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Policy Brief

No.

# Migration, Remittances and Household Wellbeing in Ethiopia: The Case of Ethiopian Labour Migrants to the Republic of South Africa and the Middle East

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## 1. Background

The magnitude of international migration from Ethiopia has substantially increased in recent decades owing to various political, demographic, social and economic factors in the country and at the global level. The oil-rich Middle East countries and the Republic of South Africa have emerged as major destinations of the significant portion of Ethiopian labour migrants since the 1990s. Labour migration to the Middle East contains both documented (regular) and undocumented (irregular) migrants. Similarly, most of the migrants to the Republic of South Africa travel without securing the required permits.

The Ethiopian diaspora and migrant workers remit a large sum of money to the country for a variety of reasons, ranging from assisting their families to investment. Indeed, in recent years, remittance flows to Ethiopia have become important sources of foreign currency. For example, the National Bank of Ethiopia (NBE) (2016) reported that the amount of remittance flowing to Ethiopia has increased from USD3.04 billion in 2013/14 to USD3.99 billion in 2015/16, surpassing the amount of foreign currency from exports.

The remittance flows to the country both through formal and informal channels, each of which has its own advantages and constraints. The choice of channel for remittance transfer is often determined by different factors including the status of the migrants in the host countries, linguistic constraints of the migrants, accessibility of formal financial institutions, and the variance between the formal and informal exchange rates of hard currencies with Ethiopian *Birr*. Depending on how the money is used, remittances have far-reaching effects on the socio-economic wellbeing of the migrants themselves, families of the migrants, the migrant-sending communities and the country at large. Empirical evidence on the choice of remittance transfer channels, determinants of the choice, and roles of remittances in socio-economic wellbeing of the migrants themselves, families of the migrants, the migrant-sending communities and the country at large is scant.

## 2. Objectives and Methods

This research aimed to examine and provide evidence-based recommendations on the various channels through which Ethiopian labour migrates to the Republic of South Africa and the Middle East send remittances to their families, the determinants of the choice of channels; advantages and challenges embedded with using the formal and informal money transfer channels, how remittances are utilized at household levels, and the roles of remittances in socio-economic wellbeing of the migrants themselves, families of the migrants, the migrant-sending communities and the country at large.

The study was conducted in ten *woredas* systematically selected from Tigray, Amhara, Oromia and SNNP regions and Addis Ababa City Administration (two *weredas* from each). The *woredas* were selected based on the prevalence of migration to the Republic of South Africa and the Middle East, the flow of remittances and the presumed socio-economic impacts of remittances.

Primary data was collected over a period of about three months (January 15 to March 30, 2018). Different data collection methods were employed to gather the necessary primary and secondary data. Quantitative data was collected using two sets of survey questionnaires: one set for returnee migrants and another set for families of migrants, while key informant interviews and focus group discussions were conducted to gather qualitative data. To augment the primary data, secondary data was collected from *woreda* Administration offices, Labour and Social Affairs Offices, the National Bank of Ethiopia, the World Bank and the Central Statistical Agency (CSA). The data were analysed using descriptive statistics and narrative analysis techniques.

## 3. Major findings of the study

### 3.1 Remittance Flows from the Republic of South Africa and the Middle East to Ethiopia

The study found out that the primary motive for the migration of migrants was their aspiration to improve their and their families' livelihoods. Accordingly, 97 per cent of the returnee migrants used to send money to their families back home and 92 per cent of the families of migrants witnessed receiving remittances through different channels. The amount sent ranges from USD 36.5 to USD 263.5 at average frequency of every three months. This resonates with the increasing trend of remittance flows into Ethiopia. As to how and when the migrants send remittances, 34.3 per cent of the returnee migrants and 36.0per cent of the household heads of families of the migrants indicated that remittance is sent regularly, while 36.3per cent of the returnee migrants and 31.5per cent of the household heads of families of the migrants said they send/receive remittance when there is expressed demand from the family. Illness, paying school fees, seed and fertilizer purchase and building/maintaining houses are the major reasons that necessitated the request for and sending of remittances. In addition, migrants send money for their families for the celebration of major religious holidays.

