Impact of Remittances on Development in Nigeria: Challenges and Prospects

Adeagbo Oluwafemi1 and Ayansola O. Ayandibu2

1Department of Sociology, University of Johannesburg, Kingsway Campus, Auckland Park, 2006, Johannesburg, South Africa
Cell: +27785826991, E-mail: femiadex@yahoo.co.uk
2Graduate School of Business and Leadership, University of KwaZulu Natal, Westville Campus, Durban, KwaZulu Natal, South Africa
E-mail: ayandibu@ukzn.ac.za

KEYWORDS Migration. Remittances. Socio-economic Growth. Nigeria

ABSTRACT The recent publications by World Bank revealed Nigeria as the top-remittance receiving country in Africa and this invariably reflects that more Nigerians live abroad. The Central Bank of Nigeria is uncertain about the actual amount of money remitted to the country due to its lack of methods to measure informal/unofficial ways through which remittances enter the country. It is noteworthy that Nigerians abroad were recorded to have remitted US$10/$21 billion in 2010 and 2013 fiscal year respectively, and this put the country ahead of other African countries as the most remittances recipient country. Despite the high remittances inflow into Nigeria, poverty and inequality are still prevalent in Nigeria, and the country is yet to make efficient use of remittances like other developing countries, such as Philippines and Mexico. This paper compares positive impact of remittances on development in some developing countries of the world to the impact level of remittances in Nigeria. After critical evaluation of factors militating against the positive impact of remittances on development in Nigeria in existing literature, this paper argues that political instability, ineffectiveness of financial sector/business climate, bureaucracy, corruption, over-reliance on natural resources, as well as non-formulation and implementation of adequate remittances programmes are some of the factors militating against the developmental impact of remittances in Nigeria. We therefore recommend that policy makers, particularly those in financial sectors, need to formulate and implement similar remittance policies like Philippine and Mexico in order to maximise the positive effect of remittances for human and economic development in the country.

INTRODUCTION

As a member of the Organisation of Petroleum-Exporting Countries (OPEC), Nigeria has been described as a rich economy despite its inconsistent economy (Odozi et al. 2010; Ndulu et al. 2008). It is noteworthy that despite the contribution of crude oil as a major source of the country’s revenue, agriculture has contributed immensely to the gross domestic product (GDP) over the years (Odozi et al. 2010). In spite of the abundance of natural resources in Nigeria, unemployment and poverty are high in the country. For example, United States Agency for International Development (2008) submits that 70.8% of Nigerian population lived on less than $1 per day. Due to regional income disparities, it has been argued that poverty is higher in the northern part of Nigeria and this is common among women and young children (Odozi et al. 2010). Several studies have shown that income and expenditures are appropriate methods to use in addressing poverty and inequality issues (Odozi et al. 2010; Jhingan 2004; Grosh and Glewwe, 2000). Remittance is a form of income that has helped in reducing poverty in Nigeria (Odozi et al. 2010).

According to the World Bank (2011), 21.8 million people are recorded to have emigrated from Sub-Saharan African countries, and Nigeria is recorded to be one of the top ten countries that produced such massive numbers. The destination of migrants from sub-Saharan countries includes high-income countries while majority of them migrate to other African countries. Nigerians represent one of the most mobile populations in Africa and they are found virtually in every continent. They have been described as “populations moving to East, West, and South Africa, as well as North America, constitute a vibrant diaspora with strong ties across continent” (United States Agency for International Development 2007: 3). This implies that irrespective of Nigerian migrants distance from home, they remain closely connected to their friends and families back home. For example, Nigerians abroad particularly those in United States, Canada, and United Kingdom keep cordial relation-
ships with their families and communities at home through different diaspora groups.

