Government Policies And Diaspora Remittance In Nigeria

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Abstract

The effect of government policies on diaspora remittance in Nigeria was investigated. The specific objectives of the study are to examine the effect of exchange rate on diaspora remittance in Nigeria, to assess the effect of monetary policy rate on diaspora remittances on in Nigeria, and to determine the effect of taxation on diaspora remittances in Nigeria. The study was limited to a period of 42 years during the time-frame 1981 to 2022. They involve estimates of the Vector Error Correction Model (VECM) which are from the data sources the World Bank Data Indicators in 2022 and the CBN Statistical Bulletin in 2022. The study proves that economic indicators significantly affect diaspora remittances to Nigeria, especially taxation, monetary policy rates and the exchange rates. Taxation and exchange rates, for instance, have positive relationships with remittance inflow, whereas the monetary policy rates demonstrate a negative correlation. Implementing tax holidays for remittances is therefore critical, the study recommends, considering that taxation is positively related to remittance inflows, creating tax incentives or reductions on remittance transactions will encourage more Nigerians in diaspora to remit home.

***Keywords**:* Government Policies; Diaspora Remittance; Exchange Rates; Monetary Policy Rates; Taxation.

JEL Codes: E60; F24; F31; E52; H20.

Introduction

Remittances have become a significant foreign funding source in contemporary economies, affecting global capital flows alongside domestic investment and foreign direct investment (FDI) inflow in terms of increasing economic growth. For many developing economies, and Nigeria included, diaspora remittances comprise a substantial fraction of external capital inflows. In 2019, Nigeria alone received less than $25 billion in remittances, the largest in Sub-Saharan Africa, accounting for around 6% of its Gross Domestic Product (Nevin & Omosomi, 2020). These inflows go a long way in augmenting household incomes and foreign exchange reserves and also in promoting macroeconomic stability. Remittances are not merely financial in nature; they interact with important macroeconomic variables such as exchange rates, inflation, and the transmission of monetary policy. Maimbo & Ratha (2019) explain that the multiplier effects of remittances boost aggregate demand as well as capital accumulation and promote investment in education and healthcare, which positively contributes to economic development.

However, the ability of remittances to effectively contribute towards the growth of a fountain economy is dependent on the regulation that governs them. Nigerian policies aimed at formalizing remittance channels, stabilizing exchange rates and productive use of these funds. Nonetheless, inconsistencies in policy, bureaucratic inefficiencies, and high transaction costs persist in driving a large share of remittance flows into informal channels (Adams & Cuecuecha, 2010). This leads us to question the effectiveness of state interventions in maximizing remittances to propel sustainable national development.

Remittances contribute to development: Economic theory. The Permanent Income Hypothesis (Friedman, 1957) and Life-Cycle Hypothesis (Modigliani & Brumberg, 1954) argue that households smooth consumption over time using remittances, reducing economic volatility. Likewise, the Keynesian Multiplier Effect suggests that remittance inflows increase aggregate demand, which subsequently raises output and employment (Keynes, 1936). While the remittance effect is a source of economic advantage, the concept, termed as the Dutch Disease Effect suggests that

excessive flow of remittances can create a hoarding of currencies and fare high demand of local currencies over commodity based economy, potentially causing lesser export base and a stunted industrial growth over the longer run (Corden & Neary, 1982). Remittances are also suggested to close both the savings-investment gap and the foreign exchange gap in developing economies (Chenery & Strout, 1966), or also called Dual Gap Theory.

The available empirical studies that examined the economic impact of remittances in Nigeria were characterized by mixed results. Others say those remittances boost economic growth through improved household welfare and access to education and healthcare, and support for small businesses (Akobeng, 2015; Mohapatra et al., 2016). But the studies with opposing views argue that such transfers may lead to dependency effects, decreasing incentives for the participation in the labour force and the creation of entrepreneurship (Chami, Fullenkamp & Jahjah, 2005). Thus, informal remittance dynamics impact financial transparency and the state's capacity to mobilize remittances for the purpose of national development (International Organization for Migration 2017

Exchange rate volatility is among the most important challenges facing Nigeria's remittance landscape. Remittance flows into the resident countries are often subject to repressive regimes of the controlled exchange rate, through the existing parallel markets that distort the exchange rate, forcing remitters to look for alternative channels with a better exchange rate (Brown, 2019). Furthermore, the high documentation requirements and costs associated with financial regulations discourage remitters from using formal banking systems (International Monetary Fund, 2018). Although digital financial services (mobile banking, fintech solutions, etc.) present opportunities for making remittances more efficient, the league of appropriate financial infrastructure and regulatory uncertainty hinder their diffusion (Maimbo & Ratha, 2019; Zohrabi, 2020).

