

Remittances: A Practical Tool In The Battle To End Poverty In Ethiopia

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Abstract

This research paper makes the case to the Ethiopian government to take action to maximize the impact remittances can have on reducing poverty in developing countries. Part I of this paper will demonstrate that while the Ethiopian government has made important strides in developing Ethiopia; the country remains deep in poverty. This section will also lay the groundwork for the migration of Ethiopians that has led a large Diaspora that has made large volumes of remittances flowing into Ethiopia possible. Part II will argue that remittances do in fact directly reduce poverty. This claim is supported by current statistics on remittances, remittances impact on various Sub-Saharan countries, and empirical data conducted by international institutions like the World Bank. Part III will conclude with action points that the Ethiopian government and the international community can take to maximize the impact remittances have on reducing poverty.

INTRODUCTION

In 1948, the United Nations General Assembly proclaimed the Universal Declaration of Human Rights for all people and all nations. Article 22 essentially declared that every person, everywhere has the right to live with dignity, without being denied the rights to adequate housing, food, water, and sanitation, and to education and health care. (Amnesty, n.d.). ***In 1986 the General Assembly of the United Nations made another declaration: The Declaration on the Right to Development.*** The Declaration proclaimed that the right to development is an inalienable human right and attributes to States the right and the duty to formulate appropriate national development policies that aim at the constant improvement of the entire population and

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of all individuals (UN, 1986). More than half a century since the Human Rights Declaration and more than a quarter century since the Declaration of Right to Development, gross economic and social inequality is a reality in countries throughout the world (UN, 1986). Millions of people are still unable to access even minimum levels of food, water, education health care and housing. This reality is most apparent in the region of the world considered to be the poorest—Sub-Saharan Africa (SSA) (Chandy, & Gertz, 2011).

The Federal Democratic Republic of Ethiopia is a country in the SSA region that has fallen short of meeting the declarations stated above. Although one of the oldest independent countries in the world, the country is also one of the world's poorest. (Chandy & Gertz, 2011). The new Ethiopian regime has taken many steps to develop the country and reduce the poverty rate in recent years. The construction of what is expected to be Africa's largest hydroelectric dam is one of the ways the government is advancing the country forward (Veselinovic, 2015). While new ideas are welcome and crucial to Ethiopia's development, the government should also do more to take advantage of the opportunities that already exist. One such opportunity that the government has not fully tapped into is the growing Ethiopian Diaspora. Specifically, the government could do more to enhance the millions of dollars that flows into Ethiopia and goes to those that are really need it. The hundreds of millions of dollars the Ethiopian Diaspora is pumping into Ethiopia every year has been and can be an even larger source of external finance for the country if the government takes certain steps in this area.

This paper will argue that remittances are a viable tool in reducing poverty in developing countries like Ethiopia. That while in Ethiopia's case, hundreds of millions of dollars are already flowing into the country annually, the government can increase that number by passing measures to optimize the sending and receiving process. Part I of this paper will demonstrate that while the Ethiopian government has made important strides in the development Ethiopia; the country remains deep in poverty. This section will also lay the groundwork for the migration of Ethiopians that has led the large Diaspora that has made large volumes of remittances flowing into Ethiopia possible. Part II will rely on the substantial volume of remittances provided by the Diaspora, the impact of remittances on countries in SSA, and empirical research to contend that remittances do in fact reduce poverty. Lastly, part III will conclude with suggestions to the Ethiopian government and the international community regarding measures that both entities can take to maximize the impact remittances have on poverty in Ethiopia and other developing countries.

