Migrants’ Remittances and Poverty in ECOWAS

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Abstract: The rise of emigrants in West Africa is associated with the quest to migrate out of poverty. Migrants’ remittances often help in stimulating demands for goods and services and providing support for families left behind. Using one-step system Generalized Method of Moments technique, the relationship between migrants’ remittances and poverty in seven West African countries from 1995 to 2015 was explored. The results obtained revealed that the effect of remittance on poverty is statistically significant. Per capita income shows positive and statistically significant effect on poverty in ECOWAS. The findings show that migrants’ remittances play a significant role in alleviating poverty in the region. Government efforts in alleviating poverty should consider the easiness in migrants’ remittances to the recipients.

Keywords: Migration, Remittances, Poverty Alleviation and Development

I. Introduction

A major issue in developing countries is poverty. The high poverty rate drives the migration of people to other places. High level of poverty identified as a state of total absence of opportunities, poor health and poor living conditions triggered by hunger and undernourishment, illiteracy, social deprivation, and hopelessness of the future has been an issue plaguing the developing countries over years. For decades, aspirations and agitation towards alleviating poverty, employment and a better standard of living conditions have led to emigration into developed countries in search for a better means of livelihood.

Remittances across developing countries have grown in the past years and it’s been classified as the main source of external financing for households. The inflow of remittances in the last two decades had increased significantly in developing countries. Officially recorded remittance inflow increased from $125billion in 2004 to $429billion in 2016. Available statistics show that the actual size of remittances in this period is three times the amount of the Official Development Assistance (WDI, 2016). The amount of remittances received in the lower-middle-income category in 2015 was $261.582million. This figure far exceeded the amount of the foreign direct investment to the income group which amounted to $130.775million in the reference period. Similarly, South Asia and sub-Saharan Africa recorded remittances of $117.658 and $39.803million with $49.603 and $42.231 million received for FDI.

The flow of remittances to ECOWAS has increased tremendously in the last two decades. Records show that Nigeria is currently the top remittances receiving country in ECOWAS. The amount of remittance inflow in Nigeria in 2016 was $19.0billion (WDI, 2016). Estimated data reveal that some countries in ECOWAS have a large share of remittances to GDP. For instance, Liberia and Gabon share of remittances to GDP in 2016 are 26.1% and 21.5%, respectively (WDI, 2016). These statistics indicate that remittances inflow is extremely important for countries in the region. Hence, remittances serve as a private capital inflow to smooth consumption and ease economic difficulties, especially in ECOWAS.

Poverty is one of the major concerns in ECOWAS. The region is characterized with low income and high poverty rate. Recent survey on poverty based on the absolute poverty line approach show that the poor represent more than one third of the population in Cape Verde and Cote d’Ivoire; less than one third of the population in Benin, Ghana and Togo; about half of the population in Burkina Faso, Guinea, the Gambia, Nigeria and Senegal. About two third of the population was poor in Guinea-Bissau and Niger and more than two third of the population in Mali and Sierra Leone.

As described by Wahba (1991), the motive of remittances can be bifurcated into fixed and discretionary. The fixed remittances represent the support for the family left behind in the home country while the discretionary remittance captures remittance used for investment purposes. A household with emigrant received cash support from abroad targeted towards meeting the needs of the recipients, health care, the building of houses, entrepreneurial activities and improving the welfare of families left at home while at the macro level, it can add up to national income if transferred through normal channels (financial institutions). The debate on remittance relevance has been an on-going issue; households have used it as resilience to crisis and during
financial depreciation, it is believed to raise savings and help household meet their needs (Ratha, 2013; Anyanwu and Erhijakpor, 2010). Interestingly it has provided support for the development of financial system in the Middle East, North Africa and West Africa regions (Yasseen, 2012).

This paper is set out to investigate the role of remittances in alleviating poverty in ECOWAS countries. Previous studies had generally focussed on the relationship between poverty and other macroeconomic variables such as savings, employment and government expenditure, among others. This study would employ a panel data procedure to examine the effect of remittances on poverty. Specifically, the study utilizes a system Generalized Method of Moment technique which enables to solve the problem of endogeneity and achieve robust estimates.

