

Contribution of Remittance to Household Livelihood and Local Development: The Case of Gonder Town

Getnet Tarko¹ and Muluneh Woldetsadik²

Abstract

This study assesses the effects of remittances obtained from international migrants on household livelihood and its contribution to local development in Gonder Town. The survey appraises the amount and trends of remittance flow, mode of transfer, amount channelled to investment or local development activities, contribution to employment and sustainability of household economy. The survey employed mixed design to collect, analyze, interpret and present data. Both quantitative and qualitative data were acquired using questionnaire, focused group discussions and interviews from purposively selected three sample kebeles¹. 150 remittance recipient households were selected using snow ball sampling method. Data was also gathered from the National Bank of Ethiopia and two branches of Commercial Bank of Ethiopia found in Gonder Town. Descriptive statistics was employed to analyze, interpret and present the data. The findings showed there were large numbers of out-migrants from Gonder Town and the region, who have resided abroad. Reasons for out-migration were both political instability of the 1970s and 1980s and availability of opportunity to travel to the US using DV lottery and employment opportunities in other parts of the world. It was found that many migrants send remittances using formal and informal channels to their parents, relatives and friends. The amount of remittance received using the informal channels is likely to exceed that of formal channels. The amount of money formally remitted through the two branches of Commercial Bank of Ethiopia found in the area alone in the last two years was about 83.4 million ETB. The respondents reported that the remittances have contributed considerably to improve livelihoods and local development. About 36% of the remittances were used for direct household consumption while the remaining 64% was used for capacity building and expansion of urban services and hence create employment. Remittances transferred from the Diaspora seem to have supported considerably local economic and infrastructure developments of the city. Therefore, policy makers and civil societies should train, guide and advise remittance recipients of the town and the region at large how to more productively and efficiently use remittances.

Keywords: Migration, out-migrant, remittance, household, livelihood, urban service investment, local development, Gonder, kebele

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Introduction

The movement of people across international boundaries has enduring economic, social, and cultural implications in both countries of origin and destination. During the last several decades, an increasing number of people have travelled long distances across international borders for political and economic reasons. They run away from home and rescue their lives because of natural calamities, war and political harassment. They also travelled across borders not only to find a source of livelihood in foreign lands but also to support family members left behind through the flow of remittances (Barcaglioni, 2008). In poor countries like Ethiopia, where the domestic economy has showed insufficient improvement, many citizens found that out-migration from region of origin to other countries is one of the many survival strategies for migrants themselves as well as their families and relatives left behind. However, for most out-migrants of Gonder, migration in the 1970s and 1980s was not mere survival strategy in economic terms, but many people ran away from home because of political upheavals and the bloody revolution, which was spearheaded by the military regime that overthrew the Haile Selassie I regime by coup d'état in 1974. Many Ethiopian elites and that of Gonder region in particular of the period (1970-1980) were labelled as 'Ehapa', member of Ethiopian Peoples Revolutionary Party (EPRP), which was out-lawed by the military regime. Many of its members and other opposition party members found in Gonder town and region ran away from home following political harassment, torture and assassination. Due to this reason, large number of people migrated to different parts of the world via Sudan. Many of these migrants from Gonder town and the region, who managed to run away from the regime, now reside in the USA, West European countries, and in other African countries and make their lives. They are the ones who have been sending the largest proportion of remittances to the region of origin, Gonder in this case. However, the remittances sent to parents, relatives and friends found in the city is not only from Diaspora who out-migrated running away from political harassment and execution of the Derg regime but also from those who out-migrated from the area in the last 2-3 decades for economic reasons.

Muluken (2008) pointed out that there is large amount of remittance transferred to Ethiopia from the Ethiopian Diaspora. He found out that flow of remittances from Ethiopian migrants who resided abroad was one billion USD, during the 2007/08 fiscal year.

It appears there are no or scanty studies made in Ethiopia that show the impact of remittance on household livelihood and its contribution to local development. Hence, there is knowledge gap on issues related to remittance- amount of money remitted to residents of Gonder town, composition and mode of transfer of the remittance, background of remittance receivers, and its contribution to household economy and local development. The survey attempts to give a general insight on proportion of the remittance that directly went to household consumption; what proportion of the remitted money was set aside to investment; and the proportion used to assist development of infrastructure and other urban service sectors. Thus, this survey was made to seek answers to some of the questions noted above and fill information gap in this regard and come up with possible suggestions for maximizing benefits from the remittances to facilitate local development.

Therefore, by way of filling knowledge gap in connection with impact of remittances on household livelihood and its contribution to local development, the paper tries to evoke the attention of policy makers to make them maximize the amount of remittance transferred.

Objectives of the Study

The overall objective of this paper is to explore contribution of remittance to household income and hence livelihood situation and its contribution to local development. More specifically the survey aims at assessing impact of remittance on livelihoods of some households, recognizing the contribution of remittance to local development, determine the amount or magnitude of inflowing remittance, to identify the channels, both formal and informal, through which remittances were transferred to the region.

