Migrant money puts aid in the shade

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Eric Akobeng. Credit: Eric Akobeng

"Sending money home from abroad is a hidden force for breaking the cycle of poverty and inequality in Sub-Saharan Africa" - Eric Akobeng, University of Leicester

A new study has shown that poverty and inequality in Sub-Saharan Africa can be reduced by international remittances.

The research, conducted by Eric Akobeng, PhD candidate from Ghana, West Africa and Graduate Teaching Assistant in the University of Leicester Department of Economics, discussed the extent to which money sent home by Sub-Saharan Africa migrants working abroad (international remittances) could reduce poverty and inequality by bridging the gap between the rich and the poor.

Eric Akobeng, who has worked as a development policy worker at the Ghana Ministry of Finance and Economic Planning for 13 years, said: "Remittance payments are great ways of sharing wealth between Sub-Saharan Africa countries and other nations. Sending money home from abroad is a hidden force for breaking the cycle of poverty and inequality in Sub-Saharan Africa."

The results suggest that a 10% increase in remittances as share of gross domestic product (GDP) will lead to a 1.2% decline in the number of people living on less than US$1.25 per day, 2.4% decline in the depth of poverty, 3.1% decline in the number of people living in extreme poverty and 1.5% decline in inequality.

Published in *The Quarterly Review of Economics and Finance*, the study also investigated the extent to which an efficient financial system can boost the effectiveness of these remittances.

In particular, it was shown that a 10% improvement in the link between remittances and finance can lead to a 0.6% decline in the number of people living on less than US$1.25 per day, 1.1% decline in the depth of poverty, 1.4% decline in the number of people living in extreme poverty and 0.5% decline in inequality.

Eric added: "If remittances are received through banks or other financial intermediaries, there is a high probability that some part of the remittances income will be saved. An efficient financial system will provide the fertile grounds to facilitate the receipt and utilisation of remittances, leading to higher output and welfare improvement."

Additionally this research demonstrated that remittance payments empower poor households and may be an important means of sharing prosperity between Sub-Saharan Africa and other countries in the future.

The dataset used for this study came from 41 Sub-Saharan Africa countries between 1981 and 2010.

When asked about future policy implications, Eric said: "In the future there is a need for Sub-Saharan African policy-makers not to depend solely on foreign aid and foreign direct investment but to look at remittance payment as a poverty-reducing and income-equalizing tool in designing poverty-reduction strategies."

Eric Akobeng carried out the study under the supervision of Dr Barbara Roberts and Dr Jesse Matheson in the Department of Economics at the University of Leicester.

Dr Barbara Roberts, Eric's primary supervisor, said: "Eric identified remittances as an important but often overlooked source of external finance for developing countries. He then quantified the impact of remittance flows on poverty reduction for Sub-Saharan Africa countries and articulated policy implications arising from his results. For his empirical investigation he chose Sub-Saharan Africa as the world's poorest countries are located in this region."

More information: Eric Akobeng, Out of inequality and poverty: Evidence for the effectiveness of remittances in Sub-Saharan Africa,

The Quarterly Review of Economics and Finance (2016). DOI: 10.1016/j.qref.2015.10.008

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