

Strength from Abroad The Economic Power of Nigeria's Diaspora



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In this paper, we take a close look at the volume and value of remittance flows into the country, as well as regionally and globally. In addition, the paper also highlights the potential importance to the Nigerian economy, and tries to answer the following questions:

- What are remittances and what relevance do they hold for a country's economy?
- What is the trend in global remittances and what are the factors driving these trends?
- Which countries account for the largest inflows in Sub-Saharan Africa (SSA)?
- How much remittances flow into Nigeria?
- What are the top countries that account for the significant share of remittance flows into Nigeria?
- What is the population of Nigerian migrants overseas? What is the future growth of this diaspora?
- What is the importance of, and the contribution of remittances to the Nigerian economy?
- How do we take advantage of these flows for national growth and development?



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Executive summary

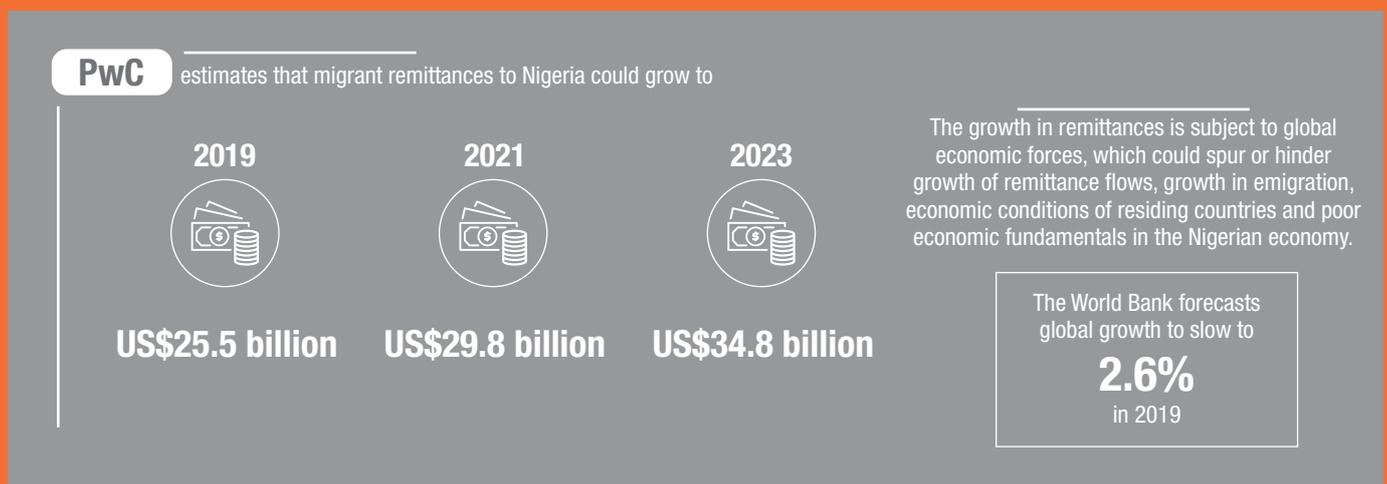
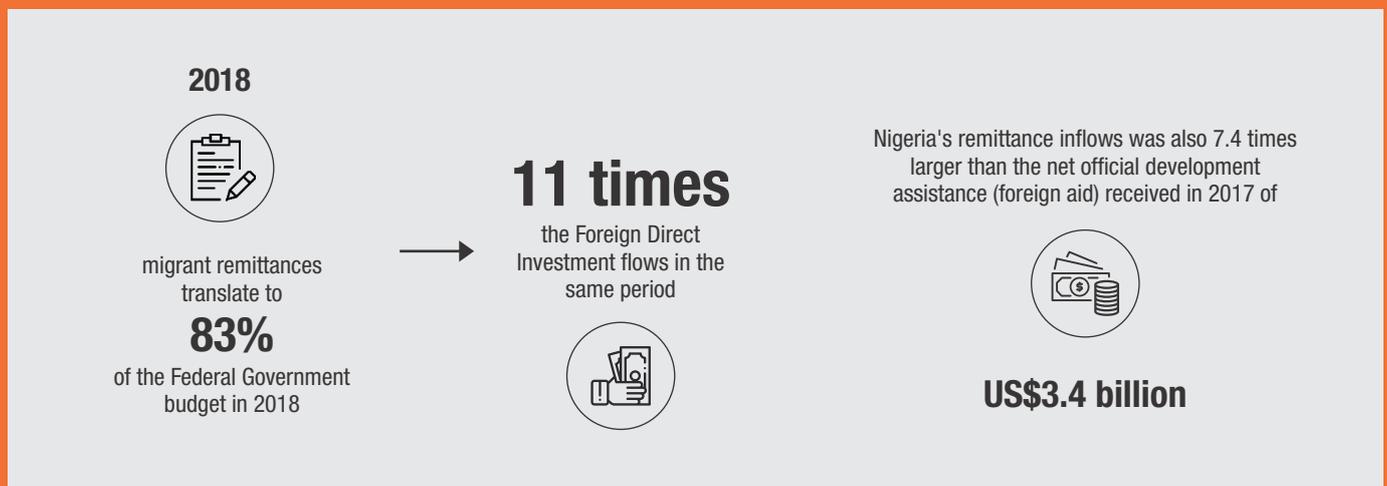
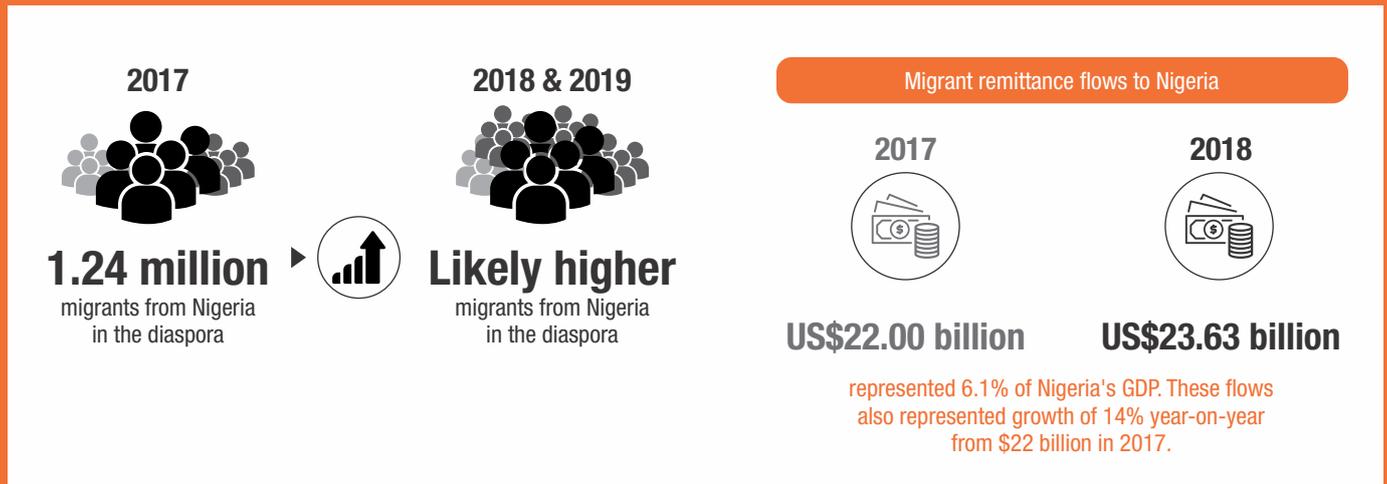
Official records indicate that there are 1.24 million migrants from Nigeria in the diaspora (United Nations, 2017). This figure is likely to be higher in 2018 and 2019 with the recent trend in migration from the country. Almost half of Nigerian adults have indicated their willingness to leave the country in the next five years, according to a 2018 survey conducted by the Pew Research Centre.

Consequently, Nigeria accounts for over a third of migrant remittance flows to Sub-Saharan Africa. PwC estimated that these flows amounted to US\$23.63 billion (2017: US\$22 billion) in 2018, and represented 6.1% of Nigeria's GDP.

The 2018 migrant remittances translates to 83% of the Federal Government budget in 2018 and 11 times the FDI flows in the same period.

Nigeria's remittance inflows was also 7.4 times larger than the net official development assistance (foreign aid) received in 2017 of US\$3.4 billion.

PwC estimates that migrant remittances to Nigeria could grow to US\$25.5bn, US\$29.8bn and US\$34.8bn in 2019, 2021 and 2023 respectively. Over a 15-year period, PwC expects total remittance flows to Nigeria to grow by almost double in size from US\$18.37 billion in 2009 to US\$34.89 billion in 2023. The growth in remittances is subject to global economic forces, which could spur or hinder growth of remittance flows, Other factors that will drive remittance flows include growth in emigration rate, economic conditions of the resident countries and the economic fundamentals in the Nigerian economy. The World Bank forecasts global growth to slow to 2.6% in 2019.



Introduction

According to the IMF, remittances represent household income from foreign economies arising mainly from the temporary or permanent movement of people to those economies. Remittances include cash and noncash items that flow through formal channels such as electronic wire, or through informal channels, such as money or goods carried across borders.

The importance of remittances is in the role they play in economies. They help poorer recipients meet basic needs, fund cash and non-cash investments, finance education, foster new businesses, service debt and essentially, drive economic growth. Empirical studies show that the primary benefits of remittances to recipient households is the improvement in their general welfare. According to analysts, 70% of remittances are used for consumption purposes, while 30% of remittance funds go to investment-related uses.



Global remittances and trends

The World Bank estimated that global remittances grew by 10% to \$689 billion (2017: \$633 billion) in 2018, with developing countries receiving 77% or \$528 billion of the total inflows. India, China, Mexico, the Philippines and Egypt are among the largest remittance recipients globally, collectively accounting for approximately 36% of total inflows.

The official recorded remittances are much lower than the actual remittances that take place through official and unofficial channels. Remittances through informal channels could add at least 50% to the globally recorded flows (World Bank, 2006, *ibid.* 85). Freund and Spatafora (2005) estimate informal remittances to amount to between 35 and 75% of officially recorded flows.

The SSA region received a small share of the global remittances in 2018, with Nigeria accounting for over a third of regional inflows. Despite representing a small percentage of global flows, official remittances to Sub-Saharan Africa grew by 10% to \$46 billion in 2018. The World Bank also projects remittances to the region will grow by 4.2% in 2019, due to a moderation in global growth.

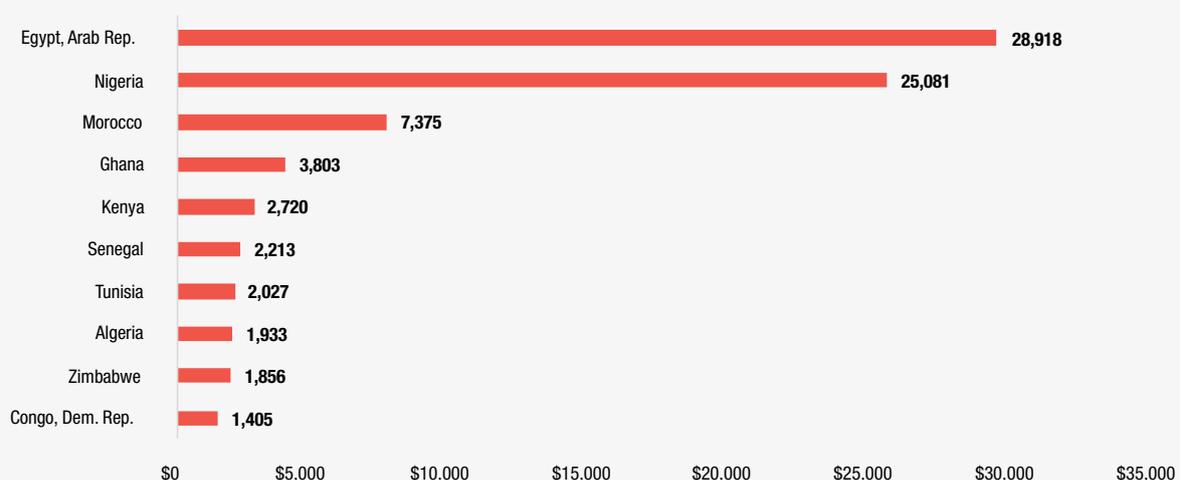
According to the International Monetary Fund (IMF), remittances sent to SSA through informal channels, at 45 to 65% of formal flows, are significantly higher than in other regions. Overall, remittance flows are anticipated to keep expanding as a result of two factors: projected strong regional economic growth in 2019 and large intra-regional migration flows from the SSA region. It is therefore imperative that countries in the region, especially Nigeria, take advantage of this trend in the course of strategic economic decision-making.

