International Workers' Remittances and Private Consumption in Nigeria

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Abstract

This study examined the relationship between international workers' remittance and private consumption in Nigeria for the period 1981-2014. Employing an error correction modelling technique, the study observed that international workers' remittance had positive and significant influence on private consumption in Nigeria, both in the long and short run. The study recommended the need to ensure that workers' remittances sent through the banks and other transfer institutions attract little moderate bank charges in order not to limit the impact of workers' remittance on private consumption. Also, there is the need for the government, through its agency, such as the Standards Organization of Nigeria (SON), to maintain standards in both quantity and quality of consumables produced by local manufactures. This will encourage benefits of international remittance in expending their remittances on domestic commodities rather than on foreign/imported commodities.

Keywords: International workers' remittance, private consumption, ECM

JEL Classification: E21, F24

Introduction

International workers' remittance is view as private financial aid that flows directly into the hands of households. According to the International Monetary Fund (IMF), international workers' remittance is defined as the current private transfers from migrants to their countries of origin (IMF, 2009). For many developing countries, international workers' remittance is a vital source of foreign income to the households and the government. To the households, remittance helps in increasing savings and asset accumulation (Hadi, 1999); improve access to health services and provides better nutrition and education (Yang, 2003) while to the government, remittance helps in boosting the balance of payments; sustains trade deficit and capable of resulting in exchange rate appreciation (Edward and Ureta, 2003). Workers' remittance has been observed as the second largest source of foreign inflows behind foreign direct investment. Compared to other foreign capital inflows (such as foreign direct investment, foreign portfolio investment and foreign aids), international workers' remittance has proved to be less volatile, less pro-cyclical, and a more reliable source of capital inflow (Ratha, 2005; Gammeltoft, 2002; Keely and Tran 1989; Puri and Ritzema, 1999).

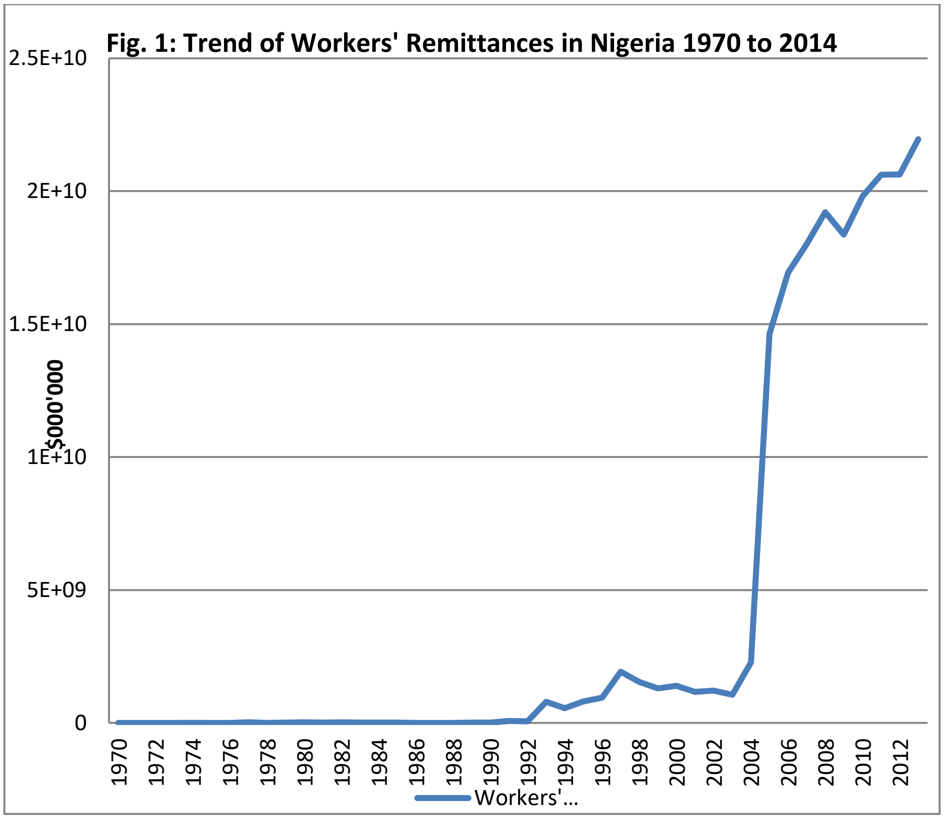
Literature within the cycle of foreign capital inflows have noted that international workers' remittance influences and consumption habits of the recipients' households and help in smoothing consumption by acting as an insurance mechanism in the event of adverse economic shocks (Yang and Choi, 2007; Kannan and Hari, 2002; Lucas and Stark, 1985). Maimbo and Ratha (2005) noted that the share of remittance spent on consumption reaches up to 80% of total remittance transferred, while the African Development Bank (2008) confirmed a strong correlation between remittance and household consumption. Furthermore, literature has stressed the importance of consumption in the economic life of a nation, given that consumption is the largest component of national income which, to a large extent, determines the pace of production in an economy— for without consumption, production would be halted.

