003). All these initiatives help in supplementing government savings to finance small community projects.

Section V

5.0 Policy Opportunities, Questions and Conclusions

It is important to address policy issues that impact on remittances in order to maximise its impact on savings, investment, poverty reduction and income distribution. The relevant policy questions are how to leverage capital potential of remittances, through reducing transaction costs. How can transfer earnings from abroad be channelled into poverty alleviation and modernisation? What strategic alliances can be made between banks and transfer companies and between Ghanaian banks and their correspondents? What is the linkage between transfer companies and the rural bank network? Can banks develop lending instruments tied to remittance flows? Are there legislations that hinder remittance flows (e.g. Exchange Control Act 1961, ACT 71 and the Exchange Control Amendment Law 1986 PNDCL 149) and also that prevent money laundering activities?

The development potential of remittances can particularly be improved by increasing the total flow of remittances. To achieve this, certain initiatives have to be undertaken. These initiatives include lowering transfer costs (i.e. lower fees and more favourable exchange rates), reducing the risks involved in these transfers, and offering more attractive investment alternatives.

Further to the above incentives, the creation of appropriate savings services for migrants and their families internationally could help encourage the flow of remittances and their productive use. Examples are:

- Repatriable foreign currency accounts;
- Foreign currency denominated (remittances) bonds;
- Savings certificates denominated in foreign currency.

A favourable interest rate policy, a market-determined and realistic exchange rate and limited restrictions on withdrawals are prerequisite for the effective operation of these services. In developing these products, policymakers must bear in mind that migrants and their families constitute a diverse group, ranging from white-collar workers to the illiterate and poor. Hence, each savings product should be specifically adapted to the targeted income-group.

Micro-finance institutions in Ghana could also expand their micro and small business portfolio, whereas government and developing agencies could provide services such as training, business advice and marketing assistance for micro and small entrepreneurs to enable matching of funds for development projects.

Private unrequited transfers are estimated to be bigger and more stable than ODA and FDI flows into Ghana since 1990. This is consistent with findings in the literature that in the developing world, remittances now surpass ODA. Also positive, though relatively weak, correlation was found between remittances and ODA on one hand, and between remittances and FDI on the other hand, over the period 1990 to 2003. In assessing the importance of remittances in quantitative terms, we provide evidence on the magnitude of remittances relative to key macroeconomic variables. Evidence suggests that over the period 2000 to 2003, remittances have been increasing more than proportionately compared to GDP and exports.

Studies conducted on the main uses of remittances worldwide and in Ghana in particular, suggest that a large part of these funds are used for daily expenses such as food, clothing and health care. Some of these funds are also spent on the construction of houses, buying lands and performing funerals etc. Generally, a small percentage of these funds are used for savings and productive investments.

Some literature on the other hand argues that remittances contribute to savings and investments thereby leading to economic growth and development of any economy. Evidence abound that remittances from abroad are crucial to the survival of communities in many developing countries and hence its value must not be dismissed. It is evidenced in Ghana that *remittance-receiving households* usually save a portion of their money, which serves as insurance against future contingencies as well as for investments.

Key to the flow of remittances is the destination of the money and its effects on the local economy. It therefore, requires an appropriate institutional and regulatory framework that monitors the movement and direction of inward remittances so as to gain a proper understanding of how it is impacting on the economy.

The policy challenge is leveraging remittance funds towards development through forging alliances.

Importance of monetary and fiscal discipline to entrench stability and improve confidence in economy. The consistent implementation of prudent policy underlies improvements in the economy and has enhanced transfers generally.

The Bank of Ghana will be advocating for a new exchange control law to reduce the cost of foreign exchange payments transactions. The objective will be reoriented towards streamlining procedures to facilitate transactions with an emphasis on monitoring for analytical and balance of payments purposes rather than control.

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Appendix 1

UNREQUITED TRANSFERS
Conceptual, Measurement and Classification Issues

Definition
Most of the items found in the balance of payments are characterized as exchanges. A transactor (an economic entity) provides an economic value to another transactor and receives in return an equal value. The parties that engage in the exchange are residents of different economies. Transactions involving transfers differ from exchanges in that one transactor provides an economic value to another transactor but does not receive a quid pro quo on which, according to the conventions and rules of the system, economic value can be placed.

Transfers are defined in the fifth edition of the balance of payments manual (BPM5) as offsetting entries for real resources or financial items provided, without a quid pro quo, by one economy to another. In other words, whenever an economy does not receive or provide recompense in the form of real resources or financial items for goods, services or financial items supplied to or received from another economy, it constitute a transfer for the purposes of balance of payments accounting. To determine the coverage of transfers in the external accounts, decisions regarding two issues must be made.

