Journal of Economics and Business 64 (2012) 240–260

Contents lists available at SciVerse ScienceDirect

Journal of Economics and Business

Remittances, financial development and economic growth in Africa

Esman Morekwa Nyamongo[a,*], Roseline N. Misati[b,1], Leonard Kipyegon[b,2], Lydia Ndirangu[a,3]

[a] KSMS Research Centre, Central Bank of Kenya, P.O. Box 65041-00168, Nairobi, Kenya
[b] Research Department, Central Bank of Kenya, P.O. Box 60000–00200, Nairobi, Kenya

ARTICLE INFO

Article history:
Received 2 March 2011
Received in revised form 4 December 2011
Accepted 10 January 2012

Keywords:
Remittances
Financial development
Economic growth
Africa

ABSTRACT

This study investigates the role of remittances and financial development on economic growth in a panel of 36 countries in Africa over the period 1980–2009. It uses a panel econometrics framework and the main findings of the study are as follows: (1) Remittances appear to be an important source of growth for these countries in Africa during the period under study. (2) Volatility of remittances appears to have a negative effect on the growth of countries in Africa. (3) Remittances appear to be working as a complement to financial development. (4) However, importance of financial development in boosting economic growth appears weak, at least among the countries under study.

© 2012 Elsevier Inc. All rights reserved.

1. Introduction

Largely ignored in the past, workers' remittances-transfers by international migrants to their countries of origin – have grown to become one of the largest sources of financial flows to developing countries, often overshadowing the traditional sources such as official aid and private capital flows (see World Bank, 2003, 2004; Aggarwal, Demirgüç-Kunt, & Martínez Pería, 2010; Giulia & Zazzaro, 2011; Giuliano & Ruiz-Arranz, 2009; Rao & Hassan, 2011). Further evidence shows that in 2010, worldwide remittance flows are estimated to have exceeded US $440 billion of which US $325 billion were

* Corresponding author. Tel.: +254 020 8646000; fax: +254 020 8018783.
E-mail address: nyamongoem@centralbank.go.ke (E.M. Nyamongo).
[1] Tel.: +254 020 2863219.
[2] Tel.: +254 020 2863212.
[3] Tel.: +254 020 8646000.

0148-6195/$ – see front matter © 2012 Elsevier Inc. All rights reserved.
doi:10.1016/j.jeconbus.2012.01.001

transmitted to developing countries, an amount that far exceeded the volume of official aid flows and constituted more than 10 percent of gross domestic product (GDP) in many developing countries. It is also shown that recorded remittances in 2009 were nearly three times the amount of official aid and almost as large as foreign direct investment (FDI) flows to developing countries (World Bank, 2011). And in 2007 alone, over US$300 billion of workers' remittances were transferred worldwide through official channels, and it is likely that billions more were transferred through unofficial channels (see Barajas, Chami, Fullenkamp, Gapen, & Montiel, 2009).

As shown in the literature, remittances are transmitted through official and unofficial channels (see World Bank, 2011). As shown by Nyamongo and Misati, 2011; Aggarwal et al. (2010) remittances channeled through the formal avenues impacts growth of financial sector. This occurs especially when the recipients of such funds open accounts with commercial banks. In addition, when the recipients visit the banks they may gather information regarding existing bank loan products which they may take advantage of. If this effect on financial sector is substantial then we expect higher financial development. But as shown in the literature, financial development is also linked to private investment and economic growth (see Deodat, 2011; Mundaca, 2009; Misati & Nyamongo, 2010, 2011; Sufian & Siridopoulos, 2010). There is also a pool of evidence in the literature that find financial development to be important in driving economic growth. The earliest theoretical arguments in support of the role of financial development are found in Bagehot (1873), Schumpeter (1911) and more recently Hicks (1969). As shown by Schumpeter (1911) the services provided by the financial intermediaries are important for innovation and development. Schumpeter also showed that financial institutions may spur innovation and growth by identifying and funding productive investments. The same view was held by Hicks (1969) who traced the critical historical role played by the financial system in igniting industrialization in England by facilitating the mobilization of capital for "immense works." In contrast, Joan Robinson (1952) declares that "where enterprise leads, finance follows." According to this view, economic development creates demands for particular types of financial arrangements, and the financial system responds automatically to these demands.

Further evidence (see Aggarwal et al., 2010) shows that where there is higher level of financial development remittances tend to have a lower marginal effect on growth. This is because financial development, as we know it, tend to be associated with producing information about possible investments and allocating capital; monitoring firms and exerting corporate governance; trading, diversification, and management of risk; mobilization and pooling of savings; and easing the exchange of goods and services. These financial functions tend to have a bearing on savings and investment decisions, and technological innovations and ultimately contribute to economic growth (see Misati, 2007; Misati & Nyamongo, 2011; Brown, 1994).

However, on the other, a negative channel from remittances to growth also exists in the literature. Proponents of the negative effect of remittances on growth contend that, first, remittances occur in the context of information asymmetry, in which case the remitter lacks control of the usage of transferred funds by the recipient, thus, the recipient may not use the remitted funds for the investment projects or as productively as originally intended. Second, since remittances are largely transferred to households for consumption smoothening besides investment, the recipients may consider the remitted funds as a substitute for labor income and increase their leisure activities, which is likely to negatively affect labor productivity and growth. Third, while remittances enhance foreign exchange flows, the resultant appreciation of the exchange rate may erode the competitiveness for countries depended on the tradable sector (Amuedo-Dorantes & Pozo, 2004; Chami, Fullenkamp, & Jahjah, 2003)

From the foregoing, it is obvious that there is a dearth of literature on African countries on this subject. Given the importance attached to remittances in African countries and in the light of ambiguity in terms of its impact on financial development and growth, it is important to examine its linkages to growth so as to facilitate effective policy oversight. This paper therefore seeks to contribute to the existing knowledge by making the following contributions: (1) Most studies in the literature tend to conduct panel studies on a global scale with African countries not being given due prominence. One of the reasons highlighted in these studies is lack of appropriate data for a number of countries in Africa. This particular study will be Africa specific and will therefore seek to demonstrate the role played by remittances on economic growth. (2) Literature covering economic growth within a panel framework is vast, in recent years this has been linked to the financial development. However, not much has been

دریافت فوری ← متن کامل مقاله

ISIArticles
مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات