

GROWING CUSTOMER BASE WITH INWARD

REMITTANCES:

AN ANALYSIS OF UNIBANK (GHANA) LIMITED

by

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DECLARATION

I hereby declare that this submission is my own work towards the Commonwealth Executive Masters of Business Administration (CEMBA) and that, to the best of my knowledge, it contains no material previously published by another person nor materials which has been accepted for the award of any other degree of the university, except where due acknowledgement has been made in the text.

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DEDICATION

With humility and profound gratitude to God Almighty I dedicate this work to my sons Kwame, Danny and Paa Kwesi to encourage them to achieve even higher laurels in life. And to my friend Gloria who I started this course with but died trying to give birth. May she rest in perfect peace.

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ACKNOWLEDGEMENT

The giver of life, the giver of wisdom, the giver of knowledge, God I thank you so much for the strength and life to go through this programme successfully.

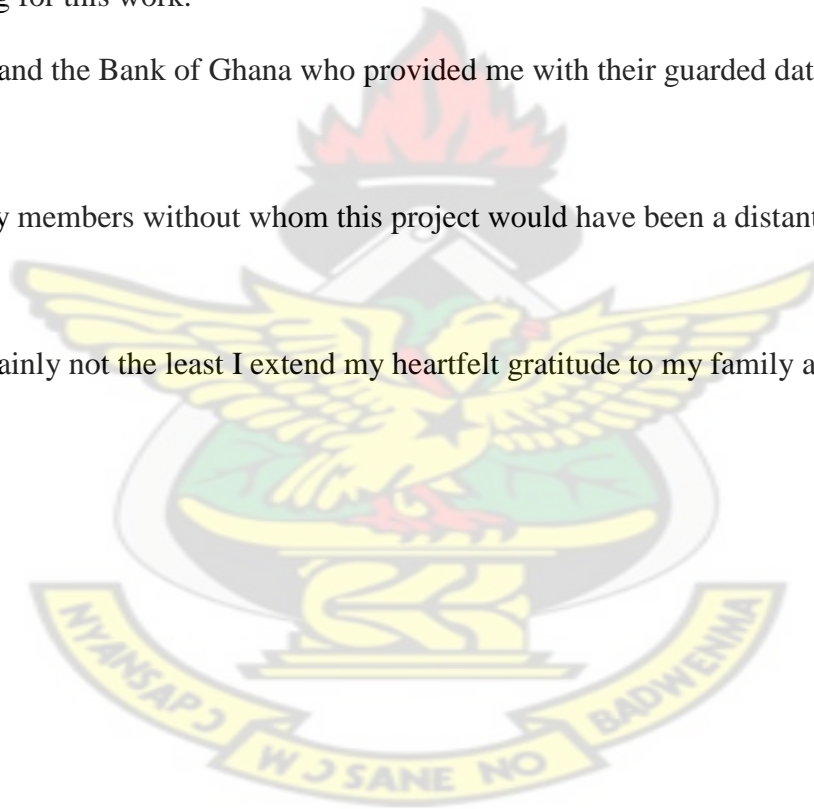
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My sincere thanks go to Dr. Bernard Dumenya-Tetteh who with an eagle eye did all the proof reading for this work.

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Last but certainly not the least I extend my heartfelt gratitude to my family and well wishers.



ABSTRACT

Over the past decade, remittances have had a significant impact on the economy of Ghana. According to the Bank of Ghana (BoG), remittances to Ghana have increased from about US\$4.6 billion in 2005 to about US\$12.5 billion in 2010 equating 11% of GDP. The BoG 2009 report also revealed that, US\$ 9.1 billion or 19.2% of the total remittance went to individual Ghanaians who walked to various banks or non-bank financial institutions to access these funds. The World Bank (WB) has estimated that, global remittance flow to developing countries in 2009 alone ran into \$ 338 billion with the potential to increase more than 10% per annum.

The concept of remittances in Ghana is still a complex unexplored issue and its impact has not yet been fully captured or explained empirically. The lack of systematic means to record transactions, lack of details about the sender among others are some of the issues that lead to the complexity. Nevertheless, it is also significant to understand different ways remittances offer to the families who receive them. This research sought to add to the body of knowledge of the remittances and how Banks can explore this system to grow customers' base. A case study approach was used using unbank and data collection methods was semi-structured interviews, observations and documentation of important legal papers from the bank. The research revealed that, remittances form the total foreign exchange inflows into the country majority of the remittance is to individual families who are either using for upkeep, pay for education or to run business or projects that will in future prepare the sender for coming back to Ghana. The results of the research showed that, about 66% of recipient beneficiaries are just custodians of these monies and that the decision as to how these monies are used is the prerogative of the sender. The research recommends that for banks to grow their customer

base, cross-selling of products to remittance customers will be key and more attention should be paid to migrants by developing more products that will be beneficial and attractive to them.

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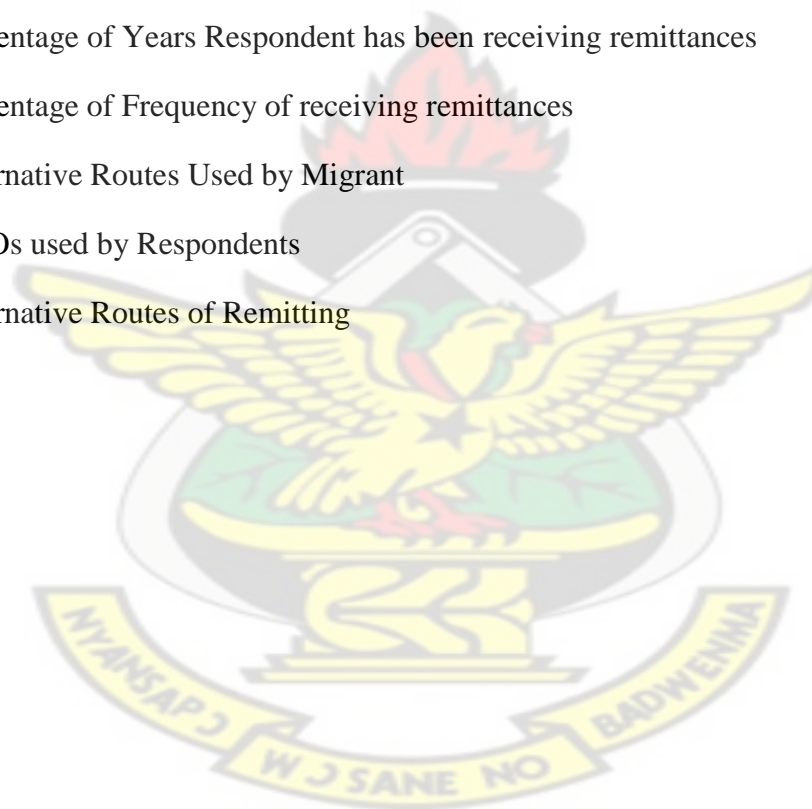
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LIST OF ABBREVIATIONS AND ACRONYMS

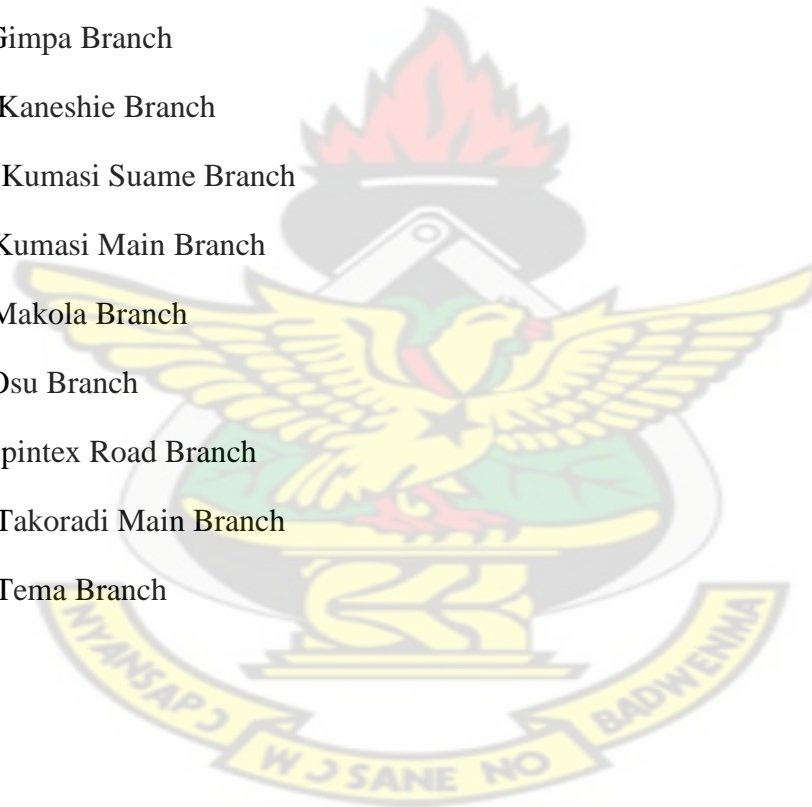


| | |
|------|---|
| BoG | - Bank of Ghana |
| BOP | - Balance of Payment |
| FDI | - Foreign Direct Investment |
| GDF | - Global Development Finance |
| GDP | - Gross Domestic Product |
| GLSS | - Ghana Living Standard Survey |
| HTA | - Hometown Association |
| ILO | - International Labour Organization |
| IMF | - International Monetary Fund |
| IOM | - International Organization for Migration. |
| MTO | -Money Transfer Operator |
| MIC | - Multiple Indicator Survey |
| NBFI | - Non- Bank Financial Institution |
| NGO | - Non Governmental Organization |
| ODA | - Official Development Assistance |
| OECD | - Organization for Economic Cooperation and Development |
| OSCE | - Organization for Security and Cooperation in Europe. |
| UK | - United Kingdom |
| US | - United States |
| WB | - World Bank |

UNIBANK BRANCHES

| | |
|-----|------------------------|
| ACM | - Accra Main Branch |
| AML | -Accra Mall Branch |
| APW | - Apenkwa Branch |
| ASH | - Ashiaman Branch |
| GIM | -Gimpa Branch |
| KBB | - Kaneshie Branch |
| KSB | - Kumasi Suame Branch |
| KSI | - Kumasi Main Branch |
| MAK | -Makola Branch |
| OSU | - Osu Branch |
| SRB | - Spintex Road Branch |
| TDM | - Takoradi Main Branch |
| TMA | - Tema Branch |

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND TO THE STUDY

International Labour Organization's Social Finance Program report, ILO (2000) on Migrant Worker Remittances and Microfinance in the Context of Globalization, to explore possibilities for a more effective use of remittances through productive investments of these funds via micro-finance institutions suggest the past decades have witnessed a significant increase in migration. The report further pointed out that between 1965 and 1990, the total number of migrants increased from 75 million to 120 million. This increase is associated with growing flows of remittances, which in some countries exceed foreign aid. Whereas the total value of official remittances amounted to less than 2 billion dollars in 1970, it increased to 73 billion dollars per year. The total value of remittances, including those via informal channels, is likely to be at least twice as high as total remittances flows through official channels. Put to a productive use, these remittance flows can have a positive impact on the economy of the migrants' country of origin. They could for instance be geared towards savings, investment and business creation or community development projects. In view of their recent growth and the need for job creation, remittances are increasingly attracting the

attention of governments and the private (banking) sector. Micro-finance institutions (MFIs) are more and more identified as potentially critical for the mobilization and transformation of remittances.

World Migration report (2005) further put forward some 200 million people live and work away from their countries of origin. The money that they sent home to their friends and families is vital to developing countries and a crucial source of foreign exchange to many developing countries. The World Bank estimates that global remittances to developing countries are \$338 billion (WB report 2009) through official channels and that, until the international economic crisis, remittances were growing by more than 10% per annum.

In many countries, remittances are larger than aid flows and almost as large as foreign direct investment. Over the past decade, remittances have had a significant impact on the economy of Ghana. According to the Bank of Ghana (BoG) 2009 report, private remittances to Ghana have increased from about US\$449 million in 1999 to US\$1.79 billion in 2009; equating to 11% of GDP, 90% of the value of foreign direct investment (US\$2.12bn) and exceeding official development assistance. The report also revealed that, US\$626.6 million of total remittance inflows went to individual Ghanaians in the first half of the year 2010, compared with \$604 million in the previous year. Despite economic growth measured at 7.2% in 2008, income levels are still low in Ghana, estimated at US\$713 per capita per annum in 2008 and in 2005 it was reported that approximately 28.5% of the population lived below the poverty line (GLSS 2006). It is estimated that, the average cost of sending remittances to Ghana is 7% of the send amount. Given that formal remittances account for approximately 11% of GDP, it therefore follows that, remittance fees account for 0.8% of GDP. Improving the

efficiency and reducing the cost of sending remittances to Ghana will thus have a significant impact on the Ghanaian economy.