Analysis of the remittance growth literature has shown that, despite the extent of the literature on remittances and economic growth, there remain several lacunae in the research; for example, there is limited empirical evidence on how financial regulations, exchange rate policies, and taxation influence the inflow of remittances in Nigeria. Hence, the study attempts to appraise the performance of the government policies in managing and maximizing native remittances inflow in Nigeria.

Theoretical Review

The Permanent Income Hypothesis (PIH), advanced by Milton Friedman (1957), suggests that an individual's consumption depends not only on current income, but also on the expected long-term average of their income, i.e. permanent income. Based on this theory, short term income fluctuations do not affect consumption (i.e. an increase in income due to a bonus will not lead to a direct increase in consumption, since individuals smooth consumption, taking future earnings and wealth into account over a longer time scale; (Hall, 1978; Deaton, 1992)).

Concerning diaspora remittances and policy in Nigeria, PIH points out that receipts believed to be permanent and or stable lead individuals to adjust long term consumption and investment decision making with an eye toward the long term. Adams & Cuecuecha (2013) argue that households expecting stable streams of remittance inflows are more likely to consume on durable goods, education or invest, which leads to economic growth. However, if remittances are perceived as temporary, they may be spent mostly on short-lived consumption rather than long-term advancement.

Government policies, e.g., taxation or incentives on remittance inflows, affect if this money is seen as stable sources of income by households (Gupta et al., 2009). Policies that promote productive uses of remittances for example, investment-rich policies might further bolster economic development in keeping with the PIH's assumption that people adjust to maximize lifetime income and not respond to transitory changes. Therefore, perceiving remittances under the PIH is vital for devising policies with potential to optimize their economic effectiveness.

Empirical Review

Osei-Gyebi (2023) investigated the moderating effect of financial inclusion in Nigeria and the effect of remittance inflows on savings. A binary logit model was used to analyse the data. With data from a World Bank survey of 3,000 Nigerians, we see a substantial correlation: people with money at a financial institution (FI) or via mobile device

tend to save more often than those without a bank account. The more accounts a family has with mobile devices, as well as financial institutions, the more likely they are to save money. In addition, remittance receivers were more likely to save money than non receivers. The other is saving; we've seen the people save, specifically, when they have a bank account and when they get remittances.

Using data from 2010Q1 to 2021Q4, Salisu and Haladu (2022) analyse the economic growth impact of monetary policy and remittance shocks in Nigeria. The results are based on the Structural Vector Autoregressive (SVAR) model. The unit root test of Zivot and Andrew suggests the integrability of the order of zero in case of the money supply and real exchange rate and integrability of order of one in case of monetary policy rate, remittances, and gross domestic product. A positve shock to real exchange rate, money supply and monetary policy rate positively and negatively impact GDP, whereas remittances negatively impacts GDP. The results of the Granger causality test show that there are two way causal relationship between Nigeria GDP, the money supply, the monetary policy rate, the real exchange rate, and remittances. It also indicates that monetary policy has a positive effect on the economic development of Nigeria while remittances have a negative effect.

Salisu, Haladu, and Suwaid (2022) examine the impact of remittance shock on Nigerian economic development using monthly data in the context of the COVID-19 pandemic. For the study, variables such as real gross domestic product, remittances, foreign direct investment and the currency rate were included in the Structural Vector Autoregressive (SVAR) model used. Remittances stimulated a positive shock based on the study's real gross domestic product. Nigeria's real GDP is affected negatively by currency rates. Foreign direct investment has a positive impact in Nigeria's real gross domestic product (RGP). The impulse response function reveals that the real GDP is positively affected by the remittance shock from the COVID‑19 outbreak.

To ascertain the impact of diaspora remittances, Ojapinwa (2022) used time series data on Nigeria from the World Bank's World Indicators Database. The outlier problem is dealt with using robust ordinary least squares (ROLS). It implies that diaspora remittances have positive and significant effect to SMEs' performance under each of the models examined.

In Aliu and Ogbeide Osaretin (2022) the impact of migration and remittances on economic growth was studied through Random Effect and Generalized Method of Moment. Remittances had a negative effect on economic development, unlike migration, according to the results of the research.

