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External Migrant Remittances and Household Expenditure Patterns in Ghana

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Abstract

Migrant remittances have gained recognition as an alternative source of development finance in recipient countries because of the positive welfare implications of such transfers at the household, community and national levels at large. The study analyzed the relationship between external migrant remittances and household expenditure patterns in Ghana. The study used data from the Ghana Living Standard Survey data (GLSS 5). Data were analyzed for descriptive statistics as well as a Tobit Regression Model for the relationship between external migrant remittances and household expenditure patterns in Ghana. The study results have shown that households who received external remittances decrease their budget shares on consumption and some investment goods but increase their budget share on particularly housing than households without remittance income. The study also lends to the view that remittances cannot support to build the level of human capital and entrepreneurial investment in remittance – receiving nations; and point to the non-productive use of remittances in Ghana. To achieve economic growth and development with remittance income some actions should be taken. This would be possible within an enhanced government policy framework with the active participation of the financial sector in the country. This study recommends suitable policies such

as reduction in leakages in transfers through informal channels, reducing cost of transfers, enabling the financial sector to innovate profitable instruments to attract remittances into savings and to boost financial deepening, and above all creating a sound macro-economic environment by Government.

Keywords: external migrant remittance, human capital, private investment, consumption, Tobit technique, censoring, maximum likelihood estimation, budget, shares and expenditures.

INTRODUCTION

Developing countries including Ghana have experienced a tremendous surge in the inflow of external migrant remittances in the past decades. Migrant remittances have gained recognition as an alternative source of development finance in recipient countries because of the positive welfare implications of such transfers at household, community and national levels at large. The phenomenon has gained increasing importance as a major source of foreign exchange earnings exceeding private capital flows, official development assistance, in the wake of many emerging markets with weakening balance of payments. The World Bank's projected remittance flows is to the tune of \$540 billion in developing countries and over \$700 billion worldwide by 2016 at an annual average growth rate of over 8% between 2013 to 2016 (World Bank, 2012).

Remittances are defined as that portion of migrant earnings sent from the migration destination to the place of origin. It is about three times the size of official development assistance, and more than private debt and portfolio equity to developing countries and is equivalent to half of the level of reserves in more than 26 developing countries (Ratha et al. 2013).¹

Research into the use of migrant remittances for productive investments has become the common subject of the migration, remittances and development debate. It has been argued in the literature by migration pessimists that remittances were mainly spent on conspicuous consumption and consumptive investments such as houses, and rarely invested in productive enterprises. To them, apart from the fact that migration weakens local economies and leads to dependency, increased consumption and land purchases by migrants are also responsible for inflationary pressures and soaring land prices in migrant sending countries (Russell et al. 1990). Beyond this, there is a more pressing issue of whether remittances have a long-term effect on economic performance and in particular hastening the economic development of beneficiary countries if households channel such resources into human capital development and private investment.

However, most of the studies reviewed have focused on the first-round effects of international remittances and have neglected the second- and third-round effects of these transfers on development. For example, an inflow of international remittances into a local economy may lead to a surge in expenditures in housing, which will, in turn, create new income and employment opportunities for non-migrant households. Increased demand for housing will create new employment opportunities in construction for the poor and unskilled, as well as new business opportunities for merchants selling bricks, wood and other materials. To date, very few studies have tried to evaluate the long term use of remittances besides consumption in Ghana. Therefore the objective of this study is to investigate the relationship between external migrant remittances and household spending patterns with a central focus on investment and education. Also the study hypothesises that external migrant's remittances do not significantly influence human capital development in Ghana. This study therefore adds to the literature on the welfare implications of remittances on Ghanaian households as they channel such resources to human capital development and private investment spending in small businesses for future socio-economic gains to households, communities and the nation at large

¹ Although they can also be sent in kind, the term remittances is usually limited to refer to monetary and other cash transfers transmitted by migrant workers to their families and communities back home (Adams and Page, 2003). Remittances often flow from migrants to relatives residing in migrant's country or place of origin. This is especially characteristic of remittances sent by international migrants (Boakye-Yiadom, 2008).

Pattern of Ghana's International Migration and Remittance Flows

Migration and remittances in Ghana is a historical phenomenon. Recent studies on migration in Ghana have focused more attention on international migration than the movement within the country, even though the latter remains significant, and is almost certainly more important for equitable development (Anarfi, 1989). As a result of this orientation, policy formulation in response to migration is overwhelmingly skewed towards international migration, with a large emphasis on the benefit of remittances for the economy (Billsborrow, 1992; Anarfi et al. 2001). Although Ghana has a long history of emigration, the flow of emigrants seems to have intensified in the last two decades in response to economic decline in the country (Anarfi, 1999).

There is a long tradition of movement of people within the region of Western Africa and beyond. Thus, historical and cultural ties have been the predominant factors determining the regional migration flows between Ghana and its West African neighboring states (Bump, 2006). Temporary and permanent migration opportunities have been expanded by the formation of the Economic Community of West African States (ECOWAS) in 1975. Studies show that the majority of the migrants from Ghana to neighboring states migrated from an urban center as their last place of residence (Bump, 2006). Recent studies on migration from Ghana to non-African destinations show that intercontinental migrants come almost exclusively from Southern Ghana, especially the Ashanti, Eastern and Central Region (Asiedu, 2005).

The United Kingdom, due to colonial ties, houses the largest and longest-standing Ghanaian community in Europe. Available statistics shows that, in 2004 a sizeable population of 20,600 was also found in Germany and 18,000 in Netherlands in 2003. Researchers also identified another 32,800 in 2003 in Italy. With the presence and settlement of Ghanaian communities in these countries and their contacts with Ghana, networks are developed that are also used for the movement of people. In Germany, most of them arrived between late 1970s and early 1990s. This was because Germany had a relatively liberal asylum procedure. In the Netherlands and Italy, Ghanaians began to settle in the 1980s to escape the turmoil in Ghana. Also in Canada, 9,600 were accepted for permanent residence in the period of 1995-2004. In 2000 the United States (US), accommodated 65,600 people in sizeable Ghanaian communities. This number in the US has grown rapidly between 1990 and 2000 (Bump, 2006).

The Ghanaian Government is concerned about the brain drain, but also became aware of the importance of the diaspora. Remittances are the second most important source of foreign exchange after exports in Ghana (Bump, 2006). The Central Bank of Ghana estimated that in 2004, \$1.2 billion of remittances flew into the country. This is only half of the total flows according to analysts, because of remittances through informal channels. As Martin and Taylor (1996), argue that a temporary increase in migration that may be termed migration hump has been a usual part of the process of economic development. The Government has developed policies to keep its citizens abroad engaged for example by the Ghana Dual Citizenship Regulation Act of 2002 (Bump, 2006).

Ghana shifted from a country of immigration during the colonial era and up to the late 1960s to a substantial source of emigrants as economic troubles deepened in the 1970s and 1980s. With the return of economic progress from the mid-1990s however, immigration to Ghana has increased significantly from 4.6 percent of the population in 1990 to 7.5 percent in 2005. Ghana does not provide data on the composition of its immigrant population, so the only data available on Ghanaian migration is from partner countries. Emigration from Ghana is largely to other West African countries particularly Cote d'Ivoire and Nigeria, which account for two-thirds of total emigrants. Emigration from Ghana is largely dominated by men, with the exception of the

substantial flows to Cote d'Ivoire (Anarfi et al. 2003). This often takes place without appropriate exit documents (Adepoju, 2005). Forced migration has occurred both to and from Ghana. It is one of several countries of asylum for fleeing civil wars in Liberia, Sierra Leone and Cote d'Ivoire (Anarfi et al.2003).Ghana expelled foreigners in 1969, and Ghanaians were expelled from Nigeria in 1983, although many returned in the late 1980s (Higazi, 2005).

A growing share of the poor emigrated from Ghana over the 1990s, owing to declining employment opportunities in the urban sector and declines in the terms of trade of cash crops (Litchfield and Waddington, 2003). The probability of migration was positively related to the level of education, previous migration experience, access to irrigation, household size, and the availability of networks, and negatively related to the household dependency ratio and the potential for off-farm employment (Tsegai, 2004).

Table 1: Migration and Remittances over Time in Ghana

Year	1970	1975	1980	1985	1990	1995	2000	2005
Immigrants(million persons)	352	385	421	494	717	1038	1505	1669
% of population	3.9	3.8	3.7	3.7	4.6	5.9	7.6	7.5
Remittances (Million US\$)	----	-----	1	4	6	17	32	99
% of GDP	----	-----	0.0	0.1	0.1	0.3	0.6	0.9

Sources: United Nations Population Division, World Bank Remittances and Migration

Despite sharp increases in remittances since 1990, they remain less than 1% of Ghana's GDP. Remittances from outside Africa are estimated at 37% of the total including internal remittances, while emigrants outside Africa are only 12% sending remittances (Mazuccato et al. 2005). It can be difficult to distinguish between internal and external remittances, as transfers from an internal source may have been financed by transfers from abroad. Ghanaians who worked while abroad had better jobs, stayed abroad longer, and maintained contact with their families are more likely to send money home and send larger amounts (Black et al. 2003a).

Returned migrants also benefited from their experience; less-skilled emigrants showed a significant improvement in occupational level, with those who left when they were younger showing the most improvement.

Table 2: Use of Migrant Remittances in GLSS 5

Uses	Observations	% of Total
Daily Consumption	3792	86.61
Funerals	17	0.39
Other Ceremonies	57	1.30
Education	82	1.87
Health	180	4.11
Business	95	2.17
Housing	57	1.30
Savings	4	0.09
Other	94	2.15

Source: Author's Computation from GLSS 5 (2005/2006)

From Table 2, about 88.3% of remittances to households are used for consumption or living expenses (daily consumption, funerals and other ceremonies). With as low as about 3.56% of remittances channeled to investment while 5.98% is for human capital development (health and education expenses). This confirms the earlier reports from GLSS 3 and 4, and other studies by (Quartey, 2006; Muzzacato, 2004) that a bulk of remittances are often used for consumption or living expenses. However, usually a relatively lesser proportion of remittances are put into investment. Despite this report, it is argued that the welfare effect is felt through other related business or investment activities in living expenditure during funerals, marriages, daily spending on restaurants which have a spin-off effect on welfare and long-term development.

In the case of funeral ceremonies migrants spend the money on the purchase of a coffin, hospital and morgue fees, transport costs, musical entertainment and food offered at the ceremony, video productions, material for funeral clothing, printing services and the like (Mazzucato et al. 2004). The distinction between consumption and productive investments in the literature however, is superficial. Expenditure on housing, education, health, and even food and medicines, which are often referred to as consumption expenditures should be seen as developmental. Not only do they enhance individual wellbeing, but they also have positive multiplier effects including creation of employment opportunities, as pointed out by (Sumata, 2002; De Haas, 2010).

Scholars with neoclassical perspective therefore assert that even if remittances are spent on consumption, they promote local production of goods and services and contribute to economic growth through multiplier effects by augmenting the demand for goods and services, leading to more production, higher employment and ultimately increased national income (Taylor et al; 1996, Durand et. al; 1996, and Itzigsohn, 1995). Furthermore, expenditures on healthcare and education are investments on human capital and could be considered a form of productive investment. Therefore, irrespective of whether remittances are spent on consumption or productive investments, they are likely to have some positive effects on the economy of migrant-sending areas.

