

Diaspora Remittance Inflow, Financial Deepening and Nigeria's Industrialization

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ABSTRACT: *This paper examines the impact of diaspora remittance inflow on industrialization in Nigeria from 1980 to 2019 and further investigates how impactful it is on financial deepening. The instrumental variable generalized method of moments (IV–GMM) estimator was employed in analyzing the data. We find a positive but not significant impact of diaspora remittances on industrialization; a negative but not significant impact of diaspora remittances on the ratio of private sector credit to GDP; and a positive and significant impact of diaspora remittances on the ratio of money supply to GDP. The impact of diaspora remittances through the financial sector channel is ineffective and compared with the individual effects, there was no evidence of higher interaction effect of financial deepening, indicating the inefficiency of the financial system in effectively transforming mobilized deposits to investment activities that will enhance Nigeria's industrialization process. Our control variables such as domestic investment, trade openness and population growth had positive impacts on industrialization. We therefore recommend that financial development policies aimed at reducing transaction and liquidity constraints in Nigeria's financial system should be encouraged. This will improve domestic credit to the private sector and hence facilitate Nigeria's industrialization process.*

Keywords: Diaspora; Remittance Inflow; Financial Deepening; Industrialization; Generalized Method of Moment

JEL: F22, F39, E44, O14, C51

1 INTRODUCTION

Industrialization is a process of development in manufacturing activities, construction, mining and utilities like electricity, among others. In a broader sense, Nzau (2010) described industrialization as a balanced and sustained process of development of the economic and socio-political sphere of a society. Sustained industrialization has a lot of benefits to economic growth and development and includes higher externalities that come with growth in manufacturing sector activities. This in turn boosts economies of scale by influencing technological progress while offering spillover effects via linkages to other sectors of the economy. Industrialized countries are far more likely to experience rapid economic growth as industrialization promotes domestic savings, improves capital accumulation, and provides higher and better investment opportunities as it is commonly evidenced in the industrialized economies (Martorano, Sanfilippo & Haraguchi, 2017). One of the factors that contribute to the successful process of industrialization is capital flows such as foreign aids, foreign portfolio investment, foreign direct investment (FDI), and diaspora remittances. Among these sources, diaspora remittance inflows, which refer to transferred earnings from migrants in diaspora to home countries, have attracted much more attention in recent years (Nwokoye, Igbunugo & Dimnwobi, 2020).

Citing the World Bank (2010), Cocco, Wheatley, Pong, Blood and Rininsland (2019) stated that between 1990 and 2018, the number of people that lived outside their country of origin rose by 76.47% (from 153 million in 1990 to 270 million in 2018), causing a rise in flow from a little to a torrent of global remittance flows. It was estimated that about 15 million Nigerians reside abroad, which approximated 8% of the total population as at 2017 (Vanguard, 2017). Approximately 50% of those living outside Nigeria live in the USA, UK and Cameroon, while the rest 50% live in other countries in North America, Europe, Asia and West African countries (Cooper & Esser, 2019).

As migration rises, remittances have become one of the defining trends in the era of globalization – an era of global capital flows; it is a lifeline for most developing countries. Remittances are less volatile and are more stable than other forms of foreign capital such as FDI and foreign development aids at times of external economic shocks. In most cases, they exceed foreign aids and are surpassed only by FDI (Radcliffe, 2019; Nwokoye, Igbunugo & Dimnwobi, 2020). In most developing countries, remittances constitute an inflow of resources that are often more than a variety of other flows of the balance of payments. For example, a report by Xpress Money (2020) show that diaspora remittance inflow was about 83% of the 2018 federal government budget and, about 10 times the inflow of FDI. Apart from the provision of financial resources for households, it plays the role of poverty alleviation and improves social conditions. The level of financial deepening of a country is a vital factor for the proper working of remittances.

There are several channels through which remittances could enhance the industrialization process of a country. Remittances get to the households through the banking system in a well-functioning financial or banking sector. There may be a higher interaction effect of financial deepening and remittances compared with the individual effects. The financial system, through reduction of financial or transaction costs, can direct diaspora remittances to investment activities with higher returns that could develop the industrial sector and bring about industrialization. More so, in developing countries where the financial system is underdeveloped, remittances reduce financial credit constraints, enhance capital allocation and promote industrialization through investment particularly in the industrial sector. Expectedly, remittances that pass through the financial sector channel could be ineffective on the industrialization process if remittances neither attract a reduction in transaction and liquidity constraints in the home country's financial system nor are channeled into productive investments (Peprah, Ofor & Asomani, 2019).

Efobi, Asongu, Okafor, Tchamyou and Tanankem (2019) maintain that inflow of diaspora remittance serves as liquidity for entrepreneurship growth. Remittances enhance investments in education by households, and make capital available for entrepreneurs for start-up; reduces credit constraints; and promotes entrepreneurship. For example, in Bangladesh, Hossain and Hasanuzzaman (2015) found that an increase in the inflow of remittances causes an increase in investment. Another link between diaspora remittance and industrial development is the transfer of skill and technology from abroad by migrants to their home countries (Dzansi, 2013), as well as enhancement of domestic and foreign market-oriented production. The exchange rate channel is also identified as a channel through which manufacturing sector performance is affected and consequently determines industrialization. Remittances influence the exchange rate through the foreign exchange market; is affects the values tradeable products as well as the performance of the manufacturing sector, which in turn, determines the level of industrialization (Efobi, Asongu, Okafor, Tchamyou & Tanankem, 2019; Dzansi, 2013).

Diaspora remittance inflow supplements the household income of the recipients, which increases household consumption (Amuedo-Dorantes, 2014). This means an increase in demand for non-tradable goods, which in turn boost productivity in other sectors of the economy. Since inflows from diaspora remittances are used either to complement consumption or investment, or encourage entrepreneurship, it can perhaps be a vital tool for industrialization.

Even though the officially recorded inflow of remittances could be lower than the inflows from unofficial channels, Nigeria has officially recorded a tremendous increase in diaspora remittance inflow over the years, putting the country at the top five globally, coming after India, China, Philippines and Mexico (Xpress Money, 2020). As at 2019, Nigeria recorded about 56.4% increase in diaspora remittances, rising from \$11.23 billion in 2018 to \$17.57 billion in 2019 (Adesoji, 2020). In a decade, specifically between 2010 and 2019, diaspora direct remittance inflow into Nigeria rose by about 210.3% – increasing from \$5.66 billion in 2010 to \$17.57 billion in 2019. It is estimated that by 2023, diaspora remittance will rise to \$34.8 billion (Adesoji, 2020). This tremendous record of inflow of diaspora remittances started during the post-2009 financial sector reforms such as macro-prudential regulation, demanding regular stress tests of financial institutions such as banks to determine their soundness and vulnerability of the financial system. Financial sector development measures within the period of high inflow of remittances were also related to corporate governance, risk management, payment systems, consumer protection, financial innovations, the security of electronic banking, as well as compliance with International Financial Reporting Standard (IFRS) (Central Bank of Nigeria, CBN, 2011). This means that financial sector development can play a significant role in not just diaspora remittance inflow, but also in channeling of funds to drive industrialization in Nigeria.

Records of Nigeria's journey towards industrialization show that its manufacturing sector accounted for just 3.4% of total exports in 2018, compared with 55.0% of the total imports that were manufactured goods in the same year. Its contribution to GDP as at the third quarter of 2019 was 9% (Ibidapo, 2019). The growth rate of industrial production recorded an all-time high of about 25.1% as at the end of 2019, from a record low of -20.3% as at March 2016 (Census and Economic Information Center – CEIC, 2020). Manufacturing capacity utilization rate rose from 59.24% in 2017 to 61% in 2018, representing a 1.76% increase (Anudu, 2019). This increase was, however, reported to be as a result of macroeconomic improvements generally, as well as sustained calm in the foreign exchange market.

Diaspora remittance inflow is capable of providing a solid economic foundation for sustainable industrialization. Our paper specifically examines the impact of diaspora remittance inflow on industrialization and, also, determines if this effect is dependent on the level of financial deepening. This paper employs the generalized method of moment (GMM) technique. Our study is of great policy relevance as it sets a direction for appropriate contemporary policies for Nigeria's industrialization in the face of rising trends of diaspora remittance inflow.

The paper consists of five main sections. Following this introduction section, the literature is reviewed in the second section. Within this framework, the literature gap is identified. In addition to that, in the third section, data set and scope are considered. The methods

used in the analysis are also explained in the third section. In section four, analysis results are presented and discussed. In the final section, a conclusion is drawn and recommendations are presented.