This study evaluated diasporic remittances on the growth of the Nigerian economy between 1986 and 2019 using an empirical analysis by Adewale et al. (2021). For the study, the Autoregressive Distributed Lag (ARDL) model and related variables (GDP, trade openness, labor force participation, financial development and diasporic remittances inflows) are used. From the study results, diaspora remittances have a positive and significant short- and long- term effect on Nigeria's growth, while having a low effect on growth for both periods.

Methodology

Ex-post facto research design, in which data is examined after the event without researcher intervention, is used in this study. This method guarantees precise and cost-effective data collecting. The Central Bank of Nigeria yearly Statistical Bulletin and World Bank Data Indicators are the primary sources of the yearly time-series data used in this research, which spans the years 1990–2022.

The study focuses on the Nigerian economy, covering a period from 1960 to 2022. However, due to data availability and relevance, a purposive sampling technique selects the period from 1990 to 2022 for analysis.

The study examines the impact of government policy on diaspora remittances adapting the model of John et al. (2020), specifying the following model:

$DPR_t = f(EXR_t, MPR_t, TAX_t)$…….(1)

Where;

DPR_t= Diaspora Remittances at time t

EXR_t= Exchange Rate at time t

MPR_t= Monetary Policy Rate at time t

TAX_t= Taxation at time t

This study made changes to the model. The adapted model is presented below:

$DPR = \alpha_0+\alpha_1 EXR_t +\alpha_2 MPR_t+\alpha_3 TAX+ U_t$……...(2)

Where:

α = Intercept

$\alpha_1 - \alpha_3$ = Coefficient of the Independent Variables

U_t= Error term

To prevent spurious regression, the Augmented Dickey-Fuller (ADF) unit root test checks the stationarity of the variables. The test determines whether differencing is needed before further analysis. The Johansen cointegration technique is used. The vector error correction model (VECM) is used as the main estimation technique in the study. Lag Selection: Akaike information criterion determines the optimal lag length. Heteroscedasticity Test: ARCH test checks for time-dependent variance issues. Autocorrelation Test: Breusch-Godfrey LM test ensures residuals are uncorrelated. These methodological approaches ensure robust estimation, avoiding issues like spurious regression and misspecification errors, thereby enhancing the study's validity.

Data Analysis

Table 1 Descriptive Statistics

	DPR	TAX	MPR	EXR
Mean	1.53E+09	33541.45	21.84352	107.0679
Std. Dev.	1.18E+08	30546.13	18.99115	107.3490
Skewness	3.803799	0.710591	0.698077	0.890855
Kurtosis	3.459285	2.011617	2.065939	2.892030
Jarque-Bera	11.63186	5.119288	4.820432	5.442997
Probability	0.002980	0.077332	0.089796	0.065776
Observations	42	42	42	42

Source: Author's Computation (2024)

The summary statistics of each of the variables are presented in Table 1. From the table, it shows that the average of DPR is 1.53E+09 and for the standard deviation, it is 1.18E+08. The skewness of 3.803799 indicates that it is positively skewed. The TAX has an average of 33541.45, a standard deviation of 30546.13, has a skewness of 0.710591 hence it is positive skewed. MPR has an average of 21.84352, and standard deviation 18.99115 with a positive skewness with coefficient 0.698077. EXR has on average 107.0679, standard deviation 107.3490, maximum 359.3762 and minimum 0.617708, and has positive skewness with a coefficient of 0.890855. The kurtosis implies that all the variables are platykurtic with TAX, MPR and EXR having kurtosis coefficient equal 2.011617, 2.065939 and 2.892030 respectively while the DPP is leptokurtic with a kurtosis coefficient equal 3.459285 indicating that only the variable EXR has outliers all other variables have no outliers. The Jarque-Bera probabilities on shows that DPR does not have a normal distribution, whereas TAX, MPR and EXR have a normal distribution. The study moves to correlation matrix.

Table 2 Pairwise Correlation

	LNMPR	LNTAX	LNEXR
LNMPR	1		
LNTAX	0.76	1	
LNEXR	0.68	0.66	1

Source: Author's Computation (2024)

Table 2 shows the correlation between the independent variables. Also, MPR has a strong relationship with a correlation of 0.76 and the correlation with EXR is 0.8 both positive and moderate, and also has a strong correlation with TAX which is positive with a correlation coefficient 0.76. There exists a moderate and positive correlation between TAX and EXR with a coefficient value of 0.66. It becomes evident from the correlation coefficients of the explanatory variables that there is no chance or chances are less that there is multicollinearity between the variables and the study shifts to another unit root test.