The remainder of the paper is organized as follows; Section two which follows this section discusses the literature review focusing on the stylized fact on the trend of migration and remittance, the theoretical and empirical literature on migration and remittances. Section three discusses the research method of analysis. Section four provides the result analysis and its discussion and section five present the drawn up conclusion and recommendation.

2.1 Stylized facts on Migration and Remittances in West Africa.

The rapid increase in the global migration can be attributed to differences in regional wages across regions, economic difficulties growing inequality and the increased demand for skilled/unskilled labour in developed countries. Besides these, changes in the demographic structure, rapid globalization and gradual liberalization in migration policies of countries often facilitate movement of migrants across borders. The rate of emigration is high in West Africa. People with the notion of getting a better paid job and living in a favourable condition under good welfare package often migrate from the region towards developed countries. It is believed that migration has its negative effect on the region as it often leads to brain drain. Nwajiuba (2015) asserted that according to UNDP (1993) report, more than 21,000 Nigerian doctors are in the United Nations while Nigeria’s health system suffers from acute shortage of medical personnel.

The issue of brain drain has been re-considered as most migrants have constituted ways of giving back to their home country through newly developed skills and knowledge gained from a host country. Skills transfer is one of the greatest social benefits of remittances which occurs when migrants return temporarily to their home countries in later years; promoting sharing and circulation of skills and ideas gained abroad. Diasporas abroad also provide educational networks for home countries through funding supports and educational schemes channelled towards promoting the development of their home countries.

Table 2.1 presents 10 top immigration economies in the world which shows that United States comes first followed by Turkey, and Germany. Although migration into developed countries tops the list of immigration economies in the world (as seen in table 2.1) yet, the cross-border and regional migration which tends to be more accessible to poor people are also common although data on such are not documented. Recently, the direction of migration has sprung up with people migrating from West Africa to zones in Asia such as Malaysia, Dubai, Libya and countries perceived to be better than their home country in search of education, job opportunities and better welfare packages. The number of people connecting Europe through Libya from Western Africa rose rapidly in 2016 according to UN Refugee Agency (UNHCR) while that of eastern Africa dropped.

This journey mostly done through the Sahara and the Mediterranean Sea has led many to their death while some (mostly females) became slaves and victim of human trafficking with the end result after a while becoming worthless as they are deported back home as an on-going process of regulating migrants are done in most countries. With the help of International Organization for Migration (IOM) deportees over immigration-related offenses have been received in Nigeria, Niger, Senegal and most countries in West Africa from Saudi Arabia and Libya.

<table>
<thead>
<tr>
<th>No</th>
<th>Countries</th>
<th>Net Migration (thousand)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>United States</td>
<td>5,008</td>
</tr>
<tr>
<td>2</td>
<td>Turkey</td>
<td>2000</td>
</tr>
<tr>
<td>3</td>
<td>Germany</td>
<td>1,250</td>
</tr>
<tr>
<td>4</td>
<td>Lebanon</td>
<td>1,250</td>
</tr>
<tr>
<td>5</td>
<td>Oman</td>
<td>1,211</td>
</tr>
<tr>
<td>6</td>
<td>Canada</td>
<td>1,176</td>
</tr>
<tr>
<td>7</td>
<td>Russia</td>
<td>1,118</td>
</tr>
<tr>
<td>8</td>
<td>Australia</td>
<td>1,023</td>
</tr>
<tr>
<td>9</td>
<td>United Kingdom</td>
<td>900</td>
</tr>
<tr>
<td>10</td>
<td>Saudi Arabia</td>
<td>850</td>
</tr>
</tbody>
</table>

Source: Extracted from World Development Indicators, (2017) by author.
The share of remittances to GDP in ECOWAS over a decade is presented in table 2.2. A close look at the statistics shows that some countries had a substantial decline in their remittances to GDP while others witnessed a significant increase in the period. For instance, Benin, Nigeria and Togo recorded a decrease in their share of remittances to GDP.