Remittance flows to Africa

Egypt and Nigeria account for the largest inflows of remittances into Africa in 2018. In 2017, Nigeria led the Continent in terms of remittance receipts but dropped to second place behind Egypt in 2018. There are two main reasons behind this growth. First, global economic growth, especially in high-income OECD countries. The World Bank Migration and Development

Brief attributes the rebound experienced in the global remittance industry to economic growth in Europe, the Russian Federation and the United States. Second, there was a rise in oil prices, which boosted economic activities in oil-producing countries worldwide.

Top Remittance Receivers in Africa (2018), US\$Million

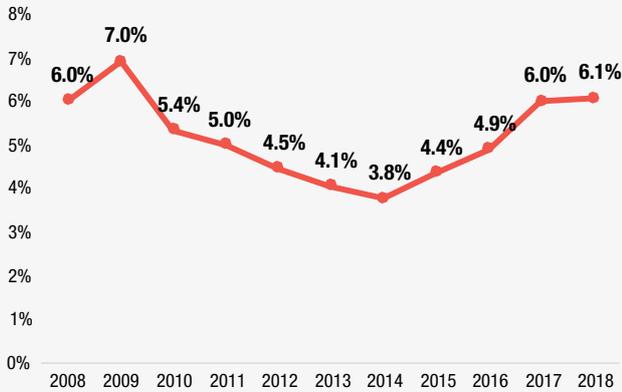


Source: KNOMAD

Nigerian Diaspora, Remittances and Contributions to National Development

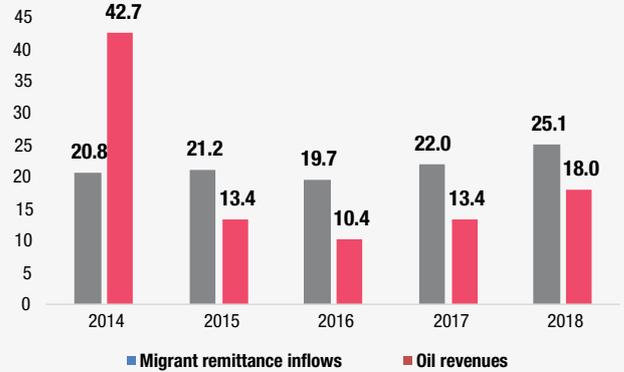
For four consecutive years, official remittances have exceeded Nigeria's oil revenues.

Nigeria's Remittance Flows as a % of GDP



Source: World Bank, PwC Analysis

Comparative analysis of oil revenues and remittance inflows (2014-2018), US\$'Billions)



Source: KNOMAD, CBN, PwC Analysis

Since many transactions are unrecorded or take place through informal channels, the actual amount of remittance flows into the country is arguably higher. In 2018, migrant remittances to Nigeria equaled US\$25 billion, representing 6.1% of GDP. This also represents 14% year-on-year growth from the \$22 billion receipt in 2017.

The 2018 figure translates to 83% of the Federal Government budget in 2018 and 11 times the FDI flows in the same period. Nigeria's remittance inflows was also 7 times larger than the net official development assistance (foreign aid) received in 2017 (US\$3.4 billion.)

Nigerian Diaspora, Remittances and Contributions to National Development

Recognising the strategic importance of the Nigerian diaspora, the Federal Government signed the the Nigerians in Diaspora Commission Establishment Bill into law in July 2017.

Abike Dabiri-Erewa was appointed as the first chairman and chief executive officer of the Commission.

The Law established the Nigerians in Diaspora Commission (NiDCOM), which was set up to engage and utilise the human, capital and material resources of this demography in the socio-economic, cultural and political development of Nigeria.

In 2019, the Federal Government went a step further by recognising July 25 of every year as National diaspora day.