Table 3 Unit Root Test

At Level				
	LNDPR	LNMPR	LNTAX	LNEXR
t-Statistic	-1.3946	-1.0896	-0.6407	-2.1838
Prob.	***0.5753***	***0.7106***	***0.8499***	***0.2151***
	n0	n0	n0	n0
At First Difference				
	d(LNDPR)	d(LNMPR)	d(LNTAX)	d(LNEXR)
t-Statistic	-3.4595	-6.7317	-5.9242	-5.3533
Prob.	***0.0147***	***0.0000***	***0.0000***	***0.0001***
	**	***	***	***

Source: Author's Computation (2024)

The variables' degree of stationarity is shown in Table 3. According to the table, every variable is stationary at the first difference and none of them are stationary at the levels. Because of this, the Vector Error Correction Model (VECM), Normalized Cointegrating Coefficients, and Johansen Cointegration will be utilized to determine the short- and long-term effects of the independent variables on the dependent variable because of the stationarity levels.

Table 4 Lag Structure

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-13.64982	NA	2.98e-05	0.928938	1.101315	0.990268
1	176.0666	329.5075*	3.20e-09*	-8.214033	-7.352145 *	-7.907380 *
2	190.4337	21.92871	3.60e-09	-8.128090	-6.576692	-7.576114

3	208.4646	23.72480	3.50e-09	-8.234976 *	-5.994069	-7.437679
* indicates lag order selected by the criterion						

Source: Author's Computation (2024)

Table 4 displays the best lag selection based on the aforementioned information criterion. The Akaike information criteria (AIC) was used in this research, and the ideal lag is 3. Every variable was integrated of the same order, and the cointegration of the study variables was tested using Johansen's Cointegration, which is based on the trace and maximum Eigenvalue test.

Table 5 Johansen Cointegration

Hypothesized	Trace		Max-Eigen	
No. of CE(s)	Statistic	Prob.**	Statistic	Prob.**
None	64.22508	0.0007	29.97101	0.0242
At most 1	34.25406	0.0144	15.40960	0.2612
At most 2	18.84447	0.0150	13.09023	0.0760
At most 3	5.754235	0.0164	5.754235	0.0164

Source: Author's Computation (2024)

The findings are shown in Table 5. Additionally, we know that the variables cointegrate at the 5% level of significance based on the trace test's prob. value, and the highest Eigenvalue further indicates that there are three cointegrating equations between the variables. As a result, the variables exhibit a positive long-term connection. Consequently, the findings show that there is a long-term correlation between the explanatory and dependent variables.

Table 6 Normalized Cointegrating Coefficients

LNDPR	LNMPR	LNTAX	LNEXR	
1.000000	-2.054004	2.400802	-1.404441	
	(0.63800)	(0.63320)	(0.11749)	

Source: Author's Computation (2024)

Table 6 displays the normalized cointegration coefficient value. The coefficient of MPR on DPR is 2.054004, meaning that a one-unit increase in MPR will eventually result in a 2.054004-unit rise in DPR. The long-term relationship of TAX and DPR, however, is negative 2.400802, meaning that for every unit rise in TAX, the DPR decreases by 2.400802 units. Furthermore, EXR and DPR have a long-term positive correlation (coefficient of 1.404441), meaning that a unit increase in EXR causes a 1.404441 unit rise in DPR. With t-statistics of 3.21, 3.79, and 11.93, respectively, all of the effects are significant and more than 1.96.

Table 7 Vector Error Correction Model

Error Correction:	CointEq1	D(LNDPR(-1))	D(LNMPR(-1))	D(LNTAX(-1))	D(LNEXR(-1))	C	R-squared	Adj. R-squared	F-statistic

D(LNDPR)	-0.0408	0.299715	-0.1882	0.175467	0.090520	0.048403	0.554624	0.487142	8.218927
	(0.01539)	(0.16087)	(0.05868)	(0.07018)	(0.05134)	(0.01514)			
	[-2.64820]	[1.86313]	[-3.20665]	[2.50021]	[1.76326]	[3.19769]			

Source: Author's Computation (2024)

The output of the vector error correction model (VECM) be used to verify the existence of short run relationship between the variables and the nature of effects is presented in Table 7. The coefficient of CointEq1 however indicates the absence of short run relationship among the variables which, is -0.0408, this coefficient agrees with the notion embedded in error correction model (ECM) that the coefficients of CointEq1 should be less than -0.99 to 0, therefore indicating neither short run nor long run equilibrium relationship among the variables. Consequently, this constitutes a short run relationship in the model. The t-stat coefficient of -2.64820 lies outside rejection region of -1.96 to 1.96, hence there is a short run relationship between the variables. The coefficient value of -0.0408 implies that a proportion (4.0%) of the short run inconsistent results are being rectified and added to the long run equilibrium relationship in each period. The study concluded that in the short run MPR had a significant negative effect on DPR. Consequently, a 1 per cent rise in MPR will lower DPR by about 18 per cent in the short-run. The short–run indicated a highly significant favorable impact of TAX upon DPR. This implied that a 1 per cent increase in TAX will cause a 17 per cent increase in DPR in the short run. In the short–run EXR has an insignificant favourable effect on DPR. It also indicated that EXR increase in percent by 1 percentage point would significantly increase DPR by 9 percentage point in the short run. The R-squared analysis showed that, in the short run, MPR, TAX and EXR account for 55.46% of changes in DPR.

Table 8 Serial Correlation Test

Lag	LRE* stat	df	Prob.	Rao F-stat	df	Prob.
1	11.82407	16	0.7560	0.727898	(16, 80.1)	0.7578
2	11.06928	16	0.8052	0.678421	(16, 80.1)	0.8067

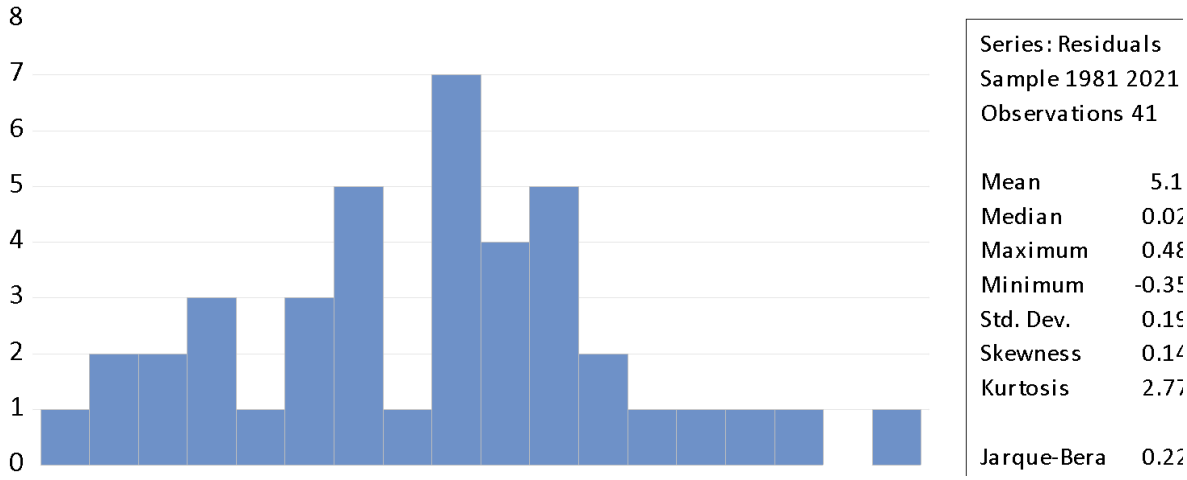
Source: Author's Computation (2024)

Table 9 Heteroscedasticity Test

Joint test:		
Chi-sq	Df	Prob.
98.82694	100	0.5144

Source: Author's Computation (2024)

