NOLEGEIN Journal of Entrepreneurship Planning, Development and Management
eISSN:2581-3900
Vol. 1: Issue 2
www.mbajournals.in

The Effect of Remittance of the Economic Growth of Nigeria: An Econometric Approach between 1981 and 2014.

Elegbede Ade Micheal[1,]*, *Ademulegun*[2] *H.O.*
[1,2]Department of Business Administration and Management, Rufus Giwa Polytechnic, Owo, Nigeria, Africa

ABSTRACT

This current investigation broke down the effect of settlements inflow on the development of Nigerian economy utilizing auxiliary information covering between 1981 and 2014. The wellsprings of the information utilized included authority production of the World, Central Bank of Nigeria measurable release 2014 and other applicable distributions. Engel-Granger Causality Regression Technique was utilized to examine the information. The Results of information broke down demonstrated that settlement inflow has been on the expansion during recent decades with a long run beneficial outcome. It likewise demonstrated that settlements, per capita wage, speculation and time were the positive and noteworthy variables affecting yield real gross domestic product (RGDP) while outside direct venture foreign direct investment (FDI) fundamentally impacted yield (RGDP) adversely. It was prescribed that nations accepting settlement ought to give an empowering monetary condition, for example, stable trade rates, essential physical framework, enhanced market incorporation, solid money related and different organizations, great administration basically, conditions that can prepare for advancement and prepare it enough to profit by this outer boost.

Keywords: *economy growth, impact, inflow, remittance*

***Corresponding Author**
E-mail: *tesdada77@gmail.com*

INTRODUCTION

As indicated by Anyanwu and Erhijakpor [1], Nigerian is the biggest beneficiary of settlements in Sub-Saharan Africa. They revealed that the nation gets about 65% of formally recorded settlement streams to the locale and 2% of worldwide streams. The National Bank of Nigeria (CBN) detailed roughly US$ 2.26 billion in settlements for 2004. The wonder of Nigeria exiled person, considered as an escape from hardship on the home front and a consumption of human capital is by one means or another paying off for the nation. This is in perspective of the disclosure that Nigerians abroad developed the economy by an astounding S 7billion in the year 2008 and that Nigeria is the 6th most elevated goal of settlement from its nationals living in the Diaspora [1].

Settlements reflect somewhat work, working in the worldwide economy and have been appeared to clarify mostly the association amongst development and combination with the world economy [2]. Settlement has turned into a vital wellspring of income both for government through assessment and expenses and for families. At family unit's levels it helps in increment of salary and utilization smoothing [3] Kannan and Hari expands sparing and resource collection; [4] and enhance access to wellbeing administrations and better sustenance [5] and to better training. Settlements have turned out to be less unpredictable, less procyclical, and thusly, a more dependable wellspring of salary (for farming creation and other family unit utilizes) than other capital streams to creating nations, for example, remote direct speculation (FDI) and advancement help [6].

Toward the finish of colonization in Sub-Sahara African nations, come the issue of financial advancement and combined with this, is the issue of back to start important monetary development and improvement. It has turned out to be vital, that low investment funds in the mainland have made genuine assets hole and thus, require the requirement for remote back to compliment the residential reserve funds [3]. In perspective of this accordingly, the associations like World Bank (WB), International money related store (IMF), the United Nations (UN), global improvement affiliation (IDA), and other Development Economists and so forth have seen expansive scale outside guides as not been sufficient in tackling the issue of a work in progress in Sub-Sahara African nations and all more way that remote Direct Investment (FDI) and Official Development Assistance (ODA) are not solid in term of their streams and furthermore for the way that the conditions typically appended to these assets made it ugly to kick begin any significant advancement process [4].

Statement of the Problem

The major research issue in this study bothers on the determination of the nature of relationship in the impact of remittance on the economic growth of Nigeria. There is so far no conclusive answer in the literature to the question of whether workers' remittances constitute at the aggregate level, a vital source of development finance to the developing countries of the Sub- Saharan African region? The literature of the potential development impact of remittances in an economy is quite vast but mixed and can be divided into two separate strands. One strand takes a microeconomic approach and examines the causes and uses of remittances using household surveys and aggregate data [6]. The other strand focuses on the effects of remittances and uses macroeconomic models (that are not based on individual maximizing behaviour to estimate the impact of remittances. While the micro dimension of remittances is often closely associated.

Literature Review

Evidence from around the global suggests that recipient household generally have higher levels of consumer spending and lower incidences of extreme poverty than their counterparts who do not receive remittances. Ratha [7] argues that remittances could play a key role as a "powerful antipoverty force" because they tend to increase the income of households in the developing world indicate that international remittances have the greatest impact on reducing the depth and severity of poverty, rather than on reducing its scale. Analyzing 71 developing countries, [11] Adams, Page found a relationship between remittances and poverty reduction, statistically demonstrating than a 10% increase in international remittances from remitter will lead to a decrease of 3.5% in the share of people under poverty. Similarly, Stratan et al. [10] who analyzed remittance flows for a sample of 33 African countries for the period 190–205, found that the depth and severity of poverty were declining.