The first issue is whether to show the provision of economic value in the accounts even if no quid pro quo is received. The BPM recommends that the balance of payments statement should show all economic values including those without a quid pro quo, provided by residents of one economy to another. Related to this, the statement should also show changes in real or financial items whenever such changes result from changes of residence (migration) on the part of individuals, and whenever the changes affect a specific economy and the rest of the world.

The second issue concerns the separation of benefits provided into (i) those regarded as economic values (i.e., those that constitute real resources or financial items) and (ii) those on which no economic value is placed (i.e., those that do not provide a quid pro quo and thus constitute transfers.)

The BPM5 identifies two types of transfers: current transfers and capital transfers. Current transfers are recorded in the current account while capital transfers are recorded in the capital account component of the capital and financial account. The distinction between current transfers and capital transfers harmonizes the balance of payments manual with the system of national accounts (SNA).

Distinction between Current and Capital Transfers

Capital transfers are distinguished from current transfers by focusing on their special characteristics: A transfer in kind is a capital transfer when it consists of the (i) transfer of ownership of a fixed asset or (ii) the forgiveness of a liability by a creditor when no counterpart is received in return. Secondly, the transfer of cash is a capital transfer when it is linked to or conditional upon the acquisition or disposal of a fixed asset (e.g. an investment grant). A capital transfer should therefore result in a commensurate change in the stocks of assets of one or both parties to the transaction. Capital transfers can also be large and infrequent.

Current transfers on the other hand directly affect the level of disposable income and therefore the consumption of goods and services. That is to say, current transfers reduce the income and consumption possibilities of the donor and increase the income and consumption possibilities of the recipient.

Classification of Current Transfers

Current Transfers are classified according to the sector of the compiling economy, into two main categories: general government and other sectors. General government transfers comprise current international co-operation, which covers current transfers, in cash or in kind between governments and international organizations. The following are included in the measurement of general government current transfers:

Cash transfers effected between governments for the purpose of financing current expenditures by the recipient government.

Gifts of food clothing and other consumer goods associated with relief efforts in the wake of natural disasters or civil or military strife.

Annual and other regular contributions paid by member governments to international organizations and regular transfers made as a matter of policy by the international organizations to governments.

Payments by governments or international organizations to governments for salaries of technical assistance staff and for related costs and expenses.

Gifts of certain light military equipments such as weapons and equipments to support and deliver weapons. *Other durable equipment such as most structures, transport communication and medical facilities as treated as capital transfers.*

There are other categories of general government current transfers that cover offsets to transactions between governments of the compiling economies and non-residents other than governments and international organizations. These include taxes on income and wealth, other transfers such as social security scheme contributions that are shown on the positive side of the accounts. Social benefits, refund of taxes and indemnity payments are included on the debit side.

Current transfers between other sectors of the economy and non-residents comprise those occurring between individuals, between non-governmental institutions or organizations (or between the two groups) or between non-resident government institutions and individuals or non-governmental institutions. The same basic items described above are generally applicable. In addition, there is the category of workers remittances.
Workers remittances covers current transfers by migrants who are employed in other economies and considered resident there. This category of transfers often involves related persons.

Valuation of Transfers
With the exception of cash, the value of transfers may not be readily determined because transfers are no seen as arising directly from the productive process. Transfer values should be the same as the market values of the real and financial resources to which the transfers are offsets.

Appendix: 2

Table 1:

Classification of Unrequited Transfers –1990-2003 (US$'Millions)

	Official Transfers	Private Transfers	Official/Total Transfer	Private/Private Transfers
1990	208.6	201.9	50.8	49.2
1991	202.4	219.5	48	52
1992	215.3	254.9	45.8	54.2
1993	256.2	261.2	49.5	50.5
1994	200.8	271	42.6	57.4
1995	260	263.2	49.7	50.3
1996	215.6	283.2	43.3	56.9
1997	169.7	406.8	29.4	70.6
1998	290.5	460.5	38.7	61.3
1999	158	479	24.8	75.1
2000	143.1	506.2	22	78
2001	216.1	717.3	22.1	73.3
2002	232.4	680	25.5	74.5
2003	*391.2*	*1,017.20*	27.8	72.2