### 3.2. Remittance Transfer Channels

Half of the returnee migrants reported that the transferred remittance using the formal channels mainly banks and money transfer institutions such as Western Union and Money Gram, while the remaining 50 per cent said that they were remitting using individuals travelling from those destinations to Ethiopia and informal *hawala*. However,72 per cent of the migrants' families claimed that they received remittance through banks and money transfer institutions, while only 28 per cent noted that they received through the informal channels. The proportion of families that reported receiving remittance money through the formal channel was higher than the proportion noted by the senders and that was because of the growing use of the banks by the informal operators following the expansion of banks and the mobile network.

***Advantages and limitations of the formal transfer channels***

Apparently, the returnee migrants noted that the formal transfer systems were reliable and the chance of losing one's money is almost nil. Moreover, the money transferred through the formal system contributes to the national economy by bringing foreign exchange to the banking system.

The limitations that hindered the use of the formal transfer system by the migrants include the requirement that migrants who want to send money using the system need to present valid passport, residence and work permits in the host country. Given the fact that a good deal of the Ethiopian migrants in the Republic of South Africa and the Middle East are undocumented migrants, they are unable to present such documents and process their transfer through the formal channels. Indeed, 40.4 per cent of the respondents identified lack of access to the formal financial institutions as the primary factor that deters them from using the system.

The second disadvantage identified by 26.8 per cent of the returnee migrants is the lower currency exchange rate the formal channels provide compared to the informal market. The third is the 'complexity' related to the linguistic barrier where a large number of Ethiopian migrants are less educated and do not speak the languages of the host countries. Limited access to banks in localities where recipient families reside is a fourth deterrent to the use of the formal money transfer system by the migrants, according to 7.0per cent of the respondents. The relatively high transaction cost of formal transfers is still another major impediment to the use of the formal channels. The foregoing limitations make the banking system lose 50 per cent of the opportunity of receiving hard currency to the informal channels, which is a huge lose where the banks are in dire need of hard currencies.

***Advantages and limitations of the Informal Remittance Transfer Channels***

Unlike the formal transfer channels, informal transfer systems operate outside the conventional banking and financial channels and policies of the origin and/or the receiving countries. Their operation is motivated by shared economic interests of the senders, the receivers and the transfer agents and is characterized by rapid transfer, lower transfer cost and easy accessibility. The dominant means of informal transfer of remittances is the *hawala* –a system in which someone travelling from the migrant's country of destination to Ethiopia receives money in hard currency and his/her agent pays the recipient in Ethiopia in local currency. Migrants choose the *hawala* system for three basic reasons. First, it provides better exchange rates than the formal channels do. Second, it is said to be fast and efficient, such that families can receive their money within two days at most. Third, it is very simple and does not require any documentation or process either to send or receive the money. The expansion of core banking systems and mobile phones has greatly helped the transfer of money to the recipient families through the *hawala* system. The disadvantage of the informal channels is that they are trust-based and one may lose the money and difficulty to ensure the authenticity of the receiver.

### 3.3. Use of remittances at the household level

Families use remittance money in different ways depending on the size of the remittance money they receive and their economic conditions. We found that recipient households used remittances mainly to settle debt incurred by poor households to cover the cost of migration; to regain assets such as land that was held on collateral when households secured loans used to finance the migration of family members, and for consumption. According to 53.5 per cent of the respondents, remittance-receiving families used the remittance money on consumption, such as food, cover children's and siblings' educational costs, clothes and healthcare expenses; to fulfil household goods – furniture and electronic goods such as TV sets and satellite TV receivers and refrigerators; and to renovate their houses. Indeed, 20 per cent of the returnee migrants from the Republic of South Africa and the Middle East reported that they raised the funds for their migration through loans and, hence, debt repayment is an important issue for many households.

Lack of savings and productive investment of remittance money makes migrant households dependent on remittance income. Indeed, when many of the migrant workers return home, they face economic difficulties, as the remittance money had been spent on consumption. Only few proportions of the respondents said they make savings (3.5 per cent of the respondents), and others used the remittance money to engage in asset-building activities, including, payment of prices of low cost (condominium) houses (1.5 per cent); starting small businesses (1.4 per cent); purchasing a shop (1.4 per cent); purchase of oxen for farming and farm inputs (7.5 per cent) and building houses (15.0 Per cent).

