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Effect Of Diaspora Remittance on Nigeria Economy

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ABSTRACT:
This study examined the effect of diaspora remittances on the economy of Nigeria for the period 1999 – 2023. The annual time series data used for the study were sourced from the central bank of Nigeria (CBN) statistical bulletin, Nigeria bureau of statistics (NBS) and world development indicator (WDI). Foreign direct investments (FDI), official development assistance (ODA), and international loans and grants (ILG) were used to proxy diaspora remittances while Gross Domestic Product per Capita was used as a proxy for Nigeria economy. Following the mixed order of integration observed during unit root test, the study employing Pesaran, Shin, and Smith ARDL bounds estimation model. The study found no long-term cointegration among variables, leading to the exploration of short-term relationships. The findings revealed negative short-run association between remittances and economic development variable, a significant positive effect of official development assistance, insignificant effect of foreign direct investment, and international loans and grants on Gross Domestic Product per Capita. The study recommends that the government should promote diaspora bond investments in order to encourage remittances which will in turn boost productivity, aid national development through sound policy initiatives; government should encourage investments in tourism sector and ensuring effective use of short-term official development aid so as to attract external funds. Policymakers should make policies that will aid foreign business investments, encourage corporate governance and address the negative impact of international loans by prompting exploration of alternative funding.

KEYWORDS: *Diaspora Remittance, Official Development Assistance, GDP Per capita.*

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INTRODUCTION

The inflows of foreign capital into countries in the form of foreign investments, remittances, official development assistance (Chude & Chude, 2023), as well as external loans and advances appears to have formed part of the yardsticks for evaluation of economic performances, (Twerefou *et al.*, 2020), especially the emerging economies. However, report from the central bank of Nigerian statistical bulletin of (2021) provided evidence which proves that the quantum of foreign capital inflows into the country increased over the years contributed more to the standardization of the Nigerian capital market particularly (Onwuteaka *et al.*, 2023).

Increased investments in the capital markets led to immediate job creation (Onwuteaka *et al.*, 2023), increased productivity (Abubakar & Folawewo, 2019) reduced unemployment and economic growth. Again, through Capital Injection, Foreign inflows provide access to additional capital, which can be used for infrastructure development, expansion of businesses, and investment in research and development (Kanu, 2015). This capital injection can help boost economic activities (Ari, 2020). Furthermore, foreign investors often bring advanced technologies and managerial expertise to the host country. This technology transfer can lead to increased efficiency and innovation, which are essential for economic development. in

another dimension foreign investment and trade-related inflows can open up access to international markets. Exports and foreign sales can increase revenue for local businesses, creating growth opportunities. Still on the likely salutary effect of these inflows, foreign companies and investments often create jobs in the host country (Odhiambo & Akinsola, 2017). This can reduce unemployment, raise income levels, and improve the overall standard of living for the local population.

Nigeria has been a beneficiary of different forms of foreign inflows in terms of foreign direct investment (Bashir, 2020) being the largest economy in Africa over the years, this has attracted flows into diverse sectors such as oil and gas, telecommunications, banking, manufacturing, and agriculture (Ari, 2020). Nigeria's abundant natural resources, large consumer market, and policy initiatives have attracted FDI. Aside FDI and Remittance, we have noticed a significant growth in Official Development Assistance (ODA) and international loans and grants which empirically suggests a growth in Nigeria's development efforts Okwu, *et al.,* (2020). ODA, provided by governments and international organizations, are meant to support various sectors such as education, healthcare, infrastructure, and social welfare programs. These funds contribute to poverty reduction, capacity building, and sustainable development initiatives. Similarly, international loans and grants offer financial resources for infrastructure projects, economic reforms, and poverty alleviation programs.

