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INTERNATIONAL REMITTANCES, POVERTY AND INEQUALITY: THE WEST AFRICAN CASE

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Context and Justification

Remittance is one of the most important outcomes of migration. The IMF splits remittances into three categories namely: workers' remittances, from workers who have lived abroad for more than one year; compensation of employees or labour income, including wages and other compensation received by migrants who have lived abroad for less than one year; and migrants' transfers, the net worth of migrants who move from one country to another. It is now believed that migrants' remittances into Nigeria exceed Foreign Direct Investments (FDI) and Oversea Development Assistance (ODA). The importance of remittance inflows into Nigeria is evidenced by the proliferation of money transfer networks (both formal and informal) and the rapid growth in the volume of migrant remittances. The World Bank's Migration and Remittances Factbook (2011), estimated remittance inflows through official channels into Nigeria to be over US$10 billion in 2010, thus, placing Nigeria as the world's top 10th remittances destination country in 2010 as shown in Table 1.

Table 1: Diaspora Remittances in US$: Top Recipients Countries (2006 -2010)

Diaspora Remittances: Top Recipients Countries (2006-2010)						
Country	**Rem. 2006**	**Rem. 2007**	**Rem. 2008**	**Rem. 2009**	**Country**	**Rem. 2010**
India	$26.9 billion	$27 billion	$45 billion	$55.1 billion	India	$55 billion
China	$22.52 billion	$25.7 billion	$40.5 billion	NA	China	$51.0 billion
Philippines	$12.7 billion	$14.4 billion	$16.4 billion	$17.3 billion	Mexico	$22.6 billion
Mexico	$25.6 billion	$26.1 billion	$25.1 billion	$21.2 billion	Philippines	$21.3 billion
Poland	$8.5 billion	$12.5 billion	$13.6 billion	NA	France	$15.9 billion
Bangladesh	$5.5 billion	$6.6 billion	$9.0 billion	$10.7 billion	Germany	$11.6 billion
Pakistan	$5.1 billion	$6.0 billion	$7.0 billion	$8.7 billion	Bangladesh	$11.1 billion
Morocco	$5.1 billion	$5.7 billion	$6.9 billion	$8.0 billion	Belgium	$10.4 billion
Vietnam	NA	NA	$7.2 billion	$6.8 billion	Spain	$10.2 billion
Nigeria	**$5.4 billion**	**$9.2 billion**	**$9.9 billion**	**$9.58 billion**	**Nigeria**	**$10.0 billion**

Sources: World Bank's Migration and Remittances Factbook (2011)

However, understanding the poverty and income dynamics of these large inflows into Nigeria is central to any attempt to minimize the negative effects of migration, while optimizing its development potentials in the country. A number of studies have done so for several Latin American and Asian countries [Acosta et al., (2006a & 2006b, 2007a & 2007b) and Fajnzylber & López (2007) for Latin America; Lokshin et al., (2007) for Nepal; Adams (2004) for Guatamela; Taylor, Mora and Adams (2005) for Mexico and; Yang and Martinez (2005) for Philippines etc.,] and found that remittances have some potentials for reducing both poverty and income inequality as well as improving economic growth. Relatively, very few studies have tried to evaluate the impacts of remittances and dynamics in the remittances environment in Nigeria. The aim of this study is to help fill this knowledge gap in order to provide new policy insights on the impacts of international remittances on national development in Nigeria. Some of the core research questions that guide this study are:

- *What is the profile of Nigerian migrants and remittances inflow?*
- *How do these flows affect poverty and inequality in the Nigeria?*

- *Do remittances contribute to higher investment and faster growth, or are they mainly directed towards consumption?*
- *What are the immediate end uses of remittances?*
- *Are remittances earmarked for specific purposes?*
- *What kind of policy initiatives is available for promoting and facilitating remittance flows into Nigeria?*
- *What are some of the challenges faced by policy makers in order to make the best of remittances flow and enhance their developing impacts in Nigeria?*
- *What changes in the regulatory environment are needed in order to minimize transaction costs in remittance transfers while maintaining system security in Nigeria?*

