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“Thinking Back Home”:

Determinants of remittance flow among Ethiopian immigrants in Sweden. A qualitative insight

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Abstract

Remittance as a direct cash reimbursement for “brain drain” stood as the main source of hard currency for many countries including Ethiopia and it is becoming an inevitable for development especially for those which are suffering in short of hard currency. This research is done with the preliminary premises that the formal remittance flow to Ethiopia is relatively low against the stock of emigrants, with its East African competitors and with SSA standards; the migrants’ channeling patterns has affected this. To examine these premises, the research has investigated the determinants of remittance flow from the remitters’ perspective utilizing qualitative method. Ethiopian national policy reactions towards remittance are also evaluated in relation to these remittances from abroad. This was made with the help of the micro and macroeconomic determinants of remittance.

The application of depth interviews have revealed a new insight to the remittance business which is not explicitly found in the quantitative researches, as Ethiopian migrants indicate socioeconomic obligation as the main reason for their remittance. Whereas, lower accessibility of financial institutions on the receivers’ side, lower competition among money sending agencies in the remitters’ side, high transaction cost, higher exchange rate differentials which resulted to the wider availability of the “invisible channel” are responsible to the relatively low remittance flow through the formal channels which in turn proves the premises of this research. This is a mere insight to the complex nature of remittance with regards to Ethiopia.

Key Words: Ethiopia, remittance, remittance channel, migrants/immigrants, microeconomic, macroeconomic determinants

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Abbreviations

AEO	African Economic Outlook
EPRDF	Ethiopian People’s Revolutionary Democratic Front
FDI	Foreign Direct Investment
G8	Group 8
GDP	Gross Domestic products
HDR	Human Development Report
IFAD	International Fund for Agricultural Development
IOM	International Organization for Migration
IMF	International Monetary Fund
IMMI	Immigrant Institute
MR Factbook	Migration and Remittance Factbook
NBE	National Bank of Ethiopia
NELM	New Economics of Labor and Migration
SSA	Sub-Sahara Africa
WB	World Bank
USD	United States Dollar
UN	United Nations

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Chapter one, Introduction

1.1 International Migration and remittance, a background

Migration as a social phenomenon in different forms and patterns is rooted back to human history. Internal and rural-urban migration, mass settlements of Europeans during the colonization period, post-war labor migration and the current situation of migration are recurrent themes. However, it is the political and economic development of the 20th century that facilitated international migration and movement of people. Papastergiadis (2000) and Munck (2009) argued that globalization has accelerated this migration process through information technology and transportation.

Consequently, the number of migrants who migrate across national borders is projected to reach a record of 214 million in 2010 from 153 million in 1990 (UN migration, 2009). Brettell and Hollified (2000:139-140) described the last decades of the 20th century as a period of “migration crises” noting the pressure that could arise in the economical, social and political situations of the sending and receiving countries. For this reason the issue of international migration is a hot debate among academicians, policy makers and practitioners of the west. The debate intensifies when the movement of people is from developing to the developed nations. Nevertheless, African countries have neglected the issue of migration and have underestimated its potential consequences (see Backewell in Munck, 2009:119). This might be because governments only look to the short term benefits that could be generated through remittance.

Skeldon (1997) and Brettell and Hollified (2000) argued that migration can be viewed as both positive and negative for the development of both the sending and receiving countries. The impact remains debatable because it depends on the specific condition of each country thus making it difficult to generalize. Nonetheless it is well known that migration impedes the development process of the developing countries through “brain drain”. HDR (2009) reported that mobility of skilled human power harms the economy of the origin countries. Further, there are associated social costs such as negative impacts on family interactions, changing gender roles, lack of appropriate services due to the emigration of certified personnel. In return, successful migrants remain connected with their home country by means of remittances which HDR (2009) argues serves as a multiplier effect.

1.2 Justification for the study

International remittances refer to the money and goods that are transmitted to households by migrant workers outside their origin countries (Adams, 2009). The Remittance industry is one of the multi-billion industries in the world which has shown six fold increase from 68 billion USD in 1990 to 416 billion USD in 2009 (WB, 2009 and MR Factbook, 2011). The increase in migration rate, decreasing cost of transfers and the increase in technology penetration may be responsible for the steady increase in the flow.

The flow of remittances could act as a stabilizing element during periods of financial instability (Gammeltoft, 2002; Buch and Kuckulenz, 2009; Maimbo and Ratha, 2005:26) and some studies also show that remittances have direct development impact both on household and national level (De Haas, 2006; Maimbo and Ratha, 2005; Brown, 2006; Grabel, 2010; HDR, 2009; Adenutsi, 2010). Its importance is inevitable especially for those which often suffer due to shortage of hard currency. Since 2008, Ethiopia has experienced foreign currency crises which resulted in shutting down businesses and high inflation which in turn required the help of WB and IMF to correct (IMF, 2009). Thus, it is important to think about how migrants send money and how national policy can be made favorable for remittance flow.

The official remittance flow to Ethiopia is relatively low and the remitting behavior of Ethiopian migrants has contributed to this. These are the two basic premises of this paper which will be examined in this research. For instance, official Remittance and foreign aid flows were \$387 million and \$ 3.327 billion in 2008 (WB, 2010 and AEO, 2010) respectively. Comparing with its East African competitor, Kenya, in 2008 the flow of remittance and foreign aid were \$1.692 billion and \$1.360 billion respectively (AEO, 2010 and MR Factbook, 2011) which is a far cry from the Ethiopian experience. Even though it has larger number of migrants abroad than the average SSA countries, the trend goes similarly with similar difference when compared with the average flow of remittance to Sub-Saharan Africa. (See for instance AEO, 2010; MR Factbook, 2011; IMF, 2010) that remittance per capita to SSA is \$25.5 and to Ethiopia is 5; remittance per migrant to SSA is 1023 and to Ethiopia is 620 and Remittance percentage of GDP to SSA is 2.2% and to Ethiopia is 1.2. As this research was in progress, a WB survey from Ethiopian remittance recipients revealed that the estimated remittance flow to Ethiopia is around \$3.2 billion in 2009 (WB survey, 2010;

Addisfortune, 2010; Capitalethiopia, 2010) far above the official report by WB and NBE. This could support the arguments that official remittance flow to Ethiopia is relatively low.

As the decision to remit is in the hands of the migrants, it would be interesting to look into the remitters' patterns and trends of remitting so that the main causes for the relatively low Ethiopian remittance could be examined. The aim of this paper is therefore to investigate why the official remittance is relatively low. This is done by examining the remitting behavior of Ethiopian migrants in Stockholm, Sweden thereby exploring the determinants of remittance from the sender's perspective adding qualitative insight to the existing quantitatively dominated discourse.

1.3 Research questions

To deal with the research problem, this study focuses on the following research questions:

What are the determinants of remittance trends and patterns of the Ethiopian immigrants in Sweden? (See 2.1 for why Sweden)

Why official remittance flow to Ethiopia is relatively low? Is it Ethiopia's national policy related to remittance flows or is it the behavior of Ethiopian immigrants that determines the amount of remittances? How can be explained?

How can remittances be better utilized as a source of hard currency and use as a catalyst for development in Ethiopia?

1.4 Significance of the study

By using qualitative method, this study will probe deeper into the quantitatively dominated remittance related studies (see section 2.1) which will enable to add a new insight. Moreover, the study will help in informing and suggesting possible solutions to the existing problems to interested stakeholders. In addition, it can be used by different organizations involved in the remittance business and will open a fresh approach for further research.

1.5 Limitation of the study

The fact that most previous remittance related studies have been done using quantitative method would mean that there will be limited insights to apply for qualitative method to investigate remitters' patterns of remitting. Yet, this can be also taken as an opportunity to explore in different way with the available literature. The limited availability of previous Ethiopian remittance related studies was also additional challenge. On the other hand, The

Ethiopian Diaspora is deeply divided along political affiliation, ethnicity, and religion, which leads them to be sensitive when relaying their migratory and remittance history. This makes it difficult to get dependable information. Trust is important to the average Ethiopian given this political situation. Further, selecting Ethiopians in Sweden as a sole target group could be seen as a limitation which was made due to feasibility and resource constraints.

Chapter two, Methodology

2.1 Methods

This research has applied qualitative research methods in finding the possible answers to the research questions. Prior research and literature on the remittance business are mostly associated with quantification (see for example, Lucas and Stark, 1985; Lucas and Stark, 1988; El-Sakka and McNabb, 1999; Agarwal and Horowitz, 2002; Ratha, 2003; Higgins et al, 2004; Buch and Kuckulenz 2009; Gupta and Hedge, 2009; Adams, 2009 and Dustmann and Mestres, 2010). Quantifying remittances related questions could be associated with its nature that it is suitable for quantification. For instance questions related to remittance are asked; how much remittance transferred, how many people improved their life with that transfer, what are the contributions of remittance to personal and GDP growth, how is the transaction cost fixed, what is the impact of remittance etc. Beyond such types of questions, this research will look into the other side of the business by focusing on what determines the transfer of remittance at individual level and investigate the reason behind why Ethiopian official remittance figures are relatively low as discussed at section 1.2.

The application of quantitative method only gives a general picture of remittance and remitters through statistical modeling. In addition, this approach does not include the analysis of specific case studies in depth. On the other hand, exploring the personal experience of remitters' behavior and their view on the issue really needs in depth and focused study which quantitative method failed to address in previous research. Qualitative method allows a deeper investigation of the issue and a deeper answering of the research questions. Thus, the application of qualitative method in this research will add insight from another perspective to the quantitatively dominated remittance knowledge.

Qualitative study typically focuses on compiling a selection of micro-level case studies which are investigated using a combination of informal interviews and participant observation (Dessai and Potter, 2006:118). In addition, policy documents, statistical materials and other sources are used for complementary purposes which allow the analyses to be more concrete and supported by evidences. Further, the theoretical framework (the micro and macro determinants of remittance flow) was linked with the actual experience of the target group and the policy documents. Moreover, quantitative application was used during the research process where it was necessary to apply which included tabulating of remittance figures. The data for such complementary analyses was collected from reputable international

organizations such as the World Bank, International Monetary Fund, and United Nations etc who work on remittances and from the national bank of Ethiopia. This allows cross checking the qualitative analysis in broad perspective.

In order to accomplish the objectives of the research, a case study was used. The utilization of a case study helps the research process to focus on the key aspects of the issue. This research used Ethiopian immigrants in Sweden targeting those who live in Stockholm as a case study. This case study was selected because Sweden is one of the most preferred destinations of Ethiopian immigrants (Sweden is the 7th top destination for Ethiopian immigrants in the world, (MR Factbook, 2011)). The largest group of Ethiopian immigrants in Sweden lives in Stockholm (IMMI, 2010).

2.2 Case study

“A case study is an empirical inquiry that investigates a contemporary phenomenon within real-life context” (Yin, 2003:13). It is conducted with the aim of exploring research questions in-depth related to human interactions with people, phenomena and other things. Using case study, much information can be collected about specific phenomenon from the specific people that we intend to apply in the research. Flick (2009:134) contends that case studies can capture the process under study in a very detailed and exact way. They are not restricted due to an intended comparability and are able to fully use the potential of certain methods (ibid) such as interview and group discussion in combination with other methods. Migration and remittance as phenomena which are incorporated in the case of this research may have common or unique characteristics depending on each informant’s interaction with the object under discussion giving emphasis to the latter phenomenon. For instance, the remittance experience is different for different remitters. *“Case study aims to understand the case in depth, in its natural setting, recognizing its complexity and its context”* (Punch, 2005:144).

However, concentration on one case study often leads to problems of generalizations. This is less a problem in statistical than in a theoretical research (Flick, 2009). Further, making generalization based on findings is difficult as the samples taken for the study are limited in proportion for the intended generalization. Of course, the aim of case studies is not for generalization but to study the phenomena in depth. Though it is costly and time consuming, Flick pointed out that this can be corrected by doing a series of case studies of the same phenomenon (ibid:134).

