

Chapter 10

Migrant Remittances and Financial Inclusion in Africa: A Dynamic and Long-Run Approach

Abba Yadou Barnabe

University of Dschang, Cameroon

ABSTRACT

The main objective of this chapter is to examine the effect of migrant remittances on financial inclusion in Africa from 2004 to 2017. Thus, the authors constructed a composite index of financial inclusion using principal component analysis (PCA). In addition, they examine the effect of remittances on financial inclusion using a system GMM and a pooled mean group (PMG). It is found that remittances have a negative effect on financial inclusion in the short run and a positive effect in the long run. Moreover, remittances have a negative long-term effect on the use of financial services and a positive long-term effect on access to financial services. This implies improved policies to both attract the flow of remittances through formal channels and improve financial inclusion.

INTRODUCTION

The growth and low volatility of migrant remittances in recent decades pose a real challenge for developing economies, which receive 74% of remittances and account for 27% of GDP (World Bank, 2014). Indeed, migrant remittances are one of the sources of external financing of economies and are broader than foreign direct investment and official development assistance. For example, in 2019, migrant remittances to low- and middle-income countries reached \$550 billion, surpassing foreign direct investment and official development assistance in those countries (World Bank and Knomad, 2019). All six regions have seen an increase in migrant remittances due in particular to the growing economic situation in the United States and the rebound in remittances from some Gulf Cooperation Council countries. Official statistics on the amount of migrant remittances is underestimated due to the preponderance of informal remittance flows. Indeed, the flow of migrant remittances through non-financial institutions and informal

DOI: 10.4018/978-1-7998-4817-2.ch010

channels accounts for 50% of this flow in Sub-Saharan Africa (Ratha et al., 2010). Moreover, this flow of migrant remittances is about 50 to 250% of official statistics, according to Freund and Spatafora (2008).

Besides, financial inclusion at the G20 summit in Seoul was placed high on the global development agenda. Financial inclusion is defined as access for individuals and enterprises previously excluded from the formal financial system to a range of useful and responsive financial products and services (transactions, payments, savings, credit and insurance) offered by formal financial intermediaries. For Sarma and Pais (2011), financial inclusion is a process that ensures the ease of access, availability and use of the formal financial system by all individuals in an economy. An inclusive financial system facilitates the efficient allocation of productive resources and thus has the potential to reduce the cost of capital (Sarma, 2008). In addition, it has been recognized that remittances from migrants play an essential development role and financial inclusion is vital (Global Migration Group, 2017; Efobi et al, 2015).

Previous studies have examined the link between migrant remittances and financial inclusion in a superficial way by not considering all aspects of financial inclusion. A study that takes into account the different dimensions of financial inclusion should produce a more explicit understanding of this relationship. Moreover, apart from the work of Chuc et al. (2019), taking into account the different aspects of financial inclusion in Middle-Income Countries (MICs), this study takes Africa into account.

Previous studies have considered the relationship between migrant remittances and financial inclusion by taking into account a financial inclusion indicator (Gemechu et al., 2014; Ambrosius et al., 2014; Inoue et al. 2016; Inoue and Hamori, 2016; Kwesi et al., 2020); and therefore provides incomplete information on financial inclusion (Sarma, 2008), based on a country (Anzoategui et al., 2014; Ajefu and Ogebe 2019) and taking into account a composite index. In addition to the work of Chuc et al. (2019) based on the case of middle-income countries (MICs), this study takes into account Africa composed of low-income countries (LICs) and low- and middle-income countries (LMICs). Moreover, in this study, we take into account the dynamic and long-term impact of the relationship between migrant remittances and financial inclusion.

LITERATURE REVIEW

Reasons for the positive impact of migrant remittances on financial inclusion include the increasing amount that leads to a demand for a bank account (Efobi et al. 2015; Ambrosius and Cuecuecha, 2016), reducing the risk of information asymmetry (Roa, 2015) which increases the creditworthiness of remittance recipients with lenders (Orozco and Fedewa, 2006; Chuc et al. 2019). Finally, it leads to the promotion of financial literacy that eventually leads to financial inclusion (Yoshino et al., 2017).

Theoretical Review

Theoretically, this study is based on the theories of asymmetry of information and pure altruism.

The theory of information asymmetry has its roots in the work of George Akerlof on Lemons markets in 1970. This theory refers to the effect of moral hazard between market participants, where one of the market participants holds information not known by the parties and which leads to market inefficiency. Many arguments argue that a regular flow of migrant remittances makes it easier for financial institutions to hold information on the income of the recipients of these flows, thereby establishing their creditworthiness (Anzoategui et al. 2014; Ambrosius and Cuecuecha, 2016). Also, remittances can be considered

14 more pages are available in the full version of this document, which may be purchased using the "Add to Cart" button on the publisher's webpage:
www.igi-global.com/chapter/migrant-remittances-and-financial-inclusion-in-africa/266982

Related Content

The Journey Towards Sustainable Development

Sureyya Yigit (2024). *Intersecting Human Resource Management and Organizational Culture for Environmental Sustainability* (pp. 203-225).

www.irma-international.org/chapter/the-journey-towards-sustainable-development/351666

Biotechnology as a Driving Force for Regional Development: Opportunities and Challenges for the Brazilian Amazon

Maurício Aguiar Serra, José Raimundo Vergolino and Artur da Silva Coelho (2013). *International Journal of Social Ecology and Sustainable Development* (pp. 28-51).

www.irma-international.org/article/biotechnology-driving-force-regional-development/93836

Corporate Social Responsibility as a Part of the Strategies for Business Sustainability Based on the Innovative Activity Development

Iveta Ubrežiová, Oksana Sokil and Mária Janošková (2020). *Strategies for Business Sustainability in a Collaborative Economy* (pp. 160-176).

www.irma-international.org/chapter/corporate-social-responsibility-as-a-part-of-the-strategies-for-business-sustainability-based-on-the-innovative-activity-development/258208

Sustainable Agriculture: An Evaluation Using ANFIS

Debesh Mishra and Suchismita Satapathy (2022). *International Journal of Social Ecology and Sustainable Development* (pp. 1-15).

www.irma-international.org/article/sustainable-agriculture/287124

Mediterranean Diet as a Healthy, Sustainable, and Secure Food Pattern

Elsa Lamy, Cristina Conceição, Fernando Capela e Silva and Maria Raquel Lucas (2022). *Impacts of Climate Change and Economic and Health Crises on the Agriculture and Food Sectors* (pp. 185-205).

www.irma-international.org/chapter/mediterranean-diet-as-a-healthy-sustainable-and-secure-food-pattern/295773