Furthermore, research reveals that remittances are often part of the risk-spreading strategies of household and arise as a social insurance in countries affected by economic and political crises [8] reinforcing the households capabilities to resist external shocks. Egypt is a good example of how migrants provide for their families when political instability struck the country during the Arab Spring investors (foreign direct investment) and donors (official development assistance) were pulling out while remittances inflows to Egypt increased between 200 and 2011. Recently, households in mail have also started to save a substantial portion of remittance for unexpected events providing a private safety net for the migrant's family.

The market for settlement can be distinguished in the rich created nations, where most Africans attempted to gain a living. However, great quantities of them entered the market illicitly and subsequently beneficiary acquiring couldn't be reported despite this, sizeable quantities of migrants have their say recorded and added to destitution diminishment in their separate nations. The World Bank directed a study in 1990s and proposed that global settlement receipt brought down neediness (estimated by the extent of the populace underneath the destitution line) by almost 11% focuses in Uganda, 6% focuses in Bangladesh and 5% focuses in Ghana. In some household in African nations, remittances are being utilized to fund the buy of fundamental utilization require, training, wellbeing and even obtaining of replenish properties. For some situation, they can be utilized to fund import and settlement of obligations.

Empirical Literature

Most of the studies generally have found that remittances had positive impact on the economic growth [12-14] but relatively few studies have found that there was no significant relationship between remittances and economic growth. According to Adams and Page [11], remittances can influence economic growth directly or indirectly. However, the degree of the latter channel strongly depends on supporting governmental policies and a supporting economic environment for investment activities. Kapur [14] analyzes the effect of remittances on investment, consumption, imports and output. The author uses a sample of five countries ad estimates short and long run multipliers of remittances. He finds that the effect of reducing remittances would be greater than the effect of raising them.

Carling J [16] proposes a saving channel that relates remittances with growth. He finds that remittances have positive impact on growth, due to the ability to increase saving rates in countries with a per capita income of less than US$ 1200. Rapoport, Docquier [17] found evidence supporting the notion that remittance flaw provides a stabilizing influence on output. Van Hear and Guarinzo [18] provide evidence of the positive effects of remittances on the growth of less developed countries. In a cross-sectional study of 37 African countries, Adams [19] explored the aggregate impact of remittances on economic growth and found that remittances boost growth in countries where the financial system is less developed, providing an alternative way to finance investment and help to overcome liquidity constraints.

THEORETICAL FRAMEWORK

From observation, although few people would disagree on the benefits of remittances in home countries, the extent to which remittances contribute to economic growth and development is another debate altogether. Diverse theories have emerged to explain the impact of remittances on economic growth (development) of the countries of origin of migrants. Among these are the developmentalist /neo-classical view the structuralist / dependency view and the pluralist view [15].

Research Method

Data shall be collected as on time series and take from the year 1981-2014 AD so there were total 34 years data which was obtained to conduct the study. Data on domestic debt, external debt, GDP, money supply, government expenditure.

Model Specification

For this study and to achieve the broad and specific objectives of this study, Engel-Granger Causality test was used.

Hypotheses Test

Ho = P0.05 (means that, there is no causality among variables)

<0.05 (means that, there is causality among variable) (i.e. reject null)

Table 1. *Engel–Granger Causality Test.*

Null	Observations	F-Statistic	Probability
REM does not Granger Cause RGDP	32	0.46225	0.6345
RGDP does not Granger Cause REM		2.66157	0.0881
FDI does not Granger Cause RGDP	32	0.26544	0.7688
RGDP does not Granger Cause FDI		0.44960	0.6426
EXR does not Granger Cause RGDP	32	0.36503	0.6975
RGDP does not Granger Cause EXR		2.73657	0.0828
FDI does not Granger Cause REM	32	4.59214	0.0192
REM does not Granger	32	0.40796	0.6690
EXR does not Granger Cause REM	32	1.30470	0.2878
REM does not Granger Cause EXR		0.46884	0.6307
EXR does not Granger Cause	32	1.21686	0.3119
FDI does not Granger Cause EXR		1.35552	0.2748

Source: Author's computation using software review 8.0 version

Engel–Granger Causality Test

The Engel–Granger Causality result is presented in Table 1. The Engel-Granger Causality test helps us to determine the direction of causation among the variables of interest. The null hypothesis states that there is no granger causality among the variables while the alternative hypothesis states that there is granger causality among the variables. The result of the Engel-Granger Causality was inconclusive at 5% level of significance depending on the lag length. The result alternated between bidirectional causality, unidirectional causality and independence among the variables of interest. The relationship between real gross domestic product (RGDP) and remittance (REM) is seen to be a unidirectional causation with remittance being a potential se of gross domestic product, so also, exchange rate (EXR) and real gross domestic product (RGDP) in unidirectional causation with exchange rate being a potential cause of gross domestic product (RGDP), and Foreign direct investment (FDI) and remittance (REM) is unidirectional causation with foreign direct investment being a potential cause of remittance (REM).