PART I: PROGRESS, POVERTY, & MIGRATION

A few countries in the world can rival the culture and history that Ethiopia offers the world. One of the oldest independent nations in the world, ruled for over three thousand years (till the 1970s) by a dynasty legend claims roots back to King Solomon and Queen Sheba (Sansom, 2010). The only African nation to fight off the Europeans and resist colonization—except for a brief five year occupation by Italy during WWII (BBC, 2014). The country that introduced coffee to the world (BBC, 2014). The country

where people of Islamic, Christian, and Jewish faith have lived peacefully side-by-side for hundreds of years (Owen, 200). The country with many peoples, cultures, and over eighty different languages (BBC, 2014). There is one more area in which Ethiopia has been unique: Its debilitating poverty. A 2006 Los Angeles Times article had the following passage, “For many people, Ethiopia conjures up images of sad-eyed children with stick-thin limbs, distended stomachs and flies in their eyes, images from the nation's 1984-85 famine that killed more than 1 million people” (Owen, 200). Three decades later, the above descriptions still ring true. Fortunately, the current Ethiopian regime, in place for a little over two decades is leading Ethiopia towards a great future. The country is widely considered to be one of a pack of “African tigers”, with ambitious plans to become middle-income country by 2025 (Dori, 2015). The country has completed about 40% of one of its most ambitious projects, the construction of the \$5 billion “Grand Renaissance Dam” on the Blue Nile River—entirely funded by Ethiopians (Veselinovic, 2015). Once complete, the endeavor will be the largest hydroelectric dam in Africa (Veselinovic, 2015). According to World Bank estimates, Ethiopia could earn \$1 billion a year from electricity exports (Veselinovic, 2015). More importantly, it is expected to give millions of Ethiopians access to power. (Veselinovic, 2015). Currently only about 15-20% of the populations have access to power. (Veselinovic, 2015). Certainly by all measures Ethiopian is headed towards a bright future. In the last decade, the country registered impressive economic growth of somewhere between 8% and 10% (Dori, 2015). This resulted in a 33% reduction of people living in poverty (Veselinovic, 2015). Unfortunately, given the depth of the country’s poverty and the

significant portion of the population that is in poverty, there are still millions of Ethiopians living deep in poverty.

Fittingly, as one of the poorest countries in the world, Ethiopia is located in the eastern part of Sub-Saharan Africa (SSA)-which itself is considered the poorest region in the world (Franson & Kuschminder 2009). Beginning in the 1960s, the United Nations began a list of the least developed countries (UN, n.d.). Reviewed every three years, the list includes the most impoverished and vulnerable countries (UN, n.d.). To deem a country as a LDC, the UN looks at country's gross national income (based on a three-year average estimate), human assets (combination of health, education for youth, and adult literacy) and high degree of vulnerability (based on various economic shocks) (UN, n.d.). What the list boils down to is a list of countries that suffer conditions of extreme poverty, ongoing and widespread conflict (including civil war or ethnic clashes), extensive political corruption, and lack of political and social stability. Ethiopia has remained on that list since the 1960s (UN, n.d.). The Human Development Index (HDI) is a tool consisting of a composite of statistic of life expectancy, education, and income indices to rank countries into four tiers of human development (UN, 2013). In the 2013 report, Ethiopia was ranked 173 of 187 in the fourth category titled "low human development" (UN, 2013). Other economic indicators paint a picture of a country with many people suffering. The average per capita income of Ethiopia is less than half of the current Sub-Saharan average (World Bank, 2015). 44% of the population lives below the national poverty index, with 77.5% living on less than \$2 a day. (World Bank, 2015) (Franson, Kuschminder, 2009). While the average world life expectancy rate is 71 years,

it is 55.4 years in Ethiopia (CIA, n.d.). The literacy rate in Ethiopia is not much better. While the global average literacy rate is over 87%, Ethiopia's is only at a whopping 38%. (World Bank, 2015). Food security remains as an area of critical concern in Ethiopia, as much of the rural population lives in constant food insecurity. (World Bank, 2015). The Food and Agricultural Organization of the United Nations (FAO) estimates that 44% of the national population is undernourished (Food and Agriculture, 2009). Just a few years ago in 2009, Ethiopia, along with some of the regional countries experienced the beginning of another food crises, which by some estimates is still going. (Food and Agriculture, 2009). The World Food Programme, the world's largest humanitarian agency fighting hunger worldwide, has its largest operation in Ethiopia (World Food Programme, n.d.).

