REMITTANCES AS A TOOL FOR DEVELOPMENT AND RECONSTRUCTION IN ERITREA. AN ECONOMIC ANALYSIS

Berhane Tewolde

Remittances are the result of hard work by relatively poor people. Many of these migrants work under difficult conditions and are mostly paid low wages. It is therefore crucial to maximize their benefits, and to reduce outside exploitation in the use of these funds. When planning to enhance their productive use incentive based initiatives rather than regulatory in heavy handed approaches appear most promising. Migrants and their families should be encouraged to allocate these funds in a way that enhances local development, as well as their individual needs. All types of remittances sent to the families from the diaspora are making an important contribution to their subsistence and economic growth. They are more than incoming flow of aid greater than export earnings, over 1/3 of the government expenditure on social services and from 20 to 30 % of the GDP.

OBJECTIVES

The overall purpose of the study was to explore ways of expanding and diversifying sources of remittances in relation to economic development and reconstruction. It is also intended to determine appropriate mechanisms through which the Formal and non formal remittance receivers can ration their consumption and investment patterns in the economy. Within this framework a situational analysis was carried out with a view of establishing remittances and its impediments at both governmental and community levels.

CONCEPTUAL ISSUES

The word remittance can be defined as monetary and non monetary items that migrants earn while working abroad and sent back to their families living in their homeland (country). They are part of the unilateral transfers account in the current account section of the balance of payments. In other words, they are a credit in the current
account, and, hence they help to partially offset the deficit of trade on merchandise and services. In LDCs remittances are connected with Franco-valuta system of self financing of imports. In the case of Eritrea, traders go to overseas markets to buy merchandise with the hard currency from home hence the total value of imports equals the total amount of the hard currency. But the total amount of hard currency available for imports is the currency earned by exports plus the money received as remittances. Therefore the total amount of remittances is the value of imports less the value of exports.

$$TR = M - X$$

where $TR = $ total remittances

$M = $ total imports

$X = $ total exports

When we see the issue from a micro level point of view, the fact is that the volume and share of remittances is smaller in Eritrea than in many other African countries, especially Sub-Saharan Africa, which are mostly aid dependent countries. The economic effect of remittances is nonetheless significant. Remittance data tell us little about the benefits to individual recipients or about how recipients use the funds. Migration data and our household survey indicate the importance of this flow of money as part of an income channel for remittance receiving households. They contribute to improved standards of living, better health and education, and human and financial asset formation.

There is also the macro-effect, which is the multiplier effect of a rise in remittances in the national economy. Consider a decision by an individual remitter to send 1000 Euro to a receiving area. This money adds directly to the incomes of people who are beneficiaries together with the people working in other businesses further down the supply chain. Other businesses stand to gain from the remittance transactions that will take place as this money is brought for business in the open market. The incomes generated add to spending power in the local economy and if local business rise because of increased remittances there may be a general (positive) wealth effect for other people whose business are not currently on the market.

Remittances help to lift the community and in some case the national economy. However remittances do not directly add to Government’s budgetary resources, but they raise the level of national saving and add to the availability of foreign exchange. To see at the effects of remittances on the economy let’s have a look at the following table.
### Direct effects

- tourism,  
- non-traditional exports,  
- transportation,  
- telecommunication,  
- nostalgic trade etc.

### Positive effects

- important source of foreign exchange  
- finance imports  
- increases HH income and improve standard of living of recipients.  
- multiplier effect in local economy

### Indirect Effects

- domestic savings – Investment,  
- foreign Savings – Investment

### Negative Effects

- encourage migration  
- growth of inequity (recipients vs. non-recipients)  
- creates dependency  
- causes inflation (including land and house price)  
- black market Exchange Rate

### Other effects

- transnational capital,  
- migrant capital investment  
- technology transfers

### THE CASE OF AFRICA

In Africa remittances are inherently linked to migration. Whether for economic or other reasons, African migrants leave their homes to improve their own livelihood and opportunities as well as to support the family back home.