2 Review of Extant Literature

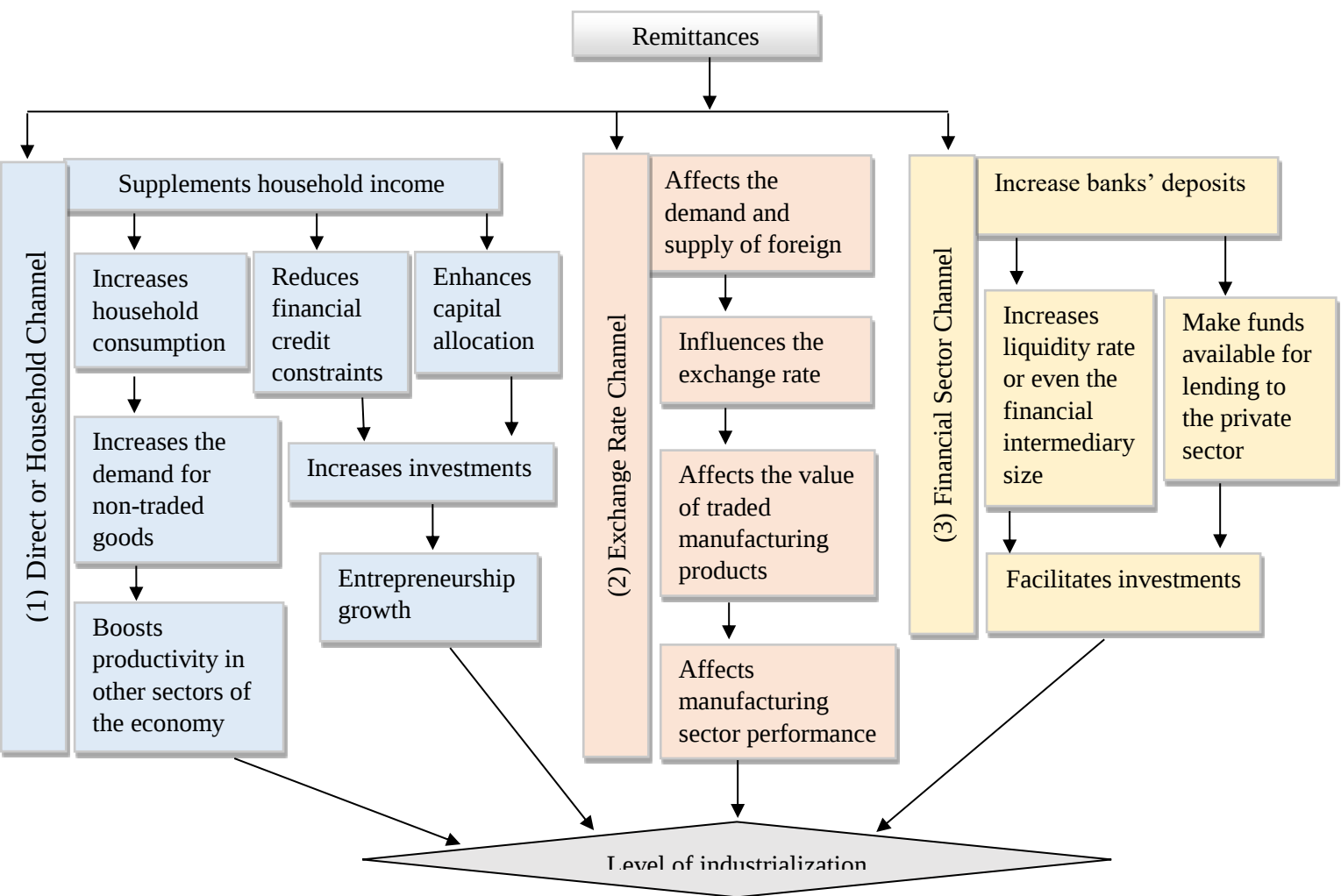
Efobi, Asongu, Okafor, Tchamyou and Tanankem (2019) describes industrialization as a rapid social-economic transformation in key manufacturing activities in connection with other forms of production. It can also be described as an increase value addition of the manufacturing sector in relations to the entire size of the economy. This definition sees industrialization as development in the manufacturing sector in comparison with other sectors of an economy. In other words, manufacturing sector development herald industrialization. On a broad note, industrialization is a process of development in manufacturing activities, construction, and physical overhead capital such as electricity, among others. It is a collection of economic and processes that lead to the establishment of more efficient methods of creating value. When the more efficient methods or ways are put together, it becomes industries, also called the secondary sector of the economy.