These conditions are a result of a combination of various factors. The 1974 revolution that overthrew Emperor Haile Selassie resulted in volatile politics and ethnic conflicts and overall political instability (Franson & Kuschminder, 2009). The country also had conflicts with neighboring countries, including a proxy conflict with Somalia fueled by Cold War rivalries. (Franson & Kuschminder, 2009). These internal and external tensions combined with overpopulation and continuous drought heavily contributed to the country's extreme poverty levels. (Franson & Kuschminder, 2009). In the past four decades, Ethiopia has experienced over six famines, with the most severe being the 1983-84 famine where more than a million men, women, and children died. (Franson & Kuschminder, 2009). These famines, with one as recent as 2009, are both a result of

those contributing factors and secondary contributor to the poverty levels. The silver lining in all of this is the mass migration that resulted.

From the 1980s onward, mass migration occurred in the Horn of Africa—Eritrea, Sudan, Djibouti, Somalia, and Ethiopia. (Bariagaber, 1999). In fact the area became the largest refugee-producing area in the world. (Bariagaber, 1999). Between 1978 and 1995, flows of refugees in the region peaked (Bariagaber, 2006). The political overthrow of Emperor Selassie and the ensuing conflicts that were a catalyst for Ethiopia's poverty levels also contributed to migration. (Bariagaber, 1997). Before the revolution, the few Ethiopians that went abroad were elites who did so to study and then returned.

Ethiopian expert (Terrazas, 2007) provides a four-part typology of Ethiopian emigration to the West post the revolution. The first wave is pre the 1974 revolution, was both small and elite, whereas the second wave (1974 to 1982) was larger although still relatively privileged (Terrazas, 2007). In a survey of Ethiopians in France, Abye found that 72% of those who arrived before 1974 were from the ruling classes, whereas that drops to 50% for the second wave (Terrazas, 2007). The second wave from 1974 to 1982, people emigrated to flee the Red Terror campaign being waged by the Mengistu government (Terrazas, 2007). Between 1976 and 1978, as many as 500,000 of the country's citizens are said to have been tortured and killed (Terrazas, 2007).

Understandably so, many opponents of the regime and their families left the country to survive. The third wave (1982 to 1991) was composed mostly of individuals who left Ethiopia under the umbrella of family reunification in the West or left the country as tourists and overstayed their visas (Terrazas, 2007). A fourth wave of emigration that

occurred subsequent to the current regime taking over in 1991 is composed of those fleeing ethnic violence and political repression under the new order (Franson & Kuschminder, 2009). Surprisingly, some Ethiopians did return to the country when things calmed down, (in 2007, the US estimated a net migration rate of zero for Ethiopia, due to the influx of returnees) (Terrazas, 2007). However, the majority remained, adding to the growing community of the Ethiopian Diaspora around the World.

The Ethiopian Diaspora is relatively small but growing community scattered throughout the globe. The majority of the diaspora resides in the US and Israel. About 64,000 Africans called the United States home in 1964, today 1.4 million do (Lee, 2011). Ethiopian immigrants make up the second largest group of that 1.4 million behind Nigerians (Terrazas, 2007). As of the year 2000, about 73,000 Ethiopian-born and 460,000 Ethiopian-descended live in the United States (Terrazas, 2007). In 2005, Israel's Central Bureau of Statistics reported that the Ethiopian-origin population was 105,500 (Terrazas, 2007). Outside the US and Israel, the numbers are drastically smaller: 90,000 in Saudi Arabia; 30,000 in Italy, 30,000 and in Lebanon (Terrazas, 2007). In addition, some estimate that there are at least 100,000 Ethiopians living in Kenya, Djibouti, Sudan, Saudi Arabia, Egypt, and Somalia (Franson & Kuschminder, 2009). By all estimates, the population of Ethiopians in these areas will continue to grow. Also, as China continues to push into Africa, especially Ethiopia, in pursuit of economic resources many African are making their way to China in search of job opportunities (Watts, 2013). If China, along with other emerging countries in fact become a new destination point for

Ethiopians, then the Ethiopian Diaspora will continue to grow at even greater pace. A larger population translates into greater volumes of remittances, adding to the every growing volume of global remittances.