The use of formal channel remittances plays an important role in alleviating foreign exchange constraints and supporting the balance of payments in many developing countries. The greater stability of remittances, compared with other capital flows, contributes to the stability of the recipient country's economy by compensating for foreign exchange losses due to macroeconomic shocks. Remittance flows can allow financial institutions to improve their liquidity, expand their lending operations if clients deposit their remittances, access hard foreign currency at advantageous rates, and earn fee-income and cross-sell additional financial services. At the individual level, remittances play a significant role in reducing poverty. Beneficiaries often depend on remittances to cover day-to-day living expenses, improving their quality of life, as well as improving conditions in rural communities where financial capital is scarce for small business investment - impacting on national growth and capital accumulation.

The concept of remittances has become a major phenomenon in international finance in recent years. Although the practice of migrants in developed countries sending funds home to family members still residing in developing nations has been occurring for many decades, the magnitude of remittances has skyrocketed, resulting in scholars and policymakers appreciating and studying this phenomenon. Some of the studies carried out (Conell and Corway, 2000) on channels, their impact on the countries and effects on the emerging capital market have been carried out. In spite of these empirical works, a lot more needs to be done because gathering accurate data on international remittances has been very difficult. This is

because a good portion of the transfers is made on an informal basis (The WB Report, 2004). Some official statistics do exist, however, and they present startling numbers. The World Bank estimated that in 2005 migrants sent home approximately \$167 billion, up 73% from 2001 and this grew to approximately \$206 billion by 2007.

The importance of remittances towards livelihood improvement of most people in the country can be said to have made a clear case for the emigration of the youth and professionals to seek greener pastures. Indeed the fact that countless Ghanaians are benefiting from money sent down by their pals and relatives in foreign countries and the significance of migration can never be under estimated. It is known that remittance inflows is more resilient when compared to many other types of resource flows such as foreign direct investment, debt and equity flows all which have declined steadily in this season of recession. There are a number of reasons for this resilience of migrant remittances in the face of economic downturn. Firstly, remittances sent home by migrants and especially those who have stayed out for a long period is persistent over time, so as long as migration continues so will remittances continue. Secondly as long as migrants remain in host country there is always a bond that draws them to send money home. Thirdly migrants tend to switch across sectors or countries in economic downturns, diversifying into other sectors such as health and domestic work, cushioning the fluctuations to home countries. This research therefore hopes to add to the discussion and other empirical works on remittances more particularly its impact on the growing customer base of a Bank.

1.2 STATEMENT OF THE PROBLEM

Remittances form a very significant inflow of monies into our economic sector; they have become a very important component of the Balance of Payment (BOP) for developing countries in recent years. For some countries they have exceeded various types of capital flows. Global Development Finance (2003) shows that remittances to developing countries are higher than official aid flows and most other types of private capital flows. Ratha (2003) also concludes that remittances now surpass Official Development Assistance (ODA). In Ghana remittances have increased rapidly from US\$201.9 million in 1990 to over US\$1,017.2 million in 2003 (Addison, 2004). This increase has reflected mainly private unrequited transfers which are estimated to be bigger and more stable than ODA and FDI (Foreign Direct Investment). Previous studies on the industry have however shown that a high percentage of these monies come in through the informal sector, and even the other percentage of funds that come in through the banks are accessed by walk-in-customers who do not have a formal relationship with the banks. Whilst informal remittance channels offer an accessible and low cost service to the rural poor, the poor are correspondingly not adequately represented in the formal banking sector. It follows that the need to protect and the desire to grow the formal remittance flows would directly benefit the rural poor and equally importantly have a further knock on effects in terms of improving banking access to the rural poor. With a high level of involvement of banks and other financial services such as savings facilities, remittance beneficiaries will have greater options to use remittances more productively and have increasing rates of financial inclusion. Indeed there is a general believe that a stronger financial sector within a country contributes to economic growth for that country. It is against this backdrop that this study is being carried out.

The concept of remittances in Ghana is still a complex unexplored issue in the sense that its specific impact has not yet been fully captured or explained empirically. There are many factors that contribute to this complexity, which include the lack of systematic means to record transactions on remittances in Ghana and the lack of details about the number of Ghanaians living outside the country. However, what can be explored is the different help remittances offer to the families who receive it. By carefully investigating their consumption and how these consumptions affect their daily lives, the impact of remittances can be well explored in the micro-perspective.

1.3 OBJECTIVES OF THE STUDY

This study seeks to establish whether remittances which are routed through the formal sector of the economy and thus consequently accessed by walk-in-customers, could be a drive to bring on board the informal sector to increase the customer base of banks.

In line with the overall aim, the study specifically seeks to:

- find size and nature of inward remittance in Ghana
- the incentives that influence remittances to Ghana
- the mechanisms through which they are transmitted
- analyze its socio-economic impact on the economy and the bank's customer base.

1.4 RESEARCH OBJECTIVES

The reliable questions to answer the objectives may include:

- a. What is the size of the inward remittance to Ghana?
- b. What is the nature of the inward remittance in Ghana?
- c. What influence people to send inward remittance?
- d. By what means are inward remittances transferred?
- e. Can there be any correlation between remittances and the bank's growing customers?
- f. Is there any impact of remittance on the economy of Ghana?

1.5 SIGNIFICANCE OF THE STUDY

The flow of funds from migrant workers back to their families in their home country is an important source of income to many people in developing economies. The recipients often depend on remittances to cover day-to-day living expenses, to provide a cushion against emergencies or, in some cases as source of funding for small business start-ups. The commercial banks on the initiatives of the Central Bank have taken keen interest in remittances and have constantly urged commercial banks to consistently have required data to create more awareness among migrant workers on the benefits of transferring money through banking channels.

Even though empirical evidence has proved that, private unrequited transfers form a major component of a nation's developmental inflow, developing nations are not able to keep track of these inflows because they are not able to regulate the routes and channels of these inflows GDF, (2003). This study seeks to solve a multi-faceted problem through provision of analytical framework for effective policies to route remittances through the formal sector, to

give a vivid statistical analysis for development of inward remittance in Ghana, and to appraise the benefits of inward remittances to the banks in Ghana. The researcher believes this study will broaden the horizon of the remittance beneficiaries as they will be exposed to the other benefits of the banking sector.

1.6 ORGANIZATION OF THE STUDY

The study is organized in five chapters. The chapter one focuses on the background and introduction of the study, the objectives and the problem statement as well as the significance of the study. This was followed by chapter two which provides insight into the relevant literature on the topic under study. The aim was to situate the study within the contextual framework of current knowledge on the topic under study. The chapter three chronicles the methodology used for the study, how both primary and secondary data were collected and analyzed and chapter four deliberates more on the results of the empirical findings from the survey that was conducted. The researcher further discusses the results from the study with the aid of graphs, charts, frequency tables etc and the research was concluded by chapter five that outline the summaries, conclusion as well policy recommendations and suggestions on what future researchers could focus on.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter deals with the review of relevant literature. The researcher discusses past researches done on the topic and other related ones in order for the researcher to analyze, summarize, cite, and relate previous studies explicitly. This will enable the researcher to establish theoretical framework for the problem and help establish the significance of the study.

2.2 REMITTANCES AND ECONOMIC INDICATORS

According to Grabel (2008) Private remittances are becoming an increasingly important part of the financial landscape of many developing countries. Indeed, for some such countries, these flows are the single most important type of international capital inflow—public or private--and they have become an importance source of purchasing power and foreign exchange. Webster (1913) remittance as the act of transmitting money, bills, or the like to distance place, as in satisfaction of a demand or in discharge of an obligation. . It can also be the process of sending money to remove an obligation. This is most often done through an electronic network, wire transfer or mail. The term also refers to the amount of money being sent to remove the obligation (banknetindia.com). Addison (2004) defined remittance as the

portion of migrant earnings sent from the migration destination to the place of origin of migrant or private unrequited transfers, and is not limited to monetary and other cash transfers alone, but could be in kind.

The growing importance of inward remittances as a source of foreign exchange is reflected in the fact that they have outpaced foreign direct investment and official development assistance (WB, 2005). Asian countries are well known for exporting labour. In total the five main emigration countries in the region (China, India, Mexico, Latin America and the Caribbean have over 100 million of their citizens residing abroad (World Economic Outlook 2005). These migrants usually maintain ties with their families in the home countries manifested in the substantial streams of workers' remittances sent back home every year. One of the principal consequences for developing countries of the ongoing global economic turmoil has been a substantial down trend in the flow of these transfers since the third quarter of 2008. This could be a cause for concern because remittances have not only become a significant and the stable source of development finance to developing economies, they have also been shown to contribute to the welfare and reduce poverty among recipient households.

International migration has played a pivotal role in the household economy of people in many of the developing countries. In Pakistan most of the people prefer to migrate for skilled and unskilled labor to the developed countries to improve the living standards of their families. In the District Gujarat, according to the Multiple Indicator Cluster Survey (MICS, 2007-2008) 24.3% families were receiving remittances from abroad and the families of the emigrants are mostly dependent on the remittances in Gujarat. In Pakistan 10million people are in the categories of national or international migrants. According to 1998 Census Survey

of Pakistan total remittances received by Pakistan were US\$ 2.4 billion, or 4% of the GNP. Van Dalen, Groenwold, and Fokkema (2005), analyzed on the basis of the data of World Bank (2004) remittances received by less developed countries totaled US\$93 billion in 2002. In a comparative study of 74 less developed countries, remittances have a strong impact on reducing poverty. A common explanation was that migrants care for their spouses, children, parents and other members of the extended family left behind.

Xenogiani *et al*, (2006) observed that a further major impact of migration on development comes through remittances which are sent by migrants to families and relatives who have remained in their country of origin. Both the labor supply eventually and the transfer shock to the host country affect poverty and growth directly through substitution and income effects and indirectly through productivity changes in the home country. Azam (2005) analyzed that 3.75 million Pakistanis and 7.0 million Philippines were estimated to be living or working overseas. Pakistani government estimated in 2001, less than 3.75 million were to be living and working abroad. Overseas Pakistanis were in the Middle East 45%, Europe 29% and America 23%. The highly emigrated district Rawalpindi where the households owned small subsistence agricultural farms were still heavily dependent on nonfarm employment for their livelihood. After emigration they improved their livelihood and assets. Sattar and Iqbal (2005) analyzed that Pakistani received a significant amount of worker's remittances, and these remittances have a positive impact on Pakistan's economy through improved balance of payments position and reduced dependence on external borrowing. Significant flow of remittances also helped Pakistan recover from the adverse effects of oil price shocks, reduced

the unemployment problem, and improved living standard of recipient households (OECD, 2009)

Inward remittances have a vital role in most developing countries on poverty, income distribution, and economic development, especially in rural areas. Indeed Ratha (2003) said Migrant remittances flows surpass official development aid receipts in many developing countries.

Agu, (2009) also observed that remittances differ from other private flows in more significant ways than one – which eventually impact on the growth benefits that they can engender to an economy. While FDI and Portfolio flows are top-down flows, remittances are bottom-up flows. Funds and consequently returns from FDI and portfolio flows are significant capital concentrated in the hands of a few compared to remittances which are small funds spread over the hands of large population. While FDI can potentially provide formal, high earning employment for a few individuals with the expectation that the flows should trickle down to the rest, remittances provide relatively lower sources of income for a much larger proportion of the population and potentially leads to more efficient resource allocation as private agents naturally work to maximize individual utility. Therefore, the capacity of remittances to alleviate poverty across a wider spectrum of the poor is much higher than the capacity of any other kind of flow to do the same. Migration is an increasing phenomenon in Nepal, particularly among young men (Gurung 2003; Seddon et al. 2002). One out of every 11 Nepali adult is in foreign employment (NLSS, 1997). The people in foreign employment stood well over 1 million in 2004 with a total remittance earning 1 billion USD to the country.

Remittance thus has a profound and growing impact on the poverty and resource distribution in the country. The trend is worldwide in developing nations and follows similar pattern. The magnitude and nature of inward remittances to the Caribbean has changed significantly over the past two decades. At the end of 2005 these transfers amounted to US\$ 6.4 billion (Orozco and Hamilton, 2006) emerging as the second largest source of foreign finance for the region after private capital flows. Measured in terms of GDP, the Caribbean is identified as the leading recipient region, increasing from 3% in 1990 to 13% at the end of 2002 (World Economic Outlook, 2005).

2.3 TREND OF MIGRATION AND REMITTANCE FLOW TO AFRICA AND ITS DEVELOPMENT

For more than half a century, there have been heated debates on the sources of economic growth of developing economies (Lewis, 1954: Solow,1956: Chenery and Strout, 1966:Denison,1967: Myrdal, 1968: Harris and Todaro,1970: Fields, 1980: Romer,1986: Lucas, 1988: Barro, 1991 and Easterly, 2001) The perceived sources of economic growth have ranged from surplus labor to physical capital investment and technological change, foreign aid, foreign direct investment (FDI), investment in human capital, increasing returns from investment in new ideas and research and development. Other researchers such (Owens 1987; Kaufmann, Kray and Mastruzzi 2006) have also focused on the impact of institutional factors such as the role of political freedom, political instability, voice and accountability on economic growth and development. For many developing countries however remittances represent a major part of international capital flows, surpassing foreign direct investment (FDI), export revenue, and foreign aid (Giuliano and Ruiz-Arranz, 2005). A World Bank

(2006) study suggests that recorded remittances have grown faster than foreign direct investment, or official development assistance.