Literature defines financial deepening as the product of growth in financial intermediation (Okoli, 2013). Financial deepening can also be described as the increasing availability of financial services in the Nigerian economy. It is a process in which the financial system provides a range of financial services and instruments that permits the appropriate exchange of goods and services such as payment services; encourages active savings and investment; and creates a wide range of assets for risk-sharing (IMF, 2012). On this basis, one can say that financial deepening includes development in credit intermediation processes and market turnovers, increase in the range of financial markets and instruments availability, and easy access to financial services within the financial system.

On the other hand, following the definition by the International Monetary Fund, IMF (2013), diaspora remittances comprise every form of transfers received by residing households from non-residing households, or current transfers from employees to households in other economies. This means that remittances are personnel or private financial transactions or payments made by migrants in the diaspora to their families and friends back home (Cooper & Esser, 2019).

Remittances can affect industrialization through three major channels: the direct (or household) channel, exchange rate channel and financial sector (majorly the banking sector for developing countries) channel. Figure 1 provides a conceptual framework of these channels through which remittances enhance the industrialization process. Remittances enhance household income. This leads to increases in demand for non-traded goods and investment activities, which in turn enhances productivity and entrepreneurship. Through the exchange rate channel, remittances inflow influences the demand and supply of foreign exchange as it requires currency conversion. This affects the exchange rate and alters the volume of traded manufacturing products thus affecting manufacturing sector performance and resulting in industrialization. Through the financial sector channel, especially the banking sector for the case of developing economies, remittances can affect industrialization. Remittances increase banks' deposits because some of the remittances can be deposited with the banks. This expectedly increases liquidity rate, raise credit capacity for members of the society, and also makes credit available for the private sector. The financial sector thus facilitates investment and will result in industrialization especially if these remittances are channeled into productive investments within the industrial sector.

Figure 1: Conceptual framework showing three main channels through which remittances enhance the process of industrialization



Source: Designed by the Authors

At the empirical plane, similar studies done in this area include Bangladesh, Paul and Das (2011) who examined the remittance-led growth in the long and short runs, using data covering the 1979 to 2009 sample periods. No evidence of remittance-led growth was found in the short-run, however, the long-run positive effect of remittance on GDP was found. Chowdhury (2011) also examined the role of remittances on the financial development of Bangladesh 1971 to 2008 using the vector error correction model (VECM). It was found that remittance had positive and significant effect on financial development. Masuduzzaman (2014) examined the effect of remittances and its interaction with financial development on economic growth in Bangladesh from 1981 to 2013. The vector error correction model and the granger causality tests were employed and findings show that remittances contributed to long-term growth. A positive effect of remittances on financial development was also found. The relationship between remittances financial sector development and economic growth in Lesotho from 1975 to 2010 was examined by Sibindi (2014) using the vector error correction model and the Granger causality technique. A bi-directional causality was found running from remittances to economic growth. In Nigeria, the relationship between remittances, financial sector development, and economic growth was examined by Anetor (2019). The study covered the 1981 to 2017 sample period and the autoregressive distributed lag technique was employed for the data analysis. Remittance was found to have negative and significant effect on economic growth both in the long-run and short-run. Complementarily between remittances and financial sector development in influencing economic growth was also found. Efobi, Asongu, Okafor, Tchamyou and Tanankem (2019) examined the effect of remittances on industrialization in a panel of 49 African countries for the 1980 to 2014 sample period. Using the instrumental fixed effects and the generalised method of moments (GMM) techniques estimation, it was found that remittances have a direct effect on industrialization. The result also shows that at given levels industrialization, remittances bring about industrialization through the financial sector channels. Azizi (2020) examined

the effect of remittance on financial development in 124 developing countries from 1990 to 2015. The instrumental variable fixed-effect model was used and remittance was found to have a positive effect on financial development.

