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REMITTANCE AND THE ECONOMY: THE NIGERIAN EXPERIENCE (A REVIEW)

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Abstract

Migration is a basic major component of population dynamics which is characterized by deliberate rational decision of the migrant. This phenomenon has been viewed differently by different people, with some mentioning it as a cause of degradation of rural and urban ecological resources. Some associate the spread of HIV/AIDs and recently the Ebola Virus Disease (EVD). The most positive and powerful outcome of migration is remittance income. The significant contribution of international remittances to the stability and sustainable growth prospects of developing countries cannot be overemphasized. Remittances have not only grown strongly in a positive direction, but these inflows have also exhibited a much more stability than other private capital inflows and Overseas Development Assistance (ODA). Remittances are playing an increasingly large role in the economies of many countries, contributing to economic growth and to the livelihoods of people.

Key words: *distribution, efficiency, sources, snail, technical*

INTRODUCTION

Migration and commuting are now a routine part of the livelihood strategies of the rural poor across a wide range of developing country contexts. While the usual determinants of migration such as drought are still valid and important, there are new driving forces underlying the increase in population mobility, most importantly better economic opportunities. For many developing countries, remittances (defined as the portions of cross-border earnings that migrants send home) from overseas migrants exceed development aid and foreign direct investment volumes. Moreover, remittances from migrant relatives, either internal or international, are often the main component of rural households' incomes. Unlike aid, remittances flow directly to individual households and unlike loans they incur no debt. Besides contributing to household livelihoods, remittances can foster longer-term development through investment in education, land and small businesses. In some places, migrants' associations channel part of the remittance inflows into community development projects, such as schools, health centres and wells.

On the significance of remittances, it was believed by many scholars for a long time that remittances form an insubstantial part of village income. However, recent evidence suggests otherwise and it has grown in importance as a component of households' income. Remittance has been described by many as the newest "development mantra" because of its surge.

MATERIALS AND METHODS

The study area was Nigeria. Nigeria, the most populous country in Africa, is situated on the Gulf of Guinea in West Africa. Nigeria is bordered to the north by Niger, to the east by Chad and Cameroon, to the south by the Gulf of Guinea of the Atlantic Ocean, and to the west by Benin. The lower course of the Niger River flows south through the western part of the country into the Gulf of Guinea. Swamps and mangrove forests border the southern coast; inland are hardwood forests.

It covers a land area of 356,667 square miles (923,768 square kilometers). According to the 2006 National Census, Nigeria has a population of 140,431,790 persons [22] and based on the 2015 estimate, the country has a population of 182,202,000 persons. It has a population density of 489.3/sq mi (188.9/km^2).

Nigeria is classified as a mixed economy emerging market, and has already reached lower middle income status according to the World Bank, with its abundant supply of natural resources, well-developed financial, legal, communications, transport sectors and stock exchange (the Nigerian Stock Exchange), which is the second largest in Africa. As of 2010, about 30% of Nigerians are employed in agriculture [21]. Agriculture used to be the principal foreign exchange earner of Nigeria. Nigeria has a sizeable proportion of its population in the diaspora and remittances has formed a substantial portion of income of most Nigerian families.

A variety of sources were used to compile the studies used in this review which include: personal communication with the authors, economic database such as Web of Science, Google Scholar, AgEcons search and ASC index, previous bibliography, ajol.info, and other online database using relevant keywords. This was followed by an exhaustive search within references lists of relevant papers, which were subsequently reviewed.

RESULTS AND DISCUSSIONS

Remittance and the rural agro-economy

In Nigeria, 70 percent of the populations live in the rural sector where farming is their primary occupation [22, 25]. Incomes from the farms are much lower than expected to maintain the minimum standard of living essentially arising from low productivity [23, 10], and most of the farmers and other rural dwellers can hardly feed themselves. The consequence is pervasive poverty among the populace. The national poverty incidence was 54.4 percent, whereas in the rural and urban sector, it was 63.3 and 43.2 percent respectively [20]. Hence, the reference that poverty is predominantly a rural phenomenon. [3] stated that 4000 Nigerians own 96 percent of the wealth in Nigeria; and explains the irony that Nigeria is the sixth largest exporter of crude oil and at the same time hosts the third largest number of poor people in the World after China and India [18, 9]. These translate to low standard of living or lowered welfare, with Nigeria being among the 20 countries in the world with the widest gap between the rich and the poor [9].

