



International Journal of African Studies

Publisher's Home Page: <https://www.svedbergopen.com/>



Case Study

Open Access

Causal Relationship Between Remittances and Industry Value: A Case of Selected Sub-Saharan Africa Countries

Anthony Tapiwa Mazikana^{1*}

¹Coverlink Microinsurance Pvt Ltd, Zimbabwe. E-mail: anthomazikana@gmail.com

Article Info

Volume 3, Issue 1, June 2023

Received : 14 February 2023

Accepted : 19 May 2023

Published : 05 June 2023

doi: [10.51483/IJAFRS.3.1.2023.65-70](https://doi.org/10.51483/IJAFRS.3.1.2023.65-70)

Abstract

There has not been enough research done on the relationship between remittances and industrial value, particularly from an African viewpoint (Sulemana *et al.*, 2019). The majority of previous study, such as Lukman *et al.* (2020); Olayungbo and Ahmod Quadri (2019); Akobeng (2015) have explored such a relationship with a focus on Latin American and Asian countries, whereas African countries have received less attention. In addition to this, the focus of these studies has been on determining whether or not there is a threshold between remittances and the value of industry in African economies; determining whether or not remittances are conducive in contributing to the inclusiveness of economic growth in Sub-Saharan Africa; and determining the effect of remittances on industry value for a sample of developing countries covering the period from 2015-2021.

Keywords: *Remittances, Industrial value, Financial growth, African countries*

© 2023 Anthony Tapiwa Mazikana. This is an open access article under the CC BY license (<https://creativecommons.org/licenses/by/4.0/>), which permits unrestricted use, distribution, and reproduction in any medium, provided you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license, and indicate if changes were made.

1. Introduction

The amount of remittances that is necessary for a country to build its industrial value has been difficult for African countries to find. In addition, policymakers, particularly in nations with lower incomes, have been neglecting to strengthen their financial sector growth in order to meet the threshold level necessary for achieving development, even though industry values may appear to be less important at their current level. This is despite the fact that meeting this threshold level is essential for achieving development (Narcisse *et al.*, 2020). It is important to carry out this study, which aims to provide an in-depth investigation of the relationship between remittances and the value of the industry by focusing on the question of whether or not remittances could contribute to the improvement of industry value in the countries of Sub-Saharan Africa, with a particular emphasis on Angola, Benin, Botswana, Burkina Faso, Burundi, Cabo Verde, Cameroon, and the Central.

2. Empirical Study

An empirical investigation of remittances and financial inclusion nexus in Sub-Saharan Africa (Oyalami and Ogundipe, 2020). As a result of the broadening scope of financial growth and its slow but steady march toward an inclusive

* Corresponding author: Anthony Tapiwa Mazikana, Coverlink Microinsurance Pvt Ltd, Zimbabwe. E-mail: anthomazikana@gmail.com

development, the focus is increasingly turning to financial inclusion. In light of this context, the purpose of this research is to analyze the impact that migrant workers’ remittances have on the level of financial inclusion in a number of countries in SSA. The Pooled Mean Group (PMG) version of panel ARDL was used; however, because to the cross-sectionally dependent features of the data, it was necessary to make use of cross-sectional techniques that are designed to account for such qualities. As a result of this, the robustness of the results was checked using XTDCCE: Dynamic Common Correlated Effects in Stata by Ditzgen (2016) and XTCCE Common Correlated Effects estimator by Neal (2015). For the goal of this empirical inquiry, we gathered data on remittances, account ownership, and income per capita for twenty-seven different nations in sub-Saharan Africa depending on the availability of such data. The findings lead one to the conclusion that remittances do not have a substantial impact on the level of financial inclusion in SSA. Nevertheless, there is evidence that suggests the variable may have a favorable impact on financial inclusion. As a result, real policy initiatives in the SSA should be made to make remittances matter for inclusive development. The research makes a significant contribution by shifting attention from a general concept of financial development to Financial Inclusion. Additionally, it utilized more recent panel estimating techniques in order to investigate the connection that exists between remittances and Financial Inclusion. Figure 1 below presented personal remittances, received (% of GDP) - Sub-Saharan Africa.

From the data provided in Figure 1 above it can be observed that remittances were rising at a consistent pace. The aforementioned number was also provided by Oyalami and Ogundipe (2020). The results provided in this research were generated from a survey done by World Bank Findex (2007) which gathered data on remittances indicators and explanatory variables. African nations such as Angola, Benin, Botswana, Burkina Faso, Burundi, Cabo Verde, Cameroon and Central African Republic were picked at random to submit data. Two approaches were utilized to assess the dependent variable:



Figure 1: Personal Remittances, Received (% of GDP) - Sub-Saharan Africa

Source: The World Bank (2022)

official and informal measurements of remittances. Oyalami and Ogundipe (2020) solely examined at remittances in African countries such as Botswana like many low-income nations, has a high level of low remittances. The dip in flows to Sub-Saharan Africa was almost entirely related to a 28% drop in remittance payments to Nigeria. Excluding flows to Nigeria, remittances to Sub-Saharan Africa grew by 2.3%, showing resilience. The comparatively successful performance of remittance flows during the Covid-19 crisis has also underscored the requirement of early availability of data. Given its expanding significance as a source of external money for low- and middle-income countries, there is a need for increased collection of data on remittances, in terms of frequency, timely reporting, and granularity by corridor and channel.

In this research it was also found that the durability of remittance flows is impressive. Remittances are helping to address families' rising demand for livelihood assistance the same outcomes which were reported by Oyalami and Ogundipe (2020). "They can no longer be treated as small change. The World Bank has been tracking migration and remittance flows for almost two decades, and we are working with governments and partners to develop timely data and make remittance flows even more productive. The World Bank is assisting member states in monitoring the flow of remittances through various channels, the costs and convenience of sending money, and regulations to protect financial integrity that affect remittance flows. It is working with the G20 nations and the global community to lower remittance costs and enhance financial inclusion for the disadvantaged. With global economy predicted to return in 2021 and 2022, remittance flows to low- and middle-income countries climbed by 2.6% to \$553 bn in 2021 and by 2.2% to \$565 bn in 2022. According to Oyalami and Ogundipe (2020) Average remittance prices were the lowest in South Asia (4.9%), while Sub-Saharan Africa remained to have the highest average cost (8.2%). Supporting the remittance infrastructure and keeping remittances flowing involves measures to minimize costs. These outcomes are the same as the ones which were reached in our present investigation.

This present analysis demonstrated that remittances to Sub-Saharan Africa declined by a projected 12.5% in 2020 to \$42 bn. The decline was almost exclusively related to a 27.7% dip in remittance flows to Nigeria, which alone accounted for roughly 40% of remittance flows to the region. Excluding Nigeria, remittance flows to Sub-Saharan Africa rose by 2.3%. Remittance rise was reported in Zambia (37%), Mozambique (16%), Kenya (9%) and Ghana (5%). In 2021, remittance flows to the region are anticipated to rise by 2.6%, driven by rising aspirations for development in high-income countries. Data on remittance flows to Sub-Saharan Africa are scarce and of varied quality, with some countries still utilizing the outdated Fourth IMF Balance of Payments Manual rather than the Sixth, while some other states do not supply data at all. Significant-frequency phone polls in various countries revealed losses in remittances for a high percentage of households even while recorded remittances reported by government sources reflect increases in flows. The shift from informal to official routes due to the shutting of borders explains in part the rise in the quantity of remittances recorded by central banks.

3. Remittance Costs

Sub-Saharan Africa is the most expensive area to transfer money to, as sending \$200 costs an average of 8.2% in the fourth quarter of 2020. Within the area, which sees extensive intra-regional migration, it is expensive to transfer money from South Africa to Botswana (19.6%), Zimbabwe (14%), and to Malawi (16%).