PART II: REMITTANCES REDUCE POVERTY LEVELS

Since the turn of the century, remittances have grown exponentially on the global stage and show no signs of slowing down. Like other developing countries, Sub-Saharan countries like Ethiopia, are experiencing the benefits. Empirical evidence is not available on the relationship between poverty and remittances in Ethiopia. However, empirical research exists that confirms that remittances do in fact reduce poverty.

Remittances, funds and assets sent back to home countries by migrants, have become an important part of today's global economy in a relatively short period. Despite a marked dip during the 2009 global recession, the overall annual flow has remained stable (Connor & Cohn & Ganzalez-Barrerra, 2013). According to the Pew Research Center's analysis of World Bank data, the overall annual flow of remittances has nearly tripled since 2000 (Connor & Cohn & Ganzalez-Barrerra, 2013).

Remittances are becoming more and more crucial for developing countries, where they are becoming larger portions of the GDP and outpacing other external sources of finance like Foreign Direct Investment (FDI) and foreign assistance. (Connor & Cohn & Ganzalez-Barrerra, 2013). They already constitute the second largest source of net foreign capital inflows behind FDIs and exceed foreign aid in Africa. (Connor & Cohn & Ganzalez-Barrerra, 2013). Remittances are also perceived as more stable than other

external flows (Connor & Cohn & Ganzalez-Barrerra, 2013). Overall, remittances, which only few decades ago were ignored by the global economy, are now considered by the World Bank when the organization judges a country's creditworthiness (Connor & Cohn & Ganzalez-Barrerra, 2013). The size of remittances is even more impressive when specific numbers are examined. According to the World Bank, remittances were under \$100 billion globally in 1990 (World Bank, 2012). By 2006, they were about \$250 billion globally. ID. By 2015 however, they had surpassed \$500 billion globally. (World Bank, 2012). It is believed that actual numbers may be larger because good portions of remittances are sent through formal channels. A study by the International Monetary Fund (IMF) (El-Qorchi, Maimbo, & Wilson, 2003) estimated that unofficial transfers of remittances to just to developing world currently amount to \$10 billion per year. Notwithstanding this, the amounts countries received are nothing short of incredible. Leading the pack, India took in about \$70 billion in 2012, followed by China at \$66 billion and Mexico and the Philippines tied for third at \$24 billion (World Bank, 2012). As a percentage of GDP, the top recipients in 2011 were Tajikistan at 47%, Liberia at 31%, and Kyrgyz Republic at 29% (World Bank, 2012). Just as the volume of remittances globally has tripled in the last decade, it is expected to continue to rise. One reason for this is the fact that migration is expected to continue to rise. Also, since 2008, the global community has taken measures to reduce the transactional costs, reducing it from around 12% to about 8% by 2012/13. (World Bank, 2014). The conclusion that remittances will continue to grow is supported by the World Bank's estimate of the 2016 global total: nearly \$700 billion with about \$500 billion going to developing

countries. (World Bank, 2014). This is positive news for developing countries that have come to depend on this stream of money—especially those countries in the poorest region of the world.

In Sub-Saharan countries, migration out of the continent is a recent phenomenon. Therefore, while remittances in SSA countries are rapidly growing, it still remains relatively lower than most developing countries that have had migration for much longer. SSA countries receive about 4% of total remittances do developing countries (Gupta & Patillo & Wagh 2007). In 2005, remittances to the 34 SSA countries reporting are estimated to have been about US\$6.5 billion (Gupta & Patillo & Wagh 2007). In comparison, countries in Latin America and the Caribbean receive about 25% of all remittances. (Gupta & Patillo & Wagh 2007). Remittances to SSA countries also make up smaller portions of the GDP. While there are a few striking exceptions, on average remittances in the region are about 2.5% of GDP, compared to almost 5% for other developing countries (Gupta & Patillo & Wagh 2007). The countries that receive the largest amounts of remittances in the region are Kenya, Nigeria, and Senegal. (Gupta & Patillo & Wagh 2007). Since 2000 reported remittances increased on average by about 10% while aid flows increases by 13%. (Gupta & Patillo & Wagh 2007). These slight differences of remittances to African countries compared to the global norm do not mean that SAA are not benefiting from remittances.