**Table No. 1 - Migrant Stock by African Region**

<table>
<thead>
<tr>
<th>Number</th>
<th>Region</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>East Africa</td>
<td>28%</td>
</tr>
<tr>
<td>2</td>
<td>Middle Africa</td>
<td>9%</td>
</tr>
<tr>
<td>3</td>
<td>Southern Africa</td>
<td>9%</td>
</tr>
<tr>
<td>4</td>
<td>Western Africa</td>
<td>42%</td>
</tr>
<tr>
<td>5</td>
<td>Northern Africa</td>
<td>12%</td>
</tr>
<tr>
<td>6</td>
<td>Total</td>
<td>100%</td>
</tr>
</tbody>
</table>


The issue of the international migration today is becoming one of the main globalisation agendas. Many Africans are migrating to developed countries. As a result of this labour export, remittances are flowing in to Underdeveloped
countries. Africa, for example, collects from 20% to 30% of its GNP from Remittances. Therefore if the border restriction of movement is improved, people will work abroad and remit their money to their native country. Through this method the distribution of wealth may be improved in terms of transfer of capital and labour.

<table>
<thead>
<tr>
<th>Remittance Receiving Area</th>
<th>Sending Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>India</td>
</tr>
<tr>
<td>2</td>
<td>Mexico</td>
</tr>
<tr>
<td>3</td>
<td>Philippines</td>
</tr>
<tr>
<td>4</td>
<td>Morocco</td>
</tr>
<tr>
<td>5</td>
<td>Nigeria</td>
</tr>
<tr>
<td>6</td>
<td>Egypt</td>
</tr>
<tr>
<td>7</td>
<td>Turkey</td>
</tr>
<tr>
<td>8</td>
<td>Lebanon</td>
</tr>
<tr>
<td>9</td>
<td>Bangladesh</td>
</tr>
<tr>
<td>10</td>
<td>Jordan</td>
</tr>
</tbody>
</table>


Developing countries received $80 billion in migrants’ remittances in 2002. Out of these, Africa received about 15% of global remittances. However, officially recorded remittance flows are heavily underreported especially for Africa. Even at currently recorded levels, remittances are an important source of income. Actual effects are greater than that of currently documented due to data limitations. For most African countries, remittances have become a major form of transfer of resources from industrialized countries—having risen from $21 billion in 1980 to $29 billion in 1988—equivalent to half the flow of official development assistance in that year. This case refers only to flows, which have passed through official banking channels. Unofficial flows could add 50% or more to these figures.

ERITREAN CONTEXT

Eritrea has become an important source of out-migration. The volume of migration is grossly underestimated - figures don’t account for illegal or temporary migrants. It is estimated that there are over 720,000 formally registered and 350,000 illegal and unregistered Eritreans abroad. Migration is projected to grow every year in Eritrea at the annual rate of 2 to 3 percent. People Migrate to work and then remit.
Migration and remittances are interrelated in that migration is the tool that acts as a drive for remittances. As in many developing countries remittances are an important source of finance for Eritrea. It helps to increase incomes and contribute greatly to development of human and social capital. The recipients tend to be better off than their peers who do not receive remittances. At the same time, the national economy benefits from higher foreign exchange reserves and generally there is a positive effect on the balance of payments of the country.

Our ‘Household consumer Survey’ findings indicate that on the average Eritrean families spend 5000 Nakfa per year on consumer goods throughout the year. Strikingly, urban average household consumption in Eritrea tend to be more at Zoba Makel and in urban area level than at the national level. This pattern reflects government policy on handling remittances. The finding of the research suggest that remittances expenditures vary according to the regions and migration characters and other factors. Especially Zoba Makel residents are among the beneficiaries. In addition urban locations have greater opportunities to collect more remittances to survive the harsh macro-economic environment. The data in our survey show that there is high level of willingness by the Eritreans in diaspora to send more money provided there is efficient, fast and secured management mechanism and process of remittances. At present, the government is not controlling the transfer process of remittances. However the government on its own cannot sustain this huge task. Hence, community to community ties should be organized and delivered by relevant mechanisms. Within this context, there is a need for a cooperation from different stakeholders. While it will be desirable for the provision of remittances management to continue to be a core government responsibility, it will be necessary to consider a range of other sharing mechanisms in the provision of remittances at sending
and receiving levels.

Our study suggests that the average migrant is remitting, through unofficial and official channels around $300-400 per year. The workers likely to send home the highest proportion of their income are contract and other temporary workers mostly who know they are returning home. Eritreans in Italy who work on the basis of contract work, for example, are saving around $500 per month – between 70 and 80 per cent of their income – either to send home or bring on their return. Similar amount are transferred by Eritreans in UK and Germany. Those who stay abroad longer, and particularly those who have dependants with them, are less likely to send money home. And as they take up residence in their new communities, the payments for siblings come even small and more irregular. Taking into consideration that emigrants can avoid controls, the government should try to find ways to encourage its overseas workers to use official channels. There has to be, for example a Wage Earners’ Scheme which allows returning migrants to sell their foreign exchange to importers at a premium over the official exchange rate. Eritrea has now already allowed non-resident nationals to open foreign exchange accounts.

The scale of international remittances is such that many Eritrean families rely on funds from emigrants for a high proportion of their income. In 1987, for example, 42% of household reported that remittances from domestic workers from Italy were their principal source of income. And in 2001 till 2004 Household Income and Expenditure survey found that around 15 per cent of all families received income from abroad, contributing around 30 per cent of their total income. Other households who receive remittances from abroad can find that they suddenly have income two or three times greater than before.

Nearly every respondent in the survey (89%) had close family members living abroad. 23% had a spouse or partner, 29 per cent had one or more children, 25 per cent had parents abroad, and another 41% had other close family members such as brothers or sisters. Those living in the USA and European countries were more likely to have a spouse or partner in Eritrea than those in the Sudan (31% and 15%, respectively). Around a quarter (24%) of those in the Sudan had children in Eritrea compared with one-third in Europe and the USA. The survey shows that about 77% of all respondents had two or more relatives living abroad. It is also interesting to see that some people have most of their closest relatives living abroad. In relation to this it could be said that a number of families are totally dependent on remittances. From the analysis of the data acquired through survey it can be seen that about 49% of all respondents had contact with their relatives abroad on average once a month. It could be said that there is fairly smooth communication between families in Eritrea and their remitting migrants abroad given the severe communication facilities and infrastructure in the country.
The survey asked questions about economic contacts with family members, including remittance behavior. The survey also established the nature of the linkage with their family abroad be it in the Middle East or in Europe. The data showed strong linkages with kinship networks.

Table no. 4

Source: Survey undertaken, may 2005

Respondents used multiple strategies to keep in touch with family members in diaspora, with telephone calls and letter the most often used. There is little difference in the proportion of respondents who either wrote letters or used the telephone. The methods of keeping in touch with family members differed little between men and women. Contact with family in Eritrea is regular throughout the year: Once or twice a year and during festive seasons and periods. People in the Eritrean Highlands are in more regular contact with their families than those in the Low lands. Seventy per cent of those in Europe were in touch with their family once a year or more compared with 27 per cent in the Middle East. The greater use of e-mail and text messaging among those in the USA and Europe and the relative ease and low cost of these contact strategies enabled regular contact between the people in Europe and USA and their families in Eritrea mostly in the High lands with a concentration of e-mail contacts in the capital Asmara.

Remittances can be important in terms of development but remittances generally benefit mainly the family of the migrant. In this study, three-quarters of respondents (75%) received remittances from abroad. The main reason reported for these remittance flows is primarily to support families in Eritrea.
Table 5 - Purpose how remitted money spent

<table>
<thead>
<tr>
<th>Investment items</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing</td>
<td>50%</td>
</tr>
<tr>
<td>Automobile</td>
<td>9%</td>
</tr>
<tr>
<td>Petty enterprises</td>
<td>0%</td>
</tr>
<tr>
<td>Land</td>
<td>9%</td>
</tr>
<tr>
<td>Education</td>
<td>4.5%</td>
</tr>
<tr>
<td>Health</td>
<td>0%</td>
</tr>
<tr>
<td>Other</td>
<td>27.3%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: Survey undertaken, may 2005

The main reason for sending remittances relates with reinforcing the family aspect of remittances. Nevertheless there are additional reasons for sending money to Eritrea. The most frequently mentioned additional reason for sending remittances was to build a house in Eritrea, which suggests a strong element of commitment to Eritrea and to a future living in Eritrea.