Profile of Ghana's International migrant Remittances

Remittances have been noted to play an important role in national development. Several studies (GSS, 2006; Addison, 2005; Muzzacato, 2004; and Quartey, 2006) have highlighted the transfer of remittances and its role in improving livelihoods in migrant households and in the decision-making process. In 2005, the Bank of Ghana estimated the level of remittances at \$1.5 billion, compared to \$479 million in 1999. This amount is more than the FDI and Official Development Assistance to Ghana, and more than a third of Ghana's GDP. Remittances to Ghana by professional skilled migrants in the UK were estimated at between \$1,000 and \$14,000 per annum (Nuro, 1999). Total remittances in 2007 were \$6.89 billion, compared to \$5.78 billion in 2006. Private inward remittances to individuals and NGOs increased from \$1.74 billion in 2006 to \$3.7 billion in 2007 (Bank of Ghana data, 2008).

According to the World Bank, remittances account for just 0.8 percent of Ghana's GDP with a total inflow of \$117 million in 2007 and \$128 million in 2008. Therefore, although increasing over the years, remittances remain fundamentally marginal to the overall economy. Private inward remittances sent through banks accounted for 92% in 2006. A significant proportion of remittances are sent through informal means, but this is difficult to capture. Page and Plaza (2006) estimate that unrecorded remittances account for 73% of total remittances in Sub-Saharan Africa compared to 45-60% in Latin American and Caribbean (LAC), East Asia and Pacific (EAP), a Europe and Central Asia (ECA) regions. Large flows through informal channels reduce

development impact in terms of financial sector deepening, credit multiplier, savings, and investment. Flows outside the formal system raise issues of money laundering and other financial crimes. Also, it is estimated in the fourth Ghana Living Standards Survey (GLSS, 1999) that remittances in cash accounted for 20% of total private inward remittances (Quartey, 2006).

The Use of Remittance

The relationship between remittance and household spending can be explained theoretically by viewing remittance as a source of income. The traditional consumption models such as the permanent income and life cycle theories of consumption postulate that the source of income does not matter in consumption behavior as households tend to smooth their consumption. This implies that we should expect households receiving remittances to behave the same like any other household with other things being equal. However, other studies using behavioral approach show increasing tendency of household receiving remittances to be influenced by the source and size of remittance to be consumed or invested.

Moreover, because of the fungibility of remittances household spending remittances on consumption could devote other incomes to investment or vice versa (Tabuga, 2007). Examining the impact of remittance receipts and migration has been the subject of several studies. This is because the magnitude of such transfers has attracted the attention of Governments, policy makers, international organizations and the academia. A growing body of literature has been devoted to measuring its impact on aggregate economic measures such as poverty, growth, and development in several nations. However, it is strongly noticed that such transfers directly benefits the household and that their decisions or spending behavior determine whether it has short or long-term impact on welfare. In this vain, a huge body of studies has focused on the use or spending behavior of household receiving remittance income. The body of literature on this has been divided into two views.

The earlier view was pessimistic arguing that households receiving remittances do not spend it on productive investment which negatively affected local production and encouraged conspicuous consumption. However, some studies recently have challenged this view (Tabuga, 2007). Yang (2005), using bigger samples found that remittances induce households to invest in human capital such as education. Remittance income in times of positive exchange rate shocks also influence households to engage in entrepreneurial activities. In fact, even without investing these remittances, they can still contribute to the local economy by way of the multiplier effect of consumption done by the households receiving the remittances income (Taylor et al. 1996). These benefits have not been recognized in past research. Taylor & Mora (2006), attributed these pessimistic results to narrow definition of productive investment, inadequate samples and more importantly, to poorly-designed research approaches.

Remittances and Human Capital

Exploring the impact of remittance on human capital is important since it reflects the long-term welfare effect on households. First, one could see the impact of remittances on the health and educational outcomes of recipient households as complementing the analysis of the monetary dimensions of poverty. Second through its impact on human capital remittances can have lagged effects on household income and consequently on monetary defined poverty indexes. For example, if children in recipient households accumulate more or better human capital than otherwise similar kids, then remittances can also be expected to positively affect long run growth and hence long run poverty levels. (Acosta et al. 2008)

The impact of remittances on health and education in developing countries is mixed. Most studies reveal that remittances improve infant mortality and child health through rising household incomes and increasing the health knowledge of mothers. While some studies prove that remittances raises school retention rates others find it to have a negative effect on school attendance rates for teenage boys and girls because of the absence of their parents due to migration. In a study using nationally representative data, Hildebrandt and McKenzie (2005) found that remittances reduce infant mortality in rural areas in Mexico. Using a large rural data set from Mexico, and employing an instrumental variables approach based on historic state level rates of migration in Mexico; they found that international migration has positive effects on both infant mortality and child weight. For example, children born in international migrant households are 3 per cent less likely to die in their first year than children in non-migrant households. Similarly, children born in an international migrant household are estimated to weigh 364 grams more on average, than children in non-migrant households.

McKenzie and Rapport (2006) used a nationally-representative data set from Mexico and an instrumental variables approach focusing on historic state-level rates of migration to analyze the effect of international migration on education. Their findings are similar to those of Lopez-Cordova (2005) that Mexico-to-United States migration has a significant negative effect on schooling attendance and attainment for 12 to 18 year-old boys and 16 to 18 year-old girls. Probit results show that living in an international migrant household in Mexico lowers the chances of boys completing junior high school by 22 per cent and of girls completing high school by 15 per cent. One reason for these lower rates of school attendance is that boys and girls from migrant households are more likely to become international migrants themselves, and rates of return to education are lower in Mexico than in the United States.