The relationship between foreign direct investment (FDI) and real gross domestic product (RGDP), exchange rate (EXR) and remittance (REM), and exchange rate (EXR) and foreign direct investment (FDI) and all case of independence as all have no potential causes for each other.

ANALYSIS OF RESULTS AND FINDINGS

The empirical evidence presented above and analyzed appears to support the significant impact of remittance on growth of the Nigerian national economy growth. It is imperative for the government and those concerned to give considerable attention to the judicious used of remittance in order to attain appreciable economy and reduce unemployment in the society, specifically from the angle of info and foreign direct investment being one of the important causals of development in the less developed countries in African continent [20].

Our result shows that among the factors that affect growth rate of Real GDP was government expenditure which has great influence on the growth rate of Real GDP (a proxy for economic growth) in Nigeria. Given the fact that petroleum is an exhaustible resource, the proceed from petroleum should be diverted to resuscitate of power sector, industrial sector and agricultural sector of the economy for the benefit of mankind.

The empirical analysis shows that increase in FDI either in form portfolios (i.e. shares and bond) or into real sectors (i.e. manufacturing) of the economy as a great impact into economy growth (proxy with RGDP), from this, it is now imperative for government to judiciously utilize financial market to revamp power sector for the benefit of Nigeria economy [20]. This now implies that, government should curb unnecessary expenditure from the angle of recurrent expenditure that can affect economic growth. As a result of necessity and as measure toward achieving the nations aspirations to be among the world's best economy by year 2020 (i.e. Vision 2020) proper mechanism for expenditure monitoring should be put in place [21-22].

SUMMARY

Workers' remittances are unarguably a vital source of finance for many individuals and families in developing countries. Remittances recipients in comparism with their peers, who do not receive such flows, have a higher living standard. It is a common belief that workers' remittance contributes to the reduction of poverty, either when the poor receive remittances directly or through multiplier effects which create additional demand, employment and income. However, a number of research hold divergent views on the question of whether remittance also constitute, at the aggregate level, a vital source of development finance to many developing countries that attract significant workers' remittance flow. This study sheds new light on this question by examining the impact of remittance on economic growth in Nigeria. These are the summary of findings:

1. Workers' remittance has a significant contemporaneous positive impact on economic growth over the years study period. This finding suggests that a significant proportion of remittances inflow to (RGDP) economic growth is directed (internationally or otherwise) at some non-economically productive used. By implication, policy incentive designed to attract more workers remittances to Nigeria countries are not likely to help in promoting economic growth in the economies except such flows are deliberately channeled into economically productive ventures.
2. Past realization of economic growth overall produced some contemporaneous positive impact on economic growth itself thereby indicating empirical evidence that growth dynamics brought economic growth within the study period. By implication, this finding suggests that economic growth policies in Nigeria should of necessity be guided by the integrated growth theory. This theory postulates that previous period growth largely explains current period growth and current period growth again explains next period growth and soon.
3. Contemporaneously, FDI has a negative impact on economic growth suggesting that policies that are aimed at harnessing the abundant inflow of foreign direct investment in Nigeria has not directly boost economic growth

in Nigeria economies. A further implication of this finding is that failure on the part of policy makers to develop efficient financial available that will directly make the economies of Nigeria.

CONCLUSION

This experimental research proves on the effect settlement as one of the main considerations that altogether increments financial development in a Nigeria. Subsequently, there is requirements for the nation to give an agreeable monetary condition through strategies, for example, stable trade rates, essential physical foundation, enhanced market incorporation, dependable money related and different organizations, and great administration generally, conditions that can act for improvement and prepare it satisfactorily to profit by this outer jolt. The corporate segment, for example, the banks and other money related foundations, can complete a ton to expand the volume and estimation of authority streams by decreasing the exchange cost, streamlining exchange methods and by empowering through different means the utilization of formal monetary channels which will have the capacity to fill in as a pad the impact of outside trade shortage in the economy.

