

# **Analysis of Impact of Remittances on Poverty in Nigeria**

**By**

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# Presentation Outline



- Introduction
  - Background
  - Objectives
- Econometric Approach
- Data for the Study
- Results and Discussion
- Conclusion

# Introduction and Objective

- Migrants' remittances - currently ranked as the second largest source of external inflows to developing countries after foreign direct investment
- Nigeria ranked first among the top 10 remittance recipients in 2010 in sub Saharan Africa, (World Bank, 2011).
- Nigeria received \$10 billion in remittances from citizens living in the Diaspora in 2009
- Its effect in Nigeria especially on poverty is not known
- Remittances are poorly managed due to poor understanding of its developmental impact especially on poverty
- Analyze the impact of remittances (national and international) on poverty using expenditure per capita as outcome indicator

# Econometric Approach

- Estimation of Impact of Remittances on Poverty was done through two approaches

- Propensity Score Matching Approach (Estimating an average treatment effect of remittance)

$$p(x_i) = \text{prob}(R_i = 1 | x_i) \quad (0 < p(x_i) < 1)$$

- $x_i$  is a vector of pre-remittance control variables (If the  $R_i$ 's are independent over all  $i$ , and the outcomes are independent of remittance transfers given  $x_i$  then outcomes are also independent of remittances given  $p(x_i)$ , just as they would be if remittances were transferred randomly)
- **Multinomial Logit Selectivity Model with Instrumental Variable**
- Selection model developed by Dubin-McFadden and Bourguignon, Fournier and Gurgand (2004)
- Households were selected between three states ( $r$ ): receive international remittances =1, receive internal remittances=2 and receive no remittances =3.
- Instrumental variables were: Remittances as percentage of household income in religious and ethnic group
- International migrants as percentage of population in group

# Data and Results



- Nigeria National Living Standard Survey (NNLSS) 2004
- Results

Remittance situation	No Treated	No Control	ATT	Standard Error	T-stat
Received remittance vs no remittance	1261	1366	8200.27	2178.15	3.77
Internal remittance vs no remittance	1232	1362	7261.71	2216.55	3.28
International vs no remittance	29	1547	15,236.70	11635.16	1.31
International vs internal	29	288	5505.07	9683.03	0.57

- Note: The number of treated and controls refer to actual nearest neighbour matches
- Using PSM, the result shows a significant Average Treatment Effect on the Treated (ATT), due to internal and international remittances after the nearest neighbor matching suggesting that the gains due to internal and international remittances are significant

# Results Contd



Poverty Measure s	Received no remittance		Receive internal remittances			Receive international remittances			Internal remittan ce vs no remittan ce	Interna tional remitta nces vs no remitta nce
	Observed (1)	Predicted (2)	Observed (3)	Predicted (4)	Counterfact ual (5)	Observed (6)	Predicted (7)	Counterfa ctual (8)	(4 vs 5)	(7 vs 8)
<b>Poverty headcount (%)</b>	61.84	45.25	49.82	38.75	43.61	13.49	0.00	3.47	--11.14	-100.00
<b>Poverty gap (%)</b>	25.17	55.54	18.72	61.88	68.53	2.71	0.00	2.95	-9.70	-100.00
<b>Squared poverty gap (%)</b>	13.18	124.99	9.24	191.75	213.08	0.7	0.00	5.24	-10.01	-100.00
<b>Mean per capita household expenditure</b>	32,328.28	31,921.99	44,987.95	45,130.88	35,689.20	53,227.62	58,796.85	43,004.78	26.46	36.72
<b>N</b>	6670	6670	1232	1232	1232	29	29	29	1232	29

The receipt of internal remittances reduces the poverty headcount of households by 11.14% and poverty gap by 9.7% while the receipt of international remittances reduces poverty headcount, poverty gap and squared poverty gap by 100% respectively.

# Conclusion



- The study finds that internal and international remittances reduce the level, depth and severity of poverty in Nigeria.
- International remittances have more poverty reducing effect although this needs to be further verified with a more robust international remittance data
- Internal remittances can be enhanced through capital market and bank reforms to strengthening the banks, provision of infrastructure and encouraging banks in the rural areas, especially microfinance banks to enter into the electronic money transfer infrastructure
- migration policy in Nigeria should be reformed to streamline international migration and then support international remittances.