Remitted money can be received in a number of ways. Most respondents were much more likely to get their money through informal routes, either the migrants bring the money themselves, or send it through friends or carriers. Some times independent money brokers and financial institution (hawala) are used.

Table No 6 - Channels of sending money home

<table>
<thead>
<tr>
<th>Transfer institution used</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank of Eritrea</td>
<td>20.8%</td>
</tr>
<tr>
<td>Western union</td>
<td>1.4%</td>
</tr>
<tr>
<td>Himbol</td>
<td>11.1%</td>
</tr>
<tr>
<td>Other</td>
<td>66.7%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

The figure shows that money is transferred through financial institutions by only a third of respondents some of whom also use other strategies for money transfer. The data show that in the majority of cases money is transferred informally and is being predominately used to support family members. The regularity with which remittances were sent varied. Around 2/3 of the respondents received remittances three times or less than three times a year of which a third received remittances at least every year. A further 23 per cent received remittances every two to four months, and 3%, each month.
Respondents were also asked whether they received any non-monetary gifts from relatives abroad, with about two-thirds saying that they did. Respondents having relatives living in the Middle East were more likely to receive non-monetary gifts than those having relatives in Europe were. Clothes (more than 50%) were sent to Eritrea more than any other non-monetary gift. This was followed by household utensils (13%), jewelry (12.9%), and used cars and trucks (8.1%). Not surprisingly, there were a few differences in the gifts received by those having relatives living in Europe and those of the Middle East. Most of those receiving non-monetary gifts from the Middle East received clothing and foodstuffs, while the proportion for those with relatives in Europe was 14 percent. A greater proportion of people with relatives living in Europe received used cars or trucks than those with relatives in the Middle East: 18% and 2%, respectively. Eritreans in the diaspora also provide other forms of help and support to family and friends in Eritrea, and in this survey nearly three-quarters (73%) received other assistance. Respondents with relatives in Europe were more likely to receive support from family members and friends abroad. Help with accommodation followed by advice about moving were mentioned most often as ways of helping family and friends in Eritrea. Just over a fifth (21%) live in the houses of the migrants in Eritrea.

CONCLUSION

Remittances are now one of the major items in the BOP of many LDCs to counter the large deficits in Africa. Eritrea, having a large number of migrants in the rich countries of Middle East, Europe and North America, can benefit greatly if it creates conducive and attractive environment for their participation in the national reconstruction and development. Eritreans abroad own human
and financial capital that Eritrea needs for its development. These are the skills, entrepreneurial abilities and their financial wellbeing. Remittances are the major rout through which savings are injected to investment and consumption in the home country. The government of Eritrea should have policies to augment the level of remittances and should create and encourage conditions for their effective and efficient use in the attainment of national objectives.

To increase remittance some steps to be taken are: Reducing costs of transfer through the Promotion of strategic alliances between remittance agencies and banks, between the country of residence and the country of origin; Monetary measures such as the flow of remittances are also important; monitoring the exchange rate. Motivate saving and credit institution to attract remittance and bring low cost baking centers where there is a high concentration of families who receive remittances. Communication and linkage channels between Eritreans in the diaspora and their home country is also important. This can be done through various means such as Adopting linkages with the diaspora as part of the country’s foreign policy, use the consulates as point of contact, developing mutual confidence, Support their activities carried out as an organized group, meetings and conferences, Help in the creation of a diaspora agenda, Carry out services demanded by the community; Implement summer camp programs. Also creating an office of attention to nationals living abroad through the establishment of Unit of community contact, Unit linking the state and the community, Unit of study and analysis also are important.
BIBLIOGRAPHY

11. Zontini, E. Towards a comparative study of female migrants in southern Europe: Philipino and Marrocan women in Bologna and Barcelona, in Studi Migrazione, Centro Studi Migrazione, Roma, XXXIX, no 145,2002:
NOTES

1. In the last 10 years period
2. These total amount is Excluding foreign aid.
3. In this case we consider labour as invisible export which can boost the national economy.
5. Sub-Saharan Africa received 5%.

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