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Economic Impact of Diaspora Remittance on Nigerian Economy

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Abstract

The purpose of this paper is to assess the huge impact of Diaspora remittance on the Nigerian economy. In 2018, migrant remittances to Nigeria were \$24.3 billion, representing 6.1% of gross domestic product. This figure represents 83% of the Federal Government budget in 2018 and 11 times the Foreign Direct Investment (FDI) flows in same period. Remittances are the fastest growing source of foreign exchange earnings in Nigeria. Hence in March 2021, as part of its reforms to boost the inflow of foreign currency in the country, the Central Bank of Nigeria (CBN) introduced an incentive of N5 for every \$1 of fund remitted to Nigeria through International Money Transfer Organisations in its forex policy. Remittances, or money transfers, make up the second-largest source of foreign exchange receipts after oil

revenue in Nigeria, Africa's biggest economy. \$24.8billion was sent to Nigeria in 2019, according to the World Bank data.

Keyword: Diaspora, Economic development, Remittance



1.Introduction

A Remittance is generally meant to be money sent to another party/person usually one in another country. The sender is typically a foreign worker and the recipient a relative back home. A remittance is a payment of money that is transferred to another party. Broadly speaking, any payment of an invoice or a bill can be called a remittance. However, the term is mostly used nowadays to describe a sum of money sent by someone working abroad to his or her family back home.

Remittance can be viewed as funds transferred from migrants to their home country, such funds played vital roles in the economy, helping to meet the basic needs of recipients. Most remittances are made by foreign workers to family members in their home countries. The most common way of making a remittance is by using an electronic payment system through a bank or a money transfer service such as Western Union, Ria money transfer, money gram etc. People who use these options are generally charged a fee. Transfers can take as little as ten minutes to reach the recipient. remittances represent household income from foreign economies arising mainly from the temporary or permanent movement of people to those economies.

Remittances are transfers of money, goods and diverse traits by migrants or migrant groups back to their countries of origin. Although nowadays, the notion of remittances conjures only monetary aspect, remittances includes both monetary and non-monetary flows, including social remittances.

Diaspora remittances have played, and it is still playing a major role on Nigerian economy at large, hence in March 2021, the Central Bank of Nigeria made it crystal clear that it is of a national interest to make policy that will encourage those in diaspora to send money back home to their relatives without many hurdles. In fact, the Central Bank of Nigeria has

put in place a well functional mechanism and incentives that will augment free flow of remittances to the country.

In March 2021, as part of its reforms to boost the inflow of foreign currency in the country, the CBN introduced an incentive of N5 for every \$1 of fund remitted to Nigeria through International Money Transfer Organisations in its forex policy. And according to the Punch of 6th May 2021, the Central Bank of Nigeria (CBN) extends naira-4-dollar scheme deadline indefinitely. The Central bank of Nigeria has declared unequivocally that it is hell bent to ease the barriers faced by those in diaspora in sending money back home to their friends and family.

According to the Central Bank Governor Mr Godwin Emefiele, “the reforms were introduced because increased diaspora remittances into the country would support the economy and help reduce the impact of the COVID-19 pandemic on the Nigerian economy”.

Rising dollar demand has been putting pressure on the naira. Nigeria is hoping it can attract remittances from its Diaspora as providers of foreign exchange, many offshore investors, have exited after COVID-19 triggered a fall in oil prices.

Remittances, or money transfers, make up the second-largest source of foreign exchange receipts after oil revenues in Nigeria, Africa's biggest economy. More than \$24 billion was sent to Nigeria in 2019, according to the World Bank.

Among the Nigerian commercial banks that have keyed into the central bank’s vision of increasing diaspora remittances via the formal channel are: United Bank for Africa (UBA). ECO bank Plc, First bank Nigeria Plc, Keystone bank Nigeria Plc, Zenith bank Nigeria Plc etc. UBA has introduced a bouquet of products that would accelerate remittances, transfers, trade, and commerce into and from Nigeria in particular, and Africa

in general. Several other banks have keyed into the CBN's vision.