Table 2.2 shows the remittances as a percentage of GDP in the countries in ECOWAS. Available evidence revealed that Liberia has the highest percentage of remittances to GDP in ECOWAS in 2016. However, in 2007, Togo recorded the highest share of remittances to GDP. Some of the reasons for high share of remittances to GDP in Liberia in 2016 could be the high rate of migration to developed countries registered in the past two decades due to political unrest and civil war in the country. Among countries that have high share of remittances to GDP in 2016 include Gambia and Senegal. In 2007, Nigeria share of remittance to GDP was 10.82%. This value was considered very high given the ECOWAS average. Although Nigeria share of remittances to GDP decline in 2016, it is the highest remittances recipient country in ECOWAS (WDI, 2016).

In 2007, Gabon, Cote d’Ivoire, Guinea and Ghana had a low share of remittances to GDP compared to other members of ECOWAS. A substantial increase in Ghana’s share of remittances to GDP was observed in 2016. One major factor that led to the increase in Ghana remittances to GDP is as a result of high rate of migration from the country occasioned by economic difficulties.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Benin</td>
<td>4.03</td>
<td>2.41</td>
</tr>
<tr>
<td>2</td>
<td>Cote d’Ivoire</td>
<td>0.90</td>
<td>0.94</td>
</tr>
<tr>
<td>3</td>
<td>Carbo Verde</td>
<td>9.17</td>
<td>13.11</td>
</tr>
<tr>
<td>4</td>
<td>Ghana</td>
<td>0.47</td>
<td>6.98</td>
</tr>
<tr>
<td>5</td>
<td>Guinea</td>
<td>0.24</td>
<td>0.64</td>
</tr>
<tr>
<td>7</td>
<td>Guinea Bissau</td>
<td>6.19</td>
<td>8.00</td>
</tr>
<tr>
<td>8</td>
<td>Liberia</td>
<td>8.39</td>
<td>26.12</td>
</tr>
<tr>
<td>9</td>
<td>Mali</td>
<td>4.22</td>
<td>6.67</td>
</tr>
<tr>
<td>10</td>
<td>Nigeria</td>
<td>10.82</td>
<td>4.85</td>
</tr>
<tr>
<td>11</td>
<td>Senegal</td>
<td>10.56</td>
<td>13.72</td>
</tr>
<tr>
<td>12</td>
<td>Sierra Leone</td>
<td>1.94</td>
<td>1.29</td>
</tr>
<tr>
<td>13</td>
<td>Togo</td>
<td>11.27</td>
<td>7.98</td>
</tr>
</tbody>
</table>

Source: World Bank Development Indicator. Note: Data for Niger is not available.

2.2 Stylized facts on poverty in West Africa.

Despite the growth of Africa economy over time some countries are being left behind. The least developed countries often known as those at risk of continued poor are found in Africa. Poverty has constituted myriad to the growth and development of developing nations. It has been observed that overtime most notable schemes and programmes put in place by various governments failed to be strong enough at militating against the rise of poverty. In West Africa, poverty has continued to be widespread and as such constitute to the deterioration of the health and living standard of the people.

Measure of poverty is based on both multidimensional poverty and monetary means. In terms of multidimensional poverty(MPI) involving people being deprived of basic need items such as cooking fuel, water, sanitation, nutrition, schooling, and electricity, West and East Africa have the highest number of people in the African continent with rapid population growth increasing it proportion. The rural areas continued to be largely affected with prevalence being on mostly children and women. Child poverty is largely determined by mothers’ health, economic status and educational standard and income level of households. Monetary measure of poverty involves the use of poverty headcount ratio at $ 1.90 a day (2011PPP). A comparison of multidimensional and monetary measure of poverty revealed that in West Africa, 48% of the population are living under the $1.90/day poverty line, while the percentage under multidimensional poverty stood at 59%; an indication that poverty in West Africa is more than income/monetary deprivation (OPHI,2016).

A close look at the statistics from WDI, 2016 indicates that most countries had a substantial decline with the statistics still been very high in terms of international standard. For instance, poverty headcount ratio at $ 1.90 a day (2011PPP) for Nigeria, Mali, and Senegal in 2005 which was 54.4%, 51.3% and 38.4% dropped slightly to 54%, 49%, 38% in 2015 while Ghana and Cape Verde have notable improvements of fall from 24.5% and 17.5% in 2005 to 12% and 8.1% in 2015. Benin, Cote d’Ivoire, Togo record in 2015 stood at 49.6%, 28.2%, and 49.2% of their population living in poverty.
2.3 Literature Review on Migration and Remittances

Scant theories are available on the relationship between migrant’s remittances and poverty. There is little disagreement among the existing theories. Harris-Todaro(1970) model of migration and unemployment which is a basic modification of Todaro (1969) work explained causes of international migration with the postulation that migrants in search of labour rise as a result of rural-urban differences in average expected returns. This migration theory is based on the experiences of African region whose wages tend to be lower than that of the urban region. Towards meeting household needs and fighting against poverty, most migrants’ proceeds relatively to country-country differences in expected and anticipated returns. The fundamental premise is that migrants consider the various market opportunities available to them in developing and developed countries and choose the one that maximise their expected gains from migration.

