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FINANCIAL POLICIES AND REMITTANCES: IMPLICATIONS FOR NIGERIA'S ECONOMIC GROWTH

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Abstract
This paper examines financial policies and remittances and the implication for economic growth in Nigeria. This study becomes imperative because of the increasing role of remittances in poverty alleviation, foreign exchange flows and credit gap breach in Nigeria. Data for the study are from CBN statistical bulletin and the Federal Reserve Bulletin, and annual Statistical Digest of the US between 1980-2006. The multiple regression models with lagged depended variable were used for the analysis and the Ordinary Least Square (OLS) technique was used to estimate the parameters. The outcome of the regression result was mixed as the parameters for some of the variables were contrary to apriori expectations. This implies that financial policies on remittances are still very tangential and not well articulated. A well articulated policy is urgently required for this noble source of revenue. This would include the involvement of Nigerian government, institutions, financial sector, private sector etc to develop policy, create more packages and incentives to encourage formal flows of remittances to the country.

Introduction

Every day, thousands of Africans -living abroad line up in money-transfer offices to wire home the odd dollar they are able to save. From the US, Saudi Arabia, Germany, Belgium, Switzerland and France — the top sources of remittances to developing countries — some of the money finds its way deep into the rural areas of Africa. There, it may send a child to school, build a house or buy food to sustain those remaining at home.

Remittances are the portions of cross-border earnings that migrants send home. There are two types, official and unofficial. Official transfers use banks, money-transfer organizations and sometimes the Internet. Unofficial remittances are sent through friends or migrants themselves or through traditional networks which allow money deposited with a trader in one country to be paid out by a partner in the recipient country.

In 2001 remittances to developing countries stood at $72.3 billion, 42% of total Foreign Direct Investment. In 2003 it was estimated to be over $300 billion. This is the second largest source behind Foreign Direct Investment of external funding for developing countries and it is considered to be a more stable source of capital than private capital (Banjoko, 2005).

While remittances to developing countries have more than doubled in the last decade, they have grown little in Africa. Africa accounts for approximately 15% ($45 bn of the total global remittance flow). Total remittances to Africa amounted to $9 bn in 1990 and by 2003 had reached $14 bn. Over the last decade, Egypt and Morocco have been the largest recipients on the continent and North Africa as a whole received more than 60 per cent of total transfers (Banjoko.2005)..

In sub-Saharan Africa, Nigeria is the largest recipient, taking between 30 and 60 per cent of the region's receipts (Banjoko, 2005). Economists believe that money sent home by Nigerians in various parts of the world now exceeds $1.3 bn annually, ranking second only to oil exports as a source of foreign exchange earnings for the country. According to Africa Recruit initial Survey (2003), Nigerians in the Diaspora remitted at least up to $28 bn dollars within the last 8 years. Experts have argued that the amount being remitted through informal channels is probably 4 times this amount. A Nigerian Diaspora survey in 2005 showed that 92% of the remittances is invested and that remittance accounted for 5% of GDP (Banjoko,2005).

Despite that remittances are now an important segment of financial flows in Nigeria Agu, (2009) and Adolfo (2009) posit that policy to channel its use is still rudimentary and uncoordinated. With so many remittance instruments, senders, channels, service providers, operators, recipients, agents and corridors, the Nigerian remittance industry could hardly be said to be positioned to help economic growth in any meaningful way. Other limitations include high commission, Poor infrastructures in sending and receiving countries, Wide differences between official and black rate, no integrated services between business and governments.

Indeed, for a country like Nigeria, there is not even enough data on the size and implications of alternative remittance sources and channels to be able to do so. Recently, the Central bank of Nigeria in collaboration with some development partners, initiated a survey of the remittance industry. Among other mandates, the work was to evaluate trends in the industry and propose policy options to improve the sector. The work acknowledged, like many others before it, that the size of remittance transfers may be bigger than variously estimated. The study asserts that policy interest in migrant remittances is still weak in Nigeria despite intensive human capital export from the country since the adoption of structural adjustment programme. This is strange given that such huge emigration as witnessed since the 1980s should make the surge in remittances predictable given the structure of social ties among African families. Without doubt, the lack of policies to channel remittances to 'appropriate' (preferably investment sectors) over time has impacted on the overall contribution of remittances to economic development in Nigeria.