2. Background of Study

Diaspora or Migrant remittance has been in existence in the World for decades; it is as old as globalisation, and it has been modernised since the 21st century.

A **remittance** is a non-commercial transfer of money by a foreign worker, a member of a diaspora community, or a citizen with family ties abroad, for household income in their home country or homeland. Money sent home by migrants competes with international aid as one of the largest financial inflows to developing countries. Workers' remittances are a significant part of international capital flows, especially regarding labour-exporting countries.

2.1 World remittances

According to the World Bank, in 2018 overall global remittance grew by 10% to US\$689 billion in 2017, with developing countries receiving 77% or US\$528 billion. India, China, Mexico, the Philippines, and Egypt are among the largest remittance recipients globally, collectively accounting for approximately 36% of total inflows.

According to World Bank, global remittances declined sharply by about 20 percent in 2020 due to the economic crisis induced by the COVID-19 pandemic and shutdown. The fall was the sharpest decline in recent history, largely due to a fall in the wages and employment of migrant workers, who tend to be more vulnerable to loss of employment and wages during an economic crisis in a host country. Remittances to low and middle-income countries (LMICs) fell by 19.7 percent to \$445

billion, representing a loss of a crucial financing lifeline for many vulnerable households.

The Global Director of the Social Protection and Jobs Global Practice at the World Bank, Mr. Michal Rutkowski, recently highlighted the importance of remittance flows to the financial survival of families that were stricken by the impact of COVID-19 pandemic disease that plagued the world economy in 2020.

Rutkowski, said in the World Bank's report titled: "Defying Predictions, Remittance Flows Remain Strong During COVID-19 Crisis," he said that "as COVID-19 still devastates families around the world, remittances continue to provide a critical lifeline for the poor and vulnerable. Supportive policy responses, together with national social protection systems, should continue to be inclusive of all communities, including migrants." In view of this kind of unforeseeable challenges, the G7 has put in place a working strategy to reduce the cost of remittances to avoid the aim been defeated.

The World Bank's release also stated that Nigeria accounted for 40 per cent of remittance flows into Sub-Saharan Africa in 2020 by receiving over \$17 billion out of inflow of \$44 billion to Africa. This is pretty much understandable because of the high number of Nigerians in diaspora, partly because of its population when compared to countries in the Sub-Saharan Africa.

3: Methodology Applied

Secondary data were used to analyse the economic impact of Diaspora remittance on Nigerian economy. In addition, a comparative analysis of some various countries' remittances was used to give a more precise view on the impact of diaspora remittances around the globe. The data used for the analyses

were obtained from Worldbank.org/indicator for selected countries that have the highest remittances in the World.

Table:1 Personal remittances, received current USD in billions between 2014-2020

country/region	2014	2015	2016	2017	2018	2019	2020
Nigeria	20.99	20.62	19.69	22.03	24.31	23.8	17.2
Sub-Saharan Africa	39.68	42.19	38.61	42.33	48.16	48	44
World	470	596	589	633	689	714	702
China	29.91	44.44	35.22	28.67	24.30	18.29	60
Egypt	19.57	18.32	18.59	24.73	25.51	26.78	24
India	70.39	68.91	62.74	68.96	78.79	83.33	76
Mexico	24.80	26.23	28.69	32.27	35.76	39.02	41
Philippines	28.69	29.79	31.14	32.81	33.80	35.16	33.2

Source: <https://data.worldbank.org/indicator/BX.TRF.PWKR.DT.GD.ZS>

The above table on personal remittances, received current USD in billions showed the top five countries with the highest remittances in the World during the year under review.

