PDF - AN EMPIRICAL INVESTIGATION OF THE INTERACTIONS BETWEEN REMITTANCE INFLOWS AND HUMAN CAPITAL DEVELOPMENT (IMPLICATION FOR THE ECONOMIC GROWTH IN NIGERIA) - researchcub.infoCHAPTER ONE

INTRODUCTION

1.1 Background of theStudy

The size of remittance inflows, the importance of humancapital and technological diffusion in economic growth and development processof developing countries including Nigeria have triggered interesting debatesamong scholars and policymakers (see for example, Orozco (2003; Ambrosius, 2006and Chami, et. al., 2008) of international and development economicsextraction. There are a number of reasons why the link between remittances,human capital and economic growth and development would interest policy makersin Nigeria. In the past two decades, the Nigerian financial sector hasundergone various types of reforms and it is progressively gathering momentumin size and depth, not only to stabilize the financial sector but in itsreadiness to absorb tremendous amount of domestic and foreign financialcapital. The country has equally adopted varied policy measures aimed atexploring new initiatives to attract foreign direct investment in apparentrealization that inflow of international transfers could be huge alternativesources of funding of investment projects in various sectors of the Nigerianeconomy.

Remittance inflow as perceived to be one of the majorsources of human capital investment, external funding and poverty reductionstrategy, especially in the developing economies was ignored either because ofits informal modus operandi which constitutes a problem for data required forits impact assessment or that it has not assumed any phenomenal dimension as towarrant a closer scrutiny. Today, there is a dramatic and remarkable upsurge inthe volume and contribution of remittances to developing economies.

Remittanceflows have assumed a significant dimension all over the world rising fromUS$19.6 billion in 1985 to US$206.0 billion in 2006 (Ambrosius, 2006), withsmall developing poor countries depending heavily on it as source of financingdevelopment. According to World Bank report of 2009, remittances rank behindforeign direct investment (FDI) as source of external funding for developingcountries.

A record has shown that remittance flows, especially inNigeria exceed foreign direct investment, portfolio flows from financialmarkets and official development assistance. Some countries’ total remittancereceipts amount to a substantial portion of their imports and a nontrivialfraction of GDP (Chami, et. al., 2008). This was collaborated by the study ofOrozco (2003), which shows that, on average, about 65 per cent out of the totalofficial remittances inflows to Sub-Saharan Africa (SSA) move to Nigeria. He equallyestimated that about 2 per cent of global inflows of remittances come toNigeria. Agu (2009) study corroborated the observed increased inflow ofremittances to Nigeria. He submitted that there has been tremendous inflow ofremittances to Nigeria since the commencement of civil rule in 1999. Forinstance, from a negative growth rate of 17.9 per cent in 1999, remittancesgrew to about 186.2 per cent in 2005. In 2007 remittances growth rate of 69.67per cent stood only second to oil in terms of receipts.

Based on this trend in remittance flows, this work isparticularly interested in tracing the effect it has on human capitaldevelopment sectors. This is because for remittance to help in improving thewelfare of the citizenry its impact on the major human capital sectors must betraced in order to draw a better policy attention that can bring about easyflow of the channel to the poor.

1.2 Statement of the Problem

The inflow of remittances in some developing economies suchas Nigeria cannot be overemphasized

because of its role in human capitaldevelopment. This is crucial because in Nigeria for instance, culture demandsthat those that are more financially vibrant would take care of a lot more thanjust their immediate families. As a result, the average Nigerian familyconsists of a mother, father, children and many dependants such as in laws,cousins, and sometimes, neighbors. Once a young Nigerian gets a job, andsometimes even before that, he or she must begin to contribute to dependants.For those living abroad, their foreign currency, when changed to local Nairacan be a helpful financial addition.
Obviously, between 8 and 15 million Nigerians live abroadand remit money to their various families as a way to provide financialassistance (Nwajiuba, 2005; Tomori and Adebiyi, 2007). This is crucial on apersonal level because of Nigeria’s high unemployment rate. It is also reportedthat the money sent to Nigeria through unconventional means is actually 4 timesthe amount reported.

AN EMPIRICAL INVESTIGATION OF THE INTERACTIONS BETWEEN REMITTANCE INFLOWS AND HUMAN CAPITAL DEVELOPMENT (IMPLICATION FOR THE ECONOMIC GROWTH IN NIGERIA)