Studies have found both positive and negative impacts of foreign inflows and remittances on economic growth (Ari, 2020; Buhari et al., 2018; Chowdhury, 2015). Also, some studies show no impact of remittances on economic growth (Barajas *et al.*, 2009; Sunday *et al.,* 2022). So, there is no conclusive answer regarding the impact of foreign inflows on economic growth as the situation of contrasting findings possibly results from multiple channels through which foreign inflows can affect economic growth, geography, and economic situations of different countries, methodologies, and periods. Studies by Ari (2020) and Olayungbo and Quadri (2019) stated that the impact of foreign inflows depends on a country's socioeconomic conditions, and the channels through which this impact of foreign inflows on economic growth manifests itself are complex and are likely to be country-specific (Giuliano & Ruiz-Arranz, 2005). It is needful to find out which factors shape this impact so that this process can be properly adjusted. Also, most studies conducted on remittance were carried out in developed countries and more importantly, to the best of my knowledge have focused on economic growth which is but only a subset to the economic development of a nation which this study is set to address. This study provides insight into the effect of foreign inflows on the Nigerian economy. This study is aims to examine the effect of official development assistance (ODA) on Gross Domestic Product Per Capita in Nigeria

LITERATURE REVIEW

Official Development Assistance (ODA), International loans and grants

In conceptual terms, foreign assistance is a voluntary effort that depends on governments, businesses, individuals, and recipient nations from donor nations to help the recipients' economic development. Promoting economic development and welfare, which is typically gauged by its effect on economic growth, is a major goal of the majority of official development assistance (ODA) given to poor nations (Todaro, 2009). According to Wells (2000), this assistance may take the form of monetary grants or loans, technical guidance, instruction, equipment, and supplies of goods including food, medicine, infrastructure, and transportation. Tadess (2011) states that all official grants and concessional loans, whether in cash or in kind, that are generally intended to transfer resources from developed to less developed countries on development and income redistribution grounds are included in the commonly recognized and used definition of foreign aid. According to the United Nations (2009), economic help consists of grants and long-term loans given by governments and different international organizations for nonmilitary objectives.

According to Ugwuede *et al.* (2016), Official Development Assistance, commonly known as foreign aid, development aid, or aid, entails the provision of resources in the form of grants and concessional loans by official agencies representing the members of the Development Assistance Committee (DAC), multilateral institutions, and countries outside the Development Assistance Committee.

Foreign direct investment

Foreign direct investment refers to direct investment equity flows in the reporting economy (IMF, 2022). It is the sum of equity capital, reinvestment of earnings, and other capital. Direct investment is a category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is resident in another economy. Ownership of 10 percent or more of the ordinary shares of voting stock is the criterion for determining the existence of a direct investment relationship (Onyeisi *et al*., 2016).

In many developing countries, foreign direct investment is considered a source of economic development through its direct and indirect contributions. Foreign direct investment has the advantage of technological spillovers, human capital development, international trade integration, and employment creation, and it creates a competitive environment for enterprises (Knill, 2005; OECD, 2002). Ravinder, (2013) emphasizes

the role of foreign direct investment as a tool to fill the idea gap. Multinational enterprises have the advantage of narrowing the knowledge gap between developed and developing countries by bringing new knowledge to the host country.

Foreign portfolio investment

Foreign portfolio investment (FPI) represents the movement of financial assets, like cash, stocks, or bonds, across international borders in pursuit of profit. It occurs when investors acquire non-controlling stakes in foreign companies or purchase foreign corporate or government bonds, short-term securities, or notes. In essence, FPI involves the transfer of financial assets to locations where they can be most productive, akin to how trade flows result from individuals and countries maximizing their well-being through their comparative advantages (Schneider, 2003). FPI comprises financial assets held by foreign investors but does not grant them direct ownership of these assets or direct management of the corresponding corporations (Onyeisi *et al.*, 2016).

Developing economies are increasingly recognizing the need for foreign capital to supplement their domestic resources, especially due to the growing disparity between their domestic capital holdings and capital requirements. This heightened awareness of the importance of foreign capital inflow, particularly in developing economies, has been noted by Fosu and Magnus (2006) and Omisakin *et al.* (2009), who highlight its role in bolstering domestic investment funds. Ngowi (2001) contends that African and other developing nations require substantial inflows of foreign capital to bridge the gaps in savings and foreign exchange, which are associated with the rapid capital accumulation and growth needed to alleviate widespread poverty. Moreover, foreign investors are inclined to favor developing countries over developed ones because of the higher return on investment available in these regions (Ghose, 2004; Knill, 2005; Vita and Kyaw, 2008). However, whether foreign investors are willing to exploit this favorable return on investment in the face of high production costs and distorted investment incentives is a separate and complex issue.