Indeed, generalization can be more difficult in case study. In some cases however, it may be possible to generalize from case studies as Punch (2005:146) argued that “*based on conceptualizing and developing propositions, it can certainly suggest such generalizability, putting forward concepts or propositions for testing further research*”. This research therefore may help to discover patterns that apply to Ethiopian immigrants in other parts of the world through developing a suggestion from the data which will be indicative for policy makers and other stakeholders or for future researches in the area.

This research could be described as one that follows explanatory case study as discussed in (Mikkelsen, 2005:125). Explanatory case study is appropriate when the research intends to answer questions with ‘which’ (ibid) as in the case of this research ‘which factors affect remittance flow’? Yin, (2003:1) further contended that “*explanatory case studies are preferred strategy when “how” and “why” questions are being posed, when the investigator has little control over the events*”. Since the research questions of this study are associated with ‘which’, ‘how’ and ‘why’, explanatory case study is used to explore the determinants of remittances flows and further to investigate why the official remittance flow to Ethiopia is relatively low.

2.3 Semi-structured interview

As opposed to close ended interview, semi structured interview gives a possibility of flexibility to the interviewee to express his/her views about the questions forwarded. It is also good to have some structure so as to make specific and guide the flow of ideas. However it is necessary to leave some open questions for the interviewees to discuss the issues in depth. Mikkelsen, (2005:169) discussed that “*in semi-structured interview questions can be formulated during the interview allowing to flexible check list or guide*”. This leaves room for deeper investigation of research questions which need flexibility and in depth qualitative study.

Though the plan was to conduct around 20 interviews, only 15 people were successfully interviewed to explore their remitting experience. The other 5 migrants who were approached to be interviewed declined to give details of their migration and remittance experience citing the sensitivity of the issue. The number of interviewees was associated with the availability of time as the researcher had only four months to collect data and write this thesis and with the constraint of research fund to conduct field work also created limitations. All the interviewees were selected based on their experience of remitting and gave their full consent

to be interviewed (see 2.4 for detail). The interview was conducted using the Ethiopian official language “Amharic” which was later translated and transcribed after finishing each interview.

In order to make the analysis of qualitative research better, data should be organized into categories on the bases of themes, concepts, or similar features which begin during data collection (Milkelsen, 2005:169). And similarly, Patton (1990) in Punch, (2005:175) pointed out that questions can be classified into experience, opinion, feeling, knowledge and demographic. Accordingly, the interviews were designed in such away to make the data collection sound enough for analyses. The interviews had four thematic sections.

- The first section of the interview includes basic information such as personal and family information of the interviewee.
- The second section contains questions about their migration process.
- The third section consist the core issue of the research, that is, the remittance experiences of the interviewees in detail.
- The last section is about the interviewees’ general opinions about the remittance, national policy on the remittance and other issues related to remittance (for detail see the appendix).

2.4 Sampling

The sampling technique that the research followed during the study was purposive sampling. This is as opposed to the common random/probability sampling used in quantitative research. This type of sampling technique helped the researcher to incorporate different immigrants from all social backgrounds such as age, gender, income, education etc. The method is used deliberately for the purpose of inclusiveness and access. Denscombe (2007:17) contended that purposive sampling is used when specific people or events are thought to produce the most valuable data with relevance to the topic of investigation. In perspective, the well informed informants can be used for collecting the necessary data keeping in mind that it fairly gives the chance for informants of all social backgrounds who have the experience of remitting to Ethiopia. Flick (2009:134) also argue that the reason behind following purposive sampling is to select cases or case groups according to concrete criteria concerning their content instead of using abstract methodological criteria. Thus, the sampling proceeds according to the relevance of cases instead of their representativeness (ibid:121) and

(Denscombe 2007). This research therefore used 'remitting experience' as a criterion to select its respondents through snowballing which could go with Denscombe's argument that "*both purposive and snowballing are compatible*" (2007:18). More importantly, this sampling method helps in conducting in depth qualitative study which is not common to get in the quantitative researches which in return has contributed to properly meet the objectives of this research.

In snowballing, Denscombe argue that "*the sample emerges through a process of reference from one person to the next.....the size thus snowballs as each of the nominee is asked, in return, to nominate two or more further persons who might be included in the sample*" (2007:17). To proceed, 4 initial contact persons from different groups (but not necessary one for each group) were used to get the respondents' consent to take part in the interview. Through the help of each contact person and the respondents, 20 people were contacted but only 15 were successfully included. In addition, there were some failed attempts by the researcher to get respondents randomly without the help of the contact persons. If it weren't for snowballing (through the help of contact persons), the researcher wouldn't have gotten respondents due to the reason discussed above that they do not share their migration and remittance experience to people outside their groups (the Ethiopian Diaspora are divided into different groups).

Chapter three, Determinants of remittance: A Theoretical framework

Theory increases our awareness of interconnections and of the broader significance of data. Without making theory explicit, it is easy to fall into the trap of hazy thinking, faulty logic, and imprecise concepts (Mikkelsen, 2004:156). Indeed, theory helps us to have better understanding of the study prior to the start of the project and connect the literature with the data and the findings of the research with the existing knowledge of the issue. It is also sound to link the theory with the empirics of the study throughout the research process.

Economically speaking, the determinants of remittance should have been known in advance so that they can be used in theoretical modeling that could help policy makers. However there is lack of general consensus among researchers on what really determine remittance flow. Chami et al (2008) recognizes that the existing literature on remittance falls far short in listing down the main variables that drive remittance. This could be partly due to the complex nature of the issue that different variables at different settings affect remittance which makes difficult to standardize. Though this is the case, there is no other option than using the available literature.

The literature available on the subject; the determinants of remittance flows from emigrants has developed into two thoughts which are the microeconomic and the macroeconomic determinants (Lucas and Stark, 1985; Lucas and Stark, 1988; Agarwal and Horowitz, 2002; El-Sakka and McNabb, 1999; Higgins et al, 2004; Adams, 2009 etc). Therefore, this study is analyzed using these two determinants as a basis throughout the research process giving an emphasis to the microeconomic one.

3.1 The Microeconomic determinants

Lucas and Stark (1985); Lucas and Stark (1988); Agarwal and Horowitz (2002); Dustmann and Mestres (2010) and Gupta and Hedge (2009) could be taken as studies that support the microeconomic determinants as drivers for the remittance flows. To begin with, Lucas and Stark (1985) in giving the initial model for the microeconomic theory of remittance argued that emigrants are motivated for remitting due to many reasons ranging from pure altruism to self interest including mutual agreements between migrants and family. Moreover, the models did show that migrants are said to be altruistic if the flow of remittance increased with a decline in family income back home; whilst, if remittance flows are directly related with the family income back home, then they are said to be self-motivated (ibid). The model of pure

altruism is directly associated with the care of family members left behind where as pure self-interest is related to purely selfish motivation including aspiration to inherit, invest and the intent to return home. Both models state that migrants are free to remit or not.

Beyond these two pure factors of altruism and self-interest; Lucas and Stark (1985) have also discussed “tempered altruism” and “enlightened self-interest” to refer to the remittance motivated by a combination of altruism and self-interest. The combination is meant to show the possibility of remitting based on self-enforcing contractual agreements made between the migrant and the family so as to get mutual benefits from the migration process. In a similar theoretical explanation, the concept of New Economics of Labor Migration (NELM) was conceptualized in the 80s. The main concept in this theory is that unlike the neo-classical economics, the decision to migrate is on the hands of the households rather than on the individuals (see for example, Stark and Bloom, 1985; Taylor, 1999; De Haas, 2010) that household is the decision making unit in the migration process and this household decides on how to manage migration and remittance. The initial cost will be paid by the family and in return the migrant will send remittance upon arriving and working in the destination, i.e. costs and returns will be shared (Stark and Bloom, 1985). However, this theory doesn't include the social, individual and political factors which could be reasons for migration and in return affect the remittance.

This theory views migration not only as a source of income but also as income diversification and risk sharing (De Haas, 2010) and is also perceived as household response to minimize income risks and source of investment under financial constraints. Therefore, NELM suggests that patterns of remittances are better explained as contractual arrangement between the migrant and the family than as the result of purely altruistic considerations (Stark and Bloom, 1985) which is a similar explanation as the “tempered altruism or enlightened self-interest” of (Lucas and Stark, 1985).¹ Therefore, pure altruism, self-interest and NELM can be taken as three different microeconomic drivers that affect individual migrant's propensity to remit. But it should be noted that there is high probability of influencing each other.

¹ NELM and the tempered altruism and enlightened self interest have similar explanations for migration and remittance. Therefore, these two concepts are used interchangeably in this paper. However, pure altruism and pure self-interest have different applications with the above terminology (NELM).

Independently after almost two decades of the above explanations, Agarwal and Horowitz (2002) pointed out that the two primary incentives explored in the remittance literature are altruism and risk sharing. Indeed, these two primary incentives for remittance can be linked to the pure-altruism of (Lucas and Stark, 1985) and to the NELM. Further, (Quinn, 2005 as cited in Niimi et al., 2009) suggested another model of remittance behavior whereby remittances are treated based on the end uses such as for consumption transfers and for saving mechanisms. These arguments also can be found as part of the altruism, self-interest or NELM models; for instance, remittance for consumption is treated as altruism, risk sharing is considered as part of the NELM and the saving mechanism is seen as part of the self-interest concept.

In another perspective, Buch and Kuckulenz (2009) claimed that microeconomic factors such as education and income level of the migrant and his family are the main determinants of remittance. Briere et al (2002), Agarwal and Horowitz (2002), and Buch and Kuckulenz (2009) also found that migrants' gender and household composition are the other factors that affect the flow of remittances. Depending on these theoretical arguments, it can be said that income of both the household back home and the migrant determines how the remittance flow could be.

To summarize, altruism, self-interest and NELM are three factors that motivate migrants to remit; on the other hand, migrants' gender, income, education, destination, household composition, and family's income also contribute in one or other way in shaping the remittance trend of the migrants. Thus, these are the microeconomic theories which are dominantly applied in this research.

3.2 The Macroeconomic determinants

On the other hand, El-Sakka and McNabb (1999); Higgins et al (2004); Adams (2009) and Ratha (2003) could be seen as part of the literature in support of the macroeconomic determinants. At the macro level, factors operating in both the host and the country of origin will affect the flow of remittance (El-Sakka and McNabb, 1999). However, for emigrant countries which would like to maximize the capital inflow it looks difficult to frame policies based on the different factors of the host countries as it is out of their control. These are related with economics nature of the host country which has direct impact upon wages earned by the migrants and in turn will determine their own consumption and saving behavior and thus the potential amount to be remitted. This type of experience can be easily found from the

2009 global financial crises which affected the income of migrants and eventually decreased the capital inflow to developing countries. The decrease in remittance to developing countries in this period has bitterly affected them as they depend on remittance for their national foreign currency reserve. This gave these countries a message to review their remittance related policies and diversify their source of capital funds.

El-Sakka and McNabb (1999) suggested that macro-economic factors such as interest rates, exchange rates and political instability of the country of origin affect the behavior of remitters. Accordingly, they argue that macro-economic factors should be suitable enough so as to encourage remittance flows to the country of origin. For these reasons countries would like to make exchange rates competitive by depreciating their own currencies with the intention of attracting more capital inflows, but sometimes it is associated with risk of bringing high inflation rate for these countries. El-Sakka and McNabb (1999) further argued that higher inflation could discourage the flow of remittance as higher inflation rate could be a sign of economic and political instability. To curb such associated problems, different variables should be taken into consideration while framing remittance related policy.

On the other hand, empirical analysis using data from Egypt shows that remittance flows are responsive to interest rate and exchange rate differentials (ibid). Attractive interest and exchange rates would eventually lead immigrants to think of investing their money in their home country. Ratha (2003) also suggested that macroeconomic policies of the country of origin matter a lot whether remittances are to be invested or not. If remittances are encouraged to be invested, there is better chance for the economy to get more than two benefits from the same source; hard currency to the national bank, increase in investment and the multiplier effect of investment from abroad. Interest rate differentials between country of origin and host country, government domestic policies, wages, political risk factors and the rate of inflation determines remittance flows (Buch and Kuckulenz 2009).