Materials and Methods

The data used in this study were obtained from both primary and secondary sources. The primary data were acquired from household sample surveys using semi-structured questionnaire, key informant interview, focus group

discussion and field observation. Some of the main socio-economic variables of remittance receiving respondents were included in the questionnaires.

Household Sample Survey

The researchers, in consultation with purposively selected key informants, municipality of Gonder Town and Gonder Development and Cooperation Organization (GDCO), identified 150 remittance receiver households, 50 households each from three purposively selected urban *kebele* administration units (UKAU), namely *Kebele 14* (Gagbriel), *18* (Maraki) and *19* (Azezo Demeza). These were areas of high concentration of remittance recipients. For example the last two, *Kebele 18 & 19*, Maraki and Azezo Demeza, respectively, were relatively new settlements and developed by remittances transferred by Diaspora *Gonderes* who reside in Israel and the USA (the new settlement is thus called *American sefer*, which literally means American village).

There was no complete and organized list of remittance receiving households in the *kebeles*. Therefore, selection of sample households was made using snowball sampling technique, also known as 'chain referral' type of sampling, which is used to identify 'hidden population', groups not easily accessible by surveyors using other sampling strategies. Then semi-structured questionnaires were administered to acquire data related to history of migrants and remittance and demographic and socio-economic profiles of the sample households. Moreover, three focus group discussions, which consisted of *kebele* leaders, selected elders, young men and women, were conducted to gather data on the situation of remittance receiving household and the role of remittance on the socio-economic lives of remittance receiving households found in the specific *kebeles* and the town at large. In-depth interview was held with the three *kebele* leaders, community members and with selected higher office bearers of Gonder Town and investment bureau. The interview revolved around the socio-economic conditions of remittance receiving households and the role of remittance in the local economy. The archives of the National Bank of Ethiopia and two branches of the Commercial Bank of Ethiopia, i.e., Gonder Main and Jantekel branches, were used to collect figures on the

amount of remittance transferred through formal channels to all persons in Ethiopia and Gonder Town, respectively. Reports of Gonder Town municipality and other secondary sources were used in the survey. The raw data were sorted out and summarized using recent version of the SPSS. Descriptive statistics, graphs and maps were used to make analysis and presentation.

The Study Area

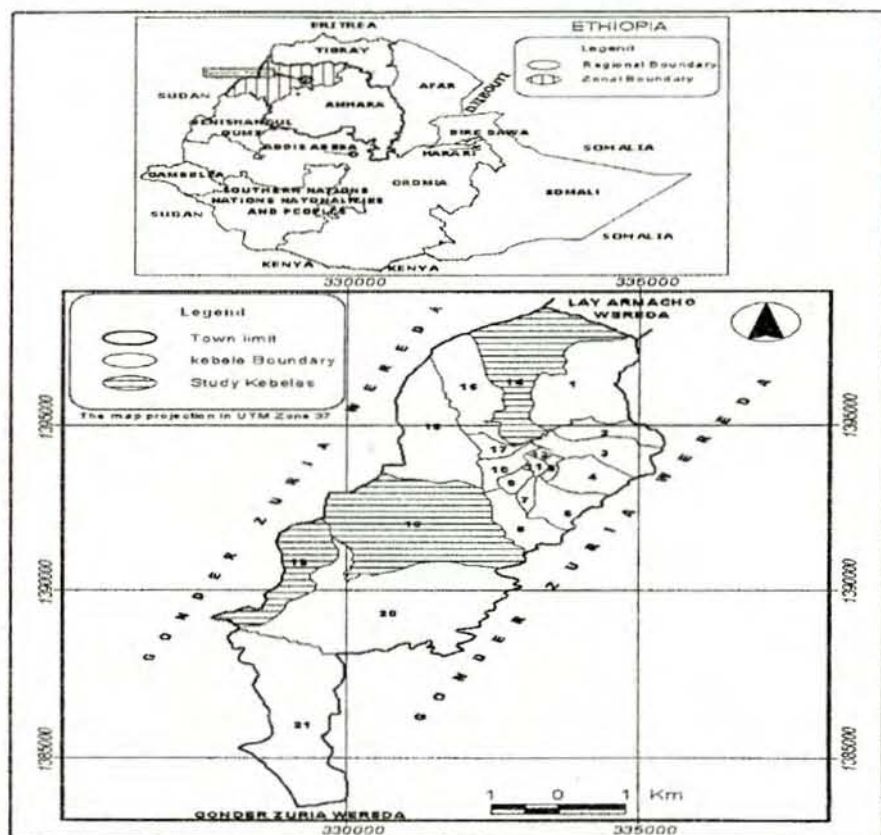
Gonder is one of the oldest towns found in north western part of Ethiopia. It is located about 748 kilometres (464 miles) northwest of Addis Ababa. Astronomically it is located at about 12° 40' North and 37° 45' East (see Figure 1). Gonder is one of the oldest urban centres in Ethiopia. It was established as a capital of Ethiopia during the reign of Emperor Fasiledes (1632-1667).

Gonder Town retained its status as capital until the middle of the nineteenth century, the time when the government's seat was moved to Debre Tabor and then to Mekdela, during the reign of Atse (Emperor) Tewodros. It was also used as provincial capital of Begemderna Semen until the end of the 1980s. Since then it has been the seat of North Gonder Zone Administration.