While the numbers are relatively small in comparison to countries like India and China, they are larger than they appear. As mentioned in section two, the current data on remittances only represent the reported amounts. It is well known fact—especially in

SSA countries—that a large portion of remittances are unrecorded. Freund and Spatafora (2005) estimate that unrecorded remittances to SAA countries through informal means are relatively high at about 45%-65% of formal flows, compared to only about 5%-20% in Latin America. (Gupta & Patillo & Wagh 2007). This is due to the fact that remittances in this region are sent in outside the banking system combined with the fact that SSA countries do not track remittances as well as other countries. CITE.

More importantly, the reported numbers themselves are significant and have had an impact on countries in SSA. In this region of the world, remittances are considered part of a private welfare system that transfers purchasing power from relatively richer to relatively poorer members of a family or community. (Gupta & Patillo & Wagh 2007). In this way, it is believed that remittances reduce poverty, smooth consumption, affect labor supply, provide working capital, and have multiplier effects through increased household spending. (Gupta & Patillo & Wagh 2007). Mostly, remittances seem to be used to finance consumption or investment capital, such as education, health, and better nutrition. (Gupta & Patillo & Wagh 2007). For example, in Zimbabwe, households with migrants have less cultivated land but tend to be slightly better educated (de Haan, 2000). (Gupta & Patillo & Wagh 2007). Also, in Ghana, researchers found that remittances are effective in helping smooth household consumption and welfare over time. (Gupta & Patillo & Wagh 2007). Ethiopia is no different.

Ethiopia is one of the top 10 remittances receiving countries in Sub-Saharan (Anderson, 2012). The inflow of remittances to the country has increased dramatically in

recent years, from \$46 million 2003 to an estimated \$387 million in 2010 (World Bank 2011a). By 2012 that number jumped to \$534 million (Pew Research, 2014). The National Bank of Ethiopia has different numbers than the World Bank. For example, in between 2007-2008, it estimated that it took in over a billion dollars in remittance money (Anderson, 2012). Whatever the actual numbers may be the impact is substantial (Anderson, 2012). Remittances in Ethiopia, mainly used as risk-reducing instruments and as insurance against external shocks play a crucial role in Ethiopian household Anderson (Anderson, 2012). In 1997 remittances were the primary source of income for 22 percent of the households in the sample in Ethiopia (Anderson, 2012). For the poorest quintile, remittances constituted almost half of the household's total income (Anderson, 2012). Another indication of the importance remittances play in Ethiopia is the government's increasingly initiatives to optimize the effects of these financial flows (Anderson, 2012). While the sheer volume of remittances at both the global level and in SSA countries suggests that must in someway reduce poverty, there is credible empirical research that demonstrates that this is in fact true. Research by the World Bank and another by the International Monetary Fund found that although done about a decade ago when remittances numbers were significantly smaller found that remittances do in reduce poverty.

Researchers with the World Bank conducted a study circa 2005 to examine the impact remittances on poverty in the developing world (Adams & Page, 2005).

The researchers used data set composed of 71 developing countries that included all those low- and middle-income developing countries for which reasonable

information on poverty, inequality, international migration, and remittances could be assembled. (Adams & Page, 2005). The list included countries drawn from each major region of the developing world. From Latin America and the Caribbean to the Middle East and North Africa, to Europe and Central/East/South/ Asia to Sub-Saharan Africa. (Adams & Page, 2005). Their extensive and comprehensive research produced encouraging results. The researchers concluded that remittances “significantly reduce the level, depth, and severity of poverty in the developing world” (Adams & Page, 2005). They found that on average, a 10% increase in the share of international migrants in a country’s population led to 2.1% decline in the share of people living on less than \$1.00 per person per day (Adams & Page, 2005). Similarly, they found that a 10% increase in per capital official international remittances led to lead to a 3.5% decline in the share of people living in poverty (Adams & Page, 2005). These results provide strong, robust evidence that migration and by extension remittances can in fact be a powerful tool in reducing poverty in developing countries. In fact the researchers, the researchers stated that there would be “substantial potential benefits to the world’s poor if more international attention were focused on integrating “migration policy” within the larger global dialogue on economic development and poverty reduction (Adams & Page, 2005).