Oyalami and Ogundipe (2020) study chose 20 sub-Saharan African states throughout the period of 2000 to 2015. Countries were taken from West Africa, South Africa and East Africa. The nations from West Africa include Nigeria, Senegal, Mali, Benin, Burkina Faso, Cameroon, Cape Verde, Ghana, Guinea Bissau, Togo, Niger and Cote d'Ivoire. Countries such as South Africa, Botswana, Namibia and Lesotho are from Southern Africa, whilst Kenya, Tanzania, Rwanda and Seychelles are from East Africa. The decision of these countries is based on the evidence of their considerable remittances received during the defined term. Nigeria, Senegal and Mali had the biggest absolute value of received remittances between 2000 and 2015 ([World Development Indicators, 2015; 2017](#)).

The selection of the study period, 2000 to 2015 by Oyalami and Ogundipe (2020) was based on the extraordinary development in the number of immigrants and remittances received throughout the time. It was reported that 4.65 million migrants were recorded annually between 2000 and 2015 compared to 2.0 million migrants from 1990 to 2000 ([International Migration Report, 2015](#)). Oyalami and Ogundipe (2020) study observed that over the years of and 2013, Lesotho has an average annual remittance rate of 41.3% of its GDP ([World Development Indicators, 2015](#)). There is no debate that this

is the highest peak in the area of countries situated south of the Sahara. The selection criteria for the remaining 16 countries are as follows on common data availability. Standard indicators of economic progress include factors like trade openness, inflation rate, population growth, broad money supply, and foreign direct investment as a share of GDP. The scientific literature on growth and these variables are included as possible explanatory elements. Oyalami and Ogundipe (2020) also presented variable description, measurement and sources as well as presented by it is obvious that on average, GDP per labor, remittances per GDP, broad money supply as a proportion of GDP and trade openness in percentage in the chosen African nations are US\$1957.11 bn, US\$995.43 bn, 35.33% and 76.50% accordingly. The average GDP per labor is considerably low in Africa compared to the Asia and the MiddleEast.

The average value of money supply as a percentage of GDP is low although that of remittances per GDP and trade openness as a proportion of GDP are high. The average numbers of FDI as a share of GDP with a value of 3.45% is low for the sample country as a whole. The average inflation and population rise over this period is moderate with a value of 5.44% and 2.36%. It can be seen that the mean and median of inflation and population growth are extremely close, which suggests a roughly symmetric distribution and the occurrence of lowvariability.

The biggest GDP per labor recorded is US\$15695.90 bn while the least is US\$160.22 bn. The biggest remittances per GDP received in the SSA countries. It is vital to bear in mind that certain variables, such as remittances and money supply, are scaled by GDP to take into account the relative economic variances between the countries that were picked. In regard to the a priori, remittances have been revealed to exist from both a theoretical and an empirical point of view to have either a beneficial or a detrimental influence on the development of anything. Oyalami and Ogundipe (2020) have published the results of some research they have done on the subject of how the growth of the financial sector might help alleviatepoverty.

According to Oyalami and Ogundipe (2020), the research investigated whether or not remittances are helpful in enhancing. The results counter previous findings that it may boost the value of the sector. These results were obtained by using other metrics of instability. The authors of this research reexamined the link between remittances and the expansion of industries in a number of nations located in sub-Saharan Africa. The MG model and the PMG/ARDL model with the VAR Granger causality/block exogeneity test were both used by the researchers. The estimated findings, which were arrived at by integrating the relationships between the variables, suggested that remittances had considerable beneficial influence on the development of the sector both in the short run and in the long run. In a similar line, financial development considerably enhances economic growth both over the long run and over the short run. This is true for both the long run and the short run. In addition, we discovered unidirectional causal chains that ran in the other way, from financial development to economic growth, and from economic growth to remittances. On the other hand, there was no found to be a causal association between remittances and financial growth in the nations that are located in Sub-Saharan Africa.