Though there are related studies, but to the best of our understanding, only a few studies such as Efobi, Asongu, Okafor, Tchamyou and Tanankem (2019) have considered the relationship between remittances and industrialization in Nigeria. But Efobi, Asongu, Okafor, Tchamyou and Tanankem (2019) is a panel study and, could not provide country-specific evidence, as countries may have different levels of impact due to institutional differences and varying levels of financial sector development. No study has examined the effect of remittances on industrialization in Nigeria and has not provided empirical evidence if this effect is dependent on the level of financial deepening. On this basis, this study differs from previous studies. Also, faster industrialization could be instigated by greater backwardness in industrialization (the effects of “convergence” and technological diffusion in the neoclassical and the endogenous growth theory). To capture this effect, the model is made dynamic by including the first lag of industrialization. This justifies the use of Generalized Method of Moments (GMM) technique in this study, unlike most of the previous studies that did not take this into consideration.

3 RESEARCH METHOD

3.1 Theoretical Framework

The cobb-douglas production function theory, developed by economist Paul Douglas and mathematician Charles Cobb is adopted as the framework of analysis in this paper. It explains the relationship between output and production inputs. The cobb-douglas production function is given as:

$$Y = AK^{\alpha}L^{\beta} \quad (1)$$

Where Y is output growth, K is capital stock, which is captured by the total investment in fixed assets (the monetary worth of all machinery, equipment and buildings, etc.), L denotes labour endowment, and A is total factor productivity (productivity of existing technology, technical process, economic system etc.).

Total factor productivity (A) in equation (1) is in turn, determined by previous investments into physical capital. For this paper, it is measured by domestic investment (DINV), presented as;

$$A = (DINV) = DINV^{\varphi} \quad (2)$$

Again, for this study, domestic investment is defined as gross fixed capital formation (that is, DINV = GFCF). Industrialization is positively related to economic growth, as it is evidenced to be a key output growth enhancer (as can be seen from China, etc). Thus, we represent output growth (Y) in equation (1) with industrialization (INDUS) – measured as manufacturing value-added as a percentage of GDP, the capital stock (K) with diaspora remittances (DREMIT) – measured as diaspora remittances received as a percentage of GDP and labour force (L) with population growth rate (POPG). On this basis, equation (1) is re-specified as:

$$INDUS = GFCF^{\varphi} DREMIT^{\alpha} POPG^{\beta} \quad (3)$$

Taking logs of equation (3) results in equation (4) as:

$$INDUS = \varphi gfcf + \alpha DREMIT + \beta POPG \quad (4)$$

Log transformed variables are presented in small case letters. INDUS, DREMIT and POPG are not log-transformed since the variables are already taken in rates. The parameters, φ , α , and β measure the output elasticities of domestic investment, diaspora remittances and labour respectively. Equation (4) shows the direct impact of diaspora remittances on industrialization. Though remittances are our main focus, financial deepening is brought in as a channel in which remittances affect industrialization. To determine this indirect channel, we include financial deepening in equation (4) and interact with financial deepening and remittances as:

$$INDUS = \varphi gfcf + \alpha DREMIT + \Omega FIND + \beta POPG + \psi DREMIT * FIND \quad (5)$$

Where FIND is financial deepening, and $DREMIT * FIND$ is the interaction of remittances and financial deepening.

3.2 Data and Data Source

The data for this study is an annual data that covers the 1981 to 2019 sample periods. The data is sourced from the Central Bank of Nigeria statistical bulletin, various issues. The dependent variable is industrialization, measured by manufacturing value-added as a percentage of GDP. It captures the units of manufacturing economic activities, both factory based and otherwise. The mean independent variable is diaspora remittances, measured by diaspora remittances received as a percentage of GDP. However, financial development is also added as a key variable to determine whether the financial system is an effective channel in which remittances affect industrialization. Financial deepening is measured by two variables. These are the ratio of the money supply to GDP (it measures the level of liquidity and, or the size of financial intermediaries in the financial system through the number of due liabilities in relation to the economy as a whole) and domestic credit to the private sector to GDP (it is a bank based measure that captures the ability of banks to provide credit to the private sector). These measures of financial deepening are choosing because diaspora remittances pass through the banking sector in the form of deposit for future consumption or investment purposes, and investment needed for industrialization in Nigeria is mostly financed by the banking sector due to the underdevelopment of the capital market. The other variables included in the study are labour force – measured by the population growth rate, domestic investment – measured by gross fixed capital formation, trade openness – measured by the sum of imports and exports relative to GDP.