Research has also found that remittances also help promote economic growth. Researchers at the IMF found this by using newly constructed cross-country series for remittances covering a large number of developing countries over the period of 1975—2002 (Gupta & Patillo & Wagh 2007). To reach their results, the researchers analyzed

the relationship between remittances and growth and its interaction with the financial development in the recipient country (Gupta & Patillo & Wagh 2007). Like the results of the WB researchers, the result from this research is also positive. The researchers found that remittances promoted “growth in less financially developed countries by providing an alternative way to finance investment ” (Gupta & Patillo & Wagh 2007). They found that by becoming a substitute for inefficient or inexistent credit markets, remittances helped alleviate credit constraints contributing to improve the allocation of capital and to boost economic growth (Gupta & Patillo & Wagh 2007). These results suggest that an important channel through which remittances influence growth is the volume of investments (Gupta & Patillo & Wagh 2007). The researchers also pointed out that investment is not the only channel in which remittances influence growth (Gupta & Patillo & Wagh 2007). They found that besides making investment in physical capital easier, remittances had the potential to help households in countries with less developed financial systems smooth consumption and purchase insurance, health, and education, thereby promoting growth (Gupta & Patillo & Wagh 2007). Lastly, they found that remittances played the role that banks, insurance companies, pension funds, and financial safety nets play in more financially advanced countries. That is, they found that remittances could provide a source of income and consumption in old age or during temporary unemployment (Gupta & Patillo & Wagh 2007). While the numbers in the preceding two studies may seem small in terms of actual reduction in poverty, it is important to keep a few things in mind. The first is that what matters is that there is a direct cause and effect of remittance on poverty, the poverty rate will decrease as

remittances increase. Next, these studies were in the mid-2000s, when remittances were not nearly what they are today. What the critical takeaway is that these studies found concrete evidence to support what was already believed by the global community, that there is a direct link between remittances and poverty.

PART III: ETHIOPIA & THE GLOBAL COMMUNITY MUST DO MORE TO MAXIMIZE REMITTANCES IMPACT ON POVERTY

The ever-growing volume of remittances, the research on the impact remittances have on poverty make it clear that remittances are in fact a tool in reducing poverty in developing countries. (Adams & Page, 2005). Unfortunately, countries like Ethiopia are not taking full advantage of this wealth of resource. Since coming to power in the early 1990s, the current Ethiopian government has taken many steps to develop and pull Ethiopia out of poverty. The government has also taken steps to take advantage of the opportunities the Ethiopian Diaspora offers. In fact, it is one of only a few African governments to offer its expatriates “Diaspora bonds—a kind of debts security issued to Ethiopian expatriates to enable the government to tap into their assets. (Adams & Page, 2005). Unfortunately, as illustrated in section I, Ethiopia continues to experience debilitating poverty. This is why the Ethiopian government, which has a duty to take care of its people, must take every action possible to maximize the impact of the hundreds of millions of dollars in remittances flowing into the country every year. On a similar note, there are also steps the international community can take to assist developing countries maximize the impact remittances have on poverty.