Gross Domestic Product (GDP) Per Capita

GDP per capita, also known as per capita income, is a parameter that disintegrates the GDP of a country to measure the economic prosperity of the citizens by simply dividing the GDP by the total population of that country. Khan (2010) pointed to Per capita income as how much each individual receives, in monetary terms, of the yearly income generated in the country. This is what each citizen is to receive if the yearly national income is divided equally among everyone. Per capita income is usually reported in units of currency per year. When comparing nations per-capita income reflects gross national product per person, but it is also used to compare municipalities within nations. When determining the per capita income of a community, the total personal income is divided by the population.

According to OECD (2012), Gross Domestic Product (GDP) per capita is a core indicator of economic performance and is commonly used as a broad measure of average living standards or economic well-being; despite some recognized shortcomings. For example, average GDP per capita does not indicate how GDP is distributed between citizens. Average GDP per capita may rise for example but more people may be worse off if income inequalities also increase. Equally, in some countries, there may be a significant number of non-resident border or seasonal workers or indeed inflows and outflows of property income and both phenomena imply that the value of production differs from the income of residents, thereby over or understating their living standards. Several theories in the literature provide insight into issues revolving around international remittance and its impact on nations' building, Economic Growth, and economic development. This study anchors on the developmental optimistic theory which infers that remittance and migration have a positive effect on the economy.

The developmental pessimistic view

In the late 1960s, a new viewpoint regarding remittances, migration, and development emerged, the pessimistic view. The theory arose from a shift in social science towards more structural views (de Haas, 2007). At this time, Optimistic views were increasingly challenged under the combined influence of a paradigm shift in social and development theory towards historical-structuralist and dependency (Frank, 1966, 1969) views as well as empirical studies and policy experiences that often did not support optimistic views (Penninx, 1982). Furthermore, empirical studies from that time showed results that gave support for the pessimistic view (Taylor, 1999). This theory suggests that the net effect of migration and remittances does not foster sustainable development (Adenutsi, 2010). The brain drain is one of the aspects considered, where the emigration of the educated leads to a loss that is not offset by the benefits associated with remittances. Developing countries are drained of their human capital resources when educated citizens emigrate.

Moreover, this theory implies that the poorest do not have enough money to emigrate because of the costs associated with emigration, such as traveling costs (de Haas, 2007). This would mean that remittances could increase the income gap in developing countries even further. Also, it is argued that remittances would not be spent on developing and enhancing investment, as the optimistic view would imply. If the aim, when remitting, is to invest in the receiving country it means that the recipients make the investment decisions on

behalf of the sender. The recipient might not be as skilled as domestic financial intermediaries; therefore, the intended success of the investment may be aborted. The money would rather be spent on consumption or non-productive investments such as real estate and rarely in productive enterprises (Adenutsi, 2010). If the money received is spent mainly on consumption, rather than investment, this could encourage more rapid inflation in the remittance-receiving developing countries.

To empirically examine official development assistance and economic growth, Adebayo and Kalmaz (2020) utilized Wavelet analysis to explore the link between foreign aid and economic growth in Nigeria from 1980 to 2018, concluding that increased foreign aid depresses economic growth, indicating a negative effect. These two-research conducted in 2020 and 2021 showed a contradicting result.

Distinct from the current study, several studies have examined the connection between foreign inflows and economic growth within various geographical locations, using varying scopes and mixture of variables. For instance, Ugwuegbe *et al.* (2016) examine the effect of external borrowing and foreign aid on economic growth in Nigeria (1986-2015), while Abubakar, and Folawewo, (2019), examined the impact of remittances on household investment in Nigeria. Peter and Mabel (2018) studied remittances and economic development in Nigeria, while Samuel and Pierre, (2020), investigated the nexus between migrant remittances and economic growth focusing on Senegal. On the other hand, Sutradhar, (2020) explored the impact of remittances on economic growth in Bangladesh, India, and Pakistan, while Twerefou *et al.* (2020) studied the extent to which foreign financial inflows impact economic growth, evidence from Sub-saharan Africa; Uddin *et al.* (2020) investigated remittances and economic growth tie in selected South Asian countries using panel data analysis. Again, Yakubu, (2020), examined institutional quality and foreign direct investment in Ghana while Sunday *et al.* (2023) investigated the effect of international remittances on the growth of the Nigerian Economy and Chude and Chude (2023), studying the effect of international capital inflows on economic growth in Nigeria**.** Using such variables as gross domestic product per capita, foreign direct investment, official development assistance, international loans and grants remittances, the study was undertaken to examine the effect of diaspora remittances on Nigerian economy for the period 1999 to 2023.

