



Financial Remittance and Growth in Nigeria: Does Financial Development Matter?

SOLOMON O. OKUNADE, ADEGBOYEGA R. AFOLABI,
OLUWOLE J. ADEYEMI, ADEKUNLE T. OLAWUMI
Chrisland University, Abeokuta, Nigeria

Abstract. This study explores the complex relationship between financial remittances, financial development, and economic growth in Nigeria by investigating whether financial development serves as a mediator in the effect of remittances on Nigeria's economic performance. Thus, this present study focuses on the interactive effect of financial remittances and financial development on economic growth in Nigeria using secondary data for the periods of 1984 to 2022. The results of the Dynamic Ordinary Least Squares (DOLS) and Fully Modified Ordinary Least Squares (FMOLS) showed that, individually, remittances do not significantly increase economic growth in Nigeria, but when we considered the moderated effect of financial development, remittances become growth-enhancing in Nigeria. The findings reveal a positive and statistically significant interactive effect of remittances and financial development on economic growth, confirming the role of remittances as a source of external finance that stimulates domestic investment and consumption. Furthermore, the study provides compelling evidence supporting the mediating role of financial development in this relationship. A well-developed financial sector, characterized by depth, efficiency, and access, enhances the positive impact of remittances on economic growth. In light of these findings, the study underscores the importance of policies aimed at fostering financial inclusion, promoting financial literacy, and expanding access to formal financial services. These measures empower remittance recipients to make informed and productive financial decisions, thereby maximizing the developmental benefits of remittances.

Keywords: Remittances; Growth; Financial Development; Nigeria; DOLS.

1. Introduction

Money sent home by migrants, known as financial remittances, has grown to be a crucial part of the world economy. These capital inflows have become increasingly important to the economic landscape of emerging countries, especially in Sub-Saharan Africa. Nigeria has seen a significant growth in the flow of remittances from its diaspora populations around the world. Nigeria is the most populous country in Africa and one of the top beneficiaries of remittances on the continent (Ali-Bare, Bani, Ismail, & Rosland, 2022). Researchers and decision-makers have been quite interested in this phenomenon, leading to investigations into the connection between money remittances and Nigerian economic progress (Adediran, Okunade & Aor, 2022; Adams, & Page, 2005). Nigeria's economy, which is distinguished by its plethora of natural resources and young labour force, has encountered several difficulties, such as budgetary deficits, inflation, and unemployment. Financial remittances have attracted interest in this context as a possible engine of economic growth and development. In an effort to determine if remittances act as an accelerator for economic growth in Nigeria, scholars have made an effort to investigate the complex dynamics of remittances (Central Bank of Nigeria, 2020).

To unravel the complex relationship between financial remittances and economic growth in Nigeria, it is essential to consider the mediating role of financial development. Financial development encompasses a range of factors, including the depth and breadth of financial markets, access to financial services, and the efficiency of financial intermediaries. Understanding how these aspects of financial development interact with the influx of remittances is crucial in comprehending their impact on Nigeria's economic landscape (Acharya, & Leon-Gonzalez, 2019).

Financial remittances, the transfer of money by migrants to their home countries, have emerged as a significant source of income for many developing nations, including Nigeria. As one of the largest recipients of remittances in Africa, Nigeria has seen a substantial influx of funds from its diaspora communities, which has raised important questions about the impact of these remittances on the country's economic growth. While there is a growing body of literature that suggests a positive relationship between remittances and economic growth (Hines & Simpson, 2019; Ngoma & Ismail, 2013), the mediating role of financial development in this relationship remains relatively underexplored (Okunade, 2022; Okunade & Ajisafe, 2022; Gao, et al. 2021). Despite the increasing inflow of remittances into Nigeria, there is a lack of comprehensive research that empirically examines the extent to which financial remittances contribute to the country's economic growth. While some studies suggest a positive relationship, others question the magnitude and sustainability of this impact (Akçay, 2020; Olayungbo & Quadri, 2019; Bhattacharya et al., 2018).