RECOMMENDATIONS

Focusing on the findings of this study, the following recommendations are made to improve the impact of remittances on economic growth in Nigeria:

- Remittances inflows need to be invested in production sectors. This is because without such investment the inflows cannot play any significant role in the economy.
- Government will have to expand the financial sector and make the process of transfer of remittances to home countries much easier and less expensive.
- This will enable the economy to capture remittance inflows that come in through informal channels which are usually difficult to capture officially.
- Nigeria will have to regulate their remittance outflows. This is essential for Nigeria, there have been periods when remittance outflows far exceeded remittance inflows, and this does not augur well for economic growth.
- Nigeria on the other hand has seen its remittance inflows steadily increasing for period. Although the increase in inflows has yet exceeded outflows, should this trend continue, it could lead to a situation where the country will be experience negative returns which will not be good for economic growth. Hence, the government will have to implement policies that will encourage migrants and recipients to invest remittances in productive sectors.
- It is imperative that other factors such as quality institutions need to be put in place before remittance can lead to economic growth effectively. For any serious policy purpose, further studies which will interrogate exhaustively all these factors mentioned above on remittance is needed in Nigeria.

REFERENCES

[1] 1.Anyanwu, Erhijakpor. *Migrants remittances and development: Myths, rhetoric and realities.* Geneva/The Hague: IOM/The Hague process on Refuges and Migration; 2010.

[2] Addison, P. Remittances and economic growth: Empirical evidence from Bangladesh, India and Sri Lanka. *Journal of Development Studies.* 2002; 48(8): 1045–1062p.

[3] Kannan, Hari. Empirical link between growth and remittance: Evidence from panel data. *Journal of Applied Business & Economics*. 2002; 14(5): 19–29p.

[4] 4.Hadi, P. Remittance and economic growth: A study of Guyana.

Economic System. 1999; 37: 467–472p.

[5] Yang. The impact of workers' remittance on economic growth: evidence from ECOWAS countries. *Journal of Third World Studies*. 2004; XXIX (2),123-129p.

[6] Ratha. Testing for unit roots in heterogeneous panel. *Journal of Econometric*. 2013; 115: 53–74p.

[7] Giuliano H. Remittances and growth in Sub- Saharan African countries: evidence from a panel causality test. *Journal of International Development*. 2008; 25: 310–324p.

[8] Calero P (2008). Exploring the nexus between remittances and economic growth a study of Bangladesh. International Review of Economics 61(4),399-415

[9] Acosta, Pablo A, Emmanuel K K Lartery, Federico S Mandelman. *Remittances and the Dutch Disease*. Atlanta: Federal Reserve Bank of Atlanta; 2007. Working Paper No.2007–8.

[10] Stratan et al. Do remittances promote economic growth in Caribbean Community and Common Market? *Journal of Economics and Business*. 2009; 77: 42–59p.

[11] Adams, Page. Remittances as an economic development factor empirical evidence from the CEE countries. *Procedia Economics and Finance*. 2005; 10: 54–60p.

[12] Chami, R , Fullenkamp C, Jahjah S. *Are immigrant remittance flow a source of Capital or development?* Washington, DC: International Monetary Fund; 2005. IMF Staff Paper 52,1,.

[13] Chami, R, A Barajas, T Cosimno, C Fullenkamp, M Gapen, P Montiel. *Macroeconomic Consequences of Remittance*. Washington DC: International Monetary Fund, IMF Occasional Paper 259OC; 2008.

[14] Kapur. Remittance rom international migration: A review in perspective. *World Development*. 2004; 14(6): 677–696p.

[15] Henandez-Coss, Bun. The Economics of Migrants: Remittance in Handbook on the Economics of Reciprocity, Giving, and Altruism, ed by L.A. Grerard-Varet S.C. Kolm and J.M.Ythier, North Holland forthcoming. 2006. Available at http//www. Repec.iza.org/RepEc/Discussion paper/dp1531.pdf [Accessed on 24/04/09].

[16] Carling, J. *Migrant Remittances and Development Cooperation*. Oslo: International Peace Research Peace Research Institute (PRIO); 2005. PRIO Report 1/2005.

[17] Rapoport, Docquier. Workers remittances on economic growth in China and Korea: an empirical analysis. *Journal of Chinese Economic and Foreign Trade Studies*. 2005; 5(3): 185–193p.

[18] Van Hear, Guarinzo et al. The impact of Remittances and Economic growth of war torn cities in middle East. *Journal of Development Studies*. 2008; 95(2): 74–82p.

[19] Adams, Jr, R.H. Evaluating the economic impact of international remittances on developing countries using household survey: a literature review. *Journal of Development Studies*. 2011; 47(6): 809–828p.

[20] Atekmangoh, E.D. Financial development, international remittances and endogenous Growth in Ghana. *Studies in Economics and Finance*. 2011; 28 (1),169-174p.

[21] Bates, R.H. *Rural Response to Industrialization: A study of Village*

Zambia. New Haven and London: Yale University Press; 1976.
[22] Gupta S, Pattilo, C, Wagh S. *Impact of remittance on poverty and financial development I Sub-Sahara Africa*. I.M.F Working Paper. 2007.