Table:2 personal remittances, received as a percentage of GDP in billions between 2014-20120

Country/region	Indicator % of GDP	2014	2015	2016	2017	2018	2019
Nigeria	remittances	3.84	4.23	4.86	5.86	6.12	5.31
Sub-Saharan Africa	remittances	2.24	2.57	2.49	2.59	2.78	2.76
World	remittances	0.72	0.77	0.74	0.74	0.75	0.76
China	remittances	0.29	0.40	0.31	0.23	0.17	0.13
Egypt	remittances	6.40	5.56	5.59	10.49	10.22	8.84
India	remittances	3.45	3.28	2.73	2.6	2.90	2.91
Mexico	remittances	1.89	2.24	2.66	2.79	2.93	3.08
Philippines	remittances	9.64	9.72	9.77	9.99	9.75	9.33

Source: <https://data.worldbank.org/indicator/BX.TRF.PWKR.DT.GD.ZS>

Table:3 Personal remittances, received current USD in billions by selected countries in the Sub-Saharan countries in 2020

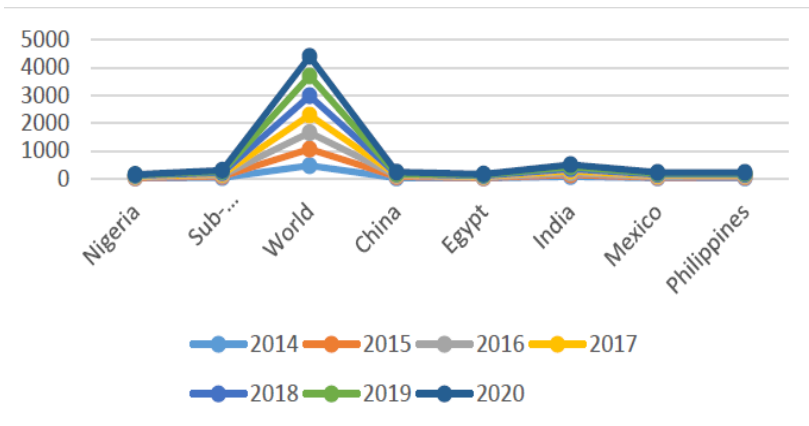
Country name	Indicator	Year
Nigeria	remittances	17.2
Ethiopia	remittances	3.7
Ghana	remittances	3.6
Kenya	remittances	3.1
Senegal	remittances	2.6
Zimbabwe	remittances	1.2
Uganda	remittances	1.1
Mali	remittances	1

Source: <https://data.worldbank.org/indicator/BX.TRF.PWKR.DT.GD.ZS>

4. Data analysis and Results

Data were carefully analysed and interpreted using graphs for more comprehensiveness and clarities. The use of graphs added more in-depth analysis and interpretations. The translation of data into graphs give us a clearer understanding of the results obtained, because data analysis is the backbone of most academic research.

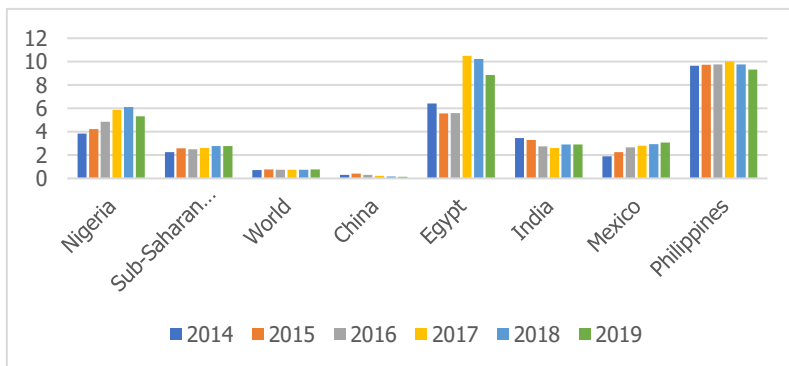
Fig:1 A 2-D Line chart showing personal remittances, received current USD 2014-2020



Source: Own source

During the period under review, remittances to Nigeria were relatively stable when compared to the number of Diasporas from India and China. It is due in part because of the monetary policy put in place by Central Bank of Nigeria.