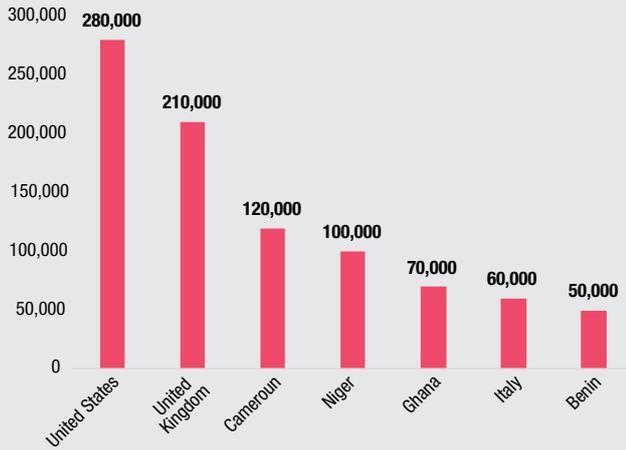


Migrant population

As of 2017, the number of international migrants worldwide stood at almost 258 million (or 3.4 percent of the world's population), according to UN Population Division estimates. According to the UN migration data portal, there were 1.3 million emigrants from Nigeria in 2017, which represented 0.6% of the total population (net migration is ~300,000 in the last 5 years). Though the official records do not include those born of Nigerian parents in the diaspora and therefore, hold citizenship of their birth countries.

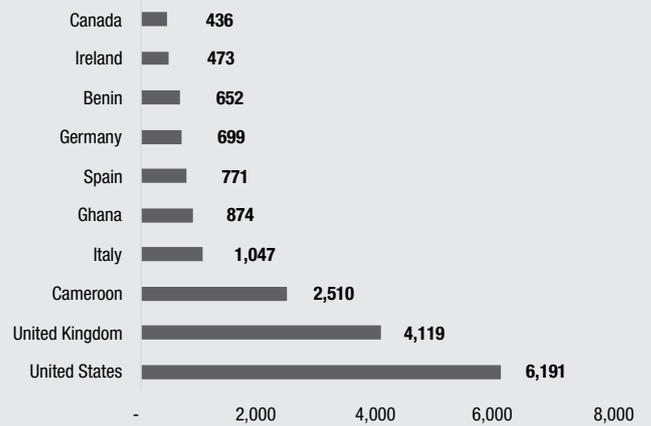
This category also account for the remittance flows to Nigeria. Unofficial reports state that there are about 15 million Nigerians in the diaspora. The table below highlights the top country destinations for Nigerian emigrants and the top countries from where the bulk of remittances flow from.

Top country destinations for Nigerian emigrants (2017), population



UN-DESA, PwC Analysis

Top 10 remittance-sending countries to Nigeria, US\$'millions (2017)

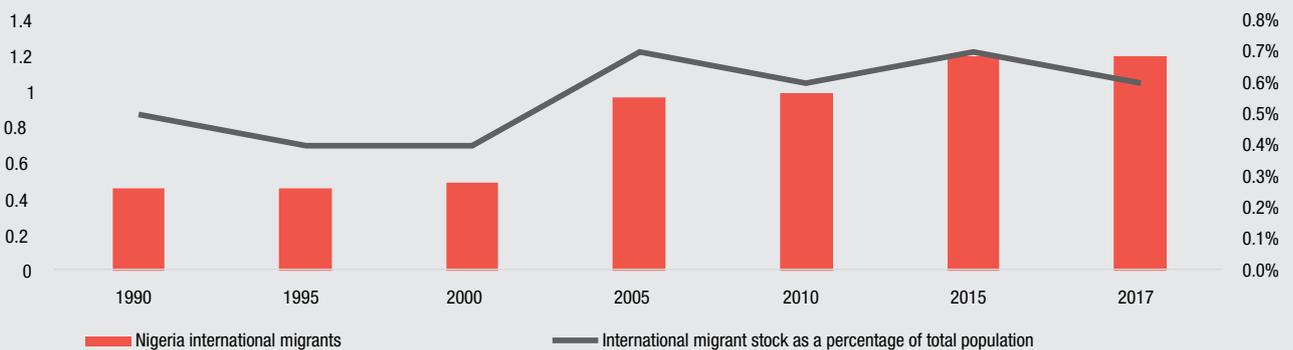


KNOMAD, PwC Analysis

Remittances from the United States amounted to US\$6.19 billion in 2017 and accounted for 9% of the total remittance outflows from the country in the same period. The United States accounts for 22.6% of the total emigrants from Nigeria in the diaspora. Remittance per capita from the Nigerian diaspora in the U.S. to Nigeria is US\$22,107 per emigrant. According to a survey conducted by the Pew Research Centre, almost half

of Nigerian adults have indicated their willingness to leave the country in the next five years. According to findings from the survey, 45% of adults reveal that they plan to emigrate from the country in the period stated above. This is the highest share among the 12 countries surveyed across 4 Continents.