While the use of remittance money for asset building has positive implications on many households, the large spending on consumption items perpetuates the dependency of migrants' families and the poverty or else continued migration of the migrants. Still worse, when the migrant workers return to their origin, conflicts imbued between migrants' families and migrants over ownership of property (houses and assets) as the asset, which was built using the remittance money, had not mostly been registered in the name of those migrants. Generally, the findings have relevance for policy.

## 4. Policy Recommendations

The key recommendations that emerge out of this study include the following.

### *A. Government of Ethiopia (GoE)*

- The GoE should devise an overall migration policy, which directs its actions in an integrated manner. Such a policy is important considering the youthfulness of the country's population. A migration policy should envision the development of skilled human resource, which could compete in the international labour market. By devising the migration policy, the GoE should promote safe and regular labour migration, and ensure better pay, working conditions and protection for those who migrate following the formal (legal) channel of migration. Among others, it reduces the number of people who decide to migrate without securing the required permits by both the Ethiopian and host governments. Migrants who have the required documentations would not face problems with regard to access to financial services and hence documented migration strengths the formal transfer of remittance to Ethiopia.
- The GoE should enter into Bilateral Labour Agreements (BLA) with Middle Eastern countries and others, which have a need for expatriate labour force. Such agreements are important instruments not only to enhance documented and safe migration but also can help in providing protection to migrant workers.

- The GoE should provide pre-departure training on financial literacy to migrant workers. Such training could encourage migrant workers to develop visions and good awareness about opening bank accounts, saving and remittance transfer systems.
- The GoE and its regional and local administrations should devise ways that would ensure the construction of houses by remittance-receiving families meet the legal requirements. One way to encourage asset building through construction of houses is by supporting the establishment of housing cooperatives by migrant workers and their families.
- The GoE and its regional and local administrations should support the use of remittances by families and the migrant workers for productive purposes (creation of employment through micro- and small enterprises) by providing skills training and loans.
- The GoE should devise well-thought out policies and mechanisms in order to narrow down the gap between the official and unofficial rates of currency exchange. It should also expand access to and enhance efficiency of the formal transfer channels so as to realise the full potential of migration in generating foreign currency.

**B. The Host Governments**

The host governments should:

- Promote safe and documented migration;
- Provide protection to migrant workers by incorporating international norms (conventions) which provide guidelines for the protection of the rights of migrant workers;
- Find ways and means to regularize irregular migrant labourers. Such a measure helps to reduce the vulnerability of the migrant workers and reduce irregular/informal employment;
- Devise ways that will promote the transfer of remittances through the formal channel. One way to do this is by collaborating with the countries of origin for the issuance of valid identity documents (like passport) that could be acceptable to the financial institutions.

**C. Financial Institutions**

Ethiopian banks and financial institutions should:

- Collaborate to expand the accessibility of the money-transferring agencies to the migrant workers.
- With the transfer agencies for the reduction of the transfer fees for formal remittances;
- Provide further financial products and incentives that could motivate migrant workers to transfer their remittances through the formal system. One way to do this is by offering preferential interest rates to the Ethiopian diaspora who open a saving account and transfer their savings in hard currencies. The government should also expand the accessibility of financial institutions throughout the country.

**D. International Agencies and Civil Society Organizations**

- Advocate and promote safe and documented labour migration and strive for the regularisation of undocumented migrant labourers;
- Advocate for the protection of the rights of migrant workers both in the host and origin countries;
- Promote financial literacy with migrant workers before and after their departure; and
- Support asset-building activities of migrant workers and their families using remittances.

**Source:-**Asnake Kefale and Zerihun Mohammed "***Migration, Remittances and Household Socio-Economic Wellbeing: The Case of Ethiopian Labour Migrants to the Republic of South Africa and the Middle East"*** FSS Research Monograph No. XX. 2018.

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