The recent publication of World Bank (2013) reveals Nigeria as the top remittance receiving country in Africa [Fifth in the world following India ($71 billion), China ($60 billion) Philippines ($26 billion) and Mexico ($22 billion)] and this invariably reflects that more Nigerians live abroad. The World Bank reported that $21 billion was remitted into the country in 2013 fiscal year and predicted future increment of remittances inflow into the country. Similarly, it is noteworthy that Nigerians abroad were recorded to have remitted US$10 billion in 2010 which has put the country ahead of other African countries as the biggest recipient of remittances (World Bank 2011). Although the World Bank has predicted increase in remittances inflow into Nigeria, the country has no extant policy to regulate its use for national development apart from the usual consumption behaviour of remittances recipient households. It is imperative to mention that in spite of the position of Nigeria as top remittance recipient country in Africa and fifth in the world in 2013 financial year, the Central Bank of Nigeria is uncertain about the actual amount of money remitted to the country due to its lack of methods to measure informal/unofficial ways through which remittances enter the country. This suggests that remittances enter the country through informal ways and this could be make the official figures a less than accurate reflection of the reality as people prefer to send remittances home at low cost, mostly through friends who is visiting their home country. However, despite the high remittances inflow into Nigeria, the country is still struggling economically, and is yet to make judicious use of remittances like other developing countries of the world (for example, India, Bangladesh, Philippines, and Mexico). It is against this backdrop that this paper recommends that Nigerian policy makers, particularly stakeholders in financial sectors, should formulate remittance policies that would be beneficial to human and economic development of the country.

**Literature Review**

Remittance has been part of human activity and has always been connected to migration which has ever been a part of human history. Migration and remittances have increased remarkably in recent years in a way that both have become essential and significant particularly for poor and developing countries of the world (Piot-Lepetit and Nzongang 2014; Odozi et al. 2010; Kihangire and Katarkikawe 2008). Recently, there has been an immense increase of literature on remittances as remittances became an external source of funding for many developing countries as well as the current attention and interest given to it by International Monetary Fund (IMF), the European Union Commission (EUC), World Bank (WB) and National financial institutions (Dercon 2009; Sergi et al. 2007). This paper draws on the extant literature on migration and remittance to understand the socio-economic impact of remittances in developing countries of the world.

**Remittance**

Remittance has been defined by many scholars from different disciplines and organisations. According to Kihangire and Katarkikawe (2008), remittance is defined as money sent home by migrants working abroad to their home countries. Similarly, remittance has been defined as a portion of migrant workers’ earnings sent to their countries of origin and this could be in cash or gifts (Odozi et al. 2010; Chukwuone 2007; Quartey 2006). Moreover, IMF (1999) maintains that remittance is limited to money sent by migrant workers who have been staying in a foreign country for more than a year to his/her household in his/her country of origin and this does not include migrants that are self-employed. Similarly, Tewolde (2005) argues that remittances are financial and non-financial materials that migrants receive while working overseas and sent back to their households in their countries of origin. Ratha (2003) also defines remittances as migrants’ funds transfers, which are resources that a migrant convey into or takes out of a country. Consequently, International Organization for Migration (2006) largely defines remittances as the monetary flows connected to migration, that is, cash transfers by migrants or immigrants living abroad to a relation in home countries. International Labour Organization (2000) also defines remittance as part of migrant workers’ income remitted back from their employment countries to their countries of origin. The above different definitions are just to mention a few amongst the different definitions and views.
of remittances. It is noteworthy that remittance is divided into two parts namely financial and non-financial remittances although this paper focuses mainly on the financial aspect of it.

Remittance has been increasing extensively in developing countries but less attention has been given to it, particularly in Sub-Saharan Africa. It has been argued that remittances have been the second largest source of external funding aside the direct foreign investment (DFI) and official development assistance (ODA) of some developing countries (World Bank 2013; Odozi et al. 2010; Mphosa 2005; Sander and Mambo 2003; Gammeltoft 2002; Orozco 2000). It has been observed that developing countries are likely to receive US$80 billion annually through remittances (Ratha 2002). It is noteworthy that past and recent studies have shown that remittances receiving households tend to be better-off than non-receiving households in terms of income and assets (Odozi et al. 2010; Rajan and Subramanian 2005; Sander 2003). Glytsos’s (1993) study of migration and remittances in Greece shows that apart from the change in economic and social status of most recipients’ household, migrant remittances contributed to the economy of their country of origin. According to Glytsos (1993: 154), remittances contributed to “economic growth, employment (74,000 jobs were created) and capital formation.” Odozi et al.’s (2010) study of remittances in Nigeria reveals that poverty is alleviated among households that received remittances than non-recipient households. This finding corroborates earlier studies that remittances reduce poverty level of the recipient households (Deron 2009; Brown and Jimenez 2007; Zoch 2007). Similarly, Sanni (2007) maintains that Nigeria recorded a growth of 0.4% in 1996 on the proportion of remittances in total GDP but later increased to 8.5% in 2007. Consequently, Holmval’s (2006) study of remittances in the Philippines shows that remittance is the main source of income of recipients household and they spend it mostly on basic household consumptions. Englama (2007) also argues that remittances often increase the consumption of social amenities like education, health, housing etc and this invariably produces a positive impact on human development. Englama (2007: 11) states that “large remittances flows improve a country’s creditworthiness for external borrowing, this is because the inflow would effectively reduce the country’s debt/exports ratio, thereby, improving the country’s credit ratings and access to international capital markets.” For examples, Malians remittances built up to 60% of the infrastructure in Mali. Mexican 3-for-1 programme raised more than $4.5m for about 400 community projects and economic development programme (Englama 2007). Israel is also known for positive usage of remittances for economic development while the government of India raised US$11.0 billion from Diaspora bonds through the State Bank of India (SBI). Commission of Filipinos overseas also contributed to the economic development of their country by supporting education, welfare, health, livelihood and infrastructural projects (Sander 2003). Deron (2009) study reveals that remittances reduced poverty rate from 35% to 27% in Tanzania. Similarly, Brown and Jimenez’s (2007) study shows that remittances reduced poverty level by 11% in Fiji and 41% in Tonga.