The role of financial development in mediating the relationship between financial remittances and economic growth is not well understood in the context of Nigeria. Financial development encompasses factors such as the depth and efficiency of financial markets and the accessibility of financial services. It is unclear how these aspects of financial development interact with remittances and whether they amplify or mitigate their effects on economic growth. Policymakers in Nigeria are faced with decisions on how to harness the potential of remittances for economic development. Without a clear understanding of the mechanisms through which remittances influence economic growth and the mediating role of financial development, it becomes challenging to formulate effective policies that can maximize the positive impacts of remittances while addressing potential challenges (Okunade, et al., 2023). Given these gaps in knowledge and the importance of remittances for Nigeria's economic development, this study seeks to address these issues by empirically investigating whether financial development mediates the relationship between financial remittances and economic growth in Nigeria. This research contributes to a more nuanced understanding of the dynamics at play and provide valuable insights for policymakers and development practitioners seeking to leverage remittances as a tool for sustainable economic development in Nigeria.

This paper aims to contribute to the existing body of knowledge by exploring the following questions:

- Is there empirical evidence supporting the notion that financial remittances positively influence economic growth in Nigeria?
- To what extent does financial development mediate the relationship between financial remittances and economic growth in Nigeria?

To address these questions, this study draws on a comprehensive review of existing literature and employs rigorous empirical analyses, utilizing data from reputable sources such as the World Bank, and other relevant datasets. By investigating the relationship between financial remittances, financial development, and economic growth in Nigeria, this research seeks to shed light on the complex dynamics of this relationship, providing valuable insights for policymakers, economists, and development practitioners working to harness the potential of remittances for Nigeria's economic progress.

The rest of the paper is structured as follows. Following the introduction, Section 2 addresses the theoretical and empirical review of literature. Section 3 presents the methodology while Section 4 discusses empirical results. Lastly, Section 5 concludes the study and provides the practical implications.

2. Review of Theoretical and Empirical Literature

Theoretically, this study draws upon several key economic theories and frameworks. The neoclassical growth theory, rooted in the work of Solow (1956), forms the foundation of many discussions on economic growth. According to this theory, the accumulation of capital is a primary driver of economic growth. In the context of financial remittances, they are viewed as a source of capital inflow that can lead to increased investment, higher productivity, and ultimately, economic growth (Barro, 1991). Remittances are seen as a form of savings or investment in human or physical capital that can contribute to long-term economic development (Yang, 2008). In the same vein, human capital theory, developed by scholars like Becker (1964) and Schultz (1961), posits that investments in education and skills enhance the productivity of labour, thus promoting economic growth. In the context of remittances, funds sent by migrants can be directed toward investments in education, healthcare, and skill development, which, in turn, can lead to a

more skilled and productive workforce, potentially fuelling economic growth (Adams & Page, 2005).

New Institutional Economics (NIE) emphasizes the role of institutions in economic development (North, 1990). Remittances can influence institutional factors by reducing poverty and income inequality, potentially leading to improved and sustained growth (Gupta et al., 2009). Furthermore, remittances can stimulate the development of financial institutions and markets, as they create a demand for financial services such as savings accounts, insurance, and investment opportunities (Brown & Jimenez, 2015). In addition, dependency theory, developed in the mid-20th century, provides a critical perspective on the impact of remittances in developing countries (Prebisch, 1950). It argues that heavy reliance on remittances can create economic vulnerabilities, as countries become overly dependent on external inflows (Todaro & Smith, 2015). While remittances can provide temporary economic relief, they may also hinder self-sustained development by perpetuating structural imbalances (Lucas and Stark, 1985).