This paper sets out to examine financial and monetary policies on remittances and the implication for Nigeria's economic growth. This paper is divided into 6 parts. Part one is on the concept of remittances. Part two is theoretical framework. Part three is the case for Remittances in Nigeria's Economic Growth. Part four is issues in Remittances Transaction to Nigeria. Part five is on financial and regulatory framework in Nigeria. Part six is theoretical Model, estimation and discussion and part seven is conclusion and recommendations.

2.0 The concept of remittances

Literatures on remittances are basically grouped into two broad categories. Macro and micro studies. Micro studies on remittances are further divided into two: one sets of literature examines the causes and use of remittances while the second category focuses on the macroeconomic impact of remittances (*Bouhga-Hagbei, 2004;* Studies by Agu (2009).
At the extreme poles of ideological divide on the impacts of remittances to developing economies are the neoliberal-functionalist and historical-structuralists. Neoliberal functionalist holds that remittances is beneficial at all levels i.e individual ,household, community, and national level (Oroczo 2002, Skeldon 2002, Ratha 2003) cited in Chukwuone et.al (2007). Historical structural perspective holds that it creates dependence relation (Portes and Rorozc 1989) also cited in Chukwuone et.al(2007)

Several studies in recent time have documented evidences on the impact of remittances on the various aspects of economic lives in developing economies. Evidences from a recent macro study on 117 countries by Adams (2007) show that the following factors have significant effects on remittances: distance between host and home country of remitter , level of human capital(negative effect), and level of income of remittance receiving country. Taylor et al (2005), in a study, utilizing data from the Mexico National Rural Household Survey found that remittances from international migrants become more equalizing (or less unequalizing), as well as more effective at reducing poverty, as the prevalence of migration increases.
Sequel to Taylor et al study (2005), a brief review of micro studies (seven different household survey studies) on the effects of remittances on welfare and poverty by Adam (2007) reveals that remittances generally plays significant role towards the reduction household poverty. Some of the studies treated remittances as simply exogenous while others deducted opportunity cost of migration (i.e the earnings that would have accrued to the migrant had he she not travelled) from the value of remittances.
Some other writers have offered solution to poverty trapped economy through remittances derived from migrants. For example, Bertoli (2006) advanced the thesis that a generation poverty could be wiped out should parents at time t educate their children and pay for their travels abroad as the children would in turn earn higher income to educate their own children at time t+1 to the level that they would not need to go abroad to earn high enough income for their own children at time t+2. This thesis is partly anchored on endogenous theory of growth.
Remittances have also been shown to be a source of development financing and not just consumption financing Gupta, Pattilo and Wagh(2007) . The used a panel data of 44 countries to show that there is positive significant effect of remittance on financial deepening and by extension funds for the growth of the productive base of the economy. Their conclusion is not different even when remittances are also viewed as a function of efficient financial system through which remitters send their money.

Findings from the studies by Osili (2007) on the motive for remittance to Nigeria show that altruism is the most important factor for remitting funds by migrants from Nigeria to the US. Risk hedging (through saving and investment) is also an important reason for remittance to Nigeria. Migrant's income is found to positively have impact on the amount of transfer sent as remittance to the home country. Using a matched sample of household of remitters in Nigeria and in the US, the author found that the economic status of the home country (Nigeria) household of remitters do have negative impact on the amount of remittance to such household. This is an indication of altruistic motive for remittance because relatively poorer home country household receives higher rate of remittance than wealthier home country household. It should be noted that the authors controlled for socio-economic characteristics of both households (home and host countries')
The macroeconomic impacts of remittances have been disregarded for at least two reasons. One theoretical strand suggests that workers' remittances are mainly used for consumption purposes and, hence, have minimal impact on investment. In other words, remittances are widely viewed as compensatory transfers between family members who lost skilled workers due to migration. Chukwuma (2009) finds a very weak link between remittances and the real sector in Nigeria with the exception of private consumption for which impact is marginally significant. He recommends the use of specific and directed incentives to both reduce the leakages and encourage investments of remittance proceeds in other (preferably real sector) alternatives as a specific developmental programme.