World Development Indicators (2014) showed that the Nigeria economy has been a recipient of workers' remittances since the 1970s (Figure 1). The increased inflow of international workers' remittance has raised the inquisitiveness of researchers on whether such capital inflows over the years have any influence on private consumption in Nigeria as observed by some empirical studies (Yang and Choi, 2007; Maimbo and Ratha, 2005).

Despite the increased inflow in international workers' remittance, as shown in Figure 1, little or no studies exist on the relationship between international workers' remittances and private consumption in Nigeria. Examining the relationship between international workers' remittances and private consumption is pertinent for the following reasons:

a. If remittances influence private consumption, then increase in demand for consumables may stimulate production, which in turn will indirectly influence other macroeconomic variables, such as investment, unemployment and, ultimately, economic growth
b. By identifying the way in which remittances are used in Nigeria, examining the contribution international workers' remittances to private consumption represents a vital step in becoming aware of their economic importance and picturing a wider image on the impact of remittances on the Nigeria economy.

c. Understanding the impact of remittances on private consumption can lead to better management of migrants' transfers, thus amplifying their benefits or counteracting any potential negative effects (Încalţărău and Maha, 2012).



Source: Authors computation, 2016

In spite of the above, little is known on the impact of international workers' remittances on private consumption in Nigeria. The few studies available on this issue have focused on other developing countries, such as Kausar, Ambreen, Somiya and Sidra (2011) on Pakistan; Honest, Carren and Judith (2013) on Zimbabwe; and Tansel and Yasar (2010) on Turkey. Most indigenous studies (such as Amaghionyeodiwe and Dauda, 2011; Mbutor, 2010; Kure and Nwosu, 2008) largely focused on the relationship between workers' remittances and economic growth. The question on 'to what extent has international workers' remittances affected private consumption in Nigeria?' has not been examined. This is the gap the current study sought to fill in literature.

Literature Review

The pure altruism theory emphasizes that migrants remit funds to their country of origin due to income needs of the relatives of the migrant worker in order to improve their welfare through consumption (Chami, Fullenkamp, and Jahjah, 2003). The portfolio diversification theory postulates that the decision to remit fund by a migrant is based on investment opportunities or portfolio gains, which is a function of the risk return differential of assets (such as deposit account, real estate return, and black market exchange rate premium) in both the host and recipient countries. Moreover, the self-interest theory emphasizes that the decision by migrants to remit funds may be motivated by the ownership of assets in the country of origin; and the decision to return home in the future also prompts the migrant to remit funds for investment in real estate, in financial assets and in public assets, essentially for prestige and political influence in the local community. Finally, the co-insurance and loan agreement theory assumes that the migrant plays the role of an insuree and the family left at home the role of the insurer in the course of migration (Chami et al., 2003).

With respect to the theoretical review on consumption, the most common theory is absolute income hypothesis, postulated by Keynes (1936). Apart from absolute income hypothesis, economists from the 1950s paid attention to developing more consumption theories. Among these theories were the relative income hypothesis by Duesenberry (1949); permanent income hypothesis by Friedman (1957); and the life cycle income hypothesis by Ando and Modigliani (1963)—for exclusive discussion on these theories on consumption, see Dornbusch, Fischers and Startz (2003).