On the mediation role, financial development theory posits that a well-functioning financial sector is crucial for economic growth (Levine, 1997). In the context of Nigeria, financial development encompasses the depth and breadth of financial markets, access to credit, and the efficiency of financial intermediaries. A developed financial sector can mediate the impact of remittances by facilitating their efficient allocation to productive investments (Hao et al., 2016). Access to formal financial services can enable households to save, invest, and manage risk more effectively, potentially amplifying the positive effects of remittances on economic growth (Beck et al., 2007). Financial Development and mediation have theoretical underpinnings about the relationship between financial remittances, financial development, and economic growth in Nigeria encompass a range of economic theories and perspectives. These theories provide a foundation for empirical investigations into the specific dynamics of remittances within the Nigerian context, shedding light on the mechanisms through which financial development may mediate the impact of remittances on the country's economic growth. This theory is highly relevant if the study aims to understand how financial development mediates the relationship between remittances and economic growth in Nigeria. Financial development theory directly addresses the role of the financial sector in shaping the impact of remittances. Given the importance of financial intermediation and efficient allocation of

remittances, this theory is particularly applicable when investigating the mediation effect of financial development.

On empirical side, numerous empirical investigations have examined the relationship between remittances and economic growth in Nigeria. For instance, a study by Nwosa (2014) utilized time series data and reported a positive and statistically significant impact of remittances on economic growth in Nigeria. The study highlighted the potential role of remittances in boosting domestic investment and consumption. Amassoma et al. (2019) conducted a comprehensive analysis of the policy environment and recommended measures to maximize the development impact of remittances. This research underscores the importance of policy frameworks in ensuring that remittances contribute effectively to economic growth and development.

Research on the mediating effect of financial development in the context of remittances and economic growth in Nigeria is relatively recent. Ajide et al. (2017) explored this mediating role by analysing data from 1986 to 2013. Their findings suggested that financial development indeed played a mediating role, positively influencing the relationship between remittances and economic growth. This study provided empirical evidence supporting the hypothesis that a well-developed financial sector can enhance the impact of remittances on economic growth. Empirical studies have also examined the broader macroeconomic effects of remittances on Nigeria's economy. Ayinla and Alimi (2019) investigated the impact of remittances on exchange rates and inflation in Nigeria. Their findings suggested that remittances had a stabilizing effect on exchange rates and helped mitigate inflationary pressures. This research highlights the potential macroeconomic benefits of remittance inflows.

Studies have also examined the influence of remittances on the development of Nigeria's financial sector. Adeniyi et al. (2018) investigated the relationship between remittances and various financial sector development indicators. Their analysis indicated that remittances had a positive impact on financial sector development, particularly in terms of increasing banking sector depth and efficiency. This finding underscores the role of remittances in contributing to the growth and sophistication of the financial sector. Due to Nigeria's dual financial system, numerous research has examined the interactions between remittances and both formal and informal financial channels. Olawumi (2019) carried out a study that concentrated

on how remittances were used in both systems. The study showed that recipients frequently use a mix of formal and informal financial channels for a range of financial activities. This emphasises the significance of taking Nigeria's dual financial system's complexities into account when assessing the impact of remittances.

Empirical research has also explored the influence of institutional and policy factors on the relationship between remittances and economic growth in Nigeria. Olaniran and Kehinde (2019) examined the impact of governance quality on this relationship. Their findings indicated that good governance could amplify the positive impact of remittances on economic growth by fostering efficient resource allocation and utilization. This study underscores the role of governance and policy in shaping the outcomes of remittance inflows. Ogunbiyi (2016) examined the effect of remittances on household poverty levels in Nigeria and found that remittances contributed significantly to reducing poverty. This research underscores the potential welfare-enhancing effects of remittances for recipient households. Idris and Alarudeen (2017) investigated how remittances influenced the investment choices of households, particularly in the context of education and small-scale businesses. Their findings indicated that remittances were commonly directed towards education and entrepreneurship, suggesting that remittances can have a direct impact on human capital development and microeconomic growth. Odedokun and Round (2018) conducted a regional analysis and found that the impact of remittances on economic growth varied across states, with some regions benefiting more from remittance inflows than others. This regional dimension underscores the importance of considering localized effects when assessing the relationship between remittances and growth.