Gonder Town is situated on hill tops, which sharply rise from Lake Tana depression and formed the northern boundary of the town, which is limited by the eastern slopes of mountains Mushira Dengay, Goha Terra (Tigrie Machohiya), Hog and Amba Soni. The western boundary runs along the crests of Mt. Amba Terara, Mt. Bilajig and Mt. Anchi Duba. To the south, the town extends relatively over gently sloping areas towards Tedh where Tewodros II Airport is situated, while the eastern boundary of the town is limited by River Angereb.

River Qeha, which divides the town into two parts drains down slope in the south and south eastern direction until it forms merger with River Megech, which eventually ends up in Lake Tana. The town, together with its rural hinterlands covers an area of about 40 square kilometres. It is given *woreda*² administrative constituency, which roughly is equivalent to a level of district, called Gonder Zuria *Woreda*.

Figure 1. Map showing the location of Gonder Town and sample kebeles: Kebele 14, Kebele 18 and Kebele 19 called 'American sefer'



Source: CSA(2007)

It consists of 21 kebele administration units 12 of which are solely urban settlements while the rest are suburban *kebeles*. The town had a population of 36309, 41788, 80675 and 112249 in 1967, 1970, 1984 and 1994 respectively (GUMP, 1995). In 2007 it had a total population of 218,464 of which females and males, respectively, accounted for about 52.6% and

47.4% (CSA, 2009). This makes Gonder Town the sixth largest urban centre in the country next to Bahir Dar.

Structure of the economy of the town is such that the informal sector mainly the traditional and old forms of activities like *tella*, *areki*, *injera* making and vending, and other related services are dominant, while manufacturing, handicraft, transport, construction and urban agriculture including services related to banking, shop based retailing, etc. are some of the very common daily activities in the town. The town attracts thousands of tourists for its historically important castles and monasteries. There were 13 privately owned and forty seven government run schools ranging from pre-school classes to colleges and university. Moreover, there were 51 privately and public run health institutions consisting of pharmacies, clinics and a hospital. The town has fairly developed motorable road network. Three primary federal roads in the south, southwest and north of the town converge at and or diverge from the town. Inhabitants can easily have access to and from the outside world using modern means of communication systems including telephone and internet.

Literature Review and Theoretical Framework

Migrants often send materials of different types including money in hard currencies from places of destination to countries of origin. Sorenson (2004) defined remittances as portion of migrants' earnings sent from place of migrants' destination to place of origin. Carrasco and Ro (2007) pointed out that international remittance includes transfer of funds by foreign workers who reside abroad and are working in developed countries. Remittance can be sent in cash and/or kind and using formal or informal channels. But the term 'remittance' often refers to monetary transfer in many literatures.

For the purpose of this study, remittance is considered as the money sent by individuals of Ethiopian origin who reside in foreign countries to their relatives, friends and communities that live at home. Migrants, in this case, include folks who are workers, have or not legal status, refugees, permanent or temporary, male and female who work outside of their home country and send money back home.

Amount of remittances transferred from abroad to recipients found in developing countries have substantially increased in the last one decade. The Global Commission for International Migration (GCIM) reported that there were about 200 million international migrants with formally transferred remittances of about 160 billion USD, with perhaps 300 billion USD additionally transferred informally in 2004 (GCIM, 2005; World Bank, 2005). World Bank reports showed that India received 21.7 billion USD in 2005, which was the highest amount of remittance followed by China, Mexico, France and Philippines. The amount of remittance they received, respectively, was 21.2, 18.1, 12.7 and 11.6 billion USD (World Bank, 2006). Remittances are now close to triple the value of the official development assistance (ODA) provided to low-income countries and comprised the second largest source of external funding for developing countries after foreign direct investment (FDI) (GCIM, 2005). However, Kapur and Singer (2006) reported that remittances have emerged as the least unstable source of financial flows for countries afflicted by shocks and is the single most important source of insurance for many poor countries.

Official communications and data released by the Ministry of Foreign Affairs of Ethiopia showed that there are more than one million Ethiopians who reside in several countries of the world - North America, Europe, Middle East and Africa. Many of them send remittances to Ethiopia.

The New Economic Approach

By incorporating the larger social class, typically households and communities that are interested in risk minimization rather than in profit maximization, the new economic approach elaborates the decision making role of microeconomic functional models (Stark, 1991). This approach conceptualizes migration as a household strategy focusing not so much in maximizing income but diversifying sources of income in order to minimize the risk of unemployment, loss of income, crop failure, etc. and slacken constraints, given the imperfections that plague credit and insurance market in sending country (Stark and Tylor, 1989).