METHODOLOGY

The research adopted an *ex-post facto* design. This design was used because secondary sources of data were explored and the researcher has no control over the variables and whatever happens occurred before the research. The data for this study was sourced from the World Bank's Development Indicators (WDI), United Nations Development Programme (UNDP) Report, and Central Bank of Nigeria (CBN) Statistical Bulletin from 1990 – 2023.

The study drew insight from Peter and Mabel (2018) model in studying remittances and economic development in Nigeria: a macroeconomic approach. The original model used by Peter and Mabel (2018) is specified thus:

HDI= f (REM, LF, FDI, DSG) (1)

Where: HDI= Human Development Index (a measure of economic development)
REM = Remittances in millions of Dollars
LF= Labour Force in millions
FDI = Foreign Direct Investment in millions of dollars
DSG = Domestic Savings Gap in millions of dollars

To suit the objective of this study, the above model was modified to include Net Migration as a moderating variable because of diaspora remittances which happens in opposite directions through emigration and immigration. The adapted model is presented below:

$$\text{LNRGDPPC}_t = \beta_0 + \beta_1\text{LNFDI}_t + \beta_2\text{LNODA} + \beta_3\text{LNILG} + \beta_4\text{LNREM}_t + \mu_t \quad (2)$$

Where,

GDPPC=	Gross Domestic Product Per Capita	
FDI	=	Foreign direct investments
ODA	=	Official Development Assistance
ILG	=	International Loans and grants
REM	=	Remittances
LN		natural log
β_0	=	constant
β_1-β_3	=	coefficients
μ	=	stochastic variable

RESULT AND DISCUSSIONS

Descriptive statistics

Given the time-series nature of the data, it becomes imperative to assess their stationarity. Therefore, the empirical analysis initiates with an examination of the time-series properties of each variable in the study. The Augmented Dickey Fuller (ADF) unit root test is employed for this purpose, determining the order of integration for each series. The results of the unit root test are presented in Table 1.

Table 1: Unit root test results for stationarity of data

Variable	Level	First difference	Decision
LNGDPPC	-1.399032	-4.322244***	I(1)
	{0.5772}	{0.0020}	
LNREM	-3.023082**	-6.501115***	I(0)
	{0.0437}	{0.0000}	
LNODA	-0.907363	-6.393104***	I(1)
	{0.7714}	{0.0001}	
LNFDI	-2.429312	-6.728261***	I(1)
	{0.3578}	{0.0000}	
LNILG	-1.040453	-2.064596***	I(1)
	{0.9178}	{0.0392}	

Source: Author's Computation using (2024) Eviews 10.0 (Extracted form appendix 1)

In Table 1, the results of the Augmented Dickey Fuller (ADF) unit root test on the transformed data provide compelling evidence. The variables GDPPC, ODA, FDI, and ILG are observed to be non-stationary at their levels but stationary of order one I(1), while REM is stationary at the level. The null hypothesis of non-stationarity is rejected, and the alternative hypothesis of stationarity is accepted.

With the confirmation that none of the variables are integrated at the second difference, and considering the mixed order of integration, the next step is to investigate if there exists a long run relationship among the variables using the Autoregressive Distributed Lag (ARDL) model. Building on the insights from previous studies (Kutu and Ngalawa, 2016) that advocate for the use of the ARDL model when variables are integrated with both I(1) and I(0), this study employs the ARDL model for analysis. Having confirmed the existence of mixed order of integration through the unit root test, the study proceeded with bounds testing and cointegration analysis.