A prominent response from households is out migration of members in the hope that when the migrant members settle down, they would become sources of remittances to fill up shortfalls in household finances in a way that could enable them enjoy improvements in their overall wellbeing. According to [5], migrant remittances have made possible a drastic improvement in the living conditions of millions of households in migrant-sending countries. It has enabled such households to improve or maintain their livelihoods by stimulating and feeding into local productive activities. Analyzing the potential of migration strategies in stabilizing the income of rural households, [28] reported that these strategies are actually used as a substitute for missing financial and insurance markets, especially in cases in which the migrant remains an economic part of the household and the region of origin.

[8] noted that Nigeria is the largest recipient of remittances in Sub-Saharan Africa. They reported that the country receives nearly 65 percent of officially recorded remittance flows to the region and 2 percent of global flows. The Central Bank of Nigeria (CBN) reported approximately US$2.26 billion in remittances for 2004. The phenomenon of Nigerian emigrants, considered as an escape from hardship on the home front and a depletion of human capital is somehow paying off for the country. This is in view of the revelation that Nigerians abroad grew the economy by a whopping $7billion in the year 2008 and that Nigeria is the sixth highest destination of remittances from its citizens living in the Diaspora [35, 31]. It noted that recorded remittances from about 20 million Nigerians in the Diasporas exceeded $7 billion in 2008 and that Africa accounts for up to $46 billion of the globally recorded remittances. In 2012, Nigeria and five other countries were named by the World Bank as top recipients of global remittances with Nigeria's officially recorded

remittances for 2012 being $21 billion. As is the case for other countries in the Region, the figure might not be reflective of the actual contributions of these Nigerians since it could be higher as underreporting of remittance flows to Nigeria is common because of data collection deficiencies and the prevalence of informal transfer mechanisms which account for 50 percent of total flows to the country.

On the household level, research evidence from Nigeria [10, 24, 12] show that migrant remittance had significant impact on farm output and in the welfare of the households. On the impact of remittances on output of smallholder arable crop farmers in South Eastern Nigeria, [12] reported that remittance receiving farm households produced significantly higher output than the non-receiving households. Statistical tests for structural shift in production function and differences in output revealed that significant difference exist between the production functions of the remittance receiving and non-remittance receiving farm households and output advantage for the remittance receiving households derivable from the use of remittance income. Similar result on welfare was obtained by [24]. The remittance receiving rural farm households had superior output advantage and welfare advantage relative to the non-remittance receiving households. This was made possible by use of superior technology and inputs by the remittance receiving households which remittance income enabled them to acquire unlike their counterpart. As noted by [31] remittances also help to alleviate capital constraints and provide security in risky agricultural sectors where credit and insurance markets are not developed; as in Nigeria's rural agro-economy. Migrants have also contributed immensely in the development of their home communities by undertaking directly development projects such as the award of scholarship to students, provision of free Medicare, building of schools, health centres, town unions, rural electrification projects, and road construction. This they do by uniting themselves and forming an umbrella association that unite them with the home unions.

Globally, remittances now constitute the largest source of financial flows to developing countries after foreign direct investments [13]. In some countries, they are the largest source of foreign capital. For an increasing number of developing countries, remittances form a crucial source of foreign exchange, sustaining their balance of payments. Recognized as an important driver of the economy of most developing countries, international remittances play vital roles in poverty reduction, income redistribution and economic development, especially in rural areas.

[11] noted that remittance has become an important source of revenue both for government through tax and fees and for households. At household level, it helps increase income and consumption smoothing, increase saving and asset accumulation, and improve access to health services, better nutrition and education [16, 14, 15, 36]. Likewise, at village/community level, remittance income can help stimulate local commodity markets and local employment opportunities. Remittances have proved to be less volatile, less procyclical, and therefore a more reliable source of income (for agricultural production and other household uses) than other capital flows to developing countries, such as foreign direct investment (FDI) and development aid [7, 17, 26, 27].