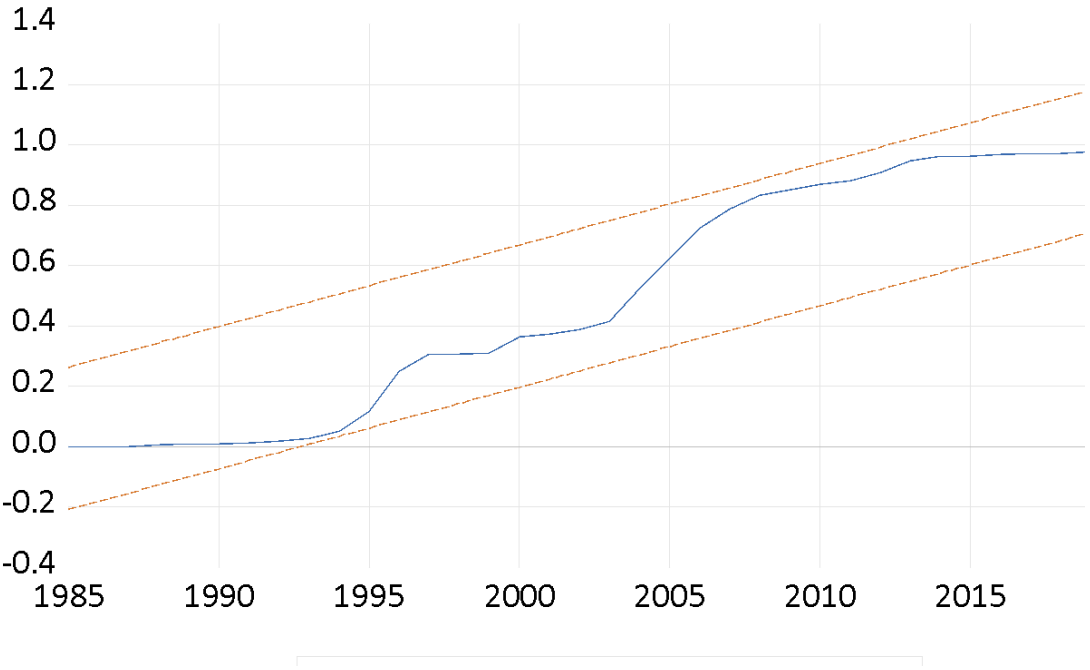
Figure 1Normality Test



Source: Author's Computation (2024)

The results in Table 8 and Table 9 indicate that the model is homoscedastic and that the variables are not serially linked, respectively, with a probability value of 0.0558, greater than the 5% significance threshold. Lastly, Figure 1 shows that the variables are normally distributed with a significance value of 0.893063. This suggests that the model is fit and that the explanatory factors are suitable for regressing on the dependent variable based on the test findings.

Figure 2Stability Test



Source: Author's Computation, 2024.

The CUSUM of squares line, which represents the CUSUM of squares stability test, remained inside the significance range, indicating that the model is stable.

Discussion of Findings

The study reveals a complex relationship between taxation, monetary policy, exchange rates, and diaspora remittances in Nigeria.

Firstly, taxation exhibits a positive correlation with remittances, suggesting that as taxes rise, Nigerians abroad send more money home. This could be due to increased financial needs of relatives or perceived government investment in public services, which may encourage remittance inflows (Salisu, Haladu, & Suwaid, 2022).

Remittances, on the other hand, are affected by the monetary policy rate. Higher interest rates should deter transfers, making it more favourable to save or invest in other countries rather than remitting money home (Ojapinwa, 2022). Also, higher rates can appreciate the naira, making foreign exchange remittances less valuable once converted.

But the exchange rate is showing a positive impact on remittances. A depreciated naira implies a relatively higher conversion of every unit of foreign currency into naira which increases the value of rem migrations and encourages transfers (Adewale et al., 2021).

The need for remittance-friendly policies is supported by these findings, as remittances are an important source of foreign exchange earnings and a source of stabilising the economy. The government can tap on diaspora influxes for sustainable development and economic resiliency via efficient taxation, monetary policy, and exchange rate

Conclusion

The study shows that main economic factors such as tax, monetary policy rates and exchange rates, are strong influences on diaspora remittances to Nigeria). More precisely, the results indicate a positive relationship between remittance inflow and taxation and exchange rates, while a negative association is seen for monetary policy rates. Based on the findings of this study, the following recommendations were made on how best to enhance the performance of the economy, especially, for economic management and policy making in Nigeria:

To begin with, we need tax incentives for remittances. As through taxation has a direct positive correlation on remittance inflow, the introduction of tax incentives, or a reduction in the tax application on remittance transaction can prompt diaspora Nigerians into remitting money home. The second is stabilisation of exchange rates. This research shows a constant correlation between the exchange rates and the inflow of the remittance, where the favorable and stable exchange rates can increase the volumes of remittances. Third, monetary policy rates should be lowered. The inverted relationship of rates with remittance inflows means higher monetary policy rates may soured remittances. When monetary policy rates are decreased, it entails lowering the cost of borrowing money at the domestic front which may induce both investment opportunities in the local market as well as economic stability, which further allows fulfilment of repatriated remittances.

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