Test for Long-Run Equilibrium

Table 2: Bounds Test

F-statistic	**2.672580**	**4**
Critical Value Bounds		
Significance	I0 Bound	I1 Bound
10%	2.45	3.52
5%	2.86	4.01
2.5%	3.25	4.49
1%	3.74	5.06

The Bound test was conducted to determine whether the selected variables exhibit relationship in the long-run. The result presented in Table 2 revealed that estimated F-statistic value is less than the tabulated upper bound values, suggesting no stable long-run relationship amongst variables. Hence, null hypothesis could not be accepted. On this note, we proceed to estimate the difference between the ARDL equation.

Having confirmed from the bound test, a short-term relationship among the variables; Table 3 presents estimate of the short-term relationships among the selected variables. The findings reveal a positive association between the log of remittances (LNREM) and gross domestic product per capita. Additionally, international loans and grants have a negative impact on per capita growth, although this impact is currently not statistically significant at the 5% and 10% levels. While the negative impact of international loans and grants aligns with our expectations, suggesting that increased loan servicing may impose a burden on economic development, the unexpected negative impact of remittances contradicts prior expectations.

However, this result aligns with studies conducted by Sunday et al. (2023), which found a negative impact of remittances on Nigerian economic growth overall, and Ari (2020), who reached a similar conclusion based on data from Turkey spanning 1994 to 2018, stating that remittances do not contribute to economic growth.

Table 3: Short-run Equation (ARDL)

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
D(LNGDPPC(-1))	0.194371	0.172435	1.127215	0.2708
D(LNREM)	-0.155687	0.056062	-2.777060	0.0105**
D(LNODA)	0.093664	0.054642	1.714130	0.0994*
D(LNFDI)	0.047414	0.058362	0.812405	0.4245
D(LNILG)	-0.213123	0.317732	-0.670764	0.5088
C	0.067050	0.035867	1.869395	0.0738*

Furthermore, Official Development Assistance (ODA) exhibits a positive relationship with per capita growth, showing significance at the 10% level. This implies that an increase in per capita growth is associated, on average, with a 0.09% rise in Official Development Assistance.

Finally, the results indicate that Foreign Direct Investment (FDI) has a positive relationship with per capita growth but lacks statistical significance at the 5% and 10% levels. This finding aligns with Sunday (2023), who identified a long-term positive and non-significant impact of Foreign Direct Investment on the Nigerian economy.

Table 4: Breusch-Godfrey Serial Correlation LM Test

F-statistic	0.019981	Prob. F(1,23)	0.8888
Obs*R-squared	0.026908	Prob. Chi-Square (1)	0.8697

Source: Authors Computation using Eviews 10.0 (extracted from appendix 1)

The serial correlation test is carried out to investigate the problem of serial correlation in the model. As depicted in Table 4, there is no evidence of serial correlation since the probability of the F-statistics is 0.1, greater than the 0.5 benchmark. Hence, the null hypothesis should be accepted. In another word, it means that the parameter estimates in the model have no autocorrelation problem.

From the extract (table 3), the short run, coefficient and the t statistic, respectively are -0.155687 and -2.777060. Since the value of the t-statistic is highly significant and above 2.0 level, there is evidence to reject the null hypothesis and accept the alternative hypothesis which states that Diaspora Remittance exerts significant influence on the Gross Domestic Product Per capita in Nigeria. Thus, Remittance had negative and significant effect on the Gross domestic product per capita of Nigeria.

From the extract, the short run, coefficient and the t statistic, respectively are -1.714139 and -0.093664. Since the value of the t statistic showed a weak significant close to 2.0, there is evidence to reject the null hypothesis and accept the alternative hypothesis which states that official development assistance exerts a very low significant influence on the Gross Domestic Product Per capita in Nigeria. This is confirmed by the coefficient which indicated 9% change on average, in association with a 1% change in gross domestic product per capita.

Discussions

Diaspora Remittance and development

The first specific objective of this study was to examine the empirical relationship between remittance inflows and economic development in Nigeria, specifically focusing on the short-run dynamics using the Autoregressive Distributed Lag (ARDL) model. The analysis revealed that in the short run, remittances exert a negative influence on economic development, as measured by per capita gross domestic product (GDPPC). Specifically, the findings suggest that a one percent increase in remittance inflows is associated with a 0.15% decrease in GDPPC on average.