Since the aim of the study is to find out the factors that determine the patterns and trends of remittance flow; the two approaches can contribute some from different perspectives in framing the better solution for the research questions. Of course, both the micro and macroeconomic factors focus on the individual behavior of the remitter from personal experience and from national policy perspective. The personal experiences are those factors that affect at the micro-level; whilst, the national policy factors are those at macro-level factors that contribute in determining the individual's behavior in remitting.

Yet, in most literatures the advocates of each approach neither discussed nor ruled out the counter ideas. For instance, the microeconomic theorists do not discuss the possibility of macroeconomic factors and the same goes for the macroeconomic theorists. This makes it difficult to uncover the exact relationship of each theory and what they actually think of each other. For instance, Buch and Kuckulenz (2009) argued that the main problem of microeconomic case studies is that they tend to undervalue the macroeconomic effects of remittances (see also El-Sakka and McNabb, 1999). In a rare study, Chami et al. (2008) summarized that both the micro and macroeconomic factors as drivers for the remittance flows. To be specific, family income, migrant family's income, demographic variables, education variables, agreements between the migrant and his/her family are the microeconomic factors whilst stock of migrants, interest rates, black market exchange premiums and political risk are the macroeconomic factors that affect remittance flows (ibid).

Thus, this study will have the chance to investigate this problem by looking into both approaches at the same time adding another perspective to the remittance literature by going deep using qualitative method of studies. This is because most studies on this business have been made using quantitative method (see 2.1).

Chapter four, Migration and Ethiopia

4.1 Ethiopia, a background

Ethiopia which is found at the horn of Africa is one of the oldest nations in the world with its ancient name “Axumite kingdom”. Its current shape, however, was obtained in the 1880s during the reign of emperor Menilik II where there had been North-South expansion. Baker in Baker and Aina (1995) pointed out that modern Ethiopia is the result of state controlled internal migration with the help of willing full northern peasants. The creation of a strong central state at this time helped it from being colonized by the then European colonizers. The CIA factbook (2010) describes it as “*unique among African countries, the ancient Ethiopian monarchy maintained its freedom from colonial rule with the exception of a short-lived Italian occupation from 1936-41*” (See also Van der Baker, 2007). However, its long independency didn’t help the country to defend itself from abject poverty, drought, famine and civil war. These hardships continued and even worsened throughout the country when the military junta took power from emperor Haileslaise in 1974.

It was in 1991 when the Ethiopian People Revolutionary Democratic Front (EPRDF) led government controlled the country after the collapse of the military junta that the country begun to stabilize. Since then, there have been ups and downs in many things including the economy with the last seven years registering a progressive economic growth. MR Factbook (2011) reported that as of 2010 the country has an estimated population of 82.8 million with GDP of \$28 billion accompanied with 10.7% economic growth.

4.2 Ethiopian family structure

Ethiopia is well known for its long history of patriarchal family structure and is still believed to be the way of life for 84% of the population who lives in rural areas, thus, the relationship among nuclear and extended family is very much intact. Gish et al (2007) contended that family in Ethiopia tend to be patriarchal rather than matriarchal with bigger family size which sometimes includes uncles, aunts, grandparents share the household which make it to be the basic social and economic unit of the society.

In such society, the role of women in everyday decision making is minimal and is subordinate. It is the man, head of the household that the society gave the power for decision making process. In such circumstances, migration and remittance related issues are given to the head of the household which it means that the ‘who’, ‘how’ and ‘what’ questions of

migration and remittance are immediately referred to the head of household. In rare cases a woman could be head if the man is not available in the household for different reasons. Therefore, if there is migration and remittance related decision to be made in the household, there is certain likelihood that the head of the household who is the dominant one makes the decision. Extended family members could also be included in the domain as the nature of the family is cohesive.

4.3 Migration trends in Ethiopia

Though internal migration in Ethiopia has long history (see 4.1), the migration of Ethiopians to western countries was only shaped after the fall of the imperial regime in 1974. During the imperial period (before 1974) Ethiopia had a smaller number of emigrants in the world with only students and academics pursuing their advanced studies in the western countries (Migration information 2007; Schlenzka 2009). Getahun (2006) estimated that in Pre-1974, below 10,000 Ethiopians were in the west of which 5000 were in USA. Ethiopian migration then started to climb to its climax when the communist regime-Dergue took power in 1974. Consequently 'red terror', political conflicts, civil war, drought, famine and overall mismanagement of the economy led Ethiopians to cross international borders to Sudan and Kenya in their way to the west and Middle East. Bariagabir 1997 cited in Fransen and Kuschminder (2009) argued that after 1974, most of the migrants from Ethiopia were refugees escaping political conflict, famine, and persecution.

As a result the number of Ethiopians who fled the country to western Europe and the US reached 110,000 in 1990 from below 10,000 in 1974 (UN global migration, 2010) which made Ethiopia to be one of Africa's top refuge senders country till the 1990s (Berhanu and White, 2000). After the fall of the communist regime in 1991, emigration from the country decreased and even there were refuge returnees from neighboring countries. Others who got the chance to migrate further to the western countries did it and created big Diaspora group like other immigrants in different countries of the developed nations including in Sweden (see for example Levine, 2003 and Fransen and Kuschminder, 2009), which resulted to be among the largest African Diaspora groups in USA and UK. As the country did not have any cultural, historical and colonial link with the then colonizers, there was no migration pattern that the migrants followed. Thus, USA, Sweden, Germany and Norway were the preferred destinations for these immigrants. The number of Ethiopians who fled the repressive regime

to neighboring countries, such as Sudan and Kenya, in the same period is thought to be high compared to the number that migrated to the west.

With a slow emigration rate in the 1990s, there has been a surge of increase of emigrants since the 2000s which could be associated with economic, social and political instability in the Horn of Africa. Moreover, human trafficking has dramatically increased in this time associated with low skilled women migration to the Middle East (Fernandez, 2010); with the trafficking of Ethiopian women and children estimated to be as large as 130,000 (Fransen and Kuschminder, 2009). Though there is no accurate data on how many Ethiopians are living in the western countries, the WB in its MR Factbook (2011) data shows that there are about 620,000 Ethiopian emigrants abroad which is an increase of 39% from the 2005 stock of emigrants. According to many sources, this number may be an understated. Schlenzka (2009) estimated that there are more than 1 million Ethiopians living abroad worldwide mainly in North America, Europe and Middle East.

Apart from the above migration trends, since the 1970s, educated and skilled Ethiopians also have been migrating in search of better opportunities, academic freedom and professional practices. This is especially high for medical graduates, academics and pilots. Ethiopia is one of the countries in the world most affected by 'brain drain' emigrating above 26% of its medical trained professionals (Fransen and Kuschminder, 2009). Getahun (2006) also pointed out that only one-third of university lecturers return to Ethiopia upon completion of their higher education in USA and Europe. And there are more Ethiopian professionals, including medical doctors, in USA than in Ethiopia (ibid, 2006). In addition to the domestic incentives such as housing allowances, insurances, salary increment and capacity building introduced to local professionals, the government lately took initiatives to attract professional services from Ethiopians living abroad. However, ICMPD 2008 in Fransen and Kuschminder (2009) contends that the government could not pull its citizens back by means of providing sufficient opportunities for them. This exacerbates the migration patterns of skilled human power which needs policy revision to retain domestic professionals and attract those who are abroad.

4.4 Ethiopians in Sweden

The migration of Ethiopians to Sweden did follow similar trends as explained above (see 4.3) that there were an increase of immigration to Sweden between 1977 and 1991 with a decrease after 1991 (Agnarson, 2006). UN GM Database (2010) estimates that there were above 30,000 Ethiopians who fled the country to Sweden between 1975 and 1990 (Eritreans were

considered as Ethiopians before Eritrea's independence in 1991). In the 90s the migration of Ethiopians to Sweden was slow. SCB (2009) reported that Swedish immigration in the 2000s has been dominated by persons born in Somalia, Afghanistan and Ethiopia which shows that Ethiopian emigration again rose in the 2000s. Between 2000 and 2009 there were officially recognized 8638 Ethiopians who migrated to Sweden (ibid.). The composition of the migrants is majority young aged between 20 to 39 with equal proportional mix of men and women.

Quite often, Ethiopian immigrants choose to settle in bigger cities wherever they go to the western countries; this can easily be seen from Ethiopians in Washington DC, London, Toronto, Stockholm, Frankfurt etc (Schlenzka 2009; YD 2006; Chacko 2005 and IMMI 2010). This could be associated with social ties and networks that Ethiopians follow as most of the first wave Ethiopian immigrants arrived in bigger cities with the hope of getting better employment and educational institutions.

Ethiopian immigrants in Sweden are divided into different communities based on religion, political affiliations and ethnic lines. The communities are fragmented and do not have common platforms. This would affect their contribution to the ongoing development process in their country of origin. Though not the focus of the study many things can be said about the religious, political and ethnic divisions among the Ethiopian immigrants in Sweden and other western countries as these all things have direct development impact; and need independent research how to deal with these problems and act accordingly.

4.5 National policy reactions towards remittance and Ethiopians abroad

The current Ethiopian government led by EPRDF which came to power in 1991 took around 12 years to react to the Ethiopian Diaspora. From this late reaction to the Diaspora, it can be said that the role of the Diaspora in 'nation re-building' and development was underestimated by the Ethiopian government. Lately, the Ethiopian government has been taking different initiatives to familiarize itself with Ethiopians abroad. Among these, the establishment of a general directorate under ministry of foreign affairs in charge of Ethiopian expatriate in 2002, the introduction of duty free privilege for investors of Ethiopian origin in 2002, the issuance of ID Card for foreign nationals of Ethiopian origin in 2002, the approval of domestic saving account in foreign currency in 2004, and others benefits that gave the Diaspora to build urban residential housings were some of the measures taken by the government (all the proclamations can be found at ethioinvest.org). To reciprocate this gesture, Ethiopians living

abroad rewarded the government by increasing their role in investment of different sectors, building urban housing and creating saving accounts in Ethiopian banks on hard currency. Schlenzka (2009) pointed out that the introduction of the Ethiopian origin Identity Card has increased considerably the Diaspora's investment in housing and other related small and medium sized investments.

Indeed, the card gives Ethiopians with foreign citizenship every right that Ethiopians enjoy except the right to vote or to be elected. However, the government has been complaining that there have been some people who manipulated the duty free and other privileges which were given for them and in return was threatening to stop the privileges. Further than the above grand policy reactions towards foreign nationals of Ethiopian origin, since the Ethiopian new millennium in 2007 different forums has been taking place between government officials and Ethiopians abroad.

Chapter five, Empirical evidences in perspective

5.1 Empirical evidences in Global perspective

This sub-section gives the big picture of remittance flow on the globe with comparative figures that highlights the difference in different regions of the world with some comparisons between various external capital flows to the regions.

As a multibillion industry, remittance flow has grown faster than any other capital flow especially since the beginning of the new millennium. It has therefore reached 416 billion USD in 2009 worldwide of which 75% of the total transfers (316 billion USD) went to developing countries (MR Factbook, 2011). For many developing countries remittance is their most dominant capital inflows far beyond their export revenue, FDI and ODA sources. MR Factbook (2011) reported that in 2007 remittance accounted between 26% and 46% of their GDP for Tajikistan, Tonga, Moldova, Lesotho and Guyana showing remittance is the backbone of their economy making life without it difficult to survive. Similarly but in different manner developing countries such as India, China, Mexico and Philippines took about 49, 49, 22 and 20 billion USD in 2009 which is 44% of the total remittance flow to developing countries in the same year (ibid).

On the contrary, the transfer of remittance to Sub-Sahara Africa was only 20 billion USD which was less than the remittance sent to Mexico, China or India. Remittance flow therefore is smaller compared to some countries and other developing regions such as South Asia, East Asia and Latin America.

