Governance Quality and Remittances in Nigeria: An Empirical Investigation

Sa'ad Babatunde Akanbi[†] & Abdulfatai Adekunle Yusuf[§]

Abstract

This research delved into an examination of the impact of governance quality on remittances in Nigeria, considering both short-term and long-term dynamics. The research was grounded in the New Economics of Labour Theory, which posits that migrants are driven to seek opportunities in economically more prosperous countries. A comprehensive analysis encompassing macroeconomic and governance quality variables spanning the period from 1990 to 2022 was conducted to gain insights into this phenomenon. The study used ADF and ARDL bound tests to determine the order of integration and long-run relationship among the variables respectively. The study also employed the Error Correction Model (ECM) technique to derive regression estimates. The findings of the analysis unveiled that governance quality variables - political stability, rule of law, and government effectiveness display significance impacts on remittances in the long run. Thus, enhancing governance quality through measures like increased transparency and reduced transaction costs can foster trust and further augment remittances. By addressing these influential factors, Nigeria can harness the full potential of remittances to promote economic development and enhance overall welfare.

Keywords: Remittances; Governance Quality; New Economics of Labor theory; ARDL Model

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[†] Department of Economics, University of Ilorin, Nigeria, Email: saadtunde2014@gmail.com
[§] Department of Economics, University of Ilorin, Nigeria

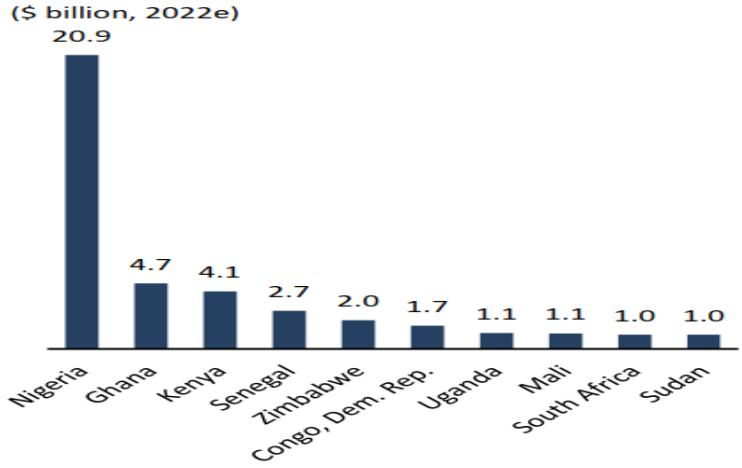
1.0 Introduction

Remittance is a term used to describe transfer of money or funds from one country to another by migrant workers who send money back to their home countries (Alechenu, 2021). According to the International Monetary Fund (2009), remittances consist of household income generated by the migrants from economies of the host country, whether temporary or permanent. Remittances can take the form of goods rather than money, which is known as "remittance in Kind" or "in-kind remittance." In this form of remittance, the sender transfers goods or products instead of cash to the recipient (Brown et al. 2014). This is common in a situation where the recipient resides in an area where financial accessibility is difficult.

In recent times, remittances have become one of the important factors that determine the growth of many economies of the world, especially the emerging economies. It is the second largest source of foreign transfer in the world economy, and it contributes a significant portion to the balance of payment of the majority of poor nations (Jijin et al., 2022). World Bank (2022) observed that remittances surpass the value of net export in most of the emerging countries. For instance, remittances to countries with low and middle income surged by an estimated value of $626 billion in 2022, which represents 5% increase as against 2021. Most of these remittances come from OECD countries, because they have a large number of migrants seeking for economic opportunities and higher paying jobs (Bossavie and Ozden, 2023). In sub-Saharan Africa, Nigeria received the highest remittances in 2022 with $20.9 billion compared to $4.7, $4.1, $2.7 and $2.0 billion for Ghana, Kenya, Senegal and Zimbabwe respectively as shown in Figure 1 (World Bank, 2022; KNOMAD, 2022). Adelaja (2022) opined that the large Nigerian diaspora community is one of the key drivers of remittances into the country because, an estimated 15 to 17 million Nigerians live and work in countries like United State of America, United Kingdom and Canada among others.

In most cases, people leave their countries and migrate to another countries in quest of better possibilities, due to lack of such opportunities in their home countries. Many reasons have been advanced for the migration and higher remittances. For example, Laniran and Adeniyi (2015) opined that education level and acquired skills of the migrants are essential in determining their employment opportunities and earnings. Higher education and skills increase the chance of getting good employment, which can lead to more stable and higher payment that allows for regular remittance payments. Also, the host countries are more often economically prosperous and technologically advanced, which can create job opportunity and higher wages for the migrants (Sadeh et al., 2020). Thus, the condition of the economies of the host countries can influence the flow of remittances back to the migrants' home countries.

Figure 1: Remittances to sub-Sahara Africa in 2022



Source: KNOMAD (2022).

Considering the available empirical literature on what determines remittances, there is a dearth amount of literature on the governance quality as a determinant of remittances in Nigeria, The existing studies primarily focused on macroeconomic factors as determinants (Jijin et al. 2022; Denis et al. 2013; Olatomide, 2012), with limited attention given to the role of governance quality. The role of quality of governance in influencing inflow of remittance cannot be jettisoned, especially in developing nations like Nigeria. Good governance can increase the inflow of remittances into the home country of the migrants (Saad and Ayoub, 2019; Ogunniyi et al., 2020). For instance, political stability plays a crucial role in attracting remittances as it provides confidence to both the sender and the receiver. A stable political environment fosters economic growth, which creates job opportunities and increases the recipient's ability to receive and utilize remittances effectively. Therefore, this study seeks to fill this gap by examining the impact of governance quality on remittances flows in Nigeria.

The remainder of this study is organized as follows. Section 2 reviews relevant literature to this study. Model specification and estimation technique were presented in section 3. Section 4 presents estimated results and analysis, while section 5 concludes the study.

2.0 Literature Review

The theoretical literature on the determinants of remittances is on the developmental stage as there are few theories on the subject matter. For instance, the New Economics of Labour Migration theory emphasized on the differences between the host and home countries, in terms of income and living standards, as a major determinant of remittances. The theory suggests that migrants usually consider economic incentives and opportunities available to them in host countries, before taking the decision on where to live and work. The migrants often believe that they are likely to remit more money back home, if they can earn higher wages in the host country than they would be able to, in their home country.

The Altruism theory, developed by Lucas and Stark in 1987, asserts that migrants send money back to their home country as a moral obligation or altruistic concern for their families and communities (Shimada, 2011). This theory is based on the assumption that individuals have moral inclination to assist their family members, probably due to their cultural norms, religious beliefs or as a sign of gratitude for their supports. The Dependence theory on the other hand asserts that with advancement in the world political economy, certain nations will continue to

dominate other nations, due to their political and economic power. In this case, the dominant nations will look up to the powerful nations for possible benefits, and the remittances that the migrants will send back to home country will depend on the economic condition of the host country. For example, if the economy of the host country is in recession, the amount of remittances may reduce when compared to boom period. Thus, this theory argued that the flow of remittances is often shaped by the economic conditions and the connections between the developed and the developing nations.

However, several empirical studies have been conducted on the determinants of remittances using different indicators with different results. While some considered household data (Olatomide, 2012; Olowa and Timothy, 2012; Biyase and Tregenna, 2016), others used macroeconomic variables (Denis el al. 2013; Jijin et al. 2022; Iseghohi, 2021). For instances, Denis et al. (2013) assessed the determinants of remittances in selected African countries. The study focused on the factors that influence the decision of African migrants to transfer funds to their families and communities. The outcomes of this study revealed that last year remittances, money supply, inflation, interest rate and age dependence ratio are key predictors of remittances. The authors noted that government must intensify efforts to reduce inflation and tax in a bid to attract remittances into the country.

Olatomide (2012) also examined the determinants of remittances receipts in rural Nigeria. The study used household-level data to investigate the factors that influence the likelihood and the amount of remittances received in rural areas of the country. The study found that the level of education of household heads, household size, and the economic status in the local community are important determinants of remittances. The results suggest that highly educated household heads are more likely to receive remittances, while larger households receive larger amounts of remittances. Similarly, Olowa and Timothy (2012) examined the factors that determine remittances in rural Nigeria. The study used the Multinomial Logit model for the analysis and the results show that educated households, age of the household head and land size are determining factors of international remittances.

Biyase and Tregenna (2016) examined the household – level determinants of the probability and the domestic remittances in South Africa. The study employed four waves of National Income Dynamics Survey (NIDS) data. It also used Random Effect Tobit, Heckman Selection, and Two-Part model approaches. The results reveal that age, race, education level, employment status, and income are major determinants of remittances in South Africa.