Consequently, recent financial flows into developing countries in the form of remittances are receiving increased attention because of their size and impact on the economies of recipient countries. According to Gupta et al. (2007), estimated official remittances reached a total of \$188 billion in 2005 which is twice the amount of development assistance received by emerging economies. Informal and unreported remittances could even easily add another \$94 billion to the above figure. Between 2000 and 2005, remittances to Sub-Saharan Africa (SSA) rose 53% to nearly \$7 billion in comparison to 81% increase for all developing countries as a group. In terms of remittances to GDP, the top ten countries are: Lesotho(38%), Cape Verde, Guinea-Bissau, Togo, Senegal, Sudan, Swaziland, Comoros, Mali, and Nigeria which is 5% of her GDP. Despite the increasing importance of remittances in total international capital flows, the relationship between remittances and growth, especially in SSA, has not been adequately studied and fully explored to leverage on to robe in the other benefits that developing countries can tap from inward remittances.

2.4 REASONS FOR REMITTANCE

There are two possible motives why migrants might remit money to home country. The first motive may be for altruistic reason, i.e. when the economic condition in the migrant's home country is bad, money is sent as compensatory transfer between family members and they are motivated by welfare and insurance considerations (Lueth and Ruiz- Arranz, 2006). This means that as long as there is migration, there will be remittance. The second motive of

remittances is to take advantage of investment opportunities when the economic condition in the home country is healthy. In about two-thirds of developing countries remittances are mostly profit-driven and increase when economic conditions improve back home (Giuliano and Ruiz- Arranz, 2006). Thus remittances are pulled both by micro and macro factors.

2.5 LEVERAGING THE IMPACT OF REMITTANCES ON AFRICA

Increasingly Africans living and working abroad are being called upon to take a more active role in the development of the continent. Some African countries have even established Diaspora forums to engage the experience and financial assistance of these expatriates and migrants. An often overlooked fact about the African Diaspora is that the amounts of money migrants send home to relatives and friends each year generally exceed the amount of money given to Africa through official development aid. Estimates of the average total annual value of remittances to Africa vary between \$ 32 and \$40 billion. (These exclude the informal network of money transfers, which is significant. If taken into account this figure could increase by as much as 50 %.) Official development aid is around \$25 billion per annum (according to promises issued during the G8 Summit). Along with migration, the volume of migrant remittances to developing countries has been growing at a considerable pace. In some cases, remittances have become an important and stable source of external finance: they have allowed some countries to gain international credit worthiness or maintain macroeconomic stability (OSCE, IOM and ILO, 2006)

Remittances are a critical lifeline for families and entire communities across Africa, especially in the aftermath of the global crisis Ratha said “The fact that remittances are so

large, come in foreign currency, and go directly to households, means that these transfers have a significant impact on poverty reduction, funding for housing and education, basic essential needs, and even business investments. The majority of remittances to Africa are used to purchase daily necessities. The study reports that remittance recipients do save, but often do not use the formal channels. Bringing these funds into the formal financial system can increase their impact dramatically. Such consumptive or productive investments usually stimulate local markets. Nevertheless, remittances development impacts are highly contextualized and depend also upon the opportunities offered by specific political and legal frameworks. This is why it is fundamental to understand remittances characteristics, their impacts on beneficiaries and the political and legislative framework in which such transfers occur, in order to create enabling environments for remittances and harness their potential development impacts

In spite of the significance of inward remittances to the growth and development of countries governments do not have total hold of these remittances to aid them in their planning because various channels are used to send these monies home. Previous studies have revealed that about 50% of these monies come in through the informal sector and are therefore not captured by government. Studies carried out in Angola said “although 58% of respondents in Angola claimed they receive remittances through banks, it is unlikely that these remittances come from Portugal or South Africa, as interviewees in both countries rarely use banks products to remit. In Angola despite the significant growth and competition within the banking sector, in 2006, only 5.8% of the population had a bank account (KPMG, 2007:5).

This is the gap this study seeks to explore: Can the banks increase their customer base using inward remittance as a tool.

2.6 TRENDS IN MIGRATION AND REMITTANCES IN GHANA

In Ghana, just like in Africa and other parts of the world, the migration trend and its pull effect on remittances are not different. Inward Remittances, the private unrequited transfers sent in by individuals who are mainly engaged in blue color and other jobs reside in these foreign countries without the requisite permission and therefore they cannot deal directly with banks. They remit money home through Money Transfer Agents such as Western Union, Moneygram, Vigo money transfer, Money Systems International, Express Funds International and a host of others.

These monies even though are channeled through banks , Post offices, Filling Stations and Shops, more than 40% of these monies are sent to the rural areas and they are accessed by individuals who do not have any formal relationship with the banks (studies conducted by C.M. Bofo, 2009). Large populations of Ghanaians live outside Ghana and their contribution to the Ghanaian economy and to individual households is increasingly significant. Mass emigration in the 1970s and 1980s has helped to sustain a steady flow of migrants up to the present and created a large diaspora that spans Europe, North America and elsewhere. This has shaped remittance flows, the volumes of which are difficult to measure accurately.

2.7 HISTORICAL PERSPECTIVE

The Ghana migration story is dynamic and complex with the trend deeply rooted in historical antecedents. Well before the colonial era, the movement of people was a way of life in Ghana, the rest of West Africa, and Africa as a whole. Intraregional movements were dominated by traders, fisherman, and nomadic farmers. Trans-Saharan trade routes linked the region to other parts of Africa and permitted the interregional movement of traders, scholars, and religious clerics.

When Europeans arrived in the 15th century, they disrupted the traditional patterns of trade and seasonal movements with the slave trade. The slave trade grew steadily from its inception in the 15th century to its peak in the 18th century. An estimated 12 million Africans were transported across the Atlantic to the Western Hemisphere from 1450 to 1850. According to the 1931 census, there were 289,217 foreigners living in the Gold Coast at that time (see Table 1) The majority of the migrants came from French colonies — most of them from Burkina Faso. Nigerians accounted for over 95% of the migrants from the British colonies. Up to the late 1960s, Ghana was a country of net immigration, but economic deterioration led to the expulsion from Ghana of around 250,000 mainly West African migrants between 1969 and early 1970 by the military régime of the time. The emigration of Ghanaians started after 1965 and was sustained by continued economic decay throughout the 1970s until the mid-1980s. The mass emigration led to the establishment of a diaspora that spans Europe, North America, the Middle East and Asia. Regional migration also intensified, particularly to Nigeria and Ivory Coast. A very wide spectrum of people emigrated – initially skilled workers and professionals – but by the early 1980s this included many unskilled and

semi-skilled workers (Anarfi and Kwankye et al. 2003). This is thought to have had a negative effect on Ghana, because the migrants took capital away with them, and their absence destroyed the trading nexus that migrants had established in Ghana (Brydon 1985: 564).

2.8 THE NEW DIASPORA: GHANAIS IN AFRICA, EUROPE, AND NORTH AMERICA.

The mass expulsions of Ghanaians from Nigeria in the first half of the 1980s set the stage for a change in the West African migration order for years to come. Not wanting to return to their country of origin, Ghanaians expanded their migratory view to include 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

2.9 CHARACTERISTICS OF GHANAIAN MIGRANTS

The characteristics of Ghanaian migrants in recent times pose a big challenge to the country in terms of development. First, in terms of age, the young population is more inclined to migrate than the older population.

Table 2.1**Characteristics of Ghanaian Migrants**

| Age distribution of Ghanaian migrants in Europe The Netherlands | | In England and Wales | |
|---|------|----------------------|-------|
| Age | % | Age | % |
| 0-14 | 32.8 | 0-19 | 10.2 |
| 15-29 | 17.1 | 20-34 | 27.2 |
| 30-34 | 41.5 | 35-44 | 30.3 |
| 45 and above | 8.6 | 45-64 | 28.9. |

Sources: Twum-Baah (2004)

Another trend is the increasing number of professionals and highly skilled number of Ghanaians that are joining the migration train. Even though traditionally both skilled and unskilled Ghanaian have migrated, recent trend in the numbers of skilled Ghanaians emigration (the so called brain drain) have become a source of concern for policy makers. The trend is generally skewed towards certain important categories of skilled professional, particularly health professionals, and more recently engineers, particularly petrochemical engineers. Statistics from Organization of Economic Cooperation for Development (OECD) countries indicate that Ghana has a skilled expatriate rate of 45.65%. In terms of their skill

characteristics 31.2 % (52,370) of the population who are 15 years and above are highly skilled, this represents 27.6% of total Ghanaian emigrant population in OECD countries. The medium skilled and low skilled constitute 38.1% (64,005) and 27.2% (45,693) respectively, while the remaining 3.6 % (5,995) are without any known skilled. Even though, the brain drain has led to shortage of these personnel in the country for instance, according to some estimates about 2,972 locally trained nurses left Ghana in 2002 compared to 387 in 1999 (Buchan et al 2005). The main destination of these Ghanaian nurses as shown in the table 2 below is the United Kingdom where no additional qualifications are needed to practice.

Studies by (Addison et al 2004) have however shown that there has been a corresponding increase in remittance volume to the country. Similar trends have also been observed for doctors. The main reason for the increased migration of professionals especially those in the health sector are low salary and remuneration, limited career prospects, concern about governance and management of the health system and concern about the poor retirement benefits and prospects.

Table 2.2: Brain Drain of Health Workers, 1999-2004

| Main Cadres | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | Total |
|-----------------------|------|------|------|------|------|------|-------|
| Doctors | 72 | 52 | 62 | 105 | 117 | 40 | 448 |
| Pharmacists | 49 | 24 | 58 | 84 | 95 | 30 | 340 |
| Allied Health Workers | 9 | 16 | 14 | 12 | 10 | 8 | 69 |
| Nurses/Midwives | 215 | 207 | 235 | 246 | 252 | 82 | 1237 |

Source: Quartey 2006

According to Adams, (2003) the brain drain could not be all evil, he argues that within the last decade an increasing amount of attention has focused on the relationship between international migration, brain drain, and economic growth. Since education has often been cited as a major determinant of long-term economic growth, conventional wisdom has typically argued that the international migration of people endowed with a high level of human capital - the so-called "brain drain" - is detrimental for the country of emigration.' According to this argument, the large-scale departure of highly-educated workers from developing countries tends to depress income levels and long-run economic growth rates in the developing world.

This conventional view, however, has recently been challenged by the following argument. In a developing economy with a limited growth potential, the return to human capital is likely to be low. This in turn would lead to limited incentive to acquire education, which is seen as the engine of economic growth. However, since the world at large values education, allowing migration of the "best and brightest" from a developing country may actually increase the incentive to acquire education. Since only a small fraction of educated people in a specific country would migrate, this would encourage the average level of education of the remaining population to rise.

While Ghanaian migrants within Africa are a significant source of remittances, the majority of remittances are sent to Ghana from outside Africa. Migration outside West Africa has been sustained by the lack of economic opportunities within the region, and growing disparities with developed countries. The fact that there is now an established Ghanaian

diasporas means more Ghanaians have contacts and social ties with people outside the region. Networks between resident Ghanaians and those in the diaspora have helped facilitate remittance-sending as well as further migration. As Peil observed, emigration streams are growing, almost regardless of Ghana's economic recovery, because the basic patterns have been established and contacts are available (Peil 1995: 358). There are large Ghanaian communities across the EU and North America in particular, and consequently remittances come from a diverse range of countries. The current number of Ghanaian emigrants is uncertain, but several estimates have been made. A recent estimate of Ghana's migration arrived at a figure of three million Ghanaians abroad, compared to a resident population of about 20 million. In the 1990s it was estimated that 12 % of the population was living abroad and that Ghanaians form the largest Sub-Saharan African population in the EU (Akyeampong 2000: 2001). Peil (1995:357) points out that there was "no major emigration stream" for Ghanaian migrants, and this remains true, as indicated in statistics published by Eurostat (2000). Ghanaian migration flows were initially concentrated on the USA and UK, but there is now also a large Ghanaian population in Canada – by the mid-1990s an estimated 20,000 in Toronto alone – and in Germany, Italy, the Netherlands and Canada at large. About 3 million Ghanaians live abroad, Akyeampong (2000: 2001) quotes an estimate of the number of Ghanaians in the US by the mid-1990s in the range of 200,000 and 400,000. The British Home Office states that 21,485 Ghanaians arrived in the UK in the decade 1990–2001, but this figure is difficult to substantiate (Anarfi and Kwankye et al. 2003: 8).

As well as the number of migrants and their country of residence, remittances are influenced by the characteristics of migrants and the original purpose of their move. 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: 2001) 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 remittance-sending (including the method used to remit).

2.10 MIGRANT REMITTANCES

There are three main sources of data on migrant remittances in Ghana. The Balance of Payment statistics provide data on remittances under the label "private unrequited transfers." The second source of remittance focuses on transfers through the banks and non-bank financial institutions. Finally, the Ghana Living Standards Survey (GLSS) also provides some information on remittances into the country. The first two sources capture only transfers through the formal or official channel and this underestimate the volume of remittances because migrants also use informal mechanisms to remit. Indeed some estimate that the amount of remittances going through the informal channel exceeds those through the formal channels.

Nonetheless migrant remittances have assumed increased importance in developing countries recently in view of their increased volumes. The IMF (2001) reported that migrant remittances are increasingly becoming a constant source of income to most developing countries with a doubling of annual remittances between 1988 and 1999. Indeed with remittance inflow at \$ 175 billion per annum, international remittance to developing countries is now about twice the official development assistance (ODA) to developing countries (Adam, 2007). Interestingly studies have found that remittances are more stable compared to private inflows and ODA (Sander, 2003). Following this global trend, migrants' remittances from Ghanaians abroad have increased dramatically and have become a useful source of income for many Ghanaian households.

Data from Balance of Payment statistics from the BoG (see table 2.2) indicates that the level of private unrequited transfers increased from \$201.9 million in 1990 to US \$1,017.2 million in 2003 (Addison, 2004). As will be discussed below, these figures are only “a tip of the iceberg” as many analysts believe that remittances through informal channels are as higher as those passing through official channels.

Table 2.3 Official, Private and Total Transfers: 1990-2003

| YEAR | Official Transfer | Private Transfer | 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: Addison (2004)

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. 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. (Addison, 2004)

2.11. ESTIMATES ON THE VOLUME OF INFORMAL (UNRECORDED) FLOWS TO GHANA

The importance of remittances as a source of foreign exchange is widely acknowledged in Ghana but there is less agreement on the volume of remittance flows coming into the country. The Bank of Ghana is one of the few national banks in Africa to collect statistics on remittances, which it requires from registered banks and transfer agencies. The estimates of formal remittances made by the Bank of Ghana are higher than those given in the IMF's Balance of Payments (BoP) statistics and the World Bank's Global Development Report (GDR) (which uses statistics derived from the BoP data). None of these data sets take into account informal remittance flows, which are likely to be substantial. The Bank of Ghana estimates that informal flows are at least as high as recorded flows (Addison 2004: 6). Preliminary findings from Mazzacato, van den Boom and Nsowah-Nuamah (2004) of the Ghana Transnational Networks research programme in Amsterdam indicate that as much as 65% of total remittances may be sent informally. In contrast, a study by Anarfi and Kwankye

et al. (2003) suggests that the majority of migrant transfers are made through formal routes, “with a significant positive relationship between the frequency of remitting and likelihood of using a formal channel”.

Even though the volume of private remittances has increased over the years, there has also been an increase in the amount of transfers channeled through official process. A number of reasons account for the increasing trend of recorded private inflows.

1. Transfer costs have reduced significantly over the years due to the proliferation of money transfer agencies, encouraging more people to use formal transfer channels (Quartey, 2006). Western Union, Moneygram, Vigo, Express Funds and a host more.
2. The liberation of the economy and subsequent easing of reporting requirements by the BoG has led to an increase in the number of banks and non-banks engaged in international transfer activities (Addison, 2004). Other writer are however of the view that recent changes in the reporting rules are more stringent and this has reduced the incidence of under-reporting of flows by banks and other transfer agencies
3. The financial sector reforms that started in the late 1980s led to increased trust in the formal financial institutions and thus the increased amount of recorded transfers. (ibid)
4. Technological advancements especially the use of the internet has reduced the transfer duration through formal channels as well as the uncertainties (for example the possibility of monies going missing).

A survey by the USAID reveals that about 66% of transfers sent through official channels are received within twenty-four hours.

2.12. CHANNELS FOR REMITTANCES

Previous studies have shown that in Asian countries and especially in Bangladesh between 1990-1991 and 2003-2004 about 2.95 million people have migrated to different countries of the world for overseas employment (Bangladesh Bank, 2004). The earnings of these people especially remittances were an important source of foreign exchange for the government of Bangladesh.

In US dollar terms, the growth of workers' remittances was 32.89% in 2001-2002 compared to 6.8% in 1997/98. During the financial year 2002-2003, total remittance was US\$ 2,782.20 million compare to US\$ 2,529.80 million during the same period of the previous fiscal year - a growth of nearly 10%. A look at the annual development budget in Bangladesh shows that remittances accounted for 12.8% in 1977-78, increasing to 49.3% in 1982-83, after which this ratio ranged from 30-50%, In more recent years (2002-2003), the volume of remittances (Taka 177,288.10 million) sent by these migrant workers to Bangladesh outweighed the annual development budget (Bangladesh Bank, 2004 and Murshid, et al., 2001). Workers' remittances to Bangladesh now constitute the single largest source of foreign exchange earnings and play a crucial role in reducing the foreign exchange constraints and supporting the balance of payments, enabling imports of capital goods and raw materials for industrial development, Moreover, it increased the supply of savings and investment for capital formation and development. It also has been an important source of disposable income for thousands of migrant households mostly scattered over the districts. At micro level, remittances have resulted in improved living standard of workers' families and helped in improving the income distribution in favour of proper and less skilled workers.

Despite such importance of remittances in Bangladesh economy, there is no systematic information on the magnitude of remittances sent through different channels and less knowledge about the exact number of people working abroad. Information on remittances as available from the official source would seem to provide an underestimation of the actual flow of remittance from national working abroad. Developing nations will need policy recommendations that will as much as possible get inward remittances through the formal sector to give governments a near accurate account of the foreign inflows into their countries, and an added benefit of introducing many more people especially the rural population to the formal sector,

Migrant workers generally transfer their remittances either through formal or informal channels. The former principally includes drafts, telegraphic transfers and postal orders, channeled through banks or post offices. The prominent informal mode in Asia and especially Bangladesh is the Hundi system – a method that bypasses the banking system to transfer money or goods through friends, relatives or trusted agents, In other words, informal channels refer to various means and ways of sending remittances in cash or kind into Bangladesh with no official approval or record. These clandestine flows do not appear in government statistics nor do they figure in government policy making.

With the formal channel, the sender in the host country demands a draft from a bank or from an exchange house and sends it to the receiving party in Bangladesh through regular postal service or other means. The bank or the exchange houses in the destination country charges a commission, which varies from bank to bank for their service. So the transaction cost of the

sender is the service charge plus the postal expenses. The receiving party upon receipts of the draft deposits it in the local bank where he/she has an account; the local bank with clearance from the foreign exchange branch in the head office makes payment to the holder of the draft. Clearance of the draft can take between 1-14 days depending on whether the draft was made in an exchange house or a bank.

On the other hand migrants or their friends and relatives bring foreign exchange without declaring it to the appropriate authority. This foreign exchange can either be sold to black market dealers in foreign exchange or kept for personal use. This is the main method of informally transferring money into Bangladesh as well as other Asian countries. The Hundi operator/ agent is in fact an illegal foreign exchange dealer. The sender gives the Hundi operator in the foreign country the currency of that country or dollars or pounds or any acceptable currency by the operator while his relatives or agents in Bangladesh receive an equivalent amount of money in Taka. The agent in Bangladesh is contacted by telephone, fax or e-mail by the Hundi agent in the host country and the sub-agent pays the money to the relatives of the sender. The Hundi rate is usually 1-2% higher than the official exchange rate, and again the sender saves money by not paying commission charges. The Hundi agent in the host country or in Bangladesh does not charge a commission. They make a profit by selling dollars in the black market at a higher rate than the rate paid. Unfortunately smuggling seems to be closely linked to Hundi business. A Bangladeshi business cum smuggler may need dollars and is willing to pay more than the official rate. He pays the Taka here and receives the equivalent dollars in other Europe, Singapore, buys goods, brings these back, sells them

in the local market for profit. Thus remittance money eventually arrives in Bangladesh in the form of smuggled goods.

Ghana, another developing country also has a similar channel of informal transfer system. It is prevalent especially where the sender wants the beneficiary to receive the remittance in foreign currency.

Transfer of migrant remittances through informal (unrecorded channels) is more pronounced in countries with relatively underdeveloped financial systems (ESRC, 2005). Thus many researchers are of the view that a large chunk of migrant remittances to Ghana are sent informally. Anarfi et al (2000) further suggest that only 5% of total remittances to Ghana are sent through official channels. Others (more plausible) estimates suggest that as much as 65% of total remittances may be sent informally (van de Boom and Nsowah- Nuamah, 2004). Even though some studies (for instance Kwankye et al, 2003) conclude that majority of transfer systems used by Ghanaian migrants are foreign exchange bureaus, money transfer agencies, courier services, cash –in-hand services, work by Tiemoko (2004) suggests that migrants who remit less frequently are more likely to use informal channels. The study further indicate that the elite remit less frequently because they travel back to Ghana more frequently and thus tend to remit through “cash-in-hand”. However without comprehensive adequate and accurate micro – level data on remittances, it is very difficult to reach a definite conclusion on the volume of informal remittances, the preferred channel of informal transfer or the motive for using these channels. Some have suggested that the GLSS would be ideal for collecting such data. However, as noted earlier the GLSS is not intended to collect data

on remittances and thus hardly provide any information on how remittances are transferred. By this extension the studies seeks to find out whether through Inward Remittances people in the informal sector could be robed into the formal sector for further development and growth through cross selling of benefits of the bank.

2.13. USES OF MIGRANT REMITTANCES

Even though there is limited data on the volume of remittances into Ghana (especially through informal source) there is some clarity on the uses on migrant remittances into Ghana. Migrant remittances in Ghana are generally split between consumption and investment. Caldwell (1969) found that migrants spent remittances to pay for schooling and wages of farm labourers, and to develop small businesses. A survey conducted by the Sussex Centre for Migration Research in Ghana, particularly in the Ashanti Region in March 2003 identifies three main uses to which remittances flows are applied which confirmed the findings of Caldwell (1969). It found that remittances are used to satisfy individual needs, support social projects in migrants' originating communities and for investments.

A recent study by the USAID also confirms these findings. The survey provides further insights into the specific forms of consumption needs and investments into which Ghanaians households put the migrant's remittances.

Table 2.4 Specific uses of Remittances

| Use | Percentage of respondents |
|-----------------|---------------------------|
| Food | 74 |
| Education | 63 |
| Clothing | 55 |
| Housing | 36 |
| Business | 29 |
| Savings | 16 |
| Financial | 10 |
| Utility bills | 6 |
| Mother's upkeep | 5 |

Source: USAID 2005

2.14. REMITTANCES, ECONOMIC GROWTH AND INCOME DISTRIBUTION

The importance of remittances to the Ghanaian economy has been studied both at the micro and macro level. Economists gauge the macroeconomic importance of migrant remittances through the savings, investment, economic growth, consumption, poverty and income distribution. Remittances into Ghana provide foreign exchange and contribute to raising national savings and investment. Estimates of the Bank of Ghana indicate that remittances

place second after export as the major source of resource inflow into the country (Addison, 2004). In addition, a significant portion of migrant remittances are channeled into investment. Remittances for such purposes are channeled into small- scale enterprises (Addison, 2004).

Migrant remittances appear to have the most impact on the welfare of recipients. As noted in table 2.2 above, many remittance receiving households in Ghana spend at least some part of the monies received to meet consumption needs. The welfare effects of remittances in Ghana have been very positive, Litchfield and Waddington, (2003) on Ghana also examined the welfare outcomes of migrants and non-migrants in Ghana using GLSS data and found that migrant households have statistically significantly higher living standards than non-migrants though there appears to have been a slight decline in the extent of migration over the decade. Remittances improve the poverty status of receiving households by reducing the level, depth and severity of poverty in Ghana (Adams 2006; Quartey 2006). Other studies that have analyzed remittances but in a different context provide an explanation for self-interest motivation to remit. As far as the migrant is concerned, the family is an informal financial institution with an implicit financial contract, He distinguished three phases of this financial contract. Phase one is where the family invests into the future migrant. Phase two is where the migrant remits back home to pay for the implicit loan and phase three is where he migrant invests their accumulated capital home before their return. Following from these theoretical considerations, two main reasons for remitting earnings home are identified. The first and most common motive to remit is simply that the migrants are concerned about the welfare of the people left behind, parents, and spouse. Children and other relatives in general

the second is remittances sent to either invest in the native country or repay previously borrowed funds.

2.15. MACROECONOMIC DETERMINANTS OF REMITTANCES

In contrast to the microeconomic literature, the theoretical literature on the macroeconomic determinants of remittances is not comprehensive and concise. This notwithstanding, two basic sets of determinants can be identified. One set relates to the basic determinants of savings (when remittances are for altruistic purposes) while the other consists of the basic determinants of portfolio (when remittances are for investment in native country). In the second case, considerations of relative prices and special incentive policies followed in the labour-sending countries are very important in deciding whether to remit or not.