With regard to empirical review, Sayyed et al. (2015) examined the relationship between workers' remittance and household consumption volatility in five South Asian economies (India, Bangladesh, Pakistan, Nepal and Sri Lanka) for the period 1975-2010. Employing a panel of generalized method of moments (GMM) technique, the study observed that workers' remittance is responsible for diminishing consumption volatility in the South Asian economies. The study recommended that financial sector should be improved for diminishing consumption volatility. In Zimbabwe, Honest, Carren and Judith (2013) examined the impact of remittance on private consumption for the period 1980-2007. A three stages least squares (3SLS) method was used to estimate a simultaneous equation model to test for the existence of endogeneity problem in the study. The results indicated that diaspora remittance plays a crucial role in determining private consumption. The study also observed that diaspora remittances are mainly consumed and, therefore, improve the standard of living of Zimbabweans. The study recommended that government should close the consumption gap through policies that promote inflows of remittances.

Tansel and Yasar (2010) investigated the macroeconomic impact of remittance on consumption, investment, imports and income in Turkey using annual data for the period 1963-2003. The study used Keynesian model to estimate the impact of remittance on these variables using two stage least square method of estimation. The results indicated that the impact of remittance on consumption, imports, and income were all positive both in the short and long run and reduced gradually, while investment disappeared in the second year. The findings also showed that consumption and investment are useful variables for economic planners and policymakers. Thus, the study recommended that government should not only consider exports to affect remittance directly but also consider that consumption and investment can affect remittance indirectly.

Kausar, Ambreen, Somiya and Sidra (2011) examined the impact of workers' remittance on economic growth, private investment and total consumption in Pakistan for the period 1984-2009. Employing the ordinary least squares technique, the study observed that workers' remittance was positively related to private investment and total consumption, leading to an increase in economic growth of Pakistan. The study recommended that the government should provide attractive investment opportunities to attract more remittance flows; and that right policies should be put in place to encourage remittance flow through formal banking channels.

In Nigeria, Kure and Nwosu (2008) examined the impact of workers' remittance on economic growth, investment, human and private capital for the period 1990-2007. The study employed the simultaneous equation system based on two stage least squares instrumentality variable approach to control endogeneity problem that arises from utilization lag independent variables. The findings showed that remittance had a positive impact on economic development in Nigeria through investment, human and private capital. It thus recommended that government needs to provide a policy scheme which is aimed at enhancing remittance through formal channels; and that government should encourage remittance to be channelled into investment that would enhance developmental growth, since human capital investment is a channel through which remittances generate positive effects on economic growth.

Taiwo and Odekunle (2013) examined the impact of workers' remittance on investment in Nigeria for the period 1977-2010. The study employed dynamic ordinary least squares two stage instrumental variable (2SIV) approach to control the problem of endogeneity from utilization of lag independent variables. The findings showed that workers' remittances boost investment in Nigeria. The study recommended that for Nigeria to benefit from international transfers, the financial sector should be modified to complement remittances' potential capital formation.

Iheke (2012) analysed the effects of remittance on the Nigerian economy for the period 1980-2008. Using the OLS technique, the study observed a positive and significant relationship between international workers' remittance and economic growth. It recommended that policies, such as stable exchange rates, basic physical infrastructure, improved market integration, reliable financial and other institutional transparent legal system and good governance should be made available so as to make international workers' remittances attractive instruments of capital development. Udah (2011) investigated the channels through which workers' remittance impacts economic performance through human capital and technological diffusion in Nigeria from 1970 to 2008. The results showed that remittances affect economic performance in Nigeria through interaction with human capital and technology diffusion. The study thus strongly suggested that, for Nigeria to benefit from international transfers, policies should be fine-tuned to attract more remittances into the educational sector and technological transfers.

