**WORKERS’ REMITTANCES AND ECONOMIC GROWTH IN SELECTED SUB-SAHARAN AFRICAN COUNTRIES**

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**December, 2010**

DECLARATION

I**, Henry OKODUA**, declare that this thesis is my own original work and that no portion of the work referred to in the thesis has been or will be submitted in support of an application for another degree or qualification of this or any other university or other institute of learning.

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Signature Date

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CERTIFICATION

The undersigned certify that they have read and hereby recommend for acceptance by Covenant University a dissertation/thesis entitled: “Workers’ Remittances and Economic Growth in Selected Sub-Saharan African Countries” in partial fulfillment of the requirements for the degree ofDoctor of Philosophy (PhD) in Economics of Covenant University, Ota, Nigeria.

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DEDICATION

I humbly and most respectfully dedicate this work to the glory of the Most High God, JEHOVAH Almighty, who is the author and finisher of every good and perfect gift I have ever received and will ever receive in my life. I also dedicate this work to the loving memories of my late father, Mr. Peter S. E. Okodua.

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LIST OF ABBREVIATIONS

ARMA: Autoregressive Moving Average

BOP: Balance of Payments

EGLS: Estimated Generalised Least Squares

FDI: Foreign Direct Investment

FGLS: Feasible Generalised Least Squares

GDP: Gross Domestic Product

GLS: Generalised Least Squares

GLSS: Ghana Living Standard Survey

GMM: Generalised Method of Moments

IMF: International Monetary Fund

LSDV: Least Square Dummy Variable

MTOs: Money Transfer Operators

NPISHs: Nonprofit Institutions Serving Households

ODA: Official Development Assistance

OIR: Over Identification Restrictions

OLS: Ordinary Least Squares

SSA: Sub-Saharan Africa

SUR: Seemingly Unrelated Regression

UNCTAD: United Nations Conference on Trade and Development

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GLOSSARY OF TERMS

1. **African Diaspora** - the African Diaspora consists of peoples of African origin that are living outside the continent, irrespective of their citizenship and nationality
2. **Brain Drain –** this is also known as **Human capital flight**, it is the large-scale emigration of individuals with [technical skills or knowledge](http://en.wikipedia.org/wiki/Human_capital).
3. **Capital Flow –** this is the movement of investment capital from one country to another. Also called capital movement, movement of capital.
4. **Economic Development -** Economic development is the increase in the standard of living in a nation's population with sustained growth from a simple, low-income [economy](http://en.wikipedia.org/wiki/Economy) to a modern, high-income economy. Also, if the local quality of life could be improved, economic development would be enhanced. Its scope includes the process and policies by which a nation improves the economic, political, and social well-being of its people.
5. **Economic Growth –** Economic growth is the increase of per capita [gross domestic product](http://en.wikipedia.org/wiki/Gross_domestic_product) (GDP) or other measure of aggregate income; it is typically reported as the annual rate of change in real GDP. Economic growth refers to the quantity of goods and services produced and does not account for working conditions, education, political and social conditions, depletion of nonrenewable resources or environmental degradation.
6. **Financial Flow -** this is the movement of cash or funds in and out of a business or the account of an individual or a firm.
7. **Foreign Direct Investment -** investment in a developing country by foreign companies or governments.
8. **Foreign Exchange –** this refers to foreign currencies in general or the exchanging of the money of one country for that of another.
9. **Generalized Method of Moments -** the generalized method of moments (GMM) is a popular [statistical](http://en.wikipedia.org/wiki/Statistics) method (among [econometricians](http://en.wikipedia.org/wiki/Econometrics)) for obtaining [estimates](http://en.wikipedia.org/wiki/Point_estimation) of parameters of [statistical models](http://en.wikipedia.org/wiki/Statistical_model). GMM was developed by [Lars Peter Hansen](http://en.wikipedia.org/wiki/Lars_Peter_Hansen), of the [method of moments](http://en.wikipedia.org/wiki/Method_of_moments_%28statistics%29).
10. **Globalization –** globalization describes the process by which regional economies, societies, and cultures have become integrated through a global network of political ideas through communication, transportation, and trade. The term is most closely associated with the term [economic globalization](http://en.wikipedia.org/wiki/Economic_globalization): the integration of national economies into the international economy through [trade](http://en.wikipedia.org/wiki/Trade), [foreign direct investment](http://en.wikipedia.org/wiki/Foreign_direct_investment), [capital flows](http://en.wikipedia.org/wiki/Capital_flow), [migration](http://en.wikipedia.org/wiki/Human_migration), the spread of [technology](http://en.wikipedia.org/wiki/Technology), and [military](http://en.wikipedia.org/wiki/Military) presence.