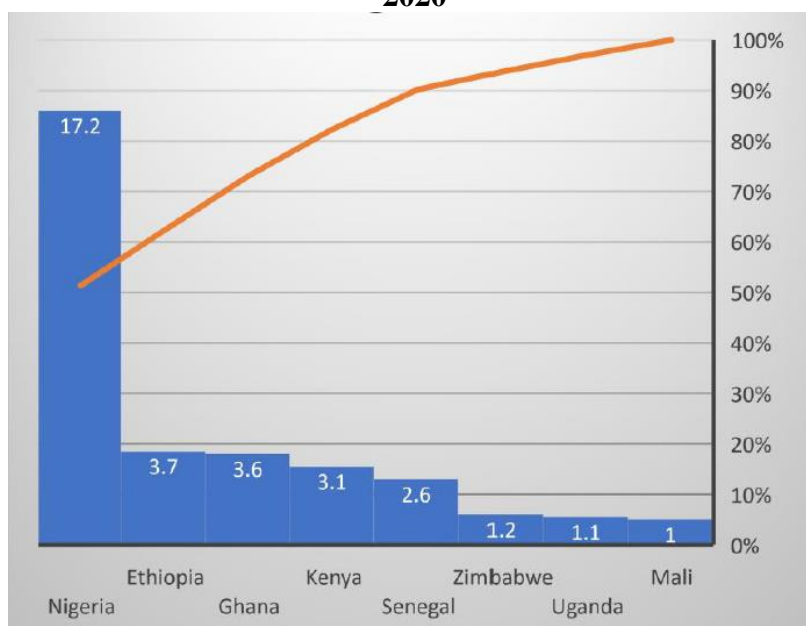
Fig.2 A clustered Column Chart showing personal remittances, received as % of GDP 2014-2019



Source: Own source

During the period under review, Egypt has the highest remittances as the percentage of its GDP in 2017 and 2018 respectively; followed by Philippines. Nigeria has its highest remittances as a percentage of its GDP in 2018. Nigeria remittances as a percentage of its GDP grew continuously from 2014-2018 and declined in 2019. China has the least remittances as the percentage of its GDP throughout the period under investigation.

Fig.3 Personal remittances, received current USD in billions by selected countries in Sub-Saharan Africa in 2020



Source: Own source

Among the selected Sub-Saharan African countries, remittance to Nigeria in 2020 was more than half of the remittances to the rest of the five countries. Remittances to Nigeria in 2020 was

\$17.2 billion, which is a significant amount that added enormous value to the economy.

5. Conclusion and Recommendations

Diaspora remittance is very paramount to Nigeria economic development, it is the second largest foreign exchange inflows into the country. Based on this fact, in March 2021, the Central Bank of Nigeria has put in place an unhindered policy measure that warrant an easy smooth Diaspora remittance into the country. It has introduced a generous rebate titled “N5 for \$1” meaning that for every \$1 remitted to Nigeria through International Money Transfer organisation, the recipient will receive an additional N5. This policy is tailored toward boosting dollar inflows into the country, to cushion the effect of dollar scarcity caused by covid-19 lockdown and the fall of crude oil prices at the international market.

Nigeria Diaspora remittances in 2020 stood at \$17.2billion out of the total amount of \$44billion remitted into the entire Sub-Saharan African countries. In 2020, \$33.5billion was remitted to the Eight selected Sub-Saharan African countries, \$17.2billion was remitted to Nigeria, which is more than half of the entire amount remitted to the Eight selected countries. The actual amount remitted to Nigeria might be higher, due to the fact the Central Bank of Nigeria’s lack of methods to measure informal/unofficial ways through which remittances enter the country.

Remittances can improve the well-being of family members left behind and boost the economies of receiving countries.

Remittances can also create a culture of dependency in the receiving country, lowering labour force participation, promoting conspicuous consumption, and slowing economic growth.

6. Recommendations

Central Bank of Nigeria (CBN) should encourage those in diaspora to open online naira account without much hazzles. The CBN should provide incentives to commercials banks that would encourage them to send their staff abroad to provide Bank Verification Number (BVN) services/registration to those in Diaspora.

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