3.3 Empirical Model

The functional form of the model is:

$$INDUS = f(GFCF, DREMIT, MSGDP, CPGDP, POPG, TROPEN) \quad (6)$$

Where INDUS is an indicator of industrialization, DREMIT is diaspora remittances, POPG is the population growth rate, and GFCF is a domestic investment. MSGDP represents the ratio of the money supply to GDP, CPGDP is domestic credit to the private sector to GDP and TROPEN is trade openness. By taken the first lag of the dependent variable, and interacting the financial deepening variables with the variable for diaspora remittances and taken the log of the variables yields:

$$INDUS = \beta_0 + \beta_1 INDUS_{t-1} + \beta_2 gfcf + \beta_3 DREMIT + \beta_4 MSGDP + \beta_5 CPGDP + \beta_6 POPG + \beta_7 TROPEN + \beta_8 DREMIT_MSGDP + \beta_9 DREMIT_CPGDP + u_1 \quad (7)$$

The small lettered variable (*gfcf*) is log-transformed. The other variables are not logged because they are already in rates. The Instrumental Variable Generalized Method of Moments (IV – GMM) estimator is employed in this paper. This is because several econometric problems could occur from estimating equation (7). These amongst others include the presence of the lagged dependent variable at the right-hand side, which leads to autocorrelation. The technique is preferable since the instruments from the fixed-effects instrumental variables estimation (two-stage least squares or 2SLS) could be weak at the first stage of the two-stage least square (2SLS) regressions. With weak instruments, the fixed-effects IV estimators could be biased in the way of the Ordinary Least Square (OLS) estimators (known for inconsistency estimates since some explanatory variables as stated above could have a causal relationship with the dependent variable).

4 RESULTS

Stationarity of the variables was tested using the Augmented Dickey-Fuller and Phillips-Perron unit root tests, while cointegration of the variables was examined using the Johansen cointegration test. The test results are reported in Table 1 below.

Table 1: Augmented Dickey-Fuller and Phillips-Perron unit root tests, and Johansen cointegration test results

Panel A: Unit Root Tests									
Augmented Dickey-Fuller Test					Phillips-Perron Test				
Variable	ADF – Statistic		Lag	~I(d)	Variable	PP – Statistic		Lag	~I(d)
	Level	1 st Diff.				Level	1 st Diff.		
INDUS	-2.320	-3.688*	2	I(1)	INDUS	-2.534	-5.432*	2	I(1)
DREMIT	-2.588	-4.016*	2	I(1)	DREMIT	-2.956	-7.214*	2	I(1)
TROPEN	-1.607	-5.410*	2	I(1)	TROPEN	-2.176	-8.595*	2	I(1)

MSGDP	-2.888	-3.907*	2	I(1)	MSGDP	-2.595	-5.642*	2	I(1)
CPGDP	-1.814	-3.728*	2	I(1)	CPGDP	-1.994	-4.922*	2	I(1)
gfcf	-2.214	-6.773*	2	I(1)	gfcf	-2.613	-5.858*	2	I(1)
POPG	-2.112	-3.712*	2	I(1)	POPG	-2.613	-4.668*	2	I(1)
DREMIT-MSGDP	-2.738	-3.566*	2	I(1)	DREMIT-MSGDP	-2.617	-6.482*	2	I(1)
DREMIT-CPGDP	-2.616	-3.782*	2	I(1)	DREMIT-CPGDP	-2.284	-5.393	2	I(1)

Where * denotes significance at 5% and the rejection of the null hypothesis of the presence of unit root. The optimal lag lengths were chosen according to Akaike's final Prediction Error (FPE) criterion. The estimated unit root models include trend. The ADF 5% Critical value at the level is -3.556 and, at 1st difference is -3.560. On the other hand, the Phillips-Perron Critical value at the level is -3.548 and, at 1st difference is -3.552.