11. **Gross Domestic Investment –** Gross private domestic investment is the measure of investment used to compute GDP. This is an important component of GDP because it provides an indicator of the future productive capacity of the economy. It includes replacement purchases plus net additions to capital assets plus investments in inventories.
12. **Migrants** - People who migrate are called [migrants](http://en.wikipedia.org/wiki/Immigration) or more specifically, [emigrants](http://en.wikipedia.org/wiki/Emigration), [immigrants](http://en.wikipedia.org/wiki/Immigration), or [settlers](http://en.wikipedia.org/wiki/Settler), depending on historical setting, circumstances and perspective.
13. **Migration -** Human migration is the physical movement by [humans](http://en.wikipedia.org/wiki/Human) from one area to another, sometimes over long distances or in large groups. The movement of populations in modern times has continued under the form of both voluntary migration within one's region, country, or beyond, and [involuntary migration](http://en.wikipedia.org/wiki/Forced_migration) (which includes the [slave trade](http://en.wikipedia.org/wiki/History_of_slavery), [trafficking in human beings](http://en.wikipedia.org/wiki/Human_trafficking) and [ethnic cleansing](http://en.wikipedia.org/wiki/Ethnic_cleansing)).
14. **Neo-Classical Growth Model -** the neo-classical growth model, also known as the exogenous growth model or Solow–Swan growth model is a term used to sum up the contributions of various authors to a [model](http://en.wikipedia.org/wiki/Economic_model) of long-run [economic growth](http://en.wikipedia.org/wiki/Economic_growth) within the framework of [neoclassical economics](http://en.wikipedia.org/wiki/Neoclassical_economics). In neoclassical growth models, the long-run rate of growth is [exogenously](http://en.wikipedia.org/wiki/Exogenous) determined – in other words, it is determined outside of the model. A common prediction of these models is that an economy will always [converge](http://en.wikipedia.org/wiki/Catch-up_effect) towards a steady state rate of growth, which depends only on the rate of [technological progress](http://en.wikipedia.org/wiki/Technological_progress) and the rate of labour force growth. A key prediction of neoclassical growth models is that the income levels of [poor countries](http://en.wikipedia.org/wiki/Developing_nation) will tend to [catch up](http://en.wikipedia.org/wiki/Catch-up_effect) with or converge towards the income levels of rich countries as long as they have similar characteristics – like for instance saving rates.
15. **Official Development Assistance -** Flows of official financing administered with the promotion of the economic development and welfare of developing countries as the main objective, and which are concessional in character with a grant element of at least 25 percent (using a fixed 10 percent rate of discount). By convention, ODA flows comprise contributions of donor government agencies, at all levels, to developing countries (“bilateral ODA”) and to multilateral institutions. ODA receipts comprise disbursements by bilateral donors and multilateral institutions.
16. **Poverty -** poverty is the lack of [basic human needs](http://en.wikipedia.org/wiki/Basic_needs), such as [clean water](http://en.wikipedia.org/wiki/Clean_water), [nutrition](http://en.wikipedia.org/wiki/Nutrition), [health care](http://en.wikipedia.org/wiki/Health_care), [education](http://en.wikipedia.org/wiki/Education), clothing and shelter, because of the inability to afford them. This is also referred to as [absolute poverty](http://en.wikipedia.org/wiki/Poverty_threshold) or destitution. [Relative poverty](http://en.wikipedia.org/wiki/Relative_poverty) is the condition of having fewer resources or less income than others within a society or country, or compared to worldwide averages.
17. **Sub-Saharan Africa -** Sub-Saharan Africa as geographical term refers to the area of the [African](http://en.wikipedia.org/wiki/Africa) continent which lies south of the [Sahara](http://en.wikipedia.org/wiki/Sahara). A political definition of Sub-Saharan Africa, instead, covers all [African countries](http://en.wikipedia.org/wiki/African_countries) which are fully or partially located south of the Sahara.
18. **Trade Balance –** This is the difference between the monetary value of [exports](http://en.wikipedia.org/wiki/Export) and [imports](http://en.wikipedia.org/wiki/International_trade) of output in an economy over a certain period. It is the relationship between a nation's imports and exports.
19. **Workers’ Remittances -** Workers’ remittances (within the context of this study) are financial flows made up of private and unilateral inter-household transfers of money by a migrant worker resident in a foreign country (host country) to a person (most often a family member of the migrant) living in the migrant’s country of origin (home country).