Furthermore, most studies give support to New Economic of Labour Migration approach on remittances as household income insurance against economic recessions. Kurasaki (2006) research in North-West province of rural Pakistan shows that households that do not receive remittances rarely cope with the negative income distress. Similarly, Alper and Neyapti (2006) study in Turkey shows that ‘consumption smoothing’ is a crucial permanent motive for sending remittances to Turkey. Lindley (2006) as well found that migrants in Hergeisa often send remittances from abroad when their household experience distress in their finances and fortunes. In the same vein, Agunias (2006) maintains that remittances accounted for large part of average recipient’s yearly income in Latin America. Consequently, a similar study conducted by Nwajiuba (2005) in South-East Nigeria shows that up to 50% of household spending is contributed by migrants outside the African continent. Some of the emerging economies also use remittances as collateral for borrowing (Deepak 1994). Unlike the general views that remittances often bring about economic growth for both receiving households and countries of origin, Sen (1999) in his concept of human capability contradicts the general assumption or the view that development is majorly restricted to income indicators and material growth. Sen maintains that development extension of human abilities add to their quality of lives.
Effect of Remittances on Development: Optimist versus Pessimist Theorists

Migration and remittance go pari passu because without migration there is no remittance. Many scholars have written from different disciplines for and against the development impact of migration on both source and host countries. According to Holmvall (2006: 8) “international migration is for both sending and receiving a key factor to economic development but countries need to address migration policies differently depending on their precondition and aims.” Similarly, Lindley (2008: 5) maintains that New Economic of Labour Migration (NELM) understands migration as a household “strategy to diversify the household’s income sources in response to risk or local constraints in credit, insurance or other markets.” It is noteworthy that some of the recent literature on migration, remittance and development often see migration and remittance as an alternative for economic growth in developing countries. These debates have created the two major opposing schools of thought- migration optimists and pessimists.

The first view is developmental optimism. This ideology was developed and popular in 1950s and 1960s. Development optimists’ views are dated back to the period of massive labour migration from developing countries to developed ones. This period was termed “dawning of a new era” (Papademetriou 1985). Governments of some developing countries encouraged emigration during this period because they believed in its contribution to the development of their countries (Penninx 1982; Beijer 1970; Kindleberger 1965). These theorists hold that migrants’ are agents of ‘change, innovators and investors’ because their remittances and acquired wealth of knowledge and skills often aid development in their countries of origin (Odozi et al. 2010).

In contrast to the development optimists’ view, the pessimist views of 1970s and 1980s, shaped by dependency theory, argue that remittances create dependency between the sending and receiving countries as well as senders and recipients (Binford 2003; Rubenstein 1992). In other words, structuralist/dependency theorists hold that migration is the cause of underdevelopment due to the massive movement of people (labour) out of their traditional communities. Migration and remittances are believed to be the cause inequalities among households (Binford 2003; Rubenstein 1992; Reichart 1981; Lipton 1980; Rhoades 1979; Ameida 1973). For example, a poor society will reveal inequality among remittance receiving and non-receiving households. This is because some migrants abroad often send money home to equip their families while non-receiving households continue to wallow in poverty (Odozi et al. 2010; Dercon 2009). Structuralist theorists argue that most remittances are spent on noticeable consumption and non-productive projects (Lewis 1986; Entzinger 1985; Lipton 1980). Migration is also believed to have negative effects on sending countries/communities harmony and economies by uprooting its members (Haas 2007). Similarly, it has been observed that migration and remittance often cause Dutch Disease and Ghost Town Effect (Carrasco and Rio 2007). An example that readily comes to mind is how the discovery of gold and diamond in South Africa led to the flight of men from home leaving most households to be headed by women (Adeagbo 2011). Remittance is considered to be a temporary source of income which could be detrimental to the households that receive it because it is artificial and uncertain. Migration from South to North is bad according to these theorists because it makes the developing countries to depend on high-income countries (Dercon 2009; Zoch 2007).