The strength of the new economic approach lies in the fact of its integration of migration decision making with migrants' remittance behaviour and households' remittance use. As the main motivation for migration is to

The result from the probit model implies that receipt of remittances increases the positive probability of spending on some items. Yet, it is never conclusive whether remittances increase expenditure on consumption good, investment goods or both. However, the result from the second part of the two-part model conveys more informative results. The lognormal model traces the relationship between the amount of remittances received and expenditures on different consumption and investment (investment type) goods, for those observations with positive expenditures on respective goods. The diagnostic tests of the model indicate that the model fits the data well. The log likelihood values of the two parts model (which is the sum of the log likelihoods of the two model) is considerably higher than the log likelihood values of Tobit, which is an alternative model in similar literature. Furthermore, the predictive power of the model has also improved over an alternative model, Tobit model. The predicted expenditure from the second step closely resembles the actual expenditure values on all expenditure items. Furthermore, included explanatory variables explain a reasonable proportion of variation in the dependent variables, expenditures on different items, as can be seen from the R-squared.

Table 5. Lognormal Regression Results

Variables	Expenditure Categories					
	(1) Food	(2) Non-Food	(3) Education	(4) Health	(5) Durables	(6) Agriculture
Age	-0.0003 [0.002]	-0.0023 [0.002]	0.0065** [0.003]	0.0024 [0.003]	-0.0000 [0.005]	0.0015 [0.003]
Sex	-0.1146* [0.066]	-0.2264** [0.092]	0.1586 [0.117]	-0.0544 [0.137]	-0.1423 [0.187]	0.1479 [0.119]
Education	0.0665* [0.037]	-0.0107 [0.053]	0.1790*** [0.069]	-0.0594 [0.076]	-0.1237 [0.112]	0.1449** [0.058]
HHSIZE	0.0623*** [0.011]	0.0686*** [0.014]	0.1230*** [0.021]	0.0391* [0.022]	-0.0011 [0.032]	0.0739*** [0.016]
Land size	-0.0062 [0.009]	0.0481*** [0.013]	0.0481*** [0.018]	0.0284 [0.019]	0.0277 [0.027]	0.1045*** [0.025]
Remittances	0.0286*** [0.010]	0.0281** [0.014]	-0.0180 [0.016]	0.0206 [0.021]	0.0466 [0.029]	0.0054 [0.015]
Assets	0.2404*** [0.023]	0.4562*** [0.030]	0.2708*** [0.039]	0.2839*** [0.049]	0.4892*** [0.068]	0.4682*** [0.038]
Income	0.0045 [0.006]	0.0265*** [0.008]	0.0150 [0.011]	-0.0309** [0.014]	0.0242 [0.020]	0.0339*** [0.011]
Loan	0.2529*** [0.047]	0.1938*** [0.063]	0.0754 [0.079]	0.1258 [0.104]	0.0242 [0.151]	0.1263 [0.078]
LL (2)	-1741.17	-2004.58	-1557.90	-1259.19	-1323.06	-1783.91
LL(1) +LL(2)	-1833.91	-2287.45	-2298.03	-2205.70	-2210.06	-2394.24
LL(Tobit)	-2079.11	-2981.26	-2511.84	-2619.42	-2427.43	-2985.58
Expenditure	4467.92	1411.08	152.89	331.70	923.48	957.41
Expendhat2step	4725.78	1651.99	104.40	301.53	681.110	1289.51
Observations	1,442	1,365	1,005	773	684	1,133
R-squared	0.32	0.40	0.23	0.22	0.19	0.44

Values in brackets are robust standard errors.*** p<0.01, ** p<0.05, * p<0.1

The lognormal estimation results imply that household characteristics such as education level of the household head increases expenditures on investment or investment-type goods such as education and agricultural inputs and some consumption items. Similarly, household size significantly increases expenditure on both consumption and investment items, except durable goods. More obviously, land holding size increases investment expenditures on agricultural inputs. Increase in income increases expenditures on some items such as non-food items and agricultural inputs, but decreases spending on others, such as health services. This might be the case because wealthier families (and hence healthier families) spend less on health services. Furthermore, asset levels consistently and significantly increase spending on all items. Contrary to our expectation and the results from part one, availability of loans doesn't increase the expenditures on investment type goods, but increases consumption expenditures.

The estimated coefficient corresponding to remittances shows that remittances have significant effects on the ways households decide to allocate their resources. Increase in remittances increases the shares devoted to food items and the estimated coefficient is significant at conventional level of significance. Specifically, one percent increase in remittances increases the amount devoted to food items by two percents. Likewise, one percent increase in the amount of remittances received by the households increases the amount of income spent on non-food items by more than 2 percent. This implies that receipt of remittances significantly and positively affects consumption items, which increases the welfare of households in the short-run, but not in the long-run. On the other hand, the amount of remittance received doesn't affect the amount allocated to human capital development goods (education and health). Similarly, receipt of remittance doesn't affect spending on capital investment (durables and agricultural inputs) goods. This implies that rural households tend to spend remittances on consumption items such as food and non-food items than on investment (or investment type) goods. In other words, remittances are used to maintain the short run consumption needs of households.

The econometric results confirm the findings of our descriptive analysis. Remittances increase the households' budget shares of expenditure on consumption goods, but don't increase the shares of income spent on

investment goods. In order to see how sensitive the results are, the empirical model was estimated with Tobit model. The results are presented in Appendix B. The coefficients on remittance indicate that household expenditures on food and non-food items significantly increase with remittances. In contrast to the results above, Tobit results convey that receipt of remittances also increases expenditures on health and durable goods. Yet, it is important that these results are interpreted with caution. The consistency of Tobit depends on whether errors are white noise or not. However, we have seen that a limited number of households have positive spending on these items and the distribution of expenditure data is right skewed with fat tail.

Conclusions

In this study, we have tried to explore the relationship between receipt of remittances and the spending behaviours of rural households in Ethiopia. Addressing this issue is categorically important in light of the fact that developmental impacts of remittances depends on whether remittance income is spent on consumption or investment goods. In doing so, the study estimated two-part model in Engle's curve framework using the final round of Ethiopian Rural Household Survey (2009). To augment the results from the parametric model, the study has analyzed the data using some non-parametric tools such as mean difference tests. From the foregoing analysis one can conclude the following points.

First, the study has shown that significant number of households receive significant amount of remittances in rural Ethiopia. In particular, it has been shown that close to a quarter of rural households surveyed have received remittances, in the form of money or goods, either from domestic or international migrants. This result clearly shows that significant number of households receive remittances each year, even compared to countries with high migration incidence such as Mexico and Albania where less than 20 percent of households receive remittances (Rivera and Gozalez, 2009; Castaldo, 2007). Furthermore, the average amount of remittances received by each household is also significant even compared to their total annual income. This augments the fact that remittances to Ethiopia have become the most important external source of income.

Data obtained from the two public commercial banks showed about 83.4 million ETB was transferred in about two and half fiscal years between 2008 and mid-2010. But, assuming there was 44% informal transfer as established by the National Bank of Ethiopia, the total amount could have been about ETB 120.2 million. The total amount of inflow of remittance, which was registered in the two branches of the Commercial Bank of Ethiopia found in Gonder Town was about 35,278,358 ETB in 2008. The amount slightly dropped to 31,297,637 ETB in 2009. It decreased by about 11.3 percent (398,072.30). Such drop in the amount of money transferred through formal channels might have been due to the then economic depression that occurred in the USA and other parts of the world. The other possible reason could be shift in preference, on the part of customers, to use other formal and informal mode of money transfer channels such as using private banks, postal services, remittance companies and informal means. The half year remittance flow of 2010 was 16,037,717 ETB. Had the same amount been doubled it could amount 32,075,434 ETB only, which would be lower even as compared to that of 2008. The trend showed there is still a slight decline for the above noted reasons or others. In spite of this, however, the total amount of money remitted in the two and a half years to the region could be more than the amount ever transferred before for the same time duration.

Remittance transfer channels

Migrants send money to countries of origin through formal and informal channels. Formal channels include major money transfer operators such as Western Union and Money Gram and banks, such as Commercial Bank of Ethiopia and the Bank of America. Some migrants use formal channels, but many others prefer informal channels because of language barriers, meaning remitters sometimes could not communicate easily and clearly with remittance receivers. Moreover, service charge for transferring remittances, in some cases, and other associated costs, appear inhibitive and deter the process of flow of money transfer through formal means. Consequently, large amount of money has been transferred through informal channels such as carrying the money with oneself while travelling to Ethiopia and sending it by friends and relatives who travel to Ethiopia and Gonder Town, specifically. Although it is difficult to exactly tell the amount, says Ato Asfaw Gebregziabhear, who is in charge of investment office of North

Gonder Administrative Zone, the amount of money transferred using the informal channels to Gonder Town and the region at large could be more than the amount formally remitted. Migrants may carry cash home themselves or send it through friends (Carrasco and Ro, 2007).

However, the result of opinion surveys made among 150 sample households showed that many households received remittance both using formal and informal channels. About 85 percent of the remittances were transferred formally using banks, Western Union agents and Money Gram. About 15 percent of remittance receiving households collected money through the informal channels, carried either by migrants themselves or friends and relatives. They opted to use the informal channels probably to avoid relatively high cost incurred for money transfer service, or wishing to receive the remittances in hard currency so as to make more money from black market foreign currency exchange. However, opinions showed that the formal channels are faster and more reliable than the informal modes of transfer and the former contributes positively more to the foreign currency earnings of the government of Ethiopia.

Contribution of remittance to household livelihood

Observations showed that household members of remittance recipients were engaged in different activities. About 30%, 25% and 18 % of the household members were students, self-employed and government employees, respectively, whereas 4.5 % were pensioned elders and about 23% were unemployed. Salary earned from government and from private sector, respectively, accounted for about 21% and 7 % of the household earnings, while commercial activities and remittance contributed to the largest proportion of the household strategy, 39% and 33%, respectively.