International migrant statistics for Nigeria, 1990 - 2017



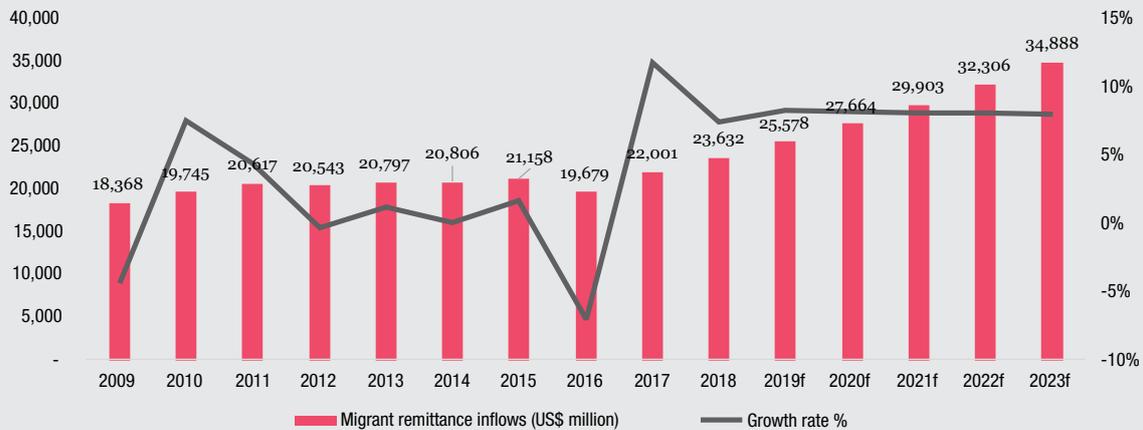
Source: UN DESA 2017

Impact of remittances on economic growth

Against increasing migration, lower growth forecasts, declining standard of living and rising insecurity, remittance inflows were projected using a simple model to forecast growth for the next five years as shown in the graph below:



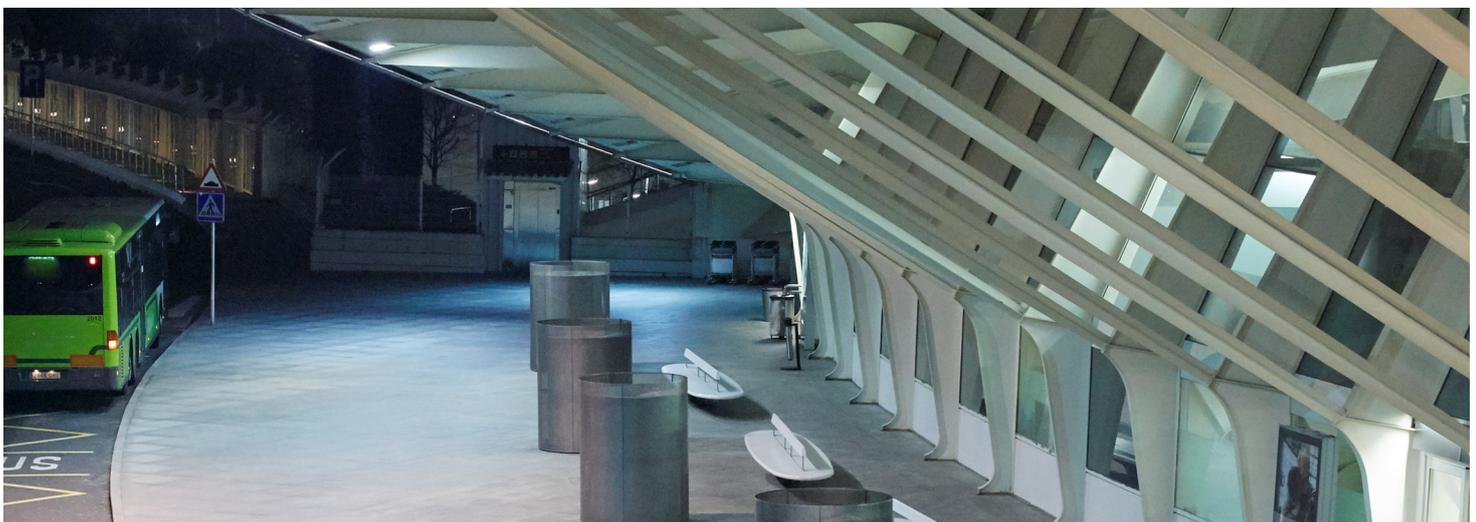
Nigeria: Migrant remittance inflows (2009 - 2023f), US\$ million