Nevertheless, Stahl and Arnold (1986) argue that the use of remittances for consumption may have a positive effect on growth because of their possible multiplier effect. Moreover, remittances respond to investment opportunities in the home country as much as to charitable or insurance motives. Many migrants invest their savings in small businesses, real estate or other assets in their own country because they know the local markets better than in their host countries, or probably expecting to return in the future. In about two-thirds of developing countries, remittances are mostly profit-driven and increase when economic conditions improve back home. Such external monetary flows are particularly used for investment where the financial sector does not meet the credit needs of local entrepreneurs (Institute of Development Studies, id21 insights, #60, January, 2006

By exploring the aggregate impact of remittances on economic growth within the conventional neoclassical growth framework using an unbalanced panel data spanning from 1980 to 2004 for 37 African countries, Bichaka Fayissa (2008) finds that remittances boost growth in countries where the financial systems are less developed by providing an alternative way to finance investment and helping overcome liquidity constraints. Mirzaie et al (2008) in a study of the effect of external flows using data for a sample of developing countries (i.e migrants' remittances and FDI flows), on real output growth, price inflation, and components of aggregate demand found an unstable patterns of FDI inflows to a sample of nine MENA countries while remittances flows appear to be more stable over time in recipient countries.

2.0 Theoretical Framework on remittances

Given that remittances occur as a result of people leaving their country of origin to a new environment in search for survival -search for decent and comfortable living conditions (Todaro, 1977:1), migration theories would therefore be considered as the basis upon which this study will be built.

a. Ravenstein's Law of Migration. Ernest Ravenstein is widely regarded as the earliest migration theorist. An English geographer, used census data from England and Wales to develop his "Laws of Migration" (1889). He concluded that migration was governed by a "push-pull" process; that is, unfavorable conditions in one place (oppressive laws, heavy taxation, etc.) "Push" people out, and favorable conditions in an external location "Pull" them in. Ravenstein's laws stated that the primary cause for migration was better external economic opportunities; the volume of migration decreases as distance increases; migration occurs in stages instead of one long move; population movements are bilateral; and migration differentials (e.g., gender, social class, age) influence a person's mobility. The essence was to make a living and subsequently improve the wellbeing of the relatives and families left behind through remittance transfer (Net Industries, 2009).

b. Sjaastad's Human Investment Theory of Migration

This theory evaluates the decision to migrate on the basis of investment whose returns are categorized into money and non-money returns. The non-money returns include changes in psychological benefits as a result of locational preferences. Similarly, costs include both money and non-money costs: transport; disposal of movable and non-movable property necessitated by a shift in residence; wages foregone while in transit; and of retraining for new job, if necessary. While psychological costs consist the costs of leaving familiar surroundings: in many cases of giving up one's language and culture, of adopting new dietary habits and social customs and of growing out of one's ethos altogether. The aim of the migrants under this theory is to maximize their net real lifespan wellbeing- incomes, e.t.c. and hence make their dependents to have access to decent and comfortable living conditions both at home (through remittances) and in their new found "home" (Net Industries, 2009, p.1-3).