On remittances, Lucas and Stark (1985) classified motives for remitting into home country as three: Pure Altruism (a believe that migrant consider his utility as own consumption and that of household in home country and maximizes such utility with its remittances which are sent for meeting the needs of family back home), Self- Interest (migrants remit so as to increase their visibility, self-respect, prestige towards acquiring heritance at home country) and Enlightened Self Interest approach (migrants remit towards acquiring land, properties and business opportunities at home for retirement) UNCTAD (2013) observed that the sender’s motives of remittance may change at different periods based on changing consumption pattern to long-term capacity-building such as health insurance, savings towards acquisition of education and investments.

In an attempt to explain why remittance is not usually invested, Poirine (1997) developed a theory of remittances as an implicit family loan agreement. The theory ruled out risk-spreading and assumed that remittances are mainly consumed. The idea is that remittances mainly consist of an informal arrangement for the repayment of an implicit loan taken out by emigrant during their youth to secure a better education and make them more productive in the modern sector. Remittances usually supplement rural family consumption level.

Many studies have identified the role played by remittance in alleviating the suffering of the family left behind at home. Mishra (2005) used data from 1980-2002 on 13 Caribbean countries in analyzing the macroeconomic impact of remittance on investment using a panel data regression model that allows for country and year- specific fixed effects. The result indicated that remittances have a positive significant effect on private investment which is believed to foster development and provide wealth for households. This result contradicts the popular belief that remittances are used only for consumption purposes only.

Adams and Page (2005) in their paper on “Do international migration and remittances reduce poverty in developing countries” constituted and analyzed new data set on inequality, international migration, poverty and remittance on 71 developing countries. They found out that both remittances and international migration significantly reduce the depth and severity of poverty in the developing countries. The result indicated that a 10 percent increase in the share of international migration and per capita income would lead to a 2.1% and 3.5% reduction in the proportion of people living in poverty.

Calderon, Fajnzylber and Lopez (2008) examined the effect of remittances on poverty and inequality using both aggregate and country level data for 10 Latin and Caribbean countries. The result revealed that remittances in Latin America and Caribbean countries have increased growth and reduced income inequality and poverty. Similarly, Betti and Lundgren (2012) showed that remittances alleviate poverty in two ways: (1) increasing the resources of those families (2) reducing the burden of unemployed people.

In Ghana, Adams, Richard and Alfredo (2013) studied the impact of remittances on investment and poverty and found that remittances reduce household poverty with the claim that remittances are mostly spent on children education, household healthcare and housing with less amount on consumption of food items also on micro-study of 1782 households, Taylor et al (2005) from 2003 survey of rural Mexico found that remittances reduce poverty. The study estimated that poverty headcount and poverty gap indices would decline by 0.77 and 0.53 respectively with 10 percent increase in international remittances.

Odozi, Awoyemi and Omonona (2010) explored the nature of migrant remittances and the amount it can reduce poverty and inequality. It was recorded that 94% of household received remittance from internal channel while 5% received them through international channel. Remittances alleviated poverty head count by 20% and helped to equalized household income by inequality by 25%. In a panel study of 33 African countries over the period 1990-2005, Anyanwu and Erhijakpor (2010) revealed that international remittances measured by the share of migrants’ remittances to GDP reduced the level, depth and severity of poverty in Africa. A 10% increase in official international remittances leads to 2.9% in the poverty head count or the share of people living in poverty.