Source: KNOMAD, PwC projections, (2018 figure is PwC estimate)

Some global studies have attempted to reflect the direct impact of remittances on the overall economy, as well as the consumption and investment of households in developing countries. Below are findings from a report by the United Nations Conference on Trade and Development (UNCTAD) on the impact of remittances on developing countries:

- A study conducted in Mexico reflected that for every \$2 billion in remittances that entered the country, production in the economy increased by over \$6.5 billion (Durand et al, 1996).
- Asiedu (2003) revealed that nearly 30% of remittances are used for the purpose of investment and construction of houses in Ghana.
- A 1988 survey of 1,526 Egyptian migrants (McCormick and Wahba, 2001) showed that even though the results differ for literate and illiterate migrants, two factors – time spent working abroad and total amount of money saved abroad – have positive and significant effect on the likelihood of migrants becoming entrepreneurs upon return to the home country.
- Adams (2005a) study takes data from a 2000 survey of 7,276 households, in both rural and urban Guatemala, and compares the marginal budget share of remittance receiving and non-remittance receiving households on six consumption and investment goods. The findings show that the households receiving international remittances spend more at the margin on investment goods, especially, on housing and education, and spend less, at the margin, on food items.
- Yang (2004) analyses how the exchange rate shocks during 1997 due to the Asian Financial Crisis affected the expenditure pattern of 1,646 Filipino households receiving international remittances. Of the several findings in this paper, one of its findings shows that favourable exchange rate shocks (i.e. more remittances income as a result of favourable exchange rate shocks) increases the investment of remittances receiving household in entrepreneurial activities specifically in transportation, communication and manufacturing enterprises.



Recommendations

It is evident that remittances can have a strong impact on development, both at the macro and micro- level, especially as it has a multiplier effect on consumption, investment and economic growth. In order to ensure that remittances are being utilized in ways that are beneficial to the economy, below are some recommendations that could be implemented:

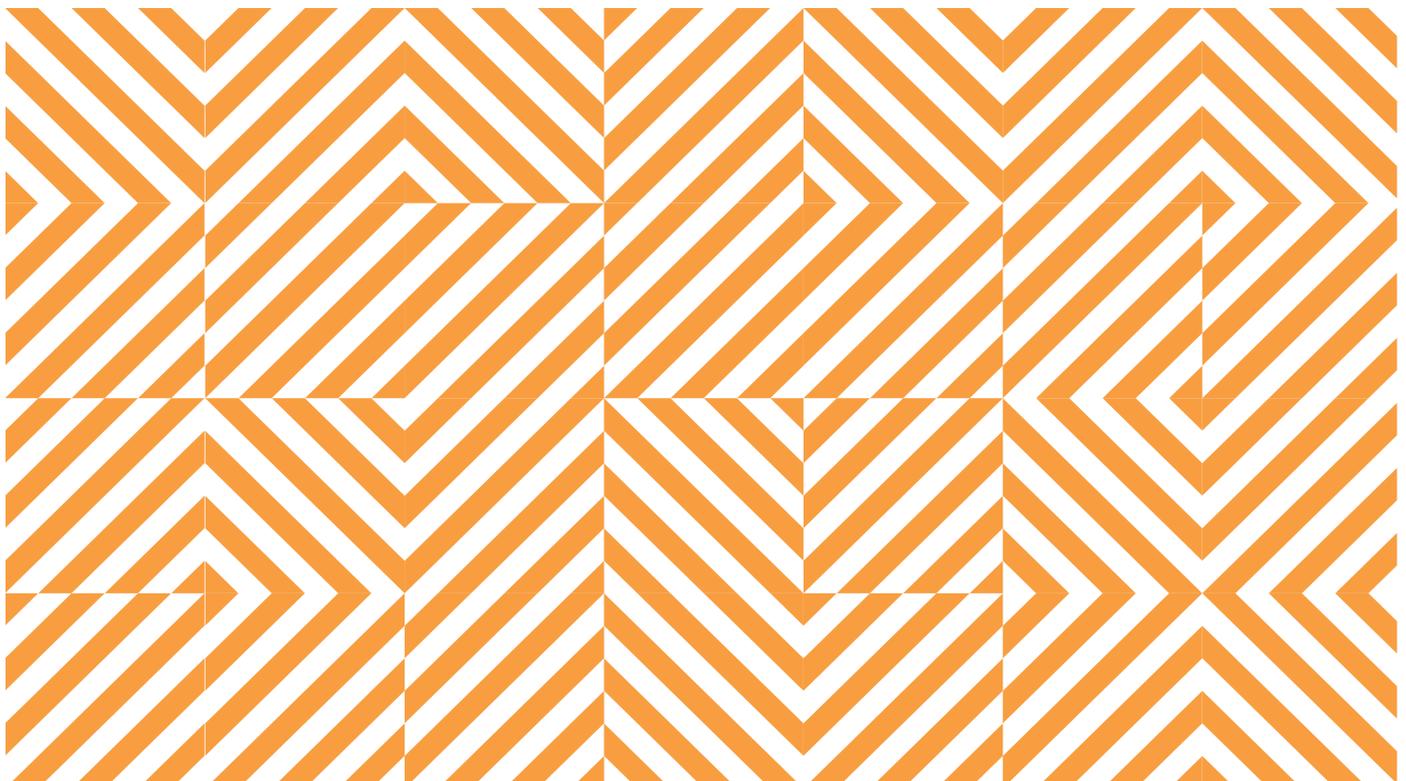
- A. Creation of platforms that increase accessibility of crucial information for Nigerians in the Diaspora. The Nigerian diaspora constitutes mainly semi-skilled, skilled and highly skilled professionals. They are in need of credible opportunities of investment with assured returns on their savings and earnings. A platform where information on opportunities can be shared will help to reduce information asymmetry when it comes to investment opportunities. Also, it is strategically important for state governments to also adopt these platforms to drive and attract remittance flows from migrant indigenes toward consumption, investment and development in their respective sub-nationals.
- B. Encouraging and creating pooled investment vehicles. One of the major barriers to investing for those in the diaspora is the minimum amount of funds, which investing firms accept. Therefore, pooled investment vehicles where members of Diaspora can be vetted and can aggregate funds for private equity investment for example, would encourage greater investments.
- C. Early-stage businesses with smaller financing needs, present another great opportunity for those in the diaspora to invest through angel networks. Facilitating these investment options in small-scale and medium-scale enterprises, joint ventures and micro-credits become pragmatic and viable opportunities for the diaspora (Pande, 2014b). Such efforts will also encourage employment-generating activities, reduce further emigration and save workers from exploitative conditions abroad by providing them alternative livelihood options in their own country.

- D. Cost of remittances and technology: The global average cost of sending \$200 was 7.1% in the first quarter of 2018, more than twice as high as the Sustainable Development Goal 10 target of reducing the transaction costs of migrant remittances to less than 3%. Sub-Saharan Africa remains the most expensive place to send money to, where the average cost is 9.4% (about 25% higher there than in the rest of world). However, these costs have been decreasing over the last 10 years, partly because of the rise of mobile money technology. Today, mobile money transfers are two times less expensive than money transfer operators and post offices, and almost three times less costly than transfers through commercial banks. As mobile money technology continues to expand, and its coverage and usage continue to increase across Sub-Saharan Africa, it is expected to contribute to an increase in remittance flows.

Several countries across the globe, including Nigeria, have developed plans towards attracting investment from their diaspora community for national development. Essentially, the extent to which the diaspora contributes to the developmental affairs of a country will be determined largely by trust.

Sub-national governments (states) across most of these countries are also tapping into the immense opportunities in the diaspora space.

In summary, what is required is a coherent policy framework to harness remittances into generating capital for productive investments for the growth and development of small and micro-enterprises, which will in turn, create employment. In addition, remittances can be deployed toward philanthropic activities which can serve as solutions for specific deficiencies in the local infrastructure such as schools, hospitals and roads.



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