3.0 The Case for Remittances in Nigeria's Economic Growth

Studies and data on migration and remittances in Nigeria are very limited and regularly underestimate their sizes (Agu, 2009). In a study by Agu (2009) he established the following case about remittances in Nigeria; Emigrants from Nigeria is estimated to be about 836,832 persons spread mainly across other parts of Africa, Asia, Europe and North America and receives 971,450 immigrants, one percent of which consists of refugees, from its African neighbours. Docquier and Bhargava (2006), Clemens and Petterson (2006) as quoted in Agu (2009) estimate that the country losses about 36.1 percent of all its skilled manpower w3ith tertiary education to migration. More to that, proportion of physicians loaned to the rest of the world after training range from 1,548 to 4,856 (between 4.3 percent and 13.6 percent) and nearly 12,600 (11.7 percent) of trained nurses find jobs outside the country after training. Consequently remittances from these migrant workers is expected to be enormous.

Total remittances flow to Nigeria is said to be on the increase. From a meager US1.18
The case for improving policies for remittance is made critical by the fact that remittance inflows into Nigeria relative to other inflows are by no means small. Orozco (2003) as quoted in Agu (2009) estimates that approximately 65 percent of total official remittance inflows to SSA and 2 percent of formal global remittance flows come to Nigeria. From a meager US$1.18 billion in 1999, remittance inflows into the country are estimated to be about US$10.58 billion in 2006. As at end 2007, remittance inflows stand second only to oil receipts, making them a prime foreign exchange source for the country. But even more importantly, it has been found to be very critically linked to poverty reduction as the average remittance-receiving household is relatively more comfortable than the average non remittance-receiving household. At the macro level, the rate of growth of remittances has been phenomenal over the last decade or so, necessitating special attention by monetary and financial authorities to improve instruments for data collection on remittances. Between 2004 and 2007, growth rates have consistently been above 50 percent annually, even though this might in part reflect improved data collection mechanisms than growth in actual remittances.

At nearly $18 billion US Dollars as at 2007 (CBN 2007), remittance inflows into the country significantly outpace all forms of foreign flows with the exception of oil receipts. Given the figures in table 1, migrant remittances stand at about 7.5 percent of GDP compared to FDI at 3.2 percent of GDP and portfolio flows at less than 1 percent of GDP as at 2006.

But the link between remittances and growth at present is much weaker than ought to be on account of several factors. For example, remittance transfers face dire constraints because of the segmented and oligopolistic structure of the service industry. Transfer related costs could be as high as 20 percent of the total amount being remitted. In addition, the financial services sector treats remittance services as auxiliary and hardly makes attempts either at linking services in the sector with the rest of financial services or improving on the instruments available to remittance recipients. Policymaking on remittances is merely tangential so much so that the data collection instrument for remittance transfers is weakly designed and does not comprehensively cover direction and quantity of flows. There are little, if any, incentives for private agents to optimize the use to which remittance proceeds are put or pool remittance resources for targeted investment purposes. At the macro level, there are no specific instruments designed to attract remittance flows towards specific developmental programmes of the government or communities.

Importantly too, studies on the channels of impact of remittances on growth are lacking or largely deficient. Table 1 above clearly indicates a surge in remittance flows into the country between 2004 and 2007 for example. Interestingly, this period coincided with both banking sector consolidation exercise and a phenomenal growth in the stock exchange. Prior to then, it is possible, but not confirmed that the bulk of remittances are used for consumption.

figure 1 below shows the trends (volumes and annual growth rates of remittances between 1996 and 2007.

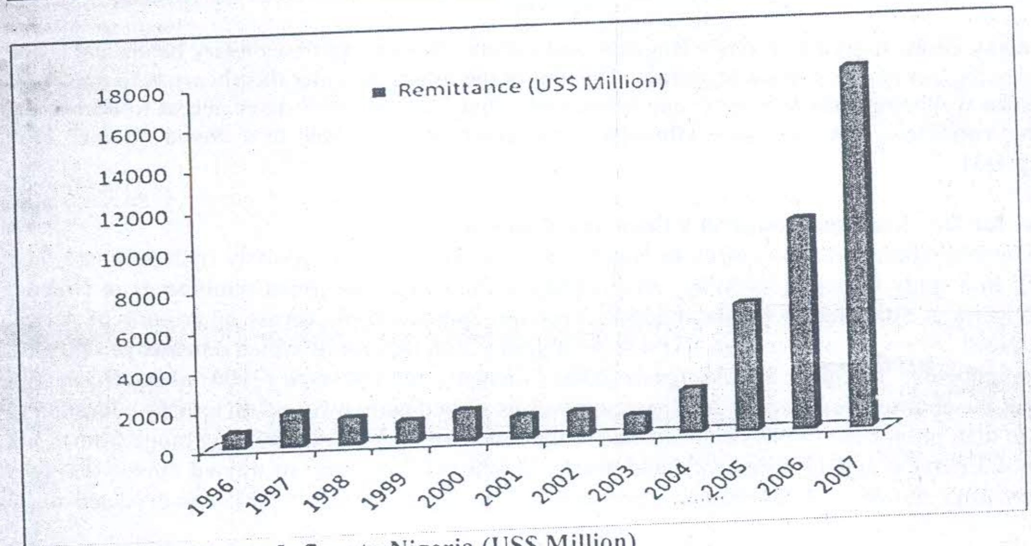

Figure 1: Remittance Inflow to Nigeria (US$ Million)
Source: Central Bank of Nigeria,

The figure shows a phenomenal and increasing flow of remittances to Nigeria from 1996 to 2007

5.0 Issues in Remittances Transaction to Nigeria

As is the case with other countries in Sub-Sahara and Africa in general, there prevail both formal and informal transfer mechanisms and the latter account for about 50 percent of total flows to the country. Many people choose to send money informally despite the existence of several formal financial institutions for transferring money from abroad; the most common method is to give a person traveling to Nigeria cash to deliver to beneficiaries. This environment exists due to Nigerians' distrust of the formal institutions, poor transport, and communications infrastructure outside urban areas, and an inefficient payments system in which over 90 percent of transactions are in cash. While senders who choose the formal system use Money Transfer Operators (MTOs) most frequently. In this sense, a sender can walk into an MTO outlet and initiate a transaction but in Nigeria, only banks have the license to disburse remittances. Therefore, MTOs in abroad must have a Nigerian bank agent to complete their transactions. The beneficiary picks up the transfer from the bank in Nigeria in foreign currency or Naira by showing identification and presenting a unique transaction code.

Considering UK and US as the major remittance-corridors to Nigeria, Bank account holders often can transfer money to Nigeria through correspondent banks and the Society for Worldwide Interbank Financial Telecommunication (SWIFT). However, UK banks are cautious about conducting transfers to Nigeria because of reputational risks associated with Nigeria's financial sector and their conservative approach to account-holder relationships. Financial crimes such as advance-fee-fraud and corruption by politically-exposed persons are prevalent in Nigeria and Nigeria's presence on the Financial Action Task Force's (FATF) list of countries with regimes weak in combating money laundering and financing terrorism. The country's inclusion on the list caused other countries to scrutinize transactions with Nigerian banks and created a perception of distrust of Nigerian financial institutions. Against this background, UK banks have been reluctant to engage in this remittance market by developing specific remittance products for formal transfers to Nigeria as was done in other corridors, such as India.

Data deficiency in the UK and in Nigeria on the size of remittances, cost structure of transfers, and beneficiaries' use of funds serve as another constraints. This data is essential to make policies to increase the development impact of the flows, increase transparency, and develop new products that increase Nigerians' access to financial services. The UK's minimal MTO registration requirements make banks uncomfortable in maintaining accounts for them. The legal and regulatory framework in Nigeria restricts competition and the development of remittance infrastructure that leverages new technologies. The new Anti-Money Laundering and Combating of Financing of Terrorism (AML/CFT) regime presents an opportunity to reduce these negative perceptions.