Jijin et al. (2022) examined the determinants of remittances in India using annual time series data from 1991 to 2019. The study employed the ARDL model to assess the short-run and long-run relationships between remittances and macroeconomic variables. The results reveal that exchange rate, oil price, and GDP have significant impacts on the flow of remittances. The study concluded that remittances are not countercyclical in the Indian setting, and remittances are driven more by a weak investment incentive than by an altruistic one. Also, Abbas, Masood and Sakhawat (2017) investigated the determinants of remittances in Pakistan employing the GMM method of analysis covering a period from 1972 to 2012. The results indicate that inflation, financial liberalization and democracy have significant impact on remittances. The study also found that the 2001 terrorist attacks significantly affected remittances. These findings highlight the substantial impact of both economic and non-economic factors on remittances.

Laniran and Adeniyi (2015) used annual time series data covering the period 1980 – 2013 to investigate the determinants of remittances in Nigeria. The study employed VEC model and the results show that differentials in deposit rate, interest rate and exchange rate have positive impact on remittances. The study concludes that the flow of remittances is more of a function of portfolio motive than macroeconomic factors.

Adenutsi (2014) examined the determinants of workers' remittances and compensation of employees for 36 countries in sub-Saharan Africa. The study employed the GMM approach and results show that macroeconomic conditions of the host country is a major determinant of remittances. In the same vein, Adenutsi and Ahortor (2021) examined the factors that determine migrant remittance inflow to sub-Saharan Africa for 38 out of 48 SSA countries covering the period 2000 – 2009. The study employed the Blundel-Bond system GMM and the results reveal that incomes of both home and host countries, income differential, interest rate, exchange rate, and institutional quality are the major determinants of remittances in sub-Saharan Africa countries. The study recommends macroeconomic stability and pro-growth policies to attract more remittances in SSA.

Adams (2009) also investigated the determinants of remittances in developing countries. The author considered the migrants' skills, interest rate, poverty level and exchange rate as the independent variables. The findings show that countries with more high-skilled migrants receive less remittances when compared to countries with more unskilled migrants. The study also found that poverty level of migrants' country was not a significant factor in determining remittance in developing countries under investigation.

Singh and Haacker (2011) examined the macroeconomic determinants of remittances in sub-Saharan African countries for the period 1990 to 2008. The study used data on the size and location of the host countries. Their results reveal that the wealth of the host countries is a major determinant of remittances in sub-Saharan African countries.

Tsaurai and Mellania (2020) investigates the determinants of remittances in transitional economies using the data covering 1997 to 2014. The authors employed fixed effect, random effect and pooled OLS estimation procedures to achieve the set objectives. The results reveal that FDI, economic growth, financial development and savings have significant impacts on remittances in transitional economies. The results also reveal that human capital development and trade openness were not significant which contradict available theoretical and empirical literature.

Iseghohi (2021) investigates the determinants of migrants' remittances in the West Africa Monetary zone (WAMZ) for the period 1990 to 2016. The study employed both descriptive statistics and Pooled Mean Group (PMG) estimator. The results show that unemployment rate, financial development, exchange rate and per capital income were among the determinants of remittances in the West African Monetary Zone. The study concludes that government of WAMZ should implement appropriate regulatory measures to strengthen their financial sector to attract more remittances.

There is no doubt that the study of remittances is gaining momentum in the academic arena, due to its significant contribution to the economies of most developing nations. Lots of empirical studies reviewed in this study revealed that, attention is more on macroeconomic and household factors as the determinants of remittances. However, there is a dearth amount of literature on the determinants of remittances in Nigeria. The existing studies have primarily

focused on the macroeconomic factors that impact remittances flows, such as exchange rates, interest rate and economic conditions, with limited attention given to the role of governance quality. Therefore, this study seeks to fill this gap by examining the impact of governance quality, using three indicators, on remittances flows in Nigeria.

3.0 Methodology

3.1 Model Specification

This study anchored its model on the New Economics of Labour Migration theory which states that the amount remitted to the home country depends on the economic condition of the host country. That is, remittance is a function of the economic growth of the foreign country

$$rem = f(fgwr) \quad (1)$$

Where *rem* is remittances and *fgwr* represents foreign economic growth. Following Jijin (2022), macroeconomic factors such as domestic economic growth, inflation rate, exchange rate and oil price can influence remittances flow into the home country. Including these variables in equation (1) yields:

$$rem = f(fgwr, dgwr, inf, exch, oilpr) \quad (2)$$

Where: *dgwr* represents domestic economic growth, *inf* is inflation rate, *exch* represents exchange rate, and *oilpr* represents international oil price. Expressing equation (2) in regression equation form and logging *rem* and *oilpr* to scale down their large values, equation (2) becomes:

$$lrem_t = \beta_0 + \beta_1 fgwr_t + \beta_2 dgwr_t + \beta_3 inf_t + \beta_4 exch_t + \beta_5 loilpr_t + \mu_t \quad (3)$$

