Partnership for Economic Growth and Development:

Remittances and FDI

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1. Introduction

- Remittance flows in recent years have grown rapidly.
  - From 2001 to 2007, remittance receipts reported in the IMF's *Balance of Payments Statistics Yearbook* (measured as global receipts of "workers' remittances" and "compensation of employees") more than doubled to US$336 billion.
  - Similarly, the period of 2003 to 2011, remittance receipts reported in the *Balance of Payment Statistics (Bank of Ghana)* more than triple to US$2.4 billion.

Definitions 1:

- The Balance of payments is a statistical statement that;
  - summarizes transactions between residents and non-residents during a period of time. It consists of *goods and services account*, the *primary income account*, the *secondary income account*, the *capital account and the financial acco*unt.

Definitions 2:

- Worker's remittances
  - Is defined as current transfers from employment income by migrants who are employed in new economies and considered residents there (BPM5). It has been replaced in (BPM6) by "personal transfers" that is broadly defined.

- “Compensation of employees” arises only when a resident individual is employed by a non-resident individual or when a resident employs a non-resident individual.
  - Therefore, it’s important to establish whether an *employer-employee* relationship exists;
    - Between a resident individual and a non-resident employer or,
    - Between a non-resident individual and a resident employer.

- It worth noting that for some countries, receipts from remittances;
  - exceed receipts from the *export of goods and services* and,
  - financial inflow on *foreign direct investments*
- Fundamentally, remittances represent *household income* earned from foreign economies arising largely from the;
    - *temporary* or
    - *permanent*

  movement of people to those economies.

- Government now considers remittances to be important source of foreign exchange inflows, and has in recent times gained high policy interest. In view of these, their impact on economic development, growth and security is critical;
  - Because remittances again are perceived to be an important *anti-poverty tool* and *item* to gauge economic growth and development.

2. Objectives

- The main object of this presentation is to measure the Ghanaian diasporas' monetary contribution to the country either in the form of:
  - Remittances or,
  - Foreign Direct Investments (FDI)
- and how government is harnessing this potential inflows for overall economic development.

3. Understanding Remittances

- The measuring of cross-border remittances are;
  - Heterogeneous, with
  - Finitely many small transactions conducted by individuals

through a large variety of channels

- The transaction channels utilization may depend on;
  - the *financial system*,
  - overall *institutional environment* of the sending and receiving countries,
  - *the convenience,*
  - *costs* associated with the use of these channels, and
  - the *demographic characteristic* of the senders and receivers.

- Remittances are often linked to migration; normally referred to as "migrant".
- It should be noted, however, that **<u>migration</u>** status is not relevant to the definitions of standard components in Balance of Payments Manual, sixth edition (BPM 6).

Definition 3:

- "migrant" which is defined as a person who emigrates from an economy of origin and becomes a resident in another economy.

Definition 4:

A person may move from one economy to another for the purpose of *short-term employment.*

- A "short-term worker" refers to a person who moves to another economy for the purpose of employment on a short-term (usually less than one year) basis, including border and seasonal workers.

- Short-term workers and migrants supporting relatives in their country of origin are a key source of cross-border remittances.

- The transaction channels if cleverly identified for remittances:
  - can help compilers assess the extent of coverage to the existing data sources.
- Remittances can take various forms of;
  - Funds transferred through “formal” or regulated institutions or channels.

    Example: Banks, non-bank financial institutions, and money transfer operators.
  - Semi-formal and Informal channels

    Example: Cash carried in person, and in-kind transfers.

- It is emphasized that all international transactions, whether they are;
  - informal or formal, legal or illegal

    should be covered by balance of payments statistics.

3.1 Demographic perspective on remittances

- Generally, the skill content of labor of migrants and short-term workers can be categorized as *unskilled, low-skilled* and *skilled.*
- An array of demographic characteristics is known to be associated with remittances. These characteristics include:
  - The size of stock of migrants and short-term workers
  - The country of origin and work
  - Ethnic background
  - Duration of stay
  - Average income level
  - Gender
  - Legal status
  - Presence of children in the household

- <u>Income</u> is recognized as the primary determinant of the capacity to remit.
  - This information helps to deepen the understanding on the underlying dynamics on remittance flows.
- Among migrants, remittance senders tend to be more concentrated among;
  - More recently arrived immigrants, and
  - At least half the migrants who have stayed for up to *10 years* may be regular remitters.