Overall, SSA countries are not using the potential advantage of remittance flow to build their foreign currency reserves, use as income redistribution mechanisms, alleviate poverty, establish public infrastructure by immigrant associations and through multiplier effects (Maimbo and Ratha, 2005; Brown, 2006; De Haas 2006; HDR, 2009; Grabel, 2010; Adenutsi, 2010). The private capital flows in the form of FDI increased from about 6 billion in 2000 to 17 billion USD in 2006 revealing FDI flow is also smaller than the flow to other developing regions. However, ODA flow to SSA has increased from around 12 billion in 2000 to 38 billion USD in 2006 (Ratha et al, 2008) letting ODA to be the dominant source of external capital flows. Thus, slow development in FDI and remittances flows could affect SSA' s future development unless other better private financing sources are on track for future prospects. For this, lessons can be learnt from other developing countries' experience

on how to attract more of private capital flow including remittances. The problem is even aggravated when the larger shares of FDI and remittance flow went to few SSA countries. The FDI flows to oil exporting countries and South Africa; albeit around half of the remittance flows to Nigeria making the problem of private financing complex to SSA countries. From this big picture, it could be said that SSA countries need to look into the source of problems associated with the slow development of private capital flow including remittances. Knowing the primary source of problems could lead to addressing the issues under discussion for the sake of steady increase of FDI and remittance.

Table 1, Comparative remittance flows to Developing countries (in billion USD)

Region	1990	1995	2000	2005	2010e
World	68.6	101.6	131.5	274.9	440
Developing regions	31.2	55.2	81.3	192.1	325
Latin America and Caribbean	5.8	13.4	20.1	50.1	58.1
South Asia	5.6	10	17.2	33.9	82.9
Middle East and N. Africa	11.4	13.1	13.3	25.1	35.4
East Asia and Pacific	3.3	8.9	15.8	50.3	91.2
Europe and central Asia	3.2	6.5	10.4	23.3	36.7
Sub-Saharan Africa	1.9	3.2	4.6	9.4	21.5
Outflows from developing	6.1	10.4	9.5	33	—

countries

e= estimate

— No available data

Source, own compilation from (Ratha 2003 and MR Factbook 2011)

Table 1 shows the comparative remittance flows in global perspective emphasizing on developing countries. The overall figure indicates that the majority of international remittance flows to developing countries notably 73% of 2010 remittance flows which could affirm that emigration from developing countries is still dominant. On the other hand, it also reveals that remittance could be other development linkages between the destination countries (notably

the developed ones) and developing countries in addition to the linkage created by FDI and aid flows.

However, the trend is not similar for all developing countries. Though there is an increase of remittance transfers over the period since the 90s, the flow to SSA is not comparable in absolute terms to other regions of developing countries the likes of South Asia, East Asia and Latin America. As of 2010, SSA countries received about 5% and 6.5% of the remittance flow to the whole world and to developing countries respectively. In absolute terms SSA receives the lowest of all regions of developing countries (for instance, Latin America received around 20%, South Asia 23.5%, East Asia and Pacific 24% of remittance flow to developing countries as of the same year, 2010). This might need further research to address the issue why the remittances flow to SSA is smaller than its counter parts. From the outset, lack of well organized recording system of remittance, the low level of technological penetration, use of informal channels, less attractive governmental policies over immigrants and remittance, high cost of remittances could be given as some of the reasons that have contributed to the relatively low remittance flow to SSA which could be further explored for that matter.

5.2 Comparative remittance flows to selected Sub-Saharan countries

Geographically, Ethiopia is located at the Eastern/Horn of Africa along with Somalia, Kenya, Sudan, and Djibouti. The following comparison however is done based on the political economy regionalization of SSA by UN, WB, IMF and etc. The countries included in the comparison are also in similar economic, social and political situations.

The volume of remittance flow to SSA countries (see 5.1) is lower compared to other developing regions limiting the contributions that could have been gained from remittance. However, the experience is different for different countries in the region, for instance, Nigeria the biggest recipient of remittance, received 47.5% of the total remittance sent in 2010. Below is a comparative remittance table for selected SSA countries.

Table 2, Comparative remittance flows to selected SSA countries (in million USD)

Country	1990	1995	2000	2005	2010e	GDP,2009 in bil USD	Stock of emigrants in 2010 in thousands
Sub-Saharan Africa	1,900	3,200	4,600	9,400	21,574	926,544	21,800
Ethiopia	5	27	53	174	387	28,537	620
Kenya	139	298	538	805	1,758	30,200	457
Nigeria	10	804	1,301	3,329	9,975	168,994	1,127
Sudan	62	346	641	1,016	3,178	54,677	967
Uganda	—	—	238	322	677	15,736	547

e= estimate

— No available data

Source, own compilation from (WB, 2008 and WB, 2010)

From the above table, a simple and clear trend can be observed that remittance flow is larger for countries with larger GDP and larger stock of immigrants. However, the case doesn't work for Ethiopia which has higher stock of immigrants than Kenya and Uganda; higher GDP than Uganda and similar GDP with Kenya. Its remittance flow is the smallest of all countries which could affirm that the country's remittance is relatively smaller compared with its neighboring countries of similar standard. As it is argued above, SSA countries are not using the alternative sources of private capital flows which could affect their development both in the short and long run; this argument does work properly for Ethiopia as the country has been dependent on foreign aid for a long time. The country received over \$3.3 billion in 2008 from foreign aid (AEO, 2010) excluding the external flows from China and India which are becoming alternative source of capital flows to SSA. This lists Ethiopia above all SSA countries including the countries under comparison but with lower remittance.

5.3 Remittance and the Ethiopian Economy

With a population of about 83 million in 2010 (MR Factbook 2011), Ethiopia is the second most populous country in Africa next to Nigeria. Subsistence agriculture dominates the Ethiopian economy creating employment for about 85% of the population of mainly rural areas. In 2009 agriculture contributed about 43% of the national GDP, with industrial production covering 13% and the rest contributed by the service sector (NBE, 2009). The export is similarly dominated by agriculture which accounts for 80% of total export with

coffee, oil seeds and khat accounting 60% of the export (ibid). As agriculture is not well developed to secure enough hard currency for the economy, the foreign currency generated from the export is very low leading to shortage of foreign currency reserve giving way for searching alternative sources such as remittances and foreign aid.

Apparently, the country has been successful in getting substantial amount of foreign aid. Since 2003, the export has also been growing (see Table 3). In addition, the other major alternative source of external flows, remittance, did show an increase from 2003. It cannot be denied that the flow has shown a dramatic increase after the fall of the communist regime from \$27 million in 1995 to \$387 million in 2010 (see Table3). However, the flow as discussed in the paper (see 1.2) is relatively low even with SSA standard which shows the country should do more in getting the possible advantages from remittance.

Table 3, Remittance flows to Ethiopia over time (in million USD)

Year	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010e
Remittance in millions	27	53	18	33	46	134	174	172	358	387	301	387
Aid in billions	—	—	—	—	1605	1809	1910	1,941	2,563	3,327	—	—
Export	—	—	—	—	482	600	847	1,000	1,185	1,465	1,447	—

e=estimate

— No available data

(Source: own compilation from MR Factbook, 2010; AEO, 2010 and NBE, 2009)

5.4 Official/Formal Vs Unofficial/Informal remittance²

It is believed that the total official remittances flow reported every year are underestimated by some 50% (MR factbook, 2011), the situation worsens in Africa where the relative cost of transfer is higher with lower competition among money transfer agencies associated with lower penetration of technology than other developing regions. Moreover, some countries in Africa do receive more than half of their remittance flow through unofficial channels. IFAD (2009) reports that sending money to Africa is still expensive as compared to Latin America and Asia costing around 25% of the total sum. G8 in its meeting L'Aquila, Italy agreed to significantly decrease the cost of transferring remittance to 5% from the existing 10% so as to

² The formal/official channels include those legally recognized by the national bank of Ethiopia that are used in transferring money such as banks and money sending agencies. On the other hand, unofficial/informal include those mechanisms which are not legally recognized by the national bank of Ethiopian for transferring money.

increase the flow of capital to developing countries (G8 2009) which could encourage immigrants send money at lower cost. More importantly, access to banking services should also be taken as one priority so that the sending of money at lower cost could arrive at the destination without any problem.

IOM (2010) estimates that remittance transfer to Ethiopia in 2007 was over a billion USD mainly sent to immediate family members which show over 100% difference with the official transfers. Only banks which are found in urban areas are allowed to be involved in international remittance services, leading unbanked rural areas out of such services and giving the way for remittance to be transferred through unofficial channel. Microfinance institutions, postal services and other reliable channels could increase the official flow of remittance at the same time giving access to the unbanked rural areas.

Exchange rate differentials between the official and black market could also lead to different recorded amount of remittances. This is an important factor in the Ethiopian context where senders do consider the exchange rate differentials while remitting that directly affects the total remittance flow through the official channel. For instance, In 1992 when EPRDF led government took the first action in the exchange rate market, the value of one USD was 5.1 in the legal market with 7.60 in the parallel market (NBE, 2010) whilst, it is now 16.35 for one USD and 17.0 in the parallel market which reveals that as the legal value of the domestic currency decreases by larger amount, the gap between the legal market and its counterpart also decreases to that extent leading remittance flows to be channeled through official market. This was one of the three reasons that the Ethiopian Birr was devaluated four times in one year with a recent depreciation of 20% against a few selected currencies in August, 2010. A higher government official told the weekly largest English news that attracting remittance, boosting export and encouraging import substitution were the three main reasons why the Ethiopian Birr was devaluated by about 20% at a time.

Indeed, it could increase the remittance flow and boost export; however, it is associated with higher inflation which affects the whole economy especially the people in the lower income category. Thus, while it is encouraging to take such action to attract more remittance through the official channel, other supportive policy options should be taken that could help to control the inflationary nature of devaluation. Otherwise, it is the poor people who ended up in taking the risk of inflation.

Chapter six, Discussion and Analyses

To analyze the determinants of remittance flows to Ethiopia, this study, as discussed in the theoretical framework, used the micro and macroeconomic determinants that affect individual's remitting trend to his/her country of origin, viz. the microeconomic determinants are associated with individual migrant's income, family income, interaction between the migrant and family, desire to invest and intent to return. Whereas the macroeconomic factors are generally common for all remitters who remit to the same country which includes exchange rate, interest rate, economic conditions of the country of origin and the country of destination. However, due to time and data limitation not all the variables included in both approaches are analyzed (for instance income level of the migrants).

The analyses will be seen from the micro and macro perspectives in which the whole discussion is divided into common themes in a way that helps to confirm or refute the theories with the actual experience of the interviewees in the case study. Thus, the interviews are discussed in depth in connection with these theories. Moreover, the analyses also followed common trends from the data without depending on the theories. In other words, the analysis was made both deductively and inductively.

6.1 The interviewees and the field

The interviewees could be described as representatives of Ethiopian immigrants in Stockholm, Sweden not in the mere sense of numbers but in representing the diverse social backgrounds such as, income, gender, education, causes of migration etc. Age wise, 11 respondents are between 28 and 38 years showing their youth and the rest 4 are above 40 years. The minimum age of the respondents is 28 and the maximum is 65. The minimum age indicates that the interviewees migrated at their early 20s soon after finishing their high school education or above (the minimum years that the migrants stayed here is 3) and the maximum age indicates that the migrants are from the pioneer Ethiopian migrants during Haileslasie and Dergue regimes in 1970s where Ethiopian migrants in the world only migrated for advanced studies with greater possibility of returning to Ethiopia. Unfortunately, the respondents could not get back as the monarchy was at its last days with the communist regime coming to power which ultimately made many Ethiopians abroad unable to return and large number of Ethiopians fleeing the country for fear of persecution. Eight of the interviewees are female with the rest seven male which could be an indication that Ethiopian migration is inclusive of both sexes with equal proportionality. UN global migration database

(2010) affirms that Ethiopian migrants who migrated to Sweden have equal proportional mix between both sexes.