The lack of a causal link between remittances and economic growth confirms the prior conclusion of a replacement relationship between the two concepts.

4. Relationship Between Remittances and Financial Development

Table 1 shows that the means for relationship between remittances and financial development items ranges between 4.26 and 4.40 with standard deviation ranges from 0.49, this indicates that there is a relationship between remittances and financial development items. The average mean of relationship between remittances and financial development items is 4.35 with a standard deviation of 0.068.

From Table 1 it can be noted that remittances facilitate financial development, due to the positive association that exists between remittances and savings which by extension increases the bank credit. Studies conducted by Ofori and

S. No.	Relationship Between Remittances and Financial Development	Mean	SD
1.	The existence of complementarity betweenremittancesand financial development is a pre-condition for growth enhancement	4.34	0.65
2	Remittancesfacilitatefinancialdevelopment,duetothepositive association that exists between remittances and savings which by extension increases the bankcredit.	4.41	0.49
3	Certain aspects of financial development are stimulated by remittances, while a better financial systemfostersreceipts of remittances	4.26	0.60
4	Financial system has benefited from the increaseinremittance inflows	4.38	0.48
	Total Means	4.35	0.09

Grechyna (2021), Asongu and Odhiambo (2021), Anarfo *et al.* (2020) all came to the conclusion that there is a clear connection between remittances and the advancement of a country’s financial system. In a more precise sense, Ofori and Grechyna (2021) stated that remittances assist financial growth. This is due to the positive correlation that exists between remittances and savings, which enhances bank credit by extension. In the similar vein, Adebayo *et al.* (2019) said that a requirement for growth improvement is the presence of complementarity between remittances and financial development. This was said to be the case in order to boost growth. In a research that is quite similar to this one that uses data from sub-Saharan African countries, Akobeng (2015) come to the same conclusion.

In contrast, the results of an investigation carried out by Anarfo *et al.* (2020) were quite different in this respect. Their research, which used a different approach, concentrated more on the causal link between remittances and financial development in 50 different African nations. These countries were chosen at random. They found that some parts of financial growth are promoted by remittances, whereas a stronger financial system supports receipts of remittances. In addition, remittances boost certain aspects of financial development. In addition to these panel studies, there are other country-specific research that have proven aspects of dispute. Anarfo *et al.* (2020) conducted research to investigate the connection that exists between remittance inflows and the growth of the banking industry in Nigeria. The data that were used for the research span the years 1977 through 2009.

According to the findings of the research, the amount of money sent back home by migrants has a significant impact on the growth of the banking industry. Chowdhury (2020) carried out an investigation quite similar to this one in Bangladesh, analyzing the significance of remittances to the expansion of the banking industry. In the research, the cointegration analysis and the vector error correction model were used to investigate and evaluate the relationship that exists between economic growth and migrant workers’ monetary contributions. His analysis leads him to the conclusion that Bangladesh’s financial system has profited from the rise in the amount of remittances that have been received. However, a number of academics have voiced concerns over the influence that remittances have on the growth of the banking sector.

There is a positive relationship between remittance and industry value. Results are presented in Tables 2, 3 and 4 below. Table 2 below shows the model summary.

Results in Table 2 shows that remittance contributes about 16.1% of industry value (R -square = 0.161). This entails that there are other variables of beside remittance. Table 3 below shows the ANOVA test results.

Table 2: Model Summary				
Model	<i>R</i>	<i>R</i> Square	Adjusted <i>R</i> Square	Std. Error of the Estimate
1	0.401 ^a	0.161	0.154	7.69116
Note: ^a . Predictors: (Constant), remittance.				

Results in Table 3 shows that the model is statistically significant ($F=23.213$; $p=0.000$). These results imply that regression model provides a good fit to the data. Table 4 presents coefficients for the regression model.