3.2 Transaction Channels and Inst. Environment

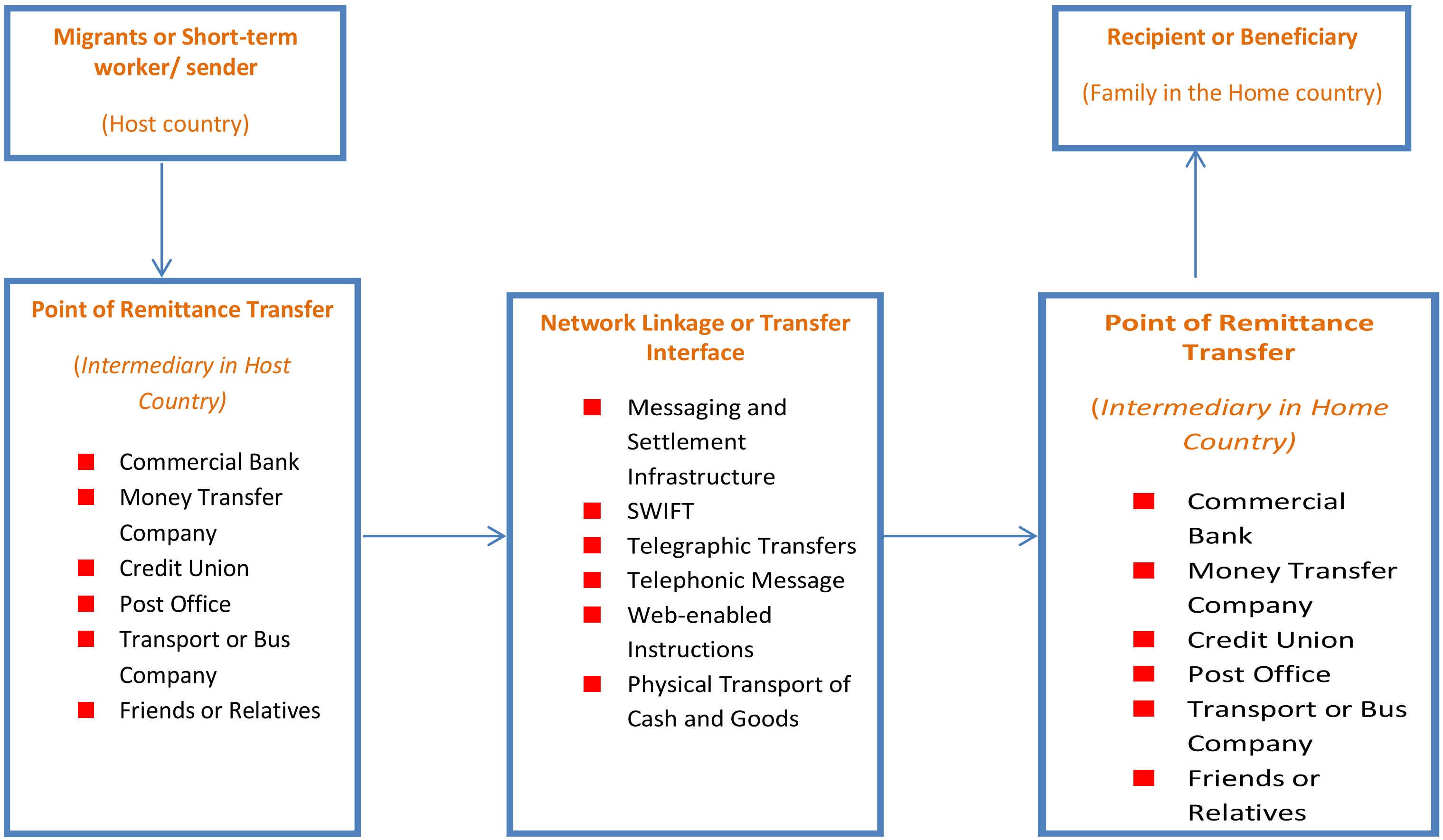
- Money remittance transaction may involve;
  - *a sender, intermediaries* and *a recipient* in both countries and the payment interface used by the intermediaries; together these comprise the *remittance channel.*
- Most remittances are of relatively *low value*, *frequent*, and largely involve persons at both ends:
  - Because they are generally targeted at family maintenance.
- Remittances assume the form of:
  - Cash transfers
  - Credit transfers or,
  - Transfers in kind (involving transfer of goods)

- Cash transfers are sent either in the *foreign currency* or *local currency* by means of physical transfers of cash.
- Credit transfers are based on payment instructions from providers in the sending country to providers in the receiving country.
  - The payment instructions using messaging services enable contact between the entities operating at the sending and receiving ends, and the settlement process allows actual transfer of funds between these entities.
- Non-cash or in kind transfers are largely *consumer goods* and involve physical delivery predominantly through informal routes.

- Cross-border remittance flows can take place through a range of channels depending on:
  - *Availability of services,*
  - *Preference of the remitter*, and
  - *The institutional environment*.
- Formal remittance channels are those officially authorized to operate in the *money transfer business such as;*
  - Banks
  - Money transfer operators (MTO's) or
  - Other officially registered institutions

- The <u>remitter’s choice</u> between the various channels of fund transfers may be influenced by a host of factors such as:
    - The kind of institutional infrastructure available in the host and the home countries,
    - Ease of access to formal financial institutions
    - Speed of funds transfers through alternate channels
    - Differential cost of funds transfers
    - Government regulations
    - Incentives offered by the home country in the form of tax concessions and interest rates and others
    - Identification requirements
    - Procedural burdens embedded in the formal channels

Figure 3: Remittance Channels



3.3 Legal and Regulatory Concerns

- Understanding the legal and regulatory issues governing the remittances business is vital to analyzing the use of *formal* and *informal* channels,
  - Because different channels create different challenges to compilers, and
  - Obtaining data on transactions depends on the set of choices of channels used in the country and institutional and legal environment governing remittance transactions and data compilation.
- Banks and other financial institutions in Ghana are required to report their *international transactions*, including remittances to;
  - the central banks or other national financial authorities.