The New Economics of Labour Migration (NELM- Pluralist Perspectives) emerged in the 1980s and 1990s as a response to developmentalist (migration optimists) and structuralist (migration pessimists) views of remittances and development. This approach seems to be more encompassing because it merged both migration optimists and pessimists views on development. Migration in this sense is professed as a household retort to income peril since migrants’ remittances serve as insurance for their families (Piot-Lepetit and Nzongang 2014; World Bank 2013; Odozi et al. 2010; Lucas and Stark 1985). It has been argued that households are able to expand resources such as labour in order to reduce income risks (World Bank 2013; Odozi et al. 2010; Stark and Levhari 1982).

OBSERVATIONS AND DISCUSSION

Due to integration of economies among the countries of the world, the need for higher profits among these countries (particularly developed countries of the world) led to higher re-
quirement of labour, capital and production factors (Sanni 2007). The production of labour led to the movement of both skilled and unskilled people from mostly developing countries of the world which is invariably linked to remittances sent by these migrants to their households in countries of origin (Sanni 2007; Holmvall 2006). Some of the developing countries of the world, particularly those in Asia and America, have made judicious use of remittances to help their households and countries socio-economically. For instance, the Bangladeshi recorded the highest remittances in 2011 fiscal year from millions of migrant workers abroad (World Bank 2011). Bangladesh recorded US$11.1 billion due to the involvement of Bangladeshis government by encouraging and supporting migrant workers with different remittances programmes that will benefit them and their families (World Bank 2011). This invariably boosts Bangladesh foreign exchange reserves to a record higher than the previous years. Similarly, Mexico, Mali, Philippine, and El Salvador have all made efficient use of remittances to help their households and countries.

Unlike other developing countries of the world, remittances have not been fully utilised in Nigeria. It is imperative to mention that Nigeria recorded the highest remittances (US$ 21b) in Africa in 2013 financial year from millions of migrant workers abroad but little or nothing can be shown for its impact on the country economically except the usual consumption behaviour of remittances receiving households. This assumption is based on anecdotal evidence and existing literature on the impact of remittances on development in Nigeria. Recent studies have shown that remittances reduced poverty in Nigeria. For example, Odozi et al. (2010) study of remittances in Nigeria shows that it reduces poverty among recipient households. Apart from the impact of remittances on households in Nigeria, the Nigerian government has no known remittance policy that caters for how remittances can be used for development projects and economic growth. It is noteworthy that remittance inflow into Nigeria has been increasing every year for more than a decade now. Data from the Central Bank of Nigeria (CBN) shows that remittances through banking system was US$2.26 billion in 2004, $3.3 billion in 2005, and $7.7 billion in 2007 and so on. A recent research in Nigeria by Central Bank of Nigeria research department shows that official inflow of remittances could increase by 25.0% if the informal channels are formalised (Englama 2007). Arguing for efficient usage of remittances in Nigeria, Sanni (2007) suggests that remittances can be used to alleviate credit constraints and as a substitute for financial development in Nigeria. He is also of the view that remittances could encourage more consumption which invariably increases production and boosts per capita income. Odozi et al. (2010) also suggests that remittances can aid development in Nigeria if adequate programmes are put in place.

In spite of the claim of the Central Bank of Nigeria that informal channel still records the highest number of remittances inflow compared to formal channel, remittances that were recorded through official channels in Nigeria have not been fully utilised for socio-economic development like some developing countries of the world such as India and Mexico. The hypothesis is based on different factors militating against the effect of remittances on development in the country. Some of these factors are political instability, ineffectiveness of financial sector/business climate, bureaucracy, corruption, over-reliance on natural resources, as well as non-formulation and implementation of adequate remittances programmes among others. For example, the continuous insurgence of Boko Haram and political instability in Nigeria can deter migrant workers abroad to remit money home for investment purposes even if adequate remittance programmes are formulated and implemented. Wahba (1991) maintains that political stability and government policies often influence the flow of remittances in migrants’ countries of origin. This finding corroborates the current political situation in Nigeria.