ABSTRACT

Remittance flows to Sub-Saharan African (SSA) region has steadily been on the increase in recent history. Unlike capital inflows which generally create obligations for future outflows either in the form of debt servicing or investment income and other payments, remittance inflows do not as they are generally unilateral and unrequited. This thesis investigates the economic growth and developmental role of workers’ remittances in selected Sub-Saharan African (SSA) countries. Specifically, it seeks to determine the contributions of workers’ remittances to output growth in SSA, analyze the importance of workers’ remittances to the level of domestic investment in SSA, and determine the effects of remittances on trade balance in the selected SSA countries.

Within the framework of an extended standard neo-classical growth model, the *system Generalized Method of Moments (GMM)* estimation technique was employed in this thesis on a set of three linear dynamic panel data models. These models were then used to estimate the links between remittances and output growth, remittances and domestic investment, and; remittances and trade balance. There are usually two major and important complications arising from an effort to estimate dynamic panel data models using macroeconomic panel data. First, is the presence of endogenous and/or predetermined covariates and second, are the small time-series and cross-sectional dimensions of the typical panel data set. The Blundell and Bond (1998), extended version of the generalized method of moments (GMM) estimator, (also known as *system* GMM estimator) was applied to estimate the specified models. This estimator is widely believed to be adequate in overcoming complications that may arise from efforts to estimate the usual linear dynamic panel data models.

The findings are many and most instructive. However, the major findings which are quite striking include the followings. Workers’ remittances have an insignificant contemporaneous negative impact on output growth suggesting that a sizeable proportion of remittances inflow to SSA is channeled intentionally or unintentionally at some economically unproductive uses. Workers’ remittances also have a significant contemporaneous negative impact on domestic investment. For example, a 10 percent increase in workers’ remittances under the Blundell–Bond estimates, was found to explain negatively about 20.9 percent of the changes in domestic investment across the study group. This clearly suggests that these financial flows do crowd-out domestic investment in SSA. In addition, workers’ remittances inflow has a significant contemporaneous negative impact on external trade balance (proxied by real external balance) in the recipient SSA economies. Contemporaneously, real external balance in the selected SSA countries decline by about 2.21 percent as workers’ remittance inflows into SSA rise by 10 percent. This suggests that workers’ remittance inflow depresses trade balance in SSA. These findings are rather shocking and disturbing but they all provided the basis for policy recommendations in this work.

No doubts, workers’ remittances are unarguably a vital source of finance for many individuals and families in developing countries. However, the full economic benefits of these flows to SSA countries can only be realized by formulation of appropriate policy measures to channel remittance flows into some more economically productive uses. The option of using Diaspora bonds to raise needed vital foreign exchange for development in these SSA economies may be considered by the various governments. However, this option will only be attractive to the Diaspora if the issues of good governance, transparency, the rule of law, etc are made sacrosanct by the various SSA governments. One other policy option that may help attract additional and significant remittance flows to SSA countries is a policy that facilitates investment by migrants in real estate. But the various governments must first create the initial infrastructure for such projects to be located in choice locations across each of the SSA countries.