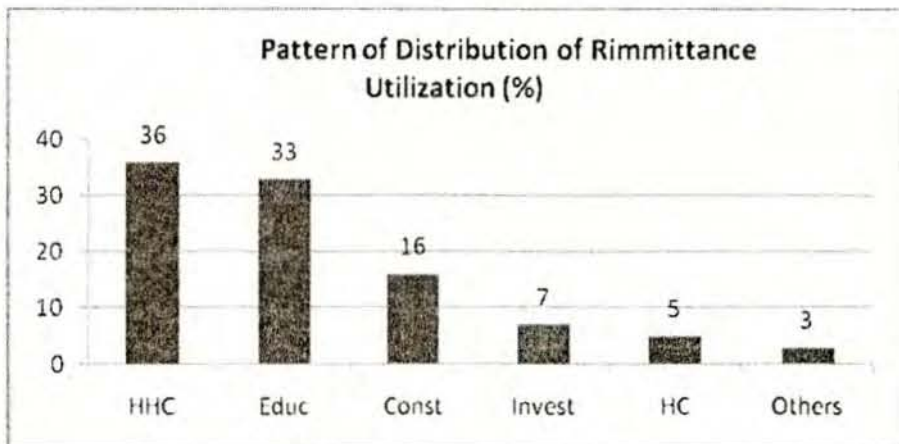
Pattern of remittance utilization and consumption

Many researchers feel that how migrant families spend remittance earnings can have effect on household livelihood and local economy. But the question of how migrant families spend their remittance earnings is a topic of much debate. Some studies claim that households spend most of the remittances on direct consumption rather than saving and investment.

Hence, such patterns of expenditure and use tend to have little development effect on the local economies.

However, other studies found that migrant families spend the remitted money on education, housing and new business. These patterns of expenditure can help to build human and physical capital. For example, remittance-inspired expenditures on education can help create the type of human capital that is often seen as an important condition to accelerate economic growth. Similar patterns of remittance-inspired expenditure on housing can create both better living conditions for migrants' families and relatives, and create new employment opportunities for people working in the construction sector of the local economy. Ato Asfaw Gebregzeabher validates such positions and he underscored that remittances are now more used for investment, to run small-scale business enterprises, schools and health care institutions than they were in the past. He said remittances were largely used for domestic consumption in the past, particularly before the fall of the Derg regime.

Figure 2. Pattern of Distribution of Remittance Utilization (%)



HHC= household consumption; Educ = stands for money allotted for training to pay tuition fee; Const = house construction; Invest = investment; HC = health care

Source: Field Survey, 2010.

Respondents reported that remitted money has been used for different purposes including paying school tuition fees, for training and other correlates, household consumption, investment, health care and for building houses (see Figure 2). About 41 % of the respondents reported that they used considerable portion of the remittance for direct consumption and health care, while more than half of the households reported they used it for direct and indirect investment - to build capacity (33%), to buy, construct, or innovate houses (16%), and to start business directly (7%). About 3% of the households spent the remitted money on petty-trade and to pay for recreational and luxury purposes.

However, about 7 percent of the remitted money was saved and used to run business enterprises such as hotel, cafe, mini-supermarkets and small shops, school and college and health care institutions. Reports showed that in most of the above noted cases a lot of people got the opportunity to work and get engaged in the newly emerged business enterprises. Hence, the findings prove that remittances have been used not only for mere domestic consumption but used also to improve livelihoods and create employment opportunities in the town.

Share of remittance used to sustain household livelihood

The results of household survey showed that the proportion of remittance secured by inhabitants of Gonder Town to maintain household livelihood ranges from 10 to 100% (see Table 3). About a quarter of the respondents reported that more than 80% of the remittances were used to cover costs of household consumptions, while about 46 % of them said only less than 50% of it is used directly to sustain household livelihoods. About 30 % of them used it to cover 60 to 70% of household expenses, i.e. to buy food, clothes, settle bills, and pay tuition fees and for other similar expenditures. Hence, it appears that remittances were important sources of livelihood expenditures for the selected remittance receiving households of the town.

Table 3. Share of remittance that goes to support livelihood

Proportion of remittance used for direct consumption	Respondents	
	No	(%)
(%)		
10	22	14.7
20	8	5.3
30	17	11.3
40	16	10.7
50	6	4.0
60	36	24.0
70	9	6.0
80	19	12.7
90	11	7.3
100	6	4.0
Total	150	100

Source: Field survey, 2010

Household assets bought with remitted money

The survey results noted in Table 4 show that remittance recipient households owned different assets using the remitted money. Among these, about 23 percent of the households bought or built houses, about 21 and 14 percent of them bought electronics and jewellery, respectively, while about 7.2, 2.5 and 1.7 percent of the respondents became owners of a hotel, restaurant and café, respectively. Moreover about 4.5, 4 and 1 percent of the respondents run taxi, *bajaj* and bus based transportation services, respectively. These are used as one of household livelihood strategies and contribute to the development of local transportation and other service sectors. About 4.5 percent of remittance recipient households have storehouse, beauty salon, barber shop, and timber house. Therefore, the survey result showed that most of remittance receiving households became owners of different highly-valued immobile and mobile properties. Therefore, it may be safe to say that remittances enabled households to own

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assets with which they could make money and improve households' livelihoods. Some of them, although no absolute figures to refer to, created employment opportunities for some of the inhabitants and revitalized local development in the area.