- Central banks typically have the power to require banks and other financial intermediaries to report *statistical information* on their operations, including *cross-border transactions*; carried out on their own behalf or on behalf of clients.
- Again, in countries where central banks are at the same time *balance of payments compilers* and *supervisors* are in a better position to impose the statistical obligations to report transactions directly.
- Some countries often adopt a regulatory framework, with a *set of statistical regulations* directly addressing statistical activities.

4. Concepts and Measurements

- Remittances represent household incomes from foreign economies arising largely from the *temporary or permanent* movement of people to those economies.

- They consist mainly of funds and non-cash items sent or given by;
  - Migrants and,
  - The "net compensation" of border, seasonal, or short-term workers who are temporarily employed in an economy in which they are not resident.

4.1 Underlying concepts

- The balance of payments framework leans on the identification of *residents and non-residents* of a reporting economy.

According to the *BMP6*:

- the residence of households is determined according to the *center of predominant economic interest* of it members.

General guidelines of applying this principle;

- Being present for one year or more in a territory or intending to do so is *sufficient condition* to qualify as being a resident of that economy.
- Short trips to others countries – *for recreation or work* does not lead to change of residence, but with the intention of staying there for one year and longer does.

- If a member of an existing household ceases to reside in the territory where this household is resident, the individual ceases to be a member of that household.
- Persons going abroad to work become residents of the host country when they plan to stay for a year or longer, but rejoin their original household on return.

Other guidelines for residence for specific cases of:

- Students
- Medical patients
- Civil servants employed abroad in government enclaves
- Ship's crew
- Diplomats
- Military personnel

- Notwithstanding, the length of stay in a host country, these groups are considered residents of the originating economy.

4.2 Measurements of remittances

- The *compilation* and *dissemination* of remittances information are encouraged along a three foremost cumulative measures which relate to remittances. They are:
  - Personal remittances
  - Total remittances
  - Total remittances and transfers to non-profit institutions serving households

Definitions:

Personal remittances:

- Defined as *current and capital transfers in cash or in kind* between resident households and non-resident households, plus *net compensation of employees.*
  - » Net compensation is calculated by deducting taxes, social contributions paid by non-resident workers in the country of employment, transport and travel expenditures related to their work abroad from gross compensation.

Total remittances:

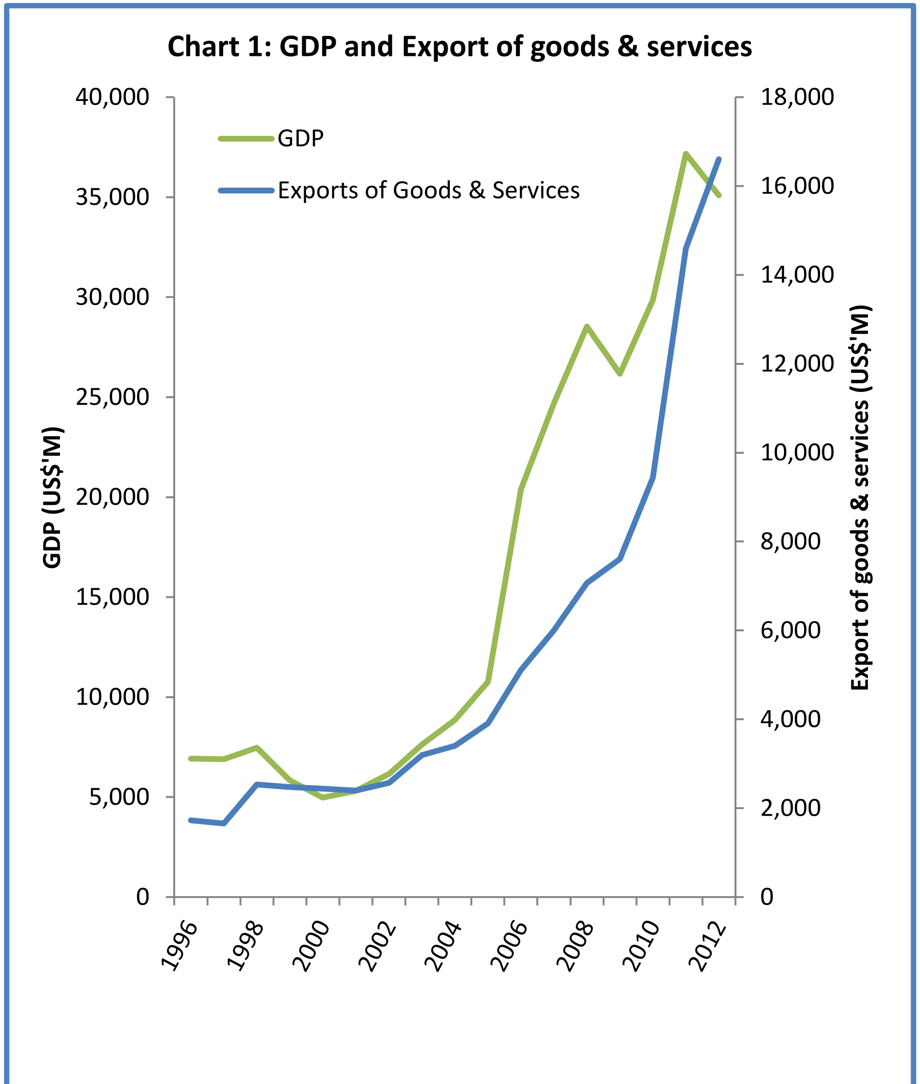
- Is the sum of *personal remittances and social benefits.* Total remittances include:
  - Income from individuals working abroad for short periods,
  - Income from individuals residing abroad (migrants)