More collaboration between the UK and Nigeria is necessary to develop the remittance market, encourage the use of formal channels, and enhance the development potential. Among its benefits, the remittance country partnership (RCP) between UK and Nigeria aims to reduce the cost of remittance transfers. The Nigerian government is engaging its Diaspora to help grow the economy.

6.0 Financial and Regulatory Framework on Remittances in Nigeria

The regulations for money transfers in Nigeria are mostly based on the Foreign Exchange Act of 1995 and the Banks and Other Financial Institutions Decree of 1991, amended in 1999. The Act authorizes banks to perform foreign currency payments under its narrow definition of "authorized dealers" in foreign currency. Section 14 of the Foreign Exchange Act (Monitoring and Miscellaneous Provisions) regulates outbound payments under specific circumstances or conditions. By establishing a very low limit of N5,000 (US$40 in August 2007) as the unrestricted allowance for outbound transfers, the Act implicitly restricts most transfers (Orozco and Millis, 2007).

The Foreign Exchange Act also establishes an autonomous Foreign Exchange Market and provides for the monitoring and supervision of the transactions conducted in the market. In April 2006 the Central Bank of Nigeria issued a circular allowing the exchange bureaus (bureaux de change, or BDCs) to sell foreign currency of up to US$5,000 (or its equivalent) for specific purposes, such as mortgage payments, school and medical fees abroad, credit card payments, utility bills, and life insurance. Through the Act, the Central Bank is the authority appointing authorized dealers in foreign currency, narrowly defined as banks and buyers of foreign currency through any bank or non-banking corporate organization. The definition of authorized dealers has been the main source limiting international foreign currency payments to banks (Orozco and Millis, 2007).

The most recent banking and financial reforms (Consolidation of banking and financial sectors) further deepened the financial situation and made the financial institution more robust. This is an encouragement to Nigerians in Diaspora to send more money home as they are assured of the safe custody of their deposits in domiciliary account at home. This further enhances the deposit position of the banking sectors and consequently more availability of loanable funds. Expectantly, financial sector reforms in Nigeria seem to be weakly related to the real sector and consequently growth targeted objective is yet elusive. The deposit rate is very low (as low as 3 percent in some banks) and very high lending rates (as high as 25 percent in some banks). This development tends to hinder the effort of Nigerian migrant workers to remit a chunk of their proceeds in domiciliary account because of the low deposit rates. At the same time the lending rates is so high that it discourages borrowing for investment to impact on growth.

7.0 Theoretical Model, estimation and discussions

This study adapts ElShaka's (2008) theoretical model because it examines the impacts of some monetary and fiscal variables on remittances. The study assumes that emigrants monitor macroeconomic policies in their home countries and respond to them by adjusting their remittance target levels. Because of the spread of Nigerian emigrants over the entire World as ElShaka would for Jordanian in his work, it is difficult to find a good proxy for variables related to the host countries without some costs in terms of result bias. The study therefore assumes remittance is a function of income, exchange rate misalignment, interest rates, financial deepening, and fiscal discipline . This is stated in (1) below. The justification for the use of these variables is that most of the variables(except money supply and government spending/tax) have, on a micro level , been found to have impact on remittances. It is just normal to examine the aggregate impact of all of them on remittances for policy sake. The theoretical implication of financial deepening is that an increased M_2 as a percentage of GDP would bring about inflation and Nigerian diasporas would increase remittances to offset the effects in the value of income of their home household. However, increased fiscal discipline will bring about less remittance as the value of naira would be checked for the domestic economy.

$$\text{Log } R = f(\log Y_t, \log \theta_t, \log m_t, \log w_{i\text{-}wj}, \log R_{t-1}, \log DEFIT_t, \log \lambda) \ldots\ldots(1)$$