Remittances and the national economy

Remittances reflect the local labour working in the global economy and have been shown to explain partly the connection between growth and integration with the world economy [1]. Remittances enhance the integration of countries into the global economy and reflect the local labour working in the globalized economy. The significant contribution of international remittances to the stability and sustainable growth prospects of developing countries cannot be overemphasized. Remittances have not only grown strongly in a positive direction, but these inflows have also exhibited a much more stability than other private capital inflows and Overseas Development Assistance (ODA). [2] noted that while Foreign Direct Investment (FDI) and capital flows declined sharply in recent years due to the economic recession in most industrialized countries, workers' remittances continued to increase, reaching US$113.4 billion in 2002, US$142.1 billion in 2003, US$160.4 billion in 2004 and US$167 billion in 2005. These figures clearly suggest that, in recent years, remittances have by far exceeded the volume of ODA. Even in some developing countries today, remittance inflows exceed FDI or export earnings. Between 1995 and 2003, whereas migrant remittances to developing countries grew from US$58 billion to US$160 billion, FDI grow from US$107 billion to just US$166 billion, with ODA increasing from US$59 billion to a mere US$79 billion. It is reported that in some economies such as Egypt, Gambia, Lesotho, Morocco and Swaziland, migrant remittance inflows alone contribute to more than 5% of gross national income over the past five years.

International financial flows of remittances, official development assistance and foreign direct investment for the year 2007 is shown in and flow of remittances to Nigeria from 1980-2008 is shown in Table 1 and Figure 1 respectively.

Table 1. International financial flows: remittances, official development assistance and foreign direct investment (2007)

Country	Remittance inflows (US$ millions)	Remittance inflows per capita (US$)	Remittance inflows as a % of ODA	Remittance inflows as a % of GDP	Ratio of remittance inflows to FDI
Nigeria	9,221	62	451.5	6.7	1.5
Ghana	117	5	10.2	0.8	0.1
Burkina Faso	50	3	5.4	0.7	0.1
Mali	212	17	20.8	3.3	0.6
Côte d'Ivoire	179	9	108.7	0.9	0.4
Cameroon	167	9	8.7	0.8	0.4
Gambia	47	28	65.4	6.9	0.7
Morocco	6,730	216	617.8	9.0	2.4

Source: World Bank (2009) "Migration and Remittances Factbook 2008: March 2009 Update". Washington DC: World Bank

A striking revelation besides the positive growing trend in global remittance flows to developing countries, which according to the [35], migrant remittance in flows alone reached an all-time high of US$282,793 million in 2008, is the steady manner of reacting to volatile and unexpected economic events.

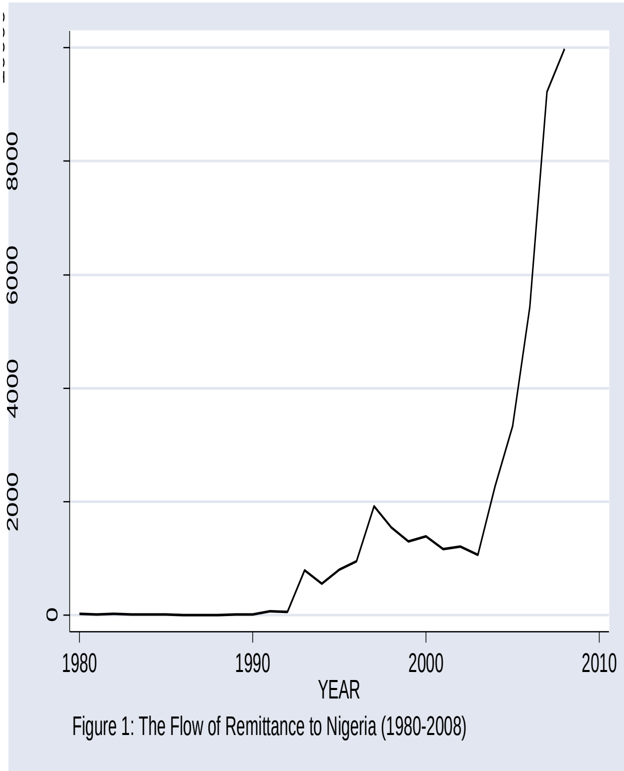

Fig.1.The flow remittance to Nigeria
Source: [11]