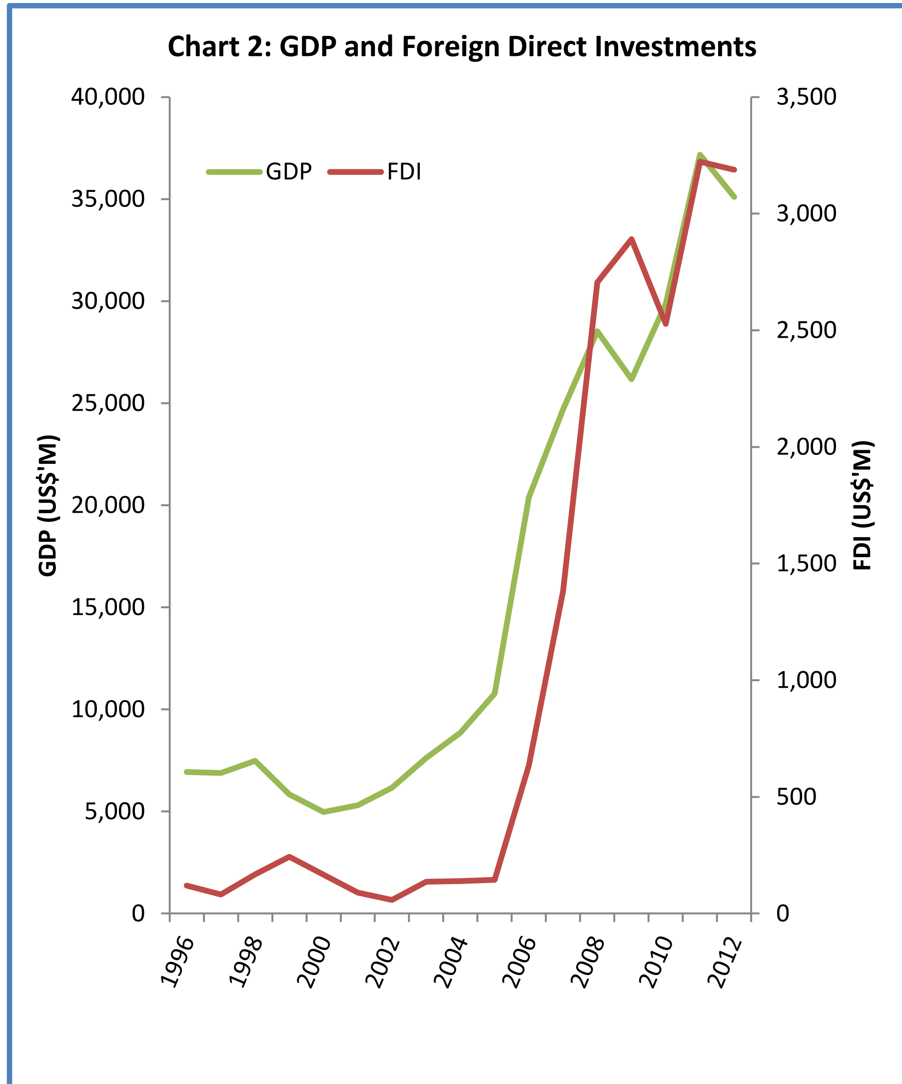
Social benefits from abroad (Social benefits include benefits payable in cash or in kind under social security funds and pension funds.

Total remittances and transfers to NPISH's:

- Includes *total remittances* and both *current and capital transfers to NPISH's* from any sector of the sending economy.
- It therefore includes all transfers benefiting households directly or indirectly through NPISH's, as well as the *net earnings of short-term workers abroad.*