Y_t= GDP=real income in the home country
θt= exchange rate misalignment i.e GD/GPPPCA
$w_{i\text{-}wj}$ = host countries and home interest rates, respectively
mt= growth of money supply over trend GDP as a proxy for monetary policy
$DEFITt$= budget deficit as a proxy for fiscal policy
R= target level of remittances to home country.
λ= Home country's lending rate – savings rate

A one period lag value of remittances is included in the model because the target remittances may not be met at a particular time. In this study, we use GDP as proxy for Y, deviation of exchange rate from Purchasing Power Parity as proxy for misalignment of exchange rate θ. Also, the positive difference between Nigeria's interest rate and US as proxy for host and home country interest rate, growth rate of M_2 as a percentage of GDP as proxy for monetary variable m, budget deficit as a ratio of GDP as proxy for fiscal policy and R as the amount of remittance to Nigeria from all over the world (Until 2003, R has been captured as unrequited transfer in the national income statistics of the country). GPPPCA is per capita GDP based on purchasing power parity. The data are from 2007 CBN statistical bulletin for the period covering 1980-2006.The interest rate of the US is used as proxy for host country of Nigerian diasporas. US interest rate is sourced from the 2008 Statistical Supplement to the Federal Reserve Bulletin, monthly, and Annual Statistical Digest of the US. For exchange rate misalignment, we used GDP/Per capital GDP based on Purchasing Power Parity as proxy

Results of estimation

The estimation process is relatively simple as all the variables are found to be stationary at levels. The results are outline table 2.

Table 2: Unit root test for results for the variables

Variable	Order of integration	Sig level
Exchange rate	I(0)	1, 5 and 10%
GDP	I(0)	1, 5 and 10%
Per capita GDP(PPP)	I(0)	1, 5 and 10%
Host country's interest rate	I(0)	1, 5 and 10%
Home(Nigeria's) lendingrate	I(0)	1, 5 and 10%
M2(Broad money)	I(0)	1, 5 and 10%
Savings rate	I(0)	1, 5 and 10%
Fiscal deficit as % of GDP I(0)		1, 5 and 10%..

First the estimated result in table 1 is corrected for heteroskesdasticity by using *White Heteroskedasticity-Consistent Standard Errors and Covariance* because one of the independent variables is the lag values of the dependent variable. After adjusting for endpoints 6 observations are included. This is because the time series data of some of the variables(eg prime lending rate stops at 2003 and budget deficit as a % of GDP is zero approximately from 1999-2007)

Through the value of coefficient of determinations R^2 (94%) shown in table 2 ,we could say that the data gives a good fit of the models . Summary of the estimated regression result is presented on table 3 below

Log R= f(logY_t, log θ_t, log m_t, log w_{i}-w_j, log R_{t-1}, logDEFIT$_t$,log λ).....(1)

Table 3: summary of linear regression result

a Dependent Variable: remittances

Variables	B	Standar error	Standardized coefficient	t	sig
(Constant)	-97086.605	47850.748		-2.029	.058
Deficit as %GDP (deficit)	-687.193	6677.554	-.005	-.103	.919
Gdp as % gpppcap (Exchange rate misalignment (Q)	462.273	422.003	.078	1.095	.288
Mt as %gdp (mt)	-1531.647	2120.030	-.057	-.722	.47[illegible]
Host interest rate as ratio home rate (wi-wj)	987.929	499.905	.125	1.976	.0[illegible]
Domestic lending rate as ratio of domestic saving (λ)	250.340	161.069	.143	1.554	.1[illegible]

GDP (Y)	.006	.013	.095	.464	.64 8
Lagremittance(-R)	.549	.133	.890	4.112	.00 1
R	.98				
R^2	.96				
R^2 Adjusted	.94				
F	61.7				

A look at the result on table 3 shows that deficit financing as proxy for fiscal policy is statistically not significant with negative signed. Exchange rate misalignment is equally statistically not significant but with positive signed. Money (mt) as percentage of GDP is equally not statistically significant with negative signed. The coefficient for the ratio of host to home interest (wi-wj) is positive and statistically significant at 5% probability level. The ratio of domestic lending rate to domestic saving rate (λ) is equally statistically not significant but positive signed. The GDP (Y) proxy to domestic income is statistically not significant and positive signed. The coefficient for the lagged dependent variables (-R) is positive and statistically significant at 1% level of probability. The result generally is ambiguous and consequently confirms some of the theoretical thesis that policy option toward remittances in Nigeria is still very tangential. The proxies to these variables in the model may be inappropriate.