The causes of migration of these interviewees reveal that they have diverse reasons; six of them with the primary aim of supporting their families, 5 of them for educational purposes, 2 of them to flee political persecution, one for family unification and one for unclear reason. However, in the educational background all interviewees are college and above college graduates including a number of PhD holders. This affirms the usual theory that developing countries including Ethiopia lose their educated personnel to the developed countries.

The greater challenge during the research process was to find migrants and convince them to take part in the study. This was partly because interviewing migrants is a sensitive issue among the Ethiopian Diaspora where they are deeply divided into different factions based on political affiliation, religion and ethnicity which makes them skeptical of everything that touches their migratory history or remittance experience. And partly, the researcher is a stranger to the migrants which made more difficult to contact them randomly. Thus, the interview was conducted using the researcher's network through snowballing (see 2.4).

The interviewees were first briefed about the objective of the study and were told they can skip questions that they were not comfortable with. By giving them the freedom to express themselves and briefing them through their contact persons, enabled the interview to be conducted. The fact that most interviewees have come across such types of studies in their educational career and the fact that they were approached through persons whom they have good relationships could have contributed to their willingness to share their experience freely. For this, the researcher feels they have participated in the study with good intention. This was actually backed up through cross checking with the experience of similar interviewees and also each interviewee's interview was checked for its internal validity. One of the drawbacks of snowballing sampling methods is that the whole study is confined with the initial contact person which will limit the diversification of the respondents. To curb this problem, the initial contact persons were maximized in advance so that people of different opinions could be included. So, initially the researcher relied on four contact persons and managed to get 15 successful interviewees. There were attempts to persuade 5 other migrants but they gave different reasons for not taking part in the research such as time and trust with some of them requesting a written proof from a professor at Lund University to verify that the study is solely for educational purpose.

The successful interviews took a minimum of 30 minutes to a maximum of 90 minutes with the interviews taking place at their home, at work place (offices), cafes and libraries. Most of them were not ready to be recorded claiming the sensitivity of the existing situation in the Ethiopian Diaspora. Only five of them allowed doing so. Thus, the interviewer was taking note of each word of the non-recorded interviewees and transcribed latter on, just after each interview was completed. The recorded interviews were also transcribed at latter times on the same date backing with notes taken during the interview.

Below are the overall discussion and analyses of the interviews.

6.2 Socioeconomic obligation³ vs dependency as remittance drivers

In this sub-topic, the drivers of remittance will be discussed in context of the respondents' experience of remitting through creating direct link with the theoretical framework. So, socioeconomic obligation and dependency are taken as two mutually exclusive drivers of remittance in the sense that they can be both causes and consequences of remittances for each other and are discussed in depth.

6.2.1 Socioeconomic obligation as remittance driver

6.2.1.1 The New Economics of Labor and Migration/NELM

Migration as household strategy is used by many households in emigrant countries when they need to diversify their income or share risks where migrants are obliged to fulfill their socioeconomic obligation through remittance. This sometimes could lead to 'dependency' in the emigrant household at the country of origin and 'remittance fatigue' in the migrant household at the country of destination. On the other hand, the decision to migrate can be made on individual basis due to personal interest, social networks and political factors. Regardless of who made the decision to migrate, remittance is the immediate cash reimbursement that migrant family receives in return. This is evident in the microeconomic theory of determinants of remittance including the New Economics of Labor Market/NELM (see Chapter 3) with no attention given to the "remittance dependency" and "remitter's

³ In this research, the term socioeconomic obligation includes both the implicit contractual agreements/NELM theory and the altruistic motives to remit. Remittance motivated by Self-interest as its name shows is remitted for some returns as opposed to fulfilling economic /social obligation.

fatigue”. The details of remittance dependency and remitter’s fatigue will be discussed later in sub-section 6.2.2.

NELM states that households diversify their income or share risks during hard times through supporting a family member to migrate so that the migrant will send remittance to accomplish her/his economic and social obligation. The family then shares both the costs and returns of the migration in a mutually beneficial way (Stark and Bloom, 1985). In the Ethiopian context, the situation can be explained well in the NELM as the family structure in the country is centered on the household, especially in rural areas where extended family is also considered as part of the whole family. Moreover, drought and other associated risks are evident each year which could force family members to migrate based on the collective decision of the household. Low income urban populations follow similar trends when the household faces such difficulties in relation to immediate and long term income problems with their migration route changed to other better income countries. The socioeconomic obligations therefore compel the migrant to remit voluntarily as it is assumed that there is a trust between the family members and the migrant. The altruistic cause strengthens this duty.

Coming to the interviewees of this research, the following sub-section will examine to what extent the NELM theory explains the sample of this study.

6.2.1.1.1 Testing the theory of NELM

Only 40% of the interviewees (R01, R02, R03, R04, R07 and R15) have had family arrangements during their migration with the remaining 60% without such arrangements. In other way, only 6 of the 15 respondents involved in this research have had such implicit contracts which put them under socioeconomic obligation of the NELM. The remaining 9 interviewees did not have such implicit agreements. Thus, only six of interviewees could be classified as a group that concurs to the NELM theory sharing similar trends of remitting. The NELM theory, however, did not strongly support the majority of the interviewees that they did not have implicit arrangements while leaving Ethiopia. A very recent survey by the WB reported that 86% of Ethiopians who receive remittance did not make prior arrangements with the family member that send money before she/he left Ethiopia (WB survey, 2010). This affirms the result of this study that the majority of migrants did not have such arrangements while leaving Ethiopia. However, it can be concluded that the overall socioeconomic obligation/ the sense of responsibility attached with the migrants, motivates them to send money back to their families. This is because as explained in (section 4.2) the family plays an

important role in Ethiopian society and hence whether the migrant is physically present or not, s/he still constitute a member of the family and certain “family rules” (which includes duties and obligations) need to be respected which ultimately keep their bond alive. For most of the interviewees, remittance is not just about the “money” as it keeps them connected to their families.

6.2.1.1.2 Experiences of the interviewees in relation to NELM

R01, a single woman who arrived in Sweden at the age of 23 with college diploma, shared with the researcher how she feels the contractual obligation she accepted implicitly from her family at the time of her migration from Ethiopia and also states why she remits,

“I would not say I had such agreements with family members to do this and that but there is a responsibility that I feel as if I have an obligation to do so which is associated with my migration. This is a kind of obligation that I am liable to support my family. This is partly because, my sister paid for my migration in the intention of helping her in supporting our family and party I am part of the family and would like to see the family changed that makes me happy and proud.”

And asked what motivates her to remit, she replied;

“As I said it earlier, my motivation is to help my family whose source of income is dependent on me and my sister. The economic obligation that I shared with my sister is also one reason to send money to family. And of course, I love my family and this is expressed through different ways including by sending money to them.”

The NELM theory applies perfectly for this woman who came to Sweden with the intention of helping her family, diversifying income and at the time sharing the burden of her sister who lives in Europe who paid the cost of migration. As discussed in the NELM theory, cost of migration is shared by the family in return the migrant enters into a self-enforcing agreement to refund that cost, help the family and save money for further investment. However, this theory assumes migrants to come through similar migration process which is difficult to see it practically. This is because, age, educational level, readiness to return, gender, skills of the migrant, individual interest, social networks and political environment affects the process thereby changing the motivation to remit from being family based to individual considerations and are not properly addressed in this theory

To fulfill her obligation, R01 sends money 6 times per year for her 5 family members who are dependent on her and her sister. She always feels a strong responsibility and committed to remit which can be observed from the following dialogue.

Q: How was your remittance affected during the financial crises and how do you respond in difficult times for instance when you lose your job?

R01: Yea, it was difficult time but now it looks good. Had I been affected, I would minimize my personal consumption and send the regular money to family because they do not think that there is problem of employment here and expect the usual money from here. It is misinformation that they do not know the situation. Further, they need that money for their daily life.

Regardless of the implicit contract with family or not, her idea was shared with 8 other respondents that they all arranged or would arrange when faced/facing difficulties in their income. This is because family members are partially or fully dependent on remittance for consumption smoothing or other daily expenses. This shows that whether a migrant has contractual arrangement or not, migrants send money depending on the family-migrant relationships and the families' source of income whereas NELM theory relates this character to those who have family agreements only.

R02, who is a University graduate at his early 30s came here in 2004 for search of better income, better life and “freedom”, faced financial constraints during his migration. The researcher then immediately asked for clarification on the term “freedom” creating some doubts about the mere economic perspective of the NELM,

Q: Can you clarify the word 'Freedom'?

A: “Of course, it is the human freedom to work and live. The human freedom to live and work in Ethiopia was so tight and I chose to migrate and get in another country that I couldn't get in my own country.”

He has wife and a child in Ethiopia with his other family members such as father, mother and brothers living in another household. Even in such conditions, family contribution was necessary for his successful migration process which makes him feel as accountable for reimbursing the loan and helping them through remittance,

“We did not have any contract or arrangement, but I can say that our culture by itself is a contract that when I come here I am implicitly agreeing that I will help my family and the ones who contributed my migration to happen through financial contributions.”

This respondent also shares the NELM microeconomic theories of remitting in the sense that he migrated with the help of his extended family members though he has an independent household. This is common to the Ethiopian family system that even if one has an independent household (nuclear family), and will still have strong bond with the extended family (see 4.2). Though the NELM microeconomic theory adheres with family members on

the same household, the family situation in Ethiopia does not block the theory from explaining the voluntary agreement made between the two independent households. R02 also discussed that though they did not discuss the agreements clearly, the Ethiopian culture by itself forces the migrant to be responsible for sending money to the family due to the collective nature of the family for helping each other and sharing risks. With such family system things get worse where family size increases without considering their income which creates additional responsibility to the migrant. Here, the NELM works better as the migrant is responsible for helping the family during shocks and market imperfections.

The trend continues similarly for almost all the six respondents who have had such implicit agreements with their families. However, except R04, all the respondents did not have clear agreements that states how the contract works and for how long the contract lasts. If not, the migrants are supposed to send money to their families indefinitely which lead to migrants stay abroad for sustaining their families' life. This will be the result of the migration to a given household if they do not have clear contractual agreements between the migrant and the family. R04 is a single college graduate who came 3 years ago with the motivation of changing her and her family's life. Though she is not a frequent remitter as she needs time to integrate to the Swedish labor market, she narrates the content of her contractual agreements which perfectly matches with the NELM theory of migrant-family relationships;

"We had a kind of contract that put me as a responsible for sending money till they start their own business which will be sufficient for supporting their own life and after that I will live for my life. So, I have a contract that put me under obligation to send them money till they start and run their own business."

To summarize, the NELM theory explains the migration-remittance process making the household the main factor in deciding who and how the migration and remittance should work. The circumstances and motivations of 6 of the interviewees in this study confirm this theory. But in relation to the majority of the interviewees, the theory does not explain thoroughly the group's patterns of migration and remittance. This gives an idea that migration decision cannot always be taken at household level (due to individual interest, networks and the surrounding environment) as seen from the 60% of the interviewees of this study. In addition, motives to migrate are only seen as household strategy which did not work for the latter group. So the assumptions of this theory could have better worked in this case study if these things were also addressed.

6.2.1.2 Remitting on altruistic motives

Apart from the 40% of the interviewees who remit in line with the NELM theory, 60% of the interviewees mainly remit on altruistic bases to fulfill their socioeconomic obligation. This was because 33% of the interviewees migrated to Sweden for educational purposes and the rest 27% for other different reasons such as family unification and to flee political persecution. All these interviewees send money mainly for altruistic motivations to support their families because their families do not have enough income to support themselves. Along with their altruistic purpose, few of them remit on self-interest⁴ motives.