2.16. FACTORS THAT TEND TO AFFECT REMITTANCES

Russell (1986) specifies the number of migrants and their income level, the economic situations of the origin and the host country, exchange rates, interest rate differences between the host country and the country of origin, the potential political risks at the origin country and the remittance infrastructure as among other macroeconomic factors affecting remittances. Abdel-

Rahman, (2003) provides an elaborate list of risks grouped under three subheadings that could also affect remittances. They are political risk variables such as bureaucracy, corruption, democratic accountability, ethnic tension etc. The second stand of risk that could

affect remittances is financial risk such as current account as percentage of exports of goods and services. Debt service as a percentage of export of goods and services, foreign debt, international liquidity etc. and the final set of risk relates to economic risks. These include among others, budget balance and current account as percentage of GDP. The number and composition of migrants. The size as well as the composition of migrants obviously would determine the quantum of remittances that may come through. Increases in the number of migrants are expected to have the most direct impact on remittance (Swamy, 1981; Straubhaar, 1986). The composition of migrants such as the mix between temporary and permanent workers and between skilled and unskilled are also expected to affect remittances. Temporary workers it is believed remit a larger share of their income than permanent workers in the same manner low-skilled workers also on the average remit a higher proportion of their incomes. In fact, it has been argued by some analysts that in the more mature markets “remittance decay” may set in, especially if temporary or undocumented workers are granted legal status. It is also true that the longer a migrant stays abroad the weaker the ties between him and the home country becomes, meaning that the natural propensity to remit tend to decline with the length of a migrant’s stay in a host country. In general, the economic situation in both the country of origin and host country are expected to have significant influence on the flow of remittances. Given that migrants remit from their income, the overall economic situation in the host country influences the migrant’s ability to remit while the overall economic condition back home would influence the exigency of remitting. With respect to the home country’s economy some authors like El-Sakka and McNabb, 1999; De la Briere et al., 2002 argue that remittances tend to be counter-cyclical. That is, remittances following a recessionary or bad period are usually higher. Conversely,

Higgins et al. (2002) and Aydas et al. (2004) argue that remittances flows are rather procyclical. That is, they decrease following a bad economic period.

2.17. GOVERNMENT POLICIES

Given the vast potential of remittance in influencing economic growth and stabilizing the exchange rate of developing countries, policy makers both in the sending and receiving countries have put in a lot more efforts to attract large inflows of remittances through the official channels. According to the World Bank (2006), these policies include tax exemptions for remittance income, improved access to banking services by recipients, incentives to attract investments by the diasporas, access to foreign exchange or lower duties on imports, support for the projects of migrant associations (Hometown Associations) and help for migrants in accessing financial systems in the remittance-receiving countries and include policies affecting access to banks, access to foreign exchange, support to migrant groups, and cooperation with receiving countries in the remittance –source countries. The general macroeconomic environment prevailing in a particular country is described by the inflation, exchange rate, interest and growth rates. A migrant may be concerned about these variables in the home country as well as how they compare to host country's environment for his self-interest.

The rate of inflation generally raises the nominal value of goods and services and as a result places higher demand on money. Inflation in home country may be interpreted by the migrant as symptom of macroeconomic instability and thereby decrease the inflow of remittances particularly for investment (Glytsos1988 and Elbadawi and Rocha, 1992).

Remittances for altruistic purposes may however increase in response to higher inflation if the migrant is concerned about the real effect inflation is having on the family left behind. Inflation has the tendency to erode real income and therefore to maintain the welfare of the migrant's family back home, remittances would have to increase. Conversely, if the rate of inflation in host country is high, the migrant's ability to remit is constrained as there is high demand for money on his part.

El-Sakka and McNabb (1999). Karafolas (1998) and Russell (1992) have identified black market foreign exchange premium and the presence of domestic banks in the host country as some of the macroeconomic factors influencing the size of officially registered remittances. When the domestic currency depreciates against the host country's currency migrants may lower remittances because, given amount of the foreign currency now commands higher value in the domestic economy and vice versa. With respect to the interest rate differential, a positive relationship with remittances is expected on the grounds that some remittances are for investment purposes. Swamy, (1981). Straubhar (1986) and Chami et al (2003) on the other hand argue that there is no relationship between remittances and these variables. Regarding high interest rates as a sign of inefficiencies in capital markets and foreign exchange depreciation as a consequence of inappropriate domestic policies and therefore as a signal of instability, some economist have argued that these variables would have a negative impact on remittances. A paper by Gupta (2005) analyzes the determinants of remittances to India, and finds that the increases in the number of migrants as well as their earnings are responsible for the phenomenal growth in remittances. The paper also finds remittances to be counter cyclical and is affected by the economic environment in the source countries. No

evidence was however found for the inclusion of political uncertainty, exchange rate and interest rate variables in the model as these variables turned out not to be significant.

Schrooten (2006) in his study concludes that remittances are highly persistent and partly explained by changes in income. The performance of the domestic banking sector and the access of the private sector to credit also to play an important role in attracting remittances. Again his study finds that better quality of institutions and better international; integration increase remittances. By extension he showed that the rate of unemployment like the per capita income is not important determinants of remittances. Beside the traditional macroeconomic determinants of remittances, Koksai (2006) finds evidence that the financial infrastructure offered to Turkish migrants play a significant role in attracting remittances. The study singles out the commercial banks and the central bank as playing an instrumental role in increasing remittances into the country. Theoretical as well as Empirical literature have shown that remittances will continue to come through so long as there is migration therefore an increase in the number of migrants is expected to have the most direct impact on remittances (Swamy, 1981; Straubhaar, 1986.)

Now that a lot more remittances are channeled through the formal sector how can all stakeholders of these remittance derive further benefits from them, leverage on inward remittances to better their lots.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. INTRODUCTION

This chapter describes the methodology that is adopted for the study. Inward remittances have become a worldwide phenomenon with its flow coming from a variety of sources which can result in a very large population size. This study however considered its limitations in terms of time, resources and accessibility, and chose the most appropriate research strategy that will be most applicable and reliable. The chapter focuses on the study area, sampling technique and research instrument, method of data collection, pretesting of the questionnaires and processing of the data.

3.2. STUDY AREA

According to USAID (2005) report on private remittances flow to Ghana, Greater Accra has the highest flow of remittances of about 40%, followed by Ashanti 15%, then Brong Ahafo with 12% and Western region with 10% the remaining six (6) regions sharing the 23%

UniBank was chosen for a Case Study for two (2) reasons

- a) The easy accessibility of the researcher to the bank
- b) The fact that uniBank has active operation in the four(4) major remittance destinations in Ghana which have been known to receive 77% of the total remittances to the corridors of Ghana (USAID 2005) it can therefore be considered as a good representative of all operating areas regarding remittances to Ghana.

The study covered all the fourteen (14) branches of uniBank located in Greater Accra, Ashanti, and the Western regions and two (2) Post Offices in Brong Ahafo region who also pay remittances on behalf of uniBank.

3.3. POPULATION AND SAMPLING TECHNIQUES

The target population for this study covered male and female adults (walk-in customers more than 18 years) who received private unrequited transfers through uniBank and any of her sub- agents from within a period of two weeks from the 16th to the 28th of May 2011, targeting 500 respondents.

The study adopted the non- probability sampling approach to the selection of the sample. The purposive sampling method was used to select individuals who visited the bank premises to collect their remittances within the two week period. In effect 430 respondents were spoken with for the study and this covered 86% of the population. According to Fraenkel and Wallen (2000), the larger a random sample is in size, the more likely it is to represent the population.

3.4. DATA COLLECTION PROCEDURE

As earlier on stated, the study covered the fourteen branches of uniBank which are in Greater Accra, Ashanti and the Western regions of Ghana. Twenty-four (24) respondents were selected from each branch, (twelve (12) beneficiaries in a week). This gave 336 respondents from the fourteen branches of uniBank. The two Post Offices selected in the Brong Ahafo Region (precisely Sunyani and Berekum Post Offices) selected forty-seven (47) respondents each within the two weeks.

In each of the unibank branches a desk was created where bank cashier referred remittance beneficiaries to. Their consent was sought for and when they were ready, the subject matter was introduced to them. Those who could read and write were given the questionnaires to answer on their own while the respondents who could not write were interviewed.

Secondary data was obtained from the Bank of Ghana, uniBank Treasury and uniBank Business Intelligence Unit and also Money Transfer Operators (MTOs) which involved daily, weekly and monthly collated figures on remittances.

3.5. RESEARCH INSTRUMENT

The study used both questionnaires and interview schedules for data collection. The interview schedule was used for respondents who could not read and write on their own. The researcher deemed it appropriate to use the questionnaire and interview schedule because respondents had to answer a number of questions with specific answers in majority of them. The instrument contained 26 questions with both open and close-ended types. The close-

ended questions demanded for specific answers while the open-ended gave them the opportunity to explain.

The first three items sought information about the biographical data of the respondent. This included items such as age, sex, marital status and occupation. The second part contained the nature of inward remittances, incentives that influence remittances and the mechanisms for sending them. Lastly the questionnaire covered questions on the socio-economic impact of the remittances on the economy and the bank's customer base

3.6. RESEARCH DESIGN

In order to establish whether remittances which are routed through the formal sector of the economy could be a drive to increase the customer base of banks, a large number of customers as well as their views, opinions and practices would be considered. As a result the descriptive survey type of research was selected for the study. As a tool for gathering data at a particular point in time, the survey method served the purpose of describing the nature of existing conditions that can be compared (Cohen and Manion, 1985). Both qualitative and quantitative methods were used to draw from the strengths of each approach.

3.7. SOURCES OF DATA

To be able to effectively find answers to the objectives for the study, data was collected from

both primary and secondary sources. The primary sources involved the 430 remittance beneficiaries that we spoke with across the four selected regions of the nation. The secondary data for the study was obtained from the Bank of Ghana and uniBank and the MTOs.

3.8. PRETESTING

The questionnaires were pre-tested in one branch of the bank by the researcher on six (6) beneficiaries who walked in within a period of about an hour. This helped the researcher to fine tune the questions and modify the questionnaires.

Assistants who supported the field work were taken through the questionnaires and the procedures to administer them. For the Ghana Post officers and the other uniBank officers who worked outside Accra, the researcher trained through telephone discussions and also by sending mails

3.9. DATA ANALYSIS

The quantitative data was coded into the Statistical Package for the Social Sciences (SPSS) and analyzed with percentages and graphs. Qualitative data analysis was used to analyze the qualitative data in the study. The four steps of analytical process were followed; categorization, unitizing data, recognizing relationships and then developing categories. As patterns were revealed among the data and relationships were identified conclusions were drawn.

Reports on annual remittances to Ghana between 2005 and 2010 from the Bank of Ghana gave researcher the ideas about the size or quantum of remittances that come to Ghana.

Documents from uniBank on the volumes of remittances that come to the bank, and the volume of foreign business the bank undertook between 2008 and 2010 suggested how remittances supported her operations. Data on the number of current and savings accounts that were opened at the various branches of the bank at various times were analyzed and compared with field results to enable researcher to draw appropriate conclusions in the study.

3.10 RELIABILITY AND VALIDITY

To ensure that the study is reliable and valid and can stand the test of time Easterly-Smith et al, (2002) proposed these questions:

- a) Will the measure of my study yield the same results on other occasions?
- b) Will similar observations be reached by other observers
- c) Is there transparency in how sense was made from the raw data

Armed with these possibilities the necessary care was taken to ensure that results were reliable and valid, by reducing the different “human factors” as much as possible by training the field officers properly, and the same instrument was used for all the respondents.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSIONS OF RESULTS

4.1 INTRODUCTION

The methodology adopted in conducting this study is based on our main objective which is essentially to investigate whether banks can grow their customer base, targeting remittance customers.

4.2 SIZE AND NATURE OF INWARD REMITTANCES

Indeed previous studies have proofed that remittances from abroad have become a very important component of the Balance of Payment for developing countries. It is even said that for some countries they have exceeded various types of capital flows. Global Development Finance (GDF, 2003) shows that remittances to developing countries are higher than official aid flows and most other types of private capital flows. That is how significant Inward Remittances are to a developing country.

Foreign inward remittances are made up of proceeds from:

1. Exporters
2. Non Governmental Organizations (NGOs)
3. Embassy staff
4. Individual service providers which is the target of our study
5. Others

Records from the Bank of Ghana have shown that indeed remittances have grown significantly from US\$4.6 billion in 2005 to US\$12.4 billion in 2010.

Table 4.1

Foreign Inward Remittances – US\$

| Year | Total | Individual | % of ind. Of Total |
|---------|-------------------|------------------|--------------------|
| 2005 | 4,629,621,611.83 | 1,262,467,069.24 | 27.27 |
| 2006 | 5,676,195,526.34 | 1,345,915,088.74 | 23.71 |
| 2007 | 6,769,068,011.09 | 1,655,786,219.08 | 24.46 |
| 2008 | 8,748,319,117.10 | 1,695,359,548.78 | 19.38 |
| 2009 | 9,491,380,343.66 | 1,576,625,285.70 | 16.61 |
| 2010 | 12,451,650,229.42 | 1,641,678,350.94 | 13.18 |
| Total | 47,766,234,839.44 | 9,177,831,562.48 | |
| Average | | | 19.21 |

Source: Bank of Ghana, (2011)

This is the nature and size of remittances that support the national economy, out of this figure the average contribution from individual service providers, the target category of this study is about 19.21% and therefore cannot be over looked.