Including the governance quality variable, which is the variable of interest in this study, transforms equation (3) to

$$lrem_t = \beta_0 + \beta_1 fgwr_t + \beta_2 dgwr_t + \beta_3 inf_t + \beta_4 exch_t + \beta_5 loilpr_t + \beta_6 govqual_t + \mu_t \quad (4)$$

Where *govqual* represents governance quality which is proxy using three variables - Political Stability, Rule of Law and Government Effectiveness. It is expected that $\beta_1, \beta_3, \beta_4, \beta_6, > 0$; $\beta_2, \beta_5 < 0$.

Table 1: Sources and Measurement of Data

Variable	Definition	Measurements	Sources
lrem	Remittances	Measured as remittances inflow to Nigeria in billion US Dollars	World Bank, WDI 2022
fgwr	Economic Growth Rate of Foreign Countries	The economic growth rate of the Organization for Economic Corporation and Development (OECD)	World Bank, WDI 2022
dgwr	Domestic Economic Growth Rate	Measure as Nigeria economic growth rate	World Bank, WDI 2022
inf	Inflation rate	Measured as Annual Average Consumer Price Index	World Bank, WDI 2022
exch	Exchange rates	Measured as Nigeria Exchange Rate to US dollar	World Bank, WDI 2022
loilpr	International oil price	Measured as international OPEC oil Price	OPEC
govqual	Governance Quality	Measured in three ways as: *rol* = Rule of law index pol = Political Stability Index gef = Government Effectiveness index	World Bank, WDI 2022

Source: Authors' Compilation (2023).

3.2 Estimation Procedure

A unit root test was conducted to determine the order of integration of the time series data used for this study. Augmented Dickey-Fuller (ADF) test was employed to assess the presence of a unit root in the time series. The study adopted ADF test because it includes lagged values of the dependent variable in the regression data. The Autoregressive Distributed Lag (ARDL) bound test was also conducted to determine the existence of a sustain relationship among the variables that have demonstrated stationarity at both level and the first difference. This approach was chosen among others (Engle Grager, 1987; Johanson & Juselius, 1990; and Johanson, 1991) because it does not require pre-testing of the series to determine their order of integration. This flexibility is advantageous when dealing with time series data (Bawa, et al. 2016).

The study proceeds to employ the Error Correction Model (ECM) to ascertain the long run and short run estimates. The ECM is designed to model the relationship between variables that are cointegrated, and also captures the short run dynamics and the long run equilibrium relationship. The residual diagnostic tests were also conducted using Jargue-Bera, Breush-Godfrey, Breuch-Pagan-Godfrey and Ramsey RESET tests. These tests are essential for the assessment of normality of residuals, serial correlation, presence of heteroskedasticity, and scrutiny of potential specification error.

4.0: Presentation and Analysis of Results

4.1 Pre-Estimation Analysis

The correlation matrix results presented in Table 2 show the pairwise correlations between the variables in the estimated model. Correlation measures the strength and direction of a linear

relationship between two variables. Since all the correlation coefficients of the variables are less than 0.8, the problem of multicollinearity in the model specified is unlikely. That is, there is no evidence of strong linear relationship among the variables.

Table 2: Correlation Matrix

Variables	*lrem*	*fgwr*	*dgwr*	*inf*	*exch*	*loilpr*	*pos*	*rol*	*gef*
lrem	1								
fgwr	-0.112	1							
dgwr	-0.044	0.109	1						
inf	-0.391	0.026	-0.420	1					
exch	0.734	-0.086	-0.147	-0.323	1				
loilpr	0.543	-0.105	0.228	-0.462	0.647	1			
pos	-0.348	-0.029	0.252	0.071	-0.040	-0.236	1		
rol	0.506	-0.082	-0.591	-0.019	0.619	0.341	-0.545	1	
gef	-0.279	0.320	0.218	-0.025	-0.200	-0.146	0.635	-0.457	1

Source: Authors' Computation (2023).

The Augmented Dickey-Fuller test results as presented in Table 3 show that three variables – *fgwr*, *dgwr* and *gef* were stationary at levels I(0), while all other variables were stationary at first difference I(1). Since the variables are combination of the I(0) and I(1) series, the ARDL bound test is the most suitable for ascertaining the existence of long run relationship among the variables.