Siddique, Shehzadi, Manzoor and Majeed (2016) paper on “Do international migration and remittances reduce poverty in developing countries” identified that remittances play important role in the social and economic development of developing countries through its benefit of promoting globalization in the region. Using data set on international migration, remittances, poverty, and inequality in 6 South Asian countries, result indicated that foreign remittances have a positive impact on poverty reduction in the region.
Overall, most literature provides support on the hypothesis that remittances benefit the home country and can significantly reduce poverty and improve the standard of living of the people. However, most of the studies identified that wage differential is a common factor that has encouraged the flow of migrants.

III. Methodology

The first step is to analyse the variables of interest using descriptive statistics, namely, mean, standard deviation, minimum and maximum values. The study employs the IM Peseran and Shin panel unit root to determine the stationarity. The model are estimated using one-step system Generalized Method of Moments (GMM). The system GMM is an improvement over the deficiencies in static regression. This technique solves the problem of endogeneity and takes care of heterogeneity and consistency in the regression. Furthermore, Sargan and Hansen tests are employed to determine the validity of the instruments and the overall robustness of the result. The consistency of the methodology is enhanced in this study by adjusting the model’s instruments to accommodate features that are peculiar to ECOWAS. The inclusion of unemployment helps to account for how it affects poverty in the region.

3.1. Model Specification

In line with Ravallion (1997) and Ravallion and Chen (1997); poverty is taken as a function of per capita income, GINI coefficient, and the remittances to GDP ratio. A modification is done to this by replacing GINI coefficient with unemployment rate which is most common in the region. The baseline specification of the system Generalized Method of Moments becomes:

$$
POV_{it} = f (PCI_{it} , REM_{it} , UNEM_{it})
$$

$$
\ln POV_{it} = \alpha_0 + \alpha_1 \ln POV_{it-1} + \alpha_2 \ln PCI_{it} + \alpha_3 \ln REM_{it} + \alpha_4 \ln UNEM_{it} + e_{it}
$$

(Where, i = 1...N, t = 1...T)

Where POVi,t is poverty measures in country i at time t
PCI is per capita income GDP
REM is remittances to GDP ratio
UNEM is unemployment rate
The model specified in panel model becomes:

$$
\ln POVi,t = \log \text{of poverty headcount rate (people living below $2 daily)}
$$

$$
\ln PCI_{it} = \log \text{of GDP per capita}
$$

$$
\ln REM_{it} = \log \text{of personal remittance as % of GDP}
$$

$$
\ln UNEM_{it} = \log \text{of unemployment rate}
$$

$$
e_{it} = \text{error term}
$$

3.3 Data Sources

The panel data is on 7 countries (Nigeria, Ghana, Cape Verde, Senegal, Cote d’Ivoire, Mali and Gambia) in West Africa region from 1995 to 2015. The choice of these countries is based on the depth of emigration and personal remittance into the countries. The data were sourced from the World Development Indicator 2016 database and Countries Bureau of Statistics.

IV. Result and Discussion

In table 4.1, the summary of the descriptive analysis indicates that the mean value of poverty headcount ratio of people living at less than $2 daily is 41.60 with its value ranging from 17.59 to maximum value of 84 (an indication that poverty is high in West Africa). GDP per capita income has a mean value of 1042.45 with a maximum value of 3766.11. The percentage of remittance to GDP ranges between 0.26 and 22.46 with a mean value of 6.42%. Unemployment maximum value for the countries under evaluation stood at 10.5 with a mean of 7.39.

| Table 4.1: Descriptive Analysis of Variables |
|-----------------|------------|---------|---------|-------|-------|
| Variable        | Obs        | Mean    | Std. Dev. | Min   | Max   |
| POV             | 147        | 41.60   | 17.29    | 17.59 | 84    |
| PCI             | 147        | 1042.45 | 867.3    | 240.37| 3766.11|
| REM             | 147        | 6.42    | 5.18     | 0.26  | 22.46 |
| UNEM            | 147        | 7.39    | 2.19     | 1.8   | 10.5  |

Authors’ computation 2018
Migrants’ Remittances And Poverty In Ecowas

The result of the unit root test presented in table 4.2 revealed that all variables attained stationarity at first difference. Poverty, per capita income and remittance were not stationary at both 0.01 and 0.05 level of significance at series but attained stationarity at first difference. Unemployment at levels was stationary only at 0.05 level of significance but not at 0.01 levels. It became stationary with first differencing at both 0.01 and 0.05 level of significance. This result ensured that all variables used are stationary and approve the application of regression analysis.