Remittances and Investment

The question of whether remittances are spent on consumption or invested in entrepreneurial activities is an issue lively debated in the literature. Some studies find that households receiving remittances spend on consumer goods and hence patterns of expenditure have little positive or no impact on the local economy. However, other studies find that, remittances are often spent on investment goods such as housing, education for example, with the patterns of expenditure having a positive impact on building human and physical capital in developing countries. However, Chami et al. (2003) reports that the ways in which remittances are invested are not productive to the economy as a whole. These pessimistic findings are challenged by Adams and Cuecuecha (2010b), using nationally representative household data from Guatemala. They used a two-stage Heckman model and employing an instrumental variables approach focusing on rainfall shocks and historic distance to the railroad.

The authors found that households receiving international remittances spend less at the margin on one key consumption good like food. They spend more at the margin on two investment goods such as education and housing than what they would have spent on these goods without remittances. At the mean, Adams and Cuecuecha (2010b) found that households receiving international remittances spend 194% more at the margin on education than what they would have spent without the receipt of remittances. According to the authors, households receiving international remittances tend to spend more at the margin on investment goods because they treat their remittance earnings as transitory rather than permanent income, and the marginal propensity to invest out of transitory income is higher than that for other sources of income.

METHODOLOGY

The relationship between remittance and household spending can be theoretically discussed and understood by treating remittance as a source of income to households receiving them. This

study adopts the Working –Leser model (Working, 1943, Leser, 1963) which states that the budget share of a given item is a function of the logarithm of total expenditures. This means if there is an increased in total expenditure by a percentage, then, the budget share for a commodity would also change in same proportion. The choice of this theory is largely based on theoretical plausibility. This model conforms to the additive criterion. That means the sum of the marginal propensities for all goods should equal unity. In other words, when the budget share of one commodity increases, another share must be reduced, to maintain the budget constraint of the household. The use of this model enables us to determine which commodity groups in the household basket of expenditures are relatively important. The choice of such a functional form is significant since it does several things.

Firstly, it offers us a good wide range of commodities such as food, housing, savings, and education among others. Secondly, the mathematical form provides for rising, falling or constant marginal propensities over a broader range of goods and expenditure levels. This is a model which does not impose the same slope or marginal budget shares at all levels of expenditure.

Model for Empirical Estimation

From the theoretical frame work we consider remittances as a source of income to remittance receiving households. Following Tabuga (2007), studying the relationship between remittance and household expenditure is done by estimating the Engel function. The Engel function can be defined as a Marshallian demand curve that describes how a consumer's expenditures on some goods and services relates to its total resources holding prices of all goods constant (Lewbel , 2006). In simple terms the quantity of any commodity consumed by a household is determined by resources such as income, wealth or total expenditures. The variable remittance is therefore introduced into the Engel function whose effect is estimated statistically.

The Working-Leser (Working, 1943, Leser, 1963) model is chosen because of its sound theoretical basis. For two households with similar expenditure and characteristics we seek to analyse whether the receipt of remittance by one of the households affects their spending behavior. The functional form to be estimated is as follows:

$$\frac{q_i}{Y} = \alpha_i + \beta_1 \log(Y) + \beta_2 REM \times \log(Y) + \sum \gamma(W) + \varepsilon_i \text{-----} (4.2.1)$$

Where the variables are defined as below:

q_i =Household's per capita expenditure on commodity group i

Y =Total expenditure per capita

$\log Y$ =Logarithm of Y

REM =Remittance which is a dummy variable (equal to 1 if household receive remittance, and 0 otherwise).

W =A vector of the individual, household and community characteristics such as age, gender, marital status, educational qualification of household head, household size, proportion of children, and geographical location of household.

β_1 = The original slope of the Engel's curve without remittance: This is the amount of change in the commodity's budget share in percentage points given a percentage change in total expenditure per capita.

β_2 = A measure of the influence of remittance to the Engel's curve or coefficient of the interaction term of remittance and expenditure

For households receiving remittance where $REM = 1$, the slope of the Engel's curve becomes $\beta_1 + \beta_2$

ε_i = The error term

Model Estimation Procedure

The main consideration of this study is to measure β_2 which gives an insight into how remittance affect household expenditure for the commodities in question such as food, education etc. The regression analysis seeks to test the null hypothesis that β_2 equal zero or otherwise based on which inference is made about remittance and household expenditure. The Tobit technique is used to do the analysis. The use of Tobit regression addresses some issues associated with large scale data unlike Ordinary Least Squares (OLS).

This enables us to avoid problems of heteroskedasticity and susceptibility to outliers. When dealing with large survey data OLS is no longer the best linear unbiased estimator (BLUE). This is so because the conditional mean estimator will not be at the 50th percentile or median. OLS gives a generalized picture but Tobit regression provides more specific, meaningful and policy relevant results. The OLS and Quantile regression is used for data that do not contain zero values. However most expenditure data contain zero values which apply to the Ghana Living Standard Survey. The reason could be attributable to household habit, preference, or health concerns for some commodities against others.eg. Some households may not spend on alcoholic beverages and tobacco. Again the survey period could be very brief say a week such that some households report no spending.

In a study of this nature where GLSS data is used, the econometric analysis dealing with such zero observations is the Tobit model. Tobit model was first propounded by Tobit in 1958 and was named as such because of its resemblance with the probit model. The Tobit model is usually used to analyse relationship between non-negative dependent variable and a set of explanatory variables. It has to do with censored regression. Censoring is done because observations with values below a certain value say zero are not observed. The functional form for the Tobit model is expressed below:

$$Y_i^* = \beta X_i + \varepsilon_i \text{ --- (4.2.2.)}$$

Where:

Y_i^* = Latent variable (unobservable) which reflect a household's desire to spend on a certain commodity. What is observable in the data set however, is Y_i which is say the budget share of food, education etc.