Increasing the volume of remittances flowing into Ethiopia is the most significant method in which the government can maximize the impact of remittances on poverty. The government can increase the volume of remittances by: reducing the transaction costs associated with receiving remittances, work with the international community to reduce costs associated with sending remittances, and by catering to the Ethiopian Diaspora. Reducing transaction costs is the most logical method to increase the volume of remittances coming into Ethiopia. It is a well known fact in the global remittance world that the costs associated with sending are very high. Every year, a large portion of remittances is absorbed by the transaction costs of sending money internationally. Those sending money back to their home countries are not wealthy folks. They are mostly migrant workers, refugees and the like. (Adams & Page, 2005). These individuals earn low incomes and tend to send small amount of money throughout the year. (Adams & Page, 2005). The amount that is swallowed up by transactions reduces the amount of money that reaches their families. The World Bank recognized this problem and in 2009 helped the G8 countries commit to reducing the global average by 5% in five years; in 2011, G20 joined the effort (World Bank, 2014). This resulted reduced rates in sending remittances, leading to approximately \$42.48 billion in savings from 2009 to 2013 at the global level (World Bank, 2014). Unfortunately, the cost of sending remittances to Africa remains relatively high according to the World Bank. (World Bank, 2014). In 2008, the global average of sending remittances decreased from the weighted average of 8.58% to 6.62%. (World Bank, 2014). The average cost to African countries was about 10.90% in 2011, it increased to 11.89% in 2013 and 12% in 2014 (World Bank,

2014). At that rate, an average cost per transaction of 11.89% means that more than \$7 billion out of the \$60 billion sent to Africa in 2012 is “lost” in processing service (World Bank, 2014). Reducing this rate is a major way for Ethiopia to increase the volume of remittances and ensure that families with little get more out of this lifeline.

While there is no silver bullet policy for the Ethiopian government to implement to drastically reduce the transaction costs associated with sending remittances, there are measures it can take to reduce it. The high cost of transferring remittances internationally has typically been due to obstacles in each local market, both in sending and receiving countries (World Bank, 2014). These include, lack of transparency and consumer protect, legal and regulatory obstacles, a lack of payment system infrastructures and access to payment systems, a weak market environment without a proper competition, and weak risk-management and governance practices (World Bank, 2014). In the short term, the Ethiopian government should analyze each of these factors and implement concrete measures that would bring down the cost of sending and receiving remittances.

In the long term, the government should seriously consider emulating Kenya’s mobile money transfer method. Called the M- PESA (mobile money), Kenyans are able to deposit and withdrawal money at one of the hundreds of authorized locations throughout the country (Graeber, 2014). The service does not require users to have a bank account; an important aspect in Kenya, where millions of people do not operate bank accounts (Graeber, 2014). With M-PESA, account holders can buy electronic funds at an M-PESA agent and send the electronic value to any other mobile phone user in the

country, who can then redeem it for conventional cash at any M-PESA agent. (Graeber, 2014). This method has revolutionized banking in Kenya and has allowed millions of poor Kenyans access to banking that was not available to them before. (Graeber, 2014). In 2011, Western Union, a major player in international remittances transfer service, announced that Kenyans abroad could send money directly to mobile “wallets” (Western Union, 2011). Today, along with a few other companies, Western Union allows individuals to remit directly to mobile phones to people in Kenya and Tanzania (Western Union, 2011). This method of transferring has the potential to almost eliminate the transactional costs involved in transferring and receiving remittances. This method can provide many opportunities for Ethiopia, a country where millions do not have access to traditional banking. The Ethiopian government should join the growing number of countries – including Tanzania and Afghanistan—to implement this system as way to eliminate the transactional costs of sending and receiving remittances (Western Union, 2011).

The government and the international government should also work together to ensure that anti-terrorist measures that are on the rise do not increase costs or cut off the lifeline that is remittances. In 2014, the New York Times reported that as government regulators crack down on the financing of terrorists and drug traffickers many large international banks are “abandoning the business of transferring money from the United States to other countries” because of regulatory pressures (Corkery, 2014). The banks acknowledged that it was simply too risky for them to continue to operate (Corkery, 2014). Afraid of penalties in the billions of dollars, banks like HSBC