The existing empirical literature provides a valuable foundation for understanding the multifaceted relationships between financial remittances, financial development, and economic growth in Nigeria. While numerous studies have confirmed the positive impact of remittances on economic growth, recent research has begun to delve into the mediating role of financial development. Additionally, the dynamics within Nigeria's dual-financial system and the influence of institutional and policy factors are essential aspects of this research landscape. The

present study aims to contribute further to this body of research by examining these relationships and shedding light on the potential mediation of financial development in Nigeria's specific context.

3. Methodology

3.1 Empirical Model

Following the theoretical foundation of this study and in line with extant studies in the literature (Ali-Bare, Bani, Ismail, & Rosland, 2022; Akcay, 2020; Acharya, & Leon-Gonzalez, 2019; Adeniyi, Omisakin & Egwaikhide, 2018; Ajide & Raheem, 2017), we begin by investigating the direct effect of remittance on growth in Nigeria by estimating the baseline model explicitly specified equation 1:

$$GRO_t = \alpha_i + \beta_1 REM_t + \beta_2 FID1_t + \beta_3 FID2_t + \beta_4 X'_t + \mu_t \quad 1$$

where GRO_t is economic growth at time t, REM is financial remittance at time t, FID1 and FID2 are financial development proxied by Domestic credit to private sector by banks and broad money supply (% of GDP), while X'_t is a vector of other control variables such as foreign direct investment (FDI), exchange rate (EXR), real interest rate (RIR), trade openness (TOP) and inflation rate (INF_t) respectively and $\mu_{i,t}$ is the white noise error term. To account for the mediating role of financial development, we modified Equation 1 by including the interaction terms. This is presented in equation 2:

$$GRO_t = \alpha_i + \beta_1 REM_t + \beta_2 FID1_t + \beta_3 FID2_t + \beta_4 REM_t * FID1_t + \beta_5 REM_t * FID2_t + \beta_6 X'_t + \mu_t \quad 2$$

Where $REM_t * FID1_t$ & $REM_t * FID2_t$ are the coefficients of the interaction terms respectively.

3.2 Data and Sources

The study examines the mediating effect of financial development on the relationship between remittances and growth in Nigeria using secondary data for the periods of 1984 to 2022. The choice of 1984 as the start date is informed by the era of massive policies to encourage foreign personal remittances from Nigerians in diaspora as part of the Structural Adjustment Programme (SAP) introduced in 1986 in Nigeria as well as the data availability. Table 1 shows the description and measurement variables of interest as well as their sources.

Table 1: Data Description, Measurements and Sources

S/N		Description/Measurements	Source
1	GRO	GDP per capita growth (annual %)	WDI, 2023
2	REM	Personal remittances, received (% of GDP)	WDI, 2023
3	FID1	Domestic credit to private sector by banks (% of GDP)	WDI, 2023
4	FID2	Broad money (% of GDP)	WDI, 2023
5	FDI	Foreign direct investment, net inflows (% of GDP)	WDI, 2023
6	EXR	Official exchange rate (LCU per US\$, period average)	WDI, 2023
7	RIR	Real interest rate (%)	WDI, 2023
8	TOP	Trade (% of GDP)	WDI, 2023
9	INF	Inflation, consumer prices (annual %)	WDI, 2023

Source: Authors' Compilation, 2023

3.3 Method of Analysis

Some of the most important concerns in time series data analysis are serial correlation, endogeneity issues, and variable stationarity. These issues undermine the OLS coefficient estimations. One of the methods that address these issues is the Dynamic Ordinary Least Square (DOLS) or Fully Modified Ordinary Least Square (FMOLS) (Yorucu & Kirikkaleli, 2017; Kirikkaleli, 2016; Yorucu & Bahramian, 2015). The DOLS method is built on the standard error that adopts a parametric covariance matrix estimator that yields adjusted heteroskedasticity and autocorrelation that are robust to spatial and all forms of dependence, while FMOLS is a nonparametric test. The parametric DOLS is preferred over the nonparametric FMOLS because it imposes additional requirements that all variables be integrated in the same sequence, I(1) in contrast to the nonparametric FMOLS, which is the case in this study. Thus, DOLS estimates are reported as the baseline model for this parametric study. However, the FMOLS is also reported for comparison and robustness.