Table 3: Augmented Dickey-Fuller test (ADF)

	At level		At first difference		
Variable	t-statistics	5% Critical value	t-statistics	5% Critical value	Order of Integration
Lrem	-3.089	0.0274	-6.910153	0.0000	I(1)
Fgwr	-5.184	0.0011	-	-	I(0)
dgwr	-3.683	0.0044	-	-	I(0)
Inf	-2.156	0.2225	-4.592	0.0001	I(1)
Exch	-1.889	0.3374	-5.244	0.0000	I(1)
Loilpr	-0.914	0.7833	-4.928	0.0000	I(1)
Pos	-3.335	0.0134	-3.334862	0.0215	I(1)
Rol	-1.889	0.3374	-5.282	0.0000	I(1)
Gef	-3.775	0.0032	-	-	I(0)

Source: Authors' Computation (2023)

The ARDL bound test result is presented in Table 4. The result shows the F-Statistic value of 4.355139, which is greater than the upper bound (I1 Bound) value of 3.68 at 5% significance level. This implies rejection of the null hypothesis that no cointegration among the variables. The conclusion is that there exists a long-run relationship among the variables. Therefore, Error Correction Model (ECM) can be conveniently applied for the estimation of the specified models.

Table 4: ARDL Bound Test

F-Statistics	1%		5%		10%	
4.355139	Lower Bound	Upper Bound	Lower Bound	Upper Bound	Lower Bound	Upper Bound
	3.15	4.43	2.55	3.68	2.26	3.34

Source: Authors' Compilation (2023).

4.2 Presentation of Estimated Results

The results for the regression equations specified in section three are presented in Table 5. Model 1 presents results for equation 3, while Models 2, 3 and 4 present results for equation 4 with three variables used to capture governance quality (political stability, rule of law and government effectiveness). The long run results in model1 reveal that exchange rate variable shows a positive significant relationship with the remittances, indicating that a 1 percent increase in exchange rate will increase remittance by 0.3 percent. This result corroborates the findings of Iseghohi (2021) who also found positive impact of exchange rate on remittance.

Table 5: Long Run and Short Run Estimates

Variables	**Model 1**	**Model 2**	**Model 3**	**Model 4**
exch	0.313***	0.1732***	0.256***	0.233**
	(0.062)	(0.036)	(0.032)	(0.067)
loilpr	1.572***	1.764**	1.701**	1.556***
	(0.441)	(0.666)	(0.637)	(0.515)
dgwr	-0.0802	-0.122	-0.133	-0.13
	(0.0778)	(0.143)	(0.25)	(0.114)
fgwr	0.1326**	0.2306*	0.4424**	0.725**
	(0.037)	(0.153)	(0.155)	(0.193)
inf	-0.0372	-0.0492	-0.0436	-0.0463
	(0.0295)	(0.0502)	(0.0431)	(0.037)
pos		0.719**		
		(0.23)		
rol			1.809**	
			(0.313)	
gef				5.11**
				(2.405)
		Adjustments		
ect	-0.503***	-0.471**	-0.491**	-0.449
	(0.15)	(0.188)	(0.181)	(0.167)
		Short Run		
Dexch	0.9513***	0.562**	0.581	0.314*
	(0.032)	(0.201)	(1.032)	(0.1701)
Dloilpr	0.3121**	1.324	1.196	0.656**
	(0.121)	(1.601)	(0.907)	(0.331)
dgwr	-0.0608	-0.0494	-0.0501	-0.044
	(0.0393)	(0.0541)	(0.0964)	(0.047)
fgwr	0.0212	0.0269	0.0202	0.0558
	(0.0468)	(0.0503)	(0.0499)	(0.0564)
Dinf	-0.00229	-0.000829	-0.000506	-0.0034
	(0.0112)	(0.0128)	(0.0142)	(0.0114)

Dpos		0.658		
		(0.909)		
Drol			-0.245	
			(1.471)	
gef				-1.802
				(0.543)
Constant	8.080***	9.003***	7.521*	10.11***
	(2.046)	(3.082)	(3.983)	(2.903)
Observations	31	31	31	31
R-square	0.619	0.626	0.622	0.648

Note: *** p<0.01, **p<0.05, *p<0.1; Standard errors in parenrhesis
Source: Authors' Computation (2023)

The oil price variable came out with positive sign and has significant impact on the remittance. The positive sign indicates that 1 percent increase in oil price will increase remittance by 1.57 percent, which contradicts the a-priori expectation. The coefficient of foreign economic growth appeared with expected sign and significant at 5 percent. This implies that 1 percent increase in foreign economic growth will lead to 0.13 percent increase in remittance. This result conform with a-priori expectation and in line with the findings of Adenutsi (2014) and Singh & Haacker (2011). The other two variables (domestic economic growth and inflation rate) were not significant determinants of remittance which contradict the findings of Olatomide (2012) and Denis et al. (2013).