Olatomide and Omowumi (2013) examined the effect of remittances on rural household's income mobility in Nigeria. The study employed the 2004 national living standard survey (NLSS), the 2009/2010 harmonized living standard survey (HNLSS) and balance of payments on remittance data set produced by the government of Nigeria to help track inequality and income mobility progress. It also employed the standard income mobility analytical technique to determine rural households' income mobility with and without workers' remittance. Average quintile immobility rate (AQIR) and the average quintile move rate (AQMR) were estimated to determine the status of inter-temporal income mobility with and without remittances, while the progressive index (p-value) was estimated to ascertain whether income mobility has contributed to long-term income equality. The study found that international workers' remittances pushed up rural households' income mobility and had long-term contribution to income equality.

Olowa, Awoyemi, Musediku and Omowumi (2013) examined the effect of workers' remittance on poverty among rural households in Nigeria. The study used a large nationally representative household survey to analyse the impact of domestic workers' remittance (from Nigeria) and foreign workers' remittances (from African and other countries) on poverty in rural Nigeria. The study utilized the 2004 national living standard survey (NLSS) data from the National Bureau of Statistics (NBS) in Nigeria. Households were selected using a two-stage stratified sampling method. The data were analysed using descriptive statistics, and Foster, Greer and Thorbecke (FGT) poverty measures. The results of the study showed that domestic remittance had greater impact in reducing the depth and severity of poverty in rural Nigeria than foreign remittance.

From the foregoing, it is evident that only a few studies have examined the impact of international worker's remittances on private consumption in the developed and developing countries (excluding Nigeria). For Nigeria, the studies have focused mostly on the impact of workers' remittance on economic growth; a few also focused on the relationship between international workers' remittance and poverty incidence in the country. The neglect of previous studies in examining the relationship between international workers' remittance and private consumption in Nigeria made it difficult to understand how to enhance consumption level using international workers' remittance. This neglect also limited the policy inference on studies between international workers' remittance and economic growth; and also between international workers' remittance and poverty. This is because private consumption enhances output/ economic growth and helps reduce poverty in Nigeria. It is against this backdrop that the current study is examining the relationship between international workers' remittances and private consumption in Nigeria for the period 1981-2014.

Research Methodology

This study adopted the Keynesian absolute income theory of consumption as its theoretical framework. According to Keynes, the current level of disposable income determines the consumption pattern of households and the society at large. Keynes suggested that consumption expenditure depends mainly on absolute income of the current period; that is, consumption is a positive function of the absolute level of current income. The more income earned in one period, the more likely the consumption expenditure in that period would increase. Current income is a form of earned income and other forms of transfer, such as remittances. When remittances are transferred to an individual, they become part of their current income, and increases in remittance (transfer income) lead to increases in current consumption at that particular point in time. Besides, in situations when the beneficiaries of migrants are dependants (such as retired-aged parents or jobless relatives), the transferred income (remittance) becomes their current and absolute income, since the earned income is zero. Thus, within the context of this study, international workers' remittance is expected to influence the level of current income of household receiving such remittance. An increase in such remittances, say at time *t*, other things being equal, is expected to increase the level of current income and thus affects the level of consumption.

Drawing from the theoretical framework, this study adopted a modified version of the model by Judith, Carren and Honest (2013), taking into consideration other explanatory variables to examine the relationship between international workers' remittance and private consumption in Nigeria. This model is specified as:

$$CONS = f\,(REM, EG, ER, IR, INF, TOP) \ldots\ldots\ldots\ldots\ldots\ldots \quad (1)$$

Expressing Equation 1 in linear form and transforming into linear econometric model, the following is obtained:

$$\log(CONS_t) = \beta_0 + \beta_1 \log(REM_t) + \beta_2 \log(EG_t) + \beta_3 \log(ER_t) + \beta_4 \log(IR_t) + \beta_5 INF_t + \beta_6 TOP_t + \mu_t \ldots\ldots\ldots\ldots\ldots\ldots \quad (2)$$

Equation 2 includes seven variables, namely private consumption *(CONS)*, international workers' remittance *(REM)*, economic growth *(EG)*, exchange rate *(ER)*, interest rate *(IR)*, inflation rate *(INF)* and trade openness *(TOP)* of the economy and error term (μ). The data on private consumption, inflation, exchange rate, economic growth, interest rate, and trade openness were sourced from the Central Bank of Nigeria's statistical bulletin of 2014, while international workers' remittance was obtained from the World Development Indicator (WDI) bulletin of 2015. Theoretically, workers' remittance, economic growth and trade openness are expected to positively influence private consumption, while inflation rate, exchange rate and interest rate are expected to negatively influence private consumption.