4. Results and Discussion

4.1 Preliminary Analyses

Before performing model estimations, it is critical to analyse the normalcy, distribution, and degree of multicollinearity among variables. The statistical features of our data are presented in Table 2. The results presented in Table 2 showed that the means of all variables employed lie between the minimum and maximum values, indicating that our data series are consistent. In terms of variability, it is discovered that exchange rate is the most volatile among the variables, followed by inflation rate with standard deviations of 119.17 and 16.977 respectively. The probability of Jarque-Bera statistics showed that most of the variables employed in the study were not normally distributed, which is the case for most economic variables of less developed countries like Nigeria. Also, we present the results of the correlation matrix in Table 3 where the degree of multicollinearity among the independent variables was examined. The examination of the correlation matrix shows that none of the pairs of the regressors has a value higher than 60%, except financial development variables with 81.8% coefficient of correlation. Hence, we run separate models for each financial development construct to overcome the problem of multicollinearity in the model.

Table 2: Descriptive Characteristics of the variables

	GRO	REM	FID1	FID2	EXR	RIR	TOP	INF	FDI
Mean	1.4011	2.8755	9.6076	17.186	124.50	2.5123	32.714	19.077	1.5250
Median	1.4035	2.1913	8.4252	14.669	120.57	4.3424	34.023	12.876	1.1590
Maximum	12.276	8.3338	19.603	27.378	425.97	18.180	53.277	72.835	5.7908
Minimum	-4.5071	0.0048	4.9480	9.0633	0.7665	-31.452	9.1358	5.3888	-0.0391
Std. Dev.	3.6958	2.4600	3.5135	6.0470	119.17	9.5607	11.835	16.977	1.2501
Skewness	0.5054	0.3410	0.9488	0.3213	0.9534	-1.2433	-0.3219	1.8296	1.6922
Kurtosis	3.4894	1.8596	3.6205	1.4203	3.1020	5.6098	2.3412	5.1239	5.9579
Jarque-Bera	2.0496	2.869	6.4782	4.7261	5.9263	21.116	1.3790	29.089	32.832
Probability	0.3588	0.2381	0.0391	0.0941	0.0516	0.0026	0.5018	0.0000	0.000
Obs.	39	39	39	39	39	39	39	39	39

Source: Authors' Compilation, 2023

Table 3: Correlation matrix of the variables

	REM	FID1	FID2	EXR	RIR	TOP	INF	FDI
REM	1.0000							
FID1	0.1219	1.0000						
FID2	0.2703	0.8175	1.0000					
EXR	0.5579	0.5086	0.4979	1.0000				
RIR	0.2561	0.4239	0.3854	0.2624	1.0000			
TOP	0.1697	0.0709	-0.0927	-0.1021	0.0518	1.0000		
INF	-0.3206	-0.3294	-0.2851	-0.3110	-0.3760	-0.0565	1.0000	
FDI	0.1780	-0.0257	-0.0418	0.0406	0.0253	0.3091	-0.0267	1.0000

Source: Authors' Compilation, 2023

In addition, we employed the Augmented Dickey-Fuller (ADF) and Phillips-Peron (PP) to investigate the stationarity of the variables. The unit root test serves as an important guide to ascertain whether DOLS is applicable. The DOLS requires all variables to be integrated in the same order, I(1). The results from Table 4 shows that all variables are stationary at the first difference, thus validating the application of DOLS as the choice of method to estimate the baseline model in Equation 2.

Table 4: Augmented Dickey-Fuller (ADF) and Phillips-Peron (PP) Unit Root Tests

Variables	ADF Test	PP Test	Decision
REM	5.9201***	-4.155**	I(1)
FID1	-5.778**	-3.901***	I(1)
FID2	-5.215***	-5.215***	I(1)
EXR	-5.279***	-5.279***	I(1)
RIR	-4.923***	-4.923***	I(1)
TOP	-8.559***	-2.123**	I(1)
INF	-3.540**	-3.540***	I(1)
FDI	-7.056***	-3.092**	I(1)

Notes: ***, ** and * indicate 1%, 5% and 10% significant levels respectively.