This study attempts to provide answers to these core questions using three West African Countries namely Nigeria (the most populated nation in WA); Ghana (with rich migration data-base) and Cote d'Ivoire (a Francophone African country). These issues are studied based on conceptual frameworks drawn from economics, demography, sociology and anthropology, history and geography. The study draws extensively from rich large household datasets and official national statistics [e.g., **National Living Standard Survey (NLSS)]**, supplemented with qualitative data in the respective countries. This is justified because despite the ever-increasing size of international remittances, little attention has been paid to examining the economic impacts of these transfers on households in the developing countries in general (Adams, 2005). In fact, the impacts of remittances on most West African nations' financial systems, the domestic economies and migrants sending areas, household education, household health status and health seeking behaviors, growth, poverty and income redistributive effects across the sub-region, are not well known. For example, remittances may have a domestic multiplier effect especially for the migrants sending areas, alter patterns of household expenditure and investment or even affect household production decisions.

Research Objectives

The broad objective of the study is to analyse the impact of international remittances flow on national development in WA using Nigeria, Ghana and Ivory Coast as empirical case studies. The specific objectives with an overriding aim of providing research-evidence cum policy-relevant outcomes are:

(i) to analyse and promote better understanding of current migration policies and remittances regulatory regimes in Nigeria;

(ii) to assess the end use of remittances by households in Nigeria;

(iii) to assess the poverty and distributional implications of out-migration and remittances flow in Nigeria;

(iv) to inform policy reviews by discussing results with key stakeholders such as public policy makers, civil society organizations as well as the scientific community via policy briefing, workshops, conferences etc; and,

(v) to strengthen the capacity of researchers and stakeholders in Nigeria and WA in analysing critical issues that impact on out-migration and remittances flow.

Analytical Framework

To evaluate current migration policies in Nigeria, the study adopted two methodological approaches. The first was based on a detailed desk top review of: (a) policy and institutional arrangements that have bearing on international migration and remittance flows in Nigeria; and, (b) studies conducted so far on international migration and remittance flows in the country. Similarly, in order to assess the end uses of remittances in Nigeria, three methodological frameworks are being used. The first approach[1] is to work with Western Union and Money Gram services to determine the volume and direction of remittances in Nigeria. The second approach is based on a focus group discussion to help identify households that are major recipients of remittances while, the third approach entails the conduct of household interviews with remittances and non-remittances receiving households based

[1] An initial sample size of 200 respondents has been interviewed in the first phase of the study. The remaining 400 will constitute the second and third phase of the project.

on findings from the focus group discussions. Further, in order to estimate the distributional and poverty effects of remittances in Nigeria, we used three variants of the Foster-Greer-Thorbecke (FGT) poverty index (FGT, 1984), the propensity score matching (PSM) technique and a two stage multinomial logit model (MNL). To estimate the impacts of remittances on income inequality in Nigeria, the Gini coefficient technique presented by Lerman and Yitzhaki was used (Lerman & Yitzhaki, 1986).

Preliminary Findings

Firstly, concerning remittances regulatory regime in Nigeria, in August of 2003, the Central Bank of Nigeria (CBN) articulated general guidelines on electronic banking including remittances. Specifically, section 1.4 sub-sections 10 (iS.1.4 s.10) of the guidelines relate to remittances. Without prejudice to subsection (10) of this section, remittances shall comply with the following conditions:

i. Only authorized financial institutions can electronically transfer funds on behalf of customers. Bank or banks that exist only in cyberspace are not allowed (CBN, 2008);
ii. Operators must ensure a safe and sound electronic fund transfer (ETF), network-switching environment with adequate internal controls;
iii. Electronic banking products and services should comply with the Money Laundering Act of 1995 as amended as well as the Know-Your-Customer (KYC) rules;
iv. Operators must conduct periodic control and evaluations of the switch and the network and ensure daily settlements of switch activity balancing of network activity. The CBN must be notified of fees charged as well as changes in the fees charged for services;
v. The electronic banking services should be offered in the local currency, the Naira, only