X_i = A set of explanatory variables

ε_i =Normally distributed random error term

With our latent variable being above zero and zero otherwise we have:

$$Y_i = \max(0, Y_i^*) \text{ --- (4.2.3.)}$$

From equation (4), the Tobit model will use maximum likelihood estimation (MLE) to estimate the β which gives the effect of X_i on Y_i^* . The β coefficient is estimated such that it maximizes the probability or likelihood of seeing the observed data. β estimates the effect of X_i on Y_i^* and not Y_i in the analysis. The Tobit model is used to study the effect of remittance on dependent variables containing zero values.

The econometric software used in doing the estimations is STATA 13. The explanatory variables used in this study are defined to include:

Age (Continuous: Measured in years), Gender (Dummies: Male=1, Female =0), Education (Dummies: basic education=1, secondary education=2, professional=3 and tertiary education=4), Marital Status (Dummies: Married =1, Not Married =0), Household Size (Continuous: Measured by the number of people living in the household), Proportion of Children (Continuous: Measured by the number of children as a ratio of the household size), Proportion of elderly (Continuous: Measured by the number of elderly as a ratio of Size of household), Occupation of household head (Dummies: wage employee = 1, non-agric self-employment=2, agric self-employment =3), Rural or Urban (Dummies: rural = 0, Urban =1), Ecological Zones (Dummies: Coastal, =0, Forest=1, and Savannah=2), Region of residence (Dummies: Greater Accra = 0, Western=1, Central=2, Volta=3, Eastern=4, Ashanti=5, Northern=6, Upper East=7, Upper West=8, Brong Ahafo=9).

Data

Data from the fifth round of the Ghana Living Standards Survey (GLSS5) conducted in 2005/06 by the Ghana Statistical Service with the support of the World Bank was used. Five rounds of the GLSS have been completed up to date, (1987/88, 1988/89, 1991/92, 1998/99 and 2005/06) with each round covering a nationally representative sample of households spread over a period of 12 months. The fifth round of the Ghana Living Standards Survey (GLSS5) survey covers a sample of 8,687 urban and rural households in 580 enumeration areas that contain 37,128 household members.

The data contains a wide range of sectors or issues, such as education, health, employment, migration, housing, agriculture, remittance etc. The data set is nationally representative and probably the most widely used for micro-level analysis of welfare in Ghana. The remittance section covers data on households who receive remittance or not, the amount, frequency of receipt, use of remittance income, household and individual characteristics of recipient households and other relevant information for the purpose of this study.

Table 3: Descriptive Statistics of Variables used in the Estimation

Household Receive Remittances			Household without Remittances			
Variable	Mean	Standard Deviation	Mean	Standard Deviation	Mean Difference	P>t
Outcome & Independent						
Budget Share of Food	0.4875	0.0060	0.5712	0.0180	-0.5645***	0.000
Budget Share of Utilities	0.0482	0.1285	0.0454	0.8820	0.0282	0.533
Budget Share of Education	0.0734	0.1018	0.0484	0.0797	0.0250***	0.000
Budget Share of Health	0.0046	0.0088	0.0053	0.0138	-0.0006*	0.197
Budget Share of Agriculture	0.0268	0.1160	0.0405	0.1677	-0.0136**	0.035
Budget Share of Housing	0.0137	0.0302	0.0336	0.0343	-0.0018*	0.159
Log of Total Expenditure per-capita(Log Y)	16.076	0.7298	15.435	0.8291	0.6396***	0.000
Interaction Term(REM *Log Y)	16.075	0.7298	0.0000	0.0000	16.0756***	0.000
Household Head Variables:						
Age	48.40	16.81	45.07	15.49	3.33***	0.000
Age Square	2625	1756	2271	1574	1.4299***	0.000
Gender(Male)	1.410	0.4922	1.267	0.4425	0.1429***	0.000
Marital Status(Married)	0.5882	0.4925	0.6862	0.4640	-0.0979***	0.000
No education	0.3558	0.4791	0.5724	0.4947	-0.2166***	0.000
Basic Education	0.3515	0.4777	0.2929	0.4551	0.2976***	0.001
Secondary Education	0.1047	0.3064	0.0553	0.2286	0.0494***	0.000
Professional Education	0.1262	0.2407	0.0679	0.1430	0.0679***	0.000
Tertiary Education	0.0616	0.2407	0.0209	0.1430	0.0241***	0.000
House Hold Variables:						
House Hold size	3.6958	2.4328	4.3244	2.8998	-0.6285***	0.000
Proportion of children	0.2156	0.2314	0.2732	0.2395	-0.0576***	0.000
Proportion of Elderly	0.0996	0.2382	0.0594	0.1926	0.0401***	0.000
House Hold Location:						
Western Region	0.0717	0.2582	0.0981	0.2974	-0.0263**	0.023
Central Region	0.0875	0.2827	0.0785	0.2691	0.0089	0.403
Greater Accra	0.2152	0.4112	0.1385	0.3454	0.0766***	0.000
Volta Region	0.0688	0.2534	0.0841	0.2775	-0.0152	0.161
Eastern Region	0.0846	0.0105	0.1070	0.3091	-0.0223*	0.065
Brong Ahafo	0.0946	0.2929	0.0032	0.2879	0.0034	0.761
Ashanti Region	0.3371	0.4730	0.1675	0.3735	0.1695***	0.000
Northern Region	0.0215	0.1452	0.0976	0.2968	-0.0761***	0.000
Upper East Region	0.0129	0.1129	0.0739	0.2617	-0.0690***	0.000
Upper West Region	0.0057	0.0755	0.0632	0.0578	-0.0574**	0.000
Forest zone	0.5222	0.4998	0.3983	0.4895	0.1238***	0.000
Coastal Zone	0.3945	0.4891	0.2879	0.4528	0.1065***	0.000
Savannah	0.0832	0.2764	0.3136	0.4640	0.2304***	0.000

Household expenditure is in new Ghana Cedis (Gh¢), ***Denotes significance at 1%, **Denotes significance at 5%, *Denotes significance at 10%. N=8687.