4.2 Interactive Effect of Remittances and Financial Development on Growth

The paper examines the interactive effect of remittances and financial development on growth in Nigeria. Having reported the stationarity of the series after the first difference process in the model, it is imperative to adopt an econometric method that addresses this issue. To this end, the study adopts the DOLS method to estimate the model in Equation 2. The empirical results are presented in Table 5. The first to fourth columns of Table 5 present the empirical results of DOLS as the baseline model, while latter four Columns present the results of the robustness check using the FMOLS. The results of both the DOLS and FMOLS show that financial remittance either has positive effect on economic growth or insignificant effect in Nigeria. This finding implies that financial remittance does not facilitate growth individually in Nigeria. Similar findings were reported on the individual effects of financial development variables that financial development proxied by credit to private sector (FID1) and financial development proxied by broad money supply (FID2) have growth reducing effect on many occasions. The results also imply that the financial sector is underdeveloped in Nigeria to instil growth-enhancing effect.

However, when the effects of remittance were moderated by financial development variables by

interacting remittance with financial development proxied by credit to private sector (FID1) and financial development proxied by broad money supply (FID2), the findings became more interesting. The results showed that the coefficient of the interaction terms has a stronger and more significant negative effect on poverty level in Nigeria. This finding implies that when financial sector needs to be well developed for remittances to have growth-enhancing effect in Nigeria.

This finding supports the new institutional economics theories and the expositions of Acemoglu and Robinson, (2013) and Acemoglu, et al. (2005) that institutional quality and economic development reinforce each other in the long run, but less developed intuitions could foster the virtuous circle of poverty and widen the gap between the rich and the poor in an economy, and in turn, reduces growth potentials. It is worth noting that the results of the nonparametric test (FMOLS) in Table 7 are also similar to the effect of remittance and financial development on growth in Nigeria. The implication emphasizes that financial institutions and markets can stimulate the increases of remittances as they create an easy access for financial services such as savings accounts, insurance, and investment opportunities from the gains from diaspora remittance (Akca, 2020; Olayungbo & Quadri, 2019; Bhattacharya et al., 2018), and thereby increasing growth the such economy.

Table 7: Results of Dynamic Least Squares (DOLS) with Structural Breakpoint Dummies

Dep. Var: GRO	Dynamic Least Squares (DOLS)				Fully Modified Least Squares (FMOLS)			
	1	2	3	4	1	2	3	4
REM	2.3693 [0.2734]	-0.9697 [0.3425]	0.7112 [0.3287]	-0.2074 [0.334]	0.1762 [0.6574]	-0.1887 [0.3312]	-0.5151 [0.4432]	0.9282 [0.5432]
FID1	-0.5831 [0.284]		-1.9702** [0.0023]		-0.1879* [0.0598]		-0.1148** [0.0023]	
FID2		-0.3531** [0.0125]		0.5549** [0.044]		0.2340** [0.0270]		-0.0372** [0.0467]
REM*FID1			0.295*** [0.0003]				0.0480** [0.0344]	
REM*FID2				0.1079*** [0.0003]				0.0445** [0.0236]
FDI	4.3810** [0.0122]	1.1466** [0.0212]	-0.8640* [0.0673]	0.6745* [0.077]	-0.0055 [0.3324]	0.0596 [0.0232]	0.0563* [0.0224]	-0.1481** [0.044]
EXR	0.0488 [0.1241]	0.0501** [0.0234]	0.0328 [0.4762]	0.0474 [0.742]	-0.0046 [0.1122]	0.0023** [0.0033]	-0.3392 [0.9342]	-0.0004 [0.876]
RIR	-0.0320 [0.3452]	0.6543** [0.0032]	0.0520** [0.021]	0.3332 [0.433]	-0.0114 [0.3332]	0.0978 [0.5567]	0.0196 [0.5421]	0.1159 [0.231]
TOP	0.1653** [0.0023]	0.2255** [0.0421]	-0.1956** [0.0329]	-0.3107*** [0.003]	0.0841** [0.0231]	0.0788** [0.0031]	0.0996** [0.0227]	0.0721 [0.023]