Table 3: ANOVA						
ANOVA ^a						
Model		Sum of Squares	df	Mean Square	<i>F</i>	Sig.
1	Regression	1373.162	1	1373.162	23.213	0.000 ^b
	Residual	7157.635	98	59.154		
	Total	8530.797	99			
Note: ^a Dependent Variable: industryvalue; ^b Predictors: (Constant), remittance.						

Results in Table 4 show that remittance is key to the achievement of industry value and has a positive effect on industry value (Beta = 0.401, $t = 4.818$, $p = 0.00$). This implies that remittance has an impact on remittance. These results

Table 4: Coefficients						
Coefficients^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	StdError			
1	(Constant)	-1.325	5.637		-235	0.815
	Remittance	2.053	0.426	0.401	4.818	0.000

Note:^a Dependent Variable:remittance.

are similar to those by Oyalami and Ogundipe (2020) who found a significant effect of remittance on industry value. Moreover there is vast literature supporting the relationship between remittances and industry value (Ofori and Grechyna, 2021; Asongu and Odhiambo, 2021; Anarfo *et al.*, 2020; Mohammed *et al.*, 2022).

References

- Adebayo, I.O, Mavrotas, G., Kehinde, O.O. and Olusegun, F. (2019). *Governance Quality, Remittances and Their Implications for Food and Nutrition Security in Sub-Saharan Africa*. Elsevier.
- Akobeng, E. (2015). *Out of Inequality and Poverty: Evidence for the Effectiveness of Remittances in Sub-Saharan Africa*. Available on https://www.researchgate.net/publication/284078120_Out_of_inequality_and_poverty_Evidence_for_the_effectiveness_of_remittances_in_Sub-Saharan_Africa
- Anarfo, E., Dzeha, G.C. and Amewu, G. (2020). *Financial Inclusion And Migrant Remittances In Sub-saharan Africa: A Panel VAR Approach*. *International Journal of Social Economics*, Ahead-of-print
- Asongu, S. and Odhiambo, N. (2021). *Remittances and Value Added Across Economic sub- sectors in Sub-Saharan Africa*. *MPRA journal*.
- Mohammed A.M.U, Huseyin. O., Behiye. C. and Umar, S.A (2022). *On the Sustainable Economic Growth in Sub-Saharan Africa: Do Remittances, Human Capital Flight, and Brain Drain Matter? MDPI journal*.
- Narcisse, C., Tamokwe, G.P. and Manga, E. (2020). *Migrants' Remittances and Inclusive Growth in Sub-Saharan Africa*. *Hal open Science Journal*.
- Olayungbo, D.A. and Quadr, A. (2019). *Remittances, Financial Development and Economic Growth in Sub-saharan African Countries: Evidence from a PMG-ARDL Approach*. <https://doi.org/10.1186/s40854-019-0122-8>
- Oleyami, L.O. and Ogundipe, A. (2020). *An Empirical Investigation of Remittances and Financial Inclusion Nexus in Sub-Saharan Africa*. Available on https://www.researchgate.net/publication/338472960_An_empirical_investigation_of_remittances_and_financial_inclusion_nexus_in_Sub-Saharan_Africa
- Ofori, P.E. and Grechyna, D. (2021). *Remittances, Natural Resource Rent and Economic Growth in Sub-Saharan Africa*. *MPRA Journal*.
- Sulemana, I., Anarfo, E. and Doabil, L. (2019). *International Remittances and Subjective Wellbeing in Sub-Saharan Africa: A Micro-level Study*. Springer. *Journal of Family and Economic Issues*, 40(10). Available on https://www.researchgate.net/publication/330890705_International_Remittances_and_Subjective_Wellbeing_in_Sub-Saharan_Africa_A_Micro-level_Study

Cite this article as: Anthony Tapiwa Mazikana (2023). *Causal Relationship Between Remittances and Industry Value: A Case of Selected Sub-Saharan Africa Countries*. *International Journal of African Studies*, 3(1), 65-70. doi: 10.51483/IJAFRS.3.1.2023.65-70.