Source: Author's Computation from GLSS 5 (2005/2006).

The study pooled sample constitutes of 8687 observations. Out of this number, there were 697 households who received external remittances (8.02) %; whiles households without remittance income were 7990 representing 91.98% of the population. This shows that households who did not receive remittances were more than those that received by 83.96% during the survey. However, for the purpose of this study, relevant use is made of both categories to achieve meaningful results to bring to light the household spending behavior in Ghana with respect to external remittances.

From table 3 above remittances reduce average budget shares of recipient households on consumption and investment goods as compared to their none remittance recipient counterparts. In general, there exist significant mean difference among the outcome and independent variables used in the analysis. This difference is notable and highly significant for consumption in terms of food whiles that of utilities is not significant. In terms of investment commodities, the mean difference in expenditure between household with remittance and their counterpart groups are also higher with education than agriculture, followed by housing and lastly health which are all statistically significant. Households with remittance income have older heads than their counterparts without remittance income. The mean difference is positive with an increase in total expenditure for households with remittance than their counterparts. Households with remittances have lesser married household heads but with more male household heads than those without remittances. It is found that, remittance recipient households have lesser heads with no education than those with remittances whiles for basic, secondary, professional and tertiary it is the reverse which are all highly significant.

Remittance recipient households also have smaller proportion of children and smaller household size than their counterparts without remittances which are all highly significant. On the contrary household with remittances have higher proportion of the elderly than those without remittance. In terms of geographical location there are more households who receive remittances in Greater Accra, Ashanti, Coastal, Savannah and Forest zone than those without remittances. On the other hand, remittance recipient households are lower in Western, Eastern, Northern, Upper East, and Upper West than their counterpart households receiving no remittance. The results further show that the case of Central, Volta and Brong Ahafo were not significant.

Empirical Results

Table 4: Tobit Model Results for Budget Shares

Variable	Food	Utility	Education	Health	Agric	Housing
Outcome and independent						
Log of total expenditure (log Y)	-0.0127***	0.0644***	0.0437***	0.0000	0.0228***	-0.0286***
Interaction term (Rem*Log Y)	-0.0011***	-0.0017	-0.0002	-0.0001	-0.0001	0.0001
Age	-0.0021***	0.0057	0.0063***	0.0020***	0.0042***	0.0004***

Age square	0.0000***	0.0000	0.0000***	-2.20e-06***	0.0000***	-3.65e -06***
Marital Status (married)	-0.0124***	-0.0227	0.0181***	0.0031***	0.0421***	-0.0009
Gender (male)	0.0089**	-0.0929***	-0.0364***	0.0000	0.0384***	0.0019***
Basic Education	-0.0402***	0.1236***	0.0134***	0.0008*	0.0008	0.0026***
Secondary Education	-0.0805***	0.1214**	0.0370***	0.0010	-0.0089	0.0049***
Professional Education	-0.1048***	0.1384***	0.4409***	0.0024***	-0.0176	0.0103***
Tertiary Education	-0.1676***	0.1089	0.0394***	0.0021*	-0.0553*	0.0167***
Wage Employment	0.0081	-0.0126	-0.0041**	0.0002	-0.0084	-0.0072***
Non-Agric Self Employment	-0.0045	0.0209	-0.0110	-0.0003	0.0097	-0.0064***
Agric-Self Employment	0.0494***	-0.1577***	-0.0129***	0.0000	0.1083***	0.0081***
Urban	-0.0480***	0.3883***	0.0154***	-0.0012*	-0.1193***	0.0172***
Forest Zone	-0.0190***	-0.0602	0.0102**	0.0000	0.0689***	-0.0043***
Savanna	-0.0140*	-0.0799	-0.0091	-0.0004	0.0668***	-0.0053***
Western Region	0.0455***	0.0239	-0.0110*	0.0002	0.2092***	-0.0327***
Central Region	0.0458***	0.0620	-0.0233***	-0.0018**	0.2090***	0.0338***
Volta Region	0.0531***	0.0012	-0.2097***	0.0017*	0.1989***	-0.0357***
Eastern Region	0.0668***	-0.1605***	-0.0172***	0.0011	0.1787***	-0.0336***
Ashanti Region	-0.0018***	0.1894***	-0.0128*	0.0016*	0.1626***	-0.0317***
Brong Ahafo Region	0.0636***	0.0659	-0.0004	0.0039***	0.2417***	-0.0358***
Northern Region	0.0764***	-0.2529	-0.0373	-0.0020***	0.2077***	-0.0313***
Upper East Region	0.0699***	-0.4746***	-0.0087	-0.0006	0.2248***	-0.0354***
Upper West Region	0.0442***	-0.6315***	0.0172	-0.0011*	0.1809***	-0.0275***
Proportion of Children	-0.0031	-0.1950***	0.1628	0.0071***	-0.0120	-0.0015
Proportion of Elderly	0.0275*	-0.0637	-0.1529	-0.0030**	-0.0151	0.0066***
Constant	0.8239***	-1.5168***	-0.9246***	0.0069	-0.8546***	0.5215***
Pseudo R ²	-0.4387	0.0521	-1.9039	-0.0122	0.5618	-0.1939
N	8687	8687	8687	8687	8687	8687

Censored at	56	3363	3625	2087	3903	0
Uncensored	8631	5324	5062	6546	4784	8687

Household expenditure is in new Ghana Cedis (Gh¢), *Denotes significance at 1%, **Denotes significance at 5%, *Denotes significance at 10%. N=8687.**

A quick look at the descriptive statistics in Table 3 clearly shows a significant mean difference in most of the explanatory variables. Moreover, from the Tobit regression estimation most of the variables used show the expected sign that they significantly influence the probability that households budget shares change which underscores the relevance of the quantitative model selected. These variables are chosen based on economic theory and earlier empirical findings which include individual attributes, household attributes and community characteristics.