4.3 INCENTIVES THAT INFLUENCE THE FLOW OF REMITTANCES

There are several theories to explain the motives behind migrant's decision to send funds to their relatives back home. According to Senanu (2008), the determinants of remittances can be broadly categorized into Micro and Macro determinants. For example an individual's decision to remit home for investment purpose would be largely based on the macroeconomic environment back home, although the decision to invest could be precipitated by the income levels of the family back home. Lucas and Stark 1985 observed that migrants enjoy remitting home because they care about household consumption- pure altruism.

There are three phases of this financial contract:

1. Where the family invests into the future migrant by pledging a family property or secure loan to support his/her trip.
2. Where migrant remits back home to pay for the hidden loan
3. Where the migrant invests their accumulated capital home before their return.

These were confirmed by this study as shown in fig4.1 below.

1. 45.21% of respondents said the purpose of their remittances was purely for the upkeep of loved ones left behind and particularly the investment they might have made in the migrant. (the hidden loan), further confirming our earlier finding ,70.95% of remittances are received by men who most likely would have invested in the migrant

2. The study revealed further that the second major pull of remittances is funds sent home to pay for the education of loved ones. This runs well into both the altruistic and investment motives of sending money back home.
3. Almost 22% of respondents confirmed also that monies sent home are for building projects – migrants preparing for their final return home.

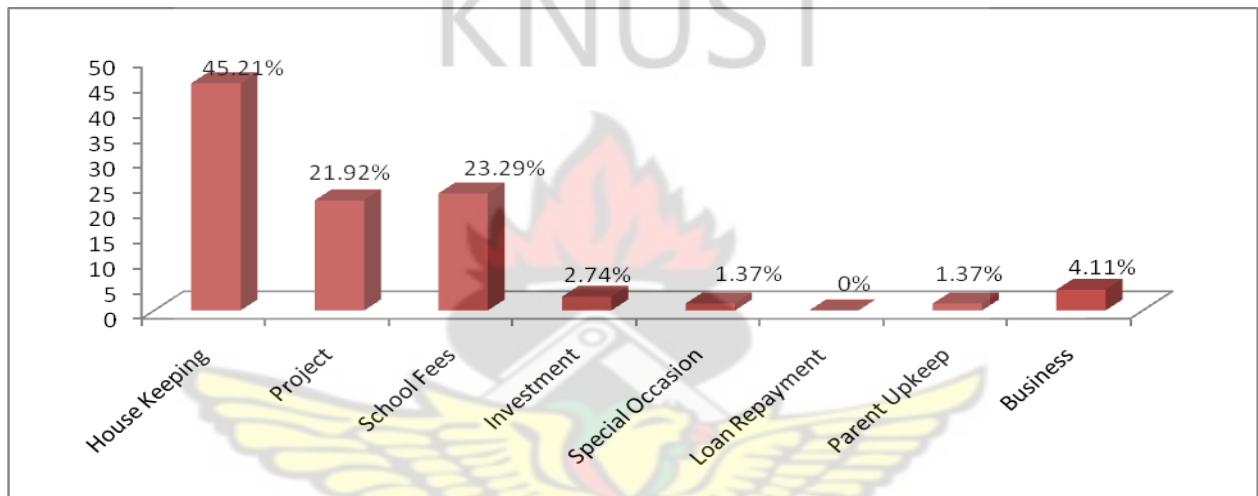


Fig 4.1 The Purpose for which Remittances are sent home.

The empirical study revealed that about 71% of remittance beneficiaries are males. In a typical Ghanaian setting male are believed to be heads of households and therefore make decisions in their homes. Banks can therefore educate and mould this target group to start a relationship with the banks by saving some portion of their monies against rainy day.

28% of respondents of this study fell between the ages of 21-30 years,(see fig 4.2 below) the ripe age to introduce and inculcate the habit of banking to the youth. The study revealed that people in this age category were still in school or learning a trade and the remittances are sent

to them to pay for their education and also for their upkeep. These respondents interestingly form the majority who are not married and therefore we can comfortably say may have less responsibilities. They can afford to keep a small portion of these amounts into savings account with the banks.

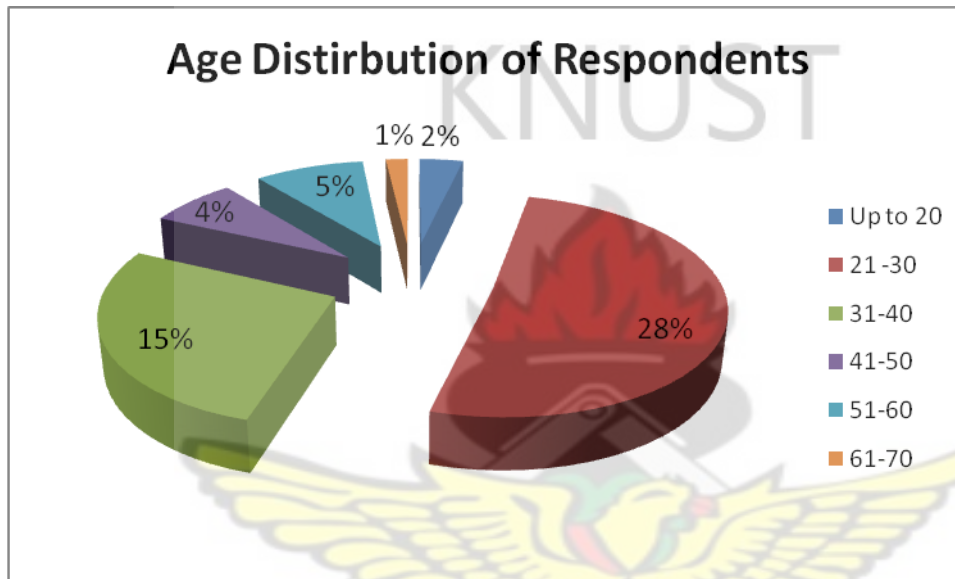


Fig 4.2: Age distribution of respondents

The occupations of the randomly selected sample size revealed an interesting pattern which confirms the literature that - various motives inform the decision of migrants to send monies home. The literature identified altruistic, investment and loan repayments as the main remittance triggers. Remittances are sent to these categories of people for their general upkeep.- altruistic motive. Teachers, students, public servant all said remittances were for their general welfare. Monies sent to the business men and women are basically for investment, but they have chosen to do business with the monies instead of putting the

monies in the bank because they believed their monies will turn around faster than the interest banks will pay on their investments

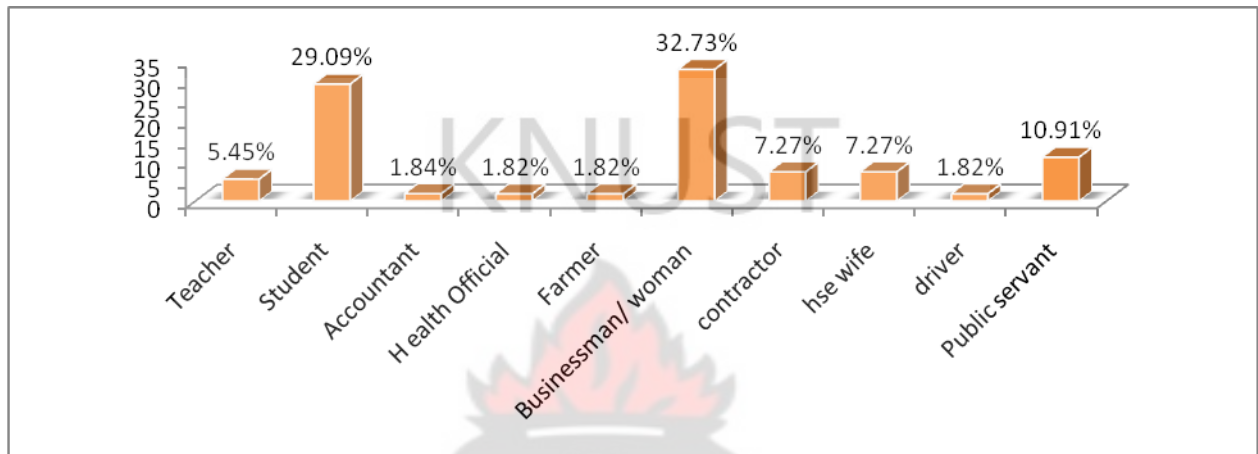


Fig 4.3: Occupation of Respondents

The reason below explains the macroeconomic factors that pull remittances:

1. GDP growth rate can act to attract or retard the flow of remittances into the country.
All things being equal an improvement in the well-being of the people is measured by sustained increases in the Gross Domestic Product (GDP) this will reduce the quantum of remittances for upkeep of relatives. Similar a decrease in the GDP will attract more remittances.
2. Inflation: High inflation in home country may be interpreted by migrant as a sign of macroeconomic instability and thereby decrease the inflow of remittances particularly for investment (Glytsos, 1988 and Elbadaw&Rocha, 1992). On the other hand, remittances for altruistic purposes may increase in response to higher inflation.

The study however observed that even though inflation has come down, remittance frequency and values have increased because nominal values of their monies have eroded as a result of total consumption increase.

3. The Real Exchange Rate: This is the price of one country's currency in terms of another, this has been identified as an important determinant of remittances
4. Interest Rate: Most respondents felt this was not attractive enough. When interest rates are viewed as returns on investment then remittances are likely to increase with an increase in the rates. But if high interest rates are viewed as a symptom of inefficiencies in the capital markets, then it could be argued strongly that high interest rates are likely to have a negative impact on remittances.
5. Ghana Stock Exchange, All-Share Index: This is also a macroeconomic indicator that influences the flow of remittances in the country especially when the motive for remitting is for investment. 2.74% of respondents indicated that their monies were for investments. An impressive performance on the stock exchange can attract investments from a lot of people, so migrants who are concerned about investment may increase their remittances for onward investment on the stock market.

The longer a migrant stays in a host country the lower or less frequent they remit home and this is because the initial bonding between them and relations left behind erodes gradually. After ten years of so journey outside we noticed remittances start picking up again, and the motive here is for investment, because migrant at this stage start preparing themselves for their return home.

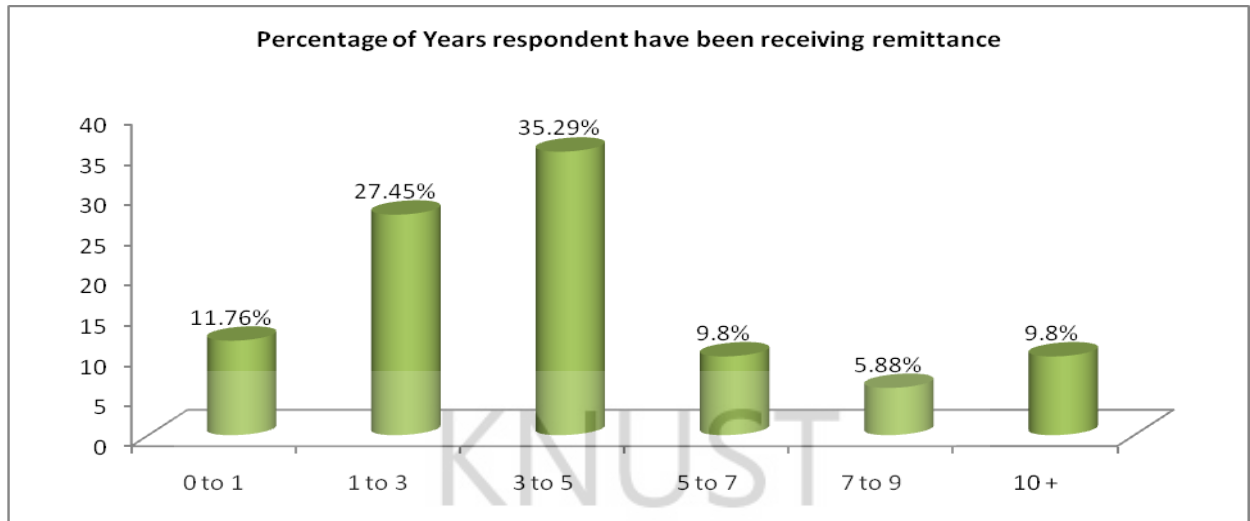


Fig 4.4: Percentage of years respondent have been receiving remittance

Fig 4.5 below which displays the frequency of receiving remittances perfectly matches the motives for sending these remittances home. Beneficiaries whose remittances are for upkeep and who form the majority of recipients are remitted once every month, this is about 53% of respondents.

The second motive which is for investment either in the education of their wards or in business receives once every quarter when the school session begins or capital has to be injected into the business.

Beneficiaries who receive once a week are for special project e.g. building projects for migrants.