Data Analysis and Discussion of Results

The descriptive statistics for workers' remittance, interest rate, private consumption, inflation, trade openness, exchange rate and gross domestic product are shown in Table 1. The mean values of workers' remittance, interest rate, private consumption and inflation rate are 19.95, 12.14, 5.59 and 21.03 respectively, while the mean values for trade openness, exchange rate and economic growth are 0.77, 65.21 and 6.01, respectively. Also, the descriptive statistics show that private consumption had the lowest standard deviation of 0.42, while exchange rate had the highest standard deviation of 62.68. The skewness statistics indicated that exchange rate, interest rate, inflation rate, consumption and economic growth were positively skewed, while trade openness and international workers' remittance were negatively skewed. The kurtosis statistics showed that inflation had a relatively high peak distribution, called leptokurtic, since it was greater than three (3), while other variables had relatively low peak distribution, called platykurtic, since they were less than three (3). However, interest rate had a relatively normal distribution (that is, mesokurtic).

Table 1: Descriptive statistics

Variables	*Mean*	*Median*	*Std. Dev*	*Skewness*	*Kurtosis*
ER	65.211	21.886	62.683	0.275	1.270
INF	21.033	12.700	18.784	1.367	3.569
IR	12.135	10.820	5.172	0.767	2.781
EG	6.016	5.934	0.421	0.449	2.109
CONS	5.594	5.463	0.418	0.215	1.700
REM	19.947	20.784	3.127	-0.279	1.685
TOP	0.774	1.6290	2.180	-0.440	1.690

Source: Authors' computation 2016

The unit root test of the variables is conducted using the Augmented Dickey Fuller (ADF) test. The result of the ADF presented in Table 2 showed that all variables were stationary at first difference, that is, the variables were integrated of order one I(1).

Table 2: ADF unit root test estimate

Variables	*1st difference*	*Order of integration*
CON	-7.9546	I (1)
EG	-4.4498	I (1)
REM	-5.9071	I (1)
TOP	-6.5070	I (1)
IR	-5.0896	I (1)
ER	-5.2534	I (1)
INF	-5.3588	I (1)

*Source***:** Authors' computation 2016

*Note***:** Critical values were defined at 1% significant level

The cointegration estimate was analysed using the Johansen cointegration technique and the result presented in Table 3. From the estimate, it was observed that the null hypothesis of no cointegration for r=0, r≤1, r≤2 and r≤3 were rejected by the trace test, because the statistic values were greater than the critical values, while for r≤4, the null hypothesis was not rejected by the trace test because the statistic value was less than the critical value. Thus, the trace statistics indicated the presence of four cointegrating equations in the estimating model. On the other hand, the Maximum-Eigen test showed that the null hypothesis of no cointegration for *r*=0 and *r*≤1 were rejected because the statistic values were greater than the critical values, while for *r*≤2, the null hypothesis of null cointegration was not rejected, thereby indicating the existence of two cointegrating equations in the model. Thus, the cointegration tests affirmed the existence of a long-run relationship among the variables in equation (1).

