

REMITTANCE AND THE ECONOMY: THE NIGERIAN EXPERIENCE

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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.
- Remittances are playing an increasingly large role in the economies of many countries, contributing to economic growth and to the livelihoods of people.
- Apart from contributing to household livelihoods, remittances can foster longer-term development through investment in education, land and small businesses.
- It has grown in importance as a component of households' income and has been described by many as the newest "development mantra".

Remittance and the rural agro-economy

- In Nigeria, 70 percent of the populations live in the rural sector where farming is their primary occupation.
- Incomes from the farms are much lower than expected to maintain the minimum standard of living essentially arising from low productivity
- 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
- 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.
- Remittances have made possible a drastic improvement in the living conditions of millions of households in migrant-sending countries.

- Nigeria is the largest recipient of remittances in Sub-Saharan Africa, and among six countries named by the World Bank as top recipients of global remittances in 2012.
- 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 \$7 billion in the year 2008, and officially recorded remittances for 2012 being \$21 billion.
- On the household level, research evidence from Nigeria (Iheke, 2010; Nwaru et. al., 2011 and Iheke, 2014) show that migrant remittance had significant impact on farm output and on the welfare of the households.
- The impact was made possible by use of superior technology and inputs by the remittance receiving households which remittance income enabled them to acquire.
- As noted by Stark and Lucas (1988) 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
- 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.
- It has increased income of households, smoothen consumption, increase saving and asset accumulation, stimulate the local economy by providing employment opportunities.

Remittances and the national economy

- Remittances enhance the integration of countries into the global economy and has made significant contribution to the stability and sustainable growth prospects of developing countries.
- A striking revelation besides the positive growing trend in global remittance flows to developing countries is the steady manner of reacting to volatile and unexpected economic events
- On the effect of remittances on the Nigerian economy, Iheke (2012) 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.

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

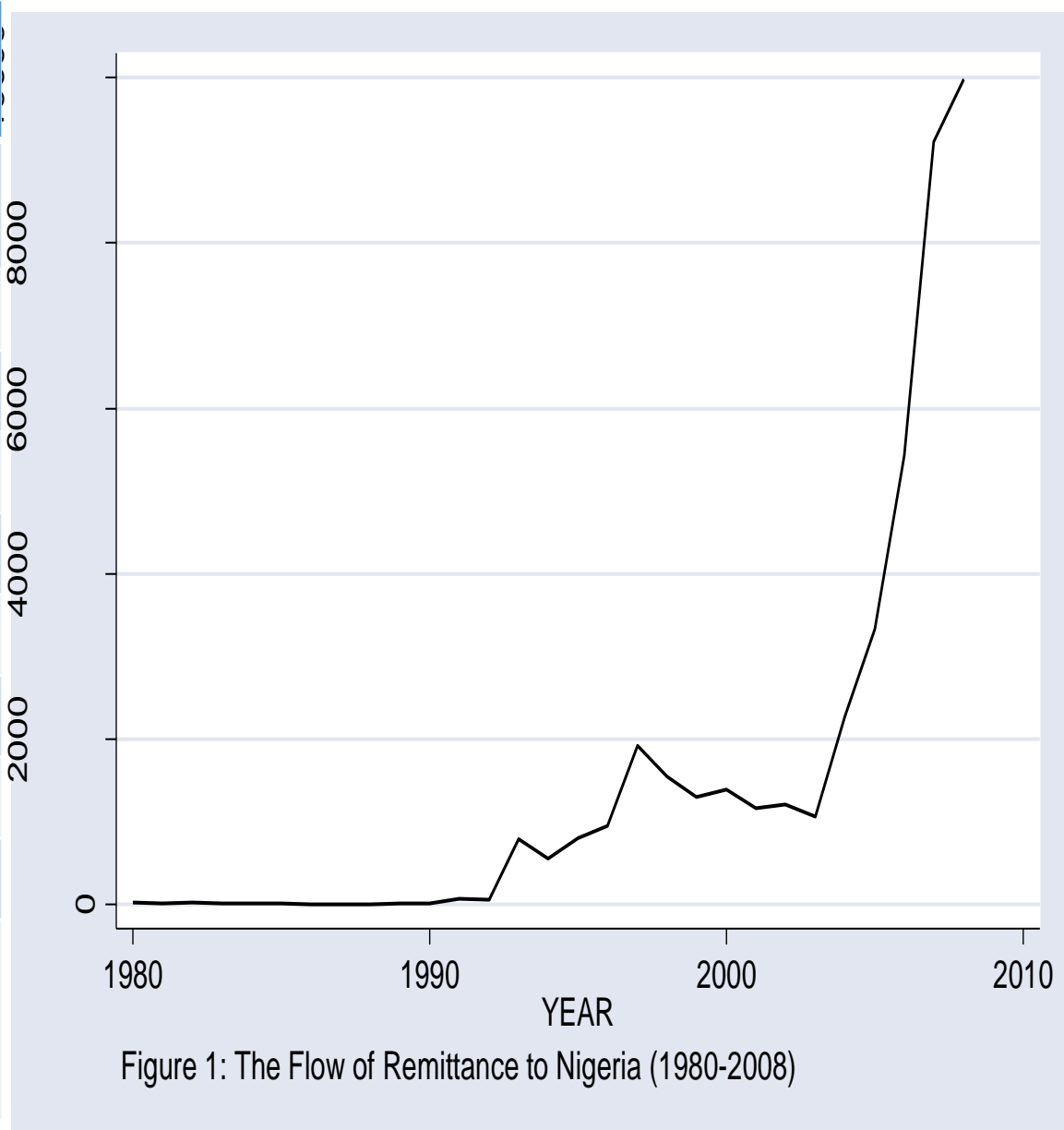


Figure 1: The Flow of Remittance to Nigeria (1980-2008)

Source: Iheke, O.R. (2012), "The effect of remittances on the Nigerian economy", *International Journal of Development and Sustainability*, Vol. 1 No. 2, pp. 614–621

- Kure and Nwosu (2008) in the work on “worker’s remittances and economic growth :evidences from Nigeria” reported that labour supply and human capital were 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 and 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, Udah (2011) 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), Ukeje and Obiechina (2013) 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.

Conclusion and Recommendation

- International remittance inflows are one of the major macroeconomic factors that significantly promote economic growth in a developing economy like Nigeria.
- 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.