have completely stopped paying out remittances at its Mexican branches (Corkery, 2014). The bank took this route after it was fined \$1.9 billion in 2012 over money laundering issues (Corkery, 2014). JP Morgan Chase and Bank of America have also scrapped low-cost services that allowed Mexican immigrants to send money to their families across the border (Corkery, 2014). These moves are expected to reverse the years of global decline in the cost of sending remittances as services replacing the banks are charge significantly higher amounts (Corkery, 2014). While the situation in Mexico is getting worse, the situation in Somalia has almost hit its tipping point. Somalia, borders with both Ethiopian and Kenya, receives about \$1.3 billion remittance money flows each year and is one of the most remittances dependent countries in the world (Wels, 2015). Stricter money-laundering regulations laws passed after the 911 terrorist attacks caused several large U.S. banks to close their money transfer operations to Somalia out of fear that funds would end up in the hands of terrorist group al-Shabab—which operates out of Somalia (Wels, 2015). Things have gotten extremely dire in the last few months. First, one of the last remaining banks, the bank responsible for 60-80% of the total remittances sent to Somalia from the U.S., closed its doors in February (Wels, 2015). Just this month, the Kenyan government announced that it would close 15 money transfer accounts to Somalia after the deadly terrorist attack by al Shabab that killed 148 students at a Kenyan University (Wels, 2015). Ethiopia does not have any immediate fears that banks will shut down their operations in the country. However, because banks are pulling out of the region, there is the possibility that prices will increase in Ethiopia

as well. For these reasons, the government should work with the African Union and international community to ensure flows of remittance to Ethiopia are not disturbed.

There are other ways in which the international community, which has hopes to eliminate global poverty, can assist developing countries maximize the impact remittances have on reducing poverty. In his book *Pathologies of Power*, Doctor Paul Farmer discusses a notion known as pragmatic solidarity, which involves people coming together to help those in need of overcoming an obstacle, but in a practical manner. (Farmer, 146). Farmer believes that while solidarity is “a precious thing” but that “solidarity without the pragmatic component can seem like so much abstract piety.” (Farmer 146). The global community should recognize remittances as an additional tool, as a pragmatic approach in its goals to eliminate poverty. It is a known fact that the international community is in solidarity with those living in poverty. This was the reason behind the UN’s 2000 ambitious “Millennium Development Goals”, that aimed to cut extreme poverty—defined as people earning less than \$1.25 per day—in half worldwide by 2015 (Risen, 2014). Encouraged by the positive results, multinational body now hopes to eliminate starvation by 2030(Risen, 2014). In pursuing this noble goal, the international community should turn to every option available. Remittances are an important and growing option. They are more stable and better targeted than foreign aid as they bypass all the inefficiency and corruption that is so legendary of foreign aid. For these reasons, the international community should recognize—as the research and numbers demonstrate—remittances as a practical tool against poverty and reform its policies to allow remittances to continue to flow and find ways to increase the volume.

By doing so, the involved parties should then focus some of its energy and resources in maximizing the impact remittances can have on those living in poverty instead of merely sending developing countries foreign assistance.

However, it is important to note that remittances should not be viewed as the primary weapon against poverty. After all, remittances are not and cannot be a panacea for all the ills of the poor. They are by no means a substitute for long-term domestically led development solutions. Thus, while the international communities and developing countries should take action to maximize the impact Diasporas have on reducing poverty through remittances, they should also be careful not to make the country worse off through migration. For example, it should be kept in mind that large-scale migration could have a disastrous effect on domestic development, especially where those leaving are largely skilled workers. For this reason, it is in its best interest of both developing countries and the international community to pass measures and offer incentives to retain skilled workers in developing countries.

CONCLUSION

There is no argument that a large portion of the Ethiopian populace is living in poverty, struggling to make it from day to day. There is also no argument that the Ethiopian government has failed to live up to its duties to care for its People. Just as importantly though, the current regime is finally taking major important strides to pull the country out of poverty and end hunger in the country. And while its ambitious plans like the Grand Renaissance Dam is a fantastic way to address these issues, the

government also has to keep an eye on maximizing opportunities that are already available. Remittances are one such opportunity the government can tap into to help millions of its people not succumb to the ails of poverty. In doing so, the government may help more Ethiopians live a longer life. Maybe even long enough to enjoy the benefits projects like the great dam are going to bring in the future.

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