Source: Bank of Ghana

Table 2

ODA, Remittances and FDI as Percentages of GDP

	ODA/GDP	Remittance/GDP	FDI/GDP
1990	4.24	3.2	0.2
1991	3.64	3.3	0.3
1992	2.70	4.0	0.4
1993	4.77	4.4	0.4
1994	1.33	5.0	0.6
1995	3.17	4.1	0.5
1996	2.82	4.1	0.3
1997	7.62	5.9	0.5
1998	6.22	6.2	0.6
1999	6.20	8.2	3.9
2000	8.79	10.2	2.3
2001	9.87	13.5	1.7
2002	5.87	11.0	1.0
2003	5.22	13.3	1.4

Source: Bank of Ghana

Table 3

	Remittances as a percentages of Domestic Savings	Exports	Imports	GDP
1990	0.99	22.51	16.76	3.24
1991	0.84	22.00	16.65	3.33
1992	0.59	25.84	17.50	3.97
1993	0.85	24.56	15.12	4.38
1994	0.95	21.90	17.15	4.98
1995	0.78	18.39	15.59	4.07
1996	0.81	18.04	14.52	4.09
1997	1.01	27.30	18.98	5.91
1998	0.92	22.02	15.39	6.16
1999	1.18	23.89	14.60	8.22
2000	1.54	26.14	18.30	10.17
2001	1.87	38.42	24.16	13.51
2002	1.50	33.74	25.12	11.04
2003	1.69	39.70	31.05	13.34

Source: Bank of Ghana

Table 6

Key Macroeconomic Variables (US$' millions)

	ODA	FDI	Exports	Imports
1990	263.83	14.80	896.8	1205
1991	240.14	20.00	997.7	1318.7
1992	173.33	22.50	986.3	1456.5
1993	284.56	25.00	1063.6	1728
1994	72.61	30.00	1237.7	1579.9
1995	204.50	35.00	1431.2	1687.8
1996	195.33	20.00	1570.1	1950.7
1997	524.43	36.00	1489.9	2143.7
1998	464.98	45.00	2090.8	2991.6
1999	361.26	226.7	2005.3	3279.9
2000	437.27	114.9	1936.3	2766.6
2001	524.28	89.3	1867.1	2968.5
2002	361.72	58.9	2015.2	2707.0
2003	397.85	*110.0*	2562.4	3276.1

Source: Bank of Ghana and IFS (IMF**)**

Table 4

Banks and Financial Houses Engaged in Money Transfer Activities		
Name of Institution	**Name of Foreign Agent**	**Country Agent Operates from**
Ecobank (Gh) Ltd	Western Union Finanacial Services	France
Unibank (Gh) Ltd.	Uniteller Financial Services	USA and Canada
Amalgamated	Merchant Foreign Exchange	UK
SG-SSB Bank	MoneyGram International	UK
	Ria Financial Services	USA
	Unity Financial Services	Holland
Merchant Bank	Vigo Remittance Corp.	USA
	Transcheq Services Ltd.	UK., Holland, and Belgium
	Lawrence Associtcs	UK
	Ecowas	USA
	Choice Money Transfer	UK
	Data connect System	Canada
	Afrister	Holland
	SOS Express	Germany
	Kashkall Africa Ltd.	UK
Prudential Bank Ltd.	First Rimit Ltd.	Belgium, Burundi, Croatia, Ireland Rwanda, Uganda
	Ghana Express	UK
International Comm. Bank	Itagha	Italy
NIB	Werstern Union Financial Services	France
Metropolitan and Allied Bank	Tran-Continental Financial Services	UK
	Samba Internatioanl	UK
	Linksel Communication	Canada
Financial Houses		
1st African Financial Services Ltd.	First African Remittance	USA and UK
Trans-Continental Financial Financial.	Kumasi market	UK
	Linkstel Communicatyion	Canada
Express Funds International	Express Group International	UK

Source: Bank of Ghana

Table 5

REPORTING FORMAT ON FOREIGN INWARD REMITTANCES BY BANKS US DOLLARS							
	Individuals	Exporters	Services Providers	NGOs	Embassies	Others	Total
Name of Bank							
Total							

SOURCES OF FOREIGN INWARD REMITTANCES-BANKS

United Kingdom
USA and Canada
European Union
ECOWAS
Rest of Africa
Others

FINANCE COMPANIES ENGAGED IN FOREIGN REMITTANCE OPERATIONS
(U. S. DOLLARS)

TELECASH FINANCIAL SERVICES LTD.
TRANS-CONTINENTAL FINANCIAL SER.
EXPRESS FUNDS INTERNATIONAL LTD.
1ST AFRICAN FINANCIAL SER.
TOTALS

Source: Bank of Ghana