Table 3: Summary of the cointegration estimate using Johansen test

Trace Test				*Maximum Eigen value Test*			
Null	*Alternative*	*Statistics*	*0.05% critical values*	*Null*	*Alternative*	*Statistics*	*0.05% critical values*
r=0	r≥1	193.57	125.62	r=0	r=1	65.40	46.23
r≤1	r≥2	128.17	95.75	r≤1	r=2	48.20	40.08
r≤ 2	r≥3	79.96	69.82	r≤2	r=3	30.52	33.88
r≤3	r≥4	49.45	47.86	r≤3	r=4	23.83	27.58
r≤4	r≥5	25.61	29.80	r≤4	r=5	13.78	21.13
r≤5	r≥6	11.83	15.49	r≤5	r=6	11.45	14.26
r≤6	r≥7	0.38	3.84	r≤6	r=7	0.38	3.84

*Source***:** Authors' computation 2016

Regression estimates

Sequel to the cointegration estimate, the analysed the long and short-run relationships between international workers' remittance and private consumption in Nigeria. From the long-run regression estimates presented in Table 4, the f-statistic (37.97) showed that the model was well specified and was statistically significant at 1% level of significance. The coefficient of determination (R^2) of the model was very high (89.8%), indicating that the independent variables explained 89.8% of the variations in private consumption. The regression estimate showed that international workers' remittance and economic growth had their expected positive a priori signs, while interest rate and inflation rate showed their expected negative a priori signs. However, trade openness and exchange rate did not display their expected signs.

Specifically, the coefficient of workers' remittance of 0.074 at one percent significant level indicated that a one percent increase in workers' remittance was expected to increase private consumption by 0.074 percent in the long run. This finding supported those of Honest, Carren and Judith (2013) and Jean-Louis and Christian (2010) in Zimbabwe. Relatedly, the coefficient of exchange rate of 0.0041 at one percent significant level indicated that a one percent increase in exchange rate was expected to increase private consumption by less than one percent in the long run. Economic growth had positive but insignificant effect on private consumption in the long run, while trade openness, interest rate and inflation rate had insignificant influence on private consumption in the long run.

Table 4: Long run estimate

Dependent variable	*Regressors*	*Estimated Co-efficient*	*Standard Error*	*t-Statistic*	*Prob.*
CON	C	2.7175	1.2704	2.1390	0.0420
	REM	0.0742	0.0319	2.3241	0.0282
	EG	0.2207	0.2152	1.0255	0.3146
	ER	0.0041	0.0012	3.3289	0.0026
	TOP	-0.0980	0.0502	-1.9531	0.0616
	IR	-0.0090	0.0067	-1.3357	0.1932
	INF	-0.0007	0.0017	-0.4440	0.6607

R^2 = 0.8976; *Adjusted* R^2 = 0.8739; *F-stat.* (Prob.) = 37.97 (0.000)

Source: Authors' computation 2016

In addition to the long-run estimate on the relationship between workers' remittance and private consumption, this study also analysed the short-run relationship among the variables. From the short-run estimate presented in Table 5, it is observed that the coefficient of determination of the model (that is, R^2) is 0.63; implying that about 63% of the total variation in private consumption was jointly explained by the explanatory variables. The f-statistic of 5.40 was statistically significant at one percent, while the value of DW statistic (of approximately 1.8) showed the absence of serial autocorrelation in the model. These indices indicated that the model was fit and could be used for policy inferences. Also, the estimates of the dynamic model showed that the coefficient of the error correction term (ECT) was negative and statistically significant. The coefficient of the error correction term (-0.63) implied that the model corrected its short-run disequilibrium by 63% speed of adjustment in order to return to the long-run equilibrium. With respect to the explanatory variables, it is observed that the coefficient of the current value of gross domestic product had significant impact on private consumption in the short run. Also, the coefficients of the first lagged values of workers' remittance and trade openness, and the second lagged value of private consumption had positive and significant effects on private consumption. Other explanatory variables in the dynamic model, such as the first lagged value of exchange rate and second lagged value of the trade openness were insignificant in influencing current private consumption in the short run.

From the long and short-run regression estimates, it was evident that the relationship between international workers' remittance and private consumption was both long-run and short-run phenomenon. The findings are in line with those obtained by Tansel and Yasar (2010) both in the long and short run. They also validate the pure altruism theory for Nigeria, emphasising that migrants remit funds to their countries of origin to improve the welfare and living standards of the relative or family members at home through increased consumption.