Table 3 shows that out of 27 explanatory variables; 24 are significant with age, age square, gender, marital status, and household head educational levels, size of household, proportion of both children and the elderly being extremely significant at 1%. In addition it is obvious that the inclusion of Greater Accra, Ashanti, and the three Northern Regions as well as the three ecological zones are justifiable because their significance at 1%. This is similar for the log of total expenditure and the interaction term for remittance and log of total expenditure in the study.

The result in Table 4 shows a negative coefficient between total expenditure of household with or without remittance and the budget share on food. This means there is the greatest likelihood for households to decrease their budget share on food as their expenditure increase due to remittance. This is consistent with findings by Adams (2005), Castaldo and Reilly (2007). The effect of remittance income on food in this study supports the Engel's Law which states that as income rises, the share of budget to food declines. This finding that households devote less or decrease their budget share to consumption is congruent with that of Taylor and Mora (2006), and Zarate (2004).

Again the fact that international remittances tend to reduce expenditure of households on food consumption is consistent with that of Acosta et al. (2008). It is interesting to note that in the absence of remittance income there exist a positive probability that households will increase their budget shares on utility, education, health, agriculture and housing. However, the results show no significant relationship between remittance income and utilities, education, health, agriculture and housing.

Nevertheless there is a negative relationship between the interactive term and the budget shares for utility, education, health and agriculture. In the same vain there is a positive relationship between housing and the interactive term. Households most likely decrease their budget share on utilities with an increase in their remittance income. This may be attributable to the fact that utility represent re-current expenditure and so is viewed as a necessity. There is also the likelihood that households will reduce their budget share on education as their expenditure increase due to remittance income.

Unlike Gyimah and Asiedu (2009) who found that remittance income increases the number of children in a family who attend school in Ghana. This also contradicts finding by Acosta et al. (2008), Tabuga (2007), Kifle (2007), Cardona and Medina (2006), Adams (2005) and Guzman et al. (2008) that household's receiving international remittances tend to increase expenditure on

education than those without remittances. Remittances have again a negative effect on health and as such the likelihood that household will reduce their budget share on health or medical care in Ghana. The negative impact of external remittances on health in Ghana is inconsistent and contradicts with that of Adams (2005), Ameudo-Dorantes et al. (2007), Ameudo-Dorantes and Pozo (2009), Cardona Sosa and Medina (2006), Guzman et al. (2008) which points to positive impact on health expenditure of households.

Remittances negatively influences the probability that household will spend on agriculture. This spending behaviour by households with regards to agriculture could also be explained in terms of the returns from investing into it coupled with low yield, lack of access to market, no irrigation facilities, poor road networks, huge post-harvest losses and low incomes to farmers among other hostile factors. On the contrary households will most likely increase their budget share on housing as they have remittance income. This is consistent with the results that the influence of remittance on housing is positive as asserted by Tabuga (2007).

In Ghana the age of household head has a negative effect on the budget share of food. Again age has a positive likelihood that households will increase their budget share on education, health, agriculture and housing. This means older household heads tend to spend less on food and more of their budget devoted to education, health, agriculture and housing. This can be explained by the assumption that older household heads may view an increase in their income as transitory and not permanent. So, they spend less on consumption and more on investment than their younger counterparts.

Married household heads have a negative probability that households will reduce their expenditure share on food but increasing tendency to spend more on education, health, and agriculture. This may be explained in terms of the increase in the number of dependence as people marry and give birth, their priorities change as their needs increase. Male household heads have a positive influence on the likelihood of spending more on food agriculture and housing and less on utility and education than their female counterparts. This contradict the finding by Guzman et al. (2008), that in Ghana households that are headed by women tend to spend more on education than their male counterparts.

Heads of household with basic education have a higher tendency to reduce their spending on food and to increase budget shares on utility, education, health, and housing. Where household heads have secondary education there is a tendency for them to have more budget share on utility education and housing whiles spending less on food. When a household head has professional education it results in the likelihood that they spend more on utility, education, health and housing whiles spending less on food. Household heads with tertiary education have a positive likelihood to spend more on education, health, and housing but they spend less on food and agriculture. On occupation of household head, it is noted that a wage employee have the likelihood to decrease his budget on education and housing. For non-agric self employees there is the negative influence on food and housing. Household heads in agric self-employment have a positive likelihood to spend more on food, agriculture and housing but spend less on utilities and education.

With geographical location it is realized that there is a positive tendency for households in urban areas to allocate higher budget shares to utility, education and housing whiles spending less on food, health and agriculture. This may be attributable to the notion that households in urban centers turn to have demands for other social amenities than consumption goods. In addition in these areas more focus is on industrialization other than peasant agricultural activities.

Households in forest zone have more budget share for education and agriculture but they spend less on food and housing. Households in Savannah devote larger budget share to agriculture while they decrease spending on food and housing. In the Western region households have more budget shares to food and agriculture and less expenditure on education and housing.

In the Central region there is higher propensity for households to spend more on food, agriculture and housing while devoting less to education and health. Households in the Volta region are more likely to have more budget shares for food, health, and agriculture while spending less on education and housing. Households in the Eastern region have a higher likelihood to spend more on food and agriculture but spend less on utility, education and housing. In the Ashanti region households are more likely to have more budget shares for utility, health and agriculture and spend less on food, education, and housing. Households in Brong Ahafo are likely to have more budget allocation to food, health and agriculture while spending less on housing. In the Northern region there is the likelihood for households to have more budget shares for food and agriculture but spend less on health and housing. Households in the Upper East region have the tendency to spend more on food and agriculture and devote less to utility and housing.