5. Charts Depicting Analysis on Remittance Inflows





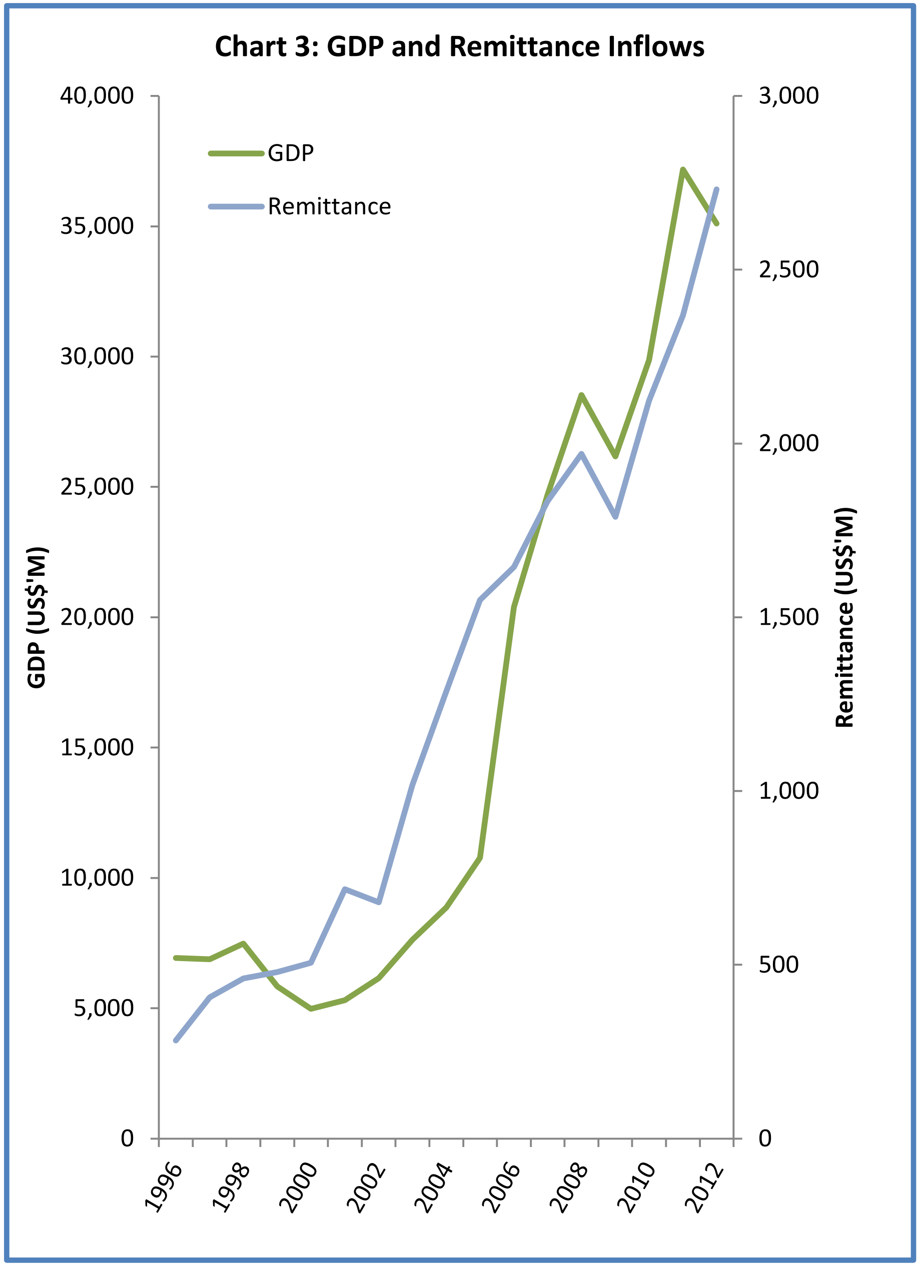


Chart 3: GDP and Remittance Inflows
GDP
Remittance
GDP (US$'M)
Remittance (US$'M)
40,000
35,000
30,000
25,000
20,000
15,000
10,000
5,000
0
3,000
2,500
2,000
1,500
1,000
500
0
1996
1998
2000
2002
2004
2006
2008
2010
2012