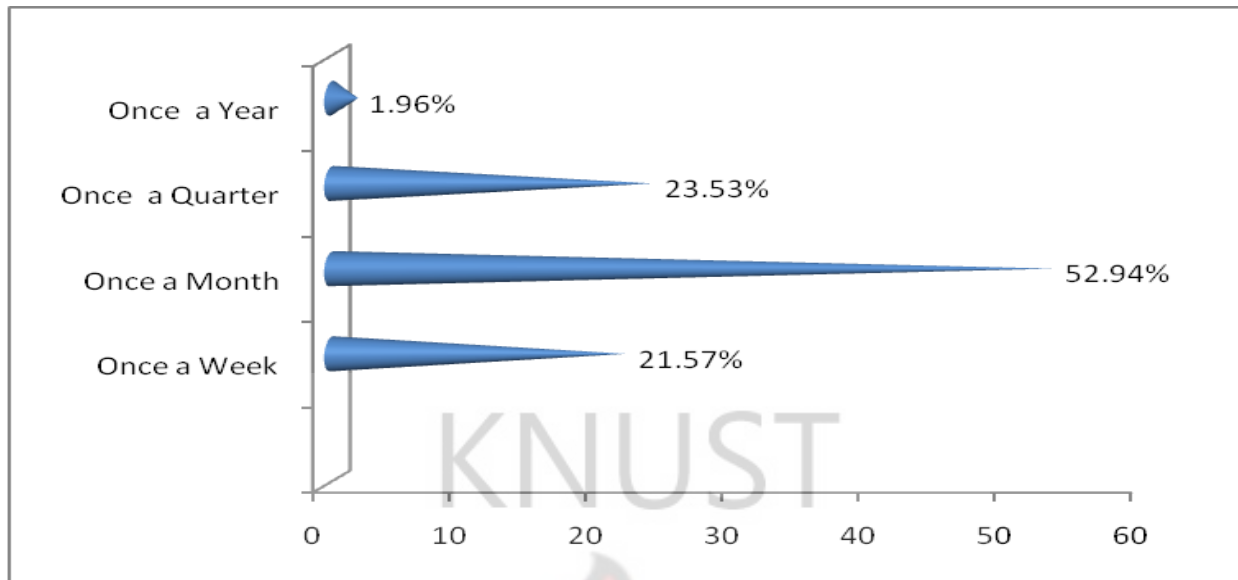


Fig 4.5: Percentage of Frequency of Receiving Remittance

4.4 THE MECHANISMS THROUGH WHICH INWARD REMITTANCES ARE TRANSMITTED

In general migrants remittances transfer channels can be divided into formal and informal channels.

4.5 FORMAL CHANNELS

This is the official channels which utilizes Money Transfer Operators (MTOs) or Remittances Service Providers (RSPs) such as Western Union, Moneygram, Express Funds, Canafricash and others.

Exporters, NGOs, and Embassies who have accounts with the various banks use the Swift. Swift (Society for worldwide interbank financial telecommunication) is an electronic interbank payment system where a sender's bank effect payment to beneficiary bank through

an instant transmission of messages between banks for onward credit to the beneficiary account.

Drafts and Money Orders could be issued by banks as a means of paying remittance beneficiaries.

4.6 INFORMAL CHANNELS

The study revealed that transfer fees, exchange rates, and convenience of accessing service are some of the reasons why migrants remit through informal channels.

This synchronizes the finding of the study that 88% of the times the reason for remitting and the channel that may be used is purely the decision of the migrant. These informal, unofficial, hidden channels are through friends, business associates, self and sometimes even stuck in letters.

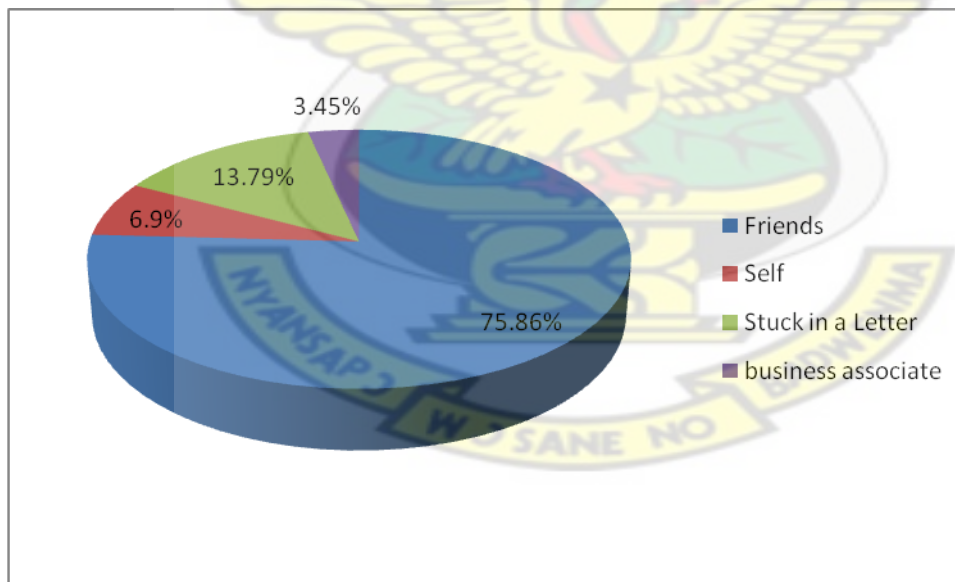


Fig 4.6: Alternative Routes Used by Migrants

The interviews and surveys conducted by other independent experts indicate that the share of informal channels is gradually decreasing because transfer fees are coming down as a result of competition between MTOs. MTOs collaborate with banks and non-bank institutions, Ghana post offices, and Ghana telecom offices to create extensive network for the convenience of beneficiaries. The informal channel is also becoming less popular because a greater number of migrants are opting for safer ways of transferring funds back home.

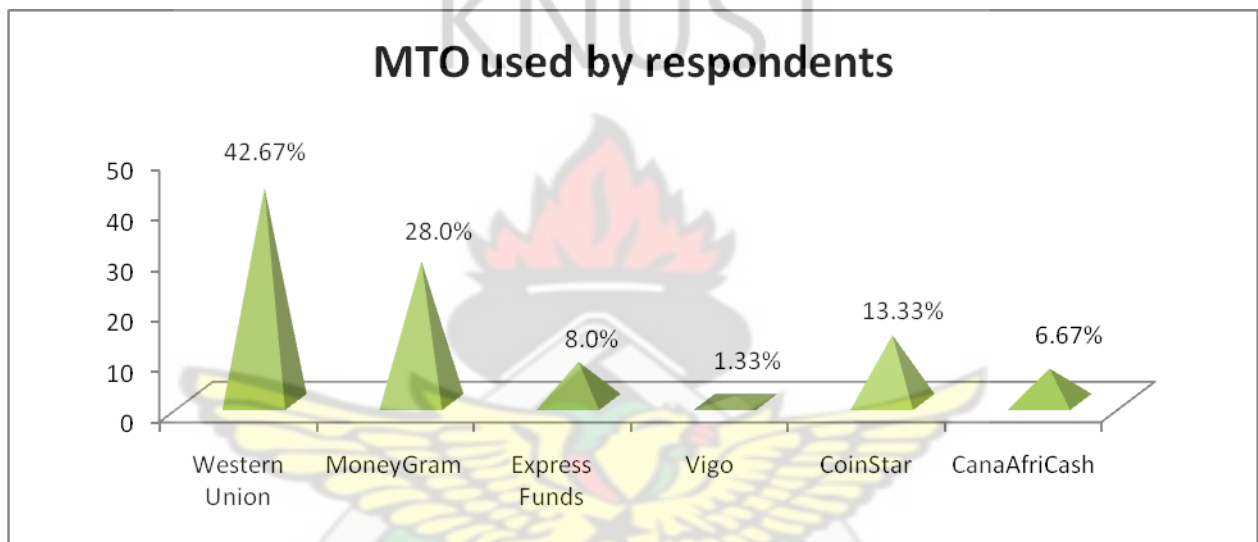


Fig 4.7: MTO used by the respondents

Government policies have reduced to almost zero the differences in exchange rates among MTOs, transfer fee is almost constant because of competition, so now the use of a particular MTO against the other depends on their marketing strategies, the brand name and their visibility and presence both in host and home countries. Western Union is obviously the preferential route now according to the study.

4.7 CHALLENGES OF RECEIVING REMITTANCES

- Bank rate is lower than when you collect from friends or business associates because they pay the hard currency which fetches more Cedis on the black market.

- Paper work as in filling forms at the bank appears too cumbersome especially for illiterates.
- Bureaucratic red tapeism at the bank
- Time spent in queues at the banking halls
- Poor customer service
- Frequent Network problems
- Poor handling of customer complaints

4.8 CHALLENGES OF SENDING REMITTANCESITTANCES

- Commissions and fees charged by agents
- Rate offered is the inter-bank buying, whereas the informal channels deliver the money in hard currency, which offer a better rate
- lack of documentation which prevent sender from using banks and MTOs
- Language barrier

These sometimes result in the use of alternative routes as shown in fig 4.8 below.

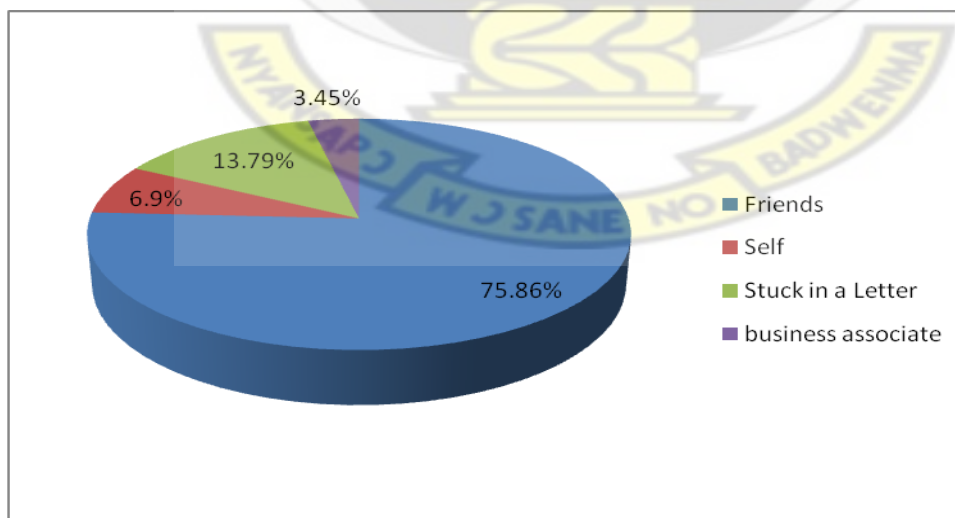


Fig 4.8: Alternative Routes of Remitting

4.9 THE IMPACT OF INWARD REMITTANCES ON THE FORMAL SECTOR OF THE ECONOMY

Interviews with remittance beneficiaries indicated that currently 45.21% of monies remitted back home by migrants to their relatives and close people are mainly spent on consumption and on consumer goods, and are rarely invested into any productive activity, Even though remittances are spent on household consumption these positively affect the economy by propping up the demand and stimulate supply which leads to economic growth. The multiplier effect from investments into the productive and infrastructural sectors of the economy would be much greater. In other words if a greater share of these funds were designated for investment purposes this would facilitate the growth of the economy more efficiently.

Migrant remittances despite mostly being consumed definitely represent an attractive unutilized source of funds for our banks.

4.10 THE CASE STUDY FROM UNIBANK

Table 4.2: Forex Inflows & Outflows by Individual Inward Remittances at Unibank

| Year | Inflow (US\$) | Outflows(US\$) | % by individual. | % by Export | Ave. individual |
|-------|----------------|----------------|------------------|-------------|--------------------|
| 2008 | 88,070,904.27 | 84,006,955.79 | 42.11 | 4.11 | |
| 2009 | 107,626,681.29 | 100,629,469.11 | 22.27 | 0.63 | |
| 2010 | 129,094,306.31 | 152,514,596.15 | 17.17 | 0.16 | |
| Total | 324,791,891.87 | 337,151,021.05 | 81.55 | 4.90 | |
| Ave | | | | | 27.18 |

Source: UniBank Treasury, 2011

UniBank alone (according to table 4.2 above) needed over three hundred and thirty- seven million dollars for her foreign operations between 2008 and 2010. Out of this amount migrant remittances, what has been referred to as individual inward remittances in the study contributed 27.18% on the average. The bank uses these proceeds to support her foreign trade; that is importers who need to pay for goods and services, students who need to pay fees and travellers who need foreign exchange to be able to transact business outside our country. Remember all banks double in this kind of operations. Without these inflows banks would have relied on Bank of Ghana borrowing to provide foreign exchange for all their operations – thus importance of inward remittances to the development of the economy.

4.11 REMITTANCE IMPACT ON BANKS CUSTOMER BASE

The study revealed in table 4.3 below that four hundred and eight thousand one hundred and thirty eight (408,138) individual transactions were accessed by customers who walked in to

pick remittances from various money transfer platforms like Money Systems, Western Union, Moneygram and the like. This translates to about three hundred and forty (340) individuals walking in and out of the bank to pick cash that has been sent home by migrants daily.