In model 2, the long run results also reveal that exchange rate, oil price and foreign economic growth are statistically significant at 1, 5 and 10 percents respectively. This shows that they all have positive impacts on remittance. The political stability variable came out with positive sign and significant at 5 percent. This implies that 1 percent improvement in political stability will increase remittance by approximately 0.72 percent. The results in model 3 reveal that exchange rate, oil price and foreign economic growth are positively significant at 1 percent and 5 percents respectively. This implies that an increase in exchange rate by 1 percent will lead to 0.256 percent increase in remittance, while I percent increase in oil price will increase remittance by 1.701 percent. Also, I percent increase in foreign economic growth will lead to 0.44 percent increase in remittance, and 1 percent improvement in rule of law will lead to approximately 1.81 percent increase in remittance. In model 4, exchange rate, oil price and foreign economic growth are positively significant, which implies that they have significant impact on remittance. Government effectiveness variable reveals a positive coefficient and statistically significant at 5 percent, indicating 1 percent improvement in government effectiveness will lead to 5.11 percent increase in remittance.

The error correction terms (ect) results for all models came out with expected signs and are statistically significant. The significance of the error correction terms confirm the speed of adjustment towards long run equilibrium. The short run results show that exchange rate variable is positively significant in models 1, 2 and 3. while oil price variable is significant in models 1 and 4. All other variables including governance quality variable were not significant. The insignificance of governance quality in the short run could be attributed to the fact that changes in these variables may not be immediately evident in influencing remittances. There could be lag effects, which might not be captured in the short run estimates.

4.3 Residual Diagnostic Test Results

The results for the residual diagnostic tests are presented in Table 6. The Jarque-Bera Normality Test result revealed a P-value of 0.842937, which is greater than the 5% significance threshold. This suggests that the model's distribution adheres to normality. Similarly, the Breusch-Godfrey Serial Correlation LM Test yielded a P-value of 0.5175, which also more than 5% significance level, indicating a lack of serial correlation in the residuals.

Table 6: Residual Diagnostic Test Results

	Statistics	Probability
Jarque-Bera Normality Test	0.341725	0.842937
Breush-Godfrey serial Correlation LM Test	0.780262	0.5175
Heteroskedasticity Test: Breush Pagan Godfrey	0.987651	0.5594
Ramsey RESET	1.250372	0.3143

Source: Authors' Computation (2023).

Moreover, the Breusch-Godfrey Heteroskedasticity Test with P-value of 0.5594 is also greater than 5% significance level, indicating the absence of heteroskedasticity in the model. Furthermore, the Ramsey Test provided evidence supporting the proper specification of the model's functional form, with an associated P-value of 0.3143 which exceeds the 5% significance level.

In summary, the results of the residual diagnostic tests indicate that the residuals exhibit no serial correlation, no heteroskedasticity, and proper specification of the model's functional form. Consequently, as the error term demonstrates desirable properties, the inferences drawn from the estimated model remain valid.

5.0 Concluding Remarks

This paper examined the short run and long run determinants of remittances in Nigeria. The study was anchored on the theory of New Economics of Labor that migrants are motivated to migrate in search for greener pastures in countries that are economically buoyant than their home countries. To get a holistic understanding of what could prompt the spiral increase in remittances in Nigeria, the study analyzed both macroeconomic and governance quality variables spanning from 1990 to 2022. The regression estimates were generated through the ECM model. Estimation results revealed that exchange rate, oil price and foreign growth rate have significant and positive impacts on the growth of remittances in Nigeria both in the long run and short run. These results corroborate the findings of Jijin, et al. (2022). The governance quality variables were all significant in the long run, meaning that as quality of governance improves in Nigeria, remittances inflow will increase in the long run while holding other factors constant. Meanwhile, the governance quality variables were not significant in the short run as it takes time for effective governance to manifest. Improving governance quality by enhancing transparency and reducing transaction costs can build trust and further boost remittances. By addressing these factors, Nigeria can harness the full potential of remittances for economic development and welfare improvement.

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