Furthermore, in 2008, the CBN issued two circulars namely BSD/DIR/CIR/GEN/VOL.2/017 of 20 November 2008 and BSD/DO/CIR/GEN/V.2/012 of 17 December 2008 to all deposit money banks (DMBs) and international money transfer (IMT) operators in Nigeria. In the first circular, the CBN directed all DMBs to ensure that exclusivity clauses were no longer included in agreements between DMBs and IMT operators and that, all existing agreements be reviewed to expunge such clauses. The CBN's argument is that exclusivity clauses negate the tenets of a competitive market scenario as well as impose unnecessary increases on the cost of money transfer services to the end-users. The second circular which supersedes BSD/DO/CIR/GEN/V.2/011 dated 10 October 2008 directed all DMBs and IMT operators in Nigeria to put in place additional safeguards as follows:

i. Funds transferred shall only be collected in the designated town for payment and nowhere else;
ii. All the money transfer operators in Nigeria should introduce a second level pin/code to be provided by the beneficiaries after confirming the availability of their transactions/funds before payment could be made;
iii. All the money transfer operators should ensure adequate information dissemination to enlighten the customers and the beneficiaries of the services;
iv. Banks shall investigate customer's complaints within the shortest possible time referring the beneficiary to the sender for onward complaint to the money transfer operator.

Secondly, preliminary findings on the end use of remittances indicate that most Nigerian migrant workers prefer to use the Western Union money transfer facility than the Money Gram facility to remit money back home. This is done more on a quarterly frequency than on a monthly basis. Also, the study finds that most remitted funds to Nigeria originate more from close family members such as siblings and relations than from non-relatives. Furthermore, the study also reveals that remittances are most often ear-marked for specific purposes like subsidizing general household expenses and household education spending. Recipients are mainly responsible youths that can be trusted who belong to the active population. Finally, we find that remittances inflow into Nigeria is not gender biased but poor and moderately poor groups are the largest recipients.

Thirdly, the study's poverty experiment based on the Nigeria's 2004 NLSS, suggests that when remittances are treated as a simple exogenous transfer of income by migrants to households using the FGT poverty decomposable index, household poverty declines across all the geo-political zones and by sex and locality. For example, with remittances, household poverty falls from 0.35 to 0.30 in the South-South, 0.27 to 0.22 in the South East and 0.43 to 0.36 in the South West. Poverty also declines from 0.67 to 0.60 in the North Central, 0.72 to 0.66 in the North East and from 0.71 to 0.66 in the North West. However, the effect of remittances on poverty is larger in the South West than in the South East and South-South. Similarly, decomposing poverty by educational attainment, as expected, poverty becomes lower as the level of education increases. For example, household heads with no education have a poverty rate of 69 percent, while those with primary education have a poverty rate of 48 percent. The poverty rate with tertiary education is about 43 percent and surprisingly, the same as those with secondary education. When remittances are introduced, the impact on poverty reduction becomes more pronounced at higher levels of education. For example, if the head of the household has no education and receives remittances, poverty decreases from 0.69 to 0.63 (decrease of 0.07 percent). On the other hand, if the head of the household has attained tertiary education level and receives remittances, poverty rate declines from 0.43 to 0.21 (decrease of 0.22 percent). It does appear that remittances become effective tool of poverty reduction with increasing level of education of the household head. Finally, the results further show that while poverty is lower among the households that received remittances, the share of households that received remittances in national poverty is about 94 percent and those that did not receive has only 5 percent share in national poverty. This suggests that remittances will be very effective in poverty reduction if its inflow increases in the future.

In the second poverty experiment which treated remittances as potential substitute for domestic (home) earnings using the Propensity Score Matching (PSM) technique, we did not find evidence of significant impact of remittances on per capita expenditure, though households that receive remittances spend more on per capita consumption, health expenditure and food. Also, recipients of remittances have lower poverty compared to similar households that did not receive remittances but the difference is not statistically significant. Results from a 2-stage multinomial logit model to examine the determinants of household per capita and total expenditure with remittances as one of the explanatory variables indicate that remittances have a positive but no significant impact on household per capita expenditure. However, the impact is positive and significant on household total expenditure. Modeling the factors that account for households' receipt of remittances, we found that household expenditure, mother and father living and place of residence (urban or rural) are the significant determinants.

Finally, in the inequality experiment using the Gini decomposable technique, the study finds that increase in remittances reduces income inequality more in urban areas (0.1) than in rural areas (0.02). For example, a 10% increase in remittances, ceteris paribus, is associated with declines in the Gini coefficients of total income inequality of 0.02% in rural areas and 0.1% in the urban areas. Therefore, it is expected that as remittances increase in the future and become a significant component of household income, it will have a substantial impact in equalizing income among households in Nigeria.