Table 4.2: Pesaran and Shin panel unit root test

<table>
<thead>
<tr>
<th>S/N</th>
<th>Variables</th>
<th>Statistics at level</th>
<th>P-Value</th>
<th>Statistics at 1st difference</th>
<th>P-value</th>
<th>Order of integration</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>POV</td>
<td>-1.9298</td>
<td>0.0738</td>
<td>-4.2714</td>
<td>0.0000</td>
<td>I(1)</td>
</tr>
<tr>
<td>2</td>
<td>PCI</td>
<td>-1.8033</td>
<td>0.1490</td>
<td>-3.8506</td>
<td>0.0000</td>
<td>I(1)</td>
</tr>
<tr>
<td>3</td>
<td>REM</td>
<td>-1.7171</td>
<td>0.3159</td>
<td>-4.0616</td>
<td>0.0000</td>
<td>I(1)</td>
</tr>
<tr>
<td>4</td>
<td>UNEM</td>
<td>-2.7178</td>
<td>0.022</td>
<td>-6.0282</td>
<td>0.0000</td>
<td>I(1)</td>
</tr>
</tbody>
</table>

Source: Authors’ computation 2018

Table 4.6 presents the one-step system Generalized Method of Moment results. The dependent variable in the analysis is poverty. From the result obtained, lagged of poverty, per capita income and remittances are statistically significant at conventional levels. However, the coefficient of unemployment is not statistically significant in the regression. The negative sign of the coefficient of remittances indicate that remittances reduce poverty in ECOWAS. A 10% increase in remittances would lead to 0.2% reduction in poverty. Per capita income shows a positive effect on poverty. This could be as a result of the distribution of income in the countries. Most ECOWAS countries exhibit wide disparities in income and high income inequalities. The robustness of the results obtained was tested. The Sargan and Hasen test show the choice of instruments are appropriate. The serial correlation test shows that there is no evidence of second order autocorrelation in the model. Our findings on the relationship between remittances and poverty conform to theoretical expectation and some empirical studies (see for instance, Odozi, Awoyemi and Omonona, 2010; Anyawu and Erhijakpor, 2010; Betti and Lundgren, 2012).

Table 4.6: One-Step System Generalized Method of Moments

| Dependent variable = ln pov | Coef | Std.Err | z     | P>|z| |
|----------------------------|------|---------|-------|------|
| ln povL1                   | 1.20558 | 0.14498 | 83.5   | 0.000 |
| lnpci                      | 0.08843 | 0.02248 | 3.93   | 0.000 |
| lnrem                      | -0.02645 | 0.01351 | -1.96  | 0.050 |
| lnunem                     | -0.02332 | 0.04047 | -0.58  | 0.565 |
| -cons                      | -1.27096 | 0.20838 | -6.10  | 0.000 |

Arellano-Bond test for AR(1) in first differences: z = -2.07 Pr > Z = 0.038
Arellano-Bond test for AR(2) in first differences: z = -1.25 Pr > Z = 0.213
Sargan test of Overid. Restrictions: chi2(2) = 0.96 Prob > chi2 = 0.618
Hansen test of Overid. Restrictions: chi2(2) = 3.89 Prob > chi2 = 0.143

Source: Authors’ computation

V. Conclusion and Recommendation

This paper considered the role of remittances from migrants in alleviating poverty in 7 West African countries. The push and pull factor of migration identified as a differential in wages and need for survivals were found to be very high in the region. Using random effect and system GMM regression, remittances was found to exert statistically significant effect on poverty in the region. A substantial increase in remittances would alleviate poverty. Per capita income was found to have a significant effect on poverty.

Migrants’ remittances play an important role in alleviating poverty in ECOWAS. Hence, it is necessary to ensure the security of emigrants and their funds. As poverty is multifaceted, there is need to consider various ways of alleviating it. Thus, countries should not build on remittances from migrants only for development but see remittances as a factor to be added to other financial flows in order to alleviate poverty in the region. Government effort to curb illegal migration should emphasis on youth empowerment to reduce high level of unemployment in the region. Various governments in the region should put in place policies that would ease official transfer of funds to the countries.
References


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