Fiscal deficit though not significant, has negative sign. This result is in affirmative with some thesis of course increased fiscal discipline will bring about less remittance as the value of naira would be checked for the domestic economy. On the other hand, many foreign banks are cautious about conducting transfers to Nigeria because of reputational risks associated with Nigeria's financial sector and their conservative approach to account-holder relationships. Financial crimes such as advance-fee-fraud and corruption by politically-exposed persons are prevalent in Nigeria and Nigeria's presence on the Financial Action Task Force's (FATF) list of countries with regimes weak in combating money laundering and financing terrorism. But the federal government has been combating this nuisance financial art through the Economic Financial Crime Commission (EFCC) and Independent Corrupt Practice Committee (ICPC). Of recent manager of MDG/CEO of some banks in Nigeria have been reprimanded for financial misconduct. This could go a long way to sanitize Nigeria financial transaction with the rest of the world and consequently improve on remittances.

The exchange rate misalignment could equally encourage the flow of remittances to the home country base on the sign. Ratio of domestic lending rate to domestic saving rate (λ) could exerts some positive impact on remittances flows. In Nigeria, remittances flow could save as a breach in the dearth of credit faced by many investors. The lending rate is so high (as high as 30% including transaction cost) and the saving rate is very low (as low as 3%). This scenario force investors to look outward especially those that have friends and relatives abroad for investment funds.

The result equally indicates that previous level of remittances play a significant role on the current level of remittances. This relation is positive. Remittances received are used for various reason (education, health, investment) and tends to have spill over effect for even many years even if the flow is discontinued. The sign for domestic income is positive. This goes to support the fact that if household income is high, they will be able to sponsor family member on trip abroad at time (t) who eventually would become migrant work and would remit back home proceeds at time (t+1). This is exactly evidence by some households in Nigeria. It is mostly family with good income that have family members abroad.

8. Conclusion and recommendations

Remittances which have been acknowledged as one of the major source of foreign exchange, second only to oil receipt is yet to have a well articulated and conceptualized policy option. The oligopolistic natures of remittances institutions have made the cost of remittances to be very expensive. For instance about 25 to 30% of remittances go in to transaction costs. Consequently most remitters prefer the informal sources which made it difficult for comprehensive statistical and record keeping of total flow of remittances.

Therefore the following could be a way forward to enhance remittance flow to Nigeria.

a. Increased involvement of Nigerian government, institutions private sector in particular the financial sector to develop policy, create more packages and incentives to encourage formal flows.
b. Host countries to work with Diaspora communities and private sector MTO.
c. It is equally important for Nigerian Diaspora greater understanding of the impact of remittances to Nigeria & Africa as a continent because remittances can be used as leverages for Nigeria's development.
d. Incentives to Diaspora Investors similar to those given to foreign investors.
e. There should be transparency and accountability

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Appendix 1: Flow of remittances in to Nigeria from 1996 to 2007

YEAR	Remittance (US$ Million)	Annual Growth Rate (%)
1996	832.9	
1997	1773.7	112.95
1998	1439.4	-18.85
1999	1181.8	-17.90
2000	1618	36.91
2001	1237.5	-23.52
2002	1349.8	9.07
2003	1061.7	-21.34
2004	2262.3	113.08
2005	6475.8	186.25
2006	10577.1	63.33
2007	17945.94	69.67

Source: Central Bank of Nigeria, Various Issues