For example, in the wake of the Asian financial crises between 1998 and 2001, when private capital flows declined significantly, remittances to developing countries have continued to rise. It is believed that the consistent positive trend in the flow of remittances can be attributed to some unique features that distinguish remittances from FDI and ODA. The peculiarity of remittance flows is that they are from private sources driven by altruistic and solidarity motives that are expected to remain less volatile than other private official flows and counter-cyclical to smoothen consumption pattern over the business cycle. One importance of migrant remittance inflows is that it is directed at productive activities [4, 14].

On the effect of remittances on the Nigerian economy, [11] reported that remittance inflow has been on the increase over the past two decades. Also, remittances, per capita income, investment and time were the positive and significant factors influencing output of the economy while consumer price index significantly influenced output negatively.

Remittance was significant at 1 percent and positively related to the economy's output. This implies that the national output increases with increase in the inflow of remittances to the country. This result lay credence to the view upheld by contemporary development economists that international remittance inflows are one of the major macroeconomic factors that significantly promote long-run economic growth in small-open developing economies [2]. Also this result conforms to the findings of [28]. Other empirical evidence show that remittances positively impact on household investments in remittance-receiving developing countries, raise the consumption capacity of rural households which might have substantial multiplier effects because they are more likely to be spent on domestically produced goods, and impact positively on the balance of payments in many developing countries as well as enhance economic growth, via their direct implications for savings and investment in human and physical capital and, indirect effects through consumption [27, 19, 37, 34, 35]. Thus, at the micro level remittance is used for education, medical and health expenses, basic expenses and needs, building or improving housing, buying livestock or land, purchasing consumer durables such as appliances and stereo television, loan repayments, savings, employment or income generating activities and investing in the socio-cultural life.

[6] in the work on "worker's remittances and economic growth :evidences from Nigeria" reported that capital accumulation is sensitive to its previous stock and domestic cost of production that is proxied by the domestic interest rates and the exchange rate of the local currency. It is also sensitive to the national efficiency parameter, which is in part influenced by the external capital and technology. Labour supply and human capital are also sensitive to capital import, in this case remittances inflow. They noted that the application of domestic technology depends on the quality and the stock of other factors of production. They concluded that if remittance impact positively on other factors of production, the fact would remain that overall economic growth will also be positive.

On channels by which remittances impact on economic performance in Nigeria, [32] reported that remittances affect economic performance in Nigeria through its interaction with human capital and technology diffusion. He also noted that government capital expenditure on economic and social services is equally important in accelerating the pace of economic growth and development.

Using a time series data, from 1970-2010 in an error correction methodology (ECM), [32] found out that the long-run static model indicates that workers' remittances is significant and has positive impacts on economic growth. Furthermore, the short-run dynamic model revealed that the lagged value of workers' remittances is significant and impacts positively on economic growth. The coefficient of the error correction term (ECT) in the short-run dynamic model is statistically significant and appropriately signed. Consequently, the paper recommends the need to provide adequate infrastructure for attracting more remittances into the economy through formal financial sector channel as well as measures encouraging the recipients to channel such into productive sector or through domestic savings that would boost investment and economic growth, rather than enmeshed in non-productive activities.

[1] noted that remittances is positively and significantly viable in its contribution to economic growth (proxy by gross domestic product) in some Sub-Saharan African countries and reduced poverty to some extent.

CONCLUSIONS

International remittance inflows are one of the major macroeconomic factors that significantly promote economic growth in a developing economy like Nigeria. Therefore, remittance receiving countries need to provide a friendly economic environment through sound macro-economic policies, including stable exchange rates, basic physical infrastructure, improved market integration, reliable financial and other institutions, transparent legal system and good governance – in essence, conditions that can prime the economy for development and equip it adequately to benefit from this external stimuli. This is particularly important if remittances are to be attracted and used as development capital. The corporate sector, especially banks and other financial institutions, can do a lot to increase the volume and value of official flows by reducing the transaction cost, simplifying transfer procedures and by encouraging through various other means the use of formal financial channels.

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