In the Upper West region households are likely to have higher budget shares for food and agriculture while devoting less to utility, health, and housing. This stems from the fact that the three Northern Regions are largely rural and agrarian without employment opportunities. With a higher proportion of children there is the likelihood that households devote more budget share to health and less to utilities. This may be so because of the vulnerability of children to diseases. For households with larger proportion of elderly there exist the probabilities that they have more budget shares to food and housing but spend less on health. This may be attributable to the use of health insurance scheme which reduces medical bills. The estimation results, in particular, on the negative effect of remittances to education, health, agriculture and housing tend to support the growing view in the literature that private transfers can have a negative impact on economic development in Ghana. It is only housing that remittance has a positive effect on.

Again it reveals that remittance income goes to reduce budget shares on food and utility. Households therefore are sensitive to their spending on consumer goods but not to investment goods. Household spending does not increase the level of human capital through investment in education and health. This finding is not consistent with the permanent income hypothesis which postulates that the marginal propensity to save or invest out of transitory income like remittances is higher than that for permanent income such as wages and salaries. This also supports the notion that households in Ghana view remittance as a source of income to smoothen consumption and as such it is used for short-term consumption without long-term developmental effect on the economy.

Obviously from these results one can conclude that the Tobit results for all the outcome variables are jointly significant at 1%. The t- test for the equality of means is also overwhelming since the results for the descriptive statistics is reliable. The Pseudo R^2 value is statistically significant and satisfactory for us to make reliable inference from the results to inform policy and decision making.

The results further provide evidence that remittances have a negative influence on investment in particular on budget shares on human capital and investment in Ghana. The findings simply suggest the non-productive use of remittances on education, health, and agriculture expenditure

by households in Ghana because they decrease their spending on these investment commodities with the use of remittance income. Another key finding is the fact that remittances have a negative impact on consumption expenditure of households on food, and utilities. The decrease on consumption is generally found to be statistically significant while the decrease in investment commodities is less significant. Again, the positive correlation between remittances and budget shares on housing is also of significance.

It is worth noting that, these findings provide mixed evidence on the use or spending pattern of households as they can be viewed as being not entirely pessimistic. This is because households do not view remittances as incomes meant for investment in general although it is clear that it is meant for consumption as a short term coping strategy. This negative effect of remittances on consumption does lend support to that of Adams (2007) who argues that the impact of remittances on the structure of households is often viewed pessimistically. The negative impact of remittances on health is consistent with findings by (Guzman et al. 2007).

In the same vein, the negative correlation between remittances and agriculture also corroborates evidence by Adams (1998) and that of housing obviously consistent with findings of Adams and Cuecuecha (2010). Again there is growing evidence in empirical literature on the positive use of remittances on education and savings. This is confirmed by the findings of (Adams et al. 2008b) that remittance receiving households in Ghana invested more in education than other households. There is also evidence in support of that of savings by (Ashraf et al. 2010; Agrawal et al. 2006; and Gupta et al. 2009). The negative impact of remittances on health however is consistent with findings by (Guzman et al. 2007). The main findings suggest that this study is largely in line with the pessimistic view which provide evidence of the non-productive use of external remittances as households do not invest for financial capital accumulation and human capital formation particularly education, health and agriculture coupled with a significant reduction in consumption expenditure in Ghana.

CONCLUSIONS AND POLICY RECOMMENDATIONS

The study analyzed the relationship between external migrant remittances and household expenditure patterns in Ghana using data from the Ghana Living Standard Survey data (GLSS 5). The study specifically investigated the link between remittances and human capital development among households as well as the relationship between remittances and private investment among households in Ghana. The study concluded that households in Ghana spend more on consumption and less on investment with an increase in remittance income. This means that households who received remittance do not spend to build human capital or into entrepreneurship and also there is non-productive use of remittances in Ghana.

External remittances have gained the recognition as a potential resource for development financing of economies. To achieve this, policy makers need to fashion out reforms targeting at tapping such funds and reducing the leakages in transfers through informal channels. This is possible by encouraging migrants to send remittances through formal means such as banks, and other non-bank financial institutions. Policies should aim at reducing bureaucracy and transfer cost such as excessive bank charges to attract more remittance income. Given that remittance recipients invest in housing, it is recommended that policy makers should work on improving the housing sector by encouraging the use of local building materials and perhaps working towards a reduction in the cost of imported building materials as well by Government.

Policy makers should also direct the use of remittance income into investment in housing by reviewing the transfer cost especially since most migrants and beneficiaries of remittances are

assumed to invest often in housing in particular. The financial sector should be supported and encouraged to develop products aimed at mobilizing remittance flows meant for education. It is possible with innovative and attractive long-term educational investment products through regular savings by both recipients and senders of remittances. Furthermore, the reduction in spending on consumption is an impetus for investment by both migrants and recipients of transfers back home. This can be complemented with the creation of a profitable and attractive investment climate for the extra incomes to be saved and invested in lucrative business opportunities to generate income and create jobs for the citizens at large.

The returns to agriculture should be improved by provision of irrigation schemes, subsidies on farm inputs, better road network or feeder roads and guaranteed market with better prices for farm produce. These could create more employment, generate income and improve the overall livelihood of citizens. It is obvious therefore that, remittance income can promote economic growth and long-term development with sound macro-economic management and a fertile financial sector which foster financial sector deepening and credit multiplier effect in the country. However, in Ghana this can only be achieved by long –term planning and direction so as to turn around the obvious use of remittance for basic consumption into productive use.

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