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Table 4.3 Cumulative Performance of Unibank Inward Remittance

| Year | Value of Transaction | No. of Transaction |
|--------------|-----------------------------|---------------------------|
| 2006 | 14,557,976.00 | 46,802 |
| 2007 | 34,947,812.26 | 108,288 |
| 2008 | 34,406,950.00 | 107,586 |
| 2009 | 20,300,012.74 | 65,352 |
| 2010 | 24,178,716.21 | 80,110 |
| TOTAL | 128,391,467.21 | 408,138 |

Source: UniBank Inward Remittances Unit, (2011)

Unibank has a help desk with trained staff who speaks with these customers as they walk in and out of the bank to convince them to open Savings account with the bank, educating them about the benefit of having a formal relationship with the bank. One very significant revelation of the study was that 88.44% of the respondents said the decision about how the funds are used lay with the sender or migrant, while 11.56% said heads of households decide what to do with the monies. Comparing tables 4.4 and 4.5, the data there confirms that about twice the number of people who opened current accounts with the bank since 2006 opened

savings account. And since 66.67% of the respondents of this study confirmed they saved portions of their remittances, we can infer with a high degree of certainty that a high percentage of these savings accounts belong to remittance customers.

Table 4.4: Current Account Numbers - Unibank

| YEAR/BRANCH | 2006 | 2007 | 2008 | 2009 | 2010 |
|--------------|-------|-------|-------|--------|-------|
| ACM | 832 | 1,021 | 1,217 | 1,660 | 1,304 |
| AML | 0 | 3 | 408 | 412 | 313 |
| APW | 856 | 736 | 1,006 | 611 | 355 |
| ASH | 310 | 343 | 388 | 272 | 336 |
| GIM | 40 | 45 | 32 | 49 | 47 |
| KBB | 331 | 608 | 537 | 399 | 303 |
| KSB | 0 | 0 | 187 | 584 | 337 |
| KSI | 0 | 788 | 1,093 | 1,439 | 2,203 |
| MAK | 169 | 207 | 211 | 422 | 200 |
| OSU | 0 | 238 | 494 | 459 | 281 |
| SRB | 0 | 318 | 391 | 486 | 396 |
| TDM | 0 | 0 | 0 | 575 | 532 |
| TMA | 0 | 197 | 728 | 665 | 454 |
| Total | 4,544 | 6,511 | 8,700 | 10,042 | 9,071 |

Source: UniBank business Intelligence Unit

Table 4.5: Savings Account Numbers- Unibank

| YEAR/BRANCH | 2006 | 2007 | 2008 | 2009 | 2010 |
|--------------------|-------------|-------------|-------------|-------------|-------------|
| ACM | 1,848 | 1,685 | 2,080 | 2,636 | 2,905 |
| AML | 0 | 6 | 726 | 1,268 | 855 |
| APW | 1,740 | 1,204 | 1,882 | 1,772 | 1,431 |
| ASH | 1,669 | 1,298 | 1,232 | 1,135 | 3,688 |
| GIM | 120 | 62 | 86 | 75 | 128 |
| KBB | 509 | 1,336 | 1,738 | 1,860 | 1,985 |
| KSB | 0 | 0 | 137 | 692 | 706 |
| KSI | 0 | 952 | 1,032 | 1,412 | 1,453 |
| MAK | 601 | 424 | 806 | 662 | 828 |
| OSU | 0 | 544 | 1,161 | 1,304 | 1,781 |
| SRB | 0 | 749 | 1,295 | 1,307 | 1,228 |
| TDM | 0 | 0 | 0 | 977 | 1,446 |
| TMA | 0 | 297 | 1,284 | 1,362 | 1,415 |
| Total | 8,493 | 10,564 | 15,467 | 18,471 | 21,859 |

Source: UniBank Business Intelligence Unit.(2011)

The question that arises from this study now is who banks should target to increase their customer base, is it remittance beneficiaries, senders, or both.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 INTRODUCTION

This is the last chapter of this study and it deals with summaries of findings, conclusions and recommendations. It will also outline some of the limitations of the study and suggest future areas of research on the subject matter- Inward Remittances.

5.2 SUMMARY OF MAJOR EMPIRICAL FINDINGS

Analysis of both primary and secondary data showed that remittances which are also referred to as private unrequited transfers form a very significant portion of the total foreign exchange inflows into the country. In uniBank for example, it contributes about 27.18% of the bank's total foreign exchange requirement for her operations. It has been established that remittances are so large, they come in foreign currency and they go directly to households meaning that these transfers have a significant impact on poverty reduction, funding for housing and education, basic essential needs and even business investment. The majority of remittances to Ghana are used to purchase daily necessities yet a significant amount is available for savings or investment. The results showed that, 66.67% of the remittance flow to Ghana is saved or invested in some form (education, building project or business). Lueth and Ruiz-Arranz, 2006 have observed that as long as there is migration there will be remittances and these remittances flow are influenced by micro and macro economic factors. In spite of the significance of inward remittances to the growth and development of

countries, governments do not have total hold of its planning because various channels are used to send these monies home. This research however has shown that there is a significant decrease in the use of informal channels as a result of government policies. Remittance customers even though know the benefits and multiplier effect of having a relationship with a bank they are still holding themselves back because of two main reasons among others.

5.3 REMITTANCE BENEFICIARIES

- Beneficiaries of remittances are usually custodians or trustees of the funds sent, and as such have no power in deciding their use.
- Even if they do, the interest rate offered by the bank is not attractive enough.

5.4 REMITTANCE SENDERS

From the sending side their main concern about using banks and other formal channels could be:

- Commissions and fees charged by agents
- Inter-bank rates offered by banks and MTOs
- Lack of the necessary documentation to be able to deal with a bank.
- Language barrier.

5.5 CONCLUSION

The study analyzes the significance of inward remittances to the development of a country and how banks can employ this product to grow their customer base using uniBank as a case study. Ghana has had a long migration history starting as a net immigration country, however around the mid 1970s when the economic and political conditions of the country began to

deteriorate it turned the country into a net emigration of skilled and unskilled labour. This has led to higher average remittances which has benefited most households. By the early 1980s the characteristics of Ghanaian migrants assumed a trend that posed serious challenges for development because a high number of professionals and skilled Ghanaians also joined in the migration. As the youth were not left behind Ghana again was losing its productive youth to other countries. But the good side of this emigration is the dramatic increase in remittances over the years. Remittances have actually recorded a continuous growth during the time horizon of the study, There has also been an increase in the amount of transfers routed through the formal sector and a number of reasons have been attributed to this development, these include:

- I. A reduction in transfer fee and commission charged due to the proliferation of many transfer operators (MTOs)
- II. Increased number of banks and non-bank financial institutions who are engaged in money transfer business improving proximity and ease of access of funds, and then the healthy competition amongst them also improves the quality of service from banks
- III. Another reason for a high formal sector inflow is also because now there is ease in reporting requirement by the bank of Ghana, so more of the inflows are captured.

It has been established also that nearly four hundred individuals visit the bank everyday to receive remittances that have been routed through various remittance platforms (Moneygram, Western Union, Express Funds, Canafriach, and Coinstar). Even though about 67% of these remittance beneficiaries indicated that they saved part of their monies, the decision to save

primarily is by the sender or migrant, with just about 33% of the beneficiaries having the power to decide whether to save part of their monies. The study noted that inflows of remittances into the country have in recent years seen a massive boost with the tenacity to continue their upward trend all things being equal.

5.6 RECOMMENDATION

Changes are needed in both abroad and the Ghanaian markets in order to position the banks to take advantage of new business models, because available technology is slow in Ghana highlighting the need for incentive pricing schemes and awareness campaigns among the Diaspora who send remittances. Constraints in the Ghanaian market are affecting the efficiency of remittance flows and the attractiveness of the formal remittance market because many of the new remittance products are reliant on the recipient having a bank account couple with regulation that restricts the options for payout networks. It is therefore recommends that;

1. Ghanaian banks should consider expanding abroad and offer remittance services and a range of other financial services to the Diaspora.
2. There should be improvement in overall communication, education and awareness in order to improve financial literacy with respect to new products available on the market, and in changing behaviour patterns which will help the banks to grow their customer base.
3. Improvement in the remittance corridor can also be made by granting more licenses to MTOs to increase a healthy competition amongst them.

4. Banks should expand the range of products and services available for both senders and receivers e.g. sender will be interested in mortgages, they will open accounts with the bank, remit into them and at some point qualify to own a house.

For governments to attract more of these remittances the Exchange Rates applied to the foreign currency should be higher than that applied at the informal sector. Government should also pursue sound monetary and fiscal policies to bring down interest rates; this will be interpreted as the capital market being efficient and subsequently will increase remittances flow. Good performance of the stock exchange will attract more remittances for investment.

We will further improve the channels of remittances when

- a) transfer fees are reduced
- b) Sensitize informal remitters to use formal channels
- c) Incentive pricing schemes and awareness campaigns among the Diaspora
- d) Remove unnecessary bureaucracies in the receipt of remittances.

Indeed for banks and non-bank financial institutions who may be engaged with remittance payment to further derive benefit of increasing their customer base from these customers the study revealed that 67% of the attention should be on the migrant who is sending the money home, while remittance beneficiaries receive just 33% attention.

Migrants:

- Develop new remittance products that will attract the Diaspora
- Ghanaian banks should consider expanding into foreign markets and offer remittance services and other financial services to the Diaspora
- Banks should make it easier for MTOs to acquire the skills and training to be able to open accounts for migrants on behalf of the bank.

- Increase the use of online services.

To the Remittance beneficiary:

- More ATM/Visa/MasterCard facilities to reduce queue in the banking halls.

5.7 LIMITATION OF THE STUDY

Data on remittances most of the time are aggregated and incomplete because the institutions who have to disclose these information to Bank of Ghana may not obtain comprehensive data, and also the informal channel cannot be captured with precision. Secondly we are unable to capture the macroeconomic environment in the host country where the remittances originate from. This is more so because remittances come from all countries and from varied sources.

5.8 DIRECTIONS FOR FUTURE RESEARCH

Developing countries like Ghana should establish Diaspora forum to engage these classes of people (Home Town Association) to assist in the development of their locality through the fund they remits to their respective countries.

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APPENDIX

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY COMMONWEALTH EXECUTIVE MASTERS IN BUSINESS ADMINISTRATION (CEMBA)

PROJECT QUESTIONNAIRE

Questions for unstructured interview:

Personal Data

1. Name.....
..
2. Age..... Gender..... Marital Status.....
3. Occupation.....
...

Nature of the Inward Remittances

4. How long have you been receiving remittances?.....
5. How often do you receive remittance

| | | | | | | |
|-----|--------------------|--|--|--|--|--|
| (a) | Once every week | <table border="1"><tr><td> </td></tr><tr><td> </td></tr><tr><td> </td></tr><tr><td> </td></tr></table> | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| (b) | Once every month | | | | | |
| (c) | Once every quarter | | | | | |
| (d) | once every year | | | | | |
6. Does it normally come through the bank from Money Transfer Operators (MTOs) or other sources?
7. Name some of the sources through which you receive remittances. Western Union, Moneygram etc

I

Ii

lii

8. Do you pay a fee to receive it?

| | |
|---------------|--|
| Bank | |
| Western Union | |
| Money Gram | |
| Money system | |
| Vigo | |
| others | |

9. What is the purpose for which monies are sent to you?

10. How much money on average do you receive each time.....

11. What is the money you receive used for? _____% for each

- a) Daily needs i.e. consumption _____%
- b) Building/buying/renovating house _____%
- c) Repayment of loans i.e. to pay migration loan _____%
- d) Payment of school fee/education _____%
- e) Payment of health and medical expenses _____%
- Investment in business _____%
- g) Special occasions (e.g. weddings, birthdays, funerals, etc.) _____%
- h) Buying asset i.e. land /gold/other livestock _____%
- i) Buying motorbike, car, other means of transportation _____%

12 If there is one essential living item you would have to give up, which one would it be?

- a) Food
- b) Education
- c) Health Expenses
- d) Housing Costs
- e) Special occasion

Who decides for what purpose the money will be used?

- a) Sender
- b) Household head
- c) Other household/family member (please specify) _____
- d) Other person outside the family (please specify) _____

13 Do you or any household member save part of the money sent from abroad?.

14 What problem do you have in collecting your money?

15. Do you have any account with the bank ?

16. What other alternative route have you been receiving money from.....

I Friends

Ii Stuck in letters

Iii Through SWIFT into your account directly

Iv Others state.

17. What difference have you noticed between the alternative channel and the Banks

18. Are you aware of the exchange rate applied to the funds you receive?

19. Do you know the business of a bank?

20. What are some of the benefit you may derive doing business with a bank

i.

ii

iii

21. What are some of the hindrances, difficulties you envisage doing business with the bank

i.

ii

iii

22. If these “difficulties” are removed or relaxed would you want to open account with the bank?

23. Would you want to open account now?

24. Yes No

25. In general, are you comfortable with using banks?

26. What do you recommend that the banks should do to improve on volume of remittance routed through the banks ?

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