These results are consistent with previous research conducted by Sunday et al. (2023), who also observed a negative impact of remittances on Nigerian economic growth. Additionally, the findings parallel those of Ari (2020), whose study focused on Turkey and similarly concluded that remittances do not contribute positively to economic growth based on data spanning from 1994 to 2018. Therefore, the evidence from this study aligns with existing literature, suggesting that remittances have not significantly improve to economic development in the short run.

Official Development assistance and development

Secondly, we investigated the impact of official development assistance (ODA) on economic development in Nigeria, with a specific focus on short-term dynamics utilizing the Autoregressive Distributed Lag (ARDL) model. The analysis indicated that in the short term, ODA positively affects economic development, as evidenced by per capita gross domestic product (GDPPC). Specifically, the findings suggest that a one percent increase in ODA corresponds to an average 0.09% rise in GDPPC. It is noteworthy that the level of significance is relatively small and almost insignificant, as indicated by the p-value at only 10%, which is insufficient to drive economic development substantially. However, the positive outcome aligns with both recent and past literature, including studies by Nnamaka (2021), Ugwuany *et al.* (2017), and Fasany and Onakoya (2012), among others.

Foreign Direct Investment and economic development

On the short run dynamics, the results indicate that Foreign Direct Investment (FDI) has a positive relationship with per capita growth. A one percent increase in FDI is on average associated with 12.48% increase in GDPPC however this result turns out to be statistically insignificant at the 5% and 10% levels. This finding aligns with Sunday (2023), who identified a long-term positive and non-significant impact of Foreign Direct Investment on the Nigerian economy also, similar studies of Yakubu (2020) in Ghana and Okwu et al. (2020) who focused on 30 leading global economies turned out to be positive and significant in the long run.

The lack of statistical significance in the short-term relationship between Foreign Direct Investment (FDI) and per capita growth in Nigeria could be attributed to several factors. Firstly, short-term fluctuations in FDI inflows may not adequately capture the full impact of foreign investment on economic growth, as the effects of FDI often materialize over longer time horizons. Additionally, other concurrent economic factors, such as exchange rate volatility, political instability, or global economic conditions, could obscure the immediate effects of FDI on per capita growth.

International Loans and Grant and development

The final objective of this study aimed to examine the influence of international loans and grants on economic development. The findings revealed a negative relationship, although it was not statistically significant. This result is in line with the findings of Babatunde and Kehinde (2020), who also identified an insignificant relationship between loans and development.

The negative and insignificant relationship between international loans/grants and economic development observed in the study could be attributed to several factors. Excessive reliance on loans may lead to a heavy debt burden, while attached conditionalities could impede growth. Additionally, the influx of loans/grants might crowd out domestic investment, and misallocation of funds due to poor governance could limit their effectiveness. Fluctuations in global economic conditions and delayed impacts could also contribute to the observed insignificance. Lastly, challenges in accurately measuring the effects of financial assistance may further obscure the relationship. Addressing these factors could provide a deeper understanding of the complex dynamics between international financial aid and economic development.

CONCLUSION AND RECOMMENDATION

The study found a short run relationship between foreign inflow and economic development in Nigeria and uncovered the relationship between key inflows in Nigeria and its behavior on the short-run. While our economic factors aren't strongly tied in the long run, we do see some interesting short-term connections that policymakers might want to consider.

Understanding these short-term connections can help policymakers shape strategies that leverage the positives and tackle the challenges posed by foreign inflows. Ongoing research and a flexible approach to policy will be vital to making the most of these findings.

Policymakers should make policies that will enable free flow of remittance by encouraging exports of locally made products and remittance of funds through importation as well. remittances for job-creating investments or to support local businesses can lead to a more sustainable economic growth trajectory. The study recommends that the government should promote diaspora bond investments in order to encourage remittances which will in turn boost productivity, aid national development through sound policy initiatives; government should encourage investments in tourism sector and ensure effective use of short-term official development aid so as to attract external funds. Policymakers should make policies that will aid foreign business investments, encourage corporate governance and address the negative impact of international loans by prompting exploration of alternative funding.

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