R05, R06, R08, R9 and R11 arrived here for educational purposes and they did not have any enforcement to think about but they still send money to family on altruism motives. R05 is a married woman aged 65, arrived here in 1970 for educational purpose, does not have immediate family in Ethiopia but she sends money to help for extended family and for other self-interest purposes. She explains why she sends money back to Ethiopia;

“I send money for the people who need my help because they cannot support themselves fully or they get short of finance to send their children to college and some of them need to construct their house. In addition, I bought an apartment from a real state company which I pay for it every six month which ultimately needs my remittance. Though not developed well, I have also investment activities in Ethiopia that need money from here.”

And R08, 36 who came to Sweden for similar purpose as R05 adds his motivations to remit as follows,

“The first thing is that to help my family. I am morally and socially obliged to help them and move up their living standard. Secondly, I am building an apartment in Ethiopia which needs a lot of money and I also send for helping one NGO activities. “

One common pattern that can be observed from all interviewees is that regardless of their causes of migration, they remit on pure altruistic motivations including those who migrated with family arrangements. This makes altruistic motivation to be important component for the NELM to work well. Only few interviewees remit for personal investment along with

⁴ It can be fairly said that there is no pure self-interest that the respondents are solely motivated to remit. The pure self-interest motive to remit is not strongly supported by most of the respondents. Some of them remit for some investments such as in housing and some business but still they didn't travel well to say they have big businesses or investments which could lead us to say that remittance flows to Ethiopia are mostly for consumption purpose.

their socioeconomic obligation (the investment is aimed to help them have some sort of ownership in Ethiopia).

In conclusion, all interviewees remit to fulfill their socioeconomic obligation. One way of fulfilling this obligation is through having implicit contractual agreements with their families/NELM when they left Ethiopia (which 40% of them did). Migrants who have this kind of self enforcement send money to their families as per their agreements. This enforcement however needed the feeling of caring for family to work well. On the other hand, for the remaining interviewees (60%), pure altruism is the main drive behind their transfer of funds to their families. In addition, few respondents send money on self-interest motive along with the other motives. However, it is still difficult to purely identify a single motivation behind their remittance viz. as pure altruism, pure self-interest or NELM because all the variables in one or other way are interconnected each other and the remitters send based on interrelated motives.

6.2.2 Sending, Sending, Sending.....remittance dependency and remitters' fatigue

As discussed in sub-sections 6.2.1, socioeconomic obligations can drive remittance by compelling migrants to remit on altruistic, contractual basis and self-interest or a combination of all. However, if the remittance is sent for consumption smoothing and daily expenditure, there is a growing concern that remittance could lead the recipient households to being dependent and create an environment of 'waiting for handouts' rather than involving in their own business or being employed. This is not to downplay the contribution of the remittance to balance consumption, support for health care, school expenditure or for survival. De Haas (2010:237) argued that migration is usually believed to provoke consumerist, non-productive and remittance dependent attitude in the migrant sending communities. This could also develop a continuing trend of migration of working age population (Buch and Kuckulenz, 2004) which ultimately hurts the country. In the Ethiopian context, a very recent World Bank survey on Ethiopian remittance recipients shows that 14% out of the 37 million Ethiopian adults are dependent on remittances; each adult receives 600 USD each year (Addisfortune 2010 and Capitaethiopia, 2010) which is meant over 5 million Ethiopian adults are dependents on remittance. And of course, these recipients also remit part of the 600 USD to other extended family member (ibid) which extends the dependency to other family members too. To receive 600 USD per year is by far larger than the country's average per capita income which could also lead to income disparity among those who do not receive. Under

such circumstances, the multiplier effect of the remittance will be minimal as it is used to support their daily consumption. The number of adult dependents looks relatively large to undermine the contribution of the remittance to Ethiopia's development in the sense that it is creating culture of dependency rather than encouraging them to be involved in their own business or get employed. Recent survey from Gallup (2010) also revealed that the culture of migration in Ethiopia is a deepening phenomenon where it could lose 46% of its adults if those who want to migrate could do so. Among other causes, the remittance dependency that exists in the adults could have contributed to their migration wish. If this is extended as such to the macro-level, the future labor force of the country will be depleted and of course the economy will be on the hands of the remitters which according to McCormick and Wahba (2000) lead to "Dutch Disease"⁵. Nonetheless, this trend of dependency have the power of shaping the remittance flow through creating pressure on the remitters side to remit more or otherwise could lead to remittance fatigue which ultimately could lead to the decline of remittance in the long run.

Coming to the interviewees' real world experience in this issue; 80% of the interviewees' families are either partially or fully dependent on the remittance for their consumption, educational expense, health care and for other purposes. According to their response, if the families in Ethiopia did not receive remittance, they should give up at least some of their expenditures such as educational, health or other necessity materials. This proves the existence of remittance dependency claim on Ethiopian adults. This was the experience of the 12 (80%) interviewees involved in this study who are actually frequent remitters regardless of the amount of their remittance. R01 shared her idea;

"I send to family for their day to day consumption and for my sister's educational expenses. The amount is more during holidays, time for educational payments or on request for specific purposes. To save cost of transferring and time, I send five or six times per year; otherwise I should have sent them every month."

Most of the interviewees agreed with R01's experience that they send for family daily consumption, educational purpose or so except few who send for investing in houses for their families. Considering the above remittance dependent trend, a single woman aged 60 who

⁵ "Dutch Disease" claims that large flow of foreign currency to a given country could lead the domestic currency to be stronger thereby making exports more expensive causing the economy of the home country to weaken due to lower domestic production and export.

came to Sweden for educational purpose in 1977 gave her views for what purpose she sends money and what does she feel about her remittance; she (R11) continues

“My family members do not have social security so my remittance serves them as a social security that helps them survive at difficult times and of course they do not have enough income to support themselves, so this is a help for survival. Besides, there are family members who need for educational expenditure. Actually what I send them is my share because I have a brother in Sweden who also sends them but we do not talk on how much and who should send. I always insist them to request me money for projects or business ideas that can help them to sustain their life without dependency on remittance which could help them become independent, however, they never be in a position to bring up with such plans....”

And she continues how she is feeling the exhaustion of remitting for a long time.

“... I am now bored with this sender-receiver relationship. The other problem associated with them is that without having enough money they increase their family size which increases my responsibility of remitting. Therefore, sending money is not an experience rather it is an obligation. For such reasons I send them 6 times a year to make them sustain in their daily life. They also insist me to go abroad but I discourage them to do so rather advise them to work hard for change in Ethiopia through my help.”

It is clear that the “Sender-Receiver” relationship according to R11 connotes the dependency relationship in the remittance business where those families who left behind always waits for remittance to sustain their life which in return creates pressure for the migrants to send money continuously which again proves that dependency could drive remittance flow.

This does not mean that there are no migrants who feel that they should send their money for business oriented or for creating remittance independent family in the long run. Some of the interviewees shared their experience in line with this trend. R03 and R06 have something to say on this;

R03, “ It is only two years since I started sending money to my family; I send them for their daily expenses and to consolidate their business that they are running so that I will stop remitting sometime in the future . “

And R06’s stand on the issue of remitter-receiver relationship is similar with that of R11. This could be because they both came here for educational purpose without any immediate official family obligation and they also arrived here long time ago that they are facing remittance fatigue (both arrived in Europe in 1977). And R06 continues;

“I send money with the intention of sending my brothers’ children to college and get their income independently. I mostly do not send money for consumption. This is because it creates dependency

for the whole family. They will always wait for me if I send them money for their daily expenses. I also send them when they need to construct a house. The money I send for school expenses depends on the students' performance that if they could not get good result in their schooling I suspend the remittance for some time. There are many young people who wait for remittance to survive who could have done better if they could be involved in productive business or spend their time in college. I also send money when I need to buy something like an apartment.”

Therefore, dependency on remittance has both positive and negative effects on the remitters' remitting trend. For those who arrived in relatively recent time, they are still determined to fully support their families with the socioeconomic obligation that they feel as discussed in 6.2.1 which increases the pressure to remit. On the other hand, for those who have been remitting for a long time, dependency is creating a remittance fatigue and they are all blaming their families for not doing better use of the remittance sent to them; of course leading them to remit less. On the recipients' side, however, it can be argued that this has a long run negative effects which could lead them to being dependent on handouts and creating the “attitude of migration”.

6.3 Return Policy as a driver of remittance

Whereas the socioeconomic obligations motivate migrants to remit for their families, remitting based on the intent to return is mainly associated with self-interest motivations. Following will be the intent to return and its implication for remittance flow.

Structural and individualistic approaches are two theoretical models that give insights for return migration (Arthur, 2008:140). From the structural perspective, conditions in the destination, home country and over all the international world order are taken as justification for return whilst the individualistic perspective highlights family network, motivation, psychological state as factors contributing to return migration (ibid) with the latter one focusing on the micro-level view. Whatever the rationale behind returning, knowing the causes of return migration would help to better understand the remittance trends of returnees and non-returnees.

From another perspective, neo-classical economics views return migration as failure to the migration process (De Haas et al., 2009), whereas, NELM theory sees it as a successful accomplishment of the migration process that happened for a limited period of time where the migrant is supposed to rejoin the family upon fulfilling the needs of the family according to their agreements (Stark and Bloom, 1985; Taylor, 1999 and De Haas et al., 2009) affirming migration as a “calculated strategy” to the family (Stark and Bloom, 1985). In such

conditions, migrants want to own fixed assets that will help them live without any problem upon return. Though it is not usual to see immigrants returning permanently to their country of origin especially in Ethiopia, this increases the flow of remittance. Dustmann and Mestres (2008) contended that immigrants' return policy increases the probability of remitting more motivated by holding assets and savings in home country for future purposes. Lucas and Stark (1985:904) associated the intent to return home as a pure-self interest motive that encourage migrants to remit more for their investment in fixed capital or social assets.

In relation to their intent to return, the interviewees can be grouped into three categories. The first which consists of 7/47% interviewees have the intent to return soon after they supported their families and saved "enough" amount of money that would help them support when they return. The second with 5/33% interviewees who have temporary return plans because they have families in Sweden or due to aging and health conditions. And the final group with 3 interviewees who do not plan to return in the near future either they do not feel they have saved "enough" money or they are not "safe" to return to Ethiopia due to their political affiliation. The causes of their migration do differ for all of the interviewees and their return policy too. With respect to return migrants, NELM theory does work for 4 of the 6 migrants who had implicit obligation during their migration. From the 6 interviewees' perspective, the majority of them confirms NELM theory's claim that migrants with implicit contract do have a higher possibility of returning home. And from the whole sample, almost half of the interviewees confirm NELM's claim of returning home after getting "enough" money which will help them during their return. Further, age, marital status, respondents' political affiliation and children are found to be the main factors in shaping migrants' return policy.

6.3.1 Interviewees' perception on returning home

R01 and R07 who accepted implicit obligation at the time of their migration talk when they think to return;

"I always think of returning to Ethiopia. I just begin to think of this at the time of my arrival in Sweden. It would be hard to anticipate the exact time when I will be returned, but I always think of returning when I got the situations right on my side such as my study, money etc. For this reason I am cautious while spending, I always try to save more so that I can return to Ethiopia to do my own business. However, it is not easy to do this depending on the economic situation of this country where you are forced to spend more of your income on living expenditure and I have also dependent family members who always wait for my remittance every time. This complicates as to when I should return."

And R07 continues,

“My intention is to work and save money so that I can start business in Ethiopia with my family that can support all of us. This is because going abroad is not as my expectation.”

All the 7 interviewees who have plan to return share similar idea that they missed their families, friends and the social life; they do not know exactly when to return, they are saving money so that they can use it for running their own business up on return. These respondents also share other similar characters such as they are all below 36 years which could motivate them to return and own business in a booming economy. In addition, most of them are single with one interviewee’s spouse in Ethiopia. Being single and having a spouse in Ethiopia could also contribute in shaping their intent to return whereas it is difficult to those who are married and have children in Sweden.