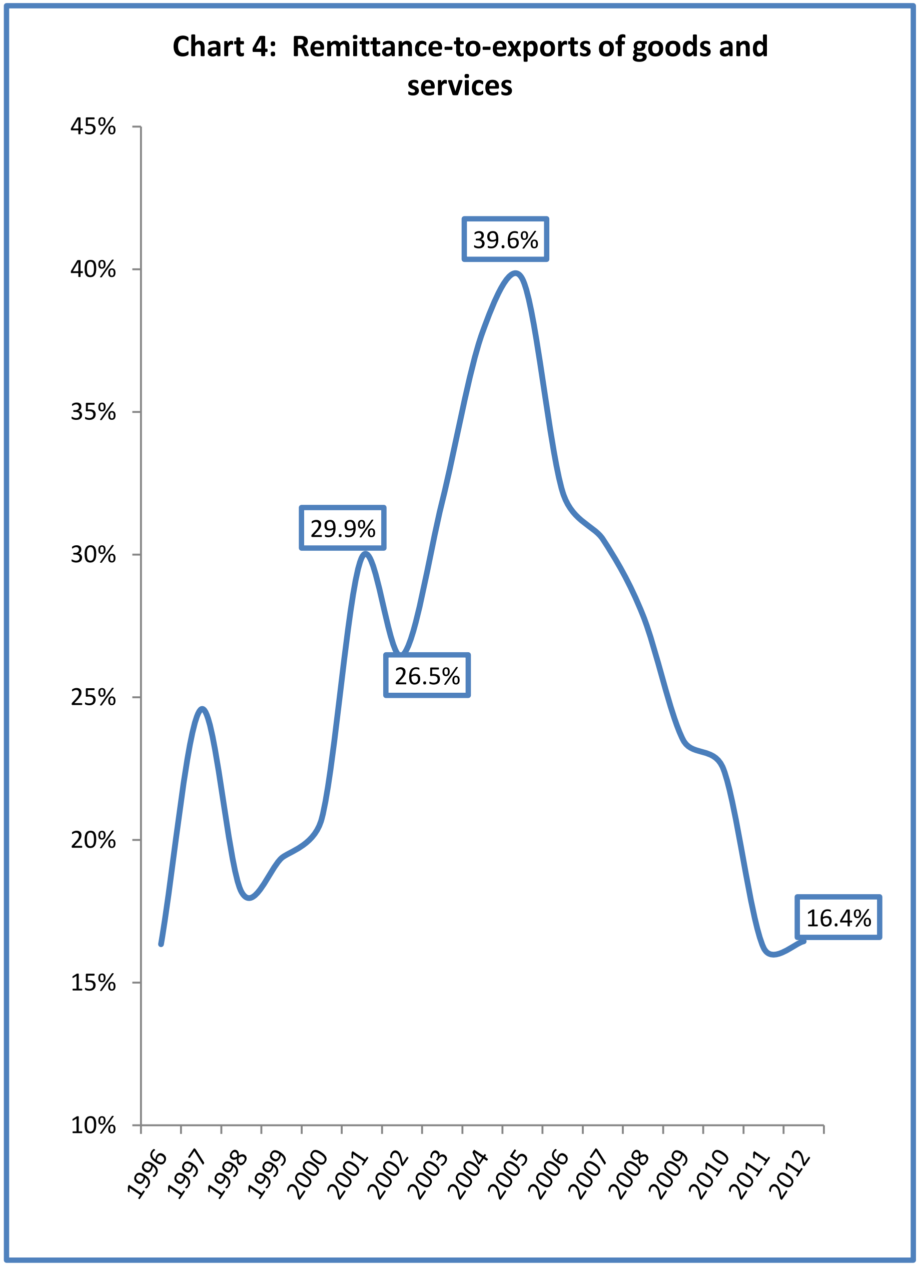


Chart 4: Remittance-to-exports of goods and services
45%
40%
35%
30%
25%
20%
15%
10%
39.6%
29.9%
26.5%
16.4%
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012

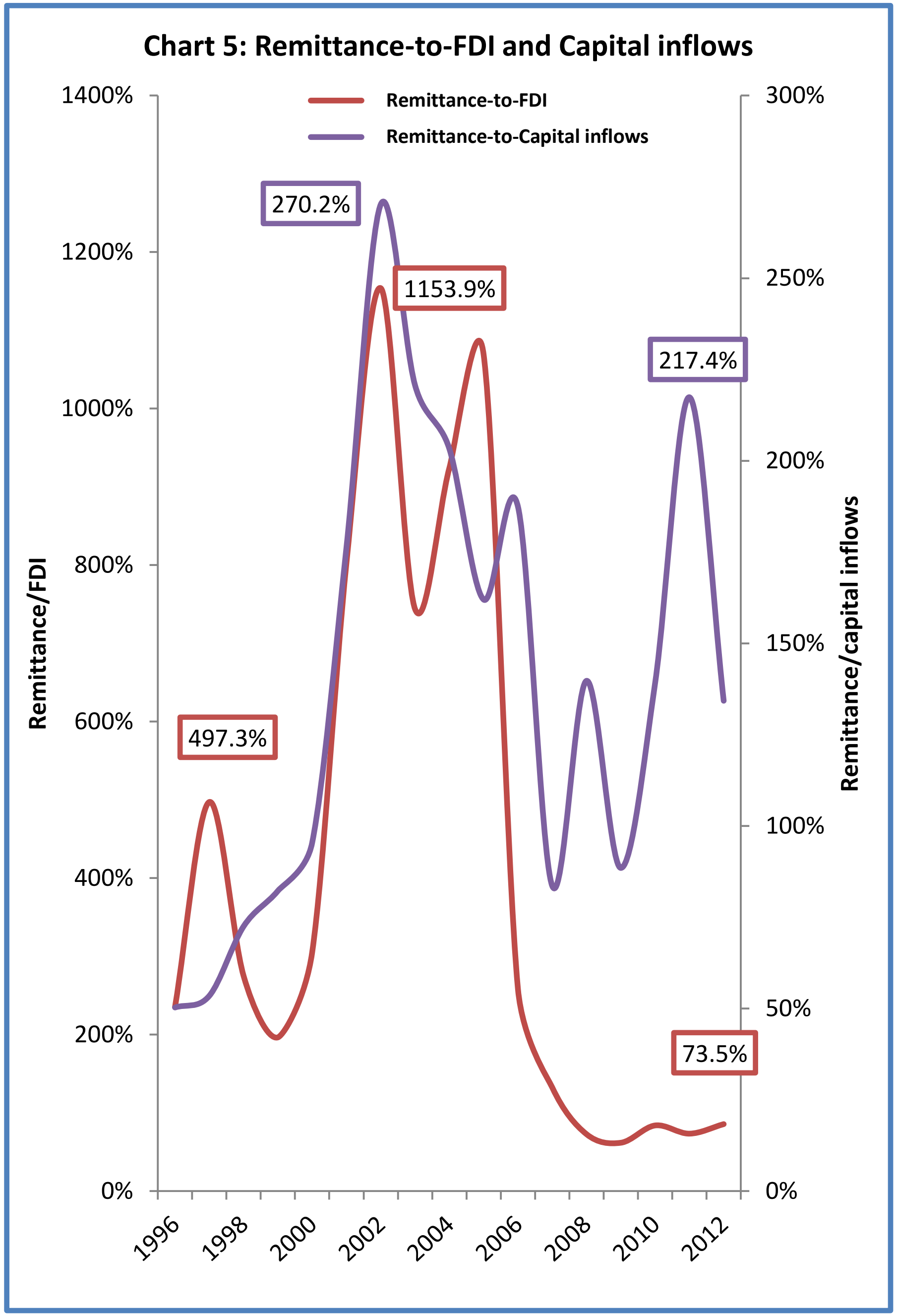


Chart 5: Remittance-to-FDI and Capital inflows
Remittance-to-FDI
Remittance-to-Capital inflows
Remittance/FDI
Remittance/capital inflows
1400%
1200%
1000%
800%
600%
400%
200%
0%
300%
250%
200%
150%
100%
50%
0%
270.2%
1153.9%
217.4%
497.3%
73.5%
1996
1998
2000
2002
2004
2006
2008
2010
2012