Panel B: Johansen Tests for Cointegration

MaximumRank	Eigenvalue	Trace Statistics	5% critical value
0	-	294.4705	175.77
1	0.9463	186.2470	141.20
2	0.8223	122.3153	109.99
3	0.7298	73.9005*	82.49
4	0.5016	48.1332	59.46
5	0.4190	28.0409	39.89
6	0.3341	12.9991	24.31
7	0.1803	5.6427	12.53
8	0.1366	0.2084	3.84
9	0.0056	-	-

Source: Computed by the authors

The Augmented Dickey-Fuller and Phillips-Perron tests showed that the variables are all stationary at 1st difference, indicating the absence of unit root after been integrated of order 1. The Johansen tests for cointegration, shown in panel B of Table 1 found 4 cointegrating equations. This means that the explained variable and the explanatory variables have a long-run relationship. Employing the IV–GMM regression technique, equation (7) was estimated and the result presented in Table 2 below.

Table 2: The impact of remittances and financial deepening on industrialization

INDUS	Coefficients	Standard Errors	z-stat	P-value
INDUS _{t-1}	0.7514	0.3281	2.29	0.022
DREMIT	1.3390	1.8244	0.73	0.463
TROPEN	7.6813	12.9764	0.59	0.554
CPGDP	-4.4482	5.6988	-0.78	0.435
MSGDP	5.8749	2.0982	2.80	0.425
gfcf	0.5044	0.2379	2.12	0.042
POPG	3.0182	1.3387	2.25	0.025
DREMIT_MSGDP	0.2115	0.2813	0.75	0.452
DREMIT_CPGDP	-0.1592	0.2138	-0.74	0.457
Constant	-44.3326	99.5057	-0.45	0.656
Wald chi2(11)	11.97 (p = 0.0000)			
R-squared	0.7511			
GMM C statistic chi2(2)	3.07148 (p = 0.2153)			

Source: Computed by the authors

The coefficient for diaspora remittances is positive. This means that diaspora remittances have a positive impact on industrialization. Specifically, an increase in diaspora remittances leads to 1.34% increase in industrialization in Nigeria. However, the insignificant z-value points to the acceptance of the null hypothesis that diaspora remittances have no significant impact on industrialization in Nigeria. Remittance boost industrialization, but the impact has not been significant. Looking at the financial deepening variable, the result showed a negative and insignificant coefficient for credit to the private sector to GDP and positive and significant coefficient for the money supply to GDP. This means that the liquidity rate and or the size of the financial intermediaries in the financial system through the number of due liabilities to the economy as a whole is a positive and significant determinant of industrialization. Confirmed surplus liquidity, if efficiently mobilized, can positively affect the industrialization process in Nigeria but the negative and insignificant coefficient for credit to the private sector to GDP points to the fact that contrary to theoretical claims, the private sector does not drive industrialization in Nigeria since remittances are not converted to credit for use by economic agents.

The interaction coefficients in Table 2, measuring the indirect impact of diaspora remittances showed that diaspora remittances increase liquidity in the financial system and its impact on industrialization is positive but not statistically significant. This is indicated by the positive and insignificant coefficient of the interaction between remittances and money supply to GDP. The liquidity rate or size of financial intermediaries is enhanced by remittances and, though not statistically significant, this drives industrialization. The coefficient of the interaction between remittances and credit to the private sector to GDP is negative and insignificant. Remittances are not channeled to productive investments, and the effect of remittances through the financial sector channel is ineffective. Compared with the individual effects, there is no evidence of higher interaction effect of financial deepening, indicating the inefficiency of the financial system in effectively transforming mobilized deposits to investment activities with higher returns that could bring about the industrialization process. Other variables such as domestic investment, trade openness and population growth positively determine industrialization.

5 Conclusion and Policy Recommendations

Our paper specifically examined the impact of diaspora remittance inflow on industrialization and, also determined if this effect was dependent on the level of financial deepening. Instrumental variable generalized method of moments technique was employed for the data analysis. The study posits that diaspora remittances directly affect industrialization and increase the liquidity rate or size of financial intermediaries but the indirect impact on industrialization, through the financial sector is insignificant. Remittances are not channeled to productive investments, and the effect of remittances through the financial sector channel is ineffective. In other words, the level of financial deepening of Nigeria has not significantly enhanced the proper working of remittances to capably provide a solid economic foundation for sustainable industrialization. It is, therefore, recommended that financial development policies should be aimed at reducing transaction and liquidity constraints in the financial system. This will enhance credit to the private sector and will facilitate productive investments that will lead to higher returns that could develop the industrial sector and bring about industrialization. The benefits of remittances are better exploits when a policy environment is conducive for investment with a well-functioning financial system and economic institutions.

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