There is some literature which argues that aging and retirement of migrants would facilitate their return migration (Serow, 1987; Meyer, 1987; William and Patterson, 1998). Arthur (2008:147) found that among other factors, Ghanaian immigrants’ retirement planning and economic security in old age are closely linked to the motivation to return to Ghana. In this model, retired migrants have a greater chance of returning home for that they need some kind of insurance or investment that would help them live comfortably in their country of origin. Contrary to these theories and findings that migrants will return when their age increases or when they are retired did not work for the Ethiopian respondents in this study. The fact that 4 of the interviewees who are aged above 40 years are not ready to return permanently would mean that the above findings and theories are refuted by the interviewees in this study. They share similar reasons as why it is difficult for them to return. Partly because they have family and children here and partly their aging and health conditions which need better medical services are making them unable to return permanently. The 4 aged/retired interviewees if returned could increase their propensity to remit, take entrepreneurship skills, transfer technical know-how and other important social capital that facilitate the development of their country of origin.

R05 aged 65; the oldest of all respondents who arrived here for educational purpose in the 70s tells the researcher what she thinks about returning to Ethiopia,

“I have family here, it is difficult for me to return fully with my family as my children want to live here but will go there with my husband and come back again. That will be a temporary return. In addition, I should not be out of Sweden for too long as I need medical follow-up.”

And, R06 who is 55 similarly narrates as follows;

“Yes but not permanently. I am getting older which needs better medical care, the medical care is better here so it is hard to permanently settle in Ethiopia. There might also behavioral and social clashes with the existing beurocracy and the society which leads me to think that it will be hard to permanently settle back in Ethiopia.”

All the aged respondents did share similar view on their intent to return which could decrease their remittance to be sent based on pure self-interest.

Thus, this study is evidence for that singles and young people have greater likelihood to return which could cause them to send more for their future insurance along with their normal socioeconomic obliged remittance. They might also be encouraged by the ongoing Ethiopian economic growth that they can better be benefited by working in their homeland. Nonetheless, old aged and retired migrants in this study could not support the theory/findings of returning expatriates.

6.4 Migrants and remittance channels

In the previous sub-sections (6.2 and 6.3), the research tried to figure out the drivers behind Ethiopian migrants’ remittance flow. The trends of remitting are mostly shaped by altruistic motives, implicit contractual agreements and somehow by self-interest. This sub-section discusses how these remittances are channeled to Ethiopia as the kind of channel used in sending money matters a lot in deciding the flow to be used directly by the national foreign currency reserves or not.

Under ‘normal’ circumstances with competitive formal channels, better access to banks and lower exchange rate differentials, the World Bank estimates that more than 50% of the current total remittance in the world flows through informal channels reaching the whole remittance flow to over \$600 billion (see 5.4). For countries like Ethiopia, where there is limited access to financial institutions, lower technology within the market and fluctuating exchange rate differentials, it will not be surprising if the total remittance sent through the formal channels is lower than the actual amount and of course, the amount sent through the formal channels is relatively low as discussed in Chapter 1. Most recently at the end of October, 2010, after this study had originally begun with the premises that Ethiopian remittance flow is relatively lower compared to its East African competitors, stock of emigrants and with the SSA standard; the World Bank’s survey in Ethiopian remittance flow revealed that the total remittance flow is estimated to be \$3.2 billion at 2009 (WB survey,

2010; Addis fortune, 2010; Capital Ethiopia, 2010) showing a big difference with the official remittance reports. The survey proves this research's basic premises that formal remittance flow to Ethiopia is relatively low. This confirms how important is the remittance channel in shaping the remittance flow and filling the foreign currency gap which Ethiopia has been suffering for long time.

Depending on the remittance channels they use, the interviewees of this study can be classified into two main groups; as those who use mostly formal channels and those who use informal channels. In classifying the groups, the word 'mostly' is used. This is because there is no any interviewee that solely depends on a single remittance channel. Rather, those who use mostly formal channels sometimes send money through their travelling friends or carry themselves while travelling to Ethiopia. On the other hand, those who use informal channels, sometimes send through the formal channels during urgent requests or if there is reliability doubt at stake with the informal channel. 10/67% of the interviewees use the mostly informal channel to send money to Ethiopia, and the remaining 5/33% use the mostly formal channel to do so. These two groups give their own explanations for selecting their respective channeling method as will be discussed below.

6.4.1 The Informal Channel, investigating the “invisible” channel?

Until recently, sending money through informal channels was not 'illegal' in the Ethiopian context that informal agents such as supermarkets, shops and even individuals had been working in the open market to buy and sell foreign currencies against the Ethiopian Birr. It is only recently that the country introduced a bill that regulates money laundering by indicating sending money through informal channels become illegal (Addisfortune, 2009). Though it was a long overdue law that was originally drafted in 2004, it was ratified when the country faced shortage of foreign currency in 2009. This time, the government cracked down on the informal supermarkets, shops and individuals who used to exchange money in the open market. Then, the government through its general directorate for Ethiopian expatriate started an awareness creation campaign to the Ethiopian Diaspora that sending money through informal channels is illegal and negatively affects the economy as well. As a result there is a growth in the formal remittance flow.

As stated above, 67% of the interviewees use mostly the informal channel and these are the regular senders who always send money for different purposes. Surprisingly, out of the remaining five interviewees who use formal channels, it is only two who remit on regular

basis. With some doubts on the reliability of the informal channels, almost all interviewees who send money through informal channels gave similar explanations why they use these channels as accessibility to financial institutions, higher transaction costs, larger exchange rate differentials in Ethiopia are some of the reasons given by them. Here follows some of the thoughts of the interviewees on this issue;

R02, a regular money sender shares his experience why he selected the informal channel;

Q: What agency do you use while sending money? And why?

R02: *“Except in urgent times, I use the informal channel which is sending through people travelling to Ethiopia, if I could not get people travelling to Ethiopia, I use the other method. This helps my family to get the money on black market value and at the same time it is so cheap to send through it.”*

Q: What is the ‘other method’?

R02: *“It is a private money sending mechanism. When I need to send money to Ethiopia, I will give to someone who is living in Sweden who has an agent operating in Ethiopia for the same reason, so my family will withdraw the money from the agent in Ethiopia. This helps my family get more money than the formal channel as it is valued at the black market basis and is also cheaper than the western union. The operation is similar to the western union that my family can pick the money in less than half an hour.”*

Q: Is the person operating in Sweden legal? What about the agent in Ethiopia?

R02: *“I do not think so; the persons operating in such type of business here in Sweden do not have legal shop or offices that serve exclusively for remittance. Sometimes they may operate in their living apartments that I go to their house and give them and immediately they will transfer as fast as western union. They only call to their agent in Ethiopia and the agent will make ready soon after hearing the payment order. It is based on trust. And it is similar to the person who operates in Ethiopia.”*

Prior to this interview, the researcher had no information about the ‘private’ money sending mechanism and was surprising to know that kind of remittance channeling method exists. This is because, from the researcher’s personal experience in sending money, and from the literature available about the channeling methods, there was no such thing the ‘private’ money sending mechanism. The researcher believes that this kind of remitting mechanism was discovered by the business oriented migrants and their counterparts in Ethiopia after the government cracked down the underground market in 2009. The big difference with the ‘normal’ black market traders in Ethiopia is that the private agents operate in their living apartments and other invisible informal places. Furthermore, the private ones do not hold hard currency on hand rather the hard currency stays abroad with the business partners in

Sweden. These all things complicate the controlling mechanisms to regulate the market more than the normal black market traders. Most of the interviewees who are regular remitters (67%) mostly use this method of channeling. This minimizes the contribution of remittance to the hard currency reserves in the national bank account. Moreover, it forces the economy consume more than it could save which would ultimately damage the investment process. On the other hand, there is a likelihood that the migrants involved in this business could prevent the hard currency they received to enter the Ethiopian economy. They can use it for other business purposes abroad (the hard currency can stay abroad without entering the Ethiopian economy). In such cases, multiple disadvantages of this method challenge the Ethiopian economy. To curb this national bank should encourage the environment for competitive remitters that would help decreasing transaction cost, increase accessibility, and narrow the exchange rate differentials. If not, the challenge of building the hard currency reserve would take longer time than expected.

Apart from the above reasons of selecting the private channeling method, interviewee who fled the country due to ‘political persecution’ gave another insight as why he prefers to use this method and R13 continues;

“.....I send through people travelling and through the private sending mechanism. I sometimes send through persons travelling in advance for the coming month’s expenditure to use the advantage of the person travelling. Sending through these channels will help my family get more money changed at ground market, with lower transaction cost and further, I do not want to see my hard currency sent through the national bank which is used by the government.”

This interviewee brought new insights; sending money in advance to save cost of transferring and also negatively affecting the government through sending money in that ways. It is fair to argue that remitting in advance to save transaction cost is economically acceptable to pressurize the stakeholders to lower remittance cost, but the politically motivated reason of sending money through informal methods needs a political solution as it also worsen the lives of ordinary people through inflation.

This sub-topic has revealed various challenges that affect the flow of remittance through the formal channel. The amount of remittance sent through the formal channels as argued in this paper is reported relatively low both by the NBE and the WB. Looking into the result of this paper on this issue, it can be said that though the actual flow could be relatively large (as estimated by the WB in 2009 to be \$3.2 billion) the informal remittance channels are undervaluing the amounts that could have been sent through the formal channels. The

situation is worse when the remittance is sent through the private channels where the hard currency can stay abroad without entering the Ethiopian economy. This could be addressed through opening the market to money sending competitors so that they decrease the cost of sending money from the existing ‘high cost’ as claimed by the remitters, creating accessibility to the unbanked areas through allowing domestic financial institutions to be involved in remitting business, decreasing the exchange rate differentials and follow strict entry checks for hard currency holders to declare what they have.

6.4.2 The Formal channel, ‘obeying the rule’?

Sub-section 6.4.1 discloses the challenges that exist within the remittance channel which causes majority of the interviewees to use the ‘invisible’ private channels which make things complicated. However, there are some interviewees who use mainly the official channel to transfer their money. Following will be the discussion of these remitters experience in this regard.

Remittance sent through the formal channels has great importance in building the hard currency reserves of a given country thereby stabilizing the financial system, increasing consumption, savings and lowering inflation (Gammeltoft, 2002 and Maimbo and Ratha, 2005). For these reasons many governments in developing countries do encourage their emigrants to send money through the official channel which the Ethiopian government has recently started to do. The encouragement should have been initiated by focusing on the recommendations given above in 6.4.1 so that migrants can be persuaded to send through the official channels. However, a large share of Ethiopian remittance is sent through unofficial channel as discussed in 6.4.1. On the contrary of the majority of the interviewees, 5/33% of them mostly use the formal channel. These interviewees do send money through the official channel with full awareness that they lose some amount of money if they send through the official channels as compared to the unofficial ones. From the five interviewees who mostly use this channel, only two are regular remitters. It might be an indication that remitting regularly could affect their selection of remittance channel due to the associated costs. However, they explain that their desire to send money through the official channels is due to reliability of the channels, feeling as “responsible” citizen (contribution to the economy) and fear of regulation breach/obeying the rule.

Accordingly, R06 who is more pragmatic with the issues of migration, remittance and purpose of remittance does share her experience on the issue of channels;

“I use the formal channel. If I am travelling I will take the money and change them in the legal market. I am against the black market and I discourage people to use through the informal business. Many people use the informal channel to send money but it hurts the economy.”

And she recommends other migrants to use the official channels citing the recent depreciation of the Birr as an attractive step taken by the government. And R08 adds his similar view of the channeling methods;

“I use the formal channel through western union and through the bank to bank; the cost is lower when using the bank to bank method. Even if I am travelling to Ethiopia, I take the money from here but I change it in the bank. This is because; I do not want to use illegal market for changing my money as it is not good for the overall the economy of the country.”

The additional information that gained from R08 is that the cost is lower when using the bank to bank method, though the technical and accessibility issues are not easy for the senders and receivers respectively.

Overall, these interviewees share similar experiences on using the remittance channels with one respondent describing her additional motive to send through the official way due to fear of consequences of the breach of regulation.