Table 4. Assets Acquired Using the Remitted Money

<i>Remittance used for</i>		<i>Respondents</i>	
		No	Percent
Assets			
Housing		65	22.5
Electronics		60	20.7
Jewellery		32	11
Investments			
Running	Shop	41	14
	Hotel	21	7.2
	Café	18	6.5
	Taxi	13	4.5
	<i>Bajaj</i>	12	4
	Restaurant	7	2.5
	Bus	3	1
Pensions*		5	1.7
Others		13	4.5
Total		290 ⁴	100

* This is an exception and cannot be considered as an asset.

Source: Field survey, 2010.

Remittance used to improve livelihood

The money earned through remittance is used in many ways. It is sometimes used to clear power, telephone and water bills, to buy food stuffs and clothes, to pay tax, and cover costs of social obligations, arrange annual festivities and other household costs. In many other cases remittance is also used to improve housing conditions because many people often think that owning a house is often given priority.

Many people, particularly female young adults from Gonder Town, migrated to some Middle East countries like Lebanon, Kuwait, Saudi Arabia, Qatar, etc. for economic reasons, to get employment. Mohammed (2007) reported that remitted money by migrants from countries of the above noted region is used to buy private houses and other forms of household assets that can improve own livelihood situations. By way of validating the above idea Atsede Zenebe, a pharmacist who works in a drug shop owned by a family, noted that:

Source of income in our household, before 11 years, was only the salary which was earned by our father. His salary was used to cover all household consumption expenditures including tuition fees and other expenses needed to send family members to school and pay house rents because we did not have our own house to live in. But thanks to the DV lottery, after my brother got the chance to live in the USA 11 years ago, we managed to easily get what we want. We now own a house we live in and this pharmacy is also ours. All these things were acquired using the remitted money. So, when I come to your question, based on our experience I can say that remittance has contributed a lot to the improvement of our household livelihood condition and many others who have been in a similar situation.

In the light of the above statement and because there are many such households in the town identified by the three group discussions and own observation, it may be possible to say remittance has changed the livelihood position of many households for the better. This was confirmed by 84 percent of the respondents. Contrary to this, however, 16 percent of the remittance receiving households reported that remittance could not improve their household livelihood situation.

Contribution of remittance for local development

The World Bank in its report established that about 39% of the 97% populations of Ethiopia were remittance receivers (World Bank, 2011). The remittance, amounting about USD 3.2 billion, is an extremely important source of foreign exchange, perhaps larger than the export earning of the country in its foreign exchange capacity (Alemayehu *et al.*, 2001). Other writers also reported about impacts of remittance on household livelihood and its contribution for local development. For example, Buhabanesh (2008) reported that remittances contribute to local socio-economic

development. She said remittance has multiplier effects, at community level and on the local economy. Remittance creates employment opportunities and it makes available capital for new investment in the service, housing and other sectors of the local economy. However, some other writers argue that remittance makes individuals as well as households that receive remittance economically dependent and remain idle, economically inactive. It was noted elsewhere earlier that many residents of Gonder Town have benefited from the incoming remittances. The results of the survey in the study area seem to corroborate the former argument that remittance plays a significant role in local development. Although about 15 percent of the respondents were sceptical about the importance of remittance for local economic development, 85 percent of the respondents reported that remittance has contributed considerably to local development in connection with expansion of urban service delivery, including school, health care services, transportation, construction and housing, and others. Ato Nigusu Fasil, Kebele 19 administrator, also recognized that:

Remittance and local development are linked to each other. Observations showed that many kebele residents have at least one migrant son, daughter or relative, in each household residing in different parts of the world, especially in the USA. As you know Kebele 19 is called *American Sefer*, which literally means American village, because many households have migrants who reside in the USA and remit money home. Therefore, nowadays many people have become beneficiary of remittance, which covers household costs, run business, and construct buildings that are used for different purposes. This has considerably impacted and revitalized the local economy, by decreasing the rate of unemployment because large number of young people were employed in the construction and other service sectors. This has been our daily experience in the last two decades.

To this may be added what Ato Asfaw Gebregzeabher observed, "in my view various forms of remittances which are sent to Gonder Town by Ethiopian Diasporas of Gonder origin are directly used for urban service and infrastructure expansion and capacity building. This could amount to about 30% of the total remittances." He noted that this much proportion of inflowing remittances facilitated the process of local development.

From these statements it becomes apparent that remittance has facilitated local economic development including expansion of urban infrastructure, for example housing, and other urban services as well as capacity building of human capital, in education and health care.

Migrant's remittance and investment

Remittance has been used as a development tool because it can augment income and reduce poverty rates in the developing countries. Remittances may also promote development by providing funds that recipients can spend on education or health care or invest in entrepreneurial activities (Orozco, 2007). In this case, participants who took part in the focus group discussions, after long deliberation, reflected that in earlier times, most remittance receiving households in Gonder Town used to spend the largest proportion of the remitted money on mere household consumption, i.e., to purchase food stuffs, cloth and luxury items (buy jewellery, electronic equipment, etc.) and settle bills. But more recently many households have started saving good part of the remitted money and invested in different business activities, mostly on housing, running shops, running schools at different levels - colleges, primary and secondary schools, and kindergarten- and catering health care services by running health centres, clinics and pharmacies. They also invested in running hotel and tourism, restaurant and café including providing transportation services and supporting pensioned elderly persons. These are the more common investment activities in the town.

This same idea was validated by Ato Asfaw Gebregzeabher. He reports that before the Ethiopian People's Revolutionary Democratic Front (EPRDF) led government came to power in 1991, all remittances in the town were used only for direct consumption. But, since about 23 years ago when EPRDF-based government assumed power in 1991, the policy environment has changed for the better and many people have been encouraged to invest their money in various sectors of the economy. As a result, he says, we see large proportion of the remitted money being used for investment. Thus, it appears that the remittance, which flows to the town from abroad, could have facilitated some of the development intervention schemes of the regional government, i.e., it is used to materialize expansion of urban

services, infrastructure, and capacity building including ensuring food security of remittance recipient households in the town.

Impact of remittance on employment condition

In developing countries like Ethiopia, remittance has played a vital role of reducing unemployment. It may go without saying, in regions where investment is growing in urban industrial activities, opportunities for employment increased. In this context, Ato Hawult Yenesew, one of the remittance receivers in the town, said:

Some years ago I had no job and personal earnings. I used to depend on my parents. After completing my high school education I could not join public universities because I did not score the required grade points to join such universities. But thanks to my sister who resides abroad, with the money she sent me I started running my own business and then I opened this shoes store with 20,000 ETB capital. Besides getting myself self employed, I also employed two other workers to sell shoes in the shop. Furthermore, from the income I earn from the business that I am running I support five members of my family. Nowadays, thank God, I have grown to a wholesaler level and I started importing shoe products from China.

Contrary to such position, Ato Abebe Kasse, one of the participants in the focus group discussion and chairman of Kebele 14, argued that remittance could not reduce unemployment rather it aggravated unemployment problem because remittance makes people dependent and economically inactive. Such individuals simply consume and remain dependent on the remitted money. Such position was shared by 38 percent of the household respondents.

However, the findings of the study do not seem to strongly substantiate the view held by Ato Abebe Kasse and others. Besides, what was reported by Ato Hawult Yenesew, about 62 percent of the respondents reported that remittances contributed to create job opportunities in the town. Many remittance recipients got self employed by running own businesses and created opportunities for employment to many others.

Conclusions

The survey was made in Gonder Town, one of the major urban centres of Ethiopia, to assess the magnitude, mode of transfer and trend of remittance flow, and its contribution to household economy and local development. The survey considered remittance flow from Gonderes⁷ who resided outside of Ethiopia. The findings showed that various aspects of migrants and hence their remittances exhibited change in connection with the reason of out-migration, countries of destination of migrants, and magnitude of remittance and its mode of transfer and utilization.

It was during the Derg period that people started fleeing in large number from the region because of political persecution. Most of them ran away illegally, first across the international border to Sudan and then many of them destined at Western countries, the USA in particular. Still out-migration from the region continued, of course with lower magnitude, largely legally and for economic reason, and most countries of destination are found in the Middle East, although those who reside in North America mainly USA still account for one-fifth.

The findings also showed that the amount of remittance flow showed a rising trend particularly at country level and there is considerable shift in the method of transfer of remittance from informal to formal channels although the informal channel is still very important. Pattern of consumption also shifted from dominantly direct household consumption to saving and investment. Amount of remitted money that goes to investment has substantially increased in more recent years. Many remittance recipients started running businesses in urban service and housing sectors. Now, people are more enthusiastic to use the remittances in more productive way, which has multiplier development effects than using it for direct household consumption. Most of the remittance recipients are engaged in running big and small-scale enterprises such as shops, hotels, restaurants, cafes, schools and colleges, health care institutions, and housing. These have created employment opportunities to many young people within and without remittance receiving households. It has also facilitated urban-industrial growth in the town by expanding urban services. Therefore, it seems now safe to conclude that remittance which has been flowing to the town has positively contributed to both household economy and local economic

growth and hence development. It is likely that such contribution will continue provided the government can pay due attention and extend its recognition to the sector.

Thus, in order to increase the amount of in-flowing remittance and efficient use of it, local and regional governments should encourage both remitters and recipients by extending formal recognition, promoting their activities and putting in place fast and more efficient money transfer channels. It may be wise, on the part of local government authorities, to arrange orientations and training sessions for recipients on investment areas and efficient utilization of remittances. To put it in a nut-shell, the findings of this survey substantiate, somehow, the optimistic position of the effect of out-migration and on the part of remittance recipients that remittance amount is increasing substantially and contributing to household economy and local economic growth and development endeavours.

Endnotes

- ¹ Kebele is the lowest administrative unit both in urban and rural Ethiopia.
- ² An administrative unit tier next higher to kebele.
- ³ Transfer made by individuals based on trust or other arrangement without involving bank or other money remitting company.
- ⁴ Based on data obtained from the National Bank of Ethiopia of 44.1% informal transfer, the total could have been 44% more of what was reported.
- ⁵ Data was obtained for only one-half of the year.
- ⁶ Sum total is greater than the sample size because of multiple responses.
- ⁷ This refers to individuals who are from the town and /or the Gonder zone by birth.

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