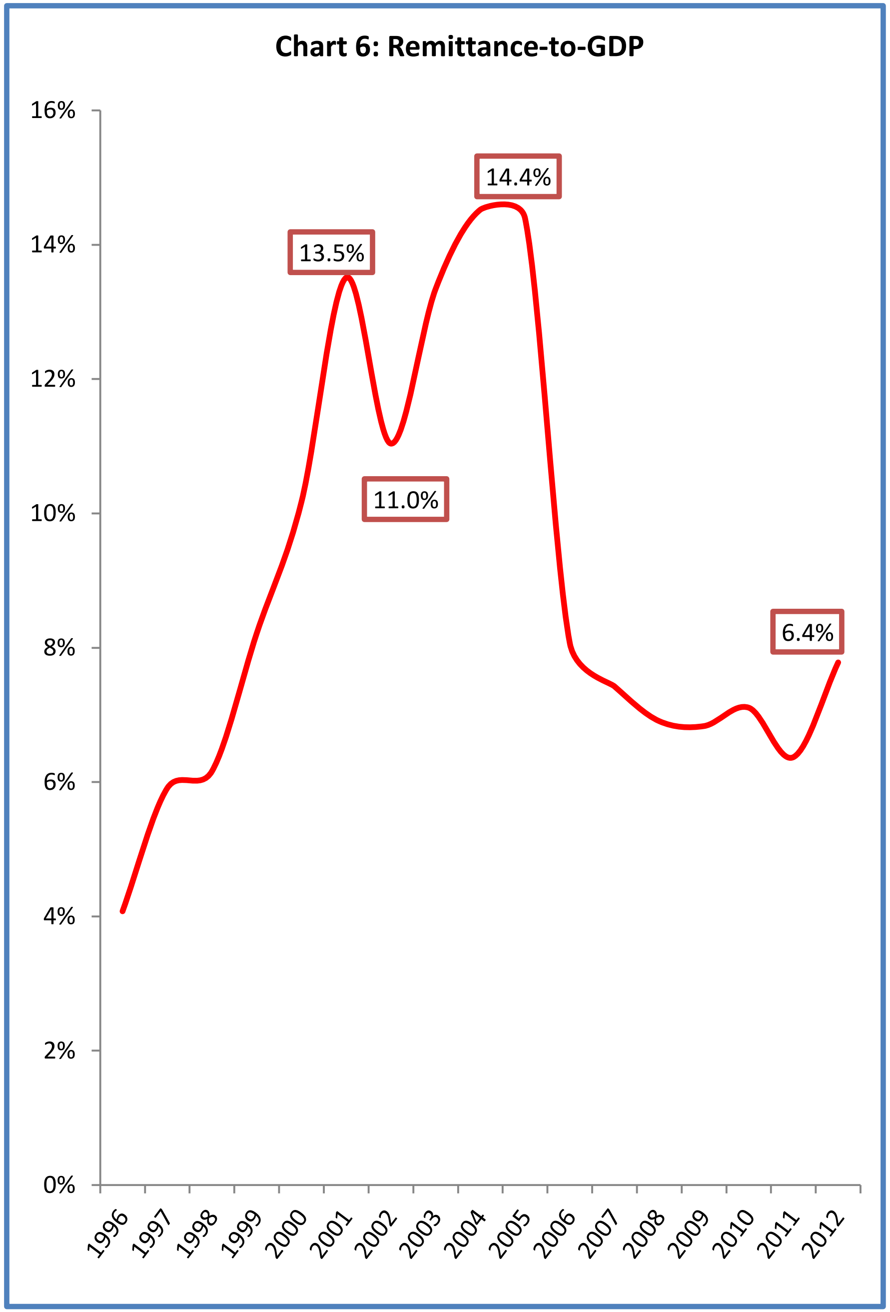
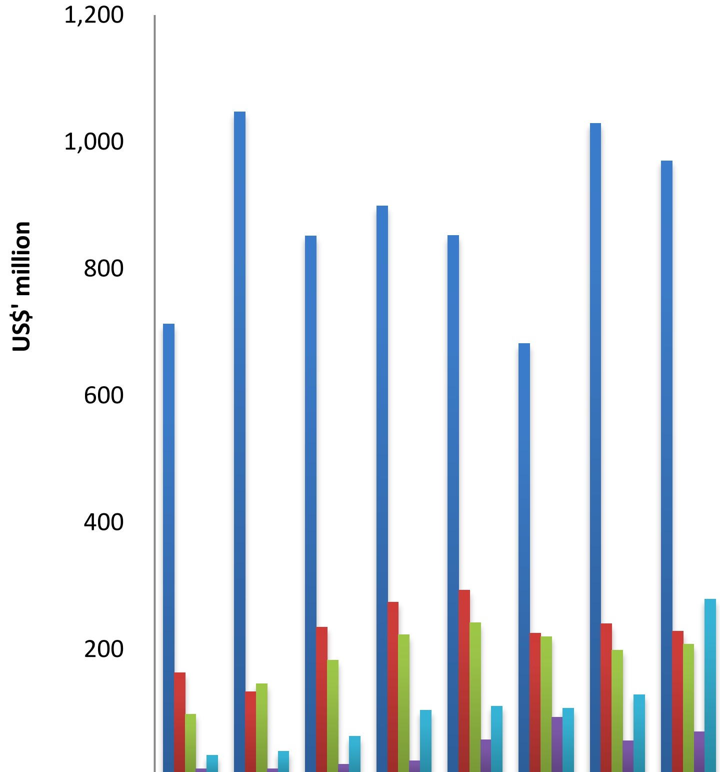


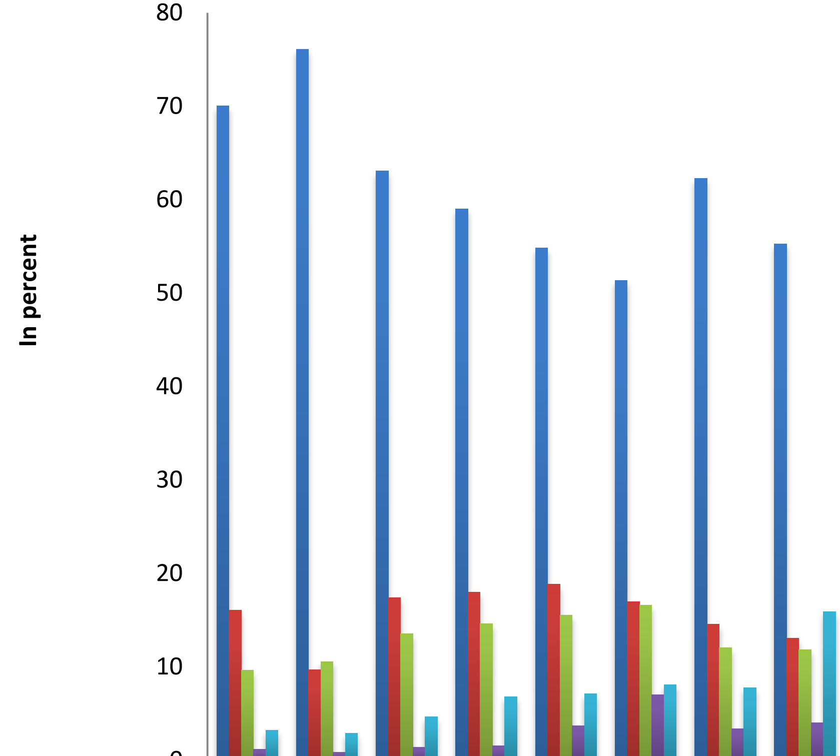
Chart 6: Remittance-to-GDP
16%
14%
12%
10%
8%
6%
4%
2%
0%
14.4%
13.5%
11.0%
6.4%
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012

Chart 7: Inward Individual Remittance by region 2004 - 2011



	2004	2005	2006	2007	2008	2009	2010	2011
U.S.A and Canada	712.9	1,047	852.1	899.2	852.5	682.1	1,029	970.3
U.K	163.3	133.0	235.1	274.4	293.0	225.6	240.1	228.8
EU	97.8	145.4	182.6	222.9	241.6	220.3	198.7	208.0
Ecowas	11.7	11.7	18.7	23.9	57.0	93.0	55.8	69.9
Others*	32.6	39.4	62.6	103.6	110.4	107.2	128.4	278.9

Chart 8: Inward Individual Remittances by region 2004 - 2011



	2004	2005	2006	2007	2008	2009	2010	2011
U.S.A and Canada	70.0	76.1	63.1	59.0	54.8	51.4	62.3	55.3
U.K	16.0	9.7	17.4	18.0	18.8	17.0	14.5	13.0
EU	9.6	10.6	13.5	14.6	15.5	16.6	12.0	11.8
Ecowas	1.1	0.9	1.4	1.6	3.7	7.0	3.4	4.0
Others*	3.2	2.9	4.6	6.8	7.1	8.1	7.8	15.9

6. Government Policy Initiatives

- With support from the World Bank and other donor partners through the MOFEP under the Economic Management Capacity Building (EMCB) project; ***a national remittances credit registry (NRCR)*** is to be established as a pilot project:
  - To assist Government of Ghana to create new possibilities for diversification of the country investments financing for remitting Diaspora funds to enhance service delivery and development outcomes.
  - To design and operate an e-platform of a centralized database for compiling national remittances flows.
  - This is to capture the regularity of flows, and to enable the utilization of such information to generate financial benefits and investments opportunities to remitters, recipients and the country as a whole.

7. Conclusion and Recommendations

- Government of Ghana has considered inward remittances, particularly, from migrants of a high policy interest;
  - Because of its anti-poverty nature and ability to gauge economic growth and development.

- Complementary policies are needed to persuade all other potential operators or providers of remittance businesses into the main stream regulatory framework, since regulatory data may be available for statistical and analytical purposes.

- The Government and the central bank could assist in persuading the MTO’s, the bank and other institutions in the remittances businesses to reduce the cost associated with it; this will help to minimize the flows through the informal channels.

7. Conclusion and Recommendations (cont’d)

- Persons going abroad to work become residents of the host country when they plan to stay for a year or longer, but rejoin their original household on return.
  - This category of persons could be considered for tax waivers on their personal goods (including their foreign investments, if they long to relocate them to Ghana) as incentives to encourage others of the kind to resettle home.