Therefore, remittance channels do play big role in making the formal remittance flow relatively low compared to the actual amount sent to Ethiopia. The discovery of this “invisible” channel confirms that the actual amount of money sent to Ethiopia is relatively large. On the other hand, though smaller, there are still migrants who use the official channels just so they can fulfill their roles as “responsible” citizens.

6.5 Evaluating Ethiopia’s national policy towards remittance

As it can be recalled from 4.5, the Ethiopian Diaspora had minimal involvement in the development process. Lately in 2002 the government realized and introduced different initiatives and encouragements to the Ethiopian Diaspora. Among the different initiatives taken; the approval of domestic saving account in foreign currency in 2004 and the continual depreciation of the national currency can be taken as two basic encouragements directly associated with the flow remittance to the Ethiopian national account.

Theoretically speaking; interest rate, exchange rate, political instability, domestic policies, wages and rate of inflation are macro/national level factors that determine the flow of remittance to a given country (see Chapter 3). At the same time the data from the

interviewees show that transaction cost is one main cause that they consider while sending and is one reason that they send their money through the informal channels. The researcher believes that cost of transferring money also should be included here as part of the macro/national factors. This is because, countries' national policies on banking and money sending agencies plays a big role in creating competitive remitting organizations and at the same time addressing issue of accessibility though the international remittance agencies also affects the costs. Nevertheless the available literature on the macroeconomic approach has excluded it from being considered (El-Sakka and McNabb, 1999; Ratha, 2003; Buch and Kuckulenz, 2009; Higgins et al, 2004; Adams, 2009 and Chami et al., 2008). Moyo (2009) argue that there is still room for African governments to encourage greater remittance flow through innovative mechanisms such as the International Remittance Networks of Latin America and M-Pesa of Kenya that decrease costs which could easily work for Ethiopia if there is favorable policy and environment to do so.

Further the data revealed that exchange rate as discussed in sub-section 6.4.1 is one of the major determinant factors that push remitters to use the informal channel. The larger the exchange rate differentials the lower remittance is sent through the formal channels. For this, the government has depreciated the Ethiopian Birr four times within one year with the final at 20%. Most respondents reacted positively to the depreciation. However, shortage of hard currency in the Ethiopian economy accompanied with the wider availability of the 'invisible' traders is undermining the continual and big depreciation of the Birr.

Apart from the issues of transaction cost and exchange rates, the data does not have another pattern from the macroeconomic factors to discuss except individual interviewees giving different views on inflation and political stability. For instance, R08 discussed that he considers inflation as one factor in sending money that if there is higher inflation in Ethiopia he sends more. Beyond these, a number of interviewees in this research (6) agreed that having better relationship between the Ethiopian government and the Diaspora has its own impact for migrants either to invest, transfer know-how, remit through the formal channel or creating good economic and diplomatic ties with the destination countries. Though there is no such thing in the available literature that these things affect remittance, this might be a unique experience to the Ethiopian government and Ethiopian emigrants.

Despite the many macroeconomic factors that are assumed to affect the remitters' remittance trend and choice of remittance channel, exchange rate and cost of transaction are found to be

influential in most interviewees. Beyond these, the relation between the Ethiopian government and the Diaspora is also found to be an important factor in shaping the remittance flow to be sent through either the formal or informal channel which ultimately has big impact in the remittance figure and thereby affecting the development that could be attained using those remittances.

Chapter 7, Conclusion and Recommendations

7.1 Concluding the Analyses

This study is done with the premises that Ethiopian remittance flow is relatively low and remitters' remitting behavior has contributed to this. Thus, the main objective was to examine why this flow is relatively low and look into the determinants of remittance flow from the senders' perspective. This was done for the reason that the main decision to remit is in the hands of migrants which easily affects the trend of sending money.

As opposed to the quantitatively dominated studies, to carry out this, qualitative method was applied. As part of this qualitative study, semi-structured interview was used to collect necessary data from Ethiopian immigrants in Stockholm, Sweden (case study) so that senders' experiences and views could be incorporated into the analyses. Snowballing sampling was applied to get the 15 interviewees through 4 initial contact persons. The interviewees come from different social backgrounds of age, gender, marital status, education etc. Further, documents from Ethiopian remittance policy and other data sources have been used in part to cross check with the result of the qualitative analysis.

The research is analyzed from the view of microeconomic and macroeconomic determinants of remittance with an emphasis given to the former one. Most variables in the microeconomic determinants such as relationship with family, family income level, intent to return, desire to invest and other motives to remit were used. On the other hand, exchange rate and domestic economic conditions are applied during the analyses in the lens of the macroeconomic determinants. Moreover, the analyses also followed data patterns to analyze contextually. This includes, investigating the "invisible channel" and figuring out the remittance dependency and remitters' fatigue/ 'remitter-receiver' relationship.

In the microeconomic aspects of the study, the research has found altruism as the key determinant of remittance flow with majority of the interviewees confirming this. Even at times of hardships like unemployment, most of them responded that they would arrange/ have arranged their personal expenditures so that they continue sending money without discontinuation. This was apparent in most of the interviewees regardless of their cause of migration. The feeling of socioeconomic obligation/responsibility could be a manifestation of the Ethiopian family relationship that every member of the family is responsible to take care of the rest family members who need help revealing the strong family bond available in the

Ethiopian context. Only 40% of interviewees have confirmed the NELM explanation of migration and remittance. These interviewees feel an implicit contract with their family that they should fulfill their socioeconomic obligation. The NELM's claim that the issue of migration and remittance is associated with the household decision is not strongly supported by this study in the sense that the majority of the interviewees did not migrate as a result of a decision made by the household thereby refuting the theory. Thus, the theory could have better worked for these interviewees if individual causes of migration (individual interest, social networks and the political environment) and educational level have been considered. On the other hand, only few interviewees concurred with the self-interest motive or the desire to invest as a driver for their remittance showing there is a need to work hard for policy makers to attract more remittance for investment. Furthermore, the claims by the widely available literature that old/retired migrants have higher possibility of returning to rejoin their families back home thereby increasing their propensity to remit did not work for those eligible interviewees who are aged above 40 years. They stated health conditions and nuclear family issues as their main reasons.

In the macroeconomic determinants, exchange rate and the economic conditions of both the host and country of origin are found to be the most important variables associated with their remittance trends. Equally important but not placed at this macroeconomic variable by the literature is that the transaction cost which affects the migrants choice of remittance channel either to use the formal or informal one (especially the invisible channel).

In conclusion; though the main focus of this research is to examine why the official remittance flow is relatively low by investigating the determinants of remittance from microeconomic perspective at individual level, the macroeconomic perspective is also addressed somehow as it is an inevitable component in influencing the remitters' selection of remittance channel. The research thus has found that socioeconomic obligation in one or other way is the main remittance driver among the interviewees. Whilst, low accessibility of financial institutions at the receivers' side, lower competition among remitting agencies accompanied with higher transaction costs, the widely available 'invisible channel' and the higher exchange rate differentials are to be blamed to the relatively low remittance flow to Ethiopia through the formal channel. However, the actual remittance flow could be relatively larger than the official reports by the WB and NBE which was confirmed by the WB's recent survey in Ethiopia. Overall, the research has proved the initial premises of this study that the official remittance flow to Ethiopia is relatively low and the remitters' choice of remittance

channel has contributed to this. Therefore, the result of this research could be taken as indicative or insight for further research which shed light for qualitative application in the remittance business.

7.2 Recommendations

Up on the findings of the study, the following suggestions are forwarded,

- Stakeholders should further explore as why the Ethiopian formal remittance is relatively low and what should be done to maximize the flow through the formal channel.
- Ethiopian policy makers could be benefited by the investigation of the “invisible channel” so as to minimize the flow of remittance through the informal channels. Moreover, qualitative and quantitative researches can be done to examine the immediate and long-term effects of the “invisible channel” on the Ethiopian economy when the hard currency stays abroad as discussed in the paper. This could also be vital investigation for other governments who have similar situations.
- Ethiopian policy makers should adopt policies that encourage Ethiopian emigrants to remit through the formal channels by creating accessibility, allowing competitive environment, lowering exchange rate differentials. Moreover, having better relations with its emigrants abroad give confidence migrants to remit for investment which bears greater returns.
- Remittance dependency is a critical issue that should be addressed by every emigrant, policy makers or those involved in the business so that the migration returns overweighs the drawbacks. If not, the “attitude of waiting for handouts” and the “culture of migration ” would ultimately hamper the development process especially that of Ethiopia which have a relatively larger dependent adults as found in this research and confirmed by the WB survey.
- Interested researchers can do further qualitative research on the issue to narrow the gap available in the prevailing quantitative literatures.

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Appendix,

Interview Guide

My name is Mehari Arefaine, I am currently a master's program student in Development Studies, Lund University, Sweden. I am doing my master's thesis on "Determinants of remittance among Ethiopian immigrants in Sweden. A qualitative insight". To successfully accomplish my studies, I need your cooperation and thus I respectfully request your genuine participation in this study. The content of your interview is absolutely confidential that no one will have access except my Professor and me; I will only use for the purpose of this research. Thank you in advance for your help.

Section one: Basic information

Name (in code) _____

Sex _____

When were you born? _____

Marital status

- ✓ Single
- ✓ Married
- ✓ Divorced

Do you have children? Yes/no,

1. Educational status

- ✓ Primary or below
- ✓ Secondary
- ✓ Preparatory
- ✓ College and above

2. Do you have a job? How much money do you earn per annum approximately, (optional)?

3. Do you have family back home? Yes/no

- ✓ If yes, How many are the member of your family?
- ✓ What is the main source of their income?
- ✓ Are they dependents on you? Yes/no

Section two: Migratory history

4. When did you come to Sweden? What motivated you to migrate?
5. Did you made any arrangement with your family at the time of your migration? (for example, implicit or explicit contract with your family in return for your migration)
 - ✓ If so, what kind of arrangements?
6. Difficulties that you faced at the time of migration from Ethiopia? If there were describe, for example political or financial.
7. If your answer for question number 6 is yes, how did you solve the problems you faced during your migration from Ethiopia?
8. Do you have a return policy? Yes/no
 - ✓ If yes, when and why?

Section three: Remittance experiences

9. Do you send money back home? Yes/no, if yes, when did you start sending money?
10. What motivates you for sending money back home? Explain briefly
11. To whom you send money?
 - ✓ For what purpose?
 - ✓ How frequent do you send money per year? Why this often?
12. On what occasions do you send more money?
13. What factors do you consider while remitting? (Possible to have more than one option)
 - ✓ Helping family
 - ✓ Investment activities
 - ✓ Exchange and interest rate
 - ✓ The cost of transferring money
 - ✓ Implicit or explicit contract that you had with family (see question number 5)
 - ✓ Contemporary Ethiopian situation such as economic stability, political stability
 - ✓ Sweden's economic condition, for instance, availability of job
 - ✓ Other reasons, describe them.
14. Do you send money on request or on personal basis?
15. What remittance channel do you use while sending money? And why?
 - ✓ Formal channel such as money transfer agencies and banks
 - ✓ Informal channel such as through yourself or other people who travel to Ethiopia

- ✓ Both and don't care about the channels
- 16. How is the availability of competitive remittance transferring agencies? How do you evaluate the cost of transferring money to Ethiopia?
- 17. How was your remittance affected during the financial crises?
 - ✓ How do you respond in difficult times for instance when you lose your job?
- 18. Do you have personal saving account in Ethiopian banks in hard currency? Yes/no, why?
- 19. Have you ever bought bonds issued by the Ethiopian government (governmental companies) that are sold in Sweden? Yes/no, why?

Section four: General opinion

- 20. What are your thoughts on remittance related Ethiopian policy such as on
 - ✓ Interest rate
 - ✓ Exchange rate
 - ✓ Remittance cost
 - ✓ Creating saving account in Ethiopian banks
 - ✓ Ethiopian Immigrants' right in Ethiopia

Thank you for your cooperation.