In addition to the regression estimates, this study conducted diagnostic tests, such as residual tests (normality test and serial correlation tests). The data in Figure 2 show that the Jarque-Bera statistics of the normality test was insignificant, suggesting that the residual of the regression estimate was normally distributed. Also, the f-statistics of the serial correction test was insignificant, confirming the absence of serial correlation in the residual of the error correction model regression estimate (Table 6). This implied that the regression estimate was appropriately estimated.

Table 5: Short-run estimate

Variable	*Coefficient*	*Std. Error*	*t-Statistic*	*Prob.*
C	-0.0977	0.0414	-2.3579	0.0277
ECM(-1)	-0.6264	0.1645	-3.8089	0.0010
Δ(LGDP)	1.6625	0.6546	2.5395	0.0187
Δ(ER(-1))	-0.0014	0.0016	-0.8742	0.3915
Δ(REM(-1))	0.5025	0.1126	4.4598	0.0001
Δ(TOP(-1))	0.1468	0.0583	2.5181	0.0196
Δ(TOP(-2))	0.0884	0.0589	1.5025	0.1472
Δ(CON(-2))	0.4615	0.1386	3.3301	0.0030
R-squared	0.6323	S.D. dependent Var		0.1577
S.E. of regression	0.1098	Akaike info criterion		-1.3574
		Schwarz criterion		-0.9838
D.W Stat	1.7652	Hannan-Quinn criterion		-1.2379
F-statistic	5.4050	Prob. (F-statistic)		0.0010

Source: Authors' computation 2016

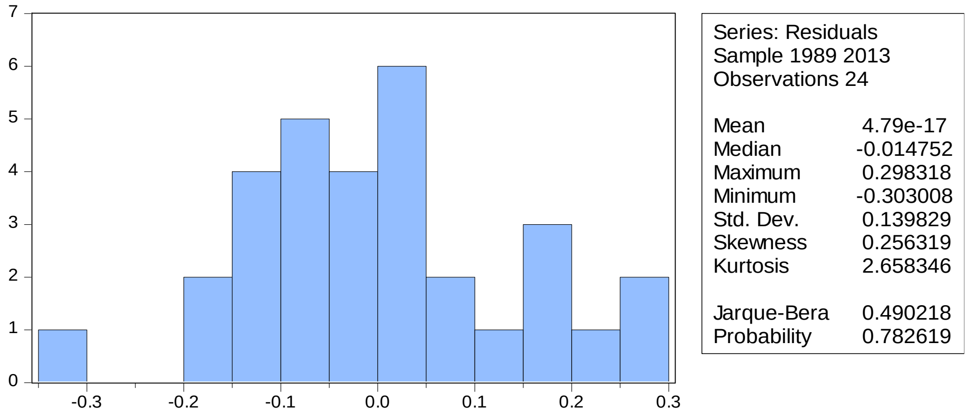


Figure 2: Normality test

Table 6: Breusch-Godfrey serial correlation LM test

F-statistic	0.192644 Prob. F(2,15)	0.8268
Obs*R-squared	0.776321 Prob. Chi-Square(2)	0.6783

Source: Authors' 2016.

Conclusion and Recommendations

This study examined the relationship between international workers' remittance and private consumption in Nigeria for the period spanning 1981 to 2014. Employing the error correction modelling technique, the study observed that international workers' remittance influenced private consumption significantly in the long and short run. Thus, the study concludes that international workers' remittance has strong influence on private consumption in Nigeria. Based on these findings, the following policy recommendations are made:

a. Since remittances are an important source of income for consumption smoothing among households, policies should be designed to ensure that workers' remittances sent through the banks and other transfer institutions attract little or no interest, in order not to limit the impact of workers' remittance on private consumption. Such increase in consumption resulting from international workers' remittance will promote economic activity in the country and invariably influence the employment level significantly.

b. There is the need for the Standards Organization of Nigeria (SON) to maintain standards in both quantity and quality of consumables produced by local manufactures. This will encourage beneficiaries of international remittance to expend their remittances on domestic commodities rather than on foreign/imported commodity.

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