Similarly, recent studies have shown that over reliance on crude oil is another factor impeding on the impact of remittances on development in Nigeria. Odozi et al. (2010) found that Nigerian government rely so much on crude oil as a source of revenue and ignores other channels through which revenues can be generated for the country development. Similarly, Sanni (2007) suggests that Nigeria government should work effortlessly by using remittances to grow its economy other than crude-oil income because remittance has become the tool for achieving economic growth in some of the growing economies of the world.
Moreover, the high level of corruption in Nigeria is another factor affecting the positive impact of remittances on development. Corruption has become a tradition in Nigeria, and this has been transferred to the new generation of leaders because of the act of impunity that ravages the country. The Nigerian government has been trying to encourage Nigerians abroad to invest at home but nobody wants to invest in a country where corruption is the order of the day. Apart from the corruption and act of impunity that characterised Nigerian political and economic systems, Nigerian government has not considered the usage of remittances as a tool for socio-economic growth. It is noteworthy that Nigerian government at the moment lacks useful remittance programmes and policies that could encourage Nigerians abroad to remit more money, as well as the orientation of remittances receiving households to invest other than consumption only.

Having studied the impact of remittances on socio-economic development of some developing countries of the world such as Bangladesh, Mexico and Philippines, we would have suggested that Nigerian government should adopt some of the remittance utilisation techniques implemented in these countries in order to make efficient use of remittances for development in the country, but there are many constraints that might not make those techniques work in Nigeria. Besides, those techniques are country (context) specific. It is noteworthy that no matter how good a particular remittance policy or programme is, it will not have any positive impact without appropriate implementation. It is therefore imperative for Nigerian government to formulate and implement remittances policies and programmes that will positively impact on the economic growth of the country. For instance, the 3-for-1 technique that was applied in Mexico really helped the country economically and infrastructure wise due to the transparency in the use of migrants’ abroad remittances. Lack of trust and corruption would not make Nigerian workers abroad who really want to help their communities do this. We therefore suggest that the Nigerian government should create a suitable atmosphere, such as good leadership, friendly remittance policies, transparency and political stability, in order for migrant workers abroad to invest in the country. This can create more employment opportunities thereby reducing unemployment rate and poverty. Also, government should put necessary measures in place to monitor and regulate the usage of remittances for economic growth.

**CONCLUSION**

It was recently that most governments of developing countries shifted their attention towards the importance of remittances on their economy but little is known about its impact on development (for example, economic growth) in Nigeria. This paper has explored different remittances studies in some developing countries of the world as well as their importance to those countries in comparison to Nigeria. In spite of the recent record of Nigeria as the top remittances recipient country in Africa, the country is yet to make efficient use of remittances for both development projects and economic growth. Many factors such as political instability, corruption, lack of transparency among others still hamper the appropriate utilisation of remittances for development projects and economic growth in Nigeria. It might then be useful to suggest that policy makers, particularly those in the finance sectors (for example, Central Bank of Nigeria and Federal Ministry of Finance), should focus more on how to make the best use of remittances for economic growth instead of putting all their attention on natural resources such as crude oil.

**RECOMMENDATIONS**

Extensive search of literature on the effect of remittances on development in Nigeria shows that remittance reduced poverty rate among recipient households. This is a welcome and commendable development but Nigerian government is yet to make use of remittance for development projects and economic growth. We therefore recommend that the government should look into the situation contextually and develop techniques and models that will enhance the positive impact of remittances on development in Nigeria. In other words, Nigerian government can look at those remittances techniques and models that have worked in other developing countries like Mexico, Bangladesh and Philippines as a point of reference in order to maximise and utilise remittances for socio-economic development. Also, Nigerian government should endeavour to maintain order, stabilise political
instability and encourage transparency in the system in order to woo would-be investors among migrant workers abroad.

ACKNOWLEDGEMENTS

We thank the anonymous reviewers of this journal for their comments on the initial draft of this paper.

REFERENCES


Sander C 2003. Migrant Remittances to Developing Countries: A Scoping Study, Overview and Introduction to Issues for Pro-Poor Financial Services Development (DFID), Bannock Consulting.