INF	-0.2790 [0.8231]	0.1326 [0.4321]	0.1491* [0.0581]	0.0256** [0.013]	-0.0953 [0.1210]	-0.0601 [0.5421]	0.0892 [0.2311]	0.0476** [0.025]
C	-10.511*** [0.0002]	-0.1126 [0.3267]	-16.98*** [0.000]	-16.318*** [0.000]	0.0329** [0.0234]	3.2597** [0.0002]	1.6008** [0.0032]	0.9897*** [0.000]
R ²	0.876	0.781	0.919	0.954	0.917	0.848	0.933	0.878
Adj. R ²	0.841	0.729	0.879	0.899	0.890	0.798	0.899	0.821

Probability values in parentheses. *** p<0.01, ** p<0.05, * p<0.1

Note: GRO, REM, FID1, FID2, REM*FID1, REM*FID2, FDI, EXR, RIR, TOP, and INF represents economic growth proxied by respectively.

5. Conclusion and Policy Recommendations

This present study examines the interactive effect of financial development in the relationship between remittances and economic growth in Nigeria for the period of 1984 to 2022. We employed Dynamic Ordinary Least Squares (DOLS) and Fully Modified Ordinary Least Squares (FMOLS) to probe the effect and the key findings provided evidence supporting the mediating role of financial development in the remittances-growth nexus. The results of the DOLS and FMOLS showed that, individually, remittances do not significantly increase economic growth in Nigeria, but when we considered the moderated effect of financial development, remittances become growth-enhancing in Nigeria. The findings reveal a positive and statistically significant interactive effect of remittances and financial development on economic growth, confirming the role of remittances as a source of external finance that stimulates domestic investment and consumption. Furthermore, the study provides compelling evidence supporting the mediating role of financial development in this relationship. A well-developed financial sector, characterized by depth, efficiency, and access, enhances the positive impact of remittances on economic growth. A well-developed financial sector, characterized by financial market depth, efficient intermediation, and access to credit, was found to enhance the positive impact of remittances on economic growth. The findings underscored the importance of diversifying remittance-driven investments. Encouraging investments in education, small and medium-sized enterprises (SMEs), and skills development can lead to long-term sustainable growth.

Based on the findings of the study, several policy implications were provided. First, to maximize the growth impact of remittances, policymakers in Nigeria should prioritize initiatives that enhance financial inclusion. This according to Beck, Demirgüç-Kunt & Honohan (2009) includes efforts to expand access to formal financial services,

particularly in rural areas where remittance recipients often reside. Promoting the use of mobile banking, agent banking, and other digital financial services can help bridge the financial inclusion gap. Second, the regulatory and supervisory framework of the financial sector should also be strengthened. This involves improving transparency, risk management, and compliance standards to ensure the stability and integrity of the financial system. A well-regulated financial sector instils confidence in remittance recipients and encourages savings and investment. Lastly, the Nigeria’s government and policymakers should support the development of diverse investment opportunities for remittance recipients. This can include initiatives to promote entrepreneurship (Maimbo & Ratha, 2005), access to credit, and vocational training (Olawumi, 2019). Encouraging the establishment of small and medium-sized enterprises (SMEs) can facilitate job creation and harness the entrepreneurial potential of remittance beneficiaries.

These policy recommendations, when implemented cohesively, can unlock the full potential of remittances as a driver of economic growth in Nigeria while leveraging financial development as a mediator to enhance their impact. Ultimately, fostering a conducive environment for remittance recipients to make productive investments, combined with improvements in financial development and inclusion, holds the promise